



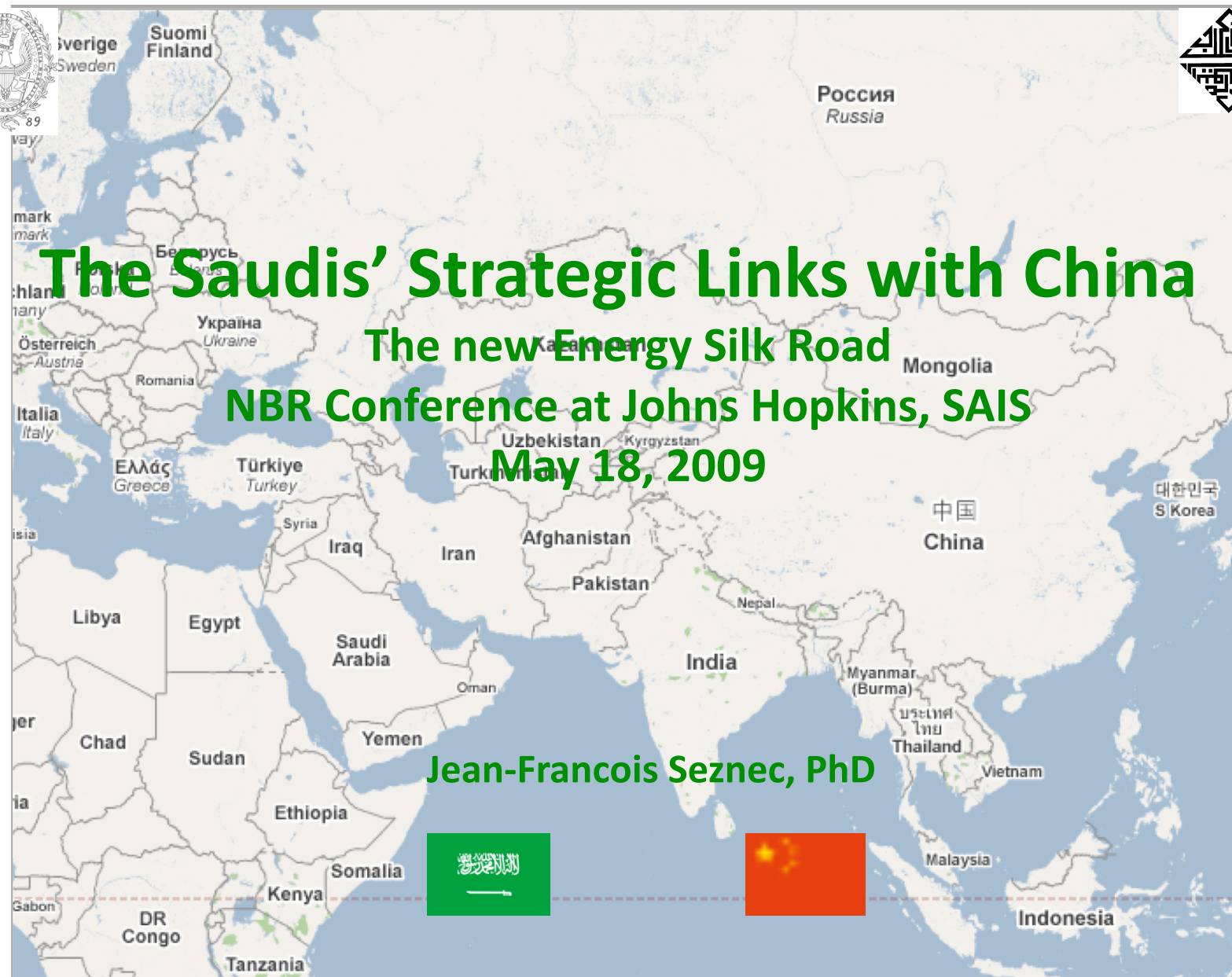
# The Saudis' Strategic Links with China

The new Energy Silk Road

NBR Conference at Johns Hopkins, SAIS

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# 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 worlds 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





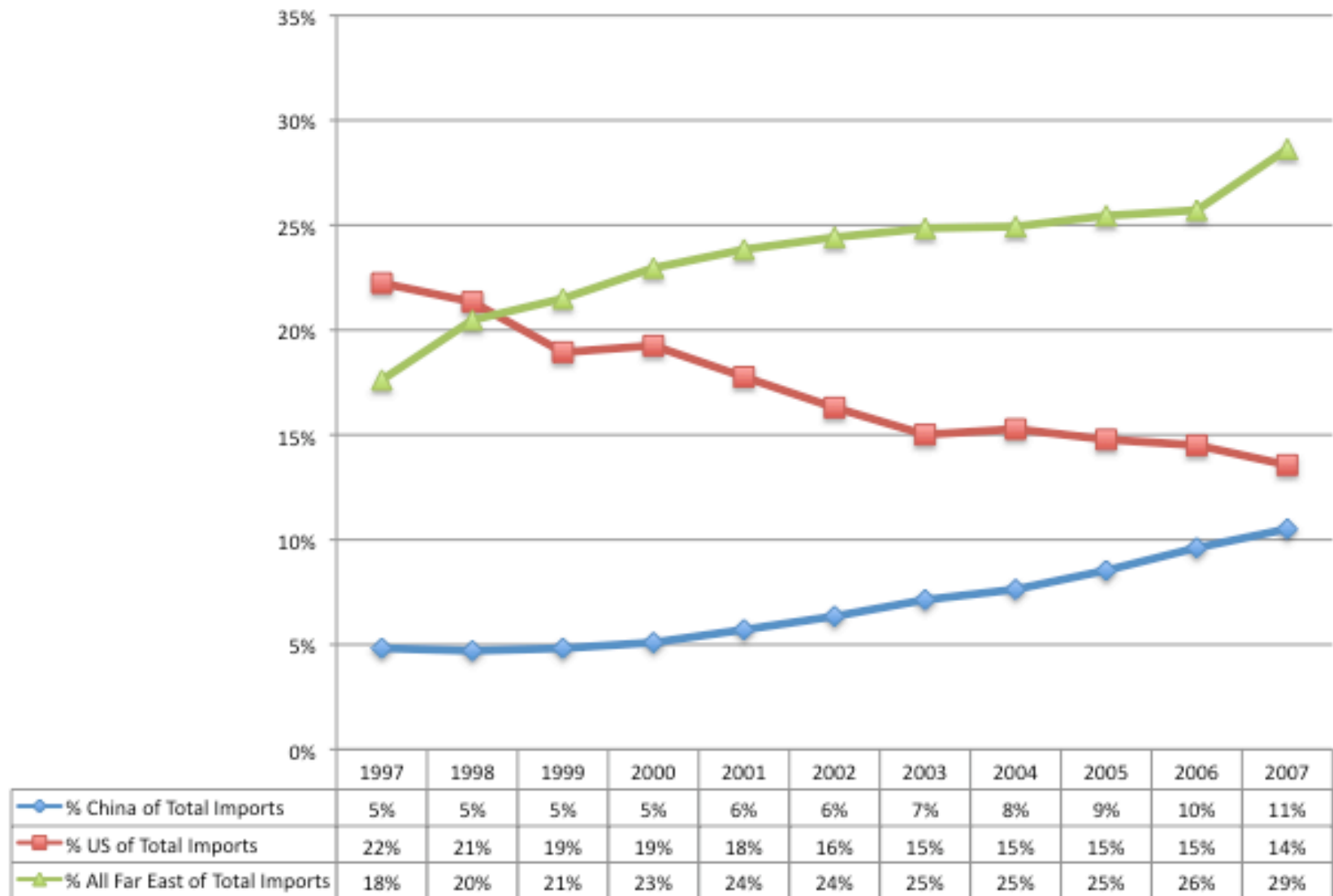
# The Saudi-China-USA triangle



- 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

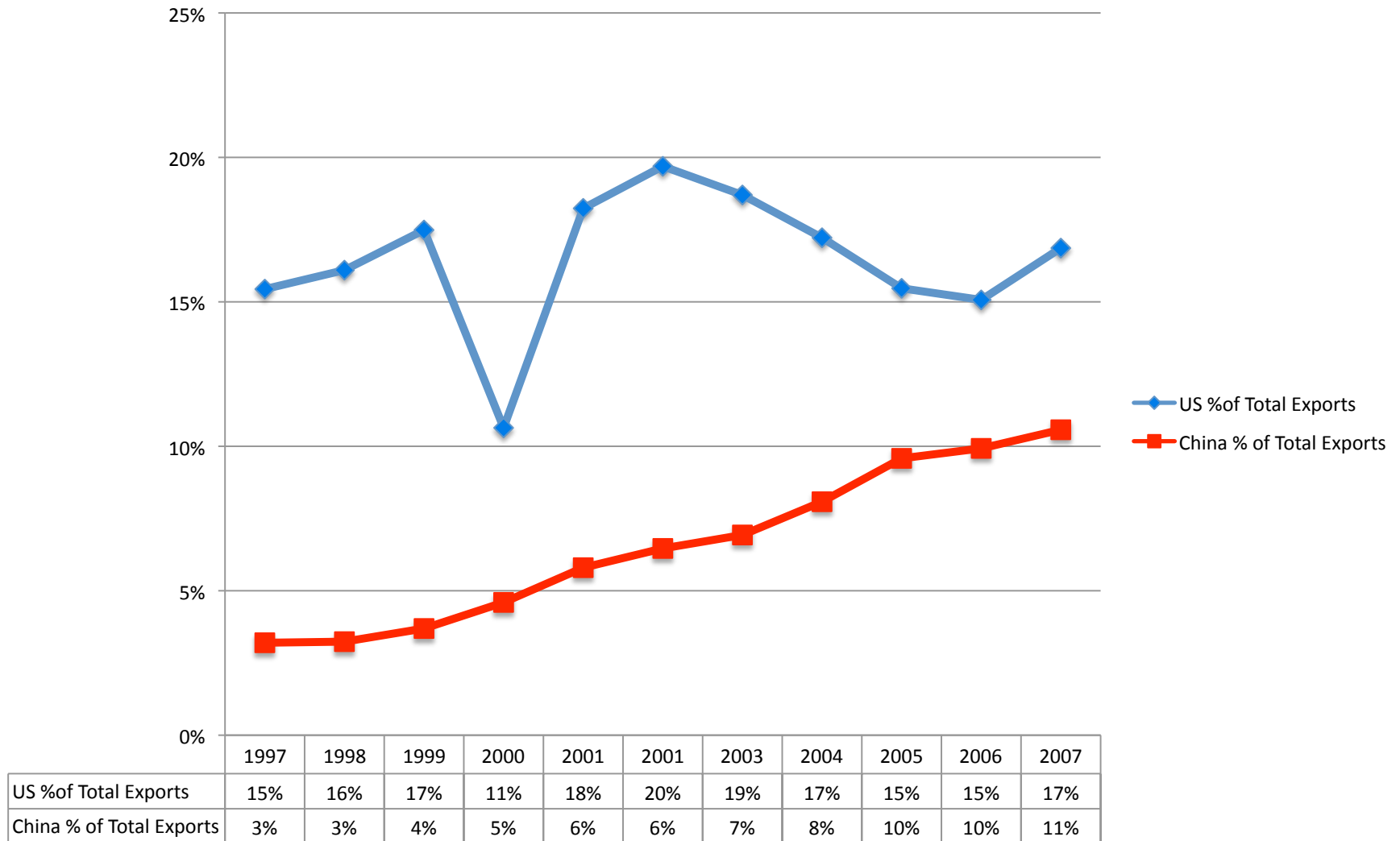


## Market Share of Saudi Imports



## Market Share of Total Saudi Exports to US vs. China

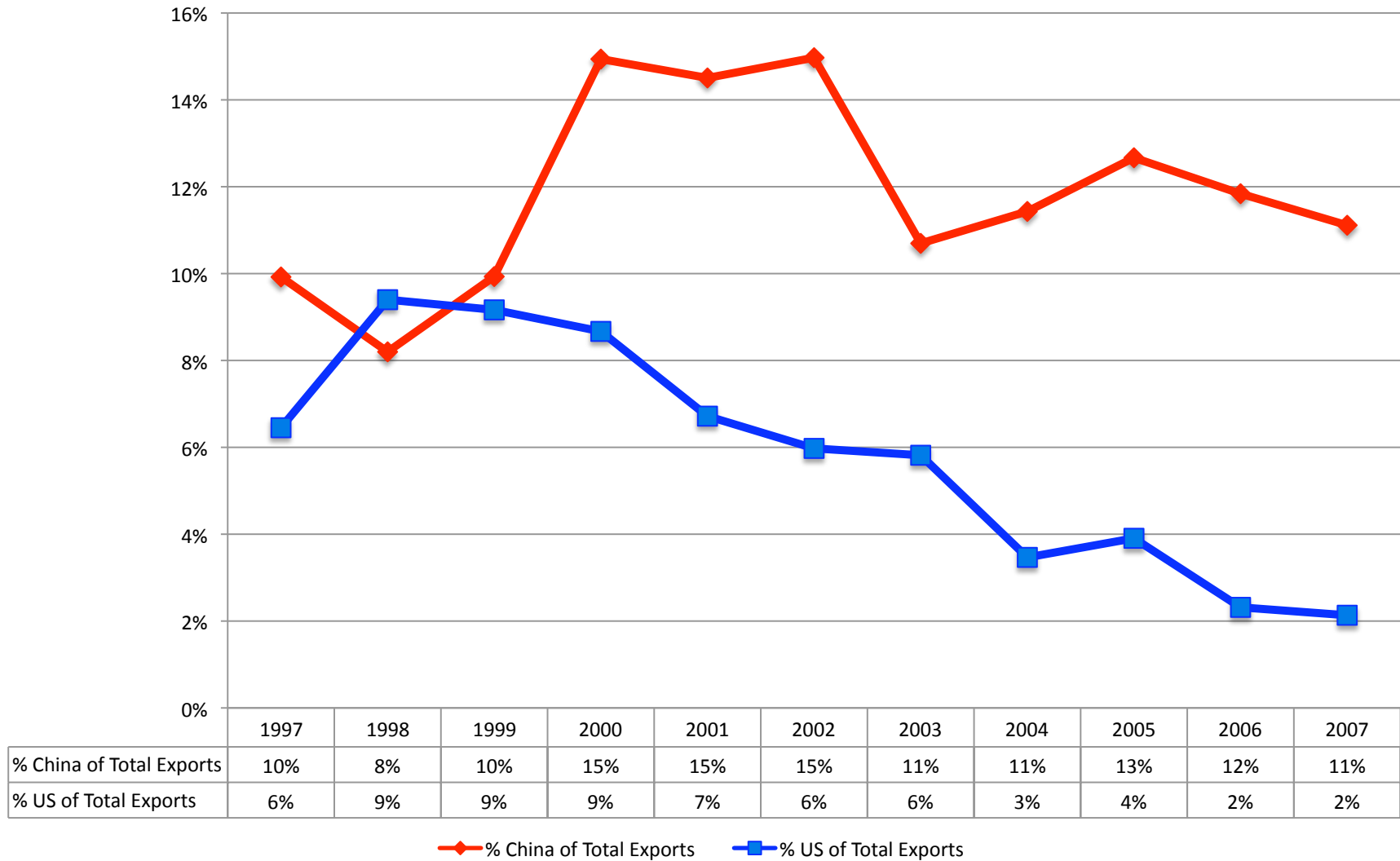
Source: computed from <http://www.mep.gov.sa> trade exports + Trade statistics for 2007 + previous site of MEP for 2001 to 2004 include.  
Translated into dollars at SR 3.75/\$1





## Market Share of Saudi Non Oil Exports

source: <http://www.mep.gov.sa> trade imports





# 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 it favors the silk route

