

# ***Research on International Conflict Coordination Mechanisms from the Perspective of Fiscal Synergy: A Case Study of China's Mediation in the Saudi-Iranian Reconciliation***

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**Abstract:** The current international political landscape is characterized by accelerating multipolarity. The United States' imposition of additional tariffs and threats to withdraw from international agreements have exacerbated trade frictions with allies such as the European Union and triggered global supply chain disruptions. Meanwhile, the protracted Russia-Ukraine conflict, compounded by the strategic rivalry between the U.S. and Russia, has seen ceasefire negotiations hindered by divergent positions and shifting U.S. policy priorities. Against this backdrop of intertwined cooperation and competition, there is an urgent need to explore new coordination mechanisms to stabilize international relations and advance global peace. This study examines international conflict coordination mechanisms through the lens of fiscal synergy, focusing on China's mediation in the Saudi Arabia-Iran reconciliation as a case study. The research reveals that China leveraged economic cooperation initiatives, such as the Belt and Road Initiative, to strengthen bilateral economic interdependence between Saudi Arabia and Iran, thereby creating conditions for reconciliation. Concurrently, China employed fiscal transparency and trust-building mechanisms to facilitate dialogue and collaboration between the two parties. The findings demonstrate that fiscal synergy serves not only as a critical instrument for international economic cooperation but also as an effective tool for conflict resolution, offering innovative pathways to promote global peace and stability.

**Keywords:** Fiscal Synergy, China's Diplomatic Mediation, Saudi-Iranian Reconciliation, Middle Eastern Geopolitics, International Conflict Coordination Mechanisms

## **1. Introduction**

International conflicts have long posed a longstanding threat to global peace and stability. These conflicts, often rooted in geopolitical interests, religious differences, and economic disparities, can perpetuate protracted instability and impede regional development. In recent years, the role of financial and fiscal policies in conflict resolution has garnered increasing attention. The concept of fiscal-financial coordination, or "fiscal synergy," has emerged as a potential instrument to mitigate international conflicts. This synergy involves the harmonized use of fiscal and monetary policies to achieve shared objectives, such as economic stability and sustainable development. A notable

example is China's successful mediation between Saudi Arabia and Iran, which underscores the potential of fiscal-financial coordination in resolving protracted international disputes.

Previous research on international conflict resolution has predominantly focused on diplomatic negotiations and military interventions, with limited attention to the role of fiscal and financial policies. Recent studies have begun exploring the impact of fiscal-financial coordination on conflict mitigation, emphasizing the critical importance of policy synergies in achieving sustainable peace. Studies have shown that coordinated fiscal and monetary measures can enhance economic cooperation and reduce the likelihood of conflict escalation. However, the application of fiscal synergy in international conflict resolution remains underexplored, particularly within the context of concrete case studies. As noted in Professor Niu Xinchun and Professor Li Shaoxian's paper *"Seizing the Momentum: China's Mediation in the Saudi-Iranian Reconciliation and Its Implications"*, "the Middle Eastern power structure has entered an era of multipolarity, with regional states actively improving their external environments while prioritizing economic development as a central task [1]. Marked by the China-Arab Summit in December 2022, China's Middle East policy has evolved from an economy-centric approach to a multidimensional strategy integrating economic, political, and security dimensions." This shift highlights the imperative to explore international coordination mechanisms through an economic lens.

By examining the role of fiscal-financial coordination in China's mediation between Saudi Arabia and Iran, This study explores the importance of fiscal and financial coordination in promoting regional stability and economic development, aiming to provide new insights into mechanisms for leveraging economic policies to resolve international disputes. The findings may inform the integration of fiscal frameworks with international politics, offering novel approaches to formulate more effective policies for conflict coordination mechanisms. Furthermore, this research holds significance for advancing both theoretical and practical understandings of international conflict resolution.

## **2. Theoretical analysis of fiscal synergy and mediation diplomacy**

### **2.1. The concept and strategic value of mediation diplomacy**

Mediation diplomacy serves as a critical method for the peaceful resolution of international disputes. As discussed by Fan Bingliang in *On Mediation Diplomacy*, mediation refers to a diplomatic practice in which third-party states or international organizations, acting independently of the disputing parties, facilitate conflict resolution by narrowing differences, mitigating contradictions, and fostering mutually acceptable solutions [2]. It also represents a significant mechanism through which states and international entities assert their influence on the global stage. Mediation typically involves advising disputing parties to resolve conflicts through negotiation, with the third party refraining from direct intervention in substantive issues. Its role is primarily advisory and non-binding under international law. While states are the primary mediators, individuals may occasionally assume this role. Notably, international law imposes no obligation on third parties to mediate, nor do disputing states bear a duty to accept mediation. Over time, China has developed its mediation practices by synthesizing lessons from international precedents and drawing on the wisdom of Chinese culture. Guided by the "Four Principles" — non-interference in internal affairs, commitment to political solutions, impartiality, and holistic governance — China has played a constructive role in international conflict coordination.

Mediation diplomacy, as a third-party mechanism for addressing international disputes and advancing peaceful resolutions, holds strategic value that extends beyond immediate de-escalation to reshape global governance paradigms. First, it functions as a "safety valve" for conflict containment. By promoting dialogue through non-military means, it effectively prevents escalation into warfare

and humanitarian crises. Second, it acts as a "catalyst" for cooperation. Successful mediation often lays the groundwork for economic and security collaboration. Third, it serves as a "strategic instrument" for enhancing international discourse power. China's adherence to principles such as "non-interference" and "impartiality" challenges Western interventionist traditions, thereby earning trust among developing nations.

## 2.2. Fiscal synergy and its diplomatic utility

Fiscal policies are increasingly embedded within diplomatic frameworks through multilateral engagements. For instance, the U.S. Congress has leveraged legislation like the *Affordable Care Act* to indirectly amplify its influence in global health cooperation via fiscal expenditure programs [3]. Concurrently, fiscal transfers have emerged as pivotal tools in diplomatic strategy. China's Belt and Road Initiative (BRI), through targeted loans and infrastructure investments, enhances regional connectivity while strengthening political trust with partner states. Such fiscal support not only alleviates economic pressures in recipient countries but also deepens bilateral relations through collaborative projects, thereby infusing new vitality into international conflict coordination mechanisms.

Within these mechanisms, fiscal policies frequently operate as strategic levers through modalities such as economic sanctions, aid-for-compromise arrangements, and debt restructuring, facilitating negotiation processes or achieving strategic equilibria. Fiscal policy in conflict resolution embodies both "hard power" (resource coercion) and "soft tools" (incentive alignment), with its efficacy contingent on resource mobilization capacity, institutional adaptability, and multilateral coordination. Successful mediation often hinges on reshaping rules through economic leverage, whereas failed interventions expose the limitations of unilateralism. Moving forward, fiscal policies are expected to integrate into conflict coordination mechanisms through precision-targeted and rule-based approaches, though their sustainability will depend on global governance reforms and the cultivation of long-term mutual trust.

## 3. China's mediation strategies in the Saudi-Iranian conflict

### 3.1. The Belt and Road Initiative (BRI) as a stabilizing framework for Saudi-Iranian economic cooperation

China has leveraged the Belt and Road Initiative (BRI) to deepen strategic trust through economic collaboration, focusing on energy security and infrastructure investment. As the largest energy importer for both Saudi Arabia and Iran, China has established robust economic interdependence with the two nations via long-term energy procurement agreements. For instance, Saudi Arabia expanded its exports to China through the "yuan-denominated oil trade settlement mechanism" promoted by Beijing, reducing its reliance on the U.S. dollar. Meanwhile, Iran utilized Chinese-developed cross-border payment systems (e.g., partnerships with Kunlun Bank) to circumvent U.S. sanctions and stabilize oil revenue [4]. This "dual-lock energy cooperation" laid an economic foundation for conflict mediation.

Furthermore, China facilitated Saudi-Iranian collaboration within multilateral frameworks under the BRI. By leveraging platforms such as the Shanghai Cooperation Organization (SCO), China encouraged dialogue and cooperation between the two nations in economic and security domains [5]. These multilateral mechanisms expanded cooperative opportunities, thereby reducing bilateral tensions.

In summary, the BRI has provided Saudi Arabia and Iran with a stable economic cooperation environment, strengthening ties in energy, infrastructure, and multilateral engagement. This approach has played a pivotal role in de-escalating conflicts and fostering regional stability.

### **3.2. Infrastructure investment as a catalyst for trilateral dialogue**

Under the BRI, China has advanced infrastructure projects that bridge Saudi-Iranian interests. In Saudi Arabia, Beijing supported renewable energy transition initiatives such as the Red Sea NEOM Solar Power Plant, while in Iran, it invested in industrial parks and transportation hubs like the Tehran-Mashhad Railway. For example, infrastructure development remains a cornerstone of China-Iran connectivity cooperation. Iran's metro projects in Mashhad, Isfahan, and other major cities have benefited from Chinese technical support, cost-effective solutions, and advanced equipment, enhancing local production capacities. These projects have not only contributed significantly to Iran's economic growth but also generated long-term social benefits, earning widespread local acclaim.

Such investments create employment opportunities and foster "development interest communities" through technology transfers, elevating industrial competitiveness in both nations [6]. Saudi Arabia's Vision 2030 and Iran's Resistance Economy plan have aligned closely with Chinese investments, incentivizing conflict resolution through dialogue rather than confrontation.

### **3.3. Energy cooperation as a trust-building mechanism**

Since China began importing Saudi crude oil in 1933, the two nations have maintained a complementary and high-volume energy partnership. Strategic collaborations between Sinopec and Saudi Aramco span refining, petroleum trade, and engineering services [7]. In 2016, Sinopec's Yanbu Refinery — its first overseas refining project — commenced operations, enhancing Saudi Arabia's crude oil competitiveness while deepening bilateral cooperation in refining, petrochemicals, and supply chain management. Decades of energy collaboration have solidified Sino-Saudi trust, providing a stable foundation for China's mediation in Saudi-Iranian relations.

For China-Iran relations, energy cooperation stands as the cornerstone of economic engagement. Both nations recognize the complementarity and necessity of deepening energy ties. As the world's largest oil importer, China requires diversified energy channels to ensure national economic security. Oil trade has long dominated bilateral economic cooperation, evolving into comprehensive, full-industry-chain collaboration in oil and gas. Iran has gained Chinese financing and technological support for its refining sector, while China secures stable energy supplies. This mutually beneficial cooperation not only achieved win-win outcomes but also established deep mutual trust, serving as a critical catalyst for China's subsequent mediation between Saudi Arabia and Iran.

## **4. China's strategic gains and mutual benefits in the Saudi-Iranian reconciliation**

### **4.1. Strategic breakthrough in diplomatic influence**

As a non-Western power, China's unprecedented role as a "security mediator" in resolving Middle Eastern tensions marks a paradigm shift, challenging the U.S.-dominated regional diplomatic order and showcasing the efficacy of non-Western conflict resolution models [8]. The successful Saudi-Iranian reconciliation signifies China's strategic evolution from an "economic participant" to a "comprehensive partner", amplifying its global influence. This achievement not only provides a paradigmatic case for China's Global Security Initiative but also strengthens its voice in global governance. By catalyzing adjustments to the Middle East's diplomatic architecture, China has significantly elevated its role in regional affairs. Its advocacy for a new model of international relations based on "non-alignment" and "non-interference" offers innovative pathways for global peace, enhancing China's international standing. Crucially, this mediation has demonstrated China's conflict resolution capabilities, bolstering trust among developing nations and reshaping perceptions of great-power diplomacy.

## 4.2. Expansion and deepening of economic interests

The reconciliation has fortified China's energy security by stabilizing relations with its two largest regional energy partners: Saudi Arabia (China's top crude oil supplier) and Iran (a pivotal BRI node). Post-reconciliation, China's diversified energy imports mitigate geopolitical risks while ensuring stable supplies to fuel economic growth [9]. Additionally, trilateral cooperation has expanded across sectors. The détente has unlocked new opportunities for synergy among China, Saudi Arabia, and Iran, accelerating alignment between Saudi Vision 2030 and Iran's transportation corridor development. Collaborative projects in infrastructure, digital economy, and energy have advanced BRI implementation, deepening regional economic integration.

By acting as a bridge for regional economic synergy, China has harmonized energy security with collaborative development. Trilateral cooperation injects fresh momentum into regional growth, creating a model for equitable international economic partnerships [10]. This approach demonstrates how conflict resolution can catalyze shared prosperity, offering a blueprint for balancing strategic interests with multilateral development goals.

## 5. Conclusion

This study examines international conflict coordination mechanisms through the lens of fiscal synergy, with a focused analysis on China's mediation in the Saudi-Iranian reconciliation. Fiscal synergy functions as an "economic adhesive", binding adversarial states through shared investments, trade cooperation, and financial governance mechanisms. In the Saudi-Iranian case, China not only coordinated infrastructure projects such as ports and railways but also advanced yuan-denominated oil trade settlements. These initiatives wove a web of economic interdependence, compelling both nations to recognize their mutual developmental needs. The "interwoven economic symbiosis", where each party's prosperity becomes contingent on the other's participation, proved more compelling than purely political negotiations, as it directly impacts national development and public welfare. The findings reveal that China's Belt and Road Initiative (BRI) strengthened Saudi-Iranian economic linkages and interdependence, creating a conducive platform for reconciliation. This approach offers a novel framework for understanding the economic underpinnings of international conflicts and their resolution, providing actionable insights for other regions grappling with similar disputes.

While this research advances theoretical and practical understandings, limitations persist. The case study methodology constrains broader generalizability, leaving the applicability of fiscal synergy to other conflict typologies—such as territorial or ideological disputes—underexplored.

Future research should pursue three trajectories. First, conducting longitudinal tracking of post-reconciliation mechanisms between Saudi Arabia and Iran to assess their sustainability; second, performing comparative analyses of regional economic initiatives, such as the Indo-Pacific Economic Framework, to evaluate their efficacy in conflict mediation; and third, developing AI-driven mediation models that leverage big data and blockchain technology to modernize fiscal synergy theory for the digital era.

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