Sino-Saudi Relations: An Economic History

Mohammed Turki Al-Sudairi

GRC GULF PAPERS
August 2012
Sino-Saudi Relations: An Economic History
Mohammed Turki Al-Sudairi*

As the 21st century enters its second decade, the Sino-Saudi economic relationship is showing signs of increasing complementarity and complexity. When diplomatic ties were re-established in 1990, bilateral trade between the two countries stood at a mere $296 million, with energy playing no visible role in Sino-Saudi economic relations.\(^1\) By the end of 2011, however, the situation had changed considerably. Energy is now at the heart of the relationship, with about a third of China’s crude imports coming from Saudi Arabia (more than 1 million barrels of oil per day or nearly a fifth of China’s total net import of oil).\(^2\) According to a 2009 agreement concluded between Aramco and Sinopec, this figure is poised to reach 1.5 million barrels by 2014, effectively making China Saudi Arabia’s most important energy customer for the near future.\(^3\) Two-way trade, moreover, has jumped to an astounding $58.8 billion in 2011, up from $43 billion in 2010.\(^4\) This is mainly due to China’s consumption of Saudi petrochemicals, fertilizers, and minerals, purchases that have in turn fueled a new ‘industrial revolution’ within the Kingdom.

* Mohammed Al-Sudairi is a graduate of Georgetown University’s School of Foreign Service in Qatar with a degree in International Politics. He is currently in Beijing studying Chinese and preparing for his postgraduate studies focusing on Sino-Arab relations.

By far, the Sino-Saudi engagement appears to be one of the most promising and exciting stories of the early 21st century. However, the exact details of this engagement have yet to be fully documented in a systemized manner that sufficiently captures all of its variances and details. This paper will address this issue by providing readers with a general sketch of Sino-Saudi economic relations starting from the late 1980s onwards. It will move beyond a mere examination of the oil and petrochemical partnerships spearheaded by Aramco and SABIC to include wider issues such as the role played by Saudi corporate investors and Chinese companies operating in the Kingdom in cultivating this relationship. Besides, the paper hopes to highlight some of the comparative advantages and difficulties latent in the various sectors through which this engagement unfolds. Before embarking on this “short history,” it would be prudent to first clarify why a systemized look at the history of this relationship is so important.

Underlying Strategic Impetus of Sino-Saudi Economic Relations

It has been argued by some scholars that the Sino-Saudi economic relationship is beginning to exercise a strategic pull of its own and may eventually induce – as it continues to strengthen – a change in the calculus of the Saudi and Chinese elite regarding the present security arrangements of the Gulf region. Of course, other factors such as the state of the US (and to a lesser extent Iran’s) relationship with both countries (as amply discussed by Alterman and Garver in The Vital Triangle), the development of Chinese maritime projection capabilities, the continued presence of US forces in the global sea lanes, besides the question whether sufficient political will exists in both Beijing and Riyadh to break the established modus operandi is equally – if not more – critical in impacting elite decision-making. Putting these factors aside for a moment, it should be clear that the evolving portrait of Sino-Saudi economic relations mirrors in many ways the unique partnership that had existed between the United States and Saudi Arabia from the 1940s to the 1990s, at least in the major role played by energy in defining its strategic contours.

If recent and future trends are to be taken into account, the energy dimension may in fact turn out to be of far greater importance to the development of Sino-Saudi relations than it was, historically, for Saudi-US relations. Although Beijing has increased its efforts to develop a green-energy technology base as well as promote better energy conservation practices, economic growth has generally blunted these attempts, as it has fueled a growing market for transportation fuels and chemical feedstock. According to the US Energy Information Agency, China’s tons of oil equivalent per capita has doubled from 2000-2009. 7 Therefore, it is estimated that the total demand will go up by some 4.8 million barrels between 2011 and 2015. 8 During that same period, China is expected to double its current strategic oil reserves (103 million barrels) to 270 million by 2012-13, with the eventual goal of reaching a 500 million barrel strategic milestone in 2016. 9 In 2020, China is projected to require about 13-14 million bpd (in 2010, China consumed 9.2 million bpd,) which would mean tripling its current imports as the overall size of the economy continues to grow and domestic sources of oil production are depleted. 10 The Middle East already makes up roughly 47 percent of China’s total net imports, but the outlined short-term trend suggests that this percentage share will likely increase to about 70 percent in 2015. 11 According to the EIA’s conservative estimates, import dependency could go up to 72 percent by 2035, at which point China would reach energy consumption parity with the US. 12 Obviously then, and by virtue of these energy patterns alone, China emerges as a very promising and much needed partner for the Kingdom in the near future. As noted by Aramco’s President and CEO Khalid Al-Falih, “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.” 13

To put this “partnership” into further context, it would prove useful to contrast it with the Kingdom’s current economic ties to the United States. Although the latter

---

in 2011 still enjoyed a bilateral trade volume of $61.29 billion with Saudi Arabia and remained the world’s biggest consumer of oil with the Kingdom supplying nearly 14 percent of its overall imports, the US is arguably reaching a demand cap for further consumption of Saudi oil.\textsuperscript{14} There are multiple reasons for this in the case of the US, including the steep fall in consumer demand for energy that followed the 2008 global economic crisis, chronic oil prices, American de-industrialization, a strong rebound in domestic crude oil production in the Western Hemisphere (making up 52 percent of US net oil imports), growing interest in alternative energy sources such as natural gas and renewables (the latter now comprising around 8 percent of total energy generation in the US), environmental fears after the BP oil spill, and lingering political and security concerns over Saudi Arabia since 9/11.\textsuperscript{15} Placing this within the wider framework of changing energy consumption patterns, an EIA study reports that while the total net import share of US energy consumption in 2010 was at 22 percent, it is projected to decline to 13 percent in 2035.\textsuperscript{16}

According to most analysts, the United States will undoubtedly remain the world’s largest oil consumer until 2030, but its importance as a destination for Saudi oil is evidently declining over time. This process has already begun with the noticeable fall in Saudi Arabia’s share of the US net crude oil and petroleum product imports since the early 2000s (dependence on foreign oil peaked in 2005.)\textsuperscript{17} Saudi officials appear to have generally accommodated themselves to this fact and have given up their attempts at dominating the American market through price mechanisms against their competitors in Canada, Mexico, and Venezuela.\textsuperscript{18} In 2010, for instance, Aramco sold its storage facilities in the Caribbean, signaling a turning away from the East Coast market.\textsuperscript{19} The specter of this declining reliance raises questions – at least in the mid-term – about the future of the now-60 year old US security umbrella in the Gulf. After all, energy has historically underpinned the special security partnership between the US and Saudi Arabia.

The nascent ‘special’ relationship that Beijing is now fostering with Riyadh may in fact be facilitating this eventual de-linking as China increasingly appropriates – in

\textsuperscript{14} “How Dependent Are We on Foreign Oil?” Energy in Brief, US Energy Information Administration (EIA), http://www.eia.gov/energy_in_brief/foreign.

\textsuperscript{15} Ibid.


\textsuperscript{17} “How Dependent Are We on Foreign Oil?”

\textsuperscript{18} Mouawad, “More Saudi Oil Goes to China Than to US.”

\textsuperscript{19} Ibid.
the passive sense of economic dependence – the roles formerly played by the US in Saudi Arabia. As Professor Shi Yinhong notes in an interview with The New York Times, China “will play some role in gradually eroding American preponderance over that country.”\(^\text{20}\) In the coming decades, if the US chooses to reassess its current arrangements to reflect the changing realities on the ground and China opts for a more assertive foreign policy commensurate with its growing military capabilities and diplomatic clout, Beijing’s ability to maintain access through what Al-Falih called in a March 2011 speech ‘the energy superhighway’ linking the Kingdom to the Eastern markets will become a vital interest in its own right.\(^\text{21}\)

However, one should be cautious in overstating the changing dynamics of Saudi Arabia’s relationship with the two powers. Until the various pressures coalesce or reach a critical point, Sino–Saudi relations will likely remain economic in nature. As John Sfakianakis of the Banque Fransí observed, “The relationship will become political when China wants to play a political role in the region, but so far it doesn’t.”\(^\text{22}\) Moreover, whatever the circumstances that arise in the foreseeable future, the United States will likely continue to consider Saudi Arabia a strategic ally, especially given that the security of the Gulf oilfields is so closely intertwined with the overall health of the global economy. Furthermore, Riyadh will not opt to abandon its advantageous guarantees any time soon, especially as new concerns over Yemen, Iraq, and Iran come to the forefront. Access to American technology and military hardware – which China cannot realistically provide – is also paramount in coloring Saudi calculations. Accordingly, Saudi officials will naturally opt to downplay the impact of their growing ties to China on the United States. As noted by Ra‘ed Krimli, advisor to the Saudi Foreign Minister Prince Saud Al-Faisal to the Le Monde, “Relations with China have nothing to do with our close strategic ties with the United States, even if they do cause some anxiety in Washington.”\(^\text{2}\) As Zhu Feng discusses in his Oil Nexus vs. Diplomatic Crux: China’s Energy Demands, Maritime Security, and Middle Eastern Aspirations, China will be hesitant to relinquish its free-rider status for the

---


\(^\text{2}\) Ibid.
sake of a costly military presence overseas especially when it already enjoys access.24 These changeable variables, however, are encountering a changing balance of power that cannot be easily ignored and which carries its own potential implications, and this is especially so given the fact that these variables are so interconnected with the state of economic relations between the respective powers. In the end, the American security regime in the Gulf is built on a historical legacy of ‘economic’ contact and would have been inconceivable without that dimension.

It is difficult, of course, to discern exactly how things will develop for the two major powers and their relationship with Saudi Arabia. Ongoing economic trends are raising a new set of questions regarding existing “security umbrellas” and policy choices among the Saudi elite. Understanding these trends is necessary for analysts and policymakers seeking to chart out the future courses of Chinese, US and Saudi foreign policy choices. A historical overview of economic relations between China and Saudi Arabia therefore becomes vital in the pursuit of this endeavor. This overview will be divided into three major sections dealing with energy, petrochemicals, and non-oil related engagement.

The Energy Matrix

Saudi Arabia and China re-established formal diplomatic ties in 1990 after several years of under-the-table negotiations and clandestine trade. Initially, energy played little or no role in defining Sino-Saudi relations, but depletion of the Daqing oil field signaled the beginning of a long shift towards the Middle East with China emerging first in 1993 as a net importer of oil products and then in 1996 a net importer of crude oil.25 This shift, however, would not be felt until the next decade as China’s increasingly energy-hungry economy continued to sustain a 7-8.5 percent GDP growth per annum, far outstripping its estimates of projected energy consumption. Aramco recognized this potential quickly and, in fact, dispatched exploratory missions to China in the early 1990s. According to Ali Al-Naimi’s 2001 speech to the Petroleum World Congress in Shanghai, his first visit to China was in 1992 to work out the details for a proposed joint venture in Qingdao.26

24. “China’s Growing Role in the Middle East.”
In the late 1990s, in part out of growing Chinese concerns over energy and in part out of Saudi Arabia’s desire to escape its ‘fiscal lost decade,’ Sino-Saudi energy engagement began to take on a life of its own. In 1998, Aramco decided to open a subsidiary office – the Saudi Petroleum Ltd. – in Beijing to oversee sales and marketing. The following year, as crude oil purchases reached 86,000 bpd, Chinese President Jiang Zemin visited Saudi Arabia and announced the start of a “strategic oil partnership” between the two countries. In accordance with the stipulations of this agreement, Saudi Arabia agreed to open much of its domestic oil and gas market to Chinese investment with the exception of upstream oil production and exploration. In exchange, China would open its downstream sector to Saudi investment with special emphasis on upgrading China’s existing refineries.

This prompted Aramco to enter into early negotiations with Sinopec in 2001 over a possible $5 billion joint equity venture – the largest FDI in any Chinese refinery for 20 years – aimed at developing an old refining and petrochemical plant in Quanzhou, Fujian. In 2004, Aramco, ExxonMobil and Sinopec eventually concluded negotiations with the Fujian provincial government to establish the Fujian Refining and Petrochemical Company Ltd. (FRPC) with proportional control allotted along 25 percent, 25 percent, and 50 percent respectively among the three corporations. The project in which Aramco invested some $750 million would triple the capacity of the old refinery to process Saudi heavy crude oil from 80,000 bpd to 240,000 bpd. In addition, new petrochemical facilities were integrated into the plant, including an 800,000 ton-per-year ethylene steam cracker, a 650,000 ton-per-year polyethylene unit, a 400,000 ton-per-year polypropylene unit, and a 1 million ton-per-year aromatics unit. According to Aramco’s 2010 Annual Review, the refinery, which was completed in 2008, has produced so far more than 11 million tons of refined products and more than 3 million tons of petrochemicals. The deal...

---

31. Ibid.
also entailed the creation of another parallel venture called Sinopec SenMei (Fujian) Petroleum Co. Ltd (SSPC) which would provide marketing and sales services for FRPC products within the whole of the Fujian area wherein it would enjoy exclusive rights. The SSPC currently services some 750 petrol stations run by Exxon. It is reported that creation of the SSPC was facilitated by Aramco’s agreement to supply the Fujian government with 30,000 bpd of Saudi crude for the next thirty years. In any case, the project proved to be a win-win situation for all those involved, but particularly for Saudi Arabia. Through this venture, the kingdom secured a long-term outlet for its distressed crude which had fewer buyers on the open market. Moreover, it gave Saudi Arabia access to its own downstream network which would allow it to bypass the need to renew contracts every year in a largely competitive market. Lastly, it cemented Saudi efforts towards establishing a foothold in the Chinese market for value-added goods.

In January 2004, Sinopec signed a 10-year deal with Aramco to develop a 38,800 km concession in the Gahwar “Block B” fields located in the North of the Rub Al-Khali under a project named Saudi Gas Initiative 2 (SGI2). Observers have generally noted that the selection of Sinopec’s bid was more of a symbolic and strategic choice on the part of Aramco which was in the process of negotiating deals in Fujian and Qinqdao. Under the terms of the SGI2, Sinopec established a joint venture with Aramco called Sino Saudi Gas Limited, an exploration and drilling enterprise in which Sinopec retained 80 percent ownership. At the time, a $300 million budget was projected, but, according to recent Sinopec statements, expenditures have well exceeded the original amount. Despite extensive drilling, Sinopec has been reluctant to develop the fields it has discovered. The reason for this publication is (a) the desire to build a foothold in the Chinese market for value-added goods.?
is mainly due to the Saudi government’s decision to set transfer prices of natural gas at 75 cents per British thermal unit (Btu), making it difficult therefore for Sinopec to make a profit by marketing the gas internally in light of the investments and costs needed for development. This is complicated further by a state ban that limits natural gas exports, locking the venture accordingly in a difficult fiscal situation. As of 2012, however, the partners have agreed to launch a second phase of exploration in the Rub Al-Khali.  

By 2005, Saudi oil exports to China reached 455,000 bpd, with Beijing indicating a desire to enter into direct talks with OPEC over a possible “Energy Road Map.” During that same year, Aramco renewed talks with Sinopec over a $1.2 billion investment in a Qingdao, Shandong refinery. The proposed upgrade would lift the plant’s capacity to over 200,000 bpd. However, despite repeated revivals by Aramco officials in 2007, 2008 and 2009, negotiations have made little progress mostly due to concerns over China’s fuel price controls. Indeed, despite a 2010 increase in international crude prices, China has resisted pressures to raise downstream fuel prices to an equivalent level. This has led to severe losses for Chinese National Oil Companies selling to the domestic market, forcing them in turn to sell abroad and as a result causing disruptions in supply at home. China has since reevaluated its policies, and as of March 2012, has raised the bar price to an unprecedented $95 per ton. It remains unclear whether this will have an impact on the course of negotiations between Sinopec and Aramco in the future, but it increases the likelihood of a breakthrough. In 2012, media outlets reported that Aramco was reaching the final stage in talks over an unnamed Chinese refinery.

In 2006, following King Abdullah’s state visit, the two sides signed five bilateral agreements, including a high-profile memorandum on “oil, natural gas, and mineral cooperation.” As per this agreement, Saudi Arabia pledged to assist China in the

---

creation of its own strategic reserve, estimated at around 100 million barrels, on Hainan Island. In 2012, strategic reserves were estimated at 103 million barrels, with plans currently in place to expand it further to 270 million barrels at the end of 2013. Beijing aims to reach a 500 mbd strategic reserve milestone by 2016, a significant percentage of which would continue to be supplied by Saudi Arabia.

From 2006 onwards, the size of Saudi crude oil exports, reflecting both deepening relations and the market’s growing thirst for energy, began to grow exponentially. In 2007, the Kingdom supplied China with 527,000 bpd; in 2008, that figure rose to 720,000 bpd. In 2009, Saudi exports surpassed 1 million bpd, with Aramco pledging in June of that year to increase crude supply to 1.5 million bpd by 2015. In pursuit of this goal, Aramco’s President and CEO Khalid Al-Falih unveiled an ambitious spending program of over $125 billion to be invested both domestically and abroad in the next five to six years. Its stated aim was to boost current crude processing capacity by over 50 percent to around 6 to 8 million bpd in 2014, with an emphasis on expanding both downstream and upstream networks. Besides several new domestic projects, as well as two planned joint ventures in Vietnam and Indonesia, Chinese refineries would receive a share of the allotted investment. The Yunnan and YASREF projects, for instance, are expected recipients of this largesse.

In March 2011, Aramco signed a Memorandum of Understanding with a subsidiary of the China National Petroleum Corp (CNPC) ‘PetroChina’ to build a grassroots full-conversion facility in Yunnan province with a processing capacity of 200,000 bpd. While the estimated cost and ownership breakdown of the project has not yet been disclosed, Aramco has promised to provide the proposed refinery with a long-term supply of crude oil which will be transported there through a $2 billion oil pipe.

46. “China – Analysis.”
47. Ibid.
49. “Sinopec, Aramco May Agree on Oil Supply, Refinery.”
and natural gas pipeline from Myanmar, halving shipping time from Saudi Arabia to China.\textsuperscript{52} That same month, Aramco also signed another MoU with Sinopec to create a joint venture to develop the Yanbu Aramco Sinopec Refining Company (YASREF) in Yanbu, Saudi Arabia.\textsuperscript{53} The refinery, which is set to go into operation in 2014, will have a processing capacity of 400,000 bpd drawn mostly from the Manifa oilfield. Moreover, it will have the capacity to produce high-grade fuels and petrochemicals, producing 90,000 bpd of gasoline, 263,000 bpd of ultra-low-sulfur diesel, as well as an assortment of byproducts including petroleum coke and sulfur. According to the terms of the agreement, Aramco will have a 62.5 percent ownership share with Sinopec retaining the rest.

During Premier Wen Jiabao’s visit to Saudi Arabia in 2012, he pressed the Kingdom to open its upstream production to Chinese investment.\textsuperscript{54} Up to that point, the activities of Chinese National Oil Companies had been largely limited to providing engineering services such as data collection, natural gas development, and pipeline and well maintenance. Saudi Arabia has, as was to be expected and despite the Premier’s overtures, refused to open up its petroleum sectors to foreign investment. Premier Wen’s visit, however, was more successful in inaugurating a new partnership in renewable energy with ramifications for the long-term security of crude oil supplies to China. With domestic demand for power increasing at 8 percent annually, the Kingdom is poised to consume over 8.3 million bpd by 2028.\textsuperscript{55} This is coupled by the unpleasant fact that Saudi Arabia faces a 6 to 8 percent annual decline in its oil field production.\textsuperscript{56}

Aware of this future threat to potential oil revenue, Saudi Arabia has launched a robust energy diversification program, with 16 nuclear reactors, at the cost of $7 billion each, planned for completion in 2030.\textsuperscript{57} China, which is currently building 27 nuclear reactors and is estimated to have over 100 or more by 2030, hopes to

\begin{itemize}
\item \textsuperscript{53} “Sinopec and Saudi Aramco Form Joint Venture for Saudi Refinery,” http://www.process-worldwide.com/management/project mana
\end{itemize}
capitalize on its experiences and capture a part of this promising Saudi market.\textsuperscript{58} From what has been disclosed of the 2012 agreement, China will not only help develop indigenous plants, but will provide reactor, fuel, and maintenance services as well. The exact details, however, remain scant.

Another area where potential cooperation could take off is solar energy, but it has yet to attract the attention of policymakers. Since 2008, Saudi Arabia has started a $100 billion program to transform the country into a solar powerhouse, with the ambitious goal of generating 10 percent of domestic power from solar energy by 2020 and eventually selling excess output abroad.\textsuperscript{59} With crude oil prices surpassing $100, \textit{New Energy Finance} estimates that, given the projected price of oil and solar panels, “the Saudis stand to make 11% return on their money if they make big investments in solar power.”\textsuperscript{60} Aside from conserving crude oil for future export and thus enhancing energy security, the Saudi solar power venture is bound to open up new commercial possibilities for China as it enjoys a competitive advantage in the production of wafers and polysilicon conversion necessary for solar power generation. According to Shyam Mehta, a GTM research analyst, the market linkage appears inevitable. “The solar industry today is entirely globalized in terms of trade flow so it is more than likely that a good proportion, if not a majority, of the [Saudi] plant’s output will be sold to China and Taiwan, which is where the majority of wafer [and solar cell] manufacturing is located.”\textsuperscript{61}

Japan’s Showa Shell Sekiyu has already made significant headway in the development of solar energy within Saudi Arabia. In 2009, it signed an agreement with Aramco to construct several small-scale solar power pilot facilities with a capacity of 1 to 2 megawatts capable of powering between 240 and 480 households. These were to be part of an experimental foray to gauge the feasibility of introducing solar power technology into Saudi Arabia. In 2011, the first of these power generators was completed in Furasan Island along the Red Sea, with a total capacity of 500 kilowatts, saving, according to one estimate, 28,000 diesel barrels in transfer costs and power

\begin{thebibliography}{9}
\end{thebibliography}
According to Khalid Al-Falih, Aramco aims to begin producing solar cells domestically within the next two to three years and possibly join Showa Shell Sekiyu in several solar power ventures in developing markets in the Middle East, South America, and Africa.

At present, and mostly in response to a unilateral halving of Iranian crude oil, Beijing’s imports of Saudi crude oil have increased to a record 1.39 million bpd, suggesting that Aramco’s earlier goal for a 1.5 bpd rate in 2015 might be reached earlier than expected. Disruptions in Sudanese and Libyan output may have also contributed to this sudden surge in Saudi oil exports.

The Other Non-Energy Face of Sino-Saudi Economic Relations

Although energy is the foundational cornerstone for Sino-Saudi economic relations, there are other equally important elements that are making their contribution to the development and growth of this relationship. These mostly encompass two major sectors, the petrochemical industry and non-energy derived trade which can be further divided into (a) corporate or high-profile business, and (b) low-profile business at the people-to-people level. The dynamism and increasing traction by which these new linkages have been formed in the past two decades, as well as their residual potential for further growth in the future, suggests that the Saudi and Chinese economies enjoy a unique complementarity in the global economic topography. This renders the relationship both countries have into one of ‘complementarity’, especially as Saudi Arabia continues to pursue liberal economic reform and China’s GDP maintains its annual growth rates. Of course, even when evaluating the role played by the non-energy aspect, it is difficult to escape the dominating shadow which energy still casts. Not only has this sector provided the liquidity necessary for investment and value added growth, but all other sectors trail its path in importance. Therefore, the ‘other elements’ could be conceived of as ‘byproducts’ of the energy axis which supplement and reinforce the existing original basis for Sino-Saudi relations.

---


General Portrait of Bilateral Trade

Throughout the 1980s, Saudi Arabia and China maintained a low-key commercial relationship that was mostly dominated by businessmen seeking to tap into China's low-value manufacturing boom in the wake of the Gaige Kaifeng reforms. This is substantiated by data from the Saudi Arabian Monetary Agency 2011 Annual Report, which details the size of imports from China in 1984 as totaling $183 million, with Saudi exports at a mere $6.4 million. The subdued nature of this yet-unofficial trade relationship was radically altered in 1987 when the Saudi government sought to purchase 36 CSS-2 intermediate-range surface-to-air missiles and 15 mobile launchers from China at a cost of $3 billion and, according to some reports, access to US Patriot missile technology. Some sources claim that a Chinese artillery battalion was also dispatched to Saudi Arabia to maintain and operate these purchased missiles with a potential range of 2,500 km in two separate bases south of Riyadh. When it was discovered that the deal severely injured Riyadh's relationship with Washington, Saudi Arabia immediately pledged its adherence to the Non Proliferation-Treaty (NPT). Aside from its diplomatic ramifications, the deal also proved to have been a loss for Saudi Arabia: the CSS-2 missiles turned out to be of a low-grade quality with a short life span. This has generally muted any overtures within Saudi Arabia's military for further purchases of Chinese hardware, the latter already disadvantaged by having to compete with Riyadh's easy access to high-tech Western arms industries. Nonetheless, a change of heart towards Chinese arms has apparently taken place among Saudi policymakers of late. Talks were apparently held for a possible set of upgraded CSS-5 and CSS-6 missiles and in 2008, following the conclusion of two defense agreements, the Saudi ministry of defense agreed to order several dozen pieces of PLZ-45 155mm self-propelled howitzers for testing.

---

seen, however, whether military procurement will assume significance in Sino-Saudi economic relations but that is a real possibility if Chinese military modernization bears credible success in the future.

In November 1988, a Memorandum of Understanding was signed between China and Saudi Arabia to establish Trade Representative Offices, with officials assuming their posts the following year. The formalization of trade relations allowed bilateral trade to pick up, particularly after 1993 when energy and energy-derivatives began to constitute a significant portion of traded goods. In 1990, two-way trade was worth $290 million, but by 2002 had climbed to $5.1 billion.69 During this period, two Bilateral Investment Agreements were signed, one in 1996 and another in 2000.70 In 2006, King Abdullah signed a series of agreements and MoUs expanding the scope of economic cooperation, including an Avoidance of Double Taxation treaty. During a reciprocal visit to the Kingdom that same year, President Hu Jintao announced China's intention to see bilateral trade reach $40 billion in 2010. This figure was quickly reached in 2008.71

Buttressing this were a series of regulatory and institutional attempts at formalizing and deepening this trade via a Free Trade Agreement. Initial negotiations between China and the Gulf Cooperation Council (GCC) over such an arrangement started in 2004 with the adoption of a Framework Agreement on Economic, Investment and Technological Cooperation.72 In 2005, two rounds were held in Riyadh and Beijing to discuss preliminary issues regarding the rules of origin, market access, and tariff concessions. In January 2006, another round was held in Beijing with marked success in agreeing on TBT, SPS, trade remedies, customs checking processes, regulations, and the text of the trade agreement, among other topics.73 In April of that year another round of negotiations was held in Muscat with a focus on general cargo trade, reduction of imports tariffs, and the standardization of non-tariff measures among others. In 2009, after a period of delay punctuated by trade disputes in petrochemicals...

70. Please see UNCTAD’s document on Saudi Arabia: http://unctad.org/Sections/dite_pcbb/docs/bits_saudi_arabia.pdf
71. Ibid.
73. Much of the historical timeline for the FTA talks is taken from this source: Mo Chen, “Exploring Economic Relations between China and the GCC States,” Journal of Middle Eastern and Islamic Studies (in Asia) 5, no. 4, 2011.
(discussed later), talks were reconvened with relative success: major concerns about trade in goods were addressed and preliminary discussions moved on to services trade. In 2010, a China-GCC Trade and Economic Joint Committee was launched with the main task of exchanging views on strategic issues and implementing work planning. This was followed in 2011 with in-depth discussions revolving around the formation of an operations committee to further boost bilateral trade and investments, as well as make arrangements for the first session of the Joint Committee.

According to statistics issued from the Chinese Customs Office, bilateral trade in 2011 reached $64.4 billion, making Saudi Arabia China’s largest trade partner in West Asia and its 14th largest global trading partner. Reflecting this significant growth in trade, China momentarily replaced the United States as the biggest export source country for Saudi Arabia in July 2011, with an export value of $1.166 billion. Currently, China is the destination for 16.2 percent of total Saudi exports, and the origin of 18.8 percent of all imported goods into the Kingdom. The exponential growth in trade from 2003 to 2011 can be attributed to several factors: [a] Increased Saudi liquidity (both in terms of circulation and the size of the country’s sovereign wealth fund which is estimated at $532.8 billion) [b] a spike in consumer demand for Chinese products under the so-called “Second Tafra” [Era of Abundance]; and [c] rising Chinese consumption of Saudi energy and energy-derived goods. The adoption of the Yuan by the Saudi monetary fund in 2012 as part of its foreign currency reserves will likely solidify continued economic growth between the two countries.

China’s main exports to Saudi Arabia include textiles, mechanical and electronic products, value-added plastic goods such as toys, and furniture. Its main imports from the Kingdom are crude oil, liquefied petroleum gas, fertilizers, polymers of ethylene, ether, oil products, nitrate derivatives, propylene, an assortment of hydrocarbon goods and acylic/halogenated alcohols, primary sulfur, as well as basic minerals and metals such as copper, zinc, bauxite, gold and silver.

**The Petrochemical Angle**

In 2008, China accounted for around 10 percent of global petrochemical consumption. It imported 40 percent of globally traded polyethylene and 44 percent of polypropylene.  

According to ExxonMobil, China is projected to account for nearly 25 percent of global demand for petrochemicals by 2015. This demand (for polycarbonates, fertilizers, and engineering plastics) is largely fueled by the tremendous growth transforming key industrial sectors in China, especially those involved in the production of chemical fiber, rubber, cable coating, petroleum processing, plastic products, coke, compact discs, automobiles, and textiles. In all, these industries have contributed to the pressures pushing demand from 37.949 MMTPA (million metric ton per annum) in 2000 to 100.843 MMTPA in 2010, with an estimated annual growth rate of 10.3 percent. Industrial analysts suggest that the pace of demand is expected to accelerate in the coming years with an additional 90 MMTPA added to total demand by 2015. Despite yearly investments and expansionary policies, the rapidity of this growth has outstripped China's ability to fully meet all of its industrial needs. In 2010, for instance, China produced only 220,000 MTPA of polycarbonate, forcing it to rely heavily on imports to cover an excess demand of 1.13 MMTPA.

The majority of these petrochemicals are imported from neighboring Asian nations. In 2010, for example, Korea accounted for nearly 31 percent of China's total basic petrochemicals imports and 21 percent of its major plastics imports, with Japan accounting respectively for 23 percent and 9 percent in both categories. In recent years, however, the GCC countries, particularly Saudi Arabia, have been making headway into the Chinese petrochemical market. The reason for this can be attributed to the nature of the petrochemical industries which are largely energy-intensive,

---

81. “Petrochemical Industry to 2015.”
83. “Petrochemical Industry to 2015.”
endowing in turn energy-abundant countries with a significant advantage in petrochemical production. For instance, as mentioned earlier, much of the methane supplied to domestic producers in Saudi Arabia is sold at $0.75 a million BTUs. This gives Saudi producers a substantial cost advantage over their competitors in the US, Europe, and Asia, with estimates suggesting a possible 30 percent wide margin in cost differentials. The recent spikes in oil prices have probably allowed this margin to widen even further, with one study suggesting that Gulf production costs are nearly ten times lower than those in East Asia.85 It should be noted, however, that these cost advantages apply to polyethylene production and not to polypropylene production where Saudi Arabia is currently expanding capacity but lacks significant feedstock advantage. This production cost variance is reflected in general by the composition of Chinese petrochemical imports from Saudi Arabia, which are largely made up of ethylene derivatives.86

At the heart of the petrochemical industry in Saudi Arabia is SABIC which, due to predominant government ownership of the corporation (up to 70 percent), is a significant actor in the petrochemical linkage between Saudi Arabia and China. A cursory look at domestic exports – largely of SABIC origin – reveals this role clearly: In 2007, petrochemical exports to all destinations were valued at $14.3 billion, jumping to $16.6 billion in 2008 and, following a brief slump in 2009, rising again to $19.3 billion in 2010.87 While still making up a small share of Saudi Arabia’s total exports to China – and certainly dwarfed by crude oil exports – the petrochemicals produced by SABIC, of which 58 percent were destined for the Asian and Far Eastern economies in 2010, made up a considerable fraction of the $2 billion worth of Saudi petrochemicals sold to the Chinese market.88 When taking into account


overseas joint-venture manufacturing sales, the importance of China for SABIC is brought into further view; as of 2011, China alone accounted for nearly 40 percent of the company’s total profit sales in Asia.\textsuperscript{89}

SABIC’s interest in China dates to at least 1985 when it opened a supplier branch in Hong Kong. A few years later, another subsidiary branch was established in Shenzhen as corporate focus shifted to the mainland. By 1996, a regional ‘Asia office’ was opened in Shanghai. In the early 2000s, much like Aramco (which established itself early on), SABIC began to contemplate and articulate a new Asia strategy. In 2006, SABIC signaled its interest in investing some $5 billion in China in the coming years, forwarding blueprints for an ethylene cracker and aromatics industrial-complex in Dalian and entering into talks with Sinopec over a possible joint venture in Tianjin.\textsuperscript{90} The reasons for this Asia strategy are twofold: in addition to the economic appeal of utilizing China’s lower labor and material costs for production (according to SABIC’s chief executive Mohammed al-Mady), there was also mounting pressure from the Chinese government on SABIC (and many other Gulf enterprises) to enter into joint venture (JV) partnerships with domestic producers, which, if ignored, meant a possible loss of access to the market.\textsuperscript{91} The main reason behind this was the purpose of technology diffusion into the sector, but it carried several risks, including the loss of one’s competitive edge in the market. Makio Yamada, in his article titled “Gulf-Asia Relations as “Post-Rentier” Diversification? The Case of the Petrochemical Industry in Saudi Arabia,” makes this case clearly when he points out that during the Tenth Five-Year Plan (2001-2005), Chinese producers were not equipped to build ethylene plants exceeding the capacity of 600,000 tpa without the aid of foreign firms.\textsuperscript{92} However, following the enactment of several JVs with foreign firms, high-grade petrochemical projects authorized during the Eleventh Five-Year Plan (2006-2010) were now mostly built and operated domestically. SABIC accordingly could not realistically enter the market without a JV, and moreover, it had to contend with a closing window of opportunity.


Interestingly enough, this increasing ‘competitiveness’ may have led to growing internal pressures by domestic producers on Beijing to limit SABIC’s participation in the market due to its overwhelming feedstock advantage. In 2008, the Chinese authorities announced an investigation over possible petrochemical dumping into the market on the part of SABIC and Saudi International Petrochemicals Co. (Sipchem). In December of that year, moves were made to impose protectionist tariffs on methanol (used in blended gasoline) and butanediol (used to make plastics, polyurethanes and elastic fibres), both of which make up 10 to 15 percent of Saudi Arabia’s petrochemical exports to China.93 The initial levy was set at 20.9 percent, but was eventually reduced to 4.5 percent following talks between the two countries. These talks came in the wake of growing demands on the part of Saudi exporters for the government to retaliate and slap import duties on Chinese goods and to any oppose efforts towards the realization of a GCC-China Free trade agreement.94 The dispute ended in October 2010 with all dumping charges dropped – putting behind a rare episode in Sino-Saudi economic relations.

In 2010, SABIC formally concluded an agreement with Sinopec to form a 50-50 joint venture called the Sinopec SABIC Tianjin Petrochemical Company (SSTPC), a petrochemical complex in Tianjin at a cost of $2.7 billion.95 The complex, which was completed that same year, produces an estimated 3.2 million tons of ethylene derivatives and downstream goods including basic ethylene, polyethylene, ethylene glycol, polypropylene, butadiene, phenol and butene-1, among many others. It has been calculated that the complex has contributed to Tianjin’s annual GDP growth by more than 4 percent, generating more than $15 billion worth of investments in downstream services and industries.96

In 2010, SABIC, in another major cooperative gesture with local industries signed memorandums of understanding with eight Chinese firms promising to supply 600,000 metric tons of polymers for $885 million.97 In 2011, as sales continued to soar pivoting SABIC towards the Asian market even further, the petrochemical

conglomerate chose to redefine its investment strategies – wherein it declared its intention to carry out 14 new projects in Asia between 2012 and 2015 – within the context of China’s new 12th Five-Year Plan. In order to encourage ‘sustainable development’, SABIC pledged to boost indigenous production output of petrochemicals with a spending program of $11 billion – much of which would be spent in China proper. To that end, it announced in conjunction with Sinopec, the expansion of the SSTPC to include two new annexes of polycarbonate production lines. At a cost of $1 billion, the new additions would bring up productive capacity of polycarbonate – which is a necessary ingredient for many automotive, industrial, and disc parts – to 260,000 metric tons per annum. That same year, SABIC established the Lexan compounding facilities in Nansha, which were earmarked for further expansion in 2012 along with another polycarbonate facility to be built in Shanghai. This is not to say that all China-related investments were necessarily made on the mainland. In early May, production began at the 260,000 metric tons per annum joint venture plant between SABIC and Saudi Kayan, located in Jubail, Saudi Arabia. According to SABIC Innovative Plastics CEO, Charlie Crew, more than 50 percent of the plant’s output is targeted at the Chinese market. In addition to these projects, “SABIC Ventures” – a subsidiary firm with an investment focus on small businesses – was formed as part of the company’s initial strategy to raise its profile and begin a more coordinated and effective publicity campaign.

The year 2012 was a particularly ambitious and active one for the Saudi corporation in China, especially as petrochemical prices returned to their pre-2008 levels. In February, SABIC joined Sinopec in negotiations for a proposed methanol complex

in Trinidad and Tobago at the cost of $5.3 billion.\textsuperscript{104} On April 3, SABIC announced a second phase of construction projects associated with its pledge to boost output, including a polycarbonate expansion project worth $2.68 billion at the Tianjin petrochemical complex to be completed by 2015, the opening of a new refining and ethylene complex in Longquan, and an engineering thermoplastics compounding plant in Chongqing (which SABIC formed as a gesture of support for the 12\textsuperscript{th} Five-Year Plan’s developmental focus on the western provinces).\textsuperscript{105} Interestingly, these second phase projects were originally planned for 2016–2017 but appear to have been accelerated due to improving expectations about the Chinese market. On April 6, SABIC revealed its plans for a $100 million R&D technology center in Shanghai, one of three it intends to build, with the other two located in Riyadh, Saudi Arabia and Bangalore, India, all of which are scheduled to open in 2013.\textsuperscript{106} The center would mainly focus on the development of alternative energy vehicles, and it would also double as the company’s new “Greater China” headquarters, which would be staffed with over 550 employees. Currently, SABIC has 13 offices in China dotting the major cities of Shanghai, Qingdao, Suzhou, Tianjin, Beijing, Chengdu, Dalian, Guangzhou, Hangzhou, Xiamen, Shenzhen, and Hong Kong. Its main manufacturing sites are located in Zhongshan, Tianjin, Shanghai, and Nansha, with new facilities in Chongqing and Longquan still under construction.\textsuperscript{107}

\textit{Beyond Energy and Petrochemicals}

Equally important to the evolution of Sino-Saudi relations, but rarely examined, are the linkages and enterprises that exist outside the purview – or in partial view – of the state. These are the less news-gripping interactions that occur mainly through the work of independent businessmen, tourists, pilgrims, and corporate investors seeking opportunities in both countries.


\textsuperscript{107} Ibid.
High-Profile Saudi Business

As mentioned earlier, Saudi businessmen had been visiting China well before the establishment of formal ties between the two countries. Initially, these visits were mostly limited to Hong Kong, but eventually included the twin cities of Guangzhou and Yiwu, both major industrial venues with their own annual trade fairs. These businessmen had considerable commercial interests back home and sought to tap into China’s low prices and labor costs for profit purposes. They were regular visitors to the trade fairs held on the mainland – such as the biannual Canton fair – as well as Chinese exhibitions in Saudi Arabia which have mushroomed in number since 1989. A desire among Saudi consumers for cheap and affordable goods, as well as increasing Chinese soft power, have generated a pull effect among many of the ‘latecomers,’ increasing the pace and scope of participation in trade ventures between China and Saudi Arabia.

Unusually proactive in their approach when compared to other sectors of Saudi society, these “high-profile” businessmen have been vocal in their support for expanded relations – through their local chambers of commerce (sending out and receiving delegations to and from China), during diplomatic missions (20 Saudi businessmen and entrepreneurs joined King Abdullah’s visit in 2006), and through the associations formed by important patrons. Of special note are the Saudi-Chinese Friendship Association, founded in 1997, and the Saudi-Chinese Business Council created in 2003. Both these organizations, but particularly the latter, have acted as “interest groups” in the context of Sino-Saudi relations, forwarding suggestions and reports regarding regulations, streamlining joint venture procedures, encouraging a greater utilization of available resources in Saudi Arabia by their Chinese partners, issuing media statements, and placing pressure on pertinent institutions. The Saudi-Chinese Business Council regularly positions itself between the General Saudi Chambers of Commerce, the General Investment Authority, the Chinese Companies Liaison Office, and Chinese Provincial Trade delegations in all negotiations and talks regarding the promotion of Sino-Saudi bilateral trade.

Abdul Rahman al-Jeraisy, head of the Jeraisy Group and current President of the Saudi-Chinese Friendship Association, as well as President of the Saudi-
Chinese Business Council, was one of those early pioneers. Although a definitive picture is difficult to come by regarding the actual numbers at play, it is certain that the Jeraisy Group imports considerable numbers of textiles and furniture from China. The significance of al-Jeraisy, who presents himself as a “friend of China” and has been active in a variety of events and conferences related to Sino-Saudi relations, has not been lost on Beijing. In 2008, he was awarded the title “People’s Friendship Ambassador” by the Chinese People’s Association for Friendship with Foreign Countries. In 2012, during Wen Jiabao’s seminal visit to Saudi Arabia, the Premier accepted an invitation to Al-Jeraisy’s suburban farm outside of Riyadh, where talks were held with members of the Saudi-Chinese Business Council.

In addition to Al-Jeraisy, Ajlan al-Ajlal, head of the Ajlan and Brothers Co., as well as Mohammed al-Ajlal, Vice President of the Saudi-Chinese Business Council, are also activist businessmen of considerable influence within the context of Sino-Saudi relations. Their company has generally contributed to the emergence of a positive media exposure for China within the Kingdom and maintains very close relations with the Chinese government, holding fetes in 2011, for example, for both the outgoing and incoming Chinese ambassadors to Saudi Arabia, Yang Hong Lin and Li Chen Wen, respectively. Ajlan and Brothers Co.’s first major investments in China date back to 2000. Dealing mostly in the manufacture of chemical fabrics, cotton textiles, leather, shoes and accessories, Ajlan and Brothers Co.’s investments now total some 20 factories worth 4 billion Yuan (roughly $632 million). These factories, which are overseen by the main headquarters in Shanghai, are dispersed within a number of Chinese provinces such as Jiangsu, Shandong, Xinjiang, and others, employing altogether some 15,000 workers. According to company statements to the media, revenues have generally vacillated between 1.5 and 2.5
billion Yuan. In 2011, the company’s subsidiary made its first debut in the Shanghai bourse, offering up to 25 percent of its share to public bidding.\textsuperscript{116}

A latecomer but increasingly important figure in financial and service-oriented investments is Prince Alwaleed bin Talal. Riding on ballooning assets enabled thanks to rising oil prices as well as emergent difficulties in the West’s markets, Prince Alwaleed led a delegation of prominent Gulf investors through the Al-Aziziyah Investment Company in a bid to apply for a $2 billion stake in the Bank of China’s IPO in 2006.\textsuperscript{117} They received an allotment of $390 million. The Kingdom Holdings Company, chaired by Prince Alwaleed, also has a presence in China through Citibank which in turn controls sizable stakes – 20 percent and 3.76 percent, respectively – in the Guandong and Pudong Banks. Prince Alwaleed likely discussed a possible bailout for Citigroup – which he provided in 2008 – with Chinese President Hu Jintao and then Minister of Trade Bo Xilai during a visit in 2006.\textsuperscript{118} In addition to these investments, Prince Alwaleed has made some initial forays in the Chinese hospitality sector, starting with a 2007 purchase of the Swissotel in the city of Kunshan for $58 million, although this particular asset was later resold in 2011 for $61 million.\textsuperscript{119} However, although it has been reported that the Kingdom Hotel Investments has earmarked some $1 billion worth of investments with an eye on some 5 to 15 projects in China, no evidence exists that these moves have been taken except for purchases of shares in the Hong Kong Disney Land and Raffles Beijing Hotel, as well as ongoing talks over the Four Seasons Beijing.\textsuperscript{120}

Of course, these are not the only high profile investors from the Kingdom. The activities of Maan Abdul Wahed Al-Sanea and his purchase of a 3.1 percent stake in the Hong Kong-based HSBC in 2006, Al-Rajhi Investments’ partnership with China Resources Co. Ltd. to tailor Sharia-compliant investments in the Chinese real estate (at a total equity cost of $500 million), as well as Al-Turki Group, Al-SuwaiKate Group, and Al-Jaffari Investments ‘talks’ with Chinese partners are just a few examples of the high-profile private commercial engagements now emerging.
between Saudi Arabia and China.\textsuperscript{121} It should be noted, however, that estimating the size of this presence is difficult. According to a 2008 report from \textit{Jaridat Al-Riyadh}, the number of Saudi companies operating in China stood at 59, with a total value of $5.58 billion in investments and $2 billion in registered capital.\textsuperscript{122} However, the same report emphasized that many of these enterprises were in the oil and petrochemical sectors, but failed to differentiate between SABIC and Aramco’s holdings and that of Saudi private investors. No updated statistics have been issued from the Chinese side regarding the current status, nor have there been any meaningful reports or studies from the Saudi side. Khalid Al-Halawani, the commercial attaché of the Saudi embassy in Beijing, during a 2011 interview with the author, shared the opinion that there were perhaps 57 to 59 Saudi companies operating on an independent basis in China. However, he could not confirm this number or even the size of Saudi investments in total – due to a general avoidance on the part of businessmen in registering their information with the embassy.

\textbf{Low-Profile Saudi Business}

Another facet of Sino-Saudi interactions, which plays a far less visible role than that of the major investors, is that of low-profile Saudi entrepreneurs. This group is largely middle or lower middle class, and, by virtue of having far lesser assets at hand, swings towards niche places in the market. These Saudi entrepreneurs are mostly associated with small or medium-sized businesses in the Kingdom, and, since the 1990s, have depended on the Chinese market for affordable goods. Orders for 1,000-2,000 units of a given product – such as textiles, computers, and furniture - are usually concluded by either establishing contact with Chinese firms through domestic channels or by directly visiting producers or trade fairs in China. Due to feasibility and questions of access, most entrepreneurs attend Chinese export commodity fairs, which have been gaining popularity in the Kingdom since they first started in 1989. Attesting to the success of this medium, the Chinese Ministry of Commerce organized the first China Commodity Expo–Saudi Arabia (CCESA) in 2010 in Riyadh. This was followed by a much larger and more comprehensive Second Expo in 2011 held at


\textsuperscript{122} "بلايين دولارات حجم استثمارات السعوديين في الصين." \textit{جريدة الرياض}, 5.85. http://www.alriyadh.com/2008/02/08/article315815
the Riyadh International Convention and Exhibition Center. According to reports, the exhibition – with more than 100 exhibitors – was spread over an area of 8,000 sqm and featured displays of automobiles, machinery, electronics, appliances, IT products, textiles, construction material, and other goods.\textsuperscript{12}

A smaller but increasing number from among these entrepreneurs are opting to travel to China directly. Estimates regarding their exact size vary widely from 10,000 to 35,000, though these numbers have likely grown as Saudi Arabian Airlines launched its first thrice-weekly flight service to Guangzhou in 2009.\textsuperscript{124} The destination of many of these arrivals is Guangzhou to attend the biannual Canton Fair. According to the Fair’s website, for its 111\textsuperscript{th} Session in 2012, there are over 24,644 exhibitors alone.\textsuperscript{125} Many of these Saudis also travel to Yiwu and rely on local Hui translators or export-import offices run by agents from the Hadrami and Palestinian diasporas. Interestingly enough, the Yemeni diaspora doubles as a Saudi minority in its extensive participation in the distribution networks of exported goods destined for the Saudi market.

In tandem with this growth, however, concerns over rampant fraud and scams targeting Saudis going to China have increased, with the Beijing-based Saudi commercial attaché warning citizens of conducting business with ‘unknown’ partners.\textsuperscript{126} Moreover, Saudi newspapers have also raised the issue of fake brands from China. The Chinese have declared they would tackle the issue, as there are concerns that it would have an impact not only on the consumption habits of Saudis, but also the buying patterns of entrepreneurs heading to China.\textsuperscript{127} It appears that the Chinese declaration itself follows an arrangement concluded in 2011 between the Saudi and Chinese Ministries of Commerce to combat fake brands.\textsuperscript{128}

\begin{footnotesize}
\begin{itemize}
  \item[124.] Please check SABB report on Saudi-China Trade Relations, available at: نائب المدير العام يفتتح محطة الخطوط السعودية في الصين.
  \item[126.] خبير رجال الأعمال من نخبة شركات صينية "الاقتصادية."
  \item[128.] “تعاون صيني ـ سعودي لاصدار قائمة سوداء في تجارة الواردات والتصادقات.” People’s Daily, December 8, 2011,
\end{itemize}
\end{footnotesize}
The arrangement stipulates that the examination of goods will be conducted by the Chinese authorities who are also authorized to place offenders on a black list barring them from trading on the Saudi market. It remains to be seen what the long-term effects of this deal will be.

A few words should be said about the Saudi diaspora and Saudi tourism. Although there are no statistics available, conversations with officials from the Saudi embassy suggest that the overall Saudi resident population in China does not exceed 3,000, with 1,000 to 1,200 of those being students enrolled in Chinese universities and colleges. The rest are made up of SABIC and Aramco staff and their families, as well as embassy families and freelancers in the country, with major concentrations outside of Beijing in Guangzhou, Fushan, and Shindah as well as Shanghai. Regarding tourism, while many of the Saudis visiting Guangzhou double as tourists, sometimes extending their trips to Beijing or elsewhere, there are actually very few Saudi tourists coming to China on holiday. This is likely because other Asian alternatives like Malaysia or Indonesia remain more accessible and attractive, although Hong Kong is emerging as a popular destination for many vacationing Saudis. Medical tourism from Saudi Arabia to China has grown, however, with some 15 to 20 patients arriving in China every year for transplants and surgeries, although the number of arrivals since the early 2000s has not yet exceeded 100 or 200.

**The Chinese Presence in Saudi Arabia**

When compared to the UAE’s burgeoning Chinese commercial activity – with some 3,500 companies and a diasporic community of 200,000 Chinese – the presence of Chinese companies in the Saudi market remains tiny.\(^{129}\) Despite active encouragement on the part of the authorities, Chinese FDI has remained miniscule. In 2003, for instance, China’s total investment flows into the GCC amounted to less than $10.66 million, with a stock investment value of $33.63 million. Steadily, and as a result of strengthening ties, these figures have grown somewhat: in 2008, FDI totaled $205 million with a stock value of $1,060 million. Saudi Arabia captured around 58 percent of these investments, with around $620 million in total. According to UNCTAD statistics, between 2009 and 2010, China’s FDI into the Kingdom amounted to $3,605 million, and between 2010 and 2011 totaled $1,961

---

million. While there has been marked improvement, given the relative sizes of both economies, Chinese penetration into the Saudi market has remained limited in many ways. The Vice President of the Saudi-Chinese Business Council Mohammed al-Ajlan commented on this situation to *Jaridat Al-Riyadh*, noting that while issued investment licenses given to Chinese entities exceeded $8.5 billion, real investment in his opinion was at around $400 million.10

Where have these investments materialized? According to a rare but unfortunately brief analytical study conducted by the Riyadh Chamber of Commerce covering Chinese investment in the Kingdom from 2003 to 2009, Chinese FDI has generated around 88 projects in Saudi Arabia. Of these, 12 were industrial in nature in which the Chinese side provided 44 percent of the capital, while in the other non-industrial 76 projects the Chinese provided 77 percent of the total capital. The study places the FDI value of these projects at $256.56 million.11

Although not necessarily counted as FDI, a Chinese commercial presence – mostly in the form of construction companies and corporate JVs – has begun to flourish in the Kingdom, largely fueled by the Saudi government’s infrastructure and industrialization development programs estimated to be worth some $624 billion.12 At present, there are about 90 to 100 Chinese companies operating in Saudi Arabia, the majority of which are involved in construction work.13 These firms employ roughly 16,000 to 20,000 (*Le Monde*, based on its contacts from the Chinese Embassy, puts the figure at 40,000)14 mostly brought in from the mainland in a pattern similar to what is happening in other markets, suggesting in turn that these companies have generated negligible numbers of jobs for Saudi nationals.

The Chinese authorities have been keen on regulating and supporting the efforts of these companies to expand into the Saudi market. To that end, the Ministry of Commerce set up an office in Riyadh to assist mainland companies seeking to enter the Kingdom in 2010. This newly formed “Contact Office of Chinese Companies,” it was hoped, would function as a lobbying and coordination body bringing Chinese investors and owners in direct contact with the Saudi Chambers of Commerce and

---


11. For the document, please look up: www.riyadhchamber.com/countries/199014924.doc


the Saudi-Chinese Business Council. According to its website, its members total 62 companies and enterprises.

A cursory review of major agreements and contracts reached in the period between 2007 and 2010 in areas not pertaining to the development of the oil and petrochemical sectors will now be made. The purpose of this is to provide readers with a sense of the pace at which Chinese companies have been entering the Saudi market following the reciprocal visits of King Abdullah and Hu Jintao in 2006.

In 2007, several major deals were signed. In Jeddah, the China Communications Construction Company for Harbor Engineering (CHEC) won a $230 million contract for the construction of a container terminal in the Jeddah Islamic Port. In Abha, the China Guangdong Overseas Construction Group Co. Ltd signed a $612 million deal to undertake a massive 550,000 sq.m. expansion of King Khalid University. Ma‘aden, a major aluminum producer, awarded the Guizhou Hongfu Industry and Commerce Development Co. with a $350 million project for a phosphate deposit ore refining plant in Al-Jalamid with an estimated productive output of 4.6 MTPA. It also entered into negotiations with the Datong Mining Group for control of the Al-Jalamid mining complex. The China National Geological & Mining Corp entered into an agreement with Al-Masane Al-Kobra Mining Co. to jointly develop a polymetallic mine. In addition, the China Railway 18th Bureau was given a second contract worth $524 million to develop a section of the North–South Railway. In the newly inaugurated Jizan Economic City, the China National Machinery Industry Corp. (Sinomach) and China Nonferrous Metal Industries (NFC) were contracted by Saudi-based Western Way for Industrial

135. Please check www.saudi-cocc.net
Development Co. to build a $4 billion aluminum complex and its accompanying power plant. The plant is projected to have an output of 1.6 metric tons of alumina and 700,000 tons of aluminum per year. In another, far more significant deal, the Malaysian firm MMC International Holdings Limited and Saudi Binladin Group signed an agreement with the Aluminum Corporation of China Limited (Chalco) to develop and operate an aluminum smelter in Jizan Economic City. The reason for this is closely related to Chalco's status as one of the largest aluminum companies in the world with direct access to a hungry Chinese market – guaranteeing therefore long-term demand for aluminum produced at a substantially lower cost (due to low electricity costs.) The plant will reportedly cost around $3 billion and will have an annual production capacity of 1 million metric tons. The venture, according to the SAGIA website, is shared between three companies with Chalco retaining 40 percent of the shares, Saudi Binladin Group 40 percent and MMC International Holdings Limited 20 percent. The JV’s total capital was given as $20 billion, making it one of the largest investments for a Chinese company in Saudi Arabia.

In 2009, China Railway Construction won the bid for $1.8 billion project to develop the Masha'ir al-Muqadasa high-speed line between Mecca and Medina. The following year, the company posted a severe loss of $623 million, claiming that costs for the project had “significantly exceeded the estimated figures at the time of signing the contract.” In October, the parent company, also called the China Railway Construction Corporation, assumed the rights of the contract and completed construction on schedule in 2011. In September 2009, a Saudi-Chinese consortium headed by the China Civil Engineering Construction Corporation won a contract worth $720 million to build a 500 km section of the North-South Railway connecting Riyadh to Al-Qassim. Earlier that year, the Sinoma International Engineering Co. also won a contract of $275 million from the Riyadh Cement Co. to double production capacity to 4 million tons in both Hoffuf and Abha. The last deal of considerable weight in 2009 was concluded between the Saudi Ministry of Education and the China Railway Construction Corporation (CRCC) to build

142. Ibid.
144. Ibid.
some 200 schools across the country at a cost of $533 million. However, recent news suggests that disputes have emerged between the two sides due to the failure of the CRCC to complete the project in the agreed upon 14-month period. In fact, as of 2012, it has yet to complete a quarter of the agreed upon facilities, according to local papers. In 2010, the Saline Water Conversion Corporation awarded a $2.4 billion project to a Saudi-Chinese consortium of Al-Arrab and Sepco III Electric Construction Corporation to build a 2,800 megawatt power generation unit for the desalination complex at Ras Al-Zour.

A quick note: As the CRCC and China Railway Construction episodes show, many of the Chinese companies in Saudi Arabia are now facing issues and problems. According to recent news reports, Saudi businessmen are increasingly becoming less open to dealing with Chinese construction firms. The reasons they cite include the failure of these firms to abide by government regulations and contract stipulations, their low quality services, or demands for extra fees beyond the agreed-upon budget.

Of course, these companies and their associated labor forces do not constitute the sum total of the Chinese presence in Saudi Arabia. Of far less significant economic import, but relevant none the less are those Chinese who arrive in the Kingdom as pilgrims or students. Chinese pilgrims have been arriving in considerable numbers since the resumption of Haj activities in 1990. In 2002, their numbers were less than 5,000, but they quickly doubled in 2007 to over 11,000. At present, some 13,000 pilgrims visit Saudi Arabia on an annual basis. Like many of the faithful from around the world, the Chinese pilgrims have an economic impact both in their consumption of services and goods in the Makkah region and in the creation of global economic networks and linkages with other entrepreneurial individuals. As for students, there are an estimated 2,000 Chinese currently enrolled in Saudi Arabia.

universities and colleges. While a minority – such as the 47 graduate students in King Abdullah University of Science and Technology\(^{152}\) – are engaged in engineering and technical studies, the majority, associated with the universities of Buraidah and Medina, for instance, are involved in intensive Arabic and Islamic studies. It is likely that many of these individuals are of the Hui minority in China.

**Conclusion**

The various economic trends binding Sino-Saudi relations will likely continue to intensify and grow over the next few decades, especially as growth potentials in new areas remain open for further cooperation and development. Nonetheless, the ‘complementary’ nature of this relationship is at best momentary; signs of growing competition in particular sectors – such as petrochemicals – as well as ‘the end of cheap China’ suggest that while growth will continue, it will become more complicated and nuanced as the Saudi and Chinese economies evolve and current patterns of consumption and demand phase out. But one should not overstate the impact of these new developments on the state of the relationship; they are in the end constrained by the realities of energy. Regardless of the difficulties or disputes encountered therefore, the symbiotic needs of seller and customer will bind the two states together. This is by no means an exceptional state of affairs, and one finds it easily reproduced in Saudi Arabia’s other relationships.

Yet, I would caution that it would be impudent to place China in the same category as other East Asian nations and assume an undue ‘normality’ to Sino-Saudi relations. China, after all, is a rising power that has undergone a transformation – in less than 30 years – incomparable to anything observed in world history. Moreover; it does not operate under the constraints of a historical legacy – like Japan – that bars it from taking on military roles abroad. It is from recognizing these facts (as well as those mentioned in the *Underlying Strategic Impetus of Sino–Saudi Economic Relations* section) that the Sino–Saudi economic relationship accrues an added significance. While there are signs that a potential security structure is in the making, it remains to be seen whether the various factors and variables influencing its rise will coalesce to produce it.

Appendix

Composition of Saudi Imports from China

Type and Value of Category Goods (in million USD) imported from Hong Kong to Saudi Arabia in 2010

153. The graphs are based on the Import Report for 2010 published by the Ministry of Economy and Planning, Central Department of Economy and Planning for Saudi Arabia. Unfortunately, no category breakdown for Saudi exports to China is available. There are two graphs – one for the People’s Republic of China and the other for Hong Kong – due to the report’s differentiation between imports from China and Hong Kong. Given that there are different categories of goods involved, I have opted to maintain this differentiation although it is likely that, in terms of goods like textiles or electronics coming from Hong Kong, most were likely re-exported from places like Shenzhen or Guangzhou. Macau has been excluded because of the negligible value of its exports (termed ‘Other Commodities’ by the same report) to Saudi Arabia.
Value of Category Goods (in million USD) imported from China to Saudi Arabia in 2010

- Tires of Cars/Buses/Trucks - $205 (2%)
- Machine, and Electronic Rail Locomotive Parts - $220 (2%)
- Steel/Iron Structures or Parts, Wood (exceed 9mm in thickness) Tubes and Pipes - $281 (2%)
- Toys and Video Games - $377.5 (3%)
- Textiles - $388.5 (3%)
- Electronics: AC, Office appliances, USA, CPU processors, Telephones, Reception apparatuses - $2582 (21%)
- Other Commodities - $450.5 (6%)

67%