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The Oil Crisis and the Developing Countries

A. The Problem:

(i) Oil Shortage: For a while, the problem was shortage of oil due to the restrictions imposed by major Arab oil exporting countries. This has affected the supplies of oil to many developed countries while almost all developing countries had an open tap.

(ii) Price Increases: The posted price per barrel of crude oil has fluctuated between $1.80 and $2.18 during Jan. 1955 to Jan. 1972. In Jan. 1972 the price was raised to $2.48 per barrel and it was increased to $2.59 per barrel in Jan. 1973. During the past 12 months, the oil price was raised more than five times and the current posted price is $11.65 per barrel. Data on the posted and market prices of crude oil are presented in table 1.

The problem facing all oil importing countries is a sudden jump (of over 150%) in the import bill for oil. While, the economic activity in most developed countries would slow down due to this factor, the impact on the developing countries' economies would be crippling. The developed countries have different assets to finance the larger import cost, while most developing countries do not have any such means, to finance their increased oil import bills.

The alternatives before the LDCs' are - (a) reduce oil imports to a level that is in keeping with their ability to pay; (b) keep the quantity of oil imports at the 1973 level, and finance the increased import costs through external borrowing/aid; (c) increase the quantity of oil imports to a level that would promote the normal growth of their economies and finance the increased costs of imports through external borrowing/aid.

Alternative (a) if followed, would be disastrous, as the economies of most developing countries would grind to a halt. Alternatives (b) and (c) may be feasible if external aid is forthcoming on a large scale.

It is estimated* that the developing countries' oil import bill in 1973 was about $5 billion. At current prices (of $8 per barrel of crude, c.i.f.) the import bill for the same quantity of oil imports would be $12 billion. If imports of oil have to increase at their normal rate, the import bill for oil would be $13.5 billion in 1974.

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* The estimates quoted are very rough ones, based on back of the envelope computations that did not include the impact of higher oil prices on prices of other goods and services. An IMF source estimates that the balance of payments deficit of developing countries would increase from $10 billion to $25 billion (?).

While talking about the impact of a rise in price of oil, one has to differentiate between the short and long-term problems. Any significant adjustment/shifts to other sources of energy (such as coal, nuclear power, electricity) would take at least 3 to 5 years. In the interim, not much could be done to reduce the dependence on oil without a disastrous effect on the operation of the economies. In the longer-term, significant shifts could be made to other energy sources.

B. The Solution

The solution to the long-term problem lies with the developing countries. They have to devise ways and means of reducing their dependence on oil without incurring any serious damage to their economies. The solution to the short-run adjustment lies in helping these countries to tide over their increased payments deficits through external aid (loans).

This aid could be provided by the traditional aid giving countries. However, these aid giving countries are themselves feeling the pinch of the oil price increase, some more so than others. Informed opinion is that it may be difficult to get the aid contributions for IDA IV approved by the legislatures in these countries in the changed circumstances. So, any hope of additional aid from these countries may not be realistic.

What are the other sources? The one that immediately comes to mind is the beneficiaries of the oil crisis - the oil exporting countries (OE countries - for short). These countries have/will have windfall gains of foreign balances and may be persuaded to contribute to the welfare of their bretheren in other less developed countries. Such contribution could be in the form of (a) lower price (1973 price, say) for the Developing countries and higher price for others;
(b) uniform price to all, but subsidies to developing countries;
(c) uniform price, but soft term loans to developing countries to finance their oil imports for the next 3 to 5 years.

(a) and (b) involve (in addition to other problems) loss of revenue to the OE countries and may not stand much chance of successs. On the other hand, (c) may be attractive to them both in terms of humanitarian considerations and political support to the OE countries from other developing countries.

Who should initiate action in this direction?

Any international organization which is involved in providing aid to the developing countries could start the ball rolling. However, I feel that the American Foundations if chosen to perform this task, may not be able to obtain the support of Arab OE countries. The World Bank may be a good organization for the job. Even here, the project would have better chances of success if the Bank stayed behind the scene and encouraged a group of representatives from the non-oil exporting developing countries to approach the OE countries with the proposal. The actual channeling of the aid/loans could be done through existing channels, if agreeable to the OE countries. Otherwise, new institution(s) could be set up to perform the task and the Bank could provide the technical expertise for the operation of such an out-fit.

Urgency for Action: While studies on the exact magnitude of the impact of the oil crisis on developing countries are important, action must start immediately on aiding the developing countries in tackling the oil import problem. Any delay in initiating such action may cause irreperable damage to the already tottering economies of some of the developing countries.

Data on the value of oil imports and their relative importance in total imports of selected developing countries are presented in table 2.

TABLE 1

PRICES OF CRUDE PETROLEUM

(Saudi Arabian Light - 34^0; f.o.b. Ras Tanura)

Date	Posted Price ($/barrel)	Index (Jan.'70 =100)	Estimated Market Price ($/barrel)	Index (Jan.'70 =100)
Jan. 1955	1.93	107	1.93	148
May-June 1957	2.08	116	1.83	141
Feb. 1959	1.90	106	1.53	118
Sept. 1960	1.80	100	1.45	112
Jan. 1970	1.80	100	1.30	100
Feb. 15, 1971	2.18	121	1.65	127
Jan. 20, 1972	2.48	138	1.85	142
Jan. 1, 1973	2.59	144	2.20	169
April 1, 1973	2.76	153	2.30	177
June 1, 1973	2.90	161	2.70	208
October 1, 1973	3.01	167	2.70-3.10	208/238
October 16, 1973	5.12	284	3.65	281
Jan. 1974+	11.65	647	7.00	538

+ approximate.

Note: Data from World Bank sources.

TABLE 2

VALUE OF OIL IMPORTS OF DEVELOPING COUNTRIES

(million U.S. dollars)

Country	1970	1971	1972	1973 Actual	1973 At 1974 Prices
Price, c.i.f. ($/barrel)	1.91	2.31	2.52	3.39	8.00
1. India	140 (7)	200 (8)	265 (12)	415	979
2. Pakistan	37 } (5)	52 } (8)	65 (9)	85	200
3. Bangladesh	17	22	25	35	83
4. Uruguay	30 (13)	38 (17)	40 (21)	60	142
5. Turkey	68 (7)	118 (10)	150 (10)	210	495
6. Morocco	28 (4)	39 (6)	50 (7)	80	189
7. Ghana	13 (3)	15 (3)	20 (7)	25	59
8. Kenya	17 (4)	22 (4)	25	40	94
9. Sri Lanka	23 (6)	30 (9)	35 (11)	50	118
10. Philippines	115 (10)	153 (12)	185 (14)	265	625
11. Thailand	72 (6)	106 (8)	125 (8)	180	425
12. Brazil	276 (10)	343 (9)	425 (9)	540	1,274
13. Korea	137 (7)	185 (8)	205 (8)	325	765
14. Argentina	20 (1)	52 (3)	55 (3)	40	94
Total of above 14	993 (6)	1,375 (8)	1,670 (9)	2,350	5,546
Total - All Developing Countries	2,336	3,132	3,715	5,245	12,378

Data from World Bank sources.

Figures in parentheses are percentage of oil in total imports.