

# Consumption and Sociological Interpretation of the Economic Problem in Iraq

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Iraq is generally regarded one of the cradles of human civilization. Several thousand years before the Christian Era city-states thrived there, based on irrigated agriculture. Today, Iraq has unfortunately become a synonym for repression, violence, and war, especially following the three large-scale wars which were fought by and against the country within a period of 25 years. Relations in Iraq remain unstable to this day. The 2003 invasion of Iraq by the American-led coalition was a turning point in Iran-Iraq relations, altering not only the balance of power in the region but also giving Tehran unprecedented freedom to exercise power in Iraq. For the last two decades, Iraq has been seen as the 'client state' of the Islamic Republic, but this situation is beginning to change. In the 20th century the growing urban middle class became increasingly affluent, as Iraq's oil wealth grew dramatically. From the early decades until the end of the 1980s, Iraq's entertainment industry boomed. This occurred not only during the period of the monarchy, but also during several following presidencies. While these governments all suppressed freedom of expression, they nevertheless considered national culture useful for promoting nationalist aspirations.

**Key words:** *Unprecedented Economies, Political Circumstances, Administration, Monetary Fund, Oil Sector, Agriculture, Animal Husbandry, Fiscal Policy, Infrastructure, Reconstruction.*



## Introduction

As compared to many other developing countries, Iraq has unprecedented economic possibilities. It has enormous agricultural potential, thanks to the water and the fertile silt deposits from the Tigris and Euphrates. The size of the population of around 30 million guarantees huge supply of labour. Also very important are Iraq's extensive oil reserves and gas reserves on the income from which the nation is dependent. In 1989, the year before the an official ban on trade with United Nations was established, crude oil generated 98 percent of the export revenues and covered 90 percent of the government's budget. On paper, the great strength of Iraq's economy lies in the combination of these factors. With the exception of Iran, no other country in the Middle East can be said to have this potential. But the Iraqi economy also has vulnerabilities. Since the mid-1970s both Turkey and Syria have been building large dam on the upper reaches of the Euphrates, with the intention, among others, of making more land arable through irrigation. This has resulted in reduced water flow, which harms Iraqi farmers. Iraq depends almost entirely on neighbouring countries for the transport of goods (The Ministry of Planning, 2013).

Under stable political circumstances, these problems could be dealt with. The water problem could be solved by digging canals and entering into agreements with Syria and Turkey. The supply of water could then be regulated as far as possible in order to make optimal use of it. The problems that arise from Iraq's landlocked situation could be overcome by being on good terms with its neighbours and by developing alternative transportation routes through roads, pipelines, railway lines etc. The dependence on income from the oil sector could be reduced by broadening the economic base. Although past attempts to overcome these economic limitations have been made with varying success, Iraq remains extremely sensitive to external developments.

Property rights are not well protected, partly because of the state's limited administrative capacity. The judiciary in Iraq is heavily influenced by political, tribal, and religious forces. Officials throughout the government often engage in corrupt practices with impunity, and investigations of corruption are politically influenced. Bribery, money laundering, nepotism, and misappropriation of public funds are commonplace (The Ministry of Planning, 2013).

Individual and corporate income tax rates are capped at 15 percent. Tax revenue is very low because of high levels of evasion and tax enforcement. Over the past three years, government spending has amounted to 42.7 percent of total GDP, and budget deficits have averaged 8.6 percent of GDP. Public debt is equivalent to 63.7 percent of GDP.

Businesses face significant costs to ensure security, as well as cumbersome and confusing procedures and long payment delays on some government contracts. Informal labor activity



persists in many sectors. A fiscal squeeze in 2017 made it even more challenging for the government to reduce fuel and food subsidies and reform the electricity sector and other state-owned enterprises.

## Literature Review

The Iraqi economy is facing in recent years several great challenges, particularly the falling of oil prices in the years 2015 and 2016 and the emerging of ISIS organization. The Iraqi government is also facing numerous challenges. These challenges include preserving the macro-economy of the country; conducting structural reforms to improve the level of public services; restructuring the infrastructure in the areas which were liberated from ISIS; and providing aid for about 3.4 million Iraqis who are internally-displaced from the areas of the conflict with ISIS organization (Iraqi the Ministry of Finance, 2012).

As a result of the extreme challenges which Iraq is facing and its need for large funds, the International Monetary Fund had agreed in July 2016 to provide a Stand-by Arrangement (SBA); its period is three years and with a value of 5.34 billion US dollars, simultaneously with the World Bank providing a series of three loans for the purposes of development with the value of 3.2 billions dollars between the years 2015 and 2017. This is in addition to the Iraqi donor conference pledges in July 2016 to provide 2.1 billion dollars between the years 2016 and 2018, with the aim to secure financial support for the difficult humanitarian situation in Iraq.

The gross domestic product (GDP) in the year 2015 had reached 180.07 billion US dollars, in comparison with 228.73 and 324.65 billion dollars in the years 2014 and 2013 respectively. In the year 2015, the GDP per capita had reached 5820 US dollars, in comparison with 6560 and 6840 dollars in the years 2014 and 2013. According to the International Monetary Fund, the inflation rate in the years 2015 and 2014 had reached 2%, in comparison with 1.4% in the year 2013. It is predicted that the Iraqi economy will grow in the year 2016 by a rate of 4.8% due to the increase in oil production (Jamal, 2009; Senathip, Mujtaba & Cavico 2017).

About one fourth of the total land area of Iraq is suitable for intensive cultivation and animal husbandry. A considerable part of that lies in the hilly and mountain, in Iraqi Kurdistan. The expected amount of annual rainfall in this region is large enough to make agriculture possible without irrigation. Iraq's most important agricultural land, however, lies in the plains south of Baghdad, where it is irrigated from the Tigris and Euphrates.

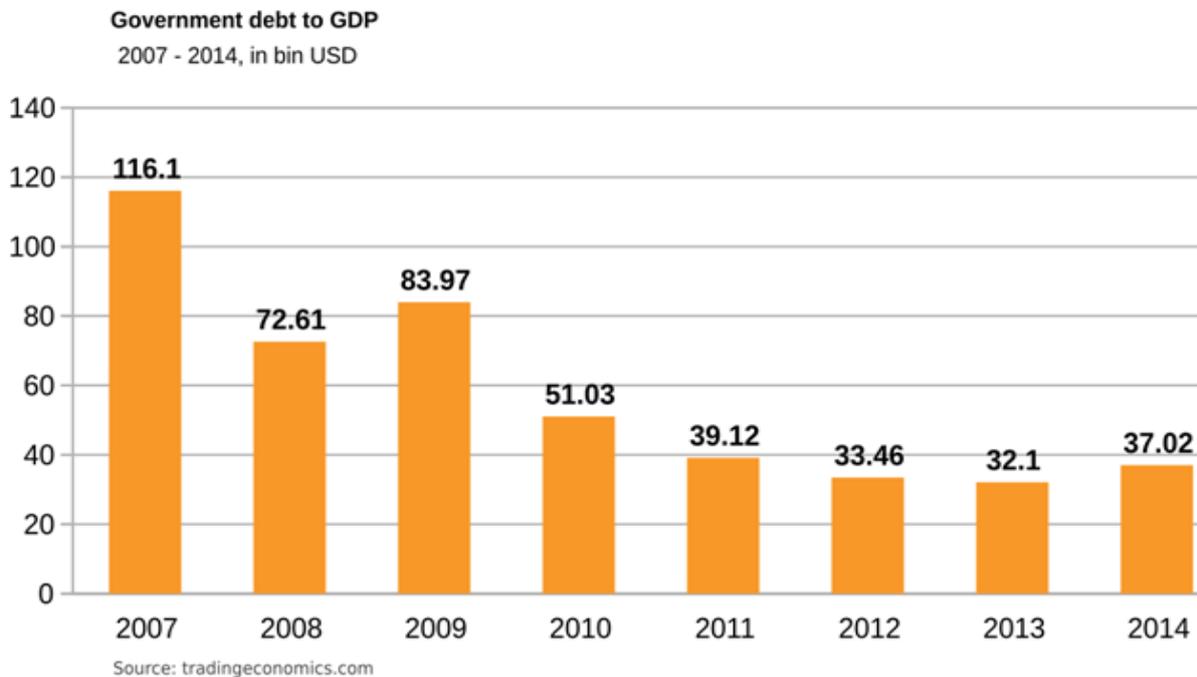
Throughout history, the region that is now known as Iraq derived its wealth from agriculture, thanks to the existence of a complex and widespread irrigation system. After the destruction of the irrigation system by the Mongols, still more areas were lost to production as their



poorly drained soils were poisoned by salts deposited from evaporating irrigation water. By the 19th century, much of the once fertile Mesopotamia was inhabited by nomads, who used the land to graze their herds (Khalid, 2011).

Until well into the last century, only about a quarter of the available land capable of being ploughed was used to grow crops each year, partly as a result of the common practice of letting some of a farm's fields lie fallow each year, in order to restore its fertility. The introduction of artificial fertilizers reduced the need for fields to lie fallow, but the build-up of salts caused the loss of much previously arable land. The disastrous effects of warfare, the UN embargo, the growing frequency of dust storms from the Arabian Desert, and over recent years, lower levels of precipitation, have put additional strains on the agricultural sector (Rabhi, 2008).

The regime of Saddam Hussein presented a new economic approach. Following the developments elsewhere in the Middle East, but chiefly, under the pressure of economic problems that arose from the war with Iran, the role of the central government in the economy diminished, beginning in the mid-1980s. The privatization of agriculture was carried out rigorously with the dismantling of cooperatives and state farms. In this way, Baghdad hoped to increase productivity in this sector. After 1985 this process was extended into other sectors of the economy with the exception of the all-important oil industry. In two years, a series of state-owned firms in heavy industry and food processing came into private hands. Often these were the hands of those who had excellent connections within the regime. The first joint ventures with Asian and Western European firms were established, and Baghdad opened a stock market. In 1988 price controls on foodstuffs were abolished, which quickly led to sharp price rises (Abdul, 2005).



**Figure 1.** Government debt to GDP from 2007 to 2014

In 1988, Iraq became bankrupt after the Iran war. The economy had fallen. There was no work for the many demobilized soldiers despite the departure of the Egyptian guest-workers who fled the country in large numbers after a series of violent attacks against them. In fleeing the country they generally left behind the money they had saved. The purchasing power of the population fell by about a third from 1980 to 1988, and Iraq was saddled with a massive foreign debt: 21 billion dollars in total to Western European countries, the US, Russia, and Japan, and 48 billion dollars to Saudi Arabia, Kuwait, and other Gulf states. Saddam Hussein's attempt to solve the pressing economic problems by essentially committing a bank robbery of his rich neighbour Kuwait in August 1990 resulted in the devastating war with the anti-Iraq coalition. The weeks-long bombardment of Baghdad and other parts of Iraq caused extensive damage to the infrastructure. Moreover, after the end of the war Kuwait, foreign companies and individuals filed damage claims. This raised the already massive debt of Iraq to at least 200 billion dollars. After 1996, 30 percent of the revenues from the Oil-for-Food Program were freed up to meet the first of these claims (Abdulrahman and Faizah, 2011).

A fiscal policy on oil resources in Iraq was adopted after the 2003 to finance the budget and cover the expenses required. The policy intended not only to take practical measures to employ part of the oil revenues for the development of the productive sectors, but also following an expansionary policy (non-quality) for the bulk for operating expenses, to realise the lowest rate for investment expenditures in the annual budgets for the period 2003-2011. This is illustrated in Table 1;

Years	Billion dollars	operating expenditure rate %	Investment expenditure rate %	Annual Change rate %
2003	6.100	100	-	-
2004	13.000	100	-	2.13
2005	25.000	88	12	1.90
2006	34.000	79	21	1.36
2007	41.000	78	22	1.20
2008	80.000	72	28	1.95
2009	63.300	80	28	0.79-
2010	71.290	79	26	1.12
2011	78.000	80	28	1.09
2012	97.500	68	31	1.24

**Table 1:** Rate for investment expenditures in the annual budgets for the period (2003-2011)

The development of all sectors of the economy included moving towards achieving the shift from an oil-based to a multi-faceted economy. Table 2 highlights the beginning of the development of this sector after the establishment of the five-year plan in 2010-2014.

Years/Indicator	2009	2010	2011
Total Exports (\$ billion)	41.7	52.5	83.2
Crude Oil	41.3	52.2	83
Oil products	0.3	0.1	0
Commodity products	0.1	0.2	0.3
Total imports (\$ billion)	17.3	27.4	49.1
Oil products	1.6	1.9	3.4
Commodity products	15.7	25.5	45.7
Output value in industrial installations (Million I.D)	5148493	8296674	9919025

**Table 2:** Industrial indicators in Iraq (2009-2011)



## Conclusion

Iraq's economic condition is gradually improving following the deep economic strains of the last three years. The defeat of ISIS in end-2017 now leaves the challenging task of rebuilding the infrastructure and providing services and job opportunities for the population. This is overlaid on the need to address the legacy of past conflict and capacity/maintenance challenges. In particular the south, which was the poorest region of the country pre-ISIS. The World Bank estimates the needs of post-ISIS reconstruction at US\$88 billion. The government received US\$30 billion worth of commitments in the form of loans and guarantees at the International Conference for the Reconstruction of Iraq, which took place in February 2018 in Kuwait. Reconstruction efforts may be delayed due to political uncertainty following elections in May 2018.

Overall GDP growth is projected to accelerate to 6.2 percent in 2019 sustained by higher oil production. In the following years, oil production is expected to increase only marginally, reducing overall growth to an average of 2.5 percent until 2023, due to the limited capacity of the GoI to mobilize investment in the oil sector. Non-oil growth is expected to remain positive on the back of higher investment needed to rebuild the country's damaged infrastructure network, private consumption and investment. But sustained non-oil recovery will depend on the transition from an immediate rebound as security improves to implementation of a high-quality investment pipeline with sound financing. Thus, reconstruction will remain an upside risk for growth (rather than in the baseline) given the continued uncertainty about how it will evolve.

Economic recovery was only possible if Iraq found some solution for its huge debt. It was thus one of Washington's priorities, working through an organization of wealthy nations, to gain remission of 90 percent of the debt, arguing that the Iraqi people should not be paying for generations for the irresponsible policies of the so-called 'odious debt' principle. This remission has not yet been granted

A condition for economic restoration was that there be large-scale investment in reconstruction and development, particularly in infrastructure, which had been destroyed or badly damaged during the war. The World Bank had estimated an amount of 55 billion dollars would be required for the development. Priority should go to the oil sector, so that Iraq could begin to finance. Further reconstruction from its own resources as quickly as possible. Until that point is reached, Iraq will be dependent on financial support from the international community. A large donor conference in Madrid in October 2003 produced pledges of 33 billion dollars, 18 billion of it from the United States. The donors have made good on only small portions of their pledges since then, because of the undiminished



dominance of the United States in Iraq. Washington soon had to pour in large sums of its own to keep the reconstruction on track.

One of the major conditions for economic restoration was to restore the peace as well as law and order in the country. However, by the end of 2008, the level of violence gradually decreased. American troops left Iraq at the end of that year.



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