At the 42nd Japan Cooperation Forum for the Middle East

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On August 26 and 27, the 42nd Japan Cooperation Forum for the Middle East took place in the Austrian capital of Vienna. The forum, sponsored by the Japan Cooperation Center for the Middle East, is a historical conference focusing on Middle East problems. More than 300 people participated in the forum, indicating that it is one of the largest-scale Japanese meetings on the Middle East.

The forum began with an opening address by the center’s chairman, Hiroaki Nakanishi, followed by keynote speeches by Hirofumi Katase, adviser to the Ministry of Economy, Trade and Industry, Jitsuro Terashima, chairman of the Japan Research Institute, and Hiroshi Oka, director-general of the Middle Eastern and African Affairs Bureau at the Ministry of Foreign Affairs, and a speech by Protibha Thaker from the Economic Intelligence Unit. Three reporting and discussion sessions were implemented on crude oil prices, economic diversification in oil producing countries and China’s “One Belt and One Road” initiative. Reports were made by ambassadors or other senior Japanese diplomats stationed in Saudi Arabia, Iran, Egypt and Turkey and by business sector representatives for vivid questions and answers. I participated in the forum for the first time in four years since 2013, serving as moderator for the reporting and discussion session on crude oil prices.

The Middle East is the gravity center of global energy supply including oil and LNG. The Middle Eastern situation is very important when we consider Japan’s stable energy supply. Furthermore, the Middle East has high population and economic growth potential, being significant for Japan in securing business opportunities as well as energy. As the Middle East is diversifying and advancing its economy to depart from its heavy dependence on oil and gas, great expectations are placed on Japan’s contributions to the economic diversification. While the Middle East has been of great importance, its high geopolitical risks and fluid situation have traditionally been problematic. Recent developments have accelerated regional destabilization, attracting global attention. In this sense, interests in the Middle East are growing in the world and in Japan. Therefore, the Vienna conference on the Middle East was very timely and significant. In the following, I would like to summarize impressive points of discussions at the two-day conference.

First, participants in the forum indicated their great interests in various ongoing geopolitical risks in the Middle East, making various arguments on the risks. In a symbolic case, participants in the forum made various discussion on the severance of diplomatic relations with
Qatar by other Persian Gulf countries such as Saudi Arabia and the UAE. They discussed background factors, the present situation and an outlook regarding the confrontation, as well as its influences on Middle Eastern stability, energy business and the market. A dominant view was that the confrontation is deep-rooted and cannot be expected to be resolved in a short term. Some participants said that while the confrontation was unlikely to radically escalate, no optimism could be warranted. We may have to pay attention to future developments. The severance of diplomatic relations between Qatar and other Gulf countries has not exerted any special impact on energy problems. Given that Qatar is the world’s largest LNG exporter, has lifted a moratorium on its gas development for the first time in 12 years and vowed to expand LNG exports, however, we will have to closely watch how the confrontation would affect Qatar’s energy supply and policy in the future.

Various arguments about the future of Saudi Arabia at the forum were also very interesting. While Mohammad bin Salman gathered political power after being promoted from deputy crown prince to crown prince, it is reported that some royal family members are apparently dissatisfied with the promotion, with various problems threatening Saudi Arabia’s political stability, according to a forum participant. On the impact of Saudi Arabia’s unprecedentedly assertive diplomacy against Iran and Qatar on the overall Middle Eastern situation and the U.S. Trump administration’s Middle East policy behind such Saudi diplomacy, forum participants made arguments that were very interesting and important for analyzing geopolitics in the Middle East. They also discussed the meaning of Saudi Arabia’s unprecedentedly speedy and serious actions to end its heavy dependence on oil and realize the Saudi Vision 2030. Significantly, government and private sector participants had frank discussions on the Joint Group for Saudi-Japan Vision 2030 that Japan has formed to help Saudi Arabia realize the Saudi Vision 2030. Economic diversification is a long-standing challenge for Saudi Arabia and other oil producing countries and not necessarily easy. However, Saudi Arabia’s just-started economic diversification will be important for stability in the country and in the whole of the Middle East, attracting global attention.

A background factor behind economic diversification that has become urgent is the crude oil price plunge, which has caused various problems. Oil producing countries, while being required to reform their oil-dependent economies over a long term, must cut oil production to prevent further oil price falls and stabilize oil prices over a short term. In the forum’s session on crude oil prices, a participant said a coordinated oil production cut that was agreed on late last year and implemented from January 2016 by the Organization of the Petroleum Exporting Countries and non-OPEC oil producing countries achieved some improvement in fixing oversupply by leading to a gradual decline in private sector oil inventories in the member countries of the Organization for Economic Cooperation and Development. Other participants noted that U.S. shale oil had enhanced its resistance to low oil prices and restricted rises in crude oil prices, that oil inventories were still high even after some decline and that the market had taken more time than expected to eliminate oversupply for rebalancing. Under market pressure, the OPEC and non-OPEC oil producing countries extended their coordinated production cut until March 2018. Impressively, one forum participant said how the coordinated production cut would be treated or whether it would be extended again would depend on future market rebalancing and should be analyzed on the basis of updated information.
In this session, interesting arguments were made on financial factors’ influence on crude oil pricing. Participants pointed out that while supply and demand fundamentals were naturally important for pricing oil, crude oil futures prices had grown related to financial markets to indicate complex correlations with the dollar’s value against other currencies and stock prices. They also called for paying attention to how future U.S. interest rate hikes and financial deregulation would influence crude oil prices. Forum participants predicted that crude oil prices would remain in a $50-55/bbl range without rising sharply through next year. While it is always difficult to accurately anticipate future crude oil prices, oil producing countries in the Middle East are likely to have difficulties in their economic management in the immediate future. Under such situation, it will grow even more important for these countries to proceed with hard-nosed initiatives for long-term economic diversification.

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