

The Iraqi Growth Myth

Trumpeting the growth in Iraq's oil income is misleading in the absence of genuine economic development

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Security forces inspect the site of a suicide attack at a checkpoint (photos: Reuters)

If one is to believe some mainstream Western media reports, Iraq is thriving. The conflict-ravaged country is even expecting more economic progress and tipped to be one of the best performers in the Middle East in the years to come.

Reports have been rampant about international companies overlooking security worries and opening businesses in oil-rich Iraq despite spikes in violence and unabated political turmoil.

From newspaper articles to reports on business news Websites, readers have been inundated with stories claiming that the country has achieved impressive growth over the last few years and that there is great entrepreneurial potential.

Fairy tales about economic potential in oil-producing nations grappling with violence and conflict are not new, but in Iraq's case the upbeat growth reports are clearly churned out to fit the greed of international businessmen.

Driven by disproportionate and highly inconsistent estimates of Iraq's economic indicators, entrepreneurs, fund managers and bankers around the world are now looking to establish a presence in Iraq.

In recent days, the Western media trumpeted the opening of the first Pizza Hut restaurant in Erbil and a contract signed by International Container Terminal Services to operate a port in Basra as examples of how Western companies are tapping the potential of Iraq's growing markets.

Erbil is the capital of the largely tranquil Kurdistan Region and Basra is relatively peaceful.

Oil projects take priority in the overblown coverage of Iraq's economic boom. Royal Dutch Shell exported its first shipment of crude from Iraq's Majnoon field this month.

Another hyped item of news this month was that Russian giant Lukoil is launching a 2D seismic survey of a 5,600 square km onshore tract in southern Iraq.

In December, PetroChina announced a deal with ExxonMobil to acquire a 25 per cent stake in the West Qurna-1 oil field project in southeastern Iraq, which has an estimated 43 billion barrels of reserves.

In the meantime, governments are recruiting people who are well-connected to Iraqi officials to branch out into Iraqi business.

Last year, Britain appointed Baroness Nicholson, a politician who worked closely with opponents of former Iraqi president Saddam Hussein, now in power in Baghdad, as UK trade envoy to Iraq in order to increase trade and economic co-operation between the two countries.

Iraq's giant Rumaila oil field is already being developed by BP, and Nicholson is tasked with making "major assaults on the Iraqi market" in order to obtain more lucrative contracts.

Japan is resorting to former Baghdad-based diplomats, academics and other Iraq experts to promote Japanese business in the country.

It has made loans to Iraq including a US\$4.5 billion soft loan and has secured 15 projects including the rehabilitation and development of some key Iraqi ports and the construction of power plants.

Australia, Canada and many other countries are resorting to Iraqi expatriates with business connections in the country to secure contracts.

Russia, the Czech Republic and Pakistan are also pushing ahead with mega defence contracts with Baghdad, reportedly through intermediaries.

Competition is so fierce that some have publicly complained that their countries are losing opportunities of investing in Iraq.

Last month, a reporter from Germany's Der Spiegel magazine did not hesitate to put a question about Germany's lack of share in the Iraqi market to Prime Minister Nuri Al-Maliki.

"Is there anything left for Germany, one of the world's top exporting nations," he bluntly asked.

Reports of the investment drive are being hyped by assessments that Iraq has posted an annual growth in GDP of around nine per cent, thanks largely to its oil production of 3.2 million barrels per day.

Some of these forecasts, coming from the World Bank and the Iraqi government, are predicting economic expansion of well over 10 per cent in 2014.

But many disagree with using GDP figures as measurements of progress in nation-building efforts and argue that statistics alone can hardly provide a clear picture of economic development or growth.

Consensus opinions indicate that the positive reports overlook serious problems faced by Iraq and its economy and are mostly designed to fit the ambitions of foreign investors.

Iraq faces serious problems, making the figures of growth in the oil industry little better than nonsense. Sitting on the world's fourth-largest oil reserves, Iraq should be rich, but its economy is as moribund as its politics, which are rife with violence and corruption.

Most towns in central and southern Iraq have no permanent electricity supplies and cannot

escape periodic power outages.

Thousands of factories are not operating because of the lack of power, and most Iraqis rely on generators for much of the time.

Iraq lacks proper infrastructure, and most of its cities in the south and centre of the country have deteriorating roads rutted with dirt and mud and provide at best marginal livelihoods for homes and businesses.

Millions of Iraqis live in poverty and there is a pervasive lack of health services and the presence of chronic malnutrition. A quarter of the population under 25 years of age is out of work.

Illiteracy is high, and millions of children have no access to proper schools.

The delay in the passage of the 2014 state budget is casting a grim shadow over Iraq's economy. Many projects are threatened with closure, and foreign companies have not received their dues which may make them leave the country.

This may even make the World Bank reduce Iraq's ratings.

Even more serious is the problem of security, which has been deteriorating rapidly since the withdrawal of the last US troops in December 2011 as terrorists groups, Sunni insurgents and Shia militias have been vying for supremacy.

Foreign companies working in Iraq hire their own security, which is costly and diverts resources from other investments. Their offices are surrounded by high walls and gates manned by armed security personnel checking cars for bombs.

Some foreign companies provide payments to locals for protection, and oil facilities are particularly risky.

Over recent months, militants have shut Iraq's main northern oil-export pipeline and have been preventing repairs, questioning the optimism about oil expansion.

On the other hand, massive corruption has been hindering economic growth, and many foreign companies have reportedly been involved in grafts and kickbacks.

GlaxoSmithKline, the UK drugs giant, has been investigated after allegations about its conduct in Iraq due to claims that it hired 16 state-employed doctors and pharmacists in 2012 as paid sales representatives.

Leighton Holdings Ltd, Australia's biggest builder, has been under investigation by police after the company was reported to have paid bribes to win contracts in connection with work in Iraq's crude oil-export facilities.

On Saturday, Sahat Al-Tahrir, a news Website, quoted Zuhair Al-Bichari, head of the development and reconstruction committee in Basra, as saying that a clean water project under construction by a consortium led by Japanese giant Hitachi was threatened with stoppage because of threats of extortion by local armed groups.

All this raises questions about whether Iraq's oil indicators justify the euphoria exuded by

Western media reports.

Indeed, the inflated growth data are only concealing the interactions between the country's resources and its unrelenting ethno-sectarian conflict and the deadly war this has unleashed.

Behind the façade of oil growth lie miserable conditions that show that Iraq's huge oil wealth is being used to perpetuate the fighting and sustain the conflict.

This is undeniably the case, as rival sectarian and political groups pursue endeavours to control oil revenues in order to produce conditions under which they can overrule the state.

Eleven years after the US-led invasion and with more than a trillion dollars in exports, illegal exploitation of resources and illicit trade in oil, Iraq still stands as one of the world's most obviously failed states.

It is for this reason that promoting statistics about oil revenues as indicators of prosperity in a country that is sinking in a sea of violence and corruption with a dysfunctional government has no merit.

These statistics are simply being used to justify the pillaging of Iraq.

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