

South-East Asian and oil

The black and blue stuff

BANGKOK

Producers and consumers alike are hit

LAST year, while trying to predict the effect of high oil prices on the economies of South-East Asia, the Asian Development Bank (ADB) came up with three scenarios. In the gloomiest of the three, the oil price was projected to hover at around \$40 a barrel throughout 2005—enough, the bank predicted, to knock over two percentage points off the growth rate in several countries. The reality, however, has proved considerably bleaker. In the first seven months of the year, the oil price averaged over \$50 a barrel, with no respite in sight. The toll on the region's economies is as much as the ADB foresaw.

Developing countries tend to consume more oil per unit of output than rich ones, and so suffer more from high oil prices. South-East Asia is no exception: Indonesia, Malaysia, the Philippines and Thailand all

consume between two and four times more oil than the average for rich countries. No wonder inflation is ticking up across the region, albeit from historic lows in several countries. Central banks have begun to raise interest rates accordingly, despite faltering growth. The Bank of Thailand, for example, has raised interest rates six times in the past year. Meanwhile, it has gradually lowered its forecast of Thailand's economic growth this year, from 6% in January to 4% now. In the first quarter of the year, the economy actually shrank slightly compared with the quarter before.

For countries that are obliged to buy most of their oil abroad, the high price is also pushing up imports, and so taking a toll on the balance of trade. That, in turn, puts downward pressure on local currencies, making oil imports all the more expensive. Once again, Thailand has been hardest hit: in the first quarter, it posted a current-account deficit for the first time since the Asian financial crisis of 1997-98.

The Philippines has also seen its import bill rise, as has Indonesia, which became a net importer of oil in 2003, despite being the region's only member of the Organisation of Petroleum Exporting Countries. Indeed, when Pertamina, Indonesia's state-

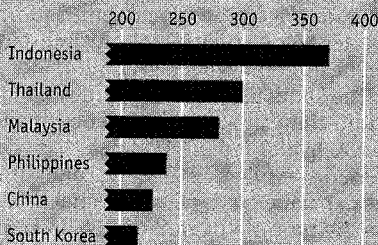
owned oil company, ran low on stocks last month, and so began buying up dollars to pay for imports, the rupiah plunged. Even for Malaysia, the region's biggest exporter, the high oil price is not necessarily beneficial. According to the ADB's models, at \$40 a barrel the benefit of higher oil revenues is outweighed by the reduction in demand for the country's other exports as the world economy slows.

Governments around the region have responded with all manner of half-baked energy-saving measures. Government offices are to be less strongly air-conditioned, billboards and some street lights are to be turned off during the wee hours after midnight, and so on. The Thai government has curtailed the opening hours of shopping malls. The authorities in Indonesia ordered television stations to go off the air at night, although they subsequently exempted broadcasts of European football matches, to which many of their compatriots are addicted. Civil servants in the Philippines have been put on a four-day working week, to save the petrol they use while commuting and the power they consume in their offices.

But the region's politicians have been slow to take the most obvious step, of cutting fuel subsidies. Last month, Thailand eliminated subsidies on diesel, a scheme that had cost it some \$2 billion over the previous 18 months. The government of Malaysia, for its part, raised fuel prices for the fourth time in the past year on July 31st, reducing, but not eliminating, its subsidies.

The biggest laggard is Indonesia. Last year, its bill for oil subsidies ballooned from 14 trillion rupiah (\$1.75 billion) to 72 trillion as the underlying oil price rose. After much deliberation, it eventually raised fuel prices in March by roughly 30%, in an attempt to shift spending to more useful outlets, while promising voters not to raise prices again this year. Since then, however, the continued rise in the oil price has meant that the cost of fuel subsidies has actually risen. The government is now likely to spend as much as 100 trillion rupiah on the subsidies—or twice as much as it has budgeted to rebuild the tsunami-stricken province of Aceh. ■

Dependent

Petroleum consumption per unit of GDP
OECD=100, 2003

Source: Asian Development Bank