The Economic Implications of the U.S. Withdrawal from Iraq

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The study of the economic impact generated by the U.S. withdrawal from Iraq is closely tied to the issues originating from the act itself—namely, the direct military presence based on the U.S. occupation of Iraq. This occupation was established through a United Nations Security Council resolution and a letter dated May 8, 2003, addressed to the Security Council President by the permanent representatives of the United States, the United Kingdom, and Northern Ireland (document S/2003/538). This letter acknowledged the powers, responsibilities, and obligations defined under international law, applied to the two occupying states operating under a unified command (the "Occupying Authority"), as described by the Security Council.

The Secretary-General was also requested to continue coordinating with the Occupying Authority to carry out the responsibilities entrusted to him under Security Council Resolutions 1472 (dated March 28, 2003) and 1476 (dated April 24, 2003) for six months following the adoption of this resolution. During this period, the Secretary-General was to terminate, as cost-effectively as possible, the ongoing operations of the Oil-for-Food Program and facilitate the transfer of responsibilities to the Iraqi government. These measures included depositing all revenues from Iraq's oil and gas exports into the Development Fund for Iraq and allocating 5% of those revenues to the Compensation Fund, as stipulated under Resolution 687 (1991).

According to these resolutions, the United States managed a total of $1.31 trillion between 2003 and 2022, as noted by former Iraqi Oil Minister **Issam Chalabi.**

Examining the economic implications of the U.S. withdrawal from Iraq can be approached by analyzing two measurable dimensions:

1.Management of Material and Financial Resources:

The U.S. has consistently relied on its capability to manage financial resources through direct or indirect investment. However, the latter approach is ineffective in Iraq's economic context. Foreign direct investment (FDI) would likely have an adverse effect, flowing out of Iraq and into the global

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economic system. These financial flows would also be tied to the political situation. For instance, when Iraq faced significant security threats, financial flows were directed toward neighboring geographic partners who collaborated with Iraq in combating ISIS. However, after the decline of security threats, those same security partners were classified as "terrorist organizations" and included in sanctions lists.

2. Ensuring Iraq's Integration into the Liberal System:

The goal is to expand and solidify Iraq's base of interests through partnerships, particularly economic ones. This has driven a movement toward strengthening partnerships with the United States and encouraging U.S. investments in Iraq, using a model similar to the Southeast Asian experience.

The two dimensions discussed earlier are intricately linked to the mechanisms employed by the U.S. to manage Iraq under occupation and implement its withdrawal strategy. These mechanisms take on a political aspect, as exemplified by the Strategic Framework Agreement signed in 2008. This agreement allowed the U.S. to maintain control over specific subsidiary policies related to the occupation strategy, including its declared presence at Al-Asad Airbase. Another dimension is the broader U.S. strategy of military presence across the Middle East. The U.S. maintains a force of approximately 40,000–60,000 personnel operating under the jurisdiction of the U.S. Central Command, whose area of responsibility includes Iraq. These forces are distributed across 21 countries in the region.

Following the "Al-Aqsa Flood" operation, the U.S. announced the deployment of two aircraft carriers, USS Gerald Ford and USS Eisenhower, along with their support ships, around 2,000 Marines, THAAD batteries, additional Patriot missile systems, and additional warplanes to reinforce squadrons already stationed at the Fifth Fleet's permanent base at Al Udeid Airbase in Qatar.

Analyzing the Impacts through the Two Dimensions:

1.Management of Financial and Monetary Resources

The analysis of this dimension aligns with the global division of labor theory, specifically the principle of comparative advantage. Iraq's role in the global economy is largely centered on the export of energy resources—oil and gas. This dimension highlights two primary investment partners in these fields: the state and the private sector, facilitated through investment licenses.

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However, informal trade, which became prominent during ISIS's control over parts of Iraqi territory, remains active even after ISIS's defeat. Iraqi authorities periodically announce arrests of smugglers, yet the U.S. considers these informal channels crucial for sustaining the activities of terrorist organizations. These organizations pose a threat to stability and act as a parallel authority that pressures Iraq's official governance structures.

2.Ensuring Iraq's Integration into the Liberal System

This dimension underscores the U.S. insistence on managing Iraq's financial wealth without national oversight. This aligns with a broader U.S. strategy of integrating Iraq into the liberal system. The U.S. has successfully cultivated a wide political base, leveraging sectarian polarization and economic partnerships with neighboring countries.

A U.S. withdrawal, however, would empower the Iraqi government to exercise greater control over its financial resources. Such control would restrict the rapid growth of the capitalist class that has expanded due to weak governmental oversight over Iraq's material and financial revenues. This, in turn, creates a gap that hinders Iraq's integration into the liberal system, which remains a central objective for the U.S.

3.Foreign Liquidity and Dollar Flows

As noted earlier, the U.S. continues to protect the petrodollar system derived from Iraq's oil exports. Iraq is obligated under the Paris Club agreements. In 2004, Iraq successfully had $100 billion of its sovereign debt written off through the Paris Club agreement, addressing debt owed to 65 countries —19 within the Paris Club and 46 outside it.

At the same time, Iraq's domestic and foreign debts amounted to $113 billion, including $40 billion in unresolved debt from the 1980s and 1990s. Additional debt has accumulated due to the war against ISIS and development projects funded by global financial institutions, with $23 billion payable. The Iraqi government also owes $50 billion in domestic debt and $40 billion in unresolved debt to eight countries, including Iran, Saudi Arabia, Qatar, the UAE, and Kuwait. These nations have yet to write off their debts despite being part of the Paris Club. Moreover, $23 billion is owed to development funds, making Iraq's engagement with the Paris Club less of an option and more of an obligation. Renegotiating these terms remains critical.

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To reduce reliance on borrowing, Iraq needs to pursue a new economic strategy. This involves transitioning companies and institutions to self-financing models, wherein each entity assumes responsibility for employee salaries. Over a 3–5-year developmental plan, most state institutions should gradually transition to self-financing, with administrative and technical reforms enabling them to become productive rather than consuming state resources.

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