



Oil Prices: Which Countries Are at Risk?

The rocketing price of petroleum-based fuels has come as a shock to millions of poor people across the Asia-Pacific region – and in some countries they have taken to the streets to protest. But the visible macroeconomic effects have been limited. The world has somehow avoided recession, and most national economies remain unperturbed. Economic growth has remained strong and inflation is increasing only slowly. Why?

A new Report from UNDP, *Overcoming Vulnerability to Rising Oil Prices*, points out that this is largely because, unlike the 1970s 'oil shock', today's price increases have come at a time of rapid economic expansion which has allowed national economies to ride out the storm. But the report warns against complacency and says that the impacts might only have been delayed. If current trends continue countries in the Asia-Pacific region could be in for a much rougher passage.

If so, which countries are at greatest risk? Presumably those that use a lot of imported oil. But the Report points out that there are many other factors at play. Countries that have enough export income to pay for oil imports, for example, can continue to power ahead. As a way of taking this and other issues into account UNDP has devised a new 'oil price vulnerability index' (OPVI). The OPVI assesses each country in terms of its economic strength and performance and also looks at the extent to which it bases its growth on imported oil. It reduces no fewer than 18 indicators to a single index number. On this basis it has come up with three country groups:

- *Low vulnerable countries* (low OPVI) – China, Iran, Malaysia
- *Medium vulnerable countries* (medium OPVI) – Bhutan, India, Indonesia, Mongolia, Myanmar, Papua New Guinea, Thailand, Viet Nam
- *Highly vulnerable countries* (high OPVI) – Afghanistan, Bangladesh, Cambodia, Fiji, Lao PDR, Maldives, Nepal, Pakistan, Philippines, Samoa, Solomon Islands, Sri Lanka, Vanuatu.

Iran performs well because it is a major oil exporter. But China, even though it is a major oil importer, is also less vulnerable according to the OPVI because it has a strong economy and other sources of energy, particularly coal. India too ranks quite highly for much the same reason. At the other end of the scale, are countries like Sri Lanka and Cambodia with poorly performing economies and high dependence on oil.

The Report warns however, that even countries that are less vulnerable now could become more exposed in future. Malaysia and Thailand, for example, with rapidly growing oil consumption could soon find themselves sliding down the OPVI rankings.