

6-16-2022

Quietly Encouraging Saudi Arabia's Transient Economy

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Recommended Citation

Hardman, Austin H. (2022) "Quietly Encouraging Saudi Arabia's Transient Economy," *Pepperdine Policy Review*. Vol. 14, Article 6.

Available at: <https://digitalcommons.pepperdine.edu/ppr/vol14/iss1/6>

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EXECUTIVE SUMMARY

Saudi Arabia is attempting to transition its economy from a rentier economy to a diverse private industry. The Saudi Arabian labor market has long depended on oil to fund high-paying government positions for many citizens. Despite the war in Ukraine reinvigorating demand for Saudi oil, prior projections suggesting that oil is no longer a dependable source of revenue remain relevant. The emergence of a strong and self-sustaining private sector is needed to ensure the stability of Saudi Arabia and the surrounding region. *Vision 2030* is Prince Mohammad Bin Salman's master plan for developing a sustainable Saudi private industry. A variety of factors complicate and delay this transition, many of which have religious underpinnings that are not easily malleable. Saudi Arabia has recently established a rule of law that mitigates Islam's influence on financial institutions. This is, of course, not without expressions of skepticism from religious voices throughout Islam.

The U.S. should desire to be involved in the success of *Vision 2030*. There is an opportunity for the U.S. to capitalize on economic ventures, achieve geopolitical interests, and address humanitarian concerns. The United States' long-standing trade relationship with Saudi Arabia in the military and defense industry directly benefits middle-class America.¹ What other industries in a developed Saudi private economy could benefit Americans? Saudi Arabia influences the entire region and would be further equipped to ensure a more stable Middle East with a thriving private industry. The United States' shrinking military presence in the region requires other tools to be used. If the United States secures its stake in the Saudi market, it also secures influence and partnership in the entire region—leverage that would otherwise go to China or other adversaries. Whatever country is most invested in the emerging economy will have the most leverage and influence in the region. There is also an opportunity for accountability. Tethering U.S. private businesses to Saudi industry can also elevate Saudi Arabia's human rights standards to align with U.S. values. The best policy is one that grows the Saudi private industry and grasps the most significant portion of the Saudi private sector.

Optically, the status quo appears to be the best option. The factors which determine the success of *Vision 2030* do not exist in a vacuum. The status quo does not further upset the religious authority in Saudi Arabia. Explicitly endorsing and coercing the drastic legal revisions spurred on by *Vision 2030* is needless and could provide ammunition for the religious critiques of the overhaul. Saudi Arabia must find a unique way to transition while avoiding the "Westernization" of the country. U.S. policy should also aim to prevent any escalation that could lead to violence or

¹ Salman Ahmed, Wendy Cutler, Rozlyn Engel, David Gordon, Jennifer Harris, Douglas Lute, Daniel M. Price, Christopher Smart, Jake Sullivan, Ashley J. Tellis, Thomas Wyler, "Making U.S. Foreign Policy Work Better for the Middle Class." Carnegie Endowment for International Peace, September 23, 2020. <https://carnegieendowment.org/2020/09/23/making-u.s.-foreign-policy-work-better-for-middle-class-pub-82728>.

the spread of extremist ideology. Authentic Islamic approval, not the Senior Council of Scholars changing their rulings to keep up with political pressures, is needed for the transition to be solid and stable.

Saudi Arabia has proven how determined they are to foster an environment conducive to a thriving private industry. The Saudi government does not need any outside incentives to continue to make the necessary institutional reforms to stimulate private investment. Public pressure is unnecessary. Identifying what other improvements could be made to encourage private investment in Saudi Arabia would be beneficial if done in a manner that is not noticeable to the public eye. It should appear as though all reformation is the original idea of Saudi Arabia, not the United States or other Western powers. U.S. diplomats must be careful not to overstep this fine line.

BACKGROUND

Saudi Arabia the Petrostate

Saudi Arabia's state-owned oil accounts for roughly 87% of budget revenue, 42% of GDP, and 90% of export earnings.² The oil prices that enabled such economic success will not last forever and have already begun dissipating. The IMF reported that oil revenues in the region dropped from over \$1 trillion in 2012 to \$575 billion in 2019.³ The expansion of the private sector could not come any sooner for Saudi Arabia. Riyadh is facing a budget deficit. To counter this, Riyadh raised taxes, much to the public's disliking.⁴ Oil prices can no longer be a reliable source of income for the Saudi government. *The Economist* writes, "In an attempt to balance the books, Saudi Arabia has suspended a cost-of-living allowance for state workers, raised petrol prices, and tripled its sales tax. Even so, the budget deficit could exceed \$110bn this year (16% of GDP)."⁵ The monarchy can no longer depend on its oil reserves to "buy loyalty with do-nothing public-sector jobs and free services" as it has in the past.⁶ Private revenue is desperately needed but not readily available.

The structure of the Saudi labor market is a hinderance. Dr. Hanaa Almoaibed, Research Fellow at the King Faisal Center for Research and Islamic Studies,

² "Saudi Arabia." Best Countries for Business 2018. Forbes Magazine, 2018, <https://www.forbes.com/places/saudi-arabia/?sh=277fd0bd4e5c>.

³ "The End of the Arab World's Oil Age Is Nigh," *The Economist* Newspaper, July 18, 2020, <https://www.economist.com/middle-east-and-africa/2020/07/18/the-end-of-the-arab-worlds-oil-age-is-nigh>.

⁴ Ibid.

⁵ Ibid.

⁶ "With Oil Cheap, Arab States Cannot Balance Their Books," *The Economist* Newspaper, July 18, 2020, <https://www.economist.com/leaders/2020/07/18/with-oil-cheap-arab-states-cannot-balance-their-books>.

estimates that 66% of the Saudi workforce is employed directly by the government.⁷ The average public sector wage is 58% higher than the average private-sector wage.⁸ At one point, there were 800,000 Saudis awaiting government jobs.⁹ Oil dependency allowed for an abundance of secure and well-paying government jobs for Saudis. This is no longer the case. The oil-enabled enormity of the government sector has burdened the private sector. The large public sector provided comfort and wealth for two-thirds of the working population. The oil revenue is no longer flowing in to accommodate the bloated government. The much-needed growth of the private sector is now inhibited. The government has traditionally been the source of well-paying, desirable employment opportunities, while the Saudi private market has been small and predominantly made up of foreigners. The lack of diversification in the private labor market is the negative externality of a historically booming oil industry.

The common political characteristics among rentier states provide insight into the political context of Saudi Arabia.¹⁰ The ruler of the rentier state controls the production and sales of natural resources.¹¹ The ruler maintains political power by employing citizens and distributing revenue from sales to the general population.¹² The population then uses this income as a significant source of their consumption power. Circumstance has tasked the Saudi Arabian government with finding a way to maintain political power without the monetary power from oil the regime has historically depended upon. Petrostates, like Saudi Arabia, are susceptible to what economists call Dutch Disease: “a dynamic in which a government develops an unhealthy dependence on natural resource exports, and other important industrial sectors are deprived of investment.”¹³ Characteristics of petrostates ridden with Dutch Disease include:

- a) “government income is deeply reliant on the export of oil and natural gas,

⁷ Jon Alterman and Dr. Hanaa Almoaibed, “Saudi Arabia and the Labor Market,” Center for Strategic and International Studies, February 9, 2021, <https://www.csis.org/analysis/saudi-arabia-and-labor-market>.

⁸ “The Labor Market in Saudi Arabia: Background, Areas of Progress, and Insights for the Future,” Harvard Kennedy John F. Kennedy School of Government, accessed October 8, 2021, https://epod.cid.harvard.edu/sites/default/files/2019-08/EPD_Report_Digital.pdf.

⁹ “Over 800,000 Saudis waiting for govt jobs,” Arab News, July 3, 2010.

¹⁰ Abdullah Kaya, Evren Tok, Muammer Koc, Toufic Mezher, and I-Tsung Tsai, “Economic Diversification Potential in the Rentier States towards a Sustainable Development: A Theoretical Model,” *Sustainability*, Vol. 2, no. 3 (February 11, 2019): 911, <https://doi.org/10.3390/SU11030911>.

¹¹ *Ibid.*

¹² *Ibid.*

¹³ Amelia Cheatham and Rocio Cara Labrador, “Venezuela: The Rise and Fall of a Petrostate,” *Council on Foreign Relations*, 2021.

- b) economic and political power are highly concentrated in an elite minority, and
- c) political institutions are weak and unaccountable, and corruption is widespread.”¹⁴

Saudi Arabia is a prime example of a petrostate with Dutch Disease. GDP, exports, government revenue, and the employment of a large majority of Saudi citizens all heavily depend on oil. Categorizing Saudi Arabia as a petrostate with Dutch Disease is important when considering the threats looming if the transition of the Saudi economy is not achieved. For example, Venezuela, a fellow member of OPEC, is a prime example of a failed petrostate. Venezuela’s oil dependence led to a spiraling economy, hyperinflation, a growing autocracy, and a giant humanitarian crisis.¹⁵ Economic development expert Jeffrey Sachs advises countries like Saudi Arabia “to finance outlays on public goods that serve as the platform for private investment and long-term growth” to avoid the same fate as Venezuela.¹⁶ Saudi Arabia has broadly taken heed of this advice in its self-interest, but there are still areas of friction.

Regulatory Environment

Neglect of the private sector is evident in the prior absence of laws that would encourage economic development. Hassam Fallatah argues that a proper legal environment is crucial for entrepreneurship and economic development in Saudi Arabia.¹⁷ He writes, “Legal environment is a key factor in business success and in attracting foreign investment.”¹⁸ The government of Saudi Arabia failed to provide such an environment. There was no single location for accessing the laws on starting a business. Instead, there were multiple codes of law, and it was impossible to decipher precisely which rule of law would be applied in a particular scenario.¹⁹ This ecosystem lacked the stability and predictability that comes from a single rule of law equally applied to all.

The World Bank measures eleven factors that influence an economy’s capability for conducting business. The World Bank scores each category from 0-

¹⁴ Cheatham and Labrador, “Venezuela: The Rise and Fall of a Petrostate.”

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Hussam I. Fallatah, “Addressing the Need for a Proper Legal Environment to Support Entrepreneurship in Saudi Arabia,” *Journal of Politics and Law*, no. 1 (March 2020): 40-52.

¹⁸ Rahatullah Khan, “Mapping the Entrepreneurship Ecosystem of Saudi Arabia” *World Journal of Entrepreneurship Management and Sustainable Development*, no. 9 (2013): 28-54. <https://doi.org/10.1108/20425961311315700>. Quoted in Hussam I. Fallatah, “Addressing the Need for a Proper Legal Environment to Support Entrepreneurship in Saudi Arabia,” 41.

¹⁹ Fallatah, “Addressing the Need for a Proper Legal Environment to Support Entrepreneurship in Saudi Arabia,” 41-42.

100 and ranks the country's competency in that category compared to the other 190 different economies that data is collected for. Until recently, Saudi Arabia's score for resolving insolvency was a 0 out of 100.²⁰ Insolvency laws in the United States and the United Kingdom "help to balance the effects of business failure, and encourage the entry of new entrepreneurs into the economy."²¹ There was previously no practice of resolving insolvencies in Saudi Arabia. Borrowing money to open a business is a daunting task in a highly functioning economic environment. Adding the uncertainty of what may happen if the company fails would surely discourage one's entrance into the private sector.

The Saudi government seems to have heard the laments of the private industry and answered with a swath of policy initiatives. The regulatory environment has improved drastically since the rollout of *Vision 2030*. Bankruptcy law went into effect in August 2018.²² Competition law was improved and went into effect in September 2019.²³ The government approved a public procurement law "which establishes a more centralized process that should increase efficiency and fairness in the awarding of government contracts and boost the participation."²⁴ Altering such laws to streamline actions needed for business was a momentous change to the system. Multiple firms that measure investment climates agree:

The country jumped 13 places on the IMD World Competitiveness Yearbook 2019, the biggest gain of any country surveyed, and increased two more spots in 2020 to 24th place, supported by improvements to government and business efficiency. The World Bank ranked Saudi Arabia the world's top reformer and improver in its Doing Business 2020 report. The Kingdom rose 30 places, from 92nd to 62nd, and improved

²⁰ "Saudi Arabia - Doing Business." The World Bank, 2020, <https://www.doingbusiness.org/content/dam/doingBusiness/country/s/saudi-arabia/SAU-LITE.pdf>.

²¹ Department of Enterprise, "Insolvency Service Annual Report 2001", T. A. I., 2013, Quoted in Fallatah "Addressing the Need for a Proper Legal Environment to Support Entrepreneurship in Saudi Arabia," 43.

²² Jeremy Lawrence, "Saudi Arabia's Bankruptcy Law Comes into Effect," Arabian Business, August 19, 2018, <https://www.arabianbusiness.com/latest-news/402961-saudi-arabias-bankruptcy-law-comes-into-effect>. Quoted in Stephen Grand and Katherine Wolff, "Assessing Saudi Vision 2030," Atlantic Council, June 17, 2020, 27.

²³ Alain Sfeir and Shahd Makhafah, "Saudi Arabia issues a New Competition Law," Clyde & Co, April 2, 2019, <https://www.clydeco.com/insight/article/saudi-arabia-issues-a-new-competition-law>. Quoted in Grand and Wolff, "Assessing Saudi Vision 2030," 27.

²⁴ "Saudi Arabia Approves New Tendering and Procurement Law," Reuters, July 16, 2019, <https://www.reuters.com/article/saudi-arabia-procurement-lawmaking/saudi-arabia-approves-new-tendering-and-procurement-law-idUSL8N24H5ZN>; Muhammad Anum Saleem, "Understanding Saudi's New Tenders and Procurement Law: What Are the Main Changes?," Gulf Business, July 20, 2019, <https://gulfbusiness.com/understanding-saudis-new-tenders-procurement-law-main-changes/>. Quoted in Grand and Wolff, "Assessing Saudi Vision 2030," 27.

in 9 out of 10 areas measured in the report. World Economic Forum's 2020 Global Competitiveness Report Special Edition ranked Saudi Arabia among the top 10 countries in the world for digital skills.²⁵

Furthermore, two government authorities were elevated to ministries in 2020 with the establishment of the Ministry of Investment and the Ministry of Tourism.²⁶ The *Shareek* Program, announced in March of 2021, aims to generate \$3.2 trillion of domestic investment from the sovereign wealth investment fund and the private sector. Despite the efforts made towards protecting intellectual property rights (IPR) by establishing the Saudi Authority for Intellectual Property, the U.S. State Department notes that "the continued lack of effective protection of IPR in the pharmaceutical sector remains a significant concern."²⁷ There is still room for improvement, but the country is being recognized for its huge leaps towards making the private industry more attractive.

The U.S. Department of State's Executive Summary of the 2021 Investment Climate of Saudi Arabia diagnoses investors' hesitancy to be rooted in concerns over the rule of law, business predictability, and political risk.²⁸ Saudi Arabia will not see as much private investment as possible due to the problem of uncertainty. Saudi Arabia should seek to minimize risks to encourage private investment and bring businesses to Saudi Arabia. Granted, much of the unpredictability cannot be managed quickly as the sources of the uncertainty are somewhat complicated. For example, the U.S. government has proven ineffective at ending Saudi Arabia's war with the Houthi rebels in Yemen. In President Biden's first speech on foreign affairs since taking office, he promised to end the war in Yemen.²⁹ A paper by the *Brookings Institution* argues that the war in Yemen parallels the war in Afghanistan in that the Houthis also have legitimate reasons to continue fighting a foreign force even if they lack domestic support.³⁰ The paper states, "Although the Americans and the Saudis possess superior military equipment and vastly greater resources, eventually they will leave; in contrast, the Taliban and the Houthis are in their home

²⁵ "2021 Investment Climate Statements: Saudi Arabia." U.S. Department of State. Accessed November 19, 2021. <https://www.state.gov/reports/2021-investment-climate-statements/saudi-arabia/>.

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

²⁹ Joseph R. Biden, "Remarks by President Biden on America's Place in the World," The White House, February 4, 2021, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2021/02/04/remarks-by-president-biden-on-americas-place-in-the-world/>.

³⁰ Annelle R. Sheline, and Bruce Riedel. "Biden's Broken Promise on Yemen," Brookings, September 16, 2021. <https://www.brookings.edu/blog/order-from-chaos/2021/09/16/bidens-broken-promise-on-yemen/>.

country and have no option but to continue fighting.”³¹ The domestic turbulence this conflict causes in Saudi Arabia, like the recent drone attack on an oil site, seems to be largely outside of the influence of the U.S. and appears to be a non-negotiable topic for Saudi Arabia.

A more manageable government failure causing uncertainty for investors is the lack of transparency and consistency found in regulatory agencies. The Ministry of Investment of Saudi Arabia (MISA) is tasked with governing and regulating foreign investment in the country. The U.S. State Department noted the following flaw with the regulatory agency:

An important MISA objective is to ensure that investors do not just acquire and hold licenses without investing, and MISA sometimes cancels licenses of foreign investors that it deems do not contribute sufficiently to the local economy. MISA’s periodic license reviews, with the possibility of cancellation, add uncertainty for investors and can provide a disincentive to longer-term investment commitments.³²

The United States has a similar agency under the Department of the Treasury called the Committee on Foreign Investment in the United States (CFIUS). The agency has the role of ensuring that no transactions are related to national security threats. However, the distinction between CFIUS and MISA is that CFIUS is consistent and speedy in their rulings. A frustration of foreign investors in Saudi Arabia is that it is difficult to predict if, and when, MISA may rule that their investment license will be terminated.

Islam and the Saudi Government

Vision 2030 simultaneously aims to unleash the Saudi private economy while shedding the country’s Wahhabi ideology.³³ The country’s religious doctrine is no longer abiding by any specific school of thought or exclusively to the teachings of Muhammad ibn Abd al-Wahhab.³⁴ Prince Mohammad Bin Salman has

³¹ Sheline and Riedel. “Biden’s Broken Promise on Yemen.”

³² “2021 Investment Climate Statements: Saudi Arabia.”

³³ Jonathan Schanzer, “Diplomatic Arson in the Middle East.” *Commentary Magazine*, May 20, 2021. <https://www.commentary.org/articles/jonathan-schanzer/biden-administration-torches-us-saudi-relations/>.

³⁴ “Full Transcript: Crown Prince Mohammed bin Salman Interview With Saudi Journalist Abdullah Al-Mudaifer,” *Arab News*, April 28, 2021, <https://www.arabnews.com/node/1850146/media>. Quoted in Yasmine Farouk, and Nathan J. Brown. “Saudi Arabia’s Religious Reforms Are Touching Nothing but Changing Everything - Islamic Institutions in Arab States: Mapping the Dynamics of Control, Co-Option, and Contention,” *Carnegie Endowment for International Peace*, June 7, 2021. <https://carnegieendowment.org/2021/06/07/saudi-arabia-s-religious-reforms-are-touching-nothing-but-changing-everything-pub-84650>.

ended all Saudi-sponsored Islamism and overhauled much of the economic inefficiencies the government was responsible for. Establishing new codes of law has been, perhaps, most instrumental.

It cannot be overemphasized how large of a feat it is for Saudi Arabia's legal system to begin drifting away from Islamic law. Timur Kuran proposes that the economic institutions resulting from Islam's Holy Law constrained the Middle East economically. In his book *The Long Divergence: How Islamic Law Held Back the Middle East*, Kuran argues, "The Middle East fell behind the West because it was late in adopting key institutions of the modern economy."³⁵ Kuran examines the technicalities of medieval Islamic financial institutions to show how they contributed to the region's loss of economic superiority. The entire region has deep roots in Islam which shaping financial systems. Breaking this mold would have been unthinkable 20 years ago.

Saudi Arabia has traditionally had an overlap between religious and state entities.³⁶ For example, the Carnegie Endowment for International Peace notes how more Islamic judicial authorities are in Saudi Arabia compared to other countries in the region:

The courts of general jurisdiction were staffed with judges trained primarily in Islamic sharia with no recourse to state law codes. (By contrast, while judges in Syria or Morocco might have taken a course on Islamic law in law school, the bulk of their training would have been in state-legislated law codes.) In the kingdom, public order was maintained not only by the regular police but also by the Committee for Promoting Virtue and Preventing Vice, generally termed the religious police in English.³⁷

Recently, Saudi Arabia has been moving authority away from religious authority through consolidation. The Saudi government has kept ultraconservative figures in power while forcing them to reverse previous rulings. Certain factions complain how the religious authorities bend to the will of the political authorities. This flip-flopping of opinion to please the political agenda damages credibility and could lead to unrest. The country's primary governmental religious establishment, The Ministry of Islamic Affairs, has experienced restructuring from the top-down. Clerics value their esteemed positions in government, so they abide closely to the political will of the monarchy. Judges seated in Saudi courts are primarily educated

³⁵ Timur Kuran, *The Long Divergence: How Islamic Law Held Back the Middle East*, (Princeton Univ. Press, 2011), 5.

³⁶ Farouk and Brown. "Saudi Arabia's Religious Reforms Are Touching Nothing but Changing Everything - Islamic Institutions in Arab States: Mapping the Dynamics of Control, Co-Option, and Contention."

³⁷ Ibid.

in Islam, but an increasing amount of legislation is found not in Islamic doctrine, but in state-centered legal texts. Furthermore, there has been an increased oversight of Royal authority over politically charged cases, especially those regarding women's rights. The religious authorities are critiqued as merely doing the bidding of the political authority. Religious scholars in Saudi Arabia wield a massive amount of cultural control with their tens of millions of Twitter followers.

There is concern over the cost of this restructuring in the long run. First, Saudi Arabia is risking the loss of soft power in the Islamic world.³⁸ Social conservative Muslims across the globe and in Saudi Arabia may challenge Prince Mohammad Bin Salman's motivation and authority for the drastic reformation taking place. Second, Prince Mohammad Bin Salman's economic and social liberalization are being accomplished through the authoritarian concentration of power. For example, Prince Mohammad Bin Salman convinced his father to strip the mutawa, religious police, of their ability to arrest.³⁹ The issuing of religious edicts, a standard tool used to criticize the social reforms taking place, has been taken over by the government.⁴⁰ All the changes that make Saudi Arabia an exciting prospect economically come with the concern that the government will continue down a path of silencing dissidents. Middle East Fellow of the Wilson Center, David Brown, concluded a paper by saying, "Saudis are well aware that the most serious challenges to the ruling House of Saud have historically come from Wahhabi zealots and activists such as those who seized control of the Grand Mosque in 1979 and led the Sahwa movement in the mid-1990s. Given this history, another Wahhabi rebellion against the icon-smashing crown prince can hardly be ruled out."⁴¹ The U.S. government should be hesitant to further any policy used as a catalyst for an uprising or revolt. The Congressional Research Service notes, "Laws criminalizing criticism of leaders and state policies remain in effect, as do national security laws targeting broadly defined involvement with terrorism and sedition."⁴² The internal tension in Saudi Arabia causes difficulty in creating a balanced approach to how the U.S. should interact with the nation.

Policy Goals

³⁸ Farouk and Brown, "Saudi Arabia's Religious Reforms Are Touching Nothing but Changing Everything." *Return to Islamic Institutions in Arab States: Mapping the Dynamics of Control, Co-option, and Contention.*

³⁹ Ottaway, David B. "Will Saudi Arabia's Social Revolution Provoke a Wahhabi Backlash." *Viewpoints*, no. 126 (May 2018).

https://www.wilsoncenter.org/sites/default/files/media/documents/publication/126_mep_viewpoint_david_ottaway.pdf.

⁴⁰ Ibid.

⁴¹ Ibid.

⁴² Christopher M. Blanchard, "Saudi Arabia: Background and U.S. Relations," Congressional Research Service, October 5, 2021. <https://sgp.fas.org/crs/mideast/RL33533.pdf>.

The primary goal is to make Saudi Arabia a more stable, predictable, and desirable economic environment. There are likely to be regional consequences of the success or failure of Saudi Arabia's economic transition. The last thing the Middle East needs is for Saudi Arabia to fall into the economic traps common for petrostates. Though what happened to Venezuela was tragic, it was not felt throughout Latin America to the same degree a failed Saudi Arabia would be. The primary focus in accomplishing this goal is to improve the investment climate for Saudi Arabia.

The United States must balance accountability for human rights while pursuing economic aims. After the CIA concluded that *Washington Post* columnist, Jamal Khashoggi, was killed at the direct order of Prince Mohammed bin Salman, Biden said during a Democratic debate, "We were going to in fact make them pay the price, and make them, in fact, the pariah that they are."⁴³ Holding Saudi Arabia accountable for egregious human rights violations is in the expressed interest of President Joe Biden. However, public condemnation should be minimized for relations to improve as evidenced by Prince Mohammed bin Salman declining a phone call from a disadvantaged President Biden attempting to contain oil prices.⁴⁴

Other goals concern minimizing tradeoffs that would undermine any economic accomplishments: Wahabi discontent, civil unrest, and the rise of authoritarianism. Much of the economic liberalization that has taken place is at the expense of the Royal Family's consolidation of power. Fostering the modernization of the Saudi economy will do no good if religious uprisings seek to delegitimize the changes in law or the crown prince. It would be advantageous for the United States, and the Middle East, if the Saudi economy transitioned successfully and minimized religious backlash to the transition mechanisms. Lastly, it is not preferred to allow the monarchy to consolidate so much power that it becomes an even greater oppressive force.

Recommendation

Executive and Congressional actions are feasible but should not be pursued. The government could leverage military support programs and enforce repercussions for violations through typical diplomatic channels but such action would needlessly damage the relationship. The desired results can be had without sweeping government action. The U.S. should rely on the discretion of its private

⁴³ Emily DeCiccio, "Biden Isn't Going to Make Saudis a 'Pariah' despite Khashoggi, Says Foreign Policy Expert," CNBC, February 26, 2021. <https://www.cnbc.com/2021/02/25/biden-isnt-going-to-make-saudis-a-pariah-despite-khashoggi-says-foreign-policy-expert.html>.

⁴⁴ Dion Nissenbaum, Stephen Kalin, and David S Cloud. "Saudi, Emirati Leaders Decline Calls with Biden during Ukraine Crisis." *The Wall Street Journal*, March 9, 2022. <https://www.wsj.com/articles/saudi-emirati-leaders-decline-calls-with-biden-during-ukraine-crisis-11646779430>.

sector in curtailing Saudi Arabia's abuse of powers. For example, CEOs and other leaders from JP Morgan Chase, HSBC, Blackstone, and Uber pulled out of an investment conference that was highly anticipated for the Saudi government.⁴⁵ American companies understand that they have American consumers they are beholden to.

Dennis Ross and Robert Satloff of the Washington Institute for Near East Policy aptly state, "The goal is to find the sweet spot that signals U.S. seriousness, including the willingness to impose costs on objectionable behavior, without taking steps that will be interpreted as an effort to humiliate the Saudi leadership."⁴⁶ Therefore, maintaining the status quo, or at least the appearance of the status quo, is the best course of action. The U.S. should not seek any fundamental changes to its relationship with Saudi Arabia. Increased oil prices caused by the Russian invasion of Ukraine will boost revenue for the kingdom only temporarily. The U.S. should withhold from making any rushed decisions. The transformations in Saudi law transpired without outside pressure and will continue to do so.

The diversification of the Saudi economy has and will continue to upset religious voices and cause internal tension. Since oil was discovered in Saudi Arabia in 1932, the religious authority in Saudi Arabia, the *ulema*, have been dependent on government funding for their existence; meanwhile, those in the ruling class are mutually dependent on religious approval for political legitimacy.⁴⁷ Saudi leadership must maintain religious approval while modernizing and liberalizing. U.S. meddling or public shaming would be counterproductive. If the US were to bring attention to the Saudi authoritarian tendencies, it would only serve to legitimize accusations that the US is trying to separate Islam and the Saudi economy.

The U.S. should quietly encourage Saudi Arabia to continue to liberate and reform economic law to make its regulatory agencies more predictable and transparent. Undetectable lobbying should be pursued. There should be no official action in order to avoid accusations of "westernizing" Saudi Arabia. Such accusations would expedite internal strife and could also damage the much-needed religious tourist industry. Private discussions among U.S. business leaders, diplomatic representatives, and other government officials would be better received. Authentic Islamic approval should not be overlooked. Allowing the Saudi

⁴⁵ "Reasons for Firms to Steer Clear of Saudi Arabia." The Economist Newspaper, October 18, 2018. <https://www.economist.com/business/2018/10/18/reasons-for-firms-to-steer-clear-of-saudi-arabia>.

⁴⁶ Dennis Ross and Robert Satloff. "Defining a Mature, Balanced Relationship with Saudi Arabia: An Urgent Task for the Biden Administration." Transition 2021. The Washington Institute for Near East Policy, February 22, 2021. <https://www.washingtoninstitute.org/policy-analysis/defining-mature-balanced-relationship-saudi-arabia-urgent-task-biden-administration>.

⁴⁷ Gwenn Okruhlik, "Rentier Wealth, Unruly Law, and the Rise of Opposition: The Political Economy of Oil States." *Comparative Politics*, no. 3, (1999): 299.

government's self-interest in U.S. private investment to manage their behavior is the best course of action.

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