

# Iran-Saudi Rapprochement and its Effects on Pakistan

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### Executive Summary

The normalisation of relations between Saudi Arabia and Iran, brokered by China, can usher in an era of significant geopolitical dividends for the region as well as states like Pakistan. After a two year's process of backchannel diplomacy supported by Iraq and Oman, both Riyadh and Tehran signed an agreement to restore diplomatic ties after those had hit a new low in 2016. However, given the fragility of this détente, the regional countries along with China and Pakistan should be aware of the possible spoilers. While the two regional powers still remain at loggerheads in Yemen on the issue of the Houthi rebels, this rapprochement could accrue significant geopolitical benefits. Challenges to this newfound harmony include lingering mistrust, geopolitical complexities, and external pressures, notably from the United States. The ripple effect of this reconciliation extends to Pakistan, offering a welcome respite from diplomatic pressures exerted by Arab nations. Resultantly, Pakistan and Iran can engage on various fronts. This could include bolstering bilateral trade, advancing the completion of the Iran-Pakistan (IP) gas pipeline, and fostering a deeper mutual understanding on border security. Importantly, these initiatives can be pursued without the diplomatic constraints imposed by Saudi Arabia.

### Recommendations:

- The reconciliation between Iran and Saudi Arabia could positively impact the Gwadar region and the Iran-Pakistan border. Seizing this opportunity, Pakistan should move forward with the establishment of Aramco's oil refinery in Gwadar, aligning with the 2019 framework. Given the favorable geopolitical environment, Pakistan should persuade Saudi Arabia that the security of Aramco's oil refinery in Gwadar will not be threatened by Iran.
- Pakistan may ask investors from KSA and UAE to invest in energy and gas sector of Pakistan, specifically, in the completion of Iran-Pakistan gas pipeline.
- Saudi-Iran rapprochement does not directly provide economic/commercial benefits for Pakistan's trade vis-à-vis Iran. The US sanctions along with lack of surplus of exporting goods remain an impediment for Pakistan to accrue economic benefits. Even if the US sanctions are circumvented, India's influence over Iran will remain a thorn in the Pakistan-Iran relations.
- Pakistan should commence and complete IP gas pipeline as soon as possible.
- Pakistan should establish border markets and expand cross border trade with Iran.

## Iran-Saudi Rapprochement and its Effects on Pakistan

### Introduction

On March 10, 2023, Saudi Arabia and Iran announced a peace deal brokered by China, in what it is being called as a momentous regional development.<sup>1</sup> The relationship between the two Middle Eastern powerhouses remained strained for decades. However, the diplomatic ties hit a new low in 2016 when Saudi authorities executed a Shia cleric Nimr Al-Nimr and several others on the charges of anti-state offenses.<sup>2</sup> Resultantly, protests sparked all over Iran and a Saudi Embassy was blazed leading to severing of the diplomatic ties.<sup>3</sup> The process of normalization was an initiative of Iraqi Prime Minister, Mustafa al-Khadimi. Over two years of consultation and backchannel diplomatic engagements, China spearheaded the agreement between the two states.<sup>4</sup> Both Riyadh and Tehran after the agreement also agreed to reactivate their cooperation and security agreements signed in 1998 and 2001, respectively.<sup>5</sup> This geopolitical development not only ushered in an era of shifting power politics vis-à-vis US-China competition, but also have provided a breather for Pakistan's Middle East foreign policy. The détente between the two Islamic leader states have brought with it opportunities for Pakistan to navigate its sensitive foreign policy decisions with much ease, while accruing commercial and diplomatic benefits.

### Reasons and Nature of the Rapprochement

Saudi Arabia's basis for the rapprochement stems from a number of factors. First, its fear of deteriorating relations with the West amidst Biden's presidency remains foundational in the Kingdom's thaw with the theocratic Iran. Since the Biden

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<sup>1</sup> Adam Gallagher, Hamasaeed, Sarhang, and Nada, Garrett, "What You Need to Know about China's Saudi-Iran Deal," Analysis (Washington D.C: United States Institute of Peace, March 16, 2023), <https://www.usip.org/publications/2023/03/what-you-need-know-about-chinas-saudi-iran-deal>.

<sup>2</sup> Ankit Panda, "Pakistan's Approach to Navigating the Saudi-Iranian Split," Special Report (Washington D.C.: United States Institute of Peace, February 12, 2019), [https://www.usip.org/sites/default/files/2019-02/pakistans-approach-to-navigating\\_the-saudi-iranian-split.pdf](https://www.usip.org/sites/default/files/2019-02/pakistans-approach-to-navigating_the-saudi-iranian-split.pdf).

<sup>3</sup> BBC, "Protesters storm Saudi embassy in Tehran", January 3, 2016, <https://www.bbc.com/news/av/world-middle-east-35217057/protesters-storm-saudi-embassy-in-tehran>

<sup>4</sup> "The Impact of Saudi-Iranian Rapprochement on Middle East Conflicts," International Crisis Group, April 19, 2023, <https://www.crisisgroup.org/middle-east-north-africa/gulf-and-arabian-peninsula/iran-saudi-arabia/impact-saudi-iranian>

<sup>5</sup> Marwan Bishara, "The Saudi-Iran détente and its regional implications," *AlJazeera*, March 12, 2023, <https://www.aljazeera.com/opinions/2023/3/12/the-saudi-iran-detente-and-its-regional>

administration took charge of the Oval Office, the relationship between Washington and Riyadh has witnessed a downward trend. Even through the speeches of Biden aiming for more democratic principles in the Middle East, Riyadh could sense the signals of reduced engagements.<sup>6</sup> Second, MBS's Vision 2030 aims at reducing Kingdom's reliance on oil, softening its domestic policies towards women and make it a hub of tourism and entertainment. This required dealing with the Houthi problem as it drained the Saudi exchequer at US\$ 200 million on a daily basis.<sup>7</sup> Finding a peaceful solution to the Houthi issues and Yemen campaign would allow Riyadh to funnel the investments towards other areas of human development.<sup>8</sup> The thaw in the relationship between Iran and Saudi Arabia will likely helpful for the Kingdom to restore its positive economic outlook and an image of a rational regional power.

On the other hand, Iran's aspiration for a rapprochement stems from its aims of coming out of the international isolation. The continued sanctions against the Iranian regime has resulted in severe economic crisis for the country. Iran witnessed a continued negative economic growth for three consecutive years (2017-2020).<sup>9</sup> Also, the unilateral withdrawal from the Joint Comprehensive Plan of Action (JCPOA) by the US, sanctioning its banking sector, and targeting selected individuals of Iranian Revolutionary Guard Corps (IRGC) has led Iran to find rapprochement with Saudi a viable solution to its geostrategic and geoeconomic woes.<sup>10</sup> Additionally, the Abraham Accords between Israel and two GCC countries (Bahrain and Oman) played a key role in thawing Iran's approach towards the Saudi Kingdom. The Iranian's feared that Riyadh and Muscat might also join the Accord, resulting in a strategic encirclement of the Iran.<sup>11</sup> Therefore, a wider understanding of normalization of relationship with Saudi Arabia and other GCC countries was considered as a rational choice in this evolving diplomatic environment of the region.

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<sup>6</sup> Al-Jazeera, "Biden announces major shift in US policy in Yemen", February 4, 2021.

<https://www.facebook.com/aljazeera/videos/269965121214641/>

<sup>7</sup> Abhilash Prasann, "Saudis' Yemen Quagmire", *Vivekananda International Foundation*, March 15, 2017, <https://www.vifindia.org/article/2017/march/15/saudis-yemeni-quagmire%20>

<sup>8</sup> Burhanettin Duran, "What's behind bin Salman's rapprochement with Iran", *Daily Sabah*, May 03, 2021, <https://www.dailysabah.com/opinion/columns/whats-behind-the-saudi-iran-rapprochement>

<sup>9</sup> Mohammed Nuruzzaman, "President Trump's 'Maximum Pressure' Campaign and Iran's Endgame", *Strategic Analysis*, November 2020,

<https://www.tandfonline.com/doi/full/10.1080/09700161.2020.1841099>

<sup>10</sup> Mohammed Nuruzzaman, "President Trump's 'Maximum Pressure' Campaign and Iran's Endgame", 3

<sup>11</sup> Parisa Hafezi, "Iran's response to Israel-UAE pact: tough rhetoric, no action", Reuters, 19 August 2020, <https://www.reuters.com/article/us-israel-emirates-iran-analysis-idUSKCN25E20M>

The rapprochement between the two regional neighbours, i.e., Riyadh and Tehran remains incremental in nature. Both countries have different aspirations from this process of normalisation. Riyadh aims at working on the structural issues beset at the regional level, while Tehran aspires to enhance the bilateral cooperation between the two regional powers. Since the normalisation, Ambassador exchanges have also resumed to full diplomatic nature.<sup>12</sup> Iranian officials, part of the Organisation of Islamic Cooperation (OIC) were also given visas to resume their duties.<sup>13</sup> The full diplomatic resumption may result in enhancing the understanding over several contentious issues and spoilers, such as Houthi's in Yemen, Iran's international isolation, media campaigns against each other's leadership and navigating US-China competition in the region.<sup>14</sup> Despite the fact that rapprochement has provided both Saudi and Iran to mend their relations and work towards a win-win scenario, it will remain a herculean task to make this peace and normalisation sustainable.

### **Gauging Rapprochement Sustainability and Possible Spoilers**

The fragile nature of the rapprochement remains a reality for the relationship between Riyadh and Tehran. This is evident from the kind of bilateral ties the two countries have experienced over the past three decades. The geopolitical contestation between the US and China, the US-Israel strategic partnership and the Houthi rebels are some of the spoilers that can significantly undermine the nascent rapprochement between the two countries. Given the apprehensions between the two over their conduct of foreign policies vis-à-vis each other, a single incident could halt the entire process of normalisation. The fuel tanker attack on Khobar Towers near King Abdul Aziz Air base<sup>15</sup> and execution of the Shia cleric Nimr Baqir<sup>16</sup> are cases in point.

Given the increasing role of Beijing as a rational global actor and also being the main actor in brokering the deal between Riyadh and Tehran, the US could carry out measures to regain the lost diplomatic and strategic space in the Middle East. This

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<sup>12</sup> Al-Jazeera, "Saudi and Iran exchange ambassadors after rapprochement", September 5, 2023. <https://www.aljazeera.com/news/2023/9/5/saudi-and-iran-exchange-ambassadors-after-rapprochement>

<sup>13</sup> Al-Jazeera, "Iran to reopen OIC representative office in Saudi Arabia", January 17, 2022. <https://www.aljazeera.com/news/2022/1/17/iran-to-reopen-oic-representative-office-in-saudi-arabia>

<sup>14</sup> Al-Jazeera, "Iran to reopen OIC representative office in Saudi Arabia".

<sup>15</sup> Dilip Hiro, "Cold War in the Islamic World: Saudi Arabia, Iran and the Struggle for Supremacy", 150.

<sup>16</sup> Khurram Abbas, "Passive Mediation in Persian Gulf Conflicts: An Analysis of Pakistan's Peace Initiatives", *International Journal of Middle Eastern and Islamic Studies*, Vol. 16, No. 2, (2019), 1-18.

could result in US carrying out measures to undermine peace initiatives and investment done by China. The US holds a huge presence in GCC countries and could use its influence to provoke a conflict between GCC and Iran.<sup>17</sup> Additionally, the US aims of normalisation between Israel and Saudi Kingdom could also be expedited to generate resentment and apprehensions in Iran over Saudi engagement with the Israel. However, the recent genocidal campaign of Gaza by the Israeli forces has reduced any chances of normalisation between Riyadh and Tel Aviv, as it carries a greater cost for Saudi Arabia.<sup>18</sup> Hence, it is safe to claim that the rapprochement between Saudi Arabia and Iran is not sustainable and highly fragile in nature.

### **Saudi-Iran Rapprochement: Impact on Pakistan**

Pakistan has for decades treaded a delicate path of diplomatic relations vis-à-vis Saudi Arabia and Iran. Having a deep rooted economic ties based on a huge labour force and receiving much needed economic bailouts by the Gulf countries, Pakistan also shares a 980 kilometer border with Iran. The geopolitical tensions between Riyadh and Tehran resulted in Islamabad's discomfiture due to its geopolitical considerations. This is why Pakistan has always assumed the role of a mediator between the Gulf countries and Iran during crisis. Choosing sides will be detrimental to Pakistan's economic and political interests. Because Islamabad is reliant on remittances from the Gulf region and has the largest expatriate community in the GCC, deterioration of relations with the Gulf region is nearly unthinkable for Pakistan. On the other hand, due to their sectarian leanings, about 15-20 percent of Pakistan's Shia community favours a better relationship with Iran.

### ***Economic Incentives***

The first and foremost economic incentive for Pakistan will be the significant opening up of extensive trade and energy cooperation. While, Iran and Pakistan being members of the China's-led Belt and Road Initiative (BRI), the thaw will allow Saudi Arabia to be part of BRI projects within Pakistan and Iran. The agreement presents promising opportunities for Pakistan, enabling increased collaboration in food and energy security through its involvement in the China Pakistan Economic Corridor

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<sup>17</sup> "US attempts to undermine Saudi-Iranian rapprochement," *Crescent International*, August 16, 2023, accessed: March 7, 2024, <https://crescent.icit-digital.org/articles/us-attempts-to-undermine-saudi-iranian-rapprochement>

<sup>18</sup> "US attempts to undermine Saudi-Iranian rapprochement," *Crescent International*.



(CPEC) projects, focusing on energy, infrastructure, and Special Economic Zones (SEZs).<sup>19</sup>

The recent thaw in ties between Iran and Saudi Arabia, combined with China's newfound strategic alliance with Iran and the convergence of the BRI with Saudi Arabia's Vision 2030, open up novel economic prospects for Pakistan. In this scenario, exploiting the geographical proximity of the Gwadar and Chabahar ports becomes imperative, and potential investments pledged by Saudi Arabia in Gwadar might come to fruition. China's active involvement could guide and facilitate these economic initiatives for mutual advantages.<sup>20</sup>

Expressing interest in investment within Pakistan, both Iran and Saudi Arabia have the potential to play pivotal roles in tackling Pakistan's energy crises. Iran, with its abundant and untapped natural gas and energy resources, could significantly contribute to the Pakistan's gas and electricity needs. Concurrently, attracting investments from Saudi Arabia could assist in fortifying Pakistan's oil and gas sector, diminishing reliance on imported oil, and strengthening foreign exchange reserves.<sup>21</sup>

One noteworthy project reaping benefits from improved relations is the Iran-Pakistan gas pipeline. While Iran has fulfilled its commitments, Pakistan's delays may result in a substantial \$18 billion penalty. Apprehension about upsetting Saudi Arabia and inviting American sanctions has impeded progress on the Pakistani front. Nevertheless, with Riyadh expressing interest in enhancing commercial ties with Iran, Pakistan can persuade them of the project's viability.<sup>22</sup>

In dealing with American sanctions, Pakistan must advocate for the freedom to engage in trade with Iran, citing precedents like India trading with sanctioned Russia. If competitively priced, Iranian gas could alleviate Pakistan's severe energy shortages. Another upcoming project is the Gwadar oil refinery, attracting interest from Saudi

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<sup>19</sup> Arhama Siddiq, "Saudi-Iran Rapprochement: Opportunities for Pakistan," ISSI Brief, *Institute of Strategic Studies Islamabad*, May 15, 2023,

[https://issi.org.pk/wp-content/uploads/2023/05/IB\\_Arhama\\_May\\_15\\_2022.pdf](https://issi.org.pk/wp-content/uploads/2023/05/IB_Arhama_May_15_2022.pdf)

<sup>20</sup> Rabia Akhtar, "The Saudi-Iran Rapprochement and its Implications for Pakistan," Discourse 2023-03, *Pakistan Institute of Development Economics*, May 2023,

<https://pide.org.pk/research/the-saudi-iran-rapprochement-and-its-implications-for-pakistan/>

<sup>21</sup> Syed Ali Abbas, "Implications of the Iran-Saudi Deal for Pakistan," *South Asian Voices*, May 9, 2023, <https://southasianvoices.org/implications-of-the-iran-saudi-deal-for-pakistan/>

<sup>22</sup> Qasim A. Moini, "What The Saudi-Iran Deal Means For Geopolitics," *Dawn*, April 22, 2023, <https://www.dawn.com/news/1748778>

Arabia. While concerns may emerge from Iran, Pakistan can build a convincing case for the project's benign nature, underscoring its role in connecting China's trade and energy corridors with the Gulf, aligning with the evolving geopolitical landscape.<sup>23</sup>

### ***Political/Diplomatic Dividends***

The resumption of diplomatic ties between Tehran and Riyadh carries significant implications for Islamabad. It not only enables Pakistan to strengthen bilateral relations with both Muslim nations but also facilitates more positive engagements with key players such as Qatar, Turkey, and Malaysia. This is crucial for Pakistan, which seeks new economic partners to establish mutually beneficial development collaborations. The absence of an obligation for Pakistan to choose between Saudi Arabia and Iran is perceived favorably, fostering a conducive environment for the country.<sup>24</sup>

The persistent sectarian violence in Pakistan, exacerbated by Sunni-Shia tensions, has been manipulated by extremist groups to incite conflict and create instability. The regional rivalry between Saudi Arabia and Iran has worsened this situation, with both nations seeking to exert influence and utilizing sectarianism as a tool for geopolitical interests. Therefore, the normalization of ties between Iran and Saudi Arabia holds the potential to positively impact Pakistan by defusing sectarian tensions and reducing the influence of extremist groups. Additionally, improved relations between these regional powers could contribute to a more stable and peaceful Middle East, beneficial not only for Pakistan but for the broader international community.<sup>25</sup>

The normalization of diplomatic relations between Iran and Saudi Arabia promises to alleviate regional tensions, fostering a more conducive environment for peace and stability. The amicable relations that both countries share with Pakistan and India could play a crucial role in easing tensions between the two South Asian nations. A reduction in regional tensions may encourage Pakistan and India to engage in dialogue, seeking diplomatic solutions to their longstanding disputes.<sup>26</sup>

Enhanced relations between Iran and Saudi Arabia would greatly benefit Indian and Pakistani diplomacy. Managing great-power competition involving countries like the

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<sup>23</sup> Qasim A. Moini, "What The Saudi-Iran Deal Means For Geopolitics."

<sup>24</sup> Rabia Akhtar, "The Saudi-Iran Rapprochement and its Implications for Pakistan."

<sup>25</sup> Ureeda Khan, "Iran-Saudi Arabia Reconciliation Is an Opportunity for Pakistan."

<sup>26</sup> "The Impact of Saudi-Iranian Rapprochement on Middle East Conflicts," International Crisis Group.



U.S.-Russia for India and U.S.-China for Pakistan is already daunting. The prospect of dealing with one less acrimonious rivalry provides relief for both capitals.<sup>27</sup>

### **Recommendations**

- The reconciliation between Iran and Saudi Arabia could positively impact the Gwadar region and the Iran-Pakistan border. Seizing this opportunity, Pakistan should move forward with the establishment of Aramco's oil refinery in Gwadar, aligning with the 2019 framework. Given the favorable geopolitical environment, Pakistan can easily reassure Saudi Arabia that the security of Aramco's oil refinery in Gwadar will not be threatened by Iran.
- Pakistan may ask investors from KSA and UAE to invest in energy and gas sector of Pakistan, specifically, in the completion of Iran-Pakistan gas pipeline.
- Saudi-Iran rapprochement does not directly provide economic/commercial benefits for Pakistan's trade vis-à-vis Iran. The US sanctions along with lack of surplus of exporting goods remain an impediment for Pakistan to accrue economic benefits.

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<sup>27</sup> Michael Kugelman, "What the China-Brokered Saudi-Iran Deal Means for South Asia," *Foreign Policy*, March 16, 2023, <https://foreignpolicy.com/2023/03/16/china-saudi-iran-deal-south-asia-pakistan-india-oscars-rrr/>