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# Helping Iraq Help Itself: Turning the Iraqi Election into a Strategic Asset

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Third Major Revision: May 24, 2018

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# Helping Iraq Help Itself: Turning the Iraqi Election into a Strategic Asset

**Anthony H. Cordesman**

There is no question that the Iraq election has raised serious security concerns for the United States. The United States faced grave uncertainties regarding Iran's influence in Iraq even when it seemed that Iraq's existing Prime Minister, Haider al-*Abadi*, was likely to win. The US faced major challenges in ensuring that Iraqi forces could fully defeat the remnants of ISIS, secure Iraq's border with Syria, and become an effective mix of internal security forces and forces that could defend the country.

The U.S. knew that Iraq faced massive challenges in recovery and moving towards the kind of economic development that could meet popular expectations, unify Kurd and Arab, and minimize the tensions between Sunni and Shi'ite. It knew Iraq was in a deep national economic crisis, deeply divided, had a grossly inefficient overall structure of governance and state-owned industries, and was one of the most corrupt and incompetent governments in the world – with some of the World Bank's worst rankings for governance and rated the 11th most corrupt country in the world by Transparency International.

It felt, however, that Prime Minister Abadi and a number of senior Iraqi political officials from various factions could still lead the country, would keep a strong U.S. presence to deal with ISIS, would resist Iran and make some effort to move national unity and development forward.

## The Unexpected Election Results

As was the case in 2010, however, the actual outcome of the election was far from the one most analysts predicted. In 2010, an inconclusive outcome and near tie between two major factions triggered months of infighting. This only ended when Prime Minister Maliki managed to create a Shiite base for staying in power at the price of national unity, put loyalty to himself over creating effective Iraq forces, and abandoned any serious effort at effective governance – effectively creating the anger and power vacuum ISIS exploited to create its Caliphate.

What no one really expected in the case of the 2018 election was the level of popular anger that led to a major popular boycott of the election, and a drop from 62% participation to 44.5%. Polls did show that more Iraqis were seeking national unity, rather than making factional alignments, but they did not show how much Iraqis distrusted their existing political leaders and representatives – whether they boycotted the election or voted.

Prime Minister Abadi did win Mosul province and the support of its Sunni voters for the victory against ISIS, but the nation as a whole voted for change and for more effective and honest governance. However, experts and polls failed to predict just how deeply divided the outcome of the election would be and the lack of any clear winner with enough members to shape a ruling coalition.

They also failed to predict how much support the bloc of candidates controlled by a leading Shi'ite cleric - Moqtada al-Sadr – would win by offering a new set of candidates, by calling for national unity and an end to corruption, and by demanding a government of technocrats that could both govern and govern honestly. Sadr ran on four issues that addressed Iraq's future rather than the victory in the fighting: creating a truly national government, stopping the selection of ministers to meet sectarian quotas, fighting corruption, and allowing independent technocrats to manage key

government agencies. He also formed a coalition that went far beyond his own Shi'ite roots. He reached out to Sunni businessmen and technocrats and included the Iraqi Communist Party. In effect, he gave "national" a tangible meaning.

As of May 20th, with all the votes counted, Sadr's Sairoon (Moving Forward) party had won 54 seats in the 329-seat legislature – the largest number of any party although only 16% of the total. The Sadr of 2018 ran on very different grounds from the ones he had used in making political attacks on the U.S. from 2003-2011. He had also split with Iran to the point where Iran said Sadr should not govern. Like the Ayatollah Ali-Sistani – Iraq's leading Shiite cleric – Sadr's party campaigned by calling for national unity, a strong independent Iraq, the elimination of corruption and a focus on selfish factional political advantage, and a pattern of development that would help all of Iraq's people – including the poor.

However, Sadr's victory was an immediate subject of concern to the U.S. because he still opposed many aspects of the U.S. presence in Iraq, had led uprisings against U.S. troops and played the role of a Shi'ite demagogue in the past, and shift back and forth in supporting Iran. The initial U.S. reaction was that no one could predict how much he had really changed.

Polls also did not predict that the Fatah bloc led by another Shi'ite cleric – Hadi al-Amiri – would win 47 seats (14%) and take second place. Al Amiri's political gains presented even more direct problems for the U.S. than Sadr's. Al Amiri's coalition included Shi'ite militias that had helped defeat the Islamic State, but also had ties to Iran. Major General Qassem Soleimani, the commander of foreign operations for Iran's Revolutionary Guards, and who promptly began to lobby Al Amiri and other Iraqi leaders the moment the election was over. This would have present problems at the best of times, but U.S. rejection of JCPOA just before the election virtually ensured that Iran's reaction would be even more hostile.

Prime Minister Haider al-Abadi – the leader of the Nasr (Victory) Coalition party – was the centrist candidate that many - including the U.S. – had expected to be the winner. However, al-Abadi – gained only 42 seats and came in third. Mr. Abadi's coalition was an alliance of politicians, businessmen and academics that was primarily Shiite, but included a significant number of Sunnis. It also had the support of many officers in the Iraqi security forces and was the only party to clearly be tied to keeping a U.S. security presence in the country. Abadi did not fall short of gaining a significant number of seats by the fractured standard of the 2018 election, but winning 12.8% of the seats was scarcely victory, especially when the election only attracted 44.5% of the voters.

Moreover, the broader election results illustrated just how fractured the initial results really were, and how unstable Iraqi coalitions and political parties really are. If one looks at the other leading coalitions, ex-Prime Minister Nouri al-Maliki's State of Law Coalition was a distinct loser in that it only won 25 seats versus 92 in the 2010 election. Maliki suffered from the fact he had proved to be a corrupt and dismally self-seeking failure after squeezing out his rival Ayad Allawi – but he still gained enough votes to have significant influence.

Other factions included Allawi's Al Wataniya Party (21 seats in 2010, 21 seats in 2018); Neuchervan Barazani's Kurdistan Democratic Party (25 seats in 2010, 25 seats in 2018); Ammar al-Hakim's National Wisdom Movement (29 seats in 2010, 19 seats in 2018); Kosrat Rasul Ali's Patriotic Union of Kurdistan ((21 seats in 2010, 18 seats in 2018); and Usama al-Nujayfi's Decision Alliance (23 seats in 2010, 14 seats in 2018). Al-Hakim's new coalition was particularly important because he had left a key Shiite Islamist party, the Islamic Supreme Council of Iraq – which he had led since the death of his father, a leading cleric named Abdul Aziz al-Hakim – and he had

also formed a new "non-Islamic national movement" called the National Wisdom Movement (al-Hikma). (These detailed results draw heavily on the analysis in "Iraqi parliamentary election, 2018," Wikipedia, [https://en.wikipedia.org/wiki/Iraqi\\_parliamentary\\_election,\\_2018](https://en.wikipedia.org/wiki/Iraqi_parliamentary_election,_2018), Accessed May 21, 2018)

If one looks at the total number of seats by province and the nearly 7,000 candidates involved, it becomes clear why meaningful political unity and governance are so difficult.

<b>Province/Governorate</b>	<b>Seats</b>	<b>Candidates</b>
Anbar	15	383
Babil	17	338
Baghdad	69	1,985
Basra	25	522
Dohuk	11	115
Dhi Qar	19	279
Diyala	14	259
Erbil	15	173
Karbala	11	197
Kirkuk	12	291
Maysan	10	105
Muthanna	7	102
Najaf	12	244
Nineveh	31	907
Al-Qadisiyyah	11	191
Saladin	12	332
Sulaymaniyah	18	211
Wasit	11	180
Minorities	9	90
<b>TOTAL</b>	<b>329</b>	<b>6,904</b>

It is also important to put the various coalition and party lists in context. The Iraqi electorate is deeply fractured. A total of 27 different coalitions involving 143 parties registered successfully for the 2018 election. The divided coalitions and parties that win a larger number of seats all win only a small portion of seats, and so many candidates run in some lists that making effective choices is nearly impossible. Moreover, some seats are reserved for minorities, but the method of allocating seats tends to penalize really small parties.

Moreover, Iraqi elections do not really create a representative government. Voters must choose from provincial lists that effectively tend to favor national factional parties with ethnic and sectarian ties, rather than known candidates that represent a given constituency. Political instability pushes many candidates into trying to get what they can while they can, and strongly encourages corruption.

### **The Uncertain Government to Come**

The 2018 election did have positive impacts. It showed that both many Iraqis who did vote, *and many who did not*, were looking beyond the past fighting and factional divisions. Many of those who won seats did so because their party supported better governance, real efforts at unity, and progress towards recovery and development based on real-world development plans, functional

efforts to reform governance and the economy, and honesty instead of gross corruption, cronyism, and factional gains.

The result also, however, presents some of the same problems that turned the outcome of the 2010 election into a nightmare. In theory, a new government should be formed within 90 days of the announcement of the official results of the election. Succeeding in this task is even more critical in practice. Iraq desperately needs strong political unity and leadership to deal with its security, governance, development, and corruption problems. The run up to the election made any effective leadership difficult at best, and Iraq cannot afford to wait indefinitely for a new government or be led by a coalition too weak and divided to act and that is driven by the interests of competing leaders and factions.

The fact that the two leading blocs in the election have sharply opposing goals, and no experience in governance or in practical politics, raises one set of issues. The fact that no faction is large enough to claim a real popular mandate even among those Iraqis who actually voted makes things worse.

These divisions raise major issues about what kind of coalition can be created, what political compromises will be involved, how soon (and if) a stable government can be put in place, how well that government can actually govern, whether the U.S. can stay in Iraq and play a meaningful role, and what Iran's future influence will be.

The best current outcome would seem to be a Coalition where Sadr – who did not run himself for a seat and followed the Shi'ite tradition that leading clerics do not serve in office – joins with Abadi and brings together enough nationalists and members committed to reform to actually govern.

It is true that many aspects of Sadr's past are not reassuring. Sadr's Sairoon coalition does, however, include a mix of different sects and ethnic groups – including the Iraqi Communist Party. His preliminary description of the election results – "Reform is victorious and corruption is diminishing" – and his announcements about possible alliances and coalitions – have also been reassuring. He has clearly distanced himself from Iran and met with ambassadors from other Arab states – including Saudi Arabia – immediately after the election results became final.

Sadr has emphasized his desire for a government of experts and technocrats. He has also said that he is willing to form a coalition with nationalist parties like the National Wisdom Movement led by Ammar al-Hakim, the National Coalition headed by Ayad Allawi, the Eradaa (Will) Movement led by Hanan al-Fatlawi, the New Generation political platform led by young Kurdish businessman Shaswar Abdulwahid, the Kurdish Change bloc (Gorran) and the Decision Bloc led by former parliament speaker Osama al-Nujaifi. He has also named the Bayariq al-Kheir (the banners of benevolence) bloc led by former defense minister Khaled al-Obeidi, the Victory Alliance led by Prime Minister Haidar al-Abadi, the Baghdad Coalition led by Mahmoud al-Mashhadani, the Kurdistan Democratic Party led by Masoud Barzani and the Competencies bloc led by Haitham al-Jubouri.

A number of reports indicate that Sadr has rejected an alliance with more sectarian, ethnic, and pro-Iranian factions like the Al-Fatah Alliance which is affiliated with the Popular Mobilization Militia, the Alliance of the State of the Law led by former Prime Minister Nouri al-Maliki and the Patriotic Union of Kurdistan that was once led by the late president Jalal Talabani. The Fatah

alliance is particularly troublesome because it includes groups with links to the Hashd al-Shaabi (Popular Mobilization Forces) and Iran.

It is unclear that Abadi can govern effectively without Sadr's support, or that Sadr has a better potential leader to back. Iraq, however, has not done well in forming effective coalitions in the past. Even if Sadr, Abadi, and enough of Iraq's leading centrist political leaders do play the most positive possible role, however, this scarcely ensures the formation of a successful government. Other coalitions could be formed that could challenge any movement towards effective governance and present serious problems.

Moreover, bad or incapable governing coalitions are all too possible. At least one press report has stated that Maliki, Hadi Al-Amiri, Allawi, Salim al-Jabouri and the Iranian ambassador in Iraq had met four days before the election to discuss forming a bloc to create a majority cabinet that would not be sectarian or ethnic. (Hassan al-Saeedi, "*Sadr willing to ally with Iraqi blocs to form technocratic government*," Al Arabiya.net, Baghdad, 15 May 2018.) There are no guarantees that Iraq will have a new government that the U.S. can work with or treat as a strategic partner. Similar reports indicate that Major General Qassem Soleimani has been actively meeting with Iraqi political leaders and attempting to shape a strongly pro-Iranian coalition.

The one disputed aspect of the election has also highlighted the "Kurdish problem." As an analysis by the Crisis Group notes, twelve seats were in play in Kirkuk, which has been a source of continuous tension between Kurd and Arab since at least the late 1960s. (a thirteenth seat was a quota seat for the Christian minority). The local branch of Iraq's Independent High Electoral Commission (IHEC) reported on the evening of May 12th that the Patriotic Union of Kurdistan (PUK) had won half the seats, with the remainder divided evenly between the Iraqi Turkmen Front and the Kirkuk Arab Coalition. Both the Arab and Turkmen disputed this result and charged that PUK supporters had falsified the results.

This is a warning that broad Iraqi support for a national identity in no way means that there are not important areas where both coalition building and the governments that follow will have to deal with serious ethnic and sectarian differences.

## **Shaping a U.S. Strategy**

Much will depend on how the U.S. approaches Sadr and the other potential Iraq coalition builders. If the U.S. seeks to advance its own interests, create an Iraq tied to the United States, or focuses on narrow transactional approaches to burden sharing, it will almost certainly trigger a broadly hostile resistance from both the new nationalists that now seem to dominate Iraqi politics and from large portions of the rest of the Shiite majority. It will also renew all of the concerns that led figures like Sadr to resist the U.S. presence after 2003 and see the US as negative and self-seeking.

The alternative is for the U.S. to make it clear at every level that what it wants is a strong and independent Iraq that will have the capability to define itself and preserve internal stability, but not arm to threaten its neighbors, that will act as a buffer against Iran but not be hostile, and that will act as a major barrier to extremism. This, in many ways, is the course the U.S. is already pursuing and one that offers the U.S. major potential advantages over Iran.

Iran wants major strategic influence over its neighbors and the region. The U.S. does not need a military presence or base in Iraq. It needs a strong and independent Iraq that can defend its own sovereignty and act as a critical buffer that limits Iran's influence in the Arab world. Any strong,

unified Iraq that can finish defeating ISIS and unite Iraq's key factions will meet that test. It will also help defuse tensions over the Kurdish with Turkey, help contain Syria, and help guard its other Arab neighbors.

If the U.S. makes it clear that their only reasons for staying in Iraq are to achieve short-term goals like ensuring the full defeat of ISIS and giving Iraq security forces all of the capabilities necessary to stand on their own, it may well be able to win the acceptance of figures like Sadr, and have the de facto strategic partner it needs to limit Iran's influence. It will also do as much as possible to meet President Trump's goal of reducing the U.S. presence in Iraq as soon as this can be done without risking the full defeat of ISIS, letting Iran fill the resulting power vacuum, or creating major new problems for Iraq security.

## **Shaping a U.S. Post-Election Strategy: The Security Dimension**

Iraq still has relatively small conventional military forces – both by past its own standards and in comparison, with the current forces of Iran and Iraq's Arab Gulf neighbors.

The IISS *Military Balance* for 2018 (whose collection date lags up to a year behind the actual current force totals) lists total active regular military forces of 64,000 personnel (Army 54,000 Navy 3,000 Air 4,000, Air Defense 3,000). It also lists a nominal 145,000 paramilitary (Iraqi Federal Police 36,000, Border Enforcement 9,000, and popular militias (largely Shiite and divided between elements linked to the government and those with some ties to Iran). These Popular Mobilization Forces include the Kata'ib Sayyidal-Shuhada Brigade; Kata'ib Hizbullah; Badr Brigades; Peace Brigades and Imam Ali Battalions. (IISS, *The Military Balance 2018*, pp. 337-339)

According to the IISS, Iraq's key conventional force elements include a wide range of different land and air units that have different elements, strength, and equipment:

- 2 special forces brigades
- 1 armored division (2 armored brigades, 2 mechanized brigades)
- 2 mechanized divisions (4 mechanized infantry brigades),
- 1 mechanized division (3 mechanized infantry brigades)
- 1 mechanized division (2 mechanized infantry brigades)
- 1 motorized division (1 mechanized infantry brigade, 3 motorized infantry brigades, 2 infantry brigades)
- 1 motorized division (2 motorized infantry brigades, 3 infantry brigades)
- 1 logistic brigade)
- 1 infantry division (4 light infantry brigades),
- 1 infantry division (3 infantry brigades)
- 1 infantry division (2 infantry brigades)
- 1 infantry division (1 infantry brigade)
- 1 commando division (5 light infantry brigades)
- 1 F-16C/D fighter/ground attack squadron
- 1 Su-25/Su-25K/Su-25UBK Frogfoot ground attack squadron
- 1 L-159 attack/trainer squadron

- 1 CH-2000 Sama; SB7L-360 Seeker IS&R squadron
- 1 Cessna 208B; Cessna AC-208B IS&R squadron
- 1 Beech 350 King Air IS&R squadron

Iraq has built up a number of effective combat units since 2013, but some 60-70% remain low-to-moderate grade forces that have been focused on counter insurgency missions and fighting ISIS, and lack the modern heavy weapons necessary to defend Iraq against the conventional forces of neighbors like Iran.

Iran's security forces also face a potential challenge from the Popular Mobilization Forces (PMFs) that various Shi'ite and Sunni groups created during the fighting with ISIS and from the long period of tension and occasional clashes between Iraqi government forces and Kurdish forces. Both the Ayatollah (Al-Sayyid) Sistani and Sadr have supported Abadi's call for the integration of the PMFs into the Iraqi government security forces, but other Shi'ite leaders have been more ambiguous, some Shi'ite PMFs have close ties to Iran, and Sunni PMFs will present a potential problem as long as Shi'ite PMFs are seen as a potential threat. Accordingly, integration of the PMFs will be at least as high a priority for the new government (and the U.S. part of the train and assist mission) as improving the quality of Iraqi government ground forces.

Kurdish forces present a different challenge, particularly given the disputed election in Kirkuk, referendum in independence, and struggles over oil at a political and economic level, and be dependent on some form of special zone or federalism. The U.S. goal should be to find ways to create as many exchanges and common activities as possible, defuse tension and incidents, and find some way to revive plans to integrate Kurdish forces into the Iraqi government forces that preserve some form of separate identify that will reassure the Kurds without encouraging separatism.

Iraq also remains heavily dependent on outside air support to deal with the remnants of ISIS, and is not ready to engage outside air and missile forces. Even in late May, it still needed support from Combined Joint Task Force Operation Inherent Resolve to provide over 60 strikes a week, and closer to 100 engagements, to attack the remaining forces of ISIS.

At the same time, Operation Inherent Resolve's Joint Forces Land Component Command does report substantial progress. On May 22, 2018, Italian Army Brigadier. Gen. Roberto Vannacci, the deputy commanding general for training, reported that more than 98,000 Army, Kurdish and tribal forces had been trained in basic combat skills in Taji, Bismayah, and in the Kurdish region. He also reported that the coalition had trained more than 36,000 personnel in demining operations and combat lifesaver training.

Some 25,000 additional police and border guard additional personnel had been trained in law enforcement and border security procedures in Western Baghdad, and more than 18,000 counterterrorism forces had been trained in the skills necessary to defeat the last remnant of ISIS and to identify and pursue rising threats to Iraqi stability.

In addition to training, the coalition had transferred equipment worth more than \$2 billion. Seventeen Iraqi Army brigades had been provided with initial equipment sets, including personal equipment, small arms, ammunition, around 1,000 non-tactical vehicles and over 1,100 armored vehicles, including high-mobility multipurpose wheeled vehicles, mine-resistant ambush-protected vehicle, and Iraqi light-armored vehicle Badgers.

The coalition was also providing additional equipment to around 20 federal police and border guard force brigades, including provisioning more than 180 prefabricated, border guard and police presence infrastructure since the beginning of 2018, as well as more than 400 explosive detection and demining kits.

The coalition was training and equipping the Iraqi Air Force, providing flight training to its pilots, maintenance support for its fleet, and divestment of planes and equipment, "with the goal of developing an Air Force that is capable of sustaining its missions from providing training to its flight personnel to providing maintenance to its own planes."

Reports differed as to how many U.S. forces were still in Iraq and as to how they were assigned. In December 2017, reports indicated there were 5,200 U.S. troops in Iraq. By May 2018, some reports put the number at 5,500, while others went up to 7,000 – a total which may have included allied troops. While the US forces included some small forward combat elements with the Iraqi counterinsurgency forces, most were train and assist personnel affecting the overall growth and rebuilding of Iraq forces, and supported both counterterrorism efforts and national defense efforts.

The coalition also involved substantial allied efforts – which make it easier for Sadr ad Iraqi nationalists to accept a U.S. presence. Australian forces in Taji and Spanish forces in Bismayah were training ground troops in n the Kurdish region and in Western Baghdad, Italian personnel were training army and police forces. German forces were providing training in the Kurdish region while Danish forces were leading the training in Al Asad Air Base.

### ***Iraq's Conventional Force Needs***

There are limits, however, to how quickly Iraqi forces can move towards creating the kind of strong conventional capabilities needed to deter and defend against Iraq's neighbors. Looking at unclassified reporting on the current major equipment in Iraqi forces by the IISS, IHS Janes, and the reporting on outside arms sales, Iraq is about five years away from creating a fully operational mix of national defense forces. Many key procurements have not yet been announced, and it normally takes at least several years to fully integrate major new combat systems into a force structure –even with full train and assist support and if the country actually buys spares, maintenance and training equipment, and develops effective combat and service support capabilities.

If one looks in detail at the Iraqi force structure listed earlier, many of its weapons and equipment are aging and/or combat-worn equipment, although it does have a core of more modern U.S. and Russian systems:

- Iraq's only heavy "modern" armor consisted of relatively new U.S. 100 M-1 and 168 older Russian T-72 main battle tanks, although more recent reports indicate that Iraq has taken delivery on 73 Russian T-90 main battle tanks, as part of an order of several hundred, and other reports indicate it may buy significant numbers of BMP-3s. Its 400 Akrep light AFVs are effective in the counterterrorism role, it is reported to be receiving more M-113s and BTR-4s, and many of its aging AFVs and APCs are still functional.
- Iraq has 1,085 major tube and MRL artillery weapons, according to the IISS, but only 72 are reported to be self-propelled and only 30 are relatively new U.S. M109s. Iraq does, however, have more assets than the IISS reports. For example, it used Russian TOS-1A 220mm 24-barrel multiple rocket launchers and thermobaric weapon mounted on the T-72 tank chassis during the fighting in Mosul. Reports also indicate that Iraq is considering the purchase of Russian the 152mm MSTA-S tracked self-propelled howitzer, the 2S31 Vena is a 120mm self-propelled mortar on a BMP-3 chassis, and 9K57 Uragan (220mm) and 9K58 Smerch (300mm) rocket launcher systems mounted on armored heavy trucks.

- It has 15 Mi-28 and 13 Mi-35 antitank helicopters and 10 Kiowa ISR helicopters, and some reports indicate these holdings are part of a total order of 43 Mi-35 (28) and Mi-28NE (15) attack helicopters.
- It does have a growing supply of modern army light weapons, anti-tank guided missiles, and UAVs.
- Its navy consists of 2 ex-U.S. River Hawk ocean patrol boats, 4 Italian coastal patrol boats, and 26 small patrol boats and rivercraft. It has no missiles, anti-submarine, or mine warfare capability.
- It is just beginning to rebuild its combat aircraft. It had only 60 combat capable planes by the IISS count as of mid-2017. Its only truly modern aircraft included 21 F-16IQ Block 52 Fighting Falcons as part of a total order of 34, although some reports indicate it may also buy Russian MiG-29M2 fighters. It also has 19 Su-25/Su-25K/Su-25UBK anti-tank fighters, some new L-159 Czech armed trainers, and 16 ISR aircraft suited for counterinsurgency operations. (2 Cessna AC-208B; 2 SB7L-360 Seeker; and 6 Beech 350ER King Air).
- It has no medium or heavy surface-to-air missiles, although it does have short-range and point defense missiles: 24 96K6 *Pantsir-S1*, with up to 26 more in delivery (SA-22 *Greyhound*), M1097 *Avenger*; 9K338 *Igla-S*, SA-24 *Grinch*). Rumors surfaced in February 2018 that it might buy the S-300 or S-400 from Russia, and long-range Russian radars, over U.S. objections.

The U.S. does not have a monopoly selling good weapons and military equipment to Iraq, and Iraq uses Russian as well as U.S. train and assist advisors. However, the U.S. does have a lead in providing effective training, support, and combat integration in a train and assist role. Iran's version of such efforts is tailored largely to low-level asymmetric warfare or direct infantry, artillery, and missile warfare. Moreover, any major European and Russian arms transfers will still serve U.S. strategic interests to a large extent since the goal should be to rebuild effective Iraqi national forces as a regional buffer and effective counter-extremism force – not extend U.S. influence.

The U.S. has almost certainly already developed contingency plans with the Iraqi security forces to further modernize key elements of heavy conventional forces, although the details of such efforts – and the planned level of U.S. train and support capability are classified.

Recent reporting by the Defense Security Cooperation Agency does show, however, that Iraq made major arms purchases even after U.S. forces left in 2011. Iraq signed \$1.8 billion worth of new FMS agreements in 2011, \$1.5 billion in 2012, \$2.4 billion in 2013, \$2.6 billion in 2014, \$971 million in 2015, and \$385 million in 2016 – a pattern of recent decline driven by the high cost of Iraq's fight against ISIS and a new 50% cut in the price of petroleum and Iraq's import revenues in 2014 that nearly bankrupted the country (<http://www.dsca.mil/resources/dsca-historical-facts-book-fiscal-year-series>).

More recent reporting on individual major Iraqi sales requests to the U.S. also shows that Iraq is now depending on continuing U.S. support for such efforts: (<http://www.dsca.mil/major-arms-sales?page=3>.)

- [Republic of Iraq – Follow-On Technical Support \(FOTS\) for U.S. Origin Navy Vessels and a Ship Repair Facility](#): Aug. 1, 2017 - possible Foreign Military Sale to the Republic of Iraq for Follow-On Technical Support (FOTS) for U.S. origin Navy vessels and a ship repair facility. The estimated cost is \$150 million.
- [Government of Iraq – Equipment for Two Peshmerga Infantry Brigades and Two Support Artillery Battalions](#): Apr. 19, 2017 - possible Foreign Military Sale to the Republic of Iraq for equipment for two Peshmerga infantry brigades and two support artillery battalions. The estimated cost is \$295.6 million.
- [Republic of Iraq – Pilot and Maintenance Training, Contractor Logistical Support \(CLS\) for Trainer Aircraft, and Base Support](#): Apr. 12, 2017 - possible Foreign Military Sale to the Republic of Iraq for pilot and maintenance training, contractor logistical support (CLS) for trainer aircraft, and base support. The estimated cost is \$1.06 billion.
- [Republic of Iraq – AC-208 Aircraft](#): Oct. 7, 2016 - possible Foreign Military Sale to Iraq for AC-208 aircraft and related equipment, training, and support. The estimated cost is \$65.3 million.

- [The Government of Iraq-AC-208 Sustainment, Logistics, and Spares Support](#): Jun 14, 2016 - possible Foreign Military Sale to the Government of Iraq for AC-208 sustainment, logistics, and spares support and allow the Iraqi Air Force (IqAF) to continue to operate its fleet of eight C-208 light attack and Intelligence, Surveillance, and Reconnaissance (ISR) aircraft. The estimated cost is \$181 million.
- [Government of Iraq-KA-350 Sustainment, Logistics, and Spares Support](#): Feb. 24, 2016 - possible Foreign Military Sale to the Government of Iraq for KA-350 sustainment, logistics, and spares support of five (5) King Air 350 ISR (intelligence, surveillance, and reconnaissance) and one (1) King Air 350 aircraft. The estimated cost is \$350 million.
- [Iraq - F-16 Weapons, Munitions, Equipment, and Logistics Support](#): Jan. 20, 2016 - possible Foreign Military Sale to Iraq for F-16 weapons, munitions, equipment, and logistics support. Iraq previously purchased thirty-six (36) F-16 aircraft. Iraq requires these additional weapons, munitions, and technical services to maintain the operational capabilities of its aircraft. This proposed sale enables Iraq to fully maintain and employ its aircraft and sustain pilot training to effectively protect Iraq from current and future threats. The estimated cost is \$1.950 billion.
- [The Government of Iraq – Hellfire Missiles and Captive Air Training Missiles](#): Jan. 7, 2016 - possible Foreign Military Sale to Iraq of Hellfire missiles and Captive Air Training Missiles, related equipment and support. The estimated cost is \$800 million.

### *U.S. Support for Iraq's War on Terrorism and Extremism*

Moreover, OSD Comptroller reports that the U.S. already committed to providing continuing train and assist activities for Iraq's internal security and counterinsurgency/terrorism forces as part of its FY2019 defense budget submission.

The supplemental materials on the OSD Comptroller website that explain the Overseas Contingency Operations (OCO) budget for the Iraqi portion of the U.S. train and equipment fund (CTEF) in FY2019 request \$850 million for Iraq Train and Equip (T&E) activities to strengthen the security capabilities of a DoD partner, secure territory liberated from ISIS, and counter any future ISIS threats. The training, equipment, and operational support in this request will consolidate the gains achieved against ISIS and help prevent its reemergence. Additionally, this request includes funding in support of border security to improve the resilience of neighboring countries against the spread of ISIS.

The other specific short-term goals for the FY2019 U.S. program to support Iraq are based on giving Iraq the capability to defeat future extremist threats:

The ISF require additional capabilities to secure key terrain of the five liberated provinces and their people, the western border with Syria, and critical infrastructure. These requirements consist of five border guard battalions, twenty provincial emergency response units, and six energy police battalions. For counterterrorism operations, the Iraqi Ministry of Defense's ranger brigades will relieve the Counter Terrorism Service (CTS) from its current role as an elite-level infantry force, allowing the CTS to return to its primary role in warrant-based targeting. Critical capabilities to reset a counterterrorism force consist of three battalions of a ranger brigade, specialty training courses, and equipment for the CTS. Additionally, fiscal challenges may require Coalition assistance with sustainment and stipend support to ensure the integrity of the ISF and their ability to maintain operational capabilities.

Funds will also be provided to help develop Iraqi logistic and sustainment capabilities, create effective border guards, local emergency response police units, 24 counterterrorism service brigades, and a new ranger brigade.

Expanding this program to give Iraq effective land-air-sea self-defense capabilities against any threat from its neighbors would only require limited train and assist presence for a limited number of years. Iraq has the money to make its own major arms buys and would only need a defensive and deterrent mix of conventional forces. It has sufficient petroleum revenues to pay for such a

force, and avoiding the massive arms buys and waste of past years would both help it fund its civil recovery and development and reassure all of its neighbors – including Iran.

Such a program could fund the steady creation of a more effective modern peacetime army, air force, and navy at costs far smaller than the \$19.3 billion it spent on military forces in 2017, at a peak time in the fighting in 2017 – and a cost equal to 10% of its entire GDP.

Barring the emergence of some new conflict, Iraq will only need a U.S. train and equip presence, rather than any major U.S. combat presence. Such an effort would take up to half a decade to properly implement, but spreading out the cost will reduce the burden on Iraq's budget, and the U.S. presence could become small enough to eliminate any concerns that the U.S. was creating a lasting base, reassure Iran and Iraq's other neighbors about any aggressive intent, and make it clear that Iraqis, not the U.S., shaped the program.

### **Shaping a U.S. Post-Election Strategy: The Civil Dimension**

The U.S. should also, however, be prepared to support Iraq in the civil side of "nation building" which the election shows is the key priority of its voters and citizens. The U.S. should take the kind of action that will make it clear to all Iraqis that the U.S. will support Iraq in its development activities and provide some foreign aid.

#### *Putting Iraq's Civil Needs in Perspective*

Far too much of the analysis of Iraq's civil needs focus on dealing with the impact of the fighting. These needs are all too real and present a critical problem in healing the divisions between the Shiites in its center and east and the Sunnis and Kurds in the west where most of the fighting and combat damage took place.

Iraq has now been continuously involved in crisis or conflict since it invaded Iran in 1980. This is a period of 38 years in a country where the median age of Iraq's 39 million people is only 20, and most Iraqis have never known a period of prolonged peace or peaceful development. Some 70% of its people have been born since the start of the Iraq-Iraq War, and Iraq's population was only 13.7 million in 1980 – a little more than one-third of what it is today.

The World Bank has addressed some of these issues in depth in a report entitled *Iraq-Systematic Country Diagnostic*. This report provides important insights into some of the motives that shaped the outcome of the 2018 election. The World Bank notes that the distribution of poverty has little to do with the presence of oil reserves and production, (World Bank, Iraq - *Systematic Country Diagnostic* (English), February 3, 2017, p. 18.)

Poverty and welfare are geographically differentiated as well, and conflict has led to more pronounced spatial differences not only in poverty rates but in the delivery of services. There are three levels of administration in Iraq – governorates, districts, and sub-districts. Each of Iraq's 18 governorates is subdivided into districts (*qadhas*) and sub-districts (*nahiyas*).

For the purposes of this poverty analysis, the country can also be divided into five divisions consisting of groups of governorates with approximately equal population sizes – Kurdistan, North, Baghdad, Central, and South... The sub-districts with the highest poverty rate are in the Southern governorates, despite their oil wealth. On the other hand, the sub-districts with the highest number of poor people are in urban centers with many residents (World Bank, 2015b).

Access to and the quality of services, including water, electricity, education, and health, also vary widely across the country. These differences result in spatial differences in many human development indicators, including early marriage and motherhood, child stunting, and educational outcomes. The labor market is fragmented spatially as a result of violence and insecurity.

While people are able to move to nearby governorates in order to increase returns to their human capital, moving across the country is much more difficult. People with similar characteristics can thus have different welfare levels depending on where in Iraq they live (World Bank, 2014).

The full World Bank analysis traces a complex pattern of issues which interact with all of the other divisions in Iraqi society and have been further complicated by the impact of the fighting, Iraq's problems in job creation, decades of inadequate economic development and reform, and the massive cut in petroleum revenues since 2014 (World Bank, Iraq - *Systematic Country Diagnostic* (English), February 3, 2017, pp. 27-37):

Persistent poverty is one of the symptoms of Iraq's predicament. There has been no overall movement towards reductions in either poverty or income equality in Iraq since 2007; what gains were made in early years were lost to violence and conflict soon after. Certain groups, including IDPs, youths and girls and women, are particularly vulnerable in situations of conflict and poor governance. This chapter focuses on the evolution of poverty and inequality in Iraq and on some of the issues faced by excluded groups.

... Conflict combined with economic constraints in recent years have reversed the gains in poverty reduction that were attained between 2007 and 2012. 1 Headcount poverty in Iraq had fallen to 18.9 percent by 2012... However, simulations suggest that this declining trend had been almost completely reversed by 2014, with headcount poverty estimated at 22.5 percent that year, close to the level recorded in 2007... These losses starkly illustrate how conflict and violence, as well as oil dependence, have increased poverty in Iraq. The significant regional differences in poverty dynamics and outcomes also reflect the differential impact of conflict and oil across Iraq and among its population.

... The modest declines in poverty in Iraq between 2007 and 2012 were driven by an increase in earnings among the employed rather than by an expansion in employment or by higher public transfers. In particular, as will be discussed in other parts of this report, economic growth was not associated with job creation in the private sector where the majority of the poor work. Moreover, the oil sector, which represents almost half of Iraq's GDP and almost all its exports, accounts for only 1 percent of employment in the country, and growth in the sector does not directly create new jobs. Even in other sectors, job creation has not been sufficient to absorb the growing workforce. The exception is the public sector where oil revenues have enabled a significant expansion in jobs but where relatively few of the poor are employed.

... Estimates indicate that multidimensional poverty (MPI) in Iraq – poor health and education outcomes and limited access to essential services – is at 35 percent, which is higher than consumption poverty. Both the MPI and consumption poverty measures suggest similar spatial patterns in poverty, with Kurdistan enjoying the lowest levels of poverty on both indicators, whereas the South suffers from the highest MPI and consumption poverty rates... The gaps between the two indicators do suggest, however, that increases in consumption do not always go hand in hand with improved welfare in human development aspects. Of the various factors that contribute to the MPI, a lack of sanitation, inadequate electricity, and poor nutrition are among the most prevalent deprivations in the country. Moreover, the vast majority of households suffer multiple deprivations in human development, with 63 percent of households suffering from two or three simultaneous deprivations, while 11 percent experience four or more (World Bank, 2014).

... Poverty reduction has been spatially uneven across Iraq, with a more rapid decline in rural areas than in urban areas albeit from higher initial levels. Between 2007 and 2012, the poverty rate in rural areas dropped from a high of 39 percent to 30.7 percent. There was a smaller fall in absolute terms (2.2 percentage points) in urban areas but a significant one relative to the baseline (a 14 percent decline). The poverty gap was also somewhat smaller in rural areas than in urban areas in 2012, suggesting that not only did poverty fall in rural areas but that the depth of poverty did as well.

... Poverty also varies across governorates. Dividing the country into three main regions, Baghdad, Kurdistan, and Rest of Iraq, Figure 19 indicates that a significant share of each region's population is in the bottom 40 percent of the income distribution. Although the poor constitute a smaller proportion of the population of Kurdistan, they make up a larger proportion in the Rest of Iraq. The decline in poverty between 2007 and 2012 was concentrated almost exclusively in the central and northern governorates.

The poverty rate in central governorates fell by 16 percentage points, while the rate in the northern governorates fell by nearly 9 percentage points. The change in other areas was modest. In Kurdistan, poverty

levels were relatively low to start with at 4.3 percent, and poverty did not fall significantly in Baghdad, the most populous governorate in the country. In contrast to the overall improving trend nationally, in the southern governorates the poverty rate increased by 1.8 percentage points. Historically, poverty has been concentrated in the center and the south of the country (Table 4).

... The twin crises – namely the oil price declines and the Daesh insurgency – are estimated to have erased the reduction in poverty achieved between 2007 and 2012, raising the poverty headcount to 22.5 percent in 2014 and pushing an additional 3 million people into poverty.<sup>17</sup> Poverty headcount rates are estimated to have increased by 7.5 percentage points between the non-crisis (business as usual, BaU) scenario and the crisis scenario. The twin crises are also estimated to have increased the poverty gap (by 3 percentage points) as well as causing the severity of poverty for the country as a whole to grow by 1.3 percentage points.

A reduction in employment and in income underlies the rise in poverty. Non-employment (which includes both the inactive and the unemployed) seems to have increased by over 800,000 compared to the non-crisis level as a result of the collapse of oil prices and the massive displacement resulting from the Daesh insurgency.

Moreover, a shift of workers from more productive or higher earning jobs to less productive jobs with lower earnings (from the manufacturing and construction sector to the agriculture and services sectors) is estimated to have led to an average 20 percent decline in total household labor income in 2014 (or a 14 percent decline in total household income).

The magnitude of these effects is higher in Daesh-affected regions and Kurdistan than in others. For instance, total income is estimated to have been nearly halved in Daesh-affected areas (Figure 23). The increase in unemployment rates, combined with the reduction in both labor and non-labor income, translates into lower per capita consumption. Simulation results show a 10 percent reduction in average per capita consumption for Iraq as a whole. This is 4 percentage points lower than the estimated decline in total income, which seems reasonable given that households might have smoothed their consumption during difficult events and over time.

The World Bank highlights the impact of the war on those displaced by the fighting since 2014 as a key factor in creating what it calls the "new poor" (World Bank, Iraq - *Systematic Country Diagnostic* [English], February 3, 2017, pp. 39-42. The full analysis covers pages 27-49):

The per capita consumption of IDPs has shrunk by twice as much as that of the population at large. Per capita household consumption is estimated to have decreased by almost 22 percent as a result of the twin crises (Figure 28). The impact of the crises on total per capita income was even more severe (a reduction of 61.6 percent) assuming that households smoothed their consumption during the most difficult times. The reduction in consumption was driven mainly by a massive reduction in labor income of 62.5 percent as a consequence of job losses. The unemployment rate rose to 27 percent among this population, almost three times higher than the rate for the population as a whole.

... The lack of employment and the massive reduction in labor income reinforced by the loss of assets and services associated with having a proper dwelling implies a significant increase in the incidence of poverty among IDPs. Simulation results show that the headcount poverty rate for IDPs grew by 15 percentage points from 23 to 38 percent, twice the rate for the population as whole. In other words, 4 out of 10 internal displaced individuals became poor as a consequence of the crises. Additionally, the poverty gap and its severity also increased by 5 and 2 percentage points for this population...

Overall, IDPs account for half a million of the total number of people who fell into poverty as a consequence of the twin crises... This represents almost 20 percent of the increase in the total number of poor (2.8 million poor). However, this effect varies significantly among regions. In Kurdistan, IDPs accounted for 62 percent of the increase in the number of poor, whereas in the South they only accounted for 2 percent. That being said, not all IDPs have become poor as consequence of the twin crises. Poor IDPs only comprise 6 percent of the estimated total number of 8 million poor people in Iraq following the twin crises, and only one-third of them have fallen into poverty as consequence of the crises.

A large number of displaced people will not be able to return to their homes because of destruction or continuing conflict. In addition, there appear to be *de facto* restrictions on the movement of IDPs (for example, of Sunni Arabs into the KRI and Baghdad and on their return to liberated areas), which may affect

their ability to access critical services.

It will be necessary to facilitate their integration within their host communities by eliminating unequal access to housing, employment, and basic services...Supporting housing reconstruction and repair in conflict-affected areas would strengthen social and political stability and enable IDPs to return to their original locations, as well as providing local employment opportunities and helping to develop local small- and medium-sized contractors. It would also spur demand in a number of complementary sectors, such as construction materials and related services...

Iraq's population growth has also led to a "youth bulge" that creates a major economic challenge. The World Bank highlights the combined impact of population growth, economic mismanagement, and long periods of war on Iraq's youth (World Bank, Iraq - *Systematic Country Diagnostic* (English), February 3, 2017, pp. 44, 109-110):

... Over 3.4 million Iraqi youths are out of school, and fully 72 percent of women and 18 percent of men between the ages of 15 and 29 were neither in education nor in employment or training (UNDP, 2014). Among youths aged between 15 and 29 years old, 33.4 percent are illiterate or semi-illiterate, just one-third have completed primary school, 28 percent have finished middle or high school, and only 7 percent have completed post-secondary education.

Despite low enrollment and graduation rates, education is an important goal for Iraqi youths, but economic factors often prevent them from continuing their education. Youth unemployment is high at 34.6 percent, 57.7 percent for females and 30.8 percent for males. Young people are underrepresented in government jobs, while the weakness and stagnation of the private sector prevents it from being an engine of employment for Iraqi youths

...Iraq's young people suffer disproportionately from exclusion and poor prospects, and rebuilding the legitimacy of the state will depend upon the productive incorporation of this group into society and the economy. About 50 percent of Iraq's population is under 19 years old. One-third of those between the ages of 15 and 29 are illiterate or only semi-literate...Rehabilitating schools in conflict areas, where one in five schools has closed, would help to encourage some of the 3.5 million children of school age who are currently not in school to return to the classroom.

Schools are the best place to provide psycho-emotional support to conflict-affected children and youths, and education can play a pivotal role in promoting resilience among conflict-affected populations and eventually social cohesion. For girls in particular, particularly those in conflict zones, school attendance can combat illiteracy and exclusion, which are the key underlying reasons for the high adolescent birth rates for Iraqi girls. In consultations with stakeholders during the preparation of this SCD, many emphasized the importance of rewriting the education curriculum to combat sectarianism, reduce conflict, and build support for the basic concepts of human rights and civic engagement.

... Iraq fails to provide jobs for the thousands of young people entering the work force each year. Between 2006 and 2014, Iraq's rate of youth unemployment never dropped below 28 percent, despite economic growth that averaged 6.3 percent annually. The benefits of growth did not accrue to young adults. Youths are underrepresented in government jobs, and the private sector is too weak to create enough employment to absorb the younger generation of Iraqis. In the near term, implementing much-needed local investment programs would create jobs at the local level. Yet as has been noted in this report, local administrations find it very difficult to implement investment programs because of their limited capacity and the lack of reliable resource flows from the central government, among many other constraints. Therefore, it is essential to resolve these constraints to greater local investment, and one way to do this might be to explore the feasibility of devolving some spending authority not only to governorates but to the districts or municipalities as they are directly involved in delivering local services.

... A recent Arab Youth Survey (Burson-Marsteller, 2016) has highlighted the connection between youth unemployment and the potential for radicalization. Almost a quarter (24 percent) of surveyed youths listed the lack of jobs and other opportunities as the main reason for some youths joining Daesh....In countries such as Iraq where Daesh has a significant presence, young people have worse perceptions of the economy and of sectarian conflict...Militias and extremist groups may fill the void left by the government by offering marginalized youths a sense of identity and opportunities for upward socioeconomic mobility. Low incomes

and unemployment reduce the opportunity costs of rebellion.<sup>36</sup> Most Iraqi youths who have joined militias or Daesh have few economic prospects and have failed to complete primary or secondary education.

As reported by the Iraq Crisis Group (ICG), young militants typically worked in precarious labor conditions and earned no more than ID 25,000 per week (US\$21.4), making it almost impossible to afford even basic rent at ID 200,000 (around US\$180). In contrast, Daesh offers young combatants anywhere from US\$400 to US\$1,200 per month, in addition to the authority that youths gain within their communities.<sup>38</sup> Youths joining extremist groups circumvent traditional community hierarchies and ascend to positions of power that would be unreachable for them in state institutions. Shia youths have also flocked to join militias for non-financial reasons following the fatwa issued by Iraq's Shia spiritual leader, Ali al-Sistani, which summoned them to volunteer in the defense of the country and their holy shrines. Therefore, while youths have an economic incentive to join sectarian or extremist groups, they also tend to find a sense of purpose as members of these organizations.

### *Iraq's Economic Challenges in 2018*

The CIA, IMF, and World Bank have addressed wartime recovery and reconstruction in various ways and it is clear that the cost can be very high. At the same time, they have made it clear that Iraq as a whole is currently in a state of economic crisis and badly needs technical help and advice to develop its entire economy.

Iraq's petroleum income does not make it wealthy. Iraq's per capita income in 2017 was only \$17,000 even in PPP terms. This compares with an average of over \$54,000 for its wealthier Arab neighbors. It has one of the worst industrial growth rates in the world, one of the worst unemployment rates, and as much as a quarter of its population may be below a low poverty line. Its government and state-owned enterprise sectors are grossly overstaffed, inefficient, corrupt, and unproductive.

The CIA summarized the state of Iraq's economy as follows in May 2018 (<https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>):

Iraq's largely state-run economy is dominated by the oil sector, which provides roughly 85% of government revenue and 80% of foreign exchange earnings, and is a major determinant of the economy's fortunes. Iraq's contracts with major oil companies have the potential to further expand oil exports and revenues, but Iraq will need to make significant upgrades to its oil processing, pipeline, and export infrastructure to enable these deals to reach their economic potential.

...Iraq is making slow progress enacting laws and developing the institutions needed to implement economic policy, and political reforms are still needed to assuage investors' concerns regarding the uncertain business climate. The Government of Iraq is eager to attract additional foreign direct investment, but it faces a number of obstacles, including a tenuous political system and concerns about security and societal stability. Rampant corruption, outdated infrastructure, insufficient essential services, skilled labor shortages, and antiquated commercial laws stifle investment and continue to constrain growth of private, nonoil sectors.

...Under the Iraqi constitution, some competencies relevant to the overall investment climate are either shared by the federal government and the regions or are devolved entirely to local governments. Investment in the IKR operates within the framework of the Kurdistan Region Investment Law (Law 4 of 2006) and the Kurdistan Board of Investment, which is designed to provide incentives to help economic development in areas under the authority of the KRG.

... Iraqi leaders remain hard-pressed to translate macroeconomic gains into an improved standard of living for the Iraqi populace. Unemployment remains a problem throughout the country despite a bloated public sector. Encouraging private enterprise through deregulation would make it easier for Iraqi citizens and foreign investors to start new businesses. Rooting out corruption and implementing reforms - such as restructuring banks and developing the private sector - would be important steps in this direction.

The World Bank summarized the impact of the recent fighting in its 2018 overview of the Iraq economy by saying that (<http://www.worldbank.org/en/country/iraq/overview>):

The ISIS war and the protracted reduction in oil prices have resulted in a 21.6 percent contraction of the non-oil economy since 2014, and contributed to a sharp deterioration of fiscal and current accounts. Higher oil prices and better security in 2017 contributed to economic stability and a return to growth in the non-oil sector.

- The ISIS war and widespread insecurity have also caused the destruction of infrastructure and assets in ISIS-controlled areas, diverted resources away from productive investment, severely impacted private sector consumption and investment confidence, and increased poverty, vulnerability and unemployment. The poverty rate increased from 19.8 percent in 2012 to an estimated 22.5 percent in 2014. The unemployment rate is about twice as high in the governorates most affected by ISIS compared to the rest of the country (21.6 percent versus 11.2 percent).

- Because of increased oil production and exports, overall GDP growth remained positive in the 2015-2016 period but is estimated to have contracted by 0.8 percent in 2017 due to a 3.5 percent reduction in oil production to fulfill the OPEC+ agreement and further oil output reduction from areas that returned under the GOI's control. At the end of 2017, the cumulative real losses due to the conflict stood at 72 percent of the 2013 GDP and 142 percent of the 2013 non-oil GDP. The improved security situation and initial reconstruction efforts have sustained non-oil growth at 4.4 percent in 2017. The pegged exchange rate and subdued demand have kept inflation low at around 0.1 percent in 2017.

To put this analysis in further perspective, Iraq has modernized some key sectors of its economy despite being in a nearly continuous state of conflict and/or crisis since Saddam Hussein invaded Iran in 1980. Its construction industry is still relatively capable – at least in the Baghdad area and the East. In broad terms, however, it has never demonstrated the ability to formulate effective overall economic development plans, and its efforts have been crippled by unrealistic goals, ideological elements, corruption and poor management, and a failure to find a proper balance between ethnic, sectarian, and regional interests. Key issues include:

- Limiting Kurdish development and favoring Sunni areas in the West and Baghdad through the fall of Saddam in 2003 – followed by favoring Shi'ite areas, fighting in Sunni areas, and ethnic struggles between Kurd and Arab.
- State misuse of petroleum revenues by power elites, and funding operating expenditures, state industries, and state mismanagement of agricultural resources at the expense of development.
- Creating a grossly over-sized structure of governance and especially a state owned enterprise sector with low productivity, many unneeded jobs, and grossly inflated wages.
- The impact of war and ethnic and sectarian differences on petroleum development coupled to uncertain and change plans and goals.
- Focusing on short-term employment, rather than successful development.
- Periods of long neglect of the need for agricultural reform coupled to periods excessive state interference and control designed to increase immediate production.
- Major serious state barriers to the effective growth of the private sector.
- Failure to deal with increasing water and infrastructure problems from 1980 onwards.
- Failure to explicitly address sectarian and ethnic concerns, and the priorities and needs of given governorates versus focusing on broad and abstract national goals.
- Failure to set realistic time frames, and focus on proper management of implementation, financial controls, and practical measures of effectiveness.
- Failure to plan realistically for the impact of population growth, the "youth bulge," shift to urbanization, and the need to modernize the agricultural sector by reducing the number for small farms and farmer and providing modern equipment and suitable capital investment.

***Limited Aid, Proper Outside Support, and a Shift to National Revenues***

The U.S. economic aid request for FY2019 is around \$200 million. Raising this request to around \$500 million to \$1 billion might be a key political step in winning the trust of Iraq's new government (<https://www.usaid.gov/results-and-data/budget-spending>).

What Iraq needs far more, however, is U.S. assistance in organizing the support of a major national advisory effort from some neutral technocratic body like the World Bank that would focus on developing effective reform, reconstruction, and development plans, that would not be seen as the proxy or tool of a foreign state, that could help coordinate and validate the use of aid from a variety of nations, and help ensure that money used effectively and without corruption.

Uncoordinated national and NGO aid efforts have often proved to have short-term value at best – or simply be a source of waste. The UN has failed in such missions in the past, and bodies like the IMF that focus on international payments and credit tend to set the wrong priorities for internal stability and equity. Equally important, Iraq needs some outside observer to help limit corruption, ensure efficiency, and act as a counterbalance to native political expediency and factionalism. Outside nations cannot assume this role without provoking a major struggle over which country gain national influence over Iraq.

Nations that do not help themselves, however, have also proven to be a consistent problem, and no one on the outside is going to fund the level of change Iraq needs. Fortunately, Iraq's core petroleum wealth should become enough to meet its needs after several years of initial progress and reform, but the U.S. could immediately play a key role in help Iraq get the international support it needs, both from a body like the World Bank and other states. Most important, it could show that its goal was Iraq strength and independence – not U.S. influence. This could play a key role in Iraqi acceptance of all forms of U.S. aid, and in moving Iraq towards more effective overall policies, governance, and development.

### **Setting Overall Civil-Military Strategic Priorities**

The U.S. needs to be very careful to help Iraq achieve the right balance between improved security and civil development. The Iraqi election makes it clear that defeating ISIS has only raised the popular priority given to development and the for a better civil life. The creation of effective conventional forces is not Iraq highest priority, nor can internal security be achieved by creating more effective internal security forces.

Iraq cannot continue to continue spending some 10-11% of its GDP on security forces. It needs to phase it military development in ways that allow it to provide both reconstruction in the war-damaged West and overall improvements in living standards. Perhaps the worst single strategy the U.S. could pursue is one that focuses on security and "burden sharing," rather than Iraq's civil needs and supporting its focus on national unity and development.

It is also the strategy most likely to lead to a direct confrontation or conflict with Iran. The U.S. cannot ignore the ambitions of Iranian hardliners, or the dangers posed by Iranian influence on Iraq's politics and security forces. It needs to help Iraq rebuild its defenses and ability to deter Iran, as well as secure its Kurdish regions, provide border defenses against Syria and the revival of extremism in the West.

At the same time, the U.S. needs to be careful to seek a proper balance between the size and pace of these security efforts and Iraq's higher priority for civil progress. Moreover, the U.S. needs to stop thinking of its competition with Iran for influence over Iraq purely in terms of a two person-

zero-sum game. The U.S. should seek to make Iraq a major *buffer* against the ambitions of Iraq's hardline clerics and Islamic Revolutionary Guards.

But, the U.S. should also make it clear that it is not supporting any form of Iraqi offensive capabilities against Iran or seeking to make Iraq part of the ongoing arms race between Iran and Saudi Arabia and the UAE. It should make it clear that it favors civil economic ties and progress between the two countries, and the flow of Iranian Shiite pilgrims to Iraq.

Finding the right balance between seeking to make Iraq both a security *buffer* and a civil *bridge* will be challenging to say the least. At least for the present, the U.S. may have to limit its activities to helping Iraq improve its security while making it clear that it does not oppose civil ties and broadly encourage an end to sectarian tension between Sunni and Shi'ite. In the medium- and long-term, however, it is clear that it will be impossible to create real stability in Iraq, in relations with Iran, and in the Middle East without sharp reductions in the current level of sectarian tensions, anger, and extremism.

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