

There is an important, and unexpected, interlocutor in Saudi-Iranian relations right now.

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There is an important, and unexpected, interlocutor in Saudi-Iranian relations right now. Engineering firms, power developers, ship builders, and terminal operators are doing the hard work of meeting the demands of economic diversification plans of both Saudi Arabia and Iran. Many of these key firms are South Korean, part of the [chaebol](#), or formerly state-owned industrial conglomerates that led to the great [East Asian miracle](#) of industrialization and economic development that transformed South Korea from a sleepy agricultural-based, patriarchal economy to a leading capitalist democracy of the 21st century. The interesting connection between Korea and rival states on opposite sides of the Gulf is that not only are newly public Korean firms able to garner multibillion dollar contracts (some in very politically sensitive fields like nuclear energy) from clients who are adversaries, but some of these firms are also partially owned by Saudi Arabia. Riyadh is investing in the companies that are driving its infrastructure projects and diversification aims. Saudi Arabia is also, de facto, investing in the infrastructure projects and diversification aims of Iran, through their shared Korea connection.

The logic of economic interdependence is that trade promotes peace, or so the capitalist peace envisioned by the philosopher Immanuel Kant, and later the economist and political scientist Joseph Schumpeter, would have it. Countries that trade together and share some economic relations are less likely to go to war with each other (though they are not necessarily less prone to conflict). The more integrated economies become, not just in the ability to impact another country by virtue of a single export (e.g. oil) in a stylized vertical integration, but more so in the ability to be horizontally integrated across many areas of trade and services, the more we see the political benefits of economic interdependence. At a moment of isolationism, anti-immigrant sentiment, and sectarian conflict in world politics, there are some indications that economic ties might help bridge these divides.

U.S.-China relations are one good historical example. Through the 1990s, trade and foreign investment was the language of diplomacy from the West. The U.S. advice to post-communist Eastern Europe focused on economic liberalization; dialogue with China focused on trade ties over human

rights and democratization. U.S. President Bill Clinton's work to [normalize trade relations](#) with China in 1999, and support for China's membership in the World Trade Organization, were emblematic of this logic and American pragmatism of the time. Since trade normalization, the United States has avoided conflict with China. Since 2000, even as [security concerns](#) have increased in the last 16 years, there has been mutual economic growth and mutual benefit. Trade ties have not made disagreements go away, but they have made it costly for both sides to militarize conflict.

There are a number of high profile investments in Iran by [Korean firms](#) like Hyundai Mipo and Hyundai Heavy Industry, and [development banks](#) such as Korea's Export Import bank. There are simultaneous contracts and ties in Saudi Arabia. Hyundai Heavy Industry is one firm that is building [marine terminals](#) in Saudi Arabia to facilitate petroleum exports, but also refining and petrochemical production. The interesting parallel is that both Saudi Arabia and [Iran](#) seek to diversify their economies with investment in infrastructure, including renewable power plants, health care systems, and petrochemical processing. Both countries are relying on external (e.g. Korean) expertise and investment to achieve these goals. Saudi Arabia's [Vision 2030](#) plan relies on the kingdom's ability to complement its traditional crude export with a range of mining, refining, and chemical production lines.

Strategic partnerships with one of Asia's best known state-owned conglomerates turned public is a prime example. Hyundai began as part of the great [chaebol](#) of state-owned industry, since privatized and divided into separate corporates like Hyundai Heavy Industry (one of the world's largest ship builders), Hyundai Engineering and Construction, and Hyundai Mipo (global tanker specialists). Saudi Arabia, and its flagship company Saudi Aramco, have [partnered](#) with these same [firms](#) to achieve economic diversification goals. Saudi Arabia is also buying stakes in these companies, including substantial [investments](#) in Hyundai Mipo and [Posco](#).

Interestingly, the major player in [gas](#), renewable, and nuclear energy power plant construction in both [Iran](#) and the Gulf Cooperation Council (i.e. the [United Arab Emirates](#) and [Saudi Arabia](#)) is Korea Electric Power Corporation (KEPCO). The Saudi government is actively partnering through its private sector, public sector, and foreign investors to [finance](#) these complex projects. The recent independent power project (IPP) [refinancing](#) of Ribagh I, a large electricity plant in Saudi Arabia, included \$1.825 billion of debt in an entity jointly owned by ACWA Power, KEPCO, and Saudi Electricity Company. In this case, the joint financing is a departure from Saudi Arabia's state-owned enterprise model in that it spreads risk among the government and private companies and foreign investors. The joint

ownership means that if partners' projects in other locations (like Iran) fail, there could be an adverse effect on operations inside Saudi Arabia. The IPP model is part of the Saudi effort to rely more on the private sector to stimulate growth (and pay for infrastructure development). The use of partnerships and shared ownership of projects gives Saudi Arabia more flexibility financially, but it also ties Saudi Arabia's economic future to entities that are equally committed to the future of its rival Iran.

KEPCO's [Iranian operations](#) and simultaneous \$10 billion agreement with Iran's Power Generation and Transmission Company speaks to this interdependence. The success of Saudi Arabia's Vision 2030 will be tied up in the success of these firms and partnerships, companies in which the government invests.

For the Gulf states, there is opportunity to chart their own course in an era of second thoughts on globalization, devising their own models of economic statecraft and envisioning a capitalist peace with their neighbors. Gulf states' security concerns in the Middle East and North Africa region are only increasing, heightened by the drawn out war in Syria, the disorder in Iraq, and the perceived menace of Iran. Yet, in spite of these very real dangers at their doorsteps, Gulf states, notably Saudi Arabia and the UAE, are growing economic ties with their regional adversary, mostly through interlocutor firms with the infrastructure development expertise both states need. The ties are incipient and not an indication of a redirection of foreign policy; however, it is these kinds of financial commitments and leverage that will make conflict more costly, and incompatible with mutual objectives of economic growth and diversification.

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Dr Karen E Young is a former senior resident scholar at the AGSIW. She is a resident scholar at the American Enterprise Institute in Washington and a senior advisor at Castlereagh Associates.
