

Iran-Saudi Rapprochement

New Power Dynamics of the Middle East

Seminar Report

The Institute of Policy Studies, Islamabad, organized a roundtable titled 'Iran-Saudi Rapprochement: New Power Dynamics of the Middle East' on July 26, 2023, to discuss the agreement between Iran and Saudi Arabia mediated by China and announced on March 10, 2023.



Prof. Dr. Nazir Hussain, Ambassador (r) Javed Hafiz, Ambassador (r) Syed Abrar Hussain and Dr. Fakhur-ul-Islam.

In March 2023, Saudi Arabia and Iran announced the normalization of their relations through a deal brokered by China. The Institute of Policy Studies (IPS) organized a roundtable to discuss the factors and motivations for the two regional powers to come closer and incentives for China to act as a mediator. Chaired by Ambassador (ret) Syed Abrar Hussain, vice chairman IPS, the session discussed the revival of relations between Iran and Saudi Arabia, a significant development in the politics of the Middle East. The speakers included Prof. Dr. Fakhur-ul-Islam, Ambassador (ret) Javed Hafiz, Prof. Dr. Nazir Hussain, Dr. Amna Mahmood, Prof. Dr. Azhar

Ahmad, and Brig. (ret) Dr. Tughral Yamin. The speakers discussed the development from various angles and tried to foresee the implications of this rapprochement for the parties, the region, and the world at large.

In his opening remarks, Prof. Dr. Fakhur-ul-Islam informed the audience that the IPS provided a forum for informed discussions and dialogues on national and international issues, and the present debate was part of that mandate. He was



confident that the conversation would enlighten the participants. While introducing the topic, he expected the speakers to elaborate and answer the following questions:

- What is the significance of the restoration of diplomatic ties?
- What are new power dynamics emerging out of the Chinese interest in the Middle East beyond economic ties?
- How have Gulf states been responding to the current regional situations?

Ambassador (ret'd) Javed Hafiz delivered the keynote address. First, he shared key details of the Iran-Saudi rapprochement, mediated by China. Iran and Saudi Arabia had sent their representatives to Beijing for an agreement to restore diplomatic relations. The deal was formally signed in April by the foreign ministers of both countries. Before that, security experts from China, Saudi Arabia and Iran met several times. These meetings came up with the announcement of reaching an agreement on March 10, 2023. With this, a few questions emerged regarding the development. One of the questions is about incentives for China to bring the parties to the table. Another question is how China successfully managed to get the parties to an agreement while previous efforts by Oman and Iraq were unsuccessful.



In his opinion, 2021 was a significant milestone for Middle Eastern politics. On the one hand, Gulf states reopened their doors to Qatar after a six-year boycott, and on the other hand, the possibility of a rapprochement between Iran and Saudi Arabia was formally discussed, and both responded positively. There were multiple reasons for this positive response. There was a stalemate in the Yemen war, and Saudi Arabia was feeling war fatigue. At the same time, Iran had been battered by economic sanctions and alienation and wanted to normalize relations with its neighbors.

Despite positive signals in 2021, the parties did not reach a deal, partly because the mediators had no visible weightage in global or regional politics. For a mediator, certain conditions must be met. First, an impression of neutrality is essential. Iraq and Oman enjoyed the perception of neutrality, but not as much as China did. Even the US did not meet the neutrality criterion because it was not acceptable to Iran. Russia, on the other hand, was too entangled in its war with

Ukraine, alongside its inclination towards Iran. Secondly, a country can mediate between the parties only if it has the strength to enforce the agreement. Neither of these countries was strong enough. Apparently, China plucked a low-hanging fruit because much work had already been done in Baghdad and Oman.

The deal surprised many people, as it was seen as a diplomatic coup. China had suddenly emerged globally as a peacemaker, which starkly contrasted with what the US had been doing over the decades. China displayed to the world that whereas the US, the biggest global power, wages wars to bring democracy and peace, we have opted for peace first. China prefers to enter the outer world through trade, economic deals, civilian deals, and technology instead of military might.

Over the past years, the world has been witnessing trends that show geo-economics surpassing geopolitics globally. This deal is another achievement of geo-economics over geopolitics. China proved that it could clinch a significant deal on its economic strength because, for Saudi Arabia and Iran, China is the foremost trading partner.

Another positive angle to this development is with respect to the Indian role in the Gulf. India has long harbored ambitions to be the policeman of the Gulf, either unilaterally or in cahoots with other regional powers. In 2014, a conference about Gulf security was held in Riyadh. The Indian delegate gave his country's view of how the Gulf's security should be managed from now onwards. He said the security should be managed collectively by the GCC states, Iran, Israel and India. That was, in fact, the Indian plan for the region. With Chinese-brokered peace between Saudi Arabian and Iran, the Indian ambition has receded.

Yet another positive thing is that Pakistan while dealing with its tested friend Saudi Arabia, does not have to look over its shoulder toward Iran before taking any initiative. Pakistan can deal with both friends with equal confidence. This is a win-win deal and a welcome development as far as Pakistan's interest is concerned.

Looking at this development in the light of big powers' competition, it would be inappropriate to say that the US will leave the region any time soon, perhaps not even in the next five or ten years. This is because the US and the Western countries still have vital interests in the Middle East, although they have pivoted towards the South China Sea and are also very busy

trying to help Ukraine. Their first and foremost interest in the Gulf is securing the sea lanes through which the West's energy imports travel. The second push factor for the US is Israel's security, and the third one is to combat the threats posed by Al-Qaeda and ISIS, which still have their hideouts in the Gulf countries. The fourth incentive for the US and its Western allies is the defense deals and equipment sale to the Gulf countries, whether civilian or military.

Soon after this deal was announced in Beijing, Saudi Arabia ordered 73 commercial aircraft from Boeing in the US. Afterward, the US Secretary of State, Antony Blinken, visited Saudi Arabia as part of the US' attempt to mend ties. He was told by the Saudi Foreign Minister Prince Faisal bin Farhan that the Kingdom had excellent trade relations with China and that China's growing role in the region might have positive implications for these relations. Secondly, the Saudi foreign minister acknowledged his country's deep "security" relations with the US and affirmed that they were constantly evolving. The US secretary of state was also assured that Saudi Arabia would not be part of any international groupings or rivalries.

With this in view, it can be predicted that the Gulf countries and the Middle East at large will maintain good relations with both China and the US. They will leverage the inter-power rivalry to their advantage.

Prof. Dr. Nazir Hussain drew attention to China's interest in the Middle East. China has a very calculated approach not only to the Middle East but also to the whole MENA region. Beijing started fully pursuing its interests in MENA in 2013 when it launched the Belt and Road Initiative or BRI. After the 18th meeting of the Communist Party of China in January 2013, China declared itself a neighbor to the Middle East, especially the Arab world. China's interest, therefore, primarily revolves around the BRI. The BRI will connect Gwadar to Oman and then to Djibouti; that is how China aims to reach Africa.



Chinese interest in the region is not just economic but also in spin of security, which is evident from credible American sources. A US Congressional Research Report from 2022 says that from 2005 to 2022, total Chinese investment in MENA was \$372 billion. This includes investment and construction projects, while \$125 billion was particularly allocated for energy. Another aspect is their mutual trade in arms. China earned \$307 billion in a short period by selling arms to

MENA countries. Algeria is the number one customer of Chinese armament, followed by Djibouti and other countries. Hence, this is not only about economics, it is also about security.

Unlike Russia or America, China has excellent relations with all three rivals of the Middle East, i.e. Iran, Saudi Arabia and Israel. Both Russia and the US have their biases one way or the other. Due to this strange quality, China seems to be an honest powerbroker.

It is not easy to predict when the US will leave the Middle East. However, there is currently confusion in the US foreign policy. The US and its allies are now more inclined towards the South China Sea and the Indo-Pacific Strategy. Saudi Crown Prince Muhammad bin Salman is threatening the US; Russia is controlling Syria; and US President Biden's relationship with the establishment is also peculiar.

Muhammad bin Salman was young and flamboyant when he became the crown prince in 2017. Driven by his inexperienced approach, he stirred up trouble in three countries: Yemen, Iraq, and Syria. Saudi Arabia relied too much on the US for its security. People remember when Trump talked openly about Saudi limitations and how things became a mess after the assassination of a Saudi journalist in Istanbul. That is why Muhammad bin Salman was in search of alternatives. The Saudis realized this fact, especially when the US response to an attack by Houthis on Aramco was not as per their expectations. This was the moment when Riyadh reconsidered its standing and thought of self-reliance, just like Israel. Israel also relies too much on the US for security, but at the same time, it has acquired a self-sufficient capability, too.

Furthermore, peace is a prerequisite for any social and economic development under the Saudi Vision 2030, especially the Neom City project, estimated to cost the country \$500 billion. Muhammad bin Salman knows that his country would have to attain peace and prioritize negotiations, particularly with Iran, to successfully implement Vision 2030. In his early years, Saudi Arabia initiated an economic war with Qatar. It also started a new conflict with Turkey. With a refined strategic realization, Muhammad bin Salman is now trying to ensure peace and focus on the economic front. On the other hand, Iran has been under sanctions for the last 25 years. This deal is a big opportunity for Iran if reconciliation materializes.

However, the rapprochement does not mean all the issues between them are gone. Both powers will keep

striving for regional control and dominance. This is a tricky situation, yet there are a couple of positive aspects. Pakistan can benefit from this opportunity because the Pakistani leadership has also been trying to improve economic and strategic cooperation with Iran. Now the bilateral barter trade has also earned state authorization and protection. When Pakistan's chief of the army staff visited Iran, the Iranian leadership only mentioned that they wanted protection for this barter trade. Iran's trade could reach \$2.5-3 trillion if all sanctions on it are lifted.

Another point to consider is that the 25-year agreement between China and Iran could be materialized through Gwadar and the CPEC. It would be a significant development if Pakistan, Iran, Saudi Arabia, and China collaborate. Saudi Arabia had pledged \$12 billion for an oil refinery in Gwadar in 2019. Unfortunately, due to slow bureaucratic channels and political issues, no further development could be made on this project. If this materializes, Pakistan could quickly reap its benefits. Similarly, many countries, such as the BRICS members, are now conducting trade in yuan, and many others plan to do so in the near future. Pakistan should also consider using yuan in its trade with the Eastern world, as the importance of this cannot be overstated.

The Gulf countries welcome increasing Chinese footprints in the region. It is a bit early to say that they are fed up with the US, but there is a difference between the Chinese and American approaches. It can be clearly observed how many internal issues between Saudi Arabia, Qatar, and Bahrain have been resolved with China's arrival in the region. As for Muhammad bin Salman, he is riding the wave of success at the moment, and his success will undoubtedly impact the entire Middle East and the Muslim world.

Dr. Amna Mahmood focused on Chinese involvement in the Middle East. She emphasized that China's interest in the Middle East was based on its policy to extend its soft power worldwide. Trade was China's easiest and most peaceful option to introduce itself in the region. China sold arms when no country was ready to sell its armament to the Muslim world, including Pakistan. Israel was the source of cheap American pirated technology, not in terms of weapons only but also in other aspects.

China was denied the basic high-profile technology because it was kept on the list of communist countries.



They were denied all sophisticated technologies even by Russia. Keeping its arms requirements in mind, China opted for alternative sources. It even bought some French-made helicopters from Iran and then replicated them. This way, China found clients worldwide, which contributed to its economic strength, based on industrial development and trade. Now the state is negotiating and facilitating disputes among other states as a responsible global power, an instance of which has been observed in the Middle East.

When Muhammad bin Salman started as a statesman, he was not very aware of the realities of power politics and his country's real strength in terms of security. Saudi Arabia was over-reliant on the US until that time. But within three years, the amateur converted into a solid statesman, and now he has overcome most of the faults and experiences of his government. He has shaped a vibrant society, which is his support base.

With new developments between Iran and Saudi Arabia, Pakistan has come across a bundle of opportunities. First is in terms of its internal dynamics. Pakistan can hope that the issue of foreign proxies because of the Iran-Saudi rivalry will be resolved now. This will also halt sectarian violence, ultimately leading to internal peace and stability. Secondly, the deal mediated by China may be able to block India from exploiting Chabahar. India has already lost most of this opportunity by refusing to buy Iranian oil over the displeasure of the US. Pakistan's leadership and the key stakeholders need to put their house in order and separate national issues from political rivalries to exploit the galaxy of opportunities emerging around the region. For that purpose, the leadership has to be very dynamic and realistic.

Despite all its weaknesses and retreat from the region, the US has not ceased to be a key player in the Middle Eastern geo-strategic and geo-economic game. Apart from trade, the US has to rely on the Middle East and Africa to fulfill its needs for cobalt and chromite, crucial ingredients of its scientific and technological journey. So, the US would not desist from remaining involved in the region.

For decades, the US was over-committed to the Middle East and neglected the South China Sea. Meanwhile, China made inroads, established banks, and maintained good terms with all the countries in the region. Now, the US has realized that it needs to focus on the South China region. But its engagement there will cost it the Middle East. The policy of the US has always been making a mess, and the world is fed up

with that. Perhaps that is why US allies in the Middle East are not responding to it.

Iran wanted to revive the Joint Comprehensive Plan of Action (JCPOA) agreed to in 2015. However, it could not meet the conditions imposed by the US to reactivate the nuclear deal. China came to Iran's help and won it a breakthrough without any announced conditions. China had already been using Iranian oil when no one else would buy it. Oil was available to China at cheaper prices because Iran had no other buyers, and China benefited from that. That was only the beginning, and the recent deal will further push Iran into the anti-Western camp.

As for the regional implications, it seems a blessing in disguise. The Middle East is taking new shifts beyond its traditional complexities. Turkish President Erdogan made a successful visit to Saudi Arabia and offered two electric cars as a gift to the crown prince in a remarkable gesture of goodwill. Secondly, the overall response from the Middle Eastern states to the Iran-Saudi rapprochement has been welcoming. The region's giants know that oil is going to run out, and they have to diversify their economies to a good standard. Saudi Arabia is the largest growing economy, with a 10.5 percent growth rate. Saudi Arabia is not tilting towards China at the expense of the US. So far, it has successfully maintained a balance between the US, China, and Russia. This balance leads to success in the contemporary world.

The recent rapprochement does not entail that all the problems have been resolved between the parties. Naturally, issues will remain, but the parties have decided to shrug off these issues, at least for now. Issues are part of human relations, but if people agree to build on despite problems, they can have a good run.

Chinese interest in the Middle East will only grow. As a rising power, China is competing with the US globally, and every rising power is bound to be militarily strong to protect its economic interests. China is doing the same, and ultimately, it will strengthen its army further and will be deploying it to protect its interests in the MENA region. The Russia-Africa Summit was also organized, which is a mechanism essentially to protect Russian interests in Africa. Russia has a presence in the Mediterranean. Ultimately, China will also be present in the region, but it will try its best to avoid conflicts for now.

Prof. Dr. Azhar Ahmed said that despite economics being fundamental in world political relations, geo-economics cannot replace geopolitics, and it needs to

be understood from an academic point of view. Geo-economics is only the use of economic tools to achieve geopolitical objectives, which entails that it is a subset of geopolitics. Economic importance in geopolitics has risen against other factors. For example, the economy has grown compared to security, military, diplomatic, and other social aspects. Earlier, international relations were based on conventional security and diplomacy, but now, the economy has taken over in the larger paradigm of geopolitics.



He believed that regional powers in the Middle East had been trying to achieve balance, for which "hedging" was the more appropriate term. Under Muhammad bin Salman, Saudi Arabia has realized this point better than the previous monarchs, or it was the situation that dictated it. Now, they are trying to do that because the US is deeply entrenched in the region, and it will not be easy to replace America. Still, the realization is dawning on the world that, ultimately, the US will give up. Israel also understands that the US is not going to remain a dominant power and will not stay in the Middle East for long. That is a prominent factor why everyone is realigning here and there. Pakistan also needs to understand how to catch up with this realignment and how to keep revising its engagement strategy according to its location.

Overall, a better future can be foreseen in the Middle East because of the Iran-Saudi rapprochement. There is a deeper quest for peace now in the areas where there are more conflicts. Those engaged in more conflicts are understanding things more quickly.

Dr. Tughral Yamin recalled the traditional rivalry and resultant mistrust between Iran and Saudi Arabia predating modern history, using it as a lens to analyze present developments. He said that a few diplomatic developments did not suffice to bring the two powers out of this state of hostility. Saudi Arabia and Iran may come closer, but it is a slow process and will take time before a genuine rapprochement with tangible outcomes takes place.

China will try to achieve the maximum benefit out of this development. Can Pakistan make Gwadar Port attractive enough for the regional and extra-regional powers? Also, is Pakistan capable of using ECO and SCO to enhance regional cooperation and pluck the fruits from a newly emerging environment? These are questions that the country's policymakers should consider. Pakistan is doing trade with Iran, and both

have a border trade agreement that became a pathway to establish a border trade market. Mutual trade is developing, and it will enhance interdependence, ultimately winning this region more peace and stability.

Ambassador (retired) Syed Abrar Hussain, while summing up the discussion, reinforced that China's emergence as a mediator in global tussles and its recent role in the Middle East brings many aspects to the forefront besides reconciliation. The question is whether any change is occurring in the Middle East's power dynamics with this development. China will definitely have some leverage, but the US is not leaving the Middle East either. What is evident is that Saudi Arabia is especially trying to maintain a balance. This indicates that all Gulf countries will strive to follow suit. With the Iran-Saudi rapprochement, India's ambition to become the policeman of the Gulf has taken a back seat. Therefore, the fresh developments in the region are not in India's favor. India will not



perceive it positively because of the rivalry and animosity between India and China.

There are benefits for Pakistan. Relieving tensions between Iran and Saudi Arabia will bring a sigh of relief for Pakistan. It is not just about Pakistan; proxy wars going on in Lebanon, Syria, and Yemen may also come to an end. The question now is, will Iran continue to support groups like Hezbollah and the Houthis? Will it keep supporting Hamas in Palestine, or with mutual ties between Israel and the Gulf countries improving, will the Gulf countries raise any objections?

The benefits of trade and technological cooperation in the contemporary world are undeniable. Military means have their relevance, but economic and technological cooperation is the best way to progress these days, and China has progressed using these means. Pakistan should also consider new avenues of trade and economic exchange with its neighbors like Afghanistan and Iran. There is a need to understand that adding stakes of foreign traders in the Pakistani market will benefit the country's national security.

Prepared by:

Hafiz Usama Hameed

Research Officer

Institute of Policy Studies, Islamabad

For queries:

Syed Nadeem Farhat

Research Fellow/Editor

Institute of Policy Studies, Islamabad

nadeem@ips.net.pk | www.ips.org.pk

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