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Why Asia mustn't forget the Middle East 'grey rhino'

Covid-19 was also a grey rhino. Asia's energy dependence on the region and its combustible politics call for greater attention to the fallout from an outbreak of conflict.

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For The Straits Times

As Covid first swept across the world last year, a number of commentators declared it to be a "black swan", an outlier event outside the realm of regular expectations that no one could have predicted. In truth, it was not. For years, experts knew that a novel virus would someday appear and cause havoc.

The eruption of the pandemic was instead what the American policy specialist Michele Wucker calls a "grey rhino", a highly probable, high impact, and generally neglected threat. Not surprisingly, a number of governments and companies are now swapping black swan fatalism for grey rhino pragmatism.

One rhino that Asian countries should be particularly concerned about is one that has the capacity to knock their economies onto their knees: the closing of the Strait of Hormuz.

As developed nations increasingly switch towards renewables for their transport and energy requirements, there is the temptation to think that the Middle East and its oil are sliding into insignificance. The opposite is true: The region is more important strategically than it was a decade ago.

A 2018 photo of a production facility of Aramco's Shaybah oil field in Saudi Arabi's Empty Quarter. Asia is still reliant on Middle East crude, and it is a dependency that isn't going away soon. PHOTO: REUTERS

ENERGY DEPENDENCE

For a start, Asia is still reliant on Middle East crude. Currently 90 per cent of Japan's oil comes from the region, up to 80 per cent of South Korea's, and 73 per cent of the Philippines'. This is a dependency that isn't going away soon.

The International Energy Agency predicts that by 2040, Asia-Pacific will still be consuming 25 million barrels per day (versus 32 million now), the majority of which is likely to come from South West Asia.

What's more, oil is no longer the Middle East's only export. Taking advantage of cheap electricity generated by abundant energy resources, many Gulf nations have been diversifying into the production of chemicals and metals at the expense of oil. Countries such as Saudi Arabia and the United Arab Emirates are now major producers of metal products such as aluminium bullion, as well as petrochemicals used to make plastics like ether and ethylene.

In 2018, Saudi Arabia accounted for 75 per cent of the value of Singapore's ethylene imports, and half of Malaysia's came from the wider region.

Saudi Arabia is also a prime mover in what is expected to be a major energy source in the future, blue ammonia. Created from by-products of current fossil fuel production, blue ammonia contains enough hydrogen for it to be used as an energy source, but with one key advantage: It doesn't release any carbon dioxide when burned. As such, according to Saudi's national oil company, Aramco, blue ammonia has "the potential to make a significant contribution to an affordable and reliable low-carbon energy future".

It was Aramco that exported the world's first consignment of blue ammonia, in September last year, for use in Japan's thermal power stations. It was a shipment that was important for both countries. Japan aims to be a world leader in the use of hydrogen, which it hopes will support its commitment to reduce greenhouse gas emissions by 26 per cent before 2030, compared to 2013 levels. Saudi Arabia, the world's largest oil producer, sees blue ammonia as a profitable way to increase its diversification away from crude, and at the same time establish itself as a global force in clean power.

Fuel and flashpoints

STRAITS TIMES GRAPHICS

CHINA AND IRAN

The Middle East is also a significant exporter to China. Despite Beijing's recent promises to hasten its environmental agenda, the country is still the world's largest importer of oil. The Persian Gulf provides half of this, as well as an increasing amount of other products, including 45.7 per cent of its ethylene. Such has been the expansion in trade that China is now one of the top three trade partners for nine of the region's nations. Dubai alone hosts between 200,000 and 300,000 Chinese nationals, 4,200 Chinese businesses, and branches of China's four largest banks.

Beijing's ambitions for the Middle East were highlighted by the news late last year of its plans to invest up to US$400 billion (S$536 billion) in Iran over the next 25 years. In exchange for a regular supply of oil, Chinese funds will help to modernise industry and infrastructure that has been degraded after years of American sanctions.

China's move to cement ties with Iran is likely to be with one eye on securing access through the Strait of Hormuz. Bracketed by Iran and Oman, the strait is not only vital for the export of chemicals and metals from the Gulf, it is also the world's most important oil transit choke point; 21 per cent of the world's oil flows through the strait daily, three quarters of which is destined for Asian markets.

Although its geography makes the strait highly vulnerable, Arab Gulf oil producers and their Asian customers have few easy options available to them. The pipelines going west to the Red Sea have limited capacity and, in any case, oil flowing that way must either go up via the Suez Canal or down past Yemen and the Bab El Mandeb choke point. Pipeline routing through Iraq to Turkey is also fraught with risks, and the UAE pipeline that bypasses the strait is limited by its capacity, and lies close enough to the choke point that it would be a close and easy target in the event of hostilities.

It was therefore no surprise to see China make an announcement in the recently concluded National People's Congress (NPC) that it will seek the "safeguarding of the safety of strategic channels and key nodes".

Although China has been reluctant to get involved in the security of the Middle East, this edict from the NPC may hint at a change. Indeed, part of the deal with Iran is for increased military cooperation between the two countries, potentially giving China a toehold in the Gulf for the first time.

The closer ties between China and Iran will have disquieted America and its allies. It is only two years ago that Teheran threatened yet again to close the Strait of Hormuz to international traffic, an easily achievable action for a body of water that is only 33km across at its narrowest. Iran is still smarting from America's assassination last year of Teheran's top military commander Qasem Soleimani, and to underline its intent to resist Washington, last year launched missiles at a mock-up of a US aircraft carrier moored in the strait.

If conflict between Iran and America were to break out, then the presence of China would add a complicating dimension.

MANY FLASHPOINTS

Thankfully the strait remains calm for now. This cannot be said for elsewhere in the region. The wars in Syria and Yemen may grab the headlines, but there are plenty of other flashpoints, a steady stream of sparks with the capacity to make the region burn.

Only a few weeks ago, on March 7, Houthi rebels from Yemen launched a failed drone and missile attack on Saudi Arabian oil facilities, forcing the Saudis to temporarily shut half of their oil production. The resultant shortage pushed Brent crude prices above US$70 a barrel, to their highest level since January last year.

The fallout from the most recent grey rhino event to hit the world, Covid-19, has been devastating.

Many lessons claim to have been learnt, especially when it comes to non-diversified supply chains; the closing of the Strait of Hormuz would be a very good, but potentially painful test, of whether this is true or not.

What is for sure is that at some point the strait will be threatened again if not outright closed, and if the crisis lasts anything like as long as the Covid-19 has, then only the well-prepared will survive the stampede intact.

It's hopefully not tempting fate too much to note that the collective term for rhinos is a "crash".

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