

The Economic Adjustment of Saudi Arabia and the Docking of Bilateral Economy and Trade between China and Saudi Arabia under the “One Belt and One Road” Initiative

CHEN Mo^①

(Institute of West Asia and Africa, the Chinese Academy of Social Sciences)

Abstract: *The fall in international oil prices, which began in the second half of 2014, had a severe impact on the economy of Saudi Arabia, and the country began to adjust its economic development policy. The main contents include: changes in the allocation of resources from reliance on government intervention to reliance on the dominance of market; government revenue shifts from dependence on oil revenues to expansion of non-oil revenues; industrial structural changes from excessive dependence on oil economy to diversification in the field of new energy and mining; enterprise ownership structure changes from nationalization to privatization; source of investment funds shifting from basically relying on domestic investment to paying attention to foreign investment; labor and employment change from relying on foreign workers to a trend of localization in Saudi Arabia. Combining priorities in the economic development of Saudi Arabia with the key areas of the “One Belt and One Road”*

^① Dr. CHEN Mo, Secretary General of the Gulf Research Center; associate researchers at the Institute of West Asia and Africa, the Chinese Academy of Social Sciences.

Initiative, energy security, cooperation capacity, infrastructure and finance are the most promising fields in bilateral economic cooperation.

Key Words: *One Belt and One Road; Saudi Arabia; Economic Adjustment; Middle East Economy; China-Middle East Relations*

In the implementation of the “One Belt and One Road” Initiative, China needs to explore new mode of economic cooperation with countries along the Silk Road, and to form a “community of common interests” and “community of destiny” with them. Saudi Arabia, the energy superpower in the Gulf region, is one of the important nodes of “One Belt and One Road” Initiative. It is worth noting that since the second half of 2014, the international oil market which plays a role in the economic development of the country experienced upheavals, with international oil prices falling from \$130 a barrel to about \$30 a barrel in early 2016, which caused serious impact on the economy of the world’s major oil exporters Saudi Arabia. Saudi Arabia has therefore taken measures to carry out deep-seated economic adjustment. In the full cognition of the country’s economic development trends, the docking and coordination between the two countries based on China’s “One Belt and One Road” Initiative strategic initiatives and priorities in Saudi Arabia’s economic development is the key to deepening economic cooperation.

I. Saudi Arabia’s Economic Adjustment under the Impact of a Low Oil Price

International oil prices fell in the second half of 2014, which

has caused a serious impact on the economy of Saudi Arabia. Subsequently, the country began to adjust the policy of economic development. Although it is not the first time Saudi Arabia has carried out economic adjustment under the situation of low oil prices, this adjustment has a new background and a more profound and rich content. Although the adjustment is still in its infancy, it represents the long-term direction of Saudi Arabia's economic development, and is an important concern for China to achieve bilateral development strategy docking under the framework of "One Belt and One Road" Initiative.

(a) The background of the Saudi Arabia's economic adjustment

Saudi Arabia's economic adjustment has its own unique characteristics, in which some of the changes in economy, politics and external relations have an important impact on the characteristics and direction of the economic adjustment.

First, Saudi Arabia needs to diversify the economy. Saudi Arabia's economic adjustment is related to the country's excessive dependence on oil. From the late 1980s to 1990s, Saudi Arabia had suffered from a long-term impact of low oil prices. At that time, because the scale of Saudi Arabian economy was still relatively small, it mainly relied on the withdrawal of overseas assets and a low debt to balance against the impact of low oil prices. However, the low oil prices since 2014 had led to a serious budget deficit in Saudi Arabia, and shrinking of overseas assets. If it fully relies on the pattern of withdrawing overseas assets in 1980s and 1990s, it will be difficult for the country to get through the crisis. The International Monetary Fund also issued a warning to Saudi Arabia that, if Saudi Arabia continues to maintain production by forces, its foreign exchange reserves will be depleted within 5 years (Miyajima, K., 2016: February). Therefore, Saudi Arabia

must consider the reform of the system and further accelerate the pace of economic diversification.

Second is the change in the Saudi Royal family. The appointment by the new king Salman of his son Mohamed Ben Salman marks the beginning of the third generation of Saudi Arabian princes to inherit the throne, who have begun to play a decisive role in the country's economic and political development. These third generations of the princes have generally received a good modern education. Therefore, compared with the old princes, their vision is more open, and their thinking is more modern. With regard to solving the problem of national development and security, especially to solve the problem of a shortage of funds due to the drop in oil prices, it is impossible for them to follow the traditional practices of older generations, and there will be more new ideas and initiatives.

Third, the impact of changes in the pattern of Saudi Arabian foreign relations. Saudi Arabia has long been a strategic ally of the United States in the Middle East, but a sharp change has taken place in its military relation with and oil exports to the United States since the beginning of the new century. First of all, the 9/11 incident led to the weakening of the political mutual trust between the United States and Saudi Arabia. Secondly, in the second decade of the new century, the United States of America sped up the implementation of the shift of strategic priority to Asia, and implemented strategic contraction in the Middle East region; it began to focus on seeking a political solution in the Middle East, and was no longer willing to be involved in any conflicts in Syria and Iran. In particular, in the relations with Iran and Syria, two countries that Saudi Arabia is hostile to in the Middle East, the relatively passive attitude of the US also disappointed Saudi Arabia. In 2013 the United States decided to solve the Iranian

nuclear issue through political means, and would not directly send troops to overthrow the regime of Bashar al Assad in Syria. As a result, Saudi Arabia was very angry with this; on October 18, 2013, it even announced its refusal to serve as the non-permanent Security Council members of the United Nations, a position it had just been elected to, in order to express the serious dissatisfaction with the United States. Saudi Arabia and the United States also have alienated each other in the economy, especially on energy issues. The US has been implementing a diversification policy of import sources for a long time, and gradually reduced its dependence on oil imports from the Middle East. Since the beginning of the new century, the shale oil development in the United States has proceeded rapidly. And the demand for oil imports from Saudi Arabia has been further reduced. At the same time, China's position in the economy of Saudi Arabia continues to rise; in 2015, China became the largest market of Saudi Arabia's oil exports and the largest trading partner of Saudi Arabia. Therefore, since former King Abdullah acceded to the throne, Saudi Arabia began to carry out "Look to the East" policy. The King's first official visit was to China. The trip was also the first time a Saudi Arabian King visited China since the establishment of diplomatic relations between the two countries in 1990 (Chen, M., 2011: 94-95). The Ebb and flow of the West and the East in Saudi Arabia's economic relationship, and the changes in Saudi Arabia's relationship with the United States will inevitably affect the direction of Saudi Arabia's foreign economic relations. To promote economic adjustment under the new conditions, Saudi Arabia will focus more on China and other emerging Eastern countries as Economic and trade partners.

- (b) The direction of economic adjustment and its core contents
The country has not yet issued a systematic plan. But

according to the speeches of Saudi political leaders, and the policy adjustment the government has already carried out or plans to carry out, Saudi Arabia's economic adjustment can be roughly divided into the following six main directions.

First, the allocation of resources changes from relying on government intervention to relying on market dominance. For a long time, although Saudi Arabia has advocated a market economy, in fact the government's intervention in the economy is still relatively strong. In particular, through price control, the government plays a dominant role in the allocation of resources. The government has subsidized the price of water and electricity and energy for a long time, which is relative reasonable in a certain stage of development as it takes the advantage of relatively abundant funds to speed up economic construction and improve the living standards of the residents. But at present, the gap between government revenue and expenditure increases sharply, and the subsidy has also increased rapidly with the population growth and the expansion of the economic scale. Under these conditions, the subsidy is becoming an increasingly huge burden on government finances. More importantly, the government subsidies distort the price of water and electricity and energy, in fact, it is not conducive to improving the efficiency of resource use, but also not conducive to encourage private enterprises and foreign investment in water, electricity and energy sector. For economic development, this distorted price does not contribute to a long-term sustainability. Therefore, to gradually straighten out the price, in particular, to let market play a decisive role in the allocation of resources, has attracted the attention of policymakers in Saudi Arabia, which has been reflected in this round of economic adjustment. The Saudi government has proposed to raise the price of domestic electricity and water, and also urged a

review of the current law in the field of water supply and electricity.

Second, the main source of the government revenue changes from oil revenue to more non-oil revenues. Saudi Arabia's government budget is heavily dependent on oil revenues, and because to some extent, the government used to have some remaining funds for a long time it generally did not pay much attention to the diversification of the income beside the oil revenue, but merely relied on oil revenue to cover expenses. When international oil prices fell, the financial income could not cover the expenditure, the government often withdrew part of its overseas assets to temporarily fill the shortage in funding. Saudi Arabia's overseas assets, mainly managed by the Saudi Arabian Monetary Agency (SAMA), which plays a central bank role, reached \$632.3 billion in 2016 (Sovereign Wealth Fund Institute). In the middle of the 1990s, due to the long-term downturn in international oil prices, the government's financial revenue encountered difficulties; the government took measures to draw back the overseas assets to go through a period of financial shortage. However, now the size of the government budget has been much larger than that in mid-1990s, and the government budget deficit in 2015 accounted for as high as 17.5% of GDP (EIU, 2016: February). It cannot completely solve the problem of insufficient financial capital, nor be a long-term mechanism to solve the budget problem by withdrawing overseas market. Saudi finance minister Ashraf said publicly, in order to ride out the downturn of oil prices, Saudi Arabia could not rely solely on the fiscal reserves, and should combine a variety of means and use, among other things a reduction in unnecessary expenditure, and the issuance of bonds (Economic and Commercial Counsellor's Office of the Embassy of China in Saudi Arabia, 2015: September

8). Therefore, in the economic adjustment launched recently, Saudi Arabia has begun to dramatically take the common methods of non-oil exporting countries in solving the problem of the lack of budgetary revenues, including cutting spending, increasing taxes, issuing bonds, and even the sale of state-owned enterprises to increase government revenue.

Saudi Arabia has once again used the method of issuing treasury bonds to raise funds for the government. The government has started issuing treasury bonds since July 2015; this was the first time since the issuance of bonds by the Saudi government in 2007, marking the largest adjustment of Saudi Arabia's economic policy in 10 years. By the end of 2015, the total amount of bonds sold to the bank from the Saudi government had amounted to \$30.7 billion (Economic and Commercial Counsellor's Office of the Embassy of China in Saudi Arabia, 2015: December 18). In order to reduce the expenditure, in the formulation of the budget expenditure for 2016, the Saudi Ministry of Finance decided to reduce the water and electricity subsidies for the rich Saudis; in early 2016, the cabinet increased gasoline prices by 50%, which greatly improved the price of natural gas for industrial use; a group of large-scale government investment projects, including the Mecca Metro, were delayed or canceled. As a measure to increase non-oil revenue, the government approved the 2.5% tax for unused land in late 2015, as well as the \$23 Airport charges on every passenger using Saudi airports. The government also plans to levy taxes on cigarettes and soft drinks in 2016, as well as 5% of Value Added Tax, etc. what's more, the Saudi government plans to raise \$400 billion in revenue through the sale of state assets, including the sale of state-owned land for commercial development, the sale of part of the shares of Saudi Arabian Oil Co, the largest oil company in the country, etc.

Thirdly, the industrial structure changes from an excessive dependence on the oil economy to greater focus on diverse areas, such as new energy and mining. The new round of low oil prices has resulted in Saudi Arabia again feeling the urgency to reduce excessive dependence on oil; there also appear some new bright spots in the strategic direction of economic diversification. The country's interests in speeding up the development of new energy and mining attract a lot attention.

Although Saudi Arabia is the world's leading oil producer and exporter, there is still a strategic need to diversify the energy structure. In the first place, Saudi Arabia wants to use as much oil as possible for exports, instead of increasing domestic oil consumption. Secondly, the development of non-natural gas fuel for power generation is not only in relation to the long-term stability of the country's electricity supply, but also determines whether Saudi Arabia can keep intervene in the international oil market through the flexible oil production adjustment. Thirdly, Saudi Arabia can develop alternative energy sources other than oil and natural gas. The country is one of the countries in the world with the best solar energy resources; its wind energy resources are rich; it has relatively abundant capital and is suitable for the development of nuclear power industry which is famous for its high requirements in investment in the early stages. New energy industry is still an important direction for the economic diversification of Saudi Arabia.

Saudi Arabia has relatively rich mineral resources in the Gulf region; the mining industry is also an industry in which Saudi citizens relatively concentrate. In October 2015, Saudi Minister of Petroleum and Mineral Resources Ali Naimi announced that Saudi Arabia should accelerate the development of the mining industry, to double the mining output value to \$96 billion in 2030,

and create 100,000 jobs, to create mining industry as the "third pillar" in the national economy, besides the oil and chemical industry (Watts, M., 2015: November 4-10).

Fourth, the ownership structure of enterprises will change from nationalization to privatization. Because the oil revenue is in the hands of the royal family and the government, all Saudi economic development also has the characteristics of government dominance; a large part of the government's annual budget funds are used for investment for the economic construction. With the reduction of government oil revenue and the weakened investment capacity, and that the government needs to cover the fiscal deficit through the sale of state-owned assets, the privatization of state-owned enterprises is more and more urgent, and the privatization process is accelerating. In the first quarter of 2016, King Khaled International Airport, located in the capital Riyadh, became the first private airport. Before 2020, other departments of International, domestic and regional airports in the country will gradually be privatized (Economic and Commercial Counsellor's Office of the Embassy of China in Saudi Arabia, 2015: November 18). The most striking news is that on January 8, 2016, the world giant oil company Saudi Aramco announced that the government was considering listing some of its shares in the security market. When the news was released, it was labeled as the "biggest policy change this generation has experienced in Petroleum and natural gas field in the Middle East which may open the new chapter for the region's oil producing countries since the 1973 oil nationalization" (EIU, February 2016). In May 2015, the company was officially separated from the Ministry of oil and mineral resources to become a completely independent and market-dominated entity. In the field of railway construction, the Saudi government also welcomed private investment to

participate in the construction.

Fifth, the source of investment funds changed from domestic investment to basically relying on the role of foreign investment. Because of its long-term huge oil revenues, in terms of development funds, Saudi Arabia has a relatively small demand on the foreign direct investment. But from the perspective of introduction of foreign advanced technology and obtaining international market through foreign investors, Saudi Arabia has also selectively introduced foreign direct investment, especially in downstream industries of oil and natural gas and manufacturing industry where foreign direct investment policy is more relaxed; in contrast, for upstream areas of oil and natural gas and financial services, restrictions on foreign direct investment is stricter, some areas are even closed to foreign direct investment.

But with lower oil prices and the decline in ability of government investment, Saudi Arabia needs to depend more on private and foreign investments to promote the development of non-oil industry and to sustain economic growth, so it also shows a more positive attitude towards the introduction of foreign direct investment. The first is to simplify foreign investment approval procedures with unified files for foreign investment license. The second is to optimize foreign investment in Saudi Arabia. The third is to further relax restrictions on the foreign equity ratio, allowing an increase in investment ratio of foreign investment in wholesale and retail projects from 75% to 100%. In June 2015, Saudi Arabia began to open the stock market to foreign investors.

Sixth, labor employment changes from relying on overseas foreign workers to localization. There are unique characteristics of the employment problem in Saudi Arabia. On the one hand, the labor supply is heavily dependent on foreign workers, and, on the other hand, domestic unemployment rate remains high. The Saudi

government requires the proportion of Saudi workers to increase to 20% in order to create local employment. In the current economic adjustment, Saudi Arabia continues to adhere to the localization policy to grant employment priority for Saudi citizens.

II. Docking Path for China and Saudi Arabia under the “One Belt and One Road” Initiative

Saudi Arabia is an important node in the “One Belt and One Road” initiative. The country is rich in energy resources and also has the potential for development; the impact of the cyclical changes in international oil prices on Saudi Arabia are only temporary. Low oil prices cycle often results in reduction of the international oil investment, the remaining capacity is gradually depleted, so as to prepare for a new round of high oil prices cycle. The current level of low oil prices, on the one hand, causes some economic difficulties for Saudi Arabia, on the other hand, it can also help the economy to adjust to the direction of the overall development of market economy, create a more favorable market environment for China to carry out economic and trade cooperation. The two sides should look for a better docking path for long-term economic cooperation and the implementation of “One Belt and One Road” initiative.

First, building an energy security community. China and Saudi Arabia depend on each other on energy security, with lots of room for cooperation in energy security. Saudi Arabia has long been the main source of China’s oil imports, and it will still be the case in a considerable period of time in the future. Especially since the energy revolution in the United States, with the development and utilization of shale gas, and the implementation of energy diversification strategy, the United States has reduced oil imports

from Saudi Arabia, in particular, and the Middle East, in general; the European energy demand is mainly concentrated in Central Asia and North Africa; only Asia, particularly China, still continues to rely primarily on oil from Saudi Arabia. With the development of China's economy and the increase in demand for oil, China's oil imports from Saudi Arabia will continue to increase.

For Saudi Arabia, China has been a huge oil export market. And in the long run, Saudi Arabia has lowered its benchmark price for crude oil to Asia, especially in the Chinese market, in order to keep the market share in the low oil price cycle. However, in the context of the global low oil prices and excess supply of oil, Saudi Arabia is now facing competition from Russia for the Chinese market share. Russia's market share in China has grown more than Saudi Arabia's. In 2010-2015, Saudi Arabia's crude oil exports to China increased by about 120,000 barrels/day; in the same period, Russia's crude oil exports to China had a growth rate of up to 550,000 barrels/day (Tian, X., 2016: February 8). In 2015, Russia became China's largest supplier of crude oil, with for times Saudi's supplies (Liu, X., 2016: January 26). To ensure the share in the Chinese market is also in the interest of Saudi oil exports security. In fact, both sides are interdependent in terms of energy import security and energy export security. With the current decline in international oil prices and increased competition in the international oil market, this oil security interest is even more important for Saudi Arabia.

Therefore, based on the common interests of both sides, China and Saudi Arabia can further strengthen energy cooperation between the two sides through multiple ways such as the establishment of long-term and stable trade relations in oil, expanding mutual investment in upstream and downstream

industries of petroleum and natural gas industries.

Second, the formation of complementary high-quality production capacity transfer partners. Capacity transfer is a potential area of mutually beneficial cooperation between China and Saudi Arabia. In the field of petroleum industry, to refine the increasing amount of crude oil imports from Middle East, and to build strategic oil reserve facilities, or commercial storage and distribution facilities of oil, China needs to continue to expand downstream of the oil industry. Saudi Arabia is strong financially, and possesses advanced technology in the downstream areas of the oil industry, most of which imported from Western countries. Therefore, Saudi Arabia has adequate conditions for the expansion of investment in China's oil industry in the downstream areas. An important long-term consequence of this investment is to ensure the stability of China's oil imports from Saudi Arabia. China has mature technology in the field of oil and natural gas exploration, and can participate in the upstream oil industry in Saudi Arabia to serve the project.

The mining industry and related processing industries, as well as the new energy industry, which Saudi Arabia is promoting, are areas China has a large number of mature technologies and surplus production capacity. Since the beginning of the new century, China has become the world's largest production and export country of solar power generation equipment, and an important producer and exporter of the world's major wind power generation equipment, and its nuclear technology in recent years has also "gone abroad". Metallurgy, construction materials and other industries are suffering from serious overcapacity issue. There is a large number of technologies that can be transferred through direct investment. In the process of economic adjustment, Saudi Arabia has relaxed restrictions on foreign direct investment,

and improved service. The improvement of the investment environment will be more attractive for Chinese enterprises to invest in Saudi Arabia. Although Saudi Arabia is increasing taxes and removing subsidies in water, electricity and energy, and other measures to increase government fiscal revenue and control expenditure, which may become the new normal, the water, electricity and energy prices, as well as the level of taxes in Saudi Arabia, are still much lower than those in China, which will not have a major negative impact on the industrial transfer.

Third, to expand investment in infrastructure cooperation. Saudi Arabia is a big market for the international construction contracting. According to statistics, in 2015 alone, the total value of plans and the projects in the construction of Saudi Arabia's biggest 20 construction project owners reached \$744 billion (Dudley, D., 2015: 4). These projects basically are infrastructure projects, and most are contracting construction by foreign enterprises. The decline in international oil prices and oil revenue will impact the scale of infrastructure construction, and also affect the way of project financing; for example, it may lead to more use of PPP and BOT financing mode and bigger role of contractors and private investment, but could not change the heavy reliance on foreign construction engineering company. The Chinese construction enterprise began to enter the international market, including the Middle East, at the end of the twentieth Century; in the new century they have become an important force in the international construction market. In the 2014 global assessment, the authoritative publication in international construction contracting, "American Engineering News Record", 62 were China companies ranked among the Top 250 international construction contractors (ChinaIRN). Chinese Construction Engineering Contracting Enterprises have carried out a variety of projects in the

international market; they usually finish the contracting projects on time with quality, and their contracts include increasing the number of engineering design, equipment procurement and EPC; they have their unique patent technology in areas, such as high-speed rail, for example, China Railway Construction won the project of Mecca light rail and Huawei provided communications security services for the Hajj in Mecca, and the China Communication Construction Corporation contracted to build the Jeddah flood control projects. A number of successful projects have won the Saudi Arabian government and people’s trust in China contracting company; it is entirely possible for them to play a bigger role in the Saudi Arabia’s construction project contracting market.

Fourth, to create new financial cooperation “highlights”. With the increase of bilateral trade and the business between the two sides, investment banking has already begun, and become the field of rapid development of cooperation in recent years. In December 2013, the National Commercial Bank of Saudi Arabia set representative offices in Shanghai, which became the first representative office of Saudi Arabian bank in China. In 2015, ICBC also set up a branch in Riyadh, becoming the first Chinese bank in Saudi Arabia. With the further development of bilateral economic and trade cooperation, banking and financial cooperation opportunities will further increase. After China announced the establishment of the Asia Infrastructure Investment Bank (AIIB), in January 2015, Saudi Arabia officially announced its intention to become one of its founding members, providing funds in the amount of \$25 billion. Saudi Arabia ranked eight among the Member States, and its funding of AIIB was the second largest among Middle Eastern countries, second only to Turkey (\$26 billion) (Ifeng Finance and Economics, 2015: June 29).

In 2015, Saudi Arabia began to issue international bonds as a way of financing, which also offered new opportunities for China to buy international bonds. Although Saudi Arabia is temporarily strapped in shortage of cash, with a huge amount of oil resource, it has a good solvency capability. The recent ratings of Saudi Arabia by international rating agencies are still good, with Fitch Ratings of AA, Moody rating of Aa3, S & P rating of AA- (Wilkinson, P., 2015: July 15-18). Cooperation in the financial sector between China and Saudi Arabia is just unfolding, with broad prospects.

III. Challenges and Resolutions for the Bilateral Economic and Trade Docking between China and Saudi Arabia

Although there is a great space for cooperation on economic adjustment in Saudi Arabia and the “One Belt and One Road” Initiative, and Saudi Arabia’s looking forward to the Chinese “One Belt and One Road” Initiative, the docking of the economic development strategies of both sides still faces internal and external challenges in geopolitics, the international economic environment and many other factors. The content of the economic adjustment of Saudi Arabia is also confronted with some problems.

First, Saudi Arabia’s economic adjustment has taken a new step in its development path, but similarly to other developing countries, economic adjustment will be subject to constraints, including economic and social costs. One is the enterprise’s ability to bear the economic adjustment. The rise of water and electricity and fuel prices will increase the production cost of industrial companies in Saudi Arabia. Although these are the prices it has to pay in economic adjustment and development and is good for

enterprises to improve efficiency in order to adapt to the market economy environment, it will also bring the difficulties to the development of enterprises at present. The second is the social capacity of economic adjustment. Members of the Saudi royal family can receive each year subsidies from the country's oil revenue, and many of them are the owners of a variety of economic entities. The reduction of a variety of subsidies, especially policies to reduce subsidies for rich people as well as the rise in prices of basic products such as water and electricity and gasoline, is bound to have an impact on their economic interests. This may have more significant impact on relatively low income people's livelihood, especially those living in the eastern region of the relatively low income, Shi'a-dominated area.

Second, Saudi Arabia's diversified economic structure adjustment is a gradual process; the oil economic characteristics of Saudi Arabia will endure for a long time. Saudi Arabia is a developing country, although its per capita income ranks in the upper-middle income countries, the change in system of government's economic intervention and heavy dependence on oil revenues, as well as the transformation of simple economic structure, is far from completed. This is mainly reflected in: first, the oil is still the only important source of export revenue, the government revenue source and the most important industrial sector. In 2012 oil revenues accounted for 87.7% of the government's fiscal revenue, while in 2011, oil exports accounted for 84.9% of total exports (Peterson, J., 2013: 964-965). Second, oil is still the cornerstone of the industry that can affect the overall economy. In 2012 oil and gas mining industry accounted for 46.6% of GDP (Peterson, J., 2013: 964-965), far ahead of any other industry. Viewed from the last 40 years' history of economic development in Saudi Arabia, one sees that the economic growth

rate has been subject to changes in oil prices. Third, oil is still the cornerstone of the monarchy and social stability. On the basis of a large amount of oil income, Saudi Arabia implements high welfare policy, such as the national-wide free education and free medical treatment. Each citizen in Saudi Arabia can receive a piece of land and a subsidy of \$133,000 to build his house when he becomes an adult. At the same time, the government subsidizes the price of water, electricity and energy. The water subsidy alone amounts to \$50 billion a year.^① Fuel subsidies in 2015 were as high as \$52 billion (CFI, 2015: November 2). When the anti-government “Arab Spring” movement broke out in some Arab countries in 2011, Saudi Arabia also fell under pressure to revise the constitutional system and reduce the power of the royal family, the Saudi royal family quickly increased subsidies by a \$36 billion, which further highlighted the significance of oil revenues to maintain social stability and the stability of the ruling family. Therefore, the decline in international oil prices for Saudi Arabia is a major event, important enough to affect the overall economic, political and social development.

The international oil market has entered a period of low price, which has resulted in the adjustment of the economic system and the structure of Saudi Arabia. With the reduction in oil revenues and the weakened state intervention capability, Saudi Arabia has accelerated the development of the modernization of the tax and financing system by taking or planning to take the measures of reform and opening to the outside world, to allow the market to play a greater role in the allocation of resources, to mobilize the enthusiasm of private capital and foreign capital investment, to promote non-oil industrial development, and to increase

^① “Another Outbreak of the Arab Spring in the Middle East?”, http://www.bwchinese.com/articale/1052719_2.html.

employment opportunities for its people. There is no doubt that it is stepping out a new pace on the road of development. It represents the trend of Saudi Arabia economic reform and development. But, like many other developing countries, the economic adjustment is subject to both economic and social costs, and cannot be achieved overnight.

Third, the complexity of the situation in the Middle East also restricts the reduction of government spending. The transformation of Saudi Arabia's economic policy faces challenges from regional conflicts. Saudi Arabia and Yemen have had some territorial and religious disputes for a long time; Sunni-dominated Saudi Arabia and Shiite-dominated Iran have experienced tensions in their relationship because of sectarian conflicts. In recent years the crisis in Syria also exacerbated bilateral differences and conflict. Saudi Arabia disapproves of Iran's support for Syrian president Bashar Assad, while Iran accused Saudi Arabia of supporting terrorists in Syria. In March 2015, Saudi Arabia established an international union including the GCC countries, Egypt, Jordan, Morocco, Sudan and Pakistan and got deeply involved in the conflict in Yemen, against the Shiite Yemen Houthi armed force. The competition between Saudi Arabia and Iran for regional power status will not stop, which has become a factor affecting regional security. In 2013, Saudi Arabia's defense and security spending accounted for 30.5% of the budget (Peter, J., 2013: 964). Because of the participation in the fight against the government of Yemen and the international joint action against the Islamic state, in 2015, military and defense spending of Saudi Arabia increased by about \$5.3 billion (Gold678, 2015: December 29). If regional hotspot issues cannot be solved through a political solution, or even evolve into a more serious crisis or conflict, it will further increase the financial burden on the

government of Saudi Arabia.

Therefore, subject to the restriction of such conditions, the economic adjustment in Saudi Arabia cannot happen overnight, and will probably go through a gradual process, in addition to the measures that have been introduced, how can the planned measures be implemented and to what extent will they be determined by changes in the international oil market, and careful consideration on bearing capacity of many aspects.

The adjustment of the Saudi economy might have both positive and negative effects on the implementation of the China's "One Belt and One Road" Initiative in Saudi Arabia and the economic and trade cooperation with Saudi Arabia, but overall favorable factors weigh over the negative factors.

In general, lower oil prices have a positive impact on oil importing countries in oil cooperation, not only can they reduce the cost of oil importing countries in their oil imports, but also can offer the oil importing countries a more dominant position in carrying out oil cooperation. China can seize this opportunity to vigorously promote oil cooperation with Saudi Arabia through the sign of long-term oil supply contracts with more favorable conditions, attract Saudi Arabia's petrodollars to invest in China's downstream oil industry, win more projects and contracts in the construction industry, promote and speed up the negotiation of free trade area between China and GCC countries, and provide oil in order to consolidate the security of China's oil imports and expand comprehensive economic and trade cooperation with Saudi Arabia.

The Saudi Arabian economic adjustment reflects the basic direction of the market economy, and will contribute to reducing and eliminating some barriers to trade and economic cooperation. In six major directions of the country's economic adjustment,

except the localization in the labor market, which is of some protectionist characteristics, other adjustments will provide the Saudi economy with more market oriented reforms and liberalization. Due to the limited size of the population and the labor force of Saudi Arabia, local labor forces are far from being able to meet the needs of economic development, so in the foreseeable future, labor localization policy will not fundamentally change the situation that the workforce in the country is mainly relying on foreign personnel. Therefore, the economic adjustment in general can provide more market-oriented investment environment for Chinese investors, and contribute to carrying out China's production and financial cooperation in Saudi Arabia.

The negative effects that Saudi Arabia's economic adjustment may bring to economic and trade cooperation are mainly the reduction of funding for cooperation projects due to the cash shortage of Saudi Arabia, it may even carry out re-verification according to the required time and the importance of the project, and to reduce the scale of some projects, suspend, or cancel the projects. Because most of Saudi Arabia's infrastructure construction project owners are government agencies or state-owned enterprises, the impact on infrastructure construction projects may be more obvious. In this regard, Chinese enterprises should take appropriate measures to deal with the new changes in the market. First of all, we should pay more attention to the collaborative action among a variety of enterprises, play the comprehensive advantages in engineering design, equipment procurement, contracting, construction and post-project operation and management, and improve the comprehensive competitive strength in project of Build Operate Transfer (BOT) model. Secondly, we should pay more attention to the feasibility study of the project, especially selecting the projects that are necessary for

national economy and the people's livelihood of Saudi Arabia and are less likely to be canceled; we should more strictly and accurately formulate the project contracts and avoid extra costs and business disputes in the process of project execution.

IV. Conclusion

Since the second half of 2014, the fall of international oil prices has obviously impacted the Saudi economy and also led to a new form of economic adjustment in order to deal with the impact. This economic adjustment is the only way for Saudi Arabia to transfer from simple oil resources export economy to a diversified economic development, and also a general trend we need to understand when we observe the economic development of Saudi Arabia and implement the "One Belt and One Road" Initiative strategy. No matter how fast this economic adjustment will proceed and whether the country is able to comprehensively implement this economic adjustment, it is beneficial for our country to implement "One Belt and One Road" Initiative in Saudi Arabia. Chinese enterprises should seize the long-term opportunity provided by the economic adjustment in Saudi Arabia, actively respond to the current challenges in the market, actively carry out mutually beneficial cooperation with Saudi Arabia, based on the use of comparative advantage, especially in 4 areas, including energy security, capacity cooperation, infrastructure and financial sector, docking with Saudi Arabia's economic adjustment and development, and implement "One Belt and One Road" Initiative.

References

- CFI. (2015: November 2). *The Saudi Arabian Royal Family Awarded Large Bonuses in Spite of Drop in Oil Price*, Retrieved March 1, 2016 from <http://cfi.net.cn/p20151102000517.html>.
- Chen, M. (2011). The initiatives and impact of Saudi Arabia’s “look to the East” strategy, in Yang Guang, ed., *Annual Report on Development in the Middle East and Africa Vo.13 (2010-2011)*, Beijing: Social Sciences Academic Press.
- ChinaIRN. (2014: September 24). *The US Announced the Top 250 Global Construction Contractors in 2014*, Retrieved March 1, 2016 from <http://www.chinairn.com/news/20140924/142952728.shtml>.
- Dudley, D. (2015: November). Saudi Arabia faces uncertain future, *MEED: Middle East Economic Digest*.
- Economic and Commercial Counsellor’s Office of the Embassy of China in Saudi Arabia. (2015: September 8). *Saudi Arabia Will Continue to Reduce the Budget and Add \$100 Billion Bonds*, Retrieved March 1, 2016 from <http://sa.mofcom.gov.cn/article/jmxw/201509/20150901107367.shtml>.
- Economic and Commercial Counsellor’s Office of the Embassy of China in Saudi Arabia. (2015: November 18). *Saudi Arabia Intends to Start Airport Privatization Next Year*, Retrieved March 1, 2016 from <http://sa.mofcom.gov.cn/article/jmxw/201511/20151101167182.shtml>.
- Economic and Commercial Counsellor’s Office of the Embassy of China in Saudi Arabia. (2015: December 18). *Saudi Arabia Will Issue \$5.3 Billion of Government Bonds to Make up the Deficit by the End of the Year*, Retrieved March 1, 2016 from <http://sa.mofcom.gov.cn/article/jmxw/201512/20151201215423.shtml>.
- EIU. (2016: February). *Country Report: Saudi Arabia*.
- Gold678. (2015: December 29). *Speech of Minister of Economy of Saudi Arabia*, Retrieved March 1, 2016 from <http://news.gold678.com/C/20151229/201512290012052170.shtml>.

- Liu, X. (2016: January 26). *Four Times over Saudi Arabia! Russia Becomes the Largest Supplier of Crude Oil in China in December*, Retrieved March 1, 2016 from <http://wallstreetcn.com/node/229265>.
- Miyajima, K. (2016: February). *An Empirical Investigation of Oil-Macro-Financial Linkages in Saudi Arabia*, IMF Working Paper.
- Ifeng Finance and Economics. (2015: June). *Foreign Media: Asian Infrastructure Investment Bank Announced the Amount of Investment of the Member Countries, the Five Largest Shareholders Were Released*, Retrieved March 1, 2016 from http://finance.ifeng.com/a/20150629/13804288_0.shtml.
- Peterson, J. (2013). *Saudi Arabia, The Middle East and North Africa 2014* (60th Edition), London and New York: Routledge Taylor and Francis Group.
- Sovereign Wealth Fund Institute. *Sovereign Wealth Fund Rankings*, Retrieved March 1, 2016 from <http://www.swfinstitute.org/sovereign-wealth-fund-rankings/>.
- Tian, X. (2016: February 8). *Big trouble of Saudi Arabia: China as Crude Oil Market was Taken by Russia*, Retrieved March 1, 2016 from <http://wallstreetcn.com/node/229886>.
- Watts, M. (2015: November 4-10). *Cautious optimism for mining prospects*, *Middle East Economic Digest*.
- Wilkinson, P. (2015: July 15-18). *Turning back to debt markets*, *Middle East Economic Digest*.