

THE IMMEDIATE IMPACT OF THE ENERGY CRISIS WITH SPECIAL  
REFERENCE TO NON-OIL DEVELOPING COUNTRIES

by

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## INTRODUCTION

This report deals with the immediate effects of the Arab oil embargo, and oil price increase which took place during the fourth quarter of 1973. It discusses briefly the uneasiness of the international systems, seeking to cope with the major changes in individual countries' payments positions, and the massive surplus accruing to the oil exporters; the initial impact on the advanced countries whose economies had been geared to a high use of energy, and were thus prone to inflation, demand-deficiency, unemployment, and problems of maintaining their high standards of living. The report makes a special reference to the plight of the oil-poor developing countries, their fight for survival, and their attempt to replenish their dwindling foreign exchange reserves. The non-oil developing countries (NODs) have been further classified according to their development levels, and dependence on foreign oil. Some forms of aid to these countries have been referred to. The concluding paragraphs show that recovery has been slow and would entail inter-governmental co-operation in overcoming the problems facing the world economy, and in reaching a new equilibrium.

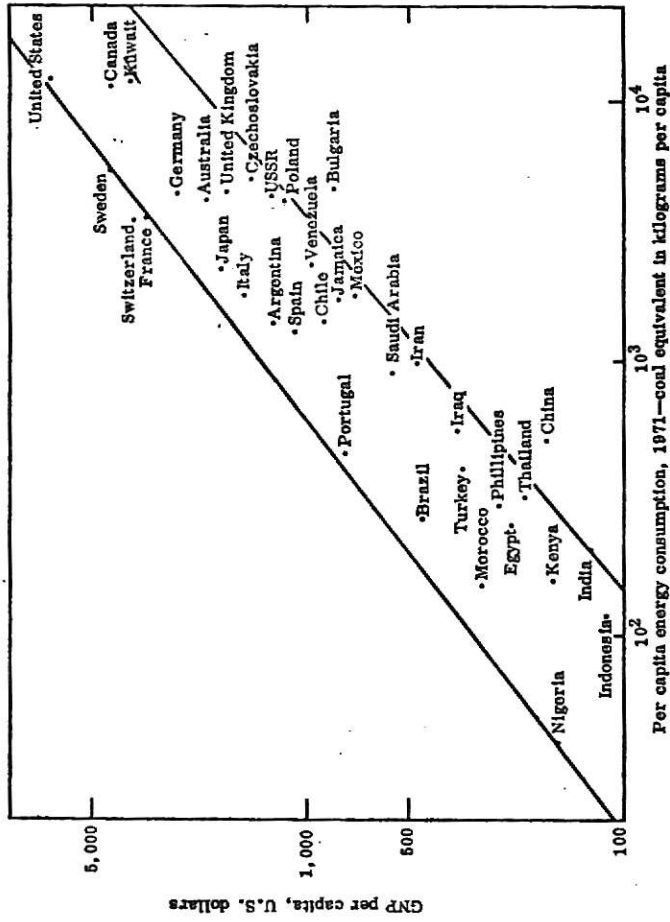
## BACKGROUND TO THE ENERGY CRISIS

No event in the period following the second world war had so sharp and pervasive an impact on the world economy as the series of shocks to the oil market that followed closely on the outbreak of the Arab-Israeli war on October 6, 1973. This tragic

renewal of hostilities in the Middle East brought in its wake extremely serious consequences for oil consumers the world over. Abandoning the Teheran and Tripoli agreements, the Arab governments imposed unprecedented increases in oil prices and taxes, and started cutting production. The non-communist world was posed with the urgent question as to whether it could adjust to the new situation at a tolerable cost. For almost a year uncertainty grew and pessimism seemed to feed on itself. How to cope with the economic implications of the crisis became almost overnight the major pre-occupation of governments all around the world.

Man's progress from a primitive stage to the complex industrialized society of today has required an increasing use of non-human energy. To an ever increasing extent, energy has been used to move machines and vehicles of transportation and to provide heat and light for daily living. In fact, the development of human civilization has been closely tied to the degree of energy use per man. The relationship between economic growth and energy consumption is brought out in figure 1 (page 3) in which gross national product (GNP) per capita for selected countries is plotted against their respective per capita energy consumption levels.<sup>1</sup> The pattern observed clearly establishes a strong correlation between economic development and energy consumption.

Relationship between Per Capita Energy Consumption and Per Capita GNP



Source: K. Krishna Prasad and A. K. N. Reddy, "Technological Alternatives and the Indian Energy Crisis," Paper presented at the National Seminar on Energy, Hyderabad, March 1976.

Figure 1.