

Executive Summary

After decades of seeming paralysis in the political, economic and social dimension the Middle East is a region in transition. Against this background, the future of Lebanon, the victory of Hamas and the unilateral disengagement approach of Israel, the stabilization of Iraq, the Iranian nuclear programme, the establishment of collective security structures in the Gulf region and the support for democratization in the region are paramount challenges for the international community in general and the European Union in particular.

The summer war between Israel and the Hizbullah has proven that a military solution for the Israeli-Lebanese conundrum will not suffice. Israel has failed to achieve the restoration of its deterrence capability, while Hizbullah's undiminished ability to shoot missiles deep into Northern Israel is easily being translated into a political victory. Since disarming Hizbullah will prove to be an extremely complex task, the upgraded UNIFIL peacekeeping mission needs to be embedded in the context of a broader process of Lebanese national reconciliation. Peacekeeping should be complemented through a political role for the Quartet of international mediators. It is imperative to engage Syria which is still in a position to act as a spoiler if its interests in Lebanon are threatened. Only a long-term approach that takes into account the domestic realities of Lebanon and the broader regional setting can succeed.

The electoral victory of Hamas has initiated a new era in Palestinian politics. The main reasons for its success have involved the failure of the peace process, urgent domestic issues and the impact of the electoral system. Hamas will not easily accept the conditions stipulated by the international community. Against this background, unilateral Israeli steps will continue to be the only game in town for some time to come. The emergence of this approach signals a major shift in policies designed to deal with the Israeli-Palestinian conflict: from conflict resolution to conflict management. However, Hamas will not necessarily engage in large-scale terrorism and might in fact be interested in maintaining the status quo. Putting pressure on the Palestinians to topple the Hamas government and return Fatah to power might well backfire. The international community should therefore accept the result of the democratic elections and encourage the formation of a national unity government in Palestine. It should support the continuation of a coordinated disengagement process as far as it involves further Israeli withdrawal and redefine the three demands on the Hamas government being firm in principle, but flexible in practice.

The constitutional process in Iraq has failed to create the broad national consensus required to establish a viable platform for reconciliation. The drafting process excluded the Sunni Arab minority at crucial stages and the document allocates so much power to the regions that the future ability of the centre to exercise its functions must be questioned. Europe has provided crucial legitimacy for the political process, participated in NATO training exercises for Iraqi military personnel, reduced Iraq's foreign debt noticeably and supported the reconstruction process. Greater EU involvement in Iraq will be influenced by the quality of the transatlantic relationship, the overall situation in Iraq, and the EU's general Middle East agenda. Europeans should realistically determine the potential and the limits of their involvement in Iraq and continue to play a supporting rather than a leading role. Europe should insist on

maintaining the territorial integrity and sovereignty of Iraq and emphasize the need for a substantial constitutional review process. It should expand its engagement in supporting the establishment of inclusive institutions, most importantly in the security sector, and promote the reconstruction and the international integration of Iraqi civil society.

Iran's nuclear programme has emerged as a growing subject for concern, both in the region and in the West. The efficacy of sanctions in the case of Iran is questionable, even if it were possible to enlist the support of Russia, China and other key players. In fact, sanctions need to be backed up by a bargaining strategy based on a long-term perspective. A sensible set of incentives would have to change the cost-benefit analyses of Iranian decision-makers. Therefore the U.S. should explicitly exclude regime change as a policy option, open a separate bilateral negotiating channel and reward Iranian cooperation with a broader strategic dialogue, the easing of sanctions, the release of frozen financial assets, the establishment of diplomatic relations, and, ultimately, the provision of security guarantees. In order to break the deadlock caused by Iran's insistence on enriching uranium on its soil, Iran should be allowed a very limited enrichment capacity under stringent international supervision after a lengthy moratorium. The decentralized nature of Iran's programme and the threat of an asymmetrical response make a military strike an uncertain option. Even worse, pursuing regime change on the lines of the "Afghan model", which has occasionally been advocated in Washington, would be tantamount to a reckless adventure with potentially disastrous consequences for Iran's future as an integrated state.

The Gulf region has witnessed a series of crises and an almost complete lack of collective security arrangements. Direct American military involvement in the Gulf has turned out to be counter-productive and will become increasingly untenable. The downfall of Saddam Hussein eliminated one of the key obstacles to the creation of a regional security structure and opened a window of opportunity for new attempts at intensified cooperation. A fruitful approach in this regard should be built around a number of general principles such as inclusiveness, comprehensiveness and flexibility. A starting point could be an international conference that establishes working groups in a number of fields where regional cooperation will benefit all the parties concerned, including the fight against terrorism and international crime, the stabilization of Iraq, the progressive regionalization of existing bilateral CBMs, economic cooperation, disaster relief and environmental cooperation. The EU certainly cannot provide an alternative to the U.S. security umbrella in the region; nevertheless, it could play a complementary role by building on its good relations with all the actors on the regional level. A more intensive approach towards the Gulf would need to progressively increase the European presence in the region on a political, economic and cultural level.

The approach to democratization in the region needs to be rethought without recourse to simplistic blueprints. The indirect and incremental European approach applied over a decade in the framework of the Barcelona Process has yielded very few results. Yet the blunt rhetoric of the U.S.-led *Broader Middle East and North Africa* initiative and the attempt at democratization by military conquest in Iraq has alienated the main beneficiaries of democracy, the peoples of the region. A sophisticated approach would have to combine the attractiveness of the European approach with American assertiveness to address the need for political reforms. The first objective should be to build the foundations of democracy, such

as fostering national integration, developing independent media, establishing an enabling framework for collective action and promoting the rule of law. A second step should progressively address the political core of power relations by supporting the formation of political parties with mass support, enhancing the competitiveness of elections, and demanding increased power for parliaments and courts. In this context, an engagement with mainstream Islamist parties will be inevitable since they form the only opposition organisations with a genuine mass constituency.

1. Introduction

The Middle East is a region in transition. After decades of seeming paralysis in the political, economic and social dimension reform has emerged as a key catchword across the region, one that no government can afford to ignore. The intensive debate on reform in the Middle East that has taken place over the last years has put the issue on the regional agenda for some time to come. It is promoted in particular by influential pan-Arab media such as the widely-watched al-Jazeera television channel. A new generation of young leaders has taken up the challenge of globalization and promulgated ambitious reform programs in the political and economic field.

After decades of seeming paralysis reform has emerged as a key catchword across the Middle East

The U.S. administration has made support for democratization and reform in the region a cornerstone of its policy. President Bush himself has described the spread of freedom and democracy as “the best antidote to radicalism and terror.” The Iraq war was, among other things, designed to initiate broad regional change. As envisioned by a number of Washington strategists, establishing democracy in Iraq would generate a model unleashing “a tsunami of democracy” throughout the region.

The U.S. has made support for reform in the region a cornerstone of its policy

The U.S. occupation of Iraq has unleashed a struggle for a new regional order. Against this background the victory of Hamas and the unilateral disengagement approach of Israel, the stabilization of Iraq, the Iranian nuclear programme and the support for democratization in the region are paramount challenges for the international community in general and the European Union in particular. But the region’s festering conflicts tend to weaken moderate currents in Arab countries as exemplified by the recent engagement between Israel and the Lebanese Hizbullah movement. The asymmetric approach to warfare used by Hizbullah as well as the Palestinian Hamas prompted the Israel army to respond with massive attacks causing scores of victims among the civilian population.

The occupation of Iraq has unleashed a struggle for a new regional order

The fierce Israeli military campaign to liberate an abducted soldier has led to another low in the festering Israeli-Palestinian conflict. The electoral victory of Hamas has initiated a new era in Palestinian politics and unleashed a power struggle with the Fateh party of President Abbas. Israeli Prime Minister Olmert won a fresh mandate from the electorate with the promise to continue Ariel Sharon’s unilateral withdrawal approach. Quite ironically, Olmert became militarily engaged on precisely the two battlefields from which the Israeli army has already withdrawn.

The victory of Hamas has initiated a new era in Palestinian politics

Iraq is far from being a model of democracy ready to be exported throughout the region. Regime change as a result of military conquest has produced a breakdown of public institutions, rampant corruption, and ethno-confessional polarization verging on civil war. Preventing a violent

Regime change in Iraq has produced a breakdown of institutions and ethno-confessional polarization

partition of the country and building nationally integrative institutions will be enormous challenges.

Iran's nuclear programme is the source of growing concerns in the region and in the West. A potential Iranian nuclear capability might ultimately be used as an insurance policy in order to pursue reckless policies on the regional level. Domestically, the conservatives, enjoying the support of the supreme leader and safely entrenched in their power positions in the judiciary and the security apparatus, managed to re-take control of parliament in February 2004 and the presidency in June 2005. The aggressive rhetoric of the new President Ahmadinejat has complicated the search for a solution. However, alternatives to a carefully crafted and clearly conditioned bargaining process with Iran are not very encouraging.

Iran's nuclear programme is the source of growing concerns

A long-term solution for the instability of Iraq and the Iranian quest for regional hegemony will have to include the progressive establishment of collective security structures in the Gulf region. The massive U.S. military presence has failed to ensure stability and proved increasingly counterproductive. An alternative would be aimed at fostering a process of growing cooperation between the riparians starting in areas where mutual benefits are obvious.

The progressive establishment of collective security structures in the Gulf region is required

Rethinking the approach to democratization in the region is key. It is clear that the goal of democratization is a complex undertaking that has to be addressed in a regional setting. While certainly progress has been made in a number of countries, reform projects have remained selective and carefully controlled, and most have run out of steam. For example, the first ever contested presidential elections in Egypt raised hopes that long-awaited political reforms might be introduced. Indeed, parliamentary elections in late 2005 were characterized by impressive gains of the opposition Muslim Brotherhood group, despite a surge in government-orchestrated violence. However, local elections have now been postponed for two years, most probably in order to prevent the Brotherhood from fielding an independent candidate against the governing party in the presidential elections of 2011.

Reform projects have remained selective and carefully controlled, and most have run out of steam.

2. The Israeli-Lebanese Conundrum: An Update

The years of relative calm on Israel's Northern border in the wake of the Israeli withdrawal from Southern Lebanon have ended in summer 2006 with a fierce engagement between the Israeli army and the Hizbullah militia. The janus faced character of Hizbullah – party in government and armed militia virtually unchecked in the South at the same time – made sure that Lebanon emerged once more as a hostage of broader regional developments. Hizbullah, originally founded with support of Iran's Revolutionary Guard as a Shi'i resistance force against the Israeli occupation in the early 1980s, has developed into a movement deeply entrenched in Lebanese society. It participates in local and national elections and has appointed two ministers in the current government. The Israeli withdrawal to an UN demarcated "blue line" in 2000 left a vacuum easily filled by Shi'i movement. The fuzzy legal status of the Sheb'a farm area served as a pretext for continuing the fight against the "Zionist enemy".

Hizbullah has developed into a movement deeply entrenched in Lebanese society.

Provoked by the Hizbullah's abduction of two soldiers on Israeli territory, the Israeli army responded with massive air campaign and a limited ground offensive destroying much of Lebanon's infrastructure. Hizbullah responded by firing hundreds of Katjuscha missiles deeply into Israel, hitting areas as far as Haifa. While Ariel Sharon's status as seasoned warrior allowed him to ignore Hizbullah's continuing attacks, the inexperienced Olmert government easily followed the generals' advice for massive retaliation. The engagement has proven that a military solution for the Israeli-Lebanese conundrum will not suffice. Israel has failed to achieve its central war aim, the restoration of its deterrence capability. Massive aerial attacks are unable to destroy an unconventional paramilitary force that enjoys broad support among the civilian population.

The engagement has proven that a military solution will not suffice.

The Israeli assault has certainly drastically reduced Hizbullah's operative capability, but the latter's ability to fight back is easily being translated into a political victory. The war has certainly weakened the reform-minded Lebanese government and may have increased support for Hizbullah in Lebanese society. Indeed, the popularity of the Shi'i Hizbullah has risen sharply in the Arab world; its secretary-general Hasan Nasrallah is a familiar face in the streets of Damascus these days.

Hizbullah's ability to fight back is easily being translated into a political victory.

Israel's willingness to condition its withdrawal from Lebanon on the deployment of an international force is a remarkable development for a country that in the past used to reserve all but scorn for the United Nations. The increased UNIFIL peacekeeping force envisaged in UNSC res. 1701 (2006) has the ambitious twin task of maintaining stability at the border and assisting the Lebanese army to restore the state's monopoly of power in Southern Lebanon. The Lebanese army, however, does not seem to be in a position to displace Hizbullah, let alone to disarm it. Indeed, disarming the

The peace-keeping mission needs to be embedded in a process of Lebanese national reconciliation

Islamist movement will prove to be an extremely complex mission for it is hard to imagine it will hand over its weapons voluntarily, especially after its relative success in the battlefield. As pointed out above, Hizbullah is not simply a gang of bearded terrorists of Iranian origin, but a social movement that enjoys the support of an essential section of the Lebanese population. Therefore, the peacekeeping mission needs to be embedded in the context of a broader process of Lebanese national reconciliation building on the national dialogue started after the Syrian withdrawal. Peacekeeping should be complemented through a political role for the Quartet of international mediators.

For this to succeed, it is imperative to engage Syria who is still in a position to act as a spoiler if its interests in Lebanon are threatened. This is not an easy task, as the recent failure of German Foreign Minister Steinmeier to engage constructively with Damascus has proven. The Asad regime is prioritising the domestic imperative of regime survival over the need to improve relations with the international community. Nevertheless, Damascus urgently needs external assistance from the European Union and others. Negotiations for an Association Agreement with the EU have been completed in 2003, but political disputes have prevented the signing of this document since. With shrinking oil reserves Syria will become a net importer in a couple of years and will have to modernize its administrative and economic structure. The regime cannot hope for generous Arab financial assistance which helped it to weather its current account imbalances in the 1980es. Engaging in regional foreign policy adventures will prove soon a very costly choice. Engaging Damascus will also have to include an honest attempt to resume negotiations with Israel for a return of the occupied Golan heights.

The engagement of Syria is imperative for success

The complexity of the confession-based political architecture in Lebanon and the various regional interests present on the Lebanese stage render a quick solution to the problem elusive. Only a long-term approach that takes into account the domestic realities of Lebanon and the broader regional setting can succeed.

The domestic realities and the broader regional setting has to be taken into account

3. The Israeli-Palestinian Conflict: From Conflict Resolution to Conflict Management

The clear-cut victory of the Hamas movement in the January 25 elections to the Palestinian Legislative Council essentially caught the international community off-guard. The main reasons for the success of Hamas include the failure of the peace process and pressing domestic issues such as the disastrous security situation, the economic crisis, rampant corruption, and growing poverty. In contrast to the disunity of its Fatah rival, Hamas managed to present itself as a cohesive and energetic movement which promised to focus on fighting corruption and enforcing the rule of law.

The main reasons for the success of Hamas include the failure of the peace process and domestic issues

Furthermore, the electoral system, a combination of proportional representation and constituency-based majority voting, favoured Hamas. In fact, the latter received only slightly more votes (44%) than Fatah (41%). However, this translated into a clear majority of seats. Hamas won many seats in districts where Fatah had a clear majority, taking only 5 district seats (of its total of 45) with an absolute majority of votes. In many districts a number of competing Fatah-affiliated candidates split the vote among themselves, while Hamas fielded only one candidate per seat.

The electoral system favoured Hamas

Most voters did not support Hamas' position on the peace process with Israel. According to one poll, only 17% of the electorate categorically opposed the peace process. Even among Hamas voters, a full third defined themselves as supporters of the peace process. Thus the support for the armed struggle against Israel played only a moderate role in the Hamas victory.

Most voters did not support Hamas' position on the peace process

The Israeli elections on March 28 sent out a double message from the Israel electorate. First, voters supported (although not as strongly as expected) the disengagement approach of the Kadima party founded by Ariel Sharon. Acting Prime Minister Olmert waged his electoral campaign on a platform promising the progressive establishment of a permanent border in the West Bank through further unilateral disengagement.

Voters in Israel supported the disengagement approach of the Kadima party...

Second, voters at the same time gave strong support to parties emphasizing a social rather than a security agenda. This resulted in a strong performance by the Labour party led by former union leader Amir Peretz. Even more surprising was the success of the Pensioners' Party, which managed on the basis of a single-issue programme to gain 7 seats in its first electoral contest.

...and gave strong support to parties emphasizing a social agenda

The electoral result can be interpreted as the first popular vote since 1967 in favour of withdrawal from the occupied territories and dismantling settlements. Olmert has vowed to continue Sharon's policy of unilateral disengagement. He coined the Hebrew term *hitkansut* for his programme, usually translated as "convergence" (it also has the warm connotations of

Olmert has vowed to continue the policy of unilateral disengagement

“gathering” or “assembling”). Olmert has already defined the shape of the provisional borders, which will include the expanded settlement blocks, the Jewish neighbourhoods of Jerusalem and the holy basin area with a few surrounding Arab neighbourhoods, a land link to Ma’le Adumim, and the Jordan valley as a security border.

It remains to be seen if Olmert’s approach will succeed. The recent kidnapping of Israeli soldiers by Hamas and Hizbullah and the ensuing military campaigns have drastically reduced the willingness of the Israeli public to support further withdrawals, let alone the dismantlement of settlements. There is a growing perception that unilateral Israeli concessions are exploited by these organisations as “signs of weakness” which encourages terrorist operations on Israeli territory.

The recent military campaigns have reduced the support of the Israeli public for withdrawals

Furthermore, the nature of the Israeli political system with its fragmented party structure and its multi-party coalitions means that any contentious political endeavour may result in the downfall of the government. It can indeed be argued that every Israeli government since 1988 has been brought down by issues related to the Israeli-Palestinian relationship. Given the relative weakness of Olmert’s core party (29 seats out of 120 seats) implementing large-scale withdrawal and the dismantling of settlements will be a severe test. Indeed, even financing the enormous costs of resettlement and compensating thousands of settlers is an unanswered question.

Implementing large-scale withdrawal will be a severe test for Olmert’s coalition

Hamas in Power

The new Hamas government faces formidable difficulties as it attempts to translate its electoral victory into political power. It will be pressed hard to meet the high expectations of the electorate, including the delivery of services, the fight against unemployment, and the alleviation of poverty. In addition, there are a number of balancing actors within the Palestinian power system dominated by the Fatah movement. These include the Presidency and the PLO institutions, the bureaucracy, and the various security services and militias. The Fatah establishment and the security services are determined to deny Hamas control in sensitive areas. This was borne out by Fatah’s refusal to participate in a coalition government, Abu Mazen’s resolve to appoint loyalists to sensitive positions and his recent attempt to impose a referendum on the future of the peace process.

Hamas faces formidable difficulties to translate its electoral victory into political power

The success of Hamas has sparked a number of gloomy predictions about the imminent Talibanization of Palestinian society, and the establishment of an al-Qa’ida-sponsored radical base for a *jihad* against Israel and the West. Yet Hamas will not necessarily engage in large-scale terrorism. Indeed, it might in fact be interested in maintaining the status quo. Its primary goal will be internal consolidation, which requires relative calm and the support of the international community. Hamas might be

The primary goal of Hamas will be consolidation requiring calm and international support

compared to Hizbullah in the wake of the Israeli withdrawal from South Lebanon in its combination of ideological purity with pragmatism. If Hamas decides to curb the various militias, it will be able to do so far more easily than Fatah.

Despite its organizational homogeneity it needs to be remembered that Hamas is a broad coalition of various positions which range from moderate to extreme. Hamas has on a number of occasions demonstrated some flexibility with regard to Israel. A case in point is the latest offer by PM Hanina talking about a ceasefire (*hudna*) that will renew itself automatically. Nevertheless, Hamas will not easily accept the conditions (recognition of Israel, end of violence, honoring existing agreements) stipulated by the international community.

Hamas will not easily accept the international conditions

A number of observers have suggested that Hamas should be forced to become a failure by refusing any kind of cooperation whatsoever. This would prepare the ground for a more palatable alternative after the foreseeable collapse of the Hamas government. However, putting pressure on the Palestinians to topple the Hamas government and return Fatah to power might well backfire. It is at least questionable whether this approach will produce the desired result of making the ideological views of Palestinians less radical. If history is any guide, the economic pressure exerted in 2001-2 resulted in increased hatred of Israel, not growing opposition to violence. Isolation and pressure could well lead to a radicalization of the Palestinian public, which might turn increasingly to radical regional actors such as Syria and Iran.

Putting pressure on the Palestinians to topple the Hamas government and return Fatah might backfire

The Palestinian Authority on the Verge of Collapse

Worse still, the World Bank has warned of the disastrous humanitarian consequences of a prolonged isolation of the Palestinian Authority. The functioning of the PA's institutions is dependent on regular transfers from Israel and international aid to cover current expenditure. The salaries of an estimated 172,000 PA officials (with up to one million dependents out of a population of 3.5 million) have not been paid since March and there are indications of food and fuel shortages in Gaza. The PA's liquidity crisis stems from withheld Palestinian revenues collected by Israel, massive border trade restrictions, reductions in donor disbursements, and hesitation by international commercial and Israeli banks to transfer funds to a Hamas-controlled PA as a result of U.S. anti-terrorism legislation. In addition, Arab League members have so far failed to come forward with the promised level of support.

Disastrous humanitarian consequences of a prolonged isolation of the PA

A protracted period of financial crisis will threaten the very existence of the institutional structure in the Palestinian territories. If civil servants are not paid for months, they will simply cease to do their work. Once destroyed, such institutions cannot be easily rebuilt, and years of continuing donor

Financial crisis threatens the institutional structure in the

investment (about \$ 7bn) would have been in vain. For example, according to the World Bank, the PA runs 76% of all schools and 62% of all health facilities in the occupied territories. It is a fallacy to believe that institutions run by the PA might simply be replaced by independent organisations or services provided by the Presidency and other non-Hamas agencies.

Palestinian territories

In a deteriorating social climate, public anger and frustration will be difficult to control. There is a real danger that the various security services will rebel, having a history of backing demands for payment with violence. Indeed, the outbreak of a civil war is a possibility, as the continual fighting between militias in Gaza and the assassination attempts on senior security officials illustrate. The Temporary International Mechanism developed chiefly by the EU Commission contributed to alleviate the suffering of the Palestinian population in Gaza, but it cannot provide a lasting solution. The situation has further deteriorated with the massive Israeli incursions into Gaza following the kidnapping of an Israeli soldier guarding the Gaza border which led not only to the destruction of much public infrastructure, but also to the arrest of many Hamas parliamentarians and government members. As a result public institutions in Gaza are virtually non-existent and large areas controlled by militias.

The situation has further deteriorated with the Israeli incursions into Gaza following the kidnapping of an Israeli soldier

The international community has not yet developed an appropriate and sufficiently flexible strategy to deal with the twin challenge of the Hamas government and the new “convergence” plan. The fate of the road map has demonstrated that the implementation of any peace plan will fail if the local parties are not strongly committed to it. Except in a situation in which regional war is imminent, even U.S. influence on the conflicting parties is rather limited. Direct involvement of the President or the Secretary of State might result in a deal. However, no top U.S. official has the time to monitor its implementation over a period of many months.

The international community has not yet developed an appropriate strategy

Therefore the EU and the international community should

- Accept the result of the democratic elections in Palestine and avoid creating the impression to the security services and other Fatah-dominated agencies that a coup d'etat has the backing of the international community.
- Support the continuation of a coordinated disengagement process as far as it involves further Israeli withdrawals and the dismantling of settlements on the condition that this retains the possibility of a negotiated two-state solution. This approach will, of course, not help to settle difficult issues like Jerusalem and the refugee problem. Negotiating a less-than-permanent-deal is certainly preferable to continued violence. However, there is the risk that another disappointing attempt at negotiating peace will throw back

Accept the result of the elections

Support the continuation of disengagement

the process further. Renewed failure will not lead back to “square one”, but it may return the process to “square minus one”.

- Define the road map as a list of principles, and not as an action plan. The Road map remains the only agreement where both parties agreed to the two-state solution and should not easily be thrown away. It could serve as a horizon with general contours for a peaceful solution. The parties could commit themselves to its spirit, though implementation would be guided by pragmatic considerations. Into this flexible framework, new agreements could easily be integrated. The Quartet of international mediators should significantly increase its presence on the ground through the establishment of an enlarged monitoring and verification process. In the current situation, external players are desperately needed.
- Encourage the formation of a National Unity Government in the Palestinian territories based on the Cairo declaration signed by 13 factions. The grand bargain between Hamas and Fatah might be the proportional integration of Hamas and its ancillary organisations (military, social) into the Palestinian administrative and security system and the PLO in return for an agreement to support the two-state solution and a long-term ceasefire. The support of Arab countries for a process of Palestinian national reconciliation should be encouraged. President ‘Abbas should be empowered to negotiate on behalf of the National Unity Government.
- Redefine the three demands on the Hamas government, whilst being firm in principle, but flexible in practice. Hamas should be progressively integrated into the peace camp, though this complex process will take time. The continued exclusion of Hamas from the political process is a risky strategy. The EU finds itself in a dilemma because it aims to change the position of Hamas without having the possibility of formal communication with the Islamic movement. The more realistic benchmarks against which Hamas’ behaviour might be measured are the continuation of the cease-fire, a pragmatic, a case-by-case approach towards Israel, and the endorsement of the Arab League initiative. For this purpose, informal contacts between Israelis and Hamas spokespersons should be facilitated. Moderate Arab countries such as Egypt and Saudi-Arabia should be encouraged to prod Hamas gently to accept the Arab League peace framework since the Arab League itself too divided to play a meaningful role.
- Develop sophisticated aid efforts aimed at avoiding major economic and social hardships for the Palestinians. A distinction should be drawn between PA institutions and the Hamas

Define the road map as a list of principles and increase Quartet presence on the ground

Encourage the formation of a National Unity Government

Redefine the three demands on the Hamas government on a flexible basis

organisation. Aid should be channelled to the former with stringent controls attached to avoid the money being diverted to terrorist networks. The new facility currently established under the auspices of the World Bank is an important step in this direction.

Develop sophisticated aid efforts

- Develop a cooperative border management system that ensures a proper balance between Israel's legitimate security requirements and Palestinian economic needs. The Karni crossing represents a serious physical barrier to Palestinian trade. Its design causes unnecessary delays, inflicts damage on goods and limits the throughput of cargo. The Palestinian-controlled Rafah terminal could provide an alternative to Karni for direct exports to third countries. Bus convoys and truck convoys between Gaza and the West Bank need to be established in order to facilitate the flow of people and goods between the two elements of the Palestinian economy.
- Enlist the support of neighbouring countries. Egypt and Jordan have a genuine interest in stabilizing Gaza and the West Bank and stemming tendencies towards anarchy. The recent Egyptian offer to play an active role in the stabilization of Gaza should be considered. The Arab League, if brought in carefully, has an important role to play as well.

Develop a cooperative border management system

Enlist the support of neighbouring countries

Integration vs. Separation

Unilateral Israeli steps will continue to be the only game in town for some time to come. The emergence of this policy approach signals a major shift in policies designed to deal with the Israeli-Palestinian conflict, from conflict resolution to conflict management. Conflict resolution aims to resolve contentious issues. In the Israeli-Palestinian context, it was represented by the original Oslo approach. Its main architect, Shim'on Peres, envisaged a far-reaching integration (modelled on the European integration process) of Israel into its Arab regional environment. The solution of contentious issues was to be promoted and complemented by intensive social and economic interaction. In this process a growing level of trust was to be generated as a basis for a web of cooperation. In contrast to this, conflict management suggests a non-solution; it aims to contain a conflict and prevent serious escalation. This approach became predominant on the Israeli side in the wake of the Camp David summit in 2000. After failing to secure an agreement, its first proponent, Ehud Barak, announced his intention to separate the two peoples to the largest extent possible. Self-interest, and not mutual trust, would be the main guide to interaction. This "realistic" approach sounds much less attractive from a European perspective, but might be a preferable path in a situation where both parties are far apart on key issues.

The emergence of the unilateral approach signals a shift from conflict resolution to conflict management

4. Iraq: A Weak State Emerging

Three years after the fall of the Saddam Hussein regime, Iraq is and will continue for the foreseeable future to be a net importer of security. State institutions are weak or non-existent and the ongoing institutional vacuum has forced many Iraqis to turn to ethnic and religious affiliations for protection and survival. Despite frequent military operations involving both coalition troops and newly recruited Iraqi forces, terrorist attacks have continued at a staggering pace and insurgents have kept control of substantial areas of the country. The insurgency derives support from the general feeling of exclusion among the Sunni Arab community. Iraqi security services are increasingly tainted by sectarianism and have failed to fight the insurgence effectively. Indeed, according to many observers, the Ministry of Interior has been infiltrated by Shi'i militias that engage in low-level sectarian war in Baghdad and other regions. Rising tensions between ethno-confessional groups could spark a civil war that might well suck neighbouring countries into a proxy confrontation. A weak and impoverished Iraq would easily become a breeding ground for terrorist groups, with dangerous consequences for the whole region.

Rising tensions between ethno-confessional groups could spark a civil war that might suck neighbouring countries into a proxy confrontation

A Rushed Constitutional Process

The constitutional process seems to have failed to create the broad national consensus required to establish a viable platform for reconciliation. It was characterized by a tight and rather unrealistic schedule, which did not allow for the broad consultation and negotiation process that would have been necessary to create the feeling of real ownership within large sections of the Iraqi population. Significant efforts were made to include those who boycotted the January 2005 elections; however, the mandate of the representatives of the Sunni Arab minority coopted into the ranks of the constitutional committee remained weak and was frequently challenged.

The tight schedule of the constitutional process did not allow for a broad consultation process

Indeed, negotiations shifted from the electorally legitimated constitutional committee to a loosely defined leadership council which excluded the Sunni Arab minority almost completely. During the final stages negotiations were conducted in informal meetings between Shi'i and Kurdish leaders and representatives of the US embassy, which was not representative and lacked accountability. In this period profound changes to the original draft were made, resulting in a dramatic increase in the powers of the regions at the expense of the center. The result was a document which almost completely lacked popular input or discussion and whose deficiencies in form and content seemed to deepen, rather than heal, the rifts between the various communities.

Negotiations shifted to a leadership council which excluded the Sunni Arab minority almost completely.

In the referendum held in October 2005, the Sunni Arabs overwhelmingly

rejected the draft, but failed to achieve the two-thirds majority in three provinces required by the Transitional Administrative Law to block the document. While the obvious sectarian distribution of preferences regarding the constitution have reinforced feelings of group exclusion, the huge turnout among Sunni Arabs (repeated in the parliamentary elections of December 2005) points to an encouraging trend towards prioritising political participation over armed resistance.

Turnout among Sunni Arabs points to a trend towards prioritising participation over resistance

Federalism: A double-edged Sword

The most contentious issue proved to be the concept of federalism that is bitterly opposed by many Iraqis, especially members of the Sunni Arab minority. Federalism was originally designed to accommodate the needs of the Kurdish minority which has enjoyed autonomy from the central government for over a decade. Beyond that, however, the constitutional text provides for the establishment of new regions from the existing provinces for the non-Kurdish parts of Iraq, the details of which are to be specified by a simple law. Generally, the decentralization of government functions traditionally closely controlled from Baghdad should be welcomed. However, the present constitutional text allocates so much power to the regions that the future ability of the centre to exercise its functions must be questioned. The central government's prerogatives are limited to defence, foreign policy, and fiscal and customs policy. It has, for example, no power to raise taxes or to establish a federal police force.

The constitution allocates so much power to the regions that the ability of the centre to exercise its functions must be questioned

The current process of geographic reorganization coupled with fluid social identity ascriptions and the weakness of the centre carries with it enormous risks. The proposals submitted by Supreme Council of the Islamic Revolution in Iraq to demand the creation of a huge Shi'i-dominated mega-region in Southern and Central Iraq composed of no less than nine provinces is a case in point. The centrifugal dynamics of establishing ethnically more or less homogeneous regions with far-reaching competencies will, given lack of attractiveness of the paralyzed central state, increase the danger of violent partition in Iraq.

The process of geographic reorganization carries with it enormous risks

Europe's Emerging Iraq Policy

Given its deep divisions over the legitimacy of the Iraq war, Europe has only gradually become involved in the reconstruction process. The differences that prevented a consistent EU position died down after 2003, but continue to influence policy choices. The growing European commitment to the reconstruction process in Iraq was symbolized by a major political conference co-hosted by the EU in Brussels in June 2005, which was attended by over eighty countries and organizations, including a strong Iraqi delegation headed by Prime Minister Ja'fari.

Europe has only gradually become involved in the reconstruction process

Most importantly, Europe has provided crucial legitimacy for the political process and helped to re-integrate the nascent Iraqi institutions into the

international community. European countries have pressed for key policy changes, for example, the inclusion of the Sunni Arab minority into the political process. After an intensive internal debate, NATO has provided training to mid- and senior-level officers in Iraq and in NATO facilities in Europe. In addition, a number of EU member countries are conducting police and security personnel training inside Iraq and elsewhere. A substantial contribution to the reconstruction process was the announcement of European creditors in the Paris Club to waive up to 80% of Iraq's debt.

Europe has provided legitimacy and helped to re-integrate Iraqi institutions into the international community

The European Commission prepared a white paper in June 2004 which the EU adopted as a medium-term strategy for Iraq. The document outlines the EU's assistance priorities for Iraq and envisages its inclusion in the EU's Mediterranean Partnership framework. By the end of 2005 the EU Commission had provided a total of €518.5 million in assistance to Iraq, including €100 million for humanitarian aid. The lion's share of this amount went into classical development projects such as education, health, sanitation and agriculture. In addition, the Commission supported the electoral and to some extent the constitutional process. In this context it provided financial support for outreach efforts and a limited number of individual experts to work with the UN. A joint action within the ESDP framework (EUROJUSTLEX) is focusing on strengthening the rule of law in Iraq by training Iraqi officials from the judiciary, police and penitentiary sectors. By the summer of 2006, several hundred senior officials of these sectors will have been trained in courses organized by the EU and several member countries.

A joint action is focusing on strengthening the rule of law in Iraq

Greater EU involvement in Iraq will be influenced by the quality of the transatlantic relationship, the overall situation in Iraq, and the EU's general Middle East agenda. Many Iraqis disillusioned with the American performance have very high expectations with regard to an increased EU commitment to Iraq. Against this background, Europeans should realistically determine the potential and the limits of their involvement in Iraq. Since Europe has neither the motivation nor the capacity for a massive commitment comparable to South-Eastern Europe it will continue to play a supporting rather than a leading role. It is unrealistic to expect the same level of commitment that the EU has provided in crises within Europe or in the case of humanitarian tasks within a political low-intensity context. Indeed, Iraq remains politically quite sensitive for many European countries, both in terms of international relations as well as domestically.

Europeans should realistically determine the potential and the limits of their involvement in Iraq

Nevertheless, Europe should differentiate between its support for or reservations about U.S. policy, and the urgent necessity to stabilize Iraq. Iraq shares a long border with Turkey, a NATO member and an accession candidate to the Union. An unstable Iraq is likely to erupt into violence and may turn into a regional hub for terrorist activities. This will easily translate

Europe should differentiate between U.S. policy and the necessity to stabilize Iraq

into regional instability, encouraging the intervention of neighbouring countries, and fuelling migration to Europe. Europe cannot ignore the threat of a humanitarian crisis and an upsurge in terrorist activities.

The EU should

- Insist on maintaining the territorial integrity and sovereignty of Iraq in order to prevent the country from breaking up. Incentives should be structured in such a way as to strengthen national integration. Neighbouring countries should be urged to refrain from fuelling sectarian tensions. Insist on maintaining territorial integrity
- Insist that there must be a substantial constitutional review process as agreed in October 2005. The review is crucial, since it is imperative to correct many weaknesses of the current document and increase its legitimacy among Sunni Arabs. The EU should offer to share European experiences with regard to designing new political institutions, and emphasize that federalist structures must grant the central government sufficient powers and resources to enable it to function. Insist on substantial constitutional review process
- Emphasize the need to establish inclusive security forces that are under civilian control and distinct from militias. The EU and NATO should offer to train military forces, emphasizing quality and inclusiveness as key values. Support should depend on whether the Iraqi government is willing to observe minimum standards with regard to inclusive, non-sectarian institution-building. Offer to train military forces and emphasise quality and inclusiveness
- Continue to expand its support for the training of police as well as judicial training and penal reform, and training for lawyers. Establishing the principles of the rule of law in its various agencies (police, judicial system, prison system) will be of crucial importance with regard to popular support for the new polity. Expand support for police and judiciary
- Promote the reconstruction of Iraqi civil society by supporting non-governmental organizations and offering fieldwork in democratization, human rights, and civil conflict management. Owing to security constraints, this could be done through local intermediaries and multipliers trained in Europe. Given the lack of security in many areas of the country, an attractive initial option would be to set up initiatives in the comparatively stable areas. These could later expand to other areas once the circumstances make it possible. Promote the reconstruction of Iraqi civil society
- Promote the international integration of Iraqi society by establishing study and exchange programmes for students, teachers, journalists, lawyers, and other professionals in order to overcome the effects of more than a decade of isolation. Promote the international integration of Iraqi society

5. Iran: Engaging an Uneasy Partner

The Islamic Republic is in the middle of a complex process of internal change which, for outsiders, includes irritating and inconsistent elements. Whilst the Islamic regime has generally been able to consolidate its rule, it was less successful when it came to solving the mounting social, political and economic problems which were the root causes of the revolution. The election of President Ahmadinejat – which involved a certain amount of manipulation – reflects a genuine desire among significant sections of the population for economic improvement, a redistribution of resources, and a determined campaign against corruption. While most other candidates seemed to project a liberal image with regard to political reform, Ahmadinejat combined radical religious rhetoric reminiscent of the early days of the revolution with a demand for “economic justice”. His election underlines the advent of a new group of leaders moulded in the ranks of the Revolutionary Guards during the war against Iraq, who are now in key positions of power.

The election of Ahmadinejat reflects a genuine desire for economic improvement and redistribution of resources

Contrary to the expectations of many, Ahmadinejat has not focused initially on socio-economic policy issues. In fact, he orchestrated a sweeping purge in the bureaucracy and a confrontational foreign policy style. He aims at preventing the establishment of a Western-dominated regional order by intensifying Iran’s efforts to find partners in Asia (China, India) and by continuing to extend its influence in the region, particularly among the Shi’i and Persian communities. Revolutionary leader Khamene’i, the ultimate decision-making authority in the foreign and security policy field, has not restrained Ahmadinejat’s adventurous course. The ideological positions of the two personalities seem to converge on certain issues, even if rhetorical differences are discernible. Furthermore, the President enjoys strong backing among key supporters of the regime such as the Revolutionary Guards and the *basij* militia.

Ahmadinejat orchestrated a purge in the bureaucracy and a confrontational foreign policy style.

Iran’s new president has incensed the international community by repeated remarks denying the right of existence of the State of Israel, as well as questioning the historical truth of the Holocaust. While these remarks do not necessarily mirror an operational policy approach, they have done a great deal of damage to Iran’s international credibility and further poisoned the atmosphere at a crucial juncture in the crisis created by the country’s nuclear ambitions.

His remarks about Israel and the Holocaust have damaged Iran’s international credibility

The Nuclear Programme

Iran’s nuclear programme has emerged as a growing subject for concern, both in the region and in the West. While the Islamic Republic continues to claim that its programme is designed for the peaceful use of nuclear energy only, and fully consistent with its obligations under the Non-

Iran’s nuclear programme has emerged as a growing subject for concern

Proliferation Treaty (NPT), evidence presented by the International Atomic Energy Agency (IAEA) has fostered strong doubts about the issue. In fact, the Iranian missile programme and the obvious disinterest in receiving state-of-the-art light water reactors from Western sources seem to underline the Iranian interest in military use of nuclear technology.

Iran's past record of foreign policy behaviour has raised fears that a potential nuclear capability might ultimately be used as an insurance policy in order to pursue reckless policies on the regional level, especially in view of Iran's relative conventional weakness. If Iran were to acquire nuclear weapons, there would be a chain reaction, with other regional powers such as Saudi Arabia, Egypt, Turkey, and, eventually, Iraq being forced to seek guarantees against the threat of a nuclear onslaught. The consequences for global security of such a nuclear arms race in an unstable region would be enormous. What would be even worse, is that the international non-proliferation regime, which has been seriously weakened by the behaviour of North Korea, would continue to lose credibility.

If Iran were to acquire nuclear weapons, there would be a chain reaction

These concerns have led to direct negotiations between the three largest EU member states (the United Kingdom, France and Germany) and Iran, which in October 2003 succeeded in convincing Iran to sign an additional protocol to the Non-proliferation Treaty that provided for closer supervision of Iranian activities. In a second understanding in November 2004 (the Paris agreement) Iran agreed to suspend its uranium enrichment programme, and the EU proposed negotiations for a long-term agreement acceptable to both sides. In August 2005, after intensive negotiations and a great deal of pressure from Iran, the EU-3 presented its draft of a long-term framework accord. However, Iran rejected this offer, which it deemed completely insufficient, and re-started its enrichment-related activities at Isfahan and Natanz. The Europeans, for their part, sponsored an IAEA resolution which referred the issue to the UN Security Council. In subsequent negotiations, Iran and Russia failed to reach agreement on a proposal to carry out the uranium enrichment in Russia.

Iran rejected the European offer and re-started its enrichment-related activities

Sanctions vs. Incentives

In the light of Iran's resumption of uranium enrichment activities, the U.S, and EU countries have toyed with the idea of imposing sanctions on Iran. However, the efficacy of sanctions in the case of Iran is questionable, even if it were possible to enlist the support of Russia, China and other key players. Historically, sanctions have never been particularly successful. More often than not, they tend to punish ordinary people for policy choices made by their rulers. They are difficult to enforce, and elites tend to be able to find alternative supply channels. These problems have led to the development of "smart sanctions," which consist of punitive measures such as travel restrictions and the freezing of financial assets

The efficacy of sanctions is questionable, even if it were possible to enlist the support of Russia, China

aimed directly at the elites. However, such targeted sanctions are unlikely to do much to change Iranian behaviour, and in any case it would be difficult to enforce outside the U.S. and the EU. An arms embargo would depend heavily on compliance by Russia and China, Iran's most important arms suppliers. Curbing investment in Iran's energy sector and preventing it from importing refined oil products would have a discernible impact. Ultimately, any effective sanctions regime would have to target Iran's main export commodities, oil and gas. However, banning Iranian energy exports would have a significant impact on energy prices and on the global economy.

The threat of sanctions may well be a useful device to encourage Iran to change its behaviour. However, sanctions in themselves never constitute a sufficient strategy. They need to be backed up by a bargaining strategy based on a long-term perspective. A sensible set of incentives would have to change the cost-benefit analyses of Iranian decision-makers. The issues to be discussed should not be confined to the nuclear programme, but ought to include economic cooperation and other areas of mutual interest such as energy policy, drug trafficking, absorbing refugees, and regional security. Offering a set of attractive incentives to Iran would not amount to "rewarding" it for its violations of the NPT safeguards agreement, but would constitute an opportunity to "normalize" its relations with the international community. The recent offer backed by the P-5 and Germany is a welcome step in this direction.

The threat of sanctions needs to be backed up by a bargaining strategy based on a long-term perspective

However, the Iranian response to this offer has been less than encouraging. As the Islamic republic failed to deliver a formal response before the G-8 meeting in mid-July, the international community increased the pressure by adopting UNSC res. 1696 (2006) which calls upon Iran to cease its enrichment related activities until end of August. As this deadline is approaching, signals from Iran are mixed, but a cessation of enrichment seems rather unlikely. Against the background of the relative success of its main proxy Hizbullah Iran is rather unlikely to succumb to international pressure and cease its enrichment as required. Indeed, the ability of Iran and its allies to stand up against what is perceived as a combined onslaught of Western pressure and Israeli bombing is admired in the Arab world and beyond.

The Iranian response to this offer has been less than encouraging

An attractive set of incentives for Iran will have to include much greater U.S. involvement. Although America has declared its support for the EU-3 negotiations, it has not shown a great deal of enthusiasm and it has to a large extent been distracted by its problems in Iraq. It is time for the U.S. to switch gears and move from an indirect approach to direct negotiations with the Islamic Republic. The U.S. needs to prepare for a dramatic change of its approach comparable to Nixon's visit in China in the early 1970s. In fact, the recent development of relations with Libya could be an

The U.S. should explicitly exclude regime change as a policy option and open a separate bilateral negotiating channel

example of engaging a “rogue state”. The U.S. offer to join the multilateral talks under certain conditions was a hugely important step and this approach needs to be enlarged. In particular, those within the U.S. administration who are serious about opening up to the Iranian regime should be strengthened. The U.S. should explicitly exclude regime change as a policy option and open a separate bilateral negotiating channel. A realistic perspective of a long-term settlement suggests that the U.S. would have to reward Iranian cooperation with a broader strategic dialogue, the easing of sanctions, the release of frozen financial assets, the establishment of diplomatic relations, and, ultimately, the provision of security guarantees.

The inclusion of key countries of the developing world and especially the Middle East region would be an additional asset, since Iran has partly succeeded in depicting its conflict with the IAEA as the struggle between a self-styled champion of the south with the industrialized countries which wish to deny it the ultimate achievement of the modern age, nuclear energy. Over 100 non-aligned countries have registered their support for the Iranian position. Moreover, the Arab countries should be encouraged to be more blunt in public statements. This should be coupled with a fruitful public relations strategy which will explain the concerns about the Iranian programme to both the Iranian and the international public. Fostering the international integration of Iranian society on various levels will be key to restructuring Iran’s relations with the Western world.

A public relations strategy should explain the concerns about the programme to both the Iranian and the international public

The establishment of a monitoring system that will ensure the peaceful nature of Iran’s nuclear programme will necessitate a long and difficult negotiation process with the Islamic Republic. Iran’s self-perception as regional power demands negotiated solution that avoids the impression of a “colonialist dictat” imposed by the West. Iran’s multipolar institutional structure will make the negotiations more complicated. Dealing with Iran is different from dealing with Libya (or North Korea, for that matter). Iran’s insistence on continuing uranium enrichment on its soil has emerged as the major stumbling block in the negotiation process. Iran claims that this is “an inalienable right” according to the provisions of the NPT, while European negotiators maintain that Iran’s past failure to comply with the NPT regime must lead to the permanent suspension of all uranium enrichment activities. Whilst Iran has offered to accept foreign partners in its uranium enrichment programme, it has remained firm in its resolve to preserve a domestic enrichment capacity. A possible solution would be to allow Iran a very limited enrichment capacity under stringent international supervision, after a lengthy moratorium in which all the questions relating to the programme would have to be answered.

Iran could be offered a very limited enrichment capacity under stringent international supervision after a lengthy moratorium

An "Afghan Solution" for Iran?

Alternatives to a carefully crafted bargaining process with Iran are not very

encouraging. There have been reports recently on U.S. preparations for a military strike. However, military action would not only be premature, given the fact that Iran, on the basis of all serious analyses, is still years away from producing a bomb. The decentralized nature of the Iranian programme which has at least 18 known nuclear sites (and possibly many more which are hidden) excludes a single air strike modelled on the 1981 Israeli attack on Iraq. Military action would certainly lead to an asymmetrical reaction on the part of Iran, with painful consequences on both the regional and global level. Worse still, pursuing regime change on the lines of the "Afghan model", which has occasionally been advocated in Washington, would be tantamount to a reckless adventure. It is more than doubtful whether Iran's ethnic minorities would really be in a position to challenge the regime without massive foreign intervention. If ethnic minorities were encouraged to rebel, it would set in motion processes of mobilization that would later be impossible to control. Once the spectre of ethnicity is allowed to escape from the bottle, it will be very difficult to restrain, with potentially disastrous consequences for Iran's future as an integrated state.

Military alternatives to a carefully crafted bargaining process with Iran are not encouraging

6. Addressing the Gulf Security Dilemma

A long-term approach to deal with the protracted instability of Iraq and address Iran's hegemonic ambitions would have to include first steps towards a regional security structure in the unruly Gulf region. This region has witnessed a series of crises and an almost complete lack of regional security arrangements. The Iranian revolution (1979), the Iran-Iraq war (1980-88), the occupation and subsequent liberation of Kuwait (1990-1), and the removal of the Saddam Hussein regime (2003) have all contributed to a pattern of regional insecurity. Regional security structures – with the exception of the Gulf Cooperation Council (GCC), which was formed against revolutionary Iran – are virtually non-existent. The main regional actors (Iran, Iraq, the GCC and Yemen) constitute an asymmetrical triangle with large differences in military power, population numbers and economic resources. They do not share a common threat perception, nor have they succeeded in developing a common approach to building mutual confidence. The last decades have seen the growing involvement of external actors, and especially of the United States, which has seemingly exacerbated existing tensions instead of reducing them.

The Gulf region has witnessed a series of crises and an almost complete lack of regional security arrangements.

Since the British decision to withdraw from the region east of Suez in the late 1960s, the U.S. has developed three distinct approaches towards regional security in the Gulf. During the 1970s, it favoured a twin-pillar approach based on Saudi Arabia and Iran. This was modified after the Iranian revolution and the outbreak of the first Gulf war, with an increased shift towards Iraq in the 1980s. In the wake of the second Gulf war, the 1990s saw the development of a dual containment policy aimed at both Iran and Iraq. However, none of these approaches proved sustainable, and the U.S. saw itself compelled to intervene on several occasions with major military operations. Throughout this period the U.S. slowly increased its military presence and this has led to the continuous deployment of over 100,000 troops in post-Saddam Iraq. America has thus become a major Gulf power in its own right, helping to manage regional affairs as part of its “informal empire” (Ghassan Salame).

The U.S. has developed three distinct approaches for regional security, none of which proved sustainable

The Need For A Fresh Approach

Direct American military involvement in the Gulf has turned out to be counter-productive and will become increasingly untenable. It has become an extremely expensive exercise for the U.S., whose forces are already stretched to the limit. And their presence on the ground has fuelled popular discontent in the host countries, prompting the transfer of U.S. facilities from Saudi Arabia to smaller Gulf emirates such as Qatar and Bahrain. However, the occupation of Iraq and the prolonged presence of American troops on its soil has done little to dispel regional opposition to a

Direct American military involvement in the Gulf has turned out to be counter-productive

foreign military presence.

The downfall of Saddam Hussein eliminated one of the key obstacles to the creation of a regional security structure and opened a window of opportunity for new attempts at intensified cooperation. In principle, the establishment of an indigenous, Gulf-based security system with only a limited presence by external powers would be a positive-sum game for all concerned. Iran would warmly welcome any reduction of the foreign military presence in the region. Iraq, at least in the medium term, is bound to demand a withdrawal of foreign troops from its soil.

An indigenous security system would be a positive-sum game for all concerned

In the GCC countries, the idea of multilateral security structures in the Gulf region is met with mixed feelings. On the one hand, there is a growing recognition that to perpetuate the present system will increase tensions rather than reducing them. In fact the improvement of relations between Iran and the GCC countries in recent years has been encouraging as exemplified by an impressive number of daily flights between both destinations. On the other hand, GCC countries remain concerned that an agreement between the West and Iran will sharply devalue their political weight and exclude them from future decision-making. It is feared that the establishment of regionally based security structures will result in a reduced U.S. military umbrella without a reciprocal Iranian move.

In the GCC countries, the idea of multilateral security structures in the Gulf region is met with mixed feelings

Any successful approach to Gulf security must be based on a broad understanding of security that includes its economic and social dimensions. This would also include issues such as political reform, economic diversification and educational reform as the key pillars of any sustainable framework. In this context it should be noted that most GCC monarchies, as a result of a combination of external pressure and domestic demands, have begun to move towards increased participation and accountability.

A successful approach to Gulf security should include reforms in various fields

A new approach to Gulf security should aim to significantly reduce the foreign presence in the region. This will ease the burden on foreign actors, especially the U.S., both in financial and military terms, and make a contribution to greater stability. However, there will still be a need for foreign actors and the positive contribution they can make. It is obvious that the main thrust needed for the establishment of regional security structures must come from the region itself. Yet in the region with its history of violent confrontation there is a great deal of mutual suspicion. Regional actors do not share a common threat perception, let alone a joint approach to regional security. They have tended to view interaction as a zero-sum game, and their relations have almost exclusively been conducted on a bilateral basis. A shared approach to regional security has never emerged and multilateral designs have never been seriously considered. Even after the demise of the Saddam Hussein regime, there

Regional actors share neither a common threat perception, nor a joint approach to regional security.

has been no serious attempt to tackle the issue of future Gulf security.

A viable path towards a more sustainable system could build on an evaluation of the kinds of collaborative regimes which exist in other regions. The historically most famous models are the Helsinki accords and the Conference for Security and Cooperation in Europe (CSCE). However, the CSCE experience cannot simply be transferred to the region wholesale, and the operationalization of key elements in the different environment of the Gulf will require some preparatory work in order to succeed. A different lesson is provided by the Asian model, which is based on a set of overlapping bilateral and multilateral dialogue structures built around a number of general principles of regional conduct. Of more recent origin, the Balkan stability pact with its diverse participants and working groups could be an interesting model for Gulf security. An attractive approach would be to encourage a greater engagement of Asian countries (China and India as well as Japan and South Korea) whose dependence on energy supplies from the Gulf should be translated into active promotion of regional stability.

A viable path towards a more sustainable system could build on an evaluation of the kinds of collaborative regimes which exist in other regions

What role for Europe?

In spite of their geographical proximity and close historical ties, the development of relations between the European Union and the Gulf region is a recent phenomenon. Although individual member states have a very substantial presence in the region, a common European approach is only slowly beginning to emerge. Europe does not face a direct military threat from the Gulf (at least until Iran becomes a nuclear power), but it would risk losing numerous opportunities if it chose not to become involved. Protracted instability in the Gulf would not only threaten its energy supplies and its substantial trade and investment in the region, but could also lead to terrorism and the influx of refugees.

Europe would risk losing opportunities if it chose not to become involved

The increasing European interest in developing a more ambitious approach to the Gulf has been determined by the geo-political repercussions of 9/11, the Iraq war, and the prospect of EU membership for Turkey, which would turn Iran and Iraq into direct neighbours. The EU has emphasized the increasing importance of the Gulf region in several policy declarations within the framework of its Common Foreign and Security Policy. However, European involvement has been hampered by the need to invest a great deal of energy in negotiating compromises between the diverging interests of EU member states instead of translating declarations into action in operational terms.

The EU has emphasized the increasing importance of the Gulf region

Nevertheless, the EU has developed a network of relations with all the relevant actors in the region as a whole. The Union has concluded a cooperation agreement with the GCC, which, as a regional organization, is a "natural partner", and negotiations on a free trade agreement are

nearing completion. Since the 1990s it has developed a substantial non-contractual special partnership with Iran which combines a dialogue on sensitive issues with a booming economic relationship. In 2002 the EU offered a "Trade and Cooperation Agreement" to Iran, but negotiations have been discontinued as a result of the nuclear dispute. Europeans have taken the lead in the negotiations between the EU-3 and Iran about the latter's nuclear programme, which ultimately received American backing. EU involvement in Iraq has been feeble and remains a sensitive issue on account of the deep divisions between the member states caused by the 2003 invasion. Among the neighbouring countries, Jordan and Syria are partners in the Barcelona process, and the EU has a cooperation agreement with Yemen.

The EU has developed a network of relations with all the relevant actors in the region

The key to any new approach to Gulf security lies in Washington. The second Bush administration has learned its lesson, and seems to be much more willing to consider multilateral policies than in the past. Nevertheless, its ability to devote time and resources to issues other than Iraq seems to be limited. The Europeans need to convince decision-makers in Washington of the benefits of multilateral elements in the region, including a more flexible attitude towards Iran. Any European engagement in the Hobbesian environment of the Gulf will definitely be limited by a lack of integrated military power. Although a European Security and Defence Policy has been established, it will be difficult for a long time to come to imagine the projection of European military power into the Gulf region.

European engagement will be limited by lack of military power

However, Europe's contribution to the development of co-operative multilateral structures should not be underestimated; nor should its experience in building mutually beneficial partnerships. The EU certainly cannot provide an alternative to the U.S. security umbrella in the region; nevertheless, it could play a complementary role by building on its good relations with all the actors on the regional level. In 2004, NATO declared its intention to become more active in the region on the basis of the Istanbul Cooperation initiative. With its considerable experience in building multilateral security structures at the regional level, it could be a valuable partner in this context as well.

The EU could play a complementary role by building on its good relations with all regional actors

A more intensive approach towards the Gulf would need to progressively increase the European presence in the region on a political, economic and cultural level. A case in point is the field of higher education in the GCC, where there is a genuine demand for collaboration and networking with European institutions in order to benefit from European expertise. Europe will have to define its interests in the region in greater detail and work out an ambitious, though realistic and operational strategy.

Europe needs to increase its presence in the region

The Way forward

A regional security structure will have to grow step by step, and cannot be

imposed from without. It should evolve from a multitude of cooperation initiatives based on a variable geometry involving both regional and, where appropriate, external actors. Furthermore, track-two discussions involving civil society actors could be set up to complement exchanges at governmental level, and help to develop innovative ideas in an unofficial context. While external actors certainly have a role in stimulating and encouraging certain initiatives, regional actors themselves have to embrace the idea of conceptualizing Gulf security as an indivisible good which needs to be addressed in a multilateral framework. In this process, the interests and concern of small actors, such as the GCC countries, have to be taken seriously. Iran as the largest and most powerful country in the region must stop its revolutionary rhetoric and accept to be treated as first among equals. Such an approach should be built around a number of general principles:

Security structures could evolve from various cooperation initiatives based on a flexible geometry

- *Inclusiveness*: It should be open to all the riparian countries of the Persian Gulf as well as all significant external actors;
- *Comprehensiveness*: It should be based on a broad understanding of security which includes not only narrow military concerns, but also other issues such as domestic reform, economic cooperation, etc.;
- *Flexibility*: It should consist of different tracks covering relevant issues with flexible participation by various actors;
- *Separation*: It should not be based on automatic linkage to progress in other sub-regional contexts, especially the Arab-Israeli conflict.

A more ambitious design would formalize and institutionalize cooperation. To this end, in the medium term the organisation of a regional conference might be considered. Its aim would be to issue a declaration on security in the Gulf region including principles such as the recognition of sovereignty and territorial integrity, non-interference in domestic affairs and peaceful conflict resolution and a commitment to confidence building measures. The conference could establish working groups in a number of fields where regional cooperation will benefit all the parties concerned, for example

In the medium term, a regional conference could establish working groups in a number of fields

- Fight against terrorism and international crime;
- Stabilization of Iraq;
- Progressive regionalization of existing bilateral CBMs, including in the maritime field;
- Economic cooperation;
- Disaster relief and protection of environment.

A collective regional security structure in the Gulf cannot materialize immediately, but a start can certainly be made. Multi-track efforts at increasing understanding and trust between regional and important external actors can establish the groundwork for more ambitious ideas, even if results will not come quickly. Recent developments in Iran and Iraq have not been particularly encouraging in this respect. Dealing with the nuclear ambitions of Iran and the festering instability in Iraq will be necessary elements of a comprehensive approach, though they should not distract us from the vision of building a more sustainable security structure in one of the world's most troubled regions.

Multi-track efforts at increasing trust can establish the groundwork for more ambitious ideas

7. Rethinking Democratization in the Middle East

Mounting domestic problems in conjunction with the changed international environment have convinced leaders in the MENA region that reforms are inevitable. Few see a viable alternative to deregulating the economy in order to prepare it to meet the challenges of globalization. Most of the countries have managed to achieve macroeconomic stabilization by controlling inflation, balancing budgets and reducing debt. However, more complex structural reforms such as privatizing state-owned enterprises, enhancing the rule of law and creating systems of market regulation have proceeded at a snail's pace. Without parallel institutional reforms and the creation of effective oversight of competition, the kind of economic liberalization pursued in the region provides corrupt officials and well-connected businessmen with numerous opportunities to enrich themselves as a result of untransparent privatization and licensing procedures. Selective economic liberalization means that state control over the distribution of resources shifts to clientelistic networks. Direct state control has been replaced by a symbiotic relationship between the bureaucracy and a crony bourgeoisie.

Without institutional reforms economic liberalization produces crony capitalism

Thus there is a growing consensus that the introduction of selective and carefully chosen steps towards reform is no longer sufficient, and that a solution of the region's problems requires a more comprehensive approach. Political reform has returned to the agenda, though initiatives in this area continue to be carefully controlled. The 2004 Tunis declaration of the Arab League has been a significant step forward, but it sorely lacked an implementation mechanism. The 1980s saw a number of attempts at controlled political opening (Egypt, Jordan, Tunisia), which, although based on a rather heterogeneous logic, reflected falling oil revenues and the need to secure popular support for economic stabilization measures. This period culminated in the Algerian opening in 1988, which prompted the military to intervene in order to prevent the electoral victory of the Islamist opposition from plunging the country into civil war and thus setting the stage for the restrictions on political activity in the 1990s.

In the past, controlled political opening reflected falling oil revenues and the need to secure support for stabilization measures

However, substantial progress has been achieved in many countries in recent years, most notably in areas like press freedom or women's rights. In some ways similar to the European experience, monarchies have been more successful at political liberalization since the king or amir is in a position to allow for greater competition without having to subject his own office to a popular vote. However, the lack of party development in many countries does not allow for a meaningful vote on particular policy issues. Elections carry the risk of being reduced to referenda on ethnic identity and religious purity. A functioning democracy, however, requires an electorate which is willing to shift its loyalty. As a consequence, only a

Progress has been achieved in many countries, most notably in areas like press freedom or women's rights

choice between autocratic rulers and the Islamist opposition remains. In addition, attempts at reforming governing systems were successfully attacked by status-quo forces that are privileged by the current system. Booming oil revenues have relieved the ruling elites from fiscal pressures and further contributed to slow down attempts at political liberalization.

The primary goal of the elites in the region is to ensure the survival of their regimes and to adapt their institutions to a rapidly changing environment. Processes of political and economic reform are based on this premise, and subordinated to it in the event of conflict. The processes leading to greater political openness in most of the region's autocratic regimes may well be designed to allow for a higher degree of pluralism and participation, enhance the rule of law, and strengthen accountability and transparency, but they are strictly controlled and regulated in such a way that the governments can retain their sources of power. Well-publicised reform measures are quite frequently nullified by the introduction of new and less visible restrictions. In fact, a hybrid "pluralist autocracy" is evolving in which electoral results have but a limited impact on the choice of the ruler. The goal is to reconstruct authoritarian systems, and not to transform them.

The goal is to reconstruct authoritarian systems, not to transform them

The Euro-Mediterranean Partnership at its 10th Anniversary

Despite numerous rhetorical commitments, the promotion of democratic participation and good governance in the Mediterranean and the Middle East region has proved to be a difficult task. Democratic transformation is first and foremost a domestic process, but international actors can play an important role. The EU has promoted reform within the framework of the Euro-Mediterranean Partnership (EMP), which aims to establish both a zone of peace and stability and a free trade area in the Mediterranean. For this purpose the EU has concluded association agreements with all the Mediterranean partner countries (except Syria) which will extend free trade provisions to industrial goods after a transitional period. However, an analysis of the achievements of the Partnership on its tenth anniversary is rather sobering. In spite of the establishment of a considerable institutional apparatus, the Partnership has succeeded neither in stimulating a regional security structure nor in sparking a political reform process in the partner states. Essentially, the EU has failed to use its tools effectively. In some cases the EU tended to defer to member states with special interests in a particular region such as France in North Africa or Britain in the Gulf. The lack of success can be traced on the one hand to the insufficient implementation of agreements by partner countries and the impact of regional conflicts, and, on the other hand, to the EU's dual competence structure and its deficient capabilities. The lack of interest displayed by the partner countries manifested itself at the 10th anniversary summit of the Partnership in Barcelona in late 2005, when most of the heads of state

The Euro-Mediterranean Partnership has not succeeded in stimulating a regional security structure nor has it sparked a political reform process in the partner states

from the south chose to stay away. Indeed, it may be argued that the EMP is haunted by problems very similar to those which accompanied its inception.

The EMP is complemented by the European Neighbourhood Policy (ENP), which aims to establish a ring of stable and prosperous neighbouring countries around the Union. These countries are offered a privileged partnership status on the basis of action plans, which include detailed obligations and objectives that determine the cooperation with each partner. Progress in different areas is to be evaluated on a regular basis, and will be subject to positive conditionality. The benchmarking envisaged in this context promises to be much more differentiated and flexible than in the earlier approach.

The Neighbourhood Policy offers a privileged partnership

However, the creation of the neighbourhood policy seems to be a response to the combined impact of eastern enlargement and the internal balance of the EU and not a genuine analysis of the problems and alternatives to partnership. The heterogeneous character of the EU's adjoining regions may well impede the development of effective instruments. The implementation of the EU *acquis* as a precondition for participation in the single market constitutes a tough challenge for partner countries. It will lead to greater structural dependence on the EU without representation in its institutions. In the long run, the ENP is bound to lead to an increased stratification among partner countries, with some moving ahead much faster than others.

It will lead to increased stratification among partner countries

The action plans to which the partner countries have agreed list a large number of cooperation activities in different areas, which in addition to general guidelines include specific measures to be implemented by the partners. Since the simultaneous implementation of the whole agenda would be a huge challenge for any partner, there will inevitably have to be priorities. However, the incentives offered by the EU in exchange for the implementation of the programme remain rather vague. The individual requirements of the plan should be directly connected to attractive EU incentives to allow for positive conditionality.

The implementation of action plans should be directly connected to attractive incentives

The Broader Middle East the North Africa Initiative

The U.S.-initiated G-8 *Broader Middle East and North Africa* framework has been added to the decade-long European engagement. This approach has progressively established its institutional base, including a ministerial meeting (Forum for the Future), a platform for dialogue with civil society (Democracy Assistance Dialogue), two foundations to support democracy and SMEs (Foundation for the Future, Fund for the Future) and two training and resource facilities (Entrepreneurial Excellence Centres). The initiative is based on a common vision, but it clearly lacks a sophisticated strategy on how to achieve these goals. The result is a chain

The BMENA initiative has progressively established its institutional base

of more or less unrelated projects in various fields without a convincing integrational approach. The initiative is more of a device to deal with transatlantic difficulties than a genuine regional strategy.

The initiative was received with a great deal of scepticism in the region because it devotes little attention to regional concerns such as the Arab-Israeli conflict. A preliminary draft leaked to the Arab press had not been discussed with any of the regional actors, and sparked a wave of protest. Although the original approach was subsequently softened, the controversial role of the U.S. has significantly undermined the project's credibility. The U.S. is routinely perceived as pursuing a self-serving agenda driven by power interests and not as the initiator of an honest attempt to work for a better future for the region's peoples. Reformers continue to face charges of serving a hidden agenda and of meddling in the internal affairs of countries in order to bolster the alleged U.S. control of the region. The tendency of U.S. administration officials to castigate governments hostile to the U.S. as "outposts of dictatorship," whereas friendlier, though nonetheless authoritarian countries are not criticized, has not been helpful in this context. The disaster in Iraq has further damaged the American reputation in the region. The promotion of democracy has been perceived as a stealthier version of regime change by military conquest. The situation in Iraq is often used to equate democratization with anarchy and civil war, and serves as an excuse for deferring reform processes indefinitely.

The controversial role of the U.S. has significantly undermined the initiative's credibility in the region

From its very beginning the initiative has suffered from a build-in target conflict between security policy, including the fight against terrorism, and support for democracy. Cooperating with autocratic governments and approaching "subversive" civil society groups at the same time has proved to be a difficult challenge. The illegal treatment of prisoners at Guantanamo and various detention camps in Iraq and Afghanistan has contributed to the negative picture.

Target conflict between security policy and support for democracy

Combining Attractiveness and Assertiveness

The approach to democratization in the region needs to be rethought without recourse to simplistic blueprints. From the very beginning it needs to be acknowledged that the impact made by promoting democracy from without can only be a modest one. The indirect and piecemeal European approach applied over a decade in the framework of the Barcelona Process has yielded very few results. Yet the blunt rhetoric of the U.S.-led BMENA initiative and the attempt at democratization by military conquest in Iraq has alienated the main beneficiaries of democracy, the peoples of the region. A sophisticated approach would have to combine the attractiveness of the European approach with American assertiveness to address the need for political reforms.

A sophisticated strategy would have to combine the attractiveness of the European approach with American assertiveness

However, there is no grand “one size fits all” strategy. A differentiated approach towards specific problems in individual countries is required. The victory of Hamas in the Palestinian parliamentary elections has highlighted the dangers of pursuing democratization regardless of the regional context. A reasonably free and fair contest has produced a government which rejects established international norms. This fuels perceptions that the West insists on a democratic choice of leadership, but only as long as acceptable leaders are elected. In particular, democratization must not be reduced to holding free and fair elections. Early elections in ethnically divided societies can lead to instability, if national identity is weak and ethno-religious cleavages are used as mobilization tools. Existing support frameworks would have to be coordinated to ensure an efficient allocation of scarce resources.

Democratization must not be reduced to holding elections

The first objective should be to build the foundations of democracy, such as fostering national integration, developing independent media, establishing an enabling framework for collective action and promoting the rule of law. Reforms without elections, however, will remain partial since, in the long run, only elections will ensure sufficient accountability and transparency. Therefore a second step should progressively address the political core of power relations by supporting the formation of political parties with mass support, enhancing the competitiveness of elections, and demanding increased power for parliaments and courts. The reform process should be guided by two basic principles. First, no one shall be allowed to impose his cultural vision on others, individual and group freedom must be preserved. Second, no one shall be allowed to carry arms but the government, the presence of armed militias must be prevented. In this context it will be inevitable to engage the Islamist parties. Western-style liberal organisations in the region are usually clustered around individuals who have no sizeable following. Mainstream Islamist parties are the only opposition organisations with a genuine mass constituency. While there are uncertainties with regard to their emerging positions on issues such as civil rights or the protection of minorities, it is clear that moderate currents advocate participation in the political process. Since democracy is by definition mass participation, there is no alternative to carefully including these groups.

Foundations of democracy have to be built first, afterwards the political core of power relations should be addressed

Finally, there is an urgent need to attract the people in the region, who have little if any confidence in Western intentions. It should be made abundantly clear that promoting democracy is not about foreign control of national affairs, but about empowering the people. Existing funding mechanisms could be made more participatory, and the principle of ownership could be made operational in classical development projects, such as water management. Regional concerns need to be taken seriously. The Arab-Israeli conflict plays an important role. This does not

Regional concerns have to be taken seriously

mean that progress should be linked to a resolution of this issue. Nevertheless, average Arabs are genuinely worried about the plight of the Palestinians. For this reason a serious attempt to win the hearts and minds of the people needs to include an active and even-handed approach to this festering problem.

8. Conclusion: The Cultural Gap

Europe's relations with the Middle East region have been developing quite rapidly in recent years. The sustainability and financial strength of the Euro-Mediterranean Partnership and the emerging Neighbourhood Policy, the formation of the Quartet to deal with the Israeli-Palestinian stalemate, the negotiation approach of Britain, France, Germany and the high representative for the CFSP to ensure the peaceful nature of the Iranian nuclear programme, the modest, but nonetheless important contribution to the reconstruction process in Iraq and the growing importance attached to the Gulf region as a whole testify to this trend.

Europe's relations with the Middle East have been developing rapidly

However, most alarming in this context is a growing subjective cultural gap. The cartoons published by the Danish *Jyllands-Posten* and subsequently reprinted in various European countries have revealed deep disagreements about core values such as freedom, tolerance and respect for religious symbols. In the eyes of the Europeans, portraying the Prophet Mohammed wearing a time-bomb shaped turban may be the product of extremely bad taste, but not an act subject to criminal prosecution. However, for many Muslims the cartoons were the product of rampant Islamophobia in Europe which leads to the discrimination of Muslims and the systematic denigration of Muslim religious symbols. Indeed, there are already ideas to answer Western calls for political reform with demands for anti-discrimination policies to protect Muslim minorities.

The cartoon crisis has revealed deep disagreements about core values

The impact of this storm can still be felt, and a recent survey revealed that the number of Germans who believe in peaceful co-existence between the "Western" and "the Islamic civilization" has dramatically decreased. This is not the same as endorsing crude theories about an imminent clash of civilizations. Culture and religion are far too complex concepts to fit neatly into simple "us against them" projections. Nevertheless, there seems to be a growing number of individuals within both cultural contexts who are convinced that there are fundamental and irreconcilable differences between the two civilizations. In the long run, it is this trend which poses the most dangerous threat towards developing fruitful relations between Europe and the Middle East.

Perception of irreconcilable differences between civilizations is most dangerous threat

The following papers written in the context of the project “Europe and the Middle East” of Bertelsmann Foundation and Center for Applied Policy Research are reflected in parts of the text:

- Zaid al-Ali, The Evolution of the Iraqi Constitution – From the Constitutional Committee to the Leadership Council.
- Ghassan Atiyyah, What Role Can the EU Play in Iraq’s Future?
- Joost R. Hiltermann, Reviewing the Constitution: From Blueprint for Iraq’s Dissolution to Genuine National Compact?
- Emile El-Hokayem and Ellen Laipson, Europe’s Role in the new Iraq: A Washington Perspective.
- Input papers on the Israeli-Palestinian Conflict by Yossi Alpher, Shlomo Avineri and Ghassan al-Khatib und Khalil al-Shikaki.