

# Iraq's Turn to Saudi Arabia for Economic Relief Is Sign of Its Regional Rebalancing

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*Iraqi Prime Minister Mustafa Al-Kadhimi visited Riyadh on March 31 and spoke with Saudi Crown Prince Mohammed bin Salman in Al Yamamah palace. Following the exchange, the Iraqi Prime Minister said “relations with Saudi Arabia have accelerated in a positive direction,” adding “we have managed to overcome many challenges that were hindering the progress of our relationship.”*

Because Iraq is in a dire economic situation, it needs to consolidate its relations with various regional partners. Iraq is facing a medical, economic and security crisis, hence the importance of Kadhimi's trip to Saudi Arabia. His visit confirms that Baghdad's relationship with Riyadh is improving, and this poses problems for Iran.

Kadhimi went to Riyadh with his ministers of Foreign Affairs, Finance, Interior, Oil, Agriculture and Housing. Judging by the Iraqi delegation, the trip had a mostly economic imperative. With this in mind, the two countries recently reopened their main border post at Arar, something more than symbolic since Saudi Arabia funded the reconstruction of the border post to the tune of \$75 million. In addition to Arar, the two countries intend to reopen a second crossing point at Al-Jemayma. This will create another gateway for imports to reach Iraq as the majority arrives from Iran.

Saudi Arabia plans to increase its investments in Iraq with some 6,000 projects worth nearly \$3 billion. Riyadh plans to finance projects in the food industry, energy and infrastructure. While it is not limited to the hydrocarbon sector, it remains the heart of the Iraqi economy. Oil infrastructure is damaged after 40 years of conflict despite the fact that Baghdad depends on oil revenues to finance 97% of the state budget.

Saudi investments are not only for economic intentions. In the context of the Saudi-Iranian rivalry, it looks like Iraq is back on the centre stage. Indeed, the powerful Iranian-backed Shi'ite militias in Iraq reacted negatively to the rapprochement with Riyadh. In a predominantly Shi'ite Iraq, the Iranian-backed Popular Mobilization Units (PMU) have great influence. Divided even among themselves, the PMU act according to nationalist and confessional beliefs, with many of the militias in the PMU completely subservient to Tehran.

This is where all the difficulty lies for the Iraqi government. The militias were intended, in the long term, to be integrated into the regular army. But these militias have sought to

maintain their autonomy vis-à-vis the government with their own mode of financing based on quasi-institutionalized levies and taxation which parasitize the state budget and its functioning. However, Baghdad's economic dependence on Iran remains significant, especially as electricity and gas come from the neighbouring country.

For Iran, it needs significant influence over Baghdad as it views Iraq as a buffer state and essential for its security. It is imperative for Tehran that Iraq is never again a threat like it was under Saddam Hussein. This is not Tehran's unique interest however as Iraq is a strategic issue for every global and regional power. Even under the Trump administration, there were sanctions exemptions for Iraq. These exemptions were immediately extended by Joe Biden so that the Arab country can continue sourcing electricity and gas from Iran without punishment. Almost 30% of internal energy consumption comes from Iran.

Kadhimi's trip to Riyadh aimed to balance regional powers and ensure that the Saudis become an important partner that can help reconfigure the regional order. By improving relations with Saudi Arabia, it could also suggest that Kadhimi, a Shi'ite himself, is rebalancing his country's ideology back towards pan-Arabism after Iraq split along sectarian lines following the U.S. invasion in 2003. Using Iraq's overwhelming Arab identity to counterbalance religious sectarianism, Kadhimi is engaged in a difficult task of balancing Iran and Saudi Arabia in order to be able to diversify his country's economic partners.

For Baghdad, the endless rivalry between Iran and Saudi Arabia jeopardizes recovery and reconstruction. For Tehran, it relies on Iraq to serve as a buffer for its own security and is therefore unlikely to retract its relations with Iraq for building its ties with Saudi Arabia. For Riyadh, this is part of the long process of rapprochement with a lot of the Arab World after it backed ISIS, Al-Qaeda and other radical groups against Syria, Iraq and Libya, and thus allowed Iran and its new rival Turkey to have greater influence than they did previous to those countries' respective wars. None-the-less, Baghdad must now play a very careful balancing game as it relies on Iran for energy but will need Saudi Arabia for reconstruction.

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