

Chapter 48

Sino–Saudi Joint Ventures and Trade in Petrochemical Sector

Norafidah Ismail

Universiti Utara Malaysia, Malaysia

ABSTRACT

The paper seeks to analyse the development of joint investment in the petrochemical projects and the growth of petrochemical trade between the two countries. It will also examine an important issue that has not yet been resolved in the Sino-Saudi petrochemicals trade. Saudi and Chinese companies recorded successful performance in the joint venture petrochemical projects in Quanzhou, Tianjin and Yanbu (Saudi Arabia). The potential cooperation of these firms in Dalian project, however, was affected by the economic policy of the China's government. A serious challenge emerged in the Sino-Saudi petrochemical business when the Chinese government planned to implement unfavourable protectionist policy against some of the world producers and exporters of petrochemicals. At the present, an anti-dumping issue of petrochemical products between the two countries has not yet been resolved.

INTRODUCTION

China and Saudi Arabia came into contact back in the 1980s. The hidden contact which meant for the arms sales destined 36 made-in China intermediate-range ballistic missiles in Saudi Arabia. Beijing agreed to build two missile bases in the Kingdom and deployed Chinese security officers for operating the facilities (the bases) (Luft & Korin, 2004). China and Saudi Arabia moved to an advanced stage when the diplomatic relations was officially established in 1990. And the bilateral links grow rapidly and further expanded in the following decades. The economic cooperation in petrochemical sector is a case in point. The two countries deem to gain mutual benefit in this sector (Al-Tamimi, 2014). (Note: A growing strength of Beijing-Riyadh relations relatively influenced by a political tension between the Kingdom and the United States (Neill, 2014)).

A supply and demand factor is a core element that underpins the Sino-Saudi petrochemical trade and joint ventures. China is known as 'the fastest growing market and the largest importer of petrochemical products' in the world. There are a number of factors that drive the rapid growing of China's petrochemical

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sectors. China is ‘the world’s largest producer of synthetic fibers, the fourth largest producer of synthetic rubber, and the fifth largest producer of ethylene.’ Its textile sector has been a ‘major consumer of petrochemicals’. Industrial growth and modernization also cited as the compelling reasons that boost China’s petrochemical demands (Hogselius, 2015). Saudi Arabia is known as the world’s major producer and exporter of petrochemicals. The Kingdom offers low cost of production and petrochemical feedstock. It also has ‘abundant and extremely inexpensive’ of oil and gas which are the main inputs for petrochemical production. This scenario clearly reflects a heavy reliance of petrochemical industry on oil sector (Albassam, 2015). To boost the global competitiveness and retain a long-term health of petrochemical industry, Saudi Arabia has introduced five growth strategies: diversifying the product portfolio, stepping up the volume of joint venture with industry majors, emphasizing research and development, promoting the involvement of private sector and expanding the downstream activities (Al-Sa’doun, 2006).

A new pattern of Saudi Arabia’s role in the global energy market is developed. The Kingdom is transforming itself from “a simple exporter of raw material” to “a big supplier and consumer of complex, high-value refined petroleum products” (Krane, 2015, p.103). For China, the downstream joint-venture has closely tied its relations with the biggest energy provider (Saudi Arabia) and has opened up tremendous opportunities to Chinese huge cash reserve (Dorraj & English, 2012). These mutual investment in upstream-downstream sectors deems to create “more enduring and sustainable interdependencies” between the two countries (Yetiv & Lu, 2007). And sustaining oil import from the oil producing countries in the Middle East would turn into China’s “major strategic concern” (Noel, 2014).

The case study approach is applied in this research as China-Saudi cooperation in petrochemical sector is seen as a case of developing a complex interdependence relation. The emphasis of this approach lies in the notion of ‘focus’ since this type of research requires a deep concentration on a specific issue or number of issues.

The following discussion seeks to analyse the growth of petrochemical trade and the development of joint investment in the petrochemical projects between the two countries. It will also examine an anti-dumping issue that has not yet been resolved in the Sino-Saudi petrochemicals trade.

THE PETROCHEMICALS TRADE

The assessment will now focus on the trading of petrochemical products between the two countries and an anti-dumping issue that emerges in the petrochemicals bilateral trade. Table 1 and Figures 1 and 2 depict Chinese imports of ‘Polymers of Propylene and Other Olefins in Primary Forms’, and ‘Polymers of Ethylene and Other Olefins in the Primary Forms’ from the world and Saudi Arabia. From 2001 to 2009, China purchased more polymers of ethylene than polymers of propylene from the Kingdom (Table 1). Saudi polymers of propylene accounted for a small share of China’s overall imports for polymers of propylene –only 4.98 percent (Figure 1). Saudi polymers of ethylene, on the other hand, made up 12.9 percent of China’s total imports of polymers of ethylene (Figure 2). This highlights the possibility of Saudi Arabia becoming the major supplier of polymers of ethylene to China. (Note: At this particular period, Far Eastern countries’ demand for ethylene substantially grew (Masih, Ibrahim, & Lurion, 2010)).

The end products reveal the difference in significance or function of these two polymers. Polymers of propylene or polypropylene (PP) make up ‘basic plastic’. It is formed by combining the molecules

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