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Pakistan's Tough Balancing Game in the Gulf

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On February 17-18, 2019, Saudi Crown Prince Muhammad bin Salman made his first two-day state visit to Pakistan as part of a major regional tour after Khashoggi's murder had blighted the shine of the Kingdom's de facto ruler in the West as a reformer and modernizer. Rolling out a red carpet for the official guest, the district administration of the capital (Islamabad) declared a holiday on 18 February, 2019 to mitigate the public's inconvenience. Such pompous gestures allude to the deep significance Pakistan attaches to its relationship with Saudi Arabia, especially at a time when Pakistan faces hard economic and political challenges. For Islamabad, Riyadh has long been a generous provider of financial assistance in economic emergencies.

The new momentum in the traditionally strong relationship was significant for three reasons – Pakistan's fragile economic situation; Saudi ruling elite's initial wariness about Pakistan Tehrik-e-Insaaf leadership; and the fissures in ties created by the Yemen Crisis in which Islamabad rightfully opted for neutrality. The renewed cooperation meant Saudis committed to helping Pakistan economy while putting the problematic issues behind.

As a result, Pakistan has over the past few months gotten a \$6 billion bailout package from Saudi Arabia for dealing with the precarious foreign exchange reserves situation. The package agreed during Prime Minister Imran Khan's second visit to Saudi Arabia in October, 2018 included a \$3 billion facility from the Kingdom in balance of payment support to Pakistan. Moreover, Riyadh also agreed to give Islamabad a one-year deferred oil payment facility of up to \$3 billion, to be reviewed after three years. It was then claimed by the finance minister that this economic lifeline from the Kingdom and help from other friendly countries may help in averting the eventuality of accepting an International Monetary Fund (IMF) package. (Pakistan, nevertheless, still got to negotiate an IMF package as well)

Crucially, Pakistan and Saudi Arabia, during the visit of the Saudi Crown Prince to Islamabad, signed seven Memoranda of Understanding (MoU) for investment in Pakistan with a cumulative worth of \$20 billion. Out of that investment commitment, \$8 billion is earmarked for an oil refinery in Gwader. Saudi Arabia would invest the remaining \$12 billion in various sectors, including renewable energy, media, internal security, and culture to mention the most important.

The Saudi Crown Prince's visit was seen in Pakistan as an opportunity to revive the country's faltering economic fortunes. Much like the hype created about China Pakistan Economic Political Corridor (CPEC) a few years back, the Saudi investment in Pakistan was projected as the springboard for revitalizing Pakistan's economic development and ultimately putting the country on the path of prosperity.

Impact of Saudi Bailout & Investment

The Saudi bailout package and the investment pledge would importantly further deepen bilateral ties between Pakistan and Saudi Arabia, which are already enjoying a good strategic relationship. Saudi Arabia, besides being a reliable source of financial assistance, also hosts around 2 million Pakistani expatriates, who send nearly \$5 billion annually in remittances. Saudi Arabia was, moreover, one of the few states that not only recognized Pakistan's right to possess nuclear weapons, but also lent financial support in the form of 50,000 barrels a day of free oil worth \$ 2 billion to Pakistan on deferred payment when Islamabad faced international isolation and criticism after 1999 nuclear tests.

Pakistan, on its part, has been a reliable military and security partner of Saudi Arabia. Pakistan exports arms and conventional weapons to Saudi Arabia, has stationed its troops in Saudi Arabia since 1960s, and promises to protect Saudi Kingdom from potential future threats. The military arrangement was formalized through a bilateral agreement in 1982, which now governs bilateral defense cooperation in terms of military training, defense production and joint military exercises. Nearly 1600 troops had remained deployed in Saudi Arabia in training and advisory roles till the military last year announced additional deployment in Kingdom without mentioning the size and purpose of additional troops.

Before securing the bailout package, Pakistan in October 2018 rescued Saudi Arabia in the latter's premier investment conference dubbed Davos in Desert by participating in it at the highest level at a time when number of key participants pulled out of it over suspicions that the Saudi ruling elite was involved in the murder of Saudi dissident and Washington Post columnist Jamal Khashoggi.

There are a few challenges that can constrain this partnership. Therefore, there is a dire need to adapt to these shifting sands of realpolitik. One of the most pressing issues is concerning the dismal situation of Pakistani prisoners languishing in the Saudi jails. Keeping in view the severity of the human rights issues, Indian government has finalised a Labour Protection Agreement (LPA) with the Saudi Authorities for protecting the rights of Indian nationals working in Saudi Arabia. Pakistan has no such agreement as this with Saudi Arabia. Sorting out these matters of gravity can help Pakistan in the long run. It would not only ensure basic human rights for Pakistani labourers working there, but it would also guarantee the smooth transmittance of remittances between the two states.

In addition to the concerns about the human rights of Pakistanis living in the Kingdom, it is important to get unequivocal support from the Kingdom on the issue of Occupied Kashmir. The indomitable political clout of Saudi Arabia in the Organisation of Islamic cooperation (OIC) can play a significant role in strengthening Pakistan's position on the Kashmir Issue. Pakistan's former Defence Minister, Khurram Dastgir Khan, once revealed that around 10,000 soldiers from Saudi Arabia were getting training in Pakistan. This can be an important leverage for Pakistan when it comes to getting Saudis to support it on crucial issues.

(The then) Chairman of the Pakistan Ordnance Factories (POF), Lt. Gen. Omar Mehmood Hayat, had in 2016 told the National Assembly's Defense Production Committee that Saudi Arab is the largest importer of the Pakistani arms and ammunition. In 2017, POF secured export orders worth \$81 million with Saudi Arabia being the biggest importer. Saudi Arabia is the 3rd largest country in the world in terms of defence spending. It has recently announced to establish its own domestic defence industry. It augurs extremely well for Pakistan considering the cordial relations between the two countries and it can get a role in the development of local defense industry there.

But, at the same time Pakistan is the only Islamic state in the possession of the nuclear technology. However, any move towards nuclear cooperation between Saudi Arabia and Pakistan could be remarkably risky. This cooperation can lead to Iranian suspicions in the future; ultimately, disturbing the relations between the two Islamic neighbours: Iran and Pakistan. It

should be recalled that Pakistan's participation in the 34-nation Islamic Military Alliance did not go well with the Iranians.

How is that cooperation playing out?

Several explanations have been given by the experts about Saudi Arabia's renewed interest not only in Pakistan, but also in South Asia and the Far East. This new phase in Kingdom's engagement has both geo-political and geo-economic elements, although the former heavily eclipse the latter. It goes without saying that the Arabs are well known for using aid and investment as vehicles for promoting their strategic interests. One common factor in the crown prince's visits to Islamabad, Delhi, and Beijing is that he pledged varying amounts of investment in each of the three countries that he visited. It is hardly a moot point that the primary objective of these investment pledges was to reinforce Saudi influence in these capitals, especially after the fall out of the Khashoggi incident in the West. All these three countries had remained indifferent to the human rights violations in the Kingdom and instead prioritized their economic interests.

Saudi Arabia is also eyeing technology from these countries for some of its upcoming critical initiatives – something for which it cannot fully rely on the West. Beijing has lately helped the Kingdom launch two observatory satellites, and the two are also having a cooperation agreement on manufacturing drones. However, there are more areas where Riyadh is believed to be covertly seeking cooperation from these countries.

As far as political influence is concerned, Riyadh would, in particular, expect help from Islamabad for retaining its influence in Afghanistan in the eventuality of a complete US withdrawal and/or change regime change in Kabul. Pakistan, which in December 2018, started facilitating talks between the Taliban and the United States, it should be remembered, tried to move this US-Taliban engagement out of Qatar, one of the Kingdom's regional rival where the insurgent group had not only maintained its political office since 2013, but had also been holding direct contacts with the US officials since mid-2018. The first Pakistan facilitated meeting was then held in Abu Dhabi in December 2018, and the second round was planned in Saudi Arabia, but Taliban insisted on shifting the process back to Doha because of their distrust for the Saudis and the Emiratis. The Taliban regime (1996 – 2001) was recognized only by Riyadh, Abu Dhabi, and Islamabad.

Saudis and the Emiratis have long bankrolled Taliban insurgency and see Afghanistan as a crucial country for their regional policies, especially with regards to containing Iran and influencing developments in Pakistan. Therefore, the Arabs have long been preparing for getting an influential role in Kabul. However, after failing to get a part in Afghan reconciliation process, which is currently in its very early stages, the Saudis are heavily relying on Islamabad for its prospects of making a comeback in the process at some later stage or at the minimum keeping a channel with the Taliban active.

Riyadh, as part of its regional ambitions, moreover, wants to have a role in Pakistan – India ties, at least, as a crisis manager, given Delhi's aversion to third party mediation in disputes. The Saudis have been trying to gain this role very tactfully as they are cognizant of the benefits of successfully dealing with a crisis between two nuclear armed neighbours. Crown Prince Mohammad bin Salman, keeping in view Indian sensitivities about a possible hyphenation of the trip, did not fly directly from Islamabad to Delhi after completing his Pakistan leg of the trip. He instead returned to Riyadh, and the following day, travelled to Delhi. The Pak-Saudi joint statement emphasized that 'politicization' of the United Nations listing regime should not be done, but Foreign Minister Adel Jubeir soon afterwards clarified that the assertion had nothing to do with the row over Jaish-e-Mohammed chief Masood Azhar's listing as a global terrorist by UN Security Council.

In India, Mohammad Bin Salman (MbS) carefully avoided becoming part of Pakistan bashing or making any reference to Pulwama incident that had happened a few days before he landed there. Later on, the Crown Prince reportedly played a role in defusing the military confrontation between India and Pakistan. The role was acknowledged by Pakistan's Foreign Minister Shah Mahmood Qureshi when FM Jubeir paid a follow-up visit on March 7.

Pakistan, meanwhile, has a special place in Saudi Arabia's internal security planning and operations. That consideration has assumed further significance because of the expected shifting of global jihadi headquarters from Levant back to the Afghanistan-Pakistan region.

From the economic perspective, Saudi Arabia, ever since adoption of its Vision 2030, had been looking at diversifying its economic base from dependence on revenues from oil into a more broad based one. The investment in Aramco refinery in Gwader and other mining projects

is in that context. But, that investment also has geo-political considerations. Saudi Minister for Energy and Industrial Engineering, Khalid Al-Falih, made no secret of such extra-economic factors having been taken into consideration. “Gwadar Port is one of the very crucial ports of the region and also the nucleus for trade and investment. We also spoke about the feasibility of an Aramco refinery. Aramco will be a huge refinery in Gwadar. We also had other areas in Pakistan for refinery. However, Saudi Arabia preferred Gwadar for the purpose of having its refinery there. Gwadar is the best from the strategic point of view,” Falih said in a media interview.

Gwader is located close to the border with Iran. Moreover, despite several clarifications from Tehran and Islamabad about no competition between Gwader and Chahbahar, an element of rivalry would always remain. Therefore, Iran would always remain the elephant in the room of Pak-Saudi ties.

Maintaining the delicate balance:

The situation has, therefore, renewed the question: how can Pakistan maintain an effective balance in its relations with two regional rivals: Saudi Arabia and Iran?

Despite official statements to the contrary, Tehran and Islamabad have had a difficult relationship that has been characterized by difference in strategic policy outlooks, mutual accusations and meagre economic and trade ties. Pakistan sees Iran to be closer to India. Iran is the 3rd largest exporter of oil to India.

Pakistan has always avoided initiating trade with Iran on the pretext of foreign sanctions on Iran. In Indo-US 2+2 talks, India was granted a few exceptions in terms of its oil trade with Iran. This would further increase the number of Indian contracts and businesses in Iran. Since Pakistan is at daggers drawn with India, this Indo-Iran economic relations could further widen the gulf between the two Islamic states.

Another challenge worth mentioning would be dealing with the ‘Arab Nato’. American President, Donald Trump, has categorically announced that he is going to create a coalition of Arab states to counter Iran. If this happens, Pakistan would be between the devil and the deep sea to whether join or turndown, especially if Saudi Arabia invited Pakistan to join it. A report published in the Foreign Affairs has comprehensively illustrated the importance of Iran in terms

of smooth and stable supply of oil in the world. If Iran disturbs it, it can be devastating for the entire world. In that case, an eruption of a conflict would be imminent. Consequently, Pakistan would be on the horns of a dilemma.

Similarly, both Pakistan and Iran are the members of the Economic Cooperation Organization (ECO). Their hostility can make this organization inefficient. Failure of the Iranian Nuclear Deal (P5+1) has further dashed the scope of cooperation to the ground.

Iran, meanwhile, has suffered multiple terrorist attacks in its border regions with Pakistan, resulting in loss of many security personnel and civilians. Tehran blames Islamabad for not doing enough to tackle the issue of militant groups, operating from Pakistani Balochistan region. Just on the eve of the Pulwama attack, Jash ul-Adl carried out a horrendous attack on Iranian security guards, killing twenty seven of them. The attack elicited a strong reaction from Tehran. A few months back (October 2018), a number of Iranian border guards were abducted from Mirjaveh, on the Iranian side of the border. Pakistani security forces have so far helped rescue many of the abducted guards. Jash ul-Adl is considered the reincarnation of Jundullah, formerly led by Abdel Malik Regi, and is known for conducting devastating attacks on Iranian border security and civilians. Meanwhile, unlike Iran, Pakistan has had strategic and economic cooperation with the United States of America and Saudi Arabia.

The great potential of economic cooperation between Tehran and Islamabad too has not been materialized. Pakistan is an energy deficient country, whereas Iran has surplus energy resources. The efforts to realize the Iran-Pakistan gas pipeline have yielded nothing. Iran has completed major portion of its side of the gas pipeline, while Pakistan is has yet to start working on the project. Pakistan has tried to justify its inaction on the project on the pretext of international sanctions, imposed on Iran by US. The chances of Iran-Pakistan gas pipeline getting completed and becoming functional are extremely slim. Even a window of opportunity that had opened up after the Joint Comprehensive Plan of Action (JCPOA), better known as Iran Nuclear Deal, was missed.

Despite Saudi Arabia being a reliable source of financial dole-outs, remittances and host to millions of Pakistanis eking out a livelihood there, Pakistan cannot afford to antagonize Iran. Saudi investment in oil refinery in Gwader, mineral resources, and energy sector might have a

fundamental economic logic driving it, but it should not be de-contextualized from the larger geo-political rivalry playing out in the Middle East between Iran and Saudi Arabia, and how that has affected Pakistan.

Despite its tilt towards Riyadh, Islamabad has in the past attempted a delicate balancing act by not overtly participating or taking sides in the regional rivalry, both within the Gulf and between Iran and Saudi Arabia. Pakistan refused to send ground troops for Yemen war. Despite efforts of Saudi Arabia and the United Arab Emirates (UAE) to isolate Qatar, Pakistan has maintained economic and political ties with the latter. Pakistan's official position on Syria has also remained a shade different from its Gulf allies. Pakistan is economically weak and does not have many allies to count on in the international community, which increases its dependence on traditional economic and strategic partners, in the process constraining its capacity to maneuver on security and foreign policy issues. One can bring forth a crucial question: The important question to ask is: what is Saudi Arabia's quid pro quo from Pakistan against the former's economic benevolence, if any?

The China Factor

In addition to the Iran element, Islamabad and Riyadh have to factor in Beijing while drawing up plans for setting up an oil refinery in Gwadar.

Beijing and Islamabad have, since the commencement of China-Pakistan Economic Corridor (CPEC), been undertaking regular consultations on development of Gwadar port and city. A Chinese firm had also been tasked with the preparation of a master plan for Gwadar city. However, when Pakistan decided to make Saudi Arabia part of CPEC it didn't consult China. In September, 2018, after PM Imran Khan's first visit to Saudi Arabia, Islamabad abruptly announced that it had invited Riyadh to become a 'strategic partner' in CPEC.

Pakistan and China have all along maintained that CPEC is open to third-party participation. However, there has to be a consensus on the manner of third-party participation, which has to a great extent lately emerged with the two setting up the mechanism for participation of third party partners.

However, before that agreement had been reached, Islamabad also opened government-to-government discussions with Saudi Arabia on establishing an oil-refinery in Gwader. Pakistan viewed the matter as its sovereign decision. Yet, given pivotal role of Beijing in development and operationalization of Gwader port and on-going investments in infrastructure development of the city, it is natural that such cooperation with Saudi Arabia will have direct impact on China. Notwithstanding, the understanding on involving third parties in CPEC, Beijing remains wary of Gwader becoming a center-stage of Iran-Saudi Arabia competition, as the proposed oil-refinery is just 70kms from Iranian border.

Meanwhile, presence of Saudi Aramco in Gwader will also mean competition for Chinese energy companies in future. Through President Xi Jinping's signature, Belt and Road Initiative China is creating overseas demand for Chinese companies to continue its cycle of economic expansion. Beijing is facilitating state-owned companies in securing large-scale contracts in countries that are part of BRI. Pakistan is one of such places where Chinese companies see potential for profitable projects. Oil-refinery by Saudi Arabian Aramco, thus, dwindles prospects of a similar project in future by Chinese companies.

It is, thus, imperative for Pakistan to first reach a consensus with Beijing on form and scale of Saudi investments in Gwadar. If oil-refinery could be turned into a trilateral project with buy-in and investments from Beijing as well, prospects of its success will increase manifold.

About Author

Aziz, Rubab, and Ahmed are the resident scholars at the Islamabad Policy Institute.