

Economics in the Time of Covid-19: The economic impact on Asia

FUJI Kazuhiko
RIETI Senior Fellow

March 24, 2020



Globalization in Reverse Middle East Crisis

Kazuhiko Fuji

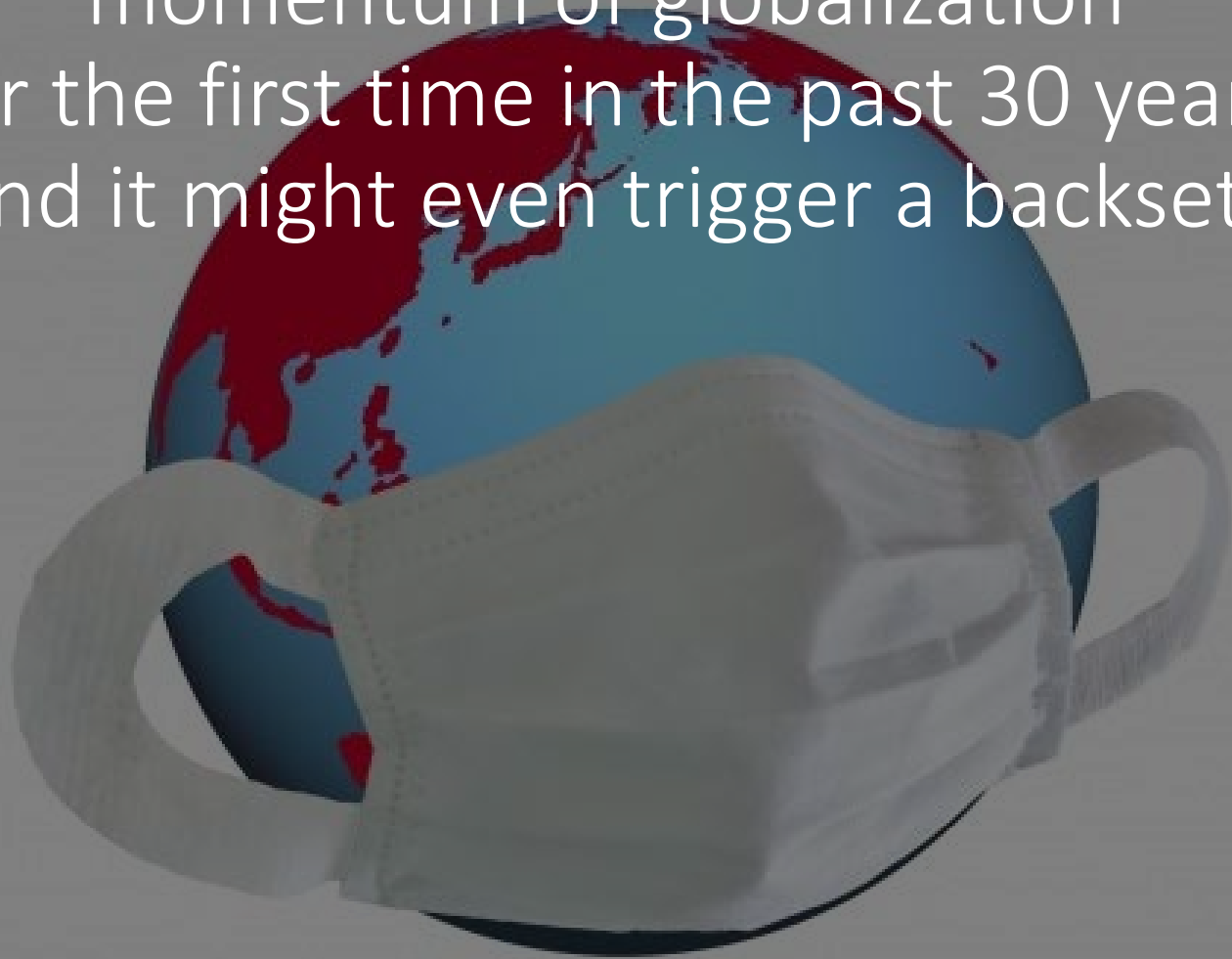
Senior Faculty Fellow

Research Institute of Economy, Trade and Industry



More spread of
COVID-19,
more countries
tighten their border
controls

It could cause a sudden halt on the momentum of globalization for the first time in the past 30 years and it might even trigger a backset.

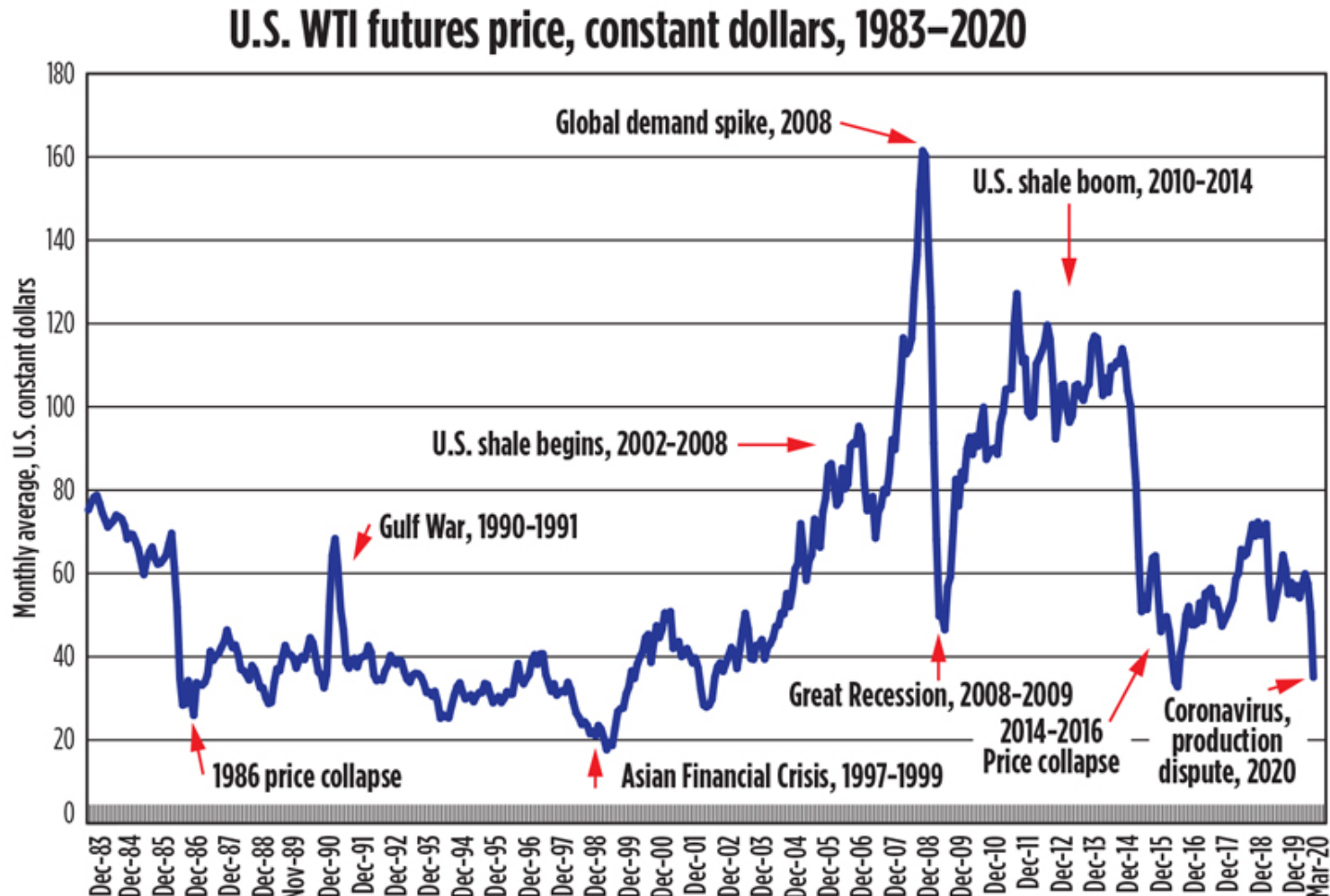




Middle East Watcher



Later in March, after the breakdown of negotiation among Russia and OPEC nations on further production cut, we observed the lowest crude oil price in 18 years.



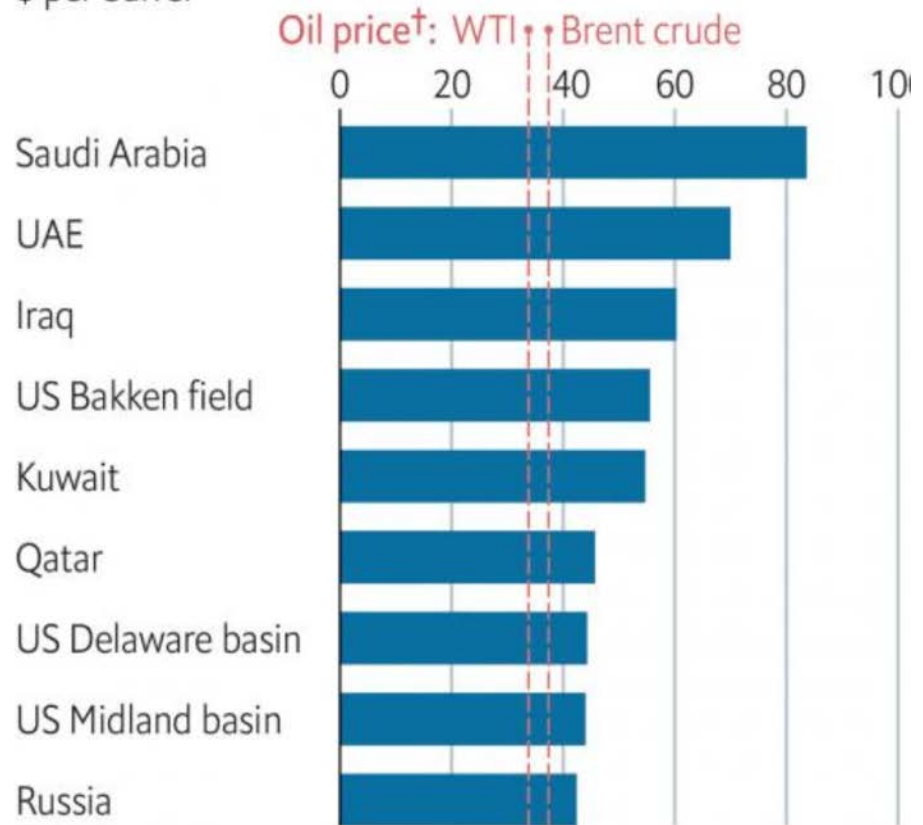


Source: Trading Economics

All oil-producing countries suffer severely if the oil price keeps stick to around 20-plus dollars a barrel.

Barrelling towards conflict

Oil production, fiscal break-even price*
\$ per barrel




Sources: IMF;
Bloomberg

*Fiscal break-even oil prices differ from oil producer break-evens, but provide a good comparison with national oil companies

[†]At 17.00 GMT, March 10th 2022

Source : Economist

<http://espresso.economist.com/73239bf646d4cce9d88b388edddb35ef>



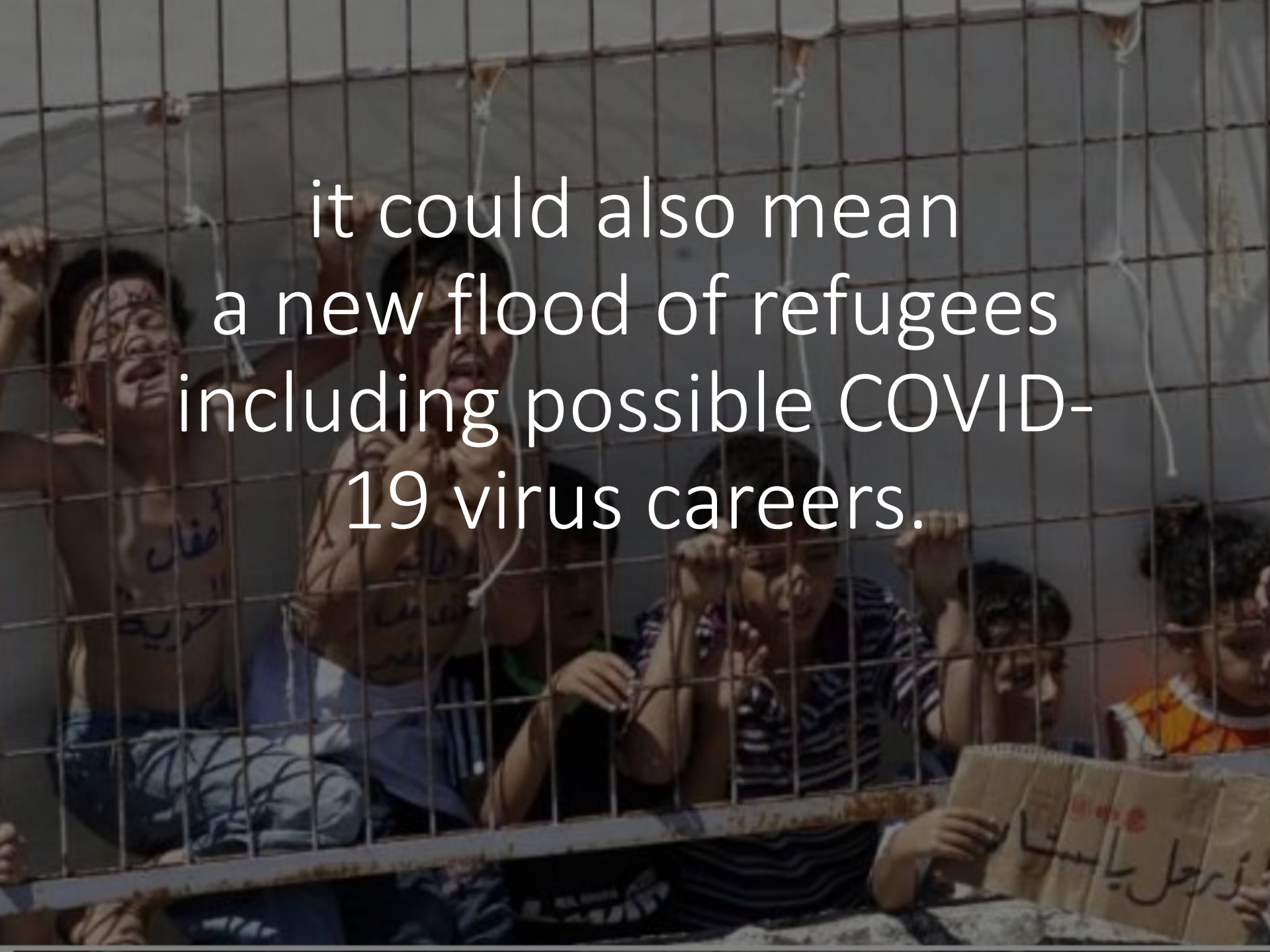
The historical low oil price
is seriously jeopardizing the
financing aspect of the
'Vision 2030' reform.



But the biggest
concern is Iraq.

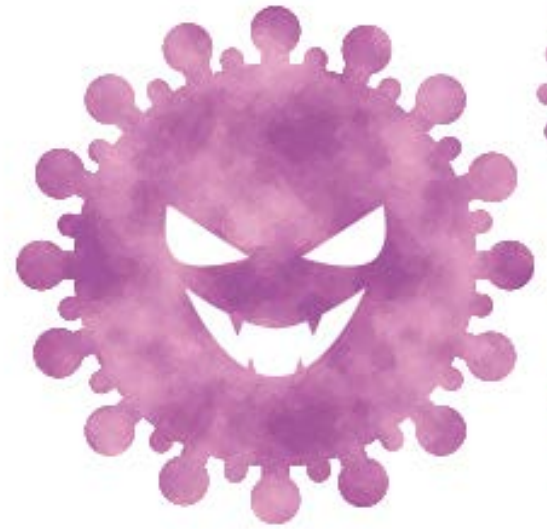


While the political instability in the Middle East increases the risk of disruption in the oil supply/transportation to Asian countries, to Europe...

A photograph of several children, likely refugees, looking through a rusty metal wire fence. The children are of various ages and are holding onto the fence with their hands. One child on the left is wearing a blue shirt with Arabic text. Another child in the center is wearing a striped shirt. In the bottom right, a child is holding a cardboard box with Arabic text. The background is a plain, light-colored wall.

it could also mean
a new flood of refugees
including possible COVID-
19 virus carriers.

Thank
you.



Together with the global spread of COVID-19, more and more countries and regions are tightening their border controls. There will be no serious problems if these extraordinary border-closing measures are to be removed in a relatively short time. However, the current pandemic is becoming more widely considered to last more than one and a half years going forward, thus it is possible that the currently enforced border control measures are going to last longer than initially expected. The outcome of long-lasting border controls would be severe hiatus in cross border movement of goods, people and capital. It could cause a sudden halt on the momentum of globalization for the first time in the past 30 years and I am concerned that it might even trigger a backset. Many countries might be forced to drastically change their growth strategies that stand on the assumption of continuing globalization.

I have been watching the oil market and the situation in the Middle East for a very long time.

The oil price has been taking a dive since February over the concern that the COVID-19 pandemic would limit the movement of people and demand for transportation fuel would drop sharply. Later in March, after the breakdown of negotiation among Russia and OPEC nations on further production cut, we observed the lowest crude oil price in 18 years.

All oil-producing countries would suffer severely if the oil price keeps stick to around 20-plus dollars a barrel. The production cost of Saudi Arabia is estimated to be less than 3 dollars a barrel while the budget-balancing price for Saudi Arabia is 83 dollars a barrel. The so-called 'Vision 2030' project lead by the Crown-Prince Mohammad bin Salman is the biggest reformation since the founding of the country. However, the history-low oil price is seriously jeopardizing the financing aspect of the reform.

And while the world is not paying much attention, my biggest concern is the situation in Iraq.

In addition to the fact that crude oil trading income accounts for 95% of the total government income, the country is in the state of anarchy since last October. The low public health standard is expected to deteriorate more due to the budget constraint as the result of low oil price.

There is an increasing possibility that Iran could become the next hot spot of COVID-19 in the Middle East area after Iraq.

While the political instability in the Middle East and Gulf area increases the risk of disruption in the oil supply/transportation to Asian countries, to Europe, it could also mean a new flood of refugees including possible COVID-19 virus carriers.