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# **China-Saudi Arabia Relations:**

Economic Partnership or  
Strategic Alliance?

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# China-Saudi Arabia Relations: Economic Partnership or Strategic Alliance?

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## Abstract

This paper focuses on the fast-consolidating energy relationship between the People's Republic of China (PRC), which is today the world's second largest oil importer, and the Kingdom of Saudi Arabia (KSA), which has established itself as the world's top oil exporter. Due to Saudi Arabia's dominance of the world oil market, China is increasingly focusing its attention on the Kingdom as a reliable energy partner; while Saudi Arabia sees China as an enormous potential market and strategic partner. Within this context the paper will try to answer the following question: are the growing China-Saudi relations a marriage of convenience or the beginning of a strategic alliance? The answer to this question will have broad implications not only for the Middle East but also for the broader international system in which China is set to dominate in the coming decades.

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## **Introduction**

Today, China, the country with a population of over 1.3 billion, is the world's second largest economy. China could be the world's largest economy as early as 2017, according to the IMF in 2012. China's booming economy is leading to large increases in the demand for oil and China's need for oil is growing faster than any other country in the world. Clearly, China is drawn to the Middle East because of its thirst for oil. China was self-sufficient in energy until 1993 but, after three decades of rapid growth, it has turned abroad for its growing energy needs. The country now is the second largest oil consumer after the United States. China has been also a net oil importer and is now the second largest, behind the US, and is expected to lead global consumption and imports in the next two decades.

China's growing appetite for oil is the product of the country's 30-year-long economic boom, which has seen expanding external trade, rising incomes, a growing population, and increasing urbanisation. Over the last decade only, China's GDP has almost increased by more than 5.5 times from \$1.32 trillion in 2001 to \$7.29 trillion by the end of 2011<sup>1</sup> and its oil consumption has more than doubled.<sup>2</sup> It has become the world's largest energy producer<sup>3</sup> and the largest energy consumer (21.3 percent of the world's total).<sup>4</sup> According to the International Energy Agency (IEA), in 2012 the country's oil demand reached about 9.5 million barrels per day<sup>5</sup> China only produced about 44 percent of the oil consumed.<sup>6</sup> The rest was imported, and over half of it has come from the Middle East (almost 20 percent from Saudi Arabia's alone). China will overtake the United States in terms of oil imports shortly after 2020 and becomes the largest oil consumer in the world around 2030, consuming 15 mb/d by 2035, nearly double the level of 2009.<sup>7</sup> That situation will lead to a high economic interdependence between China and the Middle East in general and Saudi Arabia in particular.

In this context, China views Saudi Arabia with great importance for several reasons: (a) Saudi's history as a reliable partner with all of its customers; (b) the Kingdom is the world's largest petroleum exporter, with current crude oil production capacity to around

12 million barrels per day; (c) the Kingdom has a vast amount of oil which China desires. China realises that nearly 17 percent of the world's proven oil reserves are located in the Saudi Arabia<sup>8</sup> and nearly 50 percent of the world's proven oil reserves are located in the Middle East;<sup>9</sup> (d) Saudi Arabia is the largest economy among the Arab countries and the Kingdom is also a member of the Group of Twenty Finance Ministers and Central Bank Governors, (G20); and (e) China recognises that Saudi Arabia, the leading member of the Organisation of Petroleum Exporting Countries (OPEC), will play an increasingly vital role in supplying global energy in the future.

On the other hand, Saudi Arabia is adopting a "Look East" policy and sees China as one of the most important strategic markets for its oil exports. Since 9/11 terrorist attacks Saudi Arabia has been seeking to rebalance its relations with the world major powers. As a result, the Saudis have been pursuing a "hedging strategy" towards the United States, by developing a more robust relationship with Asian powers, China in particular. Furthermore, the overwhelming uprisings that swept the Arab countries in 2011 and resulted in overthrowing some Arab leaders could have very serious implications for Saudi foreign affairs in the long term. These political developments were coupled with change in the geopolitical landscape of the world's energy demand/supply which is shifting Saudi Arabia's focus towards Asia.

### **From Enemies to Friends: Growing Political Trust**

In recent history Saudi Arabia's diplomatic relations with China span back to 1939, when the Kingdom was the first Arab country to normalise its political ties with China. The relationship came even closer, when the two countries signed the treaty of amity in Jeddah, on November 15, 1946.<sup>10</sup> The relations continued until the Chinese Communist Party (CCP) seized power in China in 1949, and the diplomatic relations between the two countries was broken off.<sup>11</sup> However, after China's opening up to the outside world in 1979, despite the absence of diplomatic relations, unofficial ties between the two countries have been developed in three directions. At the beginning came resuming the Chinese Muslims *Hajj* (pilgrims) to Makkah at the end of the seventies, then

economically through the entry of Chinese goods to the Saudi market at the beginning of the eighties, and finally militarily by providing Saudi Arabia with long-term missiles in the second half of the eighties. Relations later developed further to peak in 1990 after the resumption of formal diplomatic relations. Analysis of the wording of Communiqué Concerning the Establishment of Diplomatic Relations between the People's Republic of China and the Kingdom of Saudi Arabia on July 21, 1990, summaries the political dynamics of the new Sino-Saudi relationship:

The Government of the People's Republic of China supports the policy of the Government of the Kingdom of Saudi Arabia in pursuit of achieving its security, stability and national interests. The Government of the Kingdom of Saudi Arabia recognises that the Government of the People's Republic of China is the sole legitimate government that represents the entire Chinese people. The two Governments have agreed to develop cooperation and friendly relations between the two countries on the basis of the principles of mutual respect for sovereignty and territorial integrity, mutual non-aggression, non-interference in each other's internal affairs, equality and mutual benefit, and peaceful coexistence.<sup>12</sup>

Ever since relations were established, the two countries have witnessed rapid development in exchanges and cooperation in political, economic, cultural, educational, religious and other aspects. Indeed, in recent years, their political mutual trust and exchanges of high-level visits have also been on the rise. Between 1991 and 1998, over sixteen high-level exchanges occurred, only occasionally resulting in a solid agreement; instead, they served to reinforce the relationship between the two parties.<sup>13</sup> The relationship moved to higher level, as King Abdullah, then crown prince, visited China for the first time in 1998, becoming the highest-level Saudi official ever to visit China.<sup>14</sup> In that visit then-Crown Prince Abdullah called China "the best friend of Saudi Arabia".<sup>15</sup> "There is no doubt that the great Chinese people and their history have a place in the hearts of the people of Saudi Arabia."<sup>16</sup> Referring to the long discussion he had with the Chinese Premier Zhu Rongji on political and economic affairs, the crown prince said: "There have never been differences between the two sides on political issues". Concerning economic cooperation, he said: "I had an impression of truth and openness during my talks with the Chinese Premier".<sup>17</sup>

The Sino-Saudi relationship further expanded, with even higher level visits. Among all these visits, two were particularly significant. The first was President Jiang Zemin's visit in 1999 and the second was King Abdullah's trip in 2006. Jiang's one was the first time a

Chinese President had visited Saudi Arabia. During his visit, the Chinese President pronounced a “strategic oil partnership” between China and Saudi Arabia.<sup>18</sup> This trip is regarded as having cemented bilateral relations since the establishment of diplomatic relations between the two countries.<sup>19</sup> The year of 2006 was a turning point. Tang Zhichao, director of Middle East Studies in the China Institute of Contemporary International Relations, argues that: “Since then, Saudi Arabia has valued its relations with China much more highly”.<sup>20</sup> Indeed, Saudi-China relations reached their zenith in January 2006 when King Abdullah bin Abdulaziz al-Saud visited China in what was the first visit by a Saudi monarch to the People’s Republic since diplomatic relations were established in 1990.

A short three months later, President Jintao Hu made a diplomatic visit to Saudi Arabia further highlighting the seriousness of Sino-Saudi relations. That visit was also important for several reasons: (a) Hu’s trip to Saudi Arabia occurred only three months after Abdullah’s trip to China. Indeed, during his trip to Saudi Arabia, President Hu himself pointed out that head-of-state exchanges in such a short period of time are extremely rare; (b) Hu was only the second visiting head of state to address the Saudi Consultative Council, after former French President Jacques Chirac; and (c) Hu’s visit ended with tangible results, not only in regards to energy, but also other fields, such as health and trade.<sup>21</sup> Accordingly, Chinese Middle East envoy Sun Bigan pointed out, the visits “laid a solid foundation for the growth of bilateral ties in the years ahead”.<sup>22</sup>

The mutual trust continues between the two countries through many channels. When China was struck by a severe earthquake in May 2008, Saudi Arabia donated \$60 million to the stricken areas, becoming the largest donor to the Chinese government. This certainly played a positive role in bilateral relations. For example, on the evening of June 6, 2008, Chinese President Jintao Hu held a telephone conversation with Saudi Arabian King Abdullah bin Abdul-Aziz. Hu said that King Abdullah offered sympathy and condolences to the Chinese government and people and swiftly provided aid to the quake-stricken area at this crucial moment when a strong earthquake shocked China’s

southwestern province of Sichuan. The move embodied the profound friendship of the king, the Saudi Arabian government and its people towards the Chinese people.<sup>23</sup>

One month after the earthquake, Xi Jinping, the Vice President of the PRC, visited Saudi Arabia and signed the Joint Statement of the PRC along with Saudi Arabia on Strengthening Cooperation and Strategic Friendly Relations.<sup>24</sup> Six months after the Jinping visit, President Jintao Hu made another trip to Riyadh, his second in three years.<sup>25</sup> Hu met with Saudi Arabian King Abdullah bin Abdul-Aziz in February 2009 and the two leaders vowed to deepen their strategic friendly ties, work together to tackle the global financial crisis and strengthen coordination in international and regional affairs. Following the talks, the two leaders witnessed signing ceremonies for five cooperation deals in energy, health, quarantine, transportation and culture.<sup>26</sup> The agreements included one for the ambitious Makkah mono-rail project; cooperation in oil, gas and mining; in the field of health; on quality inspection and standards of goods and services; and a Memorandum of Understanding to set up King's Abdul Aziz Public Library in Beijing.<sup>27</sup>

Having consecutive head-of-state exchanges in such a short time is considered unusual. In its daily opinion column, the Saudi daily paper *Al Jazirah* described the relations between the countries thus: "Three visits between the leadership in Saudi Arabia and China in just three years. This fully demonstrates the qualitative development and big step forward in their relations".<sup>28</sup> These top-level visits strengthened in January 2012 with Chinese Prime Minister Wen Jiabao trip to Saudi Arabia.<sup>29</sup> Wen became the most senior Chinese leader to travel to Saudi Arabia since President Hu Jintao's trip in 2009<sup>30</sup> and the first by a Chinese premier in two decades (though President Hu Jintao did visit in 2006 and 2009).<sup>31</sup> During that trip, Saudi Arabia's state-run oil company Aramco signed an agreement with China's Sinopec to build an oil refinery in Yanbu, Saudi Arabia. It became the first major Chinese investment in Saudi oil industry and was intended to be operational in 2014; the plant will process 400,000 barrels per day on completion.<sup>32</sup> Tellingly, the Saudi cabinet has mandated Oil Minister Ali Naimi to enter into negotiations with China in line with a protocol signed between the two sides to expand cooperation in the oil, gas and minerals sectors. The announcement came following the



weekly cabinet meeting chaired by King Abdullah and refers to a wide-ranging energy cooperation protocol agreed during Chinese Premier Wen Jiabao's visit to the Kingdom on January 15, 2012.

In sum, both Beijing and Riyadh feel that closer Sino-Saudi political relations will lead to great economic benefits. China hopes that closer political relations will lead to greater energy access and larger trade markets. Saudi Arabia is hoping that closer political relations will lead to a stable market for its oil exports and greater Chinese investments and assistance in economic development.

### **China's Perspective: Search for a Reliable Partner**

From the Chinese perspective, energy security lies at the heart of the bilateral relationship with Saudi Arabia, as has been the case with many of China's most important strategic relationships over the past decade.<sup>33</sup> According to the Chinese ex-ambassador to Saudi Arabia, Song Wei, there are two key words as far as ties between China and Saudi Arabia is concerned, they are "energy cooperation".<sup>34</sup> He added, "Energy cooperation has gone far beyond a buy-and-sell relation...when I was an ambassador to Saudi Arabia, Saudi Arabia suggested that we build a strategic cooperation, which means Saudi Arabia needs a stable market, and China needs a stable supply".<sup>35</sup> Indeed, Saudi Arabia has been the top supplier of crude oil to China since 2002, and it is unlikely to give up this leading position in near future.<sup>36</sup>

China recognises Saudi Arabia's uniquely dominant role among the world's oil producers and continues to work hard at building closer ties to the Kingdom. The Chinese investment in Saudi Arabia has, thus, also expanded significantly. Strategically, these trade and investment ties are meant to reinforce Beijing's efforts to establish itself in Saudi calculations as a desirable long-term customer for the Kingdom's oil exports. John Sfakianakis, the Chief Economist of Banque Saudi Fransi, argues along similar lines: "For China Saudi Arabia is a voice of moderation and stability – and undoubtedly the single most important country in the world of energy. It is the driving force that tries to

bring moderation in prices and to supply global markets with sufficient oil”.<sup>37</sup> Saudi Arabia’s ability to calm global markets in periods of high stress gives the Kingdom an important political influence. If Saudi ARAMCO’s spare capacity shrinks, oil prices will become even more volatile.<sup>38</sup>

For China, with its sensitivity to volatility in oil price and supply, the stability of Saudi oil supply is enticing, as is the level of influence the Saudis are seen as having over both “OPEC” and “non-OPEC” oil producers. Additionally, a closer economic relationship with Saudi Arabia should be absent of the possible political consequences and image concerns that occur in Sino-Iranian relations.<sup>39</sup> In China’s eyes, stable relations with Saudi Arabia is the best possible approach to avoid being shut-off from vital oil resources in the case that the Sino-American relationship should take a turn for the worse,<sup>40</sup> or/and in the event of political turmoil in the region – as it has been demonstrated in Libya in 2011 and the sanctions on Iran oil in 2012. Indeed, Saudi Arabia has boosted its crude oil production, reaching a 30-year high of almost 10 (mb/d) in July 2011.<sup>41</sup> Tellingly, the last time that Saudi Arabia was pumping as much crude oil as it did in July 2011 was in early 1981, when the Kingdom was replacing the production lost after the Iranian revolution and the start of the Iran-Iraq war.<sup>42</sup>

While gaining access to the region’s vast energy resources is China’s primary motivation for deepening relations with Saudi Arabia, there are also a number of other factors driving China’s Middle East policy. First, Saudi Arabia is the largest economy in the Arab world, the country represents over 40 percent of the combined GDP of the GCC countries, 20 percent of Middle East and North Africa (MENA) region and an estimated quarter of the Arab world’s GDP according to the latest IMF figures.<sup>43</sup> The Kingdom is the economic engine of the region and the logical choice to be a permanent influential member of the G20. Within this context, China is seeking to not only improve its energy security but also to expand its trade. Saudi Arabia has emerged as a major Middle Eastern trading partner for China and it is looking to further expand this relationship. Currently, the Middle East is also one of the most important destinations for China’s labour-intensive products. And the GCC countries, rich in capital but short of labour, are a

particularly important market for China's contract labour exports.<sup>44</sup> An analysis by the International Energy Agency found that China, however, is less exposed to rising oil prices than in the past as it has become the primary beneficiary of OPEC's rising trade expenditure.<sup>45</sup> The latest IEA research shows that for each dollar that the US spent on oil imports from OPEC countries in 2011, only 34 cents came back by way of exported goods. The drop in US' share has benefited Beijing, as for each dollar that China spent in 2011 on oil imports from OPEC countries, about two-thirds, or 64 cents, returned to Beijing thanks to rising exports of its goods.<sup>46</sup> In short, China cannot ignore its economic interests in the Kingdom's growing economy.

The other issue for China is the situation of its Muslim population. China's relationship with its Muslim population and fear of Islamic extremism is a major factor that impacts on Chinese policy in the Middle East. China cannot ignore the existence and influence of the Muslim states, and cannot ignore their sympathy and support in international affairs. China is home to a large population of adherents of Islam. Chinese official figures indicate there are more than 20 million Muslims from 10 ethnic groups in China.<sup>47</sup> The Central Intelligence Agency *CIA World Factbook* states that about 1-2 percent of the total population of China is Muslim.<sup>48</sup> States such as Saudi Arabia and Iran have been most active in propagating their version of Islam across the globe by providing resources and training to various organisations,<sup>49</sup> and China feels that it is necessary to have their support if it wants to successfully tackle Uyghur insurgency even though it is primarily the Central and Southern Asian states from where Uyghur militants have found support.<sup>50</sup>

China also considers Taiwan as one of its core interests. The *New York Times* columnist Thomas Friedman once summarised the two major objectives of Chinese foreign policy in the 21st century: unification with Taiwan and search for oil.<sup>51</sup> Therefore, China needs the support of Arab countries in the international arena on issues like the "One China policy" and human rights.<sup>52</sup> Analysis of the wording of Communiqué Concerning the Establishment of Diplomatic Relations between the People's Republic of China and the Kingdom of Saudi Arabia on July 21, 1990, summaries the Saudi position in Taiwan issue:

“...The Government of the Kingdom of Saudi Arabia recognises that the Government of the People’s Republic of China is the sole legitimate government that represents the entire Chinese people.”<sup>53</sup>

Additionally, the bulk of China’s oil imports come from the Middle East; with China importing over 50 percent of its oil needs from the region. Accordingly, the peace and stability of the Middle East is of strategic importance to Chinese political calculations. In recent years, Beijing has increased its political activities across several hot spots in the region. China is now the largest of Saudi Arabia’s trade partners, the largest exporter to the Middle East, the biggest importer of Middle East, the second-biggest importer of Iranian oil, and the largest player in the Iraqi oil game.<sup>54</sup> Thus, the Chinese are making a move on the region, but they have to act carefully and delicately particularly in terms of their relations between Saudi Arabia and Iran. China has contradictory interests in the Middle East, specifically regarding the Iranian nuclear issue, and balances those contradictory interests in an effort to protect both. Although it is a hard political game, China will do its utmost to find a balance between Iran, the United States and the Gulf Arab states to protect China’s interests in the region.<sup>55</sup>

Finally, the “Arab Spring” turbulence (especially in Libya and Syria) in the Middle East has made China more cautious towards the region, but up until now Chinese diplomacy is also proving to be proficient in creating a balance between contending interests in the region, and striking a balance between adversaries in the turbulent Middle East. China’s economic growth is also one of the main factors leading to the Sino-Middle Eastern strategic partnership, and provides an inspiring model of development.<sup>56</sup> Wen’s visit to the region in January 2012 highlighted the main principles of Beijing’s foreign policy: non-interference in other countries’ internal affairs; prioritising energy security by ensuring steadily increasing supplies of oil and gas; and, expanding trade relationships. This set of guidelines has proved adequate, so far, to enable China to navigate the turbulent Middle East.<sup>57</sup>

## **Saudi Strategy: Pivot but Hedge**

During the Cold War and Iraq's challenge in the 1990s, the US-Saudi relationship was characterised as "oil for security", and the Saudis managed to balance foreign policy strategic objectives to protect the Kingdom's national security.<sup>58</sup> However, the terrorist attacks of 9/11 put a real strain on this relationship and complicated the Saudi calculations. 9/11 caused both Riyadh and Washington to re-evaluate their "special relationship".<sup>59</sup> It was no longer realistic to imagine that Saudi religious influence could be used to promote US security and political interests within the region.<sup>60</sup>

It is in this context that Riyadh has begun courting an Asian alternative.<sup>61</sup> As a result, the Saudis have been pursuing a "hedging strategy" towards the United States, by developing a more robust relationship with China.<sup>62</sup> A Saudi analyst summarised the Kingdom's position when he told the *Financial Times* that political relationships was now a factor in the Kingdom's calculations after the 9/11 attacks as these acts of terror had strained relations with traditional allies in the West. He added: "The relationship with the US will always be strong...It's a long relationship and we cannot ignore it whatever happens. But after the September 11 attacks, when we started looking around, nobody was there because we had never built relationships with Russia or China [and India later on]. And we thought: Let's build bridges with other countries".<sup>63</sup>

Saudi Arabia has recognised that increased diversity of its oil exports and movement away from its heavy reliance on the American market has both economic and political benefits. Saudi Arabia cannot ignore the increased energy needs among Asian countries, notably China and India. Furthermore, by distancing itself from a disproportionate reliance on the US energy market, Saudi Arabia will be in a better position to extricate itself from the political costs of a close relationship with the United States.<sup>64</sup> Indeed, over the last decade, Saudi Arabia has diversified its foreign policies by shifting their focus from the West to the East as a response to changing international and regional situations. This is partly a means to neutralise American pressure, and partly because Asian economies, particularly China and India, have developed rapidly.<sup>65</sup>

Adding to the complications, the strain on the relationship with the US was further exacerbated during the protests across the Arab world in the spring of 2011. These differences surfaced strongly in 2011 due to the Saudi king's anger at Washington's response to Arab uprisings, especially its abandonment of Hosni Mubarak, the deposed Egyptian president, who was a long-time Saudi and US ally, and the American call for political reforms in Bahrain. The current Saudi calculations are driven by a deep fear and suspicion of expanding Iranian influence. Saudi leadership has begun to look at all regional security issues through the prism of their fears about growing Iranian influence. Thus, they see Iran's activities as dangerously provocative, not only in Iraq, but also in Syria, Lebanon, Palestine, Bahrain, Yemen, parts of Africa, and Southeast Asia. Indeed, the Iranian "threat" has reached the top of Riyadh's priorities. Concerned about a possible rise in Iran's regional influence and a decline in the status of the moderate Arab camp, the Saudis are pursuing an active diplomacy aimed at leveraging the changes in the Arab world in their favour<sup>66</sup> and Saudi's policy towards Syria provides a clear example of this trend. From the Saudi point of view, the inability to coerce Iran looks like American weakness. Add to this the withdrawal of US forces from Iraq, which is seen in Riyadh as a terrible error, and the result is that the United States appears in fact to be abandoning the arena to Iran.<sup>67</sup>

Within the backdrop of these strategic dynamics; do the Saudis have a viable alternative to relying exclusively on an American defence umbrella?

Currently, there is no substitute for the American defensive umbrella and there is no evidence to suggest that the US-Saudi relationship will sour in the near future. The United States and Saudi Arabia are likely to share common interests for many years.<sup>68</sup> Despite tensions, there is no crisis in the relationship. Plans are proceeding for the United States to sell Saudi Arabia \$60 billion in arms over the coming years. US advisers are helping the Saudi Interior Ministry build a 35,000-man "special facilities security forces",<sup>69</sup> and Washington and Riyadh have coordinated the efforts to manage a transition of power in Yemen.<sup>70</sup> The Obama Administration embraced the "Arab Spring", a policy

that strained relations with Riyadh, but the strategic US-Saudi partnership, as both sides like to call it, has improved somewhat since. Both countries share similar concerns about Iran and Syria, and seek to calm oil markets to prevent further pressure on the global economy.<sup>71</sup>

Yet, Riyadh's concerns about the Arab Spring are similar to its concerns after the 9/11 terror attacks: that the events would have a negative impact on the Kingdom's image in the United States, and that in the long run, the willingness of the United States to defend Saudi Arabia would be damaged.<sup>72</sup> Consequently, how does the "Chinese alternative" fit in the context of Saudi calculation?

1. **Iran's "Threat":** with recent developments in the Arab world, Saudi Arabia remains fearful of the ability of Iran to destabilise the Saudi regime. Security and stability of the Saudi regime remains of the utmost importance and, in that regard, US military might in the Gulf is Saudi Arabia's final guarantor. Given Iran's constraints and limited options, Saudi Arabia is more likely to stay committed to the US security framework in the region -- for lack of better options.<sup>73</sup> Here China (and the other Asian powers) still lags far behind America, which remains the Saudis' military mainstay.
2. **Military Power:** Due to Saudi Arabia's relations with the United States, China-Saudi military relations have been very limited. From Riyadh's perspective, China does not have the same capability to project power globally, as the United States does, and therefore cannot provide the same security assurances against the international threats Saudi Arabia faces, particularly against Iran or/and the internal dangers of terrorism. Even if the Chinese had the capability to project power globally, the Saudis may question the reliability of the country's security assurances due to the long relations it has with Iran.
3. **Terrorism:** Al-Qaeda remains a major Saudi security concern. The authorities crushed a violent militant campaign in 2003-06, but many al-Qaeda operatives

then joined their counterparts in Yemen. Riyadh fears the turbulence in Yemen may allow al-Qaeda to entrench itself in territory now beyond government control.<sup>74</sup> In this regard, the Saudis view China in particular as a weak alternative for U.S. support against the threats the Saudi Kingdom faces on the domestic front from terrorism, or from instability in Yemen.

4. **Political Factors:** Although Saudi Arabia believes that China is not an alternative to the United States militarily in the short and medium terms, however, the Saudis are seeking to leave most of their options open. There are several other political factors that are pushing Saudi Arabia to develop closer relations with China. Firstly, the Kingdom, already the largest supplier of oil to China, is building new refineries and increasing exports with the aim of strengthening political and economic ties with Asia's growing economic giant. These petro-political partnerships are a key to Saudi Arabia's efforts to contain Iran's political influence and military growth, especially its nuclear program.<sup>75</sup> Secondly, the so-called "China model" has captivated Saudi leaders in two ways. It promises rapid growth without regime change. From a Saudi perspective, on one hand the Saudi public sees Asian powers as a counter balance to the United States; on the other hand China's conservative approach to political and economic development and modernisation appears to be a model worth adopting and a viable alternative Western-inspired reform models.<sup>76</sup> Additionally, King Abdullah is basing his effort on two pillars: education and economic diversification.<sup>77</sup> Thus, political reform will not figure high on the Saudi Arabia's list of priorities in coming years. The Saudi elite's reaction to the Arab uprisings has largely been to move in the other direction, with increased spending on security rather than promoting greater democratic participation.<sup>78</sup> Within this context, through Saudi Arabia's lens, China could be a valuable source of support as Riyadh continues on a path of cautious and selective economic liberalisation while seeking to deflect US pressure in the area of political reform.<sup>79</sup>



5. **Nuclear Option:** The main catalyst for any Saudi decision to proliferate nuclear weapons is likely to be the concern raised over Iran's nuclear ambitions. Former senior US diplomat Dennis Ross confirmed for the first time on May 30, 2012 that Saudi Arabia's King Abdullah has explicitly warned the US that if Iran obtains nuclear weapons, Saudi Arabia will seek to do so as well. King Abdullah told Ross during a meeting between the two in April 2009 that: "If they get nuclear weapons, we will get nuclear weapons".<sup>80</sup> Ross' direct quote of the Saudi king appears to be the first public confirmation of the Saudi position and the threat of a Middle East nuclear arms race if Tehran acquires a nuclear bomb.<sup>81</sup> Whether Saudi Arabia relied on its emerging nuclear power programme to manufacture nuclear weapons (which would take approximately a decade), or simply bought ready-made atomic weapons from Pakistan, in both cases China could play a vital role.

These political developments were coupled with change in the geopolitical landscape of the world's energy demand/supply relationship. Oil demand is shifting from the developed world to the developing world, and Asia is expected to account for much of the growing demand during the next two decades. By 2030 China and India will be the world's largest and third largest economies and energy consumers respectively, jointly accounting for about 35 percent of global population, GDP and energy demand.<sup>82</sup>

China will overtake the United States in terms of oil imports shortly after 2020 and will become the largest oil consumer in the world around 2030, consuming 15 mb/d by 2035, nearly double the level of 2009.<sup>83</sup> According to *BP's* 2012 forecast, global liquids demand (oil, bio-fuels, and other liquids) is likely to rise by 16 mb/d, exceeding 103 mb/d by 2030. Growth in demand comes exclusively from rapidly-growing non-OECD economies.<sup>84</sup> China (+8 mb/d), India (+3.5 mb/d) and the Middle East (+4 mb/d) all together account for nearly all of the net global increase. OECD demand has likely peaked (probably reaching its plateau in 2005), and consumption is expected to decline by 6 mb/d.<sup>85</sup> In this regard, the International Energy Agency predicts China's oil imports will increase by more than two-and-a-half times over the period 2010-2035 to reach 12.6

mb/d in 2035, nearly twice the level of Russia's oil exports, or around one-third of OPEC exports, in the same year.<sup>86</sup> Its import dependence increases from 54 percent in 2010 to 84 percent in 2035.<sup>87</sup>

Not surprising then that Saudi Arabia soon recognised that Asia will provide the region's largest and fastest-growing oil export markets in the future. Already, two-thirds of the Saudi Arabia's oil exports go east to Asia, reflecting this profound shift in the balance of global oil. The growing importance of Asia represents a fundamental shift in the geopolitics of oil. Saudi officials increasingly see the writing on the Great Wall: China will soon become the biggest purchaser of Saudi oil.<sup>88</sup> ARAMCO's President, Khalid al-Falih agrees with that assessment: "We believe this is a long-term transition...Demographic and economic trends are making it clear — the writing is on the wall. China is the growth market for petroleum".<sup>89</sup>

With one of the world's most developed energy sectors in terms of infrastructure and operating efficiency, Saudi Arabia is not desperate to attract foreign investment to help expand its capacity to produce and export oil. Instead, Saudi Arabia is keen on identifying a stream of steady, long-term demand, an urgent priority as the United States and other Western countries look to decrease their consumption of oil and incrementally adopt conservation methods and alternative fuels.<sup>90</sup> From the Saudi perspective the argument is very simple: just as Asia wants to secure energy supplies, Saudi Arabia wants to guarantee buyers and is eager to build its relationship with the fast-growing customers of China and India in particular.

Last but not least, Saudi Arabia also needs to diversify its economy. Riyadh sees the country's strategic and energy future as revolving around becoming a global economic and energy power, an indispensable economic power, based on being a dominant global supplier not only of oil but also of other energy-based commodities,<sup>91</sup> at least in chemicals and fertilisers. Saudi Arabia currently accounts for 7 percent of global supply of basic and intermediary products<sup>92</sup> and is committed to producing 10 percent of the world's petrochemicals output by 2015.<sup>93</sup> Another goal is to increase Saudi Arabia's

share of the global plastics petrochemical industry from 1-2 percent in 2012 to 15 percent in 2020. Saudi Arabia would like to become the newest plastics hub.<sup>94</sup>

There are currently 62 projects ongoing in the Saudi petrochemical sector valued at roughly \$63 billion. Saudi Arabia needs to find expanding markets for petrochemicals over the next decades.<sup>95</sup> The Kingdom also needs to build its market knowledge in Asia. Currently, over 50 percent of the country's petrochemical production is exported to Asian economies with China being the largest destination.<sup>96</sup> According to data from the Saudi Arabia's Statistics Department non-oil exports (mostly petrochemicals and plastics) increased 31 percent to \$47.07 billion in 2011 compared to \$35.88 billion achieved in 2010. China was on the top of the Kingdom's importers list with \$5.97 billion worth of imported products.<sup>97</sup> China offers important economic advantages to Saudi Arabia's downstream expansion into the wider region.<sup>98</sup> China benefits Saudi Arabia with its domestic market being open for export and outward investment opportunities, but its inward investments to Saudi Arabia are limited and also competition is emerging over the Chinese market.<sup>99</sup>

In sum the economic interests still largely define the China-Saudi relations but they have developed rapidly, coupled with frequent high-level exchanges with growing mutual political trust. There is potential for the China-Saudi military relationship to expand. However, Saudi relations with China are still in their infancy and it is still uncertain which precise direction they will take. It is unlikely, for example, that now or in the immediate future Saudi Arabia would seek to use China as a military alternative to the United States.<sup>100</sup> But should the United States put some distance between itself and the region, new players will enter the arena, to exploit any rift developing between the two nations.<sup>101</sup> Riyadh is likely in longer term to seriously consider parallel security arrangements.<sup>102</sup> Given its enormous wealth but military weakness, it is a safe bet that Saudi Arabia will invest in multiple security arrangements that help guarantee the continuity of the al-Saud rule.<sup>103</sup>

## **The Scope of China-Saudi Economic Relations**

Since the establishment of diplomatic relations in 1990, the trade between the two countries flourished largely based mainly in Saudi oil exports. But we have noted that the Kingdom also provided the Chinese with new markets. The two-way trade between Saudi Arabia and China in the last two decades increased almost 50 times from \$1.28 billion in 1990 to about \$64.39 billion in 2011. Saudi Arabia is now China's largest trading partner in the Middle East and North Africa. Saudi Arabia has been China's biggest trade partner in West Asia (including the Middle East and the League of Arab States) for the last ten consecutive years. More important of all, China overtook the US in 2011 to become Saudi Arabia's top trade partner.<sup>104</sup>

Despite this rapid growing trade between the two countries, if we exclude the importance of Saudi oil exports, the total volume of trade between Saudi Arabia and China constitute less than 1.5 percent of China's total foreign trade. On the other hand, we find that the Saudi trade with China accounted for around 14 percent of Saudi Arabia's total foreign trade.<sup>105</sup> This trend indicates that Saudi Arabia could be the one who is courting the Chinese market, not the other way round. It is also important to point out that when analysing the composition of trade between China and Saudi Arabia, the large share of its trade is in small consumer goods. The Chinese exports do not contain sophisticated technology; their composition is similar to China's exports to most countries in the region. Its largely low-price products, including textiles, garments and toys, which have a ready market among migrant workers and the low and middle income workers in Saudi Arabia, where they do not compete with local products as they do in Africa and some other Arab countries.<sup>106</sup> On the other hand, when analysing the composition of China's imports from Saudi Arabia, we will find that exports of oil, chemicals, and plastics account for almost 100 percent of the total Saudi exports to China. They represent about three-quarters of the total trade volume between China and Saudi Arabia, evidence that the trade is based on oil.<sup>107</sup>

Indeed, China-Saudi relations have been restricted to oil exports to China and limited cross-investment. Chinese NOCs' activities in Saudi Arabia are very much limited to engineering services, such as pipeline and well repair, seismic data collection, and natural gas projects, which involve higher risks and capital input. Saudi Arabia does not allow Chinese companies (or any foreign companies) to invest in its upstream (exploration and production) oil sector, but it has allowed them to invest in the upstream gas sector and refinery. While there is no denying that China and Saudi Arabia have extensive energy ties, it is clear that China has shown a desire to keep its oil sources diversified. China has made significant efforts to diversify its sources of oil, developing resources in Russia, Central Asia, Africa, Latin America and other parts of the Middle East. As for Saudi Arabia, despite its aggressive policy towards China, it has also shown a desire to keep its energy sources diversified. In this regard, Saudi ARAMCO is the single largest supplier of oil to China, India, Japan, the Republic of Korea, Taiwan, Singapore and Philippine.<sup>108</sup> Saudi Arabia's tight restrictions on inward investment in the oil sector and the high degree of competence for Saudi ARAMCO are likely to limit the engagement of China's NOCs in the Kingdom, except in the gas sector, which to date has proved to be of little interest.<sup>109</sup> Likewise, the growth of Saudi ARAMCO's investments in China's refining industry will be constrained as long as China's domestic pricing policy for oil products is unfavourable to refiners.<sup>110</sup>

## **Conclusion**

The relationship between China and Saudi Arabia suggests (at least for now) that this is an energy-economic partnership and not a strategic-political alliance. China's economic interests are the driving force behind the expansion of the Sino-Saudi relationship – and not China's desire to expand its power and influence in the Middle East at the cost of the United States. The Saudis and the Chinese recognise that, for at least the next decade, the United States will remain the only country in the world capable of projecting substantial amounts of conventional military power into the Middle East. That makes the United States a strategically indispensable partner to Saudi Arabia for years to come. In sum, the economic interests still largely define the China-Saudi relations but they have developed

rapidly, coupled with frequent high-level exchanges with growing mutual political trust. But should the United States put some distance between itself and the region, Riyadh is likely, in the longer term to seriously consider parallel political and security arrangements which would inevitably include China.

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