

BANK POLICY INSTITUTE

ANNUAL CONFERENCE

CONFERENCE OPENING DINNER FEATURING  
U.S. DIPLOMAT RYAN CROCKER

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**Welcome Remarks and Introduction:**

JAMES D. ARAMANDA  
President and Chief Executive Officer  
The Clearing House

**Featured Speaker:**

RYAN CROCKER  
Lifelong U.S. Diplomat, Diplomat in Residence  
Princeton University

**In Conversation With:**

GREG BAER  
President and Chief Executive Officer  
Bank Policy Institute

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## P R O C E E D I N G S

MR. ARAMANDA: Could I ask everybody to grab a seat? We got lots of seats up front. Shh. These mics shrink like a -- all right. Hey, thanks everybody. It's great to see everybody here. I can't believe this is our ninth year doing this.

Good evening. I'm Jim Aramanda. I'm president and CEO of The Clearing House and it's really my pleasure to welcome all of you to our ninth annual conference and the second conference that we've co-hosted with our friends at the Bank Policy Institute led by my friend Greg Baer. Greg is still basking in the afterglow of the improbable Nats win, World Series win. Greg's going to be up a little later and -- after the dinner program and you'll hear from him tomorrow on BPI's numerous activities. But again, thank you for joining us at this opening dinner and for this year's conference. And over the next two days we'll hold some 20 panel discussions focused on the key issues for the country's large commercial banks along with keynote remarks by regulatory agency heads, policymakers, and academics. And as in previous years we've worked to

deliver panel sessions populated by leading practitioners to address the essential issues of the bank industry in the areas of both policy and regulation, and payments, innovation, and technology consistent with what BPI and The Clearing House focus on. We're confident that you'll find this content to be timely and inciteful and relevant to your jobs.

Before dinner let me take a brief moment to reflect on the past year at TCH since that's what I represent here. It's been an exciting time for us and for the industry and for American businesses and consumers in the context of the modernization of payments in this country. Specifically, the RTP system; the country's Real-time Payment system or we should nickname it RTP all ready. It's been in the market for several years. It's delivering advanced real-time payments, capabilities in the U.S., and it's designed and built to serve every financial institution in this country. Right now we have about half of the DDA accounts in this country connected to the system and volumes are starting to grow and we expect next year just a really exponential growth of our system.

We're very excited to have delivered the newest payments rail in the most modern payment system in the world. Although we weren't the first -- this country wasn't the first to introduce real-time payments to the world, we learned on all of the other efforts around the world and we truly think we have the best system on the globe -- in the globe. In sum, this system provides the payments functionality that is really consistent with the way we all live our lives today; that is in real time.

I'd like to thank the leadership of The Clearing House and its board for supporting this effort in helping us bring it to the market. And while we've made tremendous progress to date, rest assured to quote Bachman Turner Overdrive, for those of you that are under 50, that's not a legal firm, you ain't seen nothing yet.

Next year our banks are going to revolutionize the bill payment process by utilizing the unique capabilities of the new systems. So watch out in 2020, you'll see some really interesting innovative things.

Beyond real-time payments TCH has been

extremely active this year with our Connected Banking Initiative to address safety and soundness issues that consumers are exposed to everyday when they provide their banking credentials, passwords, and logons to third parties for a variety of reasons. We're also working hard to extend tokenization; something we introduced to the financial services industry years ago to digital transactions of all types both real-time payments, data exchanges, e-commerce, et cetera. We're confident that each of these initiatives helps to deliver significant value for financial institutions, their customers, and frankly, all consumers in this country by providing, you know, enhanced speed and safety and other new features and functionalities.

And with that, thank you again for joining us at the conference. We hope that you'll find the next several days to be informative and again I want to thank the staffs of TCH and BPI led by Greg for helping us bring this conference to you again this year.

And finally, Greg Baer will be up after dinner for what promises to be a timely and interesting discussion with Ryan Crocker, a Lifelong Career Diplomat

and Diplomat in Residence at Princeton University for a discussion in world affairs and -- including the various hot spots in the news today. So again, thanks everybody and enjoy your meal.

SPEAKER: Ladies and gentlemen, may I have your attention please. Please join me in welcoming to the stage President and Chief Executive Officer, Bank Policy Institute, Greg Baer. (applause)

MR. BAER: Thanks everybody. Welcome to the fun night where we don't talk about banking and talk about anything but -- I -- in our, sort of, Hamilton tradition. There'll be no singing and dancing tonight, but I think you'll find it every bit as entertaining. Also just want to thank my former boss and current partner, Jim Aramanda and the Clearing House for agreeing to do this with us. I was saying to Jim, we're going to have to think about the future. It's going to be tougher because, you know, there'll be a fed now conference. Although the good news, that won't be for 5 to 10 years. (laughter) It'll cost more, and it won't really work well. And -- but you'll have to choose which one to go to because they will not be

interoperable. (laughter) Sorry, I do that for free, for you, The Clearing House. Oh, God, that was so much fun. (laughter) So now on to our regularly scheduled programming.

It is an honor to introduce to you Ryan Crocker who is one of the great diplomats in American history. He has served nobly under three different presidents. He is a recipient of the Presidential Medal of Freedom. In July 2012 he was named an Honorary Marine interestingly becoming the 75th civilian so honored since 1775. Diplomat is actually a bit misleading as it applies to Ambassador Crocker as it traditionally implies the wearing of formalwear and attendance at cocktail parties. Ryan Crocker has spent his career at the -- in most dangerous places in the world at the most dangerous times.

He decided shortly after joining the Foreign Service in 1971 to begin what would become years of Persian language studies. This set him up on an extraordinary career path. Early in his career he served in Iran, Qatar; he taught me the pronunciation; Iraq and Egypt. He became chief of the political

section of the American Embassy in Beirut and in 1983 survived the embassy bombing that killed 63 of his colleagues. He subsequently served as ambassador to Lebanon and then Kuwait and Syria. In the immediate aftermath of 9/11, Ambassador Crocker traveled to Geneva where he worked with Iranian representatives in a joint effort to capture Al-Qaeda operatives and fight the Taliban in Afghanistan. In July -- in January 2002 he was appointed chargé d'affaire at the embassy of Afghanistan and was then later, in 2004, confirmed as ambassador to Pakistan. Between those postings; he's a busy man, he served as -- in Baghdad as the first director of governance of the Coalition Provisional Authority. He subsequently served as our ambassador to both Iraq and Afghanistan. Ambassador Crocker retired from the Foreign Service in April 2009 after a 37-year career.

Respect for his work is profoundly bipartisan. In September 2004 President Bush conferred on him the rank of Career Ambassador, the highest rank in the Foreign Service. In May 2009 Secretary of State Hillary Clinton announced the establishment of the Ryan Crocker

Award for Outstanding Achievement in Expeditionary Diplomacy, and in 2011 he was recalled to active duty by President Obama to reopen the U.S. Embassy in Afghanistan.

Since his most recent retirement, Ambassador Crocker has taught at various institutions including the University of Virginia and Yale. He has received more honorary degrees than I can possibly mention in the time we have left. Among them though are the National Clandestine Services Donovan Award in 2009 and the Director of Central Intelligence Director's Award in 2012. Currently he is ambassador in residence at Princeton University and is on leave as dean and executive professor at the George W. -- George Bush School of Government and Public Affairs at Texas A&M University.

It is my profound pleasure to introduce him to you and then, eventually, to join him in conversation.

(applause)

MR. CROCKER: Well, thank you Greg for that generous introduction. I could be introduced in a number of ways depending on how you want to look at my

career. I like that. Another way would be to, sort of, look -- imagine a photograph of every major setback to America's national security interest in the Middle East since say 1979. If there were such pictures, I would be in every single one of them. (laughter) Now, a kind of, first row, second from the right. (laughter)

Well I always try and start with something to get a little bit of a laugh. You've now had the laugh for the evening (laughter) because it is kind of hard to be entertaining about the Middle East. And speaking of which, could we through that -- there it is, yeah. Just a -- just for your reference there, I'm sure you all know which country's next to which, but as a little refresher and to get you prepared for the map quiz that will come at the end. So what I'd like to do is just, kind of, set the stage broadly for you and then we'll -- Greg and I will have a conversation and then you will get to throw your slings and arrows at me.

So what is the Middle East? You see right away when you ask that question why we get into the trouble. In the U.S. administration there is no common definition of the Middle East. Central Command defines

it one way. State Department defines it another way. The Office of the Secretary of Defense, yet a third way. So we can't even agree on what it is. This is my version because these are the places where I served. So I had Afghanistan and Pakistan; I couldn't get that neat orange shading in for Pakistan because I was ambassador to both of them. And since all I knew was the Middle East, I Middle Eastern-ized those two countries to my satisfaction and that's what we're looking at now.

So as you look at that whole area there is one element that every one of those countries has in common. Turkey's on the map not because it's part of the Middle East but because it used to own the Middle East until the end of World War I. So can you guess what characteristic that might be? Here is a hint. Here's a set of hints. It's not language. It's not religion. It's not ethnicity. It is definitely not oil; just ask the Jordanians. What it is is that every one of those countries; again minus Turkey, has been occupied by one or more western powers.

Okay, well you blew that one. (laughter) So here's another one. What is the significance of the

year 1798 in the context of the Middle East?

SPEAKER: Napoleon?

MR. CROCKER: Yes, yes. That is most excellent. (applause) Yeah, in 1798 Napoleon invaded Egypt. He had to fill in some time between major European engagements and there was Egypt. The French weren't there long, but that is the year I consider the advent of the modern historical period in the region because those occupations started in earnest after that where, you know, going west to east, Morocco, Algeria, Tunisia, the French. As a young child I was in Morocco with my Air Force father when it was still French Morocco. Libya occupied by the Italians and boy, choking back that Italian joke is hard but -- Egypt the British, Sudan the British, Jordan and Palestine the British, Syria and Lebanon the French. The center of Saudi Arabia, because it was only sand at the time; the oil came later, that was not occupied, but not occupied by anybody including those who became known later as the Saudi's. The gold states and the Arabian Sea states; Yemen, Oman, UAE, Bahrain, Kuwait, all in the British area. Iran not formally occupied but virtually by the

British really did colonize it when Winston Churchill made the historic move before World War I to shift the British Navy from coal to oil.

There was a -- he was First Lord of the Admiralty at the time and did receive a delegation of senior admirals who complained to him about this outrage against naval traditions and he famously responded, do not speak to me of naval traditions. There are only three; rum, sodomy, and the lash. (laughter) The Navy got their own back on him. It was that same Winston Churchill who was the architect of the Gallipoli campaign which incidentally led to the creation of modern Turkey. As the division commander defending Gallipoli was a two-star Ottoman general named Mustafa Kemal who, after the war, adopted the surname Atatürk and built the Turkey that President Erdoğan is now taking apart.

So why is any of this of significance? Because it conditioned Middle Easterners in a particular way to understand that they could not stand against the modern armies of the West. Let them come. They're going to come anyway. Put up enough of a resistance so

that you don't have to be completely ashamed, hunker down. And then after they're fat and happy and giddy and pretty dumb, then you start the fight. And that has been a characteristic of engagements in the region. Again, French, British, Russians, Americans; we've all experienced that. Not that we learned from it, but we experience it. So that's, kind of, the political, cultural overview.

I'm going to talk just a little bit about history in another context. This is 2019. It's been the 100th anniversary cycle of a lot of events related to the first World War. 1919, a hundred years ago, was when the Versailles Treaty was concluded. The United States was a player in Versailles for the first time outside of our borders, but not much of a player. Woodrow Wilson was there. He had some ideas about democracy in his famous Fourteen Points as an international blueprint. But the British and the French were not interested in having the Americans horning into their area. And indeed, in 1916, in the middle of the war, they had concluded an agreement between them. The Sykes-Picot Agreement; secreted at the time, in which

the Middle East was basically divided into French and British zones of influence. What Wilson had in mind, and he actually dispatched a commission to do the research, was something different than colonial occupation. The King-Crane Commission went out to the area, did the unthinkable and unheard of; actually interviewing Middle Easterners and asking them what kind of post-Ottoman order they wanted in their lands? Well, everyone obviously said independence. That was not on the cards. The second choice was a unitary mandate under the United States. The Brits were a very distant third and the French didn't move the needle. They'd already had that experience. None of that happened, of course.

And it was a time when parts of the Middle East like present day Israel and the Palestinian territories became, as it were, the thrice-promised land. For 1916, Palestine and present-day Israel would have been under the British mandate and indeed they were.

1917 you had the Balfour Declaration out of London. His majesty's government would look with favor

on the establishment of a Jewish homeland in Palestine. And then there was the man whose same correspondence, the Emir of Mecca, Bhat Hussein, in which the Emir was given to believe that they, the Arabs, would be in a position to run affairs in The Levant including the Palestinian area. And I just relate all this to -- just to explain this complex interaction between the west and the Arab east.

So what happened? This was empire on the cheap. The French and the British were in no way interested in doing anything for the benefit of Middle Eastern people. They wanted to make some money and they wanted to spend as little as possible. They certainly weren't interested in preparing the peoples of those lands for self-governance. And that is important because as we look at the Middle East today, what we see, if you have to distill the problems of the Middle East to a single term, that term would be governance or the lack thereof.

Going through that whole region today, we have only one fully-fledged democracy and that would be Israel. And the Israeli form of democracy is -- gotten

right to the edge of the cliff now. Lebanon partial, Iran partial, the others not much at all. So I call this the succession of isms. After World War I you had colonialism/imperialism. You had monarchism in places like Iraq and Egypt, Jordan. And then you had authoritarianism, militarism when monarchies were knocked off and generals took command. You had communism in South Yemen. You had Arab socialism. Baathism in Iraq and Syria. Republicanism in Yemen. They all had one thing in common; they all failed to provide good governance to the people they were supposed to be ruling.

Now we have Islamism in places like Iran and, of course, Islamic state and they'll be back folks. You heard it here first. They've never really gone away. They will be back.

The good news is Islamism too has really failed as a -- again a framework for good governance. And that's the good news. The bad news is there's going to be another ism flopping around out there that we may not see yet but will manifest itself at some point. And my guess is without a -- an infrastructure of

institutions they too will fail. So at this time of not just governments overthrown, but states completely failed, that trend is not likely to reverse anytime soon. And then comes the question, what do we do about it and I'll just conclude with that.

The end of World War II is very different than the end of World War I. We got shoved off the stage in World War I. World War II we were centerstage; not just in the Middle East but globally. It was a U.S. conceived international order. The United Nations, born in San Francisco. The -- as all you would know very well, the post-war financial system, Bretton Woods, that moved the world from the gold standard to the dollar standard. We led and we led for decades. That started to change under President Obama. He talked about our so-called allies in Egypt and Saudi Arabia. He started to back us out a bit. Pulled us out of Iraq. Almost pulled us out of Afghanistan. President Trump has taken that a whole lot farther in American retrenchment. So that is the question I would leave you with. We clearly are moving into a post-U.S. ascendant world and region with what consequences. And for any of you who need

something else to keep you awake at night, we are defaulting basically to a balance of power system more or less. Well it was a balance of power system, more or less, that brought you two world wars; World War I and World War II.

So again as you kind of look for the punchline, just bear that in mind. The Middle East is a gift that keeps on giving. What happens in the Middle East most definitely does not stay in the Middle East. And you will not see economic growth or much of anything good until that critical question of governance has a better answer than it does today. (applause)

MR. BAER: I neglected to mention, and I hope they'll put it up on the board. If you want to submit questions you can download an app which should be appearing and then they will come up here. Although I've got a lot of questions, but I'll try to make room for some of yours. So thanks. That was as good a framing as I could possibly have hoped for.

So let's move quickly to present events and then I'm going to ask you maybe some thematic questions. So very current today, Secretary of State Pompeo

announced that Israeli settlements in the West Bank are no longer inconsistent with international law. I think that actually follows on a less noticed announcement in March that was very similar with the guard of the Golan Heights. It seems clearly to be moving; at least this administration and that'll be my question, away from a potential two-state solution to the Israeli-Palestinian question. Is that a fair observation and is that just a Trump administration view or have all the Arab states, sort of, cooled on the notion of two states?

MR. CROCKER: And it is a central question. We don't hear that much about the Palestinian-Israeli dispute, but it is still very much there and very unresolved. This administration has taken a series of steps; as you say the -- at a similar announcement on the Golan Heights. Moving our embassy from Tel Aviv to Jerusalem is something that all modern previous presidents have promised but none delivered. Closing the PLOs, the Palestinian authority's offices, diplomatic offices in the U.S. It is all signaling that the future is now. It isn't going to change, and it certainly isn't going to be changed by us. I can't help

but noting that it probably was time to maybe help Bibi a little bit in his effort to put together a government which has not succeeded thus far. And this is something for which we will pay probably not now but later. You'll find sometimes in the Middle East there is a vast expanse of time between flash and bang. I think there is a bang that is going to happen out there in terms of a -- an eruption of violence. Not now, but somewhere down the line, perhaps when the old guard finally gives way; Mahmoud Abas is in his mid-80s right now. The president of the PA who -- what we are doing is for the Palestinians, really foreclosing hope. And in all too many instances when that happens in the Middle East or indeed anywhere, younger people feel there is no other option except violence. And I think we will see that at some point. What I think we will not see is a -- any kind of definitive or permanent settlement of that core dispute between Palestinians and Israelis.

MR. BAER: So we had previous -- I had, sort of, related it lately. I mean, previously it seemed that there was a lot of pressure for a two-state solution again from the other Arab states, but now I

don't know if it's that they've really never cared and we're just doing it for tactical reasons or that they now have bigger problems of their own. But do you get that impression as well that that, sort of, slipped off the agenda for the other major states?

MR. CROCKER: It has. The two-state solution as an Arab policy initiative goes all the way back to 2002; the Fahad Initiative out of Saudi Arabia, embraced by the Bush Administration in 2004. All of our efforts since that time have been directed toward a two-state solution. Obviously, we did not succeed in that. But if you take it off the table, which we seem to be actively doing, what's left, you know. No good options. And by the way, in the Middle East generally, you don't have the choice between good options and bad options. You got bad options and worse options. So a two-state solution as implemented or not implemented is better than no solution. A one-state solution, that leaves the Israelis in permanent occupation of Palestinian territories; quiet now. It will not stay quiet. Permanent occupations never do.

But it is worth noting more damage has been

done to the Palestinians and the Palestinian cause, in my view, by Arabs and Arab states who will use it as a pawn than by the Israelis. And the Palestinians are also really great at self-inflicted wounds. You know, I -- it's -- Arabs have used the Palestine issue as a distraction. Folks look here at this bright shiny bauble that we'll call Palestine. And while your riveted on that, we're going to steal your money, deprive your kids of education, and assure you have no real economic opportunities because we're going to have an emergency law that will stay in place until there is an independent Palestine. If the Israeli's ever show any sign of weakening on that, we'll step in to be sure there isn't.

MR. BAER: Well it's certainly interesting and that -- by the way, I should note that I offered to show him the questions but we both decided it would be more fun if I didn't since we do this a lot, so.

That, sort of, gets me to Jordan which seems to be quiescent and I believe is 70 percent Palestinian; you could say is the Palestinian state and yet appears to be in relative peace with Israel. What is the story

with Jordan now?

MR. CROCKER: Well Jordan is one of those improbable countries that no one really planned to create. It just, sort of, happened in the British mandate period. It has always, kind of, teetered on the edge of disaster.

In 1958 after the revolution in Iraq, Jordan thought it was going to be next. The Brits deployed paratroops into Jordan to prevent that eventuality.

And again, they have teetered. They're really -- ever since. Jordan was one of the only countries, along with Yemen, who stood against us in the first Gulf War. They did so because they were worried that that Palestinian majority, many of whom are Jordanian passport holders called West Bankers versus East Bankers; traditional Jordanian families, they had no choice in the (inaudible). They could not take on the PLO because they'd done that once before in 1970. The PLO took Jordan on. It's gone down in history as Black September. That was the appellation that the Palestinian's attached to it. The PLO almost took over the state at that point.

So that's where they balance. They now have a huge Syrian refugee population that is inherently destabilizing, one would think, but what it's done has at least temporarily pushed East Bankers and West Bankers together against a perceived political and economic threat of a massive refugee population that the country can't sustain.

So Jordan, it's one of these unintended consequences. The horrors of the Syrian civil war have actually benefited, at least Jordan, for the time being.

MR. BAER: It's fascinating. So speaking -- well, while we move onto Syria then, there's no shortage of (inaudible) to talk about. So -- means -- what should we -- I mean, is Syria still really a nation-state or is it just, sort of, a battleground for proxy wars? I just saw some statistics that more Russians have been killed by Americans in Syria in the last year than any time else in history, which is fascinating and that's one of many proxies. So what is Syria now?

MR. CROCKER: Still in the making. The -- in my judgment we're at the what, eight-and-a-half-year mark, roughly. That war is not over. The lines have

been straightened a bit, but there are any number of unresolved issues. Territorially, the northwest, Idlib is now home to everyone who still has a gun in his hand directed against Syria and its Iranian and Russian allies. So it's a pause for reassessing, realigning, regrouping. It will enter some new phase. I don't know what it is, but this war is not over.

What are you going to get in the meantime? Well things like, as they've seen, a president deciding that he wants all of our forces out the day before yesterday which gave the Turks all they needed to move several divisions into Kurdish held areas. This will tend to be highly volatile. It will continue to harbor the dangers of a much broader conflagration where it would -- which we almost got; downing two years ago of an Israeli F16 that had not happened in 15 years. Mercifully the pilot survived it and parachuted into Israeli territory. Had they'd been killed or captured in Syria we might have gone to a full regional war right there. Similarly with the killings of any number of little green Russian men, that could have led somewhere very nasty.

Right now, none of the principal protagonist want a broader war, but unless you find that a comfort, nobody wanted World War I either.

MR. BAER: Right. So do you think it ends with Syria as a nation-state that it looks like now or is it a Kurdish area, a Turkish area, an Iranian area, and maybe a little bit of Syria?

MR. CROCKER: Well a lot of Syria like a lot of the Middle East is -- it's sand. So the maps in that sense can be deceiving. I like to use a population-based map for any kind of detailed conversation. That is a possible scenario in which case the war is going to go on for a very long time because there will be a constant contest of who's going to hold how much of what.

MR. BAER: Right.

MR. CROCKER: One thing I can predict with some confidence, you're not going to see a Kurdish mini state.

MR. BAER: Is it because the Turks won't allow it?

MR. CROCKER: The Turk -- here's the thing.

One of the world's hard truths is that there are more nationalisms than nations. The Kurds have the misfortune to be spread among four states; principally Turkey, Syria, Iran, and Iraq. Four countries that agree on absolutely nothing except that there should never be an independent Kurdish state.

So should the Kurds run the flag up the pole, I can guarantee you that it will come down pretty darn soon brought to you by the Turkish Second Army.

MR. BAER: And so I actually don't even know why they all hate the Kurds. It's funny, I would've said the same thing about an Israeli state in 1948, but -- so maybe there's hope for the Kurds after all. But -- so -- what -- I don't even know what Kurds are to tell you the truth.

MR. CROCKER: Ah, and yes. Well the question of identities in the Middle East is a fascinating one. The Kurds have claim to a unique ethnicity that is not Semitic, Aryan, but -- so are Persians also Aryan, but Kurds are not Persians and vice versa. So really the identity is, kind of, whatever they want it to be. But it is interesting in a region and increasingly defined

in sectarian terms. The Kurds, most of whom are -- the vast majority of whom are Sunni Muslims do not see that as part of their identity. They cling to their ethnicity making common cause with other minorities.

So in Syria, for example, the Alawis which -- that is a sectarian identity, not an ethnic one. But Alawis and Kurds have gotten along pretty well. Indeed, the -- we've seen the news of the outreach by the Kurds after the Turkish offensive to the Damascus regime.

I was ambassador there for three years. Everybody had trouble with the outside regime except the Kurds. Minority and minority facing a potentially very dangerous majority of Sunni Arabs.

So the sands will shift. The alliances will wax and wane, but the constant, here again, is that unless they all coalesce into one geographic region, which isn't going to happen, you will not see an independent Kurdish state emerge.

MR. BAER: Okay, well maybe we should move on then to Turkey. It's funny you were talking about Kemal Atatürk because I remember going there 30 years ago and, in every shop, there was a picture of Atatürk; almost

like you would see in Boston a picture of JFK a generation ago. And there was a cult of Atatürk and there was a belief that if the religious folks went too far, the army, which formally was headed by Atatürk, would throw them out and fix things. And I think now Erdoğan has basically purged the army of the Atatürk folks. So, where is Turkey going?

MR. CROCKER: Yeah, it's a great question. So Turkey was not a founding member of NATO. I think it joined four years after the creation. But a critical element in Soviet containment and European stability, the Turks harbor by far the largest number of Syrian refugees; over three million. And they exacted a high price, but the Turkish decision to halt the refugee flow into Europe probably spared Europe major, major instability.

MR. BAER: Well, I mean, when you say harbor, harbor sounds very benign. Are they in a harbor or are they in cages?

MR. CROCKER: No, in Jordan, they're in camps largely. In Lebanon they're not because of the experience with the Palestinian camps. In Turkey, by

and large, they are not. They are integrated at varying levels of completeness in Turkey's society. And it's caused some frictions certainly because the economy is not doing brilliantly. But by and large, you do not see or hear stories of abuse of the Syrian population in Turkey.

MR. BAER: Interesting. Some good news at last.

MR. CROCKER: So the thing here is, just to finish on this because it is important as we all decide that Turkey is no friend or ally any longer, this is something the west created. For years Europe found a way to subtly or less subtly tell the Turks that you're good enough to join NATO and fight and die for the rest of us in Europe, but you're never going to be good enough to join the gentlemen's club of the European Union.

Turks are a proud people. Erdoğan sensed an opportunity to appeal to the lower, mainly rural, agricultural base of the country who had felt they had had their noses rubbed into their non-Europeanness more than adequately and have rallied to his appeal to make

Turkey great again as an Ottoman empire.

MR. BAER: Right.

MR. CROCKER: So what we're dealing with, we, by and large, did not. We had urged the Europeans to support EU ascendancy for precisely some of the same reasons we're looking at now. They didn't. So Erdoğan just took advantage of it.

MR. BAER: So in the Middle East -- I mean who are their, sort of, natural enemies in the wild? Do -- I mean, do they hate Iran more or Saudi Arabia more? I think I read they were the only, sort of, friend of the Muslim Brotherhood even when everyone else was denouncing them as a terrorist organization.

MR. CROCKER: Very good point. The -- yes, they are in a state of -- enmity may be too strong a word, but the relationship with Saudi Arabia is not good which is why the Turks played up the Jamal Khashoggi murder to the extent they did.

Erdoğan is considered by the Saudi's to be a Muslim brother and for Saudi Arabia, the Muslim brothers are the enemy. We seem to be taking that line too which is as dangerous as it is dumb. Muslim brothers come in

all kinds of flavors.

MR. BAER: Mm-hmm.

MR. CROCKER: In places like Iraq and Jordan they are the only legitimate, if you will, Sunni political organization. If you're going to label them a terrorist organization, you're not going to have anything -- anyone to talk to in --

MR. BAER: Right.

MR. CROCKER: -- countries like that. So yes, it's that Muslim brother affiliation that drives the Saudi's crazy.

MR. BAER: Okay, so you mentioned Saudi Arabia. We'll go there next. So, I mean, President Trump obviously has been widely criticized for continuing to ally with Mohammad bin Salman after the Khashoggi murder. Although I would note that FDR allied with Stalin after he murdered 20 million people and actually had the delightful quote, which may be apt that, with the death of one person is a tragedy. The death of a million people is a statistic. So what choice do we have? I mean, we can't really change sides and say we're now for Iran not Saudi Arabia. So a

tragic death aside or a murder actually; a violent tragic murder aside, what options are there?

MR. CROCKER: It's a great question. So I talked about bad choices and worse choices. Among the many luxuries we do not have in the Middle East is a choice between democracies and autocracies because -- again, as I mentioned, only fully-fledged democracy in the country -- in the region is Israel. The way I frame it is to say we've got the choice between order and disorder as we define it.

Forces of Order have been our traditional partners in the region. That would be Saudi Arabia and its Gulf state neighbors. It would be Israel. It would be Jordan. It would be Egypt. It would be Turkey. Our relations with all of those countries had, kind of, slid off the edge during the Obama years. He referred to them, again, publicly, as so-called allies. Do we have problems with all of them? Yes, we certainly do, but we don't have any other good choices.

The Forces of Disorder in the current context would be Iran and its non-state affiliates. Starting with, but by no means ending with, Hezbollah, and in

running through a variety of militia elements they've created in the area. So as a -- I consider myself to be, after all those years in the Middle East, to be reasonably practically minded. Don't give up your traditional allies because they do distasteful things unless you know where you're going to land next.

Iran would like nothing better than to see us turn against --

MR. BAER: Right.

MR. CROCKER: -- the Saudi's and our other traditional allies.

MR. BAER: Well, it's sort of related to Saudi Arabia. I mean how stable now is Saudi Arabia? I see 70 percent of the populations under 30. Unlike the Chinese, they have access to social media. There were reports actually in the Wall Street Journal this weekend about -- you know, even as there is political repression there's been an extraordinary campaign of social liberalization. You know, women driving but also parties and tourism and -- I mean, is that something they can pull off and still maintain the kingdom they have?

MR. CROCKER: Again, this touches on an issue that I think is really important and we do not handle terribly well. Saudi Arabia is the most -- is the second most opaque political culture in the region. Iran is the most complex. We don't know how the House of Saud works. We don't know how they make their decisions and that's the way they want it. That is a closed book to us.

One of the most critical qualities to have in -- if you're in the national security and foreign policy space in this country is, to know the limits of your knowledge.

MR. BAER: I apologize. This is actually my son calling to tell me that he got engaged I believe, but he can wait for five minutes. (applause)

MR. CROCKER: (inaudible)

MR. BAER: What if she said no which would be a total freaking disaster. All right, I'll call him back in a minute. (laughter) On to Tunisia, yeah --

MR. CROCKER: (laughs)

MR. BAER: Sorry, where were you? (laughs)

MR. CROCKER: Our limitless ignorance of

boasting Saudi --

MR. BAER: Yes.

MR. CROCKER: -- we don't know how they make their decisions. And if we pretend we do, we're going to make things even worse. I will tell you, of course, people have gotten rich for decades now predicting the eminent demise of the Saudi royal family. It goes back to the mid-70s. Arabia Without Sultans was the title of one book. Yet, as you -- Saudi Arabia has weathered the Arab Spring with remarkably little turbulence as have really all the monarchies in the region. And not all the monarchies have oil. Morocco does not have oil. Jordan does not have oil. They are monarchies and they have maintained their stability when the so-called republics have gone down. And I -- no one would have predicted that at the beginning and I just toss it out to you as an example of all that we do not know. We do not know how the Saudi's maintain their stabilities; not just money. So just -- you know, you need to be very careful about predicting what's going to happen next in Saudi Arabia.

MbS, Mohammad bin Salman, is a new kind of

Saudi leader. We haven't seen that before. It doesn't mean that he is going to revolutionize the country or that he is going to be the one who inadvertently topples the monarchy. And I would say my friends on the left hate it, but I think the president did the right thing by not pulling the plug on our relationship over Khashoggi. At the same time, we have not seen the president use the capital he has presumably built up in the kingdom for a serious discussion on internal affairs and regional projection of power.

MR. BAER: Right.

MR. CROCKER: Again, this administration could be doing a lot more positive things that it has inadvertently in some cases prepped the battlefield for; Saudi Arabia being one, but they don't have the follow through.

MR. BAER: So just -- on the economic side because we think about economics here. I mean is there any -- I think I know the answer to this question. Is there any hope for greater regional economic collaborations? Somebody was asking about whether there could be an Arab currency. I know the Arab League is,

in theory, been designed to promote something like the EU. This doesn't sound like it's going anywhere good though does it?

MR. CROCKER: No, it doesn't. And we've long been in favor of more interregional trade. It just isn't there. In part, that is, because of simply the structure of their economies. But again, it falls back on that broader question of governance. If you have political instability in a country and regionally, if you have governments whose imperative has never really been economic development; it's been survival, political survival.

MR. BAER: Mm-hmm.

MR. CROCKER: Awfully, awfully hard to do the hard analysis and the hard work to build up some commonalities. And we certainly see that in the economics sphere, also in the securities sphere. There just isn't going to be a -- an Arab NATO for example.

MR. BAER: Right.

MR. CROCKER: The differences among them are too great to permit that. And they would all be interested in how they could use such a force to further

their own gains at the expense of their neighbors before their neighbors do it to them.

MR. BAER: Right. So maybe a related question since we're finance people here. If -- you know, considering, sort of, where all these countries are, sort of, trading now in, sort of, economic political terms, if you -- looking at -- say you get a 10 year option and you could be long one and short one, who would you be long and who'd you be short?

MR. CROCKER: Oh, well first, I have to tell you that my idea of an extreme long-range prediction in the Middle East, it'd be a week from Thursday.

(laughter)

MR. BAER: (laughs)

MR. CROCKER: Well, we've -- I would accept Israel from this. I mean --

MR. BAER: Yeah, right.

MR. CROCKER: -- they are there for --

MR. BAER: Right.

MR. CROCKER: -- you know, the long, long term if they can ever form a government. For the rest, again, I spoke of the monarchies. I think that is worth

some study that, in a place like Morocco for example, you may have more freedom of political discourse than most other places in the region. And that may have worked for them.

Tunisia has been the one Arab Spring country that looks like it's got a shot at a sustainable democratic state. Doesn't tell you much about others because the scale is small.

MR. BAER: But I also saw that they have, I think, 30 percent unemployment which shows how bad you can be and still be at the top.

MR. CROCKER: Yeah, and, of course, we've always held up those kinds of numbers. High unemployment, the vast majority of ex-population under the age of 30, and so forth. That has never produced the instability that we actually thought it would. And I would just go back to what I said earlier to try to pretend that we know what the dynamics of stability and instability are in a given country; very hard to do.

Lebanon, in which I spent six fun-filled years on two tours, you know, I kept putting up my hand up; anywhere but Washington and they found me everywhere but

Washington.

MR. BAER: (laughs)

MR. CROCKER: Wasn't a bad deal. A lot of folks, including me, thought it would reignite the Lebanese Civil War because those fissures are still there and quite deep. So far it hasn't. And in its own uniquely Lebanese way, they're, kind of, continuing managed chaos; may see them through all of this, so.

MR. BAER: So three more and then I promise to stop. My son who is calling is actually a sportswriter and I think one of the central tenets of sports writing is that there's no clapping in the press box; that you don't root. But, you know, you've, you know, bring back (inaudible). You know, you've -- ambassadored in all of these places. Do you root for one people versus another? Are there -- who's your favorite? (laughter)

MR. CROCKER: (laughs) Yeah, well.

MR. BAER: Who's, like, the Carolina versus the Duke of your (inaudible)? (laughter)

MR. CROCKER: You know, actually -- real football, soccer is a blood sport out there. I've -- you see it in places like Egypt. You know, I'm not

ducking it exactly. I --

MR. BAER: You are a diplomat after all, so it  
(inaudible) --

MR. CROCKER: Yeah, well.

MR. BAER: -- going to see you in action.

MR. CROCKER: You know, I'm sometimes asked  
which post I enjoyed the most. Well, enjoyment doesn't  
really translate to, you know, a Beirut or a Baghdad or  
a Kabul. I have found though those war zone assignments  
to be the most rewarding experiences that you just don't  
get normally. So there's none of them that I wish I  
hadn't done.

MR. BAER: But was there a -- see, I won't let  
you duck. Was there a people that -- you know, -- I  
mean, you go around the United States. Sometimes you  
like the Texans, sometimes you like the Californians.

MR. CROCKER: Have you spent any time in  
Texas? (laughter)

MR. BAER: (laughs) I was Comerica as a  
member. I'm sorry.

MR. CROCKER: (inaudible).

MR. BAER: So do you -- I mean, was there a

peoples you felt most comfortable with and why?

MR. CROCKER: Well, if you feel comfortable with any of them, you'd probably need counseling.

(laughter)

MR. BAER: Yeah.

MR. CROCKER: Well, look, the Lebanese are amazing. You know, they -- many of them live the good life and live the good life through the worst. You know, I'll call you up and say, hey, let's go to the **l'Orangerie** (phonetic) for dinner tonight. There's fighting just a block away so it's going to be easy to get a table. (laughter) And, yeah, they do. I --

MR. BAER: Were you there in Beirut in the good old days because I've always heard that was just a magical place or did you only see the bad there?

MR. CROCKER: Yeah, so I was in Qatar somewhere out there and managed to wrangle a weekend in Beirut. This would have been '73, '74; just before the civil war. Thought I'd go up and have a drink at the Phoenicia Hotel. They had a rooftop bar that -- breathtaking view of the Mediterranean and so forth. I wasn't allowed in because I wasn't wearing a tie. So

about a year and a half later when the Phoenicia became the frontline with the fighters from both sides in the hotel murdering each other, I thought, they got exactly what they deserved.

MR. BAER: (laughs)

MR. CROCKER: It was highly satisfying, yeah. Yes, I was there in the good old days, so.

MR. BAER: Yeah. Okay two more. Someone was asking about -- and -- you know, it's -- well, I guess technically it is part of the Middle East. But I mean as -- I don't know there's anybody who knows more about Afghanistan than you do. What is the prospects there?

MR. CROCKER: Yeah, so the hundred-year thing again. 2019 -- in fact November 2019 is for the Afghan's -- their 100th anniversary of the founding of the modern Afghan state under a leader called Amānullāh Khān in 1919. That was after the third Afghan-British war of 1919. The Brits fought three wars; lost them all. 1919 was more of a skirmish. During that hundred year stretch the Afghan state had to have foreign assistance throughout to really be even close to viable.

As I look at Afghanistan now with all of the

horror and the bad headlines and so forth, I look at our force presence which has dipped below 10,000. When I was there -- when I left in 2012 it was 100,000. So we've gone down to one-tenth and the state is still holding on. The Taliban -- there are 34 provinces in Afghanistan. The Taliban hold zero provincial capitals. They control a lot of sand and, you know, you see these fake news reports of the Taliban control 53 percent of the country. Well, you know, about 82 percent of their 53 percent is uninhabitable.

So it -- so what we're seeing is that in spite of horrific losses, Afghan security forces continue to be in the fight. As long as we maintain a credible force there, they will stay in the fight. It's now, I think, more symbolic of our presence than it is actual because we're not doing frontline fighting anymore. So I hope very much that the president drives a spike through these awful negotiations that are being run by Zalmay Khalilzad, which frankly, are the Paris Peace Talks all over again. You know, he -- when we sat down at the table, we were telling the VC and the North Vietnamese, we're done, you win, we lose. Let's put

some lipstick on this, give us a decent interval, and then you can take over. Well, that's where these Taliban talks will lead if we're dumb enough to pursue them again. If we maintain, more or less, where we are, I think the government will maintain it's admittedly tenuous hold and we will have a pretty inexpensive insurance policy against another 9/11.

MR. BAER: Excellent. So last hard question. So let's get back to 1978. You know, Egypt-Israel make peace. Suez Canal is now guaranteed open. If the U.S. had entirely exited the Middle East; no diplomacy, no military, no nothing, would the map look any different now?

MR. CROCKER: Yeah, but I couldn't tell you how. There would have been no Egyptian-Israeli peace let alone a Jordanian-Israeli peace. Kuwait would have been occupied by Iraq. Iraqi claims to Kuwait go back to the 1930s. They would probably have pushed on into Saudi Arabia and the Saudi's wouldn't have been able to stop them.

MR. BAER: And would that have been a good thing or a bad thing?

MR. CROCKER: Well, you have a certified megalomaniac running Iraq at the time; probably not a good thing. Hard to say, but so often in the Middle East it's the worst who are the strongest.

MR. BAER: Mm-hmm.

MR. CROCKER: And again I -- we take it for granted now. We shouldn't. The -- that Egyptian-Israeli peace was something that Kissinger referred to; there will be no war without Egypt, no peace without Syria. I was certainly right on the first one. I've had the chance to see the current Syrian -- Egyptian President, Abdel Fattah el-Sisi, a couple of times. First meeting with him before the 2016 election, he kept me waiting. Then he bounds into the room, grabs my hand with both of his and says I want to thank you. And this was at a time when he wasn't thanking us for much of anything. And I said, for what, sir? He said for the Egyptian-Israeli peace. We never could've done it without America. And now it is the bedrock of our national security.

My problem is that I now have a better relationship with the prime minister of Israel than with

the President of the United States. That would not have happened without us. And if Kissinger was right, no war without Egypt; had that peace not transpired, God know where the region would've gone; it would've gone nowhere good.

We tend to beat up on ourselves and maybe that's healthy. But I can tell you with great conviction that the map of the Middle East would be a whole lot bloodier now and, maybe regions beyond the Middle East, had we not played that internationalist role there so consistently. Did we do the right thing all the time? Of course, we didn't. But it says -- King Hussein said -- sorry, King Abdullah said of Jordan, publicly in the latter years of the Obama Administration, that he found it ironic that he had more confidence of the goodness of the United States in the Middle East than the United States had of itself. And I think that is very true. We look at the bad, but boy, had we not been out there it could, and I think would have been a whole lot worse.

MR. BAER: That sounds like a great note to end on. I can't thank you enough. This has been so

much fun, so.

MR. CROCKER: And I -- again I'll try to find one last thing to say to give you some hope. As bad as we've described things now; and they are pretty bad out there, in six months you'll be looking back at this event and our conversation with real nostalgia.

(laughter)

MR. BAER: (laughs)

MR. CROCKER: Because six months from now it's going to be way worse.

MR. BAER: (laughs) Thank you so much.

MR. CROCKER: Thank you. (applause)

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