



WINNING THE WAR IN IRAQ: CREATING AND FUNDING A STRATEGIC PARTNERSHIP

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Foreign aid and federal spending may be unpopular, but if we do not properly fund a US presence in Iraq, we will lose the war we have virtually won, and vastly empower Iran. The US can vastly reduce its spending in Iraq as it withdraws its combat forces. It already has reduced much of its foreign aid. It is absolutely essential to US strategic interest, however, to make the proper transition to supporting Iraq during the three to five years during which Iraq needs outside help and support to make a successful transition to a stable democracy, complete the defeat of extremists like Al Qa'ida and Sadrist splinter groups, and rebuild enough regular military force to deter Iranian threats and intimidation.

The US cannot control the future shape of its strategic partnership with Iraq. It can only influence Iraq. It is Iraqis that will decide the nature of their future government, and more importantly, whether Iraqi politics can be translated into effective governance, security, stability, and a move towards development. The US and Iraq have, however, signed a Strategic Framework agreement, and most of Iraq's leaders understand that Iraq needs US help and security guarantees. The Iraqi military knows it needs US help both to bring full internal security and create enough national defense capability to deal with foreign threats.

US Strategic Interests in Iraq

The US has vital strategic interests in making a continuing commitment to the region. It cannot afford to focus on the Iranian nuclear and missile threat by assuming that sanctions and diplomacy can prevent it, instead of focusing on the choice between military action and containment/extended regional deterrence. It cannot afford to ignore Iran's growing conventional and asymmetric threats to Iraq and the entire region.

It is also acutely dangerous to become involved in political posturing about energy independence when the Energy Information Agency of the Department of Energy estimates that there is no current probability the US will make strategically important reductions in its dependence on imports, a stable flow of world petroleum exports, and world oil prices that do not threaten the stability and growth of the world economy until well after 2035.

It is all very well to talk about energy independence, and US politicians, academics, media, and think tanks have now been doing so for nearly four decades. The fact remains, however, that the latest *Annual Energy Outlook* (<http://www.eia.doe.gov/oiaf/aeo/>) and *International Energy Outlook* (<http://www.eia.doe.gov/oiaf/ieo/>) issued by the Department of Energy project that the US will not make any significant reduction in its strategic dependence on oil imports through 2035.

These projections are shown in **Figure One**. The reference case projection shows that the US will still import roughly half of its energy liquids through 2035, and the total could be over 60%. The only case that gets dependence down to around 35% is one where real oil prices have risen to well over \$200 a barrel in constant dollars. These projections do not

measure the effect of US indirect imports of manufactured goods from Europe and Asia – manufacturers in countries like China and Japan which are far more dependent on oil and gas imports from the Gulf and other exporting nations than the US.

Moreover, **Figure Two** shows just how critical Iraq and the Gulf will be to world oil supply and the stability of the US and global economy. Even with very favorable assumptions about global production of new energy liquids and added production outside the Gulf, the Gulf share of world liquids production still continues to rise through 2035.

US national security policy and efforts to forge a lasting strategic partnership with Iraq must be driven by the fact that the energy side of US vital interests in the Gulf is driven by four critical factors that shape the need for a US strategic partnership with Iraq

- First, it does not matter where the US gets its oil from on any given day. The US competes on a world market driven by total world supply and pays world prices. If a crisis occurs in the Gulf, the US will compete at the same increase in prices as every other importing nation. If world prices rise on a longer-term basis, the US will pay for the same increase, and if supplies are cut by a major conflict, the US must share the oil left for import with other OECD states.
- Second, the US is steadily more dependent on the health of the global economy and the global economy is steadily more dependent on the stable flow of oil and gas exports. Oil prices are not simply a matter of increases in gasoline or home heating costs. They affect every business and every job in America.
- Third, the Gulf still offers the lowest marginal cost for increased export capacity for both oil and gas. The modernization and expansion of Iranian and Iraqi production has been limited for nearly three decades. This combined with Saudi Arabia's vast oil resources and Qatari gas, makes the Gulf critical to maintaining and increasing world export capacity over the coming decades. US security interests are not simply a matter of current production and current security in the flow of energy exports. They are enduring interest for the foreseeable future.
- Fourth, US talk of energy independence and the emphasis on rushing out to exploit offshore and domestic oil and gas reserves does not offer the US long-term security. It instead amounts to a strategy of "deplete American first." Barring some technological breakthrough of currently unimaginable proportions, the US is better off waiting to exploit its reserves until it has taken maximum advantage of foreign reserves and exports. It not only conserves resources that will become steadily scarcer over time, it benefits from the technology learning curve in exploration and efficiency of recovery, and from prices that push the US toward improved energy efficiency.

Iraq's Critical Role in Security and Deterrence

Helping Iraq develop its security is a major US strategic interest. Iraq is making gains against threats like Al Qa'ida in the Arabian Peninsula and violent Sadrist splinter groups. According to the GOI, more than 3,600 civilians and ISF personnel were killed in violent incidents during 2010. For the third consecutive month, December set a 2010 record for the fewest number of persons killed in attacks, down 151 from the previous month's 2010 record low of 171. But, **Figure Three** shows there is still a major threat from bombings, suicide attacks, and assassinations, and Iraq needs help with training, intelligence, and many other areas.

This alone would be a critical case for a strong security ties to Iraq in the form of a strong Office of Security Cooperation, a strong US military advisory team, and the intelligence support and cooperation Iraq need to defeat violent extremists, in addition to giving Iraq assurances that the US will defend it against any serious foreign military threat – particularly Iran.

As **Figure Four** shows, the US invasion of Iraq destroyed the balance of power in the Gulf, Iraq's ability to deter Iran, and the military strength Iraq needs to act as a barrier to Iran's ability to threaten and intimate other Gulf states, the wider Middle East, and Israel.

Forcing a strategic partnership with Iraq depends as much on Iraqi efforts to make a strategic partnership work as those on behalf of the US, and the irony is that the US will not have to spend money and aid funds if Iraq rejects that option and Iran effectively wins the Iraq War.

There will be no chance to create such a partnership, however, if the Congress does not fund the FY 2011 civil and military aid requests for Iraq, does not respond to the Department of Defense and Department of State request for post-withdrawal funding that begins with the FY2012 aid request, and if the Administration and the Congress do not work together to create an effective US presence in Iraq as US combat forces phase out during the course of 2011. If they fail to act, all the blood and money the US has sacrificed will have been in vain, and the US will lose the war at the strategic and grand strategic levels.

The FY2011 and FY2012 Budget Requests

Iraq is scarcely bankrupt, but it can just barely fund its mix of government employees, security services, and state industries. It has been in a budget crisis since early 2009 that has frozen most investment and development, forced Iraq to freeze the manning of much of its security forces, and stop funding critical maintenance and military investment.

Iraq is losing most foreign aid and has been unable to fund the transfer of many aid projects to make them lasting and effective efforts. Iraq's GNP growth masks terrible income distribution, a GDP per capita that averages 158th in the world, and massive under-employment. Its agricultural, industrial, and service sectors are half a decade away from serious recovery. Sadrist and Saddamist mismanagement have crippled its education and health sectors. While Iraq will eventually be able to exploit its vast petroleum wealth, both Department of Energy and International Energy Agency projections indicate that Iraq will not be able to expand its export income enough to meet its needs for at least the next half-decade.

The US cannot help Iraq unless its new government both wants that aid and has the competence to use it. The US cannot fund most of Iraq's development and security needs. It must limit itself to highly selective aid programs and a focus on expert advice, training, and technical assistance.

That, however, puts a heavy emphasis on funding a large State Department, USAID, and civil presence in Iraq. Funding is necessary for a program that calls for a large embassy, two consulates, and two additional centers that can reach out to all of the country, cut across Iraq's ethnic and sectarian divisions, and work in the field near its most critical problem areas. It does mean providing enough aid to act as seed money in helping Iraq start its most critical programs to improve its economy and governance. It means funding enough security for US efforts to be active in the field and work closely with Iraqi officials.

It also means creating as strong a US military advisory mission as Iraq will accept in order to help Iraq's government and security forces reach the level of capability needed to provide security and stability on their own. This is a task that is half a decade from being finished which had been seriously undercut and delayed by Iraq's budget crisis. It means providing enough initial military aid to put Iraq on a path that can create strong enough conventional forces to defend and deter against threats like Iran – an effort that cannot be completed by 2020. Some form of lasting US presence in Iraq or the Gulf must be prepared to help Iraq until it can rebuild its forces.

If the US does not make this effort, it will almost ensure that it “snatches defeat from the jaws of victory.” It will throw away all of the sacrifices and investment in Iraq since 2003, and it will create a critical power vacuum in the Gulf that extends through Syria and Lebanon. It will threaten every US friend and ally in the Gulf area and Levant, as well as Israel. It also will greatly increase the risk of a major confrontation or fight with Iran that could affect the flow of world oil exports, the control of much of the world's oil reserves, the stability of a fragile global economy, US economic recovery, and the security of every job in America.

The funding required to try to win the war in grand strategic terms is minor compared to the cost of fighting it, which sometimes exceeded \$12 billion a month. It is, however, still substantial. Moreover, the money needed to make this effort needs to be made available in the FY 2011 budget and then adjusted to meet Iraq's need for the three to five years it will take to create the level of petroleum exports and income it needs to fund all its effort, create stable military and civil programs, and recover from the shock of decades of Saddam Hussein and war.

The Department of Defense Request

The Department of Defense request for FY2011 and FY2012 is the core of the funding needed to create a stable military relationship with Iraq. The Department's budget request cannot as yet spell out the details of a transition to a strategic partnership that Iraq's new government cannot decide upon until its new Ministers of Defense and Interior are in place, and its new leaders have time to make decisions.

It is clear, however, that Iraq will need years of additional help to build the security forces shown in **Figure Five** into an effective force. The FY 2011 request for the Iraqi

Security Forces Fund is roughly \$2 billion, but so far the Senate has only approved around \$1 billion -- enough to cripple any effort to create a meaningful strategic partnership. Given the uncertain ties in Iraq and the strategic risks and turmoil around it, it is absolutely essential that the Department be fully funded to both develop the ISF and meet its other security needs during FY2011.

Moreover, a strong US military effort is needed to help build an Iraqi regular military that helps stabilize the Gulf region. US funding and help is critical in influencing Iraq to use its own resources effectively, deal with the initial creation of effective national defense forces, and help Iraq cope with the fact its budget and election crisis have seriously limited Iraqi progress since the spring of 2009.

It is equally important to deal with the fact that Iraq's petroleum resources and budget will only be able to fund both military and civil operating costs, personnel and jobs, essential services, and development for the next three to five years. As the current political unrest in Iraq shows, democracy and stability must focus on immediate needs until Iraq's underground oil wealth can be turned into wealth for its people.

At this point, the CIA estimates that Iraq's per capita GDP is only \$3,600, ranking close to that of an impoverished Gaza and 161st in the world. To put this in perspective, Iran's per capita GDP is \$11,200, ranking 99th in the world; Saudi Arabia's per capita GDP is \$24,200, ranking 55th in the world, and Qatar's per capita GDP is \$145,300, ranking 1st in the world.

As for oil wealth, it is critical to understand that this needs to be measured in terms of income relative to population. The EIA estimates that Iraq's per capita income from petroleum imports is only \$1,305 per person. This compares with \$6,298 for Saudi Arabia, \$18,795 for Kuwait, and \$34,110 for Qatar.

Looking at the future, the Department of Defense will probably need all of the \$11 billion that **Figure Six** shows that the Department estimates it will need for FY2012 to meet both US and Iraqi security needs, and it may take an average of some \$3 billion a year for five years (FY 2012 – FY 2017) to sustain this effort, build up Iraq's conventional forces until its petroleum revenues increase, and ensure the kind of advisory effort that will create effective national forces that will not become involved in politics or favor a given ethnic or sectarian faction.

The Department of State Request

The same pressures drive the need for a strong State Department effort, particularly because the State Department will lead all US efforts in Iraq once US combat forces withdraw at the end of 2011, and will assume responsibility for critical parts of the security effort: training a police force that can support civil justice and the rule of law and financing a key part of Iraq's military equipment needs.

“Foreign aid” may have become one of the most controversial aspects of federal spending, but it remains a critical tool in US national security and one where again, funding a strategic partnership with Iraq until Iraq can fund its entire share is far cheaper than any of the alternatives.

The importance of the State Department request also becomes far clearer when it is analyzed in detail:

FY2011 Budget Request

The State Department received \$1.5 billion in D&CP operational funds in FY 2011 for its diplomatic presence through the current Continuing Resolution (CR). The current level provided in the CR is only sufficient to cover mission operations and Baghdad transition efforts through March, 2011. But after March, significant outlays are required for security and life support contracts, which need to be let in the third quarter.

On the foreign assistance side, the Department has enough INCLE funds to cover costs of the critical Police Development Program (PDP) through March 4. However, under a full year CR, FY 2011 INCLE funding would be short by \$63 million after including the \$200 million forward funded in the FY 2010 Supplemental. Other assistance accounts, including ESF, NADR, and IMET, are fully covered through the current CR.

State’s planned diplomatic facilities in Iraq will be expensive, largely because of the extraordinary security costs that will be involved until Iraq can finally deal with its internal threats. The money needed for a civilian presence, however, will be far less than was needed for our military operations in Iraq. DoD budgeted \$59.1 billion for military operations in Iraq in FY 2010, and projects spending an additional \$43.4 billion for FY 2011. In contrast, the State FY 2011 budget request for operations and assistance funding in Iraq totaled \$2.517 billion.

To put this funding in perspective, a proper transition from a military-led to a civilian-led U.S. presence in Iraq will result in a considerable cost savings for the U.S. government as a whole. More importantly, continued Congressional support for State is critical to sustaining success in Iraq.

FY 2012 Budget Request

The Department’s pending FY 2012 Budget request for Iraq totals \$6.2 billion. D&CP funding equates to the entire \$3.72 billion for Iraq Operations. The \$2.4 billion foreign assistance request includes support for essential economic growth activities in the provinces with a particular focus on agriculture, job creation, and essential service provision. Funds will also provide critical continued assistance for human rights, democracy promotion, and good governance programs.

The total FY 2012 budget request represents an 85% increase over the FY 2010 enacted total due to the tasks formerly performed by the military that State will assume during the transition. These include myriad security responsibilities, including expanded personal security detachments (PSDs) for movement security, explosive ordnance disposal (EOD), medical operations, and logistics support contracting

This spending is particularly critical because FY 2012 will be the critical first year of full civilian leadership in the US bilateral relationship with Iraq. US foreign assistance relationship with Iraq will undergo a major shift as we complete the assumption by civilian agencies of some responsibilities previously borne by the Department of Defense.

The State Department is also seeking Foreign Military Financing (\$1 billion) in FY2012 for the first time. This will help close remaining gaps in the Iraqi Security Forces' capabilities and help form the basis of a long-term security relationship.

FY 2012 is also the first full year of a full INCLE funded Police Development Program (PDP) that will support the development of the Iraqi police and Ministry of Interior. The State Department is seeking \$1 billion in INCLE funds to support this effort. The FY 2011 request for PDP only covers three months of initial operational expenses.

The FY 2012 D&CP request of \$3.72 billion represents a 45% increase from the FY 2010 total, but it reflects the extraordinary costs associated with the Department assuming operational leadership in Iraq. The State Department will have stood up Embassy Branch Offices in Kirkuk and Mosul, Consulates General in Erbil and Basra, and will reconfigure facilities at the embassy to support all USG agencies working in Iraq.

A Stable Future and Strategic Partnership is Far Cheaper than Any of the Alternatives

There will be a need for continued spending in FY2013 for both the Defense and State Departments. However, it is the U.S. government's security assistance and activities like provincial operations and development assistance that will not be open-ended. Iraq is expected to be capable of paying for its own development within 5-7 years as it expands its oil and gas infrastructure and reenters the world energy market. However, the US must provide funding during this transition period to build the capacity of the GoI to manage its future resources if it is to meet its national security objectives.

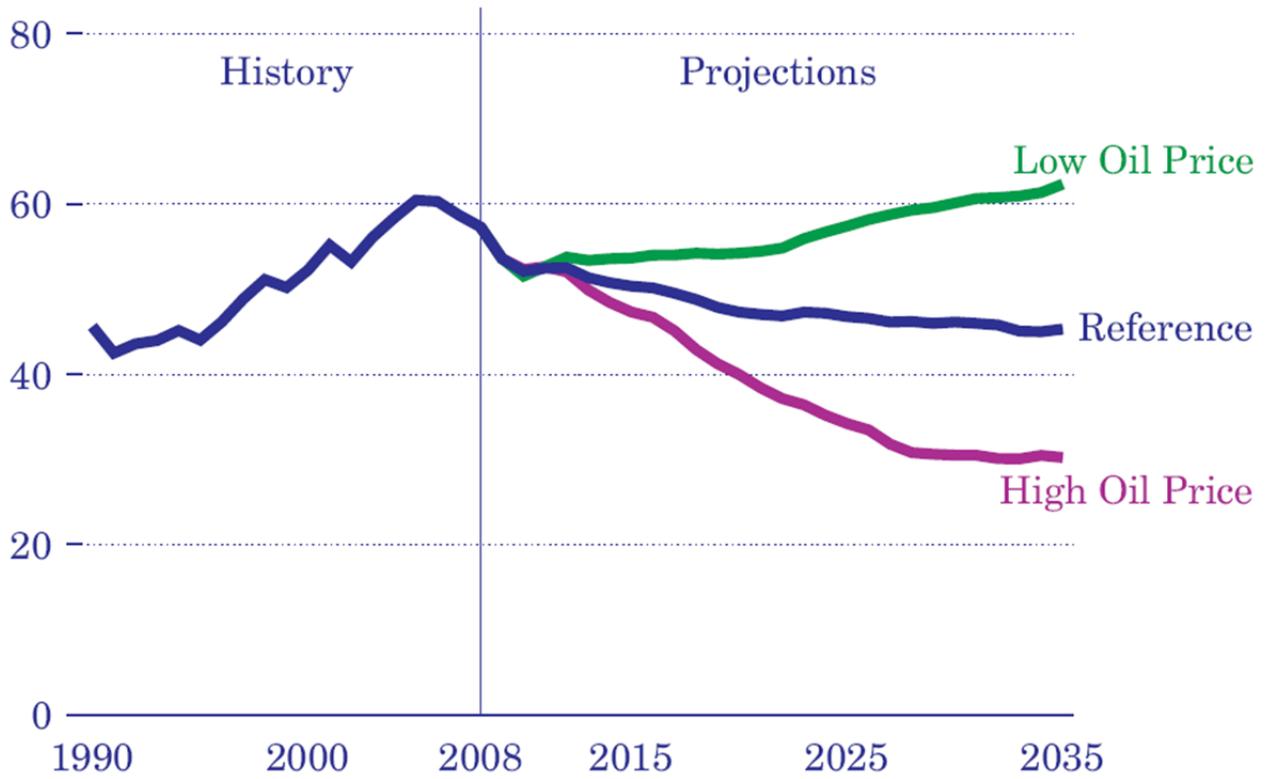
Ongoing US support for the development of the Iraqi military and law enforcement will be important to mitigate the risk of a resurgent Al Qaeda in Iraq (AQI) or other extremist activity that could pose a direct threat to the security of U.S. citizens both at home and abroad. Continued support for a fair and inclusive political process will help the Government of Iraq resist foreign interference, leading to greater long-term stability in the region. Above all, it will serve as a vital counterbalance to Iran, and as a way of securing world oil exports and the global economy.

These costs also will be a tiny fraction of the cost of dealing with Iran and instability throughout the Gulf and the Middle East if Iraqi stability should implode in a new series of internal conflicts, or if Iraq should tilt decisively towards Iran and Syria. It is also money that will only be spent if the US does succeed in making Iraq a real strategic partner. If the new Iraqi government does not want that partnership, the US will face different and far more expensive problems in reshaping its diplomatic and security posture in the Gulf and throughout the region.

These issues are explored in more depth in a CSIS book entitled *Iraq and the United States, Creating a Strategic Partnership*, which is available from the CSIS book store at <http://www.csisbookstore.org/>. They are also described in more depth in a CSIS study entitled *Grand Strategy in the Afghan, Pakistan, and Iraq Wars: The End State Fallacy*, which is available on the CSIS web site at http://csis.org/files/publication/101013_End_State_Fallacy.pdf.

Figure One: Real World US Strategic Dependence on Oil Imports

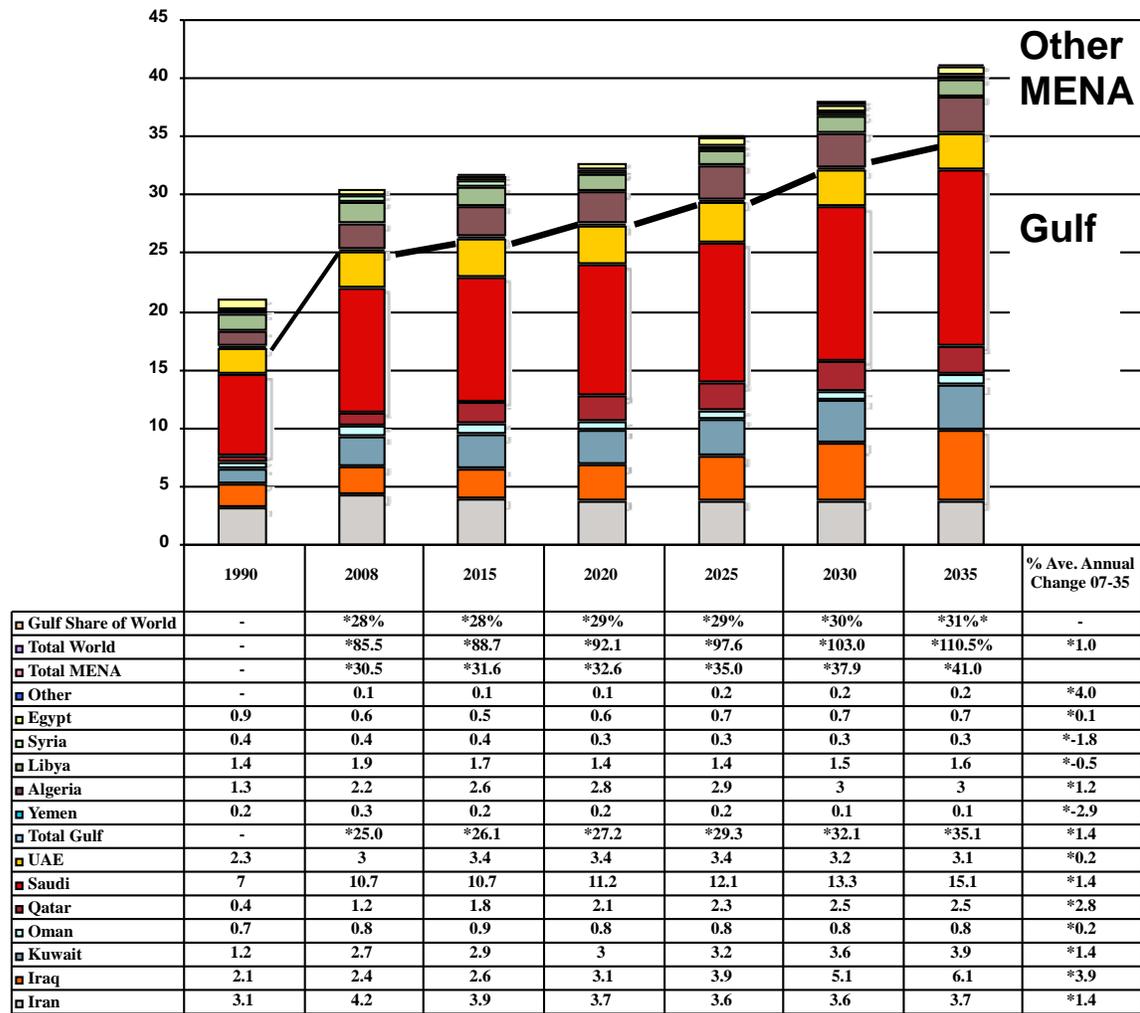
Net Import Share of U.S. Liquid Fuels Consumption, 1990-2035 in Percentages



DOE-IEA, Annual Energy Outlook 2010, p. 77

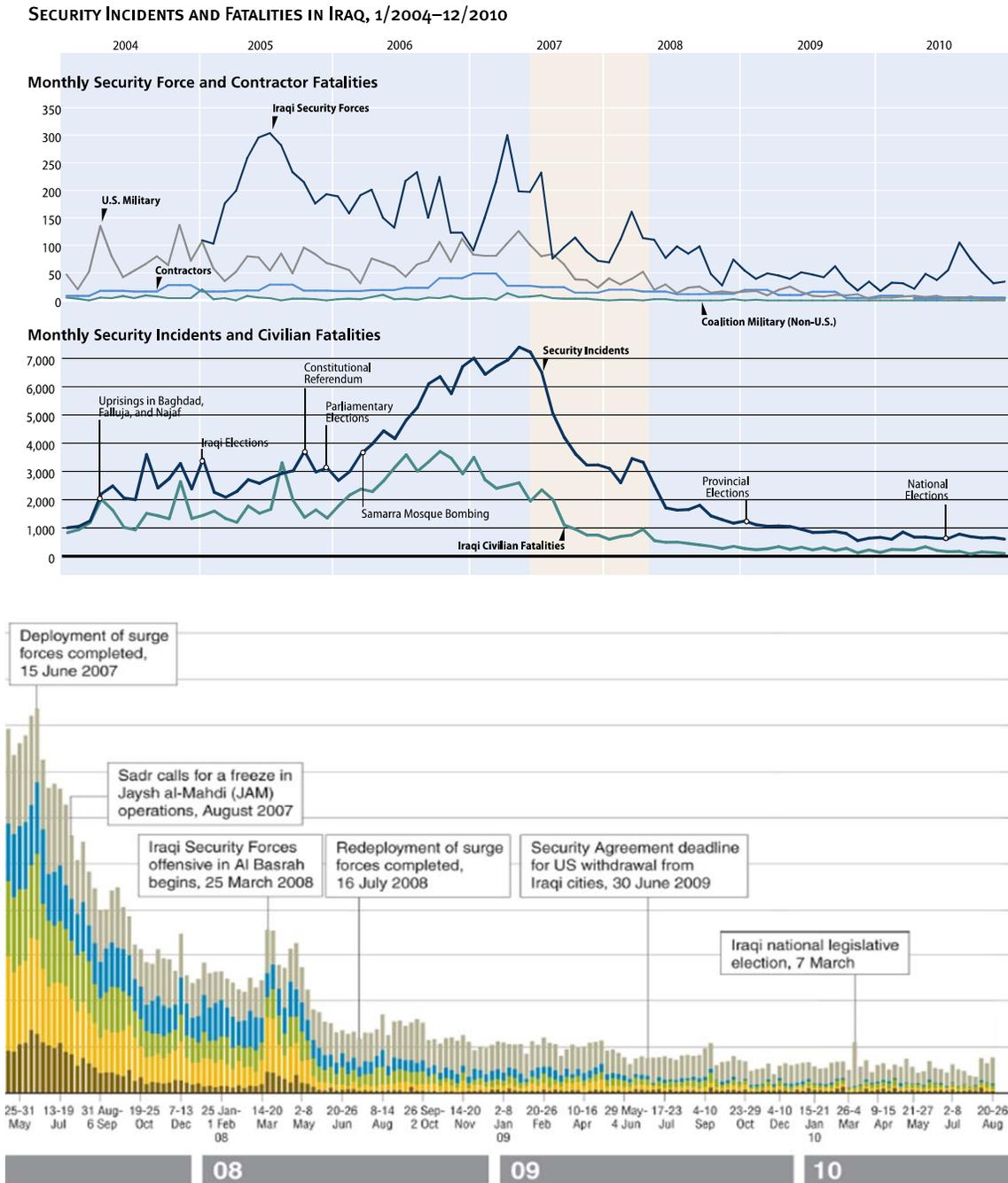
Figure Two: Real World US Strategic Dependence on the Stability and Growth of Gulf Export Capability

EIA Projection of of Gulf/ME Liquids Production By Country, 1990-2035 (Millions of Barrels Per Day)



Source: Adapted from EIA, *World Energy Outlook*, 2010, p. 225 and *World Energy Outlook*, 2010, p. 260

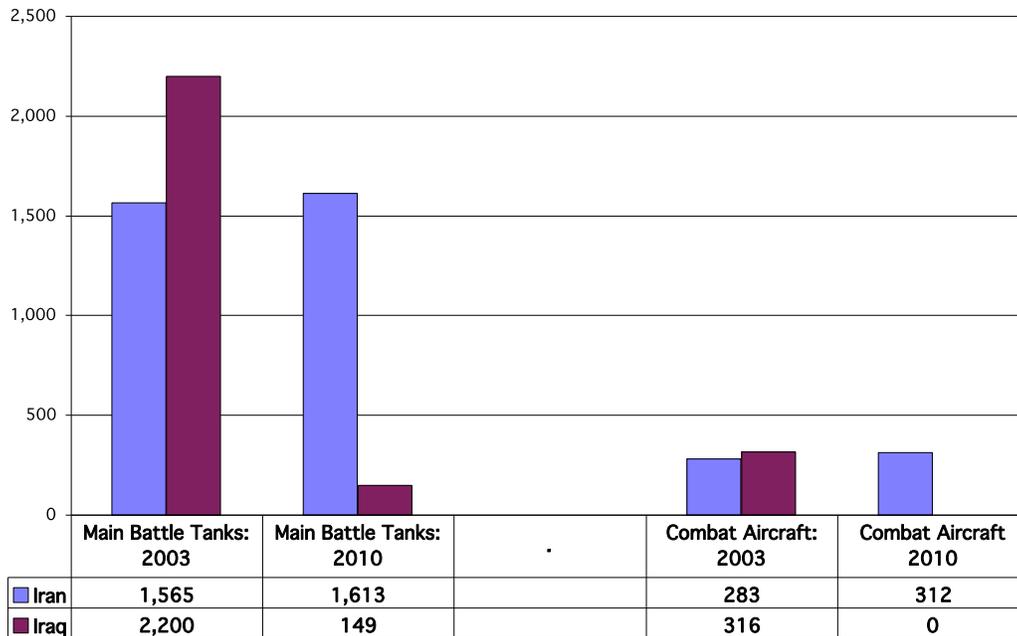
Figure Three: The Continuing Level of Violence in Iraq



SIGIR, Quarterly Report, January 30, 2011, p. .66, and ODNI, 31-8-2010

Figure Four: The Military Power Vacuum in Iraq and the Rise of Iran:

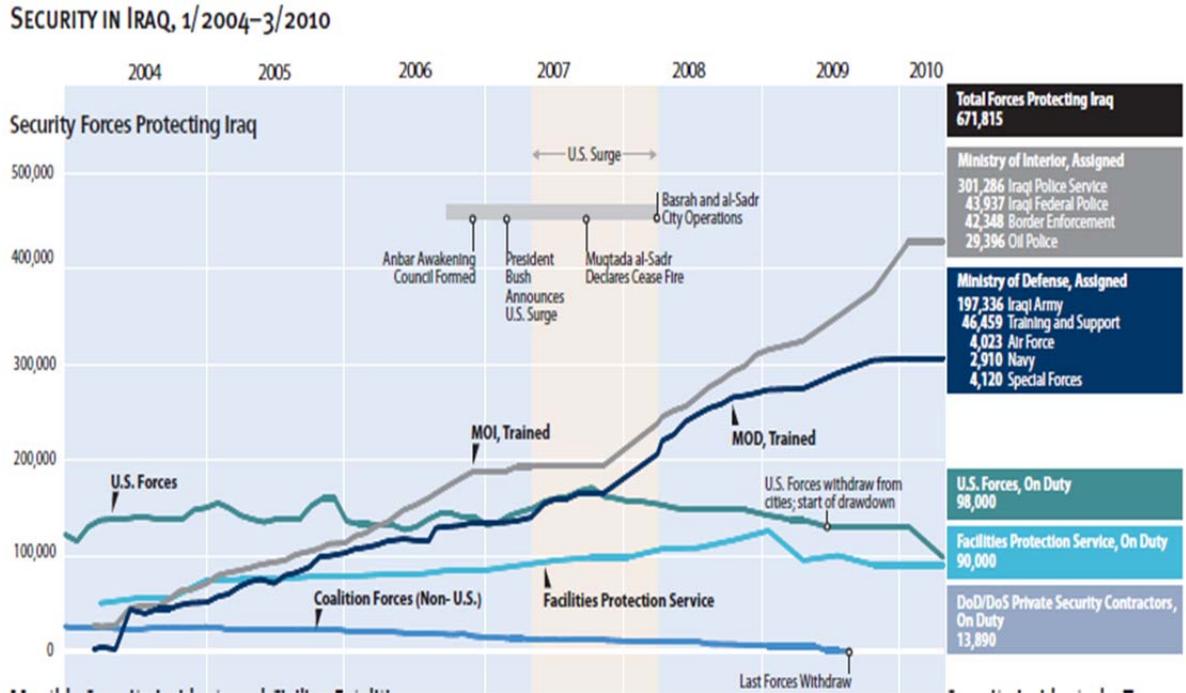
Iran vs. Iraq in 2003 versus 2010



Category	2003			2010		
	Iraq	Iran	Force Ratio	Iraq	Iran	Force Ratio
Active Manpower	424,000	513,000	8:10	191,957	523,000	2:5
Reserve Manpower	650,000	350,000	19:10	0	350,000	NA
Main Battle Tanks	2,200	1,565	7:5	149	1,613	1:10
OAFVs	1,300	815	8:5	505	725	7:10
APCs	2,400	590	4:1	1,479	650	23:10
Towed Artillery	1,900	2,085	9:10	0	2,010	NA
SP Artillery	150	310	1:2	0	310	NA
MRLs	200	889	1:5	0	876	NA
Combat Aircraft	316	283	11:10	0	312	NA
Attack Helicopters	100	85	6:5	0	50	NA
Major SAM Launchers	225	205	11:10	0	234	NA

Source: Adapted by Anthony H. Cordesman from IISS, *The Military Balance*, various editions; Jane's sentinel series.

Figure Five: Building the Iraqi Security Forces



SIGIR, Quarterly Report, April 30, 2010, p. 49

Figure Six: The Changing Patterns of Defense Funding for Afghanistan (OEF) and Iraq (OIF)

(\$ in Billions)

	FY 2009	FY 2010	FY 2011	FY 2012
OEF	52	100	113	107
OIF	94	62	46	11
Total	146	162	159	118

Numbers may not add due to rounding

Source: Department of Defense , FY2012 Budget Summary, B02-11-101 v 2.2FY 2012 Budget

Figure Seven: The FY2011 and FY2012 State Department Budget Requests for Iraq

	FY2010 Base Actual	FY2010 Supp Actual	FY2011 Forward Funding (from the FY2010 Supp)	FY2011 President's Request	Total FY2012 Requirement
State Ops:					
D&CP	\$1,121.60	\$1,030.00	-	\$1,787.00	\$3,725.35
Foreign Assistance:					
ESF	\$382.50		-	\$382.95	\$325.70
INCLE	\$52.00	\$650.00	\$200.00	\$314.56	\$1,000.00
NADR	\$30.30		-	\$29.80	\$32.45
IMET	\$2.00		-	\$2.00	\$2.00
FMF	-	-	-	-	\$1,000.00
USAID OE	\$56.76	-	-	\$56.76	\$75.37
<i>FA Total</i>	<i>\$523.56</i>	<i>\$650.00</i>	<i>\$200.00</i>	<i>\$786.07</i>	<i>\$2,435.52</i>
TOTAL	\$1,645.16	\$1,680.00	\$200.00	\$2,573.07	\$6,160.87

Source: US State Department, February 2012