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China's Outward Direct Investment and Its Oil Quest

Xingwang Qian



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SUNY, Buffalo State College

Abstract

China has rapidly increased its global oil quest in order to meet energy demand that fuels its ongoing rapid economic growth. This exercise investigates the association between China's outward direct investment (ODI) and its oil quest in oil producing countries. We study China's foreign energy quest from two perspectives: the short run and the long run. In short run, China's rapid economic growth and its deficient domestic oil supply push China's ODI to promote trade and acquire foreign oil for its immediate needs; while in long run, a sustainable economic growth requires sustainable energy supplies. China's ODI, a long term equity investment, could be a strategic policy to secure China's energy supply in the long run. We therefore study China's short term oil quest by examining the relation between China's ODI and the economic-societal conditions of oil-rich host countries; and for the long term oil quest, we investigate the association between China's ODI and the proved underground oil reserves in these host countries.

In general, China's inclination to invest in oil producing countries is heavily driven by its oil imports. Our results suggest that China's ODI adopts a "latecomer" strategy – China tends to invest in, say African and Russia-Central Asian oil exporting countries, where there is a weak present of investment from large developed countries rather than in top oil exporting countries (in terms of the share of oil exports to total merchandise exports), such as the Middle East countries, where the corporations from the developed world have established a stronghold.

The political risk factors play an important role in determining where China's ODI goes; these risk factors include economic risks, internal and external conflicts, corruption, and law and order conditions. China's ODI prefers safer economic condition and less unstable countries. Nevertheless, it goes to oil producing countries where there are more corruption and bad law and order.

Moreover, when we study the long term perspective of China's ODI in questing oil, we find that the proved oil reserve of oil producing countries affects China's ODI. The result is quite intuitive - other things being equal, a country with a higher level of proved oil reserve has more oil to be extracted in the future. Investing in such a country provides China a better chance to maintain sustainable oil supply in the long run. Our results,

indeed, indicate that China's ODI is more likely to invest in a country having more proved oil reserves.