

Could Pakistan resolve the Iran-Saudi standoff?

Mushtaq Khan & Yavar Moini, September 30, 2019

This proposal came out of the blue. In a meeting between President Trump and Imran Khan during the UN General Assembly (UNGA) meeting on September 23, Trump asked whether the Pakistani PM would be willing to intermeditate between Saudi Arabia and Iran. In a press conference the next day, Imran Khan confirmed President Trump's request, and also shared that on his way to New York City, the Saudi crown prince (MBS) also made a similar request. The Pakistani PM also stated that he had already spoken to Iran's President Rouhani to take this idea further. This intermediation is on-going.

Backdrop

The attack on Saudi Arabia's largest oil processing facility on September 14, was shocking because of its impact and effectiveness. Houthi rebels in Yemen have claimed responsibility, but the US Secretary of State has categorically stated that the US holds Iran responsible for the attack. Iran's Foreign Minister has repeatedly said that Iran did not launch the attack, and has warned that if anyone attacks Iran, it will trigger an all-out war in the region.¹

President Trump used his address in the UNGA (September 24) to isolate and demonize Iran's leadership. The Saudis said they have proof that Iran is behind the attack, and are drumming up global pressure on Iran to curb its aggressive behavior. France, Germany and the UK have followed the US lead, and stated that Iran is most likely behind the Aramco attack. This weakens Iran's position, which needs the support of other signatories of the Iran nuclear deal to counter the US. With Russia and China likely to stay on the sidelines, the odds are now against Iran.²

However, one must realize that several days before, the main theme in mainstream media was US hesitation to take action, and the mixed signals about what it would do next. For example, Secretary of State, Pompeo immediately blamed Iran, but President Trump has still not made a categorical accusation; John Bolton was fired several weeks ago, which hinted that Trump's foreign policy would become more dovish; even after the Aramco attack, President Trump was still considering a possible meeting with the Iranian president in New York; and in June, President Trump called off a military strike on Iran less an hour before the planned strike, in retaliation for the US drone shot down by Iran.

While it appears that Iran is on the defensive, one must realize that the US-Saudi reluctance to respond, and the fact that both countries have approached Pakistan to intermeditate, suggests that they realize that the stakes are much too high to stumble into a confrontation. After the Iraq fiasco in 2003, even the more hawkish members of the US government are cautious about the military and political consequences of attacking Iran.

¹ In our view, this is not an empty threat. One must realize that since May of this year, Iran has been blamed for several attacks on oil tankers in the Persian Gulf, and has shot down a US drone in June. This indicates that Iran is keen to show the world that it can disrupt shipping in the Gulf, and will defend its airspace.

² Some would argue that given China's significant investments in Iran, it cannot afford to remain neutral. However, China needs hard proof that Iran is not involved in the Aramco attack, and cannot risk being perceived as being biased.

How did we get here?

- US-Iran relations have soured since President Trump withdrew from the 2015 Iran nuclear deal. The Trump administration wanted to expand the deal to cover Iran's drone/missile development programs, and its financial/military support for proxies in the Middle East.
- Other signatories of the Iran nuclear deal (France, Germany, the UK, China and Russia) had expressed their displeasure at the US decision. However, after the attack on Aramco, the three European countries may agree that Iran's military reach also needs to be monitored.
- US has reacted to the Aramco attacks by stepping up economic sanctions, with a specific focus on Iran's central bank. While many observers think that additional sanctions will not materially impact Iran's economy, we disagree. The Central Bank of Iran (CBI) is a key player in Iran's trade flows. Blacklisting the central bank is a significant step against Iran's struggling economy.
- Since the murder of Jamal Khashoggi in October 2018 (allegedly orchestrated by the Saudi government), global public opinion still remains anti-Saudi. President Trump has stoked this discomfort by saying that Saudi is a close US ally because it buys vast amounts of arms from the US.
- There is a growing sense that President Trump does not want to engage militarily, especially against Iran – the concern is that Iran has proxies across the Middle East and in Afghanistan, which could respond militarily against US interests in the region. Many people now argue that with the impeachment hearing gaining momentum, President Trump will be even more reluctant about striking Iran.
- The spread of drone and missile technology is changing the face of modern warfare.³ While many doubt the Houthis' claim that it launched the Aramco attack, the Houthis have developed drone technology and launched air strikes against the Saudi coalition.
- Houthis have stepped up their campaign against the Saudi coalition. The Houthis have recently claimed to have captured three Saudi brigades, but this has not been verified.
- Iran has advanced drone and ballistic missile programs, which are meant to deter an Israeli first strike against Iran's nuclear facilities;

Tentative assessment

Instead of operationalizing its naval presence in the Persian Gulf, the US is relying on diplomatic pressure. Following the attacks on oil tankers and the downing of the US drone in June, the Aramco attack reveals that Iran is willing to up the ante. In response, the US-Saudi alliance has shown a surprising level of restraint. Furthermore, the fact that both countries are seeking a back-channel to negotiate with Iran, suggests that if Iran is diplomatically isolated, it may lash out again.

Some additional points can also be made:

- Iran is telling Saudi Arabia that it can no longer rely on the US (or Israel) to intimidate Iran, or defend the Kingdom;
- Despite the deep political divide, US public opinion will not tolerate another war in the Middle East;
- Israel is unlikely to attack Iran fearing a response via Iranian proxies in the region; and
- Iran has intentionally upped the ante for the following reasons:
 1. With its economy already stressed, and likely to get worse because of the sanctions on its central bank, Iran has little to lose by escalating the standoff with Saudi Arabia;
 2. Iran wants other signatories of the nuclear deal to be more assertive to keep the deal alive (i.e. force the US to reverse its recent sanctions);

³ In the past, only a handful of countries had the airpower to project their power outside their borders. With unmanned drones and missiles, the cost of developing a credible strike capacity is much lower now. Some would argue that aircraft carrier groups are now obsolete, while state-of-the-art fighter jets are too expensive to be effective.

3. Israel is in a political stalemate, which means it is unlikely to be an active participant in the US-Saudi alliance;
4. Iran knows the US is not willing to start a new war in the Middle East. Both the 2020 US elections and the impeachment proceedings against President Trump, makes US military action less likely;
5. By attacking Aramco, Iran has exposed the vulnerabilities of Saudi Arabia. In our view, the urgency with which the Saudis have repaired the Aramco facility, suggests that they are keen to show minimum damage from the strike;
6. The Houthis say they have selected potential targets in the UAE, and since their claimed responsibility for the Aramco attack has largely been dismissed, they have something to prove;
7. Iran wants to show that the Persian Gulf is its sphere of influence, and it has the naval and airpower specifically to counter the US naval presence in the region. The US may also not want a full-blown military confrontation with Iran, as it could reveal that asymmetrical warfare has made existing military assets less effective; and
8. There is no denying that Iran's strategy is risky. Upping the ante may increase pressure on the US to ease sanctions, but it could also portray the US as being weak, which could compel some US lawmakers to demand a military response. Perhaps Iran has been watching North Korea, and has decided that President Trump is a hawk when it comes to political threats, but a dove when it comes to real threats/events.

As additional US sanctions begin to impact Iran's economy, Iran may have little choice but to continue its brinkmanship.⁴ Perhaps realizing this could be a point of no return, both Saudi Arabia and the US have reached out to Pakistan to help de-escalate tensions in the Middle East. As discussed below, we feel Pakistan is well positioned to intermeditate between Iran and Saudi Arabia (and the US), and in the process, advance its own concerns in the region.

What does Pakistan gain?

Three points need to be made upfront: one, MBS's request to Imran Khan to mediate, would have only come after a green light from the Trump administration; two, mediation will be a back-office endeavor that will shun publicity; and three, Pakistan may have failed in the past to intermeditate Iran's isolation, but things are different now. In terms of the latter, observers refer back to when General Zia tried to mediate between Iran and Iraq in the 1980s, and Nawaz Sharif's efforts to deter the Saudi war against Yemen. With Pakistan's stated neutrality in the Iran-Saudi standoff, and the realization by both the US and Saudi Arabia to de-escalate, the conditions for Pakistan are more conducive. Furthermore, as Pakistan is increasingly estranged from the US, this should give Iran some comfort. Lastly, Imran Khan's enhanced global stature makes him an ideal choice to intermeditate.

If Pakistan is accepted as an honest broker by both sides, this will generate tremendous goodwill for the country. The US and Saudis have revealed their confidence in Pakistan, and we assume that Iran will do the same. As stated earlier, Iran is betting on negotiations to defuse this situation as the US and Saudi Arabia seek to avoid armed conflict. Beyond goodwill, Pakistan will push on two fronts: (1) to secure a

⁴ Iran's leadership may decide that as US economic sanctions begin to bite, the public needs a rallying cry. By politicizing the events in the region, not only will it deflect attention from Iran's economic hardship, but it could also prepare Iranians for a possible military strike by the US or its allies. Taking the issue to the public will certainly deflect criticism against Iran's leadership, which is the US rationale for imposing sanctions on Iran in the first place.

peaceful end to India's annexation of Jammu and Kashmir; and (2) develop a stronger bond with Iran, which in the past was compromised by Pakistan's wayward foreign policy.⁵

Kashmir

Despite Imran Khan's stirring speech at the UNGA, Pakistan faces an uphill battle to sustain the global pressure that is needed to force India to reverse its annexation of Kashmir. Since the Indian move on August 5, global opinion has urged greater restraint but little else. In our view, the longer this stalemate continues, the higher the chances of violence in Kashmir, and the possibility of military engagement across the Line of Control. It's only a matter of time, as the cost of maintaining a 900,000 strong military presence in Kashmir is significant, which means at some point the curfew will have to be lifted. What happens afterwards remains to be seen, but the chances of escalating violence are high.

At every opportunity, Imran Khan has been reminding the world that Pakistan and India are nuclear armed countries, and without global intervention, an armed incident with fatalities could easily escalate. If Pakistan is able to reduce tensions between Iran and Saudi Arabia, it can call on global powers to de-escalate the tensions in Kashmir (more later).

Better relations with Iran

Despite sharing a border with Iran and being a fuel importer, for decades Pakistan's relationship with Iran has been lukewarm. Iran's anti-US stance and Pakistan's close ties with the US and the GCC, made this inevitable. However, in recent years, Pakistan's geostrategic interests (and concerns) have become more closely aligned with Iran's (see **Box 1**).

Box 1: Changing Geopolitics

In an earlier paper (*The Changing Global Order*, May 10, 2017) we proposed the creation of a new world order after the collapse of the Berlin Wall in 1989. We suggested that the rise of China as an economic and military superpower, has created a bipolar world order that is far better matched compared to the cold war animosity between the US and the USSR.

In the new order, we proposed that the US would lead a coalition of India, Saudi Arabia, Israel and the United Kingdom, while China would take the lead with Russia, Iran, Turkey and Pakistan. We argued that unlike the US-Soviet era, this bipolar system is more evenly matched in terms of economic strength; population; and the number of nuclear weapons carried by the two groups. This means the world order would be more stable than a US-dominated system.

In the past two years, this grouping has only become stronger: (1) CPEC shows the growing strategic and economic ties between China and Pakistan; (2) the common interest and alliance between Turkey, Iran and Russia are getting stronger; (3) the US is getting closer to India; (4) the special relationship between the US and UK remains in place (Boris Johnson and Donald Trump have similar characteristics and like each other); (5) the common interests between Saudi Arabia and Israel have changed the Kingdom's traditional support for the Palestinian cause; and (6) China and Russia are beginning to vote together in the UN Security Council.

If Pakistan is given credit for reducing tensions between Iran and Saudi Arabia, this could help bring Iran into the global fold, which could coalesce into the *Sino-Russian Axis*. This would create common interests between Pakistan and Turkey and Pakistan and Russia. As we discussed in our 2017 paper, the Sino-Russian coalition has a distinct advantage over the US camp: going counter-clockwise, Russia, Turkey, Iran, Pakistan and China are contiguous countries that completely surround Central Asia and Afghanistan. The US allies, on the other hand, are scattered around the world.

⁵ As we will argue later, while Pakistan's relations with Iran have at times been tense (with occasional border skirmishes), both countries now have an incentive to reset this relationship. With Iran challenging the US military presence in the Gulf, and China taking an active interest in the Arabian Sea, Pakistan and Iran find that their alliance with China implies that they have common interests. This means Iran and Pakistan will have to settle past disagreements, while Iran will have to rethink its alliance with India that is now closely allied with the US.

Pakistan's relationship with the US has been strained after its invasion of Afghanistan in 2001. Most of us are familiar with frequent US accusations that Pakistan is playing a double game in Afghanistan. Relations with the US deteriorated sharply in 2012, when the Pakistan Army closed off the land route for NATO supplies into Afghanistan following the Salalah incident in November 2011. Furthermore, one must realize that after Pakistan tested its nuclear weapons in May 1998, it had to develop its own missile delivery system while it was internationally sanctioned – much like Iran has done with its drone and missile programs. Lastly, Pakistan is currently under pressure from FATF about money laundering and terrorist financing claims, with the threat that Pakistan could be placed on the blacklist next month – this blacklist currently includes Iran.

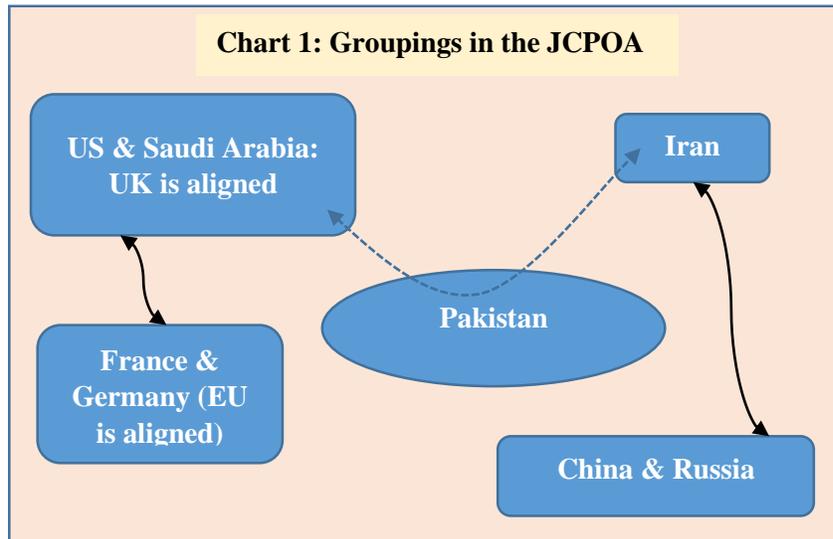
These issues create common ground for the two countries. However, while Iran is beginning to assert its power in the Middle East, Pakistan remains isolated by the Western world. With Pakistan now firmly in the Chinese camp, the country's place in the global order is changing (see **Box 1**).

What will Pakistan intermediate?

The point of contention between the US and Iran, is President Trump's discomfort with the Iran nuclear deal. By stepping away from this UN-endorsed agreement, Iran is understandably upset with the US. In our view, the US sanctions against Iran's central bank may have been the tipping point for Iran to take the fight to Saudi Arabia's most valuable (and vulnerable) asset – Aramco. Hence, if Pakistan is to intermediate between the Saudis and Iran, it will have to include the US. Other than these three principals, the other signatories of the Joint Comprehensive Plan of Action (JCPOA) would also have to be included (i.e. the UK, Germany, France, Russia and China). While Iran and the US would be the main players who need to come to an understanding, the presence of the others should ensure that negotiations remain fair and goal-oriented.

In many ways, Pakistan could claim success if it simply brings these nine actors to the negotiating table. The groupings shown in **Chart 1**, suggest that the nine countries are likely to operate as coalitions – e.g. China and Russia have an interest in Iran and are therefore likely to act

accordingly. The dark arrows show political/economic ties that bind these coalitions together. Since the US and Saudi Arabia have taken the first step, this is how we see things playing out:



1. Pakistan must have a clear and unambiguous understanding of each coalition's assessment of the current standoff and their goals in the JCPOA. This means understanding each country's immediate concerns; the actions each is likely to take if the stalemate continues; how each country will respond to military strikes and/or diplomatic engagement; and how each country views the future of the region. Since the eight countries (without the EU) include all the world powers, an understanding between them should be sufficient for global legitimacy.
2. Pakistan would then have to determine the minimum requirements for Iran to talk directly with the US and Saudis. Iran may demand that US sanctions be reversed and the old agreement be revived,

but this is not likely to be a deal breaker. Pakistan's goal would be to negotiate with Iran and find the least ambitious set of conditions to get all eight countries to meet. In our view, given Pakistan's past and its changing global alignment, it may convince Iran to renegotiate with the P5+1.

3. China and Russia's views are likely to strengthen Iran's bargaining power. This means when Pakistan takes Iran's conditions to the US-Saudis, it will carry the combined support of China and Russia.
4. France and Germany are likely to focus on the Aramco attack to determine whether Iran is responsible. If they decide that it is (as we suspect), they may support US calls for enhanced monitoring of Iran's missile/drone programs in addition to Iran's nuclear activities.
5. How Iran responds to this pressure remains to be seen. Since Iran appears to be prepared for hostilities, the US and EU may not be too assertive about their demands. As an intermediary, Pakistan would have to navigate an understanding between the two sides; &
6. As an intermediary who brings these countries together, Pakistan would be entitled to demand a quid pro quo. Imran Khan is likely to compare the tensions in the Middle East with the Kashmir flashpoint, and warn about the dire consequences if both scenarios unravel.

Other players in the region

While the focus will be on the JCPOA, this group will decide issues that have repercussions for countries like Israel and India, and also Turkey, Syria, Iraq and Yemen. However, these countries cannot be included, and will have to share their concerns via the eight countries at the table. India may take exception to this, sensing that both Kashmir and Afghanistan may come up for discussion. However, the fact that the US had already started talks with the Taliban, is an indication that India has already been sidelined as the US seeks to disengage from Afghanistan. In terms of Kashmir, Pakistan could make a fair deal with President Trump: in exchange for a negotiated settlement for the Saudi-Iran standoff, Imran Khan could ask the US (and other members of the JCPOA) to intermeditate in the Kashmir issue.

With impeachment proceedings against President Trump gaining momentum, the US government will want to avoid any distractions in the world. The White House may decide that the Kashmir issue could become an albatross around its neck, and use the collective views of the other countries to intermeditate in Kashmir.⁶

Conclusion

The Iran-Saudi standoff could be a game changer for the region. It creates an opportunistic dependency between Iran and Pakistan: both countries need immediate foreign intervention to avoid a potential war; and given the stakes, each country has an incentive to accurately (and urgently) represent the other's point of view. For a global pariah like Iran, and one that is being pushed into a corner (Pakistan), this coincidence should be fruitful.

Iran needs global intervention to ease US sanctions. If the US or Saudi Arabia attacks Iran, the latter will surely retaliate and destabilize the entire region. If the global community does nothing and the Iranian economy continues to suffer, Iran may instigate another incident in the region. In effect, Iran needs Pakistan to communicate this sense of urgency to the US and to the Saudis.

Similarly, Pakistan needs Iran to be honest about the options it is considering. With a credible assessment of Iran's point of view and possible action plan, Pakistan should be able to find a face-saving solution for

⁶ On a cynical note, Imran Khan could suggest that if President Trump pushes through a solution to the 72 year-old Kashmir issue, few people would oppose his nomination for the next Nobel Peace Prize.

both Iran and the US-Saudi alliance. During this process, Pakistan should raise the possibility of an armed conflict between Pakistan and India, which also needs the attention of the P5+1.

As we argued in our 2017 paper, Pakistan is the weak link in the new bipolar world order. This is because of an ambivalent foreign policy (especially with Iran), and a structurally weak economy. Pakistan should therefore embrace the opportunity to mediate, as this would avoid a destabilizing war in the Middle East, and an equally dangerous standoff in Kashmir. It should also bring Iran closer to Pakistan as both countries realize their common interests in a new global order.