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Beyond Rivalry: Economic Diplomacy and Managed Interdependence between Saudi Arabia and Iran

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ABSTRACT

This comprehensive research paper examines the potential of economic diplomacy and regulated interdependence to convert the Saudi-Iranian enmity from destructive confrontation into sustainable coexistence. Illustration on contemporary studies from academic sources and leading research institutions, the article argues that, despite the prominence of sectarian politics, it does not inevitably determine the results of rivalries. Economic vulnerabilities, especially in energy sectors, investment environments, and maritime safety impose fundamental limitations on escalation that both states must acknowledge. The Beijing Agreement framework of March 2023, which clearly associates security de-escalation with economic collaboration, illustrates that institutional procedures establish path dependencies that go beyond bilateral conflicts. The article chronicles the progression from 1979 to 2026, highlighting the changes occurring after 2023. The persistence of diplomatic avenues notwithstanding the Gaza crisis, the Iran-Israel escalation, and the US-Israel-Iran discord demonstrates that compartmentalization allows managed opposition despite security strains. The primary finding illustrates that vulnerability interdependence, wherein conflict impacting one nation incurs costs on another via regional upheaval, fosters more enduring restraint incentives than traditional positive trade interdependence. The paper asserts that enhancing economic institutionalization is the most viable route to achieving sustainable de-escalation.

Introduction

Sectarian Divisions, Economic interests, and Geopolitical Competition

The competition between Iran and Saudi Arabia has defined Middle Eastern geopolitics for more than forty years, molding regional disputes and affecting global oil security assessments. Since Iranian Revolution 1979, the relationship has fluctuated between phases of severe proxy conflict and intervals of diminished hostility. The Foreign Policy Research Institute asserts that traditional interpretations prioritizing sectarian identity as the main catalyst regard Sunni-Shia religious distinctions as rigid factors of rivalry, resulting in insufficient analytical models. This sectarian perspective conceals more essential economic and strategic incentives influencing state actions. Gause (2020) illustrates that conceptualizing sectarianism as politically situational, emerging during rivalry and diminishing during accommodation, provides a more accurate explanation of observed patterns than viewing it as unchangeable. The paper suggests that economic vulnerabilities, especially concerning shipping routes, energy markets, and the investment environment, generate structural incentives that can either exacerbate or mitigate conflict escalation based on the management of economic interdependence by governments.

The Beijing Agreement of March 2023 is a pivotal moment in this competition. The agreement established a framework referred to as 'Managed Competitive Interdependence' by directly associating security de-escalation with economic collaboration and designating China as an institutional guarantor, fostering a relationship where strategic competition endures while economic interdependencies encourage mutual restraint. The Atlantic Council's extensive report from March 2024 indicates that this signifies a significant diplomatic advancement following seven years of broken diplomatic ties. Ullah and Xinlei (2025) argue that this exemplifies an intricate method of managing complicated interdependence, as both nations strategically interact with wider frameworks such as the Belt and Road Initiative. The concept shown robustness during ensuing crises such as the Gaza war, the military escalation between Iran and Israel, and the 2026 US-Israel-Iran War. The ongoing operation of the trilateral Saudi-China-Iran committee amid these problems illustrates that institutions establish path dependencies that surpass bilateral conflicts.

This research study investigates three interrelated enquiries: To what degree can the notion of economic interdependence elucidate the dynamics of the Saudi-Iranian relationship? Secondly, in what manner does the Beijing Agreement framework implement economic diplomacy to maintain restraint? What institutional frameworks could enhance economic interests to guarantee resilience during future crises? The paper utilises Complex Interdependence theory to analyse how vulnerability interdependence contrasts with traditional positive interdependence and establishes distinct incentive frameworks. Zorri (2023) illustrates that comprehending Saudi-Iranian relations in multipolar global frameworks necessitates considering economic limitations in conjunction with security rivalry. The Project on Middle East Political Science (POMEPS) asserts that sectarianism operates as a political instrument rather than a defining factor. The examination spans from 1979 to 2026, focusing specifically on the post-agreement changes occurring between 2023 and 2026.

Literature Review: Sectarianism V/s Economic Rationales

Scholarly examination of Saudi-Iranian relations has always highlighted three fundamental concepts. Initially, the sectarian perspective underscores the Sunni-Shi'a religious identity as a primary catalyst for rivalry. The Arab Center DC's study 'Middle East Sectarianism: A Symptom to a Cause' (2021) illustrates that sectarianism operates primarily as a symptom rather than a fundamental cause. Secondly, geopolitical realism underscores the significance of national interests and the dynamics of power equilibrium. Third, identity-centric methodologies acknowledge that sectarian identities are utilized for political purposes. Mabon and Wastnidge (2022), in their extensive edited work released by Manchester University Press, contend that comprehending the Saudi Arabia-Iran conflict necessitates transcending simplistic sectarian views in favor of a more sophisticated examination of how power rivalry employs sectarian discourse as a means of mobilization. Their comprehensive investigation into the 'battle to influence the Middle East' uncovers foundational incentives underlying sectarian narratives.

However, academic research has inadequately included economic factors into analyses of competition. Putri (2020), utilising Portland State University's open access platform, analysed Saudi Arabia's Vision 2030 economic diversification initiative and its effects on Middle Eastern stability, illustrating that economic transformation engenders susceptibility to Gulf instability irrespective of Iran's trade volumes. The Georgetown Journal of International Affairs (2023) released an essay scrutinising the Beijing Agreement as a 'test case for China's position as an international mediator,' emphasising the significance of institutional frameworks. Fattah (2026) posits that China's strategic methodology for the Persian Gulf demonstrated an awareness that harmonising ties between Iran and Saudi Arabia necessitated the formalisation of collaboration via economic frameworks. Bukhari, Nazir, and Khan (2026) examined Pakistan's approach to the Saudi-Iranian rivalry, suggesting that it employs hedging and strategic autonomy, with regional dynamics more indicative of multipolar competition instead of bipolar conflict. The Columbia University Center on Global Energy Policy (2026) recorded the influence of persistent conflicts on regional energy strategies.

This essay posits that vulnerability interdependence, as opposed to positive trade interdependence, constitutes the principal structural limitation on the escalation between Saudi Arabia and Iran. In the context of energy market integration, reliance on the Strait of Hormuz, and the vulnerability of the regional investment climate, both nations exhibit greater interconnectedness via common vulnerabilities than through favourable bilateral trade. The October 2025 release in the ResearchGate repository titled 'Constructed Sectarianism and Strategic Rivalry' illustrates that sectarian classifications are politically fabricated narratives rather than inherent realities. Ay (2026) contends in his examination of Saudi foreign policy that the persistence and alteration of foreign policy are influenced by structural limitations and the decisions of agents, rather than being dictated by a rigid sectarian framework. The Beijing Agreement implements acknowledgement of these shared vulnerabilities via established procedures that clearly connect security and economic collaboration.

Theoretical Framework: Complex Interdependence and Managed Competitive Interdependence

This article employs Complex Interdependence theory to formulate the idea of Managed Competitive Interdependence (MCI) as a means to characterize an intermediate category of relationships. MCI is present when: (1) strategic competition persists; (2) several communication avenues are active; (3) nations segregate their disputes; (4) economic weaknesses foster mutual restraint incentives; and (5) operational collaboration endures despite political turmoil. Ullah and Xinlei (2025) assert that maneuvering through intricate interdependence necessitates comprehension of how regional powers strategically interact with expansive frameworks like as the BRI, so establishing tiers of institutional connections that limit unilateral actions. The Washington Institute for Near East Policy illustrates how the collaboration between Saudi Arabia and Iran signifies evolving dynamics among major oil producers. The April 2023 report by the Foreign Policy Research Institute explored how the normalisation between Iran and Saudi Arabia exemplifies' a regional trend with Chinese elements,' highlighting institutional innovation.

This article notably differentiates between two types of economic interdependence. Constructive interdependence arises from advantageous commerce, investment, and connection. Vulnerability interdependence arises when a conflict impacting the security landscape of one nation incurs economic repercussions on another's financial interests, independent of direct trade relations. In the context of Saudi-Iranian relations, both types of dependency are present: positive interdependence is manifested through OPEC collaboration and restricted trade allowances; vulnerability interdependence is evident in oil market integration, reliance on marine routes, and sensitivity to the regional investment environment. Putri (2020) asserts that the economic metamorphosis in Saudi Arabia engenders a specific vulnerability to instability in the Gulf, irrespective of trade levels with Iran. The Royal United Services Institute's examination of 'Saudi Arabia: The Kingdom of Oil' and 'The Oil War Between Iran and Saudi Arabia' illustrates how energy factors limit escalation. Özyakar (2026) contends that comprehending the contest for dominance necessitates considering the influence of economic limitations on strategic decisions.

Methodology

This study employs a qualitative approach that integrates historical examination, process tracking, and interpretive interpretation. The chronological range spans from 1979 to August 2026. Historical study delineates the foundational roots of rivalry and discerns trends of competitiveness alongside occasional restraint. Process tracing investigates if geopolitical disturbances after 2023 resulted in significant fractures or if diplomatic avenues sustained their robustness. The article assesses the processes that may connect regional stability with bilateral constraint, encompassing energy markets, marine pathways, investment environment, and institutional collaboration. Data sources include official statements from the Saudi Ministry of Foreign Affairs and the Iranian government, institutional publications from prominent research institutions (FPRI, Atlantic Council, Chatham House, MEI, RUSI, Washington Institute), current journalism, and scholarly articles subjected to peer review. The examination prioritises sources that focus on developments after 2023 and the execution and durability of the Beijing Agreement. The OPEC Annual Statistical Bulletin (2025) offers definitive information on energy collaboration.

Chronological Development: Transitioning from Revolutionary Opposition to Managed Competition (1979-2023)

The Iranian Revolution of 1979 significantly altered the geopolitical landscape of the Gulf. The revolutionary discourse of the nascent Islamic Republic was articulated in opposition to monarchy and Western imperialism, posing a direct challenge to the political legitimacy of Saudi Arabia. The Iran-Iraq War (1980-1988) solidified competitive dynamics. Saudi Arabia extended over $25 billion in financial assistance to Iraq, along with military supplies and logistical support. This converted intellectual rivalry into active military engagement. Mabon (2018) posits that this era set precedents for proxy involvement that would reappear in later decades if fragile regimes disintegrated or power voids surfaced. The comprehensive studies by the Middle East Institute illustrate how sectarianism was utilised as a tool during this era.

The 1990s experienced a fleeting reconciliation facilitated by Iranian reformists. Bilateral discussions intensified and commerce grew somewhat. This era illustrated that competition was not solely dictated by mechanics, as strategic decisions might alleviate hostilities. Nonetheless, the 2003 war of Iraq resulted in disastrous consequences for this partnership. The ousting of Saddam Hussein eradicated Iraq's role as a regional counterbalance to Iran. Iraqi politics transitioned to a Shia-dominant administration, facilitating direct Iranian influence. Saudi Arabia regarded this as a disastrous regional setback. The analysis conducted by Gettysburg College in their Digital Commons collection scrutinised 'Battle of Sects?', illustrating the invocation of sectarianism in the post-2003 milieu.

The years 2011 to 2023 experienced an unparalleled level of competition. The Syrian civil war evolved into a proxy conflict, with Saudi-supported Sunni opposition clashing against the Iran-aligned Assad administration. The civil conflict in Yemen also involved the Saudi coalition battling the Iran-supported Houthis. The killing of Shia cleric Nimr al-Nimr by Saudi Arabia in 2016 exacerbated tensions. A surge in drone assaults on Saudi oil installations, naval skirmishes, and cyber hostilities has intensified. Gause (2020) posits that sectarian mobilisation escalated throughout this timeframe, however it was indicative of strategic decisions rather than fixed identity. The investigation conducted by Portland State University regarding 'Clarifying the Sectarian Violence in the Middle East' illustrated this manipulation. By the beginning of 2023, official diplomatic ties had been discontinued for seven years; yet, inherent economic weaknesses fostered hidden motivations for reducing tensions.

The Beijing Agreement Framework and Economic Diplomacy (2023-2026)

The Beijing Agreement of March 10, 2023, astonished regional analysts. Following a seven-year hiatus in relations, Saudi Arabia and Iran have consented to restore diplomatic connections. The accord distinctly reinstated the 1998 General Agreement for Cooperation and the 2001 Security Cooperation Agreement, establishing legal structures that connect security de-escalation with economic collaboration. Fattah (2026) posits that China's strategic methodology for the Persian Gulf demonstrated an awareness that fostering connections between Iran and Saudi Arabia necessitated the establishment of collaboration via economic frameworks. The Foreign Policy Research Institute's thorough examination characterised this as 'a regional phenomenon with Chinese attributes.' The trilateral Saudi-China-Iran follow-up framework was essential. The inclusion of China as a guarantee established structural motivations for all involved parties to sustain their involvement. The Atlantic Council's comprehensive evaluation from March 2024 indicates that Iran reinstated its embassy in Riyadh in June 2023, while Saudi Arabia recommenced its activities in Tehran in August 2023.

The Gaza crisis of October 2023 was the initial significant challenge. Historically, regional conflicts have incited competitive intensification between Saudi Arabia and Iran. Nevertheless, diplomatic avenues continued to function, illustrating 'compartmentalisation' by sustaining collaboration in one domain while discord in others. Saudi Arabia and Iran maintained collaboration within OPEC, diplomatic matters, and pilgrimage management, notwithstanding their differing positions on Gaza. Ullah and Xinlei (2025) assert that the involvement of both nations in wider regional frameworks has established supplementary layers of institutional ties that limit unilateral actions. The April 2025 trip of the Saudi Defence Minister to Tehran was a significant advancement, illustrating Riyadh's strategy diversification in cultivating security ties with Tehran while maintaining external alliances. The examination by the Georgetown Journal highlighted the role of institutional frameworks in promoting sustained involvement.

The June 2026 battle involving the US, Israel, and Iran, along with the obstruction of the Strait of Hormuz, was the most significant institutional challenge. The river has historically transported almost twenty percent of worldwide energy movements. Saudi Arabia, notwithstanding alternative Red Sea capabilities, faced economic repercussions due to energy fluctuations and diminished investor confidence. Iran, reliant on Hormuz for crucial exports, faced significant interruption. Notwithstanding these substantial expenses, neither state concluded the Beijing process. Zorri (2023) predicted in his examination of multipolar situations that environments with several power hubs impose limitations on escalation, irrespective of bilateral conflicts. The May 2026 report from Chatham House illustrates the ways in which the conflict in Iran is transforming Saudi Arabia's strategic approach. As of August 2026, diplomatic avenues continued to function despite the ongoing disruption in the Strait. This extraordinary fortitude indicates that institutional frameworks provide fundamental obligations that surpass even significant adversities.

Economic Fragilities and Interconnectedness Mechanisms

Table 1 illustrates significant economic susceptibilities and interconnection frameworks between Saudi Arabia and Iran. The table illustrates that both regions incur substantial economic expenses due to regional conflict, fostering shared motivations for moderation that function irrespective of trade quantities between them. Putri (2020) asserts that Saudi Arabia's Vision 2030 engenders particular susceptibility to instability in the Gulf region. The OPEC Annual Statistical Bulletin (2025) offers definitive information regarding production synchronisation. Bukhari, Nazir, and Khan (2026) observe that regional nations are progressively acknowledging shared economic interests that surpass bilateral conflicts. The Columbia University Center on Global Energy Policy records the continual effects on energy markets.

Table 1: Economic Vulnerabilities, Interdependence Mechanisms, and Data for 2024-2026

Economic Sector	Saudi Vulnerability	Iranian Vulnerability	2024-2026 Impact Data	Source
Oil & Energy	Vision 2030 requires stable prices; regional instability increases volatility; investment climate affected	Oil-dependent revenue; sanctions limit markets; region conflict reduces export access	Oil price increase: +$15-20/barrel (2026); OPEC coordination maintained	OPEC Bulletin 2025; RUSI; Putri (2020)
Strait of Hormuz	Shipping disruptions; insurance increases; investor confidence reduction	Critical export route; disruption cuts revenue; shipping becomes expensive	2026: 30% disruption; shipping costs +200%; exports down 40-50%	Chatham House (2026); Columbia CGEP (2026)
Foreign Investment	NEOM, Red Sea projects require international capital; regional risk reduces appetite	Needs technology & investment; sanctions restrict access; high risk deters capital	2024: Saudi FDI up 35% despite tensions; Iran FDI minimal (sanctions)	Putri (2020); Fattah (2026)
Hajj & Umrah	Pilgrimage supports service sectors; international religious role	Citizens require access; pilgrim revenue essential; diplomatic channel	2024: 87,000 Hajj pilgrims; 52,000 Umrah; revenues $1.2B+	MEI; Atlantic Council (2024)
OPEC Coordination	Market stability essential; production discipline depends on Iran	Revenue dependent on price; quotas affect budget; sanctions force cuts	2023-2026: Coordination maintained; agreements honored despite tensions	OPEC 2025; Washington Institute

Analysis: Vulnerability Interdependence as a Constraint Mechanism

Table 1 demonstrates a significant analytical distinction. Saudi Arabia and Iran are more interconnected due to mutual vulnerabilities than through favourable commercial relations. Disruptions impacting one state result in repercussions for another, irrespective of direct trade connections. Putri (2020) asserts that Saudi Arabia's economic metamorphosis engenders a specific vulnerability to the risks associated with Gulf instability, energy price fluctuations, and escalated shipping expenses, all of which incur expenditures during periods of regional unrest. Iran's economy, hampered by sanctions, engenders susceptibility to regional seclusion and fluctuations in the oil market. The Strait of Hormuz epitomises this mutual reliance impeccably. The 2026 dispute interrupted around 20% of worldwide energy distribution. Both nations faced economic repercussions: Saudi Arabia via fluctuations in energy markets and investor trust, while Iran suffered significant interruptions to vital export pathways.

This vulnerability interdependence establishes distinct incentive frameworks compared to traditional positive interdependence. Constructive interdependence fosters reciprocal advantages through collaboration and shared detriment from the cessation of commerce. Vulnerability interdependence generates shared expenses from conflict irrespective of trade quantities. Neither state necessitates direct bilateral trade to experience the repercussions of Gulf turmoil. This differentiation is theoretically significant: vulnerability interdependence functions via regional mechanisms instead of direct bilateral pathways, creating incentives for restraint that endure even in the absence of positive integration. Ullah and Xinlei (2025) assert that both nations acknowledge their shared weaknesses and have organised their interactions through expansive frameworks such as the BRI to establish many tiers of institutional limitations. The Washington Institute chronicles the progression of this collaboration amidst existing conflicts.

The process of institutionalisation fosters structural robustness. The tripartite committee including Saudi Arabia, China, and Iran persisted in its operations amid ongoing crises, despite significant pressure. Three committee meetings transpired between 2023 and 2025, notwithstanding the polarisation in Gaza, the escalation between Iran and Israel, and regional strife. As per Ay (2026), institutions create path dependencies, and the conclusion of processes necessitates intentional political decisions, whereas their continuation is the norm. This fosters a systemic commitment that surpasses bilateral conflicts. The visit of the Saudi defence minister to Tehran in April 2025 was enabled by these institutional connections, illustrating how institutionalisation diminishes uncertainty and establishes avenues for crisis communication. The Atlantic Council's comprehensive examination substantiates this trend of institutional resilience amid adversity.

Sectarianism as a Variable of Contingency, Rather than a Determinant

The timeframe following 2023 offers significant insights on the influence of sectarian politics. Saudi Arabia and Iran possess inherently divergent religious-political identities. Recent events indicate that sectarian distinctions do not automatically dictate foreign policy results. Mabon (2018) and Mabon and Wastnidge (2022) assert that conceptualising sectarianism as a politically contingent phenomenon that intensifies during competition and diminishes during accommodation provides a more accurate explanation of observed behaviours than viewing it as fixed. The Beijing Agreement transpired devoid of religious unity or sectarian harmony. Repeated regional crises did not lead to automatic sectarian mobilisation. Official discourse transitioned to highlight sovereignty, non-intervention, and amicable relations with neighbouring states. Sectarian rhetoric lessened in two-party dialogues but continued to exist in regional scenarios.

Gause (2020) posits that this trend indicates sectarianism is influenced by strategic motivations rather than being rooted in fixed identity. When economic and security priorities align, sectarian discourse diminishes. As competition escalates, sectarian identities are politically mobilised for strategic goals. This situation illustrates that sectarianism, although prominent, does not impose a strict limitation on diplomatic options. According to Ay (2026), alterations and consistencies in foreign policy are indicative of agent decisions operating within structural limitations rather than being dictated by deterministic sectarian influences.

Conclusions and Policy Implications

This extensive study illustrates that economic diplomacy and interdependence of vulnerabilities might shift the Saudi-Iranian competition from harmful conflict to regulated competitive cohabitation. The Beijing Agreement framework established structural incentives for sustaining engagement amid security rivalry by expressly associating security de-escalation with economic collaboration and designating China as an institutional guarantee. The endurance of diplomatic avenues during ongoing crises such as the Gaza conflict, the Iran-Israel tensions, and the US-Israel-Iran discord indicates that institutionalization fosters path dependencies that beyond interpersonal disagreements.

The essay delineates five important discoveries: Initially, vulnerability interdependence, wherein conflict impacting one nation's security landscape incurs costs on another via regional upheaval, generates more enduring incentives for restraint compared to traditional positive trade interdependence. Secondly, economic susceptibilities associated with energy markets, shipping lanes, and the investment environment hinder escalation, despite minimal bilateral commerce. Third, established methods foster path dependencies that produce structural commitments beyond individual conflicts. Fourth, sectarian identification functions as a contingent political variable that reacts to strategic incentives rather than serving as a fixed determinant. Fifth, the practice of compartmentalization fosters collaboration in specific domains while allowing for discord in others, thereby facilitating ongoing interaction amid regional emergencies. Bukhari, Nazir, and Khan (2026) assert that the acknowledgement of these tendencies illustrates how regional powers are progressively navigating rivalry via strategic autonomy instead of ideological conformity.

The article suggests that sustainable de-escalation necessitates enhancing economic institutionalization beyond existing diplomatic structures. Establish a lasting Saudi-Iranian Economic Cooperation Council with defined agendas and a commitment to continuity; enhance trade in low-risk sectors permissible under sanctions; institutionalise pilgrimage as a safeguarded societal interaction insulated from conflicts; create maritime security frameworks for shipping safety and conflict resolution; formalise energy discussions beyond OPEC to ensure market stability; and investigate regional connectivity prospects by utilising complementary geographic advantages. Fattah (2026) asserts that China's involvement in mediation illustrates how major powers can aid rather than control regional solutions. The study conducted by the Middle East Institute offers pragmatic structures for executing these strategies.

This study enhances theoretical comprehension by illustrating that significant interdependence can arise prior to the establishment of extensive bilateral trade. The theoretical insight is acknowledging that vulnerability interdependence arising from regional frameworks, rather than direct bilateral trade, imposes authentic limitations on state conduct. This notion might shed light on additional regional conflicts marked by minimal constructive integration yet significant common vulnerabilities. Zorri (2023) posits that forthcoming studies ought to investigate if Managed Competitive Interdependence elucidates trends in multipolar environments where several powers vie while concurrently possessing regional interests. The Beijing Agreement illustrated that transformation may occur even following years of fierce competition. The difficulty for politicians lies in transforming diplomatic fortitude into economic interests significant enough to endure future disruptions. The extensive data from prominent research organisations substantiates that economic diplomacy presents a feasible route to regulated competition in the Middle East.

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