

Updating U.S.-Saudi Ties to Reflect the New Realities of Today's Middle East

By Brian Katulis, Rudy deLeon, Peter Juul, Mokhtar Awad, and John Craig April 2016



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Introduction and summary

When President Barack Obama arrived in Saudi Arabia last week to participate in the U.S. summit with the Gulf Cooperation Council, or GCC, he landed in the midst of regional turbulence and major economic and foreign policy changes by the Kingdom.¹

Today, the Middle East remains caught up in a period of fragmentation and competition for influence among the leading powers in the region.² In the aftermath of last year's nuclear deal between Iran and other global powers, President Obama has yet to achieve the new equilibrium in the Middle East that he envisioned.³ His recent suggestion that GCC countries "share" the region with Iran received a cool reception in Saudi Arabia and other parts of the GCC.⁴ Saudi Arabia—along with other GCC countries—remains deeply concerned about Iran's subversive activities in the region, including its support for terrorist groups and ongoing conventional military efforts, such as its ballistic missile program.⁵

This current period of insecurity following the Iran nuclear deal is the latest episode in a U.S.-Saudi relationship roiled by tension for more than a decade. Since 2000, the decades-long foundation of close relations between the United States and Saudi Arabia—namely, regional stability, energy security, and military cooperation—has come under considerable stress. The 9/11 terrorist attacks in 2001 and the 2003 Iraq war ushered in a rocky phase in bilateral U.S.-Saudi relations. These two incidents—along with the end of the U.S. policy of dual containment of Iran and Iraq—led to a decline in mutual trust between the United States and Saudi Arabia that's now reaching critical mass.

The strains in the relationship were on display during President Obama's recent trip to Riyadh. His meeting with King Salman bin Abdulaziz al-Saud served to highlight the differences between American and Saudi ways of achieving stated, shared security goals. According to a senior administration official, the Saudi king emphasized the use of force to deal with threats, while President Obama emphasized the need

to include diplomacy as well.⁶ Although the wider U.S.-Gulf Cooperation Council summit produced a constructive action agenda—including plans for a high-level economic reform dialogue later this year and joint military exercises in 2017—bilateral tension between the United States and Saudi Arabia remains.⁷

Political leaders and citizens in both countries now openly question the value proposition of the current bilateral relationship. For many Americans, the ultraconservative values enforced domestically and promoted worldwide by the Saudi government stand at odds with the progressive American values of pluralism, equality, and freedom. As a result, many Americans question Saudi Arabia's reliability as an ally in the fight against Islamist extremism and seek answers to unanswered questions about the relationship between the 9/11 hijackers and the Saudi government. For their part, many Saudis view the United States as taking actions—such as the 2003 invasion of Iraq and the 2015 Iran nuclear deal—that bolstered Iran's regional position at Saudi Arabia's expense.

Despite these growing differences, however, the United States and Saudi Arabia continue to share important security interests. Indeed, in recent years, both countries have forged closer security cooperation on several key fronts, including certain aspects of the fight against terrorist groups such as Al Qaeda in the Arabian Peninsula, or AQAP. In light of this cooperation, the United States and Saudi Arabia should work to build a new foundation for bilateral relations—one focused on the shared interests of the present, not the past. Above all, bilateral relations should be honest and transparent: The basic differences in values between the United States and Saudi Arabia cannot and should not be ignored, and shared interests should be publicly debated and explained in both countries. As Saudi Arabia embarks on a period of significant economic and foreign policy change, the United States should use all the incentives at its disposal to press for change in a progressive direction.

Based on the Center for American Progress' research and recent visit to Saudi Arabia—which included interviews with several Saudi leaders, security officials, and intellectuals—President Obama and his successor should commit to the following actions:

 Recognize the opportunities provided by the new Saudi leadership's economic reform program, Saudi Vision 2030. Following the accession of King Salman to power in early 2015, Saudi leaders laid plans for economic and governance reforms that could fundamentally alter the country's social contract and move its economy away from dependence on oil revenues. In addition, these reforms could create opportunities for progressive change in Saudi society as the country's economy diversifies. The United States should encourage these reforms and look for ways to assist Saudi Arabia in their execution.

- Create incentives for a constructive Saudi foreign policy. Saudi Arabia's newly assertive foreign policy will likely persist for the foreseeable future. The Kingdom's leadership perceives threats from Iran, AQAP, and the Islamic State. 12 Although Saudi leaders say they want to reinforce and strengthen the region's state structures, they have little experience with such activities and their actions have yet to produce tangible gains toward those stated goals. The Obama administration and its successor should provide incentives to Saudi leaders to ensure that their foreign policy actions better serve their stated ends. At the top of that list are containing Iranian misbehavior and countering terrorist groups such as the Islamic State and AQAP.
- Be honest about core values but do not make cooperation on shared interests dependent on revolutionary changes in Saudi society. Any new foundation for U.S.-Saudi relations should acknowledge the profound differences between the two countries when it comes to basic values. Although these differences should not preclude cooperation on shared interests, American leaders will find it difficult to sustain cooperation with Saudi Arabia if they are not honest with the American people about the fundamental values and differences between American and Saudi societies. At the same time, Americans should acknowledge that if there are revolutionary changes in Saudi society, those changes are unlikely to be progressive. Instead, American leaders should seek practical opportunities to support gradual, meaningful, and progressive change in Saudi Arabia that also advances American values and interests.

The next president of the United States should start a new bilateral strategic dialogue with Saudi Arabia. The goal of this dialogue should be the establishment of joint goals on the countries' shared interests, including regional security and domestic Saudi economic and governance reforms. The high-level GCC economic reform dialogue planned for later this year should be just the first step in a long-term effort to expand the points of contact between the two societies in a broader strategic dialogue. This dialogue also should seek to expand people-to-people links, such as private sector business and academic exchanges. At the same time, both the United States and Saudi Arabia should honestly acknowledge their serious and deep differences when it comes to their values.

Saudi social contract changes amid economic and security pressures

The post-Abdullah transition

Currently, Saudi Arabia is in the early stages of a carefully managed generational change in leadership. After the death of nonagenarian King Abdullah bin Abdulaziz al-Saud in January 2015, octogenarian King Salman ascended to the throne. Once in power, Salman took steps to empower a new group of leaders—many coming from a much younger generation—which has begun to chart a course of economic and governance reforms that could alter the Saudi social contract substantially. At the same time, the Saudi government has taken a number of steps to crack down on critics of the ruling authorities in an apparent effort to reassert the legitimacy of the monarchy.

The opaque nature of politics in the Kingdom makes difficult any outside assessment of how power is settling under the new king, but the contours of the transition are clear: King Salman has focused on empowering a new generation of leaders centered around his son, Deputy Crown Prince Mohammed bin Salman Abdulaziz al-Saud. The defense minister and chair of the Council of Economic and Development Affairs—the government's main economic policymaking group—the deputy crown prince is seen as the driving force behind the proposed reform program. The current heir to the throne, Crown Prince Mohammed bin Nayef bin Abdulaziz al-Saud, remains focused on internal security and counterterrorism as the interior minister and chair of the Council of Political and Security Affairs.

While there have been rumors of intrigue regarding the succession, the transition of power appears to have moved smoothly thus far, with the Saudi royal family appearing to maintain the balance of tension that is necessary to satisfy the different factions within the ruling family and the key tribes and centers of power in the Kingdom. Power and policy planning have centralized, which creates a potential challenge as the new leadership moves forward with its proposed reform program.

Successful implementation of this program likely will require a more decentralized mode of governance that pushes authority down to a wider range of officials operating outside the palace in Riyadh. On the whole, however, Saudi Arabia has so far weathered the transition with minimal turbulence.

The reform program: Opportunities and challenges

The new Saudi leadership embarks on a program of economic reform at a time of considerable economic stress. Global oil prices have fallen sharply from a high of \$112 per barrel in June 2014 to just more than \$38 per barrel by late March 2016. Horeover, Saudi foreign currency reserves declined by \$115 billion last year, leaving Riyadh with \$608 billion at the start of 2016. Subsidies are a major source of government spending, with the International Monetary Fund estimating that Saudi Arabia spends some \$107 billion per year on energy subsidies alone. As one Saudi official put it, "We are hostages to the price of oil, and our past efforts to diversify the Saudi economy have only partially succeeded."

Saudi Arabia's economic reform plans are far more ambitious than and quite different from the \$130 billion stimulus package pushed by King Abdullah after the start of the Arab uprisings in 2011. That package focused on distributing state funds to respond to some immediate challenges. By contrast, the reforms currently being considered aim to reduce subsidies across the board, and the country's 2016 budget includes increases in the prices of fuel, electricity, and water, as well as a 5 percent value-added tax. The goal of this budget is to cut the government's budget deficit over the next five years. In addition, the Saudi leadership hopes to privatize large sectors of the economy—including partial privatization of Saudi Aramco, the national petroleum and natural gas company and the source of 90 percent of the Kingdom's revenue. Finally, the Saudi government plans to use the proceeds from the partial privatization of Saudi Aramco to start a new sovereign wealth fund that potentially could be worth \$2 trillion. As one Saudi official put it, "The old way of doing business is over."

If fully implemented, these reforms would alter the basic terms of the Saudi social contract and could lead to wider progressive social change in the Kingdom. "What is missing from the current Saudi economy," one Saudi official said, "is the idea of what Saudis can do for their country and their economy." The partial privatization of Saudi Aramco, for instance, would require an unprecedented level of trans-

parency for the Kingdom and more predictable business laws and regulations.²⁴ A more open and competitive Saudi economy could make it difficult to sustain gender-based restrictions that currently prevent Saudi women from seeking work and maintaining employment.²⁵

Although it is far from guaranteed that economic reform will lead to political and social change, support for the new Saudi leadership's economic reform program should be a top priority for the next administration—especially in the context of a new bilateral strategic dialogue with Riyadh. American policymakers should encourage their Saudi counterparts to couple their economic reforms with progressive political and social change by reminding them that social progress in Saudi Arabia will make the Kingdom more attractive to American businesses and more conducive to sustainable economic growth.

A closed political system without basic freedoms

While the new Saudi leadership moves forward with dramatic economic reforms, it has given no indication that it intends to reform the Saudi political system or acknowledge the basic rights and freedoms of its people. As the U.S. Department of State put it in its most recent "Country Reports on Human Rights Practices" for Saudi Arabia:

The most important human rights problems reported [in Saudi Arabia] included citizens' lack of the ability and legal means to choose their government; restrictions on universal rights, such as freedom of expression, including on the internet, and the freedoms of assembly, association, movement, and religion; and pervasive gender discrimination and lack of equal rights that affected all aspects of women's lives.²⁶

With this record, Saudi Arabia consistently finds itself at the bottom of international rankings of democracy, political freedom, and human rights. ²⁷ Indeed, some of the world's harshest restrictions on freedom of expression and open public debate remain in place in Saudi Arabia—with blasphemy and apostasy punishable by death. ²⁸ Simple advocacy of progressive values can land a Saudi citizen a decade-long prison sentence. ²⁹ The religious morality police continue to monitor public behavior—though the Saudi government has taken recent steps to restrict the morality police's authorities. ³⁰

Given this reality, Saudi critics of the ruling authority are unable to organize a coherent political alternative to the ruling monarchy. Without freedom of expression and open public debate, it is difficult to make arguments and garner support for one's views—and it is next to impossible when the punishment for doing so is as extreme as it is in Saudi Arabia. Saudis are unable to organize or express themselves in this closed and tightly controlled system and have, by and large, exhibited a low level of interest in politics.

Still, American officials at all levels should continue to urge the Saudi government to show greater respect for human rights and freedoms—particularly in specific cases, such as that of Raif Badawi, where the core American value of freedom of expression is at stake.³¹ In cases such as this, the United States can and should bring frank, persistent, and quiet diplomatic pressure to bear on Saudi officials at the highest levels. American policymakers should remind their Saudi counterparts that favorable resolution of such cases will make it easier to pursue shared interests.

Threats to internal stability

Those shared interests include countering the two main threats to Saudi Arabia's internal security: Al Qaeda in the Arabian Peninsula and the Islamic State. Both groups pose direct threats to Saudi Arabia and the United States, as well as to America's allies in Europe and partners elsewhere in the Middle East. Both AQAP and the Islamic State have proven willing and able to murder innocent people in the United States, Saudi Arabia, and around the world.

In particular, the threat posed to the Kingdom by the Islamic State has grown over the past two years. Since November 2014, the group has declared three provinces inside Saudi Arabia and launched at least a dozen attacks in the country.³² Saudi security officials acknowledge that they face tremendous challenges in detecting and preventing attacks from Islamic State sympathizers within the Kingdom, despite arresting more than 1,000 suspects. Since the Islamic State disputes the monarchy's religious legitimacy, some Saudi officials believe that it seeks to seize control of the Islamic holy city of Mecca.³³

While Saudi counterterrorism cooperation remains imperfect, it has improved markedly since 9/11 and is vital in fighting terrorist groups such as AQAP and the Islamic State.³⁴ This cooperation has gone largely unnoticed and unacknowledged in the United States—in part due to a lack of clarity over Saudi Arabia's role in

the 9/11 attacks and in part due to Saudi Arabia's role promoting ultraconservative interpretations of Islam around the world. More transparency and honesty is clearly needed on both facets of the relationship. But in the final analysis, both American and Saudi security would suffer if counterterrorism cooperation came to an abrupt halt.

Saudi Arabia's increasingly assertive foreign policy

In the decade before the 2011 Arab uprisings, Saudi Arabia fell short on many of its leading foreign policy goals. For example, Riyadh failed to halt the spread of Iranian influence across the Middle East in the wake of the 2003 Iraq war. In addition, Saudi Arabia's attempt to move Arab-Israeli peace forward—with the 2002 Arab Peace Initiative, for example—failed to gain traction.³⁵

In the wake of the events of 2011, Saudi Arabia's regional strategy has taken a more assertive—and unpredictable—turn. First and foremost, Saudi leaders remain concerned about Iran. "The Iranian fingerprint is on every single cookie jar," one senior Saudi security official said. "The Iranians export problems and promote sectarianism and extremism."

The Islamic State, Al Qaeda in the Arabian Peninsula, and other Islamist terrorist groups that threaten the integrity of the Middle East's state system are next on the list of Saudi Arabia's worries. Top Saudi officials consistently state that their goal is to reinforce this system.³⁷ As one leading Saudi official put it, "Our goal is to stabilize unstable countries." ³⁸

However, it is difficult to identify one consistent, overarching approach governing Saudi Arabia's post-2011 regional policy. Riyadh has instead tailored its actions and responses to the specific situations it faces in particular countries around the region. On one hand, Saudi Arabia supported movements and armed groups intent on overthrowing rulers in Yemen and Syria. On the other hand, Riyadh criticized the overthrow of former President Hosni Mubarak in Egypt in 2011 and then backed President Abdel Fattah el-Sisi's seizure of power in 2013.³⁹ More recently, Riyadh launched a military campaign to restore the government of President Abd-Rabbu Mansour Hadi in Yemen while withdrawing billions of dollars in security assistance to Lebanon's military.⁴⁰

Given this apparent lack of a coherent strategy, it remains unclear whether Saudi Arabia's more activist regional policy will achieve Riyadh's stated objective of a stable regional state system. Countries such as Yemen—where Saudi Arabia has engaged in direct military action—remain unstable, while others such as

Egypt—where it has given considerable financial help—still face considerable domestic challenges. Even in the face of inconclusive activism abroad and economic challenges at home, however, Riyadh does not appear willing to retreat from its more assertive regional posture in the years to come.

As with counterterrorism, American and Saudi interests converge when it comes to countering malign Iranian influence and preventing terrorist groups—such as the Islamic State—from undermining the integrity of the Middle East's state system. U.S. and Saudi leaders should candidly and regularly discuss whether the policies they are pursuing are achieving their stated aims. In the security area, the United States has an advantage over all other global powers which with Saudi Arabia engages, including China, Russia, and leading European countries. The United States should use its existing security and intelligence cooperation relationships with Saudi Arabia to formulate a more proactive and comprehensive approach to regional security and state stability that does not rely so heavily on military action and internal coercion.

Laying a new foundation for U.S.-Saudi relations in the 21st century

For all the talk about an American retreat from the Middle East—and Saudi officials' hints about building strategic ties with countries such as Russia and China—Saudi leaders recognize that there are no alternatives to partnership with the United States. Despite recent tensions, the military, counterterrorism, and intelligence relationships between the United States and Saudi Arabia—as well as between the United States and other countries across the Middle East—remain deep and strong. As one leading Saudi figure said, "China cannot help us when it comes to security crises."

But neither the George W. Bush administration nor the Obama administration has engaged effectively with Saudi Arabia in order to shape Riyadh's domestic reform agenda or its regional engagement abroad. A range of Saudi leaders have raised questions about America's leadership role in the region—and expressed a desire for the United States to offer a clearer regional strategy. As one Saudi leader noted, "The United States is the leader of the world, and the new global order remains linked to the United States. ... Anything that harms global order represents a threat to everyone in the world. That's why we are upset that there hasn't been U.S. leadership."

In fact, many of these calls for greater U.S. "leadership" represent policy disagreements with the Obama administration—such as the Iran nuclear agreement or a perceived lack of support for Saudi Arabia's military campaign in Yemen. Nonetheless, some of these calls for greater U.S. engagement indicate a perceived lack of clarity about U.S. goals in and its commitment to the region.

The strategic relationship between the United States and Saudi Arabia cannot rest on the shaky and outdated foundation that currently exists. A new foundation should be laid, but it also should be one that reflects the common interests of the present rather than those of the past. Additionally, this new foundation cannot disregard the fundamental differences in values between the two countries. However, it should recognize that honest and strong disagreement does not and should not prevent collaboration on common interests.

Indeed, even with all the turbulence buffeting the Middle East, the time is right for this new foundation to be built. Saudi Arabia has just experienced a leadership transition, and its new leaders appear set on charting a new course when it comes to Saudi Arabia's economy. At the same time, Saudi Arabia is pursuing a more assertive foreign policy in the region. Taken together, these events provide both Washington and Riyadh a promising opportunity to set a new foundation for bilateral ties—one that may not come again. The Obama administration can begin to establish the groundwork, but it will be up to the next administration to finish the job.

Recommendations for U.S.-Saudi relations

The United States and Saudi Arabia can take a number of practical steps to create a new foundation for their strategic relationship:

 Setting a long-term economic cooperation strategy. With the new Saudi leadership's emphasis on reform, economic policy offers the best opportunity for constructive cooperation between the United States and Saudi Arabia. The next generation of Saudi leaders appear to recognize that their country's dependence on oil revenue cannot last forever, as do many of their counterparts in the Gulf. At the same time, the United States has emerged from the 2008 financial crash as the world's leading economic power. Economic changes, then, potentially could create space for progressive reform in Saudi Arabia—albeit gradually over time. While acknowledging the limits of American influence in Saudi Arabia's domestic affairs, American policymakers should remain ready to take advantage of any opportunities that economic reform creates in order to encourage progressive political and social change in Saudi Arabia. The high-level GCC economic reform dialogue planned for later this year on this issue is a good first step. Economic cooperation should be at the top of the agenda for a new bilateral strategic dialogue between the United States and Saudi Arabia, and the United States should be prepared to offer whatever assistance it can to ensure that economic reform proceeds smoothly.

In particular, U.S. assistance to Saudi Arabia should focus on increasing Saudi women's participation in their country's economy. According to the World Economic Forum's 2015 "Global Gender Gap" report, Saudi women face some of the largest obstacles to economic participation and opportunity in the world. American officials should continuously remind their Saudi counterparts that their economic reforms will be more sustainable—and their country more attractive to American investment—if Saudi Arabia is on a clear path to social and political progress. While American policymakers should remain cautious about just how far economic opportunity can drive social change in Saudi Arabia, the Saudi government's reform program offers a rare chance to use limited American influence and help increase economic opportunities for Saudi women.

• Overhauling security cooperation to meet contemporary security challenges and strategic objectives. The United States and Saudi Arabia already have a robust foundation for military and intelligence cooperation—particularly on counterterrorism. However, this cooperation has remained focused primarily on immediate threats rather than working to achieve long-term, proactive strategic aims. Security cooperation continues to focus on the sale of sophisticated weapons systems from the United States to Saudi Arabia: More than \$20.8 billion in arms sales have been announced since 2014 alone. He but conventional arms transfers will not alleviate Saudi Arabia's concerns about Iranian subversion, nor will they address the United States' and Saudi Arabia's mutual concerns about the strength of the Middle East's state system. Going forward, security cooperation cannot remain founded on some combination of arms sales and counterterrorism cooperation against selected groups.

In the immediate term, the United States should stop viewing its material security assistance to Saudi Arabia—from expensive weapons systems to joint planning cells—solely or even primarily in terms of reassurance against Iran. Rather, this assistance should be seen as a way to begin a bilateral conversation about how the United States and Saudi Arabia can work together to achieve their commonly declared goals. Although Saudi officials say they want to shore up a fragile regional state system, the conduct of their military campaign in Yemen raises concerns. The United States should use its unrivaled position as Saudi Arabia's security partner of choice as leverage to ensure that Riyadh's campaign in Yemen both complies with relevant international standards and does not produce the very instability that Saudi officials say they want to avoid. Congressional efforts to increase oversight of arms sales to Saudi Arabia could prove useful in these conversations, and administration officials should take advantage of the leverage they provide. The same of the same o

Over the long term, the United States should use this leverage to press Saudi Arabia to define what it means by "stabilizing unstable countries" with a greater degree of clarity. ⁴⁷ From the war in Yemen to the withdrawal of billions of dollars in security assistance to the Lebanese military, recent behavior suggests that Saudi officials may be less concerned with state stability than with the perceived advance of Iranian influence. Once Riyadh's priorities become clear, the United States and Saudi Arabia can engage in a meaningful dialogue about how best to achieve stated common goals of shoring up crumbling regional states and containing Iran. For the United States, however, the ultimate objective remains the creation of a self-sustaining and cooperative regional security system—something that is only achievable with Saudi Arabia's buy-in.

• Acknowledging honestly that U.S.-Saudi relations are based on shared interests, not shared values. The United States and Saudi Arabia can lay a new foundation for their long-standing strategic relationship due to a strong present-day convergence of interests. But leaders and policymakers in neither country should mistake these shared interests for shared values or worldviews—which have grown further and further apart. Indeed, U.S. elected officials and policymakers should recognize that they will not be able to sustain a close relation-ship with Saudi Arabia unless they are honest with the American people about the profound differences in values between the two countries. While the next administration should take care not to blindside the Saudi government, it can and should establish clear expectations that the United States will publicly voice candid but civil criticisms of Riyadh's poor human rights record and promotion of ultraconservative values around the world.

On a practical level, the United States should make a priority of favorably resolving cases involving particularly important values such as freedom of expression. The United States should be able to operate on two tracks: principled, public opposition to Saudi Arabia's general human rights record and promotion of ultraconservative values, and quiet, persistent diplomacy to achieve favorable results in specific cases relating to core values.

Conclusion

Saudi Arabia was the first country in the Middle East that Barack Obama visited as president, and it may be the last country in the region he visits before leaving office. His first visit took place amid hope for progress on Arab-Israeli peace and change in the region—a sharp contrast with the bloodshed and uncertainty facing the region today. In his final months in office, President Obama has the opportunity to begin laying a new foundation for America's ongoing relationship with Saudi Arabia and the broader Gulf region.

It is imperative that relationship building between both countries continues with the next U.S. administration. As Saudi Arabia begins important economic reforms domestically, it remains assertive and active across the Middle East. While the United States and Saudi Arabia have deep and far-reaching differences when it comes to values, the United States retains a strong interest in a constructive Saudi role in the region and supporting economic reforms that offer hope for progressive political and social change. The new foundation of U.S.-Saudi relations should acknowledge these differences honestly but recognize, ultimately, that both countries have common interests across the Middle East and must work together to secure them.

About the authors

Brian Katulis is a Senior Fellow at American Progress, where his work focuses on U.S. national security strategy and counterterrorism policy. For more than a decade, he has advised senior U.S. policymakers on foreign policy and has provided expert testimony several times to key congressional committees, including the U.S. Senate Committee on Foreign Relations and the U.S. Senate Armed Services Committee.

Katulis has conducted extensive research on the ground in the Middle East, where he has lived and worked in a number of countries, including Egypt, the Palestinian territories, Israel, and Jordan. His past experience includes work at the National Security Council and the U.S. Departments of State and Defense during President Bill Clinton's administration. He also worked for Greenberg Quinlan Rosner Research, the National Democratic Institute for International Affairs, Freedom House, and former Pennsylvania Gov. Robert Casey (D).

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