

SAUDI-IRAN PEACE AGREEMENT: REGIONAL IMPLICATIONS AND PROSPECTS FOR PAKISTAN

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Abstract

The landmark peace deal between Iran and Saudi Arabia brokered by China has ended years of hostility between the two regional arch-rivals. The peace agreement is expected to ease the regional tension and bring peace and stability. The warming up of relations may also lead to the end of proxy wars in Yemen, Syria and Iraq. China's emergence as a non-hegemonic and reliable extra-regional actor/guarantor would stabilise the regional security environment. This development directly impacts Pakistan as it has good relations with Iran, Saudi Arabia, and China. The peace agreement holds great prospects for Pakistan through investment, trade, joint production, corridor connectivity and joint consortium. However, while the prospects are bright, there are many challenges to harness these opportunities fully.

Keywords: Peace Agreement, Regional Rivalry, Proxy Wars, China, Prospects.

Introduction

The Middle East is one of the world's most conflict-prone regions, with ideological, territorial and political issues. The region has not seen lasting peace during the last century. The region also saw the rise and fall of regional rivals: Ottomans, Persians, Arabs, Egypt, Iraq, Turkey, Iran, Israel, and Saudi Arabia. Since 1980, the Middle East has witnessed three devastating wars: Iran-Iraq (1980-88), Kuwait Crisis (1990-91) and Iraq Invasion (2003), with millions of casualties and massive socio-economic destruction. Internal wars in Iraq, Syria, Lebanon and Yemen have consumed additional energy and resources. The regional rivalries have also taken the dangerous turn of proxies, which involve extra-regional actors to fulfil their respective national security objectives in regional affairs.

Iran-Saudi rivalry is embedded in history, culture and religion. Present-day Iran boasts of being the heir of a great civilisation, Persian culture, and solid religious roots in Zoroastrianism and Islam. At the same time, Saudi Arabia has roots in early Islamic governance, culture, and language, and it is the custodian of the most sacred holy places in Mecca and Madinah. However, the present rivalry is relatively new as both were part of the monarchical system and the US regional strategy. Their ideological rivalry started

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with the Iranian Revolution (1979) and grew into political and military rivalry. The proxy wars in Iraq, Syria and Yemen further intensified this rivalry. Iranian nuclear programme, regional dominance and the rise of Muhammad Bin Salman (MBS) as defector ruler of Saudi Arabia were other factors that contributed to the continued hostility. However, the political realisation from both sides, the US disengagement and Russian/Chinese involvement, and MBS Vision 2030 led to the search for common grounds to negotiate. The secret talks started in 2019 in Oman and Iraq, and the behind-the-scenes role played by China culminated in the joint trilateral statement 'Peace Agreement' in Beijing on March 10, 2023.

The historic deal has a far-reaching impact on the bilateral relations between the two regional rivals and the regional security environment. Therefore, this paper endeavours to discuss and analyse the peace agreement, the Chinese role, regional implications and prospects for Pakistan. It argues that the Peace Agreement was possible due to the ground realities, realistic perspectives of the leadership from both sides and Chinese mediation. However, despite the peace agreement, some crucial/contentious issues still need to be resolved between the two countries. Nonetheless, the peace agreement would bring about relative peace and could open avenues for bilateral/regional cooperation in trade, investment and connectivity. Pakistan, having cordial relations with all these countries, is poised to benefit the most. The methodology applied to analyse this argument is the content analysis of official documents, official statements, and authentic independent reports/analyses from reputed institutions and experts.

Theoretical Context

Regional political/security dynamics are essential in studying international relations. Theoretical foundations can be discussed and analysed through regionalism and regional alliance systems. In this regard, Barry Buzan and Ole Waever have presented a novel paradigm to understand regional politics in the shape of Regional Security Complex Theory (RSCT).¹ RSCT has been termed as a cluster of security complexes within a regional domain wherein one state having any security complex would adversely affect the security complexes of most states within the region. It talks of how security complexes are intertwined and interdependent. Buzan defined the security complex as "a set of units whose major processes of securitisation, de-securitisation, or both are so interlinked that their security problems cannot reasonably be analysed or resolved apart from one another".²

RSCT reveals that the interests, motivations, policies, and actions of all the states in international security are purely regional. An actor's actions, intentions and interests are primarily generated at the regional level; more specifically, they are generated in the immediate neighbourhood.³ As the dynamics of security have changed to encompass all aspects of statecraft, there have emerged new challenges to state security.⁴ Buzan and Waever stipulate that states are interwoven in a regional security complex through geographical proximity, relationship of amity or enmity, and common

security threats. A particular regional security complex has an overarching super security complex in the shape of global actors and their interaction with subregional and domestic security complexes, each impacting the other to a varying degree. Notably, a threat or a security issue may travel to another regional security complex as a rippling effect.

The subregional security dynamics of the Gulf region are clubbed together in a more extensive security complex of the Middle East and are affected by the domestic security complexes. Kingdom of Saudi Arabia (KSA) and the Islamic Republic of Iran (IRI) are interwoven in a subregional security complex of the Persian/Arab Gulf with geographical proximity, the interaction of both amity and enmity and perceived security threats from each other. This security web is further complicated by its ideological and political dynamics and the interaction of regional and extra-regional players such as the US, Israel, Russia, and China. The intricate relationship between KSA and IRI is so intense and complicated that the effects of other regional and extra-regional players, including the Non-State Actors, further fuel the fire. Therefore, searching for an honest and reliable power broker was always there to mediate and provide the rivals with much-needed confidence-building space to negotiate. Previously, it was the US, but now China is perceived as a non-hegemonic and reliable guarantor.

Moreover, the perceived threats from the Gulf region to South Asia, particularly Pakistan, are evident due to the interacting security dynamics. South Asia provides the bulk of skilled and unskilled labour force, expertise in science and technology, and investment opportunities, besides huge oil export revenues. Due to the multilayered facets of relations, with 90% oil imports, over US\$10-12 billion of expat revenues, a massive source of Foreign Direct Investment (FDI), and forced involvement in military conflicts, Pakistan is the most affected state in the vicinity of the Gulf region. Therefore, any happening in the regional security dynamics of the Gulf, especially between KSA and IRI, would have a direct bearing on Pakistan. For some time, Pakistan has been playing a delicate balancing act between the two strategic rivals in the Gulf region. Iran is a geopolitical compulsion due to the 900 km long joint border, and Saudi Arabia is a geoeconomic compulsion due to the workforce revenues.

Geopolitics of the Region

Broadly, the Middle East region is situated between the Nile and Oxus rivers, which stretches from Egypt to Afghanistan and Turkey to Yemen. According to the World Bank, the area is called Middle East and North Africa (MENA), with around 20 states as its constituent members. Notably, the region has three subregions, each having strategic dynamics and impact on the larger regional security complex. The Gulf region comprises Iraq, Iran, and six Gulf Cooperation Council (GCC) states: Bahrain, Kuwait, Oman, Qatar, KSA, and the UAE. Levant, or the 'Fertile Crescent', consists of Syria, Jordan, Lebanon, Israel, Egypt and Palestine. The Maghrib, also part of North Africa, comprises Algeria, Libya, Morocco and Tunisia. Turkey, Cyprus, and Mauritius are other

countries in the larger Middle East. The region touches Europe through the Suez Canal, Africa through Egypt, and mainland Asia through Iran and Afghanistan.

The term 'Middle East' originates in the British India Office during the 1850s. Later, it became prominent in the hands of American naval strategist Alfred Thayer Mahan, who enunciated his theory of sea power in 1901 to designate the area between Arabia and India. The region of the Middle East came into academic vocabulary at the beginning of the 20th century when Great Britain and France, through the Sykes-Picot (Sir Mark Sykes and Francois George-Picot) agreement in 1916, laid their sphere of influence in the falling Ottoman Empire during World War I.⁵ Eventually, in 1947-48, Great Britain, after its decline, left the region with a disputed area in Palestine. Still, France kept its hold in some areas of Lebanon and North Africa.

The Middle East is the cradle of civilisations (Babylonian, Mesopotamian, Persian, Egyptian) and the offspring of all Abrahamic religions (Judaism, Christianity and Islam). It is at the cross-junction of Africa, Asia and Europe, linking these with strategic waterways and sealines such as the Suze Canal, Strait of Bab-el-Mandeb and Strait of Hormuz. It has 60% of the discovered world oil reserves and strategically depends on Europe, Japan, and China. The region is one of the world's most militarised regions, with 30% of the total armament purchased and one of the most conflict-prone, which has not seen any lasting peace during the last century.

The region's strategic importance significantly impacts the security dynamics of adjoining Central and South Asian subregions, particularly Pakistan. However, for this study, the Gulf region is the focus of discussion, where two archrivals, Iran and Saudi Arabia, vie for their supremacy and influence. Since the departure of Great Britain and France, the region has been dominated by Egypt, Israel, and Iran. Later, Iran's stature was enhanced to make it the 'policeman' of the Gulf. With the US 'Twin Pillar' policy, Saudi Arabia was also elevated to be one of the principal actors in regional politics. The Gulf region was being contested by Iran, Iraq and later, Saudi Arabia; however, after the fall of Baghdad in 2003, the balance of power remained concentrated between Iran and Saudi Arabia. There are four main regional contestants: Turkey, Israel, Iran, and Saudi Arabia. However, the main politico-ideological rivalry is seen between Iran and Saudi Arabia being contested in Iraq, Syria, Lebanon and Yemen.

Iran and Saudi Arabia are essential players in the regional dynamics of the Middle East being supported by the regional states; Iran has a strategic understanding with Turkey and Qatar and includes Iraq, Syria, Lebanon, Yemen and Sudan into a 'Shia Crescent'. Saudi Arabia leads the Sunni Axis, comprising Egypt, Jordan, and many Arab Gulf states. Iran and KSA vie for their influence and control in the regional security dynamics supported by Russia/China and the US, respectively. The regional rivalry brings the global actors into regional affairs. As a result, the geopolitical setting of the Middle East, strategic oil reserves, lucrative weapon markets, and regional politics enhance the international significance of the region, where Iran and KSA are the archrivals.

Historical Perspective

The Saudi-Iran rivalry has its roots in ancient history and was reaffirmed during the Muslim rule as Arab and Ajam (non-Arab). Iran has the Persian legacy of 2500 years of civilisation, starting with Cyrus the Great in 500 BC. In contrast, the first Saudi state was established in the 18th century (1727-1818) by Imam Muhammad bin Saud, which the Ottomans overran. The 2nd Saudi state was established in 1932 by King Abd Aziz ibn Abd Rahman Al-Saud.⁶ In the modern era, Iran and KSA were part of the US 'Twin Pillar' policy in the Middle East until the Iranian revolution in 1979. Although Iran was the US 'policeman' of the Gulf, with Iraq as a rival power, in 1981, the KSA was upgraded by forming the GCC. Since then, Iran and KSA have had intense ideological and political conflict in the region to establish their supremacy. Numerous incidents further intensified their rivalry, such as the Mecca Stampede of 2015, the execution of a Shia cleric, al-Nimar, by KSA in 2016, and proxy wars in Iraq, Syria, Lebanon and Yemen. The rivalry further intensified with Muhammad Bin Salman coming into power in 2017.

The normalisation efforts were initiated by Pakistan in 2007 during the meeting of OIC Foreign Ministers in Islamabad to ease relations between Iran and Saudi Arabia.⁷ However, Oman initially manoeuvred the peace agreement, and secret talks were held in Iraq, where Pakistan offered its services. However, without a reliable and trusted guarantor, the deal did not come through until China played an essential behind-the-scenes role in bringing the two rivals to the negotiating table, ultimately leading to a landmark peace deal in March 2023.

Chinese Role in Regional Dynamics

China started to expand its outreach due to economic modernisation and market economy drive in the late 1970s. Being an energy-deficient state, China's ultimate objective was the continuous oil flow from the Middle East. However, China could not make strategic inroads in the region due to the aggressive US presence and intense Cold War rivalry. Subsequently, in the post-9/11 scenario, the main focus of the US Global War on Terror was in the region that discouraged China from being actively involved in the regional security dynamics of the Middle East. Later, the US disengagement and Russian whole-hearted support to Syria paved the way for Chinese full-scale ingress in the region.⁸

China's One Belt One Road (OBOR) initiative and its subsequent conversion into the Belt and Road Initiative (BRI) compelled China to focus on the Middle East. This was because, in 2013, the 18th Meeting of the Central Committee of the Communist Party of China (CPC) declared the Middle East as a neighbour.⁹ In 2016, a White Paper on 'China's Arab Policy' was issued, highlighting political, investment, trade, energy, social development and regional security issues with a primary emphasis on BRI to be pursued with the Arab World.¹⁰ China wants to pass through its BRI from Gwadar/Chahbahar to Bab-el-Mandeb (Yemen) to Djibouti for trans-continental strategic outreach. Therefore, Chinese interests in the region are focused on oil, trade, arms sales,

and expansion of its geopolitical outreach through the BRI.¹¹ According to US sources, between 2005 and 2022, total Chinese investment for the region was US\$273 billion, energy sector US\$126 billion, and weapon sales US\$307 billion. In 2020, the Chinese imported oil from the Middle East, estimated at US\$176 billion, from KSA, UAE, Iraq, and Oman. Oil imports from the Middle East amount to 54% of the total Chinese imports, which will double by 2035.¹²

Chinese partnership with Middle Eastern States is divided into Pivot States, Node States, Key States and Stronghold States. KSA and Iran are the pivot states that have comprehensive strategic partnerships. China wants to evolve bilateral relations into multilateral cooperation, from state-specific relations to issue-specific areas.¹³ It is essential to highlight that China is perhaps the only extra-regional power which has excellent relations with all rival powers in the region: KSA, Iran and Israel. China's soft power approach and non-hegemonic reputation have made its involvement more acceptable and beneficial for both sides. To convert its strategic partnership more practical and meaningful, China and Iran signed a US\$400 billion Cooperation Agreement of 25 years in 2021; the agreement precludes a 10-fold increase in bilateral trade for the next decade to US\$600 billion agreed in 2016 during the visit of Chinese President Xi Jinping to Iran.¹⁴ China perceives Iran as an essential regional actor to enhance its outreach into the Levant and beyond. Moreover, besides cooperation in trade and economics, Sino-Iran relations are evolving into strategic convergence along with Russia to oppose the US/Western policies in the region. These states, sanctioned by the US/West, have developed bilateral/multilateral cooperation to enhance mutual trade and investment. Iran, China, Russia, and Turkey have converged interests in the region's evolving security architecture.¹⁵ In March 2024, Iran, China and Russia conducted their fifth annual naval exercises in the Gulf of Oman to show their common stance towards the Red Sea hostilities.¹⁶

On the other hand, Chinese relations with Israel have been progressing since early 2000 in terms of trade, investment, infrastructure, and diplomacy. China's primary objective in Israel is to acquire advanced technology; Israel seeks to diversify its exports and sources of investment; Israel also wants to expand its ties with China, the world's fastest-growing economy.¹⁷ China is Israel's 2nd largest trading partner after the US, with a total trade volume of US\$24.45 billion. China is interested in investing in technology, transportation infrastructure, agriculture, software development and health sciences. Both countries were negotiating a Free Trade Agreement (FTA) to be finalised at the end of 2023; however, the war in Gaza and Chinese support of a two-state solution to the Palestinian issue have significantly impacted the bilateral relations between the two countries.¹⁸ Moreover, the growing US-China confrontation is also hampering the future growth of Sino-Israel relations.

Likewise, China has decades of energy trade with KSA, which was upgraded to a Comprehensive Strategic Partnership in 2016 and reiterated in 2022 by Chinese President Xi Jinping's visit to the Kingdom.¹⁹ For KSA, China is the most significant economic partner and source of investment in the Saudi 2030 vision. For China, KSA is

the energy superpower with a pivotal location for its BRI.²⁰ Since 2010, the techno-scientific cooperation between the two states has been going steadily. This cooperation and institutional framework agreement has set the stage for Chinese companies to work across the Kingdom. “Chinese National Development and Reform Commission has fostered cooperation between China’s Digital Silk Road Initiative (DSRI) and Saudi Vision 2030 in technologies related to smart city, smart energy grid management, digital infrastructure such as fibre optics, and e-governance. Moreover, based on the Chinese Arab Policy Paper (2016), China has become the largest international research collaborator of Saudi Arab”.²¹ Notably, the Bank of China opened its first branch in Riyadh to expand the use of the Yuan amid a growing number of economic deals between the two countries.²²

In the military/security realm, China and KSA conducted 2nd special operation naval exercise in October 2023 in China; 1st such exercise was held in King Faisal Naval Base, Jeddah in 2019.²³ KSA is also contemplating building its nuclear power plant with the help of China after being frustrated by the US delays. Previously, China and KSA signed an agreement to cooperate in nuclear energy projects in 2017.²⁴ Saudi Arabia became a ‘dialogue partner’ of the Shanghai Cooperation Organization (SCO) to join the Chinese-led political, economic and security organisation rivalling Western institutions in 2023. Saudi ARAMCO followed this to finalise a multi-billion joint venture in northern China and acquire stakes in a privately controlled petrochemical group.²⁵ This manifests the ever-growing Sino-Saudi relations in multiple spheres.

Despite having strategic relations with regional rivals, China supported the Assad regime in Syria. In September 2023, the Syrian president visited China, where he was assured of help to reconstruct war-torn Syria and form a strategic partnership.²⁶ China also offered its good offices to mediate between Palestine and Israel to broker peace talks during a meeting of Mahmoud Abbas with President Xi Jinping in June 2023.²⁷ Notably, amid the Gaza war (March 2024), the head of the Hamas’ political bureau, Ismail Haniyeh, met with a Chinese official in Qatar, where China affirmed its support for the Palestinian cause.²⁸ Therefore, China has developed a substantial clout with regional states. By mediating the landmark peace agreement between Saudi Arabia and Iran, China has proved itself as an honest and reliable guarantor of regional peace and stability. These are growing signs of Chinese involvement in the regional security dynamics of the Middle East and its outreach in the volatile regional politics.

The Peace Agreement

The landmark historic peace agreement between the two arch-rivals, KSA and IRI, was brokered by China and signed on March 10, 2023, to end decades of hostility. The deal was signed by Ali Shamkhani, Secretary of the Iranian Supreme National Security Council and Musaad bin Muhammad Al-Aiban, Saudi Minister of State, in the presence of Wang Yi, Director of Foreign Affairs of the Communist Party of China (CPC), in Beijing. The agreement stipulated the resumption of diplomatic relations, reopening of embassies within two months, appointment of ambassadors, respect for the

sovereignty of states, and non-interference in each other's internal affairs. They also agreed to implement the Security Cooperation Agreement (March 2001) and the General Agreement in economy, trade, investment, science and culture (May 1998). They also expressed their keenness to exert all efforts towards enhancing regional and international peace/security.²⁹

Since then, the two countries have restored their full-scale relations and have stopped provocative statements/actions against each other. In June 2023, Saudi Foreign Minister Prince Faisal bin Farhan Al Saud visited Tehran. In his meeting with the Iranian Foreign Minister, they “hailed the re-establishment of diplomatic relations, which they said are paramount to improving regional security”.³⁰ Iranian President Ebrahim Raisi visited KSA in November 2023 to attend the extraordinary Organization of Islamic Conference summit on the Gaza situation. Later, Crown Prince Mohammad bin Sulman (MBS) met with President Raisi and his cabinet, especially Defence Minister Prince Khalid bin Salman and National Security Advisor Dr. Musaed Al-Aiban, who spoke about the importance of the meeting. Notably, the 1st meeting of the trilateral joint committee of China, KSA and Iran was held in December 2023, where “KSA and Iran expressed their commitment to the full implementation of Beijing Agreement”.³¹

The agreement results from behind-the-scenes efforts by several states, including Oman and Iraq, and is ultimately guaranteed by China. Notably, there were many compulsions for both states to embrace each other. For KSA, the US was deliberately sidelining MBS; despite being under the US security umbrella, the ARAMCO refinery was attacked and severely damaged. The Saudi finances and efforts were being wasted in the regional proxy wars in Iraq, Syria and Yemen. The ambitious Vision 2030 and NEOM project of MBS required much-needed regional peace and the diversion of funds for completion. KSA also wants to showcase itself as a secure place for investment and a stable oil supplier. This new approach projects extreme pragmatism of MBS in dealing with heavy security burdens. The most ambitious goal is to elevate KSA from a regional powerhouse to a global actor. For Iran, the main objectives of the peace agreement with KSA were to gain legitimacy at home, break the regional isolation, diversify its sanctioned economy and restore Arab trust. Iran also needs foreign investment and access to new technology, which China can provide willingly.³² Iran can build on this peace agreement to develop multilateral, economic, political, and security relations with regional and extra-regional powers for its national security objectives.

Challenges and Prospects for Implementation

Despite the peace agreement that led to normalisation between KSA and Iran, security and threat perceptions remain high, along with internal hardline factions and demonisation of others.³³ Several factors and scenarios would determine the long-term sustainability of Iran-Saudi normalisation: Iranian proxies, US-China strategic competition, and the future course of the Gaza war. Inbuilt animosity in history and culture, the US factor and normalisation with Israel, along with growing Iranian

influence in the region studded with its nuclear ambitions, are other factors that would cast shadows over this peace agreement.³⁴

First and foremost, despite the normalisation, the perception of threats and security concerns against each other remains high. Iran perceives the Saudi-US-Israeli nexus would continue to pose security threats to its regional influence and outreach. Unconfirmed reports of shooting down of Iranian drones/missiles over Saudi soil during the Iran-Israel spat have further enhanced the Iranian threat perception in this regard. Whereas, for Saudi Arabia, the growing Iranian influence, especially the regional proxies such as Houthis and Hezbollah, and the public sympathy won by Iran in the Arab streets on the Gaza stance would be hard to neutralise. This Saudi threat perception has intensified after the Iran-Israel spat, and the Iranian signalling of changing its nuclear doctrine that reflects the atomic option of Iran is still alive.³⁵ The Arab Gulf States, especially KSA, have intense fears of Iranian nuclearisation, and some of them have embarked upon acquiring nuclear technology for possible future use.

Then, the future course of the Gaza war and its expansion would be another significant challenge for Saudi-Iran normalisation. If the Israeli genocide of Palestinians continues and Israel expands the war and targets the Iranian entities again, the situation will become out of control. The use of Iranian regional proxies in Yemen, Lebanon, Syria and Iraq would be devastating for regional security, and the Arab Gulf States would be threatened. In this regard, the involvement of extra-regional powers, especially the US, cannot be ruled out. Different alliance patterns are forming, including the US-led multilateral naval coalition known as “Operation Prosperity Guardian”³⁶ and the CTF 153: Red Sea Maritime Security.

Another challenge in implementing this peace agreement would be internal factionalism in both states. For a long time, Iran and Saudi Arabia have demonised one another as strict conservative religious regimes with solid anti-people policies. Therefore, the hardline elements within the religiopolitical hierarchy would be looking for any excuse to undermine the peace deal. So far, both governments/leaders have played down the simmering bilateral issues. Still, the hawkish elements would continue to look for possible frictions in the peace agreement to derail it and prove their nationalistic credentials.

However, against all these challenges, there is a vital element of self-compulsion and the Chinese factor. A report states, “Saudi Arabia has strategic economic and security interests with China. The agreement with Iran, brokered by China, solidifies the relations between the two countries. More importantly, because China has political and economic leverage over Iran, it makes the latter more inclined to fulfil its obligations in the agreement to not negatively impact its ally’s image and risk a negative response. KSA hopes that China’s presence can guarantee a more durable agreement. Tehran views Chinese involvement in Gulf security issues as a stage of de-Americanisation of the regional order. It believes an increase in multilateral formats and diplomatic initiatives with no Western presence will eventually weaken the US-led security architecture. Tehran prefers to drag China into Gulf security affairs as part of

this process. Naval drills with China and Russia are examples of this process, which Tehran believes can contribute to stronger Chinese presence and limit US freedom of action”.³⁷ Therefore, despite many challenges, the silver lining is still vital for the peace agreement to sail through the internal and external tests to provide a win-win position to KSA, Iran and the region.

Regional Implications

The Saudi-Iran peace agreement has been lauded by the Arab Gulf States, UAE, Kuwait, Oman and Qatar as a move towards stability and prosperity; even Bahrain issued a statement welcoming the agreement and hoped to resolve conflict through dialogue and diplomacy. The Iranian-backed Hezbollah has also expressed satisfaction with the agreement.³⁸ Other activities are underway; Syria has been readmitted into the Arab League after 12 years. Syrian President Bashar al-Assad attended the Arab League Summit in Riyadh in May 2023, where he was warmly welcomed.³⁹ In Yemen, with mediation by Oman, KSA began to pursue a negotiated settlement of the crisis and has held direct talks with the Houthis. The Houthi delegation visited Riyadh in September 2023.⁴⁰ Therefore, it is expected that the regional proxy wars in Yemen, Syria, Iraq, and Lebanon will see a gradual end to restore regional normalisation of relations.⁴¹ It is also expected that the sectarian connotation of these conflicts will end, and the region could witness much-needed peace and stability. This situation would put Pakistan at ease, allowing it to take a neutral position and not be involved in regional affairs unnecessarily. As a result, Pakistan would also be out of the ideological confrontation, and its soil would not be used as a proxy battleground at the cost of its national security.

However, despite this historic agreement, there remain many contentious issues between the two states, such as the Iranian nuclear program, proxy support, oil politics and Israeli recognition. In light of the Israeli war in Gaza since October 2023, there are differing perceptions, mainly as Houthis have targeted the commercial/trade ships in the Red Sea. Nonetheless, the bilateral agreement has many positive outcomes for the states, the regional security environment and the impact on adjoining subregions. There is expected to be less tension in the region, proxy wars may end, and mutual trust and confidence may be restored. The KSA could devote more energy and funding for future ambitious projects, including Chinese financial support, and Iran would temporarily be out of the effects of sanctions.⁴² The impact on adjoining regions, mainly for South and Central Asia, would be positive as the states would not have to choose sides in the Middle Eastern security dynamics. For Pakistan, the prospects are bright, including possible investment, enhanced trade, less diplomatic balancing and sustained energy supplies, provided it is ready to adapt to the new unfolding realities at home and in the region.

Prospects for Pakistan

Pakistan and its leadership have welcomed the peace agreement between Iran and KSA. “Pakistan welcomes the normalisation of diplomatic relations between the

Kingdom of Saudi Arabia and the Islamic Republic of Iran facilitated by the People's Republic of China. Pakistan firmly believes that this important breakthrough will contribute to the peace and stability of the region and beyond."⁴³

For Pakistan, both Saudi Arabia and Iran have immense importance. Pakistan shares a 900km long border with Iran; the entire southern Balochistan/Makran division is dependent on border/barter trade with Iran; more than 200MW of electricity is provided by Iran, including 100MW to Gwadar, and cheap oil from the borders. Thus, Iran constitutes a geopolitical reality for Pakistan. The border trade and oil smuggling is carried out at three different crossing points at Taftan-Mirjava, Mand-Pishin and Gabad-Rimdan through a billion-dollar barter system.⁴⁴ KSA is a geoeconomic reality, with over 2.64 million Pakistani workforce in the Kingdom, over US\$7 billion in foreign remittances, an uninterrupted oil supply, and a source of investment for Pakistan. Therefore, any positive development between Iran and Saudi Arabia would positively impact bilateral, trilateral and multilateral relations.

The peace agreement opens a tremendous opportunity for trade and investment. Given the new political realisation, border trade with Iran can be done on a barter system; joint border production can be established, and smuggled oil can be regulated. It is reported that 2.81 billion litres of Iranian crude are smuggled into Pakistan annually, costing Rs. 60 billion loss to the government.⁴⁵ As per the Oil and Gas Regulatory Authority (OGRA), around 4,000 tons of fuel smuggled into Pakistan daily was causing a total revenue loss of around 10.2 billion rupees per month.⁴⁶ Iran is ready to provide more electricity to Pakistan, and the Iran-Pakistan Gas Pipeline project can be resumed. The Gas Pipeline can be converted into Iran, Pakistan and China (IPC) to raise the stakes and involvement of China.

On the other hand, KSA is also interested in establishing an ARAMCO Oil Refinery with a capacity of 400,000 litres per day in Gwadar and an investment of US\$10 billion.⁴⁷ Earlier in 2019, during the visit of Crown Prince Mohammad bin Sulman to Pakistan, investment agreements worth US\$21 billion were signed in renewable energy, petrochemical, food and agriculture sectors, including US\$10 billion for the oil refinery.⁴⁸ These agreements can be processed on the fast track and operationalised at the earliest. Multilaterally, the Iran-China trade agreement of US\$400 billion can improve the importance of Gwadar and could be a good omen for creating Gwadar and Chahbahar as complimentary ports. These investment and trade opportunities can transform Balochistan into a vibrant regional trade/energy corridor hub with regional connectivity.

Pakistan can also propose a joint consortium of KSA, Iran, China and Pakistan for investment in various areas such as petroleum, goods, automobiles, fisheries, tourism, minerals and medium-scale industries. Pakistan can provide the cheap labour force and required land, whereas KSA and China can provide the finances and Iran with technical support. Another opportunity could be the revival of the Regional Cooperation for Development (RCD) Trade Corridor, conceived in the early 1960s. The RCD was established in July 1964 between Pakistan, Iran and Turkey to strengthen their

socioeconomic development. However, the group could only make a little progress and ultimately gave birth to the Economic Cooperation Organization (ECO) in 1985.⁴⁹ The revised project can include China, Iran, Turkey, and Pakistan. The road and railway infrastructure are available, which can be further improved to international standards. The Joint Consortium can direct its goods from Pakistan/Iran into Turkey and onward to Europe. That would serve as another avenue for trade, investment and regional connectivity.

Pakistan has another opportunity to participate in the super high-tech NEOM City project of KSA as part of MBS Vision 2030. The project is estimated to cost US\$500 billion. It is part of an ambitious plan to revolutionise Saudi society, reduce dependence on oil and make the country a technology hub with state-of-the-art living, generating tremendous high-tech job opportunities.⁵⁰ With over a million graduates studying science, technology, engineering and mathematics (STEM), Pakistan produces 25,000 science and technology graduates annually and can harness the benefits of this ultra-modern project. It is reported that Pakistan's premier engineering firm, NESPAK, has been awarded a contract worth 46.5 million Saudi Riyals (PKR3.794 billion) in the energy sector of the NEOM project. "The project has been awarded by the Saudi Electric Company (SEC) to provide construction management services for Extra High Voltage (EHV), High Voltage (HV) and HVDC projects within various zones of NEOM Bay, NEOM Mountain and NEOM Phase-II".⁵¹ This should be further capitalised on to get involved in more such projects. Therefore, the Saudi-Iran peace agreement has opened many opportunities for Pakistan regarding trade, investment, regional connectivity, and multilateral cooperation. However, Pakistan seriously needs to bring its own house to create economic and political stability and harness the benefits of positive regional developments. Another significant hurdle is red-tapism; in Pakistan's absence of a 'one window' operation facility, the investors are forced to leave after years of frustration.

Conclusion

The historic landmark peace agreement between the two regional arch-rivals brokered by China is good news for the conflict-prone region. The deal is expected to reduce regional tension, end the proxy wars in Iraq, Syria and Yemen, and pave the way for peace and stability in the region. The improved bilateral relations between Iran and Saudi Arabia would give them the much-needed respite and time for soul-searching and concentrating on their domestic issues. The Chinese role as a new extra-regional actor with a non-hegemonic agenda and reliable guarantor can usher in a new regional peace and stability phase. It is a welcome development for Pakistan that two major partners and important allies are at peace now. Hopefully, Pakistan's geopolitical and geoeconomic compulsions will be less tested, and it can have a neutral position. Trade and investment opportunities, corridor connectivity, and market provision may also open opportunities for Pakistan. However, for this to happen, Pakistan must ensure political and economic stability and revitalise its decision-making structure and system to utilise these opportunities fully.

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