

BICOM Forecast

The Middle East in 2017

January 2017



Executive Summary:

- Twelve months ago, [BICOM's 2016 Forecast: The challenges of a disintegrating Middle East](#) identified a series of interlocking regional trends: these included fractured, dysfunctional, weak states with eroding borders; the rise and strengthening of sub-state actors; US retrenchment; Russia's return to the region; Iran's post-nuclear deal regional ambitions; mass refugee movements; and long term structural challenges surrounding issues of demography, water and energy. Twelve months on, many of these trends have persisted and become exacerbated, creating a highly dangerous security environment.
- These alarming regional trends coalesce with a Western world with serious challenges of its own and a desire to focus on domestic priorities. Much of Europe's energy will likely be taken up with elections in the Netherlands, Germany, France, Czech Republic and possibly Italy, the continuing refugee crisis, negotiations over Brexit, and potential Russian actions seeking to destabilise the EU.
- The coming year will likely see the territorial defeat of ISIS in Iraq and the strengthening of Bashar al-Assad in Syria. These events raise a number of challenges for the UK and the West, namely the rising threat of terror attacks in Europe, the return of foreign fighters, governance and reconstruction in former ISIS-held areas, greater numbers of refugees, and the encouragement of the Islamic Republic of Iran in its search for regional influence.
- Other potential scenarios could create serious security challenges for Israel and its neighbours Jordan and Egypt. If the Iranian-Hezbollah axis were to take over the area in southern Syria bordering Israel and Jordan, it would pose a significant threat to both countries. In addition, ISIS fighters relocating to the Sinai Peninsula following the group's territorial defeat in Iraq would constitute a grave national security challenge to both Israel and Egypt.
- The policy direction of the Trump administration in the Middle East is the big unknown but certain themes will likely characterise Trump's Presidency. He will be open to Israel's concerns and reject any efforts to exert pressure on it; he will seek common ground with Russia although it

remains unclear whether a grand bargain will be achievable over Syria; he will be inherently sceptical regarding the Joint Comprehensive Plan of Action (JCPOA) nuclear deal with Iran; and he firmly oppose Islamism in all its shades, which bodes well for US-Egyptian relations under Abdel Fattah al-Sisi.

- Additional issues and challenges in 2017 and beyond are the economic and security challenges facing Egypt, the significant reforms underway in Saudi Arabia, the challenge of maintaining the viability of the two-state solution, and preventing the issue of Palestinian succession from turning into a crisis for the Palestinian Authority's (PA) existence. Israel's warming ties with many Sunni states – with which the UK already has strong relations – provide an opportunity for building a new pillar of regional stability and should be encouraged.

Introduction:

Twelve months ago, [BICOM's 2016 Forecast: The challenges of a disintegrating Middle East](#) identified a series of interlocking regional trends which were creating a new and dangerous security environment: these included fractured, dysfunctional, weak states with eroding borders; the rise and strengthening of sub-state actors; US retrenchment; Russia's return to the region; Iran's post-nuclear deal regional ambitions; mass refugee movements; and long term structural challenges surrounding issues of demography, water and energy.

Twelve months on, many of these trends have persisted and become exacerbated. Weak and fractured states continue to beset the landscape of the Middle East, while the flight of millions of refugees affect Europe and Syria's neighbours, and countries continue to suffer from structural challenges of water, energy and demography. Iran maintains its post nuclear deal goal for regional hegemony with support for Shia militias and de-facto control over four Arab capitals – Baghdad, Beirut, Damascus and Sanaa. Moreover its proxy, Hezbollah, has further strengthened its power, possessing more rockets than all EU NATO countries combined and tightening its grip on Lebanese institutions. Russia has become more deeply entrenched in the region and now constitutes an integral part of the axis supporting al-Assad in Syria. At the same time, ISIS – which 12 months ago seemed to be growing in strength,

has been significantly weakened, and the group's territorial (although not ideological) defeat in Iraq is on the cards in 2017.

These regional trends coalesce with a Western world with its own challenges and priorities primarily focused inwards. Brexit, the Trump victory, and the rise of European populist parties seemingly represent deep unease with globalisation, while a more isolationist America under a Trump administration may further weaken the liberal international order which has been in place since the end of the Second World War. Much of Europe's energy will be focused on domestic elections (in the Netherlands, Germany, France, Czech Republic and possibly Italy), the continuing refugee crisis, and negotiations over Brexit. Moreover, the enormous success of Russia's covert strategy to influence the US elections is likely to embolden Russia President Vladimir Putin to use similar tactics in Europe.

The biggest unknown in 2017 relates to US policy under the incoming Trump administration. President Barack Obama's regional policy represented an attempt to reduce US commitments, complete the withdrawal of US troops from Iraq, "rebalance" between Iran and its Sunni foes, try to resolve the Israeli-Palestinian conflict, refuse to become overly involved in the Syrian civil war, and subsequently to accept the presence of Russia as a major player. Yet Trump's regional policy is unclear. The Middle East will be profoundly shaped by the Trump administration's global priorities and its position on a variety of regional challenges such as Israeli-Palestinian peace and Iran, Russia, and the Syrian civil war. In turn, developments in the region will have direct ramifications for Europe in a year of key elections and Brexit negotiations, just as security threats and migrant flows emanating from the Middle East have already influenced European politics in recent years.

This 2017 forecasting paper is divided into three sections: a review of the big unknown, which revolves around the Trump administration's Middle East policies; likely events, which focus on the territorial defeat of ISIS in Iraq as well as the continuation of the Syrian civil war and the geo-strategic challenges arising from them; and 2017 and beyond, which includes significant issues whose direction will continue to shape the region for the next few years.

Part 1: THE BIG UNKNOWN

Trump's Foreign Policy

Trump's pre-election campaigning was neither poetry nor prose and analysts remain in the dark as to his administration's international direction. His statements and candidates for top posts suggest a tendency towards both isolationism and internationalism and he has made contrasting statements regarding the extent to which the US will continue to support its traditional allies.

Moreover many of Trump's promises directly contradict one another. He expressed his wish to be a neutral mediator in the Israeli-Palestinian conflict and his aim to achieve the "ultimate deal," but also promised to move the American embassy to Jerusalem and show sympathy to Israeli concerns. He vowed to scrap the JCPOA nuclear deal with Iran but also discussed enforcing it more tightly. The administration is also faced with policy dilemmas. It has sworn to weaken Iran and defeat ISIS. But an expected laissez faire attitude to Russia in Syria will strengthen the Islamic Republic of Iran and alienate those Sunni Arab partners America will need to crush the Islamic State.

One key question relates to whether common ground can be reached with Russia regarding Middle East issues. Such a deal would probably involve dropping US sanctions over Ukraine and giving the Russians (and perhaps by definition the Iranian-axis) a freer hand in Syria, perhaps in return for American freedom to pressurise Iran over the nuclear deal. But questions abound regarding the possibility of driving a wedge between Russian and Iranian interests in Syria.

Despite the unknowns there are several themes that will likely characterise a Trump administration. His isolationist tendencies will not prevent him searching for real achievements and the administration will likely: be open to Israel's concerns and oppose any international attempts to pressurise the Jewish state; seek to find common ground with Russia; approach the JCPOA nuclear deal with Iran [differently](#), perhaps by focusing on enforcing Iran's compliance and calling out [substantive breaches of the accord](#) or critiquing related activities such as repeated ballistic missile tests that violate the spirit of the pact; and be anti-Islamist – both towards radical groups like ISIS and towards the more political varieties like the Muslim Brotherhood, which bodes well for US-Egyptian relations under al-

Sisi. It remains to be seen whether Trump's more radical anti-Muslim statements will negatively affect his relations with the Arab world in general.

Part 2: THE LIKELY SCENARIOS AND CHALLENGES

2.1 ISIS will be territorially defeated in Iraq

Following territorial losses in Sinjar, Fallujah, Tikrit, Ramadi, and Qayara, ISIS now faces a campaign – which has been under way since late 2016 – to liberate Iraq's second largest city Mosul. At some stage during the coming year a coalition consisting of US-led air power and advisers together with Iraqi Security Forces, Kurdish Peshmerga, the Iraqi government supported Shia "Popular Mobilisation Units" (Hashd ash-Shaabi), and the Sunni-led Hashd al-Watani (National Mobilisation) militia will likely capture the city and its environs.

ISIS may ultimately continue to survive despite its territorial defeat, although more as an ideology or insurgency than as a territorial caliphate. Yet because the groups fighting against them have clashing agendas, ISIS's territorial defeat in Iraq may actually open up several other political and ethnic challenges. Moreover, in addition to the problems of future governance and reconstruction in the shadow of deep sectarian tensions and grievances within Iraq, ISIS's likely territorial defeat raises the challenge of large refugee flows, the flight of many foreign fighters, and the political question of the future of Iraq.

Challenge: Preventing terror attacks in Europe

Even while under heavy attack in Iraq and Syria, ISIS still managed to organise, inspire and implement numerous terror attacks in Brussels, Paris, Orlando, Berlin, Istanbul and the group's ability to carry out further attacks remains strong. In August 2016 [Nicholas Rasmussen, head of the US National Counterterrorism Center](#), told the House Homeland Security Committee: "Despite the progress [of coalition forces against ISIS], it is our judgment that [the group's] ability to carry out terrorist attacks...has not to date been significantly diminished." As the group's territorial defeat looms closer, additional attacks will become even more likely.

The Berlin attack exposed major failings by EU member states regarding lack of intelligence sharing as well as an absence for a coordinated refugee

policy and checks to determine who enters the bloc. Julian Lindley-French, a veteran British security expert [recently argued](#) that "Europe is in a security crisis," emphasising "the seemingly total inability of Europe's leaders to properly secure and defend the very European citizens who elevate them". Turkey, which has already suffered numerous terror attacks from ISIS and which is bearing the main burden of the refugee crisis will also be under threat.

While many potential attacks could be carried out by sleeper cells or refugees claiming asylum, the security threat will also be raised by the return of many European foreign jihadi fighters.

Challenge: The return of foreign fighters

The coming defeat of ISIS in Iraq is contributing a new generation of "wandering mujahidin," analogous to those who emerged from the Islamist fight against the Soviets in Afghanistan in the 1980s, the most infamous product of which was al-Qaeda. [Approximately 27,000 to 31,000 foreign fighters](#) are believed to have joined ISIS since the start of Syria's civil war, which include 5,000 and 7,000 Europeans (approximately 800 of whom are from the UK), as well as approximately 2,400 fighters from Russia and 4,700 from former Soviet countries. A report presented to EU interior ministers by counter-terrorism coordinator Gilles de Kerchove estimated that between 30 to 35 per cent of European fighters have already returned to their homes, while approximately 2,000 to 2,500 Europeans remain in the battle theatre. In an interview with Bild in September 2016, German Interior Minister Thomas de Maiziere warned that the country is already home to at least 520 Islamic militants who could be capable of carrying out assaults on their own or as members of "hit teams," adding that another 360 "relevant" people were known to police because of their close proximity to the potential attackers. Around half of British fighters who travelled to Syria and Iraq are believed to have returned, with 55 of them subsequently convicted of fighting for or aiding extremist groups.

Describing the threat during a Fathom Forum in November 2016, [Peter Neumann](#) argued: "Some of the foreign fighters will be disillusioned... others will still be jihadist in terms of their mind-set, but they will not necessarily act on it. But some of them of course will still be dangerous and will want to carry out terrorist attacks." Neumann added that "the greatest challenge for security agencies in Britain and other European countries will be to distinguish between those groups".

Their combat experience makes the latter group more capable and dangerous than “home grown” extremists without such experience.

Thousands of Jihadi fighters returning home to other countries in the Middle East could also constitute domestic national security threats and Western nations should provide support to these countries to better cope with the challenge.

Those fighters that neither return to Europe or to their Middle Eastern countries of origin face a dilemma of where they might regroup. With ISIS losing ground in Libya, Iraq and Syria, security officials in Israel believe that many fighters may relocate to the Egyptian Sinai, where Wilayat Sinai (Sinai Province) is doggedly battling the Egyptian army. Such a move poses serious security risks both to Israel – which has already been targeted by ISIS attacks emanating from Sinai – and Egypt, whose army is already struggling to defeat the ISIS insurgency in its territory.

Challenge: Reconstruction and governance in former ISIS-held areas

Those cities liberated from ISIS will face serious reconstruction and governance challenges. For example, when Ramadi was retaken by Iraqi forces in February 2016, 90 per cent of the town was still filled with explosives, and only a small proportion of its displaced population has subsequently returned. In Falluja, which was liberated in June 2016, less than one third of the city’s original 300,000 residents have come back. These cities, together with Mosul, will need years and millions of dollars before they can be rebuilt and cleared of explosives.

The liberation of Mosul also raises the question as to who will control the territory that has been liberated from ISIS. Tensions could easily boil over between the Iraqi government, Kurdish forces, and militias while regional powers such as Turkey, Iran and Saudi Arabia are also competing for influence. Added to this dilemma is the need to resolve ethnic divisions in Iraq and the continued exclusion of the Sunni community. Such exclusion has been accelerated by the experience and abuses of government-supported Hashd ash-Shaabi (Shia) forces, which took control over Sunni cities such as Ramadi and Fallujah. Indeed one major challenge facing the Iraqi government and international community is ensuring Sunnis will enjoy inclusion and governance responsibilities in the post-ISIS era and involve themselves in the Iraqi system.

Challenge: Even more refugee flows

In addition to the millions already displaced by the Syrian civil war, the liberation of Mosul raises the challenge of having to provide for up to an additional 1.3m refugees. UNICEF says more than 213,000 people have already fled Mosul since May 2016. According to estimates, 500,000 residents are expected to move into Kurdish-controlled areas to the east (there are already 1.8m refugees in Iraqi Kurdistan), while at least 500,000 more could flee to areas controlled by the Iraqi military to the south or west. Inevitably a significant number will seek to reach Europe, and with the continent currently lacking the tools to control migrant flows into its territory and to deal with those who have already arrived, the international community has little capacity to cope with this scenario.

2.2 The war in Syria will continue and al-Assad will expand control over “vital Syria”

The US and Western powers have expressed cautious optimism about the Turkish-Russian sponsored Syrian ceasefire signed in late December 2016. However, the previous two ceasefires collapsed within weeks, and it is unlikely that this current one will hold in the long-term, especially as it excludes ISIS and other groups. The war has caused the death of almost half a million people, caused the displacement of 11m, generated a refugee crisis in the Middle East and Europe, destabilised Syria’s neighbours, and facilitated the rise of Iran and the emergence of Russia as a force to be reckoned with, and that war is unlikely to end in the coming year. Moreover, the recent victory of al-Assad and his supporters in Aleppo suggests that not only will he still be Syria’s President in 12 months’ time, but that he will have expanded the territory under his control.

Since mid-2012 the map in Syria has remained more or less the same, with the territory primarily divided into separate sectarian enclaves. However, 2017 may be the year in which al-Assad – aided by Russian bombs and Iranian, Hezbollah and Shia-militia boots on the ground – expands the territory under his rule to control what is referred to as “vital Syria,” the urbanised north-south spine of the country that connects Damascus to Aleppo. This scenario would become even more likely if the Trump administration decides to give the Russians a “pass” in Syria. The expansion of territory by al-Assad and his allies raises significant challenges for Israel, Jordan and those in the region and the West who fear Iranian regional hegemony.

Challenge: The Iranian-Hezbollah axis may take over the border areas by Israel and Jordan

While the victory in Aleppo frees up the estimated 20,000 troops the regime has the capacity to deploy outside of frontline areas, the influx of forces is not enough to launch several large offensives simultaneously, thus leaving an open question regarding where the next campaign should be focused.

Idlib represents the most urgent, important and likely location for the regime where rebel fighters numbering approximately 50,000 have regrouped under the umbrella organisation Jaish al-Fatah. A regime offensive would protect Hama from rebel forces located to the north of the city as well as strengthening the Alawite Syrian heartland and creating territorial contiguity with the Turkish border. Yet al-Assad has other options. The city of Palmyra was taken by ISIS when regime forces were concentrated on Aleppo, the road between Palmyra and Deir al-Zour possesses strategic importance, and the ISIS capital of al-Raqqa is also significant.

The principal danger for the Hashemite Kingdom of Jordan lies in regime-supporting Iranian-Hezbollah backed forces taking over Daraa, in southern Syria. Already challenged by a struggling economy and bloated public sector, the difficulty of absorbing approximately 1.5m Syrian refugees, and a security threat from ISIS, Jordan views an Iranian presence on its border as a major cause for concern. Alarmed by Iranian attempts to undermine his monarchy, King Abdullah was the first leader to warn about an emerging “Shia Crescent” in 2004 and militias along the border would pose an additional challenge to Jordanian national security. An alternative – but also worrying – scenario involves ISIS taking over the border area. Lieutenant-General Mahmoud Freihath, Chairman of the Joint Chiefs of Staff of the Jordanian military recently declared that Rukban and Hadallat, two camps straddling the Jordanian-Syrian border and hosting tens of thousands of refugees is already controlled by the group.

Iranian-Hezbollah-backed forces in the border areas may also create a “second front” against Israel on the Golan Heights, a goal the axis has been working towards for some time. Such a scenario raises the possibility of the Syrian civil war spilling over into Israel as well as the chances for direct Israeli-Hezbollah conflict.

In the short term, it seems that areas in the south are a low priority for the regime, but Israel, Jordan and its Western allies should continue to closely monitor the area, and Russia should use its influence to dissuade Iran and Hezbollah from deploying troops there.

Challenge: Iran as a regional hegemon

Both al-Assad’s likely regaining of control in Syria and the territorial defeat of ISIS in Iraq will help Iran expand its influence throughout the region. Already closely coordinating with senior government and security officials in Baghdad and Damascus, and aided by Shia militias on the ground from as far away as Afghanistan and Pakistan, Iran will be further strengthened by the fall of Aleppo and subsequently of Mosul, and could even achieve a contiguous land corridor to the Mediterranean. As explained by senior adviser to three heads of US Central Command [Ali Khedery](#), such a territorial link “signifies the consolidation of Iran’s control over Iraq and the Levant, which in turn confirms their hegemonic regional ambitions...that should trouble every western leader and our regional allies because this will further embolden Iran to continue expanding, likely into the Gulf countries next, a goal they have explicitly and repeatedly articulated”.

One organisation also enlarging its influence under the Iranian expansion umbrella is Hezbollah, which now acts like a regional power. While its involvement in Syria raised the ire of Lebanese Sunni (as well as the 1m Syrian Sunni refugees currently residing in Lebanon), Hezbollah’s involvement in the war has been a success and has helped it secure an even more influential position in the Lebanese domestic scene, as demonstrated by the recent election of Michael Aoun to the Lebanese presidency and the ministers chosen for the new government. The group has led most offensives, often commanding militias from three or four different nations. Its fighters – who have gained vital strategic experience from coordinating with Russia – can efficiently work with conventional armies to capture territory. Hezbollah continues to attempt to improve its military capacity for a future conflict with Israel, which, while unlikely in the short term would be devastating for both Israel and Lebanon. The group is estimated to possess 100,000 – 120,000 rockets – many of which are hidden amongst the civilian population of South Lebanon – thousands of which with a range and accuracy to strike cities and strategic sites throughout Israel.

As part of its regional strategy, Iran recently announced plans to build naval bases in Syria and Yemen. The former would expand Iran's naval arm to the Mediterranean and enable it to transport supplies and arms to Hezbollah without being dependent on land convoys or aerial transport, although Israeli actions to prevent such transfers – as has happened several times before via alleged air strikes – could become a cause for instability. The latter would enable Iran to better support the Houthi rebels – fighting Saudi Arabia-backed leaders – and as Yemen sits on the strategic shipping route of the Bab el Mandeb Strait, one of the world's most heavily trafficked waterways, it would also threaten Saudi Arabia. Britain's has long-standing security relationships with Gulf states and recently opened a new naval facility in Bahrain. It is thus likely to continue to face calls from its Gulf allies to help confront the rise of Iranian regional influence.

It remains to be seen to what extent a potential American-Russian grand bargain or regional *modus vivendi* might drive a wedge between Russia and Iran and constrain Iranian expansion. Iranian and Russian interests in Syria are not identical and Iran's establishment of a parallel security state in the country clashes with Russian strategic interests. But in any event, Iran will likely strengthen its influence in the region in the coming year, which poses challenges to Israel, the Gulf states and Western interests.

PART 3: 2017 AND BEYOND

3.1 Turkey and the “territorial integrity” of Iraq and Syria

The two likely events – the territorial defeat of ISIS in Iraq and al-Assad's expansion into “vital Syria” – raise the longer term question as to the future of the “territorial integrity” of both countries. At least in the short term, Syria will continue to be divided between the regime and its proxies, rebel Sunni insurgent strongholds, ISIS, and the Kurdish People's Protection Units (YPG). Yet Kurdish aspirations for autonomy in northern Syria will be strongly opposed by Turkey – which is particularly concerned about the creation of a contiguous and autonomous Kurdish territory along its border in northern Syria. In fact, preventing Kurdish territorial contiguity has now become the Turkish national security priority, overtaking defeating ISIS and al-Assad's future. It was this strategy that primarily motivated Turkish military intervention – together with a

Turkmen unit and a coalition of Arab fighters – as part of Operation Euphrates Shield in August 2016. These forces now control an area of roughly 490 square miles in northern Syria and will be unlikely to withdraw as long as Kurdish contiguity remains a possibility.

This evolution of President Recep Erdogan's policy has also facilitated warmer relations with Russia, with whom Turkey recently forged a Syrian ceasefire. Yet de-facto partition will endure. Turkey continues to battle the Kurdistan Workers' Party's (PKK) fighters in its own territory and has shown little willingness to accede to YPG territorial gains. While Erdogan will likely seek to wean the new US administration away from its support of the YPG, his success will be heavily dependent on any Russian-American agreement as to the future of the Kurds, who, as an integral part of the Syrian Democratic Forces (SDF), are essential to the capture of al-Raqqa. Another key question for Turkish policy will be its relationship with the Trump administration. On the one hand, Turkey is a key ally in the war against ISIS. On the other, it supports Islamists such as Hamas and the Muslim Brotherhood, which the administration sees as enemies.

Turkey is also pursuing influence and physical presence in Mosul. It already has a military base near the town of Bashiqa 10 miles north of the city and in October 2016, Erdogan invoked an early 20th-century irredentist document, the “Turkish National Pact,” that claimed the Iraqi city of Mosul on Turkish soil. Turkey has received an Iraqi commitment to continue to fight against the Kurdish PKK, but it will not be involved in the liberation of Mosul itself. Ultimately, while the territorial defeat of ISIS will resolve one regional challenge, it, it will simultaneously open several others, not least of which are the competing territorial and strategic claims over parts of Iraqi territory.

3.2 Egypt faces serious domestic challenges

Egypt, the most populous state in the Middle East with 93m people, enters 2017 facing severe domestic challenges. Challenged by severe budgetary deficit, a soaring food crisis and rising internal debt as well as rapid population growth and government reluctance to implement cutbacks and apply reforms, the Egyptian economy has floundered. Inflation is consistently in the double digits and an average unemployment rate is close to 13 per cent (with youth unemployment reaching 35-40 per cent). Moreover, the army

continues to control significant amounts of the Egyptian market. To counter these difficulties, the International Monetary Fund's (IMF) executive board approved a US \$12bn loan to Egypt in November 2016 which was aimed at reviving a struggling economy, bringing down public debt and controlling inflation. However, Egypt may face complications in maintaining its austerity policies in the coming year, while foreign investment will likely remain limited to short-term investments.

Egypt will also continue to suffer from an emboldened insurgency in the Sinai, especially if ISIS fighters relocate there from Iraq. Despite the announcement by Egyptian President al-Sisi that Egypt had 25,000 troops stationed in Sinai, the army remains unsuccessful in effectively working with Bedouin tribal leaders and has failed to come to grips with the military threat posed by Sinai Province. Continued attacks will further undermine the status of both the Egyptian army and regime. Attacks in Egyptian cities, such as the bombing of a Copt Church in central Cairo and the assassination of a senior Egyptian army officer, which were carried out by both small Muslim Brotherhood-affiliated groups, and from ISIS, will also continue.

The unstable security situation will hurt Egypt economically with foreign companies reticent to invest and tourism remaining low. The UK has significant economic interests in Egypt and helping to maintain stability should be a priority. British investment in 2015 totalled US \$5bn dollars, while in July 2016, a UK trade envoy to Egypt, and the head of UK Export Finance, visited Cairo to discuss expanding trade and investment ties. Western states may also want to encourage a renewal of Egyptian-Saudi ties which have collapsed over disagreements regarding Syria, the war in Yemen, and the Sanafir and Tiran islands off the Sinai Peninsula. Certainly the renewal of Saudi Arabia transferring oil products to Egypt, which have been frozen since October, would alleviate some of Egypt's economic difficulties.

3.3 Saudi Arabia and “the revolution disguised as economic reform”

Saudi Arabia is in the process of planning reforms as part of a national transformation program known as [Vision 2030](#). Many of these reforms – which include cutting various subsidies, raising taxes, selling major state assets, and making room for the private sector to play a larger role in the economy – have been inspired by 31-year-

old Saudi Deputy Crown Prince Mohamed bin Salman, who is third in line for the throne behind Crown Prince Mohamed bin Nayef.

It remains to be seen whether these moves will be successful or will undermine the foundations of Saudi Arabia. The Kingdom faces economic challenges due to the low price of oil and in October 2015 the IMF announced that Saudi reserves could be exhausted by 2020 if current low prices continue. Moreover, the country continues to be challenged by Iranian regional advances and its costly war in neighbouring Yemen, where it has failed to achieve its strategic goals and has led to a humanitarian calamity and a PR nightmare in Western capitals.

As a traditional oil producing ally which opposes Iran and has a pro-Western orientation, Saudi Arabia should have close relations with the Trump administration, although Islamic extremism within the country may put this at risk. Speaking at the [Annual BICOM policy conference](#) with the Jewish News, Dennis Ross related a visit to the Kingdom in which a Saudi official described “the revolution disguised as economic reform”. Ross emphasised the importance for Western interests of encouraging the 2030 Vision reforms and noted their potential significance for the region as a whole: “There has never been a successful model of development or modernisation in the Arab world. But here in Saudi Arabia we now see an attempt to do that. And the implications of having a successful model [to reconcile modernity with Islam] for the first time will not just be felt in Saudi Arabia, but is it something that could be transformative for the region.”

3.4 Israel's warming relations with the Sunni states

Threats posed by Iran and its allies, the expanding danger of Sunni Jihadism, and US retrenchment under the Obama administration have created a convergence of interests between several Sunni Arab states and Israel with cooperation taking place below the radar in security, technological and even diplomatic fields. One anecdote refers to a visiting European diplomat to Israel who stops his host in the middle of a recitation of the threats facing Israel to tell him that he has just come from the Gulf where he heard exactly the same list in the same order. Whilst many Arab representatives make clear that normalisation of relations cannot happen without substantive progress on the Palestinian issue, there is reportedly a new willingness to pursue diplomacy with Israel in

parallel to steps towards Israeli-Palestinian peace. Whilst renewed bilateral Israeli-Palestinian talks would be unlikely to yield success on their own at this point, the involvement of Arab states could provide additional incentives to Israel to make difficult compromises and political cover for the Palestinians to do likewise.

This convergence provides third parties, especially the US, UK and European governments, with an opportunity to promote a regional process advancing peace. Such a process could incentivise both Israel and Sunni Arab states to take steps that would unlock the potential of this moment, as well as to encourage the PA to appreciate the opportunity. While it is unclear to what extent the international community will pursue this route, it certainly offers greater promise than forcing the sides back into a bilateral framework or advancing internationally imposed terms for resolving the conflict.

3.5 The Palestinian succession crisis

Palestinian President Mahmoud Abbas, 82 in March, has reiterated his intention not to compete again in elections, yet has failed to appoint any successor or deputy, despite the continued urging of the so-called Arab Quartet (Egypt, Jordan, UAE and Saudi Arabia). Indeed Israel, Jordan and Egypt remain wary of any succession crisis and have expressed concern that a leadership vacuum and a prolonged succession battle could undermine stability in the West Bank and cripple the already weak PA, if not result in its collapse.

The Palestinian succession crisis may not take place in 2017. But those who ultimately assume leadership of the PA and the Palestinian Liberation Organisation (PLO) after Abbas – and who will most likely be from the Fatah faction of the PLO – will be forced to contend with a constituency that has grown disillusioned with the promises of the Oslo process and may move toward a more rejectionist platform regarding final-status issues, in order to compensate for any potential legitimacy deficit. Alternatively, a future Palestinian leader might reject the bilateral negotiation track towards establishing two states, preferring instead to double down on an internationalisation agenda or a sustained campaign of nonviolent resistance.

In the short term, given how unpopular security coordination with Israel is for many Palestinians, those vying to succeed Abbas may feel compelled to suspend it, which in turn would significantly weaken the PA. Those countries in

the international community who are focused on Palestinian statebuilding – especially the US, UK, Canada – have an important role to play in continuing to professionalise the Palestinian National Security Forces. Moreover, steps to advance Palestinian statebuilding in general are essential in light of the potential future instability in a post-Abbas era.

3.6 The viability of the two-state solution

Israeli-Palestinian relations and the future of the two state solution will be heavily influenced by the interface between four stakeholders: the Trump administration – which has promised to move the American Embassy to Jerusalem and which has appointed an ambassador who is at best sceptical (and at worst opposed) to a two-state solution; a right-wing Israeli government, many of whose members perceive a “window of opportunity” for Israel to expand its sovereignty and control over the West Bank and are pressurising Prime Minister Benjamin Netanyahu to act accordingly; a weak, increasingly unpopular PA, whose leader is approaching the end of his political career and who has appointed no clear successor; and Sunni Arab states, who are warming in their relations with Israel, but who need to see real progress on the Palestinian issue to translate these relations into more public ones.

Within this framework, the relations could go in one of two directions: The first, confrontation, would include the embassy relocating to Jerusalem (most likely in June 2017 when the waiver all presidents have traditionally signed to postpone the implementation of the relevant 1995 Congressional Act expires), settlement growth surging as the government weighs annexation of Maaleh Adumim, violence on the ground increasing, and the Palestinians revoking their Oslo-era recognition of Israel and, inspired by the recent UN Security Council Resolution 2334 (UNSCR 2334), promoting economic boycotts against settlements and law suits against Israeli leaders and officials in the International Criminal Court (ICC). An alternative scenario would include policies aimed at keeping the window of the two-state solution open. The Trump administration could emphasise the importance of this approach – incoming Secretary of State Tillerson recently termed it an “aspiration” – and raise the possibility of a political horizon or a diplomatic process. The administration will not pressurise or coerce Israel, but it may give its stamp of approval to any agreements or initiatives advanced by the Arab world or suggested by Israel. Palestinians and

Israelis will likely continue to malign one another in the diplomatic arena while maintaining close security coordination on the ground to ensure the survival of the PA. And despite the absence of bilateral Israeli-Palestinian face to face talks, violence on the ground will be contained, and no unilateral acts will be carried out that close the option for two states.

UNSCR 2334 makes bilateral negotiations harder in the short to medium term. Moreover although some Arab states welcomed the subsequent “Kerry Parameters,” they were rejected by Israelis, Palestinians and the incoming administration, and they are unlikely to form the basis for any renewal of negotiations for the time being. The best scenario for Israeli-Palestinian progress in the coming years seems to be via a regionally driven multi-dimensional approach which holistically focuses on all of the relevant challenges – mutual recognition, security issues, Palestinian economic development, access and movement, Gaza reconstruction, settlement policy, designing a political horizon, the role of the international community, Palestinian unity and governance, and creating a supportive public atmosphere. A BICOM publication based on a series of track two dialogues between Israelis and Palestinians discussing these issues will be published in the coming weeks.

Hamas-ruled Gaza continues to pose a serious challenge for Israel and the international community. The UN has warned that the Strip will be uninhabitable by 2020, Hamas continues to reject Quartet principles for international recognition and to re-arm, and the Fatah-led PA shows little willingness to become re-involved in the territory. While there are [Israeli ideas](#) as to how to alleviate the situation – including a long term ceasefire in return for reconstruction of Gaza and building a port – government officials are wary of strengthening Hamas and undercutting the PA, who themselves are opposed to any mediated Israeli-Hamas agreement that excludes them.

CONCLUSION

The coming year will see instability as a Middle East best by weak governance, refugees, and terrorism – some of which may be “outsourced” to Europe – meets institutional weakness in the EU and an incoming Trump administration whose policies are still unclear.

The defeat of ISIS in Iraq and al-Assad’s

strengthening in Syria will embolden Iran regionally, although the Islamic Republic may face push back by the Trump administration with respect to any changes to the nuclear deal. Egypt and Saudi Arabia – the traditional leaders of the Sunni world are facing national challenges and need Western support. Israel continues to face instability and security threats on its northern and southern borders from Hezbollah and ISIS, while the peace process with the Palestinians seems to be in deep freeze and Gaza is a powder keg. The UK has an important role to play in approaching these challenges. It should counter Iranian regional hegemony, provide support to Egypt and Saudi Arabia, seek to strengthen Israel-Sunni relations, and reinforce the PA. It may also be forced to refine its policies to cope with the continued number of refugees fleeing the region on their way to European shores, as well as to protect its own citizens from terror threats from a soon to be defeated ISIS.

This report has been produced by BICOM’s research team in consultation with British and Israeli security experts. We are grateful for their help.

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APPENDIX | 2017 PREDICTIONS

To accompany this 2017 Forecast, BICOM asked five renowned Middle East experts for their three top predictions for 2017.

Dennis Ross, William Davidson Distinguished Fellow, the Washington Institute for Near East Policy

1. ISIS will be forced out of both Mosul and Raqqa in 2017, but it will not disappear completely from either Iraq or Syria and there will still be some acts of terror carried out in its name in both countries and in Europe. However, ISIS as a brand will be damaged because much of its appeal was based on its having established a state and a caliphate. Without the “Islamic State” it will be difficult to maintain the narrative, and the allure of that narrative, that it has a divine mandate.
2. The war in Syria will not end this year. Efforts by the Russians to produce a durable ceasefire and a political process will founder on al-Assad’s continuing presence. While there may be pauses in the conflict, there will be an ongoing insurgency so long as the al-Assad clique remains in power. The interesting question will be whether Putin at some point is willing to part ways with al-Assad.
3. The JCPOA will not collapse and neither the Iranians nor the Trump administration will walk away from it. The Trump administration will show greater vigilance in enforcing the deal and being prepared to impose costs for violations; it may even seek new sanctions for Iran’s destabilising behaviours in the region. Iran will complain about the new pressures from the American administration and seek support from the other members of the P5+1, but the Islamic Republic, too, won’t be the one scrap the deal.

Emily B. Landau, Senior Research Fellow, Institute for National Security Studies

1. As we look toward 2017 from the Middle East, the top challenge is no doubt Iran – its nuclear activities and hegemonic moves to increase its power and influence across the region at the expense of pragmatic Arab states and Israel. After a highly problematic nuclear deal was concluded, the past 18 months have been characterised by ongoing Iranian provocations and defiance – including missile tests, military

intervention in Syria, and attempts to transfer game-changing military-ware to Hezbollah. There has been no pushback from America, weakening its deterrence and leverage.

2. The big change of 2017 is the new Trump administration, which is the crucial factor for determining whether we see sorely-needed change in the US approach – possibly altering the entire dynamic vis-à-vis Iran – or not.
3. Complicating matters is the fact that once Obama projected he is “leaving” the region and Putin came in forcefully via Syria, US-Russian relations have become intimately tied to the ability of the US to take a tougher stance on Iran. Europe’s unwillingness to see any problems with the nuclear deal, fuelled by an obvious eagerness to put business interests ahead of non-proliferation responsibilities only makes the challenge that much harder.

Dr. Dahlia Scheindlin, Policy Fellow, Mitvim: The Israeli Institute for Regional Foreign Policies.

1. To be blunt, the future of the Middle East looks bleak: realpolitik is crushing human rights and lives alike; democracy feels further than ever. Al-Assad’s regime will go on slaughtering its citizens, and may eventually gain the upper hand over most of the country, with Putin’s help and Trump’s enthusiastic support for Putin.
2. Saudi Arabia will continue to be America’s best ally in the region, and has an interest in keeping flames with Israel low in the region. Enemies of enemies can create some sort of friendship, especially if the enemy is Iran.
3. Certain actors in this Middle East have incentives for cooperation, rather than isolation of Israel. Typically, the Palestinians will probably be sacrificed on that altar as powerful actors have little incentive to press for a solution that hardly exists anyway. Lamentations over the “closing of the window” for the two-state solution were the soundtrack to relentless spread of settlements and army presence in the West Bank in recent years. The American government ended 2016 by warning urgently of two-states’ demise. In 2017, key stakeholders should know that this traditional conflict resolution approach is not going but gone. Forty-four per cent of Israelis support annexation of the West Bank to Israel in general, according to the

Israel Peace Index. In one of their surveys, many support it with (20 per cent) or without (27 per cent) equal rights for Palestinians. If Israel takes that path, the remaining choice is whether Israel will annex with rights for all, or create a permanent regime of rank inequality between the river and the sea.

Paul Scham, Associate Professor of Israel Studies, University of Maryland

1. Israeli policy on settlements will not fundamentally change, even if some of the context changes, e.g., whether or not Netanyahu resigns (or is forced to), whether or not the new administration is pro- or anti-settlement, and whether or not the 17 January Paris conference produces anything.
2. The “Islamic State” will be seriously weakened as a coherent military force and lose most (or even all) of the territory it controls in Iraq and Syria. Partly as a consequence it will put more resources into terrorist attacks in the rest of the world, some of which will probably succeed. Russia and Iran will have effective control in most of Syria.
3. The JCOPA will remain in place and not change fundamentally. Even if the incoming administration continues to vilify it, the administration will not go far enough to break it itself or give Iran cause to withdraw from it. Iran will continue to expand its trade and relations with the West.

Grant Rumley, Research Fellow, the Foundation for Defense of Democracies

1. The gap between Palestinian leaders and their people will widen. Roughly 10,000 Gazans protested against Hamas in early January over the government’s power cuts. Meanwhile, anti-PA protests have become commonplace in the West Bank. As governments in both Palestinian territories ossify, the disconnect with their people will only grow.
2. Mahmoud Abbas and Benjamin Netanyahu will find themselves in unfamiliar territory. Similar to how Netanyahu has never been prime minister under a Republican administration, Abbas has never had anything other than a friendly president in the White House. The rise of Donald Trump will test both of their abilities to navigate the relationship with the US.

3. Palestinian positioning for the post-Abbas era will intensify. After Abbas convened a congress for his Fatah party in November, several potential heirs apparent emerged, notably former security services strongman Jibril Rajoub. Whatever happens when Abbas vacates the scene, it appears it’s a two-man race between Rajoub and the imprisoned Marwan Barghouti. As Abbas enters the 13th year of his presidency, the race to replace him will only heat up.