

# Oil and Beyond: Sino-Saudi Strategic Economic Relationship

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## Abstract

The purpose of this paper is to analyze the dynamics and the expanding strategic economic contents of Sino-Saudi economic relationship in new era. With the risings of China and Saudi Arabia and expansion of the fields of cooperation, Sino-Saudi economic relationship is becoming strategically prominent in 21<sup>st</sup> Century. The development of Sino-Saudi economic relationship is pushed forward by the bilateral economic and strategic demands, driven by the combination of the complementarities of the bilateral economy, the “Looking Eastward” Policy of Saudi Arabia, the rise of China and the mutual perception. Saudi Arabia plays a crucial role in China's energy security, the economic ties between China and GCC countries, Arab countries and Islamic countries and the construction of “One Belt and One Road” Project as well. What's more, Saudi Arabia is a key partner in the cooperation between China and emerging powers and in promoting global economic governance. As a result, Sino-Saudi economic relationship is increasingly having strategic meaning beyond bilateral scope that has become the foundation for the Sino-Saudi strategic cooperation. In the future, works must be done to go beyond the single field of oil and consolidate the all-round cooperation of Sino-Saudi strategic economic relationship.

**Key Words:** China; Saudi Arabia; Oil; Strategic Economic Relationship

## 1. Introduction

With the unfolding of the 21<sup>st</sup> century, the rising of China and the increasing of its oil demands enhance the economic interactive relationship between China and Saudi Arabia. Both sides view the other as its important strategic cooperative partner, which can be especially proved by Saudi Arabia's “Looking Eastward” policy (Muhamad S. Olimat, 2013; Naser M. Al-Tamimi, 2013). In January 2006, Saudi King Abdullah visited China for the first time. This visit saw the signing of an agreement on oil, natural gas and minerals cooperation and four other agreements covering many field including economics, trade, education and infrastructure. In April 2006 and February 2009, Chinese president Hu Jintao visited Saudi Arabia, two sides also signed a series of agreements on enhancing energy and trade cooperation, and Saudi government promised that it would guarantee the supply of crude oil to China at “any time”. In March 2014, then Crown Prince of Saudi Arabia Salman visited China, A joint communiqué has been issued later, which greatly improved the bilateral relationship. Exchanges and interactions of top officials promote the mutual trust in politics, complementarity in economics and strategic friendship in other fields.

The rapidly tightening interdependence between Asia and the Gulf is a recent phenomenon that deserves considerable attention (Christopher M. Davidson, 2014). Given the time, the ties between the two regions will continue to grow significantly, which attracts increasing scholars' attention to Chinese-Gulf studies. For a long time, researches and papers in this regard have believed that the economic interests, instead of the strategic interests, are the main driving force of China's Middle East policies (Geoffery Kemp, 2010; Bo Zhiyue, 2012), and the oil interests rank the first among all interests (Jin Liangxiang, 2005; Muhamad S. Olimat, 2013; Naser M. Al-Tamimi, 2013). As a result, China's activities in the Middle East have been simply interpreted as the pursuit of oil interests, that's why most of the present-day studies on Sino-Saudi relationship is conducted from the perspective of oil. It creates an incorrect impression that oil means almost everything in Sino-Saudi relationship. It is of no doubt that oil is an inseparable factor in the economic relationship between China and the Middle East, and probably it is true that oil trade is the most suitable indicator reflecting the significance of bilateral relationship. However, does the importance of bilateral economic relationship between China and Saudi

Arabia only lie in oil trade? How to effectively dock China's "One Belt and One Road" strategy with Saudi Arabia's "Looking Eastward" policy? These are the questions worth noting and far less clear.

## **2. The Dynamics of Economic Relationship between China and Saudi Arabia**

With the end of the Cold War, China and Saudi Arabia formally established diplomatic relationship in 1990, which marked that the bilateral relationship has entered a new stage. Promoted by two governments, bilateral cooperation in economics and trade has developed in leaps and bounds in the early new century. Economic relationship has already been the important cornerstone of the Sino-Saudi cooperation.

The trade between China and Saudi Arabia increased rapidly in the new era. With China's rapid economic development and increasing demands of oil, Saudi Arabia, the biggest oil-exporting country in the world, has gradually become one of China's important trade partners. In spite of short temporary drops in several years, the trade volume between the two countries has been soared over the past decade. The number has doubled almost every two years, made continuous breakthroughs and reached \$10 billion, \$20 billion and \$40 billion respectively in the year of 2004, 2006 and 2008. In 2012, the bilateral trade volume has reached a new historical record, which was \$73.3 billion. Due to its trade structure, China has long maintained the trade deficit to a large extent. With the growing of the total trade volume, the trade deficit has increased from 800 million in 2000 to 34.7 billion in 2013. Saudi Arabia has been the biggest trade partner of China for more than 10 consecutive years in the west Asia and Africa and the 12<sup>th</sup> biggest trade partner (EU as a whole) in the world. China has also become the second biggest trade partner and the biggest oil-importing country of Saudi Arabia. The proportion of the bilateral trade volume in China's total trade volume has increased from 0.8 percent in 2003 to 1.7 percent in 2013. During the same period, the proportion of trade volume between China in Saudi trade volume has also increased from 5.4 percent to 13.9 percent.

Cooperation in energy trade has long been the primacy in Sino-Saudi economic relationship. China and Saudi Arabia, as a big oil-importing country and an oil-exporting country, are both depend highly on oil trade. Oil trade volume between the two countries has increased dramatically and Saudi Arabia has become the most important and stable oil-supplier of China. In 2002, China's oil import from Saudi Arabia was 11.39 million tons, accounting for about 16.41 percent of total. Since then, Saudi Arabia has jumped to the first place till now. China has more dependence on Saudi Arabia than the EU and the US (Zhang Kang and Zhang Yanqiu, 2011; Liu Jiajun and Wang Chuan, 2013). From 2002 to 2013, oil imports from Saudi Arabia to China has soared from 11.39 million tons to 53.9 million tons; import volume has increased from \$2.1 billion to \$41.9 billion. In recent years, Saudi Arabia has maintained its top supplier of crude oil to China and account for 20 percent in China's total crude oil imports. Chinese market is of growing significance to Saudi oil exports. The proportion of crude oil exports to China has also grown in Saudi's total oil exports. From 2002 to 2013, this proportion has increased from 4.31 percent to 14.27 percent. Therefore, energy has played a key role in Sino-Saudi Arabia economic relationship and it can be predicted that this trend would be maintained for a long time.

Bilateral investment and project contracting has gain fruitful achievements. It is reported that there are more than 160 Chinese enterprises that run business in Saudi Arabia, covering many sectors including construction contracting, communication, infrastructure, petrochemical sector, construction machinery, logistics and transportation. According to the data released by Chinese Ministry of Commerce, China's non-financial direct investment in Saudi Arabia has reached \$479 million, the stock of the direct investment has achieved \$1.747 billion. In the same year, Saudi Arabia's direct investment in China was \$58.51 million, with an increase of 17.33 percent compared to the last year. Most of the two-way investment focuses on petrochemical fields. Many of the big energy cooperative projects have made substantive progress. Oil enterprises from Saudi Arabia are also actively entering Chinese market and attach more attention to China's petrochemical projects. Two refinery integration projects in Fujian and Tianjin of China have been carried out by Saudi Aramco, SABIC and companies from China and the United States. In 2011, China Sinopec decided to become a shareholder of Saudi Aramco's refinery project in Yanbu of Saudi Arabia, which has an annual production of 20 million tons. In 2012, Saudi Aramco announced the establishment of Aramco Asia based Beijing as its wholly owned subsidiary, which reflects Saudi Arabia's emphasis on Chinese market. China becomes one of Saudi overseas petrochemical bases. In April 2014, Mohamed Al-Mady, Vice Chairman and CEO of SABIC, pointed out in an interview that Asian market is the fastest-growing and most potential market to SABIC, his company has already listed Asian countries as its most important strategic cooperative partners with highest priority.

Saudi Arabia is among China's most important overseas project contracting markets. Chinese enterprises have broadly participated in Saudi Arabia's large-scale projects, including the expanding projects of King Khalid University, Jeddah Islamic Port, Medina-Mecca high-speed rail, Mecca light rail and Jizan cement. According to the statistics released by Chinese Ministry of Commerce, Chinese enterprises have signed 138 contracting projects with Saudi Arabia in 2013, with \$6.375 billion contracting amount and \$5.884 billion completed turnover. Also in 2013, 21,476 Chinese laborers from different sectors were sent to Saudi Arabia and 35,325 laborers stayed in Saudi Arabia at the end of that year.

### 3. Driving Forces and Characteristics of Sino-Saudi Economic Relationship

There is growing demands of cooperation shared by both China and Saudi Arabia. Impetus to development of the economic relationship firstly comes from the economic complementarity. China and Saudi Arabia have different features in many fields such as resource advantages and industrial structures, which lays healthy foundation for economic cooperation and made them ideal economic cooperative partner of the other. It is of no doubt that energy is the highest priority in the development of China's relationship with Gulf countries (Emile Hokayem, 2014). China is the biggest energy-importer in the world, as well as an exporting power on industrial and consumer products while Saudi Arabia is a global oil-supplier with huge demand for consumer imports. Viewing from the trade structure, China, as the third biggest export destination, mainly imports petrochemical products from Saudi Arabia. China is also the second largest source of imports of Saudi Arabia, mainly exporting electronics, textiles, clothing and consumer goods. In future, the economic and trade relationship between China and Saudi Arabia is expected to expand further and deeper.

Changes in global economic pattern and the consequent demand for strategic cooperation are the important driving forces of the development of Sino-Saudi relationship. Due to the growth in trade flows and influence of Asian emerging economies to global oil market, the trade direction of Saudi Arabia has undergone fundamentally changes. Oil trading-oriented foreign trade has turned to Asia, and Asia has been the key region that could determine the future of Saudi Arabia's trade and its status in global oil market. According to statistics of IMF, proportion of Saudi Arabia's export to developed countries in total exports have been declined from 43.5 percent in 1990-1995 to 32.3 percent in 2005-2010. The proportion of its export to Asia has increased from 39.6 percent to 53.6 percent. This trend is even more obvious in its export to Asian emerging countries, with the increase of export proportion from 9.1 percent to 23.4 percent. Also in that period, proportion of imports of Saudi Arabia from the Western countries has decreased from 65 percent to 49.8 percent while this number increased from 22.9 to 32.1 when comes to Asian countries and from 8.4 percent to 18.5 percent for Asian emerging countries. In 2010, Saudi Arabia's exports to Asian countries climbed to 60 percent, in which its imports and exports to China is fastest-growing, reaching 11 percent and 13 percent respectively (IMF, 2012). In 2012, Saudi Arabia's exports to Asian countries were \$200 billion, accounting for 76.9 percent of its total export volume. Its exports to China was \$48.2 billion, accounting for 18.5 percent while its exports to the Europe and North America only accounts for 15.23 percent. Also in that year, Saudi Arabia imports volume from Asian countries was \$55.4 billion, representing 46.88 percent of its total imports volume, in which China's proportion was 15.1 percent, meaning \$17.8 billion, while the West accounts only 45.8 percent. Currently two third of Saudi Arabia's oil exports are targeted to the Far East, Asian market's export share has been attached greater importance. In 2013, 68 percent of Saudi Arabia's exports of crude oil and 78 percent of its refinery products exports flowed into Asia. After the U.S., the next four top importers of Saudi crude oil and petroleum products were Japan (1.2 million bbl/d), China (1.1 million bbl/d), South Korea (0.9 million bbl/d), and India (0.8 million bbl/d) (EIA, 2014). According to the Statistical data of OPEC, from 2001 to 2013, Saudi Arabia's exports to the Europe has declined from 18.4 percent to 12.6 percent, its exports to North America has declined from 25.4 percent to 19.3 percent, while it increased from 48.9 percent to 60.6 percent to Asia. The declining part of the exports to Europe has been shifted to Asia-Pacific region. Asia Pacific has an absolute advantage in Saudi oil exports.

Currently, the economic interdependence between the Middle East and East Asia is growing (Anoushiravan Ehteshami and Yukiko Miyagi, 2015). Saudi Arabia still highly depends on global oil market, while the global oil market itself has undergone changes: it has fewer links with the U.S. and much more links with Asian emerging powers. As a result, foreign economic linkages inevitably turn to Asia. According to IMF, sensitivity of Saudi economy on China's economy is continuously increasing, even more than its sensitivity on European and U.S. economic fluctuations. Negative news from Eurozone and the U.S. exert relative little impacts on Saudi economy while they impacts seriously if the news are from Chinese economy. Through model validation, IMF estimates that external factors have four more times negative impacts on Saudi Arabia than the West (IMF, 2012). Besides, Saudi Arabia's key position in global oil market is deeply influenced by factors of both supply and demand. Shale Revolution in North America may reduce the oil consumer from the Middle East, coupled with the uncertainties in global economic development and continuous differentiation in growth models, Saudi Arabia's position in global oil market will also be influenced (IMF, 2013). This trend results in more implications that Saudi Arabia and other Gulf countries that has attached to the economic links with Pacific Asia and their "looking eastward" policies. In 2006, against the backdrops of serious changes in global economic and political patterns, Saudi King Abdullah paid historical visits to Asia Pacific countries including China and India, which is of significance of the policy shift (Rafiullah Azmi, 2006). The relationship between Gulf countries and Asian countries become two-way and multilateral. The economic links between the two are increasingly close (John Calabrese, 2009). It is because of the objective needs of the shifts of global economic pattern and Saudi foreign economic relations why Saudi Arabia is increasingly turning to Asian emerging powers including China.

Besides the foundation of economic cooperation and strategic demands, mutual recognition on the other also plays a role. Chinese Foreign Minister Wang Yi has expressed that there are mainly three reasons contributed to

the comprehensive and rapid development of Sino-Saudi relationship: mutual respect and mutual trust are the important basis for the development of bilateral relationship, win-win cooperation is the lasting driving force and people-to-people friendship is the bond. Wang also said that China and Saudi Arabia are all-round strategic partnership in 2013. The rapid rising of China's economic status and the increasing demands of its participation in global affairs make it put more emphasis on the Middle East region, especially the economic relations with regional powers. With the proposal of new foreign economic cooperative strategies, such as "One Belt and One Road", the importance of the Middle East and Saudi Arabia is rising. Saudi has been viewed as a key power in the Middle East with influence beyond the region. Also, due to its stable political situation and policies, Saudi Arabia is an expectable and responsible cooperative partner. In the cooperative relationship between China and emerging powers from all over the world in the new era, Saudi Arabia plays an important role in the Gulf region (Sun Dengang, 21012). From Saudi perspective, with the rising of Asian emerging powers such as China and India, the strategic and economic demands for "looking eastward" is also rising. Saudi Arabia views China as a rising emerging global power with not only huge economic attractiveness but also political and security influence on Middle East affairs. Under the regional pattern with complexity and turbulence, a more active role of China is welcomed from Saudi perspective. Saudi Arabia has been pursuing a "hedging strategy" towards the United States since the September 11 attacks by developing a more robust relationship with Asian powers, China in particular (Naser M. Al-Tamimi, 2013). An economist from Saudi Arabia has published a signed article, saying that it is naturally for China and Saudi Arabia to develop mutual beneficial relationship; Saudi Arabia believes that China will play an increasingly important role in global economy, which is the basis of Sino-Saudi relationship; also, with its advantages, Saudi Arabia is also an indispensable partner of China.

Saudi-Chinese relations are consolidating a comprehensive partnership that is viewed as mutually beneficial and vital to their national interests (Muhamad S. Olimat, 2013). Based on the objective facts of the rapid development of Sino-Saudi economic relationship and its driving forces, the bilateral economic relationship has shown its own characteristics. Firstly, there are strong complementarity and mutual interdependence in Sino-Saudi economic relationship. Oil-oriented bilateral trade expands rapidly while its development is quite uneven and unbalanced. Secondly, Sino-Saudi economic relationship is seriously impacted by changes in global economic pattern and China's economic position. Thirdly, Sino-Saudi economic relationship is developing beyond oil field and expanding to multiple levels and all-range cooperation. Finally, strengthening of Sino-Saudi strategic economic relationship is exerting important and multiple impacts, and also the new dynamics has broader implications.

#### **4. Connotation Expanding of Sino-Saudi Economic Relationship**

Although Sino-Saudi relations have been restricted to oil exports to China fundamentally, Importance of Saudi Arabia's economic position not only lies in oil sector and Sino-Saudi economic relationship should be expanded to multiple fields. Strategic elements are also increasingly obvious in bilateral economic relationship, which has been the cornerstone of Sino-Saudi cooperative relationship. There are rich contents in Sino-Saudi economic relationship in new era. It is of strategic cooperative value and space in many multiple levels including bilateral relations, the Gulf region, the Middle East, Islamic world, Eurasia and global level, as well as in many fields such as energy, trade, investment, finance, regional economic cooperation, foreign development aid and global economic governance.

First, Saudi Arabia is of great strategic significance in the guarantee of China's energy security. As the second biggest economic power and the biggest oil importer in the world, guaranteeing stable oil supply is vital to China's economic development. Saudi Arabia has been the top oil supplier of China for more than 10 consecutive years, which is irreplaceable to China's energy security. With its moderate and cooperative oil policies, Saudi Arabia exerts a stabilizing effect in global oil market and becomes a stable and reliable partner of oil-consuming countries including China. China should focus on developing its relations with countries with few risks in importing and enhance the energy cooperation with them, which should among the methods with the goals of guaranteeing China's long-term imports, maintaining energy security and reducing risks (Ha Ben, 2014). Since 2007, Saudi Arabia has expressed for many times that they will fully meet China's needs and will at no time suspend its oil supply to China. Such promise that Saudi Arabia would guarantee the crude oil supply at any time is very important to China's energy security. Energy cooperation is of great significance to both China and Saudi Arabia. Rapid expansion of China's economics of scale and oil demands increases China's dependence on global oil market. On the other hand, China plays a key role in maintaining and expanding Saudi Arabia's market share in global oil market, that's why China has been an important cooperative partner to maintain Saudi exports and market position.

Second, there is strategic potential for China and Saudi Arabia in fields including international investment, finance and development aid. With the huge amount of petrodollars, Saudi Arabia has become a financial power with international capitals and played an important role in international financial market. Gulf SWFs, relying on petrodollars, have also become a popular player in international investment market. Against the existence of

trade deficit, financial cooperation between China and Saudi Arabia on investment is of important significance in promoting the return of petrodollars and maintaining balance of international payments. China should pay attention to petrodollar's role in international investment and financial market, and Saudi Arabia's role in global petrodollars system. It should properly introduce petrodollars and SWFs, and be active in enhancing cooperation with Saudi Arabia in global financial investment. Rapid economic development and huge market make China an attractive investing market to countries with petrodollars like Saudi Arabia. Present-day scale of mutual investment between China and Saudi Arabia is quite small. According to Annual Report of Ministry of Commerce of China and Annual Data of UNCTAD, in 2013, direct non-financial investment from China to Saudi Arabia was \$479 million, accounting only 0.5 percent of China's total foreign investment. Saudi's non-financial investment to China was 58.51 million, accounting 1.2 percent of Saudi total investment of 4.943 billion. Besides, Saudi Arabia is also an important donor in international development aid. Its long-term and large-scale development aid has gain praise from international organizations such as the World Bank and IMF. China is a recipient of international development aid as well as an increasingly emerging donor. In this regard, there is potential space for the cooperation between China and Saudi Arabia in international development aid.

Third, Saudi Arabia plays a strategic role in China's economic relationships with GCC countries, Arab countries, Islamic countries and oil-producing countries. Saudi Arabia is among the key countries in the Middle East and the Gulf region, as well as the leader of GCC. It is also the place of origin of Arab nation and Islam, having unique influence in Arab nations and global Islamic world. Due to the large number and huge influence, Gulf countries, Arab countries and Islamic countries have important position in China's diplomacy and foreign economic relationship. Oil producing countries, especially the OPEC, are the most important source of energy. Since 2005, China began to carry out formal dialogues with OPEC, and have strategic dialogues with GCC since 2010. Saudi King Abdullah raised the slogan that "Saudi's future lies in China", and made China the first destination of visit in his second year of taking power. His action kicked off the new era of "looking eastward" of Arab economic and trade strategies, followed him, many countries in the Middle East began to focus on their relationships toward China. Given its key role in Arab and Islamic groups, Saudi Arabia plays a leading role in many economic fields including energy, petrodollars, Islamic finance and development aid. For this reason, Saudi Arabia exerts a linking function in China's foreign exchange with countries above, which is of important significance to promote all-round cooperation between China and above countries.

Fourth, Saudi Arabia has strategic position in the building of "One Belt and One Road" and changes in Eurasia geo-economic pattern. "Silk Road Economic Belt" and "21<sup>st</sup> century Maritime Silk Road" are currently important diplomatic theories and frameworks of China. Undoubtedly, Economic issue is the top content and main target of "One Belt and One Road". The "One Belt and One Road" strategy cannot be promoted smoothly without the support of regional powers including Saudi Arabia. The Gulf region, where Saudi Arabia locates, is the binding site of China's "One Belt and One Road" strategy, as well as the important guidance and key elements in implementing this strategy. There is huge space and solid foundation for cooperation between China and countries within the region in fields including trade, energy, transportation, shipping, investment and finance. As the leading power in Gulf region and GCC, Saudi Arabia has relative strong economic power with wide scope of radiation and power of example. Hence, it can be a supporting and linking point in implementation and promotion of "One Belt and One Road". As mentioned above, Saudi Arabia is naturally a cooperative partner for China's building "One Belt and One Road", which gives more important strategic meaning to Sino-Saudi economic cooperation.

Fifth, Saudi Arabia has strategic position in China's cooperation with emerging powers and promoting cooperation on global economic governance such as G20. Currently, group rising of emerging countries have been prominent factors in global economic and political pattern. Interactive relationship between emerging countries and global economic governance is increasingly obvious. "Promoting institutional reform in global governance" is among the goals of China's foreign diplomacy. Both China and Saudi Arabia are members of G20 and E11. As G20 has become the main platform for global economic governance, China and Saudi Arabia have similar positions and goals in maintaining global economic stability and promoting reforms of global economic governance. Future development of their cooperation in global economic governance and their jointly promoting the institutional reforms in international financial system are conducive to development of developing countries. In process of the reforms of global economic governance, as main emerging producing and energy consuming countries, China and Saudi Arabia share many common interests and potential space of cooperation in fields including global energy and trade governance, international investment and financial governance, and economic governance in the Middle East and Islamic region. Given the close relationship between Saudi Arabia and two emerging powers, China and India, in future, China and Saudi Arabia can also carry out cooperation in emerging institutions such as BRICS.

Sixth, Saudi Arabia has strategic position in building energy and economic cooperative relations between China and Western powers such as the U.S. in the Middle East and Gulf region. With the increasing of economic strength and energy demands, economic relationship between China and the Middle East countries are

increasingly close. China is growing involved in energy affairs in the Middle East, which challenges Western dominant position in this region to some degree and results in their doubts and resistance. The present competition between China and the United States over oil and gas resources of the Middle East is pregnant with opportunities for great power cooperation as well as conflict (Manochehr Dorraj and James E. English, 2012). As an influential regional power, Saudi Arabia is an important ally of the U.S., hence, it also maintains a good comprehensive relations with Western and other global powers. From Saudi perspective, it hopes to keep friendship with countries from both the West and the East. Both China and the U.S. is influential to Saudi economic development and energy trade, and conflicts among outside powers do not meet Saudi national interests. Therefore, building of new type of relationship between China and the U.S. cannot be carried out without supports of regional powers like Saudi Arabia. Saudi Arabia has both the will to promote regional Sino-U.S. cooperation and the capability to resolve regional economic conflicts between the two countries, which highlight Saudi Arabia's strategic economic status.

## **5. The Building of Sino-Saudi Strategic Economic Relationship**

Structural connection between Saudi Arabia and emerging powers is growing economically, which promotes the eastward of its foreign economic relations. This trend meets the demands of the adjustment of China's foreign policies and brings opportunities for the enhancement of Sino-Saudi economic relationship. It's just the time to dock the economic strategy and demands of the two. Currently, viewing from the total trade and investment volume, there's still space for the development. In future, Saudi Arabia's position in China's foreign economic relationship will be further highlighted. China should attach more importance to Saudi Arabia's economic status, and develop this relationship toward a multiple and stable direction, so as to effective dock China's "One Belt and One Road" strategy and Saudi Arabia's "looking eastward" strategy together, making Saudi Arabia a strategic pivot with global significance.

*5.1. Expanding the agenda setting on economic cooperation, developing cooperative field with importance and lay the foundation for strategic docking of economic cooperation.*

Firstly, energy cooperation is the basis of Sino-Saudi economic relationship, however, the bilateral cooperation should not be limited in energy trade. Admittedly, maintaining energy supply and energy security is important, but it is worth noting that maintaining stability of global oil market and reforming global energy governance system should be attached more importance. Currently, interactive relationship between Chinese economy and international bulk commodity markets is increasingly closer. Because China does not have the right to make prices for most of the commodities, fluctuations in prices of commodities, including oil, hide risks to Chinese economy. Importance of Saudi Arabia to China's energy security and importance of Chinese market to Saudi are growing obvious, making the win-win cooperative relationship increasingly stable. In the meanwhile, China and Saudi Arabia share common interests in maintaining stability of global oil market, common wills in expanding energy cooperation, and common demands and potential cooperative space in global energy governance.

Secondly, cooperation on mutual investment and project contracting are important growth points in Sino-Saudi economic cooperation. China has already been the third biggest investing power in the world; Saudi Arabia also has already among global investing powers. At the same time, as two emerging powers with rapid economic development, there's huge market and big investment demands of the two, which provides space for expansion of investment cooperation. Saudi Arabia has the biggest scale of petrodollars in the world. It has also large scale of SWFs based on petrodollars. Properly introducing petrodollars from Gulf countries into Chinese market and carrying out cooperation on international investment market is of practical significance. Against the increasingly docking of the bilateral strategies, two countries can make use of their advantages in investment cooperation on infrastructure construction and energy industrial chains. They could also cooperate on mutual investment and cooperation in countries along the "One Belt and One Road".

Thirdly, jointly dealing with risks brought by oil finance and flowing of petrodollars should be the important field in Sino-Saudi economic cooperation. Oil finance and the petrodollars mechanism make the fluctuation of oil price more complex and exert influence on global energy and financial market. Even Saudi Arabia, the hegemony in oil in the world, does not have the pricing right of oil. Saudi Arabia is searching for new opportunity and breach for gradually reforming pricing mechanism of the crude oil to improve its passive position. For China, pricing method of crude oil commodities is related to China's direct interests in global energy trade pattern as well as reforms in global finance. As the biggest importing country and the biggest oil-producing country, China and Saudi Arabia's cooperation on reforming global oil pricing mechanism through signing long-term agreements, making stable price, establishing currency exchange mechanism in petro trade, jointly building oil exchange market in the Far East and changing the phenomenon on "Asia premium", will definitely bring huge impacts.

Finally, there is great potential in enhancing Sino-Saudi cooperation on global economic governance. As two important systemic economies in the world and members of G20, China and Saudi Arabia share common

interests and cooperative demands in promoting the reforms in global economic governance mechanism. China and Saudi Arabia have similar recognition and pursuits in global economic governance. Hence, they can cooperate with each other on many fields including agenda setting in G20, reform of financial institutions and maintaining global economic stability. Both China and Saudi Arabia have expressed their wills on enhancing cooperation in global economic governance. Cooperation between China and Saudi Arabia will better maintain G20's advantage in global economic governance and further promote reform and development of global economic governance. With its increasing mature and expanding of the functions, BRICS carry out more cooperation with regional emerging powers such as Saudi Arabia and more practical economic cooperation with GCC.

*5.2. Integrating domestic and international mechanisms, establishing diverse cooperative platforms and guarantee and improving the status of Sino-Saudi strategic economic relationship.*

Content of China's interests in the Middle East is quite rich, which lies not only in oil, but also in other material levels. Internal demands for the enhancement of relationship between China and the Middle East countries are growing. China's interests in the Middle East are expanding, covering many fields including politics, energy and security. The importance of energy interests and geo-political interests are growing important, urgent and practical (Gao Zugui, 2014). However, economic interests and economic relationships are still the important foundation for China's foreign policies. In future, Saudi Arabia plays an important role in China's economic relationship with the Middle East, China's Middle East diplomacy and China's foreign policies. Sino-Saudi strategic economic relationship should be paid attention in promoting Sino-Saudi comprehensive cooperative partnership.

First, coordinate in establishing bilateral multi-level strategic and economic cooperation mechanism. Both sides should establish official and people-to-people multi-level communication mechanism and economic dialogue to guarantee smooth development of Sino-Saudi strategic economic relationship. The China-GCC FTA should be signed as soon as possible. They should also consider establishing mechanisms including strategic political dialogue, economic dialogue and two-tracks system, strengthening the consultation and notification mechanism between China and Saudi Arabia on regional and global level, so as to provide a wider platform for the development of bilateral relationship and take precautions for hidden risks in bilateral cooperation. Also, two countries should deepen economic cooperation under the frameworks of China-GCC strategic dialogue, China-Arab States Cooperation Forum and United Nations, and expand international cooperative mechanism.

Second, conduct further studies on Saudi foreign and economic policies, and find common ground for interests of the two. It remains doubtful whether oil could represent Saudi international economic interests and its foreign policies. And Saudi Arabia's "looking eastward" strategy remains unclear. Against such backdrop, docking China's "One Belt and One Road" with Saudi Arabia's "looking eastward" still requires further studies on how to integrate these ideas into the building of the bilateral relationship. Besides, Saudi Arabia is the main target for Chinese enterprises' "going outside" with enormous potential. Governments, chambers of commerce and research institutions should provide full support to bilateral cooperative projects. Moreover, China should fully recognize Saudi Arabia's strategic position, making Sino-Saudi economic relationship as the cornerstone of bilateral cooperation and making Saudi Arabia a strategic pivot with global significance.

*5.3. Shaping international image and improving charisma, providing international public goods and building new model for economic governance in the Middle East, and seriously dealing with problems in bilateral relationship.*

Trade unbalance, lack of market openness, stagnate in FTA negotiation, insufficient mutual trust, big differences in culture and external disturbances all stand in the way of the development of bilateral economic relationship. Consultation mechanism and trade remedy mechanism should be established soon to properly deal with economic and trade frictions. In future, the building of strategic economic bilateral relationship between China and Saudi Arabia should fully consider and deal with the problems above, actively improve economic mutual trust. China must fully consider Saudi Arabia's strategies and interests, including understanding Saudi Arabia's absolute control over domestic oil resources and dominate position in influencing international oil market, respecting Saudi Arabia's will in participating in international affairs and increasing international influence, and recognizing Saudi Arabia's position in the region and in the whole world.

China should bring new ideas and new models to the Middle East regional economic governance in its process of carrying out economic cooperation. The Middle East should no longer be viewed simply as a source of energy. China should cooperate with regional countries in establishing a really mutual beneficial and common developing economic cooperative model, which focuses on people's livelihood, deep roots of the problems, cooperation, mutual benefits, localization and non-interference, helps Middle East countries to develop infrastructure, promote diversification of industrial structure, improve employment and promote the comprehensive development of the society. After entering Saudi market, Chinese enterprises should respect local religious and cultural customs, pay attention to benefits in people's livelihood, cooperate with Saudi government's relative policies, and shape a friendly and responsible image.

To external powers, interests and conflicts are co-existing in the Middle East. Hence, it's important to build open and win-win relationship among powers to manage competitions and conflicts of powers in energy field. Despite the growth in economic and cultural ties between the Middle East and Asia, the region remains dominated by Western powers (Geoffery Kemp, 2010). The Middle East is the plot of building such kind of relationship between China and other powers, especially the U.S. Due to long-term special relationship between Saudi Arabia and the U.S. and their close cooperation in energy field, China should be vigilant to U.S. interference when actively developing economic and trade cooperative relationship with Saudi Arabia. At the same time, China should make great efforts to establish new-type mutual benefit power relationship with U.S. in the process of Middle East economic governance.

## 6. Conclusion

In the new century, global economic pattern has undergone dramatically transformation. As a result, Saudi Arabia's foreign economic relationship has also changed greatly. Foreign economic relationship guided by oil trade has fundamentally turned to Asia, which provides driving force for Saudi foreign economic relationship and let Saudi Arabia attach more importance to economic interactive relations with Asian emerging powers including China. Saudi "looking eastward" policy is increasingly obvious. Given Saudi Arabia's growing interconnectedness with China and the continued commitment to the U.S. dollar peg, tension between policy objectives is likely to arise when global oil prices move counter-cyclically with the U.S. business cycle. Saudi Arabia finds that it is in new dilemma on domestic economic policy. Viewed from this point, it fits in with strategic and economic demand of China and Saudi Arabia, and creates a new opportunity to develop bilateral strategic economic relations.

On the other hand, China is growing as an economic power, taking the initiative in guiding global economic cooperation and promoting reforms in global economic pattern. As the focus and the center of the changes in global economic pattern, China has raised the "One Belt and One Road" strategy with wide version, trying to get ahead in future global geo-political and economic competition. Emerging powers, such as Russia, India, Turkey and Saudi Arabia, should be the key targets of cooperation, so as to effective and smoothly promote the implementation of "One Belt and One Road". At the same time, economic governance in Middle East Islamic region has been on the agenda of global economic development. This region has growing influence on changes in Eurasian geo-economic pattern and international economic relationship among powers including China. In the new era, Sino-Saudi economic relationship has already beyond oil and become of strategic significance in multi-fields including trade, investment, finance, regional cooperation and governance, and multi-levels including global economic governance and construction of relationship among powers. China should have long-term vision and exam the development content and trend of Sino-Saudi economic relationship beyond the oil field, building the Sino-Saudi strategic economic relationship with broader horizon. In the future, China should enhance the research on economic cooperative fields and bilateral strategies docking, promoting the further eastward of Saudi Arabia's foreign economic relations.

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