
WHAT HAPPENED TO IRAQ'S ECONOMY POST-US INVASION?

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On a recent trip to Baghdad, Ahmed Tabaqchali, an investment banker, stopped by Al Faqma ice cream parlour, where about a year ago a powerful bomb ripped through the area, killing 27 people.

He was in the Iraqi capital to attend a banking conference and had decided to travel around to see how the city was coping with its turbulent past.

Now standing at the same place on a cool December afternoon, he looked for signs of the devastation that the attack might have left behind.

The only out-of-place thing he could see there were the concrete barriers near by □ a sight not uncommon in Baghdad.

Death had visited almost every destination on Tabaqchali's itinerary: 324 people killed at the Karada market, four guards at the stock exchange, 52 at the Assyrian Church.

Yet, none of that had stopped residents from moving on with their lives.

He saw shops with home appliances piled up to the ceiling, vans loading and unloading goods, busy restaurants, congested roads and young tech savvy entrepreneurs eager to capitalise on internet connectivity.

"Baghdad's economy is vibrant," Tabaqchali, who works for a Hong Kong-based investment fund, wrote to a client upon his return.

As Iraq heads for parliamentary elections on May 12, 2018, people are determined to leave behind memories of internal strife, which just two years ago threatened to divide the country along sectarian lines, he says.

"These elections could be the most interesting because the old religious and ethnic message of the political parties isn't working," Tabaqchali told TRT World.

"What is amazing is that younger generation in their 20s have not known Saddam, and they don't care about sectarian differences.

The hope of seeing an economic turnaround after removal of longtime Iraqi dictator Saddam

Hussein in 2003 evaporated in the years since.

Politics based on ethno-sectarian agendas gave rise to violent militias, igniting ongoing conflicts dividing cities and towns, and turning Shia and Sunni communities against each other.

The high price of oil should have helped fund reforms, particularly considering Iraq is seen as one of the world's top five producers. Instead, it was primarily used to buy political loyalty, with numerous employees added to an already bloated public sector.

Oil plays an outsized role in Iraq. It accounts for 90 percent of government revenue, almost all of the country's exports and contributes more than 55 percent of the GDP.

Consequently one of the biggest challenges facing the next government is to look beyond oil to sectors such as agriculture — once a major contributor to the economy.

To the roots, again

Justin Carney, a native of Kansas, United States, travelled to northern Iraq for the first time in 2005 as a university intern on a programme to work in a developing country.

Iraq's agricultural potential fascinated him.

"They have beautiful plains in between mountain ranges with fertile soil and a lot of water resources," he told TRT World.

Carney, who grew up around farms, says his family owns 4,000 acres of land where it cultivates corn and other crops, employing the latest technology.

"What was confusing to me in Iraq was the lack of agricultural production. I just saw tremendous opportunity everywhere."

Upon completing his internship, Carney helped set up a food processing business in Iraq that sourced soybeans from local farmers and made soymeal.

The venture wasn't easy.

Iraq was known as Mesopotamia — the land between two rivers. The Tigris and the Euphrates have been a source of irrigation in the region for thousands of years.

Unlike some of its neighbours in the Middle East, the country is blessed with irrigable land and has historically been an agrarian economy employing tens of thousands of farmers.

By way of illustration, until the 1950s, Iraq sourced half of the world's supply of dates.

However, agricultural contribution to overall economy started to decline in the mid-1970s, as successive governments focused elsewhere.

Its contribution to the GDP came down to just 3.6 percent in 2009, down from 9 percent in 2003. The markets are now flooded with fruits, vegetables and cereals imported from other countries.

A major blow to agriculture came during the 1980-1988 Iran-Iraq War when Saddam's Baath

regime pushed thousands of farmers to the frontlines.

"A lot of knowledge about farming was lost during that period. For instance, the farmers I worked with didn't know about no-till planting. Everywhere else in the world no-till is common."

In no-till farming, farmers don't turn the soil over while laying seeds, retaining the moisture — a process which gives better yields.

There was another, much bigger problem, standing in Carney's way: oil.

The multinational petroleum giants looking for oil prospects often ended up on the farmlands.

They offered farmers jobs, trucks, to get the rights to drill in their fields. We couldn't compete with that. So farmers weren't lining up to work with us because they had this other option, which was less work and more money," Carney says.

Bribery and red tape further discourages agri-investment, he says, especially for small businesses.

We have to rely on translators and locals to understand the processes. I was the general manager of the company and spent half my time waiting at government offices.

Baghdad's insistence on subsidising certain products wasn't helpful either.

The government set up a fake economy. When wheat was around \$120 a ton on the world market, it was subsidising farmers at \$800 a ton. So they were growing a very expensive produce.

Such a policy was sustainable only whilst the price of oil was high. After the price tanked in 2014, farmers took a hit as the government faced difficulty in paying them the subsidy as petroleum companies cut back on investments.

Carney's company eventually shut operations in 2015 after farmers weren't able to supply soybeans in quantities that were needed.

Things were even more desperate elsewhere.

Hope and despair

Just days after the US troops marched into Baghdad in 2003, Paul Bremer, a Washington diplomat was appointed to head Iraq's interim administration.

In his first order, he fired hundreds of thousands of government employees.

His decision was an attempt to de-Baathify the country — to get rid of not just the Saddam loyalists but anyone linked to the Baath party. It turned out to be one of the biggest policy disasters, the ramifications of which are still felt in Iraq.

"Many of the state's most competent administrators were fired overnight, leaving the bureaucracy in parlous state," writes Zaid Al Ali, a lawyer, in his book "The Struggle for Iraq".

Nearly half a million workers in state-owned enterprises (SOE) who were functioning in a wide range of industries including cement, fertilizer and steel, were out of work. The resulting

disillusionment among these people would go on to become fodder for insurgents, and later, Daesh.

In the absence of any vibrant private sector, Iraq's industrial base has for years depended on around 150 SOEs. Bremer shut some of them and stopped funding others.

[The] Bremer administration destroyed industry within Iraq, Paul Attenborough, who was brought in to oversee factories in southern Iraq for a few months, told TRT World.

The US officials wanted to privatise state-run companies and open the country to commercial interests.

But decades-long conflict and stifling sanctions Iraq faced after it invaded Kuwait in 1990 had left factories badly in need of repairs, making their sale a difficult proposition.

Instead of investing in existing SOEs, Iraq was opened up for imports, says Attenborough.

It was in their interest to ensure that imports were maintained and local producers remain inactive, he says, referring to the role American contracting giant KBR played in importing cement.

While Iraq had struggled for generations to diversify its economy and move away from oil, the state had managed to build some sophisticated industries.

A petrochemical plant in Basrah was the biggest in the Middle East when it was commissioned in the 1970s. Attenborough says some of the units might have been able to meet domestic demand, but they were never funded.

Iraq was not short of money, though. Between 2003 and 2012, more than \$213 billion were spent in the country — a large part of it contributed by Baghdad and its oil revenue.

However, the expenditure was marred by incompetence, misuse and corruption.

An assessment by the US auditors found that hundreds of millions of dollars were siphoned off by contractors, and money was liberally spent on wasteful projects, such as only partly completing a prison in a desert.

The much talked about foreign direct investment mostly went to the petroleum sector, where multinational corporations had interest and which employs only one percent of the country's workforce.

Iraqis by and large remained dependent on various government ministries to earn a living — just the security forces have close to 2 million men on its payroll.

The three elections since 2005 that had put representatives in power didn't help, as politicians in fragile alliances constantly tried to undermine each other.

There was no question of lack of opportunity, however, even as incessant insurgent attacks gripped parts of the country.

In 2012, Pakistan's largest cement producer, Lucky, teamed up with an Iraqi business to invest around \$70 million in a clinker crushing plant in Um Qasr, south of Basrah city.

There were a lot of challenges but opportunity was also there because of reconstruction needs due

to the war, Ali Tabbā, Luckys CEO, told TRT World.

They wanted to rebuild the economy and the most immediate raw material is cement. That's why we decided to invest.

The rise of Daesh and the resultant divergence of resources to fight the militants hampered reconstruction, he said.

Now, though, with the end of war, spending on reconstruction is set to rise. We are going to invest another \$110 million, he said, adding that the company will build a whole supply chain for cement in Iraq.

After years of indifference, the Iraqi government has finally also begun to take steps to prop up businesses. For instance, it has imposed heavy taxes on imported cement to encourage domestic production.

But some experts who have worked closely with successive governments say the country has a long way to go for any substantial change.

The political question

Among the Iraqi expats who returned following the fall of Saddam's regime was Mustafa Alshawi, an academic with a PhD in construction management.

Over the years he worked on various projects in an attempt to train Iraqis and upskill local businesses. None of them succeeded, he says.

After 2003, many Iraqis — doctors, engineers — went back. But they faced a brick wall. There is a struggle for power at the top, and there is constant disagreement within various factions in government.

A native of oil-rich Basrah, Alshawi saw expensive contracts for oil drilling services going to foreign firms.

The Iraqi government spent \$23 billion between 2010 and 2014 to cover the supply chain costs for the big major oil firms, he says.

Oil giants including Shell, BP and Lukoil relied on international companies for services such as environmental tests, due to lack of expertise in Iraq, he says.

To redress this we set up science park at the University of Basrah, where local companies could have worked alongside major oil firms to build capacity. We had everything in place but the project didn't pick up.

The reason for the failure of initiatives was infighting between political groups that controlled different arms of the government, he says.

If higher education ministry wants to promote a project, the oil ministry pulls it down because it's under the sway of some other faction, Alshawi says.

The three governments since the 2005 election have all struggled to introduce effective

legislation to tackle everyday issues concerning people, such as the electricity shortfall.

But now theres hope that Iraqis will look beyond sectarianism when they vote and focus more on pressing economic problems.

There are challenges, but they are not as bad as they were 10 years ago, says Tabaqchali, the investment banker.

I believe the younger generation is more promising than the prior generation. Itll do the right thing.

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