

Saudi Arabia, China and the Energy Shift | Alroya

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Since forming diplomatic relations in the summer of 1990, the economic and diplomatic bond between Saudi Arabia and China has greatly tightened during the past decade.

Since China began importing oil in 1993, it has become the second largest consumer of petroleum in the world, and is now Saudi Arabia's top oil customer. Both countries have substantially benefited from the relationship.

China takes advantage of Saudi Arabia's liberally regulated business practices and increased privatization. Saudi Arabia has continually benefitted from China's "no questions asked" attitude, and has reduced its total reliance on the US for exporting oil.

China, recognizing the potential of this relationship, began an effort to develop it further. In the early 2000s, China worked to gain a stable and solid relationship with the Kingdom. The effort was met with great success.

In a two year time period Saudi Arabia and China engaged in regular political meetings and formal talks with Opec, ultimately signing a deal allowing China's government run oil company to explore for gas in the Kingdom's vast Empty Quarter (Rub al Khali). The Kingdom did not hesitate to reach out to China either.

In January 2006, the Saudi King Abdullah bin Abdul-Aziz al Saud was the first Saudi King to visit China, and his first visit outside the Middle East after taking the throne. Many called this move "a strategic shift" in Saudi foreign policy. During the visit, the two countries signed a pact on energy cooperation and joint investments, and also discussed other issues including trade, taxation, and deals with the Saudi Arabian Development Bank.

Saudi-China relationship reached a landmark in the past decade with total trade volume reaching more than US \$10 billion. According to an Arab News article by John Sfakianakis, Saudi Arabia exports saw a 10 year increase of 3,463 per cent, with Chinese exports experiencing a strong 167 per cent growth. Saudi Arabia's exports were valued at US \$7 billion and consisted of refined oil and plastic material.

Chinese exports were between \$2 and \$3 billion, consisting mainly of clothes, appliances, mechanical/construction equipment, and a small percentage of Chinese automobiles. Both powerhouses have found a huge trading partner and their growing relationship has no end in sight, as the estimated goal of \$40 billion in bilateral trade by 2010 was reached in 2008.

Following King Abdullah's January 2006 visit to China, Chinese President Hu recently visited the Saudi city of Riyadh in April 2010. The meeting further solidified their relationship as the Kingdom recognized China's rising economic influence and presence on the world stage as well as its appetite for hydrocarbon resources. Both sides continued their discussions over trade, businesses, oil, natural gas and minerals.

Now, there are more than 90 Chinese companies doing business in Saudi Arabia, most of which are construction companies. Besides the topic of trade, Saudi Arabia and China have also initiated talks about reforming global financial institutions. Both countries want to work closely in mutual investments and ensuring that they are protected from high financial risks.

China has surpassed the United States as the leading consumer of Saudi oil. Many have termed this shift of the energy trade from West to East as a shift in the geopolitics of oil. Riyadh based Jadwa Investment's research director Brad Bourland states that, "Saudi Arabia used to be very much an American story, but those days are gone forever.

That's just a reflection of a globalized world and the rise of Asia. They now see their relationship with China as very strategic and very long term." On the other hand, a US-Saudi Arabia relationship is far from over, as it is just not a business relationship like how it is in China, it is much deeper with political implications that will not die down any time soon.

A relationship between China and Saudi Arabia is mutually beneficial. Saudi Arabia was the largest donor for China's May 2008 earthquake relief.

The Kingdom can take advantage of having the second largest economy on their side, and make use of the China's increasing need for energy. Over the next two years China's demand for oil will grow by one million barrels per day.

China, on the other hand, benefits by having a reliable resource to meet its energy needs, allying itself with another Asian force, and also increasing its global influence overall.

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