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A Transition Point: The Role of the Global Power Shift in Facilitating Saudi Internal Reforms

By Aidan Aguilar

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SIT Switzerland: International Studies and Multilateral Diplomacy
Dr. Gyula Csurgai

Columbia University
Department of Economics

Abstract

The increasing political and economic influence of China represents a pivotal point within international relations. This paper aims to explore the implications of this global power shift on Saudi Arabia's attempted economic reforms. The Kingdom's reliance on oil has created an unsustainable economic model, and this model is intrinsically linked to Saudi Arabia's relationship with the United States. Its growing relationship with China could create change. As such, this paper analyzes the intersection of economics and security in relation to the Saudi Vision 2030. I argue that, not only does China serve as an important source of the investment necessary to diversify the Saudi economy, its connectivity-based approach to security could ultimately allow Saudi Arabia to reallocate funds towards much-needed reform. This paper contributes to the literature on the economic and political implications of the global power shift, specifically its secondary effects on a country in transition.

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I. Introduction

The Problem

Saudi Arabia is known as one of the richest countries in the world due to its revenue from oil exports. However, the wealth obtained from these exports masks the vulnerability of the Saudi economy. Cordesman (2018) highlights the extent of the Saudi dependence on oil: “the Saudi petroleum sector accounts for roughly 87 percent of budget revenues, 42% of the GDP, and 90% of export earnings” (p. 7). As the world begins to realize the urgency of reducing carbon emissions, this century-long dependence upon revenue from oil exports is put in danger. This potential change in global energy demand comes at a particularly vulnerable time for Saudi Arabia. Internal disputes over the legitimacy of Mohammed bin Salman’s future claims to the throne and the ongoing conflict in neighboring Yemen already establish an unstable environment. Moreover, approximately half of the Saudi population is under the age of 25, creating an urgent need for available positions to avoid unemployment (McKinsey & Company, 2015). As a result, Saudi Arabia now faces an urgent problem: it must begin to seek alternatives to its heavily oil-dependent economy to remain economically viable over the coming century.

Considering the wider global context, Saudi Arabia must also navigate a shifting international order. Saudi Arabia’s own trade patterns mirror this larger power shift. Historically, Saudi Arabia has enjoyed a mutually dependent relationship with the United States, who relied on Saudi Arabia to provide the petroleum required to fuel the United States’ growing economy. However, U.S. imports have steeply declined in recent years (U.S. Energy Administration, 2023). China has emerged as the primary importer of Saudi oil, and Saudi Arabia conversely serves as China’s largest energy supplier (Reuters, 2023). Although the increased oil demand

from China has mitigated the impact of decreased demand from the United States, this Chinese oil dependence is unlikely to last in the long term.

These large changes that currently confront Saudi Arabia quickly become linked to security among multiple dimensions. Internally, the economic harms that Saudi Arabia would suffer if it were to remain on the same path could threaten the legitimacy of the Kingdom's government. Large-scale unemployment could provide critics of the government with a motivation to seek regime change. Even without a revolution, such discontent could increase terrorist activity by giving greater legitimacy to their arguments. Externally, the U.S.-Saudi economic relationship has historically been accompanied by an umbrella of military protection. Saudi Arabia, after all, represented a critical link in the U.S.'s economy. As their reliance on Saudi Arabia diminishes, the foundation of this military protection similarly becomes more unstable. Not only does this security question threaten Saudi Arabia's safety, it creates a potential distraction from the urgent economic problem facing the Kingdom.

Focus of Study and Research Question

The shift in the international order, however, provides Saudi Arabia with a unique opportunity in which to pursue its internal objectives. Although the Saudi-Chinese relationship is based primarily upon Saudi Arabia's ability to provide China with necessary oil imports, this window of change could allow Saudi Arabia to redefine its relationships with trading partners and reform its economy. As a result, this study aims to examine the interaction between these two phenomena: how does the global power shift, particularly the rise of China, affect Saudi Arabia's ability to achieve necessary internal reforms?

Literature Review

While many studies have examined the economic and security implications of a closer China-Saudi relationship, the majority of these studies have studied these concepts in isolation from each other. For example, Fulton (2019; 2020) discusses how Saudi Arabia serves as an ideal partner for China's Belt and Road Initiative, which involves a wide range of initiatives related to sustainability and greater interconnectedness with the growing economic power of China. On the other hand, Gater-Smith (2017), as well as Salman, Pieper, and Geeraerts (2015), argue that China's drastically different approach from the United States to foreign policy will naturally force Saudi Arabia to reconsider its approach to security. There exists a tendency to discuss economics and security separately, yet the strong relationship between the two concepts warrants further exploration. In this case, an economic relationship affects the Kingdom's security strategy, which again affects the Kingdom's economy. This study thus aims to contribute to the literature on the global power shift by examining the intersection of economics and security.

Furthermore, this study aims to enrich the existing literature surrounding Saudi Arabia's attempted reforms. The majority of current discussions related to this issue focus on its economic dimensions. For example, McKinsey & Company in 2015 conducted an in-depth analysis of Saudi Arabia's economic situation, stressing the need for growth in certain sectors for Saudi Arabia to remain economically viable. This study aims to complement this existing business-driven literature by expanding on the role of security in these traditionally economic reforms. From a temporal perspective, the constantly evolving nature of Saudi internal reforms, Saudi foreign policy, and the fast-paced growth of the Belt and Road Initiative requires a more up-to-date analysis. The following study seeks to address this need.

Research Methodology

The geopolitical and geoeconomic analyses in this paper naturally require considering a wide variety of factors. As a result, a thorough examination of Saudi Arabia's current position in the global power shift must incorporate literature examining economy, politics, and social phenomena at both the Saudi and global levels. In addition to gathering a wide variety of literature, I plan to incorporate expert opinions into this paper through interviews. I have elected to work primarily with academic scholars, rather than representatives of government missions to organizations in Geneva. The bodies directly or indirectly representing the Saudi government have proven difficult to contact, and they likely will present a more biased account of both the health of the Saudi economy and its relationship with global powers. Academic interviewees, on the other hand, have been much more nuanced in their responses and have given detailed analyses of Saudi Arabia's repositioning in the global power shift. The interviewees cited in this paper made a concerted effort to include a wide range of perspectives in their responses.

Ethically, the interview process has required respecting interviewees' privacy by giving them the right to remain anonymous, an option one interviewee decided to take. I tailored interview questions to more closely reflect the expertise of each interviewee, which increased the accuracy of answers and allowed interviewees to feel more comfortable when answering questions. Additionally, the complex history of Saudi Arabia's role in the Middle East required approaching certain topics, such as its alleged human rights abuses and its relationship with Israel, with sensitivity. At the same time, however, interviewees were very willing to directly engage with the more controversial aspects of Saudi politics.

Framework

Exploring this question involves considering a wide range of factors, both geopolitical and geoeconomic, as the security and economy of Saudi Arabia are intrinsically linked. This paper, therefore, will begin by examining the economic effects of China's increasing influence on Saudi reform, continue by exploring its implications on security, and finish by analyzing how this security could ultimately play a pivotal role in achieving Saudi Arabia's economic objectives.

II. The Role of the Rise of China in Saudi Economic Reform

Contextualizing the Urgent Need for Saudi Economic Reform

Beginning from an economic perspective, Saudi Arabia must diversify its source of revenue to remain economically viable over the coming decades. However, its relationships with other large powers, who have historically viewed Saudi Arabia primarily as a source of energy, have reinforced its dependence on oil exports for revenue. The lucrative exports made to these superpowers allowed Saudi Arabia to quickly amass an enormous degree of wealth and "some of the trappings of a semisuperpower" (Long, 1986, p. 1). Furthermore, it gave the country greater leverage in regional conflicts, as the U.S. dependence on Saudi Arabia presented "the United States with difficult choices between its political commitment to Israel and its strategic interest in Arab oil" (Long, 1986, 2-3). In addition to this political leverage, a U.S. reliance on Saudi oil created a U.S. security umbrella that Saudi Arabia could rely on to protect its interests. In particular, the United States provided an important deterrent to any aggression from regional rivals. For example, the Bush administration deployed troops to Saudi Arabia, which it considered a vital interest, after the invasion of Kuwait in 1990 (Council of Foreign Relations, 2023). In this way, the security-related benefits accompanying oil exports further encouraged the Saudi government to rely on these revenues for survival. When the U.S. reliance decreases,

however, the enormous benefits accompanying this relationship become much more uncertain. After all, the United States' interest in Saudi Arabia arose out of "a growing fear of the depletion of domestic oil reserves" (Pustelnik & Lucic, 2009, 52). The U.S. State Department (2022) explicitly cites Saudi Arabia's "holding of the world's second largest reserves of oil" as a central facet of its interest in the country (par. 1). Saudi Arabia became extremely wealthy as a result of its exports, yet the power underlying this wealth hinges on the decisions of another actor.

Even as the U.S. imports of Saudi oil diminish, China continues to provide a strong incentive for Saudi Arabia to rely on oil revenue. The growing Chinese economy ensures a strong demand for Saudi oil, which mitigates the impact felt by a decreased U.S. oil demand. China has also actively participated in the development of Saudi oil infrastructure. For example, Saudi Aramco and Sinopec, a Chinese energy corporation, launched a \$10 billion joint venture on Saudi Arabia's Red Sea coastline (Foley, 2017). Although some see the global power shift as a redefinition of the relationships between large powers and secondary powers, Gater-Smith (2017) emphasizes that the Saudi-China relationship, like the U.S.-Saudi relationship, is "primarily driven by energy business" (p. 99). China's primary motivation in strengthening its relationship with Saudi Arabia involves securing a steady stream of petroleum, as Saudi is "quite literally fueling China's rise" (Gater-Smith, 2017, p. 89). However, this shift towards China could merely delay the inevitable. An anonymous interviewee argued that although China does not have its own reserves to rely on, its oil consumption will likely peak by 2030. Furthermore, strictly from a petroleum supply perspective, Saudi Arabia could be replaced with other energy suppliers. For example, Foley (2017) argues that Iran presents China with an attractive alternative to Saudi Arabia. Iran's proximity to the Belt and Road Initiative China-Pakistan Economic Corridor (CPEC), coupled with its fierce anti-American sentiment, "erases the

advantages that Saudi Arabia accrues from having far lower costs of production than Iran” (p. 73). A more direct, land-based corridor could provide China with an even more stable source of oil. Although Saudi Arabia’s economic relationships with large powers are quite lucrative, they carry a large degree of uncertainty.

In addition to this uncertainty, Saudi Arabia’s reliance on oil has created a variety of other complications for Saudi Arabia’s internal development. First, the volatility of oil revenues prevents the Kingdom from escaping its role as an oil exporter. Because oil prices are so heavily linked to global political developments, as well as simple supply and demand, the Saudi government struggles to reliably predict the revenue available for public investment. In “Moving Saudi Arabia’s Economy Beyond Oil,” McKinsey & Company (2015) cites “the Kingdom’s budget swung from a surplus of 6.5 percent of GDP in 2013 to a deficit of 2.3 percent in 2014” as an example of the detrimental impacts of oil price volatility (p. 11). Saudi Arabia thus adopted a “cyclical nature of state spending” that oscillates in tandem with the oil revenues received by the government (Foley, 2017, p. 78). This cyclical spending reinforces Saudi oil dependence, as it does not have a reliable stream of revenue that could fund technological advancement. This dynamic has resulted in tangible harm. Despite amassing a massive degree of wealth, Saudi Arabia’s productivity has in fact declined when compared with other powers (McKinsey & Co., 2015). This problem can become even worse as demand for oil decreases due to initiatives such as carbon taxes (Anonymous Interviewee, 2023). Second, the extractive nature of an oil-based economy perpetuates inequality within Saudi society. There exists a 70 percent wage gap between public-sector employees, normally received by wealthier Saudi citizens, and those working in the private sector, primarily received by foreign workers involved in oil extraction (McKinsey & Co., 2015).

Together, these issues related to the Saudi dependence on oil revenues stress the urgent need for restructuring within the Saudi economy. Marc Finaud, a Senior Advisor and Associate Fellow at the Geneva Center for Security Policy, argues that Saudi Arabia now seeks more autonomy in its relationship with global powers (2023). This greater autonomy would require a departure from its status as a mere source of energy to the United States and Saudi Arabia. The Kingdom must thus seek a diversified economy, and it must do so as quickly as possible.

Opportunities for Growth

Despite its heavy reliance on petroleum exports, Saudi Arabia has several opportunities for economic growth that would reduce this oil dependence. Mohammed bin Salman, the current Crown Prince of Saudi Arabia, refers to his plans for this drastic economic reform as “Vision 2030,” an initiative launched in 2016 (U.S. State Department, 2022). This initiative spans several sectors of the Saudi economy, focusing primarily on the role of technology and foreign direct investment in economic diversification. Vision 2030 reflects Saudi Arabia’s urgent need to redefine its designation as an export state. Many of the aspects of Vision 2030 correspond with the recommendations made by McKinsey & Company in 2015. For example, McKinsey & Company (2015) stresses the importance of simplifying the administrative complications surrounding foreign direct investment and developing a robust private sector to combat the current wage inequality plaguing Saudi Arabia. Vision 2030 appears to have begun making this recommendation a reality, as evidenced by the increased presence of foreign companies previously absent from the country. McKinsey & Company (2015) additionally emphasized that Saudi Arabia must “accelerate the shift from its current government-led economic model to a more market-based approach” (p. 4). The recent Initial Public Offering of the traditionally state-owned Saudi Aramco may serve as an indicator of this shift towards a market-based approach

(Gross, 2019). This transaction also highlights an increased role of the Saudi finance industry.

The similarity between the approaches made by the Saudi Government and those recommended by McKinsey & Company, a business consulting firm, highlights Mohammed bin Salman's innovative, business-minded approach to these reforms. Together, these approaches could foster a stronger economy *within* Saudi Arabia, rather than relying primarily on exports for revenue.

Vision 2030 has repeatedly emphasized the role of green energy in the diversification of the Saudi economy. This priority may seem ironic, given that Saudi Arabia is one of the world's largest exporters of petroleum, but the shifting international energy landscape requires Saudi Arabia to be proactive. Saudi Arabia could continue to serve as an energy supplier to other countries, albeit in a different manner. The Saudi Green Initiative, which is a "national initiative under the patronage of His Royal Highness Mohammed bin Salman," seeks to "accelerate the green transition and be a global leader in the implementation of the Circular Carbon Economy Approach" (Saudi & Middle East Green Initiatives, 2023, par. 1). The Saudi government already announced 61 new initiatives in 2021 and invested over 700 billion Saudi riyals, demonstrating its commitment to this energy shift (Saudi & Middle East Green Initiatives, 2023). Saudi Arabia further demonstrates its commitment to this energy shift by constructing one of the world's largest PV power plants in Sudair, a region north of Riyadh (International Trade Administration, 2021). Logically, Saudi Arabia could serve as an ideal producer of solar energy, as its desert-dominated landscape ensures access to sunlight, a non-depletable resource. Clean energy could thus serve as a pivotal opportunity for Saudi economic diversification.

At the same time, however, it is important to acknowledge the massive investment required to achieve this reform. McKinsey & Company estimates a \$4 trillion investment for a "productivity-led transformation of the economy" (p. 4). This requirement is further complicated

by the Saudi government's existing reliance on inconsistent oil revenues. As a result, Saudi Arabia must consider external partners in facilitating this transition.

The Role of Chinese Investment in Facilitating the Saudi Economic Transformation

The rise of China, and subsequently the rise of the Belt and Road Initiative, provides Saudi Arabia with an opportunity to obtain the funding and network necessary to achieve many of its internal objectives. Fulton (2020) argues that Saudi Arabia plays a critical role in the expansion of this network: "an important geo-strategic location, its role as an energy super-power, and its prominence in global Islam" (p. 367). China thus faces a large incentive to develop a long-lasting relationship with Saudi Arabia beyond oil. Although some may argue that Saudi Arabia does not currently constitute part of any formal BRI network, Fulton (2019) argues that both the China-Pakistan Economic Corridor (CPEC) and the China-Central and West Asia Economic Corridor (CCWAEC) include Saudi Arabia merely by orienting trade in that direction. Dr. Suddha Chakravartti, the Head of Research at the EU Business School, echoes this argument, insisting that the economic borders of China are not fixed. These arguments appear to have become reality, as China has already invested extensively in Saudi infrastructure beyond oil. For example, China Railway Engineering "was awarded a \$1.8 billion contract to build the high-speed Mecca railway connecting Mecca and Medina" (Foley, 2017, p. 150). This specific investment echoes the third strategic interest mentioned by Fulton (2019), as it demonstrates Chinese investment in Saudi Arabia's custodianship of the Islamic Holy sites.

This holistic approach to investment appears largely compatible with Mohammed bin Salman's Vision 2030. In fact, Fulton (2020) considers the BRI and Vision 2030 deeply linked: "With BRI projects deepening China's economic footprint in the Middle East, the two initiatives have a natural synergy that will lead to closer cooperation" (p. 363). Both projects are centered

upon fast-paced, extensive growth. On a more political level, both projects represent a repositioning within the global power shift. China seeks to extend its influence across Western Asia and into Europe, and Saudi Arabia seeks to redefine its role as a long-standing exporter to the United States. Both projects thus provide each other with a unique opportunity to further their interests. For example, Foley (2017) argues that the funds allocated for economic reform “will also build new transportation infrastructure that could be easily integrated into the OBOR” (p. 79). Both Chinese and Saudi officials have begun to acknowledge this reality, demonstrated by a large wave of investment as a result of the announcement of Vision 2030. In a 2016 meeting between Xi Jinping and Mohammed bin Salman, the two countries agreed to “35 trade and investment deals worth \$28 billion” (Fulton, 2020, p. 363). Although this represents only a small fraction of the \$4 trillion investment necessary to transform the Saudi economy, China appears to have demonstrated a willingness to develop a robust China-Saudi relationship extending beyond oil exports.

This bilateral relationship distinguishes itself from Saudi Arabia’s traditional relationships with other superpowers due to the wide variety of investments made by China. Both countries have signed agreements known as Memoranda of Understanding (MoU), and these have extended far beyond oil, including “green energy, technology and cloud services” (Al Hamawi, 2022, par. 2). These memoranda represent a stark departure from the traditional petroleum investments made by both China and the United States. Fulton (2019) describes the Chinese-Saudi relationship using a “1+2+3 cooperation model”: “Energy cooperation as the core, infrastructure construction and trade and investment facilitation as the two wings, and high and new technologies in the fields of nuclear energy, space satellite and new energy as the three breakthroughs” (p. 151). The progressive advancement of each tier implies a long-term,

sustainable relationship between the two countries. More importantly, it mirrors the reforms prioritized by Mohammed bin Salman. The United States, on the other hand, appears to have adopted a less explicit approach to forward-looking investment. For example, The U.S. Department of State (2023) proudly advertises the “Trade Investment Framework Agreement” reached between the United States and Saudi Arabia (par. 2). However, this structure merely lays a groundwork for possible future investment, while China appears to have taken more tangible steps towards supporting a diversified Saudi economy.

These forward-looking investment patterns may be reflective of the global power shift as a whole. Foley (2017) argues that the elements of Vision 2030, including “curtailing subsidies and a series of new economic reforms,” are “consistent with the goals of Beijing and disadvantage Washington” (p. 78). The United States has considered Saudi Arabia as an integral, albeit distant, component of its energy supply chain. The increased domestic production of petroleum, coupled with a demand to reduce carbon emissions, decreases the strategic importance of Saudi Arabia in this regard. From China’s perspective, on the other hand, the geographical position of Saudi Arabia is integral to the objectives of the BRI. When China’s demand for oil peaks, as forecasted by an anonymous interviewee, Saudi Arabia could remain a pivotal link in the land-based trade routes connecting East Asia, Africa, and Europe. The United States, from a purely geographical perspective, would likely not gain the same potential benefits of a relationship with Saudi Arabia beyond oil.

Furthermore, China’s approach to investment may be more conducive to the Saudi political climate. Salman, Pieper, & Geeraerts (2015) contend that the conditionality inherent in U.S. investment makes forward-looking investment much more uncertain. Because “China does not endorse Western efforts to export human rights, democracy, and economic reform,” they are

less likely to suspend relations with a trade partner due to the violation of these conditions (Salman et al., 2015, p. 590). Mohammed bin Salman, who must balance steep reform with maintaining power over the coming years, may benefit from this flexibility. The Chinese attitude presents a stark contrast with the American attitude, as demonstrated by President Biden vowing to make Saudi Arabia “the pariah that they are” after the murder of Jamal Khashoggi (Sanger, 2021). The comparably fewer number of conditions tied to Chinese investment may thus make China a more attractive Saudi partner during these reforms.

China’s long-standing practice of avoiding explicit interference in the domestic affairs of other countries additionally avoids the strains caused by U.S. involvement. The importance of this practice to Saudi internal reforms is demonstrated by NEOM, a proposed smart city that serves as a central facet of Mohammed bin Salman’s modernizing reforms. NEOM exhibits the efforts to diversify the Saudi economy in several ways. For example, one MoU signed between China and Saudi Arabia focuses on Huawei’s joint efforts with Saudi ministries to “enhance its capacities in ‘smart digitization’ to develop smart cities” (Fulton, 2020, p. 370). Mohammed bin Salman views digitization as a key component of Vision 2030, and the commercial link underlying this MoU illustrates the importance of China in Saudi reforms (Bin Salman, 2022). Huawei, one of the world’s largest technology companies, may be able to leverage its extensive expertise to create large-scale progress. Second, NEOM will be home to a Green Hydrogen Plant that will convert hydrogen to liquid ammonium that is then shipped primarily to South Korea and Japan (International Trade Administration, 2021). This pivot towards manufactured chemicals echoes both the diversified industries recommended by McKinsey & Company (2015) and those prioritized by Mohammed bin Salman. Third, NEOM could serve as an international commerce hub with a “climatically and geographically better location for international companies than

Dubai's highly humid summers" (Dogan, 2021, par. 4). Lastly, it will be entirely powered by wind and solar energy, exhibiting the Kingdom's attempted shift towards renewable energy (International Trade Administration, 2021). However, a political complication with regard to this deal makes China a pivotal actor in this project. To connect NEOM with Egypt, the Saudi government would have to build a bridge crossing the Straits of Tiran, which would violate the 1979 Egypt-Israel Peace Treaty guaranteeing Israel free passage (Dogan, 2021). Dogan (2021) thus argues that "relations with Israel are necessary to complete NEOM" (par. 5). Mr. Finaud, on the other hand, argues that King Salman will refuse to normalize relations with Israel. However, as Mohammed bin Salman approaches his ascension to the throne, this reality could change. China could serve as a pivotal actor in brokering this deal, as they have strong relations with both Israel and Saudi Arabia (CaspianReport, 2018). The United States, on the other hand, is seen by Saudi Arabia as the "ultimate supporter of Zionism," which would complicate these pivotal negotiations (Long, 1986, p. 7). In this way, the NEOM project serves as an important case study of the essential role of China in Saudi economic reforms.

Finally, from a financial perspective, a closer economic relationship with China could reduce Saudi Arabia's dependence on the U.S. dollar. Although Chandler (2023) argues that Saudi Arabia is unlikely to embrace yuan-denominated oil contracts due to the riyal being pegged to the dollar, this atmosphere may shift with the redistribution of global power. First, Said & Kalin (2022) argue that Saudi discontent with the United States, namely the Biden administration's attempt to reach a nuclear deal with Iran and its lack of support for the Yemeni war, has "accelerated" discussions of moving away from the dollar (par. 2). This shift could create several opportunities to achieve Saudi reforms. In addition to facilitating oil sales between China and Saudi Arabia, the revenue received from yuan-denominated oil sales could be used to

more easily “pay Chinese contractors involved in mega projects domestically” (Said & Kalin, 2022, par. 13). Rather than attempting to navigate volatile currency markets before paying these contractors, the Saudi government could use a switch to the yuan as a means of streamlining the Kingdom’s closer economic relationship with China. This increased efficiency could give the Kingdom greater leverage when launching joint projects in economic areas other than oil. Second, shifting away from the dollar could ultimately reduce the funds dedicated to holding U.S. dollars in foreign exchange reserves (Kaleemullah, 2023). This increased flexibility could facilitate increased investment in other areas of the economy. The possible de-pegging of the riyal from the dollar appears to reinforce this idea, as Clement & Polonsky (2016) explain that a currency peg itself requires a government to hold a massive amount of a foreign currency. Changing this peg could bring a country’s “balance sheet to a more comfortable size” and provide its government with greater financial flexibility (Clement & Polonsky, 2016, par. 8). Although some may argue that a switch to the yuan would simply require Saudi Arabia to dedicate a similar amount of funds to holding reserves of yuan, the gradual nature of this shift could allow Saudi Arabia greater control in how to optimize its currency holdings.

Taken together, these economic considerations suggest that China could play a pivotal role in achieving many of the economic reforms laid out in Vision 2030. Although the relationship between China and Saudi Arabia continues to revolve around oil exports, the technological investments made by China suggest that it could serve as a more long-term partner.

III. The Security Implications of a Closer Relationship with China

At the same time, however, it is vital to consider the effects of this economic partnership on Saudi security. Mohammed bin Salman has placed economic diversification at the center of Vision 2030, yet this progress will be difficult to achieve if the Kingdom’s sovereignty is

breached. Dr. Jubin Goodarzi, the Deputy Head of the International Relations Department at Webster University Geneva, argues that Saudi Arabia will be more able to prioritize internal reforms when it feels less pressure from external threats. This security is especially important considering the continued instability related to Iranian nuclear proliferation and aggression from the Houthi rebels (Cordesman, 2018).

Uncertainty Surrounding Future Protection

The United States has long served as the security umbrella for Saudi Arabia, as any threat to the Kingdom similarly threatens the energy supplied to the United States. Interestingly, China has similarly relied on this umbrella to pursue its objectives in the Gulf region “without having to take on a larger security role” (Fulton, 2019, p. 143). This reality, however, appears to be shifting with the material needs of the United States. Cordesman (2018) argues that the guarantees provided by the U.S. have become much more uncertain and that “the rise in U.S. petroleum production raises questions about the future” (p. 5). Salman et al. (2015) echo this idea, claiming that “main objective of the U.S. presence in the Middle East was to protect oil supplies” (p. 583). As this material interest begins to decrease in importance, Saudi Arabia loses leverage in maintaining this U.S. military protection. An anonymous interviewee warned that a closer Saudi relationship with China may itself alienate the U.S., yet both Mr. Finaud (2023) and the evidence above suggest that the U.S. could ultimately isolate itself.

Although aligning with the other rising superpower would seem like a logical step for Saudi Arabia, China holds a drastically different approach to security. China, unlike the United States, does not enter formal alliances. Instead, it forms strategic partnerships (Fulton, 2019). China sees alliances as “an archaic and entangling system that only increases the chances of costly military conflict” (Fulton, 2019, p. 144). This reality may be especially true given the

historically turbulent nature of the Gulf region. Mr. Finaud (2023) reiterates this idea, arguing that China has no incentive to create a formal military alliance with Saudi Arabia. Furthermore, Dr. Chakravarti (2023) argues that the Chinese military would become “overstretched” if it were to implement a military presence in the Gulf region to the same extent as the United States. As a result, a closer relationship with China leaves Saudi Arabia with much fewer military assurances than it has grown accustomed to. China’s relationship with Iran highlights this concern (Fulton, 2020). Saudi Arabia and the United States, despite having disagreements over which actions to take, were generally united against Iran. China, on the other hand, is not threatened by the anti-Western sentiment espoused by Iran.

It is nevertheless important to mention that China may ultimately adjust its security strategy to reflect its growing international presence. An anonymous interviewee suggested that Xi Jinping’s recent mention of a “100-year paradigm shift” may indicate a shift towards military intervention. Fulton (2019) similarly argues that China has already demonstrated a possible willingness to do so through its base in Djibouti and its presence in the port of Gwadar. Ultimately, however, the uncertainty surrounding China’s choice to deploy troops makes it difficult for Saudi Arabia to prepare for the future. In this way, a closer relationship with China serves as a potential obstacle to the Saudi internal reforms.

The Benefits Created by the Current Chinese Approach

Yet at the same time, China’s distinct approach to security could provide Saudi Arabia with an opportunity to adjust its own approach to security. China, like the United States in the past century, has a vested interest in ensuring a steady supply of oil from Saudi Arabia. In the long term, Saudi Arabia’s strategic importance to the Belt and Road Initiative similarly provides China with an incentive to ensure stability. Rather than attempting to establish military

dominance in the Gulf region, China simply makes an effort to actively include potential aggressors as partners.

The recent Chinese-brokered negotiations between Saudi Arabia and Iran provide a compelling example of the effectiveness of this approach. Despite completely cutting off diplomatic ties in 2016 when the Saudi embassy in Tehran was stormed, the Saudi and Iran officials present during the negotiations were ultimately “encouraged to shake hands by their Chinese counterpart in Beijing” (Gritten, 2023, par. 1). This cordiality represents a steep departure from the previous relationship between Iran and Saudi Arabia, which have both treated each other as an acute threat. More importantly, it highlights the integral role of China in the Gulf region affairs (Finaud, 2023). Kenare (2023) invokes the global power shift in describing this change: “China’s role in the breakthrough shook up dynamics in the Middle East, where the United States has for decades been the main mediator” (par. 10). However, China, by maintaining diplomatic relations with both Iran and Saudi Arabia, plays a role that the United States cannot (Finaud, 2023; Gritten, 2023). Even this one interaction can mark a new chapter for Saudi security, as it has already catalyzed discussions towards reaching a ceasefire in Yemen (Kenare, 2023).

In addition to the more tangible effects of the Chinese peaceful approach, this tactic may be more culturally aligned with the Saudi government. Foley (2017) cites a recent speech made by the OPEC governor for Saudi Arabia as an example of this improved pairing, as it “echoed the cultural norms used in his country and, remarkably, used by China – a country whose history, culture, social system, and development model could not be more different than Saudi Arabia” (p. 68). Specifically, Foley (2017) focuses on the term “holistic,” which serves as a common point between the Saudi and Chinese cultures (p. 68). This concept involves including a wider

range of perspectives as opposed to employing brute military force. Including different perspectives again highlights a similarity between Confucianism and the Saudi *majlis* (Foley, 2017). With respect to the practical effects of these cultural similarities on international relations, China may treat Saudi leaders with more respect than they have received from U.S. officials. Long (1986) argues that the aggressive attitude of U.S. officials during high-level meetings with Saudi officials, which are for “the purpose of instilling mutual trust” and “expressions of goodwill,” creates tension between the two countries (p. 145). As a result, the more holistic approach employed by China may foster a more cordial and sustainable relationship.

This cordiality, coupled with China’s urgent need to maintain healthy relationships with its economic partners, may additionally reflect a more symmetrical security relationship for Saudi Arabia. Although the U.S. security umbrella has provided Saudi Arabia with protection for over half a century, it has simultaneously created a “fear of abandonment” (Fulton, 2020, p. 365). The imbalance of power between Saudi Arabia and the U.S. has only widened as the U.S. becomes less dependent on Saudi oil. From a security perspective, this power imbalance has given the U.S. greater control in dictating the practices of the Saudi government, particularly in relation to arms requests (Long, 1986). China’s heavy reliance on Saudi oil, on the other hand, gives it less leverage over Saudi Arabia. Although Fulton (2020) argues that China’s massive economy grants it a large degree of control in this relationship, Salman et al. (2015) contend that “China is asymmetrically dependent on global oil price developments” (p. 576). Dr. Chakravartti (2023) even suggests that China’s current position with regard to international relations is similar to that of the U.S. decades ago. China currently has much more to lose than the U.S. if its relationship with Saudi Arabia were to collapse. Gater-Smith (2017) classifies the U.S. as merely

“sensitive” to a break in Saudi-China relations, while China is “vulnerable” to such a scenario (p. 105). This more equal footing between Saudi Arabia and China, at least for the time being, could serve as an important source of reassurance for Saudi Arabia in its security considerations.

Although a closer relationship with China may coincide with a shift away from the U.S. security umbrella, the distinct practices of China could ultimately provide Saudi Arabia with a more sustainable form of security. This repositioning towards China will likely involve fewer tangible weapons, yet the far-reaching connectivity underlying economic initiatives such as the BRI fosters peace through development.

IV. The Symbiotic Nexus of Sustainable Security and Economic Reform

While the security and economic implications of a closer relationship with China may appear as distinct considerations, they mutually reinforce each other along multiple dimensions. Increased economic connectivity deter conflicts by increasing the potential stakes of such conflicts. Conversely, decreasing the costs associated with security may ultimately expand opportunities for economic growth. A closer Saudi-China relationship may thus prove integral to Saudi Arabia as it seeks to devote the necessary funds to economic reform.

Internal Stability

Beginning from an internal perspective, a closer relationship with China may assist Saudi Arabia in preventing internal unrest. This issue is especially pertinent given the controversy surrounding Mohammed bin Salman’s accession to the throne as well as “the fine line” between his desire to modernize and the Kingdom’s Wahhabi doctrine (Finaud, 2023; Goodarzi, 2023). First, Saudi Arabia must take action to avoid large-scale unemployment as its predominantly young population reaches working age. China’s comparably wider range of investments in Vision 2030 could expand the opportunities available to Saudi workers, especially if China’s

demand for oil begins to diminish (Anonymous Interviewee, 2023). Cordesman (2018) cites this “acute demographic pressure” as “the Kingdom’s most critical challenge” (p. 6). If this younger population feels that the government is unable to provide economic security, their legitimacy may be threatened. Goodarzi (2023) mentions that there exists in some cases a correlation between economic development and violent conflict. Demonstrating this link between economic security and political instability, Saudi Arabia raised salaries in the wake of the Arab Spring in order to avoid a revolutionary spillover effect (Goodarzi, 2023). Second, a decreased role of the United States may ultimately reduce terrorist activity within Saudi Arabia. Many terrorist organizations in the Middle East, including ISIS and Al-Qaeda, vehemently oppose the imperialist endeavors of the United States. Because of this, Gater-Smith (2017) suggests that a decreased role of the United States could “certainly deny radicals the necessary oxygen for their argument’s legitimacy” and create “a positive effect on Saudi national security from domestic threats” (p. 104). Increased stability within the Kingdom, by reducing the number of threats needing to be addressed by its government, could allow the reforms under 2030 to be more highly prioritized.

External Stability

Considering the financial investment required to thoroughly transform the Saudi economy, the Chinese connectivity-based approach could reduce Saudi expenditures related to ongoing conflicts. The conflict in Yemen serves as a prime example of the importance of communication. After the Chinese-brokered negotiations between Iran and Saudi Arabia at the beginning of April 2023, there appears to have been moderate progress towards stabilizing the conflict in Yemen. Saudi and Houthi officials met days after the meeting between Iranian and Saudi officials (NBC, 2023). This conflict has “become a particularly expensive stalemate,” with

associated costs between ten and fifteen billion dollars (Cordesman, 2018, p. 5). Reaching a ceasefire in this conflict could be an important first step to stabilizing conflicts surrounding Saudi Arabia and thus allowing it to divert both focus and funds towards its internal reforms.

However, improved relations with Saudi neighbors may create much larger budget-related benefits in the future. The Kingdom may be able to drastically decrease the amount it currently spends on preventative spending. Long (1986) argues that Saudi Arabia suffers from long-term “encirclement syndrome,” in which it believes that it is surrounded by enemies that seek to destroy the Kingdom (p. 8). As a result, it has devoted over eleven percent of its GDP to military spending, which Cordesman (2018) labels “an extraordinary level of effort for a country with many other pressing needs and that is seeking to transform itself by 2030” (p. 7). To place this military expenditure in perspective, the United States only spends approximately 3.5 percent of its GDP on its military (World Bank, 2023). Cordesman (2018) even suggests that this spending will ultimately “compete” with the funding required for Vision 2030 (p. 2). These preventative purchases appear to reflect the encirclement syndrome discussed by Long (1986), as Cordesman (2018) insists that Saudi arms purchases are “often political, overpriced, and focused on buying the most advanced system regardless of actual need” (p. 5). The connectivity-based security approach embraced by China could ultimately increase communication between Saudi Arabia and its surrounding perceived threat. For example, the re-establishment of diplomatic relations between Saudi Arabia and Iran opens a channel of communication that reduces the risk of miscalculation. Furthermore, Saudi arm sales are closely linked to its relationship with the United States. Saudi Arabia is the United States’ largest customer of foreign military sales, as its active deals are worth over one hundred billion dollars (U.S. Department of State, 2022). Foley (2017) describes these weapons sales as “a key component of Riyadh’s partnership with

Washington” (p. 79). A dwindling relationship with the United States, coupled with a more sustainable partnership with China, provides Saudi Arabia with an opportunity to reduce this military spending and commit the funds necessary to reform the Saudi economy.

Security in this sense plays a large role in Saudi Arabia’s ability to achieve its economic reforms. Not only will improved stability allow the Saudi government to give its attention necessary to lead a comprehensive economic change, it will release at least a portion of the funds required to do so. Improved security will create opportunities for economic reform, while economic reform could allow Saudi Arabia to satisfy its own population and create sustainable partnerships with its neighbors. In this way, economic reform and security engage in a mutual symbiosis.

V. Conclusion

This study sought to examine the implications of the global power shift, namely the increasing influence of China, for Saudi Arabia’s efforts to reform its economy. The global power shift has a wide range of implications for Vision 2030’s attempt to diversify the Saudi economy. Although the Saudi-China relationship is currently based on Saudi oil exports, both the investments already made and the opportunities created by the BRI create opportunities for economic diversification and a long-term sustainable partnership. However, the security implications of this relationship are just as important for Saudi Arabia in its quest to thoroughly transform its economy. The connectivity-based partnership model embraced by China could eventually guide Saudi Arabia to reduce its military spending and devote more attention to its urgent economic reforms. This approach represents a stark departure from the military-heavy approach enabled by the United States.

Despite the wide range of opportunities presented by a closer relationship with China, there exists a similarly wide range of obstacles to realizing the full benefits of this partnership. First, the length of Saudi Arabia's relationship with the United States may cause the Kingdom to hesitate before placing its trust in the Chinese connectivity-based security model. Second, the United States itself may attempt to reassert its dominance in the region, which could disrupt the current trajectory of Saudi-China relations. Third, Foley (2017) argues that China continues to benefit from the US-Saudi relationship, through both the U.S. security umbrella and its investment in US treasuries. As a result, the growing role of China will likely be a very gradual change.

However, these findings nonetheless suggest that the global power shift creates an important opportunity for Saudi Arabia to redefine its relationship with other actors, particularly the United States. China's distinct approach to Saudi Arabia and surrounding actors presents a turning point in international relations. Saudi Arabia can take advantage of this turning point to achieve the reforms necessary for its survival. Recognizing that the global power shift is not limited to the increasing power of China, I encourage future research related to the interaction between Saudi Arabia's reforms and its relationship with other emerging powers, including India.

China, for the moment, could potentially play a pivotal role in Saudi Arabia's future. Only time will tell how this relationship will evolve in the coming years.

VI. Abbreviation List

BRI: Belt and Road Initiative

GDP: Gross Domestic Product

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