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Iraq: Oil Wealth and Multiple Crises

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At the beginning of October, after days of riots in Baghdad, a nationwide curfew was imposed. The demonstrations were led by young men who claimed they have been denied job prospects by a system of state-sponsored corruption that reserved jobs to those with connections. This patronage network meant that ministries were run as fiefdoms, with revenues from services dispensed among patrons, who include senior officials and militias.¹ Protesters defied the curfews in parts of Iraq, taking to the streets in increasing numbers, while confrontations resulted in the death of over 250 people over the course of October.² As the country was paralyzed by anti-government demonstrations, the country's most important Shi'a cleric, Ayatollah 'Ali Sistani, issued a warning to both sides to end the violence "before it's too late."³

In a televised address, the Prime Minister, Adel Abdul-Mahdi, acknowledged what he described as "legitimate demands" from the protesters, who have called for widespread reforms and in some cases the fall of the central government. He announced that plots of land would be allocated to poor families, 100,000 homes would be built, stipends would be provided to 150,000 unemployed and training for another 150,000. The concessions announced by the government were promptly rejected by many of those on the streets of the capital, Baghdad.⁴

Last year, the southern city of Basra was rocked by weeks of protests over unsafe drinking water, power shortages, unemployment and corruption. Government offices, including the main provincial council building, were set alight.

Iraq is a potentially rich country. Since the end of the 2003 war, it has earned over \$830 billion from oil exports. This huge sum has failed to transform the economy because of a series of interrelated crises: terrorism; severe environmental damage including drought; corruption, political paralysis and foreign intervention. This is despite the fact that Iraq has the fifth largest oil reserves and the twelfth largest gas reserves in the world.⁵ While its oil has been a source of wealth, it has also been the cause of much damage inflicted on Iraq and its neighbors by enabling the financing of wars.⁶

Assuming an average price of Iraq crude exports of \$63 a barrel (as it was in the first five months of this year), export revenues in 2019 may be just below their 2018 level of \$84 billion, assuming volumes remain stable. As a result of political conflict and bureaucratic hurdles, however, Iraq has not been able to use all these funds. During the past two years, the government ran a budget surplus; in 2018 it came to \$21.6 billion. This continued in 2019.⁷

In 2018, Iraq was the second largest oil producer in OPEC averaging 4.4 million barrels a day (mb/d), similar to its 2017 level. By July 2019, it had reached 4.78 mb/d.⁸ Iraq wants to end energy imports. It also wants establish three export routes via Basra, Aqaba, Jordan, and a rehabilitated northern line to Turkey, to reduce reliance on the Straits of Hormuz and intends to transport more oil over Syria to the Turkish Mediterranean port of Ceyhan.⁹

Furthermore, it aims to increase southern export capacity to 6.5 mb/d; end gas flaring by 2022; and overhaul the refining sector. While the oil minister's efforts shift from strategic vision to implementation, Iraq's record on these matters is poor. One example is the long-delayed \$53 billion South Iraq Integrated Project, crucial to providing the export infrastructure and water injection necessary for Iraq's massive southern fields to attain their production targets. The oil minister has given priority to agreeing to the megaproject with ExxonMobil and PetroChina, but so far has failed to sign the deal. This is due to a dispute over how to determine prices with respect to

local rates of inflation/deflation and the issue of cash flow. This has proven a major sticking point since Exxon was originally recruited to carry out the project in 2010.¹⁰

The IMF has summarized Iraq's current economic predicament. Slow progress has been made in transforming oil export revenues into human and physical capital. This is the result of decades of political upheaval and armed conflict as well as the consequent weakness of public institutions. Poor governance and corruption are widely acknowledged to be major causes of this. Since the war in 2003, the exodus of skilled workers, as a result of poor security conditions, has reduced human capital, while the conflict with the Islamic State (IS) led to 100,000 deaths, five million internally displaced people and an estimated \$46 billion of damage to infrastructure and property. This was in addition to the massive damage caused by the 2003 war. As a result, Iraq's development needs include large infrastructure gaps, poor basic services, lackluster health and education outcomes, and widespread poverty. GDP per capita has hardly grown during the last five years.¹¹

Although the Islamic State has been defeated, it has not been completely destroyed, and is now making something of a comeback. In addition, Iraq is becoming the battleground in the war between Iran and Israel. Iran's most prominent military leader has recently met Iraqi militias in Baghdad and told them to "prepare for proxy war."¹² In May, Qassem Suleimani, leader of Iran's Quds force, summoned the leaders of Iraqi Shi'a militias under Tehran's influence, and told them to prepare for proxy war amid a heightened state of tension in the region. These were leaders of all the militia groups that fall under the umbrella of Iraq's Popular Mobilization Units (PMUs). The move to mobilize Iran's regional allies triggered fears in the US that Washington's interests in the Middle East are facing an increasing threat.¹³ In August, Israel reportedly attacked an Iranian weapons depot in Iraq. In September, it was reported that Iran is building a large military base in Syria, on the border with Iraq.¹⁴ The US decision to end its support for the Kurds in Syria has strengthened Iran's position in the region, especially in Iraq.

Iraq, like much of the Middle East, is also suffering from extreme environmental distress. Global warming has exacerbated the effects of war, neglect and corruption. The destruction of agricultural livelihoods increased support for terrorist groups. Efforts to diversify its dependency on oil revenues (that, in 2017, accounted for 85% of GDP) have not resulted in significant investment in the agricultural sector.

Although agriculture is the second largest employment sector after oil, in the 2018 and 2019 budgets, the Ministry of Agriculture and the Ministry of Water Resources each received less than one percent of planned government spending.¹⁵ Agricultural production and employment are being undermined by increasing water scarcity, leaving people in areas liberated from the IS vulnerable to becoming dependent on terrorist groups for access to basic resources. Remnants of the IS could capitalize on this situation to their advantage.

Iran plays a key role in Iraq and is its largest trade partner. Iranian and Iraqi officials claimed that total trade between the two countries reached \$12 billion in 2013 and 2014. While these figures have been disputed, it is widely agreed that they are dominated by Iranian exports of fresh produce and processed foodstuffs, construction materials, household appliances, electricity and cars. Iranian investors and construction firms are active in Baghdad, the KRG, and especially in the Shi'i-majority southern region of Iraq.

Iranian dumping of subsidized food products and consumer goods in Iraq, as well as government policies, have affected agricultural and light industrial sectors. Iran's damming and diversion of rivers feeding the Shatt al-Arab waterway has also undermined agriculture in the south and hindered efforts to revive Iraq's marshlands.¹⁶

Inadequate governance capacity means that climate change and environmental degradation have not been addressed. Corruption, poor governance, wars, UN sanctions and the heritage of the Saddam Hussein regime have weakened Iraq's economy and the state's capacity to mitigate the impacts of climate change and modernize the water infrastructure and the agriculture sector. The Ministry of Water Resources has an ambitious 20-year plan (2015–35) to modernize infrastructure, but it lacks the finance and capacity to implement it.

Iraq is heavily reliant on water flows from neighboring countries. Climate change has made rainfall in the region more erratic and as a result Iraq has become more dependent on its neighbors to maintain its water supply. Partly as a result of dam projects in Iran and Turkey, Iraq is suffering its worst water shortage crisis in 80 years. If neighboring countries are affected by rainfall shortages or conflict, Iraq will

be further exposed as no formal agreements have been ratified that would support equitable sharing of water resources in the region.¹⁷

More erratic precipitation and increased temperatures, including a heightened risk of more regular and prolonged periods of drought increases the risk of communal tensions over food and water. Lower incomes, plus food and water insecurity, put pressure on remaining scarce resources, risking increased tensions within and between communities. This is particularly true in rural and marginalized areas. Diminished water resources in southern Iraq have already led to demonstrations and local clashes over water rights.¹⁸

In 2017, the World Bank concluded that Iraqi agriculture was in serious difficulty. Low productivity and growth rates in agriculture are due to government policy of maintaining artificially low food prices through price and production controls and marketing restrictions. The subsidized food distribution using imported food has had a negative effect on the local grain market depressing producer prices and on agricultural investments. Government policies in the agricultural sector have been involved state control and subsidization of farm inputs and the prices of strategic crops. The most important crop, wheat, has been the most controlled and the most affected by the lack of open markets. In addition, years of insufficient maintenance and funding have degraded agricultural services and physical infrastructure, particularly the irrigation network. During the recent conflicts, extensive looting damaged a range of government and private agricultural production and service facilities in central and southern Iraq. Severe irrigation problems include the widespread deterioration of the infrastructure, the poor operation and maintenance of the systems, inefficient water use, soil salinity, weak institutional support, and the lack of a regulatory framework for the efficient use and pricing of irrigation water. Salinization is one of the most active land degradation phenomena in central and southern Iraq. According to the Food and Agriculture Organization, approximately 60 percent of cultivated land has been seriously negatively affected by salinity, and 20-30 percent has been abandoned. On agricultural land that has not been abandoned, yields have declined by 30 to 60 percent as a consequence of salinization. The salinization of soil has the most negative impact on poor farmers and their livelihoods. The effects of climate change threaten further salinization. The most significant consequence of this has been the increase of undernourishment. In 2004-6, 7.6 million

Iraqis suffered undernourishment; by 2016-18, the number was 11.1 million.¹⁹ This occurred despite oil export earnings increasing from \$71 billion in 2004-6 to \$171 billion in 2016-17.²⁰

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¹⁷ Some leaks came out in 2019 of a Memorandum of Understanding between Turkey and Iraq, but no public discussion has been brought forward and no deal has been ratified. See Ismael Dawood, “Does the Memorandum of Understanding in Water Management Between Turkey and Iraq Guarantee Iraq its Water Rights?” *Save the Tigris*, April 18, 2019.

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¹⁹ *Food and Agriculture Organization (FAO)*, “[The State of Food Security and Nutrition in the World](#),” *SOFI*, 2019.

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