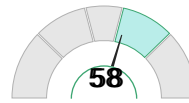


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When China and Saudi Arabia meet, nothing matters more than oil

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By [Laura He](#), CNN Business

Published 1:00 AM EST, Thu December 8, 2022



Saudi foreign minister discusses conversations with Biden about Iran

03:29 - Source: [CNN](#)

Hong Kong (CNN Business) — Chinese President Xi Jinping is visiting Saudi Arabia this week for the first time in nearly seven years, during which he is expected to sign billions of dollars of deals with the world's largest oil exporter and meet leaders from across the Middle East.

The visit is a sign that China and the Gulf region are deepening their economic relations at a time when US-Saudi ties have crumbled over OPEC's decision to slash crude oil supply. As Xi wrote in an article published in Saudi media, the trip was intended to strengthen China's relations with the Arab world.

China is Saudi Arabia's biggest trading partner and a source of growing investment. It's also the world's biggest buyer of oil. Saudi Arabia is China's largest trading partner in the Middle East and the top global supplier of crude oil.

"Energy cooperation will be at the center of all discussions between the Saudi-Chinese leadership," said Ayham Kamel, head of Eurasia Group's Middle East and North Africa research team. "There is great recognition of the need to build a framework to ensure that this interdependence is accommodated politically, especially given the scope of energy transition in the West."

Governments around the world have committed to drastically cutting carbon emissions over the coming decades. Countries such as Canada and Germany have doubled down on renewable energy investments to expedite their transition to net-zero economies.

The United States has significantly increased domestic oil and gas output since the 2000s, while accelerating its transition to clean energy.

The Russian invasion of Ukraine in February has triggered a global energy crisis that has left all countries racing to shore up supplies. And the West has further scrambled the oil markets by slapping an embargo and price cap on the world's second biggest exporter of crude.

Energy security has also increasingly become a key priority for China, which is facing significant challenges of its own.





Saudi Arabian Foreign Ministry/Anadolu Agency/Getty Images

Chinese leader Xi Jinping is welcomed by Emir of Riyadh Faisal bin Bende bin Abdulaziz and Saudi Arabian Foreign Minister Faisal bin Farhan at King Khalid International Airport in Riyadh, Saudi Arabia on December 7, 2022.

Energy is core

Last year, bilateral trade between Saudi Arabia and China hit \$87.3 billion, up 30% from 2020, according to Chinese customs figures.

Much of the trade was focused on oil. China's crude imports from Saudi Arabia stood at \$43.9 billion in 2021, accounting for 77% of its total goods imports from the kingdom. That amount also makes up more than a quarter of Saudi Arabia's total crude exports.

"Stability of energy supplies, in terms of both prices and quantities, is a key priority for Xi Jinping as the Chinese economy remains heavily reliant on oil and natural gas imports," said Eswar Prasad, a professor of trade policy at Cornell University.

The world's second largest economy is heavily reliant on foreign oil and gas. 72% of its oil consumption was imported last year, according to official figures. 44% of natural gas demand was also from overseas.

At the 20th Party Congress in October, Xi stressed that ensuring energy security was a key priority. The comments came after a spate of severe power shortages and soaring global energy prices following Russia's invasion of Ukraine.



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As the West shunned Russian crude in the months that followed the invasion, China

took advantage of Moscow's desperate search for new buyers. Between May and July, Russia was China's No. 1 oil supplier, until Saudi Arabia regained the top spot in August.

"Diversity is a key ingredient for China's long-term energy security because it cannot afford to put all of its eggs in one basket and turn itself into a captive of another power's energy and geostrategic interests," said Ahmed Aboudouh, a nonresident fellow with the Middle East Programs at the Atlantic Council, a research institute based in DC.

"Although Russia is a source of cheaper supply chains, nobody can guarantee, with utmost certainty, that the China and Russia relationship will continue to shore up 50 years from now," Aboudouh said.

The Saudi Press Agency cited Saudi energy minister Prince Abdulaziz bin Salman as saying Wednesday that the kingdom would remain China's "credible and reliable partner in this field."

Saudi Arabia also has strong motivations to deepen energy ties with China, according to Gal Luft, co-director of the Institute for the Analysis of Global Security.

"The Saudis are concerned about losing market share in China in the face of a tsunami of heavily discounted Russian and Iranian crude," he said. "Their goal is to ensure China remains a loyal customer even when the competitors offer [a] cheaper product."

Oil prices have fallen back to where they were before the Ukraine war on fears of a sharp global economic slowdown. The extent to which the Chinese economy can pick up pace next year will have a huge bearing on how bad that slump will be.

Shifting to yuan?

Beyond security of supply, Saudi Arabia could offer Beijing another prize with bigger geopolitical ramifications.

Riyadh has been in talks with Beijing to price some of its oil sales to China in the Chinese currency, the yuan, rather than the US dollar, according to a Wall Street Journal report. Such a deal could be a boost to Beijing's ambitions to expand the Chinese currency's global influence.

It would also hurt the long-standing agreement between Saudi Arabia and the United States that requires Saudi Arabia to sell its oil only for US dollars and to hold its reserves partly in US Treasuries, all in return for US security guarantees. The “petrodollar system” has helped preserve the dollar’s status as the top global reserve currency and payment medium for oil and other commodities.

Although Beijing and Riyadh never confirmed the reported talks, analysts said it was logical that the two sides would be exploring the possibility.



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“In the near future, Saudi Arabia could sell some of its oil and receive revenues in Chinese yuan, which makes economic sense as China is the kingdom’s top trading partner,” said Naser Al Tamimi, senior associate research fellow at ISPI, an Italian think tank on international affairs.

Some believe it’s already happening, but that neither China nor the Saudis want to highlight it publicly.

“They know too well how sensitive this issue [is] for the United States,” said Luft. “Both parties are overexposed to the US currency and there is no reason for them to continue to conduct their bilateral trade in a third party’s currency, especially when this third party is no longer a friend of either.”

Xi’s visit could mark another step “in the erosion of the dollar’s status” as reserve currency, he added.

Limits of the ties

Nonetheless, there are limits to the growing ties between Riyadh and Beijing.

“The Biden administration’s approach to the Middle East has concerned the Saudis, and they see a growing relationship with China as a hedge against potential US abandonment and a tool for leverage in negotiations with the United States,” said Jon B. Alterman, director of the Middle East Program at the Center for Strategic and International Studies, a Washington DC-based think tank.

The Biden administration has reoriented its policy priorities with a focus on

countering China. At the same time, it has indicated its intention to downsize its own presence in the Middle East, sparking worries among allies there that the United States may not be as committed to the region as it used to be.

“All that being said, Chinese-Saudi ties pale in both depth and complexity to Saudi-US ties,” Alterman said. “The Chinese remain a novelty to most Saudis, and they are additive. The United States is foundational to how Saudis see the world, and how they have seen it for 75 years.”



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Despite the possibility of shifting to yuan transactions, it's too early to say Saudi Arabia would ditch the dollar in pricing its oil sales, analysts said.

Eurasia Group's Kamal believes it's "highly unlikely" that Saudi Arabia would take such a step, unless there is an implosion on the US-Saudi relationship.

“In essence there could be discussion on pricing of barrels to China in yuan, but this would be limited in size and probably only correspond to bilateral trade volumes,” he said.

Prasad from Cornell University said countries like China, Russia, and Saudi Arabia are all eager to reduce their dependence on the dollar for oil contracts and other cross-border transactions.

“However, in the absence of serious alternatives and with few international investors willing to place their trust in these countries' financial markets and their governments, the dollar's dominant role in global finance is hardly under serious threat,” he said.

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