

Iraq

*Economic
Challenges*

History

Mesopotamia

Muslims conquest; Abassid caliphate established its capital at Baghdad.

Ottoman Empire

World War I, British-mandate

Independent in 1932, the Hashemite family ruled as a constitutional monarchy

July 1958 coup

February 1963, Ba'ath Party military coup

November 1963, General Arif led a coup ousting the Ba'ath government

July 17, 1968, Ba'athists and military elements overthrew the Arif regime by military coup

Ahmad Hasan al-Bakr reemerged as the President

July 1979, Bakr resigned, and Saddam Hussein became the President

Iran-Iraq war (1980-88)

Iraq invaded Kuwait in August 1990
Security Council employed Economic Sanctions
(1990-2003)

A U.S.-led coalition removed the Saddam
regime in March-April 2003

Coalition Provisional Authority (CPA): Paul
Bremer

June 28, 2004: Interim Iraqi Government

January 30, 2005: National Assembly

October 15, 2005 Iraqi Constitution ratified in a
nationwide referendum on.

December 15, 2005 first legislative elections:
Parliament

January 30, 2009 Municipal Elections

End of 2009: New legislative elections:
Parliament

Geography

Bordered by Kuwait, Iran, Turkey, Syria, Jordan, and Saudi Arabia

Area: 437,072 sq km (slightly more than the size of Idaho)

Coastline: 58 km

Climate

Average temperatures range from higher than 48-50 C (120F) in July and August to below freezing in January.

Almost 75% of Iraq's population live in the flat, alluvial plain stretching southeast from Baghdad to the Persian Gulf.

The Tigris and Euphrates Rivers carry about 70 million cubic meters of silt annually to the delta: the heart of the 'Fertile Crescent'.

People:

Ethnic groups

Arab 75%-80%, Kurdish 15%-20%, Turkoman, Assyrian, or other 5%

Religions:

Muslim 97% (Shia 60%-65%, Sunni 32%-37%), Christian or other 3%

Age Structure:

0-14 years: 39.2% (male 5,613,420/female 5,438,770)

15-64 years: 57.9% (male 8,270,573/female 8,057,423)

65 years and over: 3% (male 396,751/female 444,244) (2008 est.)

Median Age:

total: 20.2 years

male: 20.1 years

female: 20.2 years (2008 est.)

Birth rate: 30.77 births/1,000 population (2008 est.)

Economy:

Natural Resources: petroleum, natural gas, phosphates, sulfur, and many other minerals

Overview:

Iraq's economy is dominated by the oil sector

development through central planning

1979 Oil Revenue \$21 Billion

1980 Oil production 3.5 million b/d, oil revenues were \$27billion

\$35 billion in foreign exchange reserves.

The Iran-Iraq war:

depleted foreign exchange reserves,
devastated the economy,

foreign debt of more than \$80 billion

Invasion of Kuwait in August 1990:

subsequent international sanctions

damage from military action

neglect of infrastructure

Government policies

drastically reduced economic activity and leaving the average Iraqi facing desperate hardships

UN Oil-For-Food (OFF) program in December 1996:

authorized to export unlimited quantities of oil to finance essential civilian needs including, food, medicine, and infrastructure repair parts

The occupation of the U.S March-April 2003: shutdown of much of the central economic administrative structure.

The rebuilding of oil infrastructure, utilities infrastructure, and other production capacities has proceeded steadily since 2004 despite attacks on key economic facilities and continuing internal security incidents.

making progress toward establishing the laws and institutions needed to make and implement economic policy.

Agriculture

Despite its abundant land and water resources,
Iraq is a net food importer

Obstacles to agricultural development:

labor shortages,

inadequate management and maintenance,

salinization,

urban migration,

dislocations resulting from previous land
reform

draining the southern marshes

and collectivization programs

Trade

lifting of UN sanctions in 2003

Iraq is gradually resuming trade relations with the international community

U.S. designated Iraq as a beneficiary developing country under the Generalized System of Preferences (GSP) program in September 2004.

observer status at the World Trade Organization (WTO) in February 2004, and began its WTO accession process in December 2004.

Some Data:

GDP (official exchange rate): \$84.09 billion (2008 est.)

GDP - real growth rate: 6.6% (2008 est.)

GDP - per capita (PPP): \$4,000 (2008 est.)

GDP - composition by sector:

agriculture: 5%

industry: 68% (including oil)

services: 27% (2006 est.)

| Year | 1988 | 2005 |
|--|------|------|
| Agriculture and Forestry | 13.8 | 6.2 |
| Mining | 17.7 | 1.5 |
| Industry | 12.8 | 1.9 |
| Construction | 7.4 | 0.4 |
| Electricity and Water Projects | 7.4 | 1.5 |
| Transportation and Communication | 6.3 | 6.3 |
| Retail Merchandise | 12.2 | N/A |
| Banking and Insurance | 6.3 | 1.3 |
| Housing | 3.3 | 0.4 |
| Social Services | 18.4 | 11.8 |

Labor force: 7.4 million (2004 est.)

Unemployment rate: 18% to 30% (2006 est.)

Budget: *revenues:* \$42.3 billion

expenditures: \$48.4 billion (FY08 est.)

Electricity production: 33.53 billion kWh (2007 est.)

Electricity consumption: 35.84 billion kWh (2007 est.)

Electricity imports: 2.315 billion kWh (2007 est.)

Oil production: 2.094 million bbl/day (2007 est.)

Oil consumption: 295,000 bbl/day (2007 est.)

Oil - exports: 1.67 million bbl/day (2007 est.)

Oil proved reserves: 115 billion bbl (1 January 2008 est.)

Natural gas production: 3.5 billion cu m (2007 est.)

Natural gas consumption: 1.8 billion cu m

note: 1.48 billion cu m were flared (2006 est.)

Natural gas exports: 0 cu m (2007 est.)

Natural gas - proved reserves: 3.17 trillion cu m (1 January 2008 est.)

Current account balance: \$19.6 billion (2008 est.)

Exports: \$66.28 billion f.o.b. (2008 est.)

Exports commodities: crude oil 84%, crude materials excluding fuels 8%, food and live animals 5%

Exports - partners: US 36.8%, Italy 12.6%, South Korea 9.5%, Taiwan 6.3%, Spain 5.2%, Canada 4.7%, France 4.4%, Netherlands 4.2% (2007)

Imports: \$37.35 billion (2008 est.)

Imports - commodities: food, medicine, manufactures

Imports - partners: Syria 30.5%, Turkey 19.8%, US 11.1%, Jordan 5%, China 4.8% (2007)

Reserves of foreign exchange and gold: \$35.06 billion (31 December 2008 est.)

Debt - external: \$67.74 billion (31 December 2008 est.)

Exchange rates: New Iraqi dinars (NID) per US dollar

| | |
|------|-------|
| 2008 | 1,202 |
| 2007 | 1,255 |
| 2006 | 1,466 |
| 2005 | 1,475 |
| 2003 | 1,890 |

Cellular Phones: 2003 zero
2007 14.021 million

FOREIGN RELATIONS

Iraq currently has diplomatic representation in 54 countries

including 3 permanent Missions to the United Nations in New York,

United Nations Commission on Human Rights in Geneva
Arab League in Cairo.

48 countries have diplomatic representation in Iraq,
The Republic of Iraq belongs to the following international organizations:

United Nations (UN);

World Bank (WB);

International Monetary Fund (IMF);

Organization of Petroleum Exporting Countries (OPEC);

World Health Organization (WHO);

Arab Bank for Economic Development in Africa
(ABEDA);

Arab Fund for Economic and Social Development
(AFESD);

Arab Monetary Fund (AMF);

Council of Arab Economic Unity (CAEU);

Food and Agriculture Organization (FAO);

International Development Bank (IDB);
International Fund for Agricultural Development (IFAD);
International Finance Corporation (IFC);
International Labor Organization (ILO);
International Organization for Standardization (ISO);
Organization of Arab Petroleum Exporting Countries
(OAPEC);
United Nations Conference on Trade and Development
(UNCTAD);
United Nations Education, Scientific, and Cultural
Organization (UNESCO);
United Nations Industrial Development Organization
(UNIDO);
World Federation of Trade Unions (WFTU);
World Intellectual Property Organization (WIPO);
World Trade Organization (WTO) observer.

U.S.-IRAQI RELATIONS

The focus of United States: helping the Iraqi people build a constitutional, representative government that respects the rights of all Iraqis and has security forces capable of maintaining order and preventing the country from

becoming a safe haven for terrorists and foreign fighters.

The ultimate goal is an Iraq that is peaceful, united, stable, democratic, and secure, with institutions capable of providing just governance and security for all Iraqis and is an ally in the war against terrorism.

Economics Problems Facing Iraq:

1. Unemployment

More than a fourth young men are out of work
unemployment rate is 18%,

additional 10% of the labor force is employed
part time

falling oil prices and a weak public sector as
major problems

28% of males ages 15 to 29 are unemployed,
17% of women have jobs,

most of the 450,000 entering the job market this
year won't find work

With private sector employment lagging, most
Iraqis have turned to the government for
employment.

Public sector employment has doubled since
2005 ; accounts for 60% of full-time jobs.

falling oil prices "make this level of public
employment unsustainable,"

Needed: a concert effort to boost the private
sector

2. Inflation.

2006 64.8%,

2005 31.6%

IMF target rate 30%

Central Bank of Iraq (CBI): appreciate the Iraqi Dinar (ID) relative to the U.S. Dollar (USD June 7, 2007 17%).

accelerated interest rate increases;

deposit rate is currently 20%.

3. Dependency on Oil and Oil price fluctuations

Iraq's economy is dominated by the oil sector,

traditionally provided about 95% of foreign exchange earnings and 90% of Iraq's revenue

Current estimates show that oil production averages 2.0 million bbl/day,

prices have dropped more than \$100 a barrel since July to just below \$40.

When oil prices were at their peak, the government announced raises ranging from 50% to 100% to

retain civil servants and lure back doctors, teachers and others who had fled during the war.

Now the government is reducing the budget for 2009 for the third time from \$80 Billion to about \$50 billion

The problem: 80% of the budget for operational purposes and 20% for investment

4. Corruption:

Iraq is on the top list of failed states

Third in the list of the most corrupted states

about \$23 Billion in Iraqi money and \$125

Billion in U.S. money evaporated; \$45 Billion

lost in oil revenue because of oil smuggling

5. Foreign Aid:

Donors Conference in Madrid in October 2003, more than \$33 billion

The statistics highlight the difficulties of luring foreign investment to Iraq and encouraging business start-ups in a country safer than at any time in the last five years, but still viewed as

risky by outsiders and by wealthy Iraqis who left during the war.

What the country should do:

a true market economy would be a big change for Iraq: is no culture of competition and free markets
concerted effort to boost the private sector

Implementation Factors:

- 1. Tariff Reductions**
- 2. Privatization: State Owned Enterprises**
- 3. Social Security-Pensions**
- 4. Modernize the Baghdad Stock Exchange**
- 5. Reform the Central Bank and Currency Reform**
- 6. New Land Laws and Regulations**
- 7. Reopening Banks and Encouraging lending;
Provide Iraqi businesses with fresh credit**
- 8. Create a legal framework compatible with private ownership, production and distribution**
- 9. Rewrite the tax and tariff system**
- 10. Go to credit economy instead of cash economy**
- 11. International Openness and encouraging investment**
- 12. Fiscal and monetary policy**
- 13. Legal Reform**
- 14. Raising Energy Prices**
- 15. Replace food rations with cash payment or Oil Dividend**

