

CHAPTER I

INTRODUCTION

A. Research Title

The Rise of Oil Price and Its Impact on Global Economy

B. Significance of Issue

“The importance of oil in world economies, politics and everyday life cannot be overstated; being a vital source of energy it is not just a commodity, but a strategic interest”.¹

Energy security has become one of the most serious issues in the age of globalization. It is generally accepted that the world economy today is driven by consumption of crude oil. The growth of economy is reflected through the demand of energy, and national development relies largely upon availability of oil, as a basis of industrialization. The rise of oil price would therefore have an impact not only on national economy but also on lives of citizens in various aspects. And the universality of this concern prevails among international community, due to the transformation into free market capitalism of global economy.

The high oil prices for several times have evidently interconnected with the global economy as well as international political relations. Historically, the world experienced the first oil shock in 1974, in which oil prices directly resulted from Israeli –Palestine Conflict were spiraled 70% increase. Peak oil crisis took place for the second time during the crisis in Iraq and Iran from 1979-1980 when Iran as the second’s world producer of oil ceased the production resulting oil shortage in the world market and a rapid increase in oil price. The Persian Gulf War was another

¹ “The Effect of Rising Oil Prices,” 16 October 2006, www.stride.co.uk.

factor leading to the increase of oil prices due to the Iraq invasion in Kuwait attempted to seize oil fields.

Similarly, the recent phenomenon of high oil prices occurred during 2004 – 2006, which will be mainly focus on this paper, effects the change in countries' economy and reveals the rising interdependency of global states in oil. According to statistic, in 2006, the price of a barrel of oil has jumped to roughly \$70 barrel, from under \$40 barrel in July 2004².

Rising oil price has turned into a global issue, as today the economic development of most nations relies greatly upon consumption of crude oil. This phenomenon reaffirms the fact that global economy is driven by the force of globalization, and likewise characterized by economic interdependence. Regarding effects of higher price of crude, different nations are affected in different ways, depending on levels of industrialization and dependency on oil.

C. Scope of Study

This research will focus on the study of the rise of oil price and its effects on the global economy in the age of globalization. Primarily, the historical background of oil prices that were considerably increased during different situations in 1970s, 1980s, 1990s and the recent occurrence of oil shock during 2004 -2006 will be explored.

In the later part, the research will analyze different effects resulted from the increase of oil prices, on the three groups of states; developed countries, developing countries and oil producing countries which include OPEC (Organization of Petroleum Exporting Countries) and Non OPEC state members.

² See Footnote 1

D. Objectives

1. To study the history of rising oil price since 1970s until the recent oil price increase during 2004-2006.
2. To analyze possible economic effects of oil price condition on developed, developing and oil producing countries.
3. To analyze the future prospect of oil price and recommend future policy options.

E. Research Questions

1. What has been the background of the rising oil price crisis that has been occurred since 1970s until the recent phenomenon during 2004-2006?
2. How does the rise of oil price impact developed, developing and oil producing countries?
3. What is likely to be the future of oil price and how states could deal with the next oil crisis?

F. Hypothesis

The oil price that had been raised sharply during 2004 -2006 has had effects on the economy of states differently from developed, developing and oil producing countries depending on the level of oil dependency of each country.

Elaborately, in the age of globalization, where countries are competing for higher development of their economy, the demand for crude oil is considerably increasing. Demand for oil was around 75 million barrels per day (bpd) in 2000, and

the International Energy Agency (IEA) estimates that it may nearly double by 2030³. The recent higher of oil price occurred during 2004 to 2006 has suffered global economy as a whole. Varying from country to another, the capitalism of free market has driven to the increase of oil dependency⁴.

The rising oil price has had enormous impacts upon an entire world. All countries from various continents are entailed in the scarcity of energy in assorted manners, on account of differences in status of either supplier or importer, economic development, levels of industrialization and their dependency on what is also known as the “black gold. This paper, therefore, will scrutinize, compare and contrast different affects of rising oil price in different countries, categorized in accordance with their divisions defined by economic development: developed or developing, and oil producing countries.

G. Theoretical Framework

In the analysis of the recent situation of rising oil price and its impact on global economy, the theoretical framework of International Political Economy (IPE) will be applied. Expectedly, the IPE approach will bring more clarification for the research’s debate.

International Political Economy (IPE)

The approach which is relevant in analyzing the research issue is the International Political Economy (IPE). Ultimately, IPE is about the consequences on an international level of the interaction between the state (politics) and the market (economics). Since 1970s, the IPE has risen as a prominent subject in international relations due in part to the decline in US economic preponderance as well as

³ Brumley Simon, et al., “The International Politics of Oil,” *St’ Antony International Review* 2, no 1 (May 2006).

⁴ William Anderson, “The Oil Dependency Myth,” in Frostburg State University, 1 March 2002, <http://www.mises.org/article.aspx?Id=861&id=62>.

associated with new economic challenges in the 1970s including the OPEC oil price and the developing countries' push for a NIEO⁵ which highlighted theories focusing on the nature and structure of the world economy. Later, the economic challenges of both the end of cold war and globalization have further underlined the centrality of IPE in the study of international relations⁶.

According to Robert Keohane and Joseph Nye⁷ in the study on economic interdependence and its implications for international relations, a new era of international relations was dawning in 1970s. In particular, they proposed that international relations could no longer be conceived as a geo-strategic competition among states. Economic issues, new channel of communication, and new pattern of cooperation were all giving rise to a new world politics in which IPE and international institutions would play a crucial role.

H. Research Methodology

To conduct the research proposal, the Documentary Research and the Descriptive Analysis will be mainly employed. The documentary research by both quantitative method and qualitative method utilized in this research is comprised of the following sources.

1. Primary source

Policy statements, official interviews, government reports, speeches and direct quotes of states leaders and Foreign Ministers

⁵ NIEO or New International Economic Order was a set of proposals put forward during the 1970s by developing countries through the United Nations Conference on Trade and Development to promote their interests by improving their terms of trade, increasing development assistance, developed-country tariff reductions, and other means, <http://www.wikipedia.org>.

⁶ John Baylis & Steve Smith, "The Globalization of World Politics," 3rd ed. (Oxford: Oxford University Press, 2005).

⁷ Joseph Nye & Robert Keohane, "Power and Interdependence," 3rd ed. (New York: Longman, 2000).

2. Secondary source

Qualitative method: Reviews and articles from text book, periodical issues and research studies, articles and news from internet relevant to the research topic

Quantitative method: Data statistics

I. Work Plan

The research is expected to be finished within 15 weeks according to the following procedures and time frame.

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Work preparation	—														
2. Preliminary study of documents and researches		—													
3. Collection of data from documents and data processing			—												
4. Data analysis				—											
5. Conclusion and research writing											—				
6. Correction of research report and printing													—		