

Chinese-Saudi Cooperation:

Oil but also Missiles

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Brief Analysis

On April 22, two days after a reportedly unproductive meeting with President George W. Bush in Washington, President Hu Jintao of China will arrive in Saudi Arabia. Relations between the two countries are an increasingly important part of world diplomacy. In energy, China is the leading customer of Saudi Arabia, the world's largest oil exporter. On the military front, the kingdom bought now-obsolete ballistic missiles with a 1,500-mile range from China in the 1980s; the Saudis are reportedly interested in replacing them with more modern Chinese-designed missiles, perhaps with Pakistani nuclear warheads.

Unlike his American visit, Hu's trip to the kingdom will unambiguously be given the status of a state visit. It is especially significant because King Abdullah of Saudi Arabia visited China as recently as January this year, the first visit by a Saudi monarch since diplomatic relations were established in 1990 and Abdullah's first trip outside the Middle East since becoming monarch last August. During the January meeting, five agreements covering economic cooperation trade and double taxation as well as an energy pact were signed. Energy is expected to be central to the latest talks, though a Chinese Foreign Ministry spokesman noted it was "not the only domain" of cooperation.

Surging Oil Demand

Chinese oil demand has been rising at an astonishing rate -- year-on-year increases have recently averaged more than one million barrels per day, about 40 percent of the world's increased demand -- and has been a major influence on the record high international prices for oil. Although an important producer in its own right, China has been a net importer of petroleum since 1996. In 2004, it overtook Japan to become the world's second largest consumer of oil after the United States. Analysts predict that China's share of world oil consumption could double to 14 percent over the next decade. (Currently, the United States consumes 25 percent of the world's oil production.) Small wonder that Saudi Arabia, as the world's largest oil exporter, wants to nurture China as a customer, especially because Asian markets are closer to the Persian Gulf than are Europe or the United States. Saudi Arabia currently supplies China with about 450,000 barrels per day.

Washington has watched the trend of Chinese oil demand with growing concern. Besides seeking to strengthen links

with Saudi Arabia, Chinese companies have acquired oil concessions in Canada, Venezuela, Azerbaijan, Kazakhstan, Sudan, Indonesia, Iraq, and Iran. Last year, an attempt to buy the American oil company Unocal, which has exploration rights overseas, was blocked by congressional opposition. (The company was bought by Chevron for \$17.3 billion even though the China National Offshore Oil Corporation had offered at least \$1 billion more.) Chinese energy interests in Sudan and Iran are assumed to be factors in Beijing's refusal to vote in the UN Security Council for sanctions over Sudan's actions in Darfur and against the Iranian nuclear program.

Schadenfreude?

Washington can derive some comfort from apparent hiccups in Chinese-Saudi relationship. No energy deals were signed during King Abdullah's January visit to China. Saudi foreign minister Prince Saud al-Faisal said that agreements on projects would have to be signed by the two countries' oil companies. Industry experts say that differences on shouldering the financial risk are complicating the joint venture modernization of a refinery in Quanzhou, which is being expanded to a capacity of 240,000 barrels per day, and a proposed 200,000 barrels per day refinery at Qingdao. In China, retail prices for petroleum products are tightly regulated by the government; Beijing reportedly does not want to share the financial risk with the Saudi side. Additionally, the Saudis were apparently upset in January that King Abdullah was welcomed by the Chinese foreign minister rather than President Hu himself. It will be interesting to note whether King Abdullah is at the airport on April 22 when Hu arrives.

Nuclear Worries

A major concern for Washington is that Riyadh is thought to be considering creating a deterrent against Iran by acquiring from Pakistan both Chinese-designed missiles and dual-key Pakistani nuclear warheads. Under such a dual-key system, Pakistanis would have the key that controls the warheads while Saudis would have the key that controls the missiles on which the warheads sit. Such a stratagem, used by the United States and Germany during the Cold War, does not breach the Nuclear Non-Proliferation Treaty and perhaps evades Chinese international obligations against the transfer of ballistic missiles, but would seriously undermine U.S. diplomatic efforts to block Iran's suspected nuclear weapons program. Saudi Arabia's current arsenal of Chinese CSS-2 missiles, capable of reaching both Tel Aviv and Tehran, were originally designed to carry nuclear warheads, but Riyadh maintains they carry only high explosive. King Abdullah visited Pakistan in February, on his way back from China. And Crown Prince Sultan, Abdullah's heir apparent as well as Saudi defense minister, was in Pakistan earlier in April. On Sultan's previous visit in 1999, he went to Pakistan's controversial and unsafeguarded Kahuta uranium enrichment and missile production center, where he was shown round by the then director, the now disgraced nuclear proliferator A.Q. Khan. That excursion by Sultan prompted a formal U.S. diplomatic protest to Riyadh.

Reports from the Bush-Hu meeting suggest that China has a firm view of its own interests and, despite appreciating that its relationship with Washington is very important, Beijing has little willingness to compromise even at the cost of allowing problems to mount. Since 2001, Saudi Arabia's determination to see its national security interests more independently of the United States has also become clear. For months, Riyadh has been signaling its disagreements with Washington over policy in Iraq, Iran, and the Palestinian Authority. It could well judge that the likely American wrath resulting from acquiring nuclear-armed missiles with the connivance of China and Pakistan is bearable.

U.S. Policy

Apart from continuing to remind Riyadh and Beijing of the need to maintain a common international front against the prospect of a nuclear-armed Iran, Washington's diplomatic options appear to be few. Despite differences on commercial details (and irritating Saudi support for China's Muslim minority), Beijing and Riyadh seem determined to develop a close political relationship. Competition for oil supplies between the United States and China seems set to rise, a concern that should give impetus to President Bush's aim, announced in his 2006 State of the Union

address, to halt the country's "addiction" to oil. The lack of progress in the Bush-Hu talks suggests a lack of diplomatic preparation. The flurry of recent Saudi-Chinese and Saudi-Pakistani meetings could mean that deals to America's detriment are close to being finalized.

Simon Henderson is the London-based Baker senior fellow of the Washington Institute and author, with Patrick Clawson, of the 2005 Policy Focus Reducing Vulnerability to Middle East Energy Shocks: A Key Element in Strengthening U.S. Energy Security. ❖

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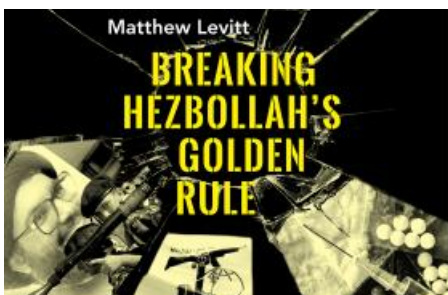
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