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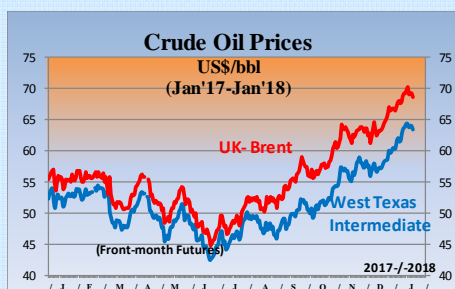
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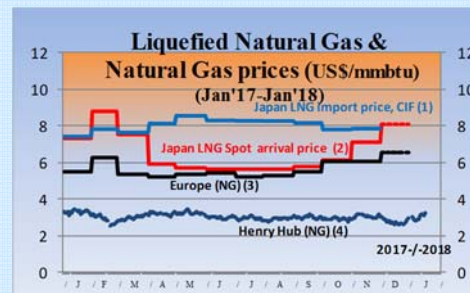
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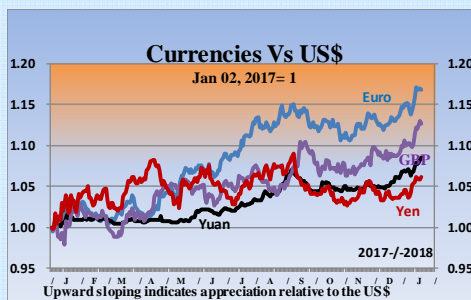


Source: DOE-EIA, Financial Times, NASDAQ

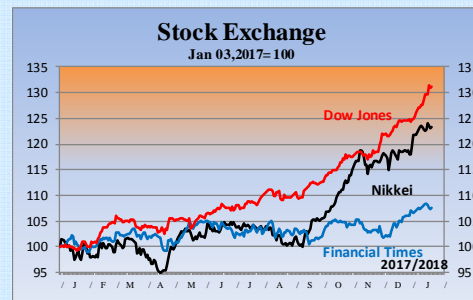


Sources:

- (1) Ministry of Finance "Japan Trade Statistics"
- (2) Ministry of Economy, Trade and Industry (contract month basis)
- (3) Estimated by World Bank and World Gas Intelligence
- (4) DOE-EIA, NYMEX (Front-month Futures)
- (5) Investing.com



Source: x-rates.com



Source: Financial Times

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Summary

【Special Feature III: Key Points for 2018】

1. US: Restless over the Trump Administration's Uncertainty

The Trump administration fulfilled a major campaign promise for the first time with the approval of the tax reform bill at the end of 2017. However, whether the bill will boost the administration going into the midterm elections in 2018, as well as the administration's policy itself, remain uncertain.

2. EU: Prospects for Completion of the Brexit Talks

In 2018, the negotiations between the EU and Britain on the conditions for Britain's withdrawal, as well as domestic politics in Germany which supports the EU, will be key points to watch. The EU is likely to remain strongly committed to enhancing its climate actions.

3. China: High Expectations for Full-scale Start of the New Xi Jinping Era

2018 marks the true start of the new Xi Jinping era. China is expected to pursue diplomacy as a major power, focusing on constructing the Belt and Road and promoting measures to prevent global warming by strengthening environmental and low-carbon measures, while maintaining stable growth.

4. Russia: The Putin Regime Embarking on the Long-Term Reign amidst Rising Domestic Frustration and Critical International Environments

President Putin seems certain to be re-elected in March 2018. However, with the sluggish economy and diplomatic problems, uncertainties over the stability of the Putin regime are looming.



1. US: Restless over the Trump Administration's Uncertainty

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In 2017, the US and the world were baffled by President Trump's sudden postings of rash policy ideas on SNS. Post-war US presidents, regardless of their party affiliation, all advocated internationalism and believe that US intervention is essential for maintaining the international order and a stable world economy. As the first isolationist president to be chosen by the American people, President Trump withdrew from the TPP immediately after taking office and from the Paris Agreement in June, as promised during his campaign. At first sight, he appears to have inherited the Reaganite view on national security that strong military power keeps America safe, but rather than a stable international order and world economy, he sees the near-term trade balance as America's national interest under his America First policy. Without doubt, the administration has directly and indirectly contributed to political unrest in the world.

The President took office with the luxury of a Republican majority in both houses of Congress, but even during the honeymoon period for the new President and Congress, he chose to implement controversial policies such as limiting immigration and refugees by executive order and banning sexual minorities (LGBTs) from the armed forces. By not seeking the cooperation of Congress, causing public resentment, and being sued by state governments, he has exhausted much of his political capital of having won a majority of electoral votes. Since then, he has revealed his lack of preparations for office, with delays in appointing Cabinet members and administrative officials, difficulty in winning Congress' approval, and a spate of dismissals of his close aides. When Congress was deliberating the abolition and alternatives to Obamacare, which has been a goal for Republicans since 2010, the President's inconsistent comments on policy priorities revealed his lack of leadership.

The administration remained without notable achievements since inauguration until December 20 when Congress approved the tax reform and tax cut package, thus fulfilling the key promise of the Trump administration and Republican legislators. This tax reform bill is often compared with the tax reform package of 1986. However, the two are very different in terms of what then President Reagan achieved by cooperating with the majority Democrats under a strict policy of "not increasing the fiscal deficit (neutrality of fiscal policy) and not imposing a financial burden on a certain income bracket," which was observed by both parties. The Trump administration's tax reform involves no bipartisan cooperation and has caused public discontent by favoring the rich. It is not certain whether it will boost the 2018 Republican legislative agenda.

2018 will see midterm elections in the US. Traditionally, the parties of first-year presidents have lost seats except in 2002. Further, a string of moderate veteran Republican legislators have announced their retirement, unwilling to support the administration. Under the current strong economy, Republicans may avoid a bitter defeat if they can pass the infrastructure bill, which would further boost the economy in the first half of the year. However, it is hard to be optimistic, with the Trump administration yet to announce the next priority or agree with Democrat lawmakers on priorities. Under these circumstances, the supply-demand situation and prices in the energy market are key factors. The impact of the political confusion at the federal level will be limited, but the progress of lawsuits against the administration's abolition of environmental regulations and the impact on infrastructure construction and supply costs must be monitored.



2. EU: Prospects for Completion of the Brexit Talks

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As in 2017, Britain's exit from the EU, or Brexit, will remain the primary focus. Unless the European Council unanimously extends the negotiation period with Britain's approval, Britain will leave the EU in March 2019. In order to complete the withdrawal procedure by then, the negotiations must be completed by October 2018.

Last December, the European Council agreed that the first phase of Brexit negotiations had made sufficient progress, and adopted the draft directives to move on to the second phase. The priority issues in the first phase were the rights of EU citizens in the UK and Britons on the continent (maintaining the residence rights of citizens and families and the rights of workers), the Ireland/Northern Ireland issue, and outstanding commitments and liabilities. The next phase will see the start of discussions on critical subjects including the transition period and the framework of the future relationship (future bilateral relationships including trade agreements). Meanwhile, the House of Commons (lower house of Parliament) has narrowly approved an amendment to the EU Withdrawal Bill to ensure that it will have a say in the final conditions for Brexit. The requirement for Parliamentary approval could prove to be a hurdle for Prime Minister May in finalizing the withdrawal negotiations. The finalization of wide-ranging negotiation conditions in the remaining ten months must continue to be monitored.

Meanwhile, in the EU, French President Emmanuel Macron expressed his desire to reach an agreement with all EU member states on a roadmap for EU reform by June 2018. As a preliminary step, he hopes to make progress with Germany on the reform by March 2018. This reflects the slow pace of coalition talks currently underway in Germany. Germany's coalition talks among the ruling Christian Democratic Union/Christian Social Union (CDU/CSU) with the Free Democratic Party (FDP) and the Greens collapsed when the FDP left the table, and Chancellor Merkel now hopes to reach an initial coalition deal by mid-January with the Social Democratic Party (SPD), which was part of the ruling coalition until the general election in September 2017. It is essential for the EU that the domestic politics of Germany, which is the cornerstone of the EU together with France, stabilizes soon.

In the energy area, the EU is likely to remain strongly committed to enhancing its climate actions. In December 2017, at the climate change summit hosted by President Macron, the European Commission unveiled its new Action Plan for the Planet. Regarding the set of initiatives announced by the European Commission in November 2016 titled "Clean Energy for All Europeans", which includes a revised Renewable Energy Directive and a revised Energy Efficiency Directive, the European Parliament and other bodies are now discussing the details of the initiatives.

Regarding the Renewable Energy Directive, in December 2017 the European Council agreed on a renewable energy target of at least 27% in 2030, but the European Parliament had previously requested raising the target to 35%. They will need to resolve their differences. With the European Commission led by President Juncker entering the second half of the presidency, the progress of the ten political priorities including the Energy Union and climate change must be monitored.



3. China: High Expectations for Full-scale Start of the New Xi Jinping Era

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In 2017 the foundations for the start of the new Xi Jinping era were consolidated. In politics, the five-yearly National Congress of the Communist Party of China, the 19th, was held in October, featuring a political report by General Secretary Xi and the approval of a revised Party's guide for action based on Xi Jinping's political thought, "Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era". The thought states that China will firmly uphold the "policy of innovative, coordinated, green, open and shared development" and aim to become a "great modern socialist country" having the world's greatest national strength and international influence by mid-century. In terms of the economy, the GDP growth rate remained at 6.9% until the third quarter, above the 6.5% minimum. Further, the contribution of consumption to economic growth reached 64.5% in January-September, and the ratio of the tertiary industry in GDP reached 52.9% (up 1.3 points year-on-year). Energy consumption per unit GDP decreased by 3.8% while the ratio of natural gas in primary energy consumption rose to 6.9% (up 0.5 point) and the non-fossil energy ratio climbed to 14.3% (up 1 point). Further, in September, the country decided to launch the world's first regulations and credit trading scheme for expanding the use of new energy vehicles (NEV), and at the end of the year, announced the launch of the world's largest national market for carbon emissions credits, handling more than 3 billion tonnes of CO₂ emissions.

In foreign affairs, the country held the Belt and Road Forum for International Cooperation (BRF) attended by representatives from more than 130 countries including the leaders of 29 countries, attracting global attention. Further, the number of states and regions participating in the China-led Asia Infrastructure Investment Bank (AIIB) increased from the initial 57 to 84, and the Bank received the top credit rating from two major rating houses of Europe and the US. In terms of US relations, China has high regard for the progress of US-China relations after three summit meetings, and considers that cooperation "to manage and control their differences based on mutual respect" has been established as the base for the bilateral relationship. Regarding the prevention of climate warming, the country declared that it will "fulfill its Nationally Determined Contribution 100%" and now leads the world in developing renewable energies and expanding NEVs.

2018 is expected to herald the full-scale start of the new Xi Jinping era. General Secretary Xi will be re-elected as a president at the National People's Congress in March, and Prime Minister Li Keqiang is due to be reappointed. At the Central Economic Work Conference held last December, the Xi-Li leadership, toward the second term, once again set "seeking progress while maintaining stability(穩中求進)" as an important principle of governance, and pledged to continue to take "a proactive fiscal policy and a moderate monetary policy" to maintain stable growth. They also pledged to strengthen comprehensive measures for expanding energy conservation and the use of renewables to eliminate air pollution and "build a clean and low-carbon yet safe and efficient energy system". The points to be monitored are whether the scope of the national emissions trading scheme will be expanded from just the power sector to other seven sectors including steel and construction materials, as initially planned, and whether the credit scheme will boost the use of NEVs as hoped. Regarding energy sources, natural gas consumption and renewables are expected to increase, but it will be interesting to see whether a license will be granted to nuclear new build projects after a two-year absence.

In terms of foreign affairs, the main focus is the development of China's diplomacy as a major power under the banner of "a community with a shared future for mankind", centered on the construction of the Belt and Road and promotion of measures to prevent global warming.



4. Russia: The Putin Regime Embarking on the Long-Term Reign amidst Rising Domestic Frustrations and Critical International Environments

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On December 6, 2017, President Vladimir Putin officially announced that he would stand for Russia's presidential election on March 18, 2018. Without any strong contenders, the election is virtually a *de facto* vote of confidence for the President. If he wins as expected and completes the next six-year term, Russia will have a 24-year long-term regime with Putin as President serving for four terms, including the period (2008-2012) as Prime Minister, since he came to power in 2000. However, there has emerged an increasing sense of stagnation in the Russian society.

In October 2017, the IMF released a forecast showing that Russia's GDP growth rate would turn positive (1.8%) in 2017 for the first time in the last three years. However, with disposable income continuing to fall, down 1.3% year-on-year in the same month, and the population has little sense of the economic recovery. In the year 2017, Russia received international attention for the centennial of the October Revolution, but President Putin reportedly diverted public attention away from the Revolution, concerned about the risk of an outburst of public frustration.

On December 14, 2017, at the annual year-end press conference, President Putin underlined his accomplishments by stating that Russia's GDP had increased by 75% with the growth of real income by 2.5 times since 2000. However, for many people, particularly the youth, the baseline for comparison is no longer the chaos following the collapse of the Soviet Union (1990s) but the mid-2000s when oil money came pouring in. Meanwhile, crackdowns on freedom of speech, containing public criticism of the government are increasing in Russia.

The country also has a host of difficult external challenges. With the probe into the Trump administration's collusion with Russia gaining traction in the United States, there is no prospect for improving the bilateral relations. In the Middle East, where President Trump's announcement in December to relocate the US Embassy to Jerusalem has re-ignited anti-US feelings in the Islamic world, President Putin paid a surprise visit to Syria in the same month to declare the defeat of IS, and focused international attention on Russia's presence in the region. However, regarding Syria, Russia has potential conflicts of interest with Saudi Arabia which is wary of Iran's growing influence, and with Turkey which refuses to let the Kurds participate in the peace process. A conflict of interest exists also with China, which consults the United States before Russia over North Korea.

As the presidential election approaches, no one in Russia openly doubts that President Putin's influence is fading. While the President's re-election is *de facto* taken for granted, however, uncertainties over the stability of his political regime are looming. In case the Russian economy continues to be sluggish after the election, Vladimir Putin may not only face the loss of popular support, but also fail to prevent the intensification of power struggle among the political elite. In such a scenario, the President may take even more aggressive external postures to divert the popular discontent. Prime Minister Abe is scheduled to visit Russia in May 2018. Japan needs to prepare multiple scenarios of its relations with Russia with the growingly unpredictable path the Putin administration.



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