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Why does China need Costa Rican oil refineries?

When Deng Xiaoping transitioned China from an isolationist society to a free-market capitalist system beginning in 1978, he couldn't have envisioned that China would go on to average 10% per year economic growth for the next three decades and become the world's number two economy. But this growth comes at a price. To feed its large manufacturing and economic engine China needs vast quantities of natural resources, such as oil, to provide the necessary energy. Indeed, between 2000 and 2012 China's energy needs have more than doubled. In fact, it's now the world's largest energy consumer and imports 6.12 million barrels of oil per day (b/d), according to Chinese customs. Although China is working to increase its own domestic oil and gas production, as well as generating alternative forms of energy, most of the natural resources necessary to sustain its economic growth will, for the foreseeable future, continue to come from abroad.

In Latin America, Venezuela is a major supplier of oil to China. In fact, in 2012, 20% of Venezuela’s oil, nearly 600,000 b/d, went to China. The Chinese view their relationship with Venezuela as long term and have lent the country nearly $40 billion in exchange for oil. China’s confidence in Venezuela is boosted by the fact that, by some estimates, Venezuela may have as much as 315 billion barrels of oil, more than even Saudi Arabia. But getting that oil from Venezuela to China is a long and expensive journey which adds significantly to the per barrel cost. Therefore, much of the oil from Venezuela doesn’t end up in China. According to Kevin Jianjun Tu, an energy expert at the Carnegie Endowment for International Peace, because of shipping costs, China sells a great deal of this oil on the open market.

Costa Rica currently enjoys a special relationship with China and is the only Central American country which has diplomatic relations with the Chinese. Therefore, Costa Rica has attained a position of trust and, because it’s strategically situated close to both the Panama Canal and the United States, is politically important to China.

China wants to avoid any choke points, such as the Panama Canal, in its long logistical pathway for shipping Latin American oil back home. The location of Costa Rican oil refineries and storage facilities is therefore appealing to China. The Chinese have also found Costa Rica’s lower labor and infrastructure costs to be an attractive alternative to the higher costs of its domestic refineries. If the decision to modernize a 1950s oil refinery in Limon finally gets approved, the renovated facility would be capable of increasing its daily production from 18,000 to 65,000 barrels of oil per day and will further allow Costa Rica to enhance its strategic importance to China in Central America. In addition, the increased jobs and revenue created by a substantially larger refinery will have a positive long-term economic impact on the Costa Rican economy.

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