S&P Global

Saudi-China ties and renminbi-based oil trade

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Authors

S&P Global Ratings

Charles Chang,
Greater China Country Lead, Corporates
charles.chang@spglobal.com

Zahabia Gupta
Saudi Arabia Sovereign Lead
zahabia.gupta@spglobal.com

Vishrut Rana
Senior Economist, Asia
vishrut.rana@spglobal.com

Valerijs Rezvijs
Economist, Europe, Middle East, Africa
valerijs.rezvijs@spglobal.com

Contributors

Claire Sun, Research Assistant

Melody Peng, Research Assistant

April Pascual, Lead Editor

James Mantooth, Senior Editorial Manager

Omar Shamsuddin, Senior Designer

Carla Donaghey, Senior Designer

Highlights

Recent talks of China paying for Saudi oil in renminbi led to expectations that China's massive purchases from the kingdom will push more of their oil trade to be denominated in the Chinese currency. S&P Global believes yuan-based oil trade between the two countries face significant challenges, and may take decades to grow to a meaningful scale, but deepening bilateral ties and aligning long-term interests between Beijing and Riyadh may help facilitate this process.

Discussions on the prospect of yuan-based oil trade often focus on the ability to pay in renminbi. However, the ability to settle trades in yuan alone is unlikely to boost its use, as the volume of such trades depends on oil exporters' willingness to accept the currency for payment, which in turn depends on their ability to use the resulting proceeds.

As the renminbi is not broadly used in international trade and finance, there are relatively few outlets to spend these proceeds. Cumulating the inflow would therefore incur substantial costs and raise currency risks. This explains why the yuan's use remains limited in Saudi-China oil trade despite Riyadh's willingness to discuss, and Beijing's aims to promote, more use of the currency.

This dynamic may change, as President Xi's visit to the kingdom in December 2022 set in motion a transformation of Saudi-China ties from one focused on oil to one that is comprehensive in nature. Aside from the booming oil trade that continues to anchor their core relationship, long-term plans such as Saudi Arabia's Vision 2030, are driving new institutional, financial, and cultural linkages between the two countries.

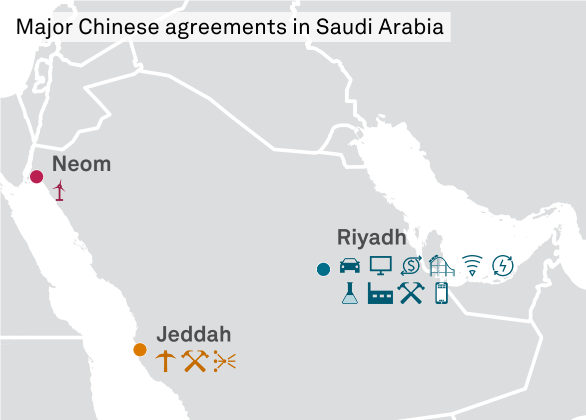
These broadening linkages will provide more outlets for the yuan's use, such as paying for Chinese engineering and construction services in the kingdom or investing in firms or projects in China across a widening range of sectors. Through these channels, deepening bilateral ties could help facilitate more use of the renminbi in Saudi-China oil trade in the decades to come.

Read the report with interactive graphics here

Figure 1

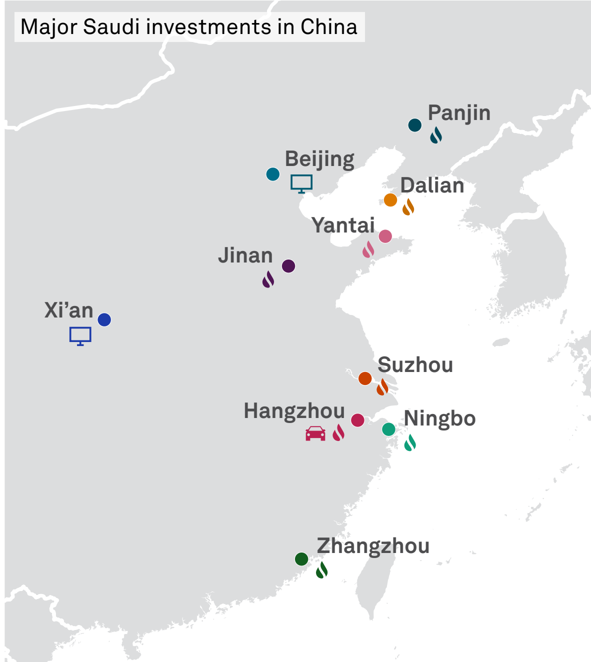
Major agreements between Saudi Arabia and China

Major Chinese agreements in Saudi Arabia



City	Chinese	Saudi	Type
Riyadh	ONEMT, eWTP	MISA	Online games
	Huawei	MCIT	Broadband
	Enovate	Sumou	EVs
	CGNEI	AEW	Renewable power
	CSCEC, MCC	MoMRAH	Housing
	Various	ACWA	Renewable power
	Power China	ACWA	Renewable power
	Huawei	Zain	Broadband
	Sh Ocean Pk	MISA	Theme parks
	Baosteel	Aramco, PIF	Steel plant
	H Horizons	MISA	EVs
	Zhonghuan	AMR Aluwlaa	Iron factory
	CRRC, Sunda	MISA	Chemicals
	CGGIE, SCEG	Al-Safwah	Construction
	CHEC	ROSHN	Housing
	China Mobile	Mobility	Mobile
	Ant Intl.	MISA	E-payment
	CITIC Cons	NHC	Construction
Jeddah	CNGMC	ASK	Mining
	CRRC	JCDC	Stadium
	CHEC	JCDC	Infrastructure
Neom	Envision	NGHC	Wind turbines

Major Saudi investments in China



City	Investor	Project	Type
Beijing	Alat	Lenovo	Computers
Dalian	Aramco	Hengli	Petrochem
Hangzhou	Aramco	Rongsheng	Petrochem
	Aramco	HORSE	Car engine
Jinan	Aramco	Various	Oil and gas
Ningbo	Aramco	Zhongjin	Petrochem
Panjin	Aramco	Huajin	Petrochem
	Aramco	Panjing	Petrochem
Suzhou	Aramco	Shenghong	Petrochem
Xi'an	PIF	VSPO	E-sport
Yantai	Aramco	Yulong	Petrochem
Zhangzhou	Sabic	SFPC	Petrochem

Data compiled July 23, 2024.
Inv (Investment), Egy (energy), Cons (construction), Egnr (engineering), Petrochem/Ptcm (Petrochemicals), eWTP (eWTP Arabia Capital), MISA (Ministry of Inv), MCIT (Ministry of Comm. & Info. Tech.), CGNEI (CGN Egy Intl.), AEW (Al Jomaih Egy & Water), CSCEC (China State Cons Egnr), MCC (Metallurgical Corp. of China), MoMRAH (Ministry of Municipal & Rural Affairs), Sh Ocean Pk (Shanghai Haichang Ocean Park), PIF (Public Inv Fund), CNGMC (China Natl. Geological & Mining), ASK (ASK Intl.), H Horizons (Human Horizons), Zhonghuan Intl., CRRC (China Railway Cons Corp.), CGGIE (China Gezhouba Grp. Intl. Egnr), SCEG (Shaanxi Cons Egnr Grp.), Al-Safwah (Mabani Al-Safwah Ltd.), Envision (Envision Egy), NGHC (NEOM Green Hydrogen Co.), CHEC (China Harbour Egnr Co.), JCDC (Jeddah Central Dev. Co.), Mobility (Etihad Etisalat), NHC (Natl. Housing Co.), Huajin (Huajin Aramco Ptcm), Ronsheng (Rongsheng Ptcm), Panjing (Panjing Xincheng Indus. Grp.), Shenghong (Shenghong Ptcm Indus. Grp.), Yulong (Shandong Yulong Ptcm), Zhongjin (Ningbo Zhongjin Ptcm), Hengli (Hengli Ptcm), Sabic (Saudi Basic Indus.), SFPC (Sabic Fujian Ptcm), HORSE (HORSE Powertrain).
Sources: Company releases; media reports; Asia House; Carnegie Endowment; S&P Global.

Slow progress of renminbi-based oil trade

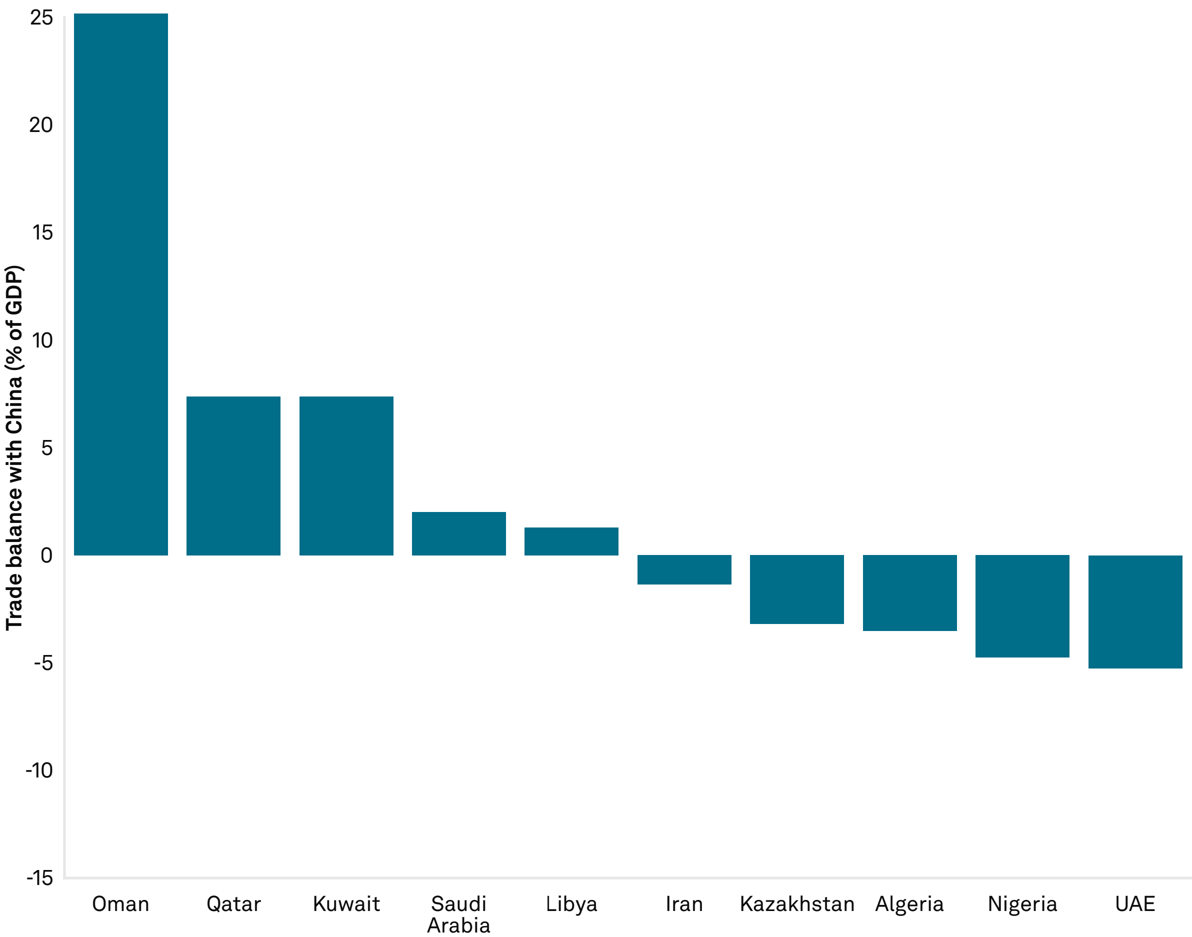
China's push for yuan-based oil trade with Saudi Arabia began with President Xi's first visit to the kingdom in January 2016. Two years later, in March 2018, the Shanghai International Energy Exchange launched its first ever renminbi-denominated crude oil futures contracts, establishing a yuan-based oil pricing system and an international benchmark that competes with the US's West Texas Intermediate and London's Brent.

Despite this early start, progress in yuan-based oil trade between the two countries remains limited due to major obstacles that challenge the economic rationale of such trades. The first obstacle is that the yuan is not broadly used in international trade and finance. Given this, trading oil in yuan will incur additional risks for oil exporters (see "Challenges To Trading Oil In Renminbi Remain Significant," published on Oct. 5, 2023).

Most major oil exporters have substantial positive trade balances with China (Figure 2). If their trade with the country were fully conducted in yuan, they would have much more income than outlays in the currency. While some of this could be held or invested, the excess "petroyuan" will need to be exchanged into other currencies, thereby incurring additional costs and exchange rate risks.

Figure 2

Most oil and gas exporters have positive trade balances with China



As of 2023.
Sources: UN Comtrade; S&P Global Ratings.

Complicating this is the fact that Gulf exporters' currencies are pegged to the US dollar, including those of Saudi Arabia, UAE, Iraq, Oman, and others. If the dollar appreciates against the renminbi, as it has been for the past year, selling oil in yuan will cut their incomes in domestic-currency terms.

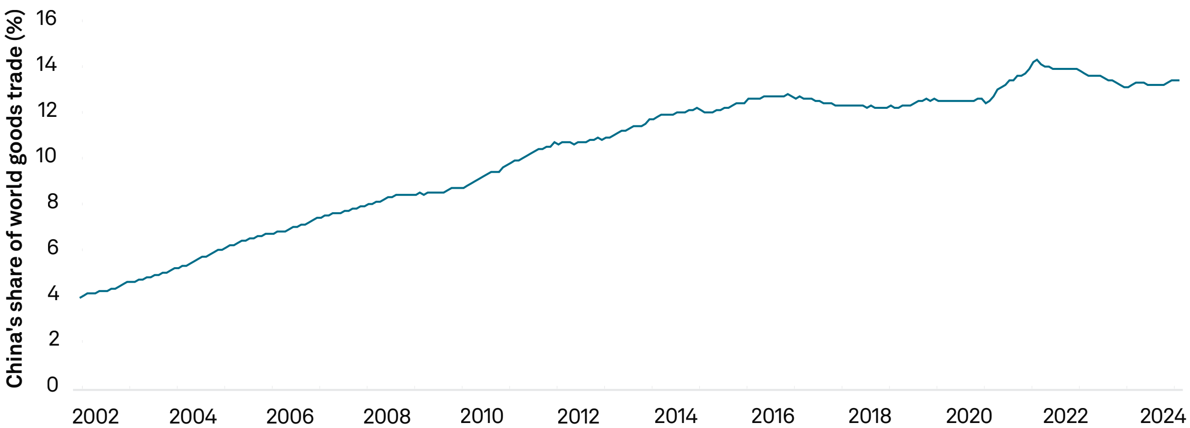
Moreover, Beijing has yet to lay out a roadmap for resolving these issues and for liberalizing the country's currency and capital account. This leaves a high degree of uncertainty on the ability to manage future petroyuan-related risks. It also obstructs broader use of the currency in trade despite the substantial progress made so far.

The yuan's headways into global trade

The renminbi has made substantial progress since its global launch in July 2009, when the pilot scheme for renminbi cross-border settlement in Hong Kong was expanded to corporates, which introduced the yuan as a currency for international trade.

Figure 3

China's share of world trade tripled over two decades



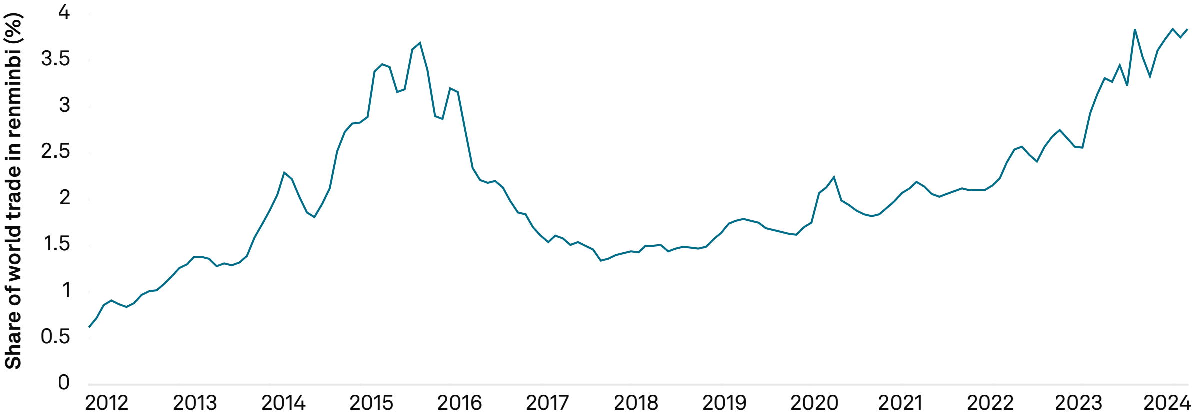
As of March 31, 2024.
12-month moving average shown.
Sources: S&P Global Connect GTAS.

Since then, the People's Bank of China (PBOC) has promoted the currency's use mainly via two channels. First, through expanding trade and setting up bilateral clearing and settlement infrastructure for the trading of goods in yuan. Second, through developing and deepening the offshore renminbi markets that enable international participants to access renminbi financial markets (see "Four Checkpoints On The Path To Greater Renminbi Internationalization," published July 10, 2023).

China has made meaningful progress in the first channel. Its share of world trade tripled over the last two decades, from 4% in 2002 to 13% last year (Figure 3). As growing trade increases the scope for settlement in yuan, use of the currency in cross-border trade settlement has also tripled in this period, rising from less than 1% in 2012 to over 3% last year (Figure 4).

Figure 4

Share of trade in RMB is rising but remains low



As of March 1, 2024.
Estimated as the share of China's cross-border goods trade settled in RMB multiplied by China's share of world trade.
Sources: S&P Global Ratings; The People's Bank of China; General Administration of Customs.

The renminbi is currently the third-most-used currency in SWIFT trade finance settlements, accounting for 5.3%, just behind the euro's 5.9%, although both remain far from challenging the dollar's dominant 84% position.

Push and pull factors behind use of the renminbi

The yuan's substantial headways into global trade belie the fact that its progress has been unsteady, characterized by episodes of advances and setbacks, due to push and pull factors both economic and non-economic.

Between 2012 and 2015, China's efforts to expand global trade (Figure 3), set up renminbi clearing facilities, and sign swap agreements with trading partners accelerated the yuan's global use (Figure 4). However, much of this progress was reversed in late 2015 when the currency depreciated substantially against the dollar.

The resulting exchange rate volatility highlighted the risk of trading in the Chinese currency and reduced demand for yuan settlement in the years that followed. Use of the yuan did not start to recover until 2018, and when it did, its upward climb was at a third of the previous pace.

From early 2022, rising geopolitical risks gave the yuan a push as a dollar alternative. Momentum behind use of the currency in global trade surged during the year from 2% to over 3% — the same extent as in the previous four years.

These episodes underscore the pull forces of trade and the push forces of geopolitical risks that continue to characterize the renminbi's use. Both these forces are at play in the use of the currency in Saudi-China trade.

Booming oil trade anchors potential for broader yuan use

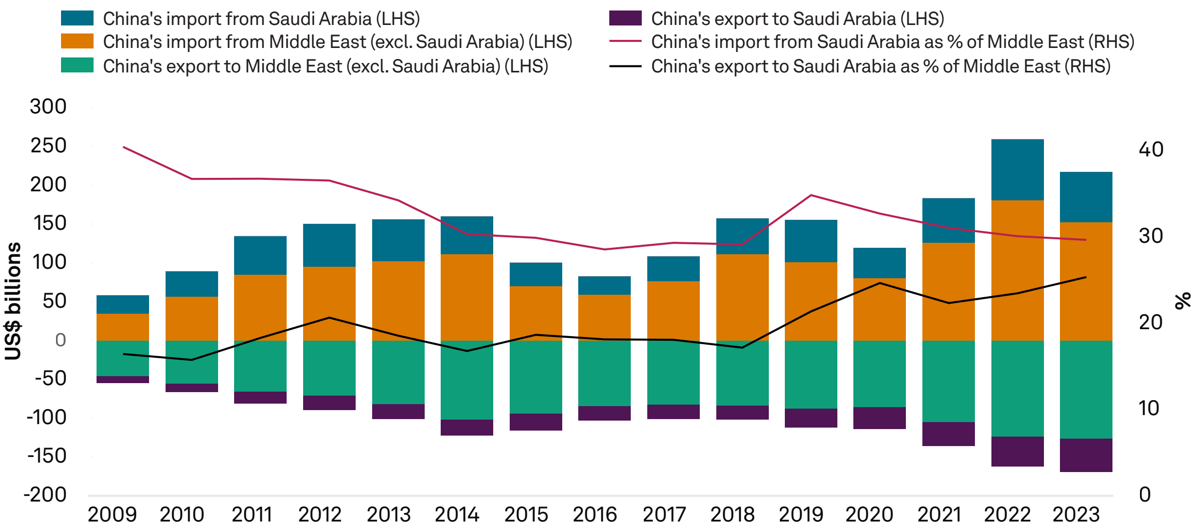
China's rapidly growing trade with the Middle East is the key factor that anchors the long-term potential for broader renminbi use by Gulf states.

China's trade with the region has more than tripled over the past two decades. Between 2009 and 2023, China's imports from the Middle East surged 3.7x to US$217 billion while exports increased 3.1x to US$169 billion (Figure 5).

Saudi Arabia has kept pace with this boom and remains China's largest trading partner in the Gulf. Its share of China's imports from the Middle East has stayed at a stable 30%-35% range since 2010, while its share of China's exports to the region has risen from some 15% a decade ago to roughly 25% in recent years.

Figure 5

China's trade with the Middle East has tripled over two decades



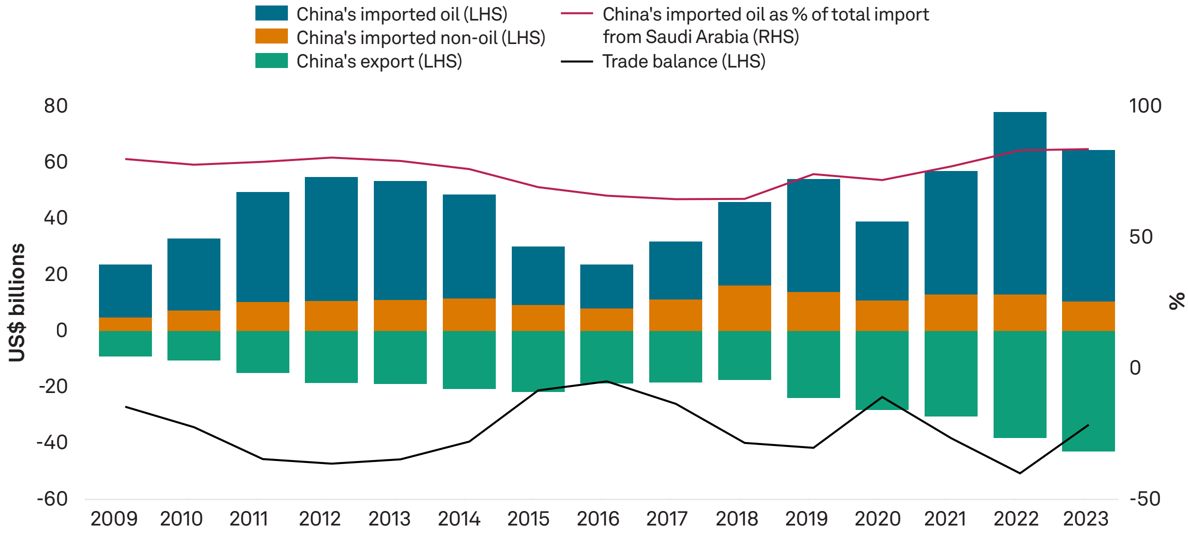
As of Dec. 31, 2023.
Sources: S&P Global Ratings; Wind.

As the boom in Saudi-China trade was largely driven by oil, oil's share of China's imports from the kingdom has risen steadily from two-thirds a decade ago to 84% last year (Figure 6). Meanwhile, the Saudis' trade surplus with China has widened from the lows of US$5 billion to $10 billion in 2015-2016 to as high as US$20 billion to US$40 billion in the last three years.

If Saudi-China oil trade were fully conducted in renminbi, it would be challenging to hold, spend, or convert the resulting tens of billions of petroyuan through existing bilateral or international channels. This helps explain why the yuan has made little progress in becoming a meaningful currency for oil settlement despite booming trade between the two countries.

Figure 6

China's trade with Saudi Arabia is increasingly less diversified



As of Dec. 31, 2023.
Sources: S&P Global Ratings; Wind.

Strategic considerations extend past rationale

Weak economic rationale means the yuan's entry into oil markets may need to rely on non-economic factors such as strategic considerations.

Escalating geopolitical events, shifting national interests, and growing non-US trade, particularly with Asia, in recent years led some emerging economies to look to diversify their external relations.

For example, during the BRICS summit in August 2023, some founding members of the group, which comprises Brazil, Russia, India, China, and South Africa, emphasized their intentions to increase direct local-currency transactions between member states.

Some Gulf states, including Saudi Arabia, the UAE and Iraq, are also exploring ways to conduct trade in non-dollar currencies to broaden their economic diplomacy and foreign policy influence. Beijing's stated interest in promoting renminbi use provides a strategic justification for use of the currency that extends beyond pure economic considerations of the past.

Such justifications will not fully overturn challenges noted above, but they could lead to incremental or gradual progress in renminbi-based trade. While the prospect of this remains highly uncertain for crude, other oil products, natural gas, or other traded goods may be easier to implement, and may lead the way.

These trends led Iraq to allow trade settlement with China in yuan for the first time in February 2023. A month later, China made its first purchase of liquefied natural gas produced in the UAE in yuan. As for oil, Russia mainly trades crude in renminbi currently, while Iran and Venezuela also sell some of their oil in euro and renminbi.

Diversification interest invites renewed renminbi push

The Saudis may have considered non-dollar oil trade as early as April 2019 (Figure 7), when Reuters reported that the kingdom raised this possibility to US officials and discussed it with other OPEC members. These talks did not lead to major actions, and they fell by the wayside during the COVID-19 years.

Escalating geopolitical events in early 2022 revived these considerations and created an opening for the yuan. This coincided with Beijing's renewed push for the renminbi as soon as the country came out of the pandemic (Figure 9).

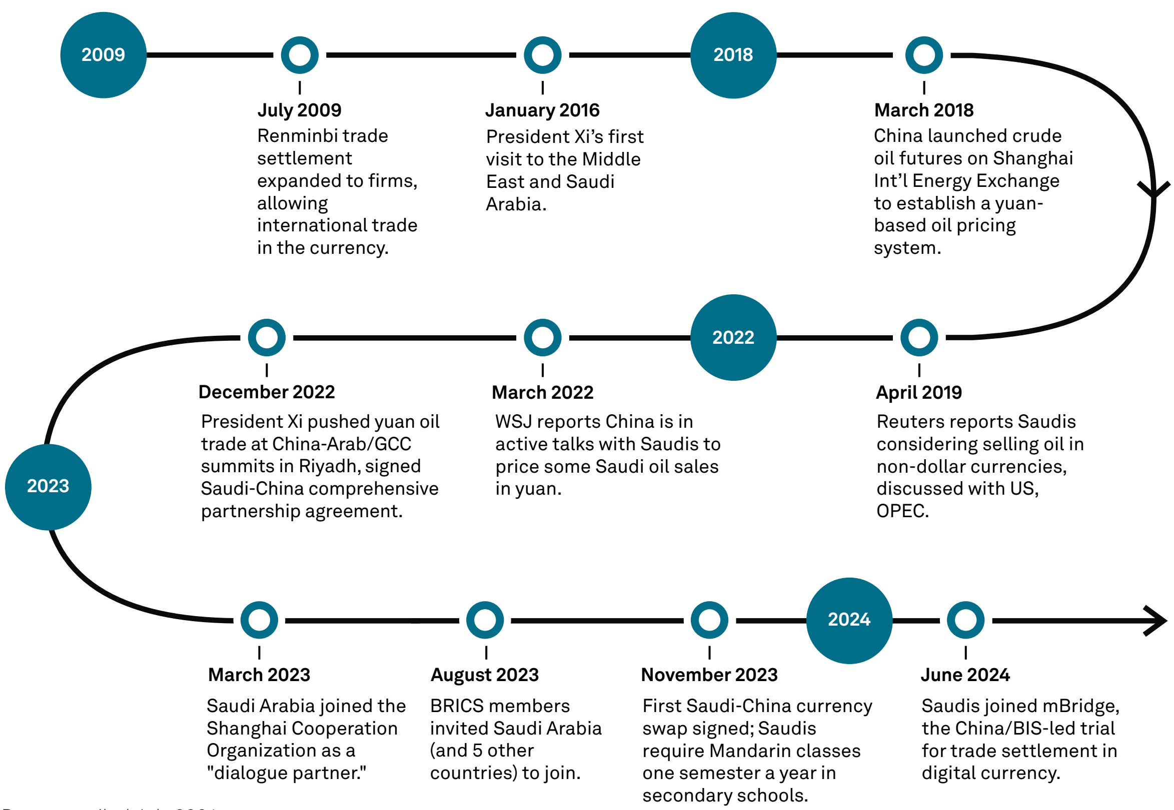
In March 2022, *The Wall Street Journal* reported that Saudi Arabia and China were in active talks to price some of the kingdom's oil sales in yuan, and that Saudi Aramco (Aramco) was considering including yuan-denominated futures contracts in its pricing model.

In December 2022, President Xi visited Riyadh for the first time in six years and attended the first China-Arab States Summit and the China-Gulf Cooperation Council (GCC) Summit hosted by Crown Prince Mohammed bin Salman.

President Xi told attending leaders that China will continue to import large quantities of oil and gas from the region and the Shanghai Petroleum and Natural Gas Exchange (SHPGX) "will be fully utilized for renminbi settlement in oil and gas trade."

Figure 7

Timeline of key events in Saudi-China ties and renminbi-based oil trade



Data compiled July 2024.
WSJ = The Wall Street Journal; GCC = Gulf Cooperation Council; BIS = Bank of International Settlements.
Sources: S&P Global Ratings; media reports.

New anchors in Saudi-China relations

President Xi's visit set in motion a wide range of actions to transform Saudi-China ties from one focused on oil to one that is comprehensive in nature. These involve setting up new institutional and financial linkages between the two countries that will serve as new anchors for the diversifying relationship. While the Saudis have yet to fully join some related forums, and some new ties take the form of memoranda of understanding (MOU) rather than detailed plans, they nevertheless provide new channels for deepening relations and future renminbi use (Figure 9).

Saudi Arabia's Vision 2030 targets massive economic transformation

In September 2022, three months before President Xi's visit, the role of the Saudi prime minister was transferred from King Salman to the 38 year-old Crown Prince HRH Mohammed bin Salman Al Saud (MBS), formally recognizing MBS as head of government and further consolidating his position as heir to the throne.

MBS is also the chairman of the Saudi Council for Economic and Development Affairs (CEDA) and the Public Investment Fund (PIF), the country's largest sovereign wealth fund, with US$925 billion of assets under management as of Dec. 31, 2023.

Together, CEDA and PIF drive Vision 2030, the government plan announced in April 2016 to transform the country by diversifying the economy away from its dependence on the upstream hydrocarbon sector.

Projects announced under the plan will reportedly cost more than US$1 trillion, including the construction of new cities such as Neom (estimated to cost US$500 billion) (see "Vision 2030: Four Scenarios For Saudi Arabia's Public Finances," published on May 1, 2024, on RatingsDirect).

The sheer scale and size of these projects suggest significant funding needs across the government and government-related entities, particularly the PIF. A significant part of this will also come from the country's banking sector and capital markets, requiring further deepening of both.

Over the long term, Vision 2030 will bear fruit by diversifying the economy and its revenue base, creating jobs for a young population, and broadening workforce participation.

However, the program comes at a time when oil revenue may be pressured by ongoing OPEC+ and Saudi cuts to oil production to balance relatively weak global demand and rising non-OPEC production. As a result, the government's net asset position will gradually weaken, though it will remain strong relative to peers rated by S&P Global Ratings.

Challenges could also arise from funding pressures (especially if oil prices fall), tight supply, skills shortages, and rising material costs as the government embarks on its ambitious projects.

During his visit, President Xi and King Salman signed in person a comprehensive Saudi-China strategic partnership agreement. They also agreed to take turns hosting biennial meetings between the heads of state of the two countries, thereby committing to regular exchanges at the highest levels of the two governments.

Three months after President Xi's visit, in March 2023, Saudi Arabia joined the Shanghai Cooperation Organisation (SCO) as a "dialogue partner." Five months thereafter, BRICS members agreed to admit Saudi Arabia and invited the kingdom to join from January 2024, along with Iran, Ethiopia, Egypt, Argentina, and the UAE. Although the Saudis have yet to join these organizations as a full member, their participation will broaden their institutional ties with China.

New financial linkages were also set up after President Xi's visit. In February 2023, Hong Kong's chief executive met with the CEO of Aramco in Riyadh to discuss the secondary listing of Aramco on the Hong Kong Stock Exchange (HKEX). In September, HKEX added the Saudi exchange as a Recognized Stock Exchange to facilitate the listing of Saudi-listed firms in Hong Kong. Two months later, HKEX debuted Asia's first exchange-traded fund (ETF) tracking shares listed on the Saudi exchange, with PIF as an anchor investor.

Similar ties were established with China's top exchanges on the mainland, including both the Shanghai (SHSE) and Shenzhen Stock Exchanges (SZSE). In September 2023, the Shanghai and Saudi exchanges signed an MOU to collaborate on a wide range of areas, including cross-listing, fintech, data exchange, and environmental and corporate governance. A similar MOU followed in December between the Shenzhen and Saudi exchanges. In July 2024, both the SHSE and the SZSE followed Hong Kong's lead and launched the first ETF in mainland China tracking Saudi-listed shares.

On trade settlement, Bank of China opened its first branch in Riyadh in September 2023 to facilitate renminbi settlement, making it the second Chinese state-owned bank to enter the kingdom after the Industrial and Commercial Bank of China in 2015. In November, the PBOC and the Saudi Central Bank signed their first currency swap agreement, covering up to RMB50 billion for three years.

The active year following President Xi's visit ended with the Saudi education authorities mandating all public and private secondary schools in the kingdom to teach at least two Chinese language classes every week for one semester each school year.

Aligning interests to drive more lasting change

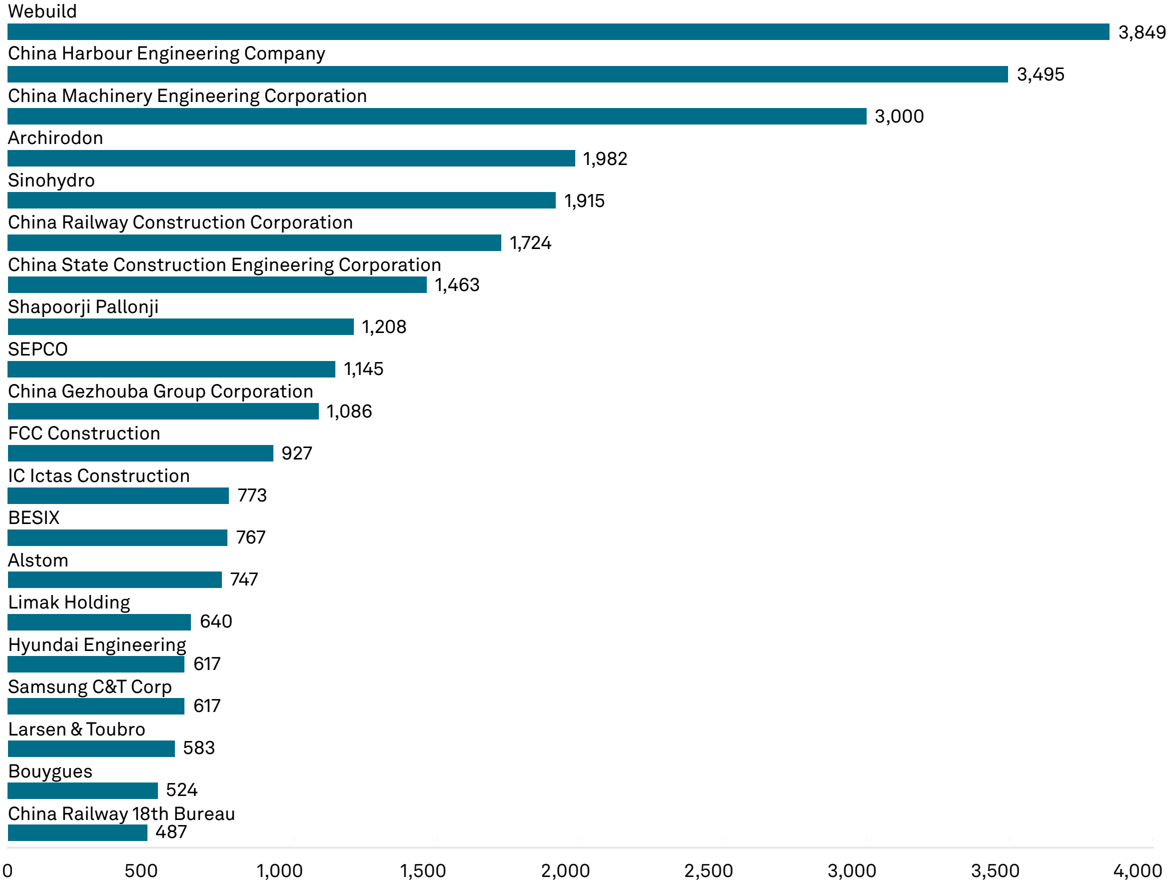
Changes under this latest bilateral push are likely to be more lasting than previous efforts, as they are anchored by Vision 2030, Saudi Arabia's plan to rapidly transform itself and diversify its economy. Overseen by Crown Prince Mohammed bin Salman (MBS), the plan could align the interests of the two countries for years to come.

Large-scale investment needs under the ambitious plan (see text box) present opportunities for Beijing's collaboration. China has grown its economy tenfold in the last two decades with a track record of rapid urbanization, industrialization, energy transition, and manufacturing and technological development — all areas of focus under Vision 2030.

Leading Chinese firms also have considerable experience in developing mega projects at the pace and scale envisaged by the Saudi planners. Likewise, financial markets in Hong Kong and mainland China could facilitate Saudi ambitions under MBS to develop the Saudi stock exchange into one of the top exchanges in the world through sharing and collaboration on technology, knowhow, and reforms.

Figure 8

Top 20 non-regional construction contractors in Saudi Arabia by value of work under execution (US$ millions)



As of June 14, 2024.
Sources: MEED projects; S&P Global Ratings.

Saudi's Vision 2030 plan aligns with China's own development approach, namely, through centrally planned and directed mobilization programs under specified multi-year timeframes — similar to China's five-year plans.

This approach could facilitate collaboration between state organs and state-owned enterprises of the two countries from the highest levels of the central government to the lower levels of provincial and municipal governments.

Such collaborations are evident in the 34 agreements totaling US$50 billion signed between Chinese and Saudi parties during President Xi's visit. They are also reflected in the continuing flow of agreements that followed thereafter (Figure 10).

Signed by state and private entities that span across central and local levels, these agreements cover a wide range of focus areas under Vision 2030, such as tourism, entertainment, mining, renewable energy, pharmaceuticals, and financial market development.

Potential new outlets for yuan use in Saudi Arabia

Reports by media outlets such as Bloomberg suggest that Saudis currently have little interest in accepting the yuan for oil payments despite their willingness to engage in related discussions. Challenges noted above, plus the kingdom's need to manage its relations with both the US and China may leave the Saudis with cautious views on these issues for some time.

These views, however, may change over the long-term if broadening and deepening Saudi-China ties provide more outlets for the yuan's use. This may help ease current economic disincentives and allow strategic justifications to be given more consideration.

Currently, if Riyadh were to settle more of its oil trade in renminbi, the Saudi treasury would collect increasingly more renminbi than it would need to spend, as the derivatives market for the yuan is thin, and risk management tools and trade finance in the currency are limited. Hence, holding and cumulating the inflow would raise risks, which would incentivize Saudi policymakers to spend it on Chinese goods and services.

One spending area is the construction of housing, infrastructure, and entertainment facilities in the kingdom, some of which are already underway. In December 2022, Chinese state-owned firms China State Construction and Metallurgical Corp. of China signed a US$2.8 billion deal with the Saudi Ministry of Municipal Rural Affairs and Housing to build more than 100,000 residential units and to build factories to facilitate the adoption of modern construction methods in the kingdom (Figure 10).

In April 2023, Shanghai Haichang Ocean Park signed an agreement with the Saudi Ministry of Investment to develop water parks, zoos, and entertainment centers across the kingdom, aiming to attract 100 million visitors by 2030. In June, Shanghai's Envision Energy won the bid to supply 1.67 GW of wind turbines to the US$8.4 billion NEOM green hydrogen plant. In October, China State Construction won the second and third bids for the US$7.86 billion NEOM New City Traffic Tunnel, the pilot project of the US$500 billion new megacity NEOM, a key Vision 2030 project.

The Saudi construction sector is well-suited for such collaboration, as it has been historically open to international contractors. According to one estimate by MEED, a Middle East consultancy, firms from outside the region have been contracted to build nearly US$30 billion of projects in the kingdom. Currently, of the 10 largest contractors by contract value in Saudi Arabia, six are Chinese firms, including China Harbour Engineering Co., China Machinery Engineering Corp., Sinohydro, China Railway Construction Corp., China State Construction Engineering Corp., and China Gezhouba Group Corp. (Figure 8).

Other areas to spend future yuan inflows include industrial and renewable sectors. During President Xi's visit, the 44% PIF-owned ACWA Power signed agreements on the construction of renewable energy projects in the kingdom with SPIC Huanghe Hydropower Development Co., China Southern Power Grid International, China Energy International, Jinko Solar Co., Sungrow Power Supply Co., and Jolywood Solar Technology Co., including a US$1.5 billion renewable project with Power China.

In May 2023, a joint venture (JV) was set up between Baoshan Iron and Steel (50%), PIF (25%) and Aramco (25%) to build an US$875 million "green" plant that will be the first steel plate plant in Saudi Arabia and the Gulf. Also, in June 2023, the Saudi Ministry of Investment signed a US$5.6 billion JV with the Shanghai-based electric vehicle maker Human Horizons for the manufacturing and sale of electric vehicles in the kingdom and the Gulf. This follows a similar US$500 million deal signed between Sumou Holding and China's Enovate Motors six months earlier.

> The Saudis would be incentivized to spend petroyuan inflows on Chinese goods and services. One spending area is the construction of housing, infrastructure, and entertainment facilities in the kingdom.

Potential new outlets for yuan use in China

Aside from spending future petroyuan inflows in the kingdom, Riyadh can also invest it in China itself. Such outlets include Aramco's expanding downstream footprint in China as well as PIF's diversifying range of investments in Chinese firms.

Aramco's major investments in China before President Xi's visit include its US$11.8 billion, 35% interest in an integrated refining and petrochemical complex in Panjin, Liaoning in February 2019 (Figure 11). During President Xi's visit, Aramco signed an agreement with Shandong Energy Group to develop Aramco's downstream projects in Shandong. Three months later, in March 2023, Aramco acquired 10% of Rongsheng Petrochemical (Rongsheng), Jiangsu Shenghong Petrochemical Industry Group, and Shandong Yulong Petrochemical Group (Figure 11).

This flurry of investments continued into this year. In January, Aramco announced plans to buy up to 50% of Ningbo Zhongjin Petrochemicals from Rongsheng. In February, the company announced plans to buy 10% of Hengli Petrochemical from the Hengli Group. In May, Sabic, an Aramco subsidiary, invested 51% in a US$6.4 billion JV petrochemicals complex in Fujian, the largest foreign investment in the province.

PIF's investments in China have also picked up pace. In February 2023, it invested US$265 million in VSPO to become the single largest shareholder of the Chinese e-sports company. In May this year, it subscribed to US$2 billion of zero-coupon bonds issued by Lenovo, convertible to 10.78% of Lenovo shares.

Riyadh can also invest its petroyuan inflows in China itself. President Xi's December 2022 visit led to a flurry of investments in China by Saudi Aramco and the Public Investment Fund that continued into this year.

Alignment over the long term

Along with Vision 2030 projects, the Saudi government may also need to ramp up spending for the planned hosting of the Asian Winter Games 2029, Expo 2030 and the FIFA World Cup 2034.

These and other projects may involve increasing collaboration with Chinese parties (Figure 11), particularly if they develop a strong track record in the kingdom. China Railway Construction's track record in building the Lusail Stadium for the 2022 World Cup in Qatar, for example, likely facilitated its winning bid to build the Jeddah Stadium and surrounding sports villages.

For China, yuan-based oil trade and the resulting Saudi need to spend future yuan proceeds would provide self-sustaining logic for Saudi Arabia's participation in China's Belt and Road Initiative. It could also support China's digital currency push, which culminated to the first purchase of crude oil in digital yuan in October 2023, followed in June 2024 by the Saudis joining mBridge, the central bank digital currency trial for trade settlements led by China and the Bank of International Settlements.

The shift by both countries toward full bilateral engagement have been described by observers as China's pivot to the Middle East and Saudi Arabia's pivot to China. These pivots are broad and diverse, anchored by aligning long-term interest on both sides that span beyond pure economic considerations. It may be these forces from Saudi Arabia, as well as other oil exporters in the Gulf,, that will ultimately facilitate renminbi-based oil trade.

Figure 9

Saudi-China ties and renminbi-based oil trade

Date	Event
November 2003	**CNH:** China's State Council approved the introduction of personal renminbi business in Hong Kong.
July 2009	**Trade:** Pilot scheme for renminbi cross-border trade settlement was expanded to cover enterprises and institutions, allowing for two-way flows of the currency, enabling international trade in yuan.
June 2013	**Swap:** The UK became the first G7 country to set up an official currency swap line with China.
June 2015	**ICBC:** The Industrial and Commercial Bank of China opened its first branch in Riyadh, making it the first Chinese bank to open in Saudi Arabia.
January 2016	**Xi visit:** President Xi's first visit to the Middle East and Saudi Arabia, to attend with King Salman the launch of the Yasref oil refinery, China's largest investment project in the kingdom at the time.
March 2018	**SHPGX:** China launched its first crude oil futures in the Shanghai International Energy Exchange to establish a yuan-based oil pricing system and an international benchmark that competes with US's West Texas Intermediate and London's Brent.
April 2019	**Oil:** Reuters reports that Saudi Arabia is considering selling its oil in currencies other than the dollar, and that this was discussed with the US and OPEC members.
March 2022	**Petroyuan:** *The Wall Street Journal* reports that Saudi Arabia invited Chinese President Xi for a visit, and that the two sides are in active talks to price some of the kingdom's oil sales in yuan, with Saudi Aramco considering including yuan-denominated futures contracts in its pricing model.
December 2022	**Xi visit:** President Xi visited Saudi Arabia and attended the first China-Arab States Summit and the China-GCC Summit hosted by Prince Mohammed bin Salman. President Xi said to Gulf leaders that China will continue to import large quantities of oil from them and the Shanghai Petroleum and Natural Gas Exchange "will be fully utilized for RMB settlement in oil and gas trade."
December 2022	**CSPA:** During the visit, President Xi and King Salman signed a comprehensive strategic partnership agreement (CSPA) between two countries and agreed to take turns hosting biennial meetings between the two heads of state. Chinese and Saudi firms signed 34 investment agreements totaling US$50 billion on green energy, logistics, cloud computing and housing.
February 2023	**HKEX:** Hong Kong's chief executive John Lee visited Riyadh and met with the CEO of Saudi Aramco to discuss potential secondary listing of Aramco on the Hong Kong Stock Exchange.
March 2023	**SCO:** Saudi Arabia joined the Shanghai Cooperation Organisation as a "dialogue partner."
March 2023	**LNG in yuan:** CNOOC bought 65,000 tons of LNG produced in the UAE from TotalEnergies at the SHPGX in yuan, the first cross-border LNG purchase settled in yuan.
April 2023	**CICC:** China International Capital Corp. opened a new regional head office in Riyadh to collaborate with PIF to facilitate the entry of major Chinese technology firms.
June 2023	**ACBC:** Riyadh hosts the Arab-China Business Conference for the first time. This 10th ACBC led to US$10 billion of investment agreements, mostly for Saudi projects.
August 2023	**BRICS:** BRICS members agreed to admit and invited Saudi Arabia to join from January 2024, along with Iran, Ethiopia, Egypt, Argentina and the UAE. The Saudis later clarified that the kingdom has been invited to attend but has yet to officially join.
August 2023	**Entry:** Shanghai Lujiazui City Authority opened an office in Riyadh and signed an MOU with King Abdullah Financial District and eWTP Arabia Capital to enhance collaboration.
September 2023	**BoC:** Bank of China opened its first branch in Riyadh and became the second Chinese bank to enter Saudi Arabia.
September 2023	**HKEX:** Hong Kong Stock Exchange added the Saudi Exchange as a Recognized Stock Exchange, effectively creating a shortcut for firms with a primary listing there (e.g., Saudi Aramco) to apply for a secondary listing in Hong Kong.

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Figure 9 *(continued)*

September 2023	**SHSE:** Shanghai and Saudi stock exchanges signed an MOU to collaborate on cross-listing, fintech, research, data exchange, and environmental and corporate governance.
October 2023	**Oil in e-yuan:** China National Petroleum Corp. bough one million barrels of crude oil at the SHPGX in digital yuan, the first cross-border oil settlement in digital yuan.
November 2023	**Education:** Saudi education authorities mandated all public and private secondary schools to teach two Chinese language classes each week for one semester each school year.
November 2023	**Swap:** People's Bank of China and the Saudi Central Bank signed their first currency swap agreement, covering up to RMB50 billion for three years.
November 2023	**HKEX:** HKEX debuted Asia's first exchange-traded fund (ETF) tracking shares listed on the Saudi stock exchange. The ETF is tradable in Hong Kong dollars or renminbi and has the Saudi Public Investment Fund as an anchor investor.
December 2023	**Linkages:** Invest Hong Kong and the Ministry of Investment of Saudi Arabia signed an MOU to foster co-operation on investment promotion exchange and support.
December 2023	**SZSE:** Shenzhen and Saudi stock exchanges signed a MOU to collaborate on cross-listing, ETF connect, fintech, REITs, indices, funds, and environmental and corporate governance.
June 2024	**mBridge:** Saudi Arabia became a “full participant” in the central bank digital currency (CBDC) trial led by China and the Bank of International Settlements. The trial aims to allow participants to settle cross-border trade, including that of oil, in CBDC via the mBridge platform.
July 2024	**SHSE/SZSE:** Shanghai and Shenzhen exchanges debuted the first ETF tracking shares listed on the Saudi stock exchange in mainland China.

Data compiled July 2024.
MOU = memorandum of understanding; REIT = real estate investment trusts.
Sources: Hong Kong Monetary Authority; Ministry of Foreign Affairs of the People’s Republic of China; Atlantic Council; Carnegie Endowment for International Peace; Reuters; The Wall Street Journal; South Morning China Post; Bloomberg; Global Times; other media sources.

Figure 10

Major Chinese agreements In Saudi Arabia

Date	Chinese party	Saudi party	Details
December 2022	ONEMT, eWTP	MISA	ONEMT to set up regional headquarters in Riyadh, IPO on Saudi exchange, build game studios and research and development (R&D) centers, hire locals, and develop Saudi and Gulf content.
December 2022	Huawei	MCIT	Deal for Huawei to help build fast broadband infrastructure, develop cloud technology, launch training program for university students.
December 2022	Enovate Motors	Sumou Holdings	JV to build a US$500 million electric vehicle plant and R&D center to produce 100,000 electric vehicles (EVs) a year.
December 2022	China General Nuclear Power Group	Al Jomaih Energy & Water Co.	Framework agreement to build solar, wind, gas and thermal projects with 10 GW of capacity in Saudi Arabia, Laos, Bangladesh and Azerbaijan.
December 2022	China State Construction, MCC	MoMRAH	US$2.8 billion deal to build more than 100,000 residential units and to build factories to facilitate adoption of modern construction methods in Saudi Arabia.
December 2022	SPIC, CSPGI, CEIG, Jinko, SPSC, JSTC	ACWA Power (44% PIF-owned)	Memorandum of understanding (MOU) on financing, investment, procurement, engineering, and construction of renewable energy projects.
December 2022	Power China	ACWA Power	US$1.5 billion deal for financing and construction of renewable projects in Saudi Arabia and Belt and Road countries.

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Figure 10 *(continued)*

February 2023	Huawei	Zain KSA	MOU to build pioneer network "5.5G City" and promote 5.5G innovation across Saudi Arabia.
April 2023	Shanghai Haichang Ocean Park	MISA	MOU to develop water parks, zoos, entertainment centers across Saudi Arabia to attract 100 million visitors by 2030.
May 2023	Baoshan Iron and Steel	Aramco, PIF	US$875 million JV green plant between Baosteel (50%), Aramco (25%) and PIF (25%), the first steel plate plant in Saudi Arabia and the Gulf.
June 2023	China National Geological & Mining Corp.	ASK Group	US$500 million deal for the development, financing, construction and operation of the Arabian Shield copper mining project.
June 2023	Human Horizons	MISA	US$5.6 billion JV for R&D, manufacturing and sale of EVs.
June 2023	Zhonghuan Int'l Group	AMR ALuwlaa Co.	US$533 million to establish an iron factory in Saudi Arabia.
June 2023	CRRC, Sunda	MISA	Signed deals with MISA at the 10th Arab-China Business Conference in Riyadh.
June 2023	Gezhouba, Shaanxi Cons	Mabani Al-Safwah Ltd	US$266 million framework agreement for advanced building construction in the Kingdom.
June 2023	Envision Energy	NEOM Green Hydrogen Co. (PIF JV)	Deal for Envision to supply 1.67 GW wind turbines for the US$8.4 billion Neom green hydrogen mega-plant.
September 2023	China Harbour Engineering Co.	Roshn (PIF-owned)	Signed US$2 billion deal to develop the Sedra and Warefa projects, with 32,000 homes and mall, schools, healthcare and mosque facilities.
February 2024	CRRC	Jeddah Central Co. (PIF-owned)	CRRC won a US$1.8 billion bid with Sama Construction to build the 360,000-square-meter Jeddah Stadium for 46,000 spectators and four surrounding sports villages for the 2034 World Cup.
February 2024	China Harbor Engineering Co. (CHEC)	Jeddah Central Co.	CHEC won a US$ 1.4 billion bid with Modern Building Leaders Co. (MBL) for Jeddah Central Destination phase 1, CHEC on infrastructure, and MBL on Oceanarium and Opera House.
February 2024	China Mobile	Etihad Etisalat Co. (Mobility)	Signed interconnection agreement to offer seamless service including voice, SMS, data and roaming.
May 2024	Ant International	MISA	MOU to facilitate Ant's expansion into Saudi Arabia.
May 2024	CITIC Construction Group.	National Housing Co. (NHC)	Signed agreement to establish a 12-factory industrial city and logistic zones to secure supply of building materials for NHC's housing projects.

Data compiled July 2024.
eWTP = eWTP Arabia Capital; MISA = Ministry of Investment; MCIT = Ministry of Communications and Information Technology; MCC = Metallurgical Corp. of China; MoMRAH = Ministry of Municipal Rural Affairs and Housing; SPIC = SPIC Huanghe Hydropower Development Co.; CSPGI = China Southern Power Grid International; CEIG = China Energy International Group; Jinko = Jinko Solar Co.; SPSC = Sungrow Power Supply Co.; JSTC = Jolywood Solar Technology Co.; Aramco = Saudi Aramco; PIF = Public Investment Fund; CRRC = China Railway Construction Corp.; Gezhouba = China Gezhouba Group International Engineering Co.; Shaanxi Cons = Shaanxi Construction Engineering Group Corp.
Sources: Company releases; media sources; Asia House; Carnegie Endowment for International Peace.

Figure 11

Major Saudi investment activity in China and Chinese firms

Signed date	Investor	Investment	Value (US$)	Details
February 2019	Aramco	Huajin Aramco Petrochemic.Co. Ltd.	10B	Integrated petrochemical complex JV of Aramco (35%), Norinco (36%), Panjin Sincen (29%).
December 2022	Aramco	Various projects in Shandong	NA	MOU with Shandong Energy Group to develop Aramco's downstream projects in Shandong, cooperate on hydrogen, renewables, carbon capture utilization and storage.
February 2023	PIF	VSPO	265M	PIF became the single largest shareholder in the Chinese e-sports company.
March 2023	Aramco	Rongsheng Petrochemical	3.4B	Acquired 10%, will supply 480,000 bpd of oil to Rongsheng.
March 2023	Aramco	Panjing Xincheng Industrial Group	12.2B	To build a 300,000bpd oil refinery and 1.65 mt ethylene, 2 mt paraxylene p.a. petrochemical plant.
September 2023	Aramco	Shenghong Petrochem. Industry Group Co. Ltd.	NA	Signed cooperation agreement with owner Eastern Shenghong Co. on Aramco's potential 10% acquisition.
October 2023	Aramco	Shandong Yulong Petrochemical	NA	Signed cooperation agreement with owners on Aramco's potential 10% acquisition.
January 2024	Aramco	Ningbo Zhongjin Petrochemical	NA	Signed cooperation agreement with Rongsheng to buy up to 50%.
April 2024	Aramco	Hengli Petrochemical	1.5B*	In discussion to buy 10% from Hengli Group.
May 2024	Sabic	Sabic Fujian Petrochemical Complex	6.4B	51% JV with Fujian Fuhua Gulei Petrochemical Co. (49%), the largest foreign investment in Fujian, with ethylene capacity up to 1.8 mt p.a.
May 2024	Alat (PIF-owned)	Lenovo	2B	Issued to Alat three-year zero coupon privately placed bonds convertible to 10.78% of Lenovo shares.
July 2024	Aramco	Geely-Renault JV	790M	Acquired 10% of HORSE Powertrain, with JV partners Geely (45%) and Renault (45%).

Data compiled July 2024.
* estimated by media sources
B = billions; M = millions; PIF = Public Investment Fund of Saudi Arabia; Aramco = Saudi Aramco; Sabic = Saudi Basic Industries; NIF = NEOM Investment Fund.
Sources: Company releases; China Daily; South China Morning Post; other media reports.

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