The Saudis’ Strategic Links with China
The new Energy Silk Road
NBR Conference at Johns Hopkins, SAIS
May 18, 2009
Jean-Francois Seznec, PhD
Outline

• The New Saudi Paradigm
• The Saudi-China Trade Links
• The Saudi-China-USA triangle
The New Saudi Paradigm

- Goal to become one of the dominant industrial world powers
- Is using its natural advantage to achieve goal
  - Lowest energy costs in the world
  - Access to large amount of capital
- Moves into knowledge based-value added-production
  - Transform the value of a barrel at $50 to $500
- Will become world's largest producers of chemicals and fertilizers by 2020
- Also getting into other energy based industries
  - Cement
  - Steel
  - Aluminum
The New Saudi Paradigm

Challenges

• Need to change society
  • Reform of education
    • New Woman minister at education
    • KAUST: The new Abbasid center
    • New Presidents in Universities

• Need to limit reliance on foreign workers in private sector

• Need to bring women in the workforce

• Must curb Mutawa’in
  • Pushback from religious establishment
The Saudi-China Trade Links

- China’s total oil needs is about 7.8MM b/d [Pre-crisis]
  - Produces 3.9 MM b/d
  - Imports balance from many sources
    - Saudi largest seller at 700,000 b/d
    - Reliability is very important to China
- China imports also chemicals
  - Produces only 50% of its needs [pre-crisis]
  - Every Chinese exports has a component of plastic
  - Imports the chemicals directly: HDPE, LLDPE, PE, PP, etc.
  - Or the feedstocks for making chemicals
  - Or the crude to make the feedstock
- Saudi Arabia is investing in refineries in China
  Outlet for its Heavy Crude
The Saudi-China-USA triangle

- Saudi Arabia is slowly but surely moving away from US
- Oil for security is a US myth
  - Only mentioned by the US
  - Never by Saudis
- Saudi is wary of US policies
  - Still upset about Iraq, very upset about Palestine, worried about US-Iran
- Worried about Nuclear Iran, but more worried about nuclear Israel
- Has lost trust in US, but is waiting to see how the new administration will act
- Has moved economic relations to the Far East

5/18/09
Market Share of Total Saudi Exports to US vs. China

Source: computed from http://www.mep.gov.sa trade exports + Trade statistics for 2007 + previous site of MEP for 2001 to 2004 include. Translated into dollars at SR 3.75/$1

<table>
<thead>
<tr>
<th>Year</th>
<th>US % of Total Exports</th>
<th>China % of Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>15%</td>
<td>3%</td>
</tr>
<tr>
<td>1998</td>
<td>16%</td>
<td>3%</td>
</tr>
<tr>
<td>1999</td>
<td>17%</td>
<td>4%</td>
</tr>
<tr>
<td>2000</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>2001</td>
<td>18%</td>
<td>6%</td>
</tr>
<tr>
<td>2001</td>
<td>20%</td>
<td>6%</td>
</tr>
<tr>
<td>2003</td>
<td>19%</td>
<td>7%</td>
</tr>
<tr>
<td>2004</td>
<td>17%</td>
<td>8%</td>
</tr>
<tr>
<td>2005</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>2006</td>
<td>15%</td>
<td>10%</td>
</tr>
<tr>
<td>2007</td>
<td>17%</td>
<td>11%</td>
</tr>
</tbody>
</table>
Market Share of Saudi Non Oil Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>% China of Total Exports</th>
<th>% US of Total Exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>1998</td>
<td>8%</td>
<td>9%</td>
</tr>
<tr>
<td>1999</td>
<td>10%</td>
<td>9%</td>
</tr>
<tr>
<td>2000</td>
<td>15%</td>
<td>9%</td>
</tr>
<tr>
<td>2001</td>
<td>15%</td>
<td>7%</td>
</tr>
<tr>
<td>2002</td>
<td>15%</td>
<td>6%</td>
</tr>
<tr>
<td>2003</td>
<td>11%</td>
<td>6%</td>
</tr>
<tr>
<td>2004</td>
<td>11%</td>
<td>3%</td>
</tr>
<tr>
<td>2005</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>2006</td>
<td>12%</td>
<td>2%</td>
</tr>
<tr>
<td>2007</td>
<td>11%</td>
<td>2%</td>
</tr>
</tbody>
</table>

Conclusion

- Saudi Arabia wishes to be a major power within a few years
  - Economic power is as efficient as military power
  - Is overcoming its neighbors by moving away from being merely a producer of oil
- It needs China and other Far East/South East countries to grow and sell its “knowledge based” industrial products
- China and the others Asian countries need Saudi oil and energy based products to continue their own economic growth
- Saudi Arabia does not see much of an economic and political future with the US
- Thus its favors the silk route