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Hedging Patterns in Economic Diplomacy: A Comparative Analysis of the Islamic Republic of Iran and Saudi Arabia

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Extended Abstract

Purpose: This study examines the strategic hedging patterns in the economic diplomacy of the Islamic Republic of Iran and the Kingdom of Saudi Arabia, analyzing how these two major West Asian powers mitigate systemic risks, structural dependencies, and geopolitical vulnerabilities in a transitioning multipolar global order.

Design/methodology/approach: Adopting a comparative qualitative research methodology and drawing on structural realism (neorealism) and risk management theories, this paper utilizes library research and document analysis. It investigates the divergent hedging strategies—specifically reactive and cohesive hedging—implemented by both nations to balance relations between global powers (the Global North and Global South) and secure economic resilience.

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Findings: The comparative analysis reveals that while both nations recognize the necessity of diversifying economic relations to counter systemic shocks, their paths diverge significantly due to internal institutional cohesion and external geopolitical pressures. Iran, constrained by dense international sanctions and domestic policy fragmentation, has primarily gravitated toward a reactive hedging pattern (emphasizing South-South cooperation, neighborhood diplomacy, and resistant economic adaptation). Conversely, Saudi Arabia has successfully institutionalized a cohesive hedging pattern (integrating South-South-North networks, strategic non-alignment through OPEC+, regional de-escalation with Iran and Yemen, and nation-rebranding under Vision 2030) to accelerate economic development and maximize diplomatic leverage.

Research limitations/implications: The research is limited by the fast-evolving nature of West Asian diplomatic alignments and the difficulty of gathering real-time quantitative trade data under sanctions regimes (for Iran). Future studies could integrate quantitative economic indicators to measure the direct welfare impacts of these hedging models.

Practical implications: The study provides policy recommendations for developing nations in the Global South on leveraging middle-power diplomacy to avoid binary alliances, institutionalize inter-agency economic cohesion, and utilize soft power (nation-branding) to attract foreign direct investment during global geopolitical shifts.

Originality/value: By shifting the academic focus of hedging from purely security-military dimensions to the realm of economic diplomacy, this paper fills a significant literature gap. It offers the first systematic comparative analysis of Iranian and Saudi economic hedging models, demonstrating how domestic policy integration determines the success of risk-mitigation strategies.

Purpose

In recent decades, nations in the Global South have faced intensifying geopolitical pressures, economic sanctions, and structural shifts in the international system. To mitigate these vulnerabilities, states increasingly rely on “hedging”—a strategic middle position between balancing and bandwagoning designed to avoid binary alignments and manage uncertainty. Situated in the volatile West Asian region, the

Islamic Republic of Iran and the Kingdom of Saudi Arabia represent two distinct models of Islamic statehood and regional influence, yet both share oil-dependent economic structures. This study addresses the central question: What distinct hedging patterns do Iran and Saudi Arabia employ in their economic diplomacy, and how do their structural domestic and external environments shape these choices? The primary objective is to analyze the divergence, institutional mechanisms, vulnerabilities, and strategic outcomes of their respective economic diplomacy frameworks.

Design/methodology/approach

This research utilizes a comparative qualitative research design, relying on the library method to systematically analyze academic literature, official policy documents, strategic reports, and international statistical databases. Theoretically, the study bridges the gap between international relations theory (specifically Waltz's neorealist balance of power and Kuik's formulation of strategic hedging) and economic risk management. Hedging is conceptualized not merely as a security strategy, but as a multidimensional economic diplomacy tool. The paper categorizes hedging models into three operational frameworks: resilient hedging (focused on strategic non-alignment and systemic adaptability), reactive hedging (defensive, crisis-driven, and response-based risk mitigation), and cohesive hedging (forward-looking, institutionally coordinated, and long-term risk diversification). The comparative matrix evaluates both countries across indicators such as South-South/North interactions, regional conflict resolution, and structural adaptation to global trade dynamics.

Findings

The comparative analysis yields several critical insights:

Iran's Reactive Hedging Model: Driven by cumulative international sanctions and internal institutional fragmentation, Iran's economic diplomacy operates on a defensive, response-oriented plane. To counter Western isolation, Tehran has prioritized South-South Cooperation (SSC) through non-dollar payment mechanisms, local currency trade, and integration into non-Western alliances (BRICS, Shanghai Cooperation Organization). While its "Neighborhood Policy" seeks to rebuild

economic corridors with border nations, the lack of domestic policy cohesion and systemic financial blockades restrict Iran's capacity to convert these initiatives into rapid economic development, resulting in a reactive hedging pattern.

Saudi Arabia's Cohesive Hedging Model: Saudi Arabia utilizes a proactive, structurally aligned strategy that integrates South-South-North diplomatic networks. Riyadh balances its historic security alliance with the United States (the Global North) while expanding robust energy and infrastructural partnerships with China and Russia (the Global South) via OPEC+ coordination and Belt and Road Initiative (BRI) projects. This model is supported by high domestic policy cohesion under Vision 2030, regional de-escalation (re-establishing ties with Iran in 2023 and pursuing diplomacy in Yemen), and comprehensive nation-rebranding (investments in tourism, artificial intelligence, and logistics).

The Comparative Outcome: Saudi Arabia's cohesive hedging leverages systemic ambiguity to maximize economic growth and diplomatic autonomy, whereas Iran's reactive model remains focused on economic survival and structural resistance.

Research limitations/implications

A primary limitation of this study is the highly dynamic and volatile nature of Middle Eastern geopolitics, where sudden diplomatic shifts can alter national strategies rapidly. Additionally, because Iran operates under a dense network of international sanctions, obtaining fully transparent, official, and verifiable data regarding its alternative financial transactions, barter trade, and informal economic diplomacy initiatives remains challenging. This research implies that international relations scholarship must move beyond viewing hedging as a monolithic, security-centric concept, recognizing instead that economic diplomacy and domestic bureaucratic alignment are crucial determinants of how medium powers navigate systemic risks.

Practical implications

This study offers valuable practical insights for policymakers in middle powers and the Global South:

It highlights that successful economic diplomacy requires bridging the gap between domestic economic planning and foreign policy execution; without internal institutional cohesion, external hedging remains fragmented and reactive.

It demonstrates the utility of strategic de-escalation (such as the Saudi-Iran 2023 normalization) as an economic tool to reduce regional security premiums, thereby securing a stable environment for foreign investment.

It shows how states can employ nation-rebranding and soft power initiatives (e.g., green energy transition, tech summits, cultural tourism) to transition from single-commodity dependencies (oil) to diversified, knowledge-based economies.

Originality/value

This research contributes to the literature on economic diplomacy and security studies by providing a novel, comparative classification of hedging models (reactive vs. cohesive) applied directly to the Persian Gulf's primary rivals. While existing scholarship on Iranian-Saudi relations focus heavily on ideological competition, proxy conflicts, or military balancing, this paper shifts the analytical lens to the strategic economic choices made by both states. By detailing how Saudi Arabia weaves a complex South-South-North network and how Iran utilizes resistance-oriented South-South channels, this study provides an innovative conceptual framework for analyzing the geoeconomic behavior of energy-producing nations in a multipolar era.

Key words: Iran, Economic diplomacy, Saudi Arabia, Hedging.

Conflict of Interest

The authors declare that there is no conflict of interest in conducting this research study.