

# CHINA'S ECONOMIC RELATIONS WITH SAUDI ARABIA

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<b>Abstract</b>	<i>The diplomatic relationship between China and Saudi Arabia was established in July 1990, subsequently the trade between the two countries flourished largely based mainly in Saudi oil exports. The bilateral trade has achieved a steady growth in economic partnership since the establishment of diplomatic relations between the two. China and Saudi Arabia plays dominant role in their own regions. Beijing is a major country in the East Asia while Riyadh plays a dominant role in Gulf region. Now a day's Riyadh remain Beijing's top trade partner in the Middle East and North Africa, for thirteen years consecutively. The fact that China imports oil from Saudi Arabia is the main pillar of the Sino-Saudi Arabia trade structure. The two countries have witnessed rapid development in exchanges and cooperation in political, economic, cultural, educational, and other aspects since the establishment of their relations. Two-way trade between these countries promotes the cooperation and coordination. Beijing is the second largest economy in the world while Saudi Arabian economy is the world's largest exporter. Both China and Saudi Arabia feel that closer Sino-Saudi political relations will lead to greater economic benefits. The trade relationship between the two countries has resulted in strong ties between the two economies.</i>
<b>Keywords</b>	<i>East Asia, China, Saudi-Arabia, Gulf region, Middle East, Trade.</i>

## INTRODUCTION

Since the establishment of diplomatic ties in 1990, the Beijing-Saudi relations have witnessed sustained and rapid development, with mutual political trust being enhanced, and were elevated to a comprehensive strategic partnership in 2016. Saudi Arabia has been China's largest trading partner in West Asia and North Africa, and also serves as a natural partner of China in building the Belt and Road Initiative. Accordingly, China is recognized as the largest trading partner of Riyadh. Beijing is the second largest economy in the world after United States of America and first in the Asia while Saudi Arabia plays a major role in Gulf Cooperation Council (GCC). Beijing's growing 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. Saudi Arabia has an oil based economy, having large amount of the World petroleum reserves and also plays a leading role in OPEC (Organization of petroleum exporting countries). The bilateral relationship between the two countries improved continuously, which promotes the development. Both China and Saudi Arabia are the permanent members of the WTO (World Trade Organization), both countries are in the process of transforming their economies in the framework of World Trade Organization. "China became the member of WTO on 11 Dec, 2001 while Saudi Arabia applied for the membership of the General Agreement on Tariff and Trade (GATT) in 1993. And after 12 years of long negotiation and implementation of sustained reforms of the Saudi economy, Saudi Arabia became the 149<sup>th</sup> member of the GATT's successor World Trade Organization in December 2005" (MUSVVER, 2016). China is the world's most populous country, having a population growth of 0.45 percent in 2015.

Previously, the relationship between the two countries strengthened, when both signed the treaty of amity in Jeddah, on 15<sup>th</sup> of Nov, 1946. The relations continued until the Chinese Communist Party (CCP) seized power in China in 1949, and the diplomatic relations between China and Saudi Arabia was suspended. "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 balance its relations with the world major powers. As a result, the Saudi's have been pursuing a "hedging strategy" towards the United States, by developing a more robust relationship with Asian powers, China in particular" (Al-Tamimi N. ,

2012). Saudi Arabia in the current century seems to be on the verge of balancing its relations with the major powers of the world. Saudi Arabia is the largest producer and top supplier of the petroleum in the entire world. Saudi government decentralized the economy and frames a planning to cut the dependence on oil for the future and also initiate a plan to develop a petrochemical sector, with a huge investment into optional energy projects. Saudi leadership wants to transform the oil-based economy into a modern economy thereby setting its position in the world economy.

### CHINA-SAUDI ARABIA ECONOMIC RELATIONS

In the late 1970s, the indirect trade relations between China and Saudi Arabia began through Kuwait and Oman. The trade relations between the two countries cover a wide range of sectors, including petrochemicals, construction, aluminum, iron ore, phosphate, cement, railway construction, motor production and various high-tech products. “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” (Al-Tamimi N. , 2012). 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 thirteen consecutive years. More important of all, China overtook the US in 2011 to become Saudi Arabia’s top trade partner. 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. 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 analyzing 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. On the other hand, when analyzing the composition of China’s imports from Saudi Arabia, we found 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. Indeed, China-Saudi relations have been restricted to oil exports to China and limited cross investment. Chinese NOCs’ (National Oil Companies) 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. “During 2003-2008 period, China-Saudi Arabia trade registered annual growth rates of 30 to 50 percent. In 2008, bilateral trade jumped by 64.7 percent to \$41.8 billion, two years ahead of the goal set in 2006” (Olimat, China and the Middle East: From Silk Road to Arab Spring, 2013). Direct investment in China- Saudi markets is also contributing to the enhancement of their bilateral partnership and is considered to be a major step towards the 2015 goal. Beijing is Saudi Arabia’s largest trade partner, outstripping European nations and the United States. In 2018, imports from Saudi Arabia reached \$46 billion.

### ENERGY COOPERATION

Saudi Arabia is one of the Beijing's primary sources for oil imports, and is soon projected to be its main source of oil and natural gas. Energy is at the center of Saudi-Chinese cooperation. The energy cooperation between the two countries have many aspects in nature; It includes oil imports, up streaming, down streaming, building oil reserves tanks, refining and petrochemical industries. Over the last few years, Riyadh has provided 17 percent of Beijing's total oil imports. "Saudi-Chinese energy cooperation also extends to building China's strategic oil reserves. Saudi-Arabia is assisting China in building the Dalian oil reserve base, one of the four strategic oil reserves in China. The others are being built in Qingdao, Ningbo and Zhoushan" (Olimat, China and the Middle East: From Silk Road to Arab Spring, 2013).

Another sphere of the cooperation between the two sides is building refineries in both markets. In 2012 Sinopec signed an agreement with Saudi ARAMCO to build the Yanbu refinery on the Saudi Red Sea Coast. A related aspect of the Saudi-Chinese energy cooperation is the petrochemical industry. Riyadh has made significant strides in the industry in recent years. Saudi Arabia Basic Industries Corporation (SABIC), a leading world petrochemicals company, exports petrochemical products to China worth over \$2.00 thousand million annually.

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. "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" (Al-Tamimi N. M., 2013). 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 unfavorable to refiners.

### **ROLE OF OTHER POWERS IN SINO-SAUDI RELATIONS**

The US was a major defense partner with Saudi Arabia, but Saudi Arabia wants diversification in meeting its defense needs. "China can play a vital role in this requirement. Both countries may enhance cooperation in defense sector to satisfy each other's interests. It is very much obvious, under changing geopolitics of the whole world, cooperation between Saudi Arabia and China will contribute to stability, peace and development of the two nations and regions" (Awan, 2019).

### **CONCLUSION**

The relationship between China and Saudi Arabia suggests that this is an energy-economic partnership and not a strategic-political alliance. Mutual 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 recognize 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. Nowadays the trade relationship between China and Saudi Arabia is boosting their bilateral ties. World is looking towards the relationship between China and Saudi Arabia as the later became top most partner for the supply of oil. It is beneficial for their population and Economies. The trends in the growth rate of their trade reflect a strong potential. The system shows mutual benefit and common development, which will strengthen

the oil exporting and importing country. Oil is the heart of the trade relationship between China and Saudi Arabia.

As the energy cooperation stood at the heart of the mounting Sino-Saudi relations it has the potential to flourish the bilateral relations in other fields also like defense and strategic cooperation. As China is rising continuously and is on the verge to surpass the United States in the coming decades Saudi Arabia would not ignore the benefits it might receive by having strong relations with China. On the other hand China's economy is largely dependent on energy inputs so it will continue to have better relations with Saudi Arabia and also energy cooperation with Saudi Arabia helps it in better bargaining with other energy import destinations.

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