

TORN BETWEEN TWO ALLIES: HOW EUROPEANS CAN REDUCE IRAQI DEPENDENCE ON IRAN AND THE US

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SUMMARY

- Iraq faces grave political, economic, and security challenges, including a resurgence by ISIS and escalating tension between the United States and Iran.
- Following widespread public protests last autumn, the selection of Mustafa al-Kadhimi as prime minister in May has broken the country's political deadlock and opened a small window of opportunity for reform.
- Kadhimi's ability to carry out much-needed reforms will be constrained by his lack of an independent political base and the entrenched power of the political elites who have dominated the country since 2003.
- A further deterioration in Iraq's economic, security, and political situation will have a negative impact on European interests in areas such as counter-terrorism, regional migration, and tension between Iran and the US.
- Europe should help the Kadhimi government undertake political and economic reform, increase its geopolitical autonomy, and take on a greater security role to reduce Iraq's reliance on the US and Iran.

Introduction

After the long fight against the Islamic State group (ISIS), Iraq is now struggling to win the peace and faces acute challenges in achieving stability. Caught in escalating tension between the United States and Iran, and confronted with [a resurgent ISIS](#), the Iraqi leadership is paralysed by political deadlock and impending economic collapse. The potential for the deterioration of conditions in Iraq should cause real concern among European governments that have already invested significant resources to defeat ISIS and stabilise the country. Moreover, a recovery in the fortunes of ISIS, and greater tension between Iran and the US in Iraq, would undoubtedly have implications for European security – while a collapse of the Iraqi state would reverberate across the region in dangerous ways.

The recent downturn in oil prices and the fallout from covid-19 has brought into focus the fragility of Iraq's financial situation, with the country's economy set to shrink by 10 per cent this year. This economic pressure risks creating new instability and providing an opening for ISIS, which is already mounting an increasing number of attacks across rural parts of Iraq, focused on [Diyala, Kirkuk, and Salahaddin](#) provinces.

However, the selection in May of Mustafa al-Kadhimi as the new prime minister could now open a small window of opportunity. His appointment – on which domestic Iraqi factions, the US, and Iran managed to finally compromise – broke five months of deadlock. It also brought to a close months of a caretaker government under Adel Abdul-Mahdi, who resigned over his handling of nationwide protests fuelled by public discontent at the failings of the Iraqi state. This step provides an opening for European governments and the EU to play an enhanced role in support of much-needed stabilisation efforts.

Kadhimi needs to urgently address the grave underlying issues facing Iraq. Following the military victory against ISIS in December 2017, the [Iraqi government has made only limited](#) – and disappointing – progress in meeting the challenge of reconstruction and recovery in liberated areas, let alone in addressing the wider political and economic grievances that sparked the protest movement last autumn. This trajectory needs to be quickly reversed. Kadhimi's immediate focus will likely

centre on returning some stability to the country by avoiding economic collapse and preventing US-Iran tension from erupting on Iraqi soil yet again. It is unrealistic to expect major economic, security, and political reforms in the current circumstances, particularly given the still-weak internal position of the new government. However, pulling the country back from the abyss would be a significant achievement for Kadhimi – and one that Europeans need to support.

To advance these goals, Kadhimi should also address the political dysfunctionality that lies at the heart of Iraq's continuing problems. This is increasingly stoking wider domestic discontent at the abject failure of the country's ruling class to govern effectively. Without the external threat posed by ISIS, the spotlight has been shone by Iraqi protesters on the debilitating political rivalries and poor performance of the post-2003 political system.

A new generation of Iraqis who are now becoming [politically aware](#) blame the country's ills on the political leadership that has governed since 2003 rather than on the problems inherited from Saddam Hussein's regime. Iraq has undergone tremendous change since 2003 and now has the [second-fastest-growing population](#) in the Arab world, with the total increasing by around one million each year. Approximately [60 per cent of Iraq's population are aged under 25](#), and nearly [half were born after the year 2000](#). Thus, they have no memory of life under Saddam Hussein's regime. This young population are unlikely to accept harsh austerity measures to the economic challenges if these are not accompanied by a real focus on state corruption and dislodging the political elite's current stranglehold on power.

This perilous situation may, however, count in Kadhimi's favour, with the growing consensus about the risks of collapse potentially providing him with room for more decisive action. Critically, it seems that Iran and US have tacitly agreed to support Kadhimi's compromise government, which marks an important – albeit perhaps only temporary – break from the intensifying competition that has characterised their respective approaches towards Iraq under the Trump administration. This should provide the new Iraqi leadership with some leeway to address domestic issues without being constrained by the external rivalries that, at the start of the year, risked drawing Iraq into a direct conflict between the US and Iran.

This is an outcome that Europeans should encourage by supporting the Kadhimi government to navigate the US-Iran rivalry, while enhancing its own economic and security position to provide the prime minister with a greater degree of autonomy from these two key external players. European states also have cards to play in Iraq in terms of supporting improved governance and preventing economic collapse. As an important element within the anti-ISIS coalition, European states could take up a greater security role to reduce Iraq's reliance on the US and Iran. This could lessen the risk that – because of their focus on their wider geopolitical rivalry – Iran and the US undermine the gains made against ISIS between 2015 and 2018. But such a step requires a greater and more coordinated European political focus.

This paper examines the challenges facing the new Iraqi government and considers their implications for European countries. The paper also assesses how the US-Iran rivalry inside Iraq has an impact upon the country's stability, and the degree to which this is undermining political and economic progress. The paper discusses how European states can help Iraq mitigate the effects of the US-Iran conflict, while also supporting the political, economic, and security sector reforms that can bring stability to the country.

As the rise of the ISIS “caliphate” demonstrated, instability in Iraq affects the wider Middle East and has direct consequences for European security interests. Thus, a further deterioration in Iraq's economic, security, and political situation will clearly have a negative impact on European interests, including combating terrorism and addressing regional migration flows towards Europe. A number of European countries also have military deployments in Iraq as part of the anti-ISIS coalition, and are concerned with the protection of their forces. Moreover, what happens in Iraq shapes regional developments in which Europe has important interests, including its relations with Iran and the situation in Syria.

Iraq's moment of reckoning

Kadhimi's appointment as prime minister comes at a watershed moment for Iraqi politics. On the domestic side, Iraq has been engulfed by public discontent and waves of protests over the last year. Their origins can be traced back to protests in

summer 2018, when tainted parliamentary elections – and underlying anger at unemployment, poor public services, and high levels of corruption – sparked violent clashes and political agitation. The formation of the Abdul-Mahdi government in October 2018 provided a measure of temporary relief. However, despite an expansionary budget in 2019, those underlying issues continued, with the lack of employment opportunities for young people a key factor in the bubbling discontent evident throughout the year – including in the [southern cities](#) that are home to much of [Iraq's Shia majority](#). The security forces used water cannons in an attempt to disperse larger demonstrations, leading to widespread [criticism of Abdul-Mahdi](#). The dismissal of popular military commander Lieutenant-General Abdul Wahab al-Saadi as the head of Iraq's special forces, which spearheaded the campaign against ISIS, triggered a [new wave of protests in October 2019](#). In that month alone, 220 people died in [clashes with the security forces](#), leading to accusations that riot police had been heavy-handed and had launched [unprovoked attacks on peaceful protesters](#).

The protesters' demands evolved from a focus primarily on economic issues to calls for more sweeping changes, including the [resignation of the government](#). On the constitution, the protesters wanted to see reforms to local government and the parliamentary system, including the dissolution of provincial councils and a move to a presidential system. They also demanded early elections, with changes to the electoral system and the introduction of a fairer and more representative process designed to bring in new parties and representatives. Beyond constitutional changes, they also called for: the appointment of new governors, ministers, and senior officials; an electoral ban on some parties, such as those with armed wings; comprehensive changes in senior public positions; corruption trials for some political leaders, such as former prime ministers and cabinet members; and a shift in foreign policy on Iran and the US. These demands, the protesters believed, were essential to fix Iraq's broken political system.

The protesters' economic demands revolved around improvements to public services, employment, and a fairer distribution of wealth and resources. The protesters also called for justice for those who were injured and killed in the demonstrations; reform of the security forces, especially the Popular Mobilisation Forces (PMF), an umbrella group of Shia paramilitary groups; and for those responsible for the manner in which the security forces handled the protests to be

held accountable, together with a wider examination of major events such as the fall of Mosul to ISIS in 2014.

These underlying issues have sustained the protests thus far, and will likely continue to do so. The protesters' economic demands are most acute. The government will find it difficult to improve services and enact austerity measures at the same time as it meets these demands. This means that protests by millions of young unemployed people are likely to increase in size and intensity, making the [status quo impossible to maintain](#).

Despite this, the political elite seem prepared to wait out the protests and close ranks in an effort to [protect their position and post-2003 gains](#). The death toll of the last year shows that the political elite are willing to use extreme measures to prevent an overhaul of the system. The appointment of the new prime minister came about through internal negotiations among the elite, with an agreement to maintain the system of ethno-sectarian power-sharing that has shaped governance of the country since 2003 (known as *muhasasa*). This is an indication that power remains firmly within the elite and that the protesters face formidable obstacles if they are to achieve real and lasting reforms.

These nationwide protests ultimately culminated in Kadhimī's rise to power. And there is now immense pressure on the new government to deliver meaningful reforms. The prime minister is somewhat constrained by the political elite – the establishment parties that have been in power since 2003, and that want to preserve the very system the protesters wish to change. The protesters' principal short-term demand is for Kadhimī to deliver on his promise of early elections and reforms to the electoral system, to prevent a continuation of the status quo. Protesters also want justice and accountability for the recent violence directed against them.

In light of the significance of these demands, Kadhimī's honeymoon period with the protesters will likely end sooner rather than later unless he is able to make rapid progress. Elections are only part of the reform process demanded by protesters, and it is debatable whether they will happen in 12 months' time. The protests, which have reduced in size since the covid-19 outbreak, are regaining momentum as summer begins. The government's response to them will be closely

observed and will shape public opinion on Kadhimi.

But even though his government has a degree of popular support for carrying out reforms, Kadhimi faces significant political opposition. This is predominantly due to divisions among Iraq's Shia political parties, with some supportive of the prime minister among the Islah bloc (Nasr; Hikma; Sairoon) and others more opposed to him in the Bina bloc (Fateh; State of Law). The key disagreements between these parties concern the make-up of the government, including the cabinet and other top posts; policy positions on the US and Iran; and the role of the PMF. Kadhimi was elected as a compromise candidate after the two men put forward to succeed Abdul-Mahdi, Muhammad Allawi and Adnan Zurfi, failed to win enough parliamentary support. The Fateh parliamentary grouping – which had accused Kadhimi of complicity in the US assassination of Iranian general Qassem Soleimani and pro-Iranian militia leader Abu Mahdi al-Muhandis in January 2020 – yielded to domestic and Iranian pressure to vote for Kadhimi. Fateh's move was necessary both to ease tension with the US and to reduce internal conflict with other parties. Kadhimi's lack of a political base reassures the ruling elite that he cannot act without their approval – and, therefore, is unlikely to attempt wholesale changes that might undermine their networks of power and patronage.

Accordingly, Kadhimi needs to undertake tough reforms despite his lack of political support or allies among establishment parties. The prime minister seems aware that his position is unenviable, referring to himself as a living martyr at a recent press conference.

Much of Iraq's younger generation, which makes up the backbone of the protest movement, no longer have faith in the political system. Kadhimi's initial task will be to try to win back some confidence from the general public, while trying to navigate the entrenched political elite. At the same time, he must alleviate the problem of falling revenues and high expenditure without causing a popular backlash. With continuing security issues, including those stemming from the US-Iran conflict, the average Iraqi has much to be concerned about and little to hope for.

But, while some of the protesters' demands are beyond Kadhimi's reach, any meaningful steps towards at least partially meeting them is likely to be welcomed.

Failure to achieve this will simply reinforce the protesters' conviction that the political system is irretrievably damaged and beyond reform. Turnout in the 2018 election was the lowest since the first post-invasion vote in 2005. And a further fall in confidence could, in deteriorating economic conditions, provoke a wider popular revolt.

External pressure

If Kadhimi faces intensifying pressure from below, the pressure from above is no less intense. Iraq now sits at the centre of an escalating confrontation between its two closest allies, Iran and the US – which are increasingly at odds with each other across the region. Iraq risks becoming the key battleground in this struggle, as the attacks by Iranian-backed militias on American military facilities and the [US assassination](#) of Soleimani highlighted. At the core of the conflict in Iraq is Iran's desire to see US troops evicted from the country and friendly forces gain key positions of power. The US views Iran as its primary challenge in the Middle East, and has sought to counter the Islamic republic's influence in Iraq – including through political, economic, and military means – as part of the Trump administration's wider “maximum pressure” campaign. As January's events show, however, Iraq is struggling to prevent its territory from becoming embroiled in the conflict.

While there has been a lull in direct confrontation in recent months, the conditions for escalation remain – especially if the maximum pressure campaign continues into a second Trump administration. This could push Iraq into further instability, given its currently fragile political and socioeconomic conditions. There are already signs that the conflict is having a direct impact on the fight against ISIS, with US-led coalition forces having to take up a more defensive position. This development hampers Baghdad's capacity to manage multiple challenges. US attacks on pro-Iranian militia targets in Iraq have also increased political pressure for a US troop withdrawal. This could not only undermine Iraqi security interests but also poison the wider US-Iraqi relationship, with President Donald Trump suggesting that his administration could impose sanctions on Iraq if it demanded the withdrawal of US troops.

Nonetheless, it is significant that Iran and the US compromised on the formation

of the Kadhimi government. This provides all three countries with a chance to focus on addressing Iraq's acute internal problems. Following the Soleimani assassination, the outbreak of covid-19, and further pressure from US sanctions, there are signs that Iran seems to be reassessing its policy on Iraq in an effort to prevent further escalation with the US. Firstly, beyond the 8 January rocket strikes on the Ain al-Asad base where US troops are stationed, Tehran has not openly retaliated further against the US for the Soleimani assassination. Secondly, Iran supported the formation of the Kadhimi government, and the Islamic Revolutionary Guard Corps has adopted a more discreet approach in Iraq. Iran's government has stepped up its political and economic outreach with Baghdad, including by recently signing a two-year agreement to export electricity to Iraq. In July, Kadhimi made his first state visit to Iran, where he met with Supreme Leader Ali Khamenei. Thirdly, Tehran has, for now at least, attempted to rein in major pro-Iranian groups such as Kataib Hizbullah, which have not carried out attacks on US targets since January. Iran did not respond to a raid by Iraqi government forces on a Kataib Hizbullah base in late June, which saw 14 arrests. And the reaction from the PMF and groups close to Iran has been limited to rhetoric. These shifts in Iran's approach in Iraq may prove especially important if the White House changes hands in November.

The current US administration is attempting to force Iraq to limit Iran's and its allies' room for manoeuvre within the country. It also wants to see Iraq curtail economic activity with Iran. To that end, the US is exerting political and economic pressure to bring Baghdad to heel. One example of this is reducing the period for which waivers on secondary sanctions for importing energy from Iran are applied and sanctioning Iraqi politicians and [paramilitary figures](#). Washington's aim is to weaken Iran's hand in Iraq – and it wants to recruit the Iraqi government for this task. At the same time, following the assassination of Soleimani and Muhandis, Washington has felt political pushback from Iraq and may seek a course correction to avoid losing influence with Baghdad. With the Kadhimi government in place, the US shifted its approach to Iraq slightly, and has now started a new “strategic dialogue” process with Iraq as part of a reset and reformulation of the two countries' [future partnership](#). It also agreed in May to extend much-needed sanctions waivers for Iraq to import Iranian electricity from the previous 30-day period to a 120-day one, suggesting that it wants to give the Kadhimi government

some breathing space.

This opening – which could give Kadhimi a chance to assert Iraq’s independence, sovereignty, and interests – needs to be seized. Rebalancing Iraq’s relations is critical to shaping the new prime minister’s ability to advance domestic reforms, as is protecting the country from foreign interference, destabilisation, and violations of its sovereignty. It is clear that Iraq needs to maintain good relations with both Iran and the US, gaining benefits from both while seeking to limit the risks of maintaining such a balance. As the Iraqi government begins a new strategic dialogue with the US this year, it must obtain continued political, economic, and security support while ensuring the US maximum pressure campaign does not trigger a new cycle of hostilities with Iran on its territory. To do so, Iraq will need to ease US concerns over force protection and restrain the activities of pro-Iranian forces within the PMF. Kadhimi will also need to engage in a parallel dialogue with Iran to obtain a similar strategic agreement that deals with Iran’s connections to the PMF and breaks the paradigm of proxy conflict in Iraq.

But Iran and the US may well derail such progress. The Trump administration’s maximum pressure campaign means that US military action against pro-Iranian militia targets – and the use of sanctions against Iraqi politicians and individuals closely linked to Iran – is likely to continue. This will no doubt provoke reactions from the Iraqi political system, perhaps forcing foreign troops out of Iraq. And pro-Iranian groups in Iraq may engage in increased attacks on US targets in Baghdad and elsewhere. Tehran’s reaction could also be a major spoiler, with Iran allegedly directing Iraqi paramilitary groups, such as the newly created Usbat al-Thaereen, to harass US forces and interests. If the US maximum pressure campaign is not eased, especially after the US election in November, Iran may look to create increased pain for the US in Iraq. For now, it seems Tehran is playing a more patient game, waiting to see how the US election plays out. But the risk of Iranian escalation and asymmetric warfare is clear. Iran is also observing the US-Iraqi strategic dialogue, keen to see US troops pull out of Iraq soon, without playing an active role. However, while Iran does not wish to be seen as overtly interfering in Iraq at this stage, it will not allow the US and the Iraqi government to target its allies repeatedly. The June raid against Kataib Hizbullah was not at the threshold at which Iran decides to respond – but it was not too far away from it.

Iraq has already looked to use its relationships with other states, especially those in Europe, to pressure both Washington and Tehran into a less aggressive position. The new prime minister has sought European support to press both sides not to undertake unilateral military action in Iraq. The reality is that the challenges facing Iraq – and the risk of an escalation in the US-Iran rivalry – are not just a problem for Iraq; they also threaten to undermine European security objectives. In addition to the issues of terrorism and migration discussed above, European troops stationed in Iraq could become caught in the crossfire between the US and Iran – as has already been the [case for British troops](#). The sensitive debate in Iraq over the future of the US military presence, which has come to the fore following the assassination of Soleimani and Muhandis, could also extend to an Iraqi desire to remove all foreign troops from its soil, under a catch-all coalition withdrawal or expulsion.

Three domestic challenges for Kadhimi

Three domestic challenges, in particular, have the potential to fatally undermine Kadhimi's government in the short term and possibly push Iraq into chaos. They should, therefore, top the new prime minister's list of priorities, as well as his agenda for collaboration with the international community.

The first key challenge is in **stabilising the economy**, which has been hit hard this year by covid-19 and low oil prices. These difficulties compound an already troubled Iraqi economic landscape given that the fight against ISIS left many parts of the country in ruins, with poor access to vital services. In addition, there is the demographic challenge posed by a youthful population, which has created a mismatch between demand and supply in employment. Around [750,000 young Iraqis](#) enter the job market annually, and yet less than [50,000 jobs](#) are currently being created by a bloated public sector and a diminutive private sector.

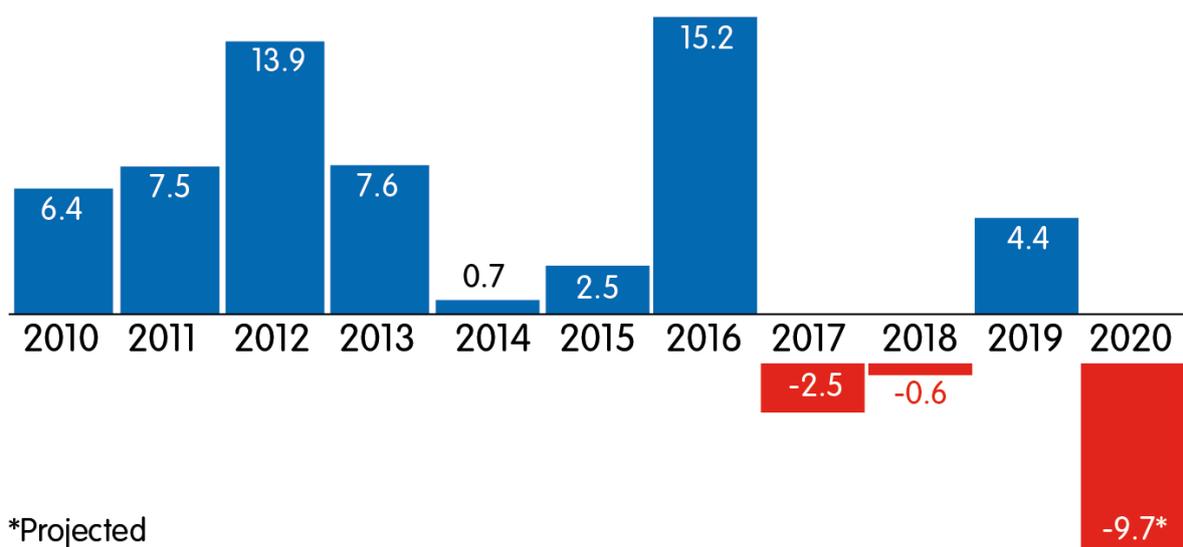
[Youth unemployment](#) is at 36 per cent, while total unemployment stands at more than 3.2 million and is rising. Women are disproportionately affected by the lack of jobs in Iraq, with 65 per cent of [young women](#) unemployed. Shockingly, [one-third of Iraqis](#) aged 15-29 are illiterate or semi-literate, with around [3.5 million young people](#) not in employment, education, or training. This last number alone is a ticking time bomb, as millions of young people have nothing to do and few

prospects, and are desperate for a way out.

Meanwhile, according to the [World Bank](#), more than 11 million Iraqis are in need of some form of humanitarian assistance. As of the first quarter of 2020, there were still more than [1.4 million internally displaced](#) people in Iraq – 25 per cent of whom resided in 67 camps where conditions were far from sustainable. In a country that makes oil sales worth billions of dollars every month, widespread poverty is an ever-present potential trigger for popular anger and unrest. Millions struggle to make a daily living while the country’s wealth is squandered through corruption – Transparency International [labels Iraq](#) as the 18th-most perceivedly corrupt country in the world – waste and violence. While this situation persists, there can be no lasting peace and stability in Iraq.

But the reality is that the Iraqi government currently has little ability to address this situation. It is facing a financial crisis that will exacerbate the situation. Iraq [relies on oil](#) sales for 92 per cent of its revenues, and every \$1 fall in the average export sale price leads to a \$1.25bn loss in annual revenues. Oil prices are not expected to recover to their 2019 levels in the near future, with demand for oil likely to remain low and supply high this year and the next.

Iraqi GDP growth (%) 2010-2020



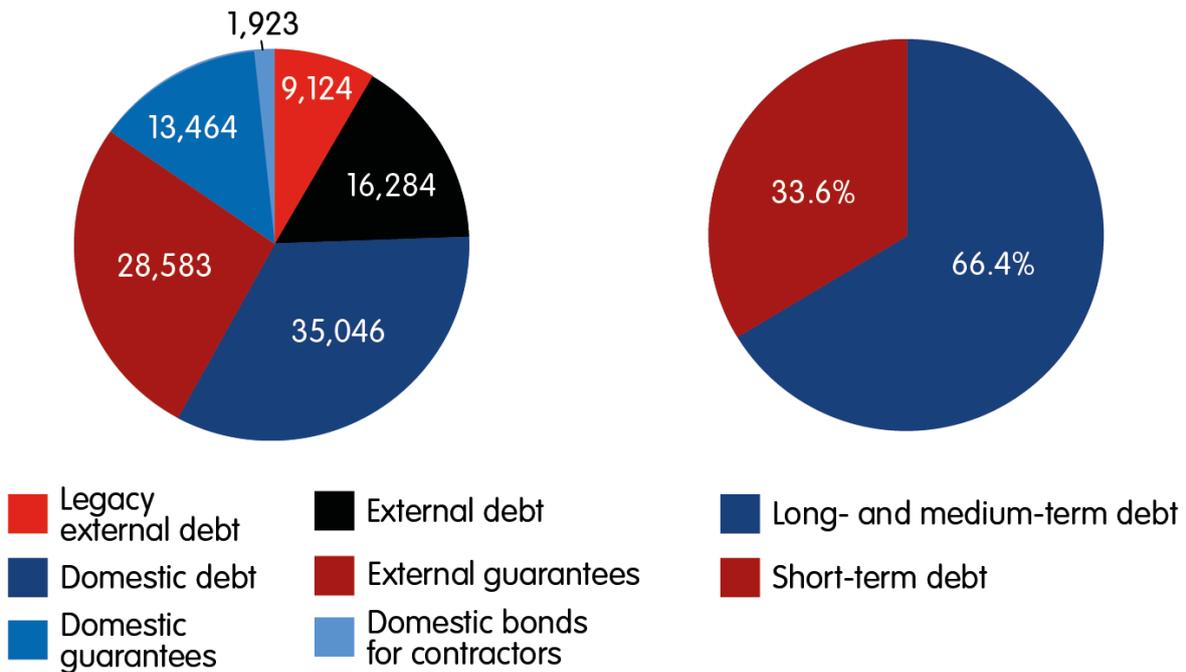
*Projected

Source: World Bank
ECFR · ecf.eu

The Iraqi government now spends more on the public sector payroll as a

percentage of GDP than other MENA oil exporters – and it is desperately **struggling for cash**. Around 85 per cent of the **Iraqi population depends** on some form of payment from the government. Monthly **payroll requirements** are at \$4.5bn and, with oil export revenues dropping by nearly 80 per cent between January and April, Iraq has had to borrow just to pay salaries and pensions.

Iraqi debt (US \$ million)



Source: Iraqi authorities; World Bank
ECFR · ecf.eu

The country’s GDP is **expected** to contract by 9.7 per cent this year, and its gross financing needs could reach \$67bn – around 39 per cent of GDP. Total **government debt** is \$104.4bn and rising, with 52 per cent of that external debt, and 33.6 per cent of the total debt classed as short-term. Iraq is drawing down on its foreign currency reserves to plug the gap in its finances and will resort to further internal and external borrowing.

To address this situation, described as **“existential”** by the government’s new finance minister, Ali Allawi, the government will have to undertake extreme cost-cutting measures such as reducing the public payroll. And it may have to borrow from external sources such as the IMF, which will require further austerity. Cuts in public spending, notably to public sector salaries, will be deeply unpopular and

face stiff resistance in parliament. A reasonable outcome would be for Iraq's government to reduce expenditure in ways that do not negatively affect low earners; borrow without putting too much pressure on its currency and foreign reserves; and undertake reforms to open up the economy for investment and reduce red tape and reliance on the public sector.^[1]

If Iraq is able to meet its financial commitments despite low oil prices and avoid the fate of countries such as Lebanon, many would class this as a success. But, clearly, this will be an immense task and will depend on a number of shifts that, for the moment, look hugely unlikely. The first is the recovery of oil prices to \$50 and above, which is crucial to increasing the cash available to the government. The second is riding out the political and public pressure to avoid austerity measures, and to reduce public spending in a meaningful way. The third is securing internal and, more importantly, external support to plug the financial gap. The fourth is avoiding US secondary sanctions that target Iraq's trade links to Iran, which could have a severe impact on Baghdad's access to petrodollars.

Nonetheless, the impact of covid-19 could further exacerbate Iraq's problems. Infection rates rose above 2,000 per day in June, and the health system is at the [point of collapse](#). A significant number of people who rely on a daily income, such as self-employed labourers and taxi drivers, alongside those living below the poverty line, are becoming increasingly desperate as lockdowns and curfews wipe out their income. The tourism industry has been shut down. And other sectors, such as retail and entertainment, are facing a crisis. Unemployment will rise and trade will suffer, increasing pressure on the Iraqi economy. This will likely give rise to [further protests and other forms of unrest](#).

The second key challenge is in **stemming the resurgence of ISIS**. Over recent months, ISIS has mobilised its forces and claimed responsibility for an increasing number of attacks. In [May](#), there were 194 attacks attributed to ISIS, the highest figure for more than two years. That same month, [ISIS killed](#) 94 members of the Iraqi Security Forces (ISF) and wounded 121 others – figures that reflect the steady, grinding degradation of security in rural areas across Iraq. While most of these attacks have been hit-and-runs, a significant sustained assault targeted the PMF on [1 May](#) near the city of Samarra, 80 miles north of Baghdad. This raised fears of qualitative improvement in the capabilities of ISIS. In addition, the evidence

suggests that ISIS is able to move fighters from Syria into Iraq – activity reminiscent of the group’s build-up in [2012 and 2013](#).

The underlying conditions that allow ISIS to operate have not been addressed. Coalition officials are concerned that both the ISF leadership and local and federal governments are not taking the risk of a resurgence by militants seriously enough. Nationwide protests and covid-19 have focused the government’s attention on political, rather than security, issues. Meanwhile, Iran and the US – which, during the ISIS surge in 2014-2015, were effectively cooperating to defeat a common enemy – are now at loggerheads in Iraq. However, the recent increase in ISIS attacks serves as a warning for both the Iraqi state and the international coalition.

The ISF and the coalition will need to act quickly before ISIS develops further momentum. ISIS is loathed by much of the Iraqi population but, while bunkering down in cave complexes, is still able to tap into resentment and discontent caused by state failure in western Iraq. Here, the government urgently needs to regain the trust of local people by stepping up reconstruction efforts, allowing communities to heal and recover. The most difficult task will be ameliorating some of the governance issues and underlying causes that have given rise to ISIS. These include economic problems around deep-seated unemployment, the poor provision of basic services, and the corrupt and inefficient performance of local government structures, all of which feed into deeper issues related to ideology and geopolitical tension. More than 1.4 million people are internally displaced, and many areas – such as Mosul, once the de facto capital of ISIS-held territory in Iraq – contain millions of tonnes of rubble and still provide poor services for citizens more than [three years after liberation](#).

Iraq also needs to develop a more professional and robust security presence to prevent ISIS from successfully recruiting new forces. With a new leadership installed by Kadhimi in both the elite Counter Terrorism Service (CTS) and the Interior Ministry, there is now the potential for better intelligence-gathering and more effective community policing. As the most capable of the Iraqi forces, the CTS should spearhead campaigns to push back ISIS in northern provinces. Fewer coalition airstrikes and less drone surveillance have given militants more freedom to operate without fear. Thus, the coalition should prioritise renewed support for the counter-ISIS mission to assist the CTS.

The third main hurdle for Kadhimi is to **assert a higher degree of central control over the PMF** and to prevent the proliferation of armed groups in Iraq. The prime minister will have to deepen negotiations with Iran on containing unruly elements in the PMF, such as Kataib Hizbullah and Asaib Ahl al-Haq, and new groups operating outside the PMF, such as Usbat al-Thareen and Ashab al-Kahf. Kadhimi also needs to appoint new leaders of the Popular Mobilisation Commission (PMC) to improve oversight of these groups.

The deaths of Soleimani and Muhandis have left the PMF and associated groups with ambiguous power structures, exposed rivalries, and divided leaderships. The government will need to show that military authority is exclusive to it, and prevent paramilitary groups from undermining it. This is particularly important with regard to attacks on American targets and illicit paramilitary activity in the provinces, including extortion and, increasingly, assassinations and abductions. After the [murder of analyst Husham al-Hashimi](#) in July, many Iraqi commentators pointed the finger at Kataib Hizbullah and associated groups – given that Hashimi was close to the prime minister and the president, and was a vocal critic of pro-Iranian groups in the PMF. In addition to avoiding similar attacks, the government will also want to see a reduction in paramilitary groups' overt presence in Baghdad and other cities, as well as their attacks on protesters. The raid on Kataib Hizbullah signalled Kadhimi's intent to enforce action against rogue elements of the PMF. The use of the CTS in the raid also indicated that the government views paramilitary activity such as rocket attacks on the US Embassy as terrorist operations that must be confronted by the state.

Kadhimi's appointment as prime minister was opposed by several Shia paramilitary groups that accused him of complicity in the Soleimani assassination. These powerful groups are politically and militarily influential, and they can derail reforms Kadhimi attempts to undertake or trigger rounds of violence that challenge his government's hold on security and the rule of law. They have already begun a media campaign against the prime minister, accusing him of illegally cutting salaries and violating the rights of victims of Saddam Hussein's regime. This does not bode well for Kadhimi's efforts at reform that will need strong political backing. Fateh may decide to oppose Kadhimi in parliament following the Kataib Hezbollah raid. It may put pressure on his ministers through questioning, and even initiate a vote of no confidence in him if groups in the PMF, such as Asaib Ahl al-Haq, feel threatened by him. Fateh's leader, Qais Khazali, made this threat clear in a [recent statement](#). No sitting Iraqi prime minister has ever been removed in such a way. And this is unlikely to change in the near future. But Fateh could win enough votes in parliament to question Kadhimi and make him uncomfortable.

Shia paramilitary groups, acting under the PMF umbrella and outside of it, are also accused of a campaign of attempting to suppress the protests that has killed hundreds and injured thousands since October 2019. The Abdul-Mahdi government failed to hold accountable those responsible for the attacks. And the sheer number of such armed groups remains a concern for much of the population, including residents of the parts of southern Iraq from which they draw most of their membership. Many of these groups maintain a political wing and are represented in parliament, mainly through the Fateh coalition, and this dual political-military existence raises key concerns over the fairness of elections and the rule of law.

The restructuring and reform of the PMF is a multi-year project that began shortly after their formation. The PMF is made up of more than 50 armed groups, the majority of which are Shia and pro-Iran, but a number of which are not. Some of these groups existed before 2014 and fought Saddam Hussein's regime or US forces following the 2003 invasion. The PMF is, therefore, an amalgamation of groups that have varying agendas, backgrounds, and capabilities, but that made common cause in the fight against ISIS and were loosely organised by the government in the campaign.

A key stage in the PMF's development came before the fall of Mosul to ISIS in April 2014, when then-prime minister Nuri al-Maliki formed volunteer defence brigades through a cabinet decree that provided them with a formal status and financial support. A fatwa issued by Grand Ayatollah Ali al-Sistani on 13 June 2014 – which called for volunteers to urgently join the fight against ISIS – provided popular legitimacy for the PMF. This was despite the fact that the fatwa explicitly called for volunteers to join the regular ISF rather than militias.

In February 2016, Maliki's successor, Haider al-Abadi, issued Executive Order 91. This established the PMC as the command of the PMF and positioned it as an independent military formation within the Iraqi armed forces under the control of the prime minister – thereby giving it a similar status to the CTS. This was followed in 2016 by the Popular Mobilisation Commission Law, which retrospectively conferred a legal status on the PMF dating back to June 2014. In March 2018, after the war against ISIS had begun to wind down, Abadi issued Executive Order 85. This focused on the powers and organisation of the PMC, as well as the status of its personnel and volunteers. It gave the prime minister's office direct operational control of payroll and financial allocations. Executive Order 237, issued by Abdul-Mahdi in July 2019, attempted to homogenise the PMF, removed unit names and insignia from its formations, and closed offices that belonged to individual units rather than the PMC. A further Executive Order placed the PMF under the Joint Operations Command framework, along with the other Iraqi security forces, and reaffirmed the direct operational control of the prime minister.

Another of Abdul-Mahdi's efforts to structurally reform the PMF, Executive Order 331, aimed to weaken the role of Muhandis, who was then serving as the PMC's

vice-chair. It did so by conferring more powers on the vacant position of PMC chief of staff and shifting auditing and oversight from the PMC chair to its president, a new secretary-general, and an inspector general. But this move was opposed by Muhandis and, after his assassination, disagreement over his successor and other key posts led the process to stall, leaving the hierarchy and structure of the PMF ill-defined. As a result, the president of the PMC, Faleh al-Fayyad, announced further reform of the PMF under Kadhimī's new government by issuing a memo on 3 June 2020. The memo mostly confirms the homogeneity of the PMF, the legal status of its personnel, and its [withdrawal from the cities](#).

However, the memo includes two key points. The first attempts to address the dual political-military existence of the PMF, by requiring that all its members disengage from political activities. The second categorically places the command of the PMF under the prime minister, prohibiting any activities not approved by him – with violators subject to legal punishment. The memo gives the PMC security directorate responsibility for enforcing discipline in the case of infringement. This was highlighted by the June raid on the Kataib Hizbullah site near Baghdad that was used for planning rocket attacks on the Green Zone (where the [US Embassy is located](#)). Those detained in the raid were later handed over to the PMC security directorate (as they were PMF members), which raises questions about whether the PMC is able to police the PMF in the first place.

These efforts demonstrate how difficult reforming the PMF has proved to be, with individual units retaining their dual status of being both inside and outside the organisation. (For example, members of the Badr Organisation and Asaib Ahl al-Haq still identify and act as part of the PMF, while their individual units identify and act as distinct from the PMF.) While some progress has been made on administrative and legal issues, there is still much that is unclear about who runs the PMF, how it operates, its transparency and accountability, and its ties to domestic and foreign powers. Specifically, there remain questions about the nature of the relationship between Iran and the more powerful groups in the PMF, and whether aligning with Tehran's agenda conflicts with Iraq's interests. Critics of the PMF are, therefore, concerned about the extent to which Iran oversees the PMF – directing paramilitary groups' operations for its own purposes – outside the purview and control of the Iraqi federal government. For the state, the key challenge is in how to reform the PMF so it is more integrated into the ISF and

more closely resembles the CTS.

Meanwhile, there is a great risk that these groups are used by Iran as tools to maintain pressure on the Americans and to respond to Washington's willingness to target Iranian assets. Over the past six months, minor Shia paramilitary groups have repeatedly shelled the Green Zone and Baghdad airport, where US military forces maintain a presence. This included a mortar strike at the embassy perimeter on the eve of the start of the US-Iraqi strategic dialogue. Attacks on US forces in military bases north of Baghdad – before and after the assassination of Soleimani and Muhandis – forced the withdrawal of American troops from those facilities. The US continues to pressure the Iraqi government to confront such groups and is using sanctions to directly target their leaders, increasing tension between the US and pro-Iranian elements inside Iraq.

Thus, it is clear that Kadhimi faces three significant domestic challenges in addition to avoiding the fallout in Iraq from disputes between the US and Iran. The economy and ISIS are the immediate problems that have the greatest direct effect on citizens – and that the government must, therefore, prioritise. Nonetheless, while issues surrounding the rule of law and the challenges posed by rogue armed actors present longer-term challenges, they could considerably weaken the state if the government does not deal with them now.

Barriers to reform within the current political order

Major structural issues within the Iraqi political system hamper efforts to tackle these challenges. The governance structure that has been in place since 2003 lends itself to weak governments and a plethora of political actors gaining power through a parliamentary system that is opaque and easily manipulated by both internal and external players. This is the reason why protesters have been forced to take to the streets, and why Iran and the US have been able to easily circumvent Iraq's political system in pursuit of their own goals.

Iraq needs substantial political reforms that will take many years of sustained action by government, including changes to the electoral system, significant legislation, and the empowerment of bodies such as the integrity commission. As Kadhimi does not seek to compete in the election scheduled for May 2022, he may

be emboldened to pursue reforms that other prime ministers would shy away from. For example, at his [first press conference](#), he talked about the necessity of reducing public sector salaries despite the political pressure such a stance would put him under. Tough decisions will have to be made that will undermine some of the entrenched power structures in the system. The backlash will be politically costly for Kadhimi and could have wider security implications. Painful economic reforms may well lead to public unrest. However, given the magnitude of Iraq's predicament, some of the opposition to reform could be lessened if the Iraqi government successfully shifts the spotlight of blame onto political parties represented in parliament. Kadhimi could make clear to the general public that parliament is blocking reforms and is, therefore, responsible for extending the crisis Iraq faces – something that all parties want to avoid.

The biggest potential obstacles to the reform process are, of course, those political forces that stand to lose from it and that, therefore, aim to protect the status quo. Members of parliament constantly shift between the two major blocs, Islah and Bina. When voting on issues such as financial reform, they seek to avoid cuts and push for increased public spending and hiring. The two blocs negotiated hard during the process of forming the government, and the entire Kadhimi cabinet was subjected to a quota system designed to ensure representation for the blocs' various parties. Kadhimi suffered an early symbolic defeat when parliament passed a motion that rejected cuts to salaries and pensions. As the dire nature of public finances became clearer in June, parliament issued legislation allowing the government to borrow internally and externally.

Serious attempts to carry out reforms to the security and justice systems could invite a backlash from a political elite that is eager to protect itself. Given that many parties have an armed wing – and are willing to use it to prevent the arrest of their leaders and members – it is even possible that far-reaching reforms, though unlikely, could lead to violence. The presence of these armed wings explains why the judiciary pursues very few cases involving individuals with political connections. As a result, protesters have focused on the need for a strong, independent judiciary that is able to take on these cases. But, without reform of the judiciary, this public pressure will not lead to improved outcomes.

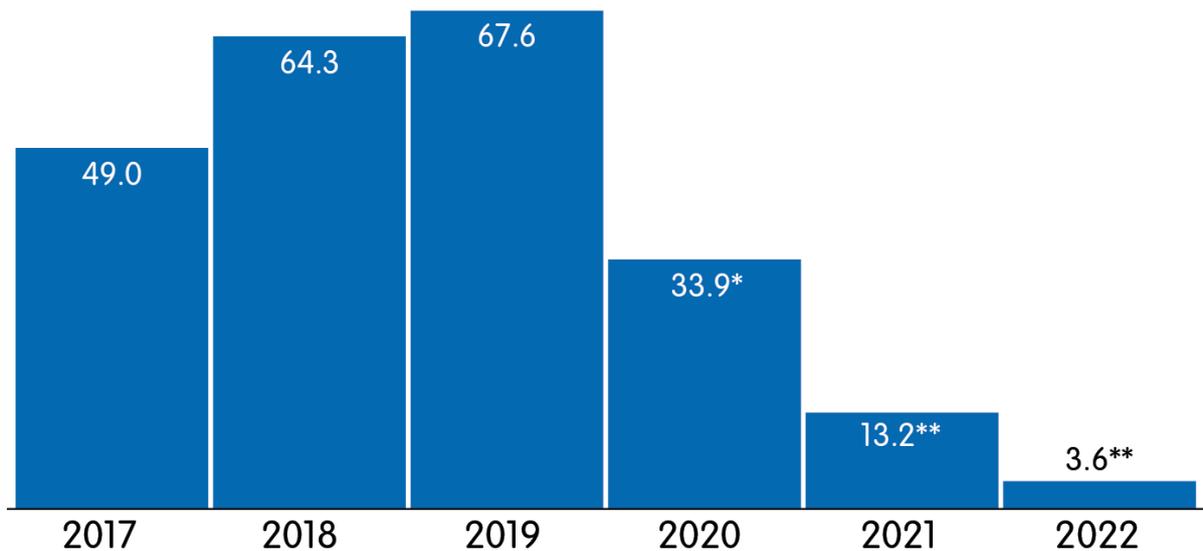
An example of the difficulties this issue involves is the case of Muqtada al-Sadr,

whose party has the largest number of MPs in parliament. Sadr responded to accusations of corruption against members of his party by unilaterally “punishing” them rather than handing them over to the authorities. When the demonstrations became more charged in late January and early February, Sadr deployed his “blue hat” counter-protest units to break them up. In a subsequent interview, he stated that he was thinking of bringing back the Mahdi Army, which was accused of some of the worst abuses and [violence before 2010](#). Sadr is but one member of the political elite with such a paramilitary following, but his case illustrates why judicial reforms will be so difficult.

Tension between Iran and the US could also be a major obstacle to security reform. Fateh and its allies could prevent the Kadhimi government from carrying out reforms – and even remove him if they feel he is overreaching on security matters and they see his dismissal as a way to weaken the US in Iraq. There could also be a rise in attacks by pro-Iranian groups on US targets in response to increased tension, damaging the Iraqi state’s ability to uphold the rule of law.

Time is not on Kadhimi’s side. Given the economic and security backdrop, Iraq only has a small window of opportunity to begin making progress. By 2022, Iraq will be close to running out of budget reserves if it has not managed to reduce public spending and borrowing significantly. And, on the current trajectory, ISIS could be fully resurgent by that time too. If the US maximum pressure campaign continues – and escalates – after the November presidential election, there will be an increasing chance of a clash between Tehran and Washington in Iraq that further destabilises the country. Without progress on reforms, the protesters will begin to run out of patience and many more Iraqis could join them.

Iraqi gross reserves (US\$ billion) 2017-2022



*Estimated **Projected

Source: World Bank
ECFR · ecf.eu

What Europe should do

Despite their wariness of the risks posed by an escalation in tension between Iran and the US, the EU and its member states have no clear and unified plan for how to advance European goals in Iraq. The security-focused approach to assisting Iraq – which has been the principal feature of European states’ policy on the country in recent years – will not yield long-term security improvements unless it is part of a comprehensive strategy that includes governance and economic measures. While the EU as a whole provides non-security assistance to Iraq – most of it for stabilisation efforts – it needs to tie this more closely to a broader governance reform process.

The formation of the Kadhimi government and US-Iraqi negotiations over a troop withdrawal both provide a political opening for Europe to undertake greater commitments in Iraq and rely less on the US. The US has traditionally provided more support to Iraq than any other Western country. However, the political situation precludes significant increases in assistance, and the US is already reducing its support. Iran is, to a certain extent, filling this void to preserve its economic, security, and political interests in Iraq. Iraq itself has [made clear](#) that it

is open to increasing engagement with its European partners to help it in the delicate political balancing act between the US and Iran.

Baghdad has the appetite and political space to allow European nations to do more to stabilise Iraq, but this will first require greater European focus and investment. Europe faces myriad challenges in the Middle East at the current moment, but it should see Iraq's stability as important given the manner in which the further implosion of the country could have an impact on key European interests.

High-level diplomatic outreach

In a recent call to Kadhimi, Josep Borrell, the EU's high representative for foreign affairs, confirmed the [bloc's readiness](#) to step up its support to the new Iraqi government as it undertook reforms, and that Europe had a vital interest in a stable, prosperous, and democratic Iraq. In January, shortly after the assassination of Soleimani, EU foreign ministers provided Borrell with a strong [mandate](#) to pursue a regional security dialogue. This laid the groundwork for renewed engagement with Iraq, including a potential visit by Borrell to Iraq and the beginning of political engagement aimed at full implementation of the [Partnership and Cooperation Agreement](#), which was finalised in 2012 and came into force in 2018. The EU member states that are most engaged with Iraq (such as Germany, France, Italy, Spain, and the Netherlands), together with the United Kingdom, will be important drivers of this approach.

The EU needs to start this process by launching a meaningful and frank high-level dialogue with the key Iraqi political players, aimed at encouraging and supporting urgently needed economic, security, and political reforms. Given that such reforms will predominately be determined by an intra-Iraqi conversation, external interventions should be carefully calibrated. While Europeans should continue to stress the need for Iraqi commitments to the rule of law – and, in particular, safeguarding the right to peaceful protest – they are likely to have more impact by focusing their immediate efforts on the economic and security sectors. This would, in turn, help give the new government momentum to address political issues.

Conditional economic support

As part of the endeavour, European governments and the EU should focus on

providing economic assistance to Iraq on a conditional basis, ensuring that Iraq meets key governance and reform metrics to unlock packages of support. This conditionality needs to be designed in such a way that it provides the Kadhimi government with the support and impetus it needs to drive through reforms at the minimum political cost. European governments and the EU should provide assistance not as aid but as an incentive and an enabler to open up the Iraqi economy to European investment in key sectors, such as agriculture, finance, transport, and energy. This assistance could include micro-financing; support for small projects and entrepreneurial ventures; job-creation programmes; measures related to promoting the transition to a digital economy; and training schemes to help young people gain employment.

European technical support can also play a role by advancing improved local governance efficiencies in basic services and financial management. This support could be provided through the deployment of advisers and consultants to increase capacity in ministries and service directorates. A similar scheme funded by the US Agency for International Development and the World Bank saw advisers assist the reform agenda at the prime minister's office under Abadi and enabled the government to gain IMF support. A similar but larger European-led programme targeting [delivery units or fast-track teams](#) – small groups within the senior levels of the executive that are empowered to focus on quick, tangible wins and help important projects make progress – would be welcomed by the Iraqi government and could lead to a number of early successes. Should Iraq make an IMF loan request (which looks likely), it will be supported by the Europeans provided that the funds come with conditionality that ensures the country will use them appropriately and make progress on economic reforms.

Increased reconstruction efforts

Given their participation in the anti-ISIS coalition, European countries need to provide greater support to post-conflict reconstruction efforts in northern and western Iraq. Current international efforts are largely aimed at stabilisation measures – which are still progressing too slowly to meet local needs – while there is less thought being given to longer-term reconstruction efforts. Local governments lack the resources and capacity to effectively implement reconstruction goals. In 2018 [the EU and Kuwait co-sponsored](#) the International

Conference for Reconstruction of Iraq. European governments could now look at the outcomes of the conference to see where small but important short-term projects can be delivered quickly to address local problems for the residents of liberated areas. Europeans should consider embedding teams and advisers in Iraqi provinces, so that they gain better first-hand knowledge of the situation and can assess needs on the ground.

In light of the Kuwaiti conference, European governments should also help maintain the international focus on mobilising and locking in financial support for Iraqi stabilisation, especially given the country's deteriorating economic conditions. An Iraqi cabinet office source has reportedly suggested that, more than two years after the conference, Iraq has received none of the more than [\\$30bn pledged](#) to it. This conflicts with an EU statement that it is fully [delivering on pledges](#).

An increased security presence via a NATO mission

Given the US-Iran rivalry and continuing discussions on US troops' withdrawal, there is a need for European countries, particularly coalition and NATO mission members, to increase their presence in Iraq. This should be aimed at enhancing security and technical assistance to Baghdad, to continue the counter-insurgency fight against ISIS at a time when the US administration is distracted by the November election and Trump's stated desire to withdraw US troops from Iraq. Enhanced European support to NATO and coalition efforts – such as those that increase the capabilities of the ISF and its trainers, which would eventually make them less reliant on foreign support – would aim to avoid domestic Iraqi criticism aimed at the US, while also safeguarding European security partnerships from possible tension in US-Iraqi relations. The NATO mission in Iraq, established in [October 2018](#), will likely have an increasingly important role as the coalition winds down. Denmark will take over leadership of the mission by the [end of 2020](#), and Europe could use this role to increase its capacity to provide counter-terrorism training and support. Although this is not a traditional NATO strength, Iraq is more in need of such support than conventional armed forces training.

An increased European security and military presence in Iraq would no doubt entail added risk to European troops from either a resurgent ISIS or conflict

between the US and Iran. However, European states could seek to offset this risk through both defensive measures to protect their forces and political efforts to reach out extensively to Iraqi political factions. In particular, European activities in Iraq should be visibly distinct from US unilateral actions in the country. The EU and its member states could also collectively seek an agreement with the Iraqi government specific to the European military presence.

An effort to ease US-Iran tension in Iraq

European states – and the E3 Joint Comprehensive Plan of Action signatories (Germany, France, and the UK), in particular – should press both Iran and the US not to see Iraq as a venue for regional competition. Europe’s close ties to all three actors lend it privileged access and channels; its help in achieving this goal could provide Kadhimi’s government with vital room for manoeuvre domestically.

European governments and the EU also need to begin a much larger exercise in political outreach to the US administration and Congress on the future of Iraq. This should be a high-level, multi-agency effort seeking clarity on US policy on Iraq – which has shared interests with EU policy on the country – and how to avoid conflicting approaches. It should include pressing the US to see the emergence of a strengthened, independent Iraqi state as being in its interest, a development that would be hindered by Iraq becoming a battleground in a wider regional conflict. Through economic and security outreach, Europeans should encourage the US to invest in support that will help the country to stand on its own two feet. It would be a mistake for the US to reduce the duration of its sanctions waivers that allow Iraq to import electricity from Iran. Given Iraq’s dire electricity needs, this would undermine Kadhimi’s efforts to stabilise the country.

Continued US pressure on Iraq to break ties with Iran is likely to provoke increased polarisation within the country – polarisation that, so far, has only benefited pro-Iranian forces, as in the case of the government’s decision to force US troops out of the country. It would be smarter to instead focus US and international efforts on stabilising the Kadhimi government and allowing it to undertake reforms. Such measures would make Baghdad less dependent on all external actors, including Iran.

At the same time, Europe should step up its dialogue with Iran on Iraq. The main

message to Tehran must be to maintain a ceasefire with the US in Iraq and to avoid increasing military tension inside the country. This includes Iranian support for PMF groups that bypasses the Iraqi federal government. European countries at the forefront of discussions with Iran, notably the E3, must ensure that Iraqi stability continues to be a focus of their engagement with Iranian leaders. They should stress that all external attempts to destabilise the country will be seen as contrary to European interests and that further escalation runs the risks of causing an increased US military response against Iranian assets. Europeans might explore whether there are avenues for joint European-Iranian cooperation, such as holding a forum with European and Iranian diplomats based in Iraq – in which they could discuss issues such as reconstruction, development, and trade in a mutually beneficial manner.

For Europe, despite the immense challenges Iraq faces, the cost of inaction – or of allowing a continuing stagnation of the economic, political, and security landscape in the country – will be high. European governments need to keep an active presence in Iraq to support security partnerships and, especially, to combat any ISIS resurgence. An escalation in the US-Iran rivalry and political instability in Iraq have provided ISIS with the opportunity to start making a comeback. Moreover, a deepening crisis in Iraq will allow for greater Iranian interference in the country. The Kadhimi's government failure to address public concerns could give rise to a more hardline Iraqi politics that is increasingly misaligned with European interests. This could empower conservative parties with the funds, weapons, and votes to bring in hawkish governments that view Europe in a similarly negative light as the US.

Iraq's political and security landscape has long been complex, and European actors have often been secondary to major players in the country such as Iran and the US. But it is clear that both the Iraqi public and the new government are looking for a new set of partnerships with these external players. This Iraqi search for the right balance also opens up space for greater European engagement and an alternative range of options to those presented by Iraq's traditional partners. Europe should seek to use the political momentum created by the new Iraqi government's formation and US-Iraqi negotiations to establish its own policy partnerships with Iraq, aiming to better protect European security and economic interests in the region.

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[1] Interview with an official from the Iraqi prime minister's office, Baghdad, May 2020.

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