

RESEARCH NOTE

# China Brokers a Deal Between Saudi Arabia and Iran: the Deeper Forces Shaping a New Middle East

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## Executive Summary

**Not everything is fated in the Middle East, with a normalization agreement between Saudi Arabia and Iran taking observers by surprise**

**The two rivals had displayed a capacity to impose heavy costs on each other. The agreement shows they had run out of tolerance for continued escalation**

**America's retreat played a role, but China did not start the process, which remains fragile and complex**

**Amid rapid regional change, the agreement signed in Beijing is seen as a watershed moment for the emergence of Global China**

## Background and Context

On March 10, after seven years of bitter regional rivalry, Iran and Saudi Arabia agreed to re-establish diplomatic relations. On its own, the agreement would have sent ripples through the Middle East and beyond, but what made it even more significant was the fact that the talks were sponsored by China. The Joint Trilateral Statement was signed in Beijing by the Saudi national security adviser, Musaad bin Mohammed Al-Aiban, the secretary of Iran's Supreme National Security Council, Ali Shamkhani, and the director of the Foreign Affairs Commission of the Chinese Communist Party's Central Committee, Wang Yi.

For several years, particularly after 2019, Iran and Saudi Arabia seemed much closer to military conflict than to normalizing relations, so the agreement came as a surprise to many observers, who had warned that the resumption of bilateral talks in April 2021 — at the time, under Iraqi auspices — would likely lead nowhere.

A number of factors brought the two sides back from the brink. Riyadh has grown disillusioned with the security guarantees offered by Washington. President Joe Biden has departed from the close ties with Saudi Arabia cultivated by his predecessor, and the turbulent withdrawal from Afghanistan undermined the sense that the U.S. could be trusted to face any security threat coming from Iran, especially if the regime is nuclear-armed. After all, even Donald Trump claimed that attacks against Saudi in-

infrastructure by Iranian-backed groups in 2019 did not directly concern the U.S.

In retrospect, it is clear that both regional rivals were stockpiling different measures of leverage over the other, which could in time be used as exchange currency at the negotiating table. A fragile truce in Yemen, where Iran and Saudi backed opposing sides in an ongoing civil war, created an opening. Beijing swiftly seized the opportunity.

The deepening economic and political crisis in Iran was the other critical factor. Months of protests against the regime convinced Iranian authorities of a new urgency to address their vulnerabilities. Foremost was the material support extended by Saudi Arabia to Iranian exiles and protesters in the country, including Iran International, the television news channel sponsored by Riyadh. Our contacts among Iranian diplomats tell us that, for all its rhetoric against America, what the government truly feared was Saudi interference in Iranian domestic politics. When news of the agreement filtered through, Iran's rial jumped about 20 percent, a sign that markets regarded the move as a significant first step in reducing the country's extreme international isolation.

For Washington, the agreement is yet another sign that the U.S. no longer holds a security monopoly in the Middle East. The region now stands as a rare success for China's global outreach, with Beijing adding a security portfolio to a wide range of economic relations that have long extended beyond energy and infrastructure. Whether China will prove adept at managing the risks that come with this larger footprint remains to be seen, but for the U.S. there is an ominous ring to the notion that the petrodollar, founded on the Saudi-American energy alliance, could soon be dismantled or even replaced by a new petroyuan. We plan to return to the question of the petroyuan in future notes.

## Key Issues

### CHINA, SECURITY PROVIDER

We discussed the agreement last week in a phone conversation with retired Senior Colonel Zhou Bo, formerly in charge of People's Liberation Army peacekeeping operations in the Middle East. Zhou did not hesitate to stress the novelty of China brokering a peace deal in the region. He called it a "watershed" moment—for a China now confident enough to attempt to imprint its ideas on the global order rather than, as before, only on domestic politics.

Zhou also stressed that the Middle East is increasingly integrated with China in sectors ranging from construction to space technology. He agreed with the assessment that economic integration increases China's vulnerability to sudden developments, like the war in Ukraine, that can disrupt vital economic links. A war between Saudi Arabia and Iran would be catastrophic for China, he told us. Some 40 to 50 percent of Chinese energy imports originate in the Middle East, with Saudi Arabia remaining a top supplier (in the first two months of 2023, Russian oil marginally surpassed Saudi oil among Chinese imports).

In this context, relying on the Americans to provide stability and security in the Middle East is no longer a plausible strategy for Beijing, Zhou told us, particularly when the U.S. is committed to "suppressing" Chinese economic growth. The Joint Trilateral Statement also tries to paint Washington as part of the problem, arguing that the U.S. alliance system renders any mediating role impossible and that China's diplomatic success makes this reality clear.

## What's Next

On March 27 and 28, Saudi Aramco announced two deals with Chinese oil refiners, a vivid il-

lustration of how economic ties between the two countries are now being pursued at the highest political level. In Beijing, reliance on Russian energy continues to be regarded with suspicion. Saudi Arabia is seen as more reliable in the long run. In Riyadh, a conviction that the transition from fossil fuels will happen faster in the West entails a need to invest in China and other growing Asian economies. The oil processing plants announced this week have long lifespans of around 35 years, a measure of the level of commitment involved.

Reports that Iran may have agreed to halt weapons shipments to Houthi rebel forces in Yemen

now shifts the focus of the Joint Trilateral Statement to what most observers deem its most intractable element. Saudi Arabia would never have agreed to reestablish diplomatic ties with Iran if the latter did not offer private guarantees that it would cut support for the Houthis. Yet no one, not even Riyadh, truly believes that the rebel group will disappear simply because Iran so wishes. The fragile ceasefire needs to be deepened with genuine negotiations between the Houthis and the Yemeni government. Saudi Arabia may now also feel it is time to disengage from the costly conflict, having argued in the past that its intervention was necessitated by regional imperatives.