

## Our View: Aramco's China Dream

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Amin Nasser, along with other Saudi Aramco and Saudi government officials, seems to expect nothing but good economic outcomes for China and Asia. The Aramco outlook, which focuses on supply (production), has probably been colored by the firm's engineering bent. That is one way to look at it.

Economies can also be analyzed from the demand side. Often the conclusions are the same. However, in some cases, as with Japan in 1990 and China today, the demand side tells a much different story. Today, the demand situation in China is one of stagnation or even depression. A Saudi failure to recognize and address this could turn Nasser's dream into a nightmare.

The following item from an October 29 Argus Media report neatly summarizes Amin Nasser's expectations for China:

State-controlled Saudi Aramco's chief executive Amin Nasser said today that some forecasts for Chinese oil demand growth this year and next are too bearish, and said that although the outlook is shaky, prospects are set to improve in 2025.<sup>1</sup>

As Energy Intelligence reported, also on October 29, the Saudis expect world oil consumption to average 104.5 million barrels per day in 2024 and 106 million barrels per day in the fourth quarter.<sup>2</sup> The article quoted Nasser as saying, "So next year we are anticipating growth of about 1.5 [million barrels per day]," which will be "supported by China's economic stimulus package and the country's petrochemical growth."

Nasser places great faith in the Chinese government's ability to stimulate the economy. As the Energy Intelligence report noted, "Beijing's recent package of fiscal and monetary measures, announced since September to fire up China's economic growth and tackle deflationary pressures, is the biggest stimulus program since the Covid-19 pandemic and was much broader than expected."

Martin Wolf, the widely respected economist and *Financial Times* economics editor, provided a lesson for Aramco's Nasser and others who focus solely on the production side of the Chinese economy. In his October 15 analysis, Wolf noted that the Chinese economy was following the path to stagnation blazed by Japan in the 1990s.<sup>3</sup> Wolf wrote that China "might turn into Japan" but need not do so if drastic policy changes were made.

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<sup>1</sup> "Aramco CEO says China oil narrative too negative," Argus Media, October 29, 2024.

<sup>2</sup> Yousra Samaha, "Aramco CEO Sees Strong Oil Demand Growth in 2025," Energy Intelligence, October 29, 2024 [<https://tinyurl.com/ypv3a3um>].

<sup>3</sup> Martin Wolf, "China's economic ills are serious but not incurable," *Financial Times*, October 15, 2024 [<https://tinyurl.com/2prmmthh>].

The economic problems experienced by Japan in the 1990s and China today occurred because each nation achieved rapid growth by running large current account surpluses that coincided with a high savings rate and high investment.

Wolf offered three solutions for China's situation.

- First, provide “temporary boosts to demand to stave off depression.”
- Second, clean up the financial system, which requires addressing the conflict in China between the local and central governments.
- Third, create a long-term source of demand.

China is addressing the first two points but refuses to deal with the third. Rather than working to encourage strong ongoing domestic demand, its leaders remain focused on expanding manufacturing and boosting exports. It is a solution that will fail, as Wolf wrote:

China needs higher consumption. But that reality creates a challenge for Chinese leaders. They seem to feel that investment and production are virtuous, while consumption and income redistribution are frivolous. Yet, as Adam Smith wrote, “consumption is the sole end and purpose of all production.”

Aramco's CEO Amin Nasser sees strong global growth in oil demand fueled by expansion in China and Asia. He looks approvingly at the country's effort to stimulate its economy. His conclusion may be influenced by discussions with Chinese corporate executives who have benefited from their country striving to boost manufacturing and exports. This demand growth is the Aramco dream.

Those who study economic history see the opposite. China may be on the brink of depression because the government, in raising exports, has ignored its citizens' interests. Absent a policy change, the Chinese economy, and perhaps other parts of Asia, will fall into stagnation or worse.

In our view, Aramco's dream will likely become a nightmare.