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Iraq's Coming National Challenges: Transition Amid Uncertainty

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Key Challenges: The Immediate Legacy

- **Political, economic, and social legacy of 30 years of crisis.**
- **Near Political Paralysis before and After Election.**
- **Lack of government effectiveness and capacity at every level**
- **Remnants of insurgency and possible revival**
- **Sectarian and ethnic challenges**
- **Budget crisis, crippled economy, loss of foreign aid**
- **Limits to progress in developing Iraqi security forces**
- **U.S. withdrawal and transition to diplomatic and aid mission**
- **Influence and threat posed by of neighbors**

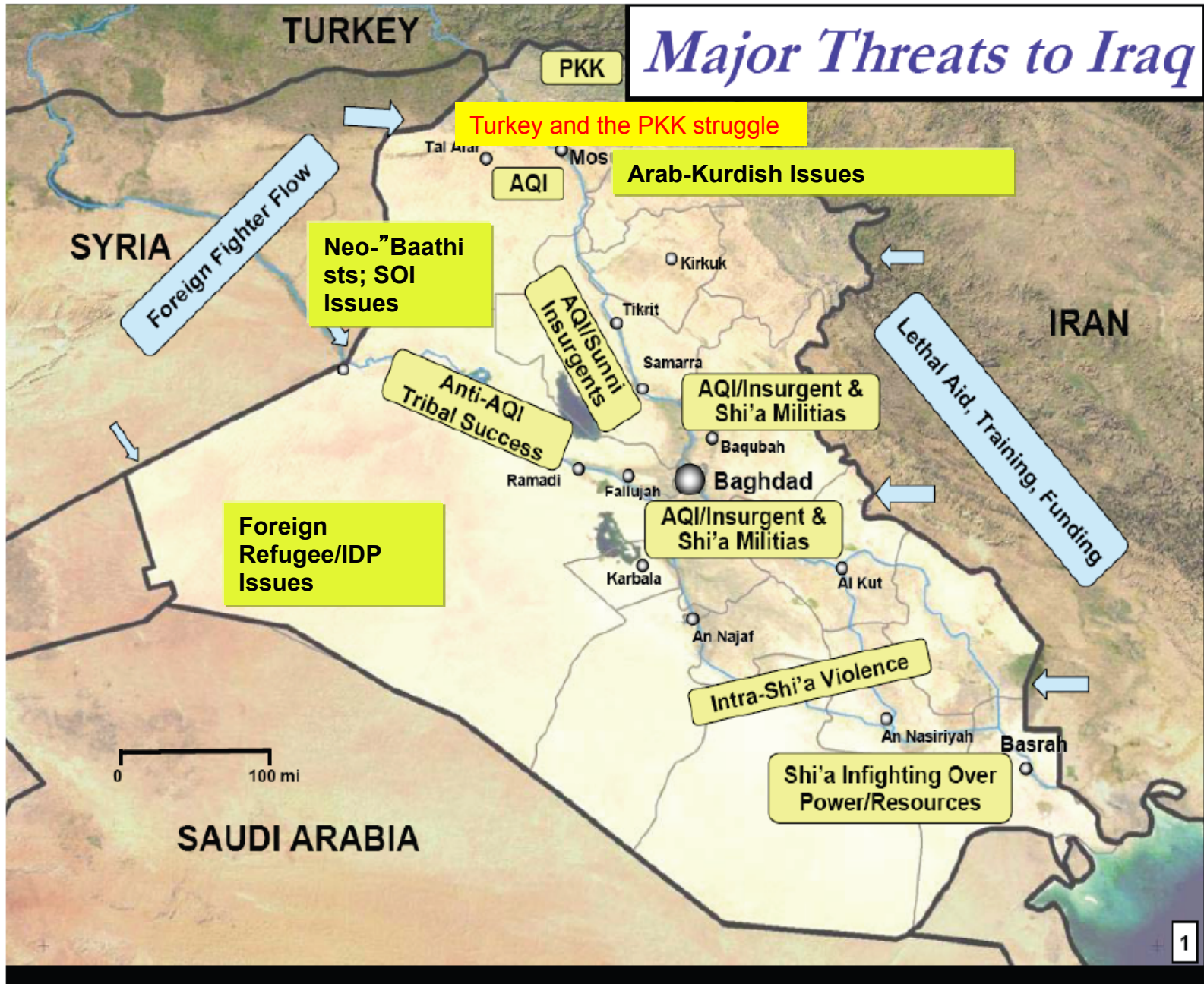
Key Challenges in 2011-2012

- **Revitalize effort to develop effective Iraqi security forces.**
- **Resolve the problems left over from the fact that the 2009 budget expired without funding a wide range of projects, deal with the deficit problems in the 2010 budget, and put the 2011 budget on a more stable path.**
- **Move towards an effective rule of civil law that adapts Iraq's "confession-based" legal system; and find an effective balance between the judiciary and police. Perform triage between the mix of Iraqi government projects and the results of U.S. and other foreign aid efforts to ensure the best aid projects are effectively transferred and sustained..**
- **Find some compromise between Arab and Kurd that at least buys time for a broad, negotiated political settlement,.**
- **Find ways to ease the tensions between Arab Sunni and Arab Shi'ite that were exacerbated by the election campaign and new de-Ba'athification efforts.**
- **Deal with the past failure to create effective programs to deal with internally displaced Iraqis and Iraqi refugees outside Iraq.**
- **More forward to ensure that the petroleum contracts signed in 2009 are fully supported by the new government.**
- **Make similar reforms to provide incentives for private and foreign investment that are competitive with those offered by other Gulf states.**
- **Define the practical relations Iraq will have with the United States as part of the Strategic Framework Agreement for both civil and military aid and relations before U.S. forces fully withdraw, and in time to set clear goals for U.S. aid funding to Iraq in the FY2012 budget.**
- **Establish a foreign policy that shows Iraq will work with all of its neighbors, and will act independently of Iran without threatening it.**
- **Find an early modus vivendi with the new powers and role of provincial governments, as well as the major cities.**

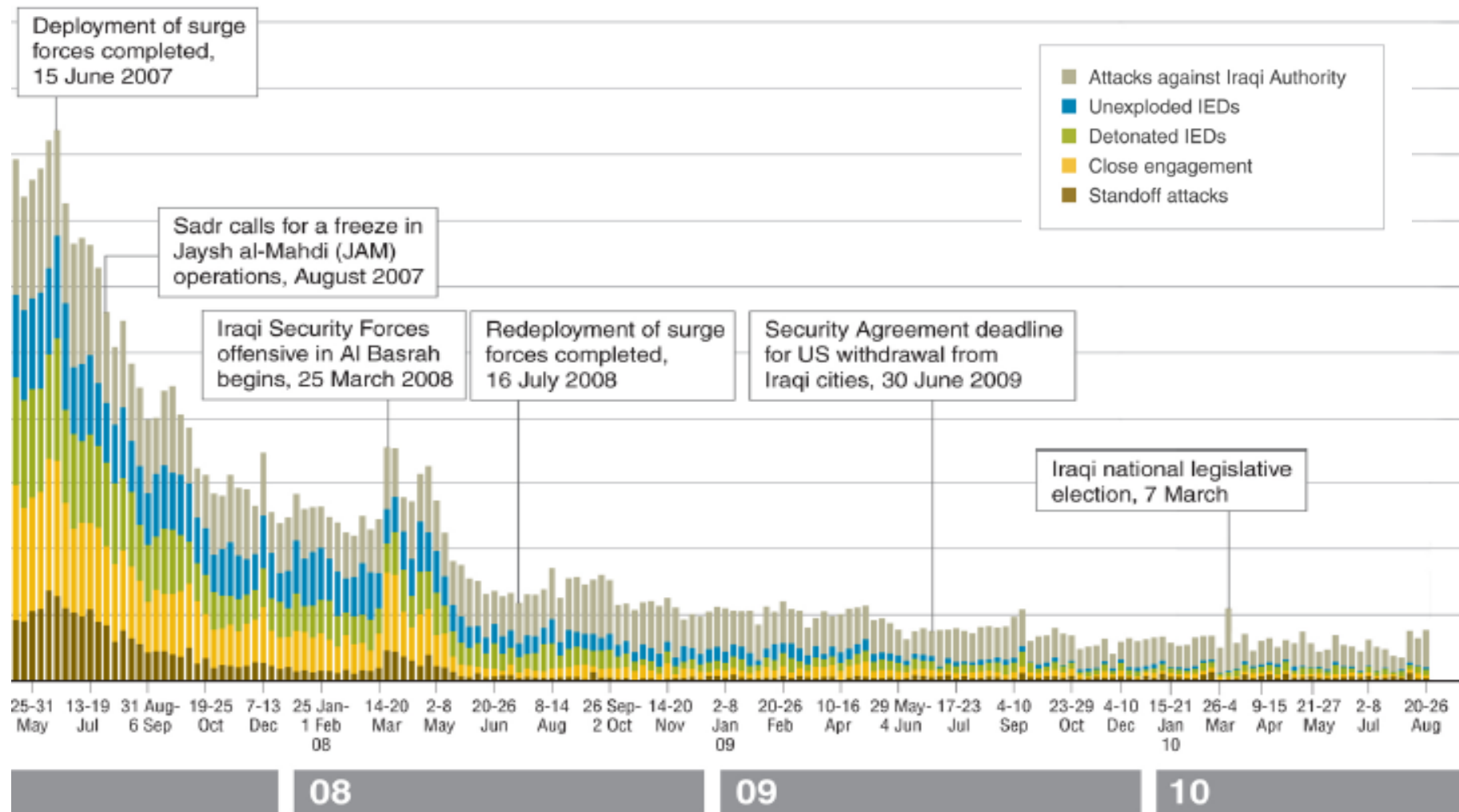
Key Challenges in 2013 and Beyond

- **Complete the constitutional and legal basis for Arab and Kurdish political accommodation; move towards truly “national” treatment of Sunni and Shi’ite.**
- **Stable planning and funding of economic and infrastructure development.**
- **Fully shift away from outside aid; create stable planning, spending, and control of budget without major deficits.**
- **Creation of jobs for steadily growing population. Rise in per capita income from 160th to Gulf standards, better distribution of income.**
- **Structural reform of agriculture**
- **Long-term solutions to water problems.**
- **Conversion-modernization-privatization of state industries.**
- **Full legislation and liberalization to attract foreign and domestic investment.**
- **Reconstruction and modernization of upstream and downstream petroleum sector; pipelines and Gulf facilities; stable Iraqi-foreign company partnership.**
- **Make Ministries effective; revitalize health and education sectors.**
- **Deal with foreign refugees and internally displaced persons.**
- **Shift and downsize Iraqi military from counterinsurgency to deterrence and defence against foreign threats.**
- **Shift police and security forces from counterinsurgency to rule of law; checks on corruption and organization crime.**

Key Challenges: Violence, and Ethnic and Sectarian Tensions



Violence Will Remain a Critical Challenge: Patterns from the Peak of the Insurgency to the Withdrawal of U.S. Combat Forces



Sectarian, Ethnic, and Tribal Challenges

Pre-Census “Guesstimates”

Sectarian Challenges

- 60-65% Shi’ a
- 32-37% Sunni
- 3% Christian or other

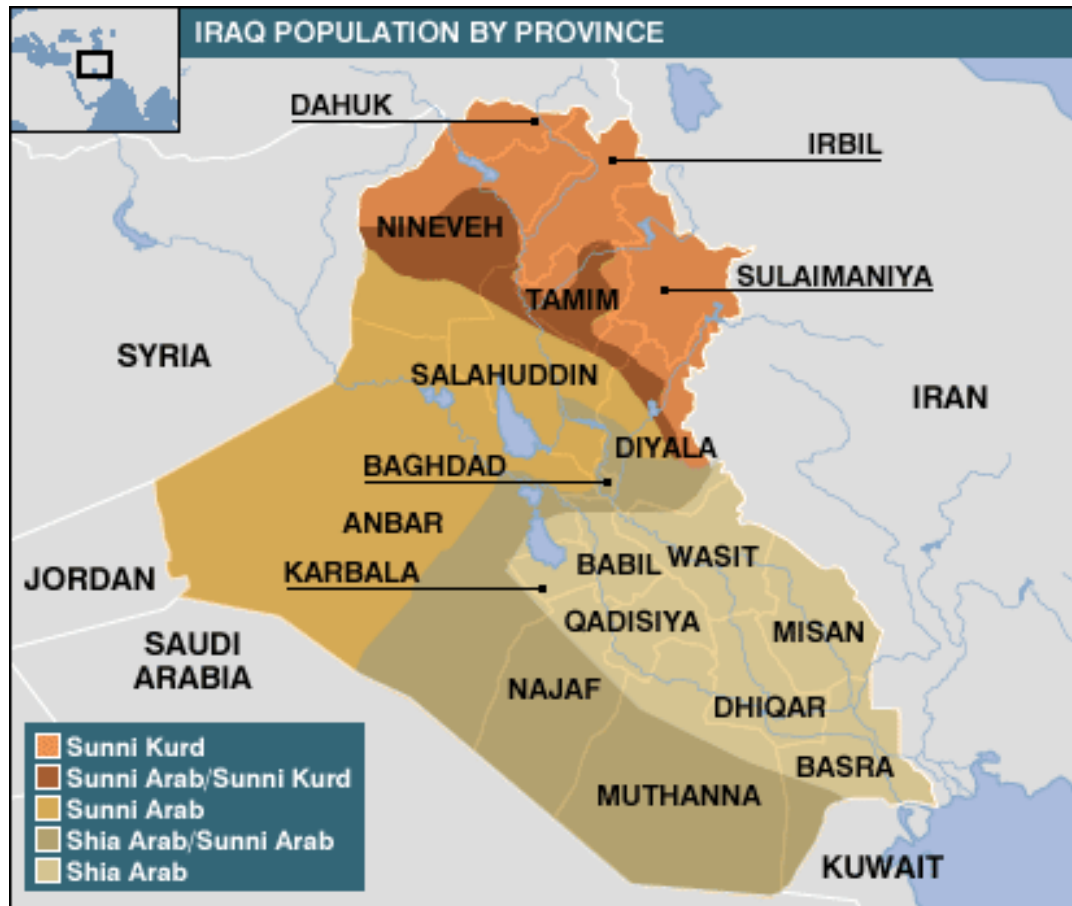
Ethnic Challenges

- 75-82% Arab
- 13-20% Kurdish
- 3% Turkoman, Assyrian and other

Tribal Challenges

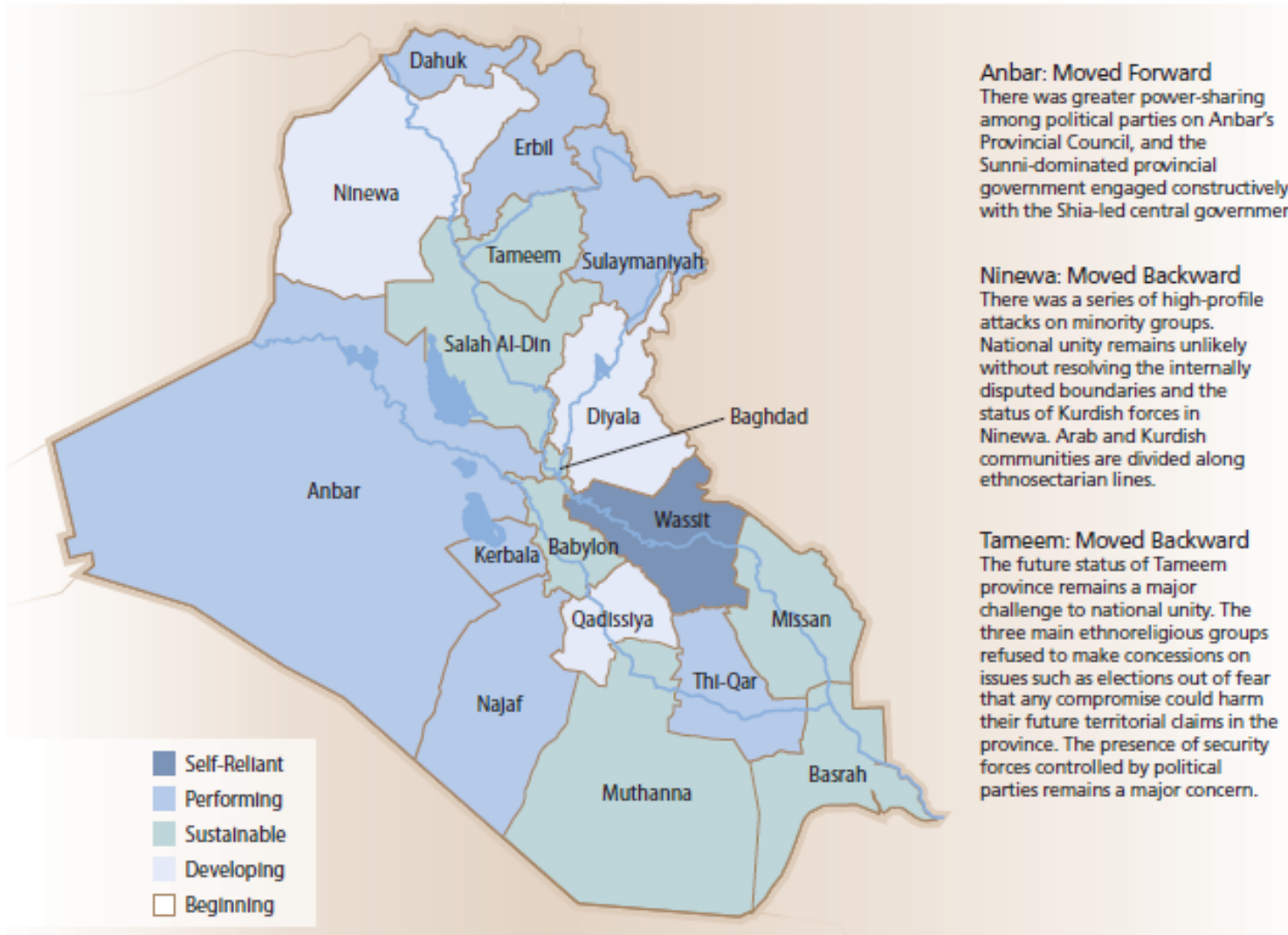
- Confederations
- Broad area
- Heavily urbanized.

Iraqi Ethnic Divisions

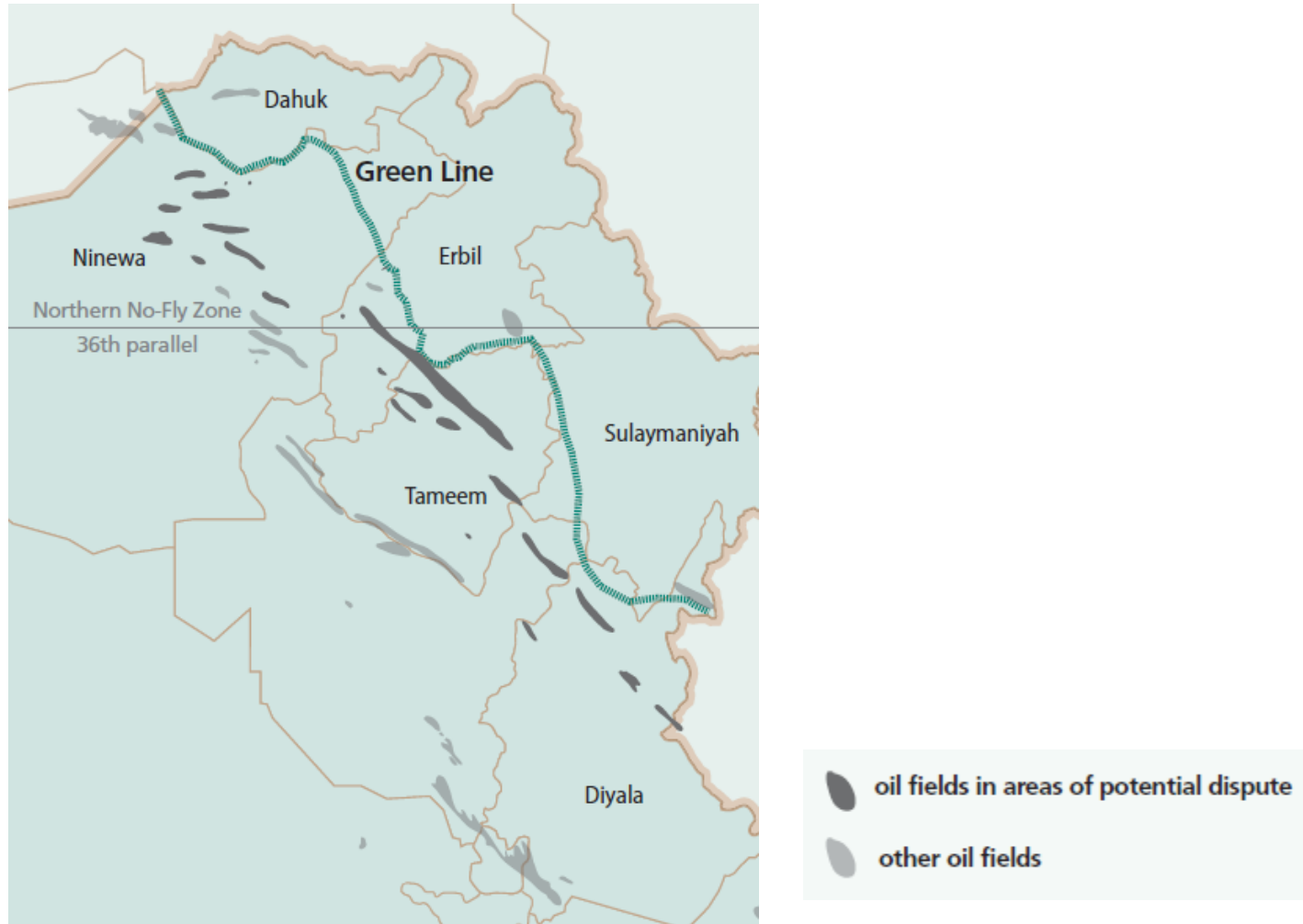


Source: BBC, "Iraq Body Count: War dead figures," Oct 23, 2006

Iraqi National Unity



“The Kurdish Issue”



“The Kurdish Issue”

Sources of tension:

- Disputed territories
 - In Ninewa, Salah Al-Din, Diyala, and Tameem
- Hydrocarbons law
 - Disagreements on contracts and management
- Constitution reform
 - KRG wants decentralization
 - GOI wants stronger center
- Security
 - Joint patrols of Iraqi and Kurdish forces
- Foreign policy
 - “KRG has been developing independent economic and political ties with foreign countries, signing separate oil deals, and meeting separately with foreign heads of state”

Iraq: “The Kurdish Issue”

Legislative issues

- Article 23: covers property rights and prohibits owning property for demographic change
- Article 140: calls for census and referendum to end territory dispute, but none has taken place
- Article 141: recognizes Kurdish legislation, as long as it does not contradict the Iraqi Constitution. Dispute over draft constitution claiming Tameem province

Key Challenges:

Democracy and Governance

Uncertain Status of the New Government

- The new speaker of the Council of Representatives is Osama al-Nujeifi, a member of Iraqiya with a tense relationship with the Kurds
- Jalal Talabani remains as President, but the Kurds are protesting reduced powers
- Prime Minister Nouri al-Maliki has until December 25 to decide on a cabinet
- Cabinet posts might be divided by a points system
- One possible option: Divide the number of seats won by 2.44. Iraqiya, for example, has 91 seats and would have 37.3 points. Each post is worth up to 10 points. Iraqiya, for example, has 91 seats and would have 37.3 points.
- Another possible option: each list's number of seats is multiplied by two. Iraqiya, for example, has 91 seats and would have 182 points. Each office costs a certain number of points, with 15 points as the maximum for each post.

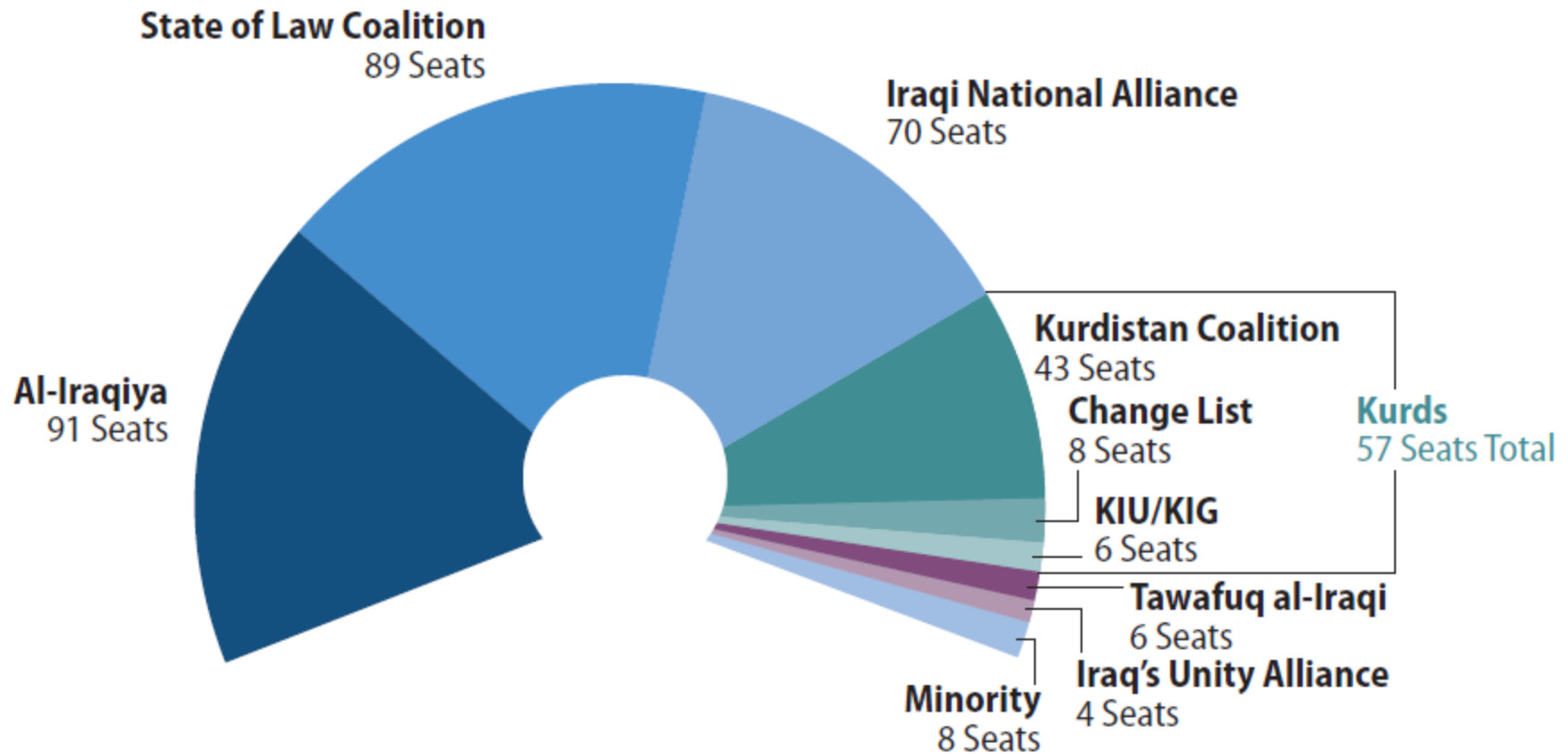
Sources: "Iraq's Lists Arguing Over Points System For Divvying Up Government Posts," Musings on Iraq, December 2, 2010, <http://musingsoniraq.blogspot.com/search?updated-max=2010-12-05T09:03:00-08:00&max-results=10>

Marina Ottaway and Danial Kaysi, "Iraq's Parliament Elects a Controversial Speaker," Carnegie Endowment, November 30, 2010 <http://carnegieendowment.org/publications/index.cfm?fa=view&id=42037>

Living with the Divisive Results of the March 7, 2010 Election

- **Strong nationalist and anti-incumbent vote**
- **But still had strong sectarian and ethnic character**
- **Maliki' s State of Law Party (89 seats, 27.4% of the vote)**
- **Allawi' s Iraqiya (91 seats, 28% of the vote)**
- **Hakim-Jafaari-Sadr coalition in the Iraqi National Alliance (70 seats, 21.5% of the vote).**
 - **Sadrists have nearly 60% of the seats within the INA – approximately 39 seats versus 9 for Badr, 8 for ISCI, 1 for Jaafari, 6 for Fadhillah, and 5 for other candidates.**
- **Kurdish vote shows considerable unity of PUK and DPK (43 seats, 13.2 % of vote).**
- **Iraq' s Unity Alliance (Bulani) was a major loser.**
- **Lost: Minister of Defense, Minister of the Interior, the head of the Accountability Commission**

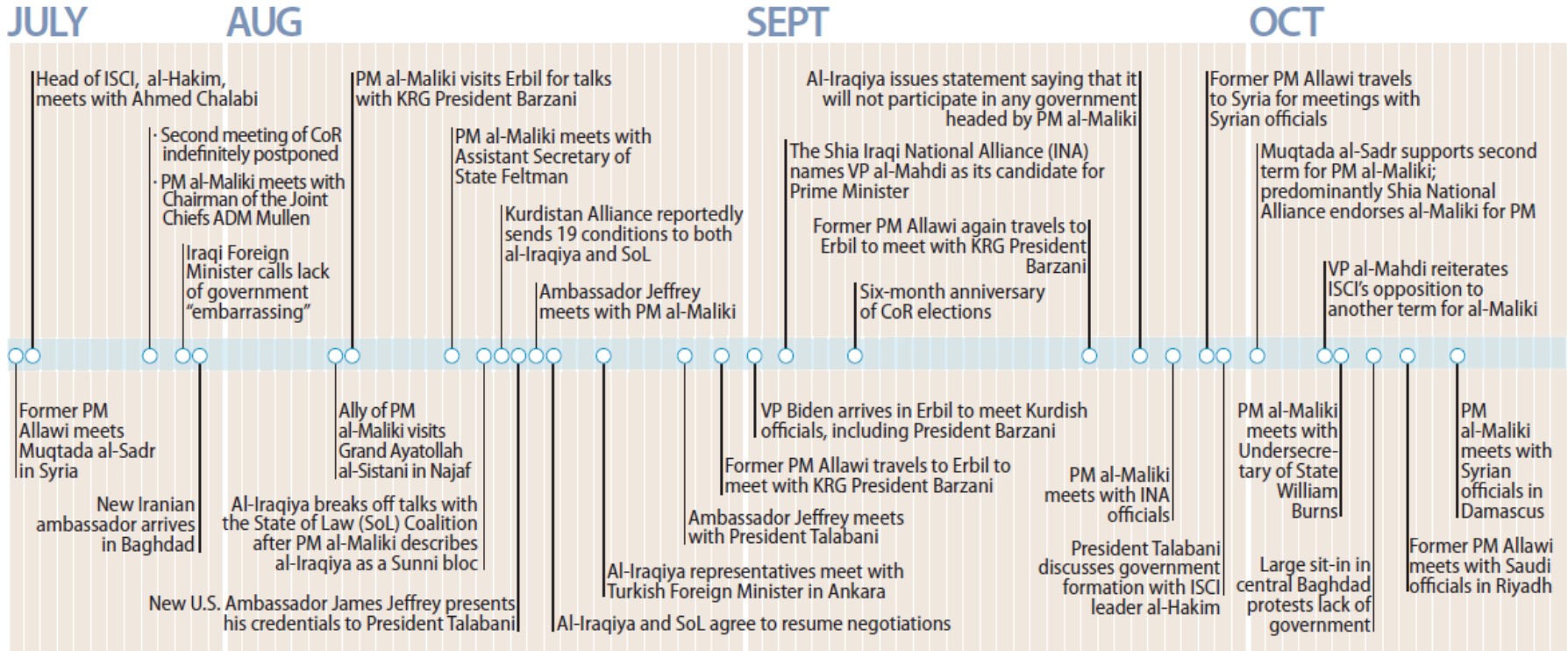
FINAL, CERTIFIED RESULTS OF MARCH 2010 ELECTIONS



Source: GOI, IHEC, "Iraqi CoR Election Results," 3/28/2010, ihec-iq.com/en/results.html, accessed 7/21/2010.

A Grinding Effort to Form a New Government: March-December 2010

SIGNIFICANT DEVELOPMENTS IN NEGOTIATIONS CONCERNING GOVERNMENT FORMATION, 7/19/2010–10/19/2010



Source: SIGIR analysis of GOI and U.S. government documents and open source information in Arabic and English.

The Ministerial Lottery: The Previous Government

| | |
|----------------------------------|------------------------------------|
| | |
| Pres. | Jalal TALABANI |
| Vice Pres. | Adil ABD AL-MAHDI |
| Vice Pres. | Tariq al-HASHIMI |
| Prime Min. | Nuri al-MALIKI |
| Dep. Prime Min. | Rafi al-ISSAWI |
| Dep. Prime Min. | Rowsch Nuri SHAWAYS |
| Min. of Agriculture | |
| Min. of Communications | Faruq ABD AL-QADIR Abd al-Rahman |
| Min. of Culture | Mahar Dilli al-HADITHI |
| Min. of Defense | Abd al-Qadir Muhammad al-MUFRIJI |
| Min. of Displacement & Migration | Abd al-Samad SULTAN |
| Min. of Education | Khudayr al-KHUZAI |
| Min. of Electricity | Karim Wahid al-HASAN |
| Min. of Environment | Nermin OTHMAN |
| Min. of Finance | Bayan Baqir JABR Sulagh al-Zubaydi |
| Min. of Foreign Affairs | Hoshyar Mahmud ZEBARI |
| Min. of Health | Salih Mahdi Mutlab al-HASNAWI |
| Min. of Higher Education | Abid Dhiyab al-UJAYLI |
| Min. of Housing & Construction | Bayan DIZAYEE |
| Min. of Human Rights | Wijdan Mikhail SALIM |
| Min. of Industry & Minerals | Fawzi al-HARIRI |
| Min. of Interior | Jawad Karim al-BULANI |

| | |
|--|---------------------------------|
| | |
| Min. of Justice | Nara NUR AL DIN |
| Min. of Labor and Social Affairs | Mahmud Muhammad Jawad al RADI |
| Min. of Municipalities & Public Works | Riyadh GHARIB |
| Min. of Oil | Husayn al-SHAHRISTANI |
| Min. of Planning | Ali BABAN |
| Min. of Science & Technology | Raid Fahmi JAHID |
| Min. of Trade | |
| Min. of Transportation | Amir Abd al-Jabar ISMAIL |
| Min. of Water Resources | Latif RASHID |
| Min. of Youth & Sports | Jasim Muhammad JAFAR |
| Min. of State for Civil Society Affairs | Thamir Jafar al-ZUBAYDI |
| Min. of State for Council of Representatives Affairs | Safa al-Din al-SAFI |
| Min. of State for Foreign Affairs | Muhammad Munajid al-DULAYMI |
| Min. of State for National Dialogue | Akram al-HAKIM |
| Min. of State for National Security | Shirwan al-WAILI |
| Min. of State for Provinces | Khulud Sami Izara al-MAJUN |
| Min. of State for Tourism & Antiquities | Qahtan Abbas al-JABBURI |
| Min. of State for Women's Affairs (Acting) | Khulud Sami Izara al-MAJUN |
| Min. of State Without Portfolio | Ali Muhammad AHMAD |
| Min. of State Without Portfolio | Hasan Radhi Kazim al-SARI |
| Min. of State Without Portfolio | Muhammad Abbas al-URAYBI |
| Governor, Central Bank of Iraq | Sinan Muhammad Ridha al-SHABIBI |

Key Challenges:

Demographics and Per Capita Income

The Truth About Iraq's Oil Wealth: Poverty on the Surface; Potential Underground

Iraq is 159th in world in per capita income vs. 87th for Iran, 60th for Saudi Arabia, 2nd for Qatar, 7th for Kuwait.

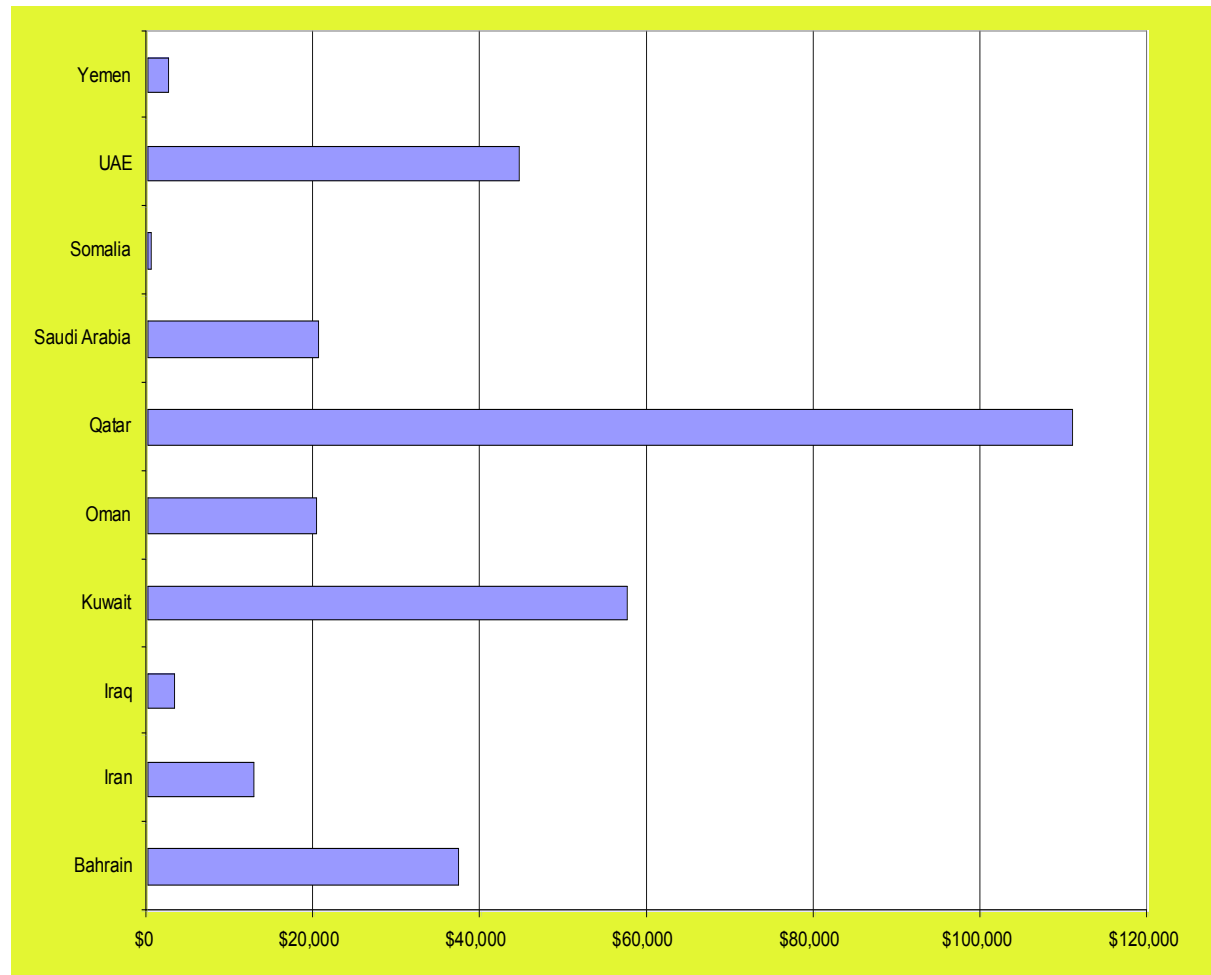
One of World's lowest ranking countries and close to Gaza and West Bank

Official unemployment rate – 15.2%; unofficial unemployment rate – 30%

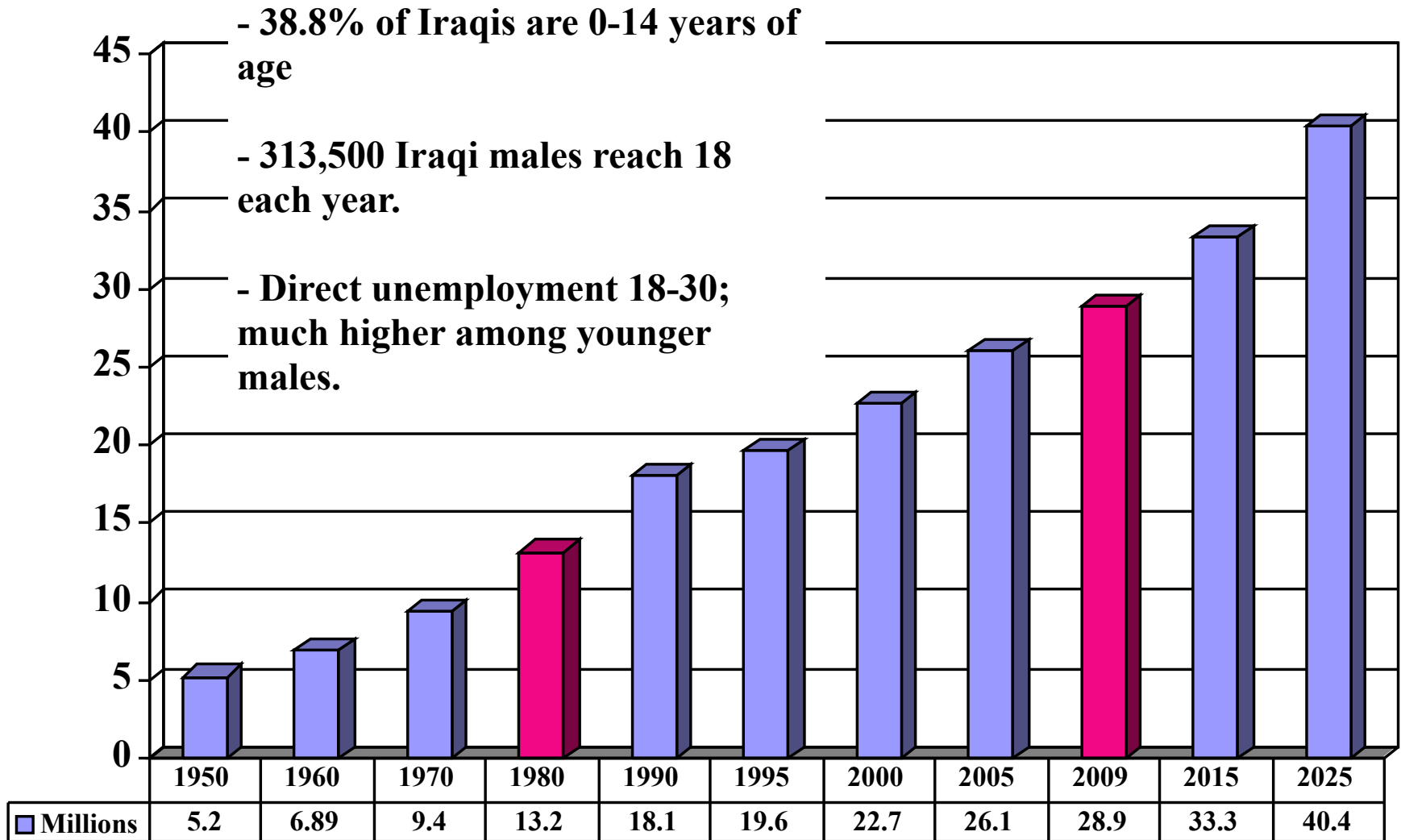
Education and Health systems in collapse

2 million IDPs and more than 1 million outside Iraq -- including much of elite

GDP Per Capita (US\$ in ppp terms)

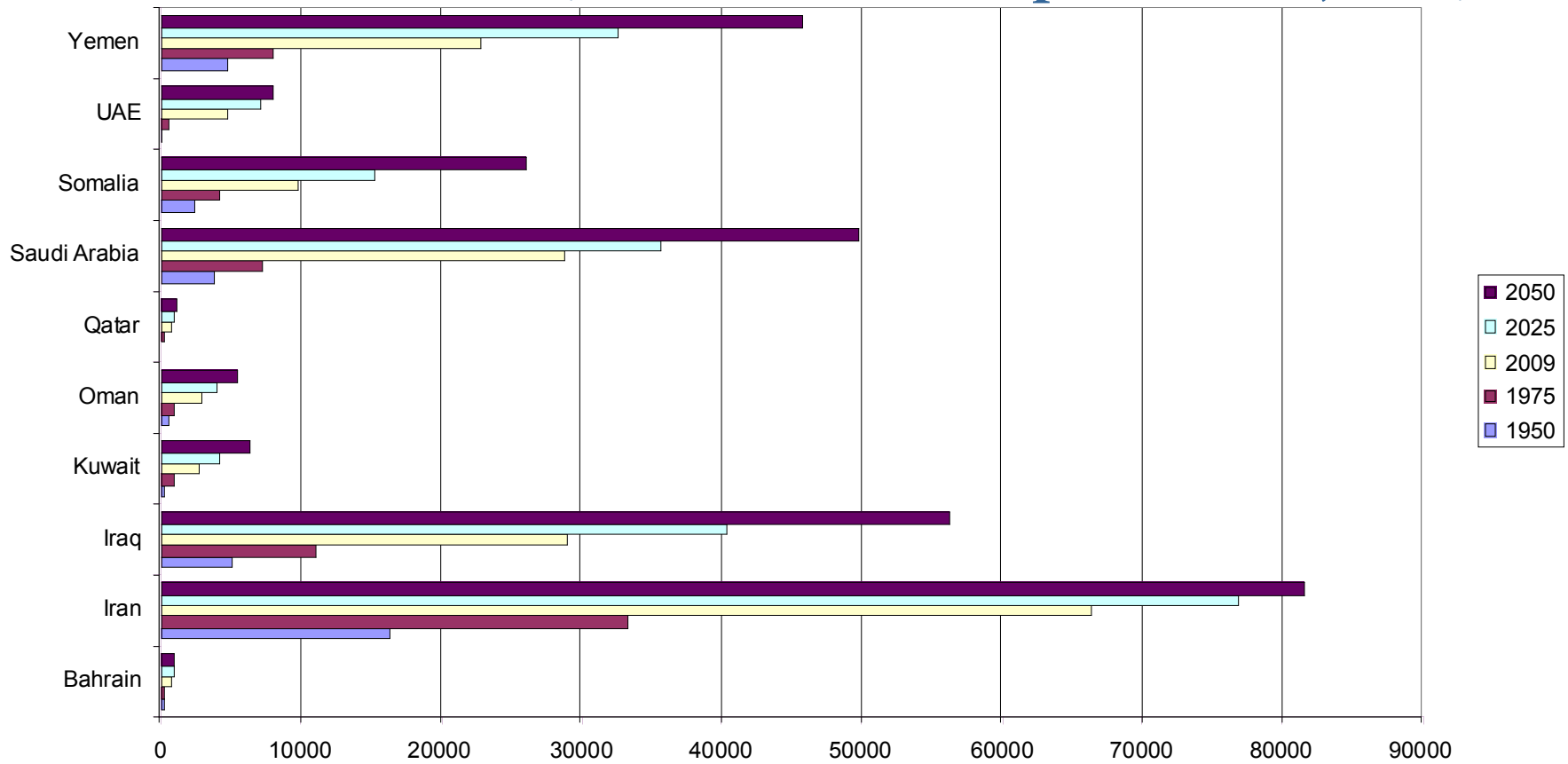


Massive Demographic Pressure



Source: US Census Bureau, IDB, 28-7-09; CIA World Factbook, "Iraq," April 2010

Iraq's Role in the Regional Youth Explosion (Growth in Total Population n 1,000s)

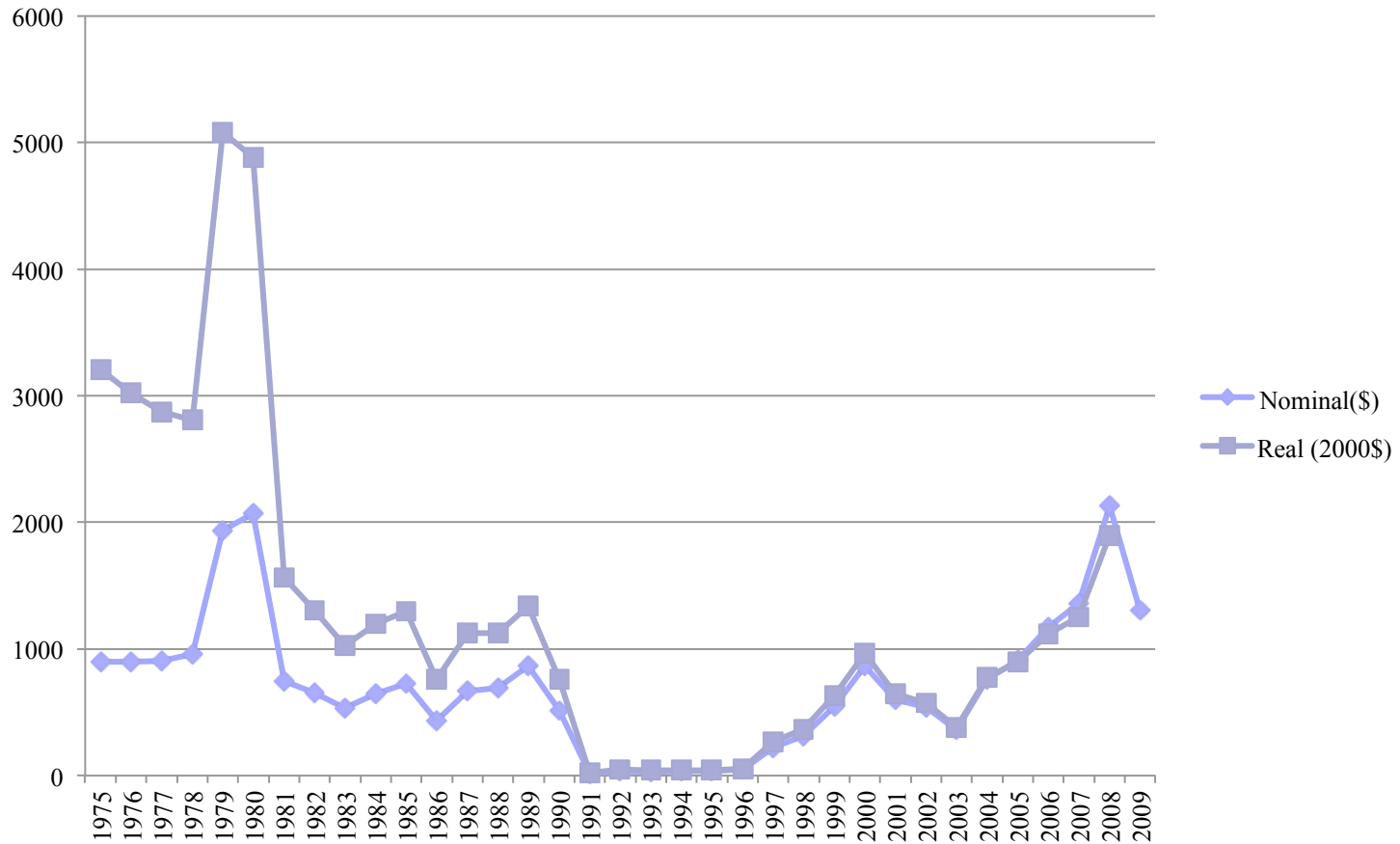


| | Bahrain | Iran | Iraq | Kuwait | Oman | Qatar | Saudi Arabia | Somalia | UAE | Yemen |
|--------|---------|--------|--------|--------|-------|-------|--------------|---------|-------|--------|
| ■ 2050 | 980 | 81,490 | 56,316 | 6,383 | 5,402 | 1,116 | 49,830 | 26,025 | 8,019 | 45,781 |
| □ 2025 | 868 | 76,779 | 40,387 | 4,179 | 3,981 | 938 | 35,680 | 15,148 | 7,063 | 32,650 |
| ▤ 2009 | 729 | 66,429 | 28,946 | 2,693 | 2,910 | 833 | 28,687 | 9,832 | 4,798 | 22,858 |
| ■ 1975 | 259 | 33,265 | 11,118 | 1,007 | 920 | 169 | 7,205 | 4,128 | 523 | 7,934 |
| ■ 1950 | 115 | 16,357 | 5,163 | 145 | 489 | 25 | 3,860 | 2,438 | 72 | 4,777 |

Key Challenges: :

**Weak Economy and Severe
Near and Mid-Term Limits
to Oil “Wealth”**

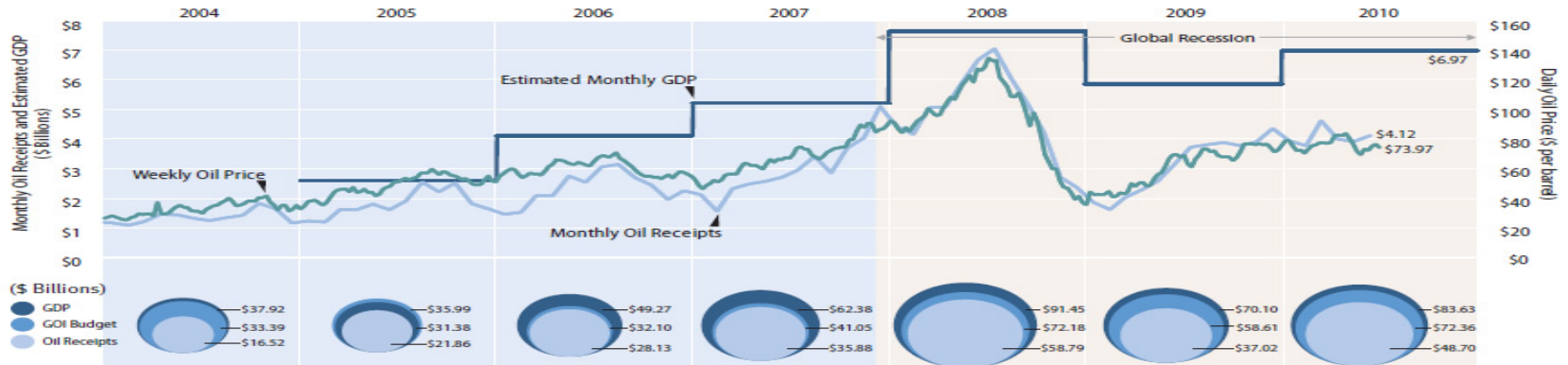
Iraqi Per Capita Net Oil Revenues Are Not “Oil Wealth:” 1975-2009



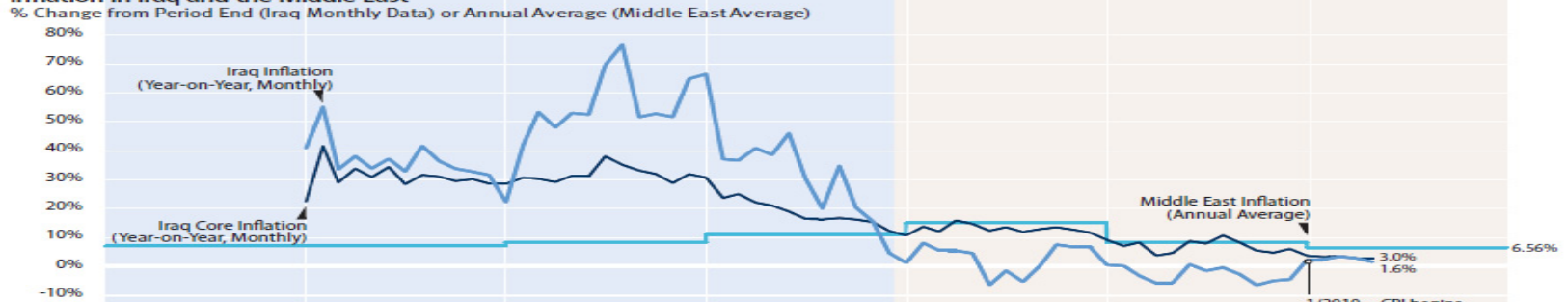
Data source: http://www.eia.doe.gov/cabs/OPEC_Revenues/Factsheet.html, July 29, 2010.

Oil is Not Enough: Iraqi Economy 2004 - 7/2010

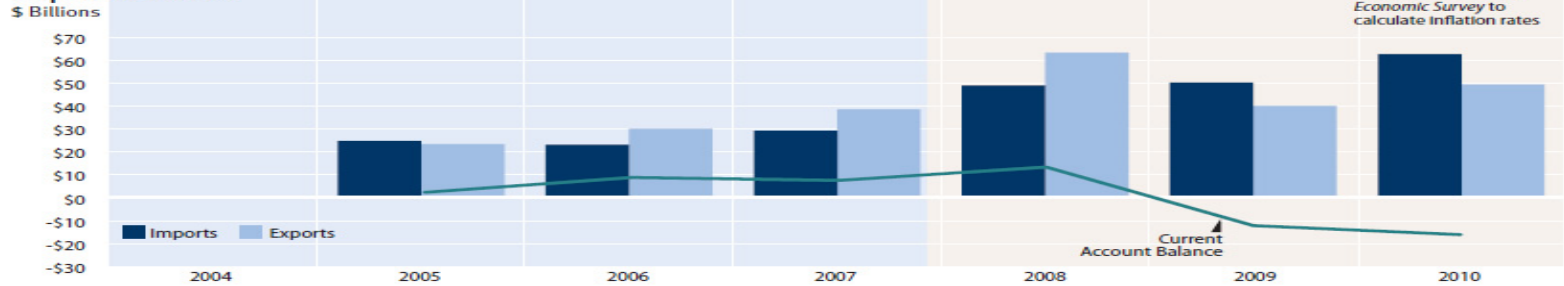
FIGURE 2.44
THE IRAQI ECONOMY, 2004–2010
Oil Price, Iraqi Oil Receipts, and GDP



Inflation in Iraq and the Middle East



Iraq's Trade Balance

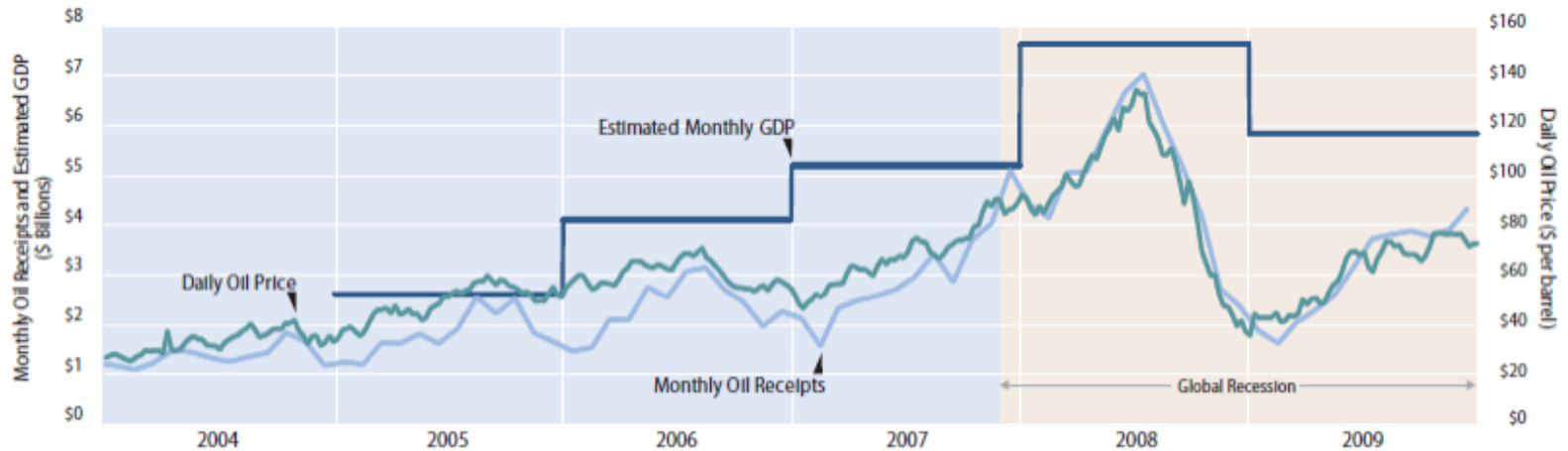


Note: Data not audited. Numbers affected by rounding. Daily oil price represented by Weekly Iraq Kirkuk netback price at U.S. Gulf, as of 7/9/2010. All dollar values are in current prices. Iraqi GDP is not available from the IMF for 2004; GDP figures from 2008–2010 and oil receipts for 2010 are estimates. 2010 trade balance estimated by IMF.

Sources: U.S. Embassy-Baghdad, Treasury Attaché, responses to SIGIR data call, 6/8/2010 and 7/13/2010; IMF, *World Economic and Financial Surveys: World Economic Outlook Database*, 10/2009, www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx, accessed 7/8/2010; and "Weekly Iraq Kirkuk Netback Price at U.S. Gulf," www.eia.gov/dnav/pet/hist/LeafHandler.ashx?m=PET&s=WPECIRK&f=N, accessed 7/13/2010; GOI, CBI, "Key Financial Indicators," 6/23/2010, www.cbi.iq/documents/key_financial.xls, accessed 7/8/2010.

Iraq: The Cost-Benefits of Oil Dependence

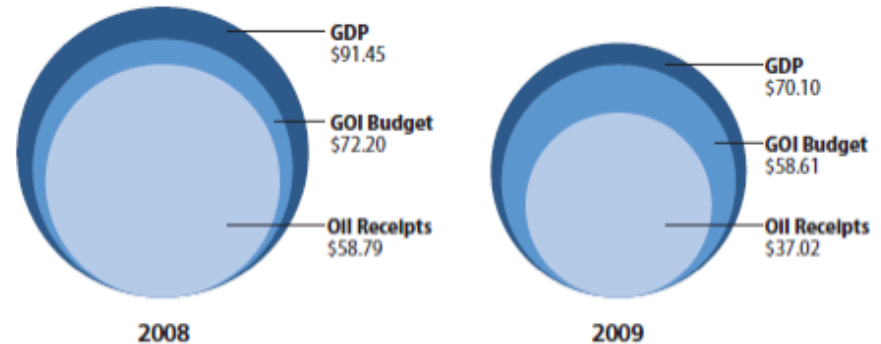
RELATIONSHIP BETWEEN PRICE OF OIL, IRAQI OIL RECEIPTS, AND GDP



OPEC Oil Export Revenues, 2009

| | NET (\$ BIL) | PER CAPITA (\$) | % OF GDP |
|--------------|--------------|-----------------|------------|
| Angola | 42.2 | 3,294 | 61% |
| Libya | 34.3 | 5,421 | 57% |
| Iraq | 37.2 | 1,284 | 53% |
| Saudi Arabia | 154.2 | 5,368 | 41% |
| Kuwait | 46.0 | 17,061 | 40% |
| Algeria | 42.7 | 1,250 | 32% |
| Nigeria | 46.1 | 325 | 28% |
| Qatar | 24.0 | 25,221 | 26% |
| UAE | 52.2 | 10,863 | 23% |
| Iran | 54.6 | 821 | 16% |
| Ecuador | 5.8 | 411 | 10% |
| Venezuela | 33.3 | 1,239 | 9% |
| OPEC | 572.6 | 1,553 | 28% |

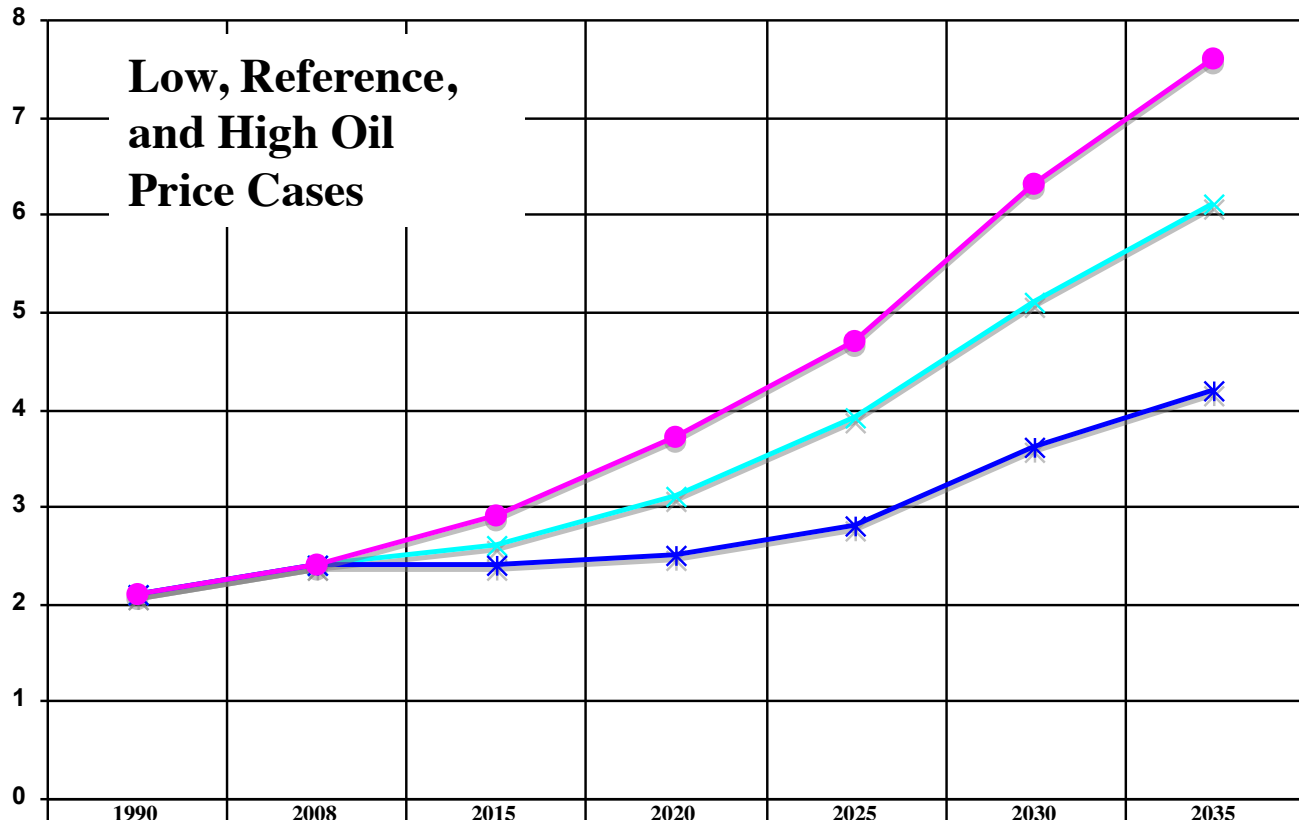
Iraqi Oil Receipts, Budget, and GDP, 2008–2009
\$ Billions



Notes: Weekly Iraq Kirkuk netback price at U.S. Gulf used for all oil price descriptions, depictions, and analysis. All dollar values in current prices. Iraqi GDP is not available from the IMF for 2004; GDP figures from 2007–2009 are estimates. Data not audited. Numbers affected by rounding.

A Slow Increase: EIA Projections of Iraqi Liquids Production By Country 1990-2035

In Millions of Barrels Per Day



| | | | | | | | |
|------------------------------|-----|-------|-------|-------|-------|--------|--------|
| —*— Total Gulf | - | *25.0 | *26.1 | *27.2 | *29.3 | *32.1 | *35.1 |
| —*— Total MENA | - | *30.5 | *31.6 | *32.6 | *35.0 | *37.9 | *41.0 |
| —●— Total World | - | *85.5 | *88.7 | *92.1 | *97.6 | *103.0 | *110.5 |
| —+— Gulf Share of World | - | *28% | *28% | *29% | *29% | *30% | *31%* |
| —x— IRAQ- REFERENCE CASE | 2.1 | 2.4 | 2.6 | 3.1 | 3.9 | 5.1 | 6.1 |
| —*— Iraq-High Oil Price Case | 2.1 | 2.4 | 2.4 | 2.5 | 2.8 | 3.6 | 4.2 |
| —●— Iraq-Low Oil Price Case | 2.1 | 2.4 | 2.9 | 3.7 | 4.7 | 6.3 | 7.6 |

Key Challenges: :

**A Budget Crisis Since 2009
that forces Spending on
Salaries and Investment by
Deficit**

Funding Overview

- U.S., GOI, and international community have committed \$157.17 billion for Iraq's reconstruction efforts since 2003
- Over next 2 years, police-training will constitute largest portion of reconstruction dollars in Iraq, according to SIGIR (July)
 - 3 main channels
 - Total Iraqi funding through CPA and capital budgets -- \$91.43 billion
 - International / non-U.S. sources - \$11.96 billion
 - U.S. appropriations – \$53.79 billion
- Future path of international aid remains unclear due to the global financial climate
- U.S. aid also remains uncertain due to global economic constraints
 - Primary responsibility for financing further efforts in Iraq lies with the Government of Iraq (GOI)

Iraq's Budget and Economy

- Decline in oil exports: August's oil exports of 55.4 million barrels worth \$3.96 billion were below August 2009's 62.3 million barrels worth \$4.24 billion (AFP, <http://www.google.com/hostednews/afp/article/ALeqM5gkpA0L6L-XLNB3IVJgh53eitVLwg>)
- The Ministry of Oil blamed this decline on “sabotage, technical problems and weather”
- In a recent Economist Intelligence Unit survey of 300 businesspeople, only 38% saw Iraq as both a good and safe investment
- Iraq's GDP growth has slowed to 4.3% in 2009 from 10.3% in 2008 (SIGIR Quarterly Report, April 2010, p. 11)
- Iraq's real GDP forecasted to grow by an annual average of 6.3% (SIGIR Report, July 30, 2010. p. 10)
- This February, Iraq's oil exports reached 2.05 million barrels per day (MBPD). Overall, exports averaged 1.93 MBPD (SIGIR Quarterly Report, April 2010, p. 11)
- The inflation rate remains stable, close to 3% (SIGIR Report, July 30, 2010. p. 99)

The Iraqi Budget: Crisis in 2009, Near Crisis in 2010

| (\$ in billions) | 2006 | 2007 | 2008 | 2009** | 2010 |
|-------------------------------|-------------|-------------|--------------|----------------|-------------|
| Base Budget | 34.0 | 41.1 | 49.9 | 58.6 | 72.4 |
| <i>Capital Expenditures</i> | 27.8 | 10.1 | 13.1 | 12.7 | 20.3 |
| <i>Operating Expenditures</i> | 6.2 | 31.0 | 36.8 | 45.9 | 52.1 |
| Supplemental Budget | N/A | N/A | 22.3 | N/A | N/A |
| <i>Capital Expenditures</i> | | | 8.0 | | |
| <i>Operating Expenditures</i> | | | 14.3 | | |
| Budget Total | 34.0 | 41.1 | 72.2 | 58.6 | 72.4 |
| | | | | | |
| Mol Security Budget | 1.9 | 3.2 | 5.7 | 5.5 | 6.14 |
| <i>Capital Expenditures</i> | | | 0.5 | 0.2 | 0.3 |
| <i>Operating Expenditures</i> | | | 5.2 | 5.3 | 5.9 |
| MoD Security Budget | 3.4 | 4.1 | 5.3 | 4.1 | 4.9 |
| <i>Capital Expenditures</i> | | | 0.4 | 0.3 | 0.4 |
| <i>Operating Expenditures</i> | | | 4.9 | 3.8 | 4.5 |
| Security Budget Total | 5.3 | 7.3 | 11.0 | 9.6 | 11.0 |
| | | | | | |
| Base Execution | 23.0 | 27.0 | 47.9 | 28.0 | N/A |
| Supplemental Execution | | | 2.6 | | |
| Execution Total | 23.0 | 27.0 | 50.5* | 28.0*** | N/A |

Source: U.S. Treasury Report

*2008 total expenditures include base and supplemental budgets. The supplemental was not passed until late in 2008, limiting execution.

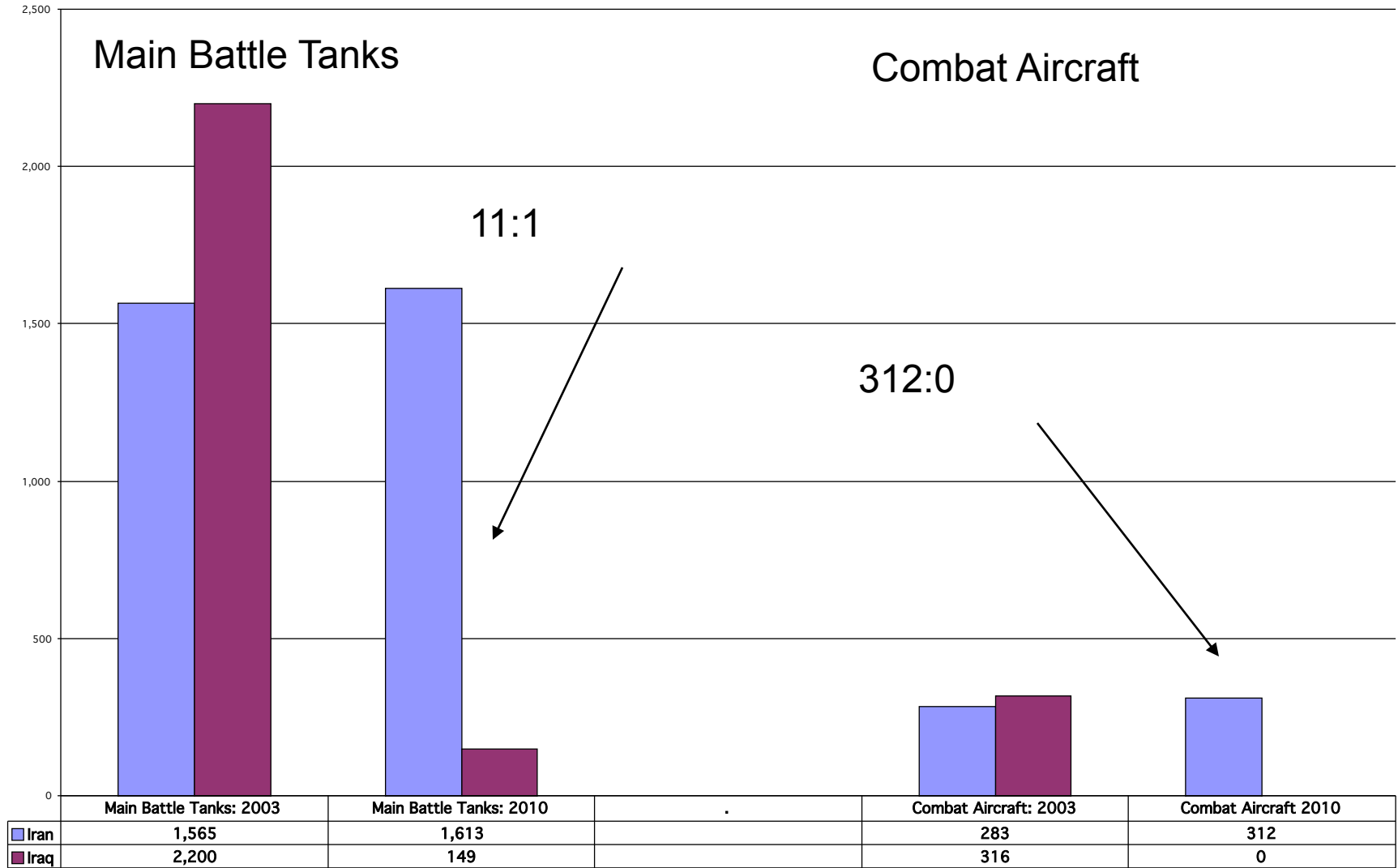
**The 2009 budgets reflect the significant decrease in oil prices from mid-2008.

***2009 expenditures through September 2009 – most current accurate data available.

Key Challenges :

Creating Effective Security Forces and a Rule of Law

Correcting the Balance: Iran vs. Iraq: 2003 vs. 2010



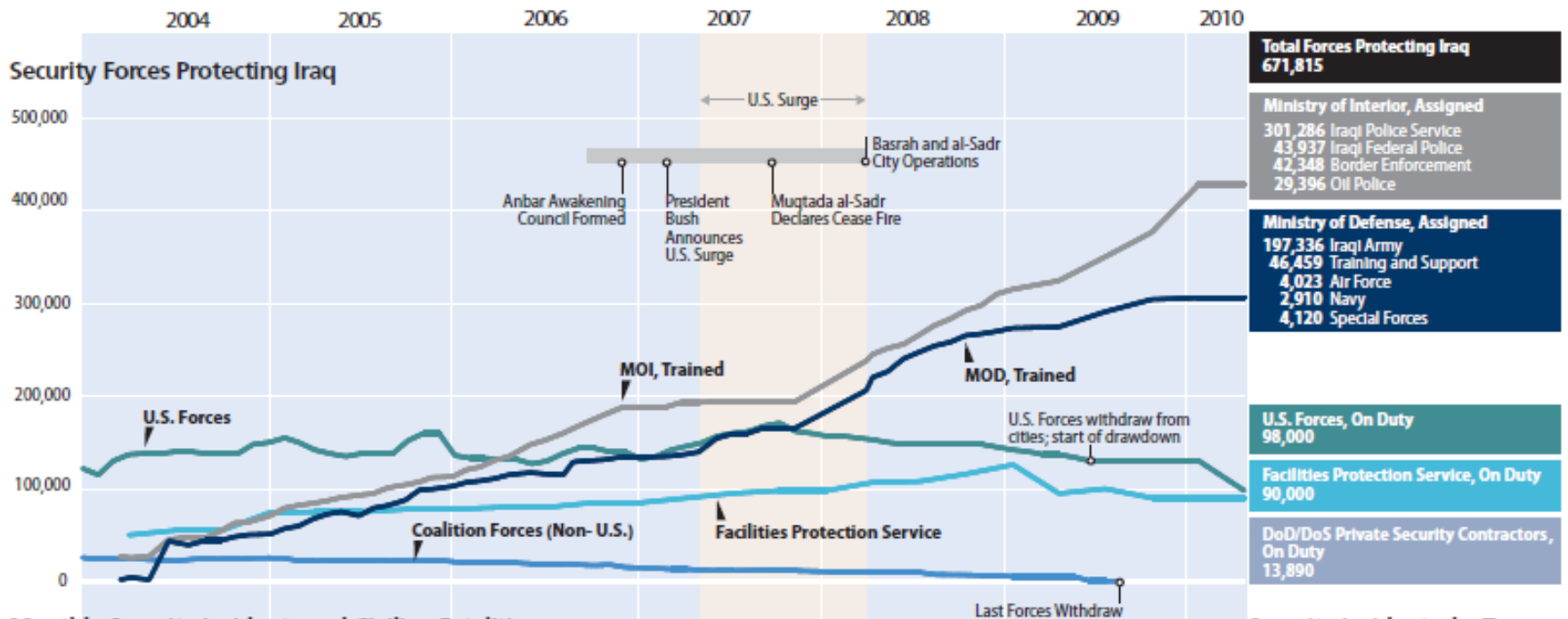
Source: Adapted by Anthony H. Cordesman from IISS, The Military Balance, various editions; Jane's sentinel series.

Details of Iraq's Loss of Deterrent and Defense Capability: 2003-2007

| Category | 2003 | | | 2010 | | |
|---------------------|---------|---------|-------------|---------|---------|-------------|
| | Iraq | Iran | Force Ratio | Iraq | Iran | Force Ratio |
| Active Manpower | 424,000 | 513,000 | 8:10 | 191,957 | 523,000 | 2:5 |
| Reserve Manpower | 650,000 | 350,000 | 19:10 | 0 | 350,000 | NA |
| Main Battle Tanks | 2,200 | 1,565 | 7:5 | 149 | 1,613 | 1:10 |
| OAFVs | 1,300 | 815 | 8:5 | 505 | 725 | 7:10 |
| APCs | 2,400 | 590 | 4:1 | 1,479 | 650 | 23:10 |
| Towed Artillery | 1,900 | 2,085 | 9:10 | 0 | 2,010 | NA |
| SP Artillery | 150 | 310 | 1:2 | 0 | 310 | NA |
| MRLs | 200 | 889 | 1:5 | 0 | 876 | NA |
| Combat Aircraft | 316 | 283 | 11:10 | 0 | 312 | NA |
| Attack Helicopters | 100 | 85 | 6:5 | 0 | 50 | NA |
| Major SAM Launchers | 225 | 205 | 11:10 | 0 | 234 | NA |

Security Forces 2004-2/2010

SECURITY IN IRAQ, 1/2004-3/2010



- Overall total forces have increased since Jan 30, 2010
- Private Security contractors have decreased
- Iraqi Police Service & Federal Police have increased
- ***But budget and election crises have meant that,***
- Investment and O&M have fallen sharply behind goal.
- Manpower “freezes” have further delayed modernization.
- Many key decisions have been deferred for over a year.

Ministry of Defense

- MEC: “on track”
- Challenges
 - “planning and budgeting, procurement, and information technology”
 - intelligence, surveillance, and reconnaissance (ISR)
 - “do not have their own unmanned aerial system capability and are largely reliant on the United States” ... “still developing the ability to analyze, integrate, and disseminate intelligence”

Ministry of the Interior

- Capacity building: “slow, uneven progress”
- Status on Minimum Essential Capability (MEC): “progressing”
- Challenges: “C2, interoperability, resource and acquisition management, and operational sustainment”

- Personnel: 464,000 (May 2010)
 - 297,000 provincial police forces
 - 115,000 federal forces
 - 52,000 in Ministry HQ and its functional force directorates

- Hiring freeze in place for Iraqi Police Service (IPS)
- HR challenge: Lack of official personnel requirements and authorizations, provincial politics