

ASG Analysis: What President Biden's Visit to Saudi Arabia Means for the Private Sector

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Key takeaways

- U.S. and Saudi official sources express relief that President Biden's visit to Saudi Arabia last week achieved its main objective – to reset the personal relationship between the president and Saudi Crown Prince Mohammed bin Salman (MBS).
- While President Biden was widely criticized in the U.S. for changing his approach to MBS, the fact that they met is still a powerful signal to U.S. companies and institutions that it is now politically acceptable to do business with Saudi Arabia again.
- Following the visit, we expect the U.S. and Saudi governments to be more effective in unlocking opportunities for their private sectors. Initial cooperation on 5G/6G, clean energy, cybersecurity, and air defense is encouraging.
- But the U.S.-Saudi relationship is by no means out of the woods yet. The OPEC+ meeting on August 3 will be the first test of this reset, and U.S. expectations for increased Saudi production are high. Yemen, Iran, and Russia/Ukraine will offer similar challenges.
- U.S. and Saudi companies will need to continue to monitor the overall relationship closely. While we do not expect a return to the chilliness of 2021-2022, bilateral ties could easily be set back again, presenting renewed challenges for private firms in both countries.

President Biden travels to the Middle East

As has been widely covered in the media, President Biden traveled to Israel and Saudi Arabia last week to meet with leaders of both countries as well as with the Gulf Cooperation Council + 3 (Egypt, Jordan, and Iraq). The visit to Saudi Arabia was particularly controversial given the president's pledge during the 2020 campaign to treat Saudi Arabia as a "pariah" and the decision after his inauguration to release a CIA assessment implicating Saudi Crown Prince MBS in the assassination of Jamal Khashoggi. Notwithstanding the insistence from the White House that it was focused "more on the meetings than the greetings," the context of the visit made the optics of President Biden's initial encounter with MBS especially fraught.

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The "fist bump heard round the world," therefore, was as of much of a message as any official statement. While the Western media reaction to the visit was largely critical and focused on the

evolution in the president's position on MBS, the general Saudi reaction was not surprisingly positive, and was framed as an effective American acknowledgement of Saudi Arabia's importance and recognition of the crown prince's role. Both U.S. and Saudi official sources indicate satisfaction, if not relief, that the visit achieved its main objective – to reset the personal relationship between the president and the crown prince – which should unlock further cooperation on energy, security, and economic issues.

There were other important elements to the visit as well, of course. The opening of Saudi airspace to all airlines, including Israeli ones, was a step towards an eventual Saudi-Israel normalization. President Biden's meeting with Egyptian President Abdel Fattah el-Sisi, whom the White House had heretofore kept at somewhat of an arm's length, will help stabilize that relationship in the face of mounting economic problems in Egypt. And the president's invitation to UAE President Mohammed bin Zayed to visit the United States should help to repair a frayed U.S.-UAE relationship and potentially pave the way for the transfer of F-35/Joint Strike Fighters to the UAE. But the main event was clearly the Biden-MBS meeting and what it portends for the overall relationship.

Implications for companies and institutions

In the days since the president's team left the Kingdom, the implications of the visit for the broader relationship between the two countries are becoming clearer.

- **It is now politically acceptable to do business with Saudi Arabia again.** While many if not most Western firms either never stopped doing business in the Kingdom after the 2018 murder of Jamal Khashoggi or have long since resumed their operations, there was nevertheless still a political and reputational risk attached to high-profile Western investments in or cooperation with Saudi Arabia. While President Biden was widely criticized in the U.S. for traveling to Jeddah to meet with MBS, the fact that they met is still a powerful signal that the relationship has been blessed at the highest levels. Most private American firms and institutions will now understandably argue that they should not be held to a higher standard, especially given how much business is done in China and other countries with complicated human rights records.

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Firms and institutions will still need to factor public opinion into their plans, however. This is especially true for Saudi entities seeking to enter the U.S. market, where public attitudes towards the Kingdom remain largely negative. While the April 2022 U.S. roadshow for the NEOM gigaproject generally proceeded smoothly, most Western media coverage of the Saudi-funded LIV golf tournament has been critical (though so has coverage of its rival the PGA), as have reports about the Kingdom hiring lobbyists and investing in funds run by former Trump administration officials. Saudi entities seeking to enter the U.S. market therefore have a window of opportunity, but still need to proceed carefully, and think through their messaging and how they will respond to likely criticism.

- **Both governments can now be more effective on behalf of their private sectors.** Meetings between heads of state are often as much about conveying signals to their own bureaucracies as they are about messaging to the public, and this meeting is no exception. U.S. agencies now know that they have the political space to propose broader cooperation with their Saudi counterparts in areas ranging from climate to defense to technology, and we expect the cadence of senior-level U.S. visits to Riyadh to increase. Saudi officials, meanwhile, now know that they should add more public engagements to their schedules when visiting the U.S. While the general climate towards Saudi Arabia in the U.S. will likely remain critical, government-to-government engagement (especially at the highest levels) should offer some support to Saudi entities operating in the U.S. market.

This government-to-government engagement already yielded results this trip with the announcement of a new bilateral framework for cooperation on the deployment of 5G technology and the development of 6G technology. This approach, which focuses on cloud-based radio access networks where the U.S. has a competitive advantage, should help Western firms compete with Huawei and other providers. The same may apply to clean energy, cybersecurity, and air defense, in which areas the two countries also signaled greater cooperation. On defense sales in general, while Saudi Arabia is still not popular in Congress, if the two countries are able to enhance broader cooperation following the visit (especially on Yemen) it should be easier for the administration to win approval to transfer more advanced weapons systems to the Kingdom.

- **But the future of the U.S.-Saudi relationship may still be quite bumpy.** The test of this reset in relations will come quickly, as OPEC+ will meet next on August 3 to decide its new production policy that will start in September. While U.S. officials have been careful not to predict increases in Saudi oil production publicly, in private they express confidence that the Saudis will convince OPEC+ to raise production quotas significantly, and that the Kingdom itself will raise its own output to cover shortfalls from other OPEC+ producers. How this will be synchronized with the possibility of declining demand due to slowing growth or even a recession in China and the West remains to be seen, but if oil prices resume their significant upward trajectory and the Kingdom does not respond, the U.S.-Saudi relationship will come under serious renewed strain.

The same could be true on Yemen, Iran, or Russia/Ukraine, where the Biden administration already expects the Saudis to show more sensitivity to the U.S. position. This is especially true given that 2023 will signal the start of the U.S. presidential election campaign, when President Biden (or his successor, should he decide not to run) may come under pressure for abandoning a principled position on Saudi Arabia if the Kingdom is seen to have not followed through. While we do not expect a return to the chilliness of the 2021-2022 period, it is certainly possible that the Kingdom could become a target of renewed criticism from several quarters, and that the administration could scale back high-profile cooperation with Riyadh as a result.

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