Reality of Changing Oil Prices and its Impact to Developing Oil Producing Nations.

D. Daramola1* O. S. I. Fayomi2,5, I.G. Akande3, M. John2, O. Agboola4, M.O. Udo2

1Department of Biomedical Engineering, Bells University of Technology, Ota, Ogun State, Nigeria
2Department of Mechanical Engineering, Covenant University, P.M.B 1023, Ota, Nigeria
3Department of Mechanical Engineering, University of Ibadan, Ibadan, Oyo state, Nigeria
4Department of Chemical Engineering, Covenant University, P.M.B 1023, Ogun State, Nigeria
5Department of Chemical, Metallurgical and Materials Engineering, Tshwane University of Technology, P.M.B. X680, Pretoria, South Africa

Corresponding author: anakdeby67@gmail.com

Abstract-
In recent years the fluctuation in fuel prices coincided with the global economic depression of 2008, further studies indicate that when production of crude oil is more than the demand of the crude oil, crude cost would reduce whereas if there is little supply of crude oil and there is growing demand of crude oil the cost of crude would increase. In this review we explore the various conditions that influence the fluctuation of crude oil, the impact this conditions have to the global price of crude oil and its relation to developments of certain economies as specified. There was found to be a correlation between crude oil price increase and an increase in gross domestic product (GDP) of developing oil producing nations also there was found to be a fall once there is a reduction in crude price. This is dependent on if the nation in question is crude oil based economy whereas if the economy in question is more diverse its effect on the GDP wouldn’t be as pronounced.

Key Words: Oil Price; Exporting; Developing Nations; Crude oil

1. Introduction
In nature crude oil occurs as a product which composes of organic material and deposits of hydrocarbon which can also be called unrefined petroleum. Refining of crude oil through fractional distillation produces gasoline, diesel and other petrochemicals used in the chemical industry. Crude oil is non-renewable and its major product such as Gasoline is a form of fossil fuel [1]. On August 27, 1859, crude oil was discovered at Titusville, Pennsylvania in a well by Edwin L. Drake though this is a major landmark for modern crude oil exploration this was not the first time it was recorded in world history. Ancient Assyrians, Babylonians and Sumerians between the years 5000 to 6000 years ago serve as the first available form of documentation of crude oil where it was used as a form of first aid for patients, and as a source of light when consumed. It was found as leaks at the Euphrates River where Tuttul is located.

[2] work revealed the cause and effect of crude oil price shock on different economies. A detailed analysis of the effect the demand and supply has on crude oil, its effect has always been a defining factor in determining the price of petroleum. Upon the discovery in 1859 it was retailed at 50 cents a gallon and $20 a barrel, and increase in demand caused other entrepreneurs to explore the oil production business which caused an increase in supply of the crude which is not necessarily a bad thing for the consumers but greatly influenced the retail price which reduced from $20 per barrel to about $9.60 per barrel in 1860.
Government instability was another notable cause in oil price fluctuation in the 18th century, between the years 1862 to 1864 the cost of crude oil was greatly influenced by the civil way which occurred in the United States. The war limited the supply of fuel from the southern part of the united states and an additional tax on alcohol which was a major competitor for crude at the time, in association with a reduced production due to the abrupt fall in crude oil price in 1860 which put major producers out of business aided an increase in demand for crude oil but with limited supply the cost of crude increased greatly.

Other notable cause of all price shock as noted by [3, 4] Correlated with the formation of OPEC (Organization of the Petroleum Exporting Countries) in the nineteen sixties (1960s). It would be easy to conclude that the formation of this union made it easy for members to better fix the global price of oil but the price increase which occurred in the nineteen seventies (1970s) coincided with the depletion of the United States oil reserves which created a vacuum which had to be filled by other oil producing nations. Also the unites states policy to stop other countries from converting its currency to gold caused an inflation in the dollar which also means higher price for oil because the dollar is the primary means of exchange on the global market. Notable mentions for the cause of price increase in the nineteen seventies would include the Syrian, Egypt lead attack on Israel which prompted allies of the aggressors to inflict an embargo on specific nations viewed has allies of Israel.

2. Cause of Crude Oil Price Fluctuation
Crude oil is now a common feature in our daily living, from its commercial implementation in the 18th century and now its versatility in industrial application from automobile body parts, use in chemical industry and many other applications in the 21st century the value of crude is an important fixture in the industrialization of countries. It has been observed that developing countries such as China and India have experienced a great increase in energy consumption [5]. Investigation into the root cause of oil price change have been investigated extensively by various authors [6]. They highlighted that oil price is subject to the age old forces of supply and demand also natural disasters, political unrest change in monetary policies are some of the major factors affecting the cost of oil and gas [7, 8].

2.1 Influence of Foreign Exchange Rate in Determining Oil Price
Oil is measured in barrels and sold in US Dollar which the international acceptable currency is used for exchange. These realities are have been observed by numerous researchers who have investigated the influence of change in oil price and its impact of on the exchange rate of their countries respectively. [9] studied the impact of the real oil price and its impact on the exchange rate of the Algerian Dinar to the United states Dollar using the Vector error correction model (VECM model) using the date between the periods of 2008 to 2015 to conduct this study. The results indicate a direct correlation between the real price of oil and the value of the Algerian currency to the US Dollar amount. Another notable mention is a study by [10] did an analysis of the influence of foreign exchange rate on the macroeconomic operations of the Nigerian government.

[11] studied the influence the oil price had on the monetary exchange rate between the United States dollars to other currency. The hypothesis of this study was that the inclusion of the oil price to the as a factor to explain the value of the USD to other major currencies it was identified that a correlation exist between them. Furthermore a correlation between the devaluation of USD to currencies of oil exporting nation once there is an increase in price of crude and vice versa to oil importing nation.
[12] investigated the effects a strong currency or a subsequent drop in oil price affects the inflation using Venezuela as a case study. Two key points where itemized in this study first was the decline in import exchange value and an increase in public debt which is directly proportional to the increase in money circulation can attribute to a gradual inflation if also accompanied with a decline in the countries revenue which majorly comprises of trade from crude. Secondly a devaluation of the government's exchange rate could produce a temporary decline in the level of inflation when foreign exchange is rationed by reducing the public debt and foreign exchange subsidies. Although the methodology used in this paper are not mainstream it provide new areas for further research.[13, 14] also carried out a research on the effect of item value unpredictability overflows on money related division dependability.

2.2 Impact of Government Policies on Crude oil Price

Government around the world have the power to determine the economic destiny of their nations, this is done by creating and enforcing economic policies to their respective nations. This policies affect the businesses within their border, and their ripple effect would be felt around the world [15]. This realities are not exempt to the oil sector where policies such as monetary policies, subsidy removal or subsidy replacement policies and taxation policies to mention a few contribute to the price of crude oil [16].

A case such as that of [17] examined the impact the reliance of fossil fuel would have on the depletion of the ozone layer and this has ignited a global uproar against the over reliance on crude oil. This propelled the countries in the G20 to find legislative solutions which would help in decreasing the rapid rate of decline. [18] suggested an increase in crude oil price would have a direct correlation with carbon emission, he continued by asserting that the proposed policy would have decrease the fossil fuel consumption. In the 2014 there was a dramatic decrease in the value of real oil but this coincided with record sale of Hybrid vehicles in the united States [19]. The study done by [19] attributed the sudden increase of Hybrid vehicles to government policies around taxation such as income tax credit and tax waivers in states that contributed to the three thousand (3000) which were involved in the study. The consequence of the decision made my countries in the G20 to phase out fossil fuel subsidies remain clouded in mystery that is the effect it would have to investors and producers of the product. [20] performed a study to investigate the level of influence the removal of federal and state regulation which are in form of subsidie would have on the United States crude oil producers. It indicated that a removal of subsidies would dissuade the production of crude oil because of the increase in cost of production but this would yield to a decrease in carbon emission and benefit the climate.

2.3 Impact of Government Instability on Crude Oil price

Government unrest which could spring up from a civil war within its borders to conflict amongst bordering nation plays a vital role in various economic activities. Sanctions levied against enemy nation is a new type of war employed by nations to cause economic unrest on a targeted nation. These policies have a ripple effect with its effect to oil price. In 2011 the uprising the plagued the Arab nations popularly known as the Arab spring which caused high speculation of the potential value of oil. The realities of this tragedy made oil producing nations like Egypt and Libya to mention a few where slowly faced out as commercial destination for oil and gas products [21]. Historically when producers of oil are plagued with production problems the global price of oil is increased because of supply demand imbalance, in this situation the real
price of oil and gas where not affected because of the increased supply from Saudi Arabia and the United States of America.

3. **Effect of Changing Crude Oil Price on Developing Oil Exporting Countries**

The effect of price of crude oil on an oil producing country depends on the structural diversity of the country’s economy, size of reserves in terms of cash amongst other things. A diverse economy would be protected from the price fluctuation of crude where as a country which is heavily reliant on crude would have economic boom or depression once the value of crude either increases or reduces. For most developing oil countries like countries located in the CCA (Caucasus and Central Asia) and some developing African countries like Nigeria, Congo D.R, and Sudan amongst others are heavily reliant on crude in their economies.

3.1 **Macro-economic of Oil Price Fluctuation**

The macro-economic effects of oil price have been studied extensively by various authors. Developed countries which produce oil react differently to oil price change compared to developing countries that produce the same product, this is associated to the economic diversity of the countries in involved. The question researchers like [22, 23, 28-30] have attempted to answer revolves around the impact of this realities to the oil producing developing nations. [22] work contains data collected from Turkey which span the years 2005 to 2009 which was the case study. It was found that oil price had an effect on the employment rate within the country where if the oil price forecast was expecting an increase in oil price the employment rate would be favorable and if there was a decline the employment rate would decrease. Asides from the employment issue this also affects the exchange rate of this countries, [24] studied the impact this changes had on the exchange rate of various countries in the CCA (Caucasus and Central Asia) region and it was found that there was a correlation between oil price and the countries exchange rate the impacts of this study can be related to [23] who studied the impact of oil price and cost of food and transportation within oil producing nations like Nigeria and other countries on the African continent. The argument proposed revolves around the effect oil price have around oil dependent exporting economies whose faith revolves around the price of crude. The hypothesis revolves around the interdependence of the economies on price of crude oil, a scenario may present its self if the price of oil suddenly increase countries like developing countries which export oil would have a sudden increase in GDP growth and the economy would be booming the cost of goods and services would also be affected, if the reverse happens the spending power of the nation would be reduce which would have unknown ripple effect around the nation in question which in turn affects the Employment rate, Exchange rate, GDP development index etc. Other authors to have expanded on this subject include [25-27].

4. **Conclusion**

This Paper reviews the effects the value of oil has on developing oil producing countries. The reliance on oil revenue from developing oil exporting nations place this countries in a peculiar position compared to others. These countries become susceptible to recessions if the price of crude oil drops to a level which makes the countries budget a deficit, this price point differs by country. Price of oil has been found to be responsible for GDP growth in many of this countries example like Nigeria can be used as a case study. Upon further research it was found that the price of oil also determines the exchange rate of the country in question to the universally accepted US Dollar. This weakens the country’s foreign reserves and greatly diminishes the spending power of residents in that nation. These would in turn have its effect on the cost of
goods and services in that nation and economic growth. It must also be said that majority of the nations in this state have a very strong central government which is in charge of oil revenue which is the major source of income in this nations. This means the government is the major source of funds for project developments like road construction, Rail, Schools and source for loan for other financial activities. We can further postulate that a decline in oil revenue would diminish greatly the ability of such government to fund major public projects. To curb this authors suggest that nation in this categories would benefit a great deal by diversifying their economy to provide other streams of income for national growth.

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