

# Iraq as a Failed State

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The last few weeks have shown that Iraqis have effectively run out of patience with what has become yet another failed, corrupt government. Part of this is sheer frustration with the government's incompetence and corruption – coupled with its failure to develop an effective recovery effort in the large Sunni areas in the West affected by the fight against ISIS, and its chronic failures to meet the needs and expectations of the rest of its population.

What is less apparent, however, is just how bad things in Iraq really are. Its problems are not short-term political issues that can be solved by reforming its government and cutting corruption. They are products of deep sectarian and ethnic tensions and almost continuous war or crisis from the beginning of the Iran-Iraq War in 1980 to the present – a period of some 40 years.

Today's upheavals are not the result of some sudden form of local "populism." There has never been a modern government in Iraq that pursued effective efforts at economic development and meeting the broader needs of its people. In some cases, like its agricultural development, and creation of some of the most expensive and unproductive state-owned enterprises (SOEs) in the world, they trace back to at least the fall of the monarchy in July 1958.

These structural problems are so great that they make Iraq the equivalent of a failed state – a reality that the U.S. seems unready to face. They have been compounded by Iran's exploitation of its influence in Iraq, and by the fact that the defeat of the physical "caliphate" in Iraq has not meant the defeat of ISIS, the end of terrorist attacks and extremism, or the end of ethnic and sectarian tension. At the same time, these problems have been compounded by the lack of any coherent U.S. effort to help Iraq deal with the full range of its structural problems, fully rebuild its military forces, and make it strong enough to become a key buffer between Iran and the rest of the Gulf.

U.S. and Iraqi military-to-military relations remain relatively good at a professional military level, but the U.S. does not seem to have any clear overall policy to deal with Iraq's deteriorating political, governance, and economic situation, or to support any serious form of national building. In addition, America's erratic policies in dealing with Syria and Iran, and in checking Russian influence, have created the same growing distrust of the U.S. that affects all of the Arab Gulf states. In short, Iraq shows all too many signs that Iraq is returning to the level of internal instability that led to low-level civil war in 2011 and the rise of ISIS.

The U.S. does need to adjust its broader policies to reestablish Iraqi confidence in America's ability to lead and act in the Gulf, but it also needs to address Iraq's deep structural failures as a state. The U.S. should not repeat its past mistakes in nation building and in imposing its own systems and values regardless of Iraq's needs and capabilities. It must, however, be realistic and help Iraq move forward – just as it needs to be equally realistic about the failures of the host country governments in its other wars – issues addressed in another Burke Chair study entitled *Afghanistan, Iraq, Syria, Libya, and Yemen: The Long-Term Civil Challenges and Host Country Threats from 'Failed State' Wars*.<sup>1</sup>

## Table of Contents

<b>WRETCHED GOVERNANCE AND MASSIVE CORRUPTION .....</b>	<b>2</b>
<i>Figure One: How Polls Correlate to Governance Indicators in the Case of Iraq .....</i>	<i>5</i>
<i>Figure Two: World Bank Governance Indicators for Iraq .....</i>	<i>6</i>

<b>SEVERE POPULATION PRESSURE .....</b>	<b>7</b>
<i>Figure Three: Growth in Iraq’s Rural and Urban Populations .....</i>	<i>8</i>
<i>Figure Four: Map of Iraq by Religious Groups – Part One.....</i>	<i>9</i>
<i>Figure Four: Map of Iraq by Ethnic Groups – Part Two .....</i>	<i>10</i>
<b>ACUTE STRUCTURAL POVERTY IS NOT ECONOMIC DEVELOPMENT .....</b>	<b>11</b>
<b>OIL WEALTH IS NO WEALTH FOR MOST IRAQIS.....</b>	<b>11</b>
<i>Figure Five: Rise of Undernourishment in Iraq 1990-2018.....</i>	<i>12</i>
<b>A CRITICALLY LOW GNI PER CAPITA, POPULATION PRESSURE, THE “YOUTH BULGE,” AND JOBS .....</b>	<b>12</b>
<i>Figure Six: GDP in Real per Capita has Barely Grown.....</i>	<i>13</i>
<i>Figure Seven: Iraq’s Poor Business Climate and Glut of Government Jobs .....</i>	<i>14</i>
<b>THE STRAIN OF SECURITY SPENDING .....</b>	<b>15</b>
<b>DEFEATING EACH NEW ROUND OF EXTREMISTS AND CIVIL WARFARE IS POINTLESS WITHOUT REFORM AND CHANGE.....</b>	<b>15</b>

## **Wretched Governance and Massive Corruption**

Iraq faces major challenges in recovering from its long history of wars since 1980, and the legacy of its human challenges are as great as its economic ones. If one only looks at recent wars, Iraq Body Count (IBC), one of the most credible sources of estimates for that war, estimated 183,967-206,642 documented civilian deaths since 2001 as of late September 2019, and 288,000 civilian and combatant deaths (many of the combatants being civilians suddenly thrust into combat roles).

No equally credible estimate of directly wounded and injured is available, but it seems likely the numbers would be at least equal. To put the overall level of uncertainty in the Iraq War in perspective, the *Washington Post* reports that a study called the University Collaborative Iraq Mortality Study issued in October 2013 estimated much higher totals

From March 1, 2003, to June 30, 2011, the crude death rate in Iraq was 4.55 per 1,000 person-years (95 percent uncertainty interval 3.74-5.27), more than 0.5 times higher than the death rate during the 26-month period preceding the war, resulting in **approximately 405,000 (95 percent uncertainty interval 48,000—751,000) excess deaths attributable to the conflict**. Among adults, the risk of death rose 0.7 times higher for women and 2.9 times higher for men between the prewar period (January 1, 2001, to February 28, 2003) and the peak of the war (2005—2006). We estimate that more than 60 percent of excess deaths were directly attributable to violence, with the rest associated with the collapse of infrastructure and other indirect, but war-related, causes.<sup>2</sup>

In addition, there are still hundreds of thousands of displaced Iraqis, and Iraq has so far failed its largely Sunni population in the West by rebuilding effectively after the fighting with ISIS and creating a new economy that provides an adequate amount of meaningful jobs for most of its population. Recent polls indicate that at least half its population feel that poverty, employment, and price increases remain major challenges.

The Arab Barometer, one of the most respected sources of comparative polling in the Arab world, did a comprehensive study of Iraq in October 2019, entitled *Arab Barometer V: Iraq Country Report, 2019*; [https://www.arabbarometer.org/wp-content/uploads/ABV\\_Iraq\\_Report\\_Public-Opinion\\_2019.pdf](https://www.arabbarometer.org/wp-content/uploads/ABV_Iraq_Report_Public-Opinion_2019.pdf). This poll showed all too clearly how little faith all Iraqis have in their current government and political process. It found that,

...Trust in parliament and the judiciary have seen double-digit drops since 2011. Corruption remains high among the challenges Iraqis suggest are facing their country, and one-in-four believe that corruption pervades national state agencies and institutions to a large extent. Evaluations of the economy are not much better: two-in-ten evaluate the economic situation in 2019 as good, down from half in 2013. Only 16 percent of Iraqis indicate they are generally satisfied with the overall government performance.

The May 2018 elections, which registered record low turnout since 2005, and the subsequent months-long struggle to form a government have not helped these perceptions, if not outright contributing to them. In fact, the majority (60percent) believe that the elections were neither free nor fair.

These negative assessments of political institutions, government performance, and the economy may underpin beliefs that Iraq is experiencing a decline in democracy, with only 23 percent saying that the country is somewhat democratic. Still, the majority (75 percent) believes that democracy, despite its flaws, is better than other forms of government.

A final noteworthy trend relates to views of the United States. While 63 percent of Iraqis want to open up the country to the rest of the world to a greater extent, the U.S. is not one of the countries with which Iraqis generally want stronger relations. Instead, majorities (or near majorities) want ties with China, Turkey, and Russia. That said, there is significant regional variation in views on policies and relationships with the U.S., with the North and West regions of the country generally being more favorable than Baghdad and the South.)

... majorities believe that it is necessary to pay *rashwa* (a bribe) to access better education (53 percent) and healthcare (56 percent), and 94 percent report that a *wasta* frequently is used to gain employment. (*wasta* implies approaching someone with clout to bypass a formal or established process otherwise used to access a job, service, license, etc. *Wasta* is frequently understood as a form of nepotism or cronyism.) Meanwhile, only 22 percent think that the government is serious about fighting corruption, a 13-point drop from 2013.

... The share of Iraqis who believe that the government has done a good job at creating employment opportunities has dropped from 29 percent in 2013 to just 6 percent in 2019 (-23 points). Entrepreneurship appears to be stilted by bureaucratic hurdles. Just two-in-ten say it is easy to register a business, three-in-ten say the same about acquiring building permits...41% of Iraqis believe that internal factors are the primary cause of the lack of development in the Arab world versus 32% that blame external factors.

When it came to corruption, the Arab Barometer poll found that Iraq ranked second in the Arab world in terms of the percentage of Iraqis that found corruption existed to a large percent (77 percent). When it came down to identifying the nation's most important challenges, 32 percent of Iraqis listed corruption, 18 percent listed the economy, and 13 percent more listed public services and political issues: A total of 63 percent. Only 10 percent listed fighting terrorism – mostly in the areas threatened directly by ISIS – and another 10 percent saw foreign interference, to be an equal threat.

The United States had good political intentions, but it played a critical role in creating a constitution that failed to establish effective representation and instead created national lists of partisan and self-seeking political parties – as well as dysfunctional legislative control of finances. Poll after poll has shown that elections have failed to build popular trust and confidence.

Worse, the percentage of Iraqis showing a lot of trust in Parliament dropped from 28 percent in 2011 to 13 percent in 2018, trust in the judiciary dropped from 54 percent to 38 percent, and trust in the Army rose from 69 percent to 84 percent. The number of Iraqis believing that democratic regimes are ineffective in maintaining order and stability rose from 23 percent in 2011 to 52 percent in 2018, and the number feeling democratic systems weaken economic performance rose from 26 percent to 51 percent. **Figure One** shows that another poll found that 73 percent of all Iraqis polled feel their government is not accountable to its citizens, and 55 percent feel that strongly – a devastating loss of confidence in democracy and the rule of law.

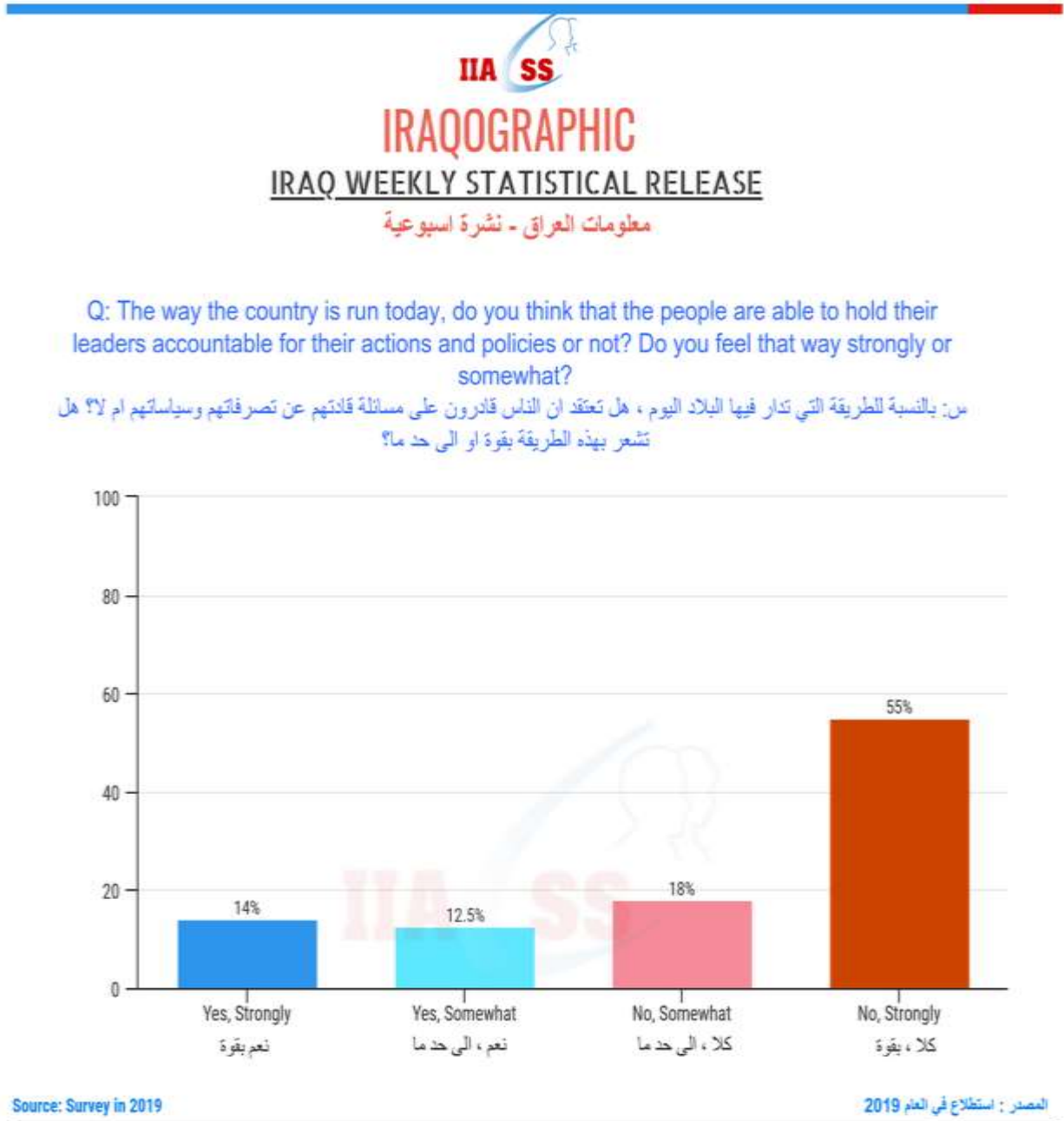
*Outside experts also rate Iraq as having one of the worst governments in the world. Figure Two shows the World Bank estimates of all of its rankings of governance for Iraq – showing the country’s percentile rank in blue and the margin of uncertainty or possible error in gray. Iraq’s governance rankings have been consistently dismal since at least 1996, and this is as true of governance at the local level as it is at the national level.*

The World Bank data do show some limited positive trends after 2004, when Iraq acquired a less repressive mix of governments. This progress, however, was limited and only occurred in three of six categories. Transparency International rates Iraq 168<sup>th</sup> out of 180 countries in 2018, making it the 13<sup>th</sup> most corrupt country ranked. Similarly, the Arab Barometer – Wave V, *Iraq Country Report 2019*, found that 74 percent of Iraqis felt their government was corrupt to a large extent, and 19 percent more felt it was corrupt to a medium extent.

Part of this is the legacy of the mistakes made when the U.S. rushed efforts to restore Iraq independence, and left it with a constitution that called for national party lists instead of electing representatives from given constituencies – an almost ideal way of encouraging fragmentation into national parties based on ideology, sect, and/ethnicity. It is also partly a function of the fact that there is no clear mandate and structure for effective planning and budgeting and fiscal control.

Given these structural failures, it is hardly surprising that, the central Iraqi government in Baghdad is relatively weak and has so far been ineffective in dealing with the cumulative consequences of fighting Al Qaida, Islamists, and ISIS since 2004. It is not healing the deep divisions between Sunni and Shi’ite or the tensions between Arab and Kurd, and there is no emerging unity among the Sunni, Shi’ite, and Kurdish factions. Unlike Afghanistan, Iraq’s oil export revenues help it reduce some of its failures as a state, but – as is noted shortly – they are not high enough to allow Iraq to meet the core needs of its growing population or substitute for the failures in Iraqi governance that now limit its future development.

## Figure One: How Polls Correlate to Governance Indicators in the Case of Iraq



\*IIACSS (almustakila) is the pioneer polling and market research firm in Iraq and Arab region

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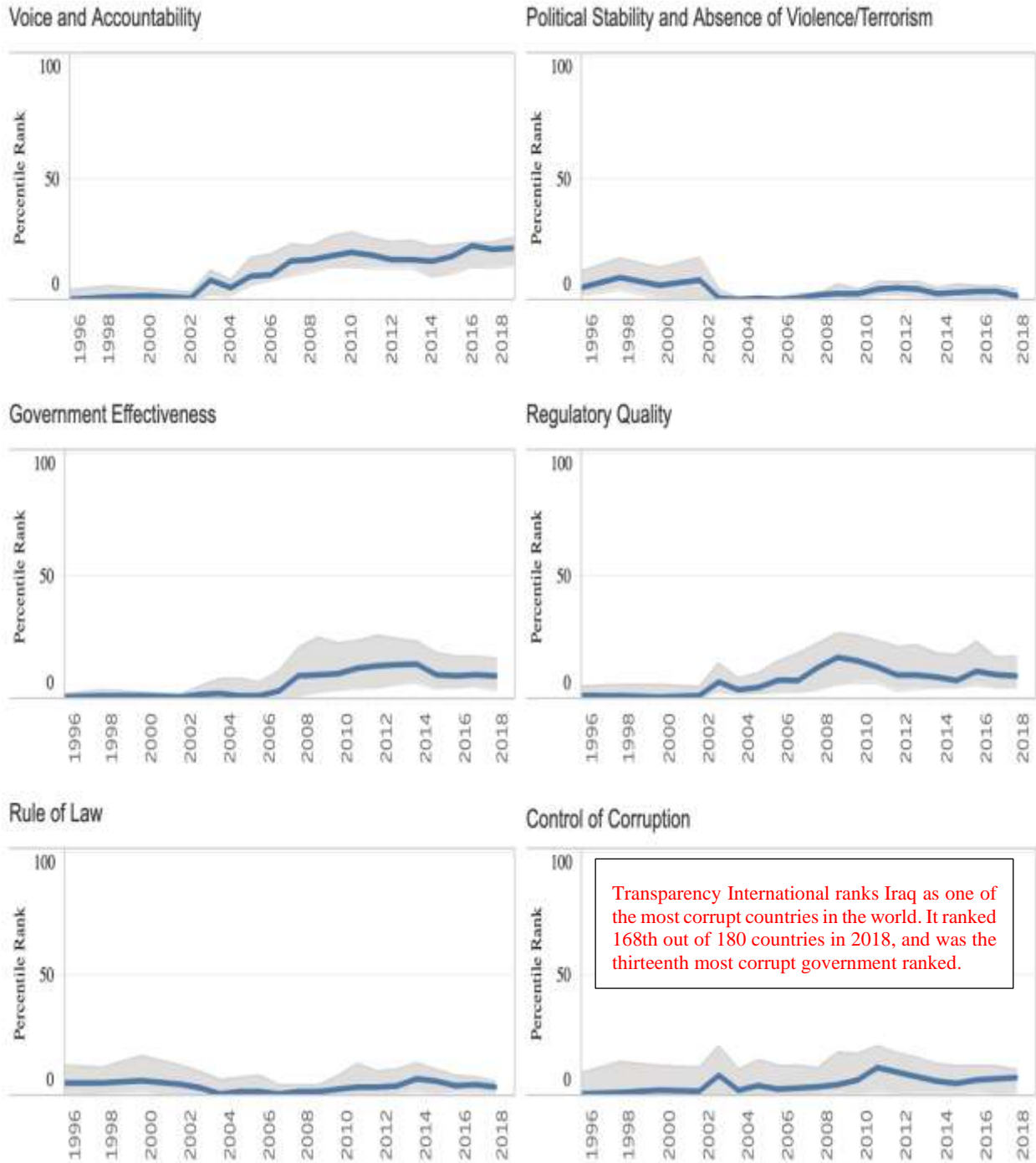


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المعلومات الواردة في هذه الرسالة تعود ملكيتها للشركة المستقلة للبحوث ويمنع اي استخدام مباشر او غير مباشر لها دون الاشارة الى الشركة المستقلة للبحوث

**Figure Two: World Bank Governance Indicators for Iraq<sup>3</sup>**



Transparency International ranks Iraq as one of the most corrupt countries in the world. It ranked 168th out of 180 countries in 2018, and was the thirteenth most corrupt government ranked.

The solid blue line shows the selected country's percentile rank on each of the six aggregate indicators. The grey-shaded region indicates the margin of error.

Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), *The Worldwide Governance Indicators: Methodology and Analytical Issues* - [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1682130](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1682130)

## Severe Population Pressure

An endemic history of failed governance and acute corruption is only one part of Iraq's status as a "failed state." Iraq faces massive population pressures in spite of its wars. The U.S. Census Bureau's international database estimates that its population increased by 8.0 times from 5.16 million in 1950 to 41.2 million in 2019. It has increased by some 3.1 times since the beginning of the Iran-Iraq War began in 1980, and done so in spite of the first Gulf War in 1990-1991 and the fighting from 2003 to the present. It also has a very young population that is desperate for real jobs, and its "youth bulge" will increase for at least another decade.

The CIA World Factbook estimates that Iraq's median age is only 20.2 years, that 39.1 percent of its population is 0-14 years old, and that 19.42 is in the critical 15-24 years of age category that needs jobs and careers. It also estimates that 72.3 percent of its population is young enough to be dependent on older employed Iraqis for their food, housing, and existence. As Frank Gunter, a senior fellow in the Foreign Policy Research Institute's Program on the Middle East, put it:

Iraq is a young country and each year over 800,000 Iraqis become old enough to seek employment. Even after adjusting for the retirements and extremely low labor force participation by women, the Iraq economy must create about 340,000 additional jobs each year simply to keep the number of unemployed — mostly uneducated, unskilled young men — from growing. Unemployed young men have little chance of becoming married and therefore are not only a burden on their families but are looked down upon in Iraqi society.<sup>4</sup>

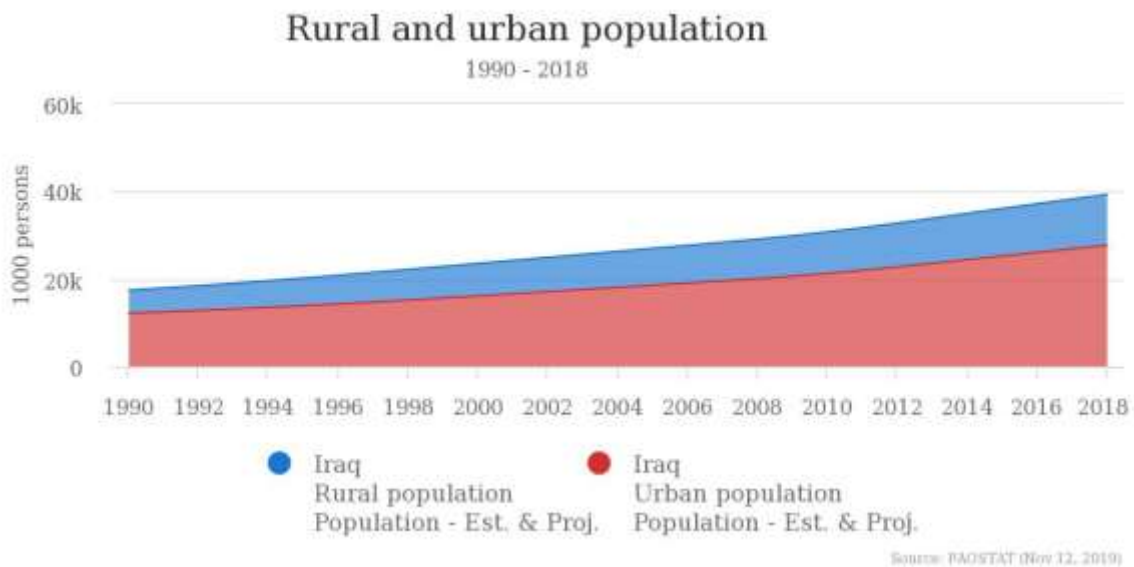
This population is still deeply divided along sectarian and ethnic lines. The CIA estimates that the population is 95-98 percent Muslim but is divided between Shia 64-69 percent and Sunni 29-34 percent. Some estimates indicate that some 50 percent to 90 percent of non-Muslims have been forced to leave since 2003, but the CIA estimates that minorities still include Christian 1 percent (includes Catholic, Orthodox, Protestant, Assyrian Church of the East), other 1-4 percent (2015 est.).

As for ethnic divisions, the CIA estimates that Arabs make up 75-80 percent, Kurds make up 15-20 percent, and the other 5 percent includes Turkmen, Yezidi, Shabak, Kaka'i, Bedouin, Romani, Assyrian, Circassian, Sabaeen-Mandaean, and Persian minorities.

War and economic change have also forced this population to concentrate in urban areas and interact far more directly. Iraq is now 70.7 percent urbanized, and urbanization rises by over 3 percent per year according to UN estimates of the trends in urbanization in Iraq. Iraq has already made the shift from an agricultural society to a largely (70+ percent) urbanized one. Yet, Iraq still has a comparatively high rate of annual urbanization (3+ percent).

**Figure Three** shows the growth in Iraq's rural and urban populations from 1990 to 2018. The CIA estimates that six cities have a major portion of its population — 6.643 million in Baghdad (the capital), 1.527 million in Mosul, 1.299 million in Basra, 981,000 in Kirkuk, 821,000 in Erbil, and 820,000 in Najaf (2018).



Figure Three: Growth in Iraq's Rural and Urban Populations<sup>5</sup>

These cities mix Sunnis and Shi'ites, and Arab, Kurds, and minorities, to very different degrees. Sectarian tensions have been particularly high in Baghdad, and ethnic tensions have been high in Kirkuk. A mix of sustained periods of crisis and conflict since 1980, and terrible government policies that subsidize unproductive and overpaid state industries with high levels of corruption, have created serious tensions over employment, modernization, and support for the government in all of these urban areas.

There are no census figures that provide a clear picture of the present divisions of Iraq along ethnic and sectarian lines with any clear data on population concentration in urban areas. **Figure Four** is probably broadly correct however, in displaying the geographic divisions within Iraq along religious and sectarian lines. Apart from small pockets of Christian and Alevi groups in the north, Baghdad functions as the dividing line between Sunni groups in the north and Shia groups in the South. However, the division between the two largest ethnic groups in Iraq, Arabs and Kurds, cuts from the northeast – through Mosul and Kirkuk – as far south as the Baghdad region.

**Figure Four: Map of Iraq by Religious Groups – Part One<sup>6</sup>**

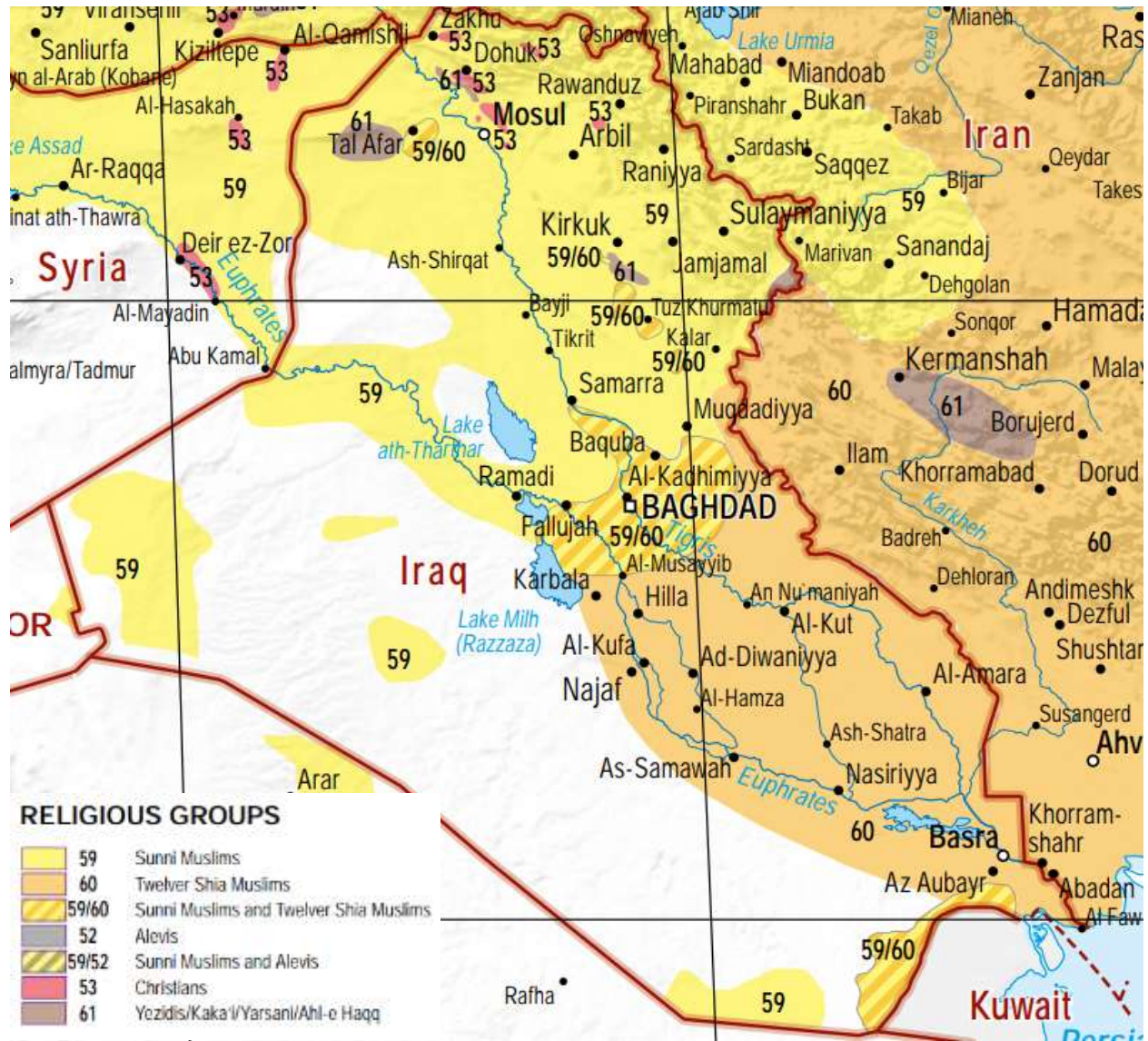


Figure Four: Map of Iraq by Ethnic Groups – Part Two<sup>7</sup>



## **Acute Structural Poverty is Not Economic Development**

The World Bank describes Iraq's economy as follows in its *Macro Poverty Outlook: Country-by-Country Analysis and Projections for the Developing World* in October 2018. [https://datacatalog.worldbank.org/dataset/macro-poverty-outlook:](https://datacatalog.worldbank.org/dataset/macro-poverty-outlook)

Post-conflict recovery will remain the driving force of the non-oil economy in the coming years while overall economic growth will experience a modest recovery in 2018 before picking up noticeably in 2019 thanks to higher oil production. The durability of the non-oil rebound depends on the quality of the reconstruction process. Higher oil prices will allow space to finance reconstruction, if recurrent spending restraint is maintained. Poverty reached 22.5 percent in 2014 and two million of Iraqis remain displaced.

With oil prices expected to rise, Iraq's government will have ample fiscal space to finance reconstruction, provided that the process of fiscal consolidation continues. Relations with KRG are improving after the rupture related to the independence referendum in 2017; the federal government agreed to resume transfers and KRG total revenue is sufficient to pay salaries and pensions. Growth and the budget surplus are estimated to further reduce the public debt-to-GDP ratio from 67.3 percent in 2016 to almost 55 percent. The government also adopted a framework to control the issuance of guarantees, which reached US\$33 billion (or 20 percent of GDP) in end-2016 and these guarantees, most related to the electricity sector, are now believed to be under control.

...The poverty rate increased from 18.9 per-cent in 2012 to an estimated 22.5 percent in 2014. Recent labor market statistics suggest further deterioration of welfare. The un-employment rate, which was falling before the crises, has climbed back to the 2012 level. Almost a quarter of the working-age population is underutilized, i.e., they are either unemployed or underemployed. Many households are prone to adverse shocks; more than a third of the house-holds has experienced an adverse event since the beginning of the crises and one in six households has experienced some form of food insecurity in the month preceding the survey. The universal food ration (Public Distribution System, PDS) remains the most extensive social assistance pro-gram, but people have also turned to friends and relatives and humanitarian agencies for assistance. Internally dis-placed persons (IDPs) have been buffeted by multiple adverse shocks: they have lost much of their wealth through destruction of assets; they have seen family members die, get sick, or become injured at a higher rate; and they have faced loss of jobs or businesses. These shocks have occurred at a time when their capacity to cope with shocks has been further strained. Fewer IDP adults have a job, so each employed adult in an IDP household supports more than six other household members. Some IDPs have lost access to the PDS. The cumulative impact of these developments on IDPs is visible in several dimensions, including a higher risk of hunger.

Challenges remain due to political risk, dependency on oil revenue and the regional situation. Continued political uncertainty following the elections could delay economic recovery in the conflict-affected governorates. Absence of a clear commitment in the 2018 budget on wage bill management and subsidy reduction could weaken the fiscal consolidation and absorb the fiscal space otherwise available for reconstruction. The ISIS threat cannot be considered entirely vanquished unless stabilization is also achieved in Syria. Iraq's capacity to expand oil production and exports remains constrained, further exacerbating risks from a reduction of oil prices. The imposition of sanctions on Iran by the U.S. administration could curb non-oil trade as Iran is the largest non-oil trade partner of Iraq, and result in higher prices of key commodities.

## **Oil Wealth is No Wealth for Most Iraqis**

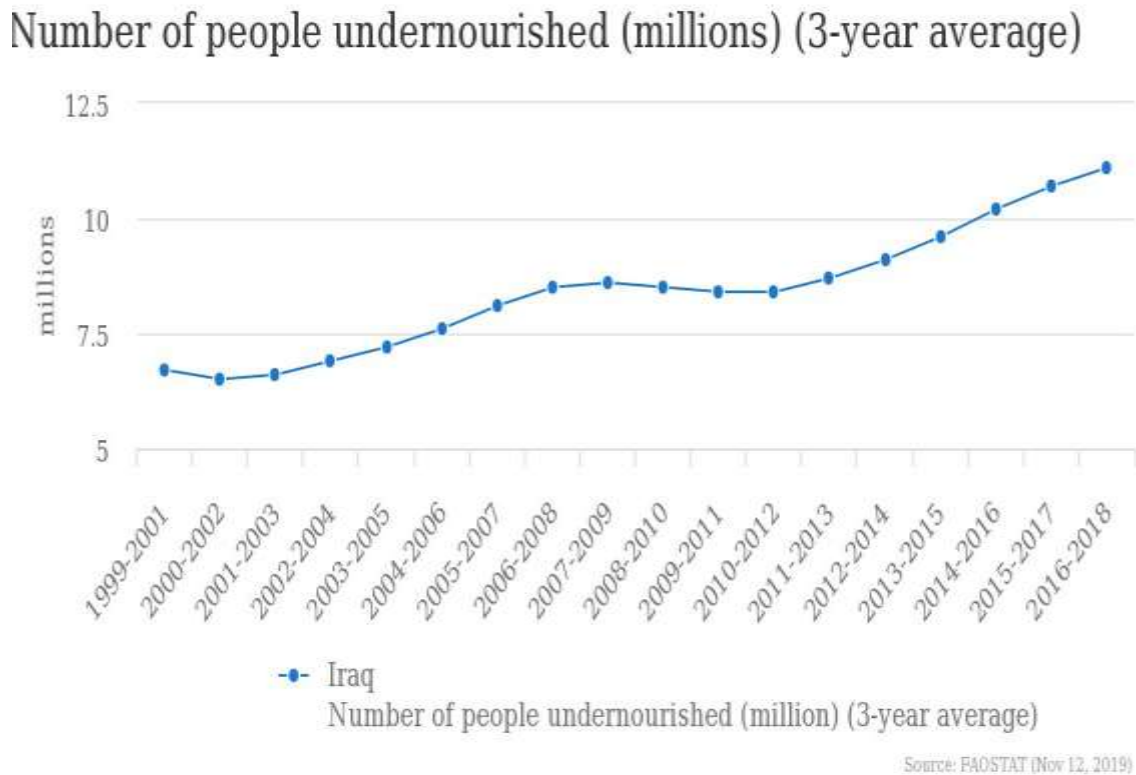
At present, Iraq's oil wealth benefits a relatively small elite in its power structure, and it is critical to put Iraq's oil earnings in perspective. Even if its oil export income was distributed fairly and productively, it is relatively limited in per capita terms.

An August 2019 analysis by the U.S Energy Information Administration notes that it fluctuated sharply from year-to-year during 2017 through mid-2019, but only averaged \$1,797 in 2018 U.S. dollars in 2017, \$2,304 in 2018, and \$1,269 in the first half of 2019.

To put these totals in perspective, petroleum income per capita in 2018 was \$13,683 in Kuwait, \$7,098 in Saudi Arabia, and \$7,797 in the UAE – states that do not have massive wartime damage and years of failed economic development to compensate for. (EIA, OPEC Revenues Fact Sheet, August 20, 2018, <https://www.eia.gov/beta/international/regions-topics.php?RegionTopicID=OPEC>)

At the same time, equally bad agricultural policies have provided no incentive to stay in agriculture. **Figure Five** shows one of the many effects of a decrease in agricultural output: a rise in undernourishment in the country. Taken together, these trends help explain why the Arab Barometer survey discussed earlier found that 40 percent of Iraqis ages 18-29 were interested in emigrating.

**Figure Five: Rise of Undernourishment in Iraq 1990-2018<sup>8</sup>**



**A Critically Low GNI Per Capita, Population Pressure, the “Youth Bulge,” and Jobs**

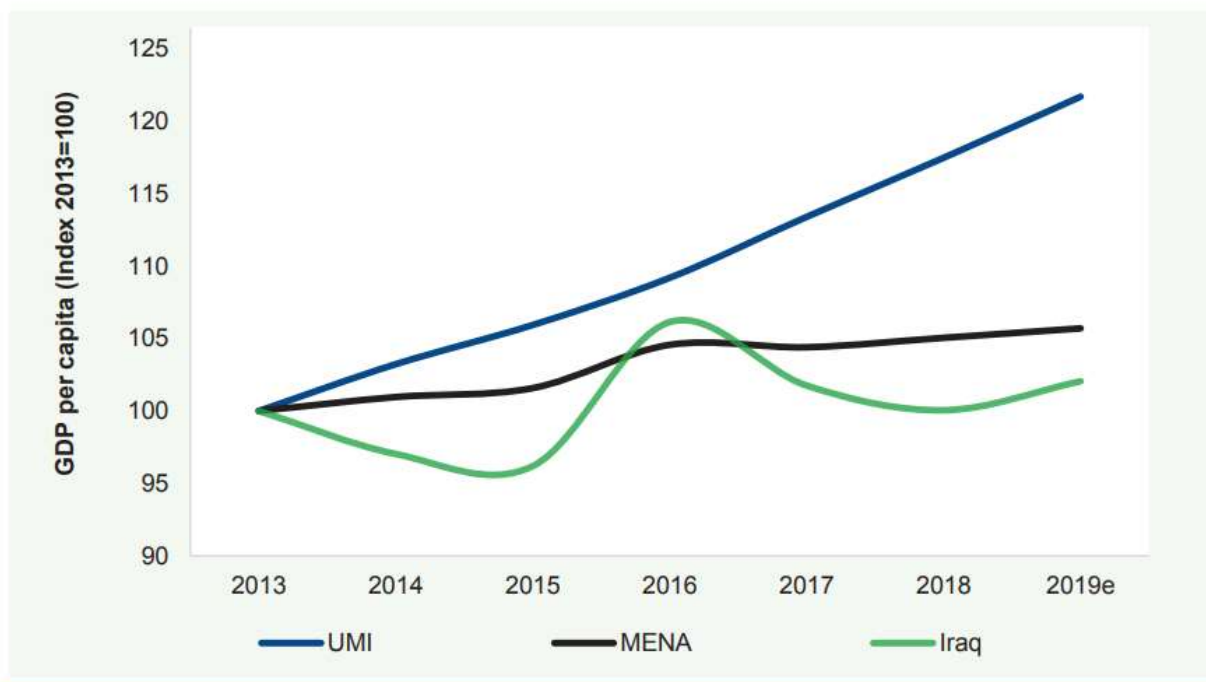
These problems become even clearer if one looks at Iraq’s total per capita income – which is subject to at least as much corruption and misallocation as its per capita petroleum export earnings. The World Bank estimated Iraq’s total GNI per capita at only \$5,030 in 2018. This number is low compared with \$21,540 for Saudi Arabia, \$41,010 for the UAE, and \$61,190 for Qatar.

**Figure Six** shows that that there has been little growth in Iraq’s GDP per capita for the past six years, and that it has fallen far short of the average growth in the world’s UMIs or upper middle -

income countries. Here, it is important to understand that Iraq's reliance on oil export revenues – coupled to the fact that its ruling elite is corrupt to the point of being a kleptocracy and wastes so much money on state employment that has little productivity or impact of development – means that even apparent growth in per capita income does not affect the lives and perceptions of the vast majority of Iraqis.

**Figure Six: GDP in Real per Capita has Barely Grown<sup>9</sup>**

- GDP has barely grown in real per capita



Sources. World Bank staff estimates; and WDI.

To put these figures in the context of Iraq's youth bulge, the Arab Barometer poll mentioned earlier found that,

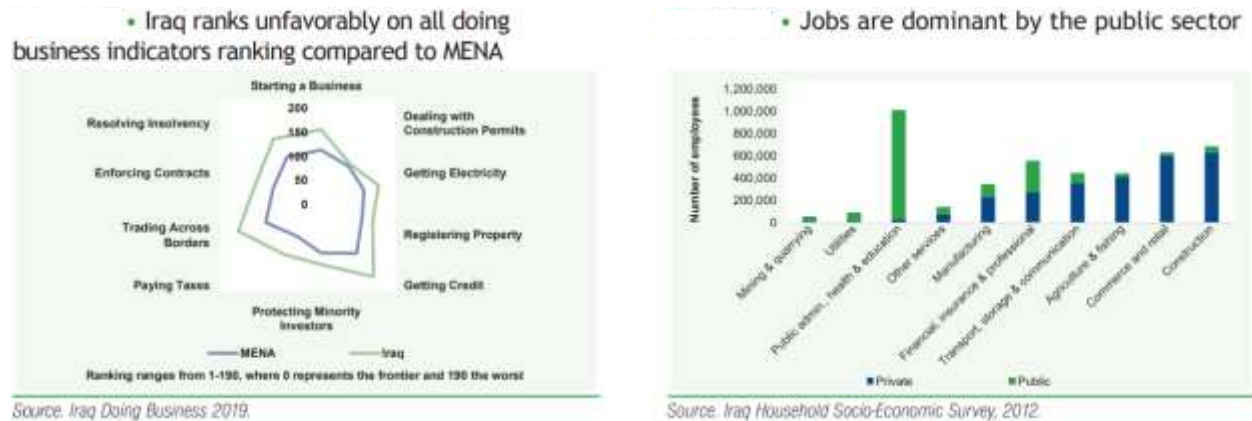
...in addition to widespread dissatisfaction with government efforts to improve employment opportunities, the vast majority of young Arab citizens also believe that obtaining employment requires having strong connections. Roughly nine-in-ten youth in *Iraq* (95 percent), Lebanon (94 percent), Jordan (94 percent), Tunisia (94 percent), Libya (91 percent), Algeria (91 percent), Sudan (90 percent), Palestine (90 percent), Egypt (90 percent), and Morocco (88 percent) say that based on recent experience they think that obtaining employment through *wasta* (personal connections) happens often or sometimes. Though comparatively fewer, nearly seven-in-ten Yemeni youth (69 percent) hold the same perception regarding the connection between *wasta* and employment.

These population pressure problems interact with Iraq's structural economic problems. Iraqis face the problem that Iraq has one of the largest, most wasteful, most expensive, and least productive state sectors and pool of government employees in the world. And yet, for all the talk of economic

reform, the World Bank only rates Iraq 171st in its Ease of Doing Business indicators out of 190 countries rated – making it the 19<sup>th</sup> worst country in the world for business.

**Figure Seven** displays Iraq's Ease of Doing Business Scores with the rest of the MENA region as well as the distribution of jobs between the private and public sectors.

### Figure Seven: Iraq's Poor Business Climate and Glut of Government Jobs<sup>10</sup>



The CIA *World Factbook* notes that,

Iraq's GDP growth slowed to 1.1 percent in 2017, a marked decline compared to the previous two years as domestic consumption and investment fell because of civil violence and a sluggish oil market. The Iraqi Government received its third tranche of funding from its 2016 Stand-By Arrangement (SBA) with the IMF in August 2017, which is intended to stabilize its finances by encouraging improved fiscal management, needed economic reform, and expenditure reduction. Additionally, in late 2017 Iraq received more than \$1.4 billion in financing from international lenders, part of which was generated by issuing a \$1 billion bond for reconstruction and rehabilitation in areas liberated from ISIL. Investment and key sector diversification are crucial components to Iraq's long-term economic development and require a strengthened business climate with enhanced legal and regulatory oversight to bolster private-sector engagement. The overall standard of living depends on global oil prices, the central government passage of major policy reforms, a stable security environment post-ISIL, and the resolution of civil discord with the Kurdish Regional Government (KRG).

Iraq's largely state-run economy is dominated by the oil sector, which provides roughly 85 percent of government revenue and 80 percent of foreign exchange earnings, and is a major determinant of the economy's fortunes. Iraq's contracts with major oil companies have the potential to further expand oil exports and revenues, but Iraq will need to make significant upgrades to its oil processing, pipeline, and export infrastructure to enable these deals to reach their economic potential.

Iraq is making slow progress enacting laws and developing the institutions needed to implement economic policy, and political reforms are still needed to assuage investors' concerns regarding the uncertain business climate. The Government of Iraq is eager to attract additional foreign direct investment, but it faces a number of obstacles, including a tenuous political system and concerns about security and societal stability. Rampant corruption, outdated infrastructure, insufficient essential services, skilled labor shortages, and antiquated commercial laws stifle investment and continue to constrain growth of private, nonoil sectors. Under the Iraqi constitution, some competencies relevant to the overall investment climate are either shared by the federal government and the regions or are devolved entirely to local governments. Investment in the IKR operates within the framework of the Kurdistan Region Investment Law (Law 4 of 2006) and the Kurdistan Board of Investment, which is designed to provide incentives to help economic development in areas under the authority of the KRG.

Inflation has remained under control since 2006. However, Iraqi leaders remain hard-pressed to translate macroeconomic gains into an improved standard of living for the Iraqi populace. Unemployment remains a problem throughout the country despite a bloated public sector. Overregulation has made it difficult for Iraqi citizens and foreign investors to start new businesses. Corruption and lack of economic reforms - such as restructuring banks and developing the private sector - have inhibited the growth of the private sector.

### **The Strain of Security Spending**

Iraq's 2019 budget is no better than its past budgets. It totals some \$111.8 billion, and will create an estimated \$23.1 billion deficit - its highest since the fall of Saddam Hussein in 2003. While estimates differ, some \$52 billion is allocated to public sector salaries, pensions, and social security for government employees. This is a 15 percent rise over 2018, and investments are limited to some \$27.8 billion at a time when preliminary IMF estimates indicate the cost of rebuilding in the west alone could exceed \$88 billion - even if new patterns of economic development are not really funded.

The budget was also dependent on a guestimate about Iraq's petroleum income. It was based on a projection of oil exports at 3.88 million barrels per day (bpd), up from 3.8 million in 2018, and at \$56 per barrel, compared to the \$46 a barrel price that last year's budget was based on. It effectively "bet on the come." It also continued to allocate some 17 percent to the Kurdish region in spite of estimates that it only has 13 percent of the population. So far, efforts at compromise seem to have done little to fully resolve the situation or improve the overall focus on development.

What may be even more serious, however, is Iraq's level of security spending. It is not clear what Iraq will spend on its security forces in 2019 and the future, but it does need to both fund the kind of national military forces that would give it a major deterrent against any threat from Iran, and fund the ability to be secure as an independent power by creating a mix of internal security capabilities rather than eliminate the need to depend on Kurdish forces, and both Shi'ite and Sunni militias.

Such an effort would, however, require major funding, and the IISS estimates that Iraq spent \$16.98 billion on military forces in 2016, or 9.95 percent of its GDP, \$19.27 billion on military forces in 2017, or 10.20 percent of its GDP, and \$17,259 billion on military forces in 2017, or 7.47 percent of its GDP. These are spending levels it cannot really afford if it is to deal with its civil problems. Accordingly, Iraq needs a budget plan that makes the best compromise between its competing needs, that is coupled to a real reform plan, and that is actually implemented.

### **Defeating Each New Round of Extremists and Civil Warfare is Pointless Without Reform and Change**

Put bluntly, defeating ISIS, working out more sectarian and ethnic compromises, and other efforts to rearrange Iraq's deck chairs while the nation continues to sink, is not going to stop terrorism, limit Iran's influence, or give Iraq the progress it needs to help stabilize the region and the world's key source of oil exports.

It is now going to take real U.S. leadership to convince Iraq that the U.S. can be its best partner in such efforts. It is also going to take far more active U.S. support than narrow military aid and counterterrorism efforts to bring the changes Iraq needs. Without them, however, today's demonstrations and protests can only be the prelude to more extremism, violence, and tragedy.



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## Notes

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<sup>1</sup> <https://www.csis.org/analysis/afghanistan-iraq-syria-libya-and-yemen>

<sup>2</sup> Hagopian A, Flaxman AD, Takaro TK, Esa Al Shatari SA, Rajaratnam J, et al. (2013) Mortality in Iraq Associated with the 2003–2011 War and Occupation: Findings from a National Cluster Sample Survey by the University Collaborative Iraq Mortality Study. *PLOS Medicine* 10(10): e1001533. <https://journals.plos.org/plosmedicine/article?id=10.1371/journal.pmed.1001533>.

<sup>3</sup> World Bank, Governance Indicators, <http://info.worldbank.org/governance/wgi/Home/Reports>, and Transparency International, <https://www.transparency.org/cpi2018>, accessed September 24, 2018.

<sup>4</sup> Gunter, Frank. “What Iraq Must Do to Prevent Another Generation of Terrorists.” Foreign Policy Research Institute, July 12, 2017. <https://www.fpri.org/article/2017/07/iraq-must-prevent-another-generation-terrorists/>.

<sup>5</sup> Food and Agriculture Organization of the United Nations, *FAO Stat – Iraq*, <http://www.fao.org/faostat/en/#country/103>.

<sup>6</sup> Austrian Ministry of the Interior, Iraq – Economics & Migration, by Peter Webinger and Wolfgang Taucher. Vienna: Austrian Ministry of the Interior, 2019. [https://www.bfa.gv.at/files/broschuere/regiones-et-res-publicae\\_IRAK\\_20191030.pdf](https://www.bfa.gv.at/files/broschuere/regiones-et-res-publicae_IRAK_20191030.pdf). Pg. 64-65.

<sup>7</sup> Ibid. Pgs. 66-67.

<sup>8</sup> Food and Agriculture Organization of the United Nations, *FAO Stat – Iraq*, <http://www.fao.org/faostat/en/#country/103>.

<sup>9</sup> Mansour, Wael; Maseeh, Ashwaq Natiq; Celiku, Bledi. 2019. *Iraq Economic Monitor, Fall 2019: Turning the Corner - Sustaining Growth and Creating Opportunities for Iraq's Youth (English)*. Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/848371571505101026/Iraq-Economic-Monitor-Fall-2019-Turning-the-Corner-Sustaining-Growth-and-Creating-Opportunities-for-Iraq-s-Youth>. Pg. 4.

<sup>10</sup> Mansour, Wael; Maseeh, Ashwaq Natiq; Celiku, Bledi. 2019. *Iraq Economic Monitor*. Pg. 12.