

# The ABC Agreement from Iraq's perspective\*

By Barik Schuber

## Introduction

Economic cooperation aimed at gradual integration between Iraq and other Arab countries is highly desirable from Iraq's perspective. In 2021, the leaders of Iraq, Egypt, and Jordan held their fourth [summit](#) in Bagdad to further the new endeavor for economic cooperation and integration, the ABC Agreement.

This section of the report evaluates the new initiative from the perspective of Iraq, examining: 1) the socioeconomic and political conditions in the three countries for initiating a successful and sustainable economic-integration process, 2) the distinctive features of the new initiative between the three countries compared to experiments that have failed during the past six decades, and 3) whether this effort will create a win-win situation for the three countries or win-lose situations for any of the parties.

## Historical background and lessons learned

Attempts at Arab economic integration since 1958 have not delivered on government promises to boost economic prosperity.

The first attempt was the Hashemite Federation between Iraq and Jordan, which was initiated in 1958, as a reaction to the pan-Arab state project that was started by Egypt and Syria at same time. A military coup in Iraq five months later aborted this initial attempt, and a second experiment was ended by a similar military coup in Syria in 1961.

There were many fruitless attempts by pan-Arab Iraqi governments during the 1963-1979 period to revive the failed attempt at uniting Arab countries. Then in 1979 the ruling Baath Parties in both Iraq and Syria tried to establish an economic and political union between those two countries, which ended in a massacre inside the Iraqi Baath Party and propelled Saddam Hussein to power as an absolute autocrat.

Another ill-fated union was launched in 1989 between Iraq, Jordan, Egypt, and Yemen; it ended with Saddam Hussain's invasion of Kuwait in 1990.

Even Arab League initiatives for partial economic integration in certain sectors via the creation of joint Arab companies and institutions have mostly failed to achieve any progress amid the political tensions and instability in the region.

The only exception is the Gulf Cooperation Council (GCC), which was created in 1981. In terms of economic integration, however, the GCC has achieved little. It took the GCC twenty-two years to implement a [customs union agreement](#), where a common external tariff of 5 percent was levied on all foreign imports starting in 2003. Recently, Saudi Arabia has diverged from this agreement by amending its



import [rules](#) from the Gulf. Moreover, political differences between Saudi Arabia, the United Arab Emirates (UAE), and Qatar as well as competing economic interests between Saudi Arabia and the UAE are hindering effective economic integration.

In conclusion, past initiatives and projects for economic integration in the Arab World have failed due to competing economic interests of the ruling classes and political instability such as regime changes. In addition, the private sector in most Arab countries—particularly entrepreneurs who should be the leading force for economic integration—are relatively nascent and weak. In Iraq, the private sector is largely dependent on public expenditure, as is the case in most other rentier economies.

However, the new ABC Agreement cannot be rejected as doomed to fail a priori since present socioeconomic and political conditions in the three countries and in the region are clearly different from the past.

On the national level, all three governments are facing increasing economic and social pressures to improve the living standards of the population. On the regional and international level, globalization and changing geopolitical interests of the former colonial powers—the United States, United Kingdom, and France—and the formation of new political blocs and alliances in the region are changing paradigms.

### **Iraq's existing regional trade and economic agreements**

Since the 1970s, Iraq has concluded at least twenty-one bilateral trade and economic agreements with Arab states, in addition to some multilateral arrangements within the framework of the Arab League's Council of Arab Economic Unity.<sup>4</sup> Iraq also has trade and economic agreements with Iran and Turkey.

The existing bilateral agreements between Iraq and both countries raise the question of whether the new ABC Agreement is a bundling of past bilateral agreements or something completely new to achieve economic integration of the three economies.

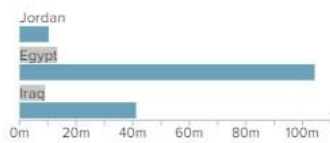
The ABC Agreement should upgrade and further develop existing bilateral agreements by adapting innovative approaches for economic cooperation via joint investment projects, harmonizing technical standards, facilitating knowledge transfer as well as research and development, and promoting solutions to tackle environmental and climate change challenges such as water and food security.

### **Structure and reform needs of the Iraqi economy**

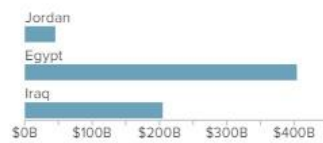
Iraq's gross domestic product (GDP) per capita in 2021 amounted to \$4,973, compared with \$3,876 in Egypt and \$4,394 in Jordan. Iraq's economic structure differs considerably from both countries due to heavy dependence on crude oil exports.

### Economic indicators for Jordan, Egypt, and Iraq

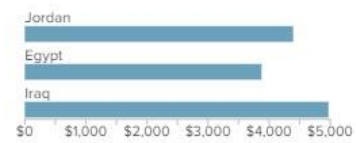
Population in millions (2021)



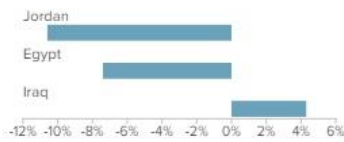
GDP in USD billions (2021)



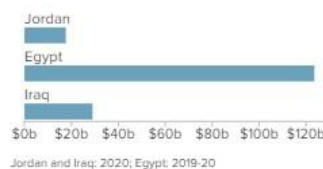
GDP per capita in USD (2021)



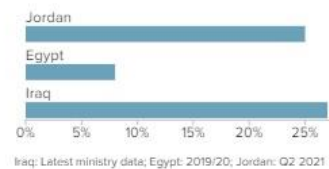
Fiscal balance as a percentage of GDP (2021)



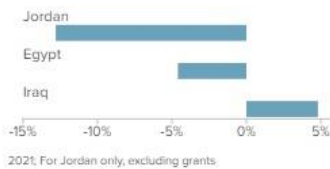
External debt in US billion



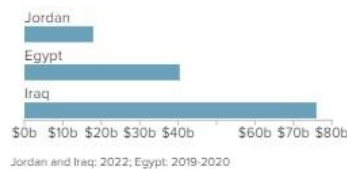
Unemployment rate



Current account balance as a percentage of GDP



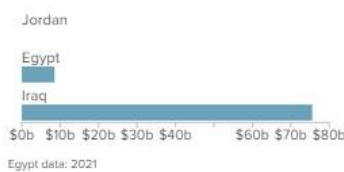
Gross international reserves in USD billions



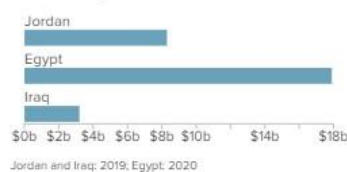
Oil production in million barrels per day (mbd)



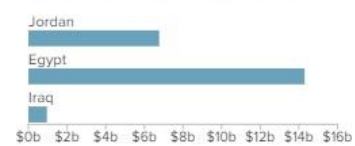
Oil & Gas exports in USD billions



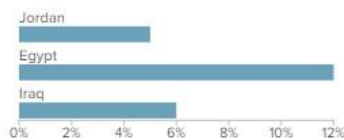
Non-oil exports in USD billions



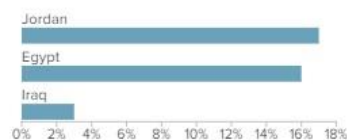
Tourism revenues in USD billions



Agriculture sector share in GDP (2020)



Manufacturing sector share in GDP (2020)



Relatively high oil revenues, albeit subject to frequent fluctuation, have converted the Iraqi economy into an attractive export market for its trade partners despite its inflated public-sector budget and widespread corruption in most state institutions. However, the economy has become less buoyant and subject to frequent external shocks.

In 2019 and 2020, the [oil sector](#) accounted for 59.1 percent and 61.4 percent of Iraq's [GDP](#), respectively, and the rest of the economy is dominated by sectors producing nontradable goods (services, real estate, etc.). In 2020, the share of agriculture in Iraq's GDP amounted to 6 percent, and manufacturing amounted to only 3 percent. In other words, Iraq's non-oil exports are practically negligible.

Aside from suffering macroeconomic mismanagement and corruption for nearly two decades, the Iraqi economy faces significant problems related to unemployment as well as weak infrastructure and public services, which have all contributed to causing political instability and civil unrest. At present, the unemployment rate is [estimated](#) at about 27 percent and the poverty rate around 25 percent.



Hence, Iraq urgently needs restructuring and diversification of its economy away from oil rent. One major step should be expanding the domestic oil and gas industries to meet local demand for energy sources. Iraq has been importing petroleum products since 2004, costing around \$5 billion per year in some previous years between 2006 and 2014. At present, the cost for Iraq's energy imports [totals](#) \$2 billion, according to Minister of Oil Ihsan Abdul Jabbar.

Further parallel steps should focus on generating new jobs for the millions of unemployed Iraqis, mainly youth. Heavy investment in infrastructure and productive sectors is urgently needed along with effective measures to eliminate the prevailing corruption.

In 2020, the Iraqi government [developed](#) a reform agenda.<sup>5</sup> This echoes initiatives from previous governments as well as many initiatives from independent Iraqi economists like a [symposium](#) organized by the Iraqi Economists Network in 2013 in Beirut.

To implement a reform agenda, Iraq needs international support as well as tangible contributions from the ABC Agreement partners in all sectors of the economy. True reform would entail eliminating the existing structures of corruption and preventing the emergence of new forms of corruption in connection with implementing joint projects such as industrial cities.

## **Assessment of the main areas of cooperation in the ABC Agreement**

### ***Trade gains***

Iraq's import market is relatively large in the region due to high oil revenues in most years since 2004 and limited local production capacity. Iraqi merchandise and service [imports](#) were around \$72 billion in 2019. The main [exporters](#) to Iraq in 2019 were China, Iran, South Korea, and Turkey.

At present, Egypt and Jordan are net exporters to Iraq in terms of goods and services. Egypt's exports to Iraq [amounted](#) to \$202 million, while its imports from Iraq were only \$5.8 million in 2019. The Egyptian government aims to [expand](#) Egypt's exports to Iraq to around \$6 billion. Iraq's [imports](#) from Jordan in 2020 amounted to \$478 million, while its exports to Jordan were only \$4.4 million.

An expansion of trade through the ABC Agreement may increase exports from Egypt and Jordan to Iraq rather than from Iraq to Jordan and Egypt, since Iraq has very little products to export to both countries, except crude oil which Iraq can offer to both countries at an advantageous cost. However, a trade deficit may be beneficial in the short term to avoid shortages of goods and services, and it may be corrected over time as Egyptian and Jordanian companies expand operations and production in Iraq. Moreover, a larger free trading zone could also attract more international capital to invest in production in these markets.

### ***Investment movement and prospects of project financing***



Between the three countries there is no barrier for movement of investment. Indeed, Iraq's private-sector investments have been flocking into Jordan since the beginning of the 1990s. The total accumulated value of these [investments](#) is estimated at \$18 billion in four main sectors: manufacturing, real estate, hospitals, and banking.

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Apart from pan-Arab companies, there seems to be no Egyptian or Jordanian direct investment in Iraq due to political instability, including Iraq's war with Iran between 1980 and 1988, followed by its 1990 invasion of Kuwait, and then the international embargo on Iraq from 1990 to 2003.

There has been some skepticism regarding whether the business environment and political situation in Iraq could be conducive to foreign investments, including from Egypt and Jordan, according to Iraqi businessmen interviewed by the author.<sup>6</sup> However, a more palatable alternative could be for the three countries to establish a venture capital investment fund for joint projects in Iraq.

Innovative approaches are needed for financing infrastructure projects in Iraq, as the likelihood of public financing by the Egyptian and or the Jordanian government is not promising, due to the high public [debt](#) in both countries.

Some have suggested financing infrastructure projects in Iraq through funding from Saudi Arabia and other Arab Gulf countries, pointing to the announcement from [Saudi Arabia](#) and the [UAE](#) that they would allocate billions for investment in Iraq. However, this route would entail Gulf countries giving priority to their own national companies to execute projects in Iraq rather than Egyptian or Jordanian companies.

Egypt and Iraq could create a win-win situation through an [oil-for-reconstruction deal](#) similar to Iraq's arrangement with China. Arab financial institutions like the Islamic Bank, Arab Gulf country development funds, the World Bank, and European development banks can also be asked to fund strategic projects that benefit all three countries.

### ***Oil pipeline from Basra to Aqaba and oil processing industry***

An [oil pipeline](#) running from Basra in Iraq to Aqaba in Jordan was agreed to in bilateral accords in 2013 and 2019, but it is still in the planning and negotiation stage. There also is talk about a possible extension of the pipeline to Egypt's Mediterranean coast. However, the project has been criticized for its [high costs](#), and for its inability to get Iraq's crude exports efficiently to its main export destination: Asian markets. Similarly, the new outlet in Aqaba would not effectively minimize the risk of a possible blockade of the Strait of Hormuz. A less costly alternative outlet could be the activation of the old pipeline to Banias on the Syrian Mediterranean coast, and/or the



construction of a second pipeline from Haditha to Cihan in Turkey, bypassing the Kurdistan region.

Despite all this criticism, the project may be a win-win situation benefiting the Iraqi economy through the integration of the oil downstream and oil processing facilities in all three countries. In addition, the three countries could consider creating joint investment funds for the rehabilitation and expansion of existing refineries and petrochemical projects as well as launching new initiatives for water desalination in all three countries to meet their increasing local demand for energy and clean water.

### ***Connection of national power grids***

The ABC Agreement countries are giving high priority to the connection of national power grids, which makes sense due to the electricity crisis in Iraq. Iraqis frequently suffer [power cuts](#), especially during the hot summers.

However, connecting the grids will not lead automatically to the integration of the power sectors of the participating countries. Harmonizing the sector's structure and the countries' energy policy is a prerequisite for any economic integration. To achieve this, Iraq needs power-sector reforms.

Iraq is presently in dire need for tangible measures to mitigate the long-lasting electricity crisis in the country. The shortage is [estimated](#) to be between 10,000 and 15,000 gigawatts in the summer. Iraq therefore [imports](#) from Iran some 1,200 megawatts (MW) of electricity, as well as some 75 million cubic feet of [natural gas](#), according to the Iraqi minister of oil. However, the actual supply is far less than what is needed or has been sought due to a financial dispute between the two parties.

In the medium- and long-term, Iraq cannot remain dependent on electricity imports from neighboring countries. Economic integration should not mean linking producers with consumers; instead, Iraq should end bottlenecks in the power sector and produce seasonal surplus to be exported to partner countries. Likewise, Egypt and Jordan could export excess capacity to Iraq during peak load in the summer. Cooperation in this field may be a win-win situation for Iraq, Egypt, and Jordan.

### ***Population and labor force movement***

The large combined population of the three countries, at about 150 million people, is viewed as a major strength of the new initiative because this sizable consumer market could provide good export opportunities for all the partners. This is true in the case of the effective demand in all three countries, particularly in Egypt, with its population of one hundred million.

Egypt and Jordan currently have a surplus labor force working abroad, mainly in Arab Gulf countries. Iraqis are [concerned](#) about plans for two million Egyptian workers to come to Iraq, as happened during the Iraq-Iran war in the 1980s. Egypt and Jordan have agreed upon a cheap bus line from Cairo to Amman and on to Baghdad for the transport of Egyptian and Jordanian workers, who are supposed to work in the envisaged infrastructure projects in Iraq.



As mentioned earlier, the latest available [data](#) from the Ministry of Planning for the year 2021 indicate an overall unemployment rate of 27%. However, some Iraqi economists estimate that the current rate is much higher due to the coronavirus pandemic. Given this situation and the potential free movement of labor among the three countries, an [inflow](#) of Egyptian workers accepting lower wages than Iraqis could put pressure on the wage levels of Iraqi workers, as was the case during the Iran-Iraq War (1981-1988), when some millions of Egyptians worked in Iraq.

### ***Joint industrial city on the Iraqi-Jordanian border***

Establishing a joint industrial city as a free trade zone on the Iraqi-Jordanian border was agreed upon in 2019, as a key element of the ABC Agreement.

In 2021, the Egyptian and Iraqi ministers of industry signed an [agreement](#) to build joint economic and industrial cities for manufacturing textiles, leather, pharmaceuticals, and agricultural pesticides. The locations of the Iraqi-Egyptian cities have not been defined yet. This is important for assessing the employment effects of each city, particularly in case it is located on the border far away from urban centers, in which case the effect would be fairly limited in terms of employing jobless Iraqi workers. Still, under certain conditions, this mode of cooperation can bring about a win-win situation.

Indeed, there is no information about the preliminary list of locations, which could lead to better understanding of whether the entities to be involved would include existing state-owned enterprises, private-sector companies from the three countries, and/or foreign direct investors from other countries. However, the project is intended to attract private investors from Egypt, Jordan, and Iraq to the zone by removing complicated bureaucratic procedures and including some incentives like tax exemptions. This makes sense for [establishing](#) complementary industries with backward and forward linkages.

Questions that need to be clarified include whether investors will be encouraged to create joint ventures or establish their own businesses, and whether producers will be allowed to export their products to the markets of all three countries, without levying customs duties.

### ***Agriculture***

Iraq's agriculture sector has suffered from structural problems for decades, but it has huge potential for sustainable and relatively quick growth rates. Therefore, Iraq's development strategy should give high priority to upgrading this sector to enhance food security.

Cooperation with Egypt and Jordan on agriculture is highly desirable as both countries have vast experience with modern agricultural technologies and modern irrigation schemes that take into account water scarcity. One possible area of cooperation is establishing large-scale joint ventures in Iraq's agriculture sector with venture capital and financing from Iraq's public banking sector. A win-win situation is very likely in this field of cooperation.



### **Tourism sector**

Strangely, Iraq's many bilateral cooperation agreements with Egypt and Jordan, respectively, have not focused on the tourism sector, and neither does the new ABC Agreement. Iraq would benefit from cooperation with Egypt and Jordan, since both countries has extensive experience in the tourism industry, including business and operational management of large-scale tourism projects. In 2019, Egypt's [tourism](#) sector contributed 5 percent to its GNP while [Jordan's](#) contributed 15 percent. Tourism in Iraq, however, only [contributes](#) \$955 million compared to the country's GDP of \$207.89 billion.

In the aftermath of Pope Francis's 2021 visit to the birthplace of Abraham near the ancient city of Ur in what is now southern Iraq, the potential to attract a new type of religious tourism, combined with visiting historical and archaeological sites as well as the exotic marshlands in southern Iraq, has improved considerably. Some thirteen thousand [pilgrims](#) were expected to visit the site in 2021, according to an Iraqi official. Therefore, the Iraqi government is planning to build a new airport near that ancient city. Investments in modern infrastructure for tourism and management know-how are needed to develop this sector, which can contribute to the diversification of the economy. Therefore, the Iraqi government should make tourism a key area of cooperation via the ABC Agreement and attract Egyptian and Jordanian private investors to initiate joint projects with the Iraqi private sector in promising areas such as the Marshlands and the archaeological sites near the ancient city of Babylon and Uruk. A win-win situation is very likely in this field of cooperation.

### **Conclusion and recommendations**

Iraq is divided on the future vision of its economic structure. The ruling class and its clients prefer the status quo of the rentier economy based on increasing crude oil exports and revenues, which also leads to corruption and a clientele economy.

Iraq's oil minister declared recently that oil production will be [increased](#) from the current production level of approximately 4.5 million barrels per day to 8 million barrels per day by 2027.

In contrast, Iraqi economists and some reform groups inside and outside government institutions have been advocating for the diversification of the economy as an important remedy for the recurrent economic shocks that Iraq has been subject to in reaction to oil price volatility. More than seventy [documents](#) on macroeconomic and sectoral development strategies have been published over the last sixteen years, but very few have been implemented. The recently announced [white paper](#) by the Iraqi government provides a possible road map for initial economic reform measures needed in the near future.

Given Iraq's poor track record with economic reforms, as well as the numerous past agreements among Iraq, Egypt, and Jordan that have not reached significant results, the ABC Agreement is unlikely to mark a turning point unless there is serious and concerted implementation effort. One possible spoiler is Iraq's political instability. Iraq held elections in 2021, but political [disputes](#) within the ruling class continue as the losing parties refuse to accept the result and escalate their protests against the



winners. Even if the competing factions reach a compromise, it is not clear how the new government in Iraq will view or act upon the ABC Agreement.

Despite these challenges, economic cooperation and integration between Iraq, Egypt, and Jordan should not be abandoned. The ABC Agreement should be developed carefully to ensure a win-win formula for all involved partners. It should also offer the opportunity for new members to join, such as Syria and Lebanon, to help address the economic crises in both countries. International experience has shown that economic integration can follow a challenge pathway and may require a detailed and well-structured implementation road map.

As a first step, the three countries could consider initiating one or two joint-pilot projects in target industries, to explore the potential for economic integration in these sectors. The most important candidate from the Iraqi point of view is the oil and gas industries in all three countries, and then the agriculture and the tourism sectors.

Exploring joint activities in the oil and gas sector in all three countries, such as gas processing, oil refining, and petrochemical production, could benefit Iraq particularly given Iraq's limited refinery and processing capacity and resources. Iraq's main role would be the provision of crude oil at discounted prices. Establishing a customs union would allow free trade flows of oil and petrochemical products between the three countries and enhance exports to the world market. Furthermore, creating a joint investment fund for private-sector investments and establishing a high commission to manage the new partnership would both be prudent moves.

After several years of successfully implementing and assessing these initial steps, further unions in other fields of the economy could be initiated.

### **About the author**

**Barik Schuber** holds a master's degree and PhD in economics, sociology, and political science from the Universities of Frankfurt/Main and Marburg/Lahn in Germany. He specializes in macroeconomic management and development planning as well as sector analysis and project management. He worked for seven years as a research fellow at the Department of Social Sciences at Philipps University of Marburg. From 1980 to 1985 he was engaged in private-sector trading and consulting activities. In 1985 he joined the German Agency for International Co-operation (GIZ, formerly GTZ) and was seconded to the Ministry of Planning in Saudi Arabia as economic adviser to the deputy minister. He was responsible for advising him in the preparation and follow-up of the Five Years National Development Plans. In 1996 he started a new position as project planning and management officer at the Department of Energy and Transport in the headquarters of GIZ in Eschborn, Germany, where he was responsible for planning and management of energy efficiency and renewable projects in various developing countries. In 2004 he was appointed acting head of the Department of Economic and Social Studies at the Emirates Center for Strategic Studies and Research in Abu Dhabi. In 2005 he was engaged in supporting private-sector organizations and served as secretary-general of the Iraqi Business Council in Abu Dhabi. During 2006 and 2007 he worked as an international expert for a European Union-funded project in Egypt, with responsibility

for planning, implementing, and coordinating a study on the macroeconomic framework for reforming the national technical and vocational education and training system. Since 2007 he has been working as a consultant on international development cooperation in the Middle East and North Africa region, particularly with Iraq. He is founder and coordinator of the Iraqi Economists Network, a nongovernmental organization.

(\*) This paper is part of a larger report as output of a research project designed and managed by the Atlantic Council. The whole report “Amman-Baghdad-Cairo (ABC) Agreement: A new path for economic integration” contains two other parts written from the perspectives of Egypt and Jordan and was published on September 26, 2002 by the Atlantic Council.

[Amman-Baghdad-Cairo \(ABC\) Agreement: A new path for economic integration - Atlantic Council](#)