



Variant Deliberations:

Uncovering the reasons behind Iraq's decision on economic partnerships apart from the Chinese-Iranian axis

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The Baghdad Conference for Cooperation and Partnership suggests that Iraq is expected to adopt a strategic direction of building new regional economic and political partnerships, away from the influence of the Iranian-Chinese axis. This is quite a difficult test for the current Iraqi government, as political currents and military militias whose primary loyalty is to Iran are widespread all over Iraq. The Iraqi government is seeking to overcome these obstacles by establishing extended partnerships with international and regional powers which are trying to set Iraq free from the immense Iranian influence.

Economic Domination

The new foreign policy of Iraq stems from a current reality where the Chinese-Iranian axis possesses pivotal drivers for economic and social development in Iraq, as well as mechanisms for providing public services to citizens, particularly in the fields of energy, electricity, construction, and food commodities, not to mention the Iraqi deficit in the balance of foreign trade in favor of both China and Iran. This may be illustrated as follows:

1- Chinese trade acquisition: Iraqi official data issued by the Central Bureau of Statistics indicate that China is the largest exporter of non-oil goods to Iraq, accounting for 15.8% of total Iraqi imports in 2020, followed by South Korea with 14.3%, and Ukraine with 11.1%, while Iran came 4th with 9.2%.

In total, Iraq relies on Asia to provide its needs of non-oil commodities, with about 52.4% of the total Iraqi imports.

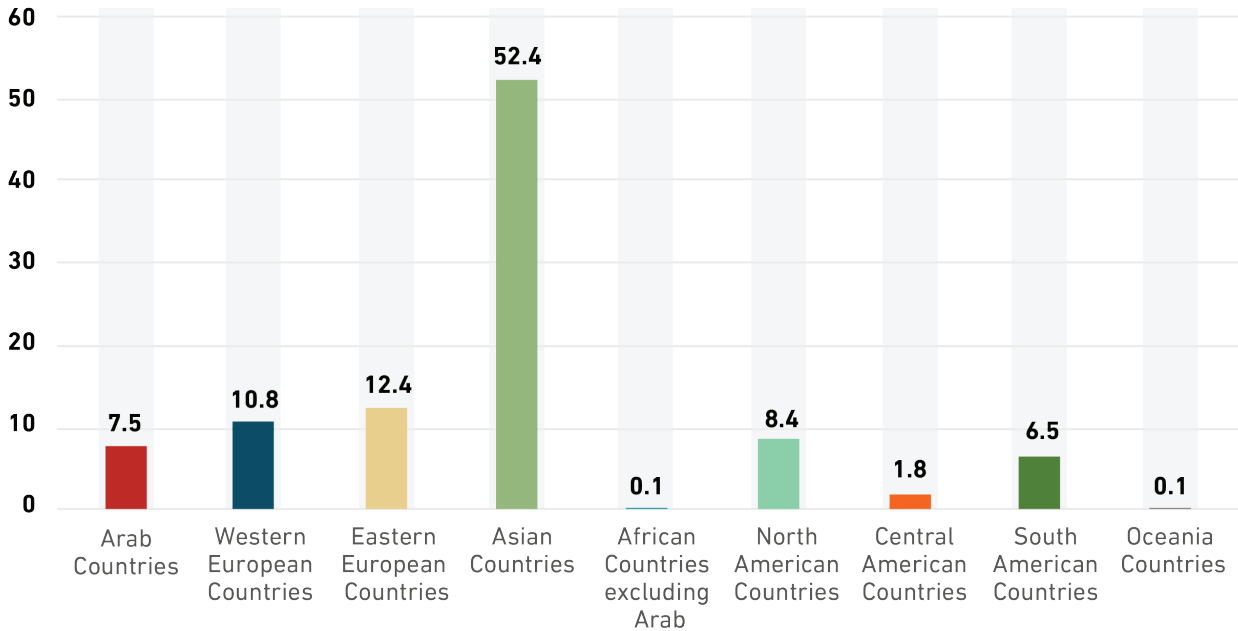
By observing the structure of foreign trade data prior to the year of the pandemic 2020, Iran is found to be the largest exporter of non-oil goods to Iraq with 30.1% of the total Iraqi imports in 2017, then became the second largest exporter by 14.3% in 2019. Meanwhile, China advanced from being the third largest exporter to Iraq with 11.1% of the total Iraqi imports in 2017 to become the largest exporter by 27.1% of the total imports in 2019.

2- Vital Investments: Moreover, Chinese and Iranian companies play a pivotal role in the Iraqi economy, as they participate in several vital sectors, such as energy, infrastructure, construction and others.

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The relative distribution of Iraqi non-oil imports by geographical districts in 2020



Source: Iraqi Ministry of Planning, Central Bureau of Statistics.

According to Iranian official statements, the number of Iranian companies in Iraq reached 79 companies in 2018, which operate in the energy, electricity, and construction fields with investments of \$8 billion.

Chinese investments witnessed a remarkable expansion in the Iraqi market over the past two years. According to the China Global Investment Tracker is-sued by the American Enterprise Institute, until 2020, Chinese capital in Iraq reached about \$12.8 billion, most of which is concentrated in the oil and nat-ural gas sectors. Furthermore, China plans to expand its investments in Iraq with new activities. Last year, it announced its plan to pump \$20 billion in in-dustrial investments in the Iraqi governorate of Muthanna.

Several Contemplations

The Iraqi government is seeking to counter the Chi-nese-Iranian economic influ-ence in Iraq, through the economic openness to Arab countries, particu-larly Egypt, Jordan and the GCC countries. This was prompted by several economic and political factors, most notably the following:

1- Diversification of funding sources: Iraq needs

large funds to help bridge the infrastructure gap, in addition to re-building the Northern provinces that were impacted by the three-year war against ISIS. Iraq requires approximately \$88.2 billion to support endeavors of reconstruction and rehabilitation of basic facilities such as roads, bridges, hospitals and others in the Northern cities.

2- Public resentment of Iranian influence:

Iraq has witnessed extensive public protests since October 2019, spanning over weeks, known as the “October protests.” One of the reasons for this public resentment is the dominance of pro-Iran Iraqi mi-litias over Iraq’s inter-nal policies, including econom-ic activities.

Accordingly, Mustafa Al-Kadhimi, the current Iraqi Prime Minister, is seeking to alleviate public rage against Iranian influence by promoting a new trend towards building Arab strategic partnerships.

3- The Iranian threat to energy supplies:

According to the contract signed between the Na-tional Iranian Gas Company and the Iraqi Ministry of Electricity in 2013 and 2015, Iraq depends on gen-er-ating about a third of its electricity on gas sup-



plies coming from Iran, by transporting Iranian gas to four Iraqi power stations. Additionally, Iraq imports electricity from Iran through four lines.

Iran has reduced its exports to Iraq of natural gas from 47 million cubic meters to 25 million cubic meters throughout the past months, claiming that the Iraqi government failed to pay the dues of Iranian companies, which has exacerbated the electricity crisis in Iraq. As a result of the drop in Iranian gas supplies, the Iraqi electrical system lost about 2,600 megawatts. What exacerbated the losses is that Iranian electricity exports to Iraq have been completely halted since last May.

4- Confronting the Turkish water threat: The Turkish direction of building more dams on the Tigris and Euphrates, along with the unfair use of the two rivers' water resources, has exacerbated the water crisis in Iraq and intensified the risk of drought in many Iraqi governorates.

In that respect, Turkey uses the water file, in addition to its role in transporting Iraqi oil through the Kirkuk-Ceyhan pipeline, to pose pressure on Iraq over the Kurdish file. Turkey repeatedly demands Iraq not to provide any support to the Kurdistan Workers Party (PKK) in Northern Iraq. These are accusations launched by Ankara to cover up the presence of Turkish bases in Northern Iraq dedicated to combating PKK without the approval of the Iraqi government.

Growing Iraqi-Arab interests

Iraq seeks to counter the influence of pro-Iran militias and internal alliances, through the use of Arab capital and expertise in vital projects in Iraq, which is evident in the following:

1- Expanding the supplies for electricity through Arab countries: Iraq attempts to replace Iranian gas supplies for operating power plants, by obtaining additional capacities from the electricity networks of neighboring Arab countries. The Iraqi government recently began consulting with several Arab countries, such as the GCC countries and Jordan, to enhance the connection with the Iraqi electrical networks. Thus, in 2019 the Iraqi Ministry of Electricity signed an agreement with the GCC to establish two

300-kilometre-long electric power transmission lines between Iraq and Kuwait.

Iraq is also seeking to import electricity from Egypt through Jordan under the "New Sham Project" in 2020, which includes Egypt, Iraq and Jordan, and aims to enhance tripartite collaboration between these countries in areas of cooperation, including cooperation in the transportation of oil and electricity.

2- Openness to Arab investments: The Iraqi government has expressed its willingness to open the Iraqi market to Arab investments. This is evident in the signing of about 15 agreements and memoranda of understanding between Egypt and Iraq in November 2020, establishing a business partnership between the two sides in various fields, particularly in the field of construction.

Moreover, Iraq aspires to draw on Emirati expertise in various fields, such as the digital economy and digitization of government services, in addition to the field of renewable energy.

The Abu Dhabi Future Energy Company will develop solar energy projects in Iraq with a capacity of 2 gigawatts, under an agreement with the Iraqi government in June 2021. This comes within UAE pledges to pump investments worth \$3 billion into Iraq in the future. Furthermore, Iraq and Saudi Arabia have established a \$3 billion joint fund to invest in Iraq, which opens new horizons for Arab investments in Iraq.

3- Participation in the reconstruction: The war against ISIS has caused enormous destruction in Iraq, which it seeks to confront by attracting international and Arab investments for the reconstruction of the Northern cities.

In 2018, the GCC countries, led by the UAE and Saudi Arabia, pledged to provide significant financial assistance for the reconstruction of Iraq on the sidelines of the International Conference for Reconstruction of Iraq held in Kuwait. The GCC states renewed their desire to participate in the reconstruction of Iraq and to raise the necessary funds for that. They are scheduled to hold a conference dedicated to this under the title "The Iraq-Gulf Construction and Invest-



ment Conference” in the forthcoming period.

Partnerships Limits

The indicators of Iraq’s direction towards activating an Iraqi-Arab economic axis depend on several factors, namely:

1- Supporting official institutions: The Iraqi political currents affiliated with Iran may seek to curb Iraq’s expansion in building economic partnerships with its Arab neighbors. However, the anti-Iran forces also have their influence on Iraqi politics, and will strive to limit these negative repercussions. Iraqi Prime Minister Mustafa Al-Kadhimi seeks to establish the Arab-Iraqi partnership due to its significant role in the Iraqi economy.

2- Providing security: The proliferation of pro-Irani-

an militias and various armed groups poses potential security threats to Arab projects in Iraq. This is also evident in the threat of these militias to US interests in Iraq, pushing US companies out of the Iraqi market. Thus, the Iraqi government should provide guarantees to the Arab partners regarding protecting their investments and projects in the Iraqi market.

3-Improving the investment environment: The investment environment in Iraq suffers from numerous difficulties, including the slowdown of government procedures, the spread of corruption, in addition to failure to provide incentives for investors. Accordingly, the Iraqi government must work hard in the coming period on eliminating all investment obstacles facing future Arab projects.

Finally, Iraq seems serious about establishing broad economic partnerships with regional and Arab neighbors, in a way that supports the Iraqi economy and serves the interests of the Iraqi people. However, this requires providing a safe environment for Arab investments.

ABOUT FARAS

Future for Advanced Research and Studies (FARAS) is an independent think tank founded on April 4, 2014 in Abu Dhabi, U.A.E. FARAS seeks to enrich public dialogue, support decision-making and enhance academic research pertaining to future trends that currently constitute a real problem in the Middle East region. In light of instability and unpredictability, the overarching goal of FARAS is to help ward off future shocks regarding these developments.

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