

Navigating Complex Interdependence: A Theoretical Assessment of Iran–Saudi Economic Diplomacy and Normalization

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Abstract

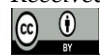
In this article, the author examines the degree of validity of Complex Interdependence (CI) theory in the context of post-2023 normalization of the relations between the Islamic Republic of Iran and the Kingdom of Saudi Arabia by Robert Keohane and Joseph Nye. Building on the Structural Realist paradigm, which sees security in the Persian Gulf as a zero-sum game and military competition as the only means of resolving conflicts, this study investigates how Saudi Arabia's economic statecraft of Vision 2030 for modernization and Iran's economic statecraft through a desire to alleviate sanctions have altered bilateral relations leading to a more pragmatic de-escalation of tensions. The study systematically challenges the three operational assumptions of CI theory – multiple channels of interaction, the lack of an issue hierarchy and the diminishing importance of military force – and shows that economic diplomacy and institutional integration are in the process of significantly changing the statecraft of regional security. The paper ends with strategic policy options for institutionalizing bilateral risk-reduction mechanisms.

Keywords: Complex Interdependence, Economic Diplomacy, Iran–Saudi Normalization, Beijing Agreement, Vision 2030, Gulf Security Architecture

Introduction and Analytical Scope

The Saudi-Iranian diplomatic breakthrough, mediated by China, in March 2023, was hugely significant in modern international relations in the Persian Gulf (Hwang, 2024; Ullah & Xinlei, 2024). Bilateral relations for more than 40 years since the Iranian Revolution in 1979 were largely analyzed and discussed in the context of Structural Realism. Since the Iranian Revolution in 1979, the structural realist paradigm has been the prevailing paradigm in both comprehending and analysing bilateral relations for over 40 years. Scholarship consistently saw bilateral relations as an unstoppable zero-sum game for regional hegemony, with the presence of strong security dilemmas, ideological confrontation, the regionalization of relations, and indirect military confrontation through proxy venues, such as Yemen, Syria, Iraq and Lebanon (Albarasneh, 2025; Gause, 2010). From the classical neorealist approach, the general purpose of the state in the anarchic international system is to secure relative gains, military balancing and also survival of the regime (Albarasneh, 2025). As such, there is likely to be strategic mistrust and unaddressed security dilemmas, making for less than positive diplomatic engagement, unless it is motivated by a "big threat" from outside the system. Yet, the future course of Iran–Saudi relations after 2023

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poses serious analytical difficulties for rigid Realist approaches. However, in view of the structural ideological differences and the competition in the region, both sides have been active in maintaining diplomatic representation, high level economic consultations, bilateral dialogue, and in exercising remarkable restraint in the case of major military shocks in the region (Albarasneh, 2025; Baghernia, 2024). Theoretically, this gap is very noticeable, and it will be seen that it highlights the need to extend the theoretical approach to the study of world politics from Realism which has been dominated by a military philosophy. In this article, I explain how much the core tenets of the complex interdependence theory offer a rationale for the relationship between Iran and Saudi Arabia in economic diplomacy, institutional engagement, and diplomatic normalization in the present day. Previous research indicates that there is still a competitive partnership between the two institutions, though the costs of war have changed substantially in relation to pragmatic de-escalation and functional engagement at the domestic level, as well as the role of institutional connection (Hwang, 2024; Keynoush, 2026; Ullah & Xinlei, 2024). The overall argument of this study is that Neoliberal IR theory – specifically, Complex Interdependence by Keohane and Nye – provides a more powerful way to analyse the internal dynamics of the current diplomatic normalisation than other theories do. The recent entente is not a fundamental change of major questions, such as ideology or strategy but a shift of national priorities. Beyond military encirclement, Saudi Arabia's economic modernization program, “Vision 2030,” and Iran's effort to ease sanctions have ushered in a new paradigm of economic statecraft, with an increased focus on economic modernization and the strength of economic trade instead of military actions (Albarasneh, 2025; Ullah & Xinlei, 2024). Furthermore, this study concludes that the nature of interdependence can be complex even in non-Western regional security complexes if there is not strong economic integration. In this paper, I have tested the empirical aspects of neoliberal theory in a number of ways of interaction, and across the absence of a single-issue hierarchy, and the diminishing utility of military force (Hwang, 2024; Keynoush, 2026) in a historically conflict-prone environment. This paper comprises seven related sections to provide a complete answer to Research Question No.3. This introduction introduces the theoretical structure of Complex Interdependence, its principal tenets and how these are applied to the security situation in the Middle East in Section 2. In order to study in a systematic way the three great empirical aspects of Complex Interdependence in the Iran-Saudi Statecraft after 2023, the writer has tried in Section 3 to treat them systematically. In Section 4, there is an extensive comparative synthesis that explains Neorealism and Neoliberalism on the basis of systemic variables. Some of the key policy recommendations for transforming an ad hoc de-escalation into institutionalized processes are included in Section 5. Formal references are included at the end of the dissertation (Section 7) after the theoretical conclusions and directions for future research.

Theoretical Framework: Complex Interdependence in Non-Western Security Contexts

Subsequent to the development of the structural realist hegemony in international relations theory, Complex Interdependence (CI) theory was developed by Robert O. Keohane and Joseph S. Nye in 1977, in their book *Power and Interdependence*. Realism makes an anarchic international system with sovereign states that are rational, unitary, and concerned with relative power, territorial integrity, military security. In Realism, high politics (military and state security) is always predominant over low politics (economic trade, cultural exchanges and environmental cooperation) and international institutions are only tools for great power balancing. By contrast, Com-

plex Interdependence theory suggests that today's international relations are becoming more multi-layered and involve complex networks of interdependence between state and non-state actors within the global system of countries. These mutual dependencies change the concept of national interest, shape state preferences and limit state action. To be considered theoretically applicable for non-Western security contexts, there are three fundamental operational pillars:

1. **Multiple Channels of Interaction:** There are other channels of interaction besides the formal ones involving government-to-government military and foreign ministry contacts. It is transmitted via the informal and formal channels, such as bilateral economic commissions, multilateral regional platforms, commercial trade platforms, non-governmental dialogue, elite diplomatic initiatives, and transnational societal exchanges (Baghernia, 2024; Keynoush, 2026). The multiple channels lead to high institutional linkages, which lower information asymmetry, transaction costs, and offer information buffers throughout political emergencies.
2. **Lack of Issues hierarchy:** Military security is not always and everywhere at the top of state agendas. Rather, national priorities are flexible and multidimensional. Traditional military issues are often displaced or overshadowed by concerns of domestic economic growth, foreign direct investment (FDI) attraction, energy market stability, protection of supply chains, and infrastructure security (Ullah & Xinlei, 2024). If economic development is a condition for regime survival, "low politics" topics can quickly become a key element of the national security agenda.
3. **Utility of Military Force:** The military force is an inefficient and ancillary tool of statecraft when both states are very susceptible and both states have a very vulnerable economy. Armed violence against other connected neighbours and critical infrastructure infrastructure leads to high economic spill-over costs, loss of investment capital and less return on strategic investments (Albarasneh, 2025).

As a result, military strength can be employed only at an intolerable price, has few options and is counterproductive. Iran's Complex Interdependence application in the Middle East requires awareness of the interdependence that is not a symmetric integration of the economy, the way the EU operates. Interdependence is more likely to be expressed as an operational vulnerability in non-Western security complexes, particularly in an asymmetric fashion. States are connected to each other through the same maritime choke points, hydrocarbon infrastructure, transnational security threats and trade routes. Thus, economic diplomacy proves to be a strategic instrument for the states to aim for absolute gains, to reduce mutual vulnerabilities in operation and to establish pragmatic de-escalation options without the need for prior ideological convergence (Hwang, 2024; Ullah & Xinlei, 2024).

Empirical Evaluation of Complex Interdependence Assumptions

Multiple Channels of Formal and Informal Interaction

After the Beijing Agreement of March 2023, Saudi Arabia and Iran began to communicate more frequently than in the past on issues other than military and security matters (Baghernia, 2024; Hwang, 2024). Diplomatic missions, such as embassies in Riyadh and Tehran as well as consulates in Jeddah and Mashhad, were formally established to ensure ongoing bureaucratic communication (Keynoush 2026). The bilateral architecture, however, is very dependent on multi-level, non-military channels, as prescribed by CI theory.

A key institutional mechanism for coordination of functions is OPEC+. As the two key hydrocarbon exporters, Saudi Arabia and Iran have been able to continuously coordinate with one another in terms of technical and ministerial coordination for managing the production quotas of global hydrocarbon markets, stabilizing their market pricing, and protecting their domestic revenue streams (Ullah & Xinlei, 2024). This common business interest generates an institutionalized minimum level of cooperation, while detaching itself from political disputes.

The platforms provide Iranian and Saudi diplomats a recurring forum for coordinating policies in the region relating to trade, maritime security and global financial governance, without resorting to high confrontation. Moreover, "Hajj Diplomacy" is institutionalized and during the year needs a lot of administrative and security coordination as well as medical coordination between the Saudi Ministry of Hajj and Umrah and Iranian Hajj and Pilgrimage Organization to receive tens of thousands of Iranians (Keynoush, 2026). This complex network of multi-level interaction minimizes miscalculation and enhances pragmatic engagement.

The presence of these multi-layered avenues of communication directly fulfills the first operational condition of Keohane and Nye. Both states have built institutional buffers by enabling regular technical dialogue between energy and religious administration and between multilateral governance and military and political contexts to prevent escalation of conflict. Through technical dialogue between energy and religious administration and multilateral governance, both states have built institutional buffers to prevent escalation of conflict from energy and religious administration and multiple levels of governance, respectively.

The reordering of the issue hierarchy, from Economic Modernization to Strategic Encirclement, is a further challenge. An additional challenge is

Recalculation of the issue hierarchy: Economic Modernization over Strategic Encirclement.

The empirical record post-2023 shows a basic reshuffle of the national issue hierarchy in both state capitals. The supreme leaders in Riyadh and Tehran have thus shifted more and more in their focus on regional security, moving it beyond the concept of strategic encirclement and military containment to domestic economic transformation and trade resilience (Albarasneh, 2025; Ullah & Xinlei, 2024).

- **Saudi Arabia's Vision 2030 Agenda:** Saudi Arabia's Crown Prince Mohammed bin Salman has initiated a game-changing economic restructuring program aimed at decreasing the hydrocarbon reliance and making the economy more diversified and knowledge-based. The number of foreign direct investments (FDI) required for Vision 2030 is in the hundreds of billions of dollars, and international tourism corridors, giga-projects, like NEOM, the Red Sea Project and Qiddiya, must also be developed on a massive scale (Albarasneh, 2025). Capital inflows from abroad and international tourism are extremely vulnerable to geopolitical risks. Project viability and investor confidence is immediately jeopardized by any regional military escalation, missile threat or maritime disruption. Thus, regional de-escalation with Iran cannot be a concession, but rather an absolute structural condition for domestic economic change.
- **Iran's Economic Statecraft and 'Neighborhood Policy':** With enduring sanctions, high domestic inflation, currency devaluation and problems in socio-economic areas, the for-

eign policy under various governments of Iran has been formulating a specific neighborhood policy (diplomacy-e hamsayegi) (Baghernia, 2024; Ullah & Xinlei, 2024). Through diplomatic efforts, Iran hopes to rebuild its ties with the Gulf monarchies to improve regional non-oil trade, gain access to essential financial and commercial routes, bring in the Gulf's money and investment and cut down on the influence of Western strategies for economic containment in the region. Economically, resilience is now being inextricably linked with national security.

Both are prioritizing economic stability, infrastructure protection, and commercial integration among their foreign policy pillars, which confirms the theory of CI making economic stability, infrastructure protection, and commercial integration the top priorities on the national agenda, and the premise that there is no fixed, military-driven order of issue priorities (Ullah & Xinlei, 2024).

Reduced Efficacy and Escalating Costs of Military Force.

The third element of Complex Interdependence, the diminishing effectiveness of military force, is clearly discernable in the strategic adjustments that are being seen in the Persian Gulf. In the last few decades, indirect military involvement in various conflicts and proxy wars in Yemen, Syria, Iraq, and Lebanon showed that military power was not able to achieve strategic victory and long-term regional peace (Albarasneh, 2025).

The 2019 attack of the processing plants of Saudi Aramco at Abqaiq and Khurais was a turning point in the Saudi strategic calculations. The strike temporarily took more than half of Saudi oil production, or 5.7 million barrels per day, off the world market, a testament to the extreme sensitivity of the centralized, high-value energy infrastructure to today's asymmetric precision weaponry (Albarasneh, 2025). The attack demonstrated that old-school military defense and the production of high defense budgets were no longer enough to ensure the safety of infrastructure from low-cost drone and missile technology.

In Iran, the costs of proxy wars and constant regional turmoil were becoming increasingly unsustainable, the isolation was growing and the risk of direct military conflict with more advanced actors was increasing (Albarasneh, 2025; Hwang, 2024). Therefore, state elites acknowledged that military power has a diminishing return, and that it has catastrophic economic opportunity costs. Hence, diplomatic negotiation, institutional mediation and economic statecraft have become much more effective and less expensive tools for conflict management in the region.

Analytical Comparison of Theoretical Models

To synthesize the theoretical findings regarding Research Question No. 3, the following matrix compares how Structural Realism and Complex Interdependence conceptualize key operational variables within contemporary Iran–Saudi relations:

Analytical Dimension	Structural Realism Model	Complex Interdependence Model
Systemic Outlook	Zero-sum military competition; absolute priority on relative power gains (Albarasneh, 2025).	Anarchy moderated by institutional links; focus on absolute economic gains (Hwang, 2024).

Primary State Objectives	Military dominance, regime survival, regional power projection, strategic encirclement.	Economic modernization, infrastructure protection, trade attraction, financial resilience (Ullah & Xinlei, 2024).
Role of Sectarian Identity	Structural driver permanently dictating alliance structures and hostility.	Instrumental variable actively managed or moderated based on economic imperatives.
Interaction Channels	Narrow government-to-government statecraft and military balancing.	Multi-tiered channels: bilateral commissions, OPEC+, OIC, SCO, Hajj administration (Baghernia, 2024).
Primary Conflict Tools	Balance of power, military deterrence, arms accumulation, proxy warfare.	Institutional mediation, economic statecraft, energy coordination, diplomatic agreements (Keynoush, 2026).
Utility of Military Force	High utility; primary currency of power and regional leverage.	Low utility; prohibitively costly, counterproductive, and destructive to domestic development (Albarasneh, 2025).

Policy Pathways for Sustainable Institutionalization

State decision makers should establish institutional arrangements based on the principles of Complex Interdependence, and formalize these arrangements to create long-term regional stability, beyond the diplomatic de-escalation that has so far taken place. Based on theory and experience, 4 policy pathways are suggested (Albarasneh, 2025):

- **Institutionalization of Permanent Bilateral Joint Working Groups:** Riyadh and Tehran should set up permanent technical groups on the non-sensitive and functional areas such as Persian Gulf maritime safety, commercial trade regulation, environmental management and joint climate change mitigation. Technical cooperation in lower politics fields fosters institutional trust and establishes buringeized practices of bureaucratic interaction (Albarasneh, 2025).
- **Enhancing Multilateral Economic Frameworks:** Both countries should make use of regional economic integration forums, such as OPEC+, OIC and cross regional infrastructure initiatives under the Belt and Road Initiative (BRI) to increase trade interdependence. Systemic opportunity costs of political unilateralism are significantly higher and structural buffers against future diplomatic ruptures can be provided by interlocking economic interests (Ullah & Xinlei, 2024).
- **Bilateral Media Protocols and De-Sectionalization Frameworks:** In light of the historical use of religious discourses to mobilize for geopolitical purposes, state actors should establish protocols for state-supported media platforms. In times of political tension, by officially ending the inflammatory sectarian media campaigns, society's polarization does not make diplomacy inflexible (Albarasneh, 2025).
- **To avoid localized security incidents or proxy shocks affecting bilateral relations,** it is important to have a high-level security crisis hotline and institutionalized third-party me-

diation facilities, which can be brokered by neutral actors like China or Oman, to ensure long-term stability (Baghernia, 2024; Hwang, 2024).

Conclusion

Thus, the Complex Interdependence theory is proven to be a sound theory to explain the relations between Iran and Saudi Arabia after 2023 (Hwang, 2024). On its own, Structural Realism can be useful in understanding historical periods that are marked by the proliferation of military rivalry and proxy conflicts, but it is unable to account for today's shift toward diplomatic normalization, multi-channel engagement and economic statecraft (Albarasneh, 2025). The study responds to the question number three that reveals that the domestic economic transformation with which Saudi Arabia is currently facing, Vision 2030, and Iran's economic resilience imperative, have created a paradigm shift in how states prioritize issues, from zero-sum military competition to economic security. The pragmatic approach adopted by Riyadh and Tehran has opened new lines of communication and will help in tackling structural differences, while also putting the structural issues in the spotlight and admitting that military solutions come at a high cost. Despite the deep-seated mistrust, the book of Complex Interdependence has shown how to create resilient pathways for regional de-escalation and long-term security in historically volatile conflict zones via economic diplomacy and institutional integration (Albarasneh, 2025; Hwang, 2024; Keynough, 2026).

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