



Saudi Arabia: Back to Baghdad

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Principal Findings

What's new? After a quarter-century of estrangement, Saudi Arabia has reopened diplomatic relations with Iraq in an attempt to counter strong Iranian influence. The kingdom seeks a role in post-ISIS reconstruction and has set about forging new political alliances.

Why does it matter? The Saudi approach to Iraq could offer a sustainable model of patient, long-term engagement. A new approach in Iraq may persuade Riyadh that leveraging its economic and cultural capital – rather than military force and zero-sum politics – will better serve its strategic interests and reduce growing tensions in the region.

What should be done? In projecting its influence in Iraq, Riyadh should resist the temptation to transform the country into the latest battleground in a cold war with Tehran. All of Iraq's bilateral partners should see the country's stability as their vital interest and work constructively to achieve it.

Executive Summary

Saudi Arabia is re-engaging with Iraq after nearly a quarter-century of broken ties. The rapprochement began in 2016, sharply accelerated in mid-2017 and stands to move even faster after Iraq's general elections in May 2018, particularly if politicians open to reconnecting with Saudi Arabia succeed in forming a government. Riyadh's strategy is to ride a wave of Iraqi national pride, reinvest economically and build relationships across ethnic and confessional lines. If its objective is to roll back Iran's influence in Iraq, however, it will find that many Iraqis – even those who are critical of Iran's overweening influence – view that as a red line, a way of turning their country back into an arena of regional combat. If it moves too fast and favours infusions of cash over carefully calibrated and targeted economic assistance, it will fuel rather than curb rampant corruption. And it will need to silence sectarian rhetoric to reach out across Iraq's ethnic and religious spectrum.

Iraqis from various political, confessional and social groups say they welcome the apparent course change. In part, their enthusiasm stems from necessity. The new relationship comes amid a rare international consensus that the calm in Iraq must be consolidated, lest the country regress into violent conflict. The Islamic State (ISIS) has been purged from most Iraqi territory, national pride is swelling and investor confidence is up. Yet if the government and its partners cannot produce a tangible peace dividend, secure liberated areas, and end a cycle of sectarian and ethnic retribution, those gains could easily be reversed. Western partners have already started walking back their financial commitments, hoping their Gulf allies will fill the gap.

Saudi Arabia's renewed engagement with Iraq has advantages compared to its actions elsewhere in the region. Iraq provides an opportunity for Saudi officials to apply lessons learned from less successful interventions in Syria and Yemen. In Iraq, Saudi Arabia can play to its strengths, building political support and influence through economic incentives, while avoiding direct or proxy military action. Saudi political and economic re-entry can capitalise on and reinforce domestic trends in Iraq, namely growing anti-Iran sentiment and an appetite for balanced regional relations.

Counter-intuitively, the fact that Riyadh is starting from a low base could be a blessing in disguise. Both sides must do the hard work of rebuilding trust, creating a network of contacts and courting public opinion. The kingdom's financial might gives it leverage, but not enough to have things its way. Riyadh will need strategic patience in order to build the influence it seeks.

Riyadh can contribute to Iraq's stabilisation, but the relationship will have to navigate a minefield of obstacles. The first is the most fundamental: Saudi Arabia's renewed interest in engaging with Iraq overtly derives from a desire to counter Iranian influence. Yet Iraqis want and need to prevent their country from becoming yet another theatre for Saudi-Iranian hostilities. Calibrating the speed of engagement also will be a challenge. Iraqis want to see immediate, tangible gains from Saudi Arabia's return. But if Riyadh tries to do too much, too soon, it could become mired in bureaucracy and corruption – or even provoke an Iranian reaction. Both Saudi Arabia and Iraq will need to break old habits, such as working exclusively via politi-

cal patronage and allowing inflammatory sectarian rhetoric from clerics and media commentators.

If the risks of engagement are great, the folly of not engaging would be greater still. As Saudi policymakers readily admit, leaving post-2003 Iraq without strong Arab partners kept the country dependent on Iranian security assistance, energy support, trade and political funding, and made its security institutions vulnerable to Iranian penetration. Such lopsided influence helped marginalise Sunni Arabs and set the stage for ISIS's rise.

Seeking to undo the damage, Saudi Arabia can now help strengthen the Iraqi state so that Baghdad can play the role to which many Iraqis say it aspires: a bridge between warring neighbours, rather than a battleground. The following steps could help:

- ❑ Saudi Arabia should prioritise economic engagement with Iraq, producing immediate, tangible gains and fostering long-term projects. Efforts should focus on reconstruction, job creation and trade, with an eye toward balancing investment across the country.
- ❑ Riyadh should consider steps toward publicly recognising Shiite religious practice as a school of Islam, including by: moving to accept the legitimacy of Shiite theology and jurisprudence, quieting anti-Shiite rhetoric from Saudi Arabia-based clerics, issuing statements and undertaking actions dignifying Shiite rituals, curbing persistent discrimination against the Shiites in the kingdom, promoting broader religious tolerance within Saudi Arabia and encouraging its Sunni clerical establishment to engage informally with Shiite clerics in Najaf.
- ❑ The Iraqi government should prioritise reconstruction and reconciliation among Iraqi parties and communities by passing legislation and regulations that will facilitate donor and investor interest, stepping up anti-corruption efforts, ensuring equal services and aid across the country, and promoting a non-sectarian and non-ethnic ethos among its security forces.
- ❑ Iran should encourage and support the calibrated integration of autonomous security actors into Iraq's national security institutions. Saudi Arabia and Gulf allies should understand that this process will necessarily be arduous – and must proceed delicately if it is to succeed. Tehran should encourage Iraq's efforts to diversify its regional alliances.
- ❑ Riyadh and Tehran should look for common ground to gradually build a base of cooperation, or at a minimum coexistence, in Iraq. This effort could include promoting shared interests such as a stronger Iraqi economy, the country's territorial integrity, security sector reform and mitigation of the destabilising effects of climate change in the region.

Riyadh/Baghdad/Brussels, 22 May 2018

Saudi Arabia: Back to Baghdad

I. Introduction

The Kingdom of Saudi Arabia cut ties with Iraq in 1990 after Saddam Hussein's regime ordered the invasion of Kuwait. While Riyadh gave tacit approval of the U.S. invasion of Iraq in 2003, it was reluctant to engage with the new political order after Saddam's fall and as Iranian influence grew.¹ Relations deteriorated further under Prime Minister Nouri al-Maliki (2006-2014), whom Saudi Arabia, as well as the United Arab Emirates (UAE), saw as an impossible partner inclined toward Iran.² Believing that by invading Iraq the U.S. had "handed the country to Iran, as if on a golden platter", as a senior Saudi official put it, Saudi Arabia sought to attain alternative forms of influence by funding Sunni Arab organisations and politicians.³

The George W. Bush administration pushed Saudi Arabia to re-establish ties with Iraq and discouraged the kingdom from supporting non-state groups. A minor breakthrough came in 2006 when Iraq's national security adviser and the Saudi intelligence chief, Prince Muqrin bin Abdulaziz al-Saud, opened a hotline between the two of them, but it ceased to function several years later when the responsible Iraqi personnel left office.⁴

Real progress came only after Islamic State (ISIS) took vast swathes of Iraqi territory in 2014 and a new prime minister, Haider al-Abadi, showed firm commitment to rolling back the group. Abadi carved out an image as a nationalist and convinced Riyadh he was "not Iran's man".⁵ In response, Saudi Arabia reopened its Baghdad embassy in December 2016. Engagement has intensified since, with visits by Abadi to Riyadh in June and October 2017 and at least three such trips by the Iraqi interior minister, Qasem al-Araji.⁶

The rationale for Riyadh's rapprochement with Baghdad begins with a broader Saudi reassessment of foreign policy vis-à-vis its regional rival, Iran. When King Salman bin Abdulaziz al-Saud ascended to the throne in 2015, the Arab uprisings had overturned the regional status quo and shaken Saudi leaders' trust in the U.S., even as long-time decision-makers (including two consecutive crown princes, Sultan bin Abdulaziz and Nayef bin Abdulaziz) passed away.⁷ Saudi attempts to bolster cer-

¹ Wealthy individuals in Saudi Arabia and other Gulf states funded Sunni Arab insurgents as well. See "The Iraq Study Group Report", U.S. Institute of Peace, 6 December 2006; Sharon Otterman, "Saudi Arabia: Withdrawal of U.S. Forces", Council on Foreign Relations, 7 February 2005.

² Crisis Group interviews, Gulf official, February 2018; senior Iraqi security official, Baghdad, March 2018; former Iraqi diplomat, February 2018.

³ Crisis Group interview, Riyadh, January 2018. See also "Saudis' role in Iraq frustrates U.S. officials", *The New York Times*, 27 July 2007.

⁴ Crisis Group interview, former Iraqi security official, Baghdad, March 2018.

⁵ Crisis Group interviews, Gulf diplomat, Riyadh, January 2018; UN official, phone, February 2018.

⁶ Crisis Group interview, Iraqi official, Baghdad, March 2018. See also, "Iraqi PM arrives in Riyadh for talks on reconstruction and Iran", *The National*, 21 October 2017; "Saudi crown prince, Iraqi interior minister discuss common issues, counterterrorism", *Arab News*, 20 July 2017.

⁷ Crisis Group interview, Saudi diplomat, Riyadh, January 2018. See also Deborah Amos, "Arab leaders feel U.S. abandoned Egypt's Mubarak", National Public Radio, 9 February 2011.

tain political and armed opposition groups in Syria largely failed, while Iran gained ground. A Saudi diplomat said:

We had a little dive into supporting groups in Syria, and [discovered] we're just not good at it. ... Iran outmanoeuvred us everywhere. When you play with someone who has no red lines, you will always lose. We're very bad at this. [We realised we have to play] another game.⁸

Tehran's influence expanded in Iraq, Lebanon, Yemen and Bahrain. Right under the Saudis' eyes, the pre-2011 geopolitical status quo was gone.

King Salman and his son, Deputy Crown Prince Mohammed bin Salman (MbS), assessed that Saudi Arabia's regional policy toward Iran was too reactive – and failing. They set about formulating a new, more assertive approach, the implementation of which appears to have accelerated since MbS was elevated to crown prince in June 2017.⁹ A senior Saudi security official said in early 2018, “[Kingdom of Saudi Arabia] is trying now to correct this position. We are on the front line today to push Iran to its borders”.¹⁰

Saudi leaders undertook the strategic equivalent of triage: they decided which theatres could still be saved from Iranian domination and focused on those. A Riyadh-based diplomat said, “there is a sense that with Syria and Lebanon, it's too late, but in Yemen, Iraq and Jordan there is scope to keep Iran out”.¹¹ In this context, a new U.S. administration, under President Donald Trump, again encouraged Saudi Arabia to engage with Iraq, as a counterweight to Iranian influence.¹²

Saudi officials viewed Iranian policy in the region as rooted in exploiting and exacerbating instability through sectarian divisions. Riyadh conceptualised its engagement with Iraq as a demonstration that Saudi Arabia seeks the opposite: to strengthen the state around patriotic ideals of Iraqi-ness. In taking this approach, Riyadh sought to “expose” Iranian intentions as malicious and sectarian. A senior Saudi policymaker described it this way:

Iran's goal is to create chaos and destabilise the country Saudi Arabia in response pursues a strategy of reason. We try to strengthen these states and encourage patriotism among their citizens. ... We are trying to put away the sectarian conflict ... to expose the Iranian intervention.¹³

⁸ Crisis Group interview, Saudi diplomat, Riyadh, January 2018. Another senior Saudi official noted that Saudi influence in Lebanon peaked in the early 2000s, when that country's economy was thriving, partly as a result of Riyadh's support. Crisis Group interview, Riyadh, January 2018.

⁹ A Saudi academic and former official said, “MbS has decided that we will go after Iran wherever they are, even in sub-Saharan Africa. This is why you see a dramatic change in relations”. Crisis Group discussion, May 2018.

¹⁰ Crisis Group interview, senior Saudi official, Riyadh, January 2018.

¹¹ Crisis Group interviews, Western diplomat, Riyadh, January 2018; senior Saudi official, Riyadh, January 2018; Saudi diplomat, Riyadh, January 2018. Officials in the Trump administration were undertaking a similar assessment. Dexter Filkins, “A Saudi prince's quest to remake the Middle East”, *New Yorker*, 9 April 2018.

¹² Crisis Group interview, U.S. defence official, phone, April 2018.

¹³ Crisis Group interview, senior Saudi official, Riyadh, January 2018.

Some Iraqis warn that this Saudi perception of Iran's policy toward their country is simplistic or even unfair, particularly after Tehran's investment in rolling back ISIS after 2014. Tehran has built alliances across Iraq's sects, regions, and economic and political sectors over the last fifteen years, with an eye toward building a long-term regional ally.¹⁴ An Iraqi academic explained:

The Iranians treat [the region] as a game of chess. The Saudis are rash actors. The Iranians never [make rash decisions]. There is one Iranian vision. Iran has had the same goal since 1979: to protect themselves. They never trust the Arabs and never trust the U.S., so they are creating a buffer around themselves.¹⁵

¹⁴ Crisis Group interviews, senior diplomat, Iraq department, Ministry of Foreign Affairs, Tehran, March 2018; U.S. defence official, phone, April 2018. See also Crisis Group Middle East Report N°184, *Iran's Priorities in a Turbulent Middle East*, 13 April 2018.

¹⁵ Crisis Group interview, Iraqi academic close to the government, Baghdad, March 2018.

II. The Saudi Vision

As it tries to regain a foothold in Iraq, Riyadh hopes to push back against Iranian influence, though policymakers say they realise it will not fully succeed in doing so. From minimal influence today, they ambitiously say, they would like to see the balance tilt to 70 per cent Saudi sway, 30 per cent Iranian.¹⁶ To achieve this aim, the kingdom is pursuing four tactical avenues: outreach to mainly Shiite political elites, strengthening of economic ties, cross-confessional religious engagement and spread of social good-will.

A. Political Outreach

Saudi Arabia's political approach capitalises on an Iraqi sense of national pride that has emerged from having first survived ISIS and then having fought to defeat it.¹⁷ Saudi policymakers decided to focus on Iraq's Shiites first, because they dominate the government and represent the greatest area of tensions in the relationship.¹⁸ Riyadh's approach prioritises individual relationships over institutional engagement, as the initial outreach to the prime minister and interior minister illustrates.¹⁹

The most pivotal relationship is with Abadi. Since his election in 2014, U.S. and UN officials have sought to persuade Riyadh that Abadi was not an Iranian proxy.²⁰ Saudi Arabia was impressed with the new prime minister's determination to fight ISIS, particularly in comparison to Maliki, whose army one Saudi official said had been "defeated by 70 [ISIS] pickup trucks".²¹ Ultimately, it was Abadi who personally convinced the Saudi leadership that he would not bow to Iran.²²

Abadi has worked assiduously to prove himself independent of Tehran, including in security policy, an area the Gulf views as being wholly compromised by Iran.²³ Critically for Saudi Arabia, as well as for the UAE, Bahrain and Qatar, Abadi has tried to start bringing the mostly Shiite Hashd al-Shaabi (Popular Mobilisation Units, PMUs)

¹⁶ Crisis Group interview, senior Saudi official, Riyadh, March 2018.

¹⁷ Crisis Group interview, Iraqi academic close to Najaf's religious leadership, February 2018.

¹⁸ Crisis Group interview, senior Saudi official, Riyadh, January 2018.

¹⁹ While high-level personal relationships continue to drive the direction of the budding ties, the two countries are also establishing ministerial-level engagement through the Saudi-Iraqi Coordination Council, established in October 2017.

²⁰ Crisis Group interviews, U.S. defence official, phone, April 2018; UN official, phone, February 2018.

²¹ Crisis Group interview, senior Saudi official, Riyadh, January 2018.

²² Crisis Group interviews, senior Saudi official, Riyadh, January 2018; Gulf diplomat, Riyadh, January 2018; UN official, phone, February 2018; and Gulf official, February 2018.

²³ An instance in early 2018 demonstrates that Abadi has navigated a balance between deference to Iran's political influence and his desire to remain untethered to any foreign power, whether Tehran or Washington, according to Iranian and Western diplomatic accounts. In January, the Iranian Qods force commander, Qasem Soleimani, helped broker an electoral coalition between the PMUs and Abadi. According to Western sources, the PMUs had expected to have equal control over political decision-making, but Abadi insisted that he should have the last word on policy. Amid mismatched expectations, the coalition split within 24 hours. Crisis Group interviews, Tehran, Baghdad and by phone, February, March and April 2018.

under state control.²⁴ Though the PMUs are a diverse force, and not all units are allied with Tehran, policymakers in each of these Gulf states have described them as an Iranian front and their entrenchment as a roadblock in the way of closer ties.²⁵ Abadi has said he aims to reduce the number of PMU fighters while bringing their heavy weapons under state control.²⁶

Saudi Arabia, together with the UAE and Bahrain, believes Abadi is the best-placed candidate to lead Iraq.²⁷ Several officials stressed the importance of Abadi maintaining the premiership after the 12 May elections and said their engagement was predicated on the assumption that he will.²⁸ Gulf support for Abadi was evident in an Iraq reconstruction donors' conference hosted by Kuwait in February 2018. Gulf countries solicited a banner-headline dollar figure, offering Abadi pre-election evidence that he (and perhaps only he) can unlock Gulf funding for reconstruction.²⁹

Riyadh also has built a strong working relationship with Iraq's interior minister, Qasem al-Araji, an ambitious politician who is closer than Abadi to Tehran. Araji is a member of the Badr Organisation, one of the primary vehicles for Iranian influence in the security sector.³⁰ Iraqi officials and diplomats have varying views of why Saudi Arabia has prioritised ties with Araji. Some believe it is expediency. As a senior Iraqi security official said, a good relationship with the minister "will make most things move easily" for Riyadh.³¹ The Interior Ministry would also be in a unique position to offer Saudi Arabia reassurances that its interests and investments will not be targeted by Iranian-allied PMUs.³² Others see an attempt to "flip" Araji – a man known to

²⁴ Ahmed Rasheed, "Iraq's Abadi in high-stakes plan to rein in Iranian-backed militias", Reuters, 4 January 2018. The PMUs were established following a June 2014 fatwa from Grand Ayatollah Ali al-Sistani in Najaf, urging young men of all sects to fight ISIS out of patriotic spirit. Renad Mansour and Faleh A. Jabar, "The Popular Mobilization Forces and Iraq's future", Carnegie Middle East Center, 28 April 2017. The Maliki government seized the opportunity to expand pre-existing Shiite militias. Some brigades are aligned with – and many were trained and equipped by – Iran; others have committed atrocities against Sunnis. See for example, "Iraq: Possible War Crimes by Shiite Militia", Human Rights Watch, 31 January 2016.

²⁵ Crisis Group interviews, Gulf diplomat, Riyadh, January 2018; Gulf official, February 2018; Bahrain government spokesperson, March 2018.

²⁶ Ahmed Rasheed, "Iraq's Abadi in high-stakes plan to rein in Iranian-backed militias", Reuters, 4 January 2018.

²⁷ The UAE remains more cautious about Abadi, considering him the "best bad option" and likely still ultimately aligned with Iran. Crisis Group interviews, Gulf officials, February and April 2018; Bahraini government spokesperson, email correspondence, March 2018; former Iraqi diplomat, phone, February 2018.

²⁸ Crisis Group interviews, senior Saudi official, Riyadh, January 2018; Gulf diplomat, Riyadh, January and February 2018.

²⁹ Crisis Group interview, Gulf diplomat, Riyadh, January 2018.

³⁰ See for example, Guido Steinberg, "The Badr Organization: Iran's Most Important Instrument in Iraq", German Institute for International and Security Affairs, 26 July 2017.

³¹ Crisis Group interview, senior Iraqi security official, Baghdad, March 2018.

³² Since taking office, Araji has surprised some observers with his willingness to work with Abadi to move the PMUs under state control. A U.S. defence official said, "he has been trying to support Abadi's approach to bring the PMUs under [the prime minister's authority]. A lot of that is because Araji, when he became integrated into the official government process, saw that a group was operating outside his purview". Crisis Group interview, phone, April 2018.

have aspirations to the premiership – away from his erstwhile patrons in Tehran.³³ Regardless of the calculations, the relationship appears mutually coveted.³⁴ Arajī, for example, has sought to add nuance to Riyadh’s understanding of the PMUs.³⁵

Beyond outreach to Iraqi Shiite government officials, Saudi Arabia and some other Gulf states, as well as Turkey, have extended support to individual politicians and parties, including some of the top vote-winning coalitions among non-Shiite-led blocs in the May 2018 elections.³⁶ These overtures have included direct patronage, favourable media coverage and diplomatic visibility.³⁷

B. Confessional Engagement

As part of its re-evaluation of Iraq, Riyadh is betting on the idea that the vast majority of Iraqi Shiites place their ethnic identity above their confessional one.³⁸ Most follow the quietist religious school prevalent in Najaf, rather than the Iranian regime’s *velayat-e faqih* doctrine, which Saudi leaders view as deeply threatening.³⁹ Riyadh’s

³³ The logic of this argument is as follows: within his own party, Arajī would have powerful competition for a run at the premiership; he would be outranked by Badr Organisation chief Hadi al-Ameri. By switching to Saudi patronage, he might be able to subvert this hierarchy and improve his chances at moving up politically. Crisis Group interviews, Iraqi official, Baghdad, March 2018; Western diplomat, Baghdad, March 2018.

³⁴ Crisis Group interview, Iraqi official, Baghdad, March 2018. Arajī visited Saudi Arabia at least three times in the second half of 2017 and met MbS on at least one occasion. “Iraq’s interior minister meets with Saudi crown prince”, *The National*, 19 July 2017.

³⁵ Crisis Group interview, Iraqi official, Baghdad, March 2018.

³⁶ Crisis Group interviews, senior Iraqi security official, Baghdad, March 2018; former Iraqi security official, Baghdad, March 2018; UN official, phone, February 2018; Western diplomat, Baghdad, March 2018. Turkey is one of Iraq’s largest economic partners and has also maintained close relationships with and support for some Sunni Arab politicians. Qatar supports some Iraqi political figures, including by hosting exiles and providing coverage in Qatari-owned and aligned media outlets. The political rift between Qatar and Turkey, on one side, and Saudi Arabia and the UAE, on the other, is reflected in their patronage distribution in Iraq: Qatar and Turkey support Sunnis inclined toward Islamism, while Saudi Arabia and the UAE generally reach out to secular-leaning nationalists. These actions contribute to the splintering of Sunni Arab political alliances.

³⁷ Electoral coalitions whose members have reportedly received support from Gulf states and/or Turkey include Iraq’s Decision and Wataniya. Crisis Group interviews, Gulf official, April 2018; UN official, phone, February 2018; Western official, Baghdad, March 2018.

³⁸ Crisis Group interviews, Iraqi MP, Baghdad, March 2018; adviser to the National Wisdom Movement of Ammar al-Hakim, Baghdad, March 2018; Saudi diplomat, Riyadh, February 2018; Saudi academic close to government, Riyadh, February 2018.

³⁹ Practitioners of Shiism claim allegiance to a “religious reference” or *marja* – a grand ayatollah, whose rulings on Islamic law and practice they seek to follow in their lives. Najaf’s Grand Ayatollah Ali al-Sistani is the most widely revered *marja* among Arab Shiites. Ayatollah Ali Khamenei, Iran’s supreme leader, is an adherent of the *velayat-e faqih* doctrine formulated by Grand Ayatollah Ruhollah Khomeini and incorporated into Iran’s 1979 constitution. *Velayat-e faqih* imagines a theocratic Islamic republic ultimately governed by the *marja* in accordance with Islamic law. The clerics’ direct role in politics in Iran since 1979 starkly contrasts with Najaf’s quietist approach of keeping religion out of politics. Khamenei has strongly promoted Qom (rather than Najaf) as the pre-eminent place of Shiite religious learning. The institution on which the *marja*’s authority rests is called the *marjaiya*; the cluster of Shiite seminaries that provide the theological and juridical underpinnings for the *marjaiya* is called the *hawza*.

engagement seeks to emphasise the Arab/Iraqi component of Shiite identity and to elevate the religious importance of Najaf vis-à-vis the Iranian city of Qom.⁴⁰

Saudi engagement with Iraq accelerated after a July 2017 visit to the kingdom, and subsequently to Abu Dhabi, by Shiite cleric and politician Moqtada al-Sadr, whose coalition won a plurality of parliamentary seats in the May 2018 elections.⁴¹ Both a religious figure and a political activist who has pushed his non-sectarian credentials, Sadr crystallised Riyadh's strategy of promoting Arab identity as a unifying tool.⁴² He told Saudi leaders he wanted Iraq to have more balanced regional relationships, including with the Gulf states, as well as with Turkey and Iran. Sadr offered the Saudis a set of concrete policy options, reportedly including: making sizeable economic investments, "showing up" at Baghdad events, engaging Iraqi tribal leaders and acknowledging Shiism as a valid doctrine among other schools of Islam. Sadr also asked Riyadh to open a consulate in Najaf to facilitate both pilgrimage to Najaf by Shiites from Saudi Arabia and travel to Mecca and Medina for the *hajj* and *umra* by Iraqi Shiites.⁴³ The kingdom sent Iraq's Foreign Affairs Ministry a formal request to open a consulate just days after the visit.⁴⁴ Riyadh is likely to welcome the cleric's electoral success as a sign that Iraqis find appeal and salience in his non-sectarian rallying call.

If Sadr is at the centre of Saudi religious engagement, other prominent religious families also are in Riyadh's sights. Saudi Arabia has invited Ammar al-Hakim, leader of the National Wisdom Movement, to visit.⁴⁵ Hakim, an Arab nationalist, a former leader of the Islamic Supreme Council of Iraq (from which he split) and a loose political ally of Abadi and Sadr, hails (like Sadr) from a prominent clerical family in Najaf.⁴⁶ His second cousin, Grand Ayatollah Mohammad Saeed al-Hakim, is the second most senior cleric in Najaf after Sistani. Like the Sadrist, the National Wisdom Movement sees Saudi engagement as a way to rebalance Iraq's regional relationships.⁴⁷ Saudi Arabia also appears to be experimenting with allowing some of its Sunni clerical establishment to speak informally with Shiite scholars in Najaf.⁴⁸

Outreach to Najaf aligns with a Saudi domestic priority to rein in the more intolerant – and overtly sectarian – elements within the kingdom's own Sunni clergy. As it embarks on a massive economic and social reform initiative, the leadership in

⁴⁰ Crisis Group interviews, Saudi diplomat, Riyadh, February 2018; Iraqi MP, Baghdad, March 2018; Saudi academic close to the government, Riyadh, February 2018. See also Erika Solomon, "Sunni Saudi Arabia courts an ally in Iraq's Shia", *Financial Times*, 2 April 2018. A former Saudi official said, "we would prefer an Arab base for the *marjaiya*, rather than Iran". Crisis Group interview, May 2018.

⁴¹ Fanar Haddad, "Why a controversial Iraqi Shiite cleric visited Saudi Arabia", *Washington Post*, 10 August 2017.

⁴² Crisis Group interview, Gulf official, February 2018.

⁴³ Crisis Group interviews, Sadrist MP, Baghdad, March and April 2018.

⁴⁴ "Saudi Arabia to open consulate in Najaf", *Baghdad Post*, 14 August 2017.

⁴⁵ Crisis Group interview, adviser to the National Wisdom Movement, Baghdad, March 2018.

⁴⁶ Crisis Group Middle East Report N°70, *Shiite Politics in Iraq: The Role of the Supreme Council*, 15 November 2007.

⁴⁷ Crisis Group interviews, adviser to the National Wisdom Movement, Baghdad, March and April 2018.

⁴⁸ Crisis Group interview, Shiite cleric, Najaf, March 2018.

Riyadh has publicly described the most austere reading of Islam among those clergy as an obstacle to its ability to govern a modern state.⁴⁹ To that end, King Salman and MbS have made several symbolic gestures of greater tolerance for religious diversity, including meetings with Egypt's Coptic pope, top Vatican officials, Jewish rabbis in New York and Saudi Arabia's Shiite cleric Hassan al-Saffar.⁵⁰ This outreach, while suggestive of greater openness, is so far superficial and will need to extend into policy if it is to end or lessen discrimination against Saudi Arabia's own Shiite population.

Saudi Arabia, the UAE and Bahrain also have a security interest in a moderate Najaf, which most Shiites in the Gulf look to as a reference point. Sistani has on multiple occasions decried the treatment of Shiite populations in the Gulf, particularly in Bahrain, which expelled the cleric's envoy in 2014.⁵¹ But in contrast to some Tehran-allied Shiite clerics, Sistani has insisted on non-violence, even amid the 2011 Arab uprisings. For this reason, the Bahraini leadership, which violently quashed its 2011 protests with Saudi support, views Sistani as a critical counterweight to Iran, which cheered on the demonstrations.⁵²

C. *The Economics of Change*

Saudi Arabia's most powerful tool for re-engagement with Iraq is its ability to deploy funds, companies and resources. How it uses this tool could make or break the relationship. An Iraqi investor said, "Saudi Arabia is finally playing things the right way. They realised that the way to tackle Iran's influence is through trade".⁵³

Economic engagement is the one area where Saudi Arabia believes it could have an advantage over Iran. Its consumer products are of higher quality, its firms have stronger infrastructure and investment expertise, and its wallet is thicker. Saudi Arabia's economic approach to Iraq thus far leverages those strengths.⁵⁴

⁴⁹ MbS said: "I believe in the last three years, Saudi Arabia did more than in the last 30 years. And that's because it's aligned with our interest as Saudis to be competitive in livability and cultural and social. And Islam it's open. It's not like what the extremists are trying to represent Islam after '79". Interviewed in *Time*, 5 April 2018. See also Margherita Stancati, "Mohammed bin Salman's next Saudi challenge: Curtailing ultraconservative Islam", *Wall Street Journal*, 10 January 2018.

⁵⁰ "Why the Saudi crown prince's first official meeting with Jewish leaders is such a big deal", *Haaretz*, 29 March 2018; "Saudi king meets with top Vatican cardinal for inter-religious dialogue", *Al-Arabiya*, 18 April 2018; Saudi journalist Ahmed al-Omran on Twitter, 14 April 2018, <https://bit.ly/2rT1QXw>. Also notable were visits by Muslim World League Secretary General Mohammed al-Issa to the Vatican and synagogues in Europe in 2017. While the kingdom has engaged in inter-religious dialogue before, including through the King Abdullah bin Abdulaziz International Centre for Interreligious and Intercultural Dialogue, past Saudi leaders have largely avoided participating directly, leaving that task to the clerics.

⁵¹ "UN rights monitor criticises Bahrain over Shiite expulsion", Agence France Presse, 24 April 2014.

⁵² Crisis Group email correspondence, Bahraini government spokesperson, March 2018.

⁵³ Crisis Group interview, Iraqi investor, phone, February 2018. Many critics of Saudi Arabia in Iraq still encourage Saudi economic investment, according to a former security official: "If their outreach is economic, we welcome it – as long as they don't politicise it". Crisis Group interview, Baghdad, March 2018.

⁵⁴ Crisis Group interviews, senior Saudi official, Riyadh, March 2018; Iraqi investor, phone, February 2018. In October 2017, following Abadi's visit to Riyadh, the two countries launched a joint coordinating committee to facilitate negotiations on economic, political and other issues.

Consumer goods are a particular preoccupation for Riyadh. The vast majority of agricultural and other staples in Iraq come from Turkey and Iran, providing both countries with quotidian visibility as well as foreign revenue.⁵⁵ Saudi Arabia would like to replace these products with its own; in August 2017, it opened its Arar border crossing with Iraq to facilitate trade, and it is reportedly considering opening another transit point.⁵⁶ Riyadh is also seeking lower Iraqi tariffs for Saudi Arabian goods.⁵⁷

The kingdom additionally appears interested in cross-border road development, petrochemicals, agriculture and infrastructure.⁵⁸ For now, however, few concrete projects or investment details have emerged.⁵⁹ Both public and private investors are leery of Iraq's prevalent corruption and red tape. Private companies are concerned that they will not be paid on time, their assets may be seized or reallocated at politicians' whims, and their operations may suffer from enduring insecurity.⁶⁰ In addition to these concerns, a lack of skilled labour and a lengthy contract review process are deterring investors in the oil sector.⁶¹

Strategies to mitigate these concerns include negotiating with the prime minister's office directly rather than seeking approvals via the ministries, with their lengthy and

⁵⁵ Data on Iraq's trade partners is inconsistent across sources. Turkey is Iraq's largest source of imports, with \$11.9 billion in goods entering the country in 2014, according to the 2016 yearbook of the International Monetary Fund's Direction of Trade Statistics (online). Saudi Arabia's imports are absent from this data, but UN and other trade registers track imports in 2014 and 2015 at below \$0.5 billion; the World Bank, World Integrated Trade Solutions database (online), and UN Statistical Division, Commodity Trade database (online). Iranian imports into Iraq are largely missing from international trade databases, but the Tehran Chamber of Commerce reports exports of \$6.42 billion between March 2017 and March 2018. See <https://bit.ly/2KAJked>.

⁵⁶ Crisis Group interviews, senior Saudi official, Riyadh, March 2018; Iraqi investor, phone, February 2018. Saudi Arabian businesses were encouraged by their reception at the October 2017 Baghdad International Fair that they would be able to reach Iraqi consumers. By both Saudi and Iraqi accounts, the Saudi booth saw significantly more visitors than the Iranian display. Crisis Group interviews, Saudi academic close to government, Riyadh, February 2018; officials at al-Nahrain Center for Strategic Studies, Baghdad, March 2018.

⁵⁷ Crisis Group interview, Western diplomat, Baghdad, March 2018. See also "Iraq and Saudi Arabia discuss ways to develop economic and trade relations between the two countries", Iraq's Economic Center, 11 February 2018.

⁵⁸ The Saudi Basic Industries Corporation, SABIC, announced in December 2017 that it will reopen its Iraq office in order to facilitate investment in the petrochemicals sector. See "Saudi's SABIC to open office in Iraq as relations improve", Reuters, 5 December 2017.

⁵⁹ Iraq and Saudi Arabia have signed at least eighteen energy-related memoranda of understanding, but the details have not been disclosed. "Saudi energy minister witnesses signing 18 MoUs in Iraq", Saudi Press Agency, 5 December 2017.

⁶⁰ Dubai-based property developer Emaar has expressed interest in a \$10 billion real estate development project in Baghdad known as al-Rashid City, but the deal is on hold amid security concerns. Crisis Group interviews, Gulf official, April 2018; Western oil sector consultant, phone, February 2018. See also "Iraq set to sign deal with Emaar, Eagle Hills for huge Baghdad scheme", *Zawya*, 7 March 2018.

⁶¹ A Western oil sector official said, "Iraq's pitch to the oil sector is, 'high risk, high reward'. But for us, it's been high risk and marginal reward. Around the world, Iraqi oil terms are in the bottom quartile of all contracts". Crisis Group interview, phone, February 2018. See also Robin Mills and Mohammed Walji, "Muddy Waters: Iraq's Water Injection Needs", Iraq Energy Institute, 19 January 2018.

opaque bureaucratic procedures.⁶² Riyadh has a preference for personal over institutional relationships, but to bypass the ministries would run the risk of exacerbating and even instigating corruption among office holders. Pledges at the Kuwait conference offered another route: credit and export guarantees meant to provide the Gulf private sector with insurance for riskier investments. Another model relies on Gulf countries' sovereign development funds and charities to allocate funding to projects, paying contractors or even carrying out projects directly. An Emirati official explained:

I see this as a new approach to foreign aid, to link it to institutions such as the Abu Dhabi Fund that have their very specific criteria. What it does is to fix the cash problem of corruption. With the Abu Dhabi Fund, the [Iraqi] government provides us with projects, [the Fund] does a technical assessment, and instead of just giving cash, which could disappear, we build relationships with local institutions.⁶³

No matter their risk-hedging mechanisms, Saudi Arabia and Gulf allies may still struggle to compete with Iran's economic heft in Iraq, because of Tehran's head start since 2003 and its willingness to deploy resources swiftly and ask questions later. The electricity sector is an example. Emirati and Saudi companies have both expressed interest in working to improve Iraq's power systems, and Kuwait is set to start exporting power to Iraq.⁶⁴ But today, when the grid in southern Iraq reaches capacity, Iran has readily filled the gap to meet demand.⁶⁵ An Iraqi academic explained the Iranian mentality: "They say: 'whatever you need, we will give you. We won't ask a penny. But eventually we will get the money back from you'. They believe Iraq can pay for itself, and that Iran can have the best influence by being the first in the door".⁶⁶

While the Gulf states may be able to disburse funds as fast, their success in displacing Iranian products may well depend on what financial terms they set in comparison. If Saudi Arabia is intent on entering the Iraqi market quickly, it will almost certainly fuel corruption. But if Riyadh is indeed concerned about graft, it may be unable to compete for contracts and bids when other parties offer kickbacks to Iraqi partners. Without clear terms, Saudi Arabia risks contributing to a cycle of economic predation that has weakened Iraq's political system.

D. *Social Outreach*

Saudi Arabia faces a complex challenge to rewrite the narrative of its past engagement with Iraq. The kingdom's history of promoting a particularly arid and intolerant form of Salafi Islam, whose proponents at times cast Shiites as non-Muslims, has planted it firmly in the minds of many Iraqis as synonymous with ISIS.⁶⁷ Even if the state does not endorse radical clerics or the expression of their ideas, the longstanding refusal by the kingdom's clerical establishment to acknowledge Shiite religious practice blurs the distinction for many Iraqis and creates a receptive ideological

⁶² Crisis Group interview, Iraqi academic close to government, Baghdad, March 2018.

⁶³ Crisis Group interview, UAE official, Abu Dhabi, March 2018.

⁶⁴ Crisis Group interview, senior UAE official, Abu Dhabi, March 2018.

⁶⁵ "Iraq to start electricity imports from Kuwait: Ministry", *Iraqi News*, 21 February 2018.

⁶⁶ Crisis Group interview, Iraqi academic close to government, Baghdad, March 2018.

⁶⁷ Crisis Group discussion, al-Nahrain Center for Strategic Studies, Baghdad, March 2018. See also, "How Muslim sectarianism affects politics and vice-versa", *The Economist*, 11 September 2016.

environment in which extremists can operate. Saudi Arabia's reticence about supporting the post-Saddam order in Iraq, its discriminatory treatment of its own Shiite population and, indirectly, Bahrain's, and the ongoing war in Yemen against the Huthi movement, which subscribes to an offshoot of Shiism, have all left deep wounds.⁶⁸

The kingdom is attempting to repair its image through media engagement, tribal and personal outreach, and direct patronage of Iraqi tribes, communities and individuals.⁶⁹ Semi-governmental organisations in Saudi Arabia and Iraq are also exploring joint cultural festivals, parliamentary exchanges and educational links.⁷⁰ All of these moves could help dull sceptics' anger, but they will ultimately do little unless Riyadh fundamentally changes its relationship with Shiite communities across the region, beginning at home.⁷¹

So far, Saudi Arabia's greatest success in improving its social standing in Iraq has come through football. In March 2018, the Saudi Arabian national team travelled to Basra for a friendly game with an Iraqi team, the Lions of Mesopotamia. Thousands of spectators waved both countries' flags in a euphoric atmosphere further amplified on social media.⁷² Days later, King Salman called Abadi and promised to build a new soccer stadium in a yet-to-be-determined location in Iraq. By late March, the Saudi sports minister had helped convince the Fédération internationale de football association (FIFA) to lift its ban on Iraq hosting international matches.⁷³

The UAE, similarly, announced in April that it would fund the \$50.4 million reconstruction of Mosul's Grand al-Nouri mosque.⁷⁴ More than 800 years old, this place of worship was a defining landmark before ISIS blew up its minaret during its rule. Such gestures could help soften Iraqi antipathy for the kingdom and its Gulf allies, though their impact will depend on timely follow-through, and more importantly on the broader political and economic context in which they take place.

⁶⁸ Crisis Group interviews, officials at al-Nahrain Center for Strategic Studies, Baghdad, March 2018; senior Shiite cleric, Najaf, March 2018; former Iraqi diplomat, phone, February 2018. In early 2018, a number of buses in Baghdad carried posters criticising MbS for having inflicted civilian casualties in Syria, Bahrain and Yemen. One poster called him a "criminal" (*mujrim*).

⁶⁹ In February 2018, the first Saudi media delegation to visit Iraq in 28 years met senior officials, including Abadi, Araj and parliamentary speaker, Salim Jabouri. "Media Saudi editors pay landmark visit to Baghdad", Kuwait News Agency, 23 February 2018. A senior Saudi official relayed the following anecdote: during a recent visit to Shiite tribesmen, he discovered that an Iraqi MP had a medical condition that needed treatment, at a cost of \$25,000. The official asked and secured the crown prince's permission to pay for the MP's care in India. Crisis Group interview, Riyadh, January 2018.

⁷⁰ Crisis Group interview, Saudi academic close to government, Riyadh, February 2018. See also "Saudi Arabia's use of soft power in Iraq is making Iran nervous", *The Economist*, 8 March 2018.

⁷¹ A former Iraqi diplomat said, "Iraqi Shiites are worried about fellow Shiites in Bahrain, and they view this as clear Saudi domination. Saudi Arabia's conduct in Yemen will be a persistent concern for us from a humanitarian perspective and also a sign to us that there is not enough maturity in Saudi Arabia to understand that [their approach] is futile and counterproductive". Crisis Group interview, phone, February 2018.

⁷² See, for example, the tweet by "Soccer Iraq", 2 March 2018, <https://bit.ly/2LbiM4n>.

⁷³ "FIFA lifts three-decade ban on Iraq hosting international games", *The National*, 18 March 2018; and "President of Iraq football association thanks Turki al-Sheikh for his efforts in lifting ban on Iraqi stadiums", Saudi Press Agency, 17 March 2018.

⁷⁴ Dubai Media Office, Twitter, 24 April 2018, <https://bit.ly/2IR6Ru5>.

III. The View from Baghdad

Saudi Arabia's nearly universal welcome in Baghdad comes with a widely shared caveat: do not engage with Iraq in order to counter Iran.⁷⁵ This reservation illuminates a fundamental mismatch between Iraqi and Saudi motivations for reopening relations. Many Saudis are happy to rebuild ties with Arab cousins – sometimes literally cousins – in Iraq.⁷⁶ But as a Gulf official put it, “Saudi Arabia today views Iraq as a zero-sum game. They believe Iran is winning”.⁷⁷

Few in Iraq want to see their country devolve into another Saudi-Iranian battleground. Instead, policymakers now speak of an alternative, if highly aspirational, paradigm. Rather than a flashpoint for conflict, Baghdad could provide a theatre for de-escalation, “to pacify tensions [between] the Saudis and Iran that are putting fire to the region”.⁷⁸ In principle, Saudi Arabia and Iran could build on shared interests, such as Iraq's economic recovery, elimination of ISIS, the country's territorial integrity and even combatting drug smuggling.⁷⁹

Such a scenario would require at a minimum a stronger Iraqi state, able to resist regional attempts to use the country's soil to settle geopolitical scores.⁸⁰ For now, Iraqi policymakers are prioritising Saudi Arabia's economic engagement as the least provocative way to reopen ties. Through public and private investment, they say, Saudi Arabia could develop infrastructure, revitalise the housing sector, inject new capital into the oil industry and, ultimately, create jobs. A Sunni parliamentarian put it this way: “Wherever they go, they will find things to do”.⁸¹

While many priorities are shared across constituencies, Saudi Arabia will have to be cognisant of divergent Iraqi interest groups, as well as Iran's priorities and red lines. The various perspectives can be roughly divided into five: the federal government,

⁷⁵ Crisis Group interviews, officials at al-Nahrain Center for Strategic Studies, Baghdad, March 2018; senior Iraqi security official, Baghdad, March 2018; Iraqi foreign ministry official, Baghdad, March 2018; former Iraqi security official, Baghdad, March 2018; adviser to National Wisdom Movement, Baghdad, March 2018; Iraqi Sunni MP, Baghdad, March 2018; senior Shiite cleric, Najaf, March 2018; European Union official, Brussels, March 2018.

⁷⁶ The Shammar are the largest tribe with ties to both Iraq and Saudi Arabia. Members live on both sides of the border between the two countries, as well as in Syria and Jordan; they comprise both Shiite and Sunni Muslims. Saudi Arabia's first two ambassadors to Iraq after 2016 have been members of the Shammar tribe, and both have engaged heavily with Iraq's Shammar community.

⁷⁷ Crisis Group interview, April 2018. A former Iraqi security official shared this anecdote to illustrate what he saw as Riyadh's zero-sum mentality: after the 2003 invasion, then Saudi Crown Prince Sultan bin Abdulaziz asked him: “We want to know: who is the winner in Iraq?” Baghdad, March 2018.

⁷⁸ Crisis Group interviews, senior Iraqi security official, Baghdad, March 2018; Iraqi academic close to government, Baghdad, March 2018. Proponents of this approach cite the example of Iranian and U.S. coexistence in Iraq, which developed after those two countries had battled for years.

⁷⁹ Crisis Group interview, senior Iraqi security official, Baghdad, March 2018. Some in Iran also believe that “Iraq can be a place to de-escalate tensions in the framework of Iranian-Saudi cooperation on reconstruction of Iraq in the post-ISIS era”. Crisis Group interview, senior official at government-backed, non-profit Iraq reconstruction organisation, Tehran, March 2018.

⁸⁰ Crisis Group interviews, former Iraqi security official, Baghdad, March 2018; Iraqi foreign ministry official, Baghdad, March 2018.

⁸¹ Crisis Group interview, Sunni MP, Baghdad, March 2018.

Shiite Iraqi nationalists, the Najaf religious establishment, the Sunni political class and Iran.

A. *The Government*

Iraqi institutions have oscillated between ambition and pragmatism in their engagement with Saudi Arabia since late 2016. The new bilateral ties have been applauded amid triumphant optics: promises of reconstruction aid and cultural good-will. The Iraqi government needs Riyadh to deliver quick economic benefits to justify reopening ties and to acquire breathing room for dealing with thornier issues. Specifically, if ties are to last, current and former Iraqi officials say they need to be institutionalised rather than depend entirely on high-level personal contacts.⁸² This process will be time-consuming and likely fraught with disagreement. “We can’t agree to have big goals” for the relationship initially, said a senior Iraqi official.⁸³

In the short to medium term, Iraq’s government needs Gulf states to help finance reconstruction. The U.S., UK and European Union (EU) are unlikely to contribute sufficiently to rebuild destroyed cities, focusing instead on humanitarian priorities.⁸⁴ Riyadh, Abu Dhabi, Kuwait City and Doha are among the only bilateral donors that can credibly provide the resources needed to resuscitate former ISIS areas. Failing to do so risks undermining Abadi and his allies, who have bet their political reputations on delivering reconstruction – or worse, seeing a return of the social and political resentment that facilitated ISIS’s rise in these areas.

Inevitably, Saudi Arabia and Iraq will disagree on major technical issues concerning reconstruction and on broader aspects of their relationship. Immediately after the Kuwait conference, Gulf officials described a host of obstacles to seeing their pledges materialise.⁸⁵ They would like to see stronger guarantees, for example to ensure repayment in case investments default, as well as visible attempts to curb corruption.⁸⁶ A Gulf diplomat said, “the Iraqis have unrealistic expectations; these [pledges] are gestures, not commitments. They don’t seem to understand this; they thought checks would be arriving in the mail”.⁸⁷

The May 2018 election results may encourage Gulf investors, however. Sadr’s On the Move electoral bloc, which included the Communists, was the most persistent critic of government corruption in the lead-up to the vote; its victory is telling of the

⁸² Crisis Group interviews, former Iraqi diplomat, February 2018; senior Iraqi security official, Baghdad, March 2018.

⁸³ Crisis Group interview, senior Iraqi security official, Baghdad, March 2018.

⁸⁴ Crisis Group interviews, EU humanitarian official, February 2018; Western diplomat, Baghdad, March 2018. See also Susannah George and Lori Hinnant, “Few ready to pay to rebuild Iraq after Islamic State group defeat”, Associated Press, 28 December 2017.

⁸⁵ Crisis Group interview, Gulf diplomat, Riyadh, February 2018.

⁸⁶ Crisis Group interview, senior UAE official, Abu Dhabi, March 2018. For more on anti-corruption challenges, see Douglas Ollivant, “The other battle in Iraq”, *Lawfare*, 11 February 2018.

⁸⁷ Crisis Group interview, Gulf diplomat, Riyadh, February 2018. Another example of technocratic debate comes from a Gulf Cooperation Council (GCC) proposal for a “plan of action” on cooperation with Iraq. Proposed in late 2017, the plan was still under consideration in Baghdad as of April 2018. The plan would include mechanisms to convene ministerial-level Iraq-GCC meetings to address disagreements before they escalate or erupt in the media.

frustration many Iraqis feel with state decay. Prior to the election, Sadrists said their aim was to build an anti-corruption majority bloc in parliament to begin pushing through structural change.⁸⁸

Still, Iraqi officials urge an adjustment of investors' expectations. Iraq cannot wait to rebuild until it has eradicated graft from its contracting system. In order to get projects off the ground, Baghdad will need creative solutions of the sort Riyadh and its allies are already considering.⁸⁹ Put simply, to succeed, the bilateral ties will need to both move big and visibly on the economy while working small and tediously day-to-day.

The federal government's priorities are unlikely to change significantly under the next prime minister, particularly if the successful coalition excludes Maliki's State of Law and the PMUs' Fatah list.⁹⁰ But with either or both of those blocs in opposition, the Saudi-Iraqi relationship could become a bargaining chip in parliamentary politics. Members of Fatah and State of Law are politically close to Tehran, and while still nominally supportive of Saudi investment, their members have been significantly cooler to the prospect of closer ties with Riyadh.⁹¹ Analysts close to Maliki expect that his list can resist Saudi engagement in alliance with Fatah.⁹²

B. *Shiite Politicians Seeking Regional Balance*

Shiite leaders who favour re-engagement and call themselves nationalists view part of their role as demonstrating to Riyadh that their constituents favour their Arab, national and even tribal identities over their sectarian affiliation. A Sadr MP said: "To their amazement, the [Saudis] found that Iraqi Shiites are Arabs, that they do not follow *velayat-e faqih* and that they want to build a modern civic state".⁹³ With this understanding, some urge Saudi Arabia to embrace not only Iraqi Shiites but also Shiism generally as a legitimate school of Islam.⁹⁴ Even the most elementary steps toward recognition could improve Saudi Arabia's relations with Shiites across Iraq and the region.

Pro-engagement Shiite politicians would also like to see a more nuanced policy toward the PMUs, which Riyadh, Abu Dhabi and Bahrain see as an Iranian front and

⁸⁸ Crisis Group interview, Sadr MP, Baghdad, March 2018. Ahead of the May elections, Sadr wrote: "Your Iraq remains a prisoner of corruption after it has been liberated from occupation and terrorism. So free it by your votes". Muqtada Sadr's Twitter account, 9 May 2018, <https://bit.ly/2rT56SK>.

⁸⁹ Crisis Group interviews, Iraqi official, Baghdad, March 2018; Iraqi academic close to the government, Baghdad, March 2018.

⁹⁰ In an initial statement on Twitter after the election results, Sadr expressed interest in working with electoral blocs, including Hakim's Wisdom Movement and Iyad Allawi's Wataniya, though not the State of Law or Fatah lists. Muqtada Sadr's Twitter account, 14 May 2018, <https://bit.ly/2Iwv6dI>.

⁹¹ Crisis Group interview, parliamentary candidate on Maliki's list, Baghdad, March 2018.

⁹² The means of resistance could include the PMUs holding a tighter grip on Sunni Arab areas in which they are deployed or singling out Shiite politicians who have engaged with Saudi Arabia, either in the media or with personal security threats. Crisis Group interview, Iraqi journalist close to Maliki, phone and email correspondence, March 2018.

⁹³ Crisis Group interview, Sadr MP, Baghdad, March 2018.

⁹⁴ Crisis Group interviews, Sadr MP, Baghdad, March 2018; Iraqi academic close to the government, Baghdad, March 2018; adviser to the National Wisdom Movement, Baghdad, March 2018.

a threat to their own security.⁹⁵ A UAE official said: “As of now, the whole Hashd al-Shaabi is a red line for us. ... They are one group”.⁹⁶ Many Iraqis are offended by criticism of these forces, which took some of the heaviest casualties fighting ISIS and not all of which are close to Iran. An Iraqi security analyst said: “When the Hashd started facing ISIS in battle, the Saudi media started name-calling against them. But the Hashd were our last resort. We would consider any entity that talks about them negatively an enemy. The Saudis need to understand this”.⁹⁷ Although the PMUs have been linked to abuses and other misconduct, including sectarian discrimination, they were also invaluable in defeating ISIS and holding territory ever since. Shiite communities have suffered thousands of losses, such that nearly every street corner of Najaf features photos of neighbourhood martyrs. A senior Shiite cleric described the situation this way:

Without the Hashd, ISIS would have invaded [all of Iraq]. I would encourage the Saudi government to hold a ceremony for the Iraqi people – Kurds, Sunnis, Shiites, all – because they defeated ISIS on behalf of the whole world. I am not saying all the Hashd are good. There are more than 150,000 of them. Some we cannot control; some have made bad mistakes. Is it fair to look at just the 5 per cent who did bad things rather than the 95 per cent who did good?⁹⁸

Shiite nationalists urge Riyadh and its Gulf allies to show patience in their wish to see these groups demobilised. Iraq’s next government may assume the difficult task of integrating the PMUs into formal security institutions while managing the risks and autonomy that pro-Iran brigades wield on the ground.⁹⁹ Some warn that certain unwelcome practical concessions may be inevitable, for example offering service or security contracts to the PMUs as part of large infrastructure development projects to both create jobs for fighters and prevent them from targeting these very endeavours.¹⁰⁰ The Iraqi government will almost certainly have to devote a larger portion of its budget to paying PMUs and former PMU fighters’ salaries than it would like. But re-

⁹⁵ PMUs have reportedly been active near the border crossing at Arar, which may be an attempt to levy fees on increased economic activity. For example, these groups have facilitated pilgrims’ movement through Arar for the *hajj*. See “خفض ويؤكد عرعر تأمين في الأمنية القوات اسند الحشد: العطية”, *Alghad Press*, 11 August 2017. Bahrain also has domestic concerns. A Bahraini government spokesperson wrote: “Numerous suspects received training in Iraq from terrorist organisations in an aim to commit terrorist acts in Bahrain. Many of them are still in Iraq. We are in constant contact with the Iraqi government, and we have found them to be very supportive and understanding of our concerns in this regard”. Crisis Group correspondence, March 2018. Conflict Armament Research reported in March 2018 that it had found forensic links between Iranian components of explosively formed projectiles and improvised explosive devices used in Yemen, Bahrain and Iraq. “Radio-controlled, passive infrared-initiated IEDs: Iran’s latest technological contributions to the war in Yemen”, Conflict Armament Research, 26 March 2018.

⁹⁶ Crisis Group interview, UAE official, Abu Dhabi, March 2018.

⁹⁷ Crisis Group interview, Baghdad, March 2018.

⁹⁸ Crisis Group interview, senior Shiite cleric, Najaf, March 2018.

⁹⁹ A prime ministerial decree issued 8 March 2018 granted PMU fighters pay and benefits from the defence ministry. “تكييف ضوابط يصدر العبادي حيدر الدكتور المسلحة للقوات العام القائد الوزراء مجلس رئيس”. “الشعبي الحشد مقاتلي اوضاع”, Iraqi prime minister’s office, 8 March 2018.

¹⁰⁰ Crisis Group interviews, Iraqi official, Baghdad, March 2018; oil industry analyst, phone, February 2018.

leasing trained, armed men into civilian life without an economic outlet has failed more than once before in Iraq.¹⁰¹ As unsavoury as these options appear in Gulf capitals, policymakers there should resist the urge to make maximalist demands or give up on Iraq altogether.

C. *Najaf*

Najaf has a particularly delicate role in the Saudi-Iraqi relationship. Riyadh sees the Shiite clerical leadership (*marjaiya*) there as a counterweight to Iranian influence. As a religious leader, Sistani has been a critic of *velayat-e faqih*. He also has favoured an independent Iraq that can stand on its own, unbound by Iranian or other foreign power.

Many members of the Najaf religious establishment would embrace renewed ties with Saudi Arabia, including as a way to de-escalate regional sectarian tensions.¹⁰² Ayatollah Sistani himself reportedly maintains a back channel for communication with Riyadh.¹⁰³ But the *marjaiya* would equally resist any Saudi attempt to politicise Najaf or place it in competition with Iran. A senior cleric said: “Our message to Saudi Arabia is: ‘We won’t be wooed into this fight We say the same thing to Iran’”.¹⁰⁴ Positive responses by Shiite clerics to a proposed Saudi consulate in Najaf are telling of the religious leadership’s insistence on remaining above politics and geopolitical feuds. The planned consulate would primarily serve Shiites, and it has been welcomed by many in Najaf. According to a source close to the clerical elite, “after [Saudi Arabia] indicated they wanted to open a consulate, the Iranian ambassador sent word to one of the grand ayatollahs that this is unacceptable. The cleric turned around and said, ‘Isn’t there a Saudi consulate in Mashhad [Iran]?’”¹⁰⁵

Shiite leaders close to the *marja* (religious reference) share their political colleagues’ support for Saudi steps toward acknowledging and better understanding Shiite religious practice. One cleric suggested that Saudi Arabia’s Sunni clergy expand its written scholarship on Shiite jurisprudence.¹⁰⁶ Najaf would particularly applaud any Saudi efforts to limit anti-Shiite rhetoric among Sunni clerics with television or social media platforms.¹⁰⁷ Intolerant speech on Saudi television networks leaves a poisonous aftertaste, giving the impression that the kingdom subscribes to a sectarian interpretation of Iraqi society that Iraqis themselves resist. Shiite clerics suggest

¹⁰¹ Crisis Group interview, UAE official, Abu Dhabi, March 2018. Previously, disbanded armed groups have contributed to a cycle of resentment and instability. The list includes the entire Iraqi army, which the U.S. dismantled in 2003 without extending pension benefits; and the tribal Awakening Councils (or Sons of Iraq) established to fight al-Qaeda in Iraq in 2007-2008, which the U.S. had promised salaries, which the Maliki government then mostly failed to pay.

¹⁰² A senior official at the Iraq reconstruction organisation in Tehran said, “some Shiite leaders like Ayatollah Sistani welcome de-escalating measures, as they believe this would be beneficial for decreasing sectarianism and the Shiite-Sunni dispute”. Crisis Group interview, Tehran, March 2018.

¹⁰³ Erika Solomon, “Sunni Saudi Arabia courts an ally in Iraq’s Shia”, *Financial Times*, 2 April 2018.

¹⁰⁴ Crisis Group interview, senior Shiite cleric, Najaf, March 2018.

¹⁰⁵ Crisis Group interview, Iraqi academic close to Najaf, February 2018.

¹⁰⁶ Crisis Group interview, Shiite cleric, Najaf, March 2018. A senior cleric said, “we agree to building a good relationship slowly, step by step. We have a long bad history, so we need to move slowly”. Crisis Group interview, Najaf, March 2018.

¹⁰⁷ Crisis Group interview, Sadrist MP, Baghdad, March 2018.

that, as host to the two holy cities of Mecca and Medina, Saudi Arabia could also open up more pilgrimage slots for Iraqi Shiites.¹⁰⁸

It may be difficult for Riyadh to properly calibrate its engagement with Najaf – to walk the line between appropriate indications of support and excessive politicisation. Simple, non-confessional gestures may prove best in the short term. As in the rest of Iraq, Najaf sees Saudi economic engagement as vital to rebuilding trust.¹⁰⁹ The senior cleric said: “We hope [the Saudis] will open many places here – academic institutions, education, business. ... Help the Iraqi people recover from the mistakes of others. Don’t repeat the mistakes of the past, and don’t make us choose sides”.¹¹⁰

D. *Sunni Arab Leaders*

Some Sunni Arab leaders feel they are being overlooked in the renewed outreach from Riyadh. Sunni Arabs expect Gulf states to support post-ISIS reconstruction of their cities, and many Shiite policymakers agree.¹¹¹ So far, however, the vast majority of investor interest has been in the Shiite-dominated south, the location of Iraq’s main oilfields, where the Iraqi National Investment Commission is seeking to direct the bulk of foreign investment in oil, gas and petrochemicals.¹¹² “Let the Gulf states forget about Sunni politicians, but let them not forget our areas”, a Sunni Arab parliamentarian said.¹¹³

In fact, some Gulf countries have quietly supported and financed Sunni Arab politicians in Iraq for many years – to debatable effect.¹¹⁴ From at least 2017 onward, several Gulf countries and Turkey were involved in hosting events aimed at uniting Sunni Arab political leaders ahead of Iraq’s 2018 elections.¹¹⁵ But each country’s support aligns with its respective interests and political preferences.¹¹⁶ Reflecting a broader geopolitical split in the Gulf, Saudi Arabia and the UAE tend to favour secu-

¹⁰⁸ By some accounts, the kingdom has already eased its limitations on Shiite rituals during the *hajj* in recent years. Crisis Group interview, Sadrist MP, Baghdad, March 2018.

¹⁰⁹ Crisis Group interview, senior Shiite cleric, Najaf, March 2018.

¹¹⁰ Crisis Group interview, senior Shiite cleric, Najaf, March 2018.

¹¹¹ Crisis Group interview, Sunni MP, Baghdad, March 2018. Many Iraqi Shiite politicians hold Saudi Arabia responsible for the rise of ISIS through its longstanding promotion of Salafi Sunni Islam. They argue Riyadh should take responsibility for its alleged role by rebuilding areas destroyed in the fight against ISIS. Crisis Group interview, Iraqi academic close to the government, Baghdad, March 2018.

¹¹² “Iraq Investment Map 2017”, National Investment Commission, 2017. The U.S. is also concerned about the lack of regional distribution in reconstruction pledges. A defence official said, “different parts of the U.S. government were excited about what came out [of the Kuwait reconstruction conference], but we also recognised that a lot of the investment and proposals were for areas that were not actually affected [by conflict]. There are a lot of proposals for Shia areas, very few for Sunni areas, almost none for Kurdish areas”. Crisis Group interview, phone, April 2018.

¹¹³ Crisis Group interview, Sunni MP, Baghdad, March 2018.

¹¹⁴ The same phenomenon took place before the 2010 parliamentary elections, when Qatar and Turkey funded a nominally non-sectarian list headed by Iyad Allawi.

¹¹⁵ See, for example, “جديد سني” عراقي تحالف تشكيل: “أونلاين الخليج” للمصدر, *Al-Khaleej*, 9 March 2017.

¹¹⁶ Crisis Group interviews, UN official, February 2018; Western diplomat, Baghdad, March 2018.

lar coalitions and co-tribesmen (such as the Shammar), while Qatar and Turkey have generally supported Sunni Islamists.¹¹⁷ A senior UAE official said:

A more secular Iraq is a better Iraq. We don't want a Shiite or Sunni Iraq. ... [Nationalists] is who we support. We will definitely not support, on the Shiite side, those who are pro-Iranian, and on the Sunni side, those who are pro-Islamist.¹¹⁸

External patrons have at times channelled funding through Iraqi exiles and businessmen with their own agendas or without a clear constituency on the ground.¹¹⁹ "They put all their money on political figures to give life to dead horses", an Iraqi official said. "This is not a good investment and it won't help Iraq".¹²⁰

Asking Gulf countries to stop their political patronage of nationalist leaders and Sunni Arabs more broadly is unrealistic and could even undermine their ability to compete politically, as Iran also funds preferred candidates across ethnic and confessional lines.¹²¹ There is also no law on the books prohibiting foreign campaign finance.¹²²

The targeting of patronage may be improved, however, to support Iraq-based politicians with proven track records of delivering services to their constituents. Saudi Arabia and fellow Gulf patrons could shift their financial focus toward improving local economic conditions, for example financing projects in the seven provinces the government has prioritised for reconstruction. In their engagement with Shiite politicians, Saudi Arabia could also push for some specific Sunni Arab demands, such as the withdrawal of PMUs from towns and neighbourhoods now that the military dimension of the fight against ISIS is more or less in the past.¹²³

A failure by Saudi Arabia to sufficiently engage in Sunni Arab areas could, in a plot twist, encourage these communities to turn to Iran for both economic aid and help in managing their relationship with the PMUs. A Qods force strategist said that Iran has begun improving relations with Sunni Arab groups and "can play a mediatory role [between Sunni and Shiite politicians], as it did in uniting some anti-Daesh [ISIS] Shiite and Sunni groups now equipped and mobilised in the framework of the Hashd al-Shaabi".¹²⁴

¹¹⁷ The UAE denies funding individuals, though some politicians enjoy visibility in UAE-aligned media outlets. Crisis Group interview, Gulf official, April 2018.

¹¹⁸ Crisis Group interview, senior UAE official, Abu Dhabi, March 2018. Both at home and abroad, the UAE is opposed to political Islamists, viewing their ideology as a gateway to extremist views.

¹¹⁹ Crisis Group interviews, senior Iraqi security official, Baghdad, March 2018; Western diplomat, Baghdad, March 2018.

¹²⁰ Crisis Group interview, senior Iraqi security official, Baghdad, March 2018.

¹²¹ Crisis Group interview, Iraqi official, Baghdad, March 2018.

¹²² Crisis Group correspondence, al-Nahrain Center for Strategic Studies official, April 2018.

¹²³ Crisis Group interview, Sunni MP, Baghdad, March 2018. Saudi leaders took some steps in this direction in conversations with Sadr. By one account of the cleric's visit to Riyadh in August 2017, "Saudi officials said they were worried about the future of Sunnis in Iraq and the permanence of the Hashd al-Shaabi. Sadr told them, 'Sunnis are our brothers and we will protect them if there is any danger their well-being will be threatened'". Crisis Group interview, Sadrist MP, Baghdad, March 2018.

¹²⁴ Crisis Group interview, Qods force strategist, Tehran, March 2018.

E. *Iran's Response*

Iran's reaction to Saudi engagement is the topic of intense speculation in Baghdad political circles. Some see common interests. Iran may need to devote less blood and treasure to supporting Iraq if Saudi Arabia contributes economically.¹²⁵ Others warn that Iran-allied politicians and militias are planning to embarrass, politically disrupt or even attack Saudi interests in Iraq.¹²⁶ What is clear is that Tehran is watching Riyadh's moves closely. An Iraqi academic close to Najaf noted, "by definition, if the Saudis are serious, we can't expect a win-win for all. The Iranians are going to be very anxious about what that means for their influence and presence".¹²⁷

At least some parts of the Iranian government appear interested in the opportunity for Iraq to serve as a theatre of de-escalation, if it aligns with trends toward conciliation between Tehran and Riyadh – and by extension Washington – elsewhere in the region.¹²⁸ Yet even among those in Tehran who hope for better relations expect the opposite, because they believe Riyadh "started this process only because they want to defeat Iran".¹²⁹

Iranian officials across government downplay the Saudi role as limited and nothing to fear, particularly in weakening Iran's influence.¹³⁰ Iran, they say, has better trade ties, deeper penetration of the security sector and more political clout across a far broader array of actors.¹³¹ To the extent that Tehran sees Riyadh engaging with Shi'ite politicians, Iranian policymakers see an affirmation of just how much power the Shi'ite political class has consolidated – with their help.¹³² A senior Iranian foreign ministry official said, "it is good for Iran that Saudi Arabia has decided to deal with the central government in Baghdad. Their opening a consulate in Najaf means they are recognising Najaf".¹³³

Based on the pattern so far, Riyadh can expect a continuation of low-level harassment from Iran-allied groups in Iraq in the coming months. This could manifest itself in the anti-Saudi campaign in Iranian and allied Iraqi media outlets and PMU posturing along the Saudi Arabian border. Perceived Saudi oversteps – reaching too deeply or directly into the security establishment, which Iran has effectively penetrated but does not control – could trigger a stronger reaction.¹³⁴ That pushback

¹²⁵ Crisis Group interview, academic close to the government, Baghdad, March 2018.

¹²⁶ Crisis Group correspondence, Iraqi journalist, March 2018. One taste of the possible disruption tactics came in late March 2018, when several hundred people protested in Baghdad against a rumoured visit by the Saudi crown prince to Iraq. The Saudi foreign ministry quickly issued a statement denying any plans for a visit. Emailed statement, Saudi Arabia Center for International Communication, 31 March 2018.

¹²⁷ Crisis Group interview, February 2018.

¹²⁸ Crisis Group interview, senior official at Iraq reconstruction organisation, Tehran, March 2018.

¹²⁹ Crisis Group interview, Middle East analyst, President Hassan Rouhani's office, Tehran, March 2018.

¹³⁰ Crisis Group interview, Qods force strategist, Tehran, March 2018.

¹³¹ Crisis Group interview, senior diplomat, Iranian Foreign Affairs Ministry, Tehran, March 2018. A U.S. defence official described the Iranian strategy as being "to spread the money as widely as they can". Crisis Group interview, phone, April 2018.

¹³² Crisis Group interview, Middle East analyst, President Rouhani's office, Tehran, March 2018.

¹³³ Crisis Group discussion, May 2018.

¹³⁴ Crisis Group interview, UN official, phone, February 2018.

could include protests or threats against Saudi companies or businessmen.¹³⁵ Tehran or pro-Iranian groups could also attempt to undermine some of the Shiite politicians who have engaged with Riyadh and been critical of Iran, as has already happened. After Sadr visited Riyadh and Abu Dhabi, several Iranian media outlets described the cleric as a pawn in a Saudi plan to split Iraq's Shiites.¹³⁶ Finally, an Iraqi official suggested that Iran may attempt to "buy back" certain politicians being courted by Riyadh.¹³⁷

Gulf countries will need to have thick skins to resist withdrawing or taking rash or counterproductive steps if they face media broadsides or political setbacks in the months ahead.¹³⁸ They will need patience, a tolerance for risk and criticism, and restraint – for example, understanding that PMU behaviour is at times linked to local political disputes, not only to Tehran's druthers.

External developments, however, may prove pivotal in determining whether a Saudi-Iranian balance is possible. The U.S. withdrawal from the Iran nuclear deal, announced on 8 May, could provoke Tehran to attack Gulf or U.S. interests in the region more directly.¹³⁹ Several Iranian officials attributed Riyadh's Iraq strategy to Washington, raising concerns that an escalation in Saudi-Iranian tensions could present a risk to U.S. forces on the ground.¹⁴⁰ The Iranian response will also depend on Saudi Arabia's actions elsewhere in the region. Saudi escalations of the war in Yemen, or in Bahrain, Syria or Lebanon, could reverberate in Iraq, where Iran has an ample supply of allies to call upon.

¹³⁵ Crisis Group correspondence, Iraqi journalist, March 2018.

¹³⁶ A senior official at the Iraq reconstruction organisation in Tehran said, "the Shiite groups that seek better relations with Saudi Arabia, like Moqtada al-Sadr, are not the main influential Shiite groups in Iraq". Crisis Group interview, Tehran, March 2018. See also, "صدر مقتدا سفر زوایای و اهداف", Mehr News Agency, 1 August 2017.

¹³⁷ Crisis Group interview, Iraqi official, Baghdad, March 2018.

¹³⁸ Crisis Group interview, UAE senior official, Abu Dhabi, March 2018.

¹³⁹ Crisis Group interview, Western diplomat, Abu Dhabi, April 2018.

¹⁴⁰ Crisis Group interviews, Qods force strategist, Tehran, March 2018; Middle East analyst, President Rouhani's office, Tehran, March 2018; U.S. defence official, phone, April 2018.

IV. A Saudi-Iraqi Reset

Restarting a relationship after a quarter-century's break will entail compromises on both sides. Saudi Arabia and its Gulf allies need to understand Iraq's fragility and the urgency of stabilising it politically and economically, not weakening it further by turning it into a ring for sparring with Iran. Iraq, for its part, should take seriously Gulf concerns about corruption and security and find ways to address the most pointed issues to enable reconstruction. The following three areas merit special attention:

Facilitating Rapid Progress on Reconstruction

Riyadh and its allies will need to play the long game in Iraq and therefore may have to tolerate low or negative returns on investment in the early years. Gulf governments or public finance institutions can help make investments more attractive to the private sector, as they have begun to do with credit and export guarantees.

Saudi Arabia could also consider sending liaisons from its chambers of commerce to work in its embassy and consulates in Iraq and facilitate contacts and paperwork.¹⁴¹ Gulf countries could offer assistance to Iraq's efforts to join the World Trade Organisation (WTO). Membership would reduce some of the uncertainty concerning regulations and dispute resolution that currently deters trading partners.¹⁴² More peripherally, Saudi Arabia, as well as the UAE and Qatar, could loosen visa access for Iraqis seeking work or medical care, as well as for students.¹⁴³

In supporting reconstruction, Riyadh should use its expanding political network to give a boost to state institutions. Many communities in need of post-ISIS reconstruction remain deeply distrustful of the government's will and ability to rebuild their areas.¹⁴⁴ Saudi Arabia could carry out projects in coordination with the Iraqi government, jointly branded with the kingdom's signage. Doing so could enhance the credibility of both Saudi allies and the government.

For its part, Iraq needs to better prioritise reconstruction projects that create jobs or restore services. Some of the potential projects advertised at the Kuwait conference – such as urban metro systems – struck investors as vanity projects.¹⁴⁵ Agricultural rehabilitation, job-creating construction, housing and vital service infrastructure are better fits – and would distribute investment across Iraq's regions.¹⁴⁶ Once projects and investors are identified, the Iraqi National Investment Commission should aim to accelerate paperwork, calling upon political leaders to lean on the bureaucracy if necessary. As is already the case, the Iraqi government should be willing

¹⁴¹ Crisis Group interview, consultant to oil sector, phone, February 2018.

¹⁴² Crisis Group interview, Gulf diplomat, Riyadh, February 2018. Iraq indicated its intent to restart accession talks with the WTO in November 2017.

¹⁴³ Crisis Group interviews, Iraqi investor, February 2018; senior Shiite cleric, Najaf, March 2018; Iraqi security researcher, Baghdad, March 2018. A Qods force strategist claimed that 100,000 Iraqis travel to Iran for medical treatment each year. Crisis Group interview, Tehran, March 2018.

¹⁴⁴ Crisis Group interviews, Sunni MP, Baghdad, March 2018; and Western security official, March 2018.

¹⁴⁵ Crisis Group interviews, Gulf diplomat, Riyadh, February 2018; former Iraqi security official, Baghdad, March 2018.

¹⁴⁶ "Major Strategic Large and Medium-Sized Projects Available for Investment According to Sector", Iraqi National Investment Commission, February 2018.

to find financing arrangements that avoid injecting cash into state coffers. As an Iraqi academic put it: “Iraqis don’t want cash anymore – the model we prefer is: ‘you implement it’”.¹⁴⁷

Improving Saudi Arabia’s Relationship with Shiite Communities

Riyadh can knock down the single greatest public opinion barrier to its engagement with Iraq by taking concrete measures to unravel its historical denial of the legitimacy of Shiite theology and rituals. The Saudi royal family has traditionally left Islamic jurisprudence in the hands of the state-sanctioned Council of Senior Religious Scholars. Without weighing in on theology, the Saudi government could prohibit defamatory language in weekly sermons and online materials, while reviewing curriculum and other state documents for offensive material.¹⁴⁸ The kingdom could legislate stronger policies against sectarian labour discrimination, criminalise disparagement of Shiites in the education system, and ensure that its own ministries and agencies deliver services equally to Shiite communities.¹⁴⁹ These are major steps, but they will be necessary if the kingdom is truly intent on bettering its relationship with Shiites across the region. Some in Iran are also optimistic about this potential. A senior foreign ministry official said, “the results of the reform inside Saudi Arabia will be good for Iran, because it will reduce sectarian conflict”.¹⁵⁰

A still stronger political move would be for Saudi Arabia and the Muslim World League, the kingdom’s global vehicle for propagating Islam, to signal alignment with the decisions of the pre-eminent Sunni scholarly centre, al-Azhar in Cairo, which recognises the Jaafari (Shiite) school of Islamic law taught in Najaf.¹⁵¹ The Saudi leadership could also speak publicly about tolerance for Shiite religious practice, as they have begun to do already.¹⁵² Changing entrenched Saudi Arabian biases against Shiites will take time, but signals from the leadership about what is and is not acceptable in the discourse will help.

Sadr’s visit to the Gulf offered additional ideas for the Iraqi context: Saudi Arabia could invest economically in Shiite communities and engage Shiite tribes who live on both sides of the Saudi-Iraqi border. As a sign of respect to Shiites in Saudi Arabia, the kingdom could rebuild the four tombs of the Shiite imams of al-Baqi’ in Medina; the

¹⁴⁷ Crisis Group interview, Iraqi academic close to the government, Baghdad, March 2018.

¹⁴⁸ The Council of Senior Religious Scholars and associated clerics have issued fatwas and rulings denouncing Shiite practices and customs; an anti-Shiite bias persists in school curriculums and popular conversations. “They Are Not our Brothers: Hate Speech by Saudi officials”, Human Rights Watch, 26 September 2017.

¹⁴⁹ “International Religious Freedom Report for 2016: Saudi Arabia”, U.S. Department of State, Bureau of Democracy, Human Rights and Labor, 2017.

¹⁵⁰ Crisis Group discussion, May 2018.

¹⁵¹ While there has been some dissent among al-Azhar scholars, the school maintains its 1959 fatwa recognising the legitimacy of Jaafari interpretations. See “Al-Azhar verdict on the Shia”, Al-Islam.org.

¹⁵² MbS said of Saudi Arabia’s Shiites: “All of us are Muslim, all of us speak Arabic, we all have the same culture and the same interest ... [W]e believe that we are a mix of Muslim schools and sects”. Quoted in Jeffrey Goldberg, “Saudi crown prince: Iran’s supreme leader ‘makes Hitler look good’”, *The Atlantic*, 2 April 2018. This positive sentiment could, however, prove counterproductive if anti-Shiite rhetoric is simply repackaged as anti-Persian discourse that directs the same prejudices toward a new target.

kingdom demolished these tombs, which Shiite practitioners consider holy, in 1926.¹⁵³ Numerous Iraqi interlocutors suggested that Saudi Arabia should avoid building Salafi mosques in Iraq. Shiites are highly sensitive to any indication the kingdom might encourage extremism and intolerance.¹⁵⁴ An Iraqi academic close to Najaf's clerical elite said, "let them build schools in Sunni areas, be present in the Sunni areas, so long as they are sensitive about it".¹⁵⁵

Keeping Iraq Out of Saudi-Iranian Regional Competition

Iraq could become a de-escalation zone in Saudi-Iranian tensions. But, at a minimum, it would require its politicians and officials to proactively identify shared interests between Riyadh and Tehran and encourage both sides to move toward convergence. Some Saudi and Iranian officials are already seeing common ground, including in boosting the Iraqi economy, preventing the re-emergence of ISIS, maintaining Iraq's territorial integrity and reducing sectarian conflict.¹⁵⁶ Oil policy could also help build trust, as all three countries would prefer a higher medium-term market price.

Whether Iran and Saudi Arabia can be persuaded to actively cooperate on these and other areas of potential alignment remains to be seen, but both would stand to gain. Riyadh and Tehran are now bogged down in costly regional engagements that distract the governments from domestic priorities. None of those conflicts, or the sectarian stories grafted upon them, will be resolved without a *détente* between these regional giants. "We are trying to put away the sectarian conflict", a senior Saudi official said of the kingdom's regional goals.¹⁵⁷ A strategist in President Hassan Rouhani's office said, "Iran also wants to decrease tensions and revive its ties with Arab countries. Iraqi-Saudi relations would be helpful to Iran's efforts for this purpose".¹⁵⁸ Simple first steps could include a joint statement or op-ed by Saudi and Iranian scholars or policymakers, indicating a shared commitment to Iraq's future.

Still, for now, the potential for conflict is greater than the prospect of better ties. Saudi Arabia, Iran and Iraq will all need to remain vigilant to managing Saudi-Iranian tensions. Particularly with Shiite religious engagement, Saudi Arabia risks provoking an Iranian reaction if it oversteps or politicises the question of the *marj'aiya*, for example attempting to force a rift between clerics in Najaf and Iran.¹⁵⁹ Najaf is keenly aware of this dilemma and Riyadh should take cues from there about

¹⁵³ Crisis Group interview, Sadrist MP, Baghdad, March 2018. Rebuilding these religious sites would be symbolically significant because past Sunni critiques of Shiite practice focus on its supposedly excessive veneration of descendants of the Prophet. A Saudi gesture toward rehabilitation of the shrines would thus be a sign of respect for Shiite rituals.

¹⁵⁴ Crisis Group interviews, former Iraqi security official, Baghdad, March 2018; Western diplomat, Baghdad, March 2018.

¹⁵⁵ Crisis Group interview, phone, February 2018.

¹⁵⁶ Crisis Group interviews, former Saudi official, May 2018; Iranian foreign ministry senior official, May 2018.

¹⁵⁷ Crisis Group interview, Riyadh, January 2018.

¹⁵⁸ Crisis Group interview, Tehran, March 2018.

¹⁵⁹ An Iranian Qods force strategist said, "Iran's first priority is to maintain its social ties with Shiite communities, *marj'aiya* and clerics in Iraq who cannot be easily influenced by people like Sadr and Hakim. Currently, the economy of Shiite cities with holy sites is greatly entangled with 4,500,000 Iranian pilgrims who visit Iraq every year". Crisis Group interview, Tehran, March 2018.

how best to engage on the religious front. Making clear that the invitation is on the table, for example, Riyadh could leave the time and place for any public (or private) meetings with clerics in the hands of the *marjaiya*. As they have avoided doing so far, Saudi leaders should not mention Ayatollah Sistani in public discussions of politics. Riyadh should take care not to put religious figures – or any Iraqis for that matter – in the position of being asked to choose between Saudi Arabia and Iran as social, cultural or economic partners.

V. Conclusion

Given the host of challenges ahead, some analysts and politicians who welcome Riyadh's return to Baghdad nonetheless fear the improvement in Iraqi-Saudi relations will not last. Leaders in both countries should be steadfast.

Saudi Arabia has the opportunity to construct a long-term policy toward Iraq that has deep social roots and buy-in. Supporting cross-confessional Iraqi political trends can offer the kingdom a new model of how to boost its influence and shore up regional stability. Whereas in Yemen Saudi Arabia played to Iran's strengths (namely, its ability to work effectively in situations of state failure, in cooperation with non-state actors who are fighting Riyadh), in Iraq it is showing an ability to function through political and economic channels, where it possesses its own comparative advantage. For Iraq, too, there are important potential benefits: by balancing Saudi and Iranian influence, it can gain from the support of both without alienating either.¹⁶⁰

In turn, stability in Iraq could have knock-on effects for regional conflicts around its borders, most notably in Syria. A stronger, physically and institutionally rebuilt Iraq would be more resilient against a re-emerging ISIS (or any future iteration). Better relations between Saudi Arabia and Shiite communities likewise could help roll back sectarian polarisation across the region, including in the kingdom itself.

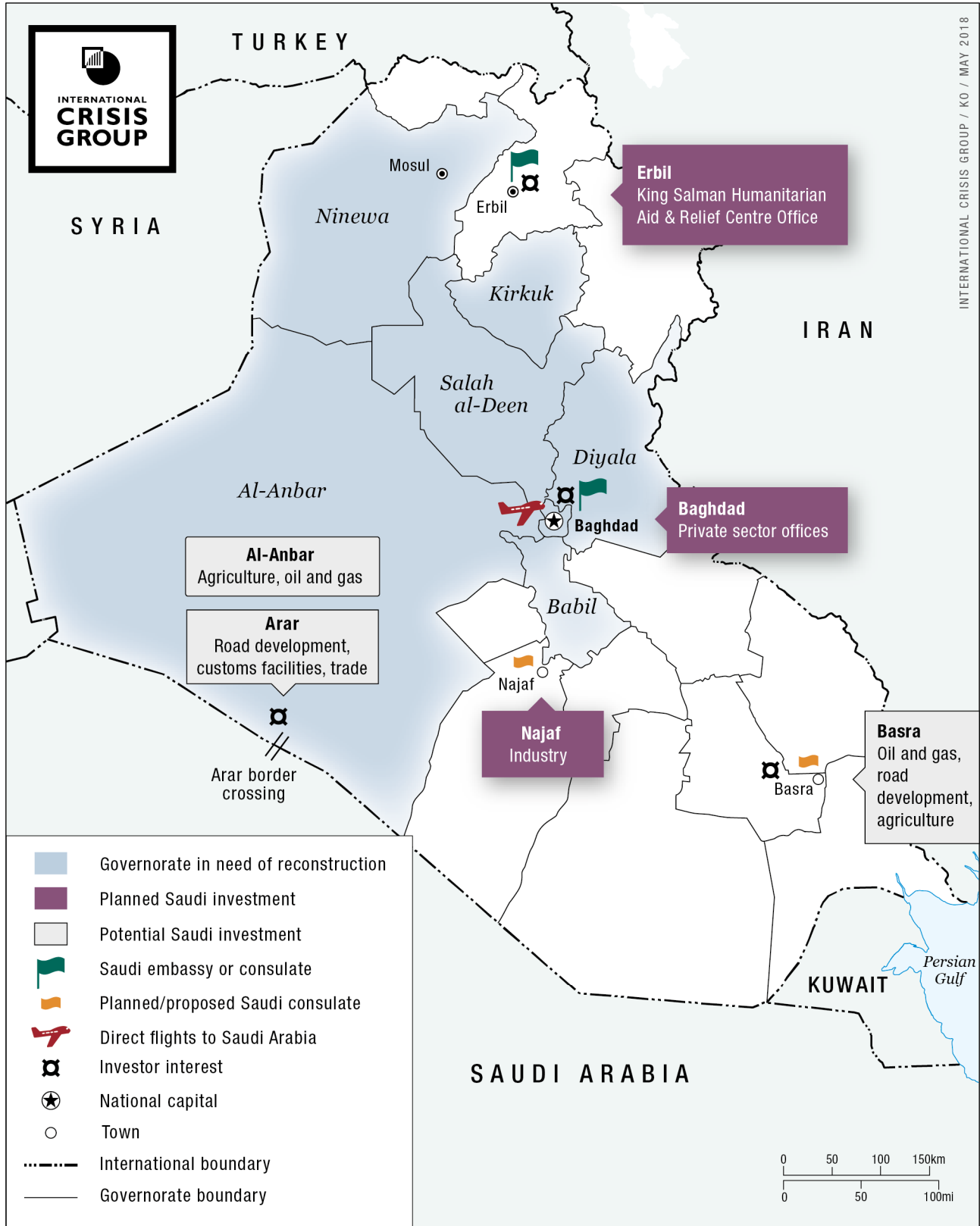
Perhaps the best way to ensure that all sides stay the course is for Iraqis and Saudis to make political, social, economic and cultural investments that engender a dynamic of interdependency between their countries. If, for example, Saudi companies invest in Iraq, and Iraqi consumers come to depend on Saudi goods, the bilateral relationship would be far more sustainable, even in the face of political disputes.

The Iraqi ideal of becoming a bridge between regional powers may be years or decades off, but this optimistic moment is a chance to lay the foundation stones. Riyadh can help, and it should have an interest in doing so.

Riyadh/Baghdad/Brussels, 22 May 2018

¹⁶⁰ A senior Iranian diplomat said, "Iran has come to the understanding that Sunnis are irrevocable parts of Iraq's politics and thus Iran should try to keep a good relationship with moderate [Arab] Sunnis as it had done with [Sunni] Kurds. This is exactly the policy that Saudi Arabia tends to follow with regard to Shiites". Crisis Group interview, Tehran, March 2018.

Appendix A: Saudi Arabia's Investment in Iraq



Note: This map does not include all the potential and planned projects.

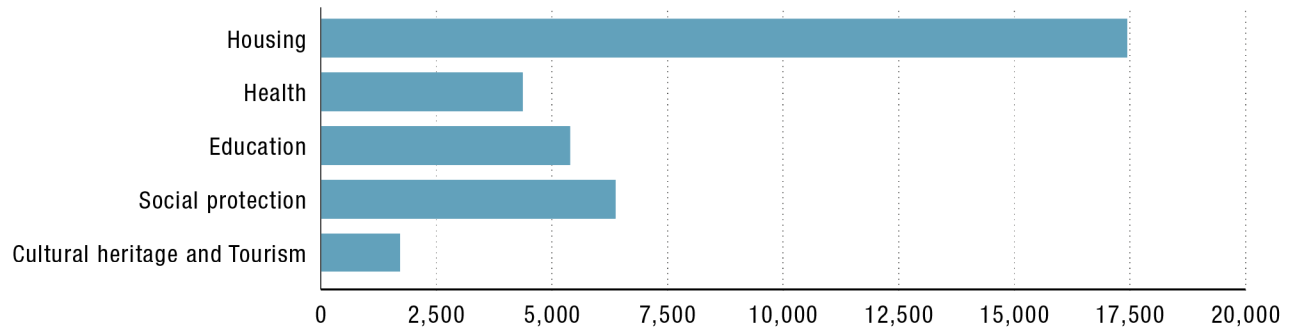
Appendix B: Damage and Total Reconstruction Needs per Sector

Damage in US\$ million / Percentage of total needs

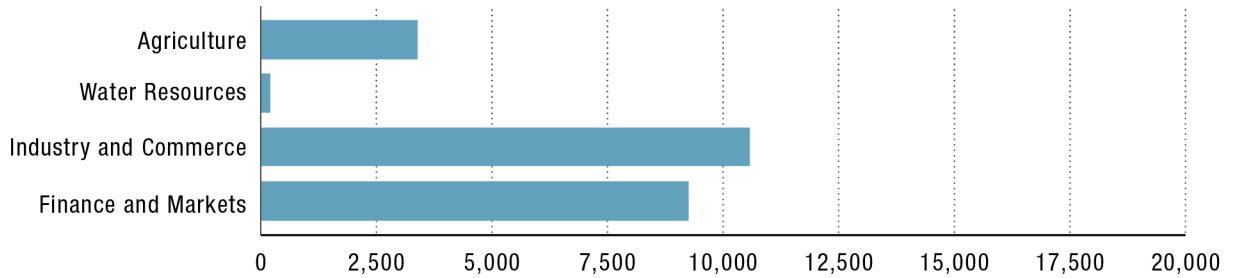
Social sectors	Needs in US\$	Share of total needs (%)
Housing	17,441	19.8
Health	4,365	4.9
Education	5,391	5.2
Social protection	6,373	7.2
Cultural heritage and Tourism	1,716	1.9
Productive sectors	Needs in US\$	Share of total needs (%)
Agriculture	3,393	3.8
Water resources	207	0.2
Industry and Commerce	12,506	12.0
Finance and Markets	10,938	10.5
Infrastructure sectors	Needs in US\$	Share of total needs (%)
Power	9,112	10.3
Oil & Gas	7,209	8.2
ICT	644	0.7
Transport	3,960	4.5
Water and Sanitation	2,442	2.8
Municipal services	126	0.1
Cross-cutting sectors	Needs in US\$	Share of total needs (%)
Governance	1,370	1.6
Environment	5,498	6.2

Source: Iraq, Reconstruction and Investment: Damage and Needs Assessment of Affected Governorates, Government of Iraq and the World Bank Group

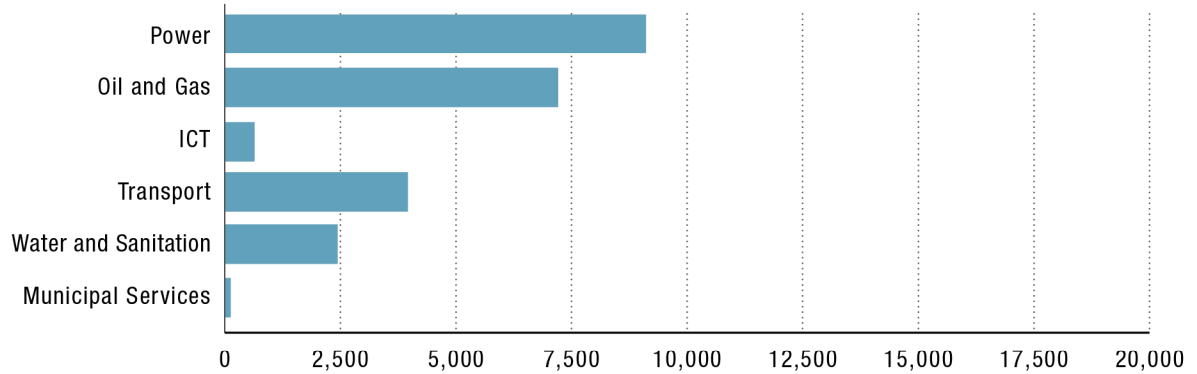
Social sectors



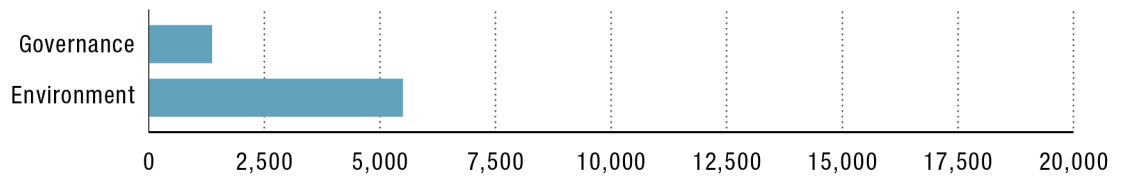
Productive sectors



Infrastructure sectors



Cross-cutting sectors



Appendix C: About the International Crisis Group

The International Crisis Group (Crisis Group) is an independent, non-profit, non-governmental organisation, with some 120 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

Crisis Group's approach is grounded in field research. Teams of political analysts are located within or close by countries or regions at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, it produces analytical reports containing practical recommendations targeted at key international, regional and national decision-takers. Crisis Group also publishes *CrisisWatch*, a monthly early warning bulletin, providing a succinct regular update on the state of play in up to 70 situations of conflict or potential conflict around the world.

Crisis Group's reports are distributed widely by email and made available simultaneously on its website, www.crisisgroup.org. Crisis Group works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The Crisis Group Board of Trustees – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring the reports and recommendations to the attention of senior policymakers around the world. Crisis Group is chaired by former UN Deputy Secretary-General and Administrator of the United Nations Development Programme (UNDP), Lord Mark Malloch-Brown. Its Vice Chair is Ayo Obe, a Legal Practitioner, Columnist and TV Presenter in Nigeria.

Crisis Group's President & CEO, Robert Malley, took up the post on 1 January 2018. Malley was formerly Crisis Group's Middle East and North Africa Program Director and most recently was a Special Assistant to former U.S. President Barack Obama as well as Senior Adviser to the President for the Counter-ISIL Campaign, and White House Coordinator for the Middle East, North Africa and the Gulf region. Previously, he served as President Bill Clinton's Special Assistant for Israeli-Palestinian Affairs.

Crisis Group's international headquarters is in Brussels, and the organisation has offices in ten other locations: Bishkek, Bogota, Dakar, Kabul, Islamabad, Istanbul, Nairobi, London, New York, and Washington, DC. It has presences in the following locations: Abuja, Algiers, Bangkok, Beirut, Caracas, Gaza City, Guatemala City, Hong Kong, Jerusalem, Johannesburg, Juba, Mexico City, New Delhi, Rabat, Sanaa, Tblisi, Toronto, Tripoli, Tunis, and Yangon.

Crisis Group receives financial support from a wide range of governments, foundations, and private sources. Currently Crisis Group holds relationships with the following governmental departments and agencies: Australian Department of Foreign Affairs and Trade, Austrian Development Agency, Danish Ministry of Foreign Affairs, Dutch Ministry of Foreign Affairs, European Union Instrument contributing to Stability and Peace, European Commission, Directorate General for Neighbourhood Enlargement Negotiations, Finnish Ministry for Foreign Affairs, French Development Agency, French Ministry of Europe and Foreign Affairs, Irish Aid, Japan International Cooperation Agency, Principality of Liechtenstein, Luxembourg Ministry of Foreign Affairs, New Zealand Ministry of Foreign Affairs and Trade, Norwegian Ministry of Foreign Affairs, Swedish Ministry of Foreign Affairs, and the Swiss Federal Department of Foreign Affairs.

Crisis Group also holds relationships with the following foundations: Carnegie Corporation of New York, Heinrich Böll Stiftung, Henry Luce Foundation, John D. and Catherine T. MacArthur Foundation, Konrad Adenauer Stiftung, Korea Foundation, Oak Foundation, Omidyar Network Fund, Open Society Foundations, Ploughshares Fund, Robert Bosch Stiftung, Rockefeller Brothers Fund, and Wellspring Philanthropic Fund.

May 2018

Appendix D: Reports and Briefings on the Middle East and North Africa since 2015

Special Reports

Exploiting Disorder: al-Qaeda and the Islamic State, Special Report N°1, 14 March 2016 (also available in Arabic and French).

Seizing the Moment: From Early Warning to Early Action, Special Report N°2, 22 June 2016.

Counter-terrorism Pitfalls: What the U.S. Fight against ISIS and al-Qaeda Should Avoid, Special Report N°3, 22 March 2017.

Israel/Palestine

The Status of the Status Quo at Jerusalem's Holy Esplanade, Middle East Report N°159, 30 June 2015 (also available in Arabic and Hebrew).

No Exit? Gaza & Israel Between Wars, Middle East Report N°162, 26 August 2015 (also available in Arabic).

How to Preserve the Fragile Calm at Jerusalem's Holy Esplanade, Middle East Briefing N°48, 7 April 2016 (also available in Arabic and Hebrew).

Israel/Palestine: Parameters for a Two-State Settlement, Middle East Report N°172, 28 November 2016 (also available in Arabic).

Israel, Hizbollah and Iran: Preventing Another War in Syria, Middle East Report N°182, 8 February 2018 (also available in Arabic).

Iraq/Syria/Lebanon

Arming Iraq's Kurds: Fighting IS, Inviting Conflict, Middle East Report N°158, 12 May 2015 (also available in Arabic).

Lebanon's Self-Defeating Survival Strategies, Middle East Report N°160, 20 July 2015 (also available in Arabic).

New Approach in Southern Syria, Middle East Report N°163, 2 September 2015 (also available in Arabic).

Arsal in the Crosshairs: The Predicament of a Small Lebanese Border Town, Middle East Briefing N°46, 23 February 2016 (also available in Arabic).

Russia's Choice in Syria, Middle East Briefing N°47, 29 March 2016 (also available in Arabic).

Steps Toward Stabilising Syria's Northern Border, Middle East Briefing N°49, 8 April 2016 (also available in Arabic).

Fight or Flight: The Desperate Plight of Iraq's "Generation 2000", Middle East Report N°169, 8 August 2016 (also available in Arabic).

Hizbollah's Syria Conundrum, Middle East Report N°175, 14 March 2017 (also available in Arabic and Farsi).

Fighting ISIS: The Road to and beyond Raqqa, Middle East Briefing N°53, 28 April 2017 (also available in Arabic).

The PKK's Fateful Choice in Northern Syria, Middle East Report N°176, 4 May 2017 (also available in Arabic).

Oil and Borders: How to Fix Iraq's Kurdish Crisis, Middle East Briefing N°55, 17 October 2017 (also available in Arabic).

Averting Disaster in Syria's Idlib Province, Middle East Briefing N°56, 9 February 2018 (also available in Arabic).

Winning the Post-ISIS Battle for Iraq in Sinjar, Middle East Report N°183, 20 February 2018 (also available in Arabic).

North Africa

Libya: Getting Geneva Right, Middle East and North Africa Report N°157, 26 February 2015 (also available in Arabic).

Reform and Security Strategy in Tunisia, Middle East and North Africa Report N°161, 23 July 2015 (also available in French).

Algeria and Its Neighbours, Middle East and North Africa Report N°164, 12 October 2015 (also available in French and Arabic).

The Prize: Fighting for Libya's Energy Wealth, Middle East and North Africa Report N°165, 3 December 2015 (also available in Arabic).

Tunisia: Transitional Justice and the Fight Against Corruption, Middle East and North Africa Report N°168, 3 May 2016 (also available in Arabic and French).

Jihadist Violence in Tunisia: The Urgent Need for a National Strategy, Middle East and North Africa Briefing N°50, 22 June 2016 (also available in French and Arabic).

The Libyan Political Agreement: Time for a Reset, Middle East and North Africa Report N°170, 4 November 2016 (also available in Arabic).

Algeria's South: Trouble's Bellwether, Middle East and North Africa Report N°171, 21 November 2016 (also available in Arabic and French).

Blocked Transition: Corruption and Regionalism in Tunisia, Middle East and North Africa Report N°177, 10 May 2017 (only available in French and Arabic).

How the Islamic State Rose, Fell and Could Rise Again in the Maghreb, Middle East and North Africa Report N°178, 24 July 2017 (also available in Arabic and French).

How Libya's Fezzan Became Europe's New Border, Middle East and North Africa Report N°179, 31 July 2017 (also available in Arabic).

Stemming Tunisia's Authoritarian Drift, Middle East and North Africa Report N°180, 11 January 2018 (also available in French and Arabic).

Libya's Unhealthy Focus on Personalities, Middle East and North Africa Briefing N°57, 8 May 2018.

Iran/Yemen/Gulf

Yemen at War, Middle East Briefing N°45, 27 March 2015 (also available in Arabic).

Iran After the Nuclear Deal, Middle East Report N°166, 15 December 2015 (also available in Arabic).

Yemen: Is Peace Possible?, Middle East Report N°167, 9 February 2016 (also available in Arabic).

Turkey and Iran: Bitter Friends, Bosom Rivals, Middle East Briefing N°51, 13 December 2016 (also available in Farsi).

Implementing the Iran Nuclear Deal: A Status Report, Middle East Report N°173, 16 January 2017 (also available in Farsi).

Yemen's al-Qaeda: Expanding the Base, Middle East Report N°174, 2 February 2017 (also available in Arabic).

Instruments of Pain (I): Conflict and Famine in Yemen, Middle East Briefing N°52, 13 April 2017 (also available in Arabic).

Discord in Yemen's North Could Be a Chance for Peace, Middle East Briefing N°54, 11 October 2017 (also available in Arabic).

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