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The Islamabad MOU and the Challenges Ahead for the Gulf States

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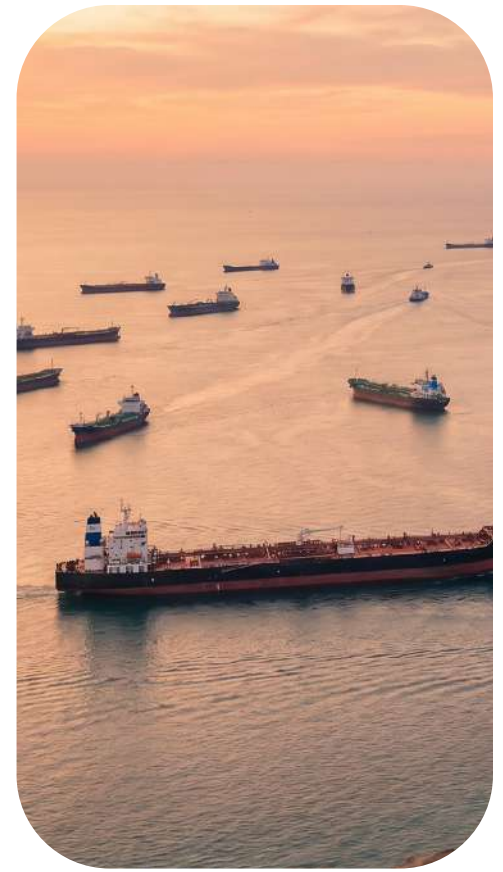
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The Iran War, which began on February 28 of this year with large-scale U.S. and Israeli airstrikes against Iran, came to a temporary end on June 17 with the signing of the Islamabad Memorandum of Understanding (MOU) by the United States and Iran, with Pakistan serving as mediator. Subsequently, on June 23, the U.S. and Iran convened the first high-level committee meeting in Bürgenstock, Switzerland to implement the MOU and agree on a roadmap aimed at reaching a final agreement within 60 days. The roadmap, announced by Pakistan and Qatar in their capacity as mediators, includes the establishment of working groups on nuclear issues, sanctions, monitoring, and dispute resolution between the U.S. and Iran; the creation of communication lines among the parties concerned to ensure the safe passage of commercial vessels through the Strait of Hormuz; and the establishment of a “deconfliction cell,” involving the Lebanese Republic and facilitated by the mediators, to ensure adherence to termination of military operations in Lebanon as per the MOU.

The Islamabad MOU includes a U.S. commitment to fully terminate its maritime blockade of Iran within 30 days, as well as its undertaking to withdraw its forces from the proximity of Iran within 30 days of the conclusion of a final agreement. In this respect, the MOU goes beyond the bilateral ceasefire agreement of April 8 and can, in effect, be regarded as a potential agreement to end the war.

The Gulf states, together with the wider international community, are now closely watching both the substance of the MOU and the follow-up negotiations. In the week following its signing, analysts in the U.S. and elsewhere have offered mixed assessments of the MOU, while voicing cautious, and at times concerned, expectations regarding the ongoing negotiations in Bürgenstock. Their concerns appear to rest on three main factors: first, the deep-seated mistrust between the U.S. and Iran; second, the fact that the implementation of the understandings contained in the MOU depends heavily on the



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The future of Gulf security will depend not only on the MOU itself but on its successful implementation

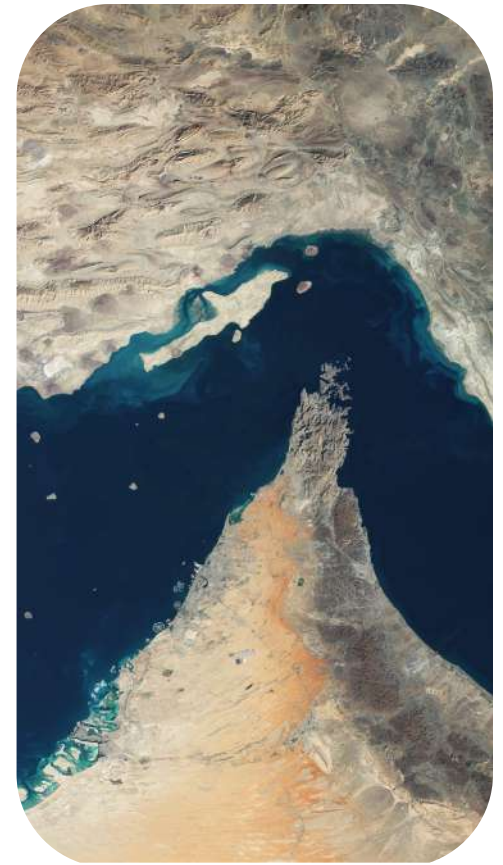
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cooperation of many actors that are now not part of the negotiation process, and third, uncertainty over whether Israel, which is not a signatory to the MOU, will in fact halt its military operations.

The mistrust between the U.S. and Iran, which dates back 46 years to the Islamic Revolution of 1979, reached its peak this year with the outbreak of war. Against this backdrop, the MOU contains a number of dramatic provisions. Some fall short of the demands that President Trump had publicly articulated toward Iran during the war, while others include remarkably far-reaching concessions. Moreover, several of the U.S. commitments, such as securing the enormous funds needed for Iran's reconstruction and lifting sanctions on Iran imposed by international organizations, including the UN and the IAEA, as well as by numerous individual states, will require the cooperation of many countries that were not consulted in advance by the U.S. on the contents of the Islamabad MOU. In addition, irrespective of whether Prime Minister Netanyahu accepts President Trump's demands, the Israeli public continues to harbor deep security concerns regarding armed groups in its neighborhood, including Hezbollah. Under these circumstances, armed clashes between Israel and Hezbollah could recur at any time, potentially giving Iran a pretext to delay or refuse the implementation of some or all of its commitments under the MOU.

Interestingly, the priorities that the U.S. sought to secure during the MOU negotiations do not appear to have fully reflected the concerns of many countries around the world, including the Gulf states. President Trump placed the highest priority on preventing Iran from acquiring nuclear weapons and on the early reopening of the Strait of Hormuz. To be sure, these two objectives are indispensable not only for the Gulf states but for all countries. Yet many countries seem to believe that these objectives could have been achieved through means other than a war that imposed such heavy costs on the international community. Rather, many countries appear to be more deeply concerned with how to address the various consequences of the Iran War and are focusing their attention on that task.



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First, the question is not merely how to reopen the Strait of Hormuz, but how to ensure that freedom of navigation and transit passage through this international strait can be maintained in accordance with international law, as it was before the war. Rather than fully allaying this concern of the international community, the U.S.-Iran MOU gives the impression that Iran has been accorded a leading role in shaping any future mechanism for managing the Strait of Hormuz. The international community is therefore likely to need, beyond the outcome of the current U.S.-Iran negotiations, a separate, multilaterally agreed mechanism to guarantee freedom of passage through the Strait of Hormuz, a matter that will continue to have far-reaching implications for the global economy. Such an effort would also serve as a precedent for addressing the possible disruption of other global chokepoints by individual states in the future.

Second, the Iran War has reminded the world that the openness of the Strait of Hormuz is not only vital to global energy flows, but also inseparable from the stability of relations between Iran and the Gulf states, including Iraq and Yemen. From this perspective, the bold decision by Saudi Crown Prince Mohammed bin Salman in March 2023 to normalize Saudi-Iranian relations was grounded in a highly pragmatic spirit of mutual benefit and was wise not only for the Gulf region, but also for the stability and prosperity of the wider international community. Unfortunately, the ‘mission of peace and prosperity’ across the Arabian Peninsula, the Gulf, and the Levant, which he had been leading since early 2021, was severely disrupted by Hamas’s surprise attack on Israel in October 2023. Yet most countries in the region are likely to refocus on this historic task as soon as the war comes to an end. Thus, it is essential to restore trust and establish a cooperative regional order between Iran and the Gulf states so that a crisis of this magnitude does not recur in the future.

In carrying out this task, the international community will look both to the open-minded approach of the Gulf states and to the active role of the U.S., which it expects to make a major contribution, together with key Middle Eastern countries, the EU, South Korea, Japan,



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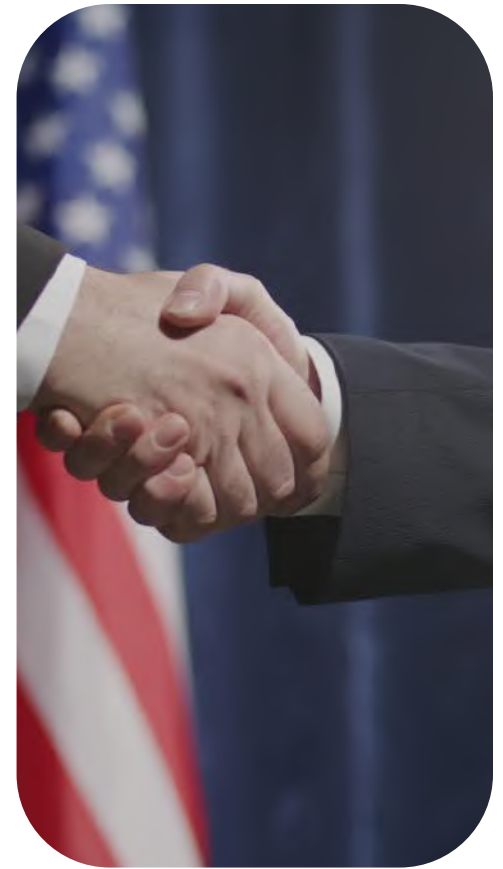
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China, Russia, and other states that share a significant stake in Gulf stability, to building and guaranteeing a new framework of relations for lasting stability among the Gulf states themselves, which are the direct parties concerned.

Third, recalling that one of the principal sources of instability in the Middle East since the Islamic Revolution has been the armed confrontations between Israel and the armed groups supported by Iran, the international community, including the Gulf states, had hoped that the current U.S.–Iran MOU negotiations would address not only the immediate termination of the war in Lebanon, but also the prevention of future security threats to Israel posed by such armed groups. The utility of engaging Iran on this issue was demonstrated after the normalization of Saudi-Iranian relations in 2023, when the Saudi-Houthi ceasefire became far more stable. However, as this issue is not included in the publicly released text of the MOU, it appears to remain on the list of outstanding issues that the international community must address separately in pursuit of peace in the Middle East.

The international community hopes that, in the U.S.–Iran negotiations in Bürgenstock, not only the Iranian nuclear issue and the immediate reopening of the Strait of Hormuz, but also these broader issues mentioned above will be discussed in sufficient depth. At the same time, taking into account the realities of U.S. global leadership as well as shared interests and values, the international community hopes that Washington will, in the course of its negotiations with Iran, engage more actively with international organizations and non-participating states, and thereby persuade Iran to accommodate the wider concerns of the international community. The absence of such a process could make it difficult to secure sufficient international cooperation for the implementation of the roadmap agreed between the U.S. and Iran. This would be similar to the way in which, during the Iran War, U.S. requests for cooperation in keeping the Strait of Hormuz open were not accepted by some of its allies and partners.



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Although they were not direct parties to the Iran War, the Gulf Arab states and Jordan, having borne enormous economic costs stemming from Iran's missile and drone attacks and the closure of the Strait of Hormuz, have once again been reminded by this war of the urgency and gravity of several objectives they have long pursued.

First, the Gulf states have realized, above all, the urgent need to strengthen their defense posture. Since this is a task that cannot be achieved by any single country alone in the short term, the GCC states have come to recognize an even more pressing need not only to accelerate the establishment of the integrated missile defense system agreed by their leaders at the special summit in Jeddah on April 28, but also to expand military cooperation with extra-regional partners. They are also likely to seek greater responsibility from the U.S., perhaps more than from any other partner, for their security, and will need active U.S. cooperation in establishing a collective defense framework for the Gulf region. At the same time, they are likely to pursue closer security cooperation with extra-regional actors, including the EU, with which they share many common interests. South Korea, which is already an important partner in their industrial diversification and defense industrial development, can certainly make a meaningful contribution to these efforts. As noted earlier, it also appears well worth considering efforts by the Gulf states to reach an agreement with Iran on preventing mutual attacks and to establish a mechanism to guarantee such an understanding. For all these efforts to succeed, the greatest challenge will be to strengthen and sustain unity among the GCC member states, whose interests and perspectives often differ from one another.

Second, the war has made clear to the Gulf states that they must work to strengthen economic security in a far broader sense. This should include not only the flow of crude oil, LNG, their derivative products, and food, but also the protection against missile and drone attacks of a small number of major cities with highly concentrated populations and vital industries that serve as their economic lifelines. Because the vulnerabilities of the Gulf states in this regard far exceed those



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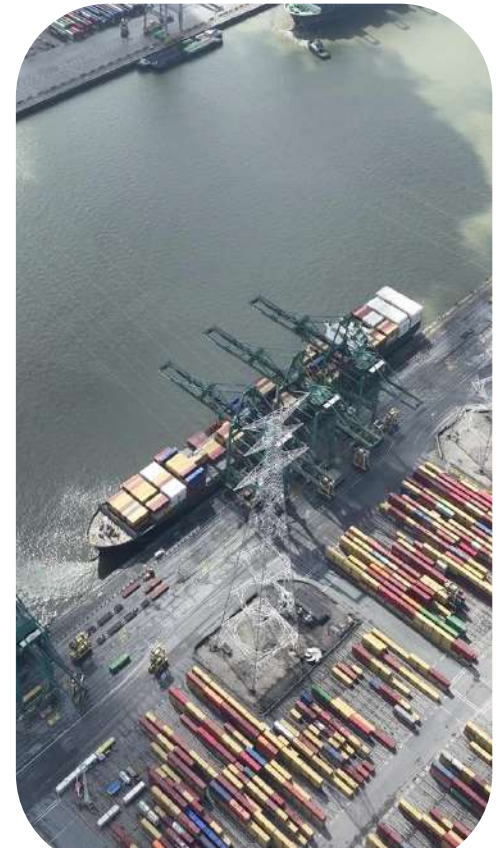
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faced by most other countries in times of crisis, building a defense posture capable of ensuring their security will require substantially greater investment. In the same context, it will also be necessary to expand alternative transport routes for resources, food, and essential goods that can bypass the Strait of Hormuz in contingencies. This, in turn, will require not only massive investment, but also close cooperation among neighboring countries on the Arabian Peninsula.

Third, the Gulf states will likely realize that they must redouble their efforts on multiple fronts to restore the interest of extra-regional companies and investors that have been participating in the implementation of their long-term transformation visions. Global companies will closely watch not only whether the ongoing U.S.–Iran negotiations are successfully concluded, but also the possibility of renewed instability in the future and the fiscal constraints recently exposed in the Gulf states. To turn such hesitation toward the Gulf region back into active interest, the Gulf states will need to offer incentives at a much higher level than before the war. These efforts should build on the reforms already undertaken across the Gulf by further strengthening project financing, offshore financial systems, taxation, immigration procedures, and the broader regulatory and business environment. The objective should be to maintain the region’s competitiveness, provide greater predictability for investors, and adapt to evolving global standards and market expectations.

South Korea is recognized by the Gulf states as one of the strategic partners with the greatest potential utility in helping them carry out these tasks. Korea’s engagement with the Middle East began with the establishment of diplomatic relations in 1962 with several Gulf countries, including Saudi Arabia and Iran, and has since expanded across the region, particularly after Korean companies launched a highway construction project in Western Saudi Arabia in 1973. Today, Korean companies are contributing to the implementation of the long-term development visions of several Gulf countries on the basis of trust, technological capability, human networks, and soft power.



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Their areas of engagement now extend well beyond social infrastructure, energy and desalination plants, power plants, and industrial facilities to encompass virtually all sectors of industry, including automobiles, shipbuilding, engineering design services, retail, information technology, e-sports, biotechnology, healthcare, cultural contents, tourism, casting and forging, electrical and electronic goods, and the defense industry.

As the Gulf states seek to reinforce economic resilience and restore international investor confidence following the recent conflict South Korea can play an important role by expanding investment, facilitating technology transfer and innovation, supporting industrial localization and human capital development, and contributing to the development of more resilient critical infrastructure and advanced manufacturing ecosystems. The governments of South Korea and the Gulf states share the view that, on the basis of mutual trust and common interests, they should deepen and expand practical cooperation more swiftly. A visit by South Korea's leader to the Gulf, or by Gulf leaders to South Korea expected later this year, would provide additional momentum for these strategic objectives and further strengthen mutually beneficial public- and private-sector cooperation.



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