

ASIAN WEEKLY ECONOMIC INSIGHTS



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China Confronts Developing Crude Oil Shortage

Concern over what could become a crippling oil shortage will likely dominate China's future foreign policy. Over the past 10 years, the country's oil consumption has expanded cumulatively by a frenetic 80%. According to China National Petroleum, China is expected to face a crude oil shortage of 250 million tons by 2020, as local production may fulfill only 44% of the country's total consumption.

Yesterday, Chinese Premier Wen Jiabao confirmed that China would build up its strategic oil reserves as part of key measures to cope with rising global oil prices and the country's growing fuel shortages. The country had a shortage of 137 million tons in 2003. The last surplus (11.2 million tons) was in 1992.

China's oil reserves are officially reported at 21.6 days; however, private estimates tend to be lower, at around 15 days. This compares unfavorably with reserves of around 150 days in the US and Japan. That said, we suspect that China may already have expanded its reserves before yesterday's official announcement. In the first eight months of 2004, year-over-year growth in crude oil import volume was 40%, after 31% year-over-year growth for the whole of 2003 (**Displays 1 & 2**).

Consumption Forecast Looks Conservative

Premier Wen's announcement supports expectations of limited downside risk to global oil demand, as China currently ranks second after the US in the world's oil consumption. Current daily consumption has increased by about 15% over the past year, to 6.29 million barrels a day.

Total crude oil consumption is forecast to reach 450 million tons by 2020, an increase of 18% from 2003's level. That projection looks too conservative, however, if the prior 10 years are a guide. And, local crude oil output is expected to contract by 18% from last year's level to a mere 200 million tons. Lack of domestic oil stockpiles, increasing difficulties in finding new sources of oil and the lack of technology to boost output at refineries will remain China's key constraints on domestic production going forward (**Displays 3 & 4**).

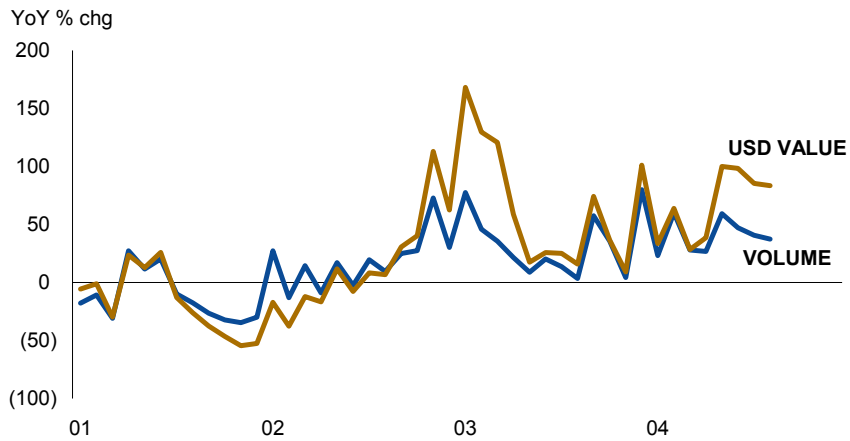
As a remedy, China will surely try to expand its investment in overseas oil fields (e.g., Russia) and build stable supply channels in order to secure future supply as the country's industrialization accelerates.

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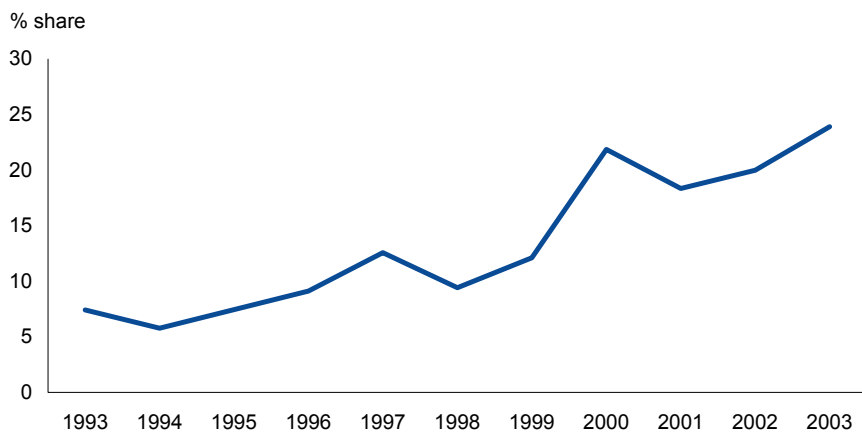
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Display 1: China Is Bringing in More Oil From Overseas . . . China Crude Oil Imports



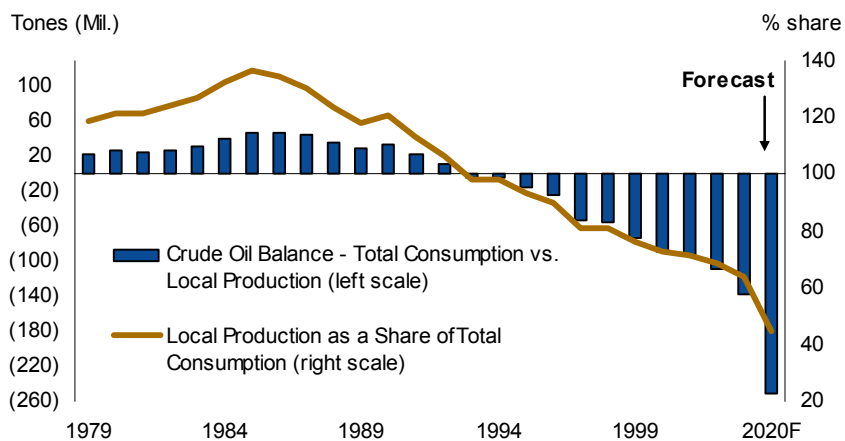
Source: CEIC data and Alliance Fixed Income estimates, October 11, 2004

Display 2: . . . And Facing a Rising Dependency on External Oil China Crude Oil Imports as a Share of Local Crude Oil Consumption



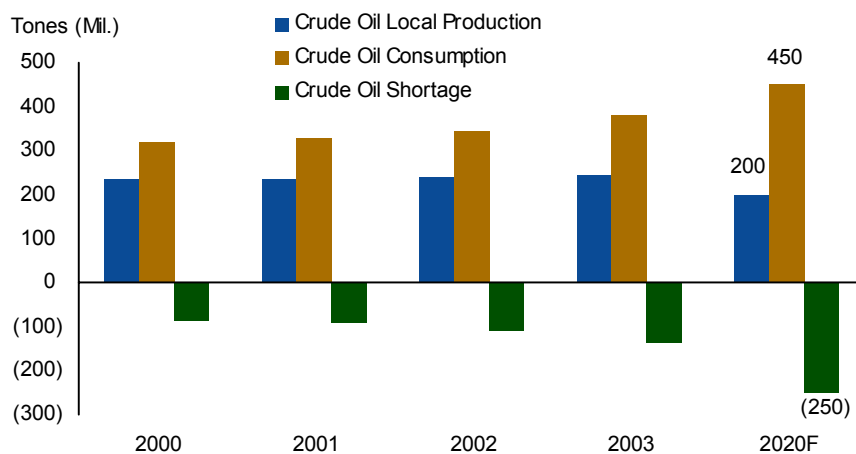
Source: CEIC data and Alliance Fixed Income estimates, October 11, 2004

Display 3: Developing a Chronic Shortage of Crude Oil China Crude Oil Balance



Source: China National Petroleum Forecasts, CEIC data, Alliance Fixed Income estimates, October 11, 2004

Display 4: Oil Consumption Forecast Looks Conservative China Crude Oil balance



Source: China National Petroleum Forecasts, CEIC data, Alliance Fixed Income estimates, October 11, 2004