ASYMMETRIC IMPACTS OF OIL PRICES ON MAJOR OIL EXPORTING AND IMPORTING COUNTRIES

Abstract:

This study investigates the effects oil price shocks on three measures of oil exporters' and oil importers' external balances: total trade balance, oil trade balance and non-oil trade balance. We employ three second generation heterogeneous linear panel models as well as one recently developed non-linear panel estimation technique which allows for cross sectional dependence. With respect to 28 major oil exporting countries, while an increase in oil prices leads to an improved real oil trade balance, it is detrimental to the non-oil and total trade balance situations. This finding might be due to the expenditure effect arising from increases in proceeds from oil exports. A decrease in oil prices is found to be beneficial for both total and oil balances in these oil exporting countries. For 40 major oil importers, they seem to be increasingly shielded from positive oil shocks over the 1970s and 1980s; however, it is oil price declines that they need to worry about. A decline in oil prices have a negative impact on both total and real oil trade balances, resulting from increased oil imports in emerging economies. Hence, a decline in oil prices is beneficial to oil exporters due to the quantity effect outweighing the price effect, while for oil importers a stable oil price is more desirable than a price decline. These results are important to note if we are to get a good grasp on the magnitude of the trade and macroeconomic effect of oil price changes and what the policy responses should be.

Keywords: oil shocks, price asymmetry, oil exporters, oil importers, non-linearity.

JEL Classification: Q20; E24; C33