Review

Iraqi Economy Post ISIS: Challenges and Opportunities

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Received: Feb 19, 2019; Accepted: May 18, 2019

Abstract

The aim of this paper is to examine the economic costs of the years of Islamic State of Iraq and Syria (ISIS) invasion to Iraqi governorates by assessing the Iraqi economy before and after the encroachment and to provide an overall view of the challenges and opportunities facing the Iraqi economy after the conflict. It uses a simple descriptive method of data analysis using analytical tools such as percentages, tables, and figures to achieve the objectives of the inquiry. Data for the study were generated from national and international references. The results show that the conflict, along with falling international oil prices, resulted in a weakened financial system, lower levels of gross domestic product, and higher poverty. A substantial increase in the unemployment rate, debilitated education, and large damages to infrastructure were also experienced. The study is one of the first studies to clarify and calculate the losses of the Iraqi economy in all its aspects because of the occupation of ISIS.

Keywords: ISIS; Opportunities; Challenges; Economic costs; Conflict.

1. INTRODUCTION

The Iraqi economy is a rather fragile system in that, once infected by a certain risk, it automatically shifts the risk to most of its parts. It suffers from many problems, such as unemployment, poverty, internal and external deficits, total external debt, fluctuating monetary reserves, and the weakness of infrastructure. These issues have mainly arisen because of the lack of sound policies that prevent or limit them. This has led to the existence of certain catalysts that continue to generate such problems, the most prominent of which being the dominance of the public sector of economic activity and the rentier state.

The occupation of a number of Iraqi provinces by the terrorist organization the Islamic State of Iraq and Syria (ISIS) in the middle of 2014 had many negative effects on the Iraqi economy. International oil prices collapsed shortly after the invasion, and the government spent a large amount of money on supporting the military effort and on humanitarian operations to aid displaced persons, deepening the financial crisis.

The present research aims to clarify the most important negative economic effects resulting from the ISIS’ occupation in Iraq, as well as the most important future challenges facing the Iraqi economy.

In view of this, the main research questions are as follows: What were the main challenges facing the Iraqi economy during and after ISIS invasion in 2014? Are there opportunities for the Iraqi economy to develop national economic policies that encourage foreign investment and lead to development?

The research hypothesis is that “the negative effects of ISIS occupation deepened the problems faced by the Iraqi economy, such as poverty, unemployment and dependence on oil and that future challenges will involve great efforts to improve the situation.”

This paper provides a brief overview of the understanding and consequences of conflict and war. It begins with the introduction in the first section. Then, Section 2 looks at the literature review of the theoretical approach to the conflict and war. Section 3 gives a brief background of the Iraqi economy before 2014.
Section 4 examines the costs of the conflict with ISIS. Section 5 explains the main challenges facing the Iraqi economy after 2017. Section 6 tries to find future opportunities for the Iraqi economy. Finally, Section 7 draws some conclusions.

2. LITERATURE REVIEW

The theoretical literature discussing the effects of a civil conflict on economic growth provides two contrasting perspectives. The foremost perspective is backed by Benoit’s popular hypothesis, which states that wars affect positive economic development and growth. This theory, which is in line with Keynesian economic theory, argues that military expenditure can be treated as expansionary fiscal policy. Therefore, it can excite the saving by increasing aggregate demand and producing positive externalities. Agreeing with this opinion, military expenditures not only increase and improve infrastructure, usage, and production, but also increase the skills of the workforce and technological development through military specific training and competencies (Ganegodage and Rambaldi, 2013, 1).

The second view argues that a war damages the economy through the destruction of resources and by reducing investment (World Bank, 2003). More importantly, expenditures in war actions have a high opportunity cost (Ganegodage and Rambaldi, 2013, 2) as they crowd out investment in other fields such as training, health, and infrastructure. Further, ongoing war activities not only crowd out investment in other lands but also hamper foreign direct investment by which many developing countries can determine an easy way to improve economic performance.

The Iraqi economy in its crisis, which began after the fall of the former regime in 2003, is in a different situation from countries that have experienced traditional wars such as World War II. As the Iraqi economy is different in structure, the war against Iraq is different from classical warfare. The parties to the conflict are not identical, as the military confrontations have been imposed on the central state with its military and economic institutions by armed groups governed by different ideologies and objectives. Specifically, Iraq has suffered from terrorism since 2004, with terrorist groups such as al-Qaeda and then ISIS when it entered in 2014. Certainly, this terrorism has many negative consequences on the national economy.

On that point, numerous cost distinctions could be drawn regarding terrorism losses (Sandler and Enders, n.d., 4). Direct costs, for example, take the immediate losses associated with a terrorist attack or campaign and include damaged goods, the value of lives lost, the costs associated with harm (including lost wages), destroyed structures, damaged infrastructure and reduced short-term commerce. In contrast, indirect or secondary costs concern attack-related subsequent losses, such as set up insurance premiums, increased security costs, greater compensation to those in high-hazard (high-risk) locations and costs tied to attack-induced long-range changes in commerce. Indirect costs may surface as cut back growth in gross domestic product (GDP), lost FDI, changes in inflation or increased unemployment. An opinion must be reached as to how to differentiate between direct and indirect costs, in which any distinction would strike close to researchers as arbitrary.

3. BACKGROUND: IRAQI ECONOMY BEFORE 2014

The emergence of petroleum oil export activity, particularly after the mid-1950s, and the predominance of the extraction industry not only decreased the contribution of other economic activities of Iraq’s GDP but also distorted the economic social system. The state’s role expanded significantly during the long Iraq-Iran war (1980-1988) in two ways. Firstly, compulsory drafting into the army and its associated industries solidified the state’s control over the labor force, and secondly, the diversion of all resources to the military starved investments, both human and capital, in the productive agricultural and industrial sectors (Tabaqchali, 2017, 2).

Agricultural activity began to decline after the war in 1988, following a large number of the population migrating from rural to urban areas, where employment opportunities existed in service and construction and where there was higher accessibility to education and healthcare. The government became the largest
employer in Iraq especially in the army, police, and national security along with the emergence of consumerism, the expenditures of the rentier government and the elaboration of public and secret services in urban areas increased.

Furthermore, the large rise in population growth rates placed a heavy burden on the government in terms of services and job creation. The population grew from almost 7 million people in 1958 to around 22 million in 1997, and up to nearly 35 million in 2013 (CBS, 2018, 16). Population growth was more than 3% per year during this period and was one of the highest growth rates in the world.

Nevertheless, the Iraqi economy, although rich with petroleum resources, suffered and continues to suffer from severe structural imbalances. Iraq's proven reserves are approximately 148.77 billion barrels that accounted for 12% of OPEC's reserves at the end of 2016, Iraq holds the fourth biggest petroleum reserves in the world, with extremely low oil extraction costs (OPEC, 2018).

Not surprisingly, Iraq is more dependent upon oil than any other country in the Middle East and North Africa, accounting for more than two-thirds of its GDP, 95% of government revenues, and 99% of its total export (IMF, 2013, 14).

This oil wealth has been the main engine for drawing investments into Iraq's economy.

The fall of the former dictatorial regime in Iraq in 2003 led to many political and economic changes in Iraq. The gradual increase in the production and export of oil led to high GDP growth rates. Table 1 shows that the real GDP increased substantially between 2004 and 2013 from US$84.87 to $145.82 billion. The main reason for this increase in GDP was due to the significant increase in oil production and prices.

As a result, central bank reserves reached $70 billion in 2012, and the International Monetary Fund (IMF) predicted growth rates of the Iraqi economy to be above 8% over an average period of five years (2014 and 2018). During the steep economic growth between 2010 and 2013, poverty rates also improved, declining to 18% in 2013 from 22.5% in 2009 (IMF, 2013).

However, although this particular surge in GDP is promising, one of the biggest problems Iraq still faces is that the agricultural and industrial sectors are unable to produce enough food and goods to meet the population's demand. This gap has to be filled by imports.

The optimistic period of 2010-2013 witnessed a surge of investment in Iraq, both in the real economy and the equity markets. Oil prices were above US$100/barrel, and Iraq's ambitious plans are to increase petroleum yield to around 9 MB/d3 by 2020 from around 2.5 MB/d3 in 2012 (Tabaqchali, 2017, 5).

| Year | Real GDP (Billion US$) | Growth rate (%)(*) |
|------|------------------------|--------------------|
| 2004 | 84.87                  | -                  |
| 2005 | 91.15                  | 1.7                |
| 2006 | 91.15                  | 5.6                |
| 2007 | 92.87                  | 1.9                |
| 2008 | 100.52                 | 8.2                |
| 2009 | 103.91                 | 3.4                |
| 2010 | 110.57                 | 6.4                |
| 2011 | 118.91                 | 7.5                |
| 2012 | 135.48                 | 6.4                |
| 2013 | 145.82                 | 7.6                |

(*) Calculated by the author.
Source: Central Statistical Organization, Annual Statistical Abstract, different issues, Ministry of Planning, Iraq.
Iraq has suffered the greatest destruction from terrorism of any country in the world. The destabilization of the country over the past four decades has led to a steady increase in terrorist activity, and for the last 13 years, it has consistently been the most impacted country—ranked first in all Global Terrorism Index since the first edition in 2012 (Institute for Economics and Peace, 2017, 3). Terrorists have used many types of weapons, such as firearms, car bombs, and various types of explosives, which have led to a significant number of fatalities and losses in material wealth. The worst terrorist attack was in 2014 by ISIS, followed by the organization occupying a number of Iraqi provinces in the north and west of the country.

4. THE ECONOMIC COSTS OF A TERRORIST OCCUPATION

In 2014, the Iraqi economy was exposed to a double crisis whereby global oil prices collapsed in the middle of the year (Iraq’s oil prices decreased from an annual average of US$96.5 per barrel in 2014 to US$35.6 in 2016), accompanied by ISIS control over many provinces. This double crisis led to many negative effects on the Iraqi economy and redirected a lot of the diminishing resources to the military effort taking away from public expenditure.

The government was forced to significantly reduce nonsecurity-related expenditures as the war against ISIS took priority. This came amid a sharp decline in oil revenues, and therefore, it reduced the government’s ability to deliver services and aid large numbers of displaced and internally displaced persons.

The economic costs of any conflict or war can be divided into two categories (Blattman and Miguel, 2010):

First: Macroeconomic costs, which include the following:

a. Reduction in GDP growth per capita: This indicator increased continuously throughout the period mentioned, with two exceptions. The first decline occurred in 2009 due to the global financial crisis, which negatively affected most countries in the world and the second in 2014-2015 due to ISIS invasion and a sharp decline in international oil prices, as shown in Table 2.

### Table 2. GDP Growth per Capita in Iraq (2004-2015).

| Year | GDP per capita (US$) | Annual growth rate (%)\(^{(*)}\) |
|------|---------------------|---------------------------------|
| 2004 | 1391.8              | -                               |
| 2005 | 1849.6              | 32.98                           |
| 2006 | 2351.8              | 27.15                           |
| 2007 | 3129.2              | 33.05                           |
| 2008 | 4521.0              | 44.47                           |
| 2009 | 3735.1              | −17.38                          |
| 2010 | 4502.7              | 20.55                           |
| 2011 | 5845.6              | 29.82                           |
| 2012 | 6651.1              | 13.77                           |
| 2013 | 6925.2              | 4.12                            |
| 2014 | 6703.1              | −3.20                           |
| 2015 | 4974.0              | −25.79                          |

\(^{(*)}\) Calculated by the author.

Source: World Bank, Data bank World Development Indicators.
b. Reduction in some financial indicators: the double crises led the government to experience severe financial issues. The budget deficit for 2014 reached $20.2 billion and central bank reserves decreased from $70 billion at the end of 2012 to around $45 billion by the end of 2016. Oil production from northern Iraq also decreased by 40% in 2014 compared to 2013 and exports decreased from 0.26 MB in 2013 to 0.06 in 2014 (Iraqi Central Bank, 2017).

c. Reduction in FDI inflows, exports, and trade: The number of exports reduced from 41.3% of GDP in 2014 to 34.9% in 2015. The FDI inflows decreased from US$5131 million in 2013 to US$4781.8 million in 2014, then to US$3316.3 million in 2015 (WB database, 2018b).

d. Reduction in domestic investment, savings: Gross domestic saving decreased from US$717,567.7 million in 2013 to US$70,629.1 million in 2014 and then to US$33,035.7 million in 2015 (WB database, 2018b).

e. Redirection of public expenditure to defense: Expenditure on national security rose from 3.3% of GDP in 2013 to 5.4% in 2015 (WB database, 2018b).

f. Reduction in tourism: The number of tourists visiting Iraq (excluding the Kurdistan region) declined sharply from 904,785 in 2014 to 280,738 in 2015. In the Kurdistan region, the number of tourists also declined sharply from 1,529,434 in 2014, to 782,251 in 2015 (Iraqi Tourism Board, 2018; Kurdistan Tourism Board, 2018).

Second: Micro/household-level costs

a. Reduction in agricultural investments: During the war, agricultural yield declined by nearly 40%. The agricultural sector was also a main source of income for the terrorist organization. The loss of many farmers in 2015 amounted to lost revenues of approximately $200 million and the grain sector in particular lost nearly 1 million tons per annum during the years of occupation (RFSAN, 2016).

b. Reduction in school enrollment, grade completion: The percentage of school enrollment in primary and secondary schools declined from 100% in the academic year 2013-2014 to 77.8% in 2014-2015. The dropout rate from primary schools rose from 1.8% in 2013-2014 to 2.3% in 2015-2016, and dropouts from secondary schools rose from 2% to 2.6% in the same period. The economic loss due to dropouts in 2014-2015 reached 430,759 million IQD (UNICEF, 2017, 10).

c. Reduction in health: Public health expenditure declined from 6.1% of GDP during the period 2001-2013 to 3.3% of GDP in 2014 (UNDP, 2016, 226).

d. Reduction in self-reported life satisfaction: The World Happiness Report indicated that the rank and score of Iraq had declined from rank 105 with a score 4.817 in 2013 to rank 117 with a score 4.497 out of 155 countries in 2017 (Helliwell et al., 2013, 2017).

e. Increase in poverty rates: Poverty rates increased sharply in 2014 across the country from 18% before the crisis to 22.5% after the crisis, with a stark contrast between regions, as will be further discussed later in this paper. High poverty rates were attributed to political instability, excessive bureaucracy, and high unemployment rate (16.4% in 2014). In provinces affected by ISIS occupation poverty rates were estimated to have increased to 41.2% in 2016. The war declined material assets and led to a halt in economic activity, while limiting opportunities for sustainable life (World Bank, 2016).

In addition, the conflict with ISIS demolished infrastructure, assets, and boosted the figure of internally displaced persons to 3 million and the number of people in need of humanitarian assistance to 11 million (29% of the population), admitting over 241,000 Syrian refugees (IMF, 2017, 4). According to the Iraqi Central Bank (2017), the financial losses incurred by the Iraqi economy were as follows (Iraqi Central Bank, 2017; IMF, 2017):

1. The financial losses were estimated to be $2 billion a year from the sale of 30 thousand barrels per day of oil with prices ranging between $25 and $50 a barrel.
2. The total amount obtained by the terrorist organization from the banks it seized is estimated at US$835 million. This is displayed in Table 3:
3. The total losses incurred by the Iraqi economy were approximately US$35 billion, including $12.24 billion incurred by the Ministry of Defense alone, approximately 3 billion incurred by the Ministry of Finance, 2.7 billion to the Ministry of Electricity, $2.5 billion to the Ministry of Oil, $1.5 billion to the Ministry of Construction and Housing, and $1.3 billion incurred by independent bodies.

4. The total economic impact of violence and conflict in 2015 reached 206,444 Million PPP and 5930 PPP per person. These two indicators put Iraq at the top of 163 countries in 2015 on the World Terrorism Index. Additionally, the economic impact of violence and conflict as a percentage of GDP was 53.5% in 2015 which ranked second in the world after Syria (54.1%) (Institute for Economics and Peace, 2016, 44).

5. The amount of money obtained by the terrorist organization from the sale of antiquities, gold, historical holdings, manuscripts, and paintings amounted to more than 1$ billion. Besides that, the terrorist organization gained more than US$250 million from the sale of weapons and equipment confiscated by the Iraqi army and achieved revenues of nearly $300 million from the collection of water, electricity, wages and the sale of houses and furniture of citizens, money from the sale of about 500,000 tons of stored cement, and the annual rents of the municipality of Mosul.

6. Fiscal balances deteriorated during 2014-2016 due to low oil prices, higher military spending, and humanitarian expenditures. In 2017, fiscal balance improved mainly due to a 43% increase in oil revenue despite production cuts, driven by higher oil prices (World Bank, 2018a, 1).

7. Approximately 4.3 million people were driven out of their homes, of which 1.5 million were from the Nineveh province alone. This led to increased rates of poverty up to 22.5% throughout Iraq and 41% in the occupied governorates as shown in Figure 1.

Table 3. The Total Amount in Both Iraqi Dinar and US Dollar Seized by ISIS from Iraqi Banks.

| Bank Name                        | Amount in Iraqi Dinar | Amount in US$ |
|----------------------------------|-----------------------|---------------|
| Central Bank / Mosul Branch      | 587 Billion           | 84 Million    |
| Al-Rafidain Bank/ Nine branches from total of 41 | 154 Billion | 2.4 Million |
| Al-Rasheed Bank/ 10 branches from total of 17 | 87.3 Billion | 3226         |
| Total cash in branches and number (121) branches | 839.8 Billion | 14.3 Million |
| Total                             | 1668.1 Billion        | 101 Million   |

Source: Abdulnabi W. 2017. A documentary report on the branches of banks that controlled it, calls and procedures of the Central Bank of Iraq in rehabilitating them and ensuring their return to work. Central Bank. P.7, Baghdad.

The figure shows that the poverty rate increased in ISIS affected areas by 60.3% while in Kurdistan by about 257% due to the inflow of 1.4 million internally displaced persons (IDPs) and over 241,000 refugees from Syria. The 2014 crisis also led to an estimated reduction in employment by 800,000 jobs (World Bank, 2018a). Furthermore, the conflict in Iraq imposed restrictions on women’s movement, limiting their access to education, health care, and employment.

To conclude, losses incurred by the Iraqi economy included a wealth of economic, financial, and social aspects, and the damage was extensive, as shown by the numbers and figures. In addition, the losses of opportunity cost, which represent the benefits of an individual, investor, or the whole economy when the war against ISIS started, were very great.

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1 Purchasing Power Parity in US$.
5. THE MAIN CHALLENGES FACING THE IRAQI ECONOMY AFTER 2017

There are five main challenges facing the economic development of Iraq to alleviate the problems that have arisen over the past couple of decades. These will be discussed in the following section.

The first and most important challenge is overcoming corruption. Weak institutions coupled with an inefficient and low-paid public sector push many civil servants to become corrupt that spreads quickly and soon becomes a way of life. Corruption existed during the Saddam Hussein era, especially during the 1990s under the Oil-for-Food Program, but it never reached the heights witnessed today. Most likely fear of Saddam Hussein and the compass of his security services prevented senior officials from embezzling large sums of money. Furthermore, the arrangement was not as enriched as it was later in the invasion (Sassoon, 2016, 8). Corruption is currently spreading in every sector in Iraq. Unfortunately, all efforts to uproot it or create serious parliamentary committees to scrutinize business dealings have failed.

Thus, Iraq is now one of the most corrupt countries in the world. Iraq ranked 169th in the 2017 Corruption Perceptions Index among 178 countries (Transparency International, 2017, 4). Sustainable economic development is impossible in such an environment. Combating corruption requires serious reform efforts, and success will help to advance Iraq’s political, societal, and economic position.

The second challenge is reconstruction, which is not restricted to the cities occupied by ISIS; although such cities have dealt with the most destruction in Iraq, many Iraqi provinces are lacking many basic services such as electricity, water, and sewage works. Granted by the Iraqi Ministry of Planning, reconstruction will cost close to $23 billion in the short term and more than $65 billion in the long term (World Bank, 2018a).

The third challenge is reducing the reliance on the oil sector. One of the biggest issues of Iraq’s economy is that although the state is dependent on oil, the sector only employs 80,000 out of a total of eight million people in the labor force, approximately 1% of the entire working population (UN, 2014).

The fourth challenge is combating the excessive role of the public sector that dominates the Iraqi economy. The public sector makes up over 75% of total employment. Payments for salaries, pensions, social assistance, and subsidies (electricity, fuel, water and health and education services) consume over 60% of the budget, yet taxes are only about 5% of total revenue (CSO, 2018). The Iraqi public sector is one of the largest in the world in terms of population, due to several reasons, the most important of which is the community culture. There is a strong community belief that a job in this sector is the most secure job, provides the best salary, and requires the least amount of effort. On the contrary, the private sector is weaker in creating new jobs. Thus, unemployment in Iraq, as in many other countries in the region, is a serious challenge for the country and its economy. There is a wide divergence of statistics about unemployment, suffice it to say that unemployment hovers around 18% with higher unemployment rates for those aged 15-29 (Sassoon, 2016, 2).
The fifth challenge for the Iraqi economy is to overcome the mismanagement of the economy and lawlessness. The Governance Indicators show that for 2016, in the political stability category, Iraq was ranked as 209 among 216 countries on the “no violence” indicator and in government effectiveness 210 with a score of 9.13 out of 216 countries. In the rule of law indicator Iraq placed 224 among 229 countries with a score of 0.96 (World Bank, 2017). These indicators show that the improvement of the Iraqi governments is critical.

6. FUTURE OPPORTUNITIES FOR THE IRAQI ECONOMY

There are several optimistic opportunities for Iraq. The increase in production and exportation of crude oil, for instance, provides high revenue, which could be used to support the production and service sectors to enhance economic diversification. Iraq is already the world’s third-largest oil exporter and has the resources and programs to increase its oil and natural gas production rapidly as it recovers from three decades marked by conflict and instability. Success in developing Iraq’s hydrocarbon potential and efficient management of the resulting revenues could fuel Iraq’s social and economic growth. The International Energy Agency expects that Iraq’s oil production will be more than double to 6.1 M.B/D by 2020 and reach 8.3 M.B/D by 2035 (IEA, 2012).

Concurrent with the progress in oil production, Iraq has committed to the reduction of flaring associated with natural gas. Previously, Iraq flared over 70% of its associated natural gas, which cost the country billions of dollars annually in lost revenues, billions more in importing natural gas for electricity production and billions more in importing electricity (Tabaqchali, 2017, 6).

After the elimination of ISIS in 2017, the Iraqi economy began to recover and economic indicators began to increase after falling in 2014 and 2015, as shown in Table 4. This is promising, provided the proceeds are invested correctly and used to raise the production capacity of the economy, reduce imports, and increase nonoil exports.

Table 3 shows that all the economic and financial indicators recovered after 2016 and are predicted to continue improving up to 2020.

The same recovery happened to foreign direct investment that was fluctuating between 2004 and 2010 mainly due to political instability and weak national security. The value of foreign investment began to increase after 2010 and peaked in 2013 before the double crisis in 2014. Figure 2 shows the fluctuation of FDI between 2004 and 2015.

After the crisis ends and national security stabilizes, it is probable that the amount of foreign direct investment to Iraq will increase, which will develop many economic aspects, including creating more jobs.

To attract foreign investors, the Iraqi government has offered a list of guarantees and privileges including but not limited to the following: tax holidays for 10 years (extendable to 15 years in some cases); the right of ownership and protection against seizure or nationalization of the investment project; the right to deal on the Iraq Stock Exchange (ISX); the right to rent or lease lands needed for the term of the investment project; the right to return the capital brought into Iraq enabled by the prospect of greater stability and security. Iraq has listed a total of over 212 projects ready for investment across more than 10 sectors. Among these sectors, oil and refineries are the most promising sectors for investors followed by industrial and manufacturing, infrastructure, health and education, energy, and agriculture (Frost & Sullivan, 2018).

| Indicator                  | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---------------------------|------|------|------|------|------|------|------|------|------|
| Real GDP (%)              | 13.9 | 6.6  | −2.1 | 0.5  | 7.6  | 8.1  | 7.6  | 7.5  | 7.1  |
| Non-oil real GDP          | 15.0 | 10.2 | −8.8 | −11.2| 2.0  | 3.0  | 4.0  | 5.0  | 5.0  |
| GDP per capita (US$)      | 6693 | 6975 | 6520 | 4960 | 5470 | 5971 | 6421 | 6843 | 7241 |
| Current account (% of GDP)| 6.7  | 1.3  | −2.8 | −8.6 | −6.9 | 0.6  | 1.8  | 2.2  | 1.9  |
| Trade balance (% of GDP)  | 14.3 | 9.5  | 6.6  | −1.3 | 2.6  | 7.1  | 8.2  | 8.4  | 8.4  |

Source: IMF, Iraq Country Report No. 15/235, August 2015, p. 4.
Following the political stability and safety of the country, the Iraqi government should develop the tourism sector, which would provide thousands of jobs and contribute to the growth of other economic sectors. The number of tourists who enter Iraq annually is about five million, the vast majority for religious tourism, especially from Iran, India, Pakistan, and some Arab Gulf countries.

Iraq has a wealth of religious, geographical, and historical sites that could attract tourists from all over the world. Specifically, holy shrines in Iraq, for instance, could attract tourists from a myriad of Muslim countries. The religious tourism opportunities offered by Najaf and Karbala as well as geotourism possibilities in Iraqi Kurdistan are potentially “high value” segments and will help to diversify its national economy.

7. CONCLUSIONS AND SUGGESTIONS

In conclusion, the occupation of the Islamic State of a number of Iraqi provinces and the decline in international oil prices has had many negative effects on the Iraqi economy. Most notably, the fiscal deficit in the public budget has increased dramatically, poverty and unemployment rates have increased, and financial losses in various aspects of the Iraqi economy now exceed $100 billion in total. The displacement of millions of people and the expenses incurred for the war on the Islamic state have negatively affected the state budget and greatly reduced investment expenditures. The high dependence on oil as the main source of financial revenues, the high rates of financial and administrative corruption, and the reconstruction of liberated cities are the most important challenges facing the Iraqi economy in the future. The country should (i) look to and learn from other countries who survived catastrophic wars such as Germany and Japan, (ii) develop an integrated strategy with political support from the highest levels to reduce corruption and punish the corrupt, and (iii) raise the proportion of money allocated to vital sectors such as agriculture, industry, and tourism in the general budget to promote economic diversification and support the private sector in creating new job opportunities for the unemployed.

One way to make the reconstruction program viable is to involve the private sector. The post-conflict government will have neither enough resources nor the capacity to rebuild the economy; rather, the private sector will lead the post war effort. The government should encourage the creation of a dynamic business environment and the implementation of institutional reforms.

Based on the consensus emerging from a comprehensive reconstruction dialogue, there is a need to unleash the potential of the private sector. The improvement of the private sector will also be important in facilitating the return of refugees, many of whom abandoned their jobs during the war. Overall, the existence of a dynamic private sector is the strongest antidote to the resumption of conflict.
The trend towards further decentralization beyond ISIS would shift more power to local levels that could pave the way for law and policy enforcement within local frameworks and thus address some of the root causes of conflict.

A strong policy of reducing corruption in state institutions should be pursued through improved disclosure systems for officials’ property, improved fiscal control frameworks, increased transparency of budget and public expenditure information, greater transparency of contracting and contracting procedures with the public sector and improved public procurement systems.

Guided by the IMF following the signing of the Stand-By Arrangement (SBA) in June 2016, the Iraqi government should embark on the long process of decentralizing the state by reducing its role in the economy, encouraging the development of the private sector in agricultural and industrial production and stimulating private sector employment.

In the long term, Iraq needs to find a way of improving other sectors of its economy at least to be self-sustaining. Now, Iraq imports most of its products from neighboring counties, especially agricultural commodities from rural areas such as Iran, Turkey, and Kuwait.

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