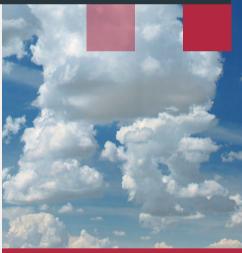


# IRAN'S ECONOMIC INFILTRATION ON IRAQ

Yasir Rashid





Perspective November 2021



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### Iran's Economic Infiltration on Iraq

İran'ın Irak'taki Ekonomik Nüfuzu

نفوذ اقتصادى ايران درعراق

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Yasir Rashid took his BA degree in International Relations at Akhmet Yassawi International Kazakh-Turkish University in 2019. During his undergraduate years in Kazakhstan, Yasir collaborated actively with the Consulate General of Afghanistan in Almaty, the UN Office of Public Information, and UNFPA CO in Kazakhstan. On extra curriculum activities, he worked closely with Kazakhstani youth as a Focal Point in-Charge of Y-PEER Kazakhstan on Youth Leadership, Sustainable Development Goals (SDGs), Climate Changes, and Environmental Issues. Yasir Rashid graduated with MA in "International Political Economy" at Marmara University in 2021, with a thesis titled "China-US Rivalry and Its Implications on Major Ports and Other Infrastructure Projects in South Asia: A Political Economy Approach". Besides Persian, he is fluent in English, Russian, Turkish, and Kazakh.



Perspective

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#### Abbreviations

**IRGC**: Islamic Revolutionary Guard Corps

**KAA** : Khatam-al Anbiya Construction Headquarters

PMU : Popular Mobilization Units
TPAO : Turkish Petroleum Corporation



#### **SUMMARY**

- After the fall of the Ba'athist regime in 2003, Iraq is of particular importance to Iran not only in the field of political and security but also in the economic sphere.
- In addition to formal trade and economic exchanges, Iran has extensive influence in the Iraqi economy through its affiliated groups in Iraq.
- While Iran's share of the Iraqi market in 2020 was roughly 19% in the formal trade and economic exchanges, the IRGC is actively involved in huge projects worth hundreds of millions of dollars in the reconstruction and renovation of Shiite shrines in Karbala, Najaf, Samarra and Kadhimiya.
- Studies show that Iran is competing economically with other countries in the Iraqi market.

Keywords: Iraqi Economy, Iran, IRGC, Iranian-Backed Shiite Militants

#### ÖZET

- 2003 yılında Baas rejiminin devrilmesinin ardından Irak, İran için sadece siyaset ve güvenlik alanında değil aynı zamanda ekonomi alanında da özel bir konuma yükselmiştir.
- Ticari ve ekonomik ilişkilerin yanı sıra İran, Irak'ta desteklediği milis gruplar aracılığıyla Irak ekonomisinde kapsamlı bir etki alanına sahiptır.
- Her ne kadar resmî istatistiklere göre İran'ın Irak pazarındaki payı 2020 yılında %19 olarak açıklansa da Devrim Muhafızları Ordusu (DMO); Kerbela, Necef, Samarra ve Kazımiye'deki Şii mabetlerinin yeniden inşasını ve onarımını içeren milyon dolarlık projelerde aktif bir şekilde rol almaktadır.
- Araştırmalar, İran'ın Irak pazarında diğer ülkelerle ekonomik olarak rekabet ettiğini göstermektedir.

Anahtar Kelimeler: Irak Ekonomisi, İran, DMO, İran Destekli Şii Militanlar

# چکیده

- پس از سقوط رژیم بعث عراق در سال ۲۰۰۳، عراق از نظر جمهوری اسلامی ایران نه تنها در زمینه های سیاسی و امنیتی، بلکه در حوزه اقتصادی نیز اهمیت ویژه ای پیدا کرده است.
- علاوه بر مبادلات تجاری و اقتصادی رسمی، ایران نفوذ گسترده ای در اقتصاد عراق از طریق شبه نظامیان وابسته به سیاه پاسدار آن در آن کشور دارد.
- اگرچه سهم ایران از بازار عراق در سال ۲۰۲۰، حدود ۱۹ درصد مبادلات تجاری و اقتصادی رسمی بود، با این حال، سپاه پاسداران به طور فعال در پروژه های میلیون دلاری بازسازی و توسعه زیارتگاه های شیعه در کربلا، نجف، سامرا و کاظمیه حضور دارد.
  - بررسی ها نشان می دهد که ایران در حوزه اقتصادی در حال رقابت با سایر کشور ها در بازار عراق است. کلیدواژه ها: اقتصاد عراق، ایران، سیاه پاسداران، شبه نظامیان شیعه مورد حمایت ایران



#### 1. Introduction

With the US invasion in 2003, the fall of Saddam Hussein, and the rise of Shiites in Iraq, Iran's relations with Iraq have expanded in various areas, making Iraq one of Iran's most important political, economic, and cultural neighbors. Currently, Iraq is significant to Iran not only in the political-security field but also in terms of economic.

Iran's economic activities and influence in Iraq are not limited to trade between the two countries, but it also includes other domains that mainly operate through the proxies and other groups Iran supports in Iraq. The economic influence of Iranian-backed groups is so deep and worrying that the influence attracted a lot of attention. For example, in the December 2020 issue of Foreign Policy, a length analysis was devoted to the topic. According to the analysis, if instability in Iraq deepens, the Iran-backed groups would take full control of revenue sources such as oil fields, ports, border crossings, large businesses, agricultural land, and private property (Foreign Policy, 2020).

# 2. Economic Exchanges Between Iran and Iraq

As one of Iran's western neighbors, Iraq has played a vital role in Iran's non-oil exports, especially during the sanctioned period. According to data by the Iranian Commercial Attaché in Baghdad, there are about 110 Iranian companies active in various fields of export and import, production, construction, energy, etc. (Iraq.tpo.ir, 2019). But Iran's largest share of the Iraqi market is related to exports of non-oil goods, electricity, and gas. According to statistics released by official Iranian sites, Iraq in 2019, with about US\$ 9 billion, was the second-largest destination for Iranian non-oil exports after China (Figure 1), and Iran's share of the Iraqi market last year was close to 19 percent (Navad Eghtesadi, 2020). Statistics show that most of Iran's non-oil exports to Iraq in March-December 2020 were in the category of; food, construction materials, hardware and steel, home appliances, detergents, fruits and vegetables (Donya-e Egtesad, 2020a). The annual electricity bill is about US\$ 2 billion (BBC Persian, 2019). However, Iran is working to increase the value of trade relations between the two countries to US\$ 20 billion.

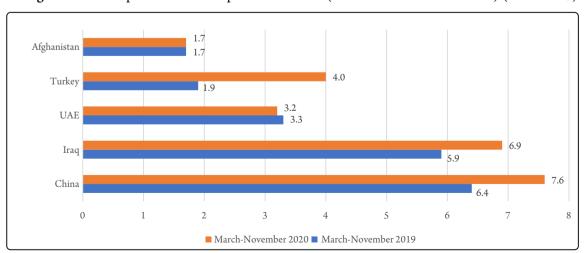


Figure 1: Iran's Top Five Non-Oil Export Destinations (March-November 2019-2020) (Billion US\$)

Source: TCCIM, 2020

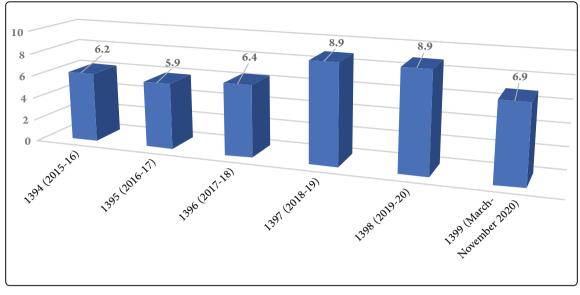


Figure 2: Iran's Non-Oil Exports to Iraq (2015-2020) (Billion US\$)

Source: Navad-e Eghtesadi, 2020; Eghtesad Online, 2020; TCCIM, 2020

In addition to these items, tourism is also an important activity. According to official statistics, roughly 4 million tourists, mostly for religious and health-related, travel between the two countries annually (Donya-e Eqtesad, 2020b).

The issue of gas and electricity exports is one of the sensitive issues of trade-economic relations between the two countries, which sometimes leads to tensions between Tehran and Baghdad due to the increase in seasonal demand in Iran and Iraq's financial debts. Although the exact amount of Iraq's debt to Iran is not known, some Iranian officials put the figure at about US\$ 5 billion (Donya-e Eqtesad, 2020c). However, some sources, such as Etemad Online, estimate that this amount is around US\$ 2 billion (Etemad Online, 2020).

Table 1: Iran's Blocked Money in Different Countries

Countries	Assets (Billion US\$)
China	20
India	7
Luxembourg (Germany)	6.1
South Korea	5.8
Iraq	2
Japan	1.5
UAE	1
Great Britain	0.5

Source: Etemad Online and BBC Persian



# 3. Influence of the IRGC and Shiite Militias on the Iraqi Economy

Iran has extensive influence in various areas of the Iraqi economy through the IRGC and affiliated militias. The economic activities of the IRGC are usually carried out through its economic wing, the KAA. KAA has extensive activities in the fields of construction, energy, imports, and exports in Iran, as well as in Iraq, Syria, and Lebanon.

This breadth has left the number and names of companies affiliated with the IRGC in Iraq unknown. However, the US Treasury Department's list of sanctions, as well as investigations conducted by Reuters, show that the IRGC's economic activities in Iraq are largely driven by reconstruction and repair of Shiite shrines in Karbala Najaf, Samarra, and Kadhimiya. In March 2020, the US Treasury Department sanctioned 20 individuals and entities associated with the IRGC, including the Kowsar Foundation (US Treasury Department, 2020). The Kowsar Foundation is affiliated with the Reconstruction Headquarters of the Holy Shrines (Atabat Aaliyat Reconstruction Headquarters) in Iraq. The US Treasury Department has said that the IRGC, through the Kowsar Foundation and under the auspices of the Religious Places Development Project in Iraq, is exporting weapons to Iraq and Syria and equipping its paramilitary forces. In early December 2020, Reuters unveiled a special report on Iran's US\$ 600 million investments carried out by the same foundation in the expansion at the Imam Hussein shrine (Reuters, 2020). According to Reuters, such an amount of investment in religious sites has been unprecedented in the last 300 years. In addition, the Kowsar Foundation continued to award a contract worth about US\$ 650 million in 2015

for the Sahn al-Aqila Zeinab courtyard project in Karbala, and it has invested and implemented US\$ 500 million in the reconstruction and development of Imam Ali Shrine in Najaf. The Reuters report also indicates that the foundation is carrying out at least 17 other projects in key Shiite shrines in Najaf, Karbala, Baghdad, and Samarra, valued at hundreds of millions of dollars (Reuters, 2020).

The US government has also cited the smuggling of arms and goods through the Iraqi port of Umm Qasr, money laundering, and intimidating Iraqi politicians as reasons for imposing sanctions on IRGC-affiliated organizations and individuals in Iraq (US Treasury Department, 2020). In this regard, some researchers determine that the control of border and customs points, ports, wharves, and international airports are almost all in the hands of pro-Iranian armed groups, which generate annual financial revenues of about US\$ 5 billion for these groups. Moreover, the city of Basra on the Iranian border is the main center of Iranian-backed groups. However, these groups play an active role in other strategic cities, such as Mosul and Kirkuk, and almost all the infrastructure and economic projects in these cities are under the control of these groups.

Also, reports from inside Iraq indicate that Iran has tried in recent years to obtain the currency (US\$) it needs through Iraq (Akhbar Alaan, 2020). In other words, Iran has used its influence in Iraq to circumvent US sanctions and provide the dollars it needs through that country. According to reports, this was done through import fraud with fake invoices or invoices with overstated numbers. For example, in 2017, the import of Iraqi watermelon from Iran was estimated at US\$2.8 billion, which is equivalent to five times the total budget of the Iraqi Ministry of Agriculture in the same year. This means that every Iraqi (except for locally produced water-



melon) must have eaten ten Iranian watermelons a day during the watermelon season in order to consume this amount of watermelon (Alhurra, 2019). Similarly, Akhbar Alaan claims in a report that the banks known as Islamic banks, whose board members are members of parties and individuals affiliated with pro-Iranian militias, are one of the most prominent parties in smuggling Iraqi currency to Iran (Akhbar Alaan, 2020). Furthermore, Ahmed Chalabi, the then head of the Finance Committee of the Iraqi Parliament in 2015, had stated in a television program that in the last six years (2009-2015), about US\$ 200 billion of Iraqi money has been lost (Eatar Alwird, 2019). Mr. Chalabi died mysteriously after uttering these words.

In addition, Ahmad Shawqi, an Iraqi political analyst, accused Iranian-backed groups of acts such as extortion and smuggling of goods. Shawqi stated that "IRGC-affiliated militias (e.g., Harakat Hezbollah al-Nujaba, Kata'ib Hezbollah, Badr Organization and Asa'ib Ahl al-Haq) have smuggled goods, drugs and weapons into the country from Iran to keep the Iranian economy afloat" (Diyaruna, 2020). Iranian-backed armed groups are also reportedly accused of smuggling goods such as drugs, antiques, oil, and natural resources. Since there is no reliable information about these allegations, it is impossible to confirm or deny them. Given those claims, the profits from the smuggling of these goods go directly and indirectly to Iran. Regarding extortion from the people, it is

noteworthy to mention that findings based on local sources indicate that the checkpoints of the PMU, apart from government taxes, receive money from trucks-transit illegally and under various pretexts (for passage fees). Moreover, the extortion from people in Sunni areas is more than in Shiite areas of Iraq.

Iran also has significant benefits from the purchase of weapons by its affiliated forces in Iraq. The PMU (known as Hash al-Sha'abi) forces receive a separate budget from the Iraqi government to buy the weapons it needs, and it buys the weapons itself. The weapons used by the PMU are purchased from Iran at three times the price and delivered to this group instead of being purchased from the main source (Russian military companies, e.g.). Although the true value of these transactions is not known, our estimates are that the profits from these transactions reach millions of dollars.

Tax exemption is the other avenue benefiting Iran, particularly IRGC affiliated companies. These companies take advantage of the tax exemptions provided by the Iraqi government for the reconstruction of religious sites and the development of shrines. For example, Iran is virtually exempt from paying taxes for the transfer of its cement and steel to Iraq. Reuters' December report indicates that the IRGC were importing cement and steel into Iraq without paying taxes in the name of materials needed to develop the shrine of Imam Hussein and other religious sites, but through intermediaries, part of

Table 2: Iran-Backed Militia Groups in Iraq

Name	Utility for Iran
Asaib Ahl al-Haq	Strategic Ally
Badr Organization	Strategic and Ideological Ally
Harakat Hezbollah al-Nujba	Proxy
Kataib Hezbollah	Strategic and Ideological Ally

Source: IISS, 2019



**Table 3:** Organizational Structure of the IRGC

Ali Khamenei	Supreme Leader (Commander-in-Chief of the Iranian Armed Forces)
Hossein Salami	IRGC's Commander in Chief
Ismail Qaani	Commander of Quds Forces
Amir Ali Hajizadeh	Commander of Aerospace Forces
Mohammad Pakpour	Commander of Ground Forces
Alireza Tangsiri	Commander of Navy Forces
Mohammad Kazemi	Head of Counterintelligence
Gholamreza Soleimani	Commander of Basij Forces
Fathollah Jomeiri	Commander of Security (also known as the Close Protection Unit)
Hossein Taeb	Head of Intelligence Organization

Source: Media Sources / Open Sources

Note: The Iranian IRGC is said to have roughly 125,000 troops, including ground, aerospace, and naval forces.

the cement and steel are sold in other parts of Iraq at a higher price (Reuters, 2020).

In addition, one should consider the existence of boxes for collecting alms and vows of the Imam Khomeini Relief Committee in all Shiite regions of Iraq. Collecting alms and vows, which is a charitable act but has a socio-economic aspect that benefits the Iranian government.

# 4. The Role of Iran-Backed Militias in the Competition of Iran and Turkey in the Iraqi Market

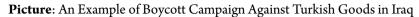
Currently, in the economic field, China, Turkey, and Saudi Arabia are Iran's main rivals in the Iraqi markets. Regarding Turkey, studies show that the competition between Turkey and Iran is more about food and garment products. Note that Iranian-backed groups in Iraq are trying to remove Turkish goods from the Iraqi market by launching "boycott of Turkish goods" campaigns.

The other arms of Iran in Iraq are the religious common ground, border security, and influence among Shiite militias to exclude its rivals (especially Turkey) from the Iraqi market. Iran has tried to eliminate its competitors from auctions and competitions in large investment projects through its financed groups and by using intimidation tactics (including torching and bombing). For example, the export of Iranian gas to Iraq, which is a weakness for Iraq and a vital issue for the Iranian gas industry, has led Iran, with the help of its backed forces in Iraq, to prevent other countries from extracting and producing gas in Iraq. For example, the meddling and rioting of Iranian-backed groups in Iraq have halted the activities of the TPAO from the Al-Mansouria gas field in Diyala, which has about 130 billion cubic meters of gas.

#### 5. Conclusion

As a result, what is obvious is that the Islamic Republic (especially the IRGC) is taking advantage of the political and security situation in Iraq and, in addition to political issues, is also expanding its influence in the economic field. This situation will continue as long as the Iranian-backed militias have







Source: Arta FM, 2019

extensive influence in Iraqi politics, security, and the economy. The continuation of this process will lead to the weakening of the Iraqi government in the future and will cause the complete collapse of the Iraqi economic system, which is affected by the political and security situation in the country.



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"Tanıtım nüshasıdır, para ile satılamaz."
"Bandrol Uygulamasına İlişkin Usul ve Esaslar Hakkında Yönetmeliğin 5'inci maddesinin 2'nci fıkrası çerçevesinde bandrol taşıması zorunlu değildir."

# **About İRAM**

Due to its historical depth and material power, Iran is among the countries that have to be reckoned with in the domain of international relations. The deep-rooted historical relations between Iran and Turkey, border-sharing, and comprehensive business relations make it necessary for Turkey to understand Iran in a multitude of ways. Based on this necessity, the Center for Iranian Studies (İran Araştırmaları Merkezi, İRAM) was established as an independent think tank in Ankara with the purpose of informing the Turkish public and interested parties about Iran. With this in mind, not only does İRAM produce field research, reports, and analyses based on primary resources, it also provides language courses, internships/scholarship programs, support for projects and graduate theses, workshops, and expert seminars in order to meet the need for experts and researchers on Iran in various disciplines in Turkey. Offering a platform where academicians can share their research on Iran, İRAM also provides digital and printed publications on a wide variety of topics ranging from economy to domestic politics, international policy to security, and Shi'ism to society and culture.



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