IraC: Oil Prices and Economic Management

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Abstract

Iraq, undergoing transition politically and economically after the 2003 invasion, was
blessed for a few years with rising oil prices, in addition to the huge amount invested by
the US in the country. Yet, its economic management adversely suffered from endemic
corruption and tremendous bureaucracy. Corruption reached such levels that Prime
Minister Nuri al-Maliki was forced to resign when ISIL occupied parts of Iraq, and
exposed the fallacy of large investments in building a strong Iraqi army.

The paper begins by showing the utter dependency of the country (more than anywhere in
MENA) on oil: non-oil sector constitutes barely 10% of the total GDP, and non-oil tax
revenues are merely 2%. It proceeds to focus on how corruption prevented the country
from benefiting from high oil prices. It addresses how the new government of Haidar al-
Abadi is facing the mammoth task of reducing corruption while simultaneously fighting
ISIL, all in an environment of low oil prices. The paper will underline how budget
allocations were cut as a result of lower revenues in the last eighteen months. Needless to
say, this is negatively impacting infrastructure development and having adverse socio-
economic implications (for instance, brain drain has intensified in the last six months as
a result of lack of opportunities.) Finally, the paper will deal with oil exploration in the
country (ex-Kurdistan) and what the future of Iraq’s economy in the current environment
of low oil prices.

Overall, an important theme of the paper is to show how high oil prices and huge inflow
of cash did not provide the panacea for Iraq’s economy in the decade following the
invasion, and raises the question whether actually in this harsh atmosphere, the managers
of Iraq’s economy will be pushed to find durable solutions for their country rather than
simply rely on exports from oil.

A recent article in the New York Times carried the headline: “Iraq’s New Threat:
Calamity from Falling Oil Prices,” and informed the readers that tough times lie ahead of
the Iraqi people, and quoted Iraqi sources that warned that cutting salaries and pensions
could sever “the last link between citizen and state.” What the newspaper did not tell its
readers is what happened when oil prices reached $140. This paper will begin by showing

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1 Tim Arango, “Iraq’s New Threat: Calamity from Falling Oil Prices,” New York Times,
February 1, 2016.
the utter dependency of Iraq on oil, and then proceeds to analyze how the 
mismanagement of the economy prevented any bonanza form the high oil prices that 
prevailed for a number of years.

Iraq is more dependent on oil than any other country in Middle East and Africa 
(MENA); oil production account for two-thirds of the country’s GDP almost 95 per cent 
of government revenues, and a staggering 99 per cent of total exports. With a breakeven 
oil price of $102 per barrel in 2012, which is among the highest in the region, Iraq is very 
vulnerable to a fall in oil prices. At the same time, the high level of current spending makes 
it difficult to adjust to external shocks without disproportionately cutting investment 
spending (IMF 2013: 14).

A critical element for Iraq’s economy is that while the country is dependent on oil 
and 97 per cent of the state revenues are from oil, the sector employs only 80,000 workers 
out of a total of eight million in the labour force, roughly a total of 1 per cent of the total 
work force (United Nations Joint Analysis Unit 2014: 4, 6). This leads to the fact that 
unemployment in Iraq, as in many other countries in the region, is a serious challenge for 
the country and its economy. Iraq, as with many other countries in the region, is not 
managing to address the issue of unemployment in spite of its wealth. There is a wide 
divergence of statistics about unemployment, but suffice to say that unemployment hovers 
around 18 per cent with higher unemployment rates for those aged 15–29. Female 
employment is probably around 14 per cent, which is low compared to most other countries 
in the region (20 per cent in MENA and 37 per cent in Low and Middle Income Countries). 
To put these statistics in context, Iraq is the third largest Arab country in terms of 
population with roughly 34 million. Its population is growing at 1.8 per cent and roughly 
58 per cent of the population is under 24. Similar to other countries in the region, the public 
sector is the major outlet for absorbing huge numbers of young graduates to the extent that 
army and security services have returned to the levels of the 1980 Iran–Iraq War with more 
than one million members.
Table 1: Iraqi Exports and Imports vs. Oil Prices, 2003-2014

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2013</th>
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<tbody>
<tr>
<td>Total Iraqi</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Exports in US$$a$</td>
<td>$9.71 Billion</td>
<td>$23.70 Billion</td>
<td>$39.59 Billion</td>
<td>$39.43 Billion</td>
<td>$79.68 Billion</td>
<td>$89.77 Billion</td>
<td>$83.98 Billion</td>
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<tr>
<td>Total Iraqi</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Imports in US$$b$</td>
<td>$9.93 Billion</td>
<td>$23.53 Billion</td>
<td>$19.56 Billion</td>
<td>$41.51 Billion</td>
<td>$47.80 Billion</td>
<td>$59.35 Billion</td>
<td>$53.18 Billion</td>
</tr>
<tr>
<td>Brent Crude</td>
<td></td>
<td></td>
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<tr>
<td>Oil Price in US$$c$</td>
<td>$28.85/Barrel</td>
<td>$38.26/Barrel</td>
<td>$72.44/Barrel</td>
<td>$61.74/Barrel</td>
<td>$111.26/Barrel</td>
<td>$108.56/Barrel</td>
<td>$98.97/Barrel</td>
</tr>
</tbody>
</table>

Sources:

As illustrated in table one, Iraqi export revenue tracked oil prices closely between 2003 and 2014, underscoring the importance of oil to Iraq’s export economy. During periods of high oil prices, export revenues rose. Iraqi spending on imports remained largely detached from oil prices, but declined in 2014 in tandem with the recent oil price drop.

Table 2: Iraq’s Reserves and Current Account Balances, 2005-2014

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iraq Total reserves (includes gold, current US$$)</td>
<td>$12.20 Billion</td>
<td>$31.50 Billion</td>
<td>$44.30 Billion</td>
<td>$61.00 Billion</td>
<td>$77.70 Billion</td>
<td>$66.40 Billion</td>
</tr>
<tr>
<td>Iraq Current account balance (BoP, current US$$)</td>
<td>($3.34) Billion</td>
<td>$15.52 Billion</td>
<td>($1.13) Billion</td>
<td>$26.13 Billion</td>
<td>$7.90 Billion</td>
<td>($11.90) Billion</td>
</tr>
</tbody>
</table>

Iraqi total reserves and current account balance also reflect the impact of oil on the financial health of the country, as illustrated in Table 2. Iraq’s current account balance increased to $26.13 billion in 2011, a record high year for oil prices, but fell to -$11.90 billion in 2014 due in part to the steep fall in oil prices during the latter half of the year. Iraq’s total reserves mirror the change in current account balance.

Table 3: Iraq’s Oil Production and Oil Exports in 2015

<table>
<thead>
<tr>
<th>Month (2015)</th>
<th>Iraq Crude Oil Export Revenues (US$)</th>
<th>Iraq Crude Oil Exports (‘000 barrels/day)</th>
<th>Iraq Crude Oil Production (‘000 barrels/day)</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>$3.26 Billion</td>
<td>2,535</td>
<td>3,042</td>
</tr>
<tr>
<td>February</td>
<td>$3.40 Billion</td>
<td>2,981</td>
<td>2,783</td>
</tr>
<tr>
<td>March</td>
<td>$4.48 Billion</td>
<td>3,077</td>
<td>3,339</td>
</tr>
<tr>
<td>April</td>
<td>$4.79 Billion</td>
<td>3,145</td>
<td>3,176</td>
</tr>
<tr>
<td>May</td>
<td>$5.45 Billion</td>
<td>3,187</td>
<td>3,288</td>
</tr>
<tr>
<td>June</td>
<td>$5.29 Billion</td>
<td>3,187</td>
<td>3,591</td>
</tr>
<tr>
<td>July</td>
<td>$4.84 Billion</td>
<td>3,105</td>
<td>3,718</td>
</tr>
<tr>
<td>August</td>
<td>$3.93 Billion</td>
<td>3,079</td>
<td>3,760</td>
</tr>
<tr>
<td>September</td>
<td>$3.73 Billion</td>
<td>3,052</td>
<td>3,755</td>
</tr>
<tr>
<td>October</td>
<td>$3.29 Billion</td>
<td>2,708</td>
<td>3,659</td>
</tr>
<tr>
<td>November</td>
<td>$3.66 Billion</td>
<td>3,365</td>
<td>3,747</td>
</tr>
<tr>
<td>December</td>
<td>$2.92 Billion</td>
<td>3,270(^b)</td>
<td>4,130(^a)</td>
</tr>
</tbody>
</table>


As Table 3 shows, Iraqi export figures for 2015 highlight the challenging dynamic that Iraq is facing. Despite increasing oil exports and production to near-record highs in 2015, Iraq’s export revenues were far lower than the previous year, and declined even further near the end of 2015. Whereas average monthly oil exports of 3.18 million barrels per
day (b/d) in May 2015 got Iraq $5.45 billion in revenues, by December revenues had nearly halved, despite an increase in exports of 83,000 b/d. Furthermore, Iraq had proportionally less oil to export as a percentage of its total production by the end of 2015, as the country started paying back international oil companies (IOCs) in oil due to cash shortages, which ultimately cut into oil export revenues. In March 2015, Iraq exported approximately 92 per cent of its overall production for that month. In October, Iraq exported only 74 per cent of its monthly production.

**Iraqi budget:**

Iraq’s 2015 budget was based on oil projections of $56 per barrel and an average export rate of 3.3 million b/d. According to the EIA, Brent Crude averaged $52.32 per barrel and WTI averaged $48.66 per barrel, significantly below the country’s forecasts. Iraq’s 2016 budget is based on estimates of $45 per barrel oil and an export rate of 3.6 million b/d. Brent crude averaged $30.70 per barrel in January 2016, well below Iraqi projections. Not only the dramatic drop in oil prices but the cost of war against ISIL is exacerbating the situation. As an NPR correspondent put it the government is doing a complicated shuffle with money, essentially eating into its reserves of foreign currency just to keep paying those salaries. But Iraq will run out of savings by sometime next year

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at this rate. This will put an enormous pressure on the government in how to deal with diminishing public support if it continues to cut subsidies and reduce number of employees in the public sector. Demonstrations could force the government to borrow rather than cut its expenses in the hope that oil prices will return to more “normal” levels of $50-70 in the next 12 months.

How did Iraq reach this dire situation in a relatively short period? The core of these problems did not emanate only and only from the drop in oil process. The main culprit is the mismanagement of the economy and the prevalent corruption during the eight years of Prime Minister Nuri al-Maliki. It is outside the scope of this paper to discuss the impact of invasion but it is important to briefly outline the main issues that resulted from the invasion.

One of the main hurdles in managing the Iraqi economy was the ambitious and unrealistic plan that the Americans wanted to impose on Iraq. As Sultan Barakat posited, the US scheme envisaged “replacing, not building on existing conditions in Iraq.” Bremer deeply believed that Iraq needed “a vibrant private sector to succeed.” That might be true, but given the fact that Iraq was emerging from almost forty years of socialism, since the 1964 sweeping nationalizations by the regime of ‘Abd al-Salam ‘Arif, plans of privatization on such a scale was like applying shock therapy to a feeble economy.

Since the overthrow of Saddam Hussein’s regime, most of the money has been spent on security and infrastructure. There is no doubt that infrastructure in Iraq before the 2003 invasion was already in a dismal state given the sanctions and lack of spare parts, but with the devastation of the invasion and the civil war that raged for almost three years, infrastructure continues to be a serious problem facing Iraq’s economy.

The major beneficiaries of the huge investments post-2003 were a number of large corporations such as Bechtel, which received more than 12 per cent of the first fund created

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by the US that spent more than $20 billion. Other American corporations were Fluor, Raytheon and Kellogg. Security contracting firms were major winners of this allocation. The next beneficiaries were groups of Iraqi contractors who returned from exile and together with some of their Arab and American partners, managed to receive large contracts for construction. There is no doubt that huge wealth was created by some well-connected individuals and large corporations, and portions of the funds disappeared with no trace and no actual benefit to Iraqi citizens. This was the foundation of the corruption that became the dominant factor in Iraq’s economy.

Corruption

Corruption has many repercussions. It creates an atmosphere of distrust; a widespread sense of unfairness; it reduces government functionality and leads to a decline in the legitimacy of the state. There are many forms of what is labelled administrative corruption: bribery, embezzlement, nepotism and illegal enrichment.

Iraq is not alone in the way corruption has become rampant after the fall of a tyrannical system. As fear is reduced and ideology weakens, corruption spreads and becomes a way of life. Weak institutions coupled with a usually inefficient and low-paid public sector push many civil servants to become corrupt. Another driver is the expansion of the hidden economy; for instance, in East–Central Europe, one in five people was engaged in the hidden economy in 2008 and received undeclared wages.\(^9\) Countries undergoing transition encounter the issue of corruption as a grave hurdle; for instance, in the twelve countries of the former Soviet Union, corruption has become the major challenge in the process of transition and nearly all the countries in the region are below the global average in the 2012 Transparency International Report. In Russia, corruption has become intertwined with Vladimir Putin’s rule. Karen Dawisha, who researched the subject, argues that Russian elites maximized their gains by controlling their market and then depositing their profits in offshore accounts. Her conclusion could be an equally accurate portrayal of al-Maliki’s Iraq and many other transitioning states: “From the beginning Putin and his circle sought to create an authoritarian regime ruled by a close-

\(^9\) Colin Williams, “The Hidden Economy in East-Central Europe: Lessons from a Ten-Nation Survey,” *Problems of Post Communism*, vol. 56, no. 4, pp. 15-28
knit cabal with embedded interests, plans, and capabilities.” One commentator argued that the story of the last twenty years in Russia has not been the failure of democracy, but the “rise of a new form of authoritarianism.”

It is important to underscore that corruption under previous Iraqi regimes existed but at relatively low level. Leaders such as ‘Abd al-Karim Qasim (1958–63), similar to the first generation of leaders in the Arab world who toppled monarchies or led their countries to independence, was not corrupt and lived in a modest house and died without accumulating any fortune. The real change took place under Saddam Hussein with obscene large presidential palaces, and the inner cohort of supporters around Saddam Hussein definitely accumulated large amounts of wealth. Thus corruption existed during the Saddam Hussein era, particularly during the 1990s under the Oil-for-Food Programme, but it never reached the dimensions we are witnessing today. Most likely fear of Saddam Hussein and the reach of his security services prevented senior officials from embezzling large sums and furthermore, the system was far from flooded with huge amount of cash as it was after the invasion.

Once a sovereign Iraqi government took over, an explosion in corruption took place. As ‘Ali ‘Allawi, who himself was a minister in Iraq in 2004 explains, unauthorized contracts began to be awarded and high-level corruption was suspected in numerous ministries during 2004–05. He documents how about $270 million of contracts were awarded by the Ministry of Trade without any reference to the government’s tendering rules. Furthermore, “endemic corruption in the oil industry” continued unabated, and was further exacerbated by the brain drain of senior oil industry officials who were either suspected of being Ba‘thists or fled due to the prevalent insecurity. The untethering of Iraq’s oil exports prevented determining the exact amount of exports and enabled theft of tankers and trucks that were loaded with oil. The “plunder of the Ministry of Defence” began in 2004 and purchase of arms provided a golden opportunity for senior officials and ministers to embezzle significant amounts of money from the state.

Today, corruption is prevailing in every sector in Iraq and all efforts to uproot it or create serious parliamentary committees to scrutinize the business dealing failed and/or resisted by al-Maliki’s government. “Not only was parliament emasculated, but the government itself created opportunities for corruption, preventing specific investigations from proceeding.” In the 2012 Index for Corruption prepared by Transparency International, Iraq came out as number 169 out of 174 countries worldwide. Iraqi corruption is ubiquitous and is exemplified by the findings of the Inspector General of Ministry for Higher Education which shows that as many as 4,000 of the almost 14,000 candidates in the January 2009 elections had forged degrees. Corruption was good for the insurgency and is still good for the numerous militias, which are spreading death and destruction on an almost daily basis in Iraq today. It is estimated that corruption has added roughly 20 per cent to the cost of doing business in the country. Needless to say, the poor pay a heavy price for corruption as they are forced to pay bribes for services to which they should be legally entitled. The IMF estimates that 10–20 per cent of Iraqi workers are ‘ghosts’ who receive a pay cheque but rarely show up for work. A recent study by United Nations Development Programme (UNDP) indicated that an Iraqi citizen paid on average four bribes a year, the largest share of bribes related to public utilities, followed by offers to recruitment and promotion. There is no doubt that the tolerance of rampant corruption that occurred on the American and Iraqi sides contributed significantly to the entrenchment of corruption. International Crisis Group succinctly summed up the situation by stating that al-Maliki’s government “has allowed corruption to become entrenched and spread throughout its institutions. This is in turn has contributed to a severe decay in public services.”

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1. Sheer mass of capital that flowed into the country since the invasion that overwhelmed the weak government institutions.
2. Breakdown of security and criminal justice system.
3. Targeted assassinations of state officials and judges in charge of corruption cases.
4. Lack of engagement by government and parliament in introducing serious reforms to reduce corruption.

Although not a purely economic problem, sectarianism has many economic and financial implications. For instance, the extent of corruption has exacerbated as a result of the deepening sectarianism that spread after the 2003 invasion. Although the militias were largely stamped out by the end of the civil war in 2008, their legacy lives on in the form of party committees within ministries whose sole job is to ensure that contracts go to party-controlled contractors. Early failures to stem the growth of militias within ministries created polarizing power centres that divided employee loyalties, weakened government institutions, slowed ministry decision-making and transformed corruption into a political agenda. Ordinary citizens, who are victims of corruption, are being pushed into becoming part of the corrupt process by backing sectarian groups. Many of the politicians or their families are involved in large trade companies using their influence and contacts. Given the brain drain of experienced government officials increased nepotism and sectarianism, billions of public funds are stolen every year from Iraq’s coffers. Political parties that are sectarian in nature catapulted to power creating an ethno-sectarian framework that in essence paralyzes the proper management of the economy. Sectarianism is not only impeding Iraq’s development but also hampering its trade relations with other Gulf countries. Relations between Saudi Arabia and the Gulf countries on one hand and Iraq on the other never warmed up. One example is that Saudi Arabia never opened an embassy in

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19 Pete Moore, ‘Making Big Money in Iraq’, *MERIP*, 252, Fall 2009. See for example the example Pete Moore mentions of *Shahid al-mihrab*, a company set up by Ammar al-Hakim, son of al-Hakim the spiritual leader, capitalizing on the increase trade between Iran and Iraq.
Iraq until 2013 in spite of intense American pressure and although it helped the Americans in the military effort of the invasion and was probably one of the major beneficiaries in the region from the invasion. The fall of Saddam Hussein’s regime did not put an end to the fears of Iraq’s neighbours; the collapse of the Ba’th has merely shifted those fears, and to a certain extent intensified them with the fear of Iran and Shi‘ism. On the other hand, trade between Iran and Iraq have increased dramatically in the last ten years, but overall, much of the trade is still opaque, as many Iranian products are smuggled through the south, while oil smuggling from the Iraqi side also go on.

Sectarian violence was not the only impediment to Gulf investors who mostly abstained from investing in Iraq though it represents a huge potential given its wealth and its large population. A 2013 report by the Multilateral Investment Guarantee Agency (MIGA) ranked civil disturbance in fourth place as an investor concern. More important for investors were: adverse regulatory changes; breach of contract; transfer and convertibility; and then violence. Although a dysfunctional Iraq has undeniably been a major hurdle for the Gulf’s institutional investors, it has resulted in a massive windfall for less scrupulous entrepreneurs in the Gulf monarchies. The inability to secure documentation such as bills of lading without bribing customs officials and incurring significant delays has made it very difficult for reputable international operators to conduct business in Iraq and has deterred major shipping lines from making regular runs to Basra.

Another major factor for the spread of corruption is the lack of rudimentary systems of accountability or internal controls throughout all the ministries. There is no doubt that dubious arms contracts were one major factor behind the collapse of the Iraqi army in Mosul. Many of these contracts were signed with Eastern European countries purchasing old weapons but at exuberant prices so the Iraqi side could pocket the difference. Squandering of resources and channelling them in unproductive directions, led to an

extreme increase in the cost of capital formation. By 2008, the Integrity Commission declared that about $18 billion were stolen from different government ministries.23

Iraq’s informal economy expanded in the 1990s, as Iraq became more of a ‘closed’ country due to the severe sanctions imposed on it. Estimates in 2000 put the informal economy roughly at 35 per cent of the GDP, and roughly 70 per cent of the labour force. However, after the invasion and as a result of the civil war and the spread of corruption, the informal economy is estimated at a colossal 65 per cent of the GDP. This does not bode well for the management of the economy and enforces the embedment of corruption in the system. Indeed, there are endless examples of embezzlement and mismanagement; the Special Inspector General for Iraq Reconstruction (SIGIR) reported that Iraq lost roughly $4 billion to corruption every year since the overthrow of Saddam Hussein. With lack of security, disorganized crimes became organized crime.24 Criminal activities became entangled with political violence, as kidnapping became a growth industry after 2003 and extortion became pervasive in Iraq. As one observer succinctly summed up the situation: “Organized crime has had an important role in hindering the emergence of an effective Iraqi state with a monopoly on the legitimate use of force, contributing to high levels of corruption.”25 The combination of corruption and lack of proper judiciary system led to the deterioration of social capital and trust between the public and the public institutions has been diluted after decades of abuse, first by the Saddam Hussein regime and then followed by the CPA and al-Maliki. Once trust disappears or greatly diminishes, corruption increases. Indeed, trust is such a critical factor in enabling transition to a more open society and to allow formal economy to grow at the expense of the shadow economy.26

Other failures in the economic management of Iraq were reflected in the efforts to reduce the level of bureaucracy and promote trade that had marginal results. The World Bank’s 2013 global ranking of 185 countries according to their ease of doing business placed Iraq 165th overall. Iraq also ranked 177th in ease of starting a business. Iraq’s

26 Looney, ‘Reconstruction and Peacebuilding, pp. 431-33.
placement made it the second and third worst ranked respectively among all Middle East and North Africa nations. Efforts to promote free trade produced similarly poor results; with Iraq finishing last among Arab World nations in six separate categories. A detrimental effect of the failure of bureaucracy is the expansion of corruption among the political elites. Corruption of the elites, according to Haithem Sawaan, led not to the squandering of development opportunities for the country but to the endangerment of fundamental issues such as Iraq’s of revenues, food security, and national sovereignty. A case in point of how national sovereignty was endangered is the fall of Mosul in the hands of ISIL. Corruption is not any longer just a feature of economic activity; it has a bearing on security matters. The success of ISIL in the summer of 2014 can be directly traced to corruption. Back in 2010, a report by The Military Balance underlined the obstacles to better security in Iraq by pointing out that “corruption among officers is widespread, with cronyism and nepotism rampant in the assignment and promotion system.” It was revealed in late 2014 that the Iraqi army included 50,000 ghost soldiers who did not exist but their officers received their salaries. As one Iraqi politician told the British Independent newspaper that Iraqi officers “are not soldiers, they are investors.” According to one retired Iraqi general, corruption in the military became institutionalized during the build-up of the new Iraqi army after 2003 as the Pentagon insisted that food supplies and other products be outsourced to private companies.

The advance of ISIL in northern Iraq forced Prime Minister Nuri al-Maliki to resign, but he remains influential in the country given his control of parts of the security apparatus and his deep connections to some of the militias. As one Kurdish politician stated succinctly that Iraq was pushed to the brink under al-Maliki’s regime: “His eight years in office were characterized by short-sighted governance, corruption and sectarianism that

27 SIGIR, *Learning from Iraq*, p. 117.
30 Patrick Cockburn, “Iraq’s 50,000 ‘ghost soldiers’ are further proof of army corruption,” *The Independent*, December 2, 2014.
marginalized important communities and centralized power.” There is no doubt that the eight years of al-Maliki are to be seen as of the darkest periods in Iraq from a political economy point of view: there were no structural changes in Iraq’s economy due to utter reliance on oil; employment continued to be heavily tilted to the public sector and subsidies continued to form a huge portion of Iraq’s GDP, reaching roughly 20 per cent, more than 12 per cent of that on subsidies on energy.

The new administration under prime minister Haidar al-‘Abadi took over in August 2014 and it would be interesting to examine the reforms attempted by the new government to counter the spread of corruption and the difficulties it has faced in the eighteen months since it took power. Soon after ‘Abadi became prime minister protests erupted in Baghdad and other cities demanding changes to governance by fighting corruption and improving services to the Iraqi people. ‘Abadi moved fast and unveiled sweeping reforms to reduce government costs and fight corruption. Among his first steps was the creation of a High Commission to streamline the executive branch by eliminating several posts, including those of Iraq’s three vice presidents, and reducing the size of the cabinet. Among those three politicians holding the position of vice president was none other than al-Maliki who manipulated his ceremonial status to enhance his position among his party al-Da’wa, continuing his indirect control of some of the militias. Needless to say that tackling corruption among senior politicians is a huge challenge. First and foremost, the transition

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in Iraq never changed the fundamentals of the judiciary system and the need for independent judges remains unfulfilled. It became clear that the conduct of Iraqi courts are causing significant problems due to lack of clarity in Iraqi laws and ‘lack of competence’ that resulted in “a failed justice system tied to major human rights abuses.”

Numerous examples of corrupt politicians surfaced once ‘Abadi became prime minister. The Washington Post described the life of luxury of one such politician: Baha’ al-‘Araji, a former deputy prime minister under al-Maliki. Owning multiple houses, a hotel, a shrine, all attributed to what he claims that “God gave more than I deserve” but nine charges now are pending against him including property racketeering and financial corruption. He still has “a 300-strong retinue paid for by the state’” according to documents of the Integrity Committee.

Another senior official entangled in corruption was the trade minister against whom an arrest warrant was issued accusing him and his brother of fictitious contracts awarded to certain firms. Intriguingly, a few weeks later an official of the Trade Ministry was killed by a bomb attached to his car as rumours circulated that he was about to hand over files to the Integrity Commission showing the minister’s involvement in fraud cases.

Given Iraq’s troubled politics, ‘Abadi’s reforms encountered severe challenges: many of the senior officials who lost their jobs ended up receiving new ones; “ghost workers” proved impossible to eliminate and hence al-‘Abadi was forced to cut salaries;

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37 Ahmed Rasheed “Exclusive: Murdered Iraq Trade Ministry Official was about to Expose Corruption,” Reuters, October 26, 2015.
and most importantly the prime minister is still weak politically as the Da‘wa party owes more allegiance to al-Maliki. As the Economist summed it up: “The circle of malcontents is growing as there is strong undercurrent to bring him [‘Abadi] down.” 38 A severe blow to these reforms came in the shape of a parliamentarian vote in early November restricting ‘Abadi’s legislative capacities to enact his reforms. According to one observer, the lack of support for ‘Abadi’s reforms among his Shi‘a rivals stem from ‘the fear that he is attempting to establish an alternative political platform that could marginalise militia parties’ although he enjoys the backing of Iraq’s Shi‘a highest clerical authority (marja‘iyya), Ayatollah ‘Ali al-Sistani. 39

**Conclusion**

In essence, the transition in Iraq after Saddam Hussein failed politically and economically. The United States sought to create new foundations after toppling the Ba‘th regime that would contribute to re-building the country, but these efforts proved futile. What is remarkable that even 13 years after the invasion, American officials who were involved in running Iraq; refuse to admit any responsibility for the failure. On the contrary, Paul Bremer recently opined in a letter to the Economist that “Iraq’s government functioned” and was far from collapsing (as the magazine argued), and that the Iraqi government produced balanced budgets, without even hinting at the spread of corruption. 40 In fact, certain systems that were created had perverse consequences by expanding sectarianism and leading to insurgent violence. Institutional reforms proved to be

extremely difficult to implement given the destruction of the country’s existing institutions. A major outcome of the post-Ba’th period is the exponential spread of corruption. As the paper showed, there was corruption under Saddam Hussein but after 2003, it took different dimensions. The reason for this was that the economic and political institutions created after 2003 empowered new elites that utilized economic power as a tool to rule the country. “Unless economic and political institutions change, even an effective anti-corruption drive can’t guarantee success.”\textsuperscript{41} The country is facing enormous challenges: sectarianism is still impacting everyday life; the fight against ISIL is and will take a toll on the country’s political economy; the catastrophic drop in oil prices to below $40 in 2015 given the country’s dependence on oil revenues; the simmering crisis between the central government and the Kurds over territory and oil resources; and, last but not least, the plague of corruption that is destroying the fabric of society.

\textsuperscript{41} Daron Acemoglu, and James A. Robinson, ‘Corruption is Just a s Symptom’, \textit{The Wall Street Journal}, December 5-6, 2015.