

"Understanding ISIS: The political economy of war-making in Iraq"

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Introduction

Public perceptions of the ongoing conflict in Iraq and Syria are heavily dominated by sectarian narratives. It is assumed that “[t]he way in which what is going on in the Middle East has become a religious war has long been obvious” (Murray 2014). According to this view, present-day violence in the region is best understood as a resurgence of ancient hatreds, while political, economic, or other ‘rational’ calculations comprehensible to the Western analyst take the back seat. Academic scholarship (see Fearon and Laitin 2000 for an overview), however, has consistently emphasised the shortcomings of such a primordialist perspective: in spite of the enduring nature of ethnoreligious cleavages, violence is only episodic; simplistic arguments about ancient hatreds consequently fail to explain why ethnic or sectarian language is relied upon in any particular time and place while remaining unused in others. As Fanar Haddad (2011: 10) highlights, “the primary shortcoming in analyses of Iraqi society is the failure to account for the elasticity of sectarian sentiment.” This points to the need to situate contemporary sectarianism in a historical trajectory of institutional and social change; and it also highlights the need to scrutinise the extent to which a diverse set of interests and motivations might be camouflaged by the sweeping ethnosectarian labels given to the conflict.

This is precisely the line of inquiry this essay seeks to pursue by highlighting the political economy dimensions of current violence. Due to space constraints, the discussion will be limited to the Iraqi case; a limitation that is, however, justifiable from an analytical point of view, given the fact that Syria was transformed into “an almost perfect setting for a sectarian conflict” thanks to the fact that “Iraq had already laid the framework for violence and suspicion”, meaning that “both networks and teachings [of sectarianism] were in place” at the outbreak of the Syrian conflict (Byman 2014: 88). Section one will begin by developing a broad theoretical outline conceptualising the role of political economy considerations in contemporary warfare. Subsequently, section two will delve into the Iraqi case, detailing how three decades of conflict and crisis led to the emergence of a vast war economy running on networks based on family, clan, tribe, and sect. Section three then showcases how the so-called Islamic State in Iraq and al-Sham (ISIS) arouse out of these networks, harnessing them for its state-building project. The essay closes by highlighting the political economy limitations of this project, due to the underlying dynamics of the Iraqi war economy, and offers a glimpse towards the future.

Theoretical framework: political economy and contemporary warfare

Since the end of the Cold War, the focus of scholars in the field of conflict studies has turned away from classical inter-state warfare and towards other forms of conflict that are linked to a very peculiar political economy. An influential argument in this regard has been developed by Mary Kaldor, who argues that the contemporary era is marked by the incidence of so-called ‘new wars’ and their characteristic blurring of distinctions between war, organised crime, and human rights violations perpetrated by a flurry of regular armies, militias, armed gangs, and mercenary units (Kaldor 2007: 1-9). According to Kaldor, this kind of conflict “cannot be disentangled from its economic basis” (ibid.: 116), in the sense that this informal warfare relies upon diffuse networks of looting, robbery, extortion, pillage, hostage-taking, smuggling, and other illicit activities. To be sure, even historically war-making has involved distinct economic calculations and has thus often been closely related to the extension of global economic networks through – for instance – the forcible opening of markets (Barkawi 2006): the Opium Wars of the 19th century are only a particularly blatant example of this. It remains true,

however, that recent conflicts have witnessed a shift towards a more amorphous and decentralised political economy of war-making that is less focused on the nation-state and its total war effort than it is organised and fought via dispersed conflict networks bringing together a variety local and global actors (Srnicsek 2010).

Yet the observation that many present-day wars are accompanied by a new political economy falls short of offering an account of how precisely economic aspects and concerns figure in contemporary warfare. In this regard, a widely discussed neoclassical argument is made by Collier and Hoeffler (2004). They assert that, given the dependence of warfare on economic resources that can be exploited, looted, or otherwise made use of, it is not political *motives* but economic *opportunities* that are decisive in tilting the balance towards armed violence. According to them, the decision whether to join an army, a militia, or a mercenary unit is essentially a decision by a rational cost-benefit maximiser who weighs the potential gains of violence against the income foregone in the case of fighting. Put differently, what matters are not *grievances* (such as oppression, exclusion, inequality, or ancient hatreds); rather, *greed* is the decisive factor in explaining armed conflict. By focusing on this rationalist calculus, Collier's and Hoeffler's model helps us avoid the primordialist trap; yet it does so at the price of lacking historical awareness and of failing to take the social embeddedness of warfare into account: the decision to wage war is simply and unconvincingly reduced to an individual's greedy rent-seeking (Cramer 2002). Given the intensely social nature of warfare, an explanation of the political economy of the new wars cannot content itself with simply adopting neoclassical orthodoxy.

The individual decision-making processes described by Collier and Hoeffler therefore need to be re-embedded in local social circumstances. As Kalyvas (2006) points out, it is indeed this local sphere with its networks of social relations that is decisive for the formation of armed violence; and it is in this local context that individual economic strategies for survival are mapped out. Consequently, we need to scrutinise how local networks of family, clan, tribe, *ethnie*, and sect are constructed and invested with political and economic power so that they emerge as individuals' repositories of material well-being as well as collective identity. Once these channels are invested with such power and meaning, the line between *greed* and *grievance* inevitably blurs: as the formation of these networks sharpens divides and makes them consequential by distributing power and patronage along ethno-sectarian lines, initial economic greed may give rise to sectarian grievance. Conversely, such grievance may also open the floodgates to (further) unrestrained exercise of economic greed as individuals and families seek to ensure their economic survival through exclusivist channels functioning at the expense of the sectarian other. The outcome of this process is the genesis of a political economy of sectarian conflict that is a self-perpetuating order in its own right, rather than mere anarchy or chaos (Srnicsek 2010: 46). The following section will trace the emergence of the political economy of war-making as a "predatory social condition" (Kaldor 2007: 113) of this kind in contemporary Iraq.

The emergence of the Iraqi war economy: three decades of crisis

The Iran-Iraq War

The argument developed in the preceding section implies that the political economy of many contemporary conflicts is predicated on a weakened authority of the nation-state. For political science, this is a somewhat unexpected observation, given the fact that, based on the European experience, war-making has been conceived as the path towards the strengthening of state institutions (Tilly 1985). However, as Gongora (1997: 323 f.) highlights, "war making in the contemporary Middle East does not necessarily contribute to the development of state power and can actually lead to a decline in state power." This dynamic is clearly in evidence in the context of the Iran-Iraq War (1980-1988). Although in itself an example of classical state-based warfare, pitting two mass armies against each other, the Iran-Iraq War "was a unique example of total war between Third World states" (ibid.: 325) – meaning

that it was marked by a striking mismatch between states' limited institutional and industrial capabilities and the cost, complexity, and destructiveness of the military machinery they relied upon. As a consequence, the Iran-Iraq War set in motion a tendency towards the unmaking of the Iraqi state and thereby planted the first seeds of the amorphous war economy that would later on aliment conflict in the country, including the rise of ISIS.

Khafaji (2000) describes how, over the course of the war effort, cracks developed in the Saddamist state apparatus: tribal formations began to emerge as powerhouses in their own right; a class of nouveaux riches – from across the sectarian spectrum – developed, and the Ba'th Party began to ossify into a bureaucratic organisation bereft of mobilisational power. Consequently, the War brought about the “deinstitutionalization” of Iraqi politics (ibid.: 280), a development that was particularly marked in the economic sphere. The state's retreat from the economy accelerated throughout the war, culminating in the large-scale privatisations of 1989. Concomitantly, investment rules were eased, taxation was slashed, and import regimes were liberalised (Chaudhry 2002). At the top, state and economy were increasingly personalised in the hands of Saddam and his closest circle of allies; at the bottom, familial, clan-based, and tribal networks began to flourish and to monopolise chunks of the local economy.

The sanctions regime

These trends were aggravated in the aftermath of the 1990-1991 First Gulf War and under the UN sanctions regime of the 1990s. Over the course of this decade, official Iraqi GDP dropped by 83 percent while public services widely collapsed, food insecurity rose, and infrastructure hardly managed to recover from the destruction of the war (Yousif 2010: 360 f.). The government in Baghdad did continue to supply some economic benefits through public employment and food distribution. Yet civil servants earned only \$5 per month; and state rations supplied only 37 percent of the pre-1990 caloric intake (Moore and Parker 2007: 9). In this context of dramatic economic uncertainty, households across the country turned to local structures and networks to ensure their well-being and indeed their very survival. This led to a flourishing of the informal economy, where the bulk of Iraqis began to secure their livelihood. Looney (2006: 995) conjectures that by 1998, more than two thirds of the Iraqi labour force were working in the informal sector.

Indeed, the formation of a decentralised economy of “survival relationships” among the members of local networks (ibid.: 999) was encouraged by the regime. Baram (1997) eloquently describes Saddam's ‘neo-tribal’ policies of the 1990s, and how this process resulted in the splintering of social authority: arming the tribes amounted to a *de facto* privatisation of violence in the country; and the fostering of a tribal prerogatives of law and morality enforcement consolidated the emergence of a legal system separate from the state. Tribes also began to run their own businesses and economic rackets. Particularly momentous for the genesis of the post-2003 insurgency was the emergence of tribal Sunni smuggling networks in the Western Anbar Province. As Parker and Moore (2007) highlight, Highway 10 – cutting from Baghdad through Anbar to Amman and from thence to the Jordanian port of Aqaba – emerged as a crucial route for the smuggling of a diverse array of goods. Yet other tribes and other regions equally developed their own survival economies, based on the fusion of licit and illicit economic activity, linking local groups with regional and global economic networks.

As a result, even though ostentatiously the administrative apparatus of state and Ba'th Party remained in place and continued to extend its tentacles throughout Iraqi society (Sassoon 2012), the 1990s in fact witnessed the erosion of the political and economic structures of the Iraqi state. In its stead, “[l]ocalized social structures, transnational trade networks and a globalized sanctions regime came together to create new economic opportunities and impose new constraints” (ibid.: 7). Nevertheless, during the sanctions years, these networks converged in the hands of a few players connected to the regime in Baghdad. Yousif (2007) describes how amidst the spread of penury among Iraq's middle

classes a new group of cronies coalesced around the regime. Government figures themselves were deeply implicated in the flourishing informal economy: Saddam's right-hand man, Izzat Ibrahim al-Douri, for instance, ran a lucrative stolen car ring operating via Highway 10, emerging as the most important figure in "a state-tolerated organized crime network" (Weiss and Hassan 2015: 22). On the eve of the events of 2003, the Iraqi economy had thus been "completely recentralised at the apex and quite radically decentralised at the base" (Chaudhry 2002: 233 f.). The US-led invasion then proceeded to eliminate the apex of power – by removing central regime figures and incapacitating the remaining central institutions – meaning that only the decentralised base remained in place. In doing so, it put in place all remaining elements necessary for the genesis of a self-sustaining political economy of war-making as it has been described in the first section.

The 2003 invasion and its aftermath

Looney (2006: 991) notes that "[t]he only part of the economy to have survived both Saddam Hussein and the post-2003 period of instability and insurgency is the country's informal economy." In fact, this economy expanded massively as central state institutions collapsed and further sections of the population were faced with hardships that could not be addressed through the channels of the formal economy. Up to 10 percent of the labour force were fired in the processes of de-Ba'athification and the dissolution of the Iraqi army; unemployment rates reached a level of 40 percent in 2005 (Yousif 2007: 49-54). In this context of insecurity, local communities began to organise around the tribal and sect-based networks that had crystallised and assumed political and economic power during the final decades of Ba'athist rule. In order to nourish their families, the unemployed population of male breadwinners "was flowing to the highest bidder" (Yousif 2010: 363) – which, given their economic prowess, proved to be these very networks that were subsequently directed towards the insurgency. In other words, the decision to join one of the militias may well have been influenced by the power of "myth-symbol complexes" (Haddad 2011: 17) that led Sunnis to reject what they feared would be a Shia-dominated state; and some of the Sunni insurgents were indeed hard-headed *takfiri* ideologues. Yet the ability of the insurgency to draw on economic resources must not be underestimated: due to their embeddedness in and control of the networks of the informal economy, militias were some of the only agents who could supply some form of income. Consequently, a 2006 inquiry by the US CENTCOM came to the conclusion that "[m]oney, not ideology, was the primary motivation for joining AQI [Al-Qaeda in Iraq]" (Weiss and Hassan 2015: 84).

In the years after 2003, sectarian militias "carved out or coopted their own areas of economic control and regulation" (Parker and Moore 2007: 13). The Sunni paramilitaries of Anbar for instance emerged as key players in the smuggling of scrap metal, while also setting up 'customs' checkpoints extorting money from all those using the abovementioned Highway 10 to the Jordanian border (Herring and Rangwala 2005: 678). By 2005, an estimated 60 percent of Iraqi oil production were smuggled out of the country via these networks, and the widespread looting observed after the fall of Saddam provided further nourishment to the informal economy (ibid.: 677 ff.). Al-Douri's old car smuggling enterprises were now directed towards the supply of automobiles for the construction of vehicle-born improvised explosive devices (VBIEDs), one of the insurgents' most deadly weapons (Weiss and Hassan 2015: 21-27). Politicians in Baghdad ceased to work on a national economic project and instead became representatives of their own local sectarian constituencies and their economic networks. This point is driven home by the inability of the Iraqi parliament to agree on a hydrocarbon law dividing up oil revenues (Menassa 2014), as well as by economic decision-making on a smaller scale – such as the 2016 law banning alcohol, which in fact serves to enlarge the profits of the clandestine alcohol smuggling rings run by key parliamentarians (Salloum 2016).

On the eve of ISIS's sweeping resurgence in northern Iraq, local as well as national and regional players thus had an interest in the persistence of the informal networks of the economy of the insurgency. Rather than representing mere chaos and anarchy, the war economy had consolidated into a self-sustaining order in its own right. (Srniczek 2010: 45-49). Economic profiteering and political violence – greed and grievance – were now inextricably intertwined; and both relied upon dispersed networks connecting the sub-national with the supra-national level. In a context of continued hardship and weakness of the formal sector, the economy of war-making supplied an important revenue source to many local communities. It is this political economy that ISIS has sought to harness for its state-building project.

Harnessing the war economy: ISIS and (the limitations of) its governance model

ISIS's reliance on foreign donors has been a hotly contested issue. Dickinson (2013) initially stressed the importance of private Gulf donors operating via Kuwait in funding the group. However, it appears that it is actually the lack of dependence on foreign funding flows that sets ISIS apart from groups such as Al-Qaeda. Ideologically, ISIS has shifted from Al-Qaeda's focus on the 'far enemy' – the Zionist-Crusader alliance centred on the US – to the 'near enemy' – Iran and the Shia-dominated government in Baghdad (Gerges 2016: 4-7). ISIS's political economy mirrors this transition: instead of relying on foreign donors, ISIS has sought to galvanise local resources in order to build its caliphate. As Dickinson (2014) herself recognises by quoting an unnamed analyst, ISIS has moved "from an external financing model to an internal financing model". Consequently, reliance on the Iraqi war economy is an integral part of ISIS's rise: Woertz (2014: 2) notes that the group builds on "well established smuggling networks in the region that date back to the multilateral UN embargo against Iraq in the 1990s." Already prior to its spectacular rise in northern Iraq in 2014, the group had had a strong presence in the local economy, extorting millions from the inhabitants of Mosul (Solomon and Jones 2015).

The initial implication in and subsequent takeover of these economic networks accomplished by ISIS and its predecessor organisations (AQI and ISI) is best captured by Srniczek's concepts of 'infection' or 'contagion', denoting a process in which a macro-actor – such as Al-Qaeda – "ties itself into the fabric of a preexisting assemblage, becoming indistinguishable from it at many levels" (Srniczek 2010: 50). In other words, Al-Qaeda managed to insert itself into and subsequently hijack the local tribal and sect-based networks whose evolution has been traced above. Conversely, this insertion was also facilitated by local actors, who sought an 'alliance' with the macro-actor Al-Qaeda in order to further their own, micro-level aims (ibid.: 51) – aims that, as previously noted, were often only peripherally connected to AQI's ideological agenda. The presence of the phenomena of 'infection/contagion' and 'alliance' are confirmed by a look at ISIS's rank and file: "ISIS's cadre is rural and agrarian, lacking in both theological and intellectual accomplishment", with "a background of manual labor and blue-collar jobs [...]. ISIS thrives among poor, disenfranchised Sunni communities" (Gerges 2016: 10 f.). ISIS recruits are thus fielded by the Sunni tribes who, after the intentional demise of the *Sahwa* movement by the Maliki government, were left out in the cold (ibid.: 101-128).

Given the origins of much of its fighter population, ISIS's state-building project has unsurprisingly been heavily reliant on the economic networks that local Sunni tribes had constructed. A – perhaps optimistic – estimate puts ISIS's 2015 revenues at \$900 million (Jones and Solomon 2015). The most-high-profile activity in this regard has been the extraction and smuggling of oil – an aspect of the war economy with a long pedigree, as highlighted in the previous section. At their peak, oil production and smuggling might have enabled ISIS to earn \$1.5 million per day (Solomon, Kwong, Bernard 2016). Since then, however, production capacities have suffered from air strikes and from a lack of technical expertise required to keep the oil flowing. Moreover, in order to bring the illicit oil to market, ISIS has had to significantly lower prices and to depend on middlemen, who siphon of large prof-

its: while ISIS sold the oil for \$20-35 *bbl* at the wellhead, smugglers can sell it on for \$60-100 *bbl* in local and regional markets (FATF 2015). The oil trade is thus indicative of the opportunities and limitations of the political economy of war-making: on the one hand, it showcases the ways in which the war economy constitutes a self-perpetuating system, in which the different sides of the conflict often cooperate in the exploitation of economic resources – as witnessed by ISIS’s flourishing oil trade with the Syrian regime and at times even with the Iraqi Kurds (Belli et al., 2014). On the other hand, the inefficiencies inherent in an economy based on extraction and smuggling are also on ample display, potentially limiting ISIS’s ability to fulfil its ambitious project.

Beyond the declining oil trade, other activities have been a boon for the group’s finances. According to leaked financial documents of ISIS’s administration in Deir az-Zor, Syria, confiscations constituted 44.7 percent of revenues, and taxation amounted to 23.7 percent (Al-Tamimi 2015). Given the fact that Deir az-Zor is ISIS’s main oil producing region (Solomon, Kwong, Bernard 2016), the fact that oil revenues only fund 27.7 percent of the group’s budget in this province demonstrates the high importance of revenues from looting, extortion, and coercion. Taxation of agriculture has assumed greater importance, accounting for almost 10 percent of total revenue in the province; and further money might be made by smuggling wheat into regional markets and subsidised food distribution systems (Jaafar and Woertz 2016). Plundering of bank accounts as well as of the homes of minorities and of those who have fled the group’s advance have been other important revenue sources. The goods thus gained are profitably sold off on public markets (Solomon and Jones 2015). Kidnapping for ransom has equally supplied millions (Belli et al., 2014), as has the tapping into financial flows – such as salary payments to Iraqi government employees at Mosul, or remittances of friends and family to relatives living under ISIS control through the *hawala* network (FATF 2015). Like earlier insurgents in the aftermath of the American invasion of 2003, ISIS has sought to control transport routes in order to tax trade (Solomon and Jones 2015). Consequently, some of the fiercest fighting has taken place at al-Rutbah, a strategic town on the Baghdad-Amman highway, which – as noted above – Sunni militias had already controlled a decade earlier (Shankar 2014). Even as the group was under severe pressure by Iraqi and Kurdish forces at Mosul, it still attempted to recapture the town in late October 2016 (Antonopoulos 2016).

In sum, ISIS’s rapid territorial gains in 2014 cannot be understood without comprehending how “ISIS has married its authoritarian governance with a remarkably successful war economy” (Weiss and Hassan 2015: 232). However, while some (Ahram 2014) asserted that ISIS might be poised to overcome the “insurgency resource curse” – i.e. the tendency of the rebel groups of contemporary wars to degenerate into a criminal network focused on looting – this curse has come back to haunt the group. Hansen-Lewis and Shapiro (2015) note that ISIS’s extractive economy cannot furnish the sustained growth necessary to build a state. And Woertz (2014: 5) observes that “[t]he economic base of ISIS is a Ponzi scheme of looting that is in constant need of expansion.” This points to the limitations of the war economy which – through ‘infection/ contagion’ and ‘alliance’ – ISIS has harnessed so successfully for its rise. The violence hard-wired into this economy demands constant conquest; and the dispersed networks this economy runs on defy neat and easy control by any central agency seeking to impose its will.

It has been argued that “[g]overnance has been a winning strategy for ISIS” (Weiss and Hassan 2015: 225). Yet as expansion has stalled and looting opportunities have become scarcer, service provision in ISIS-held areas has plummeted; and as the unruly local, often tribal, networks of the war economy have proved impossible to bring under central control, inefficiencies are on the rise (Jones and Solomon 2015). ISIS has therefore abandoned its more ambitious governance agenda and become more ruthless in its extractive operations. AQI had taken the same approach nearly a decade ago – a development that threatened to asphyxiate the Sunni tribes’ local economic operations and networks and that consequently antagonised AQI’s hosts to such an extent that it led to a fallout between the

tribes and the group (Weiss and Hassan 2015: 43 f.). While a new *Sahwa* movement might not emerge this time, the fate of AQI nevertheless demonstrates the limitations of ISIS's political economy. Since it is "perennially on the edge of exhaustion" (Kaldor 2007: 118), the war economy that has brought forth ISIS also circumscribes the group's aspirations. From the Iran-Iraq War onwards, this economy has been more conducive to state-breaking than to state-making (Gongora 1997).

Conclusion

Starting from an analytical framework for understanding the political economy of warfare in contemporary armed conflict, this essay has traced the historical emergence of the Iraqi economy of war-making over the course of more than three decades of violence. Iran-Iraq War, First Gulf War, sanctions era, Second Gulf War, and the subsequent insurgency and Civil War have brought forth a highly resilient war economy. It is out of the local networks of this economy that ISIS arose; and the reliance on these networks enabled the group to shift from an 'externally financed' model to a more formidable 'internally financed' one. Yet the war economy also limited ISIS's ability to stabilise and regularise its governance. Just as it is questionable whether a stable political order can be forged out of ISIS's ideology centred on apocalyptic references and on the celebration of martyrdom that has attracted so many foreign fighters (McCants 2015), it appears that the economy of war-making is equally unsuited to the attainment of such stability. Whilst this might hasten the demise of ISIS, it does not make for a rosy outlook for Iraq's future: given the fact that the informal economy of warfare has survived Saddam and the American invasion of 2003, it will also survive ISIS, remaining in place and waiting for the next group to mount its bid for extraction and exploitation of territory, resources, and populations.

[4375 words excl. bibliography]

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