



Middle East Dialogue
Baghdad, 15-16 December 2017
Summary Report

The Middle East dialogue, which began its twice-a-year meetings in October 2012, convened its eleventh meeting in Baghdad 15-16 December. Participants included current and former officials and senior experts from Egypt, Iraq, Iran, Jordan, Lebanon, Saudi Arabia, Syria and United Arab Emirates as well as China, Europe, Russia, and the United States.

The meeting's discussion covered three thematic areas: 1. Regional developments including the winding down of the fight against ISIS in Iraq, the decision by the Trump administration to move the U.S. embassy to Jerusalem, and Saudi Arabia's regional policies in Yemen, Iraq and Lebanon; 2. challenges facing reconstruction and sustainable governance in Syria and Iraq; 3. the principles for a new regional cooperation framework. The summary report follows the thematic areas covered. This meeting also produced a consensus document listing a set of principles to govern a new regional cooperation framework, published separately.

I. Recent regional developments

Key takeaways: The fight against ISIS in Iraq is winding down even if its ideology and psycho-social as well as physical reconstruction remain challenging. Saudi - Iraqi relations have improved, but Yemen has disappointed the hopes of many who thought until recently there were new opportunities for a diplomatic solution. The new U.S. administration is still in transition mode, with leadership personality playing a strong role, especially in the announced move of the U.S. embassy to Jerusalem. Saudi - Iranian tensions are growing over regional issues, despite agreement on the importance of defeating not only ISIS but also Iraqi Kurdistan's independence bid.

Iraq: progress in war, challenges ahead

Iraq's recovery is especially notable. Just three years ago, detonations were frequent in Baghdad, with one-third of the country under the control of ISIS. Society was divided, the economy and finance near collapse. Millions were displaced from their homes, and young people were fleeing the country. The region was suffering a high level of sectarian strife. ISIS was not universally recognized as a global threat. Chaos reigned inside Iraq, regionally, and internationally.

Now Baghdad has begun to return to normal. Eight million people are living and working safely



in the city. Security problems are comparable to Houston, Texas. Things are moving in the right direction.

How did this happen? The then new government re-evaluated Iraq's military forces, changed leaders, and promoted military officers based on merit rather than sect. Prime Minister Abadi stopped bombing of cities because it was inaccurate. Military and civilian institutions were reformed, including a sharp reduction from 35 in the number of ministers and streamlining of political, economic, financial, and administrative efforts. A *fatwa* from Ayatollah Sistani fueled the will of Iraqis, many from the south, to volunteer to fight against ISIS in the north, motivated by strong national feelings. More professional leadership as well as strong motivation enabled the Iraqi security forces to confront the immediate threat from ISIS, which harmed Sunnis as well as Shia. The Prime Minister offered a clear vision and commitment to justice and fairness. Brigades once called "dirty" (the Counter Terrorism Service, or CTS) are now termed "golden."

The Iraqi Security Forces fought together with the Kurdish Peshmerga against ISIS setting a new precedent in the cooperation between the two forces. Regionally, Saudis and Iranians are no longer squabbling in Iraq; both want to see a united, independent Iraq and have improved relations with Baghdad. The Iraqis want to see Saudi Arabia build improved relations with Iraq from the bottom up, through businesspeople and their interests. International partnerships to fight ISIS have helped but no foreign troops have had to fight on behalf of Iraqis. What military assistance Iraq needs from others in the future is intelligence, logistics and training. This assistance will continue even after the fight is over, to bring all the Iraq Security Forces up to the level of the CTS, under a unified command.

There are still lots of challenges ahead. It is not only cities but the hearts of the people that need reconstruction. Many youth are still displaced in camps. Working with the IMF and World Bank, Iraq needs to diversify its economy, encouraged by lower oil prices. The vision for Iraq 2030 will be completed soon, with a focus on the next generation. Iraq knows where it wants to go but does not want to do it alone. It needs the cooperation of regional and international partners.

ISIS is defeated militarily but its ideology persists. Regardless of sect, all parties should treat it like a cancer. All the ISIS fighters have not been killed or captured. The organization will now go underground. Some of its militants will re-emerge and attack vulnerable targets in Iraq. Only by working together using the best technology will we be able to meet this new challenge of an underground insurgency.

Those Iraqi militias not under control of official institutions will be disarmed. The Popular Mobilization Forces (PMFs) will have a role, but only within government institutions. Federal authority needs to be re-established, including at Iraq's borders, not only for security but also for economic reasons. Iraq loses \$10 billion per year because of ineffective customs collection.

The United States: Jerusalem decision

The U.S. shocked the region with its decision to move its embassy to Jerusalem, a decision the Trump Administration describes as merely a recognition of reality that will set the basis for a



peace plan by removing the most difficult issue and enabling negotiations to succeed. Others believe this move will reduce the U.S. role in the peace process by depriving it of its status as a more or less neutral superpower. Others are already jumping into the leadership vacuum (France, Russia, Turkey, China). Tehran views the U.S. move as a gift, jihadists are using it as a recruitment tool, traditional friends in the Gulf and Cairo are embarrassed, and America's closest allies are opposed, in particular the EU but also the Pope and the UN. The U.S. Secretaries of State and Defense as well as the National Security Council and CIA advised against it. The move of the embassy to Jerusalem forfeited leverage over Israel, giving away a crown jewel without anything in exchange.

Why did he do it? Trump has come to believe there is no Israel/Palestine deal to be had. Israeli Prime Minister Netanyahu is weak and under investigation for corruption. Palestinian Authority President Abbas, whose term is expired, is weak and old. Trump needed a win that would please his evangelical Christian supporters and a minority of radical Jewish Americans.

Why now? President Trump is desperate to strengthen his base during a period of vulnerability. The Special Counsel investigation is looming. The President is not likely to pay a heavy price domestically because the economy is strong, with 4.1% unemployment, 2.2 million jobs created as well as a rising stock market.

Congress has been largely silent on the Jerusalem decision, partly because it passed the law in 1995 that requires the President to decide periodically *not* to move the embassy. Commentary on the decision has been broadly negative, both in the media and from thinktanks concerned with the Middle East. Almost all former American ambassadors to Israel have opposed the move.

It is not clear what the next steps in the peace process will be. If the Trump Administration does put forward a peace plan, it will likely not be much different from ideas already on the table. But it may not happen at all. Trump makes many empty promises. The vacuum is not entirely new. The U.S. was also trying to withdraw from the Middle East under President Obama. The difficulty is no other country can really fill it, which amplifies the need for a new regional order.

Saudi Arabia and Iran: Yemen, Lebanon and Iraq

Regional stability is important to Saudi Arabia. The Saudis have a strong historical relationship with Yemen, which they regard as important to their national security because of its geographic location and the difficult mountain terrain along the border. 2015 was an important turning point, when the legitimate government of Yemen asked for Saudi intervention and the UN Security Council made its decision UNSC 2216. The Kingdom is trying to ensure its own security and prevent Hizbollah, Al Qaeda, and ISIS from establishing themselves on the other side of the Saudi Arabia-Yemen border. The Houthis are a threat that should not be tolerated..

While the war in Yemen is far from over, it is not going badly from the Saudi perspective: 85% of the country's territory is under control of the legitimate government, and Houthi heavy weapons are largely destroyed. The bombing is not random but selective. Through the King



Salman Humanitarian Center, Saudi Arabia is spending billions on relief, including providing for 2 million Yemenis in Saudi Arabia. Most ports controlled by the legitimate government are open. Hodeidah is not because it is a center for smuggling. The UN refused a request from the Saudi-led coalition that it supervise Hodeidah port. The military advance on Hodeidah is slow, but already smuggling is much more difficult. There is no predicting when the war will end, but at the World Bank people are thinking it will last another five years.

In Lebanon, the issue is different. Hizbollah is part of politics and society there. But the Taif agreement said no one outside government authority should carry weapons. Hizbollah has been training Houthis and firing Iranian missiles towards Saudi Arabia. This behavior prevents the Kingdom from having a normal relationship with Lebanon as well as Yemen. From the Saudi perspective, there is a need to differentiate between Hizbollah and the Lebanese government and prevent Hizbollah from interfering in other Arab countries' affairs.

In Iraq, Saudi Arabia tried in 2003 to distance itself from the invasion and sectarian politics while Nouri al Maliki was in power. The Saudis can now work with Haider al Abadi. New, positive ties are developing. The first need is to build trust on a people-to-people level such as incentivizing Saudi businessmen to engage in reconstruction and infrastructure investments in Iraq. The Baghdad International Fair in October was a positive indicator. The Saudis are optimistic and taking a non-sectarian approach, contacting Shia more than Sunni Iraqi leaders. There are enormous costs, direct and opportunity, associated with Saudi-Iranian tensions. In Iraq Riyadh and Tehran can both be accommodated.

According to an Iranian participant, Tehran's reaction to the new Saudi regional activism is relaxed, including in Yemen. Tehran is ready to see a power sharing arrangement there. Iran generally views the region in a positive light: Iraq has defeated both Daesh and Kurdistan independence, Syria is going well from Tehran's perspective, especially the Russian-directed Astana and the Sochi processes (even if they are no substitute for the UN talks in Geneva). Iran reacts to regional threats by establishing a regional presence, but it would also be happy to see regional issues resolved in a positive, multilateral way. Coalition-building is preferable to balance of power. There is no reason for Iranian regional presence in non-crisis situations, so Tehran is looking for political solutions.

The real challenge for Iran is the Saudi effort to reverse the benefits of the nuclear deal, in addition to efforts by Presidents Trump and Macron on the missile issue. Saudi Arabia would like to isolate Iran and contain it with economic pressure. Riyadh sees Iran as a revolutionary state and wants to force it to change its behavior. What the Saudis do not appreciate is that the nuclear deal, which has not been completely implemented by the West, no longer has the significance it once had inside Iran. Regional issues are growing in significance. Tehran is not aiming to withdraw from the nuclear deal but is using Europe to pressure Trump to relieve Saudi pressure.

Others in the region see things differently. They agree that Iraq is an important pillar of regional stability and were glad to see ISIS and Kurdish independence defeated. But they also see positive developments in Saudi Arabia that are important for the region: the country is



becoming more open, moderate and less corrupt. This is important for the fight against extremism worldwide. There is also growing tension between Saudi Arabia and Iran, with the possibility of military confrontation or war increasing to 20-30% by end of 2018. Saudi Arabia has reacted strongly to Iranian provocations. The United States may also be interested in military confrontation with Iran.

Russia is concerned about Saudi rhetoric against Iran, which makes the conflict in Yemen difficult to solve. Is it possible to keep a good dynamic in Iraq with disagreements between Riyadh and Tehran? Russia wants improved relations between the two countries, but finds a rapprochement is made more difficult by the U.S. antagonism towards Iran and towards the nuclear agreement.

II. Reconstructing fractured societies and sustainable governance: the cases of Iraq and Syria

Iraq

With the war winding down, Iraq is planning to go beyond physical reconstruction. A 20-person mission is finalizing its Vision 2030, which will provide a new narrative for all Iraqis. Iraq with business as usual could reach a GDP of \$420 billion by 2030, but with improved governance it could do \$700 billion. The economy needs to be transformed, not just reconstructed. Iraq 1400 years ago was the richest country in the region. The potential is enormous if the political economy is fixed.

The group discussed key challenges in 2018 for Iraq and what they portend for Iraq's future political trajectory.

1. Elections: There will be 2 million first-time voters in the May elections. Most of the Iraqi political parties have learned a great deal since 2005, but they still have vulnerabilities, as they lack internal democracy and many are family-based. The 2018 election will be a fight between those who advocate statebuilding and those who are more ideological. Iraq tried sectarianism, war and escalation: it all failed. The new Sunni generation is not embracing ISIS or Al Qaeda but wants first class citizenship. Even in Kurdistan loyalties are shifting. The Iraqi political map is changing. The challenge is to convince first-time voters to vote and trust the state. That will make it hard to pump up sectarianism.

2. Economy: Iraq faces several decades of statebuilding and economic recovery ahead. Services are a big challenge, even in the south. The economic challenges are the priority: 61% of the population was born after 1991, 40% after 2002. Young people enter the job market in staggering numbers every year: 850-950,000. They are still wanting government jobs. Economic reform is key, working with the World Bank, EU, and USAID.

Decentralization will be an important aspect of reconstruction in Iraq. By 2030 there will only be 10 to 12 ministries in Baghdad. The provinces will be taking on much greater responsibility, much as the states in the U.S. do.

The Kuwait reconstruction conference is coming up in February. Iraq will need \$143 billion by 2030, but the World Bank has only \$2 billion allocate for Iraq. The rest will need to be mostly



private funding. Iraq is looking for long term investment from the region in the electricity, gas, and water sectors. Baghdad wants the regional powerhouses to develop a stake in Iraqi future and long-term stability. That is what will protect democracy and stability in Iraq. The Japanese are supporting economic reforms. The rules of the game are clear and the process has become irreversible irrespective of who wins in next year's elections. The challenges now are efficiency and speed of construction, not just reconstruction, in damaged areas.

Corruption is a big issue for Iraq. It undermines trust in state institutions. UNDP is providing training with anti-corruption programs. Iraq is also working with Transparency International. Most of the country's laws are pre-2003, and the implementing regulations are not necessarily good. Baghdad is relying on the best available international expertise to overcome bureaucratic hurdles in the fight against corruption by establishing a truly independent judiciary and a one-stop shop for new foreign investments.

3. Baghdad-KRG relations: Reintegration of Iraqi Kurdistan is also an important objective. There has to be justice and transparency in relations between Baghdad and Erbil. Money laundering and excessive numbers of government employees in the Kurdistan Regional Government (KRG) are real issues. Baghdad is not going to fight the KRG. Kirkuk was retaken correctly, without serious clashes.

4. ISIS: While defeated militarily, its ideology still has appeal to certain segments of Iraqi youth. It is important to recognize that ISIS was not an Iraqi product. It was an Islamic product. ISIS is shifting tactics, becoming an underground insurgency. The fear is that regional and internal tensions persist, there will be space for ISIS to re-organize itself and move into other countries like Egypt, Turkey and Libya. There are terrorist networks inside Turkey. The Turkish security apparatus has yet to move against these networks on a larger scale. Terrorists are also targeting the GCC. The GCC leadership has started to recognize the danger of terrorism and are developing strategies to counter and defeat these networks.

Syria

Despite enormous physical and humanitarian harm in Syria, 90% of the losses are due not to destruction of physical assets but to collapse of the social order, especially trust and established networks. Trust has been lost between regions. Rebuilding Syria requires a new social order and restored social capital. Iraq is developing a vision and narrative for the future. Syria is not yet there. It is still very polarized in a zero-sum game. Rebuilding trust is a political issue. The opposition and government are not finding middle ground. There is no unifying narrative. People, including regime loyalists, are demanding to know: did we really lose 500,000 killed to relinquish the northeast of the country to the U.S.? Or to give Russia bases?

The economy is reviving in Damascus, but the overall macroeconomic situation is still deteriorating, with serious impacts on governance. Aleppo was completely retaken by the government in January, but nothing has been rebuilt in east Aleppo, which is totally destroyed. The government cannot reassert governance, law or order. The labor force is absent because so many young men are in the army, out of country, killed, arrested and in prison. Rebuilding requires the return of Syria's citizens, 5 million of whom are refugees and 6 million internally



displaced. The security services are resisting returns and want to keep the status quo.

Reconstruction has to serve peacebuilding and create a platform for regional integration. A multidisciplinary approach is needed that takes account of the regional geopolitics, including energy, water, and trade. The macroeconomics of exclusion should give way to inclusion, social capital, and cross-border dynamics. The future of the Syrian economy lies in Iraq, not insulated from it. Reconstruction institutions have to be transparent and accountable.

The World Bank has been engaging in this exercise of developing plans for a fictitious country that looks like Syria and has assembled a portfolio of possible projects. The EU, which is preparing for a second conference on Syria in the spring, might be willing to fund some economic reform projects. The Syrian government, which is nowhere near collapse, can run the country with its present \$24 billion GDP, but it would not be able to get the country back to its previous level or expand the economy from there. Syrians prefer the state, with or without Assad. The question is whether there are ways (bringing back middle-class refugees, for example) to encourage democratization?

One bright spot is decentralization: Damascus is authorizing local authorities to invest in natural resources, establish public/private partnerships, and issue bonds. But that can be dangerous in the absence of a national narrative about reconstruction and reforms.

The Americans are uninterested in Syria's reconstruction. There will be no money from Congress so long as Assad remains in power. World Bank assistance is a separate issue, but even that is likely to remain blocked. The Americans do not want to go to war with Assad, but they don't want him to stay either. The conflict between Assad and the opposition the Americans regard as a Russia's problem.

The Russians are not happy with having Syria as Moscow's problem, though it has taken advantage of the situation to scoop up contracts for oil and gas pipelines in Syria and is developing a strategy to use Syria as a transport route. That could be cold comfort if the wars do not end. Cooperation with Iran and Turkey is not sufficient for a political solution. Moscow's ally, Iran, is not going to be a big player in reconstruction, perhaps pumping into the country only \$5-10 billion. U.S. investments and political proposals are lacking. Do the Americans really intend just to remain in northeast Syria without proposing a political solution?

The wars in Syria are not yet over. The government has lost all but 90 of its war planes (out of 350). Three hundred tanks have been destroyed. The Israelis, perhaps encouraged by President Trump, may go to war against Syria to deliver a blow to Hizbollah and possibly Iran. The Americans are not leaving for now. They may not launch a major attack against Iranian or government forces, but they are preparing to challenge Iran in Syria in some fashion. Jordan is asking the Syrians to move Hizbollah away from their border. Turkey, which is still building refugee camps, might have a showdown with the Kurds. Everyone seems now to want Assad to stay, but morally and politically that is not reasonable. Are we just back to square one?

Bottom line: no one will spend the \$300 billion required to rebuild Syria under current conditions. Even China wants a political process first. The UN says it will take three years to



prepare elections, which would mean 2021, or the end of Assad's current term.

II. The principles for a new regional cooperation framework

The group heard a presentation on the Organization for Security and Cooperation in Europe, which is the institutional umbrella that covers Vancouver to Vladivostok based on principles adopted in 1975 to ensure a comprehensive approach to European security. It was acknowledged that the Middle East is not strictly comparable to Europe in 1975: the region is at war while Europe was at peace; the Middle East suffers many cleavages, not just one; intra-regional cooperation in the Middle East is far weaker, as are its state institutions.

Nonetheless, the group thought it would be useful to enumerate a set of principles that encourage the states of the region, which are often adversaries, to be far more inclusive, open and cooperative than in the past. Regional fragmentation and polarization should not be allowed to continue. If it does, ISIS will return. The region needs transformation from its current fractured states and societies to a more sustainable and integrated future. It needs a comprehensive concept of security, not only armaments and armies but also economic and human security. The agreed principles are published separately.