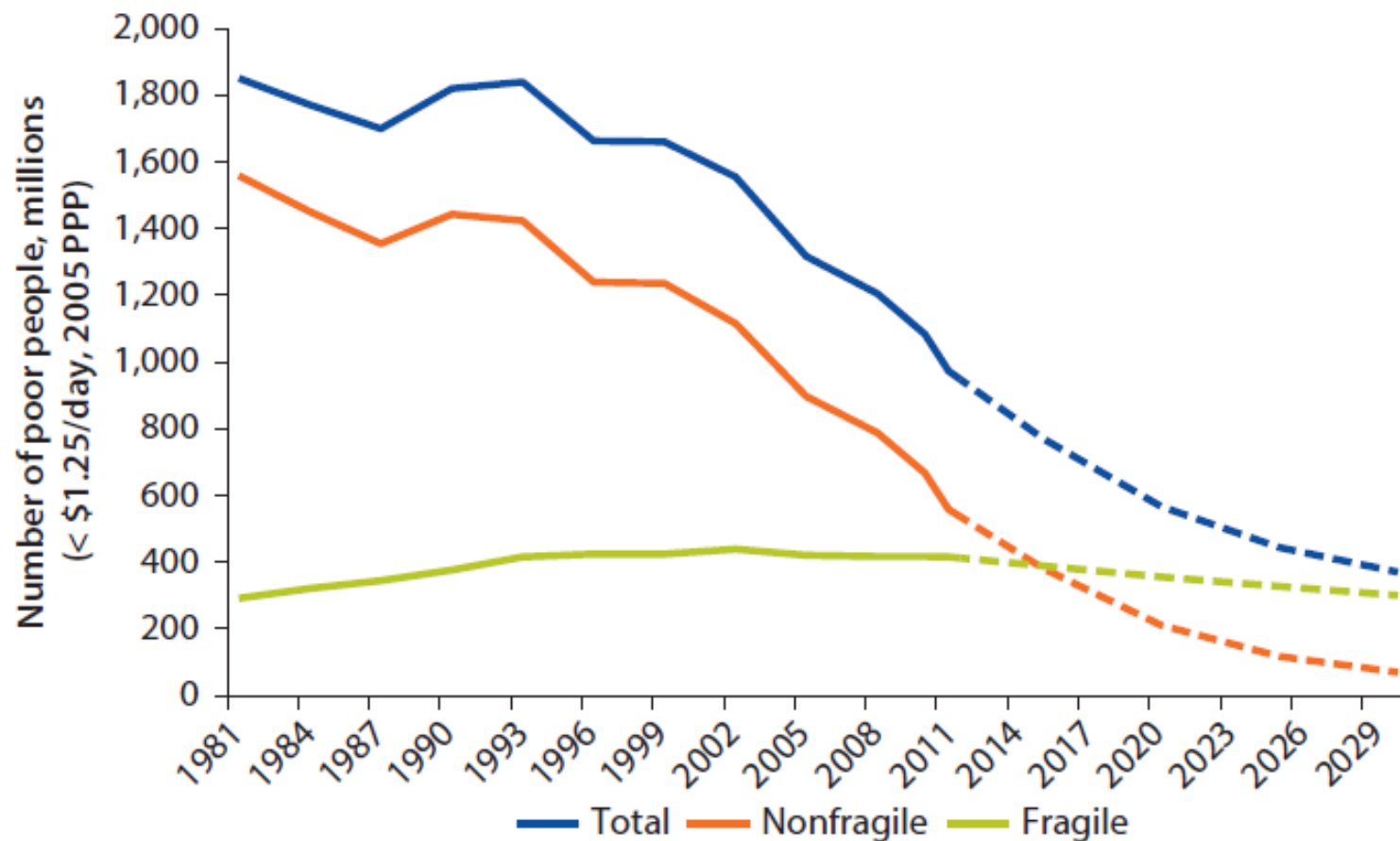


Trading Away From Conflict: Evidence on Trade in Fragile States, and the Case of Iraq



Michael Ferrantino
High-Level Regional Dialogue on WTO
Accessions for the Arab Region
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Virtual Meeting (Zoom),

A majority of the world's extremely poor are now in fragile countries

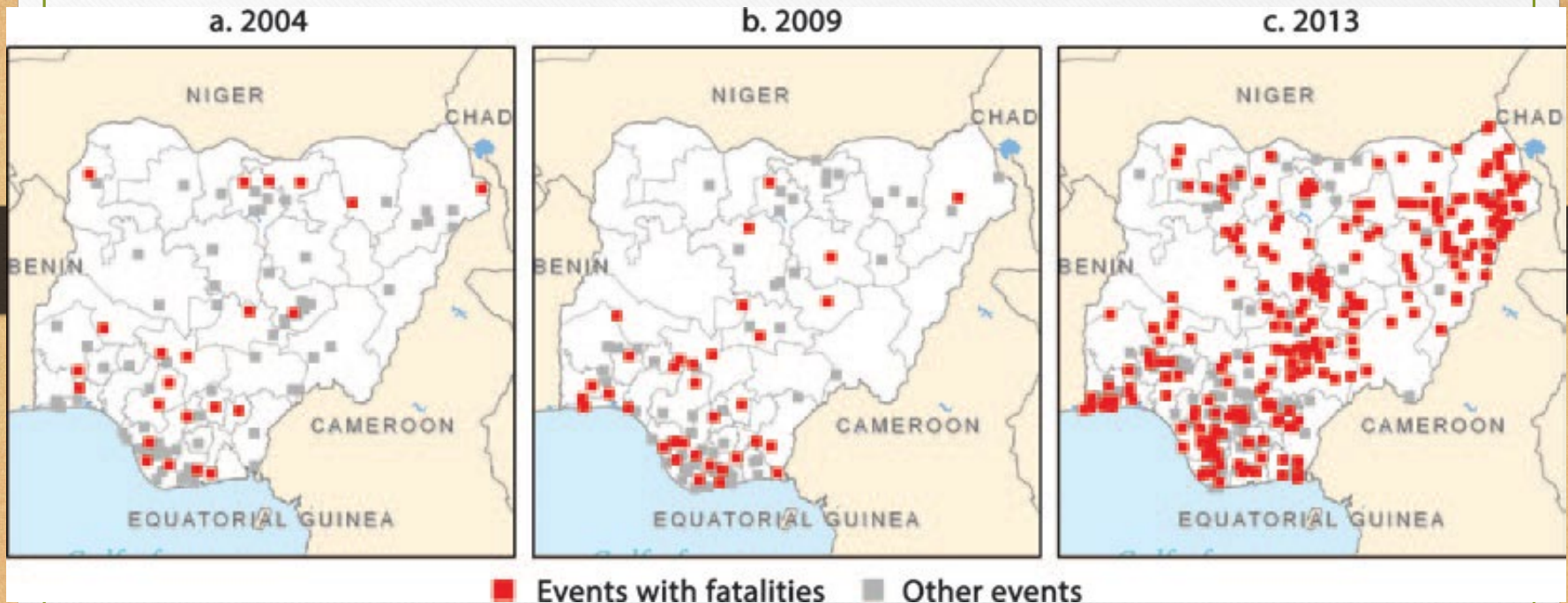


Conflict is reduced on a local basis when

- *Prices of exportable production go up (see also Colombia, 1990s)

- **Prices of consumer goods go down (implying easier imports)

- *There are more local exports in industries where people are widely employed (see also Palestinian Second Intifada, 2000-2004)



Source: Cali, "Trading Away From Conflict," 2015

“Point-source” resources like minerals have their own problems

***They become prizes to be fought over**

***They can be taxed to finance fighters and weapons**



Presentation Title

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What can be done?

- **Promote labor-intensive exports**
- **Government should be transparent about the revenues from point-source commodities, and careful what it does with those revenues**
- **Protect the incomes of the poorest from changes in trade flows**
- **Pay special attention to trade with your neighbors, as it is most likely to promote peace**
- **Address the underlying sources of conflict (trade by itself cannot resolve long-standing issues like ethnic or religious rivalry, or the legacy of past conflict)**



The Iraq Country Economic Memorandum was launched September 30, 2020, in virtual Iraq, with over 130 in attendance.

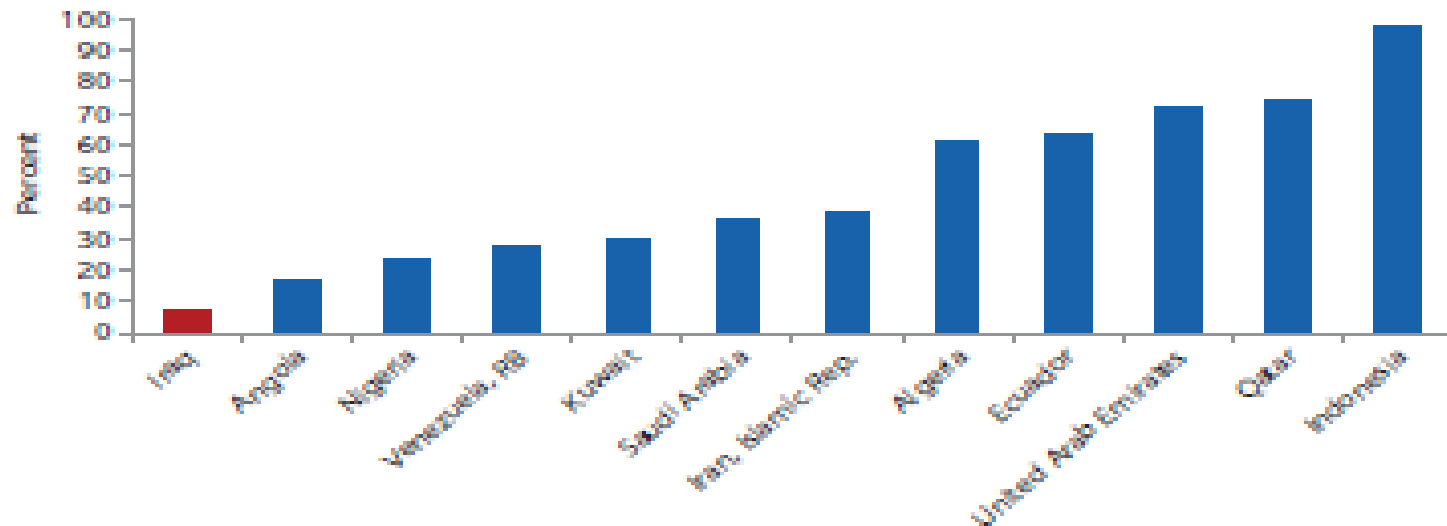
Almost two decades after the 2003 war, the country remains caught in a fragility trap, facing increasing political instability, growing social unrest, and a deepening state-citizen divide. Amid a multitude of crises (including an oil price shock, the COVID-19 pandemic, and recent protests) as well as a culmination of poor economic policies, a lack of reforms, and an inability to tackle corruption, Iraq is having its worst annual gross domestic product (GDP) growth performance in 2020 since the fall of the Saddam regime.

Iraq's trade position is unique

- One of the least diversified, most oil-dependent countries in the world
- Imports highly regulated – reportedly three-fourths must be approved through official channels
- Yet, borders are also porous, with much informal trade (e.g. Iran)
- Two *de facto* customs regimes (Kurdish region has a separate tariff, and there may be internal checkpoints separating the two).

Iraq is one of the most oil-dependent countries in the world

Share of non-crude oil exports in total merchandise exports, 2016–18 average
mirror data



Source: United Nations Comtrade data.

Compared to regional peers, Iraq's tariff is relatively high, with high dispersion and many peaks, and revenue collection is low compared to theoretical levels. The Kurdish region reportedly charges a flat 5 percent ad valorem.

	Simple average tariff	Duty free share of lines	Above 15% ad valorem share of lines
Iraq	11.6	11.2	22.2
Egypt	19.1	0.2	21.6
Jordan	9.9	54.5	33.1
Kuwait	4.7	10.5	0.3
Saudi Arabia	5.9	10.9	1.1
Turkey	10.9	23.4	14.4

Iraq has the only trade ministry in the world responsible for food rationing – legacy of Oil-for-Food period

	Names of state entities within the Ministry of Trade
1	Grain Board of Iraq
2	State Company for Foodstuff Trading
3	State Company for Shopping Centers
4	State Company for Construction Materials Trading
5	General Automobiles & Machinery Company
6	State Company for Grain Processing
7	State Company for Iraqi Fairs and Commercial Services

- **A reported three-quarters of all Iraqi imports require a special license**
- **In addition, permission to access foreign exchange from the central bank is required**
- **The system is non-transparent and subject to abuse**

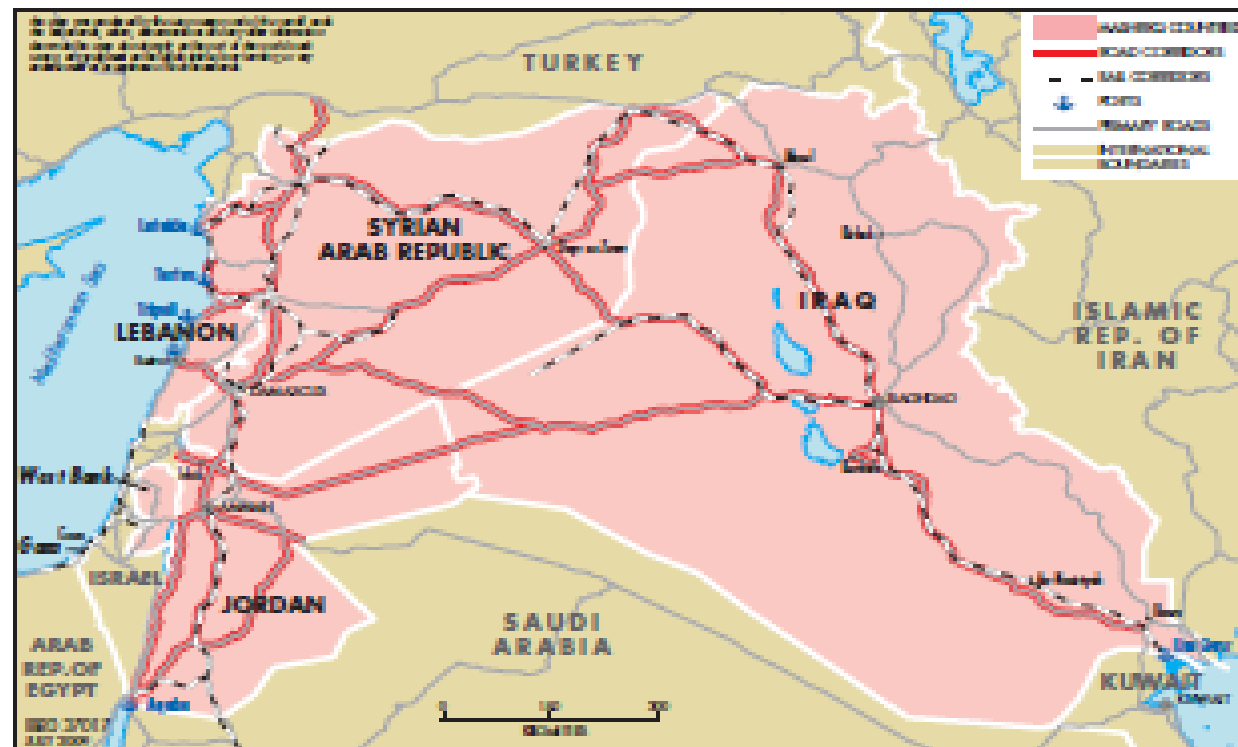
But there are some legacy exports of non-oil products, which could re-emerge under conditions of stability and predictability

Some examples: Rice, dried fruit, electric lamps, distillates of coal tar, crushed stone, wool, skins and hides, copper products, polymerized chemicals, truck motor vehicle parts



Iraq has the potential to be a {trade} regional hub....

Road corridors of Iraq and the region



But its performance on logistics is one of the lowest in the region

COUNTRY	RANK	SCORE	CUSTOMS	INFRASTRUCTURE	INTERNATIONAL SHIPMENTS	LOGISTICS COMPETENCE	TRACKING AND TRACING	TIMELINESS
Turkey	47	3.15	2.71	3.21	3.06	3.05	3.23	3.63
Saudi Arabia	55	3.01	2.66	3.11	2.99	2.86	3.17	3.30
Iran, Islamic Rep.	64	2.85	2.63	2.77	2.76	2.84	2.77	3.36
Lebanon	79	2.72	2.38	2.64	2.80	2.47	2.80	3.18
Jordan	84	2.69	2.49	2.72	2.44	2.55	2.77	3.18
Syrian Arab Republic	138	2.30	1.82	2.51	2.37	2.29	2.37	2.44
Iraq	147	2.18	1.84	2.03	2.32	1.91	2.19	2.72

Source: Logistics Performance Index, 2018.

Some issues with Iraq's logistics and border procedures

- Perception that Customs and other border compliance agencies are corrupt, and its employees lack professional training
- Procedural inconsistency and lack of coordination between compliance agencies leads to delays at border checkpoints
- Trade compliance fees and charges and requirement to submit paper documents lead to high transactions costs
- Deterioration of road and highway infrastructure increases transport costs for trading and logistics companies

Policy recommendations – Trade facilitation

- **Modernize Customs' institutional and operational framework towards service integrity and professionalization**
- **Improve border management facilities and IT infrastructure around trade procedural simplification and automation**
- **Adopt modern risk management techniques leading to selectivity of cargo inspections and decrease of delays at the borders**
- **Introduce one-government approach and reduce administrative fragmentation at and beyond the borders**

Policy recommendations – Trade policy and competitiveness

- **Increase the transparency of import licensing and the associated allocation of foreign exchange for imports**
- **Remain engaged in WTO accession negotiations**
- **Reducing internal fragility, conflict and violence will support diversification of exports**
- **Unify the customs territory of Iraq towards harmonization of trade procedures and tariff rates in the Kurdistan region and the rest of the country leading to shared customs revenues**

Thank you!

mferrantino@worldbank.org