At the IISS Bahrain Bay Forum 2017

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On September 16 and 17, the IISS Bahrain Bay Forum 2017 took place in Manama, Bahrain. This conference was the second of its kind sponsored by the International Institute for Strategic Studies (IISS), a globally renowned think tank based in the United Kingdom, following the first one in 2015. As indicated by its title “MENA Economies: Positioning for A New World (Dis)Order,” the forum dealt with various problems and their solutions in the MENA (Middle East and North Africa) region, particularly the Middle East, given the international situation surrounding the region and regional challenges.

More than 200 people participated in vigorous discussions at the conference, including ministers and other high-level officials from the host country of Bahrain and other Middle Eastern countries, as well as government officials, industry people and experts from Europe, North America and Asia. After keynote addresses on the first day, five plenary sessions were held for panel discussions on (1) how best to address changes and risks in the environment surrounding the region, (2) how to face new realities regarding the international energy market and environmental problems, (3) the direction and challenges of regional economic reform initiatives, (4) how best to secure capital for regional reform, (5) how to respond to new moves in Asia such as China’s One Belt and One Road initiative and India’s rise, which are very important and urgent problems for the MENA region. I served as panelist in the second plenary session. Below, I would like to summarize the impressive points for me at the conference.

First, I acknowledged the complexity and seriousness of challenges facing the MENA region, particularly the Middle East, through discussions at the conference and reaffirmed that initiatives to overcome these challenges would not be easy. The region is plagued with unclear, uncertain and unpredictable challenges involving international politics and geopolitical risks, including growing tensions between Saudi Arabia and Iran, the secession of diplomatic ties between Qatar and other Persian Gulf countries such as Saudi Arabia and the United Arab Emirates, Syrian and Yemeni civil wars, military attacks involving the Islamic State terror group and the possibility or risk of spreading terrorism, problems regarding domestic stability in Gulf kingdoms and emirates, and Saudi Crown Prince Mohmmed bin Salman’s moves to consolidate his power. How these high geopolitical risks would develop and how regional stability would be affected are serious matters of concern. In addition, the U.S. Trump administration’s Middle East policy could further destabilize the regional situation instead of stabilizing it. The Middle East will have to tackle various challenges discussed below on the premise of an unstable situation.
Another grave challenge in the external environment surrounding the Middle East is a crude oil price plunge. Conference participants said that while the international oil market would go in the direction of rebalancing eventually, crude oil prices would remain low rather than rising immediately to rescue oil-producing economies in the Middle East and that these oil producing countries would have to be prepared to conduct difficult economic management in the face of crude oil prices remaining at present levels and competition from U.S. shale oil. In the long run, oil and gas producing countries in the region will secure sales channels by taking advantage of growing oil and LNG demand mainly in Asian developing countries to deepen the interdependent relationships with Asia. However, given a possible oil demand peak amid the rapid diffusion of electric vehicles and competition problems in the LNG market that remains a buyer’s market, no optimism can be warranted. Conference participants said that while strategies for securing stable oil and LNG income would be significant for oil and gas producing countries in the region, they would have to reduce their heavy dependence on oil and LNG income and advance their economic structure in response to present or future energy market changes.

The environment surrounding the advancement of the economic structure is not without challenges. One of the background factors that increase the need for oil producing countries’ reduction of their dependence on oil income and for advancing and reforming the economic structure in the region is an increase in the young population, which leads to an employment problem. Some conference participants noted that given the present demographic conditions, employment would grow more difficult with unemployment rates rising far more rapidly than assumed. This is a grave problem that could fundamentally shake social or economic stability in the region. Financial resources are required for advancing and reforming the economic structure. Government spending cannot be expected due to the oil price plunge. The advancement or reform thus depends on the private sector. However, the problem is whether the private sector can grow smoothly to absorb employment. Initiatives to develop the private sector have started, but their future is uncertain. As fundamental solutions to the employment problem, conference participants cited “consciousness reform” and “education.” However, they cannot be done immediately but instead require long-term, hard-nosed initiatives. How will this region survive transition until structural reform bears fruit? Given the pains accompanying reform, the region is full of worries.

Amid the rise of China and India, developing relations with the Asian economy has become the MENA region’s key challenge, involving not only energy but also other economic areas. In the final session, discussions indicated that hopes and fears were mixed concerning how China’s One Belt and One Road initiative would contribute to economic development and structural reform in the MENA region. The Chinese One Belt and One Road initiative gives priority to infrastructure development and is expected by some people to make great contributions to the development of the MENA region that is plagued with low oil prices and structural economic difficulties. However, people in the region cannot see what is behind the Chinese initiative and what the initiative’s goal is. In a sense, the most important problem for policymakers in the region is how the region should develop and enhance the interdependent relationship with Asia including China, India and Japan, while being greatly interested in China’s growing presence. How the MENA region as a gravity
center of global energy supply will stabilize and develop will be a problem exerting great influence on Asia’s deepening interdependent relationship with the region.

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