

JUST STAY OUT: REJECTING THE SAUDI-ISRAELI “GRAND BARGAIN”

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KEY POINTS

1. The proposed “grand bargain” that would normalize relations between Saudi Arabia and Israel is a raw deal for the United States. It carries no new benefits for U.S. national security yet will come with very high costs.
2. The two biggest so-called benefits of this proposed agreement for the United States—preventing closer Saudi-Chinese security ties and building the Saudi-Israeli alliance against Iran—already occur without the deal and are thus hardly of value to the U.S.
3. On the other hand, this multifaceted proposal, which includes additional security guarantees, would increase moral hazard on the part of Saudi Arabia and Israel, meaning it could encourage them to engage in reckless behavior and take risks they otherwise wouldn’t because they’d believe the United States would defend them.
4. Putting U.S. troops on the line in Saudi Arabia and providing Riyadh with a nuclear enrichment facility would also threaten Iran in ways likely to intensify regional conflict and draw in the United States.
5. Washington should reject this proposed arrangement. It should loosen rather than tighten its relationships with Saudi Arabia and Israel.

The United States is pursuing a grand bargain that will ostensibly transform the Middle East. The deal is far from final and may never occur, but its key attributes have been widely reported: Saudi Arabia would recognize Israel and take steps to loosen ties with China. Israel would commit to a Palestinian state. The United States would enter NATO-like treaties to defend Saudi Arabia and perhaps Israel plus help develop a Saudi nuclear energy program with the landmark step of building a nuclear enrichment facility on Saudi soil.

U.S. officials claim these will be cheap commitments with big rewards for U.S. national security. Saudi-Israeli normalization will strengthen the anti-Iran alliance, allowing the United States to finally pivot away from the Middle East. Pledges to Saudi Arabia will stem China’s ability to challenge U.S. interests in the region.¹

It all sounds too good to be true, and that’s because it is. Advocates of the grand bargain have it all wrong. The deal will be no bargain at all for the United States, but will instead turn into a major drain on U.S. security. In essence, high costs and no gain.

Advocates make several faulty assumptions. First, they overestimate Chinese interests and power, Saudi capacity to leave the U.S.-led regional order, and the added security benefits of Saudi-Israeli normalization. In short, China won’t and can’t supplant the United States in the Middle East, the Saudis can’t leave the U.S.-led order, and Saudi-Israeli cooperation against Iran is already robust.

Add all that up and the so-called “new” benefits of the grand bargain are not new at all. They are things the United States gets now and will have for a long time to come. That means the grand bargain will bring no new gains to U.S. national security.

It will bring significantly greater costs, however. The grand bargain's backers miss this because, second, they severely underestimate how the components of the deal will tip the balance of power in the Middle East in ways that will fuel, not dampen, regional conflict. Iran will feel more threatened by the grand bargain and probably become more aggressive; they could even build a nuclear bomb. Emboldened by the grand bargain's new security protections, Saudi Arabia will likely become more aggressive too, and Israel will be encouraged to continue its aggressive behavior. The result will be intensified regional conflicts that drive up the ongoing cost of U.S. policy in the region and threaten to escalate into major wars that drag in the United States by design.

At the moment, this may seem moot. With Saudi Arabia's de facto leader claiming a Palestinian state is a prerequisite for recognition of Israel, and Israel's government adamantly opposed to such a move, the deal is now stalled at best.² But Saudi Arabia might change its tune if a ceasefire is struck in Gaza. And either a Donald Trump or Kamala Harris administration seems likely to include high-level appointees in favor of the deal, or something like it.

The warnings against the deal presented here will thus, unfortunately, remain relevant. That is doubly true because even if the deal is truly dead, the thinking underlying it—rewarding client states for behavior they are likely to continue without reward, overestimating the value of influence created by providing for other states' security, underappreciating the danger of moral hazard in allied states—will continue to trouble U.S. foreign policy.

TERMS AND STATED BENEFITS OF THE GRAND BARGAIN

Negotiations over the grand bargain began in late 2022, after President Joe Biden's July visit to Riyadh to mend U.S.-Saudi relations. The grand bargain is modeled on the 2020 Abraham Accords, a series of agreements in which Bahrain, the United Arab Emirates (UAE), Morocco, and Sudan normalized relations with Israel in exchange for Israel increasing economic, cultural, and security ties. The United States provided a series of perks, such as F-35 fighter jets for the UAE, to make the accords happen.³

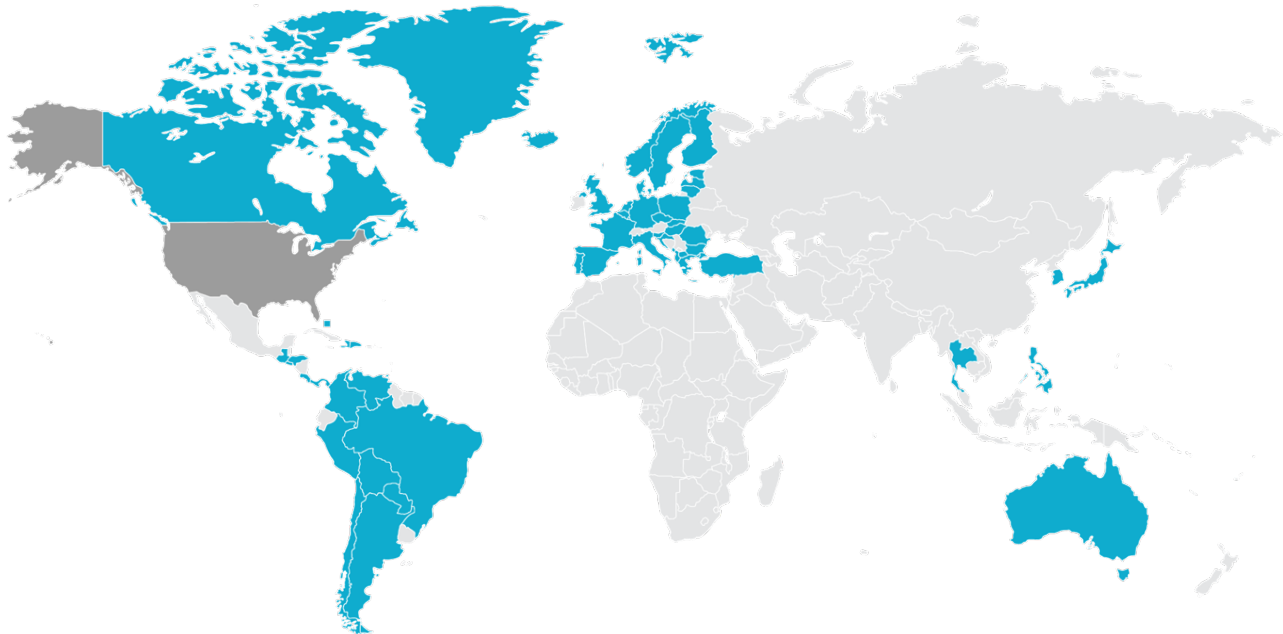
The grand bargain would tighten relations between Saudi Arabia and Israel on several fronts. First, like the Abraham Accords, it requires Saudi diplomatic recognition of Israel, a major step that will supposedly open the door to other Arab states doing the same and thus lessening Israel's isolation in the Middle East. Second, it requires a supposedly irrevocable plan from Israel for a Palestinian state (a condition the Saudis added after the October 7 attacks on Israel). Third, the grand bargain would purportedly increase security cooperation between Israel and Saudi Arabia to counter Iran.⁴

The United States will make several major commitments to cement the grand bargain. These pledges go far beyond anything Washington committed to with the Abraham Accords. First, the United States would establish formal alliances with Saudi Arabia and, most likely, Israel.⁵ These would be the first new defense treaties signed by the United States since its 1960 treaty with Japan. They would also be the first with states in the Middle East, North Africa, or South Asia, except for the U.S. defense treaty with Turkey.⁶ Currently, the U.S.-Saudi security relationship consists of arms transfers, intelligence sharing, and U.S. military training support, with no security cooperation accord (not even Major Non-NATO Ally Status, or MNNA, which eases arms sales and transfers under U.S. law).⁷ Israel currently gets the same from Washington, along with MNNA



and long-term arms purchase/intelligence-sharing agreements that carry no formal U.S. pledge of mutual defense.⁸

U.S. TREATY ALLIES WORLDWIDE



Source: U.S. State Department, *Treaties in Force 2020*, January 1, 2020; U.S. State Department, *2021-2023 Supplement to Treaties in Force 2020*, January 1, 2023.

The United States is formally committed to defending dozens of countries around the world. Many of these treaties were signed during the Cold War but weren't subsequently updated or revised.

Modeled after U.S. treaties with South Korea and Japan, the new security pledges would be close to NATO Article 5 commitments—an “article 4.5 pledge,” according to a U.S. official familiar with the negotiations.⁹ That’s effectively a promise to fight in defense of the other state. As treaties, the new collective defense agreements require Senate approval, thus binding them into U.S. law and requiring future U.S. presidents to comply with their terms.¹⁰

Second, Washington would build a uranium enrichment facility in Saudi Arabia to develop a Saudi domestic nuclear program. This would be historic, breaking longstanding U.S. norms. In helping countries develop civilian nuclear energy, the United States has sometimes built nuclear reactors for host countries, but it has never built (or transferred materials for the construction of) an enrichment facility on foreign soil.¹¹

That is because the dangers of nuclear proliferation are too high. Enrichment facilities configured to produce low-grade uranium fuel for nuclear power can be reconfigured to yield highly enriched uranium to build nuclear weapons. Enrichment is the biggest hurdle for would-be proliferators. For example, because the United States built only a nuclear reactor (and not an enrichment facility) in Iran in the 1950s, the Iranian government was unable to produce highly enriched uranium and a bomb after the 1979 Islamic Revolution.¹² Given its concerns about proliferation, the United States has to this point enriched all uranium on its own soil (a critical component to non-proliferation, experts claim) then transferred it to partner states.¹³



There are proliferation safeguards in the grand bargain to prevent Saudi nationalization or diversion of technology from the enrichment facility.¹⁴ In July 2024, President Biden said one safeguard under discussion is the deployment of U.S. troops to protect the facility.¹⁵ Other safeguards under consideration likely include all or some combination of the following, according to experts familiar with the talks:

- Only Americans can operate the enrichment facility.
- No access by Saudi nationals to the facility or centrifuge-enrichment technology.
- Enhanced monitoring by the International Atomic Energy Association (IAEA).
- Remote shutdown mechanisms in case of emergency.¹⁶

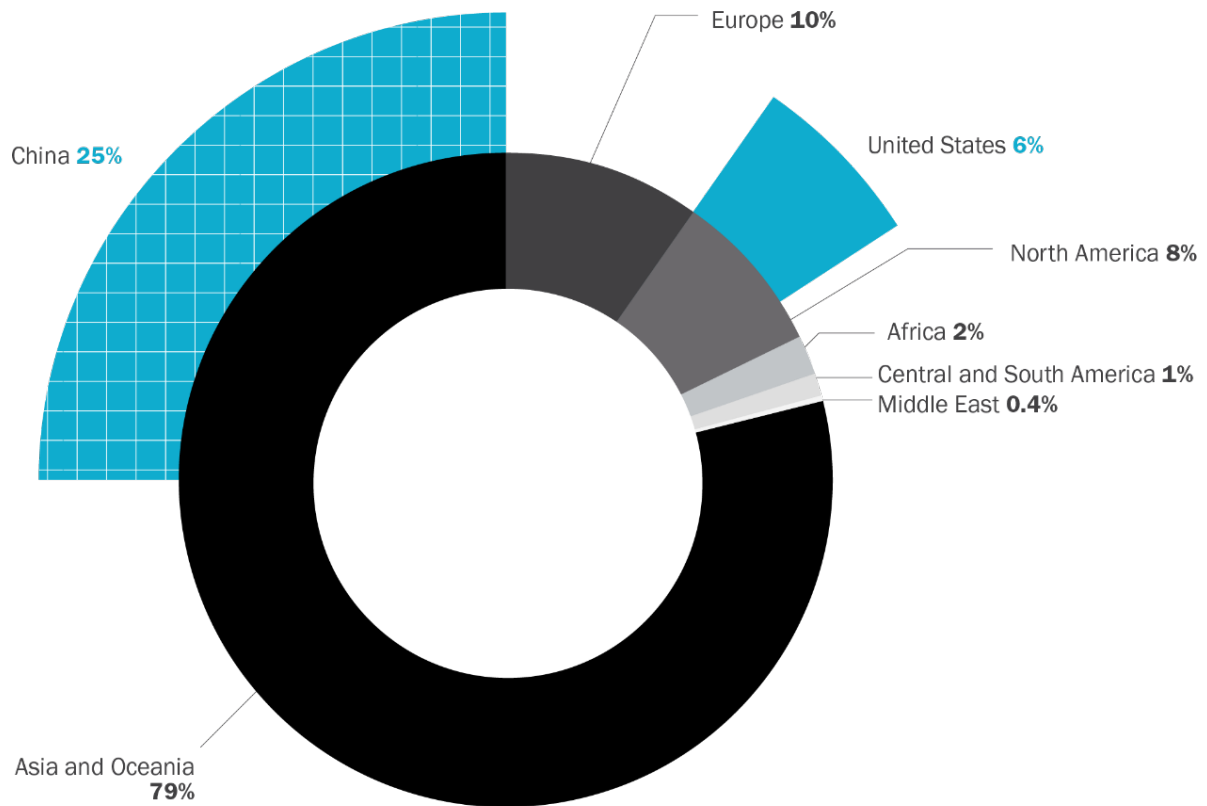
U.S. officials also expect (or hope) that fear of losing the U.S. defense treaty will keep Riyadh from nationalizing the enrichment facility and proliferating.¹⁷

The United States supposedly gets two things from the grand bargain. First, some say that by strengthening its allies in the Middle East, the U.S. can further pivot from the region to focus on other global challenges.¹⁸ To this end, U.S. officials consider the collective defense agreements in the grand bargain to be cheap pledges with big rewards. Combined with normalization, they will strengthen Saudi-Israeli deterrence against Iran so much that chances are low Washington will ever get called upon to fulfill its treaty obligations.

Second, the grand bargain will supposedly prevent Riyadh's drift into China's orbit, thus protecting U.S. security dominance in the Middle East. Specifically, the deal requires Saudi Arabia to end arms purchases from Beijing, refuse Chinese basing rights on Saudi territory, and continue to price oil in U.S. dollars rather than the Chinese renminbi (China is the largest purchaser of Saudi oil).¹⁹



SAUDI CRUDE OIL EXPORTS, 2022



Source: U.S. Energy Information Administration, "Country Analysis Brief: Saudi Arabia," October 11, 2023.

Saudi Arabia sends 25 percent of its crude oil exports to China, dwarfing the United States' 6 percent.

THE GRAND BARGAIN OFFERS NO NEW BENEFITS TO THE UNITED STATES

Advocates of the grand bargain are getting its costs and benefits badly wrong. The United States will gain nothing new from the grand bargain—most of the so-called benefits are things Washington gets regardless of the deal.

SAUDI ARABIA WON'T DRIFT INTO CHINA'S SECURITY ORBIT

China offers no alternative security orbit for the Middle East, meaning so-called Saudi concessions on China in the grand bargain are not really concessions at all.

Chinese strategy is not seeking a dominant military role in the Middle East. Beijing's interests are almost exclusively economic (trade and oil), not security-related. The Chinese Ministry of Foreign Affairs stated in 2023 that China sought "mutually beneficial and cooperative relations with Middle Eastern countries" and



would “not seek geopolitical interests.” It added, “We have no intention to fill a so-called ‘vacuum.’ And we will not build exclusive circles.”²⁰

This is not cheap talk. Experts agree that Beijing’s long-term strategy is one of maintaining economic ties with cautious, limited military engagement. “China has a strict non-alliance policy and is unlikely to want to get bogged down in Middle Eastern conflicts,” Jonathan Fulton of the Atlantic Council said recently. “They don’t want to get caught up in other countries’ issues, especially in the Middle East.”²¹ This is why, according to Lauren Barney and Aaron Glasserman, “Beijing has largely deferred to Washington’s position as a regional security leader in the Middle East.”²² As discussed below, even if the Chinese military presence increases someday, it won’t damage the increasingly limited U.S. interests in the Middle East.

The Red Sea is a good example of current Chinese limits. Twenty percent of Chinese exports pass through the Red Sea annually yet China has not increased its military activity to protect its ships from Houthi attacks.²³ In fact, Beijing has struck a deal with the Houthis, guaranteeing protection for its ships while pledging “political support” to the Yemen-based group. This reflects a “general aversion to military intervention—even in a case where it has a base [in Djibouti] close to the conflict and its own economic interests are at stake,” observe Barney and Glasserman.²⁴

This posture in the Red Sea fits with Chinese strategy. China is a major trading partner with Middle Eastern states, but by its own design a marginal player in all other matters. Recent events show this. In sharp contrast to the United States, China has stayed mainly on the sidelines as one of the Middle East’s largest crises in decades has played out in and around Gaza.²⁵

With or without a grand bargain, Saudi Arabia is likely to try to sustain deep trade ties with China (something the U.S. can’t do anything about), but avoid major military commitments to the region. On the security front, Riyadh will remain in the U.S. orbit because China has no plans to put a viable alternative on the table.

CHINA HAS LIMITED CAPACITY TO TAKE UP MIDDLE EAST SECURITY LEADERSHIP

Beijing is not “capable of filling a supposed U.S. void in the Middle East,” according to Jon Hoffman of the Cato Institute.²⁶ It’s true that China’s military strength has significantly increased in recent decades. In some key areas, like ground combat vehicles, it even outpaces the United States. Yet China still faces major deficits in global power projection (notably in aircraft carriers and aerial tankers) relative to the U.S.²⁷ This significantly constrains Beijing’s capacity to compete with the United States militarily in places like the Middle East. “Chinese military inferiority vis-à-vis the United States increases the further away it operates from the mainland,” notes Eric Heginbotham of the MIT Center for International Studies.²⁸

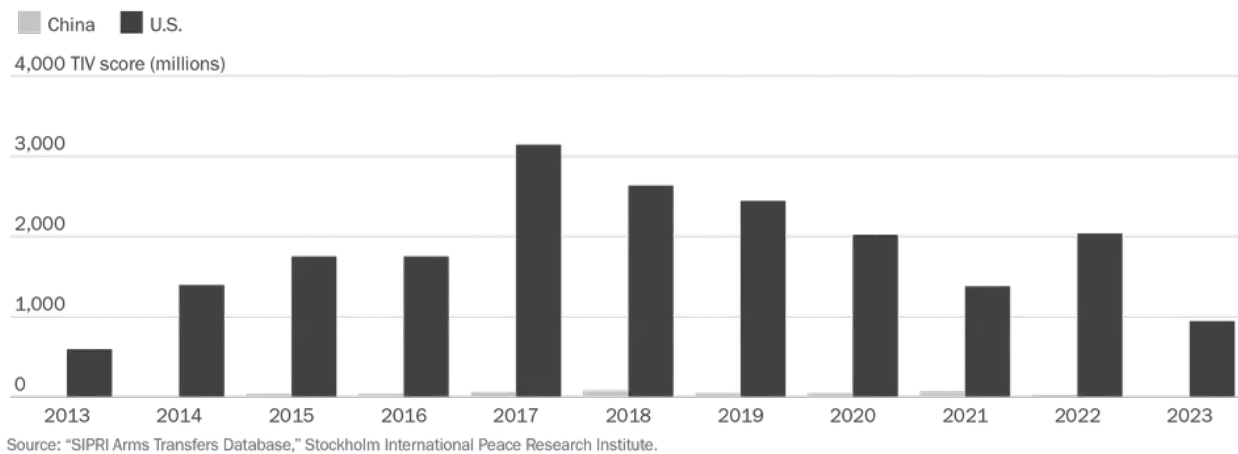
In addition to limitations in power projection, China also faces major challenges in East Asia that significantly reduce the military assets it can commit elsewhere.²⁹ China’s military modernization efforts have been geared primarily toward a regional conflict over Taiwan, not global power projection. Most of China’s military assets are postured across the Taiwan Strait. China’s hotly contested claims in the South China Sea also require significant resources. China’s dispute with Japan over the Senkaku/Diaoyu Islands is another flashpoint that is a drag on Chinese military assets.³⁰ The focus of China’s five theater commands reflect how bogged down Chinese military resources are in Asia. Four commands are located on its Pacific coast; the fifth is on its western border and focused on another regional challenger, India.³¹



These limitations on Chinese power won't change anytime soon. East Asian security challenges for Beijing are systemic, long-term realities, meaning China's resource constraints will press it toward restraint in the Middle East for many years to come.

Arms sales reflect Chinese restraint and U.S. security dominance as well. Middle Eastern states get only 5 percent of their military hardware from China, whereas the United States provides roughly half of the region's total.³² Arms sales to Saudi Arabia show this disparity. Figure 1 shows Chinese and U.S. TIV scores to Saudi Arabia from 2013–2023. TIV scores are an annual index capturing both the quantity and quality of equipment transferred.³³ China provides a fraction of what the United States does annually. That gap (again both in quantity and quality) is massive. Even if China wanted to supplant the United States' current military sales, the task would be daunting.

ANNUAL TIV SCORES FOR THE U.S. AND CHINA TO SAUDI ARABIA



TIV scores show how few arms China provides to Saudi Arabia relative to the United States.

In short, Beijing is no alternative to the United States when it comes to providing Saudi arms. It sells Saudi Arabia mostly things Washington doesn't, like drones and precision-guided munitions. Additionally, Chinese military hardware is mostly incompatible with Saudi Arabia's U.S.-built systems. Saudi Arabia can't switch to a Chinese defense system, and even if it could, it would be prohibitively expensive for Riyadh.³⁴

The bottom line when it comes to Saudi-Chinese security relations is the United States already gets what it wants without a grand bargain.

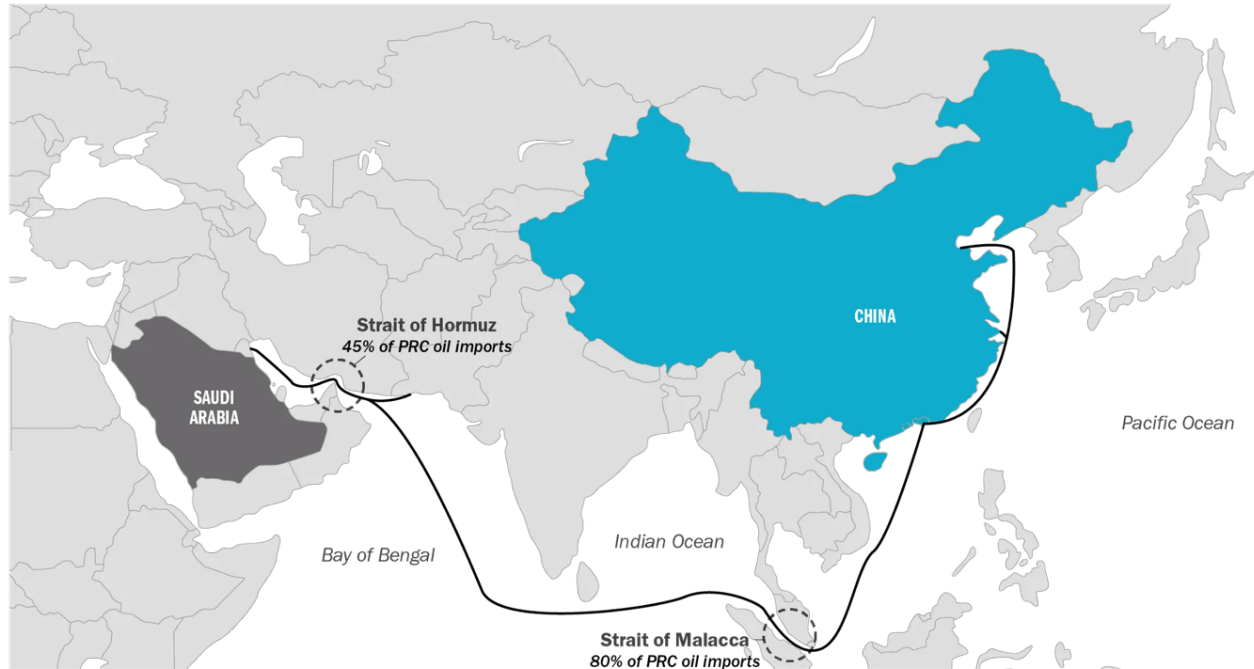
A LARGER CHINESE MILITARY PRESENCE IN THE GULF SHOULDN'T BE A CONCERN

While China's military objectives in the Middle East are circumscribed, it may still seek additional bases there, on top of its existing naval base on the Red Sea in Djibouti, to protect its economic interests. China is now the Middle East's largest oil consumer, trading partner, and investor.³⁵ Chinese trade with the region has increased 40 percent over the last decade. In 2021, China imported \$128 billion worth of oil from Persian Gulf countries—three times more than the United States and European Union combined.³⁶ China reportedly held talks dealing with basing possibilities recently with Oman and the UAE.³⁷ Of course, the grand



bargain would not prevent a base in either country. In short, deal or no deal, China will likely get a new base in the Middle East at some point, regardless.

CHINA'S OIL ROUTE THROUGH THE PERSIAN GULF



Source: Tim Daiss, "China's energy weakness will lose the New Cold War," *Asia Times*, June 25, 2020.

An overwhelming share of China's oil imports from the Persian Gulf pass through two vulnerable chokepoints—the Strait of Hormuz and the Strait of Malacca.

Even if Chinese intentions in the region dramatically change and China seeks a greater military presence akin to that of the United States, U.S. interests will still not suffer. Today, the United States has two big interests in the region: preventing a major disruption to energy flows and denying haven to terrorist groups with global reach intent on attacking the United States. Whether or not either of these interests still requires a large U.S. military presence in the area is quite doubtful, but the bigger point is that a larger Chinese presence would not obstruct them—indeed the Chinese interest in stability and trade flows could make Chinese interests quite similar to and compatible with U.S. interests.³⁸

SAUDI OIL PRICING WILL REMAIN IN DOLLARS FOR A LONG TIME TO COME

"The power of the dollar in global trade is why most oil is sold in dollars," notes the historian David Wight.³⁹ This is because the dollar is the safest and most stable currency in the world. Experts generally agree that a switch to pricing in the renminbi is too costly and unpredictable for Saudi Arabia. The entire architecture of global oil markets centers on the U.S. dollar. The Saudi currency, the riyal, is also pegged to the U.S. dollar given the stability of the dollar relative to all other currencies. That too will dissuade Riyadh from switching oil pricing to the renminbi.⁴⁰ "Everything related to the global oil trading systems – financing, transportation,



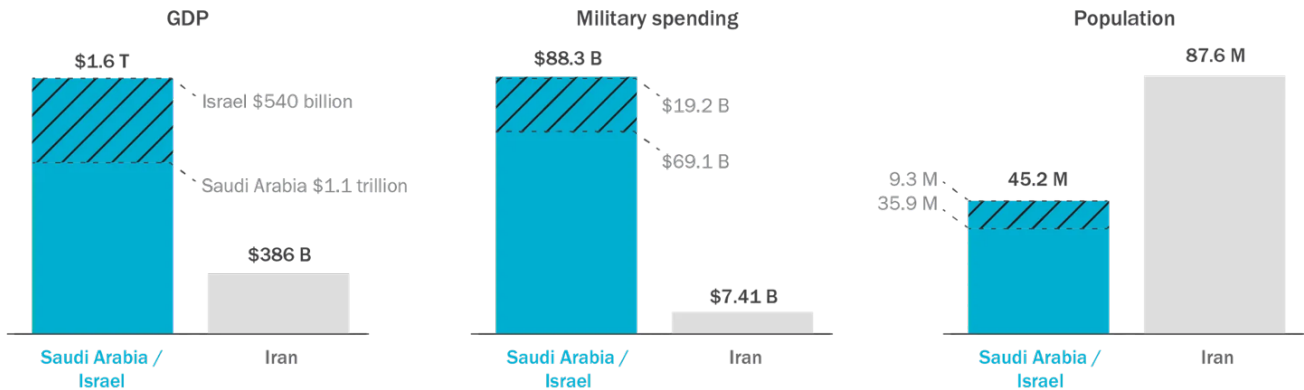
insurance, etc. – is all done in USD [U.S. dollars],” notes Sonu Varghese, vice president of global strategies at Carson Group. “That’s unlikely to change anytime soon, as the network effects are just too strong.”⁴¹

Overall, Riyadh will keep pricing oil in U.S. dollars for a long time regardless of the grand bargain. The Saudi concession not to switch to the renminbi is really no concession at all.

SAUDI-ISRAELI COOPERATION AGAINST IRAN EXISTS WITHOUT THE GRAND BARGAIN

The partnership started in the early 1960s when Saudi and Israeli intelligence services coordinated weapons shipments to royalists in Yemen against the Egyptian and Soviet-backed government in Sanaa.⁴² Cooperation deepened after the 1993 Oslo Accords improved Israeli-Palestinian relations. Israeli and Saudi intelligence officials now “meet regularly” and work “hand in glove on Iran.”⁴³

THE RELATIVE BALANCE OF POWER BETWEEN SAUDI ARABIA AND ISRAEL VERSUS IRAN



Source: *The Military Balance 2024*, International Institute for Strategic Studies.

Saudi Arabia and Israel both have larger GDPs and spend more on their militaries—two major measures of power—than Iran.

In 2011, Israel endorsed Germany’s sale of 270 tanks to Saudi Arabia.⁴⁴ In 2017, Saudi Arabia and Israel “openly coordinated” military operations against Hamas in Gaza and Iranian-backed Hezbollah in Lebanon.⁴⁵ In 2018, Israel supported Saudi Arabia after it was accused of killing *Washington Post* journalist Jamal Khashoggi, despite U.S. and European condemnation.⁴⁶ In April 2024, Saudi Arabia provided critical intelligence support in a regional effort organized by the United States to defend Israel against Iranian missile strikes, despite deep Arab animosity toward Israel’s war in Gaza.⁴⁷

Cooperation between Israel and Saudi Arabia seems perfectly healthy without a grand bargain. That means, as with the Abraham Accords, normalization of Saudi-Israeli relations will “merely... bring into the open and formalize [existing] relations,” according to Omar Rahman of the Baker Institute for Public Policy.⁴⁸



THE HIGH COSTS OF THE GRAND BARGAIN FOR THE UNITED STATES

Advocates of the grand bargain miscalculate not only its benefits but its costs. The deal will not be cheap for the United States. As international relations scholars have found, strengthening alliances often leads, ironically, to less security and more costs for all parties, especially great power benefactors like the United States. To this end, the grand bargain will seriously unsettle the regional balance of power in the Middle East and could fuel conflict across the region. The United States might get dragged in, leaving it more deeply rooted in the region than ever before.

INCREASED IRANIAN THREAT PERCEPTIONS AND THE DANGER OF WAR

One basis for increased U.S. costs from the grand bargain will come from Iran's reaction to the deal. International relations scholars find extreme power imbalances between rival states often lead to war. Racked by worst-case-scenario thinking, the weaker side scrambles to catch up, which triggers a spiral of back-and-forth competition. Trust and diplomatic pathways to moderate conflict can evaporate, and war often follows.⁴⁹

The deal substantially strengthens Iran's rivals, Saudi Arabia and Israel, with a nuclear program, bringing Riyadh closer to proliferation and defense treaties backed by the United States, the strongest country on the planet. The new Saudi enrichment facility would likely alarm Tehran the most. Iran would focus not on Saudi talk of domestic energy (a legitimate Saudi interest, given Saudi efforts to diversify energy production away from oil), but on repeated Saudi statements and actions that signal Riyadh is thinking about proliferation.⁵⁰

Consider the threatening record Iran sees (and that U.S. policymakers need to think long and hard about). Saudi officials have repeatedly said (in violation of commitments under the grand bargain) that if Iran proliferates, Saudi Arabia will too.⁵¹ "If they get one, we have to get one," Saudi Crown Prince Mohammed bin Salman said in late 2023.⁵² Additionally, in negotiations with Washington, Riyadh has pushed for control over the entire nuclear fuel cycle, including reprocessing spent fuel that can generate plutonium for nuclear explosives. Every other U.S. nuclear partner sends spent fuel rods to the United States for reprocessing.⁵³ Why push this? It gives Riyadh more control and decision space—like Iran—for proliferation.

The Saudis say they want to mine, mill, and enrich uranium to exploit domestic reserves for energy use. However, Saudi uranium deposits are "severely uneconomic," raising worries among experts (and Iranian leaders) about ulterior Saudi motives—like proliferation.⁵⁴

More alarmingly, the Saudis frequently make references to Aramco, their state-owned oil company, as a model for the nuclear enrichment facility. A joint venture with the U.S., the Saudis nationalized Aramco in 1980.⁵⁵ Experts (and the Iranians no doubt) fear the same could happen with the enrichment facility. Iran knows the Saudis can hide things from the United States, raising concerns about whether U.S. oversight can stop Saudi proliferation. For example, a Saudi uranium milling plant was reportedly up and running in 2020 before U.S. intelligence even knew about it.⁵⁶



Iran knows as well that the anti-proliferation safeguards in the grand bargain are not failsafe.⁵⁷ Host countries can work around remote mechanisms, for instance, to shut down enrichment facilities. New radical governments can also choose to ignore previously agreed upon restraints and/or nationalize enrichment facilities (Iran did the former after the 1979 revolution).⁵⁸ Daniel Byman, Doreen Horschig, and Elizabeth Kos warn that “Washington must be clear-eyed about such [safeguard] provisions: these measures would certainly decrease the risk of Saudi nuclear proliferation, but they would not eliminate them.”⁵⁹

Overall, how could Iran not feel endangered by the grand bargain? U.S. officials would likely panic if their mortal rivals were suddenly stocked with new weapons, defense pledges, and tools to build a nuclear bomb. Understanding this isn’t pro-Iranian, but common sense.

TWO LIKELY IRANIAN RESPONSES COULD START A WAR THAT DRAGS IN THE U.S.

First, Iranian proliferation could lead to war. More isolated than ever, Iran could move to develop a nuclear bomb.⁶⁰ Saudi Arabia would likely proliferate in response, which could set off “a doom spiral of nuclear competition,” according to Byman, Horschig, and Kos.⁶¹ The situation would be especially dangerous since new nuclear states generally have loose command-and-control structures, increasing the odds that a bomb is used.⁶² Israeli and/or Saudi airstrikes attempting to take out Iran’s emerging nuclear weapons program could occur, leading to retaliation from Tehran and wider war.

Second, to disrupt the grand bargain, Iran might encourage attacks by its proxies—Hezbollah, Hamas, the Houthis, etc.—that lead to war. Those proxy groups would likely feel threatened by the grand bargain too and seek to disrupt Arab and especially Saudi relations with Israel.⁶³ Proxies might find more U.S. targets to hit post-grand bargain, since more tension will likely mean more U.S. forces heading to the Middle East.⁶⁴

Finally, post-grand bargain, diplomacy to manage conflicts between rivals would diminish, making war more likely. Washington has used backchannels to moderate Iranian and proxy attacks since 10/7 that have helped prevent escalation. It also brokered an informal arrangement with Tehran in summer 2023 that limits Iranian enrichment levels.⁶⁵ The distrust generated by the grand bargain would likely cause Iran to cast aside this tacit cooperation with the United States. With fewer diplomatic brakes, war could come more quickly and easily.

MORAL HAZARD AND THE DANGERS OF WAR

The grand bargain will also embolden Saudi Arabia toward more regional aggression and cement existing conditions that enable ongoing Israeli aggression. This will increase the chances of war and U.S. security costs.

Political scientists have a name for this: “moral hazard.” Moral hazard is “a phenomenon whereby the provision of protection against risk unintentionally promotes irresponsible or fraudulent risk-taking, and thereby perversely increases the likelihood of the undesired outcome.”⁶⁶ In short, a strong patron’s protection insulates a protégé from the risks of its own behavior, enabling recklessness that can suck the patron in when the protégé gets in trouble.⁶⁷

Moral hazard happens, at times, between great powers (i.e., patrons) and their allies (i.e., protégés). A great power’s commitment to protect an ally can make the ally aggressive in ways that reduces its security,



causing the great power to bail it out and even fight wars contrary to the great power's security interests.⁶⁸ Moral hazard becomes most likely under two conditions: when the great power has enough power to bail out the ally; and when the ally is revisionist, meaning it's "dissatisfied with the status quo allocation of disputed territory or issue... [and] wishes to increase its share of the pie."⁶⁹

MORAL HAZARD IN U.S. RELATIONS WITH ISRAEL AND SAUDI ARABIA

Even without the grand bargain, moral hazard is already a big problem for the United States with Saudi Arabia and Israel.⁷⁰

Consider Israel since 10/7. President Biden pledged "America's ironclad commitment to the security of Israel," then sent Israel new arms and deployed thousands more U.S. troops to the region.⁷¹ Israel's seemingly defensive goal—protect itself from another 10/7—has given way to a revisionist agenda of trying to create a new regional order.⁷²

Israeli moral hazard has been rampant in recent months as it has escalated its war on Hamas into a war with Hezbollah, launched a ground invasion of Lebanon, and launched airstrikes against Lebanon, Syria, Yemen, and Iran. With Israel "no doubt aware of the insurance policy that Biden has offered them," James Acton of the Carnegie Endowment for International Peace argues, "the problem is particularly acute... that its security guarantees embolden" Tel Aviv.⁷³

It is difficult to assess the causality of moral hazard in international relations, since it is nearly impossible to know what actions would not have occurred absent one state's backing of another. That said, it seems safe to assume that U.S. rhetorical and military backing—sending troops and naval forces to the region to protect Israel—increased the Israeli government's risk tolerance and contributed to its willingness to expand the war to Lebanon and Hezbollah, and court Iranian retaliation.

Israel gave no forewarning to Washington before an April strike on an Iranian diplomatic compound or the July assassination of a Hamas political leader, Ismail Haniyeh, in Tehran.⁷⁴ Why not? Because as the anger expressed by Washington showed, Tel Aviv knew that both strikes contradicted stated U.S. interests. The strikes derailed U.S.-sponsored ceasefire negotiations and led to direct Iranian attacks on Israel for the first time ever, forcing Washington into its first ever military defense of Israeli territory. We do not know the exact dollar amounts, but these defensive efforts certainly weren't cheap for the American taxpayer.⁷⁵ It's worth pointing out too that Washington wasn't given notice of the Israeli strike that killed Hezbollah leader Hassan Nasrallah, which also drew retaliatory strikes from Iran.⁷⁶

The United States has also suffered from increased risk to its forces in the region, with more than 400 proxy attacks launched on land and sea against U.S. forces since 10/7 that left three U.S. soldiers dead and nearly 200 more injured.⁷⁷ The U.S. military buildup there had already cost the United States \$4.86 billion while \$17.9 billion in U.S. security assistance has been spent since 10/7, a record amount of aid to Israel, already the largest recipient of U.S. military aid in history.⁷⁸

True, the grand bargain probably won't make moral hazard with Israel worse (it is already pretty bad, after all). But it certainly won't help matters either, and if it includes formal security guarantees for Israel cementing existing pledges, the deal will make it more difficult to adjust policy to remedy the existing moral hazard problem.



MORAL HAZARD IN U.S.-SAUDI RELATIONS COULD GET WORSE WITH THE GRAND BARGAIN

Like Israel, the conditions have been right for moral hazard. Washington has repeatedly committed to protect Saudi security through various assurances and massive arms transfers (see above). Saudi Arabia in recent years has been revisionist, evident in their competition with Iran and its aligned proxies as well as leadership in blockading Qatar for trumped up charges of supporting Iran and terrorism.⁷⁹

The war in Yemen is the most glaring recent example of Saudi moral hazard. In 2015, the Obama administration committed new weapons to help Saudi Arabia protect its borders from Houthi rebels and support counterterrorism operations.⁸⁰ An emboldened Saudi Arabia ran with it—a textbook example of “moral hazard,” according to Perry Cammack and Richard Sokolsky.⁸¹ Panicked by Houthi gains, the emboldened Saudis expanded military operations (using U.S. weapons systems) into a regime change war in Yemen, but the war backfired. The brutality of Saudi attacks coupled with a Saudi embargo that caused mass starvation in Yemen galvanized Yemeni support for the Houthis.⁸²

The United States is now paying the price in the Red Sea for Saudi moral hazard in Yemen. From their strengthened position and in protest of Israel’s war in Gaza, the Houthis have launched 246 missile attacks on U.S. naval vessels and commercial ships in the Red Sea over the past year.⁸³

THE GRAND BARGAIN WILL LIKELY INCREASE CHANCES OF WAR IN THE MIDDLE EAST

Some argue the grand bargain will reduce moral hazard with Saudi Arabia (and Israel). Since U.S. pledges stipulate help only in case of an outside attack, these partners won’t be reckless beyond their borders because Washington offers, by the terms of the security agreements, no protection there.⁸⁴

This argument is wrong for four reasons. First, the current U.S. pledge to Israel is defense-oriented already, yet moral hazard is happening anyway. Formal collective defense agreements with Israel and Saudi Arabia will not fix the problem of moral hazard. Second, scholarship shows defense-only commitments can still lead to moral hazard. Knowing the great power has its back only when attacked still emboldens the ally to behave recklessly beyond its borders.⁸⁵ Third, defense-only pledges embedded in U.S. law as treaties (like the grand bargain) are especially credible since the great power cannot easily back out of them.⁸⁶ This sustains and even increases moral hazard because allies know U.S. presidents are obligated by law to bail them out. Saudi Arabia felt abandoned by Washington’s non-response to missile strikes against its oil facilities carried out by Iran in 2019, which probably reduced its penchant for aggression and encouraged détente with Iran.⁸⁷ After a grand bargain, it would not feel that way anymore. Fourth, the nuclear enrichment facility will enable Saudi moral hazard. Washington will have keen interests in ensuring the facility’s integrity to prevent proliferation. Saudi Arabia will use this as leverage to ensure U.S. support (i.e., “better support us, or else we’ll nationalize”). Riyadh already leverages threats of a turn to China against Washington—in fact, as noted, Saudi use of the China card is one reason Biden administration officials have been willing to give so much away to Riyadh to make the grand bargain happen.⁸⁸

Because of moral hazard, the United States would likely lose diplomatic leverage over Israel and especially Saudi Arabia, making escalation to a potentially costly war more likely. In April, Washington got Israel to



temper counterstrikes against Iran, preventing escalation.⁸⁹ There's evidence this leverage is slipping, as Israel invaded Lebanon over the express wishes of the Biden administration.⁹⁰ A grand bargain would only make the problem worse, further undermining diplomatic leverage and increasing risk taking and regional instability.

THE WAY FORWARD

The grand bargain with Saudi Arabia and Israel is no bargain at all for the United States. It's a high-cost, no-gain deal that will turn into a drain on U.S. security. The so-called benefits of the grand bargain—limiting Chinese strategic gains and creating a robust anti-Iranian alliance—exist already and will not noticeably improve with the grand bargain.

Yet if the gains from the grand bargain are nonexistent, the costs could be extreme. The deal will throw fuel on regional conflicts by inflaming Iranian threat perceptions and further enabling recklessness by Saudi Arabia and perhaps Israel. The United States could get dragged into a war of no interest to the American public. Even if war doesn't come, conflict fueled by the grand bargain will keep the United States stuck in the Middle East wasting resources, perhaps for decades. There will be no pivot from the region as advocates of the grand bargain expect.

What should U.S. policymakers do now? First, abandon the grand bargain. Saudi-Israeli normalization is a laudable goal, but not at the price tag the grand bargain carries. Furthermore, even if Washington pursues nuclear cooperation with Saudi Arabia, it should not build or commit to build a nuclear enrichment facility on Saudi soil.

Second, Washington should take steps to reduce moral hazard by creating more ambiguity in its partnerships with Israel and Saudi Arabia. With Saudi Arabia, this starts with refusing to formally or informally commit to defend the Kingdom. With Israel, more ambiguity starts with shifting from an “ironclad” U.S. commitment to defend Israel to a pledge where U.S. policymakers merely “reserve the right” to protect Israel. Like the U.S. commitment to Taiwan,⁹¹ there would be no blanket (i.e. “ironclad”) security pledge or pre-determined scenarios (i.e., defense-only commitments) that require automatic U.S. action. Instead, U.S. leaders would choose what to do on a case-by-case basis, thus shifting control of alliance relations away from Tel Aviv to Washington.

To further signal ambiguity and temper Israeli and Saudi recklessness, U.S. policymakers should also adopt a blanket policy of selling both countries defensive military hardware only (again, like Taiwan). A drawdown of U.S. forces sent to the Middle East since 10/7 would help signal ambiguity as well.

In general, strategic ambiguity has deterred enemies (i.e., China) from attacking Taiwan, while preventing moral hazard with Taipei (notably, tempering bids for independence).⁹² Similar ambiguity would bring the same benefits to the U.S. partnerships with Israel and Saudi Arabia: security without moral hazard.

Too much U.S. diplomatic energy has been devoted to a bad deal. Let's hope U.S. leaders choose to just stay out.



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