International Situation for Japan Growing Difficult and Uncertain

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As the year 2019 has just started, the international environment including international politics, the global economy and the geopolitical situation for Japan is growing difficult and uncertain. In such situation, the government, companies and individuals in Japan are required to devise and implement strategies and countermeasures for this year and a longer term.

The international political environment is growing uncertain under the U.S. Trump administration. This is because it is difficult to anticipate how or whether the United States would play its traditional central role in global governance under the Trump administration that pursues the so-called “America First” foreign policy. International politics is now being destabilized and fluidized. Making a difference from traditional approaches, the Trump administration has urged U.S. allies including Japan and European countries to bear more costs for alliances, complicating and shaking its relations with these allies. While Japan-U.S. relations are basically favorable, no optimism can be justified about future developments.

Meanwhile, Japan-China relations have been improving since last October’s bilateral summit that came up with the principle of switching “from competition to collaboration” after bilateral tensions continued over China’s maritime expansion and East China Sea problems. However, we must prudently watch whether bilateral relations would be improved or enhanced smoothly. At a time when the United States and China are not only waging a trade war but also confronting each other in pursuit of technological supremacy, Japan must give full consideration to its relations with the United States as its most important ally in dealing with China. In Northeast Asia, we must also pay attention to Japan’s relations with South Korea that have rapidly cooled down due to South Korean judicial rulings for compensation for wartime Korean workers and a South Korean warship’s locking fire control radar on a Japanese antisubmarine patrol plane. As the second U.S.-North Korea summit is anticipated, Japan faces very important challenges such as the North Korean nuclear and missile development issue and the problem of how to resolve North Korea’s abduction of Japanese citizens. These Northeast Asian problems will remain significant for Japan.

We must also closely watch the international political situation for Europe that has played a key role in international politics along with the United States and is plagued with destabilizing or disturbing factors. The European Union has restored its stability, following a past period when its centripetal force weakened on Greek debt and other problems. This year, however, the United Kingdom’s exit from the EU is attracting global attention. Depending on relevant developments, Europe or the EU could be destabilized. In the meantime, the political situation has grown uncertain in EU leaders Germany and France. In Germany, Chancellor Angela Merkel’s centripetal force or influence has declined despite her plan to remain in office as the Chancellor for the immediate future.
In France, protests against the policies of President Emmanuel Macron have shaken his administration.

While the European situation grows fluid with the United States enhancing its inward-looking attitude, Russia under President Vladimir Putin is attempting to enhance its presence in international politics along with China. Plagued with economic difficulties under Western economic sanctions, Russia is countering Western countries by strengthening strategic relations with China. However, domestic support for President Putin has fallen, indicating that his future politics would not necessarily be stable. While it is important for Russia to strengthen relations with China, any excessive rise in Russia’s dependence on China would not necessarily be favorable for Russia in regard to international politics. Russia thus must seek to enhance relations with Asian countries other than China in developing its shift to the east or Asia. Japan-Russia relations should be considered in this context.

In such international political situation, the global economy sees various destabilizing and uncertainty factors. The International Monetary Fund’s and other economic outlooks indicate a main scenario in which the global economy will post growth in a “3.5% plus” range in 2019, driven by the U.S. economy that has kept its robustness. However, downside risks for the global economy are being discounted into the market. No optimism can be warranted about these downside risks. The biggest destabilizing or uncertainty factor is the fate of the U.S.-China trade war. The two countries are going ahead with talks on structural problems under a 90-day truce agreement. If the talks bring about compromises or solutions, the global economy may continue robust growth as indicated in the main scenario. If the U.S.-China confrontation is not limited to the trade war but includes competition for technological supremacy as noted above, however, no such solutions or compromises can be expected. The possibility of the unpredictable President Trump cutting some deal in the current talks to produce compromises or solutions cannot be denied. As the United States has generally toughened its attitude against China, however, structural tensions between the first and second largest economies in the world may remain a risk factor for the global economy.

While the abovementioned uncertain, fluid situation in Northeast Asia is an important geopolitical risk, the Middle Eastern situation and geopolitical risks are likely to exert even greater influence on Japan in the energy field. As a matter of course, a top matter of concern is the Iranian situation. The Middle Eastern situation regarding Iran would depend on developments after the end of the current 180-day waiver on U.S. economic sanctions on Iran. These developments will have influence on Iranian oil exports, international oil supply and demand, and oil prices. In analyzing the Iranian situation, we must pay attention to the future course involving the stability of the entire Middle East and relations between major regional powers Saudi Arabia and Iran. Also important in analyzing Middle Eastern geopolitical risks will be how the regime and its policies will be stable in Saudi Arabia as the key player in the Middle Eastern situation and the international oil situation. Saudi Arabia’s alleged killing of an antigovernment journalist shook the world last October and still has spillover effects. As this incident has led Western and other countries to grow critical of Saudi Arabia, Riyadh has come up with various measures to resolve the issue and stabilize the situation. Given that foreign investment is indispensable for economic structure reform in Saudi Arabia, it is very important for the oil kingdom to maintain the stability of its regime and resolve the issue. In this sense, the Saudi Arabian situation will hold one of the keys to anticipating the future international situation.
At a time when various uncertainty factors thus exist in the international situation, Japan is required to come up with appropriate policies and strategies responding to these factors. We must not forget that these factors exert direct or indirect influence on the supply-demand balance and prices on the international energy market and major countries’ energy strategies. Given very important diplomatic events for Japan including a Group of 20 summit in Osaka this year, Japan is required to brush up its international strategies.

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