

How a Small Saudi City Explains China's Role in the Saudi-Iran Agreement

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Brief Analysis

China's recent mediation efforts between Riyadh and Tehran were motivated by a combination of strategic outlook and economic interest in the Middle East, signaling a gradual shift away from its traditional "free-riding" approach.

In 1938, Saudis and Americans jointly drilled the seventh well of Dammam, where oil in Eastern Saudi Arabia was first discovered in commercial quantity after six unsuccessful attempts. While solely an economic partnership between Saudi Arabia and the U.S. private sector at first, this drilling laid the foundation for a security partnership between the two countries built not only on arms sales, but sacrifices on both sides. Together, Saudi Arabia and the United States stood against the Soviets in Afghanistan and curbed Saddam Hussein's ambitions to annex neighboring Kuwait.

However, in the age of extreme change and amid Saudi efforts to diversify their economy, both nations will be driven off beneficial opportunities should they not expand the boundaries of this bilateral partnership beyond the oil-for-security paradigm. The relationship between Riyadh and Washington has already suffered multiple setbacks in recent years given the perceived lack of U.S. interest in the Middle East. Meanwhile, the interests of Beijing's business giants in Saudi cities remind many of the U.S. companies' determined search for oil in the Saudi desert almost a century ago. One winner in this unfolding dynamic increasingly appears to be China.

On the southern coast of the country, heavy Chinese investment in the Jazan region highlights the new headwinds of Beijing's increasing interest in the Middle East region. More specifically, China's recent involvement in negotiating the resumption of Saudi-Iranian diplomatic relations can be traced in part to China's growing economic interests in areas of Saudi Arabia that would benefit from more stability and calm along the Saudi-Yemen border.

Chinese Investments on the Ascent

While it is hard to quantify the extent of U.S. investments in Saudi Arabia compared to those of China, Chinese economic involvement in the Kingdom is highly visible and growing. An interesting contrast lies in the various conferences held between Saudi Arabia and the United States and China, respectively. For example, the "Jeddah Security and Development Summit," which united U.S. President Joe Biden with Saudi officials and other Arab leaders in July 2022, eponymously focused on the security aspect of the U.S.-Saudi relationship. Later in December, a different tone was set when Riyadh hosted the "China-Arab Summit for Cooperation and Development." This led some analysts to draw a distinction between Saudi Arabia's expectations for the United States and China and the boundaries of its bilateral relationships with these rivals.

This June, Riyadh also hosted the Arab-China Business Conference, which drew the participation of over 3,600 individuals. An organizer of the forum informed me that this event also had a waitlist of over 1,800 people. Just two weeks later, Saudi Arabia sent a big delegation, led by the Saudi Minister of Economy, to the "Summer Davos" conference in China.

Adding to this momentum, China invited Saudi Arabia as a guest of honor to the China Lanzhou Investment and Trade Fair (CLZITF) held July 7-10 this year. A letter dated June 7 shows the Saudi Ministry of Investment urging companies to actively participate in the fair and the Saudi Pavilion, titled "Invest in Saudi."

These interactions reflect the fast growth in bilateral trade between Riyadh and Beijing, encouraged by both sides. Between 2014 and 2021, this bilateral trade increased by roughly 24%, rising from \$70 billion to \$87.3 billion in 2021. Trade reached \$106 billion in 2022, an increase of 21% within a single year.

In contrast to the Saudi view that the United States is underinvested in Saudi Arabia's vision of economic transformation, China's growing investments in the Kingdom are being welcomed, pushing China to distance itself from its long-standing free-riding strategy. This is particularly evident in Beijing's substantial and growing investments in Saudi cities.

The Case-Study of Jazan

The Jazan region, situated along the southern Red Sea coast, is a prime example of this shift, and it puts broader trends in Chinese-Saudi relations—such as the recent Chinese mediation between Riyadh and Tehran—into perspective. This region has been a main target of the Houthis given its location near the Yemeni border. Like other Saudi cities, Jazan typically functions as normal when Saudi Arabia fights against Iran-backed Houthis militias within Yemen. Yet the Houthis have attacked the city multiple times now, including last year's attack against Aramco facilities. In this context, business owners will not reject more stability.

The strategic location of the Jazan region on the Red Sea has made it highly appealing for projects such as China's Belt and Road Initiative, facilitating trade and promoting connectivity between Asia and Africa. Despite being the second smallest among the Kingdom's thirteen administrative regions, the Jazan region has thus been at the forefront of China's economic interests in Saudi Arabia even before Crown Prince Mohammed bin Salman announced Vision 2030 to attract foreign investments.

In 2009, the state-backed Chinese Limited Aluminum Company invested \$1.2 billion to establish an aluminum smelter in the Jazan Economic City. This investment took place three years after the late King Abdullah's visit to the region, during which he said that Jazan lagged behind the development of other Saudi cities. Standing in a packed stadium, King Abdullah promised change and announced the launch of the economic city now known as Jazan City for Primary and Downstream Industries (JCPDI).

The JCPDI, spanning over 40 square miles (106 square kilometers) as planned, has become a cornerstone of Chinese investments, including over \$21.3 billion to connect the Chinese Silk Road network with over 100 local supply chains, along with 570 current construction projects. Thousands of Chinese workers have flocked to the region to operate within the 12-mile China Enterprise Special Development Zone, focusing on steel, petrochemicals, silicon, and ship services. Recognized by China's National Development and Reform as one of the twenty major industrial parks worldwide with international capacity demonstration, the zone is one of nine Chinese industrial parks established in Arab countries.

Now over a decade old, the presence of Chinese enterprises in the JCPDI continues to grow. In [November \(https://www.arabnews.com/node/2205261/business-economy\)](https://www.arabnews.com/node/2205261/business-economy), the China Harbour Engineering Company commenced construction of a seawater cooling system to support the JCPDI, winning the competition against local and foreign bidders.

For China, this economic relationship with Jazan highlights a benefit of bringing Iran and Saudi Arabia together: protecting its interests in Saudi cities by limiting the threat of drone and missile strikes posed by Iranian allies in Yemen. Last year alone, Jazan was targeted at least three times including the [drone attack \(https://www.bloomberg.com/news/articles/2022-03-](https://www.bloomberg.com/news/articles/2022-03-)

19/houthi-drone-attack-targets-aramco-facility-in-jazan-spa) on an Aramco facility. Since the agreement was reached, there have been no Houthi attacks on Jazan or other Saudi cities. This relative quiet can be attributed, in part, to Saudi Arabia's recent efforts to bring Yemen warring parties to the negotiating table as part of its "zero problems" policy that brought an end to the seven-year estrangement with Iran.

China's interests in Jazan also contradict arguments downplaying the Chinese role in the Saudi-Iranian reconciliation. Iraq, Oman, and Kuwait played a role in facilitating the regional rivals' talks, however media reports before the agreement indicate that President Xi Jinping's initiative was crucial in preventing the talks from collapsing. In November, Saudi Arabia passed intelligence to the United States about an "imminent (<https://www.reuters.com/world/us-concerned-about-threats-iran-against-saudi-arabia-2022-11-01/>)" Iranian attack on targets in the kingdom just one month before the Chinese President's visit to Riyadh. That such an attack never materialized highlights the influence these talks likely had on de-escalation.

Next Steps for Chinese Investments

If Beijing's agreement is upheld and Iranian pressure on the Houthis to refrain from attacking Saudi Arabia is maintained, the opportunities for the Jazan region will further expand. In fact, a month after the agreement, Saudi Arabia announced the launch of four special economic zones (SEZs), including one in Jazan. The 15-mile Jazan SEZ will prioritize sectors such as mining, food processing, and logistics services. The Kingdom holds vast untapped mining reserves valued at over \$1.3 trillion, aligning with Saudi Arabia's strategic goal to elevate the mining sector as a key pillar of the national economy.

According to a senior official in the Economic Cities and Special Zones Authority (ECZA) that I spoke with, China has shown significant interest in reaping the benefits of the new economic zones. When asked to compare the United States' investments with Chinese investments, the official emphasized that SEZs welcome investors from all countries in their pursuit of filling any existing economic gaps. The official noted that there are sectors in which U.S. companies are indispensable, particularly in the Ras al-Khair zone, which will focus on attracting investments on cloud computing. The special economic zones provide foreign investors with 20-year ([https://sp.spa.gov.sa/viewfullstory.php?lang=en&newsid=2443907](https://www.alarabiya.net/aswaq/special-stories/2023/05/29/%25D9%2588%25D8%25B2%25D9%258A%25D8%25B1-%25D8%25A7%25D9%2584%25D9%2585%25D8%25A7%25D9%2584%25D9%258A%25D8%25A9-%25D8%25A7%25D9%2584%25D8%25B3%25D8%25B9%25D9%2588%25D8%25AF%25D9%258A-%25D8%25AD%25D9%2588%25D8%25A7%25D9%2581%25D8%25B2-%25D8%25B6%25D8%25B1%25D9%258A%25D8%25A8%25D9%258A%25D8%25A9-%25D9%2585%25D8%25AA%25D9%2586%25D9%2588%25D8%25B9%25D8%25A9-%25D9%2584%25D9%2585%25D9%2586%25D8%25A7%25D8%25B7%25D9%2582-%25D8%25A7%25D9%2584%25D8%25A7%25D9%2582%25D8%25AA%25D8%25B5%25D8%25A7%25D8%25AF%25D9%258A%25D8%25A9-%25D8%25A7%25D9%2584%25D8%25AE%25D8%25A7%25D8%25B5%25D8%25A9-)% tax incentives and the opportunity for 100% ownership (<a href=)). The SEZs are also expected to relax the Saudization regulations that started in 1970 and have since limited companies' ability to hire low-wage expats.

Nevertheless, the Chinese presence in the Jazan City for Primary and Downstream Industries is palpable and will likely be similar in the new SEZ areas. Adjacent to the Jazan Special Economic Zone is the JCPDI's port, constructed by [China Harbour Engineering \(https://www.meed.com/chinese-contractor-wins-jazan-port-deal/\)](https://www.meed.com/chinese-contractor-wins-jazan-port-deal/). [Hutchison Ports and China Harbour \(https://www.alriyadh.com/1985961\)](https://www.alriyadh.com/1985961) operate the port as part of a consortium that obtained the 15-year operating rights for its first phase. The port holds significant importance for the JCPDI and the new economic zone, serving as a vital infrastructure for businesses seeking to establish a presence there. Notably, it stands as the third-largest port in Saudi Arabia, facilitating the passage of 13-15 percent of global trade.

Official Support and Public Ambivalence

The relationship between Saudi Arabia and China has the potential to evolve in various ways, not limited to investment alone. Unofficial [reports \(https://www.cnn.com/2021/12/23/politics/saudi-ballistic-missiles-china/index.html\)](https://www.cnn.com/2021/12/23/politics/saudi-ballistic-missiles-china/index.html) in 2021 claimed that China is assisting Riyadh in building its own ballistic missiles. Additionally, China is seen as a potential bidder in Saudi Arabia's civilian nuclear program. Still, the Saudi public holds mixed and conflicting views towards China. On one hand, China is the country's largest trading partner and generally refrains from weighing in on internal issues. On the other hand, until recently China had not demonstrated a strong intent to leverage its influence over Iran. The latter issue is one that Saudi media has highlighted; last December, prominent Saudi columnist [Abdurrahman Alrashed \(https://aawsat.com/home/article/4029081/%25D8%25B9%25D8%25A8%25D8%25AF-%25D8%25A7%25D9%2584%25D8%25B1%25D8%25AD%25D9%2585%25D9%2586-%25D8%25A7%25D9%2584%25D8%25B1%25D8%25A7%25D8%25B4%25D8%25AF/%25D8%25A7%25D9%2584%25D8%25B5%25D9%258A%25D9%2586%25D9%258A%25D9%2582%25D8%25A7%25D8%25AF%25D9%2585%25D9%2588%25D9%2586\)](https://aawsat.com/home/article/4029081/%25D8%25B9%25D8%25A8%25D8%25AF-%25D8%25A7%25D9%2584%25D8%25B1%25D8%25AD%25D9%2585%25D9%2586-%25D8%25A7%25D9%2584%25D8%25B1%25D8%25A7%25D8%25B4%25D8%25AF/%25D8%25A7%25D9%2584%25D8%25B5%25D9%258A%25D9%2586%25D9%258A%25D9%2582%25D8%25A7%25D8%25AF%25D9%2585%25D9%2588%25D9%2586) commented that while China desires trade with Saudi Arabia and Iran, it does not commit to safeguarding markets or straits, which has placed a burden on countries of the region. Nevertheless, Beijing's latest endeavor to broker the reconciliation has the potential to alter the negative perception of China's lack of involvement among the Saudi public.

Saudi Arabia also remains committed to strengthening its relationship with the United States. There are numerous opportunities to cultivate a relationship that is not solely reliant on the current formula of oil-for-security. Messages from Saudi officials have clearly expressed their preference for U.S. engagement over other nations. Saudi Foreign Minister Prince Faisal bin Farhan specifically stated last month that the Kingdom would prefer the United States to be one of the bidders for its civilian nuclear program. The Saudi Ambassador to the United States, Princess Reema bint Bandar, spoke at the Aspen Ideas Festival in June and likewise said that the United States is always "a first port of call." She further emphasized that Saudi Arabia would always prioritize engagement with the United States, whatever the subject matter.

In spite of this messaging, the strained relationship between the Biden administration and Saudi Arabia can be seen as a factor prompting the Kingdom to further enhance cooperation with China. When discussing the relationship with the Biden administration, Crown Prince Mohammed bin Salman characterized Saudi Arabia as a hub of potential while suggesting that an American failure to recognize this would result in the "East" seizing the opportunity.

Saudi officials have likewise been increasingly vocal about their commitment to expanding cooperation with China. When asked about the implications of this growing relationship for Saudi Arabia's ties with the United States, Minister of Investment Khaled Alfalih emphasized that Saudi Arabia does not view its relationship with the United States as coming at the expense of other nations. Alfalih told the Milken Institute that it is "demeaning" to consider significant countries as pawns on a checkerboard, emphasizing that Saudi Arabia's trade with China surpasses the combined bilateral trade with the United States and the EU. Alfalih then posed the rhetorical question, "Do you expect us to put that at risk just so that a certain country would feel that we are on their side?"

For its part, there is little doubt that China will continue to show off in the region through investments. If there is a lesson to be learned from the Saudi-U.S. exploration of oil in the thirties, it is that economic interests invite more than investments. This trend shows little sign of slowing down—especially without increased U.S. economic engagement and competition. ❖

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