

PROXY BATTLES: IRAQ, IRAN, AND THE TURMOIL IN THE MIDDLE EAST

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SUMMARY

- The war in Gaza has deepened the Middle East's fault lines. Iran and its proxies and the US and Israel have engaged in a cycle of tit-for-tat attacks across the region, with the Israeli bombing of the Iranian consulate in Syria and Iran's direct retaliation against Israel threatening to escalate into a regional war.
- Iraqi paramilitaries operating as part of Iran's 'axis of resistance' have also attacked US forces in Iraq, who responded with reprisals of their own. This, and the increasing risk of a wider war, imperils the relative stability Iraq has enjoyed over the past few years and the country's fledgling role as a regional mediator.
- Iran's influence in Iraq increased following the US invasion of 2003 and the fall of Saddam Hussein – but their relationship is far from being a simple agent-proxy arrangement. Iran's strongest influence is through its paramilitaries' presence in Iraq's security apparatus, but Iraq has also exhibited some political independence from its neighbour and maintains financial leverage over Iran.
- Europeans can help increase Iraq's autonomy. In the economic sector, they should strengthen its financial institutions through global integration and digitisation. European countries can also work alongside Gulf states to broaden their ties with Iraq, including in foreign investment and a shift from a development or humanitarian aid framework towards normal bilateral ties.
- However, for any European policy to be successful in Iraq, it must be designed within a broader framework of ending the war in Gaza and resolving the Palestinian-Israeli conflict

- without which the dangerous escalation across the Middle East may continue.

Introduction

Since Hamas's attacks sparked the war in Gaza on 7 October 2023, a dangerous cycle of escalation has played out across the Middle East. Iran and its proxies – such as the Houthis in Yemen, Hizbullah in Lebanon, and Iraqi paramilitaries operating as the Islamic Resistance in Iraq – have exchanged attacks with Israel and the US military presence across the region. This threatens to erupt into a wider war, particularly since Iran's unprecedented direct attack against Israel on 13 April 2024 in response to Israel's bombing of the Iranian consulate in Syria on 1 April.

Prior to this, Iraqi paramilitaries had launched over 170 attacks against US military bases in Iraq and Syria. US forces retaliated, most controversially in a drone strike on a crowded street in Baghdad on 8 February. As with the Houthi attacks in the Red Sea, Tehran publicly celebrated the feats of its proxies and allies while vehemently denying any involvement or support. And, despite the Islamic Resistance in Iraq announcing a pause in these attacks, the Iraqi government once again finds itself wedged between a regional power and a world power, placing the country under grave threat of being drawn into wider conflict through the action of Iran-backed armed groups rather than official government policy.

This would be disastrous for Iraq. Up until 7 October, Iraqis had finally begun to experience a sense of normalcy and security after decades of unrest. Domestic concerns had shifted from existential matters such as terrorism, occupation, and secessionism to less violent matters like climate change, corruption, and unemployment. Iraq had even begun to host prominent international conferences, seeking to cement itself as a neutral facilitator of stabilising dialogue in the Middle East – something it had been attempting to do since 2012.

Clearly, neither the Iraqi government nor its population wants to be party to a US-Iranian confrontation on their territory or face a wider regional conflict. But they have also consistently supported the Palestinian cause and strongly oppose Israel's actions in Gaza. This presents significant challenges for Iraq's government in calibrating its response to Iran-linked rogue actors internally and US support for Israel's war externally.

Iraq's longstanding stance on Palestine is a matter of alignment with Iran, not a result of the latter's influence. Where Iranian influence becomes more salient is in Tehran's support for Iraq's rogue armed groups. This undermines Iraq's foreign policy, invites retaliation by US forces, and serves neither the goal of Iraqi domestic stability nor helps the Palestinian cause. Some Iraqi political parties that enjoy close ties with Iran are exploiting the exchange of violence to press for the complete withdrawal of US forces from Iraq. And US support for Israel in its war in Gaza has made it more difficult for those in the moderate camp, including

the current prime minister Muhammad al-Sudani, to justify continued US military presence in Iraq – which they value for its assistance to Iraqi security forces and as a balance against Iranian influence.

The Iraqi-Iranian relationship thus goes well beyond a simple patron-client or proxy-agent arrangement. It can be traced back to the 2003 US invasion, when the fall of Saddam Hussein's Baathist regime paved the way for a new closeness between Iraq and its neighbour. Iranian influence in Iraq then increased as Tehran sought to protect its strategic interests against the US military presence in the country. On the security front, Iran's Islamic Revolutionary Guards Corps (IRGC) supported armed groups within Iraq, expanding its network of regional proxies and using them to attack US forces. Iran's governing elites, meanwhile, took a great interest in Iraqi domestic politics and developed their network of allies and partners among the country's many political parties. The lifting of global sanctions on Iraq in the aftermath of 2003 also created economic opportunities for Iran to export goods to the starved Iraqi market.

Tehran's influence in Iraq remains strong, particularly in the security sphere – in which some armed groups have become institutionalised into the state. But over the past 20 years, Iraq's governments have grown more assertive and self-confident in their dealings with Iran. This growing political maturity, Baghdad's position as an economic gateway for Iran, and its role as a mediator between Iran and Gulf states have further increased Iraq's leverage, especially under Sudani and his predecessor Mustafa al-Kadhimi.

This paper elaborates on the complexity of the evolving Iraqi-Iranian relationship and the consequences of these dynamics amid the regional instability provoked by the war in Gaza. It assesses the linkages not only between Iraq's armed groups and Iran but also between the countries' governing elites, including their shared goals, competition over the nature of both the Iraqi state and regional order, as well as the new and more independent trajectory embraced by the past two Iraqi prime ministers. It makes the case for Europeans to see Iraq as more than an Iranian proxy or simple sphere of influence, including with the aim of ensuring that Iraq does not get swept up in a deepening US-Iranian and wider regional conflict.

In doing so, Europeans need to acknowledge that no Iraq policy will be durable without a sustainable end to the conflict in Gaza and a viable pathway to secure Palestinian rights, given the current mobilising power of that cause in the Middle East. The war in Gaza is central to the cycle of escalation and is feeding wider conflict. This instability is opening up space for hardline actors in Iraq to align Baghdad more fully with Iranian security interests.

Europeans therefore need to support more moderate factions in the Iraqi government to

increase their capacity to mitigate the worst tendencies of Iranian-backed groups. These moderates, centred around Sudani, prioritise Iraqi interests and stability above all else. This aligns with the European interest in seeing a sovereign and competent Iraqi state that can prevent the country from descending into new conflict – which will feed wider security, terrorism, and migration challenges for Europe, as has long been the case.

A stabilising Iraq amid the war in Gaza

The crisis fuelled by the war in Gaza has resulted in alarming levels of escalation across the Middle East. Although Iraqi armed groups have halted attacks on US troops since their peak in February, the Islamic Resistance in Iraq claimed a drone attack on an Israeli naval base on 1 April 2024. Iran is also reported to have launched drone strikes on Israel from Iraqi territory on 13 April as part of its larger attack on Israel. This unprecedented Iranian attack involving more than 300 drones and missiles came in response to an Israeli airstrike on the Iranian consulate in Damascus, which killed seven IRGC officers also on 1 April. The Iranian attack, however, was well-telegraphed and Iran's leaders seem keen to draw a line under any direct conflict with Israel (and the United States), given Iran's relatively weaker military capabilities. At the time of writing, the Israeli response remained to be seen – but whether the cycle of direct escalation continues or not, the threat of proxy conflict remains grave and potentially deeply destabilising for Iraq.

Iraq's role as a platform for US-Iranian conflict predates the Gaza war by at least three decades. Baghdad has often found itself in the crosshairs of this rivalry, ranging from mundane competition over political and economic influence to direct military confrontation. The US supported Iraq in the latter's long war with Iran from 1980-88; while the US invasion of Iraq in 2003 placed the US in growing proximity to Iran's borders. Today, 2,500 American troops remain in Iraq and Iranian-backed paramilitaries targeting them is not a new phenomenon. Shortly after Sudani came into office in October 2022, these attacks came to a halt. Before 7 October, the last exchange of attacks between Iraqi paramilitaries and US security forces was in March 2023. The US has also used Iraq as a theatre to militarily confront Iran, notably in the 2020 assassination of Qassem Suleimani, then commander of the IRGC's Quds Force – its paramilitary and foreign intelligence wing.

Iraq's ties to other Middle Eastern states are also affected by the US-Iranian rivalry. This is particularly the case with Gulf states and especially Saudi Arabia, which – at least until recently – took a hostile position towards Iraq. Following the US invasion in 2003, Gulf states effectively refused to engage with Baghdad. This was due to the predominantly Shia identity of Iraq's new governing elite, which contributed to a perception in the Gulf states of Iranian

domination over Baghdad. While successive Iraqi prime ministers attempted to develop ties with Saudi Arabia and other Gulf states, particularly in the hope of cementing economic gains, this often faltered in the face of wider regional hostilities.

Although Iraqi efforts to reintegrate into the regional fold date back to hosting the Arab League Summit in 2012, it was only under the administrations of Kadhimi and Sudani that Iraq's overtures were regularly reciprocated by Gulf leaders. In 2021, the Kadhimi government embarked on a mission to become a facilitator of dialogue among Middle Eastern states. The fact that Iraq is majority Shia Arab now gives it a unique ability to navigate between Iran and Gulf states, all of which had been open to a regional detente after a decade of hostility and conflict. In August 2021, Iraq hosted the Baghdad Conference for Cooperation and Partnership, which was fundamental in encouraging that detente before 7 October, notably between Saudi Arabia and Iran. Iraqi leaders premised their agenda on the hope that more cordial Iranian-Saudi relations would permit Iraq stronger ties with its Arab neighbours in the Gulf, thereby shaping the contours of a more peaceful region that could support their ambitions for stabilisation and development. This was an active attempt by Baghdad to overcome the impact of these regional tensions on Iraq and to secure stronger ties with the Gulf states. Iraq's mediation efforts were thus driven by core Iraqi interests and not Iranian influence.

Iraq's ability to mediate between Iran and the rest of the region has thus become a critical asset in its foreign policy. It has also been integral to greater stability and decreased polarisation in Iraq over recent years. Western powers supported this approach – France, for instance, was a key partner in supporting the Baghdad conference. For the Kadhimi and Sudani governments, this approach also offered a pathway to potentially manage the ongoing US military presence and wider engagement in the country. Although both prime ministers were compromise candidates within consensus governments that included and still include a number of Iranian-backed parties, Kadhimi and Sudani also acknowledge the US as a valuable contributor to Iraq's security and development and likely as a helpful tool in balancing Iranian influence.

However, the ripple effects of the war in Gaza gravely threaten this delicate balancing act. Not only is renewed US-Iranian proxy conflict playing out in Iraq in perilous forms, but in so doing the renewed violence is strengthening Iraq's hardline armed and political groups. To help Iraq stay on course and support its moderates, Europeans need to view the Iraqi-Iranian relationship in all its complexity to identify the areas in which their support could be most effective.

Iraq's evolving relationship with Iran

Iraqi-Iranian relations are shaped by countervailing histories of violence and antagonism, on one hand; and cultural and religious exchange, on the other. Iran's relationship with Iraq's current armed groups and political elite blossomed over the course of their exile during the Baathist era from 1968-2003, when many Iraqis sought refuge in their neighbouring state. The end of the Saddam regime that followed the US invasion then ushered in a new Iraqi political and security order – this time with deep ties to Tehran.

But Iranian foreign policy remains animated by Iraq's latent potential, despite the conflict and turmoil that has plagued the latter for the past few decades, a far cry from the regional power that terrorised its neighbours and instigated the war with Iran in 1980. When Iranian policymakers look at Iraq today, they do not see a country defeated by wars, but one that enjoys abundant oil wealth, a rapidly growing population, and ties to its Arab neighbours. They also see an underlying and ever-strengthening strand of Iraqi nationalism. And, most alarmingly for them, Iraq still hosts the American military and is all too willing to work with the US.

Iran faces a challenging balancing act in Iraq. Its leaders need to ensure Iraq is not vulnerable to terrorism that could have an impact on Iran's own security, as seen most recently in an attack by the Islamic State group (ISIS) in Iraq on 4 January, which killed nearly 100 people. But they also strive to keep Iraq sufficiently weak so that it is not capable of posing a danger to Tehran, as it did in 1980. Iran has thus tried to extend political, security, economic, and cultural control over Iraq. It has succeeded to various degrees, with its strongest influence exerted on armed groups, some of which have embedded themselves into the Iraqi state.

But Iraq is not without its own influence on Iran. Iraq serves as Iran's major economic lifeline during sanctions, and Iraqi officials and politicians have demonstrated a desire to carve out greater autonomy from Tehran. They aim to do so by maintaining good relations with the West and by working behind the scenes to push against the worst excesses of the Iranian-allied armed actors. If they are successful, it will create space to cement the country's stability, advance much-needed development, and create further platforms for regional mediation and dialogue in the region.

The security front

Many Shia paramilitary groups either formed in exile in Iran in the 1980s to help fight in the Iran-Iraq war in opposition to Saddam Hussein; or after 2003 to fight the US occupation.

Among these were key armed groups such as Badr Corps, the militant wing of the Supreme Council for the Islamic Revolution in Iraq (SCIRI) – a prominent party in Iraq’s political landscape today. Badr Corps then transitioned into the political Badr Organization in 2012. In addition, hardline cleric, politician, and paramilitary leader Muqtada al-Sadr’s Mahdi Army formed after 2003 to fight the American occupation and received support from Iran.

In 2014, paramilitary groups solidified their presence in Iraq following the seizure by ISIS of approximately one-third of Iraqi territory. In the face of this threat these groups proliferated, and were originally organised under an umbrella entity known as the Popular Mobilisation Forces (PMF) under the command of such figures as Abu Mahdi al-Muhandis – a former Badr Corps member who was assassinated by the US in 2020. In 2016, the Iraqi government formally recognised the PMF as part of the Iraqi security forces.

The retreat of a significant part of the Iraqi army also resulted in Iran providing urgent military support to the Iraqi government, in the form of both arms and military intelligence. This alongside the PMF helped thwart ISIS’s advances towards Baghdad and assisted the Kurdistan Regional Government in preventing the terrorist group from reaching Iraqi Kurdistan. Iran’s rapid response was down to its geographical proximity to Iraq, but also its interest in safeguarding its own security. Iranian foreign minister, Hossein Amirabdollahian, told Iraqi officials back when he was deputy foreign minister that Tehran was focused on stopping ISIS before it reached Iran, whether that meant supporting Shia or Kurdish armed groups.[1]

This explains Iran’s direct assistance, but it also underscores the firm position of Iranian-backed groups in Iraq: both pre-existing armed groups and newly formed ones deployed in response to the ISIS threat, volunteering to defend not only their own cities and towns but also to liberate those of their fellow countrymen in northern and western Iraq. The price of this was to give Iran an additional channel of influence in Iraq.

The space for Iranian security support was widened by the unwillingness of Western actors to quickly step in to counter the ISIS threat. The US and other Western states initially conditioned their support on then prime minister Nuri al-Maliki’s progress on governance reforms. But there is also a deeper Western hesitance to provide Iraq with greater military capabilities. In the end, the United States’ biggest military contribution to the ISIS war was in the air power it provided. This is not surprising, as the first batch of F-16s that Iraq had purchased in 2010 to rebuild its air force were only delivered in 2015, well after the war had started and the PMF had been established in lieu of an army battered by the regime change.

There continues to be considerable Western scepticism in dealing with the Iraqi government

beyond providing counter-terrorism support. This is largely driven by distrust in the weak Iraqi government and the proliferation of non-state armed factions operating within Iraq. However, if the Iraqi security forces had not been left so weakened after 2003 and were better equipped to combat terrorism, the need for paramilitaries might not have arisen, and they would not have gained such a strong foothold. After all, many Iraqi volunteers flocked to join the PMF out of a sense of existential insecurity in 2014.

For many in the PMF rank and file, participation was driven by economic and nationalistic motives.[2] Some of these groups subsequently distanced themselves from the PMF and sought to integrate themselves more directly into Iraq's Ministry of Defence. They include those affiliated with the shrine authority in Najaf and Karbala, which act as protectors of Shia cultural heritage in Iraq. Control over the groups became even more fragmented since the US assassinations of Suleimani and Muhandis – key centralising leadership figures able to align the actions of these groups with Iranian interests.

Those paramilitaries that remain closer to Iran are driven by a stronger ideological basis and are mostly groups that existed prior to 2014. Although these groups found new purpose and recognition because of the ISIS war, in no small part because of support from Iran that meant their survival did not depend on the formalisation of the PMF. The distinction between the pre-2014 paramilitaries and those formed to fight ISIS came into sharp focus after the widespread protests in October 2019 against the failings of then prime minister, Adel Abdul-Mahdi – a former SCIRI member relatively close to Iran – and his government. Then, certain PMF groups tied to Iran were implicated in violence against protestors. This was followed by an attack on the home of former prime minister Kadhimi in the aftermath of the 2021 election.

In the wake of Hamas's attacks on 7 October and the subsequent Israeli bombardment of Gaza, this distinction has come into sharper focus. Iraq has long aligned with the Palestinian cause, support that dates back to the days of the monarchy (1921-1958) when it was the only country to not sign an armistice agreement with Israel after the 1948 war. This has technically left Iraq in a state of war with Israel. But while the current Iraqi government supports the Palestinian cause, for instance by donating to the UN agency for Palestinian refugees and advocating for a ceasefire, a subset of the PMF, including groups such as Kataib Hizbullah, Kataib Sayyid al-Shuhada, and Harakat Hizbullah al-Nujaba are part of the Iran-led 'axis of resistance' against Israel. These groups have been and continue to be more difficult for the Iraqi government to control: the IRGC in particular has considerable sway, and they are committed to a more militant response to the Gaza war. Although they technically fall under the broader PMF umbrella, after 7 October these paramilitaries rebranded themselves as the Islamic Resistance in Iraq. These groups are less incorporated into the Iraqi state than other paramilitaries and take on a transnational role, conducting operations beyond Iraq's border

(primarily in Syria).

Since 7 October, the Islamic Resistance in Iraq has advocated attacks on the American presence in Syria, using US support for Israel as an excuse to push their and Iran's agenda of an American troop withdrawal – something that Sudani is resisting. Sudani, who has advocated for a ceasefire in Gaza, has simultaneously worked on halting the Islamic Resistance of Iraq's attacks against US troops. On 30 January, Kataib Hezbollah released a statement that it would suspend military operations to avoid embarrassing the Iraqi government. This came after Sudani's intervention – but also likely under pressure from leaders in Tehran, who want to prevent their proxies and allies provoking a direct war between Iran and the US. This is especially the case following the February 2024 deaths of three US soldiers in attacks in Jordan, near the Syrian border, by the Islamic Resistance in Iraq.

The episode underlines the struggle to control the various armed groups in Iraq and suggests that no one of these has a monopoly on state power. It also highlights the challenge Sudani faces to push back against the IRI's actions as long as the US provides them with legitimacy through its support of Israel's military campaign in Gaza, especially as none of these groups have directly challenged the Iraqi state itself, focusing instead on targeting the US.

These dynamics also underscore how Iranian-backed actors are once again using violence to try to force a political agenda. US support for Israel and military retaliation in Iraq for attacks by paramilitaries increases the pressure on the Iraqi government to call for a full US withdrawal from the country, which, above and beyond supporting the Palestinian cause, is their key strategic ambition.

Sudani and other officials have privately signalled a desire for US forces to also remain in Iraq, seeing them as important security partners in the ongoing fight against ISIS and a balance against over-domineering Iranian armed influence. Nevertheless, the Iraqi government and the US have now formed a commission to prepare a timeline for US troops to leave Iraq. Here the conflict in Gaza and the series of recent US strikes in Iraq have played into the hands of these Iranian-backed groups, allowing them to increasingly shape a political narrative that has weakened more moderate voices such as the prime minister.

Moreover, the paramilitaries that attack US military targets in Iraq are a divisive issue within the country. Most Iraqis support the Palestinian cause and are against the Israeli occupation. Polling from the latest wave of the Arab Barometer, for example, (conducted between October 2021 and July 2022) has shown that 71 per cent of surveyed Iraqis “strongly oppose” normalisation between Arab states and Israel (and another 14 per cent “oppose” it). When

asked about the ideal solution to the conflict, most Iraqis supported a two-state solution. But this does not necessarily mean they agree with the tactics of paramilitaries.

This attitude has been echoed among some of Iraq's political elite. Former deputy prime minister Saleh al-Mutlaq, a Sunni politician, has criticised the paramilitaries – not for their support of Palestine but for attacking US troops in Iraq. He argued that such actions endanger Iraqi territory and invite retaliation against Iraq. Some like Mutlaq believe that these paramilitaries are essentially serving Iran's interests by perpetuating the conflict between Iran and the US within Iraq, rather than directly in Israel. This aligns with Iran's security strategy of keeping violence outside its borders. But the situation is complex, given that the groups are actively confronting Israel's primary supporter and ally are the same groups that played a role in fighting ISIS.

Iraq thus stands at a precipice, caught between the actions of its most extremist armed groups and the desire for normalcy and stability that is shared by many of its citizens and political leaders.

The political front

The relations nurtured during Shia Iraqis' exile during the Baathist era have not only shaped post-Saddam Iraq's security landscape, but also its politics: the Dawa party, a Shia Islamist party which had a base in Iran, as well as SCIRI, which formed in Iran in 1982 as an off-shoot of Dawa, are prominent actors in this new environment.

Iran thus gained important political influence in Iraq after the 2003 war – but less than is often stated. Iran's leaders have not always seen eye to eye with their former guests and have increasingly struggled to assert authority over them. Before 2003, many Iraqi opposition parties supported a US invasion, which Iran opposed out of fear of a US military presence in its key neighbouring state. Once Saddam Hussein had been removed, Iranians grew uneasy at the newfound closeness of their Iraqi allies with the US.

Moreover, Iraq's oil wealth, its rapidly growing population, and increasing nationalism among its citizens have contributed to Iran failing to install its strongest allies in power. Tehran has instead been forced to acquiesce to more neutral figures who seek to navigate between the competing demands of Iran and the US. No one party, let alone one supported by Iran, has ever won a majority in Iraqi elections. The resulting coalition governments have inevitably played host to a wide spectrum of views, including that ongoing ties with the US have political, military, and economic value. Iran has therefore never succeeded in establishing political dominance in Iraq via its chosen allies.

For most of the post-Saddam era, Iraq's premiership has been controlled by the Dawa party rather than the more Iran-aligned SCIRI. Leaders who have drawn closer to Tehran while in office, such as Maliki, have succumbed to pressures inherent to coalition governments and been unable to stay in power. Tehran saw others such as Haider al-Abadi as too close to the US, and pressed its allies to support an alternative candidate in the formation of the 2018 government. The result was a prime minister in Adel Abdul-Madhi who was closer to Iran than his predecessors, but he was forced into an abrupt resignation by the October 2019 protests. His successor Kadhimi, who Western states considered a friendly prime minister, was similarly hindered by coalition government pressures and did not secure a second term.

Although Sudani was chosen from the Coordination Framework, a political bloc that includes politicians close to Iran, he heads a coalition government exactly like his predecessors. And his proximity to the Coordination Framework has not shielded him from having to confront longstanding issues with Iran. These include issues of water sharing and territorial disputes in the Persian Gulf. Sudani has also sought to secure the benefits of ongoing US support, particularly to address Iraq's dire economic state, and has remained close to Washington. Iraq's oil revenue is accumulated in US dollars and its foreign reserves are held in New York. These reserves are a critical asset the Iraqi government cannot afford to lose and reflect the government's desire for a strengthened state – even if that does not align with Iran's ambitions.

This is emblematic of Iraqi leaders' pragmatic approach since 2003, which is based on strategic interests rather than shared ideological beliefs. And it has created turbulence in Tehran's relations with Baghdad. No example is clearer than a comparison between Maliki and Sadr, both Islamist politicians whose movements draw on inspiration from the same origin, but whose political behaviour is driven by opportunism. Maliki's first term in office from 2006-2010 was characterised by strong support from the US and a willingness to confront armed actors militarily. He launched Operation Charge of the Knights in 2008 to drive Sadr's Mahdi Army out of Basra. This won him US backing for a second term, but Washington then

withdrew its support for a third term. This was due to US perceptions that he was becoming increasingly authoritarian and demonstrating sectarian tendencies, as well as his government's security failures that culminated in the capture of Mosul by ISIS.

Sadr similarly oscillates between pro- and anti-Iranian stances, driven by populist tendencies and a pursuit of power. In the aftermath of the US invasion, he styled himself as an Iraqi nationalist fighting occupation. This aligned with the Iranian goal of forcing the US out of Iraq and granted Sadr Tehran's support. But as his domestic base grew politically, and he sought to challenge the dominant Shia parties electorally in 2018 and 2021, he turned on Iran, defining himself this time as a nationalist opposed to any foreign interference. Sadr was responding to the demands of the Iraqi street, who had grown tired of both US and Iranian intervention in the country, particularly in the wake of the US assassinations of Suleimani and Mohandis.

Even actors such as SCIRI who had been ideologically aligned to the most extreme version of the Islamic Republic's goals, such as establishing a theocratic state, have increasingly had to rebrand themselves to become more palatable to Iraqi audiences. For example, SCIRI has abandoned the Islamic Revolution in its name and opted for the more innocuous Islamic Supreme Council of Iraq (ISCI).

Tehran's desire to shape Iraq and overt intervention in Iraqi affairs through the support of specific political candidates, parties, media outlets, and paramilitaries that support Iranian political, economic, and security interests has not gone unnoticed or unpunished by Iraqi public opinion. Data from the Arab Barometer's seventh wave (carried out between October 2021 and July 2022) indicates that that 63 per cent of surveyed Iraqis had a "very unfavourable" view of Iran and only 5.1 per cent have a "very favourable" view. My conversations with Iraqis suggest that Iran's overt and public involvement in Iraqi life is seen as particularly aggravating, including the placement of billboards in Baghdad and other cities emblazoned with photos of Suleimani and Iran's supreme leader Ayatollah Ali Khamenei. It is not surprising that the cities in which Iranian presence is most felt – through, for instance, shrine tourism in Najaf and Karbala – protesters attacked Iranian consulates during the 2019 demonstrations.

This dynamic extends to the important religious sphere. Grand Ayatollah Ali al-Sistani, the leader of the Shia religious establishment in Iraq, has millions of adherents in Iraq and in Iran. This endows him with significant influence in both countries, which Tehran has sought to capture by influencing the question of his succession. But as in the political sphere, this has proven unsuccessful, with Tehran's efforts to promote the now deceased Ayatollah Muhammad Shahrudi failing. While many foreign observers are concerned about the role Iran may play in the successorship of Sistani, these concerns are overblown – given the

internal processes and strengths of the religious establishment that have protected it from previous attempts at infiltration.

The reality is that Iranian-allied political groups in Iraq are increasingly losing public support, struggling to mobilise new voters, and failing to expand their base. The public demands less foreign intervention in domestic politics, primarily from Iran, as exemplified in the recent provincial council elections. In three of Iraq's nine predominantly Shia southern provinces – Basra, Karbala, and Wasit – locally based parties running on nationalist platforms won seats and formed the governments, despite the Iranian influence in the region.

Broadly, two types of political parties align with Iran today and each pursues a different policy to maintain political control in the face of decreasing public support. The larger and more established parties – such as Dawa and ISCI – resort to legal manoeuvring to maintain their political stronghold. For example, they worked to undo reforms to electoral law that the 2019 October protest movement brought about. More ideologically committed to Iran are smaller parties with low parliamentary representation, like Huqooq, which is affiliated with Kataib Hezbollah paramilitaries. As discussed, these entities resort to force when challenged, including when they protested the 2021 election results.

The economic front

A final – and crucial – dimension of Iraq's relationship with Iran is their economic ties. Alongside Turkey and China, Iran is one of Iraq's three largest trade partners.^[3] In 2021, Iraq was the world's leading importer of Iranian goods (estimated at nearly \$9 billion) about half of which is gas imports.

Although trade is uneven, with Iraq importing more than it exports, the relationship plays out in critical ways for both states, giving each important leverage over the other: the economic relationship serves as a lifeline for Iran amid Western sanctions that restrict other economic channels; Tehran's economic leverage over Iraq, meanwhile, lies in its gas exports – which Iraq relies on for approximately half of its domestic electricity generation.

In a country such as Iraq that struggles to meet its electricity demands, any disruption in gas supply risks social and political unrest. And in a nation in which poor public services regularly fuel mass protests, Iran's control over gas exports serves as a powerful tool to exert pressure and maintain influence over Iraq. The current amount of gas that Iraq fails to capture is estimated to be more than the amount of gas Iraq buys from Iran. In the past, attempts to begin capturing Iraqi gas were hampered by pressure from Iran, which would lose out on billions of dollars annually if Iraq stopped purchasing from them. These gas sales

are a vital economic lifeline for Iran, but because it is economically sanctioned by the US for its developing nuclear programme, Iraq has to procure recurring American waivers to purchase electricity and gas from Iran.

Iran's reliance on Iraq has become even more pronounced since the banking crisis in Lebanon in 2019, which depleted Lebanon's liquidity and removed one of the few avenues Iran had for accessing US dollars. This left Iraq as one of the few remaining markets and sources of dollars available to Iran.

The economic sphere is thus one area of the relationship where, so long as Western sanctions on Iran remain in place, Iraq can retain an advantage. Moreover, despite ongoing political pressure in the US to end gas waivers so that Iran cannot secure economic benefits, the importance of maintaining Iraqi stability has so far ensured their renewal.

Still, the payment mechanism between Iraq and Iran is a source of ongoing tension between the two countries. When Iraq purchases the gas, the funds are deposited into an account that Iran holds at the Trade Bank of Iraq (TBI). Iran wants to access those funds in dollars but Iraq cannot deposit in dollars without risking American sanctions – since Iran is permitted to use the dollars in the TBI account only for humanitarian goods.

This often leads to media misconceptions that Iraq has failed to make payments to Iran. In reality, Iraq does not owe Iran any outstanding payments, and makes payments into Iran's TBI account on a monthly basis. Iran has tried to press Iraq transfer dollars from the TBI to an Iranian bank, but Iraqi officials have resisted. Iraqi officials continue to discuss strategies with Iranian counterparts to navigate US sanctions, but remain unwilling to risk such sanctions against Iraq or their overall relationship with the US. Iraq is hardly alone in this: European states have tried their own way to navigate around US sanctions to trade with Iran, such as the short-lived Instrument in Support of Trade Exchanges.

Iran has used various methods to try to access dollars through Iraq. One way has been to navigate the purchase of dollars in the Iraqi market. In 2019, economics expert Aram Mahmood explained how Iranians were using the discrepancies between official and unofficial market rates between the Iraqi dinar and the US dollar. To take advantage of the discrepancies, Iran would purchase dinar with their Iranian rial, and would then use that to purchase dollars.

However, since late 2022, the US government has been implementing measures aimed at curbing the smuggling of dollars to Iraq's neighbours, particularly Iran. Adapting to these new US regulations has posed challenges for the Iraqi economy. Consequently, the government has been working to shift the country's economic dependency towards the local

currency and reduce its reliance on dollars. But Iran and Iranian groups still need dollars to make purchases in the global market, making enforcement of the crackdown challenging. The crux of Iraq's economic challenge lies in its reliance on oil sales, all of which are conducted in dollars. The cash is physically flown to Iraq, where the Central Bank of Iraq auctions it off to Iraqi banks that purchase it with dinar. The US initiated this practice shortly after its occupation of Iraq as a means to ensure Iraq's financial dependency on the US. However, over the years this system has been exploited by various parties, including Iran.

As I recommended in my previous policy brief for ECFR, Iraq has initiated efforts to digitise its economy a means to mitigate its reliance on the dollar and cash transactions. This is something European states could assist Iraq in implementing. Under Sudani's leadership, the Iraqi government has demonstrated a willingness to address digitisation by enlisting the services of British multinational Ernst & Young to conduct studies on reforming Iraq's state-owned banks – an area where European financial companies could potentially contribute.

What can Europeans do?

Carving out Iraqi autonomy and sovereignty after four decades of turbulence and instability is no easy feat. But Europeans can help ensure Iraqis have opportunity to pursue this goal. If successful, Iraq could become a critical platform for regional dialogue, something that is very much needed during these politically volatile times.

But European aspirations in Iraq should be rooted in an understanding that their policies on the Israeli-Palestinian conflict have repercussions for their ability to impact policy elsewhere in the region. A policy of supporting Iraq's political and economic sovereignty needs to be tied to a wider regional policy of reducing tensions, and that includes the Israeli-Palestinian conflict.

Work to contain escalation

Iraqis may not agree with the tactics that paramilitaries in the Islamic Resistance have adopted since 7 October, but the population is clearly supportive of Palestinians and opposes the US-backed Israeli military operation. As long as the Gaza conflict continues, this will allow for some domestic acceptance of the actions these groups take and will provide further space for them to advance an anti-US and, more broadly, an anti-Western position that will implicate Europeans.

Europeans should therefore work with Washington to avoid an outcome in which they are sucked into conflict in Iraq. While some in the US have interpreted the current pause in

attacks on US military targets in Iraq as a result of successful US strikes and effective US deterrence, this assumption carries dangerous risks.

For one, it misreads the impact these strikes have had on Iraq's domestic political environment and the extent to which they are weakening Sudan's ability to limit armed groups and to support an ongoing US troop presence. This risks enabling Iranian aims. What is more, US triumphalism over the impact of these strikes is inadvisable, as the deterrent success of this round of strikes does not preclude subsequent escalation: an assault on Rafah, for example, could provoke a new cycle of attacks. In this case, any American perceptions that it can successfully respond with military force could lead it to launch new attacks to which Iran and its allies may respond more forcefully.

The reality is that Iraq remains at grave risk of being sucked into a deeper conflict and Western actors need to tread very carefully to avoid this outcome. The precarity is underscored by recent events, including an Israeli naval base being attacked by the Islamic Resistance in Iraq, as well as the Israeli bombing of the Iranian consulate in Syria which provoked direct Iranian attacks on Israel, some of which were launched from Iraq.

EU member states and the United Kingdom should press both Washington and Tehran, given their ongoing channel of dialogue with the Iranian government, not to sacrifice Iraqi stability for their wider geopolitical ambitions. Given the mutual desire of the US and Iran to not engage in direct conflict, as well as the important role that Iraq plays in supporting the Iranian economy, they should have a shared interest in preserving this stability. Europeans should seek to play an active role in this in tandem with Gulf actors who are also in conversation with both Iran and the US and who share similar interests in Iraq.

Build Iraq's autonomy

Within these parameters, Europeans can also help counter Iranian influence in Iraq by supporting the country's progress towards strengthening its sovereignty and autonomy, and working in areas in which Iran does not have a foothold.

First and foremost, Europeans should help ensure that Iraq continues to have regularly scheduled, free and fair, elections. It may be tempting to dismiss Iraq as an electoral authoritarian regime, but there are huge opportunities in Iraq to produce democratic outcomes. As discussed, Iraqi citizens look upon any foreign intervention unfavourably, and Iraqi voters have demonstrated an increasing desire to promote moderate politicians committed to Iraqi interests. Moreover, the fragmentation of Iraqi politics has resulted in compromise prime ministers who are forced to toe the line between Iran and the US.

Europeans can support this process by continuing to send election observation missions to Iraq, funding international organisations that provide support to the Independent High Electoral Commission, and funding civil society initiatives that promote political participation and foster political literacy and activism. It will be crucial to focus on both federal and provincial elections, as local-level politics are rapidly transforming.

Europeans can also help weaken Iran's presence in Iraq by investing more time and resources in the country. Since 2003, most European activity in Iraq has come as military operations and post-conflict reconstruction and development aid. These activities could become even more important if the US is forced to withdraw (or if an incoming Trump administration decides that they want to end the mission even without an Iraqi imperative to leave).

But European security ambitions in Iraq need to be tempered by an understanding that the presence of the Global Coalition to Defeat ISIS is only possible in its current form with continued US leadership. But key European countries such as Denmark, Italy, and Spain (all of whom have led the NATO mission to Iraq) need to prepare to implement a security relationship with Iraq to help preserve anti-ISIS gains and provide the Iraqi government with balancing options in the event of a US withdrawal. A professional and functional Iraqi military will be key to giving the government the space and capability to further its agenda of establishing authority over the PMF and European training, capacity building, and material support can play a vital role.

Strengthen Iraq's economic institutions

Europeans should accompany their efforts to increase Iraq's sovereignty with efforts to build the country's institutional strength. This could involve European organisations such as GIZ, the German development agency, or international organisations like the UN's International Labour Organization through European funding to provide material support and technical training for government institutions, such as the Central Bank of Iraq and other state-owned

banks.

This could include increased support for the Sudani government's efforts to digitise Iraq's economy, which would help address concerns of money laundering to Iran. Simultaneously, integrating Iraq's banking sector with the rest of the world would increase its transparency. Iraq's financial sector would then become less vulnerable to manipulation despite Iran's dependence on the Iraqi market. It would also give Iraqis a greater sense of global integration. When Iraqis feel like the country is going to be treated like a pariah state, this often becomes a self-fulfilling prophecy that shapes the actions of policy makers, particularly in the banking sector.

Engage with Iraq as a normal state

Alongside this, Europeans need to increase their efforts to foster bilateral relations with Iraq as a normal state. While they will struggle to compete with Iranian influence, they can begin to adopt similar policies to the Gulf states, which have begun investing in Iraq as a means of both supporting its stabilisation and diluting Iranian influence.

European governments should therefore support efforts to increase European investment in Iraq. Indeed, they could do so in collaboration with the Gulf states. One key area of potential is energy, as exemplified by the joint project between French multinational TotalEnergies and QatarEnergy to capture flared Iraqi gas. This reflects wider economic opportunities in Iraq, but also points to a key strategic possibility also being pursued by Gulf states through a joint electricity grid project: to wean Iraq off dependence on Iranian gas imports.

Iraq's broadening foreign relations with Europeans and neighbouring Gulf states serve regional and international interests, allowing Iraq to act as a mediator between Iran and the rest of the world. The current conflict in the Middle East has shown the importance of regional mediators, as Qatar is currently doing in the context of the Israeli-Palestinian conflict. Engaging with Iran constructively will be difficult, but this is where Iraq is best suited to provide support. A holistic policy for the Middle East requires engagement with Tehran, and doing so best involves Baghdad.

In this tumultuous regional climate, and as Iran grows more isolated, it will have every incentive to strengthen its hold on Iraq. Europeans are faced with a choice: they can either play into Iran's hands by adopting a punitive and distant stance from Iraq or they can promote Iraqi efforts at carving out its autonomy.

About the author

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[1] Author's conversation with an advisor to the Iraqi prime minister, Baghdad, June 2023.

[2] Conversation with PMF rank and file members, Babylon and Karbala, June 2023.

[3] Based on trade data provided by the Iraqi Ministry of Planning's Central Statistical Organization.

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