

Long-run Behaviour of Oil Consumption in the Chinese Economy

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Abstract

China is a major consumer of global oil output. China's burgeoning demand for oil has had a disproportionate impact on both global oil production and prices. Hence, knowledge about the long-run oil consumption patterns in China is crucial given its significant impact on the Chinese economy and by extension, on the world economy. This study aims to examine the influence of real output, oil price, industrialisation, and financial development on oil consumption patterns in China from 1965 to 2016. The results indicate that oil consumption in China is responsive to oil price, industrialisation, financial development, and real output. The long-run elasticity of industrialisation, financial development, oil price, and real output are approximately 1.23, 0.91, -0.84, and 0.39, respectively. The results affirm the critical role played by industrialisation in determining oil consumption patterns in China, which has implications on both policy formulation and direction.

JEL Classification: C32, O13, Q43

Keywords

Financial development, industrialisation, oil consumption, oil price, output

I. Introduction

Energy utilisation, particularly fossil fuel consumption, is a vital component of economic development and its role has thus attracted the attention of economists' intent on clearly delineating its significance and contribution to the overall GDP growth. Over the past three decades, the economy of China has grown exponentially in terms of size, output, and consumption to emerge as the second largest economy in the world. This growth has been significantly driven by fossil fuel inputs that have energised both the manufacturing and non-manufacturing sectors of the economy. However, there is growing realisation

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