REFLECTIONS ON THE FUTURE OF THE IRAQI ECONOMY

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ملخص

تأملات فى مستقبل الاقتصاد العراقى

إن أية محاولة لدراسة مستقبل الاقتصاد العراقى يجب أن تنطلق من الآثار التراكمية لثلاثة عوامل هى :-

١ - الحرب العراقية الايرانية ١٩٨٠ - ١٩٨٨ .

٢- حرب الخليج ١٩٩١ .

٣ - العقوبات الاقتصادية التى فرضها مجلس الامن فى اغسطس / آب ١٩٩٠

بالإضافة إلى تدمير أجزاء كبيرة من الثروة البشرية والبنية التحتيه والقطاعات الاقتصادية فإن الحروب والعقوبات حولت العراق إلى بلد يعانى من ثقل الديون الخارجية وتعويضات الحرب .

إن قدرة العراق على رفع مستويات الانتاج والمعيشة تعتمد بالدرجة الاولى على عوائد صادرات النفط والتى ستحددها ظروف العرض والطلب فى الاقتصاد العالمى .

ومما لاشك فيه ان التطور فى إطار العلاقات الاقليمية والدولية لصالح العراق سيساعد على رفع مستوى معدل النمو الاقتصادى في المستقبل .

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The debate over the status of the U.N. imposed economic sanctions against Iraq tends to be cast in static terms and tends to overlook some of the historical changes which had taken place in Iraq during the decade of the 1980s.

It is true, of course, that the lifting of the sanctions, which should have been lifted soon after the end of the Gulf war, will provide much needed relief to the Iraqi people but such an act alone will fall short of addressing the structural problems, both financial and economic, which ravaged the Iraqi economy in the last fifteen years. Indeed, the restoration of the Iraqi economy to the path of development should not to be expected to take place without a concerted and well planned regional and international commitment.

The present essay will analyze the root causes of these problems; present a report card on the current state of the economy; and deal with some of the major economic problems that will face Iraqi policy makers in the post sanctions era.

1980s: The Decade of Economic Decline

It can be said that between 1950, when oil exports became an important component of Iraq's national output and 1980 when Iraq invaded Iran, the economy had experienced steady growth. This trend, thanks to the October War, was accelerated in the decade of the 1970s due to the 1973/74 oil price explosion and the unprecedented rise in Iraq's oil revenue. Thus between 1950 and 1980 Iraq's oil revenue increased from a mere $ 20 million to $26.3 billion respectively. Concomitant with this change was the rise in the oil sector's importance in Iraq's GDP which increased from 3 percent to 56 percent during the same period.

Table 1

Oil Revenue, Oil Output, Gross Domestic Product and Population 1950-1990

Year	Oil Revenue (ID billion)	GDP (ID billion)	Oil Revenue to GDP (Percentage)	Oil Output (Million Barrels per Day)	Poplation (Million)
1950	.20	.5	3	0.14	5.2
1960	.3	1.7	16	0.97	6.9
1970	.6	3.6	16	1.5	9.4
1972	1.0	4.4	15	1.5	10.0
1974	6.5	12.8	50	2.0	10.8
1976	9.2	18.3	57	2.4	11.5
1978	10.9	24.3	51	2.6	12.4
1980	26.3	53.4	56	2.6	13.2
1982	10.1	42.1	26	1.0	14.1
1984	9.4	47.5	20	1.2	15.4
1986	6.9	47.8	15	1.9	16.5
1988	11.0	55.9	20	2.7	17.6
1989	14.5	46.2	23	2.8	18.1
1990	9.5	76.7	12	2.1	18.9

Source: Government of Iraq, Annual Abstracts of Statistics; OPEC, Annual Statistical Bulletin; Central Bank of Iraq, Annual Report; International Monetary Fund, International Financial Statistics Yearbook; United Nations, National Accounts Statistics: Analysis of Main Aggregates, 1980-1989, New York, 1991.

from $654 in 1950 to $4083 in 1980. But by 1989 per cita GDP had collapsed to $1470 to fall again to $868 in 1990. [1] The question which we will attempt to answer is what are the factors which account for such unprecedented collapse.

The Destructive Impact of the Iraq-Iran War

When the government of President Saddam Hussein decided to launch the war against Iran in September 1980 the Iraqi economy was on the threshold of another decade of economic growth. In the decade of the 1970s Iraq was a beneficiary of the oil price explosion of 1973/74 and the liquidation of the costly Kurdish rebellion as a result of the 1975 Algiers agreement with the Iranian government . Furthermore, the success of the Iranian revolution in overthrowing the Iranian monarchy in 1979 benefited Iraq considerably. This is so because the leaders of the newly established Islamic Republic adopted a policy of lower oil output and export. This policy in turn enabled Iraq to expand its oil export displacing Iran as the second largest oil exporter in the region after Saudi Arabia.

These changes in Iraq's oil fortunes in the 1970s pushed its oil revenue from $.6 billion in 1970 to $26.3 in 1980 or by more than forty times in a single decade .

This immense increase in oil revenue enabled the government to increase spending simultaneously on infrastructure, goods producing sectors, social services, imports, and the military. This high level of spending was reflected in significant rise of economic indices to high levels . [2] The data in table 2 show the upward as well as the downward movements of some key economic indicators.

Table 2

Average Growth Rates of Selected Economic Indicators, 1970-1989

	1970 - 80	1980 - 85	1985 - 89
GDP	11.7	- 8.1	- 1.7
Government Consumption	13.6	- 1.3	- 4.4
Private Consumption	13.2	- 7.6	- 4.6
Gross Fixed Investement	27.6	- 0.3	- 1.5
Export of Goods and Services	4.4	- 8.8	- 1.1
Imports of Goods and Services	22.5	- 8.2	- 2.9
Agriculture	1.4	6.3	- 6.7
Industry	10.2	- 7.3	11.4
Manufacturing	13.4	0.3	- 3.1
Construction	28.4	- 7.8	- 16.2
Domestic Trade	16.8	1.3	- 10.8
Transport and Communication	19.9	- 12.4	1.8

Sources: United Nations, National Accounts Statistics: Main Aggregates and Detailed Tables, 1989, Part I (New York, 1991); United Nations, National Accounts Statistics: Analysis of Main Aggregates, 1988-1989, (New York, 1991).

It is worth stressing that the boom conditions of the 1970s were fueled by the sharp rise in export earnings of a single commodity-oil .

Therefore,when such earnings declined such decline was transmitted to the non-oil economy with a multiplier effect This was the experience of the Iraqi economy in the aftermath of the start of the war with Iran.

The destruction of oil facilities such as loading terminals, pumping stations, refineries, and pipelines forced oil output to decline from 3.4 million barrel per day (MBD) in August 1980 to .140 MBD two months later. This in turn resulted in Iraq's oil revenue to decline from $26.1 billion in 1980 to $10.4 billion in 1981 or by 60 percent .

Another effect of the war was the gradual erosion and ultimate exhaustion of foreign exchange reserves which had accumulated during the decade of the 1970s. The combined effect of the decline in oil revenue and the exhaustion of foreign reserves forced the government to resort to borrowing . Although Saudi Arabia and Kuwit provided Iraq with considerable financial support in the early phase of the war such assistance proved to be inadequate thus forcing Iraq to go to the international financial market to finance its war effort .

Iraq's own accumulated foreign exchange and its access to financial assistance and borrowing made it possible for the government to maintain high levels of civilian spending while expanding the military budget at the same time . The government decided also to increase consumer goods imports to blunt the impact of the war on private consumption and give the impression that the war would have a negligible impact on living standards.[(3)]

But this policy of "guns and butter" could not be sustained for too long and had to be ended when the war front moved to Iraqi soil in 1982 thus accelerating the deep slide of the Iraqi economy into a deep crisis.

The War, OPEC and Iraq's Oil

In 1979 Iraq's oil exports amounted to 3.3 MBD or 11.4 per cent of OPEC's total export while its oil revenue amounted to $21.4 billion or 10.6 per cent of OPEC's. Because of the war and due to changing market conditions Iraq's oil exports and revenue collapsed by 1983 to 740 MBD and $7.8 billion or 5.1 percent of OPEC's oil export and 5 percent of its revenue .(4)

This sharp decline in oil revenue forced the government to adopt programs of economic retrenchment and austerity and halt development projects except for those related to the war effort .(5)

The decline in Iraq's oil export due to the war did not cause a supply shortage in the world oil market as other oil producers in the region especially Saudi Arabia rushed to fill the gap created by the war conditions . Thus taking Middle East OPEC oil producers as a group we find that Saudi Arabia received 40 per cent of the group's oil revenue and was responsible for 40 per cent of total oil export in 1978. By 1981 Saudi Arabia's share of the group's oil export rose to 60per cent while its share of the revenue increased to 62 per cent .Another way of looking at Iraq's decline is to compare its revenue to that of Saudi Arabia . In 1979 Iraq's oil revenue was 34 per cent of that of Saudi Arabia. By 1981 the ratio has plummeted to 9 per cent .

But the slide in oil revenue was aggravated by the decline in the demand for OPEC oil and the Saudi policy of over production which in turn led to sharp decline in Iraq's oil revenue as well as OPEC's as a group . Suffice to say that the group's revenue declined from $276 billion in 1980 to $154.3 billion in 1983 and to $76 billion in 1986.

Paradoxically as Iraq's oil revenue continued to decline its dependence on this source of income intensified since it had to be used to pay for military and civilian imports, service foreign debt and serve as the basis for new borrowing .

These changes meant that Iraq's economic and military survival revolved around its oil revenue, Arab economic aid and foreign supplier credit.[(6)]

As the war Iasted far Longer than the Iraqi government had thought it had no choice but to transform the economy to a war economy . The government had no choice in this policy reversal since Iranian bombing not only cut off Iraq's access to its harbors and destroyed most of its oil exporting facilities but destroyed also its core industrialization program including petrochemicals and iron and steel which happened to be located in the southern part of the country within easy reach of Iran's air force.

In short the destructive and disruptive effects of the war in the first two years and the collapse in oil revenue led to the exhaustion of Iraq's foreign exchange reserves, general deterioration of the economy which manifested itself in high inflation, decline in agricultural and industrial output, rerouting of foreign trade, Iabor shortages, curtailment of investment spending,rise in food dependency, curtailment of imports, rise in foreign debt and rise in military spending .

Militarization of The Economy

One of the most significant changes to take place in the Iraqi economy in the decades of the 1970s and the 1980s was the massive shift of labor from the civilian economy to the military and the sharp increase in military spending and military imports.

In 1970 Iraq had 2.9 per cent of its labor force or 62.000 persons in its armed forces . But by 1980 the share of Iraq's labor force drafted into the armed forces increased to 13.4 per cent or 430.000 . And by the time the war with Iran ended in 1988 the government was using more than 21 per cent of the Labor force or 1 million in the armed forces.

The rise in the size of the armed forces had serious implications for the functioning of the economy during the war and in the post war period . Labor force data show that in the five year period 1975-1980 the size of the

Labor force increased by 400.000 workers yet the increment in the size of the armed forces was 348.000. In other words 87 percent of the five year increment in the Labor was absorbed by the military . Another effect of such an increase in the size of the armed forces is the inevitable concomitant increase in the number of support workers in the civilian economy who are called upon to provide the non-military requirements of the armed forces . A related consequence of the rise in the size of the standing army was the diversion of workers from the industrial and agricultural and other sectors of the economy thus depressing the contribution of these sectors to national output.

To offset this reallocation of Labor policy makers had no choice but to encourage the inflow of Arab workers from Egypt and to a lesser extent from Morocco and the Sudan. The other side of this influx of labor was its impact on Iraq's balance of payments due to remittance transfer to country of origin.

The Burden Of Military Expenditures

Another important impact of the war was its financial claims on Iraq's resources. As to be expected the war with Iran forced the diversion of the country's resources to underwrite the cost of the conflict.

In 1970 the Iraqi government spent less than $1 billion on its military or 19.4 percent of the GDP- a high ratio by world standards . By 1975 it increased military spending to $ 3.1 billion or 22.8 percent of GDP. By 1980 it raised military spending by more than six folds of the 1975 level to $19.8 billion or 38.8 percent of GDP.

Another way of measuring the burden of military spending is to relate it to the country's oil revenue. In 1980 the government appropriated 75 percent of oil revenue to military spending. Such spending increased sharply afterward to absorb between 117 percent and 324 percent of oil revenue between 1981 and 1988 . In other words in the decade of the 1980s the government spent several times its oil revenue on the war effort . In relation to GDP the government spent between 23 percent and 66 percent of the country's GDP between 1980 and 1988 on the war with Iran .

Similarly the war against Iran changed the composition of imports in favor of military imports . Thus in 1980 military imports amounted to 17 percent of total imports . By 1984 the ratio reached 83 percent . But the heavy burden of arms imports may be appreciated if these arms imports are related to Iraq's GDP during the period when arms imports absorbed between 5 percent and 19 percent of Iraq's GDP in the 1980s. It is significant to note in this connection that Saddam Hussein acknowledged at the May 1990 Arab Summit Conference in Baghdad the enormous burden of military imports when he said :"However, the war dragged on and its cost rose to unprecedented levels . The value of military hardware alone which Iraq purchased and used in the war amounted to $102 bn in addition to other enormous military and civilian expenditure in a devastating war which lasted eight years along a front which extended 1.200 kms."(7)

The War and Privatization

The collapse of the oil sector and the economy at large under the impact of the war conditions and the disintegration of Iraq's war machine forced the regime to re-examine its policies toward the private sector. In a state-run economy where the government was the recipient of over one half of the national income and where its control of economy can be seen in every sector it was only natural that the scope of the private sector was determined by the state's pattern of spending and by the state's policies toward this sector.

The war conditions and the desire of the government to conserve scarce foreign exchange earnings forced it to shift some of its economic functions to the private sector .(8)

Although the political decision to liberalize the economy was taken in 1982 it was not until 1987 when the government announced a major program of privatization . The core of this program was the sale by the government to the private sector of farms, factories, state owned enterprises, and state lands . Other measures were announced to deregulate the labor market, to create a stock exchange, to have private sector banking, and to open the economy to foreign investment .

The economy's structural problems of stagnant agriculture and industry, faltering oil sector compounded by the destructive effects of the war could not be solved by a program of privatization that was driven by short term political expediency . Indeed the privatization measures worsened some of the problems of the economy and led to higher rates of inflation .(9)

The failure of privatization policies to achieve their objectives and the consequent decline in real incomes forced the government to retreat from these policies .(10)

Economic Cost of the War: An Estimate

The explicit or quantifiable losses can be said to include such items as lost oil revenue, decline in gross domestic product , military expenditure and arms imports and cost of damaged and destroyed assets. In addition to these explicit losses there were implicit losses which may include the cost of inflation, loss of income from destroyed assets, lost opportunities for growth and disorganization of planning . Iraq's losses were estimated to be $452.6 billion .(11)

One way to appreciate the magnitude of the loss is to relate it to Iraq's oil revenue. Thus during the period 1931 when the government received its first payment for oil export and 1988 when the war with Iran ended the cumulative revenue from oil amounted to $179.1 billion .This means that the war induced loss amounted to 254 percent of all the oil revenue which Iraq received over a period of fifty seven years . Another way of measuring the magnitude of the war loss is to relate it to Iraq's GDP during the period of the war - 1980-1988. During the war years Iraq's GDP amounted to $433.3

billion. Relating the war cost to this figure we find that the economic loss of the war amounted to 104 percent of the GDP during the war years .

The Invasion of Kuwait as a Response to the Economic crisis

Iraq entered the post war period with a smaller and disorganized economy that was overburdened with inflation and foreign debt.(12)

To cope with the economic crisis, and to also fund an ambitious program of military industrialization Iraq had to rely on a shrinking source of oil revenue which in 1988 generated only $11 billion or 42 percent of the 1980 level of oil revenue.(13)

The exhausted state of the economy was reflected in the 9 percent decline in GDP in 1989 over 1988 . The decline in GDP was a severe blow to the government and forced it to adpot an austerity program of spending . But to lower government spending in a period of severe economic crisis was counterproductive. What the economy needed at that particular juncture was an increase in the supply of goods to dampen inflation and restore some of the living standards that were severely eroded during the war . And in order to achieve this objective Iraq had to see to it that its oil revenue must increase . And it was in this particular arena that the stage was set for Iraq's conflict with Kuwait and which led to its invasion in 1990.

The invasion of Kuwait as a short cut solution to Iraq's economic crisis and the regime's failure to improve living standards was underscored by the deputy prime minister for the economy who said that Iraq will be able to pay its debt in less than five years; that the "new Iraq" would have a much higher oil production quota; that its income from oil would rise to $38 billion; and that it would be able to vastly increase spending on development projects and imports.(14)

A similar explanation was articulated by Iraq's foreign minister when he said :

"the economic question was a major factor in triggering the current situation ... This year's state budget required seven billion dollars for debt service, which was a huge amount, leaving us with only enough for basic services for our country . Our budget is based on a price of eighteen dollars a barrel for oil. We were now desperate, and could not pay our bills for food imports. It was a starvation war. When do you use your military power to preserve yourself?"(15)

U.N. Sanctions and the Iraqi Economy

Iraq's invasion of Kuwait on August 2, 1990 prompted the United Nations Security Council under the leadership of the United States to deny Iraq the economic benefits of the invasion by imposing a sweeping and comprehensive system of sanctions which cut off the Iraqi from the international economy . The nature of this system of sanctions was assessed as follows:

"Never before had an offending state been subjected to enforcement action by the Security council in such a prompt and determined manner ."(16)

The sanctions which banned all transactions with Iraq had an immediate and deep impact on the economy . This is so because of the utter dependece of the Iraqi economy on the world economy for its oil exports, its foreign exchange earnings , its import of foodstuffs and other consumer goods, capital goods, inputs, spare parts and technology. It would be no exaggeration to say that the impact of the sanctions on Iraq's economic future will be felt for decades.

The effectiveness of the sanctions was summed up in a testimony before U.S. Senate Foreign Relations Committee in December 1990 when it was reported that the embargo has effectively shut off 90 percent of Iraq's imports and 97 percent of its exports resulting in serious disruptions to the economy and hardship to the people . (17)

The disruptive impact of the embargo was made vastly worse by the destructive effects of the six week bombing campaign which started on January 16,1991 which was aimed not only at military targets but also at other assets such as civilian infrastructure, power stations, transport and telecommunication networks, fertilizers plants, oil facilities, iron and steel and other industrial plants , bridges, storage facilities, and hospitals and other civilian structures.

Although the Iraqi government has not published an estimate of the cost of the destroyed assets such an estimate, however, was made by regional organizations which placed it at $231 billion. (18) This figure, it should be noted, is 8 times Iraq's 1989 real GDP .

The Question of Foreign Debt

Iraq unlike most Third world countries has been a foreign debt free country since the early 1950s when it repaid ahead of schedule the balance of its debt to the world Bank. In the 1970s Iraq was providing soft loans and grants to other Third World countries through its contributions to OPEC Special Fund and through its own Iraqi Fund for External Development. Moreover, Iraq was in a position to accumulate considerable portfolio of foreign assets estimated in 1980 at $35 - 40 billion .

The war with Iran changed all that. The war financial requirements coupled with the drastic decline in oil revenue forced Iraq to abandon its foreign assistance programs, liquidate its foreign assets and resort to borrowing. By the time the war with Iran was ended Iraq has become a major debtor country .

Although there are no agreed upon precise data regarding the size of Iraq's foreign debt there are , however, reliable estimates of magnitudes . Thus Iraq's foreign debt is estimated at the end of 1990 to be $ 86 billion (19). The debt was broken down as follows:

$ 35 billion to western governments and banks

$ 11 billion to the former Soviet Union and Eastern Europe

$ 40 billion to other Arab countries

The government maintains, however, that the fund it received from the Gulf states during its war with Iran were a grant to help with Iraq's military effort . For its part the government acknowledged that "Iraq's total external debt and obligation" amounted to $ 42 billion plus $ 34 biliion in interest or a total of $ 76 billion to be paid in the period 1991 -95.[20]

Even if the lower figure of $ 76 billion is accepted as Iraq's actual debt obligation this debt must have grown since none of it was paid because of the sanctions and, therefore, additional interest has to be taken into consideration . This means that the debt is several times Iraq's GDP and Iraq's potential oil earnings.

Iraq's Economic Future : Claims vs . Resources

The central economic problem which Iraq will be facing in the post sanctions era can be stated in very simple terms. In 1960 Iraq's GDP measured in 1980 prices amounted to $ 8.7 billion. By 1979 GDP peaked at $ 54 billion to decline to $ 26.9 billion in 1989 and to an estimated GDP of $ 10 billion in 1993. Relating GDP to population we find that per capita real GDP was $1261 in 1960; $ 4219 in 1979; $ 1470 in 1989; and $ 485 in 1993.

Table 3

Gross Domestic product and GDP per capita in constant 1980 prices, 1950-1993 (U.S. Dollars)

Year	Population (Million)	GDP ($ Billion)	Per Capita GDP ($)
1950	5.2	3.4	654
1960	6.9	8.7	1261
1970	9.4	16.4	1745
1975	11.1	30.0	2703
1979	12.8	54.0	4219
1980	13.2	53.9	4083
1982	14.1	42.8	3035
1984	15.4	35.1	2279
1986	16.5	29.1	1764
1988	17.6	30.9	1756
1989	18.3	26.9	1470
1990	18.9	16.4	868
1991	19.6	12.3	627
1992	20.0	11.1	555
1993	20.6	10.0	485

Source : Derived from United Nations, National Account Statistics; International Monetary Fund , International Financial Statistics; Arab Monetary fund et al, Joint Arab Economic Report, World Bank , World Tables, A.M.S. Ali and H.A.J Ganabi " Political Economy of Inflation in Iraq 1998 - 1992, " Arab Economic Journal No.1 (Autumn 1992).

This drastic collapse in per capita GDP amounted to the nullification of several decades of economic growth and improvement in the living standards of most Iraqis . This in the final analysis is the price which the average Iraqi will have to pay for the wars and economic mismanagement of the last fifteen Years .

Given this state of affairs the question which presents itself is this : can Iraq reverse this unprecedented slide in its economy? The answer will have to depend on the relationship between the external claims on Iraq's financial resources and the likely level of these resources .

An Estimate of External Claims

There are at least three forms of external claims which Iraq will have to deal with in the post sanctions era.

1. Compensation of economic losses suffered by Iran during the Iraq-Iran war. Although there is no agreement on the precise dollar cost of such damage a U.N. Security Council report placed the value of the damage at $97 billion. (21)

2. Foreign debt. Iraq's foreign debt has been estimated by the Iraqi government, as was stated above, to be $75 billion.

3, United Nations Compensation Fund. Under the terms of Security Council resolution 687, the cease-fire resolution a UN administered Compensation Fund was established. Iraq agreed that 30 percent of oil revenue will be earmarked for the purpose of paying compensation for damage claims against Iraq as a result of its invasion of Kuwait. (22)

Given the magnitude of these external claims the question is how Iraq is going to be able to satisfy these claims and also meet its needs for imports and the necessary capital to re-start the process of economic development. This in turn hinges on Iraq's ability to generate oil revenue-the sole source of foreign exchange in the future .

An Estimation of Iraq's oil Revenue

The level of Iraq's oil revenue is for all intents and purposes beyond its control since it is determined by external market forces. Iraq's oil revenue is a function of global demand for oil, global supply of oil, the price of oil and Iraq's share of the world's total oil export, particularly OPEC's oil export .

In its 1994 edition of World Energy Outlook the International Energy Agency (IEA) projects that the world oil demand will rise from 66.9 MBD in 1991 to 77.3 MBD in 2000 and to 84.6 MBD in 2005 respectively . In the absence of financial constraints to expand capacity OPEC is expected to increase its exports from 20.4 MBD in 1991 to 31.0 MBD in 2000 and to 37.5 MBD in 2005. (23)

A recent study estimates that Iraq's oil export will rise from 1.8 MBD in 1997 to 3.3 MBD in 2000 and to 5.3 MBD in 2005. The study also assumes an OPEC basket price of $16 per barrel in the period 1997-2005. Given these assumptions it is estimated that Iraq's oil revenue for this period will amount to $182 billion .(24)

But since 30 percent of this income is set aside for the UN compensation Fund this means that Iraq will be left with $ 127.4 billion or $14 billion per year to meet the remaining claims and finance its import and development programs .

Development Financial Requirements

Iraq will in the post sanctions era require considerable resources to meet the daunting tasks of reconstruction, rehabilitation and development. Major portions of Iraq's capital stock were destroyed, damaged or have deteriorated in the course of the two wars and during the sanctions regime. This is true of oil fields, petrochemical industries as well as housing. Moreover the drastic fall in living standards will have to be ended and reversed. In order to achieve the latter development spending need to be resumed .

In a report submitted to the security council the Iraqi government contended that to achieve a 3.4 percent of economic growth in the non-oil sectors of the economy it needed to invest $92 billion over a period of five years . The foreign exchange component of this investment was estimated to be $55 billion or $11 billion per year. It is worth noting that the projected rate of economic growth was estimated to yield an increase in per capita GDP of .6 percent since the population growth rate was projected to be 2.8 percent. (25) Clearly this projected increase in per capita GDP is rather minuscule given the long term decline in living standards which started in 1980. Yet it is difficult to see how such an increase could be attained given the external constraints on Iraq's financial resources.

The Questions of Imports

In addition to foreign claims, reconstruction and development requirements Iraq will have to start an import program of foodstuffs,consumer goods, inputs and capital goods necessary for the functioning of the economy.

During the decade of the 1980s Iraq's per capita non-military imports averaged $500. Should Iraq maintain the same level of per capita imports and given Iraq's projected population in the years to come it is estimated that its import bill will be $11 billion in 1997 and $13 billion in 2000 .

These imports should be viewed as the lower end of Iraq's requirements since they do not include military imports or imports needed for inventories. Moreover, these estimates do not take into consideration the unavoidable rise in import prices. In other words these projections imply a reduction in the real value of imports. It is difficult to see how Iraq can raise the funds necessary for these imports given all the other claims on its scarce resources. It is equally difficult to see how Iraq can afford to have lower imports given its present conditions of hyperinflation, idle capacity, malnutrition, high unemployment, collapsing currency and high mortality rates in all sectors of its society.

Does Iraq Have An Economic Future?

The unavoidable conclusion from the above analysis seems to be that prospects of economic recovery and growth in Iraq are not bright.

The arithmetics is very simple as it points to a huge resource gap between the economy's potential capacity for foreign exchange earnings and its foreign exchange requirements. Iraq's oil exports are not expected to generate high levels of oil revenue for some years to come; the wars' claims will burden the economy for a long time; Iraq's foreign debt service will narrow its options severely; its present population is already 50 percent larger than in 1979; and its capital stock is in need of repair and/or replacement and expansion.

The unavoidable conclusion seems to be that Iraq's economy will have to labor under conditions of underdevelopment for a long time to come. This is so because in order for the Iraqi economy to grow it must generate savings to be invested in its goods producing sectors and in its infrastructure both physical and social . But to generate such savings Iraq must be able to have level of income that would exceed its private and public consumption as well as meet the requirements of its foreign debt service and other international obligations. Under present conditions the prospects of generating such savings are simply nonexistent.

Irrespective of how the Iraqi government, any government, will attempt to conduct economic policy in the post sanctions era its options are going to be both narrow and few. It is worth remembering that it took Iraq nearly five decades and vast amounts of foreign exchange to accumulate the capital stock which it had up to 1980. The combined effects of the two wars resulted not only in the destruction of much of what had been built in five decades but it resulted also in the fiscal bankruptcy of the country, impoverishment of the people and deepening of the economy's dependency on the world economy.

The economic legacy which the policies of the last fifteen years have saddled Iraq with for generations to come may be gleaned from what happened to incomes. As was stated earlier per capita GDP in real terms declined from $4219 in 1979 to $485 in 1993. For purposes of comparison per capita GDP was $654 in 1950 and $1261 in 1960. The simple question that must interest any observer of the Iraqi scene is how many years it will take the Iraqi economy to restore per capita GDP to its 1960 or even 1950 levels. Based on government data regarding the relationship between investment and the rate of economic growth and even assuming the availability of funds it is very clear that ordinary citizens will have to wait for decades to capture the living standards which they once "enjoyed" in 1960 or even in 1950.

Iraq's effort to resume its economic development and reverse the decline in per capita GDP can be helped, of course, to the extent that regional and international assistance will be made available to it .

Regionally such an assistance could be provided by oil producing countries by allowing Iraq's oil to re-enter the world market speedily . Furthermore, regional and other OPEC oil producers, particularly Saudi Arabia could help Iraq by raising its quota of oil production above what it was prior to the invasion of kuwait .

Saudi Arabia is singled out here because that country was the primary beneficiary from the absence of Iraq's oil from the world market . Thus prior to the invasion Saudi oil output and export amounted to 5.3 MBD and 4.6 MBD respectively. Yet for the period 1991 - 1995 Saudi oil production and export averaged 8.2 MBD and 7.4 MBD respectively. The increase in Saudi export due to the absence of Iraq's oil from the market was estimated to have provided Saudi Arabia with an additional $90 billion above what that country would have received between 1990and 1995 if Iraq had not invaded Kuwait. (26)

Much relief could be provided to Iraq if foreign creditors would cancel or write down Iraq's debt or grant Iraq a long grace period before it resumes its debt service. Given the foreign exchange resource gap which Iraq will face it is obvious that iraq will not be in a position to meet its obligations. This form of relief should not be difficult to arrange since most of Iraq's debt is owed to governments rather than to banks and other financial institutions.

Given the depth of Iraq's multiple crises and the paucity of resources one is compelled to conclude that, in the absence of serious regional and international assistance, the economic future of Iraq is very bleak .

Footnotes & References

1- For these and other economic indicators see Abbas Alnasrawi, The Economy of Iraq : Oil, Wars, Destruction of Dvelopment and Prospects, 1950 - 2010 . Wesport, CT : Greenwood press, 1994 .

2 - See United Nations, National Accounts Statistics : Analysis of Main Aggregates , 1988 - 1989, New York : 1991, PP. 126-197 .

3- See Economist Intelligence Unit (EIU), Economic Review of Iraq, No. 3, 1981 , p. 10 .

4- For data on Iraq's oil output, export and revenue see OPEC, Annual Statistical Bulletin 1991, Vienna .

5 - For a more detailed treatment of these issues see Abbas Alnasrawi, "Economic Consequences of the Iraq-Iran war" Third World Quarterly, Vol 8,No . 3 , 1986, pp. 869 - 895 and 'Iraq : Economic Consequences of the 1991 Gulf War and Future Outlook, "Third World Quarterly , Vol 13. No. 2, 1992 , pp. 335 - 352 .

6 - EIU, Economic Review of Iraq, No.4, 1984, p.11.

7 - See Middle East Economic Survey (MEES) July 23,1990, P. D6.

8 - For a good analysis of the issues involved see Robert Springbog,

" Infitah, Agrarian Transformation , and the Elite Consolidation in Contemporary Iraq, "The Middle East Journal, 40, No.1 (winter 1986), pp. 33-52.

9 - For details see Isam Al - Khafaji, "The war and the Iraqi Economy, "Al - Thaqafa Al - Jadidah (in Arabic), June 1989 , pp. 4-34

10- For more details on the fate of privatization see MEES. January 23, 1989, PP. B3 -4 and September 18, 1989, pp. B1-2, and EIU , Country Report, Iraq, No. 4, 1989, p. 8.

11- Kamran Mofid , The Economic Consequences of the Gulf War London : Routledge , ch. 10 especially p. 133.

12- For a comprehensive study of inflation see A.M.S Ali and H.A.J. Al-Ganabi ,"Political Economy of Inflation in Iraq 1980 - 1992. "Arab Economic Journal, Vol.1 (Autumn 1992);pp. 91-113; for estimates of Iraq's foreign debt see Abbas Alnasrawi, note 1 above, chapter 8 .

13- For a more detailed listing of the many economic problems facing the government in the aftermath of the Iran - Iraq war and the changing conditions of the oil market and the developments which led to the invasion of Kuwait see Abbas Alnasrawi, " Economic Sanctions : Theory, Effectiveness and Application to Iraq. " Arab Economic Journal, Vol3 (Autumn 1994), pp.4-42 especially pp. 25-30 .

14- See MEES , September 17, 1990, P. A6 .

15- Cited in Janice Gross Stein; "Deterrence and compliance in the Gulf, 1990 -91 : A Failed or Impossible Task," International Security, Vol 17. No. 2, Fall 1992, p. 158.

16- See Christopher C. Joyner, "Sanctions,Compliance and International Law : Reflections on the United Nations' Experience Against Iraq, "Virginia Journal of International Law Vol 32, No . 1, Fall 1991, , P. 12. See also Lawrence Freedman and Efraim Karsh , The Gulf Conflict 1990- 1991 : Diplomacy and war in the New World Order, Princeton: Princeton University Press, 1993 .

17- See The New York Times, December 6, 1990, p. A16 .

18- See Arab Monetary Fund et al . Unified Arab Economic Report, 1992 (in Arabic), Abu Dhabi, 1993, p. 18.

19- Keith Bradsher, "War Damages and old Debts Could Exhaust Iraq's Assets. "The New York Times, March 1, 1991 and MEES, May 13, 1992, pp. D6-9.

20- See MEES, May 13, 1991, p. D6 .

21 - See United Nations Security Council, Letter dated 24 December 1991 From the Secretary - General Addressed to the president of the Security Council , P. 15.

22- As of August 1994 these claims are estimated to be $160 billion. See MEES, October 31, 1994, p. A6 .

23 - See Internationl Energy Agency, World Energy Outlook : 1994 Edition, Paris, 1994, p.45.

24- See Fadhil Al-Chalabi, "The Economic Effects of the Invasion of Kuwait. "paper presented at the Arab Thought Forum, Amman, Jordan, January 16-17, 1996.

25- See MEES, May 13; 1991, pp.D6-9.

26- See Al-Chalabi, note # 24.