

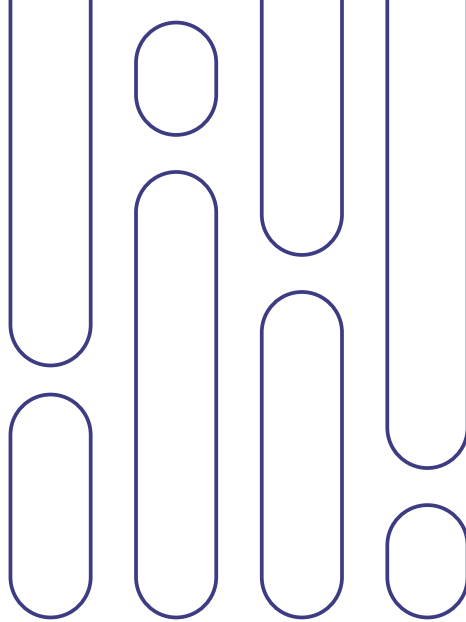
REPORT

The Saudi-Iran Agreement and the Resumption of Diplomatic Ties

March 16, 2023



RASANAHA
المعهد الدولي للدراسات الإيرانية
International Institute for Iranian Studies



CONTENTS

Introduction	3
Dimensions of the Saudi-Iran Diplomatic Agreement	4
The Decisive Factors That Led to the Swift Signing of the China-Brokered Agreement	7
Internal, Regional and International Reactions.....	12
The Potential Repercussions of the Saudi Arabia-Iran Agreement	16
Potential Gains and Prospects of the Agreement.....	19
Challenges Facing the Saudi-Iran Agreement	23
Conclusion	27

Introduction

Saudi Arabia and Iran, two regional heavyweights exerting massive influence on regional and global affairs but with diametrically opposed agendas, met at the negotiating table from March 6 to March 10, 2023. The heads of the two countries' delegations signed the joint trilateral Saudi-Iranian-Chinese statement on March 10, 2023. The agreement has ushered in a new era between the two major regional powers Saudi Arabia and Iran for the resumption of diplomatic ties after a bitter dispute and seven-year diplomatic breakup, which has overshadowed the outstanding issues in the region as well as regional peace and security. The breakthrough came after five rounds of marathon talks in Baghdad, where the delegations sometimes returned with no yields at all, with the official positions remaining positive but without moving forward toward a stage where a breakthrough occurred. But the Chinese mediation laid new foundations for the security, political and economic ties between the two sides. The landmark historic agreement is of regional and global significance, given the significant weights of both regional powers, their intermingling roles in several regional spheres, their major influence on regional and global issues and their role in shaping the features, structure and future of the global order. As a result, concluding the agreement raises several questions which the paper seeks to answer: Does the agreement mean a shift in Iranian strategic positions out of an acceptance of the Saudi conditions? Or is it just a tactical shift due to the internal and external circumstances putting pressure on Iran? What are the decisive factors that prompted the kingdom to sit down around the negotiating table with Tehran and accept the resumption of diplomatic ties? What are the potential ramifications and gains for both sides from the agreement? What are

the most salient internal, regional and international responses and reactions to the agreement? What is the future of this agreement future?

Dimensions of the Saudi-Iran Diplomatic Agreement

Background and Points of Reference

The head of Saudi Arabia's delegation was Cabinet Member and Saudi National Security Adviser Musaad bin Mohammed Al-Aiban while Secretary of Iran's Supreme National Security Council Ali Shamkhani led the Iranian delegation. Both officials are heavyweight security figures in their respective countries. The trilateral meeting was also attended by Wang Yi, a senior Chinese diplomat and member of the Political Bureau of the CPC Central Committee. In addition, Yi is chief of the Bureau of the Central Committee for Foreign Affairs. Aiban's involvement reflected the emphasis the kingdom put on the security aspect and its keen interest in addressing security issues.

The agreement's announcement may not be surprising for those having inside knowledge of the regional and international diplomatic corridors. By 2021, Saudi Arabia and Iran began engaging in low-level direct talks hosted by Iraq and the Sultanate of Oman alternately. The talks, which began under former Iraqi Prime Minister Mustafa al-Kadhimi, discussed ways to ease tensions between Riyadh and Tehran, resume diplomatic ties and settle the differences arising from Iran's intervening role in several regional spheres. The fifth and last round of talks, held in Baghdad — until the date of releasing this report — was accompanied by a positive atmosphere and back-and-forth messages to find an off-ramp for some outstanding issues.

The Chinese accomplishment of reconciliation between Saudi Arabia and Iran is not a sudden development. It followed years of diplomatic attempts by Beijing down this road. In March 2017, China announced its willingness to mediate between the two sides in an initiative on its part. It reiterated this in 2019. In 2022, China and the Gulf states held a summit that saw Beijing's call for Tehran not to interfere in the internal affairs of other countries. Iran expressed discomfort at the Chinese move, prompting its president to visit Beijing to confirm China's position toward Iran. The summit also served as a motive for moving ahead with the reconciliation between the two sides. It is worth noting that this agreement was preceded by two agreements previously signed between the two parties in 1998 and 2001. The first included the restoration of ties and cooperation in the fields of economy, trade, investment, technology, science, culture, sports and youth. The second agreement dealt with security arrangements and cooperation between the two parties.

Contents and Significations of the Agreement

In a reading of the agreement's most significant terms, Rasanah's research team concluded that there are two main factors that constitute together a common ground where the three sides (Saudi Arabia, Iran and China) can build on, develop and render effective to make successful the future of Saudi-Iran relations. They can use also this ground to find effective solutions to the accumulating thorny issues and divergences: The first is related to mutual pledges between the two sides. It includes the calls by Riyadh and the rest of the region's countries for non-interference in the internal affairs of other countries, respecting other countries' sovereignty and good neighborliness between the region's countries. Thus, the parties to the agreement seek to give

the announcement to resume ties between Riyadh and Tehran seriousness and credibility. This is due to the fact that the differences between Saudi Arabia and Iran and Saudi complaints have primarily arisen from unacceptable Iranian practices in this regard. Questions remain about the Iranian interpretation of this vague provision of the agreement and whether it will curb its intervention in the kingdom via Yemen or whether the provision is related to the Iranian regime's overall behavior, including its sponsorship of sectarian proxy actors throughout the region. The second, meanwhile, is related to declared measures and includes the restoration of diplomatic ties and reopening of embassies in Tehran and Riyadh and the consulates in Mashhad and Jeddah within two months at the latest. This period of time before resuming diplomatic ties could be construed within the context of giving a sufficient period of time to test Iran's intentions before the resumption of diplomatic ties between the two sides. Iran's extraterritorial behavior will be closely monitored during this time period that is stipulated in the agreement. In addition, the two sides agreed to revive the security and commercial agreement signed between them in 1998 and 2001 as previously stated. These agreements, however, were frozen as a result of the tensions that have marred the two countries' relations over the past years. The resumption of the security agreement signed between the two sides is of particular importance, given that most of the differences between the two nations arise from national security issues. The two states' security services are more hesitant and cautious about opening up new political channels of communication before "ascertaining the sincerity of intentions and actions" through taking specific and tangible steps. Hence, resurrecting the security agreement adds political significance to the announcement of resuming diplomatic

ties and has received support from the national apparatuses that will preserve and uphold the provisions of the agreement. Among the important indications about this agreement is that it was signed outside the region, in the Chinese capital Beijing — unlike the other rounds of talks that have been held since 2021 in Baghdad and Muscat.

China's hosting of the agreement is based on several considerations, which we will mention in detail in the report's following parts. They are primarily based on Chinese expediency which is related to the Middle East's strategic importance, particularly the security of maritime waterways and their significance for the global economy. It should also be noted that China has proposed a five-point initiative to achieve security and stability in the Middle East through dialogue.

The Decisive Factors That Led to the Swift Signing of the China-Brokered Agreement

The major historic agreement between Iran and Saudi Arabia comes at a very sensitive and delicate time in the context of regional and global affairs. This is due to Russia's defiance of the global norms well-established since the end of the Cold War by declaring its military operation — which is still ongoing — in Ukraine, which is aligned with the West, particularly with the United States rallying against Russia. This is in addition to US military withdrawals from geostrategic regions that concern regional and global actors due to their security significance, economic resources and geostrategic positions in the context of energy routes and pipelines. On top of these US withdrawals comes its withdrawal from the Middle East and Central Asia, particularly Afghanistan, in search of maximizing its interests

in East Asia and encircling China, Washington's powerful rival with which it is jockeying for global leadership. This has in turn created a strategic void that has prompted regional powers to search for powerful international allies on the one hand and establish homegrown security schemes to protect their security and stability on the other. The following lines explain the most salient decisive factors that prompted both parties to swiftly sign the agreement in Beijing. This comes even though the two sides were involved in indirect talks that lasted nearly two years and a sixth round of talks was being prepared for in Baghdad.

The Motives Behind the Kingdom's Signing of the Agreement

Before touching on the decisive factors, we can shed light on the overall factors that led to the signing of the agreement. They revolve around the shift in the Saudi leadership's orientations in recent times, becoming more dynamic and open toward the events affecting regional and global affairs — given the Saudi capabilities and potential as part of the kingdom's ambitious Saudi Vision 2030. This vision aims to turn Saudi Arabia into a regional actor and even a global actor, thus enhancing its interests regionally and globally. Not only will Saudi Arabia do this through establishing relations with outside parties but it will also reconsider the concept of forging partnerships and achieving mutual benefits, and deliver messages that convey independence. Having multiple strategic alternatives and partners in international relations is a Saudi strategic objective. This new approach, however, does not reflect an abandonment of traditional allies. All countries look out for their own interests when establishing international relations and the kingdom has the right to look for new international allies and maximize its interests. The following

lines explain the decisive motives that led the kingdom to sign the agreement with Tehran at this moment in time:

- **The Kingdom's feeling that Iran is serious:** The kingdom felt that Iran is seriously attempting this time to ease ties and that it has learned from the bitter lessons of the past and the seven years of diplomatic breakup and their consequences for the Iranian home front. This comes as the indirect talks between the two sides led to a halt or decline in the pace of Houthi attacks on Saudi Arabia and Iran's support for the ceasefire in Yemen and Saudi Arabia entering negotiations with the Houthis brokered by Oman.
- **Saudi Arabia adopting a zero-problem foreign policy approach:** Saudi Arabia is gradually embracing a zero-problem foreign policy approach to end the ongoing regional tensions and enhance and bolster Saudi strategic interests and gains — as has been evident with Qatar and Turkey. This comes amid a general orientation that has emerged among several Middle Eastern states to adopt a zero-problem foreign policy approach to achieve their own strategic interests; Egypt, Turkey and the UAE have adopted this approach.
- **The Kingdom's realization that it would have bigger opportunities under a multipolar world order:** China is one of the poles of the new multipolar world order. This new order has begun to emerge over the past period after strenuous efforts, an order that will likely be multilateral where no single global power will be capable of controlling and influencing the course of global affairs and issues. This new global order gives greater importance to the countries possessing strategic commodities important for global trade. The kingdom is one of these countries and wants to carve out a place for itself which enhances its security, strength-

ens its standing and ensures its strategic interests.

- **The Kingdom's confidence in china as an international guarantor:** The kingdom has agreed to sign the agreement chiefly because China is a major global pole and possesses levers against Iran. This makes Beijing capable of influencing Iran's compliance with the agreement. To Iran, China is a credible global alternative and is one of the UN Security Council's permanent members. It is also a chief importer of Iranian oil even during the time of sanctions and Iran's most important trading partner. Additionally, China wields the biggest influence on economic decisions and membership issues in several rising international economic organizations such as BRICS and the Asian Infrastructure Investment Bank. China is one of Iran's main arms suppliers and it is about to become the world's number one economy, according to several global economic indicators.

Motives Behind Iran's Signing of the Agreement

While Iran continued to interfere in the internal affairs of Arab and Gulf states via its armed proxies that carried out successive attacks on Saudi territory, Tehran repeatedly called on Riyadh to sit down at the negotiating table to settle their differences. For its part, the kingdom has always rejected Iranian requests to sit down and negotiate unless the attacks by Houthi and other militias on Saudi and other Gulf territories do not stop. Saudi Arabia demanded a change in actions (behaviour) rather than merely words. There are two factors governing the consecutive Iranian attempts to settle the dispute with Saudi Arabia:

- **The squeezing economic circumstances:** The agreement comes at a very sensitive time for Iran in terms of the economy — both at the official and popular levels. This is because there are several internal and external factors that have exacerbated

the already deteriorating Iranian economic situation — starting from the reimposition of US sanctions in 2018, the consequences of the coronavirus pandemic in 2020, the Russia-Ukraine war in 2021 and the protests against the killing of Mahsa Amini in 2022. On the one hand, the economy suffers from slowed growth and capital flight. The government is also facing a huge and increasing financial deficit coupled with limited oil revenues. It also cannot access all its frozen assets overseas to ease its financial squeeze. This is in addition to the decline in trade and the trade balance shifting from a surplus to a deficit worth billions of dollars. This has exacerbated the depreciation of the local currency's value against foreign currencies. The Iranian people have been enduring the woes of inflation over the past two years. Neither former President Hassan Rouhani nor current President Ebrahim Raisi have been able to curb inflation, causing it to become a major concern for millions of Iranians and pushing millions below the poverty line.

These variables have turned out to be a threat not only to the stability of society but also to the entire regime, prompting the latter to make necessary political changes before the internal situation gets out of control.

• **The consequences of isolation:** Saudi Arabia's severing of its ties with Iran seven years ago – against the backdrop of the attacks on the Saudi diplomatic headquarters in Tehran and Mashhad — exacerbated Iran's regional isolation. This put more pressure on Iran, rendering it even more isolated in the Arab region. A total of 12 Arab countries severed or downgraded their diplomatic ties with Iran because of its repeated interventionist policies. The nine countries which severed ties are Saudi Arabia, Bahrain, Egypt, Yemen, Sudan, Somalia, Djibouti and Comoros. The three countries that downgraded ties with Iran are

Kuwait, the UAE — who reinstated their ambassadors to Tehran in 2022 — and Jordan. Mauritania recalled its ambassador from Iran, meaning that 60 percent of Arab countries cut off their relations with Iran. Thus, the problem with Iran does not concern a specific Arab country but rather 60 percent of the Arab countries. This has put Iran in a state of unprecedented isolation and complicated its calculus, negatively impacting the country and increasing its isolation. As a result, the state of isolation has served as an important impetus for Iranian attempts to settle the dispute with Riyadh.

Internal, Regional and International Reactions

Since Iran and Saudi Arabia announced that they have reached a deal to resume their diplomatic ties which were cut off since 2016 after negotiations sponsored by China, there have been local, regional and international reactions — chiefly focusing on the impact of this agreement and its dimension with regard to the future of stability in the region's countries.

Both Sides' Internal Positions

- **Saudi Arabia's official position:** This was particularly evident in the remarks of Saudi Foreign Minister Prince Faisal bin Farhan who said, "The Saudi-Iranian agreement to resume diplomatic ties reiterates the two sides' shared desire to resolve differences via communication and dialogue." He reiterated that this agreement does not mean reaching a solution to all the outstanding issues between the two sides. On the Saudi perspective after announcing the agreement with Iran, the Saudi foreign minister said, "The foundation of international relations is the establishment of diplomatic relations between countries. This could

be further enhanced if the two countries are neighboring heavyweights such as Saudi Arabia and Iran, bound together by several religious, cultural, historical and civilizational commonalities.” “The Saudi welcoming of the Chinese president’s initiative to develop neighborly relations stems from the kingdom’s well-established approach adhering to principles of good neighborliness that has been continuing since the kingdom’s founding, adopting whatever enhances security and stability in the region and worldwide, and embracing the principle of good neighborliness,” Saudi Minister of State, Member of the Cabinet and National Security Adviser Dr. Musaad bin Mohammed al-Aiban said.

- **Iran’s official position:** Iran and its officials at varying levels welcomed the agreement. Iran’s Foreign Minister Hossein Amir-Abdollahian affirmed that the restoration of relations between Iran and Saudi Arabia holds “huge potential” for the two nations, the region and the Islamic world. He considered the prioritization of a good neighborly policy to be the fundamental focus of the Raisi government’s foreign policy. The foreign minister stated that Iran is on the right trajectory and that the diplomatic apparatus is working hard to prepare future regional measures.

The agreement has been greeted positively by the Iranian media’s varying strands and orientations, which have described it as significant and a source of hope. Several newspapers advocated broadening the scope of the deal to encompass reconciliation with the United States and the West in general to end Iran’s international isolation and improve the Iranian people’s worsening economic and living conditions from which the people are greatly suffering. The “reformist” newspapers, despite welcoming the agreement, criticized the “conservatives” for delaying the improvement of relations with Saudi Arabia. They consid-

ered the breaching of the Saudi embassy in Tehran in 2016 as an attempt to thwart the Rouhani government's diplomatic efforts. These newspapers also described the “conservatives” efforts to improve relations with Riyadh as a historical joke. The “conservatives” are the ones who are doing their best to restore ties with Saudi Arabia, the relations that were severed primarily due to the huge mistake they had made: breaching the Saudi embassy.

- **Iranian proxies' positions:** Over the past years, Iranian proxies throughout the region have played a primary role in carrying out the Iranian project in the region. As a result, curbing the clout of these proxies could be one of the most important factors of this agreement's success in the future. It could also lead to political resolutions that make the region's countries more stable, particularly if Iran cooperates with Saudi Arabia to create the conditions necessary for fostering security and stability in the region's countries. Thus, Iran's signing of the agreement is considered a real test of the extent of its control over proxies in the spheres of influence, particularly in Iraq where divisions have occurred primarily because of relations with Iran. Some of these proxies have achieved their own interests — away from Iran's. After announcing the agreement putting an end to the diplomatic breakup between Saudi Arabia and Iran, Hassan Nasrallah, Hezbollah's secretary general, expressed his happiness at the resumption of relations between Tehran and Riyadh. He said he has confidence that the move will be in the interest of the region's peoples, considering that the agreement could open new prospects in all the region's countries, including Lebanon. In Yemen, the spokesman for the Houthis said, “The region needs normal relations between its countries.”

Regional Powers' Positions

The agreement between Saudi Arabia and Iran elicited positive responses from the region's countries. The Gulf states hailed the agreement, as did Iraq, Egypt, Lebanon, Syria, Tunisia, Algeria and Sudan, all of which see it as a turning point in the two countries' diplomatic relations. Lebanon, for its part, stated that the agreement would improve the general situation in the region. The Egyptian Ministry of Foreign Affairs stated that it has closely monitored the agreement and expressed hope in a statement that it will reduce tensions in the region. Jordan's Ministry of Foreign Affairs expressed hope that the agreement would improve regional security and protect the sovereignty of countries. Turkey, for its part, saw the agreement as a crucial step toward promoting regional security and stability. The widespread Arab and regional support for the Saudi-Iran agreement stems from the fact that several Arab countries have been impacted by Iranian meddling in their domestic affairs in recent years. They are waiting to see how serious Iran will be this time in resolving issues and achieving regional cooperation and stability. Israel is the only Middle Eastern country that has expressed dissatisfaction with the agreement. According to its first official statement, Tel Aviv believes that the agreement between the two parties will impact the actualization of relations between Saudi Arabia and Israel.

Global Powers' Positions

The United States welcomed the agreement on the condition that it leads to reducing tensions in the region, stops the war in Yemen and ensures Saudi Arabia's security. However, National Security Council Spokesperson John Kirby's statement that "Washington will see if Iran will fulfil its obligations after concluding the agreement with Saudi Arabia" indicates that Wash-

ington is concerned about controlling Iran's regional behavior as well as the possibility that the Iranian side will not honor this agreement.

Moscow, for its part, congratulated Iran, Saudi Arabia and China on reaching an agreement to re-establish relations between Riyadh and Tehran through Deputy Foreign Minister Mikhail Bogdanov. He noted that the resumption of relations is consistent with Russian actions aimed at establishing a security system in the Gulf region, which is critical to the world economy. The European Union (EU) also welcomed the agreement between Saudi Arabia and Iran to resume diplomatic relations, stressing its desire to see the agreement implemented. The EU stated that the revival of relations between the two countries might contribute to regional stability. The statement went on to say that fostering peace and stability, as well as reducing tensions in the Middle East, are among the EU's top goals, and that the EU is ready to engage with all parties in the region in a comprehensive and transparent manner.

The Potential Repercussions of the Saudi Arabia-Iran Agreement

Repercussions on the Saudi-Iranian Conflict in the Region

Regional issues at the core of the Saudi-Iran conflict are a true test of the current agreement between the two countries and China's mediation role. The following discussion explains how.

- **The Yemeni war:** The Yemeni crisis is the most important area to test Iran's intentions and commitment to the agreement signed with Saudi Arabia. The conflict in the war-torn country has been increasingly complicated owing to Iran's intervention. Iran's role has contributed to thwarting the prospect of reach-

ing a political settlement in Yemen as Tehran has consistently opted to side with the Houthi rebels, adopting their positions and decisions. The Houthis are only concerned with consolidating power, spreading sectarianism in northern Yemen and marginalizing the internationally recognized legitimate government represented by the Presidential Leadership Council, which represents all Yemeni components. The situation in Yemen is likely to dramatically change following the agreement between Saudi Arabia and Iran. The agreement is perceived as a boost to international and regional efforts and initiatives to reach a peaceful settlement in Yemen which resulted in a military truce since last April. The Houthis should actively engage in peace talks with the Presidential Leadership Council, which will likely lead to accelerating the pace of the political settlement in Yemen. This is backed by the fact that Iran's UN mission said that the recent detente deal between Iran and Saudi Arabia will contribute to the beginning of Yemeni dialogue and the formation of an inclusive national government in Yemen.

• **The Lebanese presidential crisis:** It is likely that the Saudi-Iran detente agreement will positively impact the increasingly complicated economic and political situation in Lebanon. It will likely reduce the sectarian conflict in Lebanon, break the political stalemate and accelerate the pace of reaching an agreement on the country's presidential candidate in the coming period. If this scenario plays out, the economic situation will improve, opening up new prospects for the country's many economic sectors, particularly the tourism sector and Saudi Arabia and the Gulf states are likely to boost their investments in the Lebanese economy. This will surely bring economic and political stability to Lebanon.

- **The Syrian predicament:** The Saudi-Iran agreement came at a time when the Syrian arena faces a deadlock. The Syrian regime has managed to regain control over significant parts of the country while achieving reconciliation with some Arab and regional countries. Hope is pinned on the Saudi-Iran agreement to return Syria to the Arab fold.

Impacts on the Iranian Nuclear File

The Iranian nuclear file is one issue among others including Iran's nuclear technology, its role in the Russia-Ukraine war and its regional policy. The latter clashes with the agreement with Saudi Arabia. If the Saudis and Iranians could settle their thorny issues in the region, the Iranian nuclear file could be settled in accordance with the IAEA's regulations. The Saudi-Iran agreement limits the possibilities of a military strike that Israel has threatened to launch against Iranian nuclear sites. Furthermore, if the agreement proves to be solid, it will contribute to building confidence between Iran and the West and reflect Tehran's seriousness in reaching an agreement with Western countries and implement its provisions on the ground.

Implications for Sino-US Rivalry in the Middle East

The agreement is viewed as a Chinese diplomatic success and heralds a new era in which China plays a more significant role in international affairs. This success is in the context of the importance and complexity of the Iran-Saudi conflict in the Middle East in particular and in the international arena in general. The agreement reflects China's capability to fill the void in the region left by the United States which has failed to fulfill the role it has been playing during the past decades. The Chinese-sponsored agreement could

have internal impacts, especially on the nearing US elections. On the economic level, it could facilitate the realization of the Belt and Road Initiative – an important project for China.

China also reduced the significant military gap with the United States in terms of quality and military spending. We cannot also remain heedless to the fact that China will not accept the failure of its mission so easily, especially as it is acting as a guarantor of a landmark agreement between two regional heavyweights in a sensitive geostrategic region. This is its first duty as a guarantor and the first real test of its strength and tools of influence in the region.

It is in the interest of China that the two sides sign the agreement due to economic considerations. The two countries are major exporters of oil which is the mainstay for pushing the massive wheel of the Chinese economy. China also needs Saudi Arabia and Iran within its efforts to carry out its transboundary Belt and Road economic project. The two countries are considered two crucial stops in this project. There are also political considerations since the two countries are important for China within the framework of the comprehensive strategic partnership to maximize mutual interests and benefits and diversify actors of the new global order. In addition, there are security considerations. They include ending the dispute between the two sides to ensure safety for Chinese trade passing through the strategic straits of Hormuz and Bab al-Mandab.

Potential Gains and Prospects of the Agreement

Both Saudi Arabia and Iran aspire to achieve a series of internal and external benefits that will be explained in the following lines.

Saudi Arabia and Iran: Crucial Gains and Opportunities

• **Saudi Arabia:** The kingdom may realize significant internal security achievements if Iran is truly serious about placing pressure on the Houthis to halt their continuous attacks on Saudi territories and oil facilities. As for Saudi foreign policy, regional security and stability may contribute indirectly to complementing the objectives of Vision 2030, which stresses that achieving regional security and stability is a priority in Saudi foreign policy. The agreement may also contribute to ending the political blackmailing against Saudi Arabia exercised by some regional and international powers and could undermine Iran's behavior and avoid a direct confrontation with the kingdom. There has been a shift in Saudi foreign policy, with the kingdom playing a more effective role in settling regional and international conflicts that impact the world's economy and security such as the Russia-Ukraine war.

• **Iran:** The internal situation constitutes the primary priority for the Iranian regime, given that the current protests also have a socioeconomic stimulus. International sanctions have contributed to Iran's deteriorating economic front and tensions with neighboring countries have led to its isolation. Therefore, Iran has not been able to enhance economic and trade cooperation with neighboring countries. At home, the Iranian regime is promoting the agreement with Saudi Arabia as a success for Iranian President Ebrahim Raisi and his policy of "Looking to the East." In addition, it is promoting improved relations with neighboring countries despite the argument of "reformists" that their foreign policy choices are better than the "hardliners." The "reformists" argue that their choices must be embraced if Iran is to end its regional isolation.

Joint Gains and Opportunities

• **Possibility to enhance mutual economic interests:** Despite the limited trade between the two countries, the resumption of relations will help them benefit from trading opportunities and positive developments that have evolved during the past seven years. Saudi Arabia enjoys exclusivity over certain services such as religious tourism (Hajj and Umrah) and is having greater influence over the entertainment industry. If direct flights are resumed, tourism revenues (religious or entertainment) will increase for both sides. Saudi Arabia has exerted unprecedented efforts to attract capital, investment and technology to meet the objectives of 2030, as well as to diversify national income. Such Saudi moves will increase the opportunities of non-oil industries and make them focal points of potential trade with Iran, given the fact that Iran imports huge amounts of industrial products for developing its technological base.

Iran's traditional exports are mainly saffron, nuts, caviar, carpets and various agricultural products. It also possesses capital to be invested in various industries such as food, mechanical engineering, and spare parts. These industries export to neighboring countries at low prices due to the low value of Iran's national currency. Iran's tourism is capable of attracting Gulf tourists.

As for economic cooperation, Saudi Arabia and Iran are the largest oil producers in OPEC. Their cooperation is likely to increase in regard to the volume of production and exports. Their disagreements will possibly decrease if their relations are completely resumed and normalized. Iran needs huge investments in its oil and non-oil sectors, opening up avenues of cooperation if US sanctions are lifted. As for geo-economics, Saudi Arabia and Iran are crucial points in China's Silk Road to Europe. To make it a safe route, and double the gains of all parties involved as well

as to decrease the costs, China has been working to defuse tensions between countries involved in the Silk Road project.

- **Decrease the heightened rhetoric:** Probably, the Iranian regime — primarily because of political and economic pressure— has resorted to prioritize political rhetoric over religious discourse. In light of all the crises the country has been facing since the protests erupted before and after the death of Mahsa Amini, the regime might believe that the agreement with Saudi Arabia will eliminate or at least decrease its internal crises. Such a position is in line with the “reformists” as well as the Kurds and Sunnis, who have called on the regime to open dialogue with neighboring countries. It is expected that this agreement will decrease or eliminate the heightened ideological rhetoric, which will be beneficial for the whole region.

- **A diplomatic channel for understanding:** Having strong diplomatic relations opens up direct channels for dialogue, which will help in increasing understanding, limit disagreements and identify solutions to problems. The two countries are in need of conciliation . Saudi Arabia needs to have a conducive environment to realize its new vision and halt any challenges that might hinder its current phase of change and development that it has been working on day and night at home. Saudi Arabia is preparing the regional environment for its ambitious project in the Middle East and leading role in the international arena. Iran also needs conciliation to decrease the internal pressures which are intensifying on the regime, causing its legitimacy to erode further. Iran also wants to end its regional isolation, normalize relations with Saudi Arabia and limit any possibility of direct confrontation with the kingdom, given the fact that Riyadh played an integral role in placing unprecedented pressure on it and contributed to huge international and regional mobilization against it.

• **China succeeds in gaining trust:** China strongly supports the agreements and wants to engage in the Middle East. Such a step is aligned with China's diplomacy in the international arena, which aims to push back US hegemony. In addition to this agreement, China has proposed an initiative for global security and a settlement to end the Russia-Ukraine conflict. With this foreign policy, China aims to counterbalance the United States' presence in various arenas across the Middle East. Needless to mention, China will secure economic and security benefits from this agreement. It grants China much needed influence to establish its New Silk Road project, which passes through Iran and Saudi Arabia toward Africa and the world. China will benefit from energy flows as both sides are prominent exporters of energy to China. Thus, the agreement will ensure regional stability and end conflict between two significant partners for China — accordingly Beijing's ambitions will be served. Without a doubt the agreement, after rounds of talks in Iraq and Oman, would not have been concluded without a great power such as China; a party accepted by the two sides.

Challenges Facing the Saudi-Iran Agreement

The Saudi-Iran agreement is a turning point that may have ramifications for the whole region if it succeeds. Though there are a host of challenges that might undermine the effectiveness of the agreement, there are interests that enhance its possibility of success. The following are the most prominent challenges:

Ideological Limits

Iran has the largest Shiite population and presents itself as the sponsor of the Shiite sect across the world. It has an ambition to compete against Saudi Arabia in taking the lead of the Islamic

world. The disagreement between Iran and Saudi Arabia is not sectarian, however, the conflict is more ideological and over different forms of political governance. Saudi Arabia is witnessing openness, reform and progress in all walks of life: society, politics, economy, culture and religion. Yet Iran is still using its ideology as the basis of cultural, social and political orientations. It exploits the Shiite sect to maintain its supreme national interests. Iran still believes in ideological priorities such as exporting the revolution, creating cross-border sectarian militias, “mastership of the world” and “establishing a global government.” It does not believe in geographic borders and it believes in hegemony, control and establishing a comprehensive ruling system.

There is a host of ideological obstacles that might contribute to the agreement collapsing; namely the Iranian Constitution which promotes the Wilayat al-Faqih ideology and exporting the revolution. In addition, it advocates the establishment of a global government, supporting the “oppressed,” and determines the position of the Iranian ruling elite about the “other,” i.e., people of other religions, sects or nationalities. Thus, the agreement is only likely to continue if the religious elite changes its own beliefs (ideologies), perspectives and priorities even if the Constitution remains unchanged. As for Saudi Arabia, no ideological obstacles are present. The new Saudi Arabia welcomes dialogue and believes in coexistence and is committed to international law and diplomacy, as well respecting neighbors, and not discriminating based on religion or sect.

Iran’s Deteriorating Model

Saudi Arabia is undertaking comprehensive reforms encompassing the economy, society and religion. Yet, Iran remains adherent to the 1979 revolution and suffers from perpetual crises. Those who led the revolution are still leading now and reject

any sort of change or reform to ideology and jurisprudence. One cannot ignore the internal affairs of the two countries. Saudi Arabia is witnessing a new phase of reform, revival and preservation of national identity as well as investment in human capital. As for Iran, the ruling elite is dogmatic even though the country is mired in so many internal crises. The new Saudi Arabia is undertaking dialogue with the same old Iran. Iran needs to reform religion and politics and must redefine its priorities, fundamentals and variables so it can conclude agreements that establish regional security and pave the way to lift the sanctions and end its international isolation. The religious elite in Iranian hawzas (seminaries) does believe in adopting the “objectives of Sharia and the philosophy of jurisprudence” to change realities (which are stable and controlled by the religious elite but rejected by people, especially women and the youth). The religious elite believes that the ruling of the supreme leader is above the initial ruling as stated in Sharia.

Trust Deficit

There is a trust deficit between the two sides, which may impact the coming steps in the agreement. It is important to note that the agreement has not identified yet the final details to resolve disagreements neither has it discussed thorny issues, or the timeline/mechanisms to implement the agreement. There are still steps that both sides need to take to achieve a better understanding and enable Iran to reconsider its regional behavior, ballistic missile program, nuclear file and sectarian policies. The latter are critical in achieving stability and establishing trust between the two sides. Moreover, to make the agreement a success, Iran must show good intentions and not exploit the agreement to save itself from its current crises and challenges. The history of Iran’s policies shows that more often than not it

has not been committed to establishing or maintaining diplomatic ties with countries. For example, despite having good ties with Kuwait, Iran seeded a terrorist cell called Abadli in 2015. In Bahrain, it supported Al-Wifaq National Islamic Society to instigate riots in an attempt to topple the monarchy.

Nuclear Ambitions

Iran's nuclear file still enhances competition between regional and great powers. The file is quite complex and ambiguous. If Iran exploits the appeasement with Saudi Arabia to continue its effort to cross or be close to the nuclear threshold so it can acquire nuclear weapons, the practical steps included in the agreement will be undermined. This will also trigger a cold war in the region or a furious confrontation, considering Iran's main goal is to entrench its hegemony in the region. Without a shadow of a doubt, Iran's nuclear file affects economic and security cooperation with Saudi Arabia. It is difficult to develop mutual economic ties in light of US sanctions on Iran. However, security cooperation is possible in light of the security partnerships and strategic relations between the two countries and other regional and international powers.

Dissatisfaction of Israel and the United States

The United States and Israel are suspicious of the agreement, which might have ended their opportunities to expand the Abraham Accords and changed the course of the conflict and alignments against Iran. The agreement might be interpreted as a blow against the regional security vision of the United States and Israel and an obstacle to their efforts in recent years to restructure regional security to address Iran's danger. The agreement will make Israel unilaterally adopt a policy of isolating Iran diplomatically and addressing its nuclear program via military

attacks against Iran's nuclear sites. Therefore, Israel may think that the agreement is not in its favor and may work to thwart it, namely if the agreement eliminates its normalization efforts with Saudi Arabia and halts its efforts to entrench its military and security presence in the Gulf. The United States is likely to also thwart the deal, because China has altered its interests in the region; economy and energy are no longer the only areas of interest for China, now it is interested in security and politics which had previously been exclusively handled by Washington. Biden vowed not to leave any vacuum to be filled by China.

Conclusion

Saudi Arabia and Iran have overcome many obstacles to reach this agreement which will have a positive impact on the whole region. However, implementing the agreement requires more steps, especially those related to building mutual trust and paving the way to resolve the thorny issues between the two countries. Being committed to the agreement, especially the items related to respecting national sovereignty and not interfering the affairs of other countries constitute the bedrock for the agreement's success and achieving tangible progress between the two countries. The critical point of disagreement between the two countries stems from Iran's expansionist project and its interference in Arab states.

