

# Third Session: The Impact on Asia

## The US & Iran: On a Collision Course?

By Sara Loo

*In the third session of The US & Iran: On a Collision Course? conference, four panellists shared their views on the impact of rising tensions in the Strait of Hormuz on Asian economies, which are already under strain due to the US-China trade war.*

### Mr Gabriel Lim, permanent secretary, Ministry of Trade and Industry

US-Iran tensions are “another cloud in a rapidly darkening sky,” said Mr Lim, as he opened the session by talking about Singapore’s downgrade of its economic growth forecast for 2019 to between 0 and 1 per cent. Reiterating a point that Senior Minister of State for Trade and Industry Koh Poh Koon had made earlier in the day, Mr Lim said that while they were “not negligible”, the impact of tensions in the Strait of Hormuz on Asia would be “manageable”.

One source of concern, however, is the impact that the flouting of an international agreement that parties have entered on a willing basis — the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA) — will have. This has serious implications for small and open economies like Singapore, which are highly reliant on international rules, Mr Lim said.

On a broader scale, this reflects an unwinding of the multilateral trading system on which small countries have depended, and represents a structural shift in the geopolitical environment. Precisely because adherence to international norms is significant to Singapore, Mr Lim drew attention to how international waterways are managed, and reiterated the Republic’s condemnation of attacks on tankers in the Strait, an international waterway.

### Professor Pan Guang, director, Shanghai Centre for International Affairs

One possible result of the US-Iran tensions is closer China-Russia relations, as both countries work together to prevent a worsening of the situation in the Persian Gulf, and attempt to persuade the US to return to the framework of the JCPOA, said Prof Pan.

Any disruption to China’s oil supply is likely to be limited, he added, citing other sources such as Saudi Arabia, Oman and Iraq. China also imports oil from Russia, Kazakhstan, Turkmenistan and the Far East, as new pipelines are being constructed.

### Mr Hitoshi Tanaka, chairman, Institute for International Strategy, Japan Research Institute Ltd

Setting out four main implications of US-Iran tensions, Mr Tanaka argued firstly that President Donald Trump’s unilateral policies in the Middle East have undermined US credibility — the withdrawal from the JCPOA is but one example of this. Others include moving the US Embassy from Tel Aviv to Jerusalem and the recognition of the Golan Heights as Israel’s territory. Such unilateral policies would have painful implications for Asia, he said.

Secondly, a “Second Cold War” could break out as Iran moves to ally itself with China and Russia, and companies and countries would be forced to choose sides. For instance, Chinese firms with businesses in US and Iran could withdraw from the US to keep their business in Iran. This could pose a challenge to smaller nations in Asia, who would find it difficult to pick sides between the US and China.

Thirdly, the price of oil could increase if tensions continue to escalate, and Japan could be badly hit as it depends heavily on oil from the Strait of Hormuz.

Finally, the US’ withdrawal from the JCPOA has been closely watched by countries such as North Korea. The Americans’ unilateral action could thus dissuade Pyongyang from entering into a denuclearisation deal.

Proffering a solution, Mr Tanaka believes Japanese Prime Minister Shinzo Abe could be critical in helping to work out a dialogue between Iran and the US. Japan had played a similar role in mediating relations between the Europeans and American in 2004 as a result of Iraq.

### **Dr Tilak Doshi, energy consultant**

Most of the oil that passes through the Strait of Hormuz, Dr Doshi noted, is bound for Asia, and so any impact of tensions on price will be magnified in the region. He said, however, that the shale oil revolution in the US has upended the energy market, and any impact is likely to be muted.

The price of oil, he reminded the audience, does not depend only on what happens in one region, but on global supply and demand. With the surge in production from the US, this will likely remain fairly stable, he said, thus keeping a lid on prices.