

Iraq-Iran relations following the nuclear deal

Critics of the 2015 nuclear deal with Iran have warned that Iran would use any financial benefits to further strengthen its influence in the region, by supporting its allies, which include important Shia militias in Iraq. While the nuclear deal has yet to translate into major economic and financial benefits for Iran, any requests for extra resources to support foreign allies will also have to compete with the Iranian government's many other – domestic – priorities. Moreover, the potential long-term effects of the nuclear deal on the funding of Iran's allies in Iraq will depend on many other factors, including the domestic situation in Iraq and Iran and developments in Syria. It is certain, however, that Iran will continue to pursue its strategic economic interests in Iraq.

Economic and security situation in Iraq

The [economic situation](#) in Iraq continues to be affected by significant [security](#) and [political challenges](#). The [sharp drop](#) in the [global oil price](#) has forced the government to adopt significant austerity measures. The rise of ISIL/Da'esh, which has taken control of cities and territories in the north and west of the country, has lowered the country's economic prospects. Oil production and exports from southern Iraq – from where the majority of the country's oil income and foreign-exchange earnings originate – have not yet been directly affected, but investment, trade, and general business activity have slowed as a result of the violence caused by the crisis. Iraq is overwhelmingly dependent on oil for government and export revenues, with crude oil accounting for almost 98% of total exports and more than 80% of government revenues. Continuing political conflict among various groups, including disagreements over oil revenue-sharing between the Kurdistan Regional Government and the national government, as well as dissatisfaction with government corruption and lack of services continues to weigh on domestic stability. The government of Prime Minister Haidar al-Abadi is facing mounting [political](#) and economic pressures, due to the loss of territory to ISIL/Da'esh, the rise in popularity and influence of Iran-backed Shia militias in the Popular Mobilisation Forces (al-Hashd al-Shaabi), anti-government protests among its formerly sympathetic Shia constituency, and strained finances resulting from low oil prices. The government has been paralysed by factional and sectarian infighting, which has delayed the passage of key legislation and undermines any reform efforts by Abadi aimed at reducing corruption – a key grievance of the protesters. At the same time, the mobilisation of Shia militias increases the risks of Arab-Kurd and [inter-Shia civil](#) war and eventual state fragmentation.

Iran's historic involvement in Iraq

[Iraq](#) has been particularly important for Iran ever since the [Safavid](#) dynasty (1502–1736) made Shiism the state religion in the 16th century. The holy Shiite cities of Najaf and Karbala in southern Iraq are traditional Shiite centres of learning and destinations for religious pilgrims. Iran views southern Iraq as part of its historic sphere of influence. The Islamic Republic established by Ayatollah Khomeini in 1979 tried to export its Islamic ideology to Iraq, prompting Saddam Hussein to invade Iran in 1980. The long and bloody eight-year war that killed and wounded over 1 million people ended with a ceasefire. The fall of Saddam Hussein in 2003 provided Iran with an historic opportunity to expand its influence in Iraq and led to close Iranian involvement in the political, security, economic and religious spheres. The rise of ISIL/Da'esh in northern and western Iraq in 2014 has allowed Iran to further enhance its influence in Baghdad, through Shia militias that have played a leading role in halting the advance of the jihadist group in Iraq. Following the nuclear deal, Iran sees Iraq as a strategic partner in re-opening its economy to the world.

Political influence

Since the fall of Saddam Hussein in 2003, Iran has sought influence in Iraqi politics by working with Shiite and Kurdish parties to create a federal state dominated by Shiites and open to Iranian influence. Iran's strategy



has been to unite Iraq's Shiite parties so that they can translate their demographic weight into political influence, thereby consolidating Shiite primacy in Baghdad. Tehran encouraged its closest allies – the [Badr organisation](#), the [Islamic Supreme Council of Iraq \(ISCI\)](#), [Dawa](#) and the [Sadrist](#)s – to participate in politics and help shape Iraq's newly-emerging institutions. [Kurdish parties](#) – the Kurdish Democratic Party (KDP) and the Patriotic Union of Kurdistan (PUK) – also have long-standing ties with Iran.

Security

During the US occupation of Iraq, Iran encouraged its Iraqi political allies to work with the United States. At the same time, the Qods Force of the Iranian Revolutionary Guard Corps, led by Qassem Soleimani, armed, trained and funded militias associated with these allied political parties, as well as radical insurgent groups that attacked US forces. However, by 2010, Iran had reduced its support to three armed Shiite groups: the [Promised Day Brigade](#) – successor to the Mahdi Army – of Muqtada al Sadr, the [Asa'ib Ahl al Haqq](#) and the [Kata'ib Hezbollah](#). After the 2011 US withdrawal from Iraq, Iranian support of these groups was at its lowest. All this changed when ISIL/Da'esh seized Mosul and began advancing on Baghdad in the summer of 2014. Iraq's Grand Ayatollah Sistani issued a fatwa calling on Iraqis to support the Iraqi Security Forces (ISF) to defend their country, their people, and their holy places. Large numbers of Shiites volunteers were organised into more than 50 new militias known as [Popular Mobilisation Units](#) (also known as PMU or al Hashd al Shaabi), numbering between 60 000 and 90 000 men. Many were armed by Iran and reflected a [Khomeinist ideological orientation](#). These groups, along with Iran's traditional allies such as Badr, Asa'ib Ahl al Haqq, and Kata'ib Hezbollah, played a leading role in halting ISIL/Da'esh's advances and in liberating areas that had fallen under the group's control. However, these sectarian militias also contributed to the sectarian polarisation of Iraqi society, through a heavy-handed military approach and alleged [human rights abuses](#) against Sunni Arabs.

Trade

Iran is Iraq's largest trade partner, with trade totalling between [US\\$6 billion and US\\$12 billion](#) in 2013 and 2014. According to some estimates, this figure, mainly consisting of Iranian exports to Iraq, is set to nearly [double](#) in the coming years. The exports consist of fresh produce and processed foodstuffs, construction materials, inexpensive household appliances, and cars. Iranian investors and construction firms are also active in Baghdad, predominantly Shiite southern Iraq, and Kurdistan. Trade between the Kurdistan Region and Iran has [grown](#) over the past 15 years, from US\$100 million in 2000 to nearly US\$4 billion in 2014.

Religious influence

Iran's goal is to ensure that its [version of Islam](#) is the [dominant ideology among Shiites world-wide](#). It has been lavishing funds on politicised clerics, in an effort to promote the Islamic Republic's official ideology over the relatively non-political 'quietist' tradition of Najaf's academies. Iraq has become a major destination for Iranian religious tourists. In 2013 and 2014, [1.2 million](#) Iranian religious tourists visited holy sites in Iraq.

The Iranian nuclear deal and implications for Iraq

In 2006, following reports of non-compliance of Iran's obligations under the [Nuclear Non-Proliferation Treaty](#) (NPT), the UN Security Council (UNSC) began to impose a series of sanctions against Iran, which had a crippling effect on the country's economy. On 16 January 2016, following the signing of the [Joint Comprehensive Plan of Action](#) (JCPA) between Iran and France, China, Germany, Russia, the United Kingdom, the United States and the European Union, all [nuclear-related sanctions](#) were lifted. In the long term, the lifting of the sanctions is expected to boost Iran's economy, through higher oil production, greater trade flows, and improved access to foreign capital. Iran also regained access to around US\$100 billion (€87 billion) in funds frozen overseas under the sanctions regime. In the wake of the nuclear deal, Iran is keen to position itself as a [gateway to the region](#). In this context, the relationship with Iraq is key. Iran is creating a 37 400 hectare free trade zone on the Iraqi border, which Iran hopes will rival other free trade zones in the Gulf in attracting foreign companies. In the longer term, Iraq's significant oil-wealth is expected to provide its economy with the means to maintain a [high growth rate](#) and a surplus of wealth for many years, translating into an economic potential for the country that is far greater than that of most Middle Eastern countries. Overall, Iraq's importance to Iran is perhaps best captured in the words of an adviser to President Rouhani, who was quoted in March 2015 as describing [Baghdad](#) as the capital of Iran's restored historic empire.