

At the 43rd Japan Cooperation Forum for the Middle East

Ken Koyama, PhD
Chief Economist, Managing Director
The Institute of Energy Economics, Japan

On August 25 and 26, the 43rd 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 conference with over-40 years' history dealing with a wide range of Middle East problems. More than 300 people participated in the forum, indicating that it was one of the largest-scale Japanese meetings on the Middle East.

The conference began with an opening address by the center's chairman Hiroaki Nakanishi, followed by keynote speeches by Tadao Yanase, 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 Richard Thompson from the Middle East Economic Digest. Three reporting and discussion sessions were implemented on trends of each Middle Eastern country, crude oil prices and the United States' withdrawal from the Iran nuclear deal. Reports were made by ambassadors or other senior Japanese diplomats stationed in Saudi Arabia, Iran, Turkey and Israel. A lecture was given on the international financial situation and emerging economies. These were followed by vivid questions and answers. I participated in the annual forum for the second straight year, serving as moderator for the reporting and discussion session on crude oil prices.

The significance and key points of last year's forum were described in "A Japanese Perspective on the International Energy Landscape (339)." The latest Japan Cooperation Forum for the Middle East was also timely and significant. This is because the Middle East is the linchpin of stability in the international energy market and has population and economic growth potential expected to expand energy and other business opportunities. It is also because geopolitical risks in the Middle East have been more complicated and growing amid new international developments while the region is tackling reform and innovation initiatives such as economic structure diversification and development. Middle Eastern problems have grown even more important for Japan while interests in the region have been growing globally. In the following, I would like to summarize impressive points particularly on the new developments discussed at the two-day forum.

First, the United States' withdrawal from the Joint Comprehensive Plan for Action, known as the Iran nuclear deal, has brought about the biggest issue regarding growing geopolitical risks. Following its announcement to withdraw from the deal in May, the United States revived some of the Iran economic sanctions including those related to automobiles in August and plans to resume the key oil-related sanctions in November. This development has brought about a major change in the recognition of Middle Eastern issues in the past year from the previous Japan Cooperation Forum for the Middle East.

Iran has seen heightening inflation on its currency's depreciation and sporadic domestic

protest rallies. The future course of the Iranian economy is expected to become severe because oil exports vital to the economy are destined to decline. While hopes are placed on the European Union, Russia and China that have vowed to retain the Iran nuclear deal, growing domestic discontent and criticisms have increased geopolitical risks inside and outside Iran. Regarding oil problems, concerns have grown about Iran's blockade of straits serving as choke points for oil transportation, leading to a destabilization factor for the international energy situation.

While the United States' unilateral withdrawal from the Iran nuclear deal has destabilized the Middle East, the EU's initiatives for stabilizing Iran and the Middle East have not necessarily been seen as worthy of expectations. The presence and influence of the United States and Europe for the stabilization of the Middle East have remarkably declined. In a manner to cover the decline, Russia and China have increased their presence regarding Middle Eastern issues including the Iran issue. However, they are not strong enough to stabilize the region. "Chaos and destabilization" brought about by a "power vacuum" have become keywords for the Middle Eastern situation and a fundamental cause of "heightened geopolitical risks" included into the title of the latest forum.

The second new development in the past year from the previous Middle East forum is a rise in crude oil prices. The benchmark Brent crude price has risen by more than \$20 per barrel from a \$52-53/bbl range at the time of the previous forum to a \$75-76/bbl range. As a matter of course, the price hike has allowed Middle Eastern economies to rebound and get back on a growth path after being plagued with low oil prices. While crude oil prices have risen, Qatar has restored economic stability while leaving its diplomatic relations severed with neighboring countries and Egypt has got back on a growth path thanks to successful reform after plunging into an economic crisis. Economic conditions in the Middle East, excluding Iran facing economic sanctions, have grown better since the previous Middle East forum, as noted frequently at the latest forum. In this sense, overall business opportunities including those in oil, gas and other energy areas are expected to expand. At the same time, however, there are concerns that the oil price hike could lead Middle Eastern countries to lose momentum for structural economic reform required over a long term. We must acknowledge that the future course of the Middle Eastern economy still remains uncertain, with various challenges and constraints existing on foreign investment required for the region's growth.

While the crude oil price hike has improved oil producing economies, the future course of oil prices is also uncertain. Attracting attention in this sense is the fate of cooperation between the Organization of the Petroleum Exporting Countries and Russia in cutting oil production to push up oil prices. Particularly, OPEC leader Saudi Arabia's oil production policy will exert great influence on oil prices. Meanwhile, Middle Eastern oil producing countries have problems that they cannot control on their own. Over a short term, downside risks for the global economy and U.S. shale oil production expansion could greatly affect the supply-demand balance on the oil market, rattling Middle Eastern economies through oil price fluctuations. Over a long term, the impacts of energy and environmental policies and automobile technology development, including electrification, on global oil demand have become a very significant factor for Middle Eastern oil producing countries.

The third new development in the past year is global trade war escalation. Over China's alleged intellectual property infringement, the United States imposed additional tariffs on \$50 billion worth of Chinese imports under Section 301 of the Trade Act in two stages – the first on July 6 and the second on August 23. China has countered the U.S. action with additional tariffs on the same worth of U.S. imports. The United States had threatened to expand the additional tariff coverage to \$200 billion. It has also levied tariffs on steel and aluminum imports from Japan, the EU, Canada,

Mexico and other countries under Section 232 of the Trade Expansion Act for the reason that these imports could affect national security. Trade war escalation involving major economies in the world is destined to exert negative impacts on the global economy, which will inevitably spill over to the Middle East. Global economic growth deceleration may lead to slack oil demand that would push down crude oil prices to the disadvantage of Middle Eastern economies. Apart from the trade war, it was pointed out that U.S. interest rate hikes could change global money flow to trigger capital outflow from emerging countries and global economic growth deceleration. The future course of the global economy after these new developments is significant for considering stability and business expansion in the Middle East.

In such situation, the implementation of strategic initiatives for the Middle East based on accurate analysis of domestic and foreign conditions would grow even more important for both the government and private sectors of Japan.

Contact: report@tky.iej.or.jp

The back issues are available at the following URL
http://eneken.iej.or.jp/en/special_bulletin.html