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## HIGHLIGHTS

- **Political Developments**
- **Oil-Related Developments**
- **Economic Developments**

## I Political Developments

**1. Trump in West Asia:** President Donald Trump visited Saudi Arabia and Israel on 21-24 May. In Riyadh, he had three summit meetings: a bilateral interaction with King Salman bin Abdulaziz; a meeting with leaders from the Gulf Cooperation Council countries, and a third summit with leaders of selected Muslim member-countries of the Organisation of Islamic Cooperation (OIC), said to number 55; Iran and Syria were not invited.

The Saudi-US joint statement reflected the shared understanding of the two countries on crucial regional issues:

(a) They agreed to a new Strategic Partnership for the 21st Century by formally announcing a Joint Strategic Vision which would be shaped by a joint consultative group that would meet regularly.

(b) They affirmed their determination to unite and integrate efforts between the United States-led Global Coalition Against ISIS with Saudi Arabia and the Saudi-led Islamic Military Alliance to Fight Terrorism.

(c) There was full agreement between the two countries on Iran: they agreed on "the need to contain Iran's malign interference in the internal affairs of other states, instigation of sectarian strife, support of terrorism and armed proxies, and efforts to destabilize the countries in the region." They "stressed that Iran's interference poses a threat to the security of the region and the world, and that the nuclear agreement with Iran needs to be re-examined in some of its clauses". They also accepted that Iran's ballistic missile program poses a threat, not only to neighbouring countries, but also a direct threat to the security of all countries in the region as well as global security."

(d) Finally, the two countries acknowledged the need for "a robust, integrated regional security architecture" and agreed "to expand engagement with other countries in the region over the coming years and to identify new areas of cooperation".

In his address to the Muslim leaders at the "Arab-Islamic-US Summit", Trump urged them to confront extremism. He described it as a "battle between good and evil", and went on to say: "That means honestly confronting the crisis of Islamist extremism and the Islamist terror groups it inspires. And it means standing together against the murder of innocent Muslims, the oppression of women, the

persecution of Jews, and the slaughter of Christians.” He called for a “coalition of nations” to combat the scourge of extremist violence.

Referring to his insistence on “principled realism”, he affirmed that “we are not here to tell other people how to live, what to do, who to be, or how to worship. Instead, we are here to offer partnership – based on shared interests and values – to pursue a better future for us all.” He called for the isolation of Iran, and, a few days after the victory of Hassan Rouhani as president, seemed to urge regime change when he asked his audience to “pray for the day when the Iranian people have the just and righteous government they so richly deserve”.

The two countries signed an agreement announcing their intention to establish the “Terrorist Financing Targeting Center (TFTC)”, to confront threats arising from terrorist financing. The US will co-chair the TFTC with Saudi Arabia, and will work with the countries of the Gulf Cooperation Council to counter global terror networks. According to the press release of the US department of treasury, these networks will include: ISIS, al Qaeda, Hezbollah, Lashkar-e-Taiba, the Taliban, and the Haqqani Network; the centre “will also address a host of other transnational threats emanating throughout the Middle East, including from Iran, the Assad regime, and the situation in Yemen.”

During the visit, defence deals with Saudi Arabia valued at \$ 110 billion were announced, besides several commercial agreements between US and Saudi companies in energy and industry, estimated at \$ 45 billion. The kingdom also announced that its sovereign wealth fund, the Public Investment Fund (PIF), would invest \$ 20 billion in the US company Blackstone to fund infrastructure projects in the US.

In Israel, Trump affirmed the unshakeable bonds between the US and Israel and assured both Israeli and Palestinian leaders that he would promote the peace process. He also attacked Iran and assured Israel that Iran would not acquire the nuclear weapon while he was president.

For the kingdom and its Gulf Cooperation Council allies, Mr Trump’s election slogan, “America is back”, has a literal and concrete meaning after what they recall as the nightmare era of the Barack Obama presidency. Mr Obama had not only failed to back Saudi Arabia in its regime change project in Syria and its war against the Houthis in Yemen, where both its aims were thwarted by Iran, the former President had also worked assiduously for the nuclear deal which freed Iran from sanctions and enabled it to challenge the GCC across the Arab world. Mr Trump seems to have harked back to the period of George W. Bush and his predecessors, when the US was the firm ally of the Arab potentates and the unshakeable enemy of Iran.

Most Arab commentators are not so enthusiastic. They have noted that the President, while condemning Iran, presented no specific action plan to confront Iran and its perceived hegemonic designs in the region. Specifically, he did not repudiate the nuclear deal with Iran, nor did he rescind the visa restrictions on Muslims’ entry into the US. They also noted his weak position at home and were not sure how he could mobilise domestic support to back the kingdom and its allies militarily in Syria and Yemen. Also, with the prevailing low oil prices, they doubted the ability of the Gulf monarchies to pay for the extravagant defence and other deals they have used to win the President’s backing.

The most concrete takeaway from the visit is that Mr Trump, with his condemnation of Iran, Hamas and Hezbollah, has criminalised the resistance to Israel, sidelined the Palestinian cause, and replaced Israel with Iran as the principal enemy of the Arabs in the region, so the Arab-Israeli conflict will now be replaced by an intra-Muslim sectarian contention.

The Trump administration’s “big idea” is that Sunni-majority Arab countries form a NATO-like alliance. This grouping could then have a less formal but still highly cooperative relationship with Turkey, and, most importantly, it could engage in meaningful coordination and cooperation with Israel to form a united regional bloc against Iran’s pursuit of regional hegemony. This, the administration believes, would provide Israel with a fresh incentive to accept an independent Palestinian state. This approach could break the deadlock by offering a win-win-win scenario for Israel, the Palestinians and the Arab states.

While there is already an “Arab Peace Plan” on the table since 2002, the problem is Israel; as Hussein Ibish has noted: “Shifting Israel might be more difficult. Netanyahu has expressed enthusiasm for stronger ties to Arab countries — but he’s notoriously sceptical about a broader agreement with

Palestinians.” However, Ibish is among the optimistic Arab commentators and believes that Trump could pull off a deal; he says: “Here’s where the Trump factor becomes potentially decisive. Washington could push both sides together, but it would involve some very heavy lifting.”

The “heavy lifting” would involve political, military and economic incentives for Israel and real progress in reducing Iran’s influence in Syria, Iraq, Lebanon and Yemen. This would put US deep into the West Asian quagmire for which there has been little appetite in the US for several years.

Iran for its part sees little merit in Trump’s West Asian engagement; foreign minister Javad Zarif, in an article in New York Times, has said: “ Let me be clear: What President Trump called “lots of beautiful military equipment” won’t drain the swamps in which terrorism and extremist militancy... What will work is a genuine effort to forge inclusive engagement among the regional powers based on a policy of coexistence and acceptance that military solutions are futile.”

**2. Saudi Arabia sets up defence manufacturing company:** Saudi Arabia’s Public Investment Fund (PIF) announced on 17 May the launch of a national state company for arms manufacturing as part of its “Vision 2030” economic and social reform programme. The new company, the Saudi Arabian Military Industries (SAMI), will be producing not just arms but armoured vehicles and will work to repair and maintain planes or jets, repair fixed-wing aircraft, and manufacture unmanned air vehicles.

The creation of SAMI is expected by officials to create up to 40,000 jobs in the Kingdom – mostly in hi-tech and engineering sectors – and more than 30,000 indirect opportunities will result from this new company as well as the creation of hundreds of small and medium size companies. The company’s strategic objective is “to reach among the top 25 global military industrial giants by 2030, making Saudi Arabia a strong partner in the global military industry. The company’s direct contribution to the Kingdom’s gross domestic product (GDP) is expected to exceed \$ 3.7 billion.

**3. Syria:** American aircraft bombed a military convoy flying Syrian flags in the country’s southeast on 19 May, marking the first time the U.S. military has targeted regime forces in Syria’s six-year civil war. The U.S. strikes came after the military convoy came too close to a U.S. commando base and failed to respond to multiple warnings. The strike showed American commanders are willing to use force to maintain de facto safe zones in the country’s east, where U.S. forces are training local militias to battle the Islamic State and provide security in liberated regions.

**4. Rouhani wins presidential election:** Hassan Rouhani, Iran’s incumbent president, who helped engineer the Iran nuclear deal, won a resounding mandate in a hard-fought re-election battle on 19 May. However, Rouhani’s victory (57 percent of the vote to hard-line cleric Ebrahim Raisi’s 38 percent) does not alter the balance of power in the Islamic Republic, with Supreme Leader Khamenei continuing to wield authority in the security sphere. At the same time, the US may be expected to continue with its anti-Iran posture, which has been made clear during President Donald Trump’s visit to Saudi Arabia.

**5. Qatar in media standoff with Saudi Arabia and the UAE:** Saudi Arabia and the United Arab Emirates blocked the websites of fellow GCC state Qatar – including al-Jazeera – over statements about Iran and Israel posted on Qatar’s state-run news agency. The stories included reports that the emir of Qatar, Sheikh Tamim bin Hamad al-Thani, speaking at a military ceremony, called Iran a “big power” and described Qatar’s relations with Israel as “good”. He reportedly said there were tensions with Trump, adding the US president was facing legal issues in his home country as claims over his Russia links continue. He also threatened to withdraw ambassadors from a range of West Asian countries, including Saudi Arabia.

Qatar said its official sites had been hacked. However, several Arab news agencies pointed out the some of the emir’s remarks had already appeared on Qatar state broadcasting sites before they were disowned.

The row is important partly because the Trump administration is coming under pressure to review its alliance with Qatar in view of its support for Hamas and the Muslim Brotherhood. This week, the US president had demanded that Gulf States do more to combat the export of extremist teaching into Europe. In Riyadh, Trump had also singled Iran out for criticism, saying it was fuelling terrorism.

Qatar has been at odds with Gulf States for some time over the extent of its support for the Muslim Brotherhood. There have also been tensions over the role of Doha-based al-Jazeera. According to GCC commentators, Qatar, with its maverick positions on regional contentions has irked both its GCC partners and the US.

An editorial in the Abu Dhabi-based The National says: "For too long, Qatar has tried to face two ways, one eye on the Arabian Peninsula, one eye on Iran. That has to end. Comments such as these by the emir are profoundly dangerous. They de-stabilise relations within the GCC. They sow division between the GCC and our allies around the world. And of greatest concern, they give Iran the perception that it can divide the Gulf States."

Though Qatar is believed to have distanced itself from the Muslim Brotherhood, it continues to favour engagement with Iran, without insisting on the pre-conditions presented by the GCC. Regional observers point out that, with a population of 300,000 and armed forces numbering 11,000, Qatar should be more respectful of the views of its partners.

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## II Oil-Related Developments

OPEC and other oil producers agreed at their Ministerial in Vienna on 25 May to an extension of supply cuts for nine months, up to the end of March 2018. Libya and Nigeria are exempt from the cuts, while Iran is permitted to retain its output target.

This meeting was preceded by hectic Saudi consultations with member- and non-member countries. On the eve of the Ministerial, Saudi minister of energy, Khalid A al-Falih had said that most participants are on board with the plan to rein in a global supply glut. The minister had also said that extending the supply cuts by a further nine months until next March, and adding one or two small producers to the pact, should reduce oil inventories to their five-year average.

OPEC's aim is to reduce global oil inventories to the industry's five-year average. While inventories held at sea and in producer countries have dropped, they remain high in consumer regions, particularly in Asia and the United States. Estimated inventories in industrialized nations totalled 3.025 billion barrels at the end of March - about 300 million barrels above the five-year average, according to the International Energy Agency's latest report. Preliminary April data indicated stocks would raise further, the IEA said. Crude stocks stood at a record 1.235 billion barrels.

On 19 May, after the Saudi minister's remarks, Brent crude prices increased by \$1.10, or 2.1 percent, to reach \$53.61, the highest settlement for the international benchmark since April 18. On 24 May, Brent closed at \$ 53.96.

However, oil markets failed to be enthused after the announcement of the production cut extension: prices fell 3 percent after the announcement; on 29 May, Brent crude futures rose by just 14 cents, or 0.2 percent, to \$52.29 per barrel. U.S. West Texas Intermediate (WTI) crude futures were 19 cents higher at \$49.99 per barrel. Analysts believe that these cuts will not re-balance the market; they also doubt that OPEC will be able to ensure compliance with the cuts from its members.

Global oil demand is forecast to rebound in the second quarter of 2017 after a weak first quarter. On a quarter-to-quarter basis, global demand growth is expected to post the strongest gains in the third quarter: global oil demand growth is forecast at 1.3 mb/d on average, to 97.9 mb/d on an annual basis for 2017, unchanged from the IEA's forecast in April. Based on current estimates, stocks are forecast to decline by 290 million barrels by the end of the year, bringing them to 2.73 billion barrels, just shy of the five-year average.

### III Economic Developments

**Iran receives French civilian aircraft:** Four ATR 72-600s are being delivered to Iran, the first instalment of a deal with the French manufacturer to purchase 20 passenger planes following the lifting of sanctions under the 2015 nuclear deal.

The first plane landed in Tehran on 17 May, with the other three expected later in the day. The planes were officially given to Iran Air in a ceremony on Tuesday in Toulouse, where ATR is based. Iran Air finalized a deal last month with ATR for 20 twin-propeller aircraft, with an option to buy 20 more. The planes are worth \$536 million at list prices. Since the nuclear deal, Iran has signed billion-dollar deals with Boeing and Airbus to replace and upgrade its aging commercial fleet.

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*(The views expressed are personal)*

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