



The consequences of economic terrorism on the Iraqi political and security system after 2014

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Abstract

The phenomenon of terrorism has become an epidemic that threatens the entire world, and it is one of the most dangerous phenomena and problems that human societies suffer from at the present time. Social and threatened by terrorism.

The concept of economic terrorism becomes clear with the decline of military terrorism at the international level, and it is based on sabotage actions aimed at disrupting and destroying plans, programs and economic development projects, and striking the infrastructure in developing countries and societies to impede their advancement, and to keep those emerging countries and societies lagging behind in managing their economic affairs, so that they cannot From emancipation (openness, liberation, and gaining its economic independence, which leads to liberation and emancipation from political dependence, and obtaining sovereignty and real political independence

Keywords : Terrorism, Economic Terrorism, ISIS, Economic Cost

1. Economic terrorism causes and motives

Terrorism in general takes many forms, it may be economic terrorism from one country against another country, or a country against a group of countries, or a group of countries against a group of other countries, or a group of countries against one country, unorganized terrorism, organized terrorism, internal terrorism, and there are several Forms of unregulated economic





terrorism The volume of terrorism has increased worldwide, with the table top ten countries

Class and social inequality, cases of poverty, financial and administrative corruption, low incomes of individuals, recession, unemployment, unfair distribution of wealth, salaries and privileges, lack of justice in economic development, and the varying degrees of construction and service projects that attract the population from one place to another are, in the language of researchers, among the incentives driving towards economic terrorism.

Likewise, the economic deprivation in this last decade experienced by most countries of the world, including Iraq, has led to an increase in class differences, unemployment, poverty, and deficiencies in the available material capabilities to meet the requirements and needs of individuals, as well as the economic imbalance that Iraq suffers from at the present time, and the increase in the proportion of people living below the poverty line and lack of The state's ability to absorb the phenomenon of unemployment and solve it has increased the possibility of some people becoming involved in terrorist gangs⁽²⁾

The economic factor had a major role in terrorism, as the lack of a fair distribution of wealth in Iraq, in addition to the acquisition of certain groups due to their presence in state institutions, led to the existence of two classes in Iraq, one of them rich and the other poor, and this led to a decline in the standard of living, housing and education for a large group of the Iraqi people, because The lack of services that the state is supposed to provide, which has been reluctant to provide them due to widespread cases of administrative corruption, and Iraq has become in the first ranks in terms of high levels of corruption.

Among the important economic motives is unemployment: the spread of unemployment in society, and any society in which unemployment increases, the unemployed increase in it, and job





opportunities are depleted, this opens the doors of danger from the abuse of terrorism, crime, drugs, assault and theft. People are angry, so they are moved by hunger, poverty and destitution, and money silences them.

2.Economic terrorism

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3.Banks and economic terrorism

The banking industry is moving toward cutting-edge financial technology, and evidence of banks' financial stability continues to accumulate. Banks play an important role in economic growth, through their role as mediators between savers and depositors. They also provide funds for activities that support projects, which promote a strong and healthy economy. Bank financial stability is a topic of great interest in financial services and economics, especially after the financial crisis of 2007 .

Financial instability can be very costly to the banking industry because of its pervasiveness or spillover effects to other parts of the economy. Hence, it is imperative to have a sound, stable and healthy financial system to support efficient allocation of resources and distribution of risks across the economy. Taking corporate risk, controlling risk, and enhancing financial performance and resilience in the global banking sector remains a central focus for bank managers/managers, international regulators and investors⁽⁵⁾

While most studies focused on the operational, financial, macroeconomic and microeconomic determinants of banking financial stability, attention was paid to the relationship between the role of political stability and the stability of banks. Accordingly, it remains questionable whether banks are still able to operate and mitigate risks during accelerated political events such as terrorism, particularly for banks located in high-risk countries. In a joint survey conducted by the Center for the Study of Financial Innovation (CSFI) and





PricewaterhouseCoopers (PwC) in 2010, "political instability", along with its implications, was ranked as the most significant risk, and politics remains an important driver behind frequent and systemic banking crises. Terrorist attacks are the most damaging political event to economies and societies⁽⁶⁾

We assume that political instability within developing countries makes them more vulnerable to financial pressures and enhances financial instability of banks. An empirical assessment of countries with more frequent terrorist incidents provides an interesting environment because incidents of terrorist attacks are likely to become a routine component (systemic risk) over time for many economies sensitive to such attacks. The higher rate of attacks may reflect an erosion of sensitivity to protracted terrorism, that is, the "normalization of terrorism" Moreover, many researchers argue that the systemic effects of terrorism are not limited to stock markets only, but can also be observed in other financial markets including bonds and securities. Government finance, repurchase market, and commodity markets. The economic impact of terrorism.

4.The consequences of economic terrorism and its economic effects

Terrorism has several economic consequences, which can be segmented into short-term direct effects, medium-term confidence effects and longer-term productivity effects. The economic costs of terrorism encompass the demolition of life and property, reestablishment of the ⁽⁷⁾systems and the infrastructure affected, and the provision of temporary living assistance. Terrorism affects the economy of the country by diverting foreign direct investment (FDI), disturbing financial markets, slowing domestic investments, and even affecting the consumption plans and government spending . The financial and economic decisions are highly impacted by the psychological terror caused during the terrorism events. These events decrease





investor confidence and produce a wide macroeconomic shock. Eventually, terrorism restricts economic growth and amplifies unemployment and poverty problems, which consequently affect the resilience of the financial sector

In line with Caprio and Honohan and Belghitar et al , we assume that political instability within developing countries makes them more vulnerable to financial stress and promotes bank financial instability. This is the fundamental premise investigated in our study. An empirical assessment for countries with more frequent terrorism incidents offers an interesting setting because incidents of terrorist attacks are likely to turn out to be a routine element (systematic risk) over time for many economies sensitive to these attacks. High frequency of attacks would reflect an erosion of sensitivity to prolonged terrorism, in other words ‘normalization of terror’. Furthermore, prior studies show that systematic implications of terrorism are not only restricted to stock markets but can also be observed in other financial markets including bonds, government securities, the repo market and commodity markets⁽⁸⁾

5.The Economic Impact of Terrorism

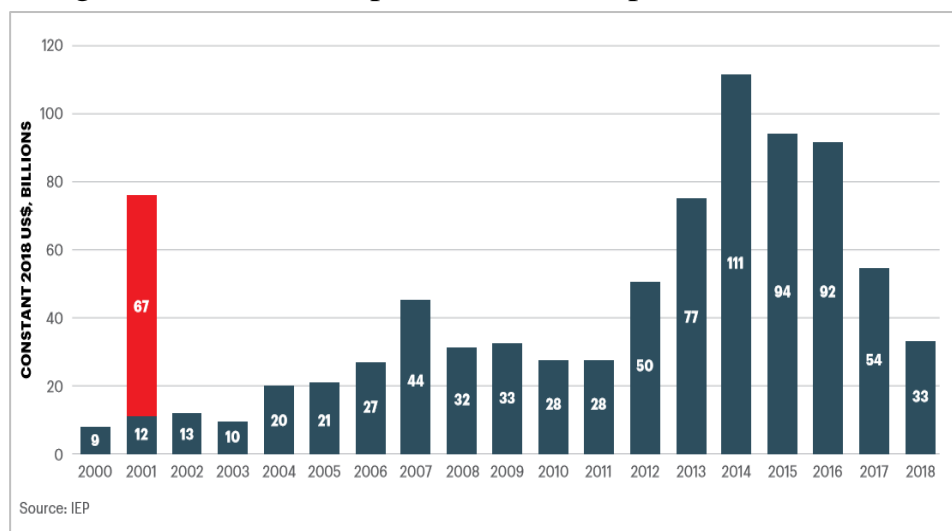
Many studies have largely focused on economic stability and the drivers of terrorism. Some have generally documented an association between terrorism and economic activities, while others indicate that economic downturns are associated with large numbers of terrorist attacks. FIGURE 1 Economic Impact of Terrorism, in Billions of US Dollars, 2000-2018 The global economic impact of terrorism peaked in 2014.





FIGURE 1. The economic impact of terrorism, US\$ billions, 2000–2018

The global economic impact of terrorism peaked in 2014.



The global economic impact of terrorism in 2018 amounted to US\$33 billion, a decline of 38 per cent from its 2017 level. This is the fourth consecutive year that the economic impact of terrorism has declined from the peak of \$111 billion in 2014.

These estimates are considered conservative, as there are many items that are not included in the methodology due to the difficulty in costing them. These include the longer-term economic implications of terrorism such as reduced tourism, business activity, production and investment.

The reduction in the economic impact of terrorism reflects the decreasing level of violence from global terrorism. The improvement over the last four years is largely driven by the declining level of terrorism related violence in Iraq, Nigeria and Pakistan. Since 2014, the economic impact of terrorism declined by 62 per cent in Nigeria, 82 per cent in Iraq and 90 per cent in Pakistan⁽⁹⁾.





Figure 1 shows trends in the economic impact of terrorism globally from 2000 to 2018. The impact of the September 11, 2001 terrorist attacks is shaded separately.

Countries suffering from armed conflict experience a significantly higher economic impact of terrorism. In 2018, Afghanistan was the country most affected by terrorism in terms of economic cost, equivalent to 19.4 per cent of its Gross Domestic Product (GDP), an increase of seven percentage points from 2017. Afghanistan has experienced a consistent increase in the level of violence from terrorist incidents and ongoing conflict in the country. No other country experienced a cost of terrorism greater than five per cent of its GDP. Iraq had the second highest economic cost of terrorism as a percentage of GDP, equivalent to 3.9 per cent in 2018⁽¹⁰⁾

Table 1. The ten countries most affected by the economic cost of terrorism as a percentage of their GDP, all of which are also experiencing ongoing conflict.

Country	%of GDP	GTI 2019 Rank
Afghanistan	%19.4	1
Iraq	%3.9	2
Nigeria	%2.7	3
Central African Republic	%1.6	14
Syria	%1.6	4
Mali	%1.4	13
Libya	%1.2	12
Somalia	%1.1	6
South Sudan	%0.8	17
Yemen	%0.6	8

Source: START GTD, IEP Calculations





Table 2 Economic impact of terrorism by region, \$US billions, 2018

REGION	ECONOMIC IMPACT OF TERRORISM (US\$ BILLIONS	REGIONAL ECONOMIC IMPACT AS PERCENTAGE OF THE GLOBAL TOTAL
sub-Saharan Africa	12.17	%37
Middle East and North Africa	11.9	%36
South Asia	5.87	%18
Asia-Pacific	1.22	%4
Europe	0.6	%2
South America	0.59	%2
North America	0.49	%1
Russia and Eurasia	0.23	%0.7
Central America and the Caribbean	0.12	%0.4

Source: IEP

The total global economic impact of violence was estimated at \$14.1 trillion for 2018, or 11.2 per cent of global GDP. However, IEP's estimate of the costs associated with terrorism calculate only the globally quantifiable and comparable costs. It does not take into account the costs of counterterrorism or countering violent extremism, nor the impact of diverting public resources to security expenditure away from other government activities. It does not calculate any of the longer-term economic implications of terrorism from reduced tourism, business activity, production and investment. As a result, the economic impact of terrorism is a conservative estimate. The estimated impact of these additional costs is outlined later in this section⁽¹¹⁾.





The economic impact of terrorism varies substantially by region, as shown in Table 1.4. MENA and sub-Saharan Africa have the highest economic impact, respectively representing \$11.9 and \$12.2 billion. This is equivalent to 73 per cent of the total for 2018 .

The economic impact of terrorism is equal to \$5.9 billion in South Asia, the third largest economic impact by region. Central America and the Caribbean, and Russia and Eurasia are the regions with the lowest economic impact, the equivalent of \$0.1 and \$0.2 billion, respectively

The effect of terrorism on capital flight is a subject that has not yet been adequately empirically analyzed, and most studies in this field are theoretical. Collier states that civil wars as a measure of violence will increase the outflow of capital from the country due to its nature. The military conflict will increase the uncertainty of the future return on assets in the country and capital will seek alternative markets. One of the most important factors in deciding whether to invest in a region or country is the absence of terrorist activities in that region or country .The increased number of terrorist incidents in a particular region not only reduces the willingness to invest in that area, but also provides the opportunity for capital outflows. Multinationals largely avoid investing in these areas because of the insecurity and instability caused by terrorist attacks . Terrorist incidents increase the risk of capital retention and pessimism about the future return on capital, thus stimulating capitalists to withdraw their capital from a disputed area . Terrorism can also be a source of direct costs to countries. Terrorists' goals for these activities have long-term negative effects on society. The economic impact of a terrorist act can exist for many years after a terrorist attack .

Abadie and Gandeazab research on the theoretical insight into terrorist activities has shown that terrorism increases global





insecurity and has a negative impact on the distribution and transfer of capital and investment in different countries. Tavares showed that the increase in international terrorist activity also affects the economic development of countries at risk of terrorism. He showed that intense terrorist activity has led to tax cuts and total government revenue in some countries and has had negative effects on public services and government investment. Taken together, these factors illustrate the negative impact of terrorism on economic growth⁽¹²⁾

Economic phenomena and terrorism

The terrorism literature documents a positive correlation between economic depression and terrorism. Furthermore, terrorism creates serious threats to life and economic losses, affecting economic prosperity and governance. Moreover, Shahbaz finds that terrorism increases inflation, while Raza and Javed show that an increase in terrorist events reduces tourism revenues. Estrada et al. and Sandler and Enders demonstrate the detrimental impact of terrorism on the economy through rational choice theory because the government's decision to combat terrorism must be a trade-off between the costs of acquiescing to the terrorist agenda and the costs of fighting it.

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 the technological development through military specific training





and competencies. The second view argues that a war damages the economy through the destruction of resources and by reducing investment. More importantly, expenditures in war actions have a high opportunity cost 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 is in its crisis.⁽¹³⁾

6.The economic costs of terrorism in Iraq

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. 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.

From here, the economic costs of terrorism can be clarified from the following table⁽¹⁴⁾

Table3. The composition of the economic impact of terrorism, 2014–2018

Indicator	2014	2015	2016	2017	2018
GDP losses	%24	%28	%17	%26	%39
Deaths	%73	%70	%79	%71	%58
Property damages	%2	%1	%2	%2	%2
Injuries	%1	%1	%2	%1	%1
Total	%100	%100	%100	%100	%100

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:



***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 4

Table4. 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 .

- 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.
- 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
- e. Redirection of public expenditure to defense: Expenditure on national security rose from 3.3% of GDP in 2013 to 5.4% in 2015
- 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 ⁽¹⁵⁾

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
- 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

- 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.
- 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.
- 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⁽¹⁶⁾.

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. 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:





Table 5 . Total Amount in Both Iraqi Dinar and US Dollar Seized by ISIS from Iraqi Bank The

Bank Name	Amount in Iraqi Dinar	Amount in US\$
Central Bank/ Mosul Branch	587Billion	Million84
Al-Rafidain Bank/ Nine branches from total of 414	Billion154	Million2.4
Al-Rasheed Bank/ 10 branches from total of 17	Billion87.3	3226
Total cash in branches and number (121) branches	Billion839.8	Million14.3
Total	Billion1668.1	Million101

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, Baghdad,p.7.

- 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%)

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
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⁽¹⁷⁾.

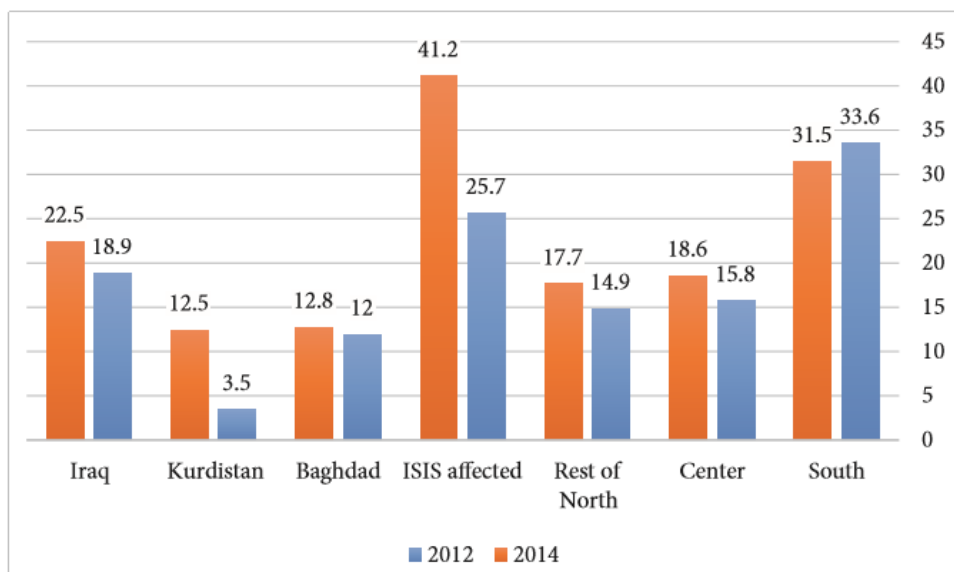
The figure shows that the poverty rate increased in ISIS affected areas by 60.3% while in Kurdistan by about 257% due to the inflow of 1.4 million internally displaced persons (IDPs) and over 241,000 refugees from Syria. The 2014 crisis also led to an estimated reduction in employment by 800,000 jobs. 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.

Figure 2. Poverty Head Count Rate (2012-2014) (% Change)



Source: World Bank. 2018a. Economic Transformation, MENA Economic Monitor, World Bank Group.

7.The Main Challenges Facing the Iraqi Economy after 2017⁽¹⁸⁾

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. 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. 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. 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. 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. 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 ⁽¹⁹⁾.

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

These indicators show that the improvement of the Iraqi governments is critical

8.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 . ⁽²⁰⁾

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.

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. ⁽²¹⁾ 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.

Table 6 : Selected Economic and Financial Indicators of Iraq (2012-2020).

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.

9. Conclusions and Suggestions

In conclusion, the occupation of (ISIS) 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 (ISIS) 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 countries, especially agricultural commodities from rural areas such as Iran, Turkey, and Kuwait.

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