

# Chapter 7

## China's Efforts to Deepen Its Ties with the Middle Eastern Countries: The Case of Saudi Arabia and Iran



### 7.1 Xi's Visit to Saudi Arabia

The trip to Saudi Arabia by President Xi Jinping in December 2022 came shortly after he won a third term as China's paramount leader at the 20th National Congress of the Chinese Communist Party in late October 2022. It also represents one of the Chinese leader's first overseas trips for high-profile diplomacy after an almost three-year hiatus due to the global COVID-19 pandemic.

Xi was feted with a lavish reception by his Saudi counterpart, the Saudi Crown Prince and de facto ruler, Mohammed Bin Salman. When Xi's aeroplane entered the Saudi airspace, four fighter jets from the Air Force of Saudi Arabia escorted the plane. These were also joined by six other planes that formed red and yellow contrails in a show of respect for the Chinese flag. Later, President Xi's car was greeted with a horseback parade at the Al Yamamah Royal Palace in Riyadh. All these gestures were symbolic, demonstrating the rise of Sino-Saudi relations.

It was President Xi's second visit to the Kingdom of Saudi Arabia since 2016. President Xi's visit to Riyadh is part of China's strategy to deepen its relations with the developing world, amid the United States' realignment with its allies and other like-minded partners under the Biden administration. The hero's welcome received by Xi stood in sharp contrast to an earlier bilateral meeting between American President Biden and Saudi Crown Prince Mohammed bin Salmon, where the former sought to avoid a handshake with a fist bump that looked weird and awkward. And the Saudi leader will surely not forget that President Biden once vowed to make Saudi Arabia a "pariah state" after the murder of Saudi journalist Jamal Khashoggi.

As part of their strategy to develop a global Saudi Arabia (see Map 7.1 for geographical location) and expand its ties with other countries in addition to the United States, the Saudi leaders are pursuing a visible strategic relationship with China, the world's second-largest economy. Bilateral trade between China and Saudi Arabia reached appropriately US\$87.31 billion in 2021. China has already become



**Map 7.1** Location of Saudi Arabia and Iran

Saudi Arabia's largest trading partner and the largest consumer of Saudi oil and petrochemical products.

Meanwhile, China sees the Kingdom of Saudi Arabia as both an influential country in the Middle East and a rising power itself, with strategic significance in the emerging multipolar world. To China, Saudi Arabia is an influential Muslim country. The Kingdom's endorsement is crucial for Beijing to gain international support from other Muslim countries in maintaining the stability of Xinjiang, one of the most troubled and politically sensitive regions in China, which is home to the ethnic Uyghur minority.

Both Beijing and Riyadh anticipate pursuing continuous domestic economic development by diversifying and globalizing their economies. During President Xi's three-day visit to Riyadh, both countries signed "The Comprehensive Strategic Partnership Agreement between the People's Republic of China and the Kingdom of Saudi Arabia", "Joint Statement Between the People's Republic of China and the Kingdom of Saudi Arabia" (Ministry of Foreign Affairs of the People's Republic of China 2022). In addition, a series of bilateral commercial agreements worth up to US\$30 billion were signed, although these agreements are not binding. These agreements will no doubt strengthen the economic ties between Beijing and Riyadh and bring the Kingdom closer to China's Belt and Road Initiative circle. One of these agreements is between the Saudi-based Sumou and China-based ENOVATE Motors to build an electric vehicle plant in the Kingdom with a capacity of up to 100,000 cars per year.

In the Joint Statement Between the People's Republic of China and the Kingdom of Saudi Arabia, which was signed by Saudi King of Salman bin Abdulaziz Al Saud and President Xi in December 2022, both countries reaffirmed that they will continue to firmly support each other's core national interests, support each other in safeguarding national sovereignty and territorial integrity, including Taiwan. To

coordinate their development, China and Saudi Arabia agreed that their respective leaders will hold biannual meetings.

President Xi's trip to Saudi Arabia has largely been viewed through the lens of U.S.-Saudi relations by the international media coverage. The Kingdom sees China as a reliable alternative to the United States in the emerging multipolar world. To further strengthen its ties with China, the Saudi leader wants to develop oil-rich Saudi Arabia into a self-reliant power, with a thriving economy, a stable society and a capable national defence. To play a more influential role in the regional and global affairs, Saudi Arabia wants to obtain full membership of both the Shanghai Cooperation Organization (SCO) and the BRICS (Brazil, Russia, India, China and South Africa) grouping. China has also become a key player in many regional cooperation institutions, such as BRICS and SCO. Thus, obtaining Beijing's endorsement is crucial for Saudi Arabia's bid for membership of both organizations.

As part of its overall strategy to deal with the rise of China, the United States is shifting its focus from the Middle East to the Indo-Pacific region. U.S.-Saudi relations have become strained in the aftermath of the Saudi assassination of the journalist, Jamal Khashoggi, and the Saudi-led OPEC's decision to cut oil production by around two million barrels a day. President Biden warned the Saudi leadership that the United States would reassess its ties with Saudi Arabia (Al-Atrush and White 2022). In contrast, China's silence on the murder of the Saudi journalist in Saudi Arabia's Istanbul consulate has reinforced the Saudi leader's belief that its view on the region and the world is more closely aligned with Beijing's than those of Western capitals.

During his three-day visit to Riyadh, the Chinese President also attended the China-Arab States Summit and the China-GCC (Gulf Cooperation Council) Summit. The China-Arab States Summit, the first of its kind ever to be held, was attended by nearly 20 Arab leaders from the region. It was hailed by the Chinese officials as a milestone in Sino-Arab relations. Besides the co-hosts, Xi Jinping and the Saudi Crown Prince Mohammed Bin Salman, President Abdel Fattah El-Sissi of Egypt, Qatar's Emir Tamim bin Hamad Al Thani, King Hamad bin Isa Al Khalifah of Bahrain and the Crown Prince of Kuwait, Sheikh Mishal Al-Ahmad Al-Jaber Al-Sabah, were among the high-profile leaders who attended the summit. This was China's largest and highest-level diplomatic interaction with the Arab world since the founding of the People's Republic of China in 1949. Xi's visit signals that there will be no slowing down in China's economic engagement with the world in the post-COVID-19 era.

Bilateral trade between China and the Arab countries reached over US\$300 billion in 2021. China has become one of the largest trading partners for the Arab countries. While the shifting of global power dynamics has increased the appeal of China within the Middle East region, the much-anticipated China-GCC Free Trade Agreement is yet to be finalized, mainly due to disagreements over oil tariffs.

Amidst the shift of U.S. strategic priorities away from the Middle East and the strained relations between the U.S. and Saudi Arabia, the Saudi leadership is seeking to diversify its foreign relations by forging partnerships with other emerging powers, including China, India, the Republic of Korea, and Indonesia. Concurrently, Beijing is grabbing a golden opportunity to capitalize on the strained relations between Saudi

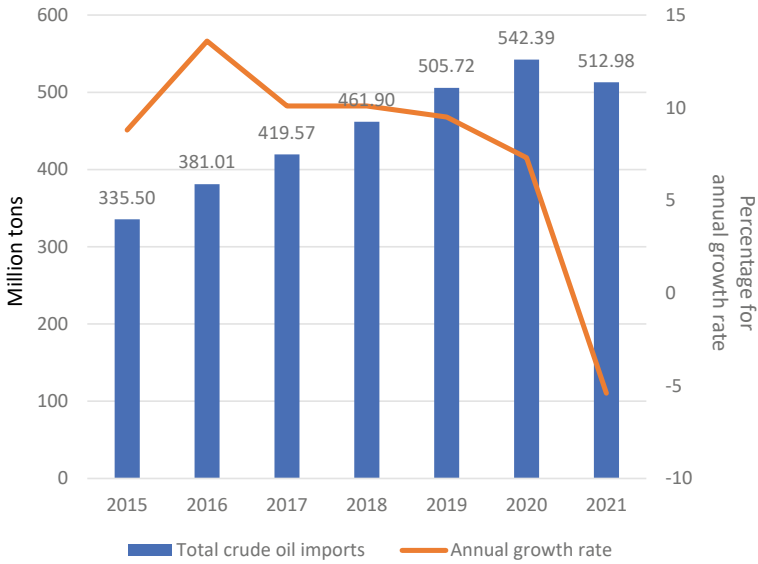
Arabia and the United States by securing a foothold in the resource-rich Middle East. China pursues a carefully crafted “balanced” foreign policy in the Middle East. Beijing has made efforts to strengthen its strategic ties with the Arab world. In the meanwhile, China has established good diplomatic, economic, cultural and military ties with Israel and Iran too.

In view of the complex situation and diplomatic relations in the Middle East, China has adopted a strategic approach of balanced diplomacy in the Middle East and not wanted to be involved in regional disputes and bilateral conflicts. President Xi's interactions with his counterparts in the region are a testament to this approach. Xi Jinping made a state visit to Saudi Arabia in December 2022, while he warmly greeted Iranian President Ebrahim Raisi in Beijing by rolling out the red carpet and with a 21-gun salute during his visit to Beijing in February 2023. With the support from China, Iran became a full member of the Shanghai Cooperation Organization in 2021.

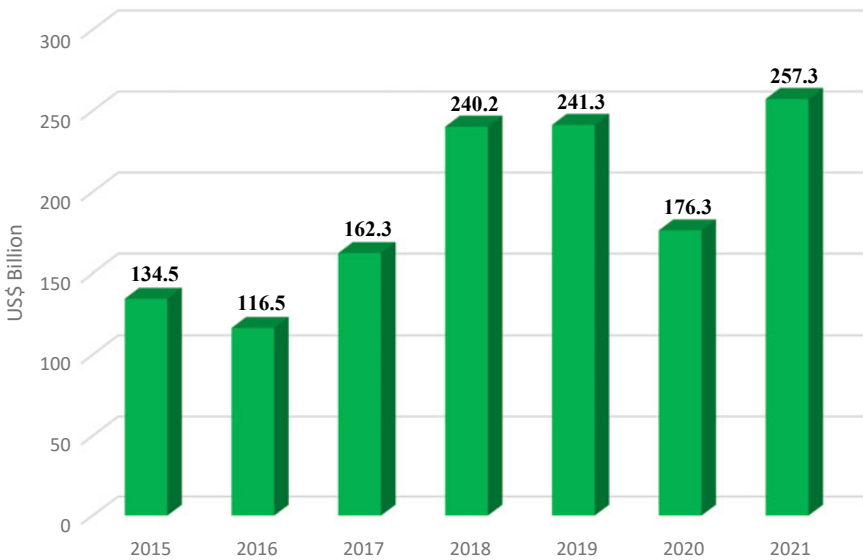
Unlike the American approach of supporting one side against the other and creating division in the Middle East, China is playing a delicate diplomatic balancing role by trying to bring together the rival parties in the region. Balancing is a diplomatic strategy used by China to maintain stable power relations between itself and other Persian Gulf states or groups of states in the region, which involves using the tools of hard and soft power. China is willing to promote economic and trade ties and develop cooperation without political strings attached. China wants to project an image of a trusted but neutral power in the region by forging friendships with all countries in the region, big and small, democratic, or authoritarian.

## **7.2 Energy as the Core of the Bilateral Ties Between China and Saudi Arabia**

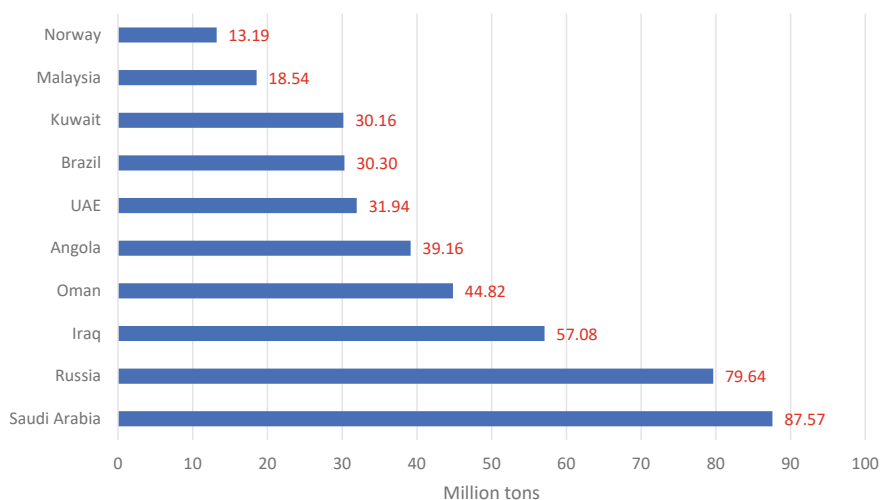
Against the backdrop of Chinese economic growth and the boom in its export-oriented manufacturing industries over the last two decades, China's demands for oil, gas and other commodities have rapidly increased accordingly. According to China Customs data, China's total crude oil imports had increased to 542.39 million tonnes in 2020 from 335.5 million tonnes in 2015, although they dopped slightly in 2021 due to the COVID-19 pandemic, local lockdowns and factory shutdowns in certain localities in China (Fig. 7.1). China imports annually a very substantial amount of oil to meet its domestic economic demand, sourced from a variety of countries. In 2021, China's total spending on crude oil imports sat at US\$257.3 billion, compared to the corresponding figure of US\$134.5 billion in 2015 (Fig. 7.2). To power domestic manufacturing and economic growth, China has to spend heavily on energy imports due to its own inadequate domestic supply. In fact, after semiconductors (chips), energy was its second-largest import in terms of value.



**Fig. 7.1** China’s total crude oil imports, 2015–2021. *Source* Qianzhan Industry Research Institute, 2022



**Fig. 7.2** China’s total spending on crude oil imports, 2015–2021. *Source* Qianzhan Industry Research Institute, 2022



**Fig. 7.3** Top 10 suppliers of crude oil to China in 2021. *Source* China Customs, 2022

Since the Chinese leadership started to shift its “Zero COVID-19” pandemic containment policy to a “live with COVID-19” strategy in late 2022, China has gradually been reopening its economy, and industrial production will certainly gradually recover to pre-pandemic levels. China’s demand for energy and commodities will concomitantly bounce back.

According to Fig. 7.3, in 2021, five Arab countries including, Saudi Arabia, Iraq, Oman, United Arab Emirates and Kuwait, were among China’s top 10 sources of imported oil. The Arab states combined supplied 212.57 million tonnes oil to China in 2021, accounting for appropriately half of China’s total imports of crude (estimated at 512.98 million tonnes). The Arab states play a pivotal role in supplying energy to power China’s domestic industrial and economic development. China is reliant on the energy-rich Arab nations for its energy security.

Saudi Arabia is the world’s top oil exporter, while China is the largest buyer of Saudi oil and the world’s biggest energy consumer. In 2021, it bought around 16.5% of total oil production by Saudi Arabia. Figure 7.3, which lists the ten top suppliers of crude oil to China in 2021, shows that Saudi Arabia was the top-ranking supplier of oil to China in that year. China imported 87.57 million tonnes of crude oil from the Kingdom, accounting for 17% of China’s total imported oil. Energy collaboration was the core of all discussions between Xi and his Saudi counterpart. Energy serves as the bedrock of the partnership between Beijing and Riyadh. Both countries reaffirmed their cooperation on achieving stability of global energy markets. As stated in the Joint Statement:

In terms of energy, the two sides emphasized that strengthening energy cooperation is a manifestation of the important strategic partnership between the two countries. Saudi Arabia is rich in oil resources, and China has a vast market. The two sides mentioned the scale of oil trade between the two countries and a good foundation for cooperation. It is in the common

interests of China and Saudi Arabia to promote and consolidate bilateral cooperation in the oil field. The two sides emphasized the importance of stability in the global oil market. China welcomes Saudi Arabia's role in supporting the balance and stability of the global oil market, and welcomes Saudi Arabia as a major and reliable source of crude oil for China.

The Sino-Saudi economic cooperation is mainly centred on energy and infrastructure construction, including buying oil from Saudi Arabia and investing considerably in each other's critical oil and petrochemical refinery infrastructure. On the one hand, in early 2022, Aramco, the Saudi state oil conglomerate, made a decision to invest in a refinery and petrochemical complex in Liaoning Province, China's heavy industry heartland. The project was worth US\$10 billion, and it is expected to be operational in 2024, combining a 300,000-bpd refinery and 1.5 million tonnes per year ethylene plant, with Aramco set to supply up to 210,000 bpd of crude oil. This project marks the Kingdom's single largest investment in China. Aramco's other investments in China include a 25% stake in the Refinery and Petrochemical Company Ltd in Fujian province, which is controlled by Sinopec. The project began in 2008 to operate a 280,000-bpd refinery and a 1.1 million tonne per year ethylene plant. On the other, China's state oil giant, Sinopec (China Petroleum & Chemical Corporation) owns a 37.5% stake in the Yanbu Aramco Sinopec Refinery Co, which is located on the coast of the Red Sea. The Yanbu project is a joint venture between Sinopec and Aramco that operates a 400,000-bpd refinery.

### **7.3 China's Ties with the Middle Eastern Countries Under the BRI**

China sees the GCC states and the entire Middle East as a promising emerging market for Chinese companies. Importantly, the region was situated along the historical Silk Road and is now involved in its modern version, the Belt and Road Initiative (BRI). China is pushing hard for the implementation of the BRI by expanding its trade and increasing investment in the region. In 2021, China's total trade volume with the Middle Eastern countries reached US\$259 billion.

The BRI is the hallmark of China's emergence. Through this platform, China is rapidly extending its economic influence in Asia and other parts of the world. The rise of China and its growing clout in the world have enhanced its leaders' confidence and the ambition to continue to promote and implement the BRI internationally (Yu 2022a). The BRI serves as the new cooperation platform to advance China's relations with the Arab world. The BRI is helping to expand member countries' cooperation in various areas covering infrastructure financing and construction, energy, finance, industrial parks, manufacturing, telecommunication technology, high-tech industry, tourism, education and cultural exchanges. Beijing aims to expand its trade, investment and economic ties with the region, as well as expand its influence amid the BRI push, slowly but steadily.

Saudi Arabia and Iran both served as important regional transportation and trade hubs along the ancient Silk Road, where silk was traded as a commodity between the Arab, Persian and Chinese merchants. Through Arabia and Persia, China established a trade and transportation route to Europe. Hence, China's new strategic partnership with both countries could facilitate deepening of BRI implementation in the region. China hopes to counter the confrontation and containment of the United States and allied allies by strengthening its relations with both Iran and Saudi Arabia, further advancing the BRI in the Middle East and expanding its circle of partners and friends of China's strategy. China's warming relations with both Saudi Arabia and Iran will help strengthen China's strategic influence in the region.

With its rise in the region and beyond, China has interests that go far beyond the Asia-Pacific region. Xi's visit to Riyadh amounted to far more than boosting energy cooperation between the two countries. China plans to train 1500 police and cybersecurity officials to deepen the security cooperation between China and the Arab countries. It also seeks to play a more important role in resolving many long-standing conflicts and crises afflicting the region, ranging from the rivalry between Iran and other Arab states to the Israeli-Palestinian conflict. The recent development of rapprochement between Saudi Arabia and Iran, which was facilitated by China, is such a case in point.

Under the BRI framework, China's increasing influence has greatly unsettled the existing global landscape and geopolitics. The BRI has attracted increasing attention from the international community. According to official data from China, 150 nations (including all Arab and GCC States) had signed various BRI cooperation agreements with China by the end of 2022. Since launching the BRI in 2013, China has spent billions on overseas investments and construction contracts for BRI projects in more than 100 nations. The BRI is currently the world's largest geoeconomic initiative, involving 150 countries. The other major Western-oriented infrastructure initiatives, namely the European Union's Global Gateway, the United States' Bule Dot Network, Japan's Quality Infrastructure Investment and the G7's Partnership for Global Infrastructure and Investment have not yet produced enough geoeconomic momentum globally to seriously rival the BRI (Yu September 2022b).

Chinese investment in the infrastructure construction industries is welcomed by the Middle Eastern countries, particularly those countries affected by conflicts, as a source for boosting economic growth and industrial take-off. Calabrese (2022) argues that China's push for the BRI in the region is expanding from its primary focus on infrastructure construction to the health, science and technology and digital domains.

China has cemented its ties with Saudi Arabia and the other Gulf states over the past decade, Qatar being a case in point. Qatar recently hosted the 2022 FIFA World Cup, marking the first time the World Cup has been held in an Arab country. Despite not qualifying for the World Cup finals, China's influence was to be seen everywhere at the Qatar World Cup 2022, ranging from the construction of stadiums, including the Lusail Stadium, the main stadium for the 2022 World Cup and worth US\$764 million, the development of the Al Kharsash Solar Power Plant, which served as one of the main power sources for the tournament, to provision of electrical vehicles operating



within the sport venues and souvenirs made by Chinese factories (Rakhmat and Purnama 2022). According to GlobalData, a London-based information services firm, Chinese companies were among the main sponsors for the tournament, with their sponsorship revenue sitting at US\$1.4 billion, in contrast to US\$1.1 billion from U.S. firms.

#### **7.4 The Saudi Arabia-Iran Deal Mediated by China: A Major Geopolitical Shift in the Middle East**

Saudi Arabia and Iran are leaders of the two largest sects of Islam, with Riyadh considering itself the guardian of Sunnis and Iran assuming a similar guardian role for Shiites. The Sunni majority in Saudi Arabia and the Shia majority in Iran have long seen each other as a threatening power with its eyes on regional dominance. Their relations have been highly complicated and contentious, which has affected regional peace and security in the Middle East.

The rapprochement between Saudi Arabia and Iran, which was facilitated by China, took the region and the world by surprise. Following four days of secret talks in Beijing in March 2023 between Musaad bin Mohammed al-Aiban, Saudi Arabia's Minister of State, and Ali Shamkhani, National Security Advisor and Secretary of Iran's Supreme National Security Council, Saudi Arabia and Iran agreed to restore their diplomatic ties, to reopen embassies within two months, and to prepare for exchange of ambassadors, according to the tripartite joint statement signed by Saudi Arabia, Iran and China on 10 March 2023. Both countries have further agreed to put aside their respective concerns and differences and to open a new page in their bilateral relations. In addition, Saudi Arabia and Iran have agreed to abide by the principle of sovereignty, non-interference in each other's internal affairs, and jointly work to maintain long-term peace and stability in the region. Both countries also agreed to activate a bilateral security cooperation agreement signed in 2001, and a general agreement on economy, trade, investment, scientific research and technology, which was signed in 1998, according to the tripartite joint statement (Ministry of Foreign Affairs of the People's Republic of China 2023a).

Saudi Arabia cut its diplomatic ties with Iran in January 2016 after angry Iranian protestors stormed its embassy in Tehran following Riyadh's execution of a prominent Shia Muslim cleric. The signing of the agreement signifies both countries could be ending seven years of estrangement and hostility. The development marks a major geopolitical shift in the Middle East. The China-brokered agreement reached by Saudi Arabia and Iran has sent multifaceted messages across the region and beyond.

First, the Saudi-Iran agreement is expected to reestablish development and security in the region. The Saudi Arabia-Iran agreement is both historical and symbolic, and it could help to de-escalate the tensions between the two countries and ensure badly

needed long-term peace and stability in the region. The deal could generate wide-reaching implications for the Middle East. It is expected to boost regional cooperation among the Persian Gulf countries and other Islamic countries.

China has stunned the Middle East and the world by achieving an unexpected diplomatic breakthrough. Wang Yi, China's top diplomat and director of the Chinese Communist Party Central Foreign Affairs Office, claimed, while chairing the closing ceremony of the Beijing dialogue among Saudi Arabia, Iran and China, that the deal is a victory for peace and diplomacy. This Saudi-Iran rapprochement has become a successful practice of China's Global Security Initiative (Ministry of Foreign Affairs of the People's Republic of China 2023b).

Second, Saudi Arabia and Iran are the two most powerful countries in the Middle East, and both are influential powers in the Muslim world. The Iran-Saudi Arabia deal could cause a "ripple effect" in the security arrangements and geostrategic landscape for the region. It could also pave the way to finally ending the conflicts and security crises in Yemen, Lebanon and Syria. António Guterres, the United Nations' Secretary General, remarked that the deal is a very positive development, and he thanked China for brokering the deal and helping to ensure durable peace and security in the region (Reuters March 2023).

Third, the Saudi Arabia-Iran deal shows Beijing's influence in the region is sharply increasing. Saudi Arabia and Iran both thanked China for hosting the peace talks and its leadership role in them (Turak 2023). President Xi Jinping was personally involved in brokering the Saudi-Iranian agreement, having expressed to Saudi Crown Prince Mohammed bin Salman during his visit to Riyadh in December 2022 that Beijing could play a "bridge" role between Saudi Arabia and Iran. Before that, China rarely became involved in solving regional conflicts as either a mediator or external player which could change the balance of power in the Middle East. Beijing is clearly becoming far more proactive and forthcoming in its foreign policy towards the region. Both countries now view China as not only an important trade and economic partner, but also as a security partner in the region.

Both Saudi Arabia and Iran are rich in oil resources. Their economies are highly dependent on oil exports. China is the world's largest oil consumer and the largest oil importer. In this sense, China is not just a general buyer for Saudi and Iranian energy products, but their primary strategic customer. China's influence on both countries' economies has been rising in recent years, and China is their most important export market and largest trading partner.

Just as the United States is seeking a strategic pivot to the Indo-Pacific region based on reducing its involvement in the Middle East, China is seizing the opportunity to step into the region. The Americans' rushed withdrawal from Afghanistan in 2021 reinforced the impression formed by many Middle Eastern countries that the United States is withdrawing from the region (Parsi and Aljabri 2023). More important, as it is the largest trading partner and the top energy buyer for both Saudi Arabia and Iran, China has the economic leverage to influence both countries. It can capitalize this leverage to take on the significant role of power broker in the Middle East which was traditionally held by the United States.

By brokering the Riyadh-Tehran deal, China has established itself as a reliable and trusted mediator for both countries. China has played a pivotal role in mediating the agreement on normalizing diplomatic relations between Riyadh and Tehran and bringing reconciliation between the two long-term arch-rivals. In addition to the trade and economic arenas, China's greater involvement in regional security and conflict mediation is welcomed by the regional countries. As stated in the following extract from the tripartite joint statement:

In response to the positive initiative of President Xi Jinping of the People's Republic of China on China's support for the Kingdom of Saudi Arabia and the Islamic Republic of Iran to develop good-neighborly and friendly relations, according to the agreement reached by President Xi Jinping and the leaders of Saudi Arabia and Iran on China's hosting and supporting the talks between Saudi Arabia and Iran Consensus, in order to resolve their differences through dialogue and diplomacy within the framework of fraternal relations, to abide by the purposes and principles of the Charter of the United Nations, the Charter of the Organization of Islamic Cooperation, as well as international regulations and practices, the Saudi Minister of State, cabinet members, National Security Adviser Musaid bin Mohammad Alban and Iran's Supreme National Security Council Secretary Ali Shamkhani respectively led Saudi and Iranian delegations to hold talks in Beijing from March 6 to 10, 2023.

China has long advocated that conflicts and differences in the world should be resolved peacefully and politically through dialogue and negotiations, as reflected in the Global Security Initiative (GSI), which was first proposed by President Xi Jinping in April 2022. The official concept paper of the GSI calls on countries to adapt to the profoundly changing international landscape in a spirit of solidarity, and address the complex and intertwined security challenges with a win-win mindset. The GSI aims to eliminate the root causes of international conflicts, improve global security governance, encourage joint international efforts to bring more stability and certainty to a volatile and changing era and promote durable peace and development in the world. The core concepts and principles of the GSI refer to the following six points: stay committed to the vision of common, comprehensive, cooperative and sustainable security; stay committed to respecting the sovereignty and territorial integrity of all countries; stay committed to abiding by the purposes and principles of the United Nation Charter; stay committed to taking the legitimate security concerns of all countries seriously; stay committed to peacefully resolving differences and disputes between countries through dialogue and consultation; and stay committed to maintaining security in both traditional and non-traditional domains (Ministry of Foreign Affairs of the People's Republic of China 2023c).

Fourth, Beijing has a long-term geostrategic plan to insert China not only into economic areas but also the overall security arrangements of the region. By stepping up its efforts in the region, China is competing with the United States for influence in the Middle East. The agreement reached in Beijing demonstrates that China has ability to project its power and diplomatic influence beyond the Asia-Pacific region. China is becoming an indispensable power, politically and economically, in a region where it has long been geostrategically dominated by the United States.

Its successful brokering of the agreement between Saudi Arabia and Iran is telling the world that Beijing can do big things, while Washington is simply incapable of

making such a deal between these two long-term arch-rivals. Iran has long been considered by the United States as a foe and a security threat. The United States has long accused Iran of backing terrorist groups or armed militias in the region. Meanwhile, Saudi Arabia is a long-term security ally of the United States in the Middle East. Nevertheless, both Iran and Saudi Arabia seem to be determined to implement foreign policies which are independent from those of the West in general and the United States in particular.

The China-mediated agreement is not only a big victory for China's diplomacy, but also it strikes a major blow against American's foreign policy towards the Middle East. It could signal the waning of American influence in the region. The China-mediated Saudi Arabia-Iran agreement presents an alternative to a Washington-led order in the region. As a *New York Times* report commented (Baker 2023):

The Americans, who have been the central actors in the Middle East for the past three-quarters of a century, almost always the ones in the room where it happened, now find themselves on the sidelines during a moment of significant change. The Chinese, who for years played only a secondary role in the region, have suddenly transformed themselves into the new power player.

The objective of China's foreign policy towards the Middle East is to seek strategic balance, but not regional control and domination. Without taking sides or getting entangled in their disputes, Beijing could avoid being perceived as a party in the conflicts and has won praises from countries in the region. Beijing's approach has enabled it to rise as a credible power that can mediate conflicts and resolve disputes.

By strengthening its ties with Saudi Arabia, China has been developing close relations with Iran for the past decade. Both China and Iran are facing the pressures of US sanctions and geopolitical competition from the West. In March 2021, Wang Yi's visit to six Middle Eastern countries, in particular, Iran, attracted much attention from the international community. During Wang Yi's visit to Iraq, he and then Iranian Foreign Minister Zarif formally signed on behalf of the two governments the Agreement on "Comprehensive Cooperation between the People's Republic of China and the Islamic Republic of Iran" for the next 25 years (China-Iran Comprehensive Cooperation Plan). This plan injects substance into China's strategic partnership with Iran. According to publicly available information, the China-Iran Comprehensive Cooperation Plan lays out a roadmap for future comprehensive cooperation between the two countries and is a strategic framework guiding the development of bilateral relations. The agreement covers politics, economy, energy, finance, infrastructure construction, defence security and a wide range of other fields such as medical and health care and people-to-people exchanges. Despite domestic opposition to the partnership, the Iranian leadership has given due consideration to ending Iran's isolation and countering the US sanctions. Ayatollah Ali Hosseini Khamenei has explicitly supported the deepening of Iran's cooperation with China and the agreement, clearing the path for its signing.

Iran, with a population of more than 83 million, is a young country that has great consumption potential. China hopes that its signing and implementing of the China-Iran Comprehensive Cooperation Plan will help Chinese enterprises further

expand into the Iranian market through their exports of goods and services. Iran has an especially urgent need to improve its infrastructure facilities, including domestic roads, airports, ports and power stations, and improve the efficiency of transportation, logistics and transportation. According to the World Economic Forum's Global Competitiveness Report 2019, Iran ranks very low internationally in areas such as road quality, port operational efficiency, air transport, power supply and telecommunications infrastructure. Iran's need to improve infrastructure and operational efficiency provides opportunities for Chinese companies to enter relevant markets.

Trade with China accounted for more than a quarter of Iran's total foreign trade in 2019. Many Chinese enterprises have long been involved in Iran's domestic economic development, industry and infrastructure construction. Despite the US sanctions, China has not stopped importing oil and energy products from Iran. To avoid and reduce transaction risks due to the sanctions, China has continued to import Iranian oil through third parties and unofficial channels. According to data from Refinitiv Oil Research, China imported 17.8 million tonnes of Iranian crude oil, averaging about 300,000 barrels per day, during the 14-month period from January 2020 to February 2021. On the one hand, in the face of US sanctions and blockade, Iran urgently needs foreign investment, technology and expansion of trade space, and the implementation of the China-Iran Comprehensive Cooperation Plan will allow Iran to cope with economic difficulties and provide urgently needed foreign investment in domestic infrastructure. On the other hand, the agreement will also allow China to obtain a stable supply of oil from Iran at a more favourable price, which will help to further strengthen China's energy import diversification strategy and ensure its domestic energy security (Yu 2021).

The China-mediated agreement between Riyadh and Tehran indicates that its policy towards the region is quite effective and forceful. China is emerging as the new power broker in the Middle East, a region burdened by crises and conflicts. After successfully brokering the reestablishment of diplomatic ties between Saudi Arabia and Iran, Beijing could turn its attention to other hotspot issues, such as the long-standing Israeli-Palestinian conflict.

## 7.5 Limitations of the Sino-Saudi Economic Ties

Although bilateral trade between Beijing and Riyadh is increasing, it remains narrowly based. The bulk of imports from the Kingdom to China has consisted of crude oil and petrochemical products. China's trade deficit with Saudi Arabia has increased thanks to the former's huge demand for oil imports. In 2021, according to the Chinese official statistics (Ministry of Commerce of the People's Republic of China January 2022), China spent US\$39.73 billion on buying Saudi oil, while crude oil accounted for around 70% of the value of China's imports from Saudi Arabia (US\$ 56.99 billion).

As shown in Table 7.1, the total value of Saudi exports of mineral fuels, oils and products thereof to China reached US\$44.87 billion in 2021. Meanwhile, China

mainly exports electrical machinery and electrical equipment, vehicles and auto parts, furniture and home appliances to Saudi Arabia. According to the ITC Trade Map (Table 7.2), in 2021, China exported electrical machinery and equipment with a total value of US\$12.58 billion to Saudi Arabia, accounting for appropriately 41% of total value of China's exports to the Kingdom (estimated at US\$30.32 billion).

Beijing and Riyadh are seeking to develop a partnership that goes beyond the traditional supplier–buyer relationship in terms of Saudi oil. Both countries seek to expand this cooperation to other areas, such as telecommunication, cloud computing, nuclear technology, aerospace, finance, logistics and medical industries. Both Saudi Arabia and China share the convergence of interests in seeking sustainable economy by going global, and greater autonomy and diplomatic space in the international system.

Oil and petrochemical products accounted for over 90% of the value of Saudi exports and appropriately 87% of total revenue received by the Kingdom. Oil and

**Table 7.1** Top 5 products exported from Saudi Arabia to China in 2021

Rank	Product category	Amount (US\$ billion)
1	Mineral fuels, mineral oils and products of their distillations, bituminous substances and mineral wax	44.87
2	Organic chemicals	5.67
3	Plastics and articles thereof	4.89
4	Ores, slag and ash	0.56
5	Salt, sulphur, earths and stone, plastering materials, lime and cement	0.28

Source ITC Trade Map

**Table 7.2** Top 5 products exported from China to Saudi Arabia in 2021

Rank	Product category	Amount (US\$ billion)
1	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	7.79
2	Machinery, mechanical appliances, nuclear reactors, boilers, parts thereof	4.79
3	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	2.31
4	Ships, boats and floating structures	1.96
5	Furniture, bedding, mattresses, mattress supports, cushions and similar stuffed furnishings, lamps and lighting fittings, not elsewhere specified or included; illuminated signs, illuminated nameplates and the like, prefabricated buildings	1.46

Source ITC Trade Map

other related industries accounted for over 40% of Saudi's GDP. To diversify its industrial development and reduce the dependence on the oil sector, the Kingdom needs China. Given that China is the world's largest manufacturing country, and the top producer of renewable energy equipment for such as solar and wind power, it has strong production capacity in a variety of industries.

During Xi's visit, both countries resolved to accelerate the synergy between China's Belt and Road Initiative and Saudi Arabia's 2030 Vision (China Briefing 2022). Both countries committed to jointly construct the BRI and "2030 Vision" in order to forge collaboration on non-oil sectors and boost non-oil trade. Saudi's 2030 Vision is referred to as a strategic framework aimed at reducing Saudi Arabia's reliance on oil, diversifying its economy and expanding public service areas such as health, education, infrastructure, recreation and tourism. One of the Vision's main objectives is to promote a softer and more secular image of the Kingdom, in addition to bolstering economic and investment activity.

## **7.6 Xi's Call for RMB Settlements for Energy Trading and China's RMB Internationalization Strategy**

During President Xi's meeting with the Saudi leader and other fellow leaders from the GCC states, he promoted the use of Renminbi (Chinese currency or *yuan*) for trading in oil and gas with the GCC countries (Ng 2022). During the China-GCC summit, President Xi's call for RMB settlement for oil, gas and other energy products with the GCC countries, based on the platform of the Shanghai Petroleum and National Gas Exchange, could be seen as a sign of China's push for an RMB internationalization strategy. If the move is materialized, it could weaken the US dollar's hold on global trade and also help to boost the internalization of the Chinese currency. It is widely perceived as part of China's plan to challenge the U.S. dollar (USD)'s dominance in the global energy markets, the so-called Petrodollar system, which has helped to preserve the dollar's status as the top international reserve currency and payment medium for oil, gas and other commodities. Due to its status as the world's second-largest economy and one of the largest trading nations, China is still one of the biggest holders of U.S. dollars.

Beijing's unhappiness with the global reserve system being de facto based on the USD dates back to the 2008/2009 period, soon after the outbreak of the global financial crisis. The Western financial and economic sanctions which have been imposed on Russia due to its war on Ukraine, have heightened China's will to expedite the Renminbi internationalization strategy in order to safeguard China's national economic interests. Amid the fast-changing global geostrategic environment, and the intensified power rivalry between the United States in general and the technological decoupling in particular, China's dependence on the USD for both inward and outward foreign investment, international trade payment, as well as for trading

on imports of energy and other critical commodities to power domestic industrial growth, has exposed vulnerability in its national economic security.

From Beijing's perspective, since the policymakers in Washington are increasingly taking a hostile attitude towards China, which is widely perceived as the U.S.'s top long-term enemy, it makes no sense for China to continue to rely on its rival's currency, the USD, as the main payment medium for its external trade and international economic engagement. President Xi and the Chinese leadership team are undoubtedly taking note of the devastating effects of economic and financial sanctions on the Russian economy. If China were to engage in a war against Taiwan, it would almost certainly trigger the United States and its other Western allies to impose severe sanctions on China, which could have large impacts or even cripple the Chinese economy. Beijing thus has stepped up its preparation efforts to insulate its economy and vital trade linkage from over reliance on the USD.

China's plan to accelerate the internationalization of the RMB is an effort to wean itself off the current international monetary system and Society for Worldwide Interbank Financial Telecommunication (SWIFT) system, both of which are led by the United States. Under its RMB internationalization strategy, China has for the past decade been focusing on the vast developing countries in Southeast Asia, Central Asia, South Asia, the Middle East, Africa and Latin America in its global push for the RMB. The RMB is becoming more widely used around the world, and it could become a more serious international payment currency.

Moreover, Beijing has been making efforts to increase deployment of its digital currency (e-RMB) during the same period. Chan (2023) argues that although its Central Bank Digital Currency (CBDC) initiative is still in the early experimental phase, China has emerged as a forerunner in the light of its influence over the standardization of digital payment infrastructure. China is building a scalable e-RMB model by partnering with UnionPay (the largest card firm in the world, with 8.4 billion cards issued and accepted in 179 countries) and China Mobile (with over 975 million customers worldwide), as well as with Alipay (with 1.3 billion users) and WeChat Pay (with 900 million users), which are two leading mobile payment platforms.

China is one of the major trading partners for these vast developing countries, which regard maintaining good relations with Beijing as key to their economic development. These countries are therefore more receptive to gradually accepting the Chinese currency for cross-border transactions. China's international settlements in RMB with the BRI countries reached RMB5.42 trillion (estimated at US\$763.4 billion) in 2021 (Chan and Yang 2022). Given that the amount of international settlement in RMB was negligible just five years ago, this development is surely astonishing.

The US dollar still maintains its status as the world's predominant reserve currency, its influence is gradually diminishing. According to the IMF data, 58% of global reserves were held in the US dollar in the last quarter of 2022, compared to the US dollar accounted for 73% of reserves in the world in 2001. George Yeo, Singapore's former foreign minister, recently remarked during the annual ISEAS-Yusof Ishak Institute's regional outlook forum 2023, that "US weaponization of the US financial system is causing the establishment of an alternative system. At some



point, the growth of an alternative system will threaten the primacy of the US dollar” (Yeo 2023).

The increasing usage of the Chinese currency stems from China’s status as the second-largest economy in the world and its dominant position in the global merchandise trade. China is the largest trading partner for over 100 countries, many of these countries have signed up for the BRI and are in Southeast Asia and Central Asia. The internationalization of the RMB is expected to accelerate.

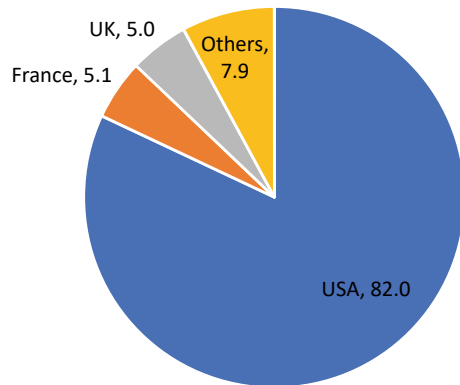
Nevertheless, while Xi’s call for trading of oil and gas in RMB is part of China’s efforts to push for the RMB internationalization strategy, it is still too early for Saudi Arabia and other GCC countries to ditch the USD in pricing their oil and gas sales. In addition, cross-border settlement of Saudi oil payments with Chinese currency has encountered various geopolitical and practical difficulties. As the RMB is not a fully convertible currency like the USD or EURO, holding the Chinese currency is not of much benefit to the Saudis. Very few Saudi-made products are being exported to China to date, except for oil and the other petrochemical products. The days of USD supremacy as the world’s dominant reserve currency are therefore far from numbered.

## 7.7 Sino-Saudi Defence Ties

Sino-Saudi Arabia defence ties remain limited in scope despite the rise in bilateral trade and close political engagement. According to MERICS’s estimation, in contrast to the value of Saudi-U.S. arms trade, sitting at US\$17.85 billion, the value of Sino-Saudi arms trade was a very modest US\$245 million between 2013 and 2021 (Al-Tamimi 2022). The value of U.S. arms sales to the Kingdom was over 72 times higher than that of Chinese arms sales. Saudi Arabia is the world’s largest defence spender, and in the past, the Kingdom has imported weapons mostly from the United States. According to the Stockholm International Peace Research Institute, the United States supplied up to 82% of Saudi arms imports between 2017 and 2021. Other Western countries, such as France and the United Kingdom, were also among the main suppliers of weapons to Saudi Arabia (Fig. 7.4).

The Kingdom is now keen to diversify its imports of weapons and has thus sourced weapons from a range of countries, including France, Germany, Italy, and the Republic of Korea. China has yet to become a top alternative for supplying weapons and other defence equipment to Saudi Arabia. The arms trade between China and Saudi Arabia dates back to the late 1980s, when the Kingdom started to purchase middle-range missiles, drones and self-propelled artillery from China (Xie 2022). Nevertheless, security cooperation between Beijing and Riyadh remains limited. Despite the deepening bilateral political and economic relations between Beijing and Riyadh, the United States remains the Kingdom’s most significant ally in general and on defence cooperation in particular. America’s President Biden has vowed that the United States will not walk away from the region and leave a vacuum to be filled by China, Russia or Iran.

**Fig. 7.4** Main suppliers of Saudi Arabia's arms imports, 2017–2021 (Unit: Percentage). *Source* Stockholm International Peace Research Institute (March 2022)



From Washington's perspective, it can't afford to break the ties with Saudi Arabia, as the Kingdom serves as a critical ally for helping the United States to stabilize the crisis-ridden Middle East and keep the Iranian influence under control. The United States' influence in Saudi Arabia and the region as a whole will not decline significantly in the foreseeable future. Saudi Arabia and the other Arab states want to maintain good relations with both China and the United States. As Saudi Arabia's foreign minister commented recently, "We do not believe in polarization or in choosing between sides. ... cooperating with the world's number two economy is necessary, however, this does not mean not cooperating with the world's number one economy". The Saudi leadership is aware that maintaining good relations with Uncle Sam remains, of necessity, a key foreign policy objective for the Kingdom.

## 7.8 Conclusion

The debate among Chinese experts over the necessity and wisdom of China getting more involved in the Middle East in order to protect Chinese economic interests and safeguard its national energy security has now drawn to a conclusion. It is increasingly argued that China should increase its presence in the region and thereby ditch its image of being a free rider.

China is making efforts to deepen its ties with the Middle Eastern countries, economically, politically as well as strategically. China's President Xi Jinping's visit to Saudi Arabia in December 2022 is a case in point. It came on the tail of his winning a third term as China's paramount leader at the 20th National Congress of the Chinese Communist Party in late October 2022. To the Chinese leader, Saudi Arabia is both an influential country in the Middle East and a rising power with strategic significance in a multipolar world. Saudi leaders' pursuit of a visible strategic relationship with China, the world's second-largest economy, is part of their strategy to develop a global Saudi Arabia and expand its ties with countries apart from the United States.

China is Saudi Arabia's largest trading partner and the largest consumer of Saudi oil and petrochemical products. Energy serves as the bedrock of the partnership between Beijing and Riyadh. Beijing and Riyadh's bilateral trade volume is increasing, the structure of this bilateral trade remains narrowly based. Saudi Arabia exports mostly crude oil and petrochemical products to China. Sino-Saudi Arabian defence ties remain limited in scope even with the rise in bilateral trade and the close political engagement.

The two countries are seeking to develop a partnership that goes beyond the traditional supplier–buyer relationship in terms of Saudi oil. The BRI has a role to play in expanding China's cooperation with the regional nations in areas that go beyond the energy industry. Other areas of cooperation include telecommunication, cloud computing, nuclear technology, aerospace, finance, logistics and medical industries. A series of non-binding bilateral commercial agreements worth up to US\$30 billion have also been signed. These agreements will doubtlessly strengthen the economic ties between Beijing and Riyadh.

During his three-day visit to Riyadh, the capital of Saudi Arabia, the Chinese president also attended the China-Arab States Summit and China-Gulf Cooperation Council Summit. The China-Arab States Summit, the first of its kind ever to be held, was attended by nearly 20 Arab leaders from the region. This was China's largest and highest-level diplomatic interaction with the Arab world since the founding of the People's Republic of China in 1949. Xi's visit signals that there will be no slowing down in China's economic engagement with the world in the post-COVID-19 era. The Middle Eastern states supply critical energy to power China's domestic industrial and economic development.

China has developed good relations with both Saudi Arabia and Iran over the years, and they see China as an honest broker. This allows Beijing to play a mediator role to bring the two rival parties closer to reconciliation in the interests of peace and stability in their countries and the Middle East. The China-mediated agreement between Riyadh and Tehran is historic, indicating a major geopolitical shift and realignment in the region. China has intensified its diplomatic, economic and political engagement in the region, and it will continue to do so.

China has great interest in the Middle East becoming a stable and prosperous region, rather than one of conflict and confrontation. On the one hand, from the geostrategic perspective, China has stepped up its efforts to be involved in the Middle East, in a strategic position between the East and the West. On the other, from the geoeconomic point of view, the oil-rich Middle East is crucial to ensuring its national energy security. The emerging Middle East with its young population and increasing middle class, is an important market for Chinese firms engaged in sectors ranging from infrastructure construction, agricultural, food, automobiles, home appliances to smartphones and the 5G telecommunication network.

Nevertheless, it must be emphasized that both Saudi Arabia and Iran have pursued an independent foreign policy of “Neither East nor West” and will not fully lean towards China. Based on ancient and magnificent civilizations, the modern Saudi Arabia and Iran both retain too strong a sense of national pride to allow that to happen.

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