

Saudi Arabia's Pivot to Asia

Asia was the prime destination for Saudi Arabia's oil sales last year taking just under 70% of the country's total crude exports, this fact combined with the recent energy related acquisitions made by Saudi Aramco in India, Malaysia, Japan, China and South Korea, as well as King Salman's very high profile visit to the region this month, underlines the recognition in Riyadh that Asia remains the world's future growth generator, and its determination to enhance its relations there in order to secure the Kingdom's market share.

The New Silk Route

Competition between Russia, Iran and Saudi Arabia over the Chinese oil market in particular is fierce and looks set to continue, however commercial and political ties between the world's second largest economy and the GCC region has expanded significantly in recent years, due in part to Beijing's drive to build a 'new silk road' and therefore a desire to develop credible partnerships and infrastructure within the Arabian Gulf, a crucial lynch-pin for this maritime pathway to the European and African markets. The UAE in particular has been extremely successful in attracting Chinese investment and developing more diversified trade flows, whereas up to now Sino-Saudi commercial ties have been much more transactional based. This is highlighted by the fact that there are currently more than 4,000 Chinese companies registered in the UAE compared to just 160 in Saudi Arabia. But China became the Kingdom's largest trading partner by volume of goods in 2015, and with Saudi Arabia now committed to diversifying its economy away from its almost total reliance on oil related revenues through the "National Transformation Plan" there is an impetus to encourage broader trade and investment relations with Asia.

Last week one of the world's largest petrochemical manufacturing companies, Saudi Basic Industries Corporation, signed an agreement with Sinopec to expand their current and future joint-venture projects. The CEO of SABIC stated afterwards that this agreement showed how strategic collaboration between Saudi Arabia and China "was moving to the next level." Meanwhile King Salman and President Xi Jinping announced US\$65 bio in trade and investment deals following the King's visit to Beijing earlier this month. Such large deals are not limited to China alone, Saudi Aramco agreed last month to take a 50% stake in a huge refinery and petrochemical project developed by Malaysia's Petronas for US\$7 bio, and Saudi Arabia is the majority investor in a US\$100 bio technology fund created by Japan's Soft Bank. Riyadh and Tokyo have also agreed to prioritize 30 projects in 9 specific areas including industry, agriculture and infrastructure, with the Japanese providing expertise and training in advanced technologies. Meanwhile the demand for GCC credit from Asian investors remains strong so the King's one month tour of the region is also an effort to raise their appetites ahead of Saudi Aramco's IPO scheduled for early next year.

Shifting Political Sands

The importance of US influence and presence in the region cannot be denied and this is unlikely to be displaced anytime soon, however there is also no doubt that US policies towards the Middle East are in flux, and thus regional players like Saudi Arabia

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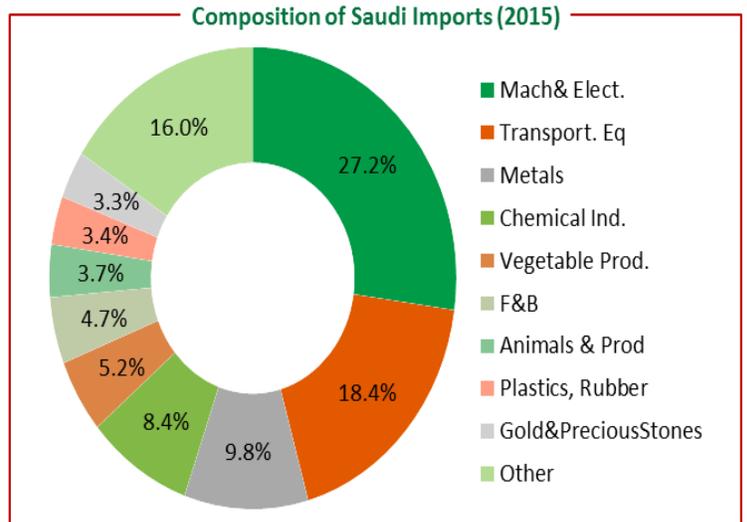
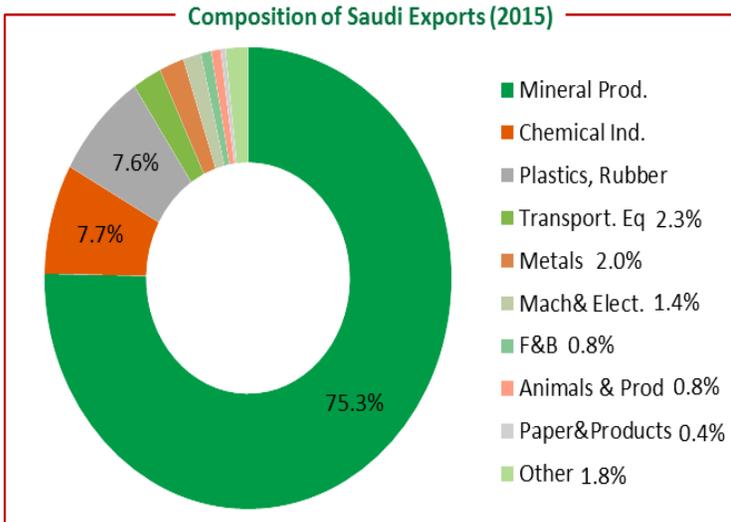
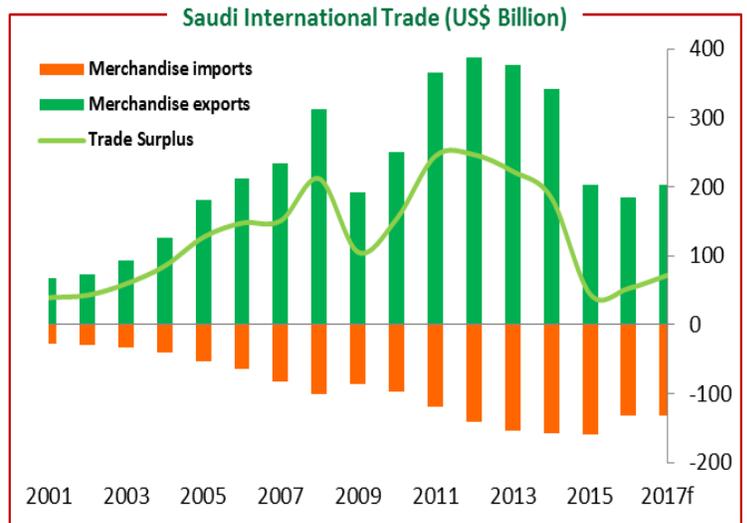
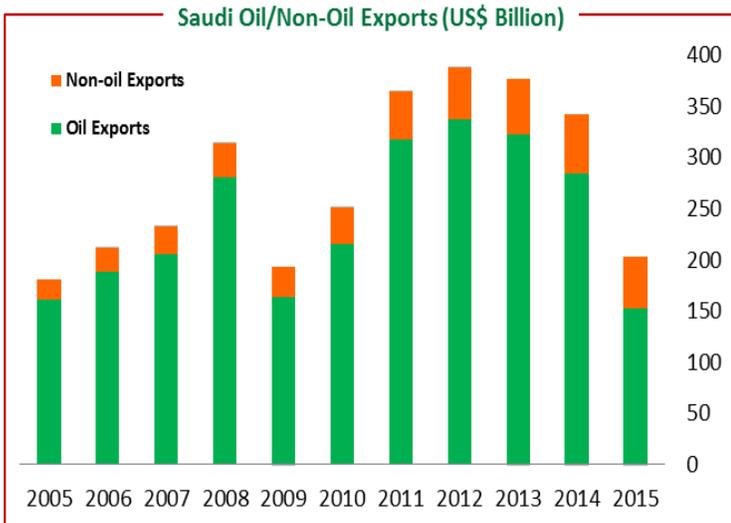
are looking to form other strategic alliances in order to secure and maintain their long term foreign policy and security goals. Examples of these new partnerships was the inclusion of Malaysia and Indonesia into a Saudi led military alliance, the first ever China-Saudi counter-terrorism exercises conducted late last year and an increase in the number of Chinese naval vessels visiting the port of Jeddah. President Xi already indicated his country's willingness to become more actively involved in the Middle East during a speech to the Arab League last year in which he said; "Outside nations cannot impose solutions, and China will not look for a proxy, China is offering a win-win strategy for all the countries of the region based on mutual interests," Xi stated adding that China wanted to see "oil-plus" trade relations with a focus on innovation and long-term strategic cooperation. Meanwhile King Salman's stopover in Tokyo during his recent Asian tour is also considered to have been a historical event, marking the first visit to Japan by a Saudi monarch in 46 years. Following his meeting with the King, Japan's Prime Minister, Shinzo Abe, confirmed his country's desire to expand bilateral ties saying; "We would like to more aggressively develop relations with Saudi Arabia, the cornerstone of stability in the Middle East."

On the other side of the world the message from Washington is less clear, because although the Trump administration has been far more vocal than Obama's in its commitment to keeping Iran in check, its overall Middle Eastern strategy remains to be clarified. Twenty years ago Saudi Arabia was the largest source of US oil imports, but with the rise of shale production both in the US and Canada this specific reliance has been superseded, meanwhile Trump's controversial travel ban on citizens from certain Muslim states as well as the recent decision to ban airline passengers from carrying their laptops and tablets on-board, if they are flying to the US from eight other Middle Eastern and African countries including the important global air hubs of Dubai, Abu Dhabi and Doha, has raised eyebrows not just in the region but also those belonging to a number of international security specialists who have questioned their effectiveness and even their real aim. Although claims that this 'laptop ban' could be a protectionist step taken by the US against the big Middle Eastern carriers remains questionable, the US President's public commitment to putting his country first and seeking to renegotiate or tear up longstanding global trade deals, has raised concerns over a possible return of American isolationist policies. (Bahrain, Jordan and Oman all currently have free trade agreements in place with the USA).

Despite the above it's worth acknowledging too that the level of ties between the US and Saudi Arabia remain deep and stretch across a wide series of interests including important commercial and security related issues. President Trump and Saudi Arabia's Deputy Crown Prince, Mohammed bin Salman, met over a working lunch at the White House this month together with senior officials from both sides. These talks were reportedly productive, with an advisor to the Prince quoted after the meeting saying; "Relations had undergone a period of difference of opinion. However, today's meeting has put things on the right track, and marked a significant shift in relations, across all political, military, security and economic fields."

Conclusion

Saudi Arabia is moving forward with its "Vision 2030" diversification ambitions and will continue to seek new commercial and political alliances especially within the Asian region where they will find a receptive audience. At the same time its long-standing relations with the US are undergoing some re-tuning but will not be abandoned as both countries continue to recognize their strategic value.



Sources: NBAD Global Markets; IIF; KSA General Authority for Statistics.

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