FINANCIAL AND ECONOMIC CONSEQUENCES OF THE GULF WAR: IRAQI RESPONSES

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Apart from its obvious strategic implications, the Iran-Iraq war has brought about far-reaching structural changes in the economies of the belligerent nations. Falling oil prices have further exacerbated the war-related hardships. In this wide-ranging essay, Anne-Marie Johnson examines the measures Iraq has taken to meet the economic demands of this war. Iraq has developed export outlets, rescheduled its debt, built new transport facilities, and partially liberalized its private sector. Ms. Johnson concludes that Iraq has positioned itself favorably to deal with current and future challenges posed by the international economic environment.

INTRODUCTION

At the start of the Iran-Iraq war in 1980, Iraq was the Organization of Petroleum Exporting Countries' (OPEC's) second largest producer, with a national tally of 3.5 million barrels of oil per day (b/d). Today, through a network of expanded oil export facilities, Iraq has once again assumed this role. Oil exports are estimated to reach 2 million b/d in 1986 and a further 1 million to 1.5 million b/d in export capacity is expected to be added over the next year. This rebound is especially remarkable when one considers that Iraq's principal export routes through the Persian Gulf, along with its pipeline through Syria, have been shut down since the early stages of the Iran-Iraq war.

Iraq has met the economic challenges of the war with a program emphasizing expanded export capacity, access to international capital markets, massive debt reschedulings, and internal adjustments. Although its efforts have been aided by Arab allies and Western friends, the Iraqis have demonstrated considerable ability to deal with the economic consequences of a long and expensive war.

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This article surveys Iraq's response to the economic issues confronting the country since the start of the war. The work is divided into three parts, each corresponding roughly to Iraq's three-pronged economic response. In Part I, Iraq's attempts to expand and develop alternative oil export facilities are surveyed. These include not only new pipeline schemes but the development of major overland trucking networks through Jordan and Turkey.

In Part II, I explain how Iraq has successfuly tapped the international capital markets, refinanced and restructured its commercial and project debt, and acquired financial assistance from its principal Arab allies.

Part III discusses the impact of the war on Iraq's internal economy. Adjustment efforts in import spending, national revenues, and inflation levels are surveyed and present economic priorities are discussed.

Wherever possible I have attempted to provide relevant statistics to illustrate trends in important economic sectors. However, Iraq has not published official statistics in well over six years. Thus, all references to specific "numbers" here and elsewhere must be viewed with skepticism and should be used only for the purposes of estimation. Nevertheless, the statistics presented in this paper represent the most reliable information currently available and thus are useful for the present analysis.

I. The Oil Sector

Immediately prior to the war's outbreak in September 1980, Iraq was comfortably ensconced as OPEC's second largest oil producer (after Saudi Arabia) with exports of some 3.5 million 42-gallon b/d. Within just a few weeks of fighting, however, this position deteriorated dramatically. Iranian aerial bombardment destroyed Iraq's principal Gulf export terminals at Mina al-Bakr and Khor al-Amaya near the port of Fao. The shutdown of Gulf exports meant that Iraq had to rely on pipeline outlets through Turkey and Syria. Exports plummeted to an estimated 1 million b/d.

A further blow came in April 1982 when Syria, in support of Iran's war effort, closed its 700,000 b/d pipeline to Iraqi crude. This left Iraq with only its pipelines through Turkey with daily capacity of some 650,000-700,000 b/d.[1] Not all of this was available for worldwide export, however, since Turkey's transit agreement with Iraq entitled it to 250,000 b/d of this output.

1. Estimates of the throughput of this line before expansion range from 650,000 b/d to 846,000 b/d. See *Petroleum Economist*, February 1984, p. 76.

With the shutdown of its ports and the closure of one of its two principal pipelines, Iraq's oil exports were at their lowest level since 1958. Iraq responded to this challenge by skillfully expanding and developing alternative export facilities. These included the expansion of existing pipelines through Turkey, a linkup with the Saudi Arabian Petroline, and the development of an overland trucking route to the Jordanian port of Aqaba.

Export Routes

The Iraqi-Turkish pipeline runs 1,000 kilometers from Kirkuk in the Kurdish Autonomous Region to Yumurtalik on the Bay of Iskandarun. The pipeline has been in operation since 1977. In response to wartime pressures, its throughput was boosted from 700,000 to 1 million b/d with the application of chemicals designed to enhance oil flows, the construction of five pumping stations, and the installation of 50 miles of looping (extra pipes to add capacity at critical points). Construction was undertaken by the Turkish firm of Enka Holding and financed largely by a $120 million Euroloan.[2]

Work on a new pipeline that will parallel the existing line began in 1985. Completion of this line will bring total output through Turkey to 1.6 million b/d by mid-1987. Moreover, this capacity perhaps later can be expanded with the installation of further booster stations. The pipeline deal, signed in late 1985 with the Italian-Turkish consortium of Saipem, Kutlutal and Teckfen, includes the planned installation of 558 kilometers of pipe, and construction of a marine terminal in Turkey.[3] When finished, liftings will be made by Italy's state oil company, AGIP.

The Iraqi part of the pipeline, with an estimated value of $230 million, will be built for the State Organization for Oil Projects.[4] Saipem has reportedly agreed to take oil in part payment for its participation in the deal.[5]

Successful expansion of the existing pipeline and the prospect of another 500,000-600,000 b/d of on-line capacity in 1987 provide the Iraqis with key western export outlets; however, because both lines run through rugged terrain populated primarily by Kurds, they are vulnerable to sabotage. Indeed, in January 1982 an explosion about 70 kilometers inside Turkey damaged the

2. Ibid.
3. *Middle East Economic Digest,* 30 November 1985.
4. Ibid.
5. Ibid.

pipeline.[6] Although the damage was repaired and capacity soon resumed normal levels, the incident underscored the pipelines' potential vulnerability. Because of wartime pressures, Iraq does not have the available resources or manpower to devote to securing the line. Thus it has had to rely primarily on Turkish policing efforts to ensure uninterrupted oil flows. Although this arrangement seems to be working well enough, the danger of rebel activity directed against the line remains.

Saudi Arabian Outlets

Iraq has been able to increase its export capacity by a further 500,000 b/d through the construction of a 390-mile, 48-inch line from southern Iraq to Pump Station Number 3 on the existing Petroline running from Saudi Arabia's Eastern Province oil fields to the Red Sea port of Yanbu. The project required new facilities at the end of the Iraqi line. These included the construction, at Zubair, of 16 tanks with a capacity of 6 million barrels and two pump stations with capacity of 1.6 million b/d.[7] Construction contracts were awarded in September 1984 to an Italian/French group consisting of Saipem, Snamprogetti, and Siderexport of Italy and Spie-Capag of France. The project was completed in less than a year and the first cargo of Basra Light was loaded at Yanbu on September 30, 1985 by Petrobras of Brazil.[8]

The recently completed link-up is only part of a two-phase plan that will increase oil sent through Saudi Arabia to 1.6 million b/d. Phase 2 of the project includes the construction of an independent pipeline running 970 kilometers from Petroline's pump station to a Red Sea port 20 kilometers from Yanbu. The $1 billion to $1.5 billion project will require the construction of a separate terminal at the end of the line with storage capacity of 10 million barrels and offshore loading facilities for tanks up to 400,000 dwt. Saudi Arabia's Aramco has set up a team to monitor construction of the pipeline and U.S.-based Brown and Root International has been retained as consulting engineer.

Bidding response for Phase 2 was recently labeled by Iraq National Oil Company President Issam Al-Chalabi as "overwhelmingly positive". Al-Chalabi further noted, it is "a buyer's market for engineering and construction

6. Christine Moss Helms, *Iraq: Eastern Flank of the Arab World* (Washington, D.C.: The Brookings Institute, 1984), p. 51.
7. *Oil and Gas Journal,* 14 May 1984, p. 71.
8. *Wall Street Journal,* 5 March 1985,p. 35.

companies, just as it is for crude. I'm asking for 100% financing and getting it."[9] In addition, the companies are being asked to accept payment in oil.

There is some indication that the Saudis have been apprehensive about going ahead with Phase 2 of the plan,[10] which may be attributed to fears of Iranian retaliation if Iraq is allowed to proceed with the building of a separately-owned and independent pipeline through Saudi territory. However, with the present oil glut and uncertain prices, it is understandable that the Saudis are hesitant about providing Iraq with a separate pipeline over which they would exercise somewhat less control. As it stands, the Iraqi link-up with Petroline assures the Saudis ultimate authority over Iraqi export flows. Although Saudi Arabia will still retain the options of either shutting down the new pipeline or denying port access to Iraq's tanker customers, an independent pipeline will undoubtedly provide the Iraqis with enhanced export autonomy.

Other Pipelines

Proposals for a pipeline running from southern Iraq to the Jordanian port of Aqaba have been temporarily shelved. The plan initially envisaged the building of a 560 mile, 1 million b/d line and the construction of permanent terminal facilities at Aqaba. Costs were estimated at over $1.1 billion and a major portion of the construction was to be awarded to Bechtel Corporation.[11]

Project plans got hung up on Iraq's concern for the security of the line. Because it was to have run close to the Israeli border, Iraqi officials insisted that, in addition to major U.S. participation in the deal, US companies must agree to meet the cost of any damage sustained in the event of an Israeli attack.

In 1981, Iraq was pumping close to 700,000 b/d of crude through the Kirkuk-Baniyas pipelines with 100,000 b/d going to supply two Syrian refineries at Baniyas and Homs. At the time of its closure in April 1982 this level had fallen to an estimated 400,000-500,000 b/d. Although the capacity of the line is estimated at close to 1 million b/d, the flow has always depended upon politics. In response to political tensions, the Syrians closed both the Baniyas line and the 57-kilometer spur to the Lebanese port of Tripoli in 1966 and 1976.

9. *Middle East Economic Digest,* 26 September 1986, p. 13.
10. *Wall Street Journal,* 5 March 1985, p. 35.
11. *Oil and Gas Journal,* 31 October 1983, p. 52.

Although closure cost Baghdad an estimated $70 million a day in lost revenues, there is little to indicate that the Iraqis expect or even desire the line reopened. Indeed, First Deputy Prime Minister Ramadan, in a 1985 interview with the London weekly *al-Dustur,* stated, "I consider the Syrian pipeline abandoned, because we will not need it after the opening of the new oil outlets through Saudi Arabia and Turkey."[12]

Other pipeline schemes have been considered. Iraq has shown interest in joining forces with the Gulf Cooperation Council (GCC) countries to build a pipeline from Kuwait to the Omani coast, bypassing the Strait of Hormuz.[13] The proposal, however, represents a major investment and it is unlikely that the Arab states involved will be willing to commit themselves soon.

Overland Trucking Routes

Iraqi oil products are also being trucked overland to the ports of Mersin and Iskenderun in Turkey and Aqaba in Jordan. The cargo is transported in a fleet of 5,000 trucks which are in use day and night, year round.[14] Estimates of the amount of oil currently exported in this manner range from a high of 200,000 b/d to a low of 100,000 b/d, although these figures were considerably lower in 1985.[15] Iraq also claims to be transporting some 300 tons a day of gas liquids and 2,000 tons a day of gas oil through Turkey.[16]

Aqaba has contributed greatly to Iraq's continued economic effort. Since the outbreak of the war the port's transit traffic has more than tripled. In 1983, half of Aqaba's imports of some 6 million tons was transit traffic, with an estimated 2-3 million tons destined for Iraq.[17] Iraq has provided financing for the continued expansion of the harbor and the construction of a new, more direct highway via the Jordanian town of Azraq. In addition, the construction of a new oil berth for Iraqi use was recently completed. The facility can handle some 10,000 tons a day of crude.

The two-lane highway leading from Aqaba appears to have almost reached capacity and it is unlikely that Iraq could increase its exports along the route.

12. *Petroleum Economist,* September 1984.
13. *Middle East Economic Survey,* 27 May 1985, p. A4-A5.
14. *Petroleum Economist,* October 1985, p. 374.
15. *Middle East Economic Survey,* 23 August 1986, p. 16.
16. *Petroleum Economist,* September 1984, p. 326.
17. *Financial Times,* 29 May 1984, p. 4C.

This is evident even to the casual observer: in August 1985 I was able to visit the area and was struck by the amount of congestion on the road.

Current Production

The increased export facilities described above have enabled the Iraqis to increase production from a low of 897,000 b/d in 1981 to a reported 1.9 million b/d in July 1986.[18] This production level was realized despite the closure of three southern oil-producing fields due to Iranian air strikes.

Although production figures vary from source to source, there seems to be a general consensus that oil production has steadily increased since 1981.

This trend continued through 1985 and into 1986, as the newly completed Turkish expansion and the Saudi link-up came on board.

Iraq's Yanbu liftings were reported in August 1986 to be running somewhere in the range of 400,000-500,000 b/d.[19] Exports through Turkey averaged 1.02 million b/d in May 1986, 990,000 b/d in June, 930,000 b/d in July, and 915,000 b/d in August.[20]

Iraq's principal customers buy on contract and thus little of its crude oil exports appears on the spot market. Nine Japanese companies were reportedly lifting 210,000 b/d at Yanbu through 1985. Other companies include Shell International and Brazil's oil company, Petrobras. All told, Petrobras lifts some 200,000 b/d of Iraqi crude from Yanbu, Ceyhan, and Aqaba,[21] up from 140,000 b/d in 1985. The increase has resulted from the growth in barter arrangements between the two countries.

FIGURE 1–1
OIL PRODUCTION
(thousand b/d)

1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
2262	2415	2348	2562	3477	2646	897	1012	1098	1221.3

Source: *Petroleum Economist*

18. *Middle East Economic Digest*, 23 August 1986, p. 16.
19. Ibid.
20. *Petroleum Intelligence Weekly*, 15 September 1986, p. 8; and 16 June 1986, p. 7; and 21 July 1986, p. 9.
21. *Middle East Economic Survey*, 2 December 1985.

Until the summer of 1986 the pricing formula for Basra Light loaded at Yanbu was based on a basket of spot Gulf crude minus a discount of some $.40-$.60 per barrel. Recently, however, Iraq revised its pricing formula for Basra Light in response to stiff Japanese pressure. The new valuation is based on the netback price charged by Saudi Arabia to its Japanese customers. The arrangement is expected to save the Japanese an estimated $.50 to $.70 a barrel. Predictably, this has led to an increase in Japanese lifting, to a reported 250,000 b/d in July.[22]

Once the new lines across Turkey and Saudi Arabia are up and running at full capacity (in 1988 or 1989), Iraq's total exports could reach as high as 3.2 million b/d. Until recently this was far above Iraq's official OPEC quota of 1.2 million b/d. However, in a highly unusual move, OPEC oil ministers at their August 1986 meeting totally exempted Iraq from the group's overall quota, leaving it free to export at full capacity.

The recent OPEC move follows on the heels of Iraqi threats to continue to raise output until it reached what Oil Minister Taqi called "our fair share."[23] What exactly "fair share" meant was not always entirely clear. In 1985 it was 2.35 million b/d; earlier in 1986 it was 13.1 percent of total OPEC output; and, just prior to the August 1986 OPEC meeting, it was considered quota parity with Iran.

Iraq recognizes that falling oil prices and increased production schedules in other OPEC and non-OPEC countries have made for a softer market. Thus, oil ministry officials have attempted to allay fears of unrestrained Iraqi pro-

FIGURE 1–2
CRUDE OIL PRODUCTION AND EXPORTS, 1985-1986
(million b/d)

	1985	1986[a]
Production	1.40	1.70
Exports	1.15	1.45

[a]average for three-month period, Jan-March

Source: "Iraq: Gulf War Soaks Up the Revenue," *Middle East Economic Digest*, 19 April 1986, p. 37.

22. *Middle East Economic Digest*, 19 July 1986, p. 15.
23. *Middle East Economic Survey*, 7 October 1985, p. A8.

duction. Accordingly, Taqi recently assured industry sources that "we are not going to reach 3 million or 4 million b/d — we are not going to destroy the market, but we are going to take our share when others refuse to give it to us."[24]

Refining capacity

Iraq's refining output was disrupted at the beginning of the war by Iran's bombing of refineries at Dawa and Basra in 1981. This caused temporary difficulties until a newly built unit at Salahedin came on stream in 1983. By 1984 Iraq had also expanded capacity with the installation of several 10,000 b/d topping units and the commissioning of two initial stages of a major new refinery at Baiji.[25] This added an additional 220,000 b/d of capacity.

Iraq's total refining capacity is now estimated at 400,000 b/d although actual production is thought to be about 350,000 b/d.[26] This is more than enough to meet Iraq's domestic needs. Moreover, with 1985 demand estimated at 300,000 b/d[27] it does seem likely that Iraq will be able to produce at a level sufficient to satisfy internal consumption for some time to come.

Natural and Associated Gas

In 1982, Iraq's gas production was estimated at 410,000 million cubic feet. Of this only 70,000 million cubic feet, or 17 percent, was used. Iraq flares over 80 percent of its gas production. Gas exports are down because of the closure of Iraq's ports, and what gas is not flared is largely consumed locally. However, Iraq's prospects for future associated gas exports improved with the signing of an agreement with Kuwait for the building of two pipelines to supply that country with 30-40 percent of its gas needs. The gas will be transported from Iraq's southern oil fields to points in northern Kuwait. Project costs are estimated at some $80-$100 million and are to be met entirely by Kuwait.[28] Exports reportedly began on September 4 and include an initial 200 million cubic feet per day, rising to 400 million cubic feet at

24. Ibid.
25. *Business America*, 6 August 1984, p. 27.
26. Ibid.
27. *Middle East Economic Survey*, 28 October 1985.
28. *Middle East Economic Digest*, 30 November 1985.

the end of 1986.[29] This output is expected to yield Iraq $520 million in annual revenues.[30]

Kuwait's associated gas output has declined in recent years, from 460,376 million cubic feet in 1979 to a low of 210,000 million cubic feet in 1984.[31] Moreover, natural gas exploration has uncovered little in the way of reserves. Iraq, with natural gas reserves estimated at 815,600 billion cubic meters, is thus a convenient source of supply.[32]

A second major gas pipeline running from the southern fields to a 1,200 megawatt power station at Mussayib is being built by the Soviet company Tsvetmetpromexport. The 540 kilometer pipeline is likely to be financed as part of a $2 billion, long-term credit package extended by Moscow in 1984.

Reserves and Exploration

Iraq claims that its oil reserves total some 105 billion barrels: proved oil reserves of 65 billion barrels; probable reserves of 40 billion barrels; and possible reserves of 40 billion barrels. Other oil sources put proved reserves at 65 billion barrels with some 46 billion barrels of probable reserves.[33] The two major oilfields of Rumaila and Kirkuk contain the bulk of these reserves.

Iraq has done some exploration over the last several years. Two recent finds are at East and West Baghdad near the capital. Some limited production has already begun at East Baghdad. In addition, four other fields are targeted for development: Majnoun, Nahr-Umr, Halfaya, and Qurah. However, it is unlikely that Iraq will begin any major development of these deposits until after the war has ended. This is especially true of Majnoun which, with estimated reserves of 7 billion barrels, has been the object of recent Iranian offensives. The Iraqis, to block any potential Iranian exploitation of the field have sealed its wells with cement and flooded the low-lying area.

Western oil experts are optimistic about Iraq's reserve possibilities. One oil executive recently remarked that only ½ to 1 percent of Iraq has been prospected for oil and that future finds are likely.[34] Moreover, the Zagros Mountain structure, site of Iran's principal oilfields, extends northward into

29. *Middle East Economic Digest*, 13 September 1986, p. 15.
30. Ibid.
31. *Middle East Economic Survey*, 16 December 1985.
32. *Middle East Economic Digest*, 30 November 1985.
33. *Petroleum Economist*, September 1984, p. 326.
34. *Middle East Economic Survey*, 2 December 1985.

Iraq. Experts point out that this area has not yet been explored and may yield significant quantities of oil.

II. External Debt

Over the last six years, Iraq has turned to commercial and public financing to keep its economy afloat. Before the war, Iraq was one of the most creditworthy nations in the Middle East with a foreign debt of less than $500 million. Today, Iraq's external debt is estimated at $40-$60 billion and its debt service ratio, considered "negligible" before the war, is in the range of 25-30 percent.[35] Servicing just the Western portion of this debt is expected to cost Iraq $3 billion annually until 1990. Fortunately for Iraq, however, the bulk of its debt is due to friendly Arab neighbors on soft terms and may never be repaid. This Arab assistance is discussed in some detail later in this section. The discussion below focuses on commercial and other debt to Western sources.

Figure 2-1 provides a picture of the increase in Iraq's external debt during the war years 1980-1984. In 1984, an estimated $7-$9 billion of this debt was owed to non-Arab sources. This amount increased by a reported $1.6 billion in 1985.[36]

By mid-year 1986, Iraq's debt situation had deteriorated further. Its total non-Arab debt burden is now estimated at $16 billion. Of this, approximately $9.2 billion is covered by Western export credit agencies, $6 billion is owed to Western contractors, and an undisclosed amount is due to Eastern bloc countries.[37]

FIGURE 2–1
TOTAL EXTERNAL DEBT
(US $ billion)

1980	1981	1982	1983	1984
2.5	15.0	22.0	30.0	55.0

All figures are estimates
Sources: Frost & Sullivan, United Gulf Bank

35. *Middle East Economic Survey*, 13 January 1986.
36. Ibid.
37. *Middle East Economic Digest*, 29 March 1986, p. 7.

In a recent survey, the Bank for International Settlements (BIS) reported that Iraq's debt to banks in the BIS reporting area had increased from $1.3 billion in 1983 to $5.3 billion in 1985. Moreover, the increase was heavily concentrated in short-term borrowings which were up 179 percent over 1984 (medium- and long-term debt increased 32 percent over the same period).[38]

Despite a tremendous increase in commercial debt since 1979, a number of banking sources say that, from a long-term perspective, Iraq's payments position is not as critical as one might think. As one reporter put it, ". . . in 1979 Iraq created a surplus of more than its current war effort debt, and . . . GDP growth in that year was over 20 percent."[39] Iraq's problem is not one of unmanageable debt, but rather, of too much short-term debt: the issue is liquidity rather than solvency.

Iraq is likely to continue its international borrowing efforts at least until completion of the Turkish and Saudi Arabian pipelines. Evidence of this was reflected in a recent *Financial Times* article which reported that Iraq was "quietly" raising money in the syndicated loan market.[40] The deal that was finally negotiated included a five-year credit with a spread over LIBOR of 1 percent. The syndicate was led by the Gulf International Bank which provided front end fees of up to 1 percent for banks willing to underwrite amounts of $50 million or more.

Iraq's reliance on non-Arab credit has been quite extensive. Some countries and banks have been more willing than others to underwrite loans. Among the countries involved in Iraq are: France, Britain, Italy, the Soviet Union, and the United States.

Total French assistance to Iraq is estimated at $3 billion–$5 billion.[41] This includes weapons and civil contracts as well as outright loans. Its commitments make France Iraq's primary Western supporter both militarily and financially. And France has stood firmly to this position, rescheduling substantial trade debts and stepping up arms supplies over the past three years.

British banks, supported by government agencies, have figured prominently in providing credit to Iraq. Indeed, they "pioneered" the policy of providing cheap, long-term lines of credit to Iraq. The practice was later followed by

38. *Middle East Economic Survey*, 21 July 1986, p. 1-3.
39. Mary Frings, "Stricter Private Borrower Criteria," *Financial Times*, 15 October 1984.
40. *Financial Times*, 17 September 1985.
41. *Financial Times*, 9 May 1984, and Frost & Sullivan, *Political Risk Forecasts*, 1985.

France and Italy. In 1983, efforts by the Anglo-Iraqi Joint Trade Commission resulted in a British agreement to underwrite £275 million in loans to Iraq.[42]

The first £85 million of the £250 million loan was provided in August 1984 in the form of a general purpose line. A further £25 million earmarked for the purchase of British pharmaceuticals was also extended at that time.[43] The remaining balance is to be made available for civil projects in which British companies are expected to win major orders.

In 1984, the Italians extended an export credit line of $500 million to Iraq.[44] At that time, a major impetus behind the credit arrangement was the desire of several state-controlled companies to win contracts on two power station projects in Iraq.[45] The two deals were expected to be worth $1.7 billion. Today, total Italian exposure in Iraq is some $2.2 billion.[46]

Direct aid from the Soviet Union to Iraq is about $1.5 billion.[47] In addition, arms worth $6 billion to $7 billion were extended in 1983. Terms of the military supply contract were concessional: 2 percent interest payable over 20 years. A further loan worth $2 billion was negotiated in 1984.[48]

Most U.S. commercial banks have been reluctant to provide project finance for American business ventures in Iraq because — unlike the governments of Britain, France, Italy, and the Soviet Union — the U.S. government has been unwilling to provide long-term credit guarantees through its Export-Import Bank (EXIM). The EXIM's policy of limiting coverage to six-month through one-year terms has run afoul of the Iraqis, who are now doing business almost exclusively on two-year or longer credit arrangements. According to one Iraqi trade official, credit agreements of less than two years are "of no use to Iraq."[49] However, through 1985, the U.S. had provided $1.8 billion worth of agricultural credit to Iraq.

Refinancing Arrangements

In addition to seeking commercial loans and import credit arrangements, the Iraqis have successfully refinanced massive sums owed to Western con-

42. *Financial Times*, 16 April 1984, p. 4G.
43. *Financial Times*, 10 August 1984, p. 2F.
44. *Financial Times*, 16 February 1984, p. 6E.
45. Ibid.
46. *Middle East Economic Digest*, 5 July 1986, p. 9.
47. The Economist Intelligence Unit, *Quarterly Review of Iraq*: 1985·4, p. 3-20.
48. Ibid.
49. Bureau of National Affairs, Inc., *International Trade Reporter* 2 (27 March 1985): 463.

tractors and other creditors. This has been accomplished through government-to-government arrangements and negotiations with individual contractors.

In 1984, Iraq targeted just three of its leading credits for refinancing efforts: West Germany, Japan, and India. Others, including France, Italy, and Britain, escaped major refinancing and deferral efforts, largely because of Iraq's political and strategic considerations. France, as the country's major Western military supplier, warranted special attention as did Italy, whose contractors were involved in important pipeline projects. Britain, the first Western country to extend umbrella credit to Iraq, also received preferential treatment. In addition, the three had already provided much-sought-after financing on previously deferred debt.

Iraq has been able to secure highly favorable terms from its creditors. These include two- or three-year grace periods and at least part payment in oil. Terms of specific agreements are given below:

In 1986, the bulk of $833 million worth of rescheduled 1983-84 debt to West German creditors fell due. On April 1, Iraq missed an important $200 million installment due to German contractors. Subsequently, negotiations between Bonn and Baghdad resulted in a further deferral agreement. The new arrangement allows Iraq a two-year grace period. Payments are to begin in 1988, to be made in four semiannual installments through the end of 1989. Although negotiations were government-to-government, individual West German contractors will be held responsible for negotiating their own interest arrangements.

In a recent accord, Iraq and a number of its Japanese creditors agreed to reschedule $600 million worth of commercial debt. Terms of the arrangement include the suspension of payments for three years. After this grace period, both principal and interest will be paid in seven equal installments over three and a half years. The interest rate will be 1 percent over LIBOR and interest payments are to be paid throughout the three-year grace period. Payments will be guaranteed by the Central Bank of Iraq, a concession the Iraqis had formerly resisted. Iraq is also seeking to reschedule an estimated $2 billion owed the trading houses of Mitsubishi, Marubeni, and Sumitomo.

In July 1986, Indian negotiators agreed to reschedule the bulk of Iraq's debt commitments. Although India has not disclosed exact figures, the arrangement reportedly calls for 60 percent of the debt to be settled in oil. Terms are for the delivery, at market rates, of 2.5 million tons of crude until March 1987. The remaining 40 percent will be deferred for two to three

years. Indian-Iraqi negotiations had stumbled on India's insistence that oil payments be priced at market rates. Iraq had pressed for a formula based on official OPEC rates. The issue had apparently become so rancorous that India's EXIM bank had stopped clearing new project bids.

After months of negotiations, Turkey has finally agreed to reschedule $1.2 million worth of Iraqi trade debt. The July agreement calls for 50 percent of the obligation to be paid in cash after one year, another 40 percent in oil, and the remainder in cash as the debts fall due.[50] Iraq has also repeatedly sought to extend its trade finance agreement with Turkey from a one- to a two-year facility. Turkish officials had reportedly balked at providing longer than 16-month financing. Nevertheless, a preliminary arrangement was reached in August. Terms of the agreement provide that 50 percent of the balance be paid in 18 months, 25 percent in 21 months, and the outstanding 25 percent in 24 months.[51]

In early 1986, Iraq reneged on debt payments due to Italian banks and commercial contractors. In addition, the Rafadain Bank abruptly stopped honoring letters of credit to Italian companies. In response, the Italian export credit agency, SACE, suspended insurance coverage for new contract work in Iraq. The impasse between the two countries has continued, although in August it was reported that two Italian firms had agreed to repayment in crude oil.[52] Under the terms of the accord, the companies are to receive 40,000 b/d of crude supplies until December 1987.

Talks began in May 1986 to renegotiate installments due on debt originally deferred by French companies in 1983 and 1984. Until April, France had enjoyed the enviable position as Iraq's only major creditor to be paid on time.

Iraq's successful rescheduling efforts have allowed it to keep frequent payments crises at bay. Moreover, they demonstrate the skills of Iraq's determined negotiators. However, Iraq's creditors have been forced into a no-win situation of either accepting Iraqi terms or declaring the country in default. A third option, that of banding together under the auspices of the Club of Paris, has been rejected by all but West Germany, a situation which suits Iraq's divide and conquer tactics. As one commercial attaché put it, "countries will simply agree to new repayments schedules. There is no alternative."[53]

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50. *Middle East Economic Digest*, 2 August 1986, p. 14.
51. *Middle East Economic Digest*, 13 September 1986, p. 14.
52. *Platt's Oil Gram News*, 15 August 1986, p. 1.
53. *Middle East Economic Digest*, 9 August 1986, p. 6.

Barter Arrangements

Despite severe pressures on its foreign reserve holdings, Iraq sought to avoid countertrade arrangements for as long as possible. Iraqi distaste for barter deals can be traced to Baathist convictions that such arrangements provide Iraq's trading partners with unnecessary political control over domestic economic policy. Thus, whenever possible, the Iraqis favored hard currency arrangements. However, foreign exchange constraints have recently forced Iraq into a number of important barter arrangements.

In 1984, Iraq entered into a $630 million agreement with Volkswagen do Brazil in a complicated cars-for-oil deal. The arrangement included the exchange of 100,000 Passat cars from the Brazilian auto manufacturer for 2.5 million tons of Iraqi crude. Under the terms of the agreement, oil deliveries were made to the Brazilian state oil company, Petrobras, which then paid Volkswagen in cruzeiros. The contract ran for two years and is expected to be renewed this year.[54]

In another arrangement, a Norwegian company, Gearbulk, recently agreed to a deal based on the exchange of 2.6 million tons of grain for one million tons of Iraqi crude. A similar agreement with Canada countertraded wheat exports for oil supplies of 50,000 b/d.[55] Renault of France is also reportedly considering a barter arrangement, the terms of which include the supply, via Turkey, of cars for $120 million of Iraqi oil.[56] There are indications, too, that a number of U.S. companies have been discussing barter arrangements with the Iraqis.[57]

Arab Financial Support

Various sources estimate total Arab wartime assistance to Iraq at $25-$40 billion. The principal donors have been Saudi Arabia and Kuwait which, according to the *Financial Times*, have been providing Iraq with some $8 billion a year.[58] This financial support first took the form of "loans" which, in reality, were little more than outright cash grants. Recently, however, cash payments were replaced with "proxy" sales of oil. Under these arrangements, Saudi Arabia and Kuwait have sold 330,000 b/d of oil on Iraq's behalf. About

54. Ibid., p. 15.
55. *Quarterly Review of Iraq*, p. 3-20.
56. Ibid.
57. Personal communication with a State Department official, February 1986.
58. Patrick Cockburn, "Iraq, Bloody but Unbowed, Sees Better Times Ahead," *Financial Times*, 9 May 1984.

250,000 b/d of this oil comes from the Neutral Zone where production is shared by the two countries. The remaining 80,000 b/d comes from Saudi Arabia.[59]

This compensating oil has been a convenient substitute for cash loans in light of falling oil revenues in both Saudi Arabia and Kuwait. According to one Arab banker, Iraq's Arab allies "Probably . . . agree to cover the occasional bill but it's nothing big any more; they just don't have the money."[60] The *Middle East Economic Survey* reported in December 1985 that these time-swap crude contracts were due to expire at the end of January 1986.[61] However, recent reports indicate that they have been renewed in response to the latest Iranian offensive at Fao. Nevertheless, it is likely that Iraq's principal Arab allies will continue to keep aid levels down, providing the minimum amount necessary to maintain the appearance of a united Arab front against Iran.

In addition to outright government-to-government assistance, Arab banks provided finance to foreign contractors engaged in Iraq. For example, in 1982, the National Bank of Kuwait arranged a $70 million package to South Korea's Hyundai Engineering and Construction. Kuwaiti banks also "spearheaded" a $30 million loan to the French company Technip for work on an Iraqi oil refinery. Such financing does not mean that Arab banks have lost their customary business caution, however. As a manager of a leading Kuwait bank noted in 1983, "Kuwait banks don't want to stick their heads above the sand where Iraq is concerned. It's not entirely a question of not wishing to offend Iran but we have country limits too. This goes all the way down the line, even to project finance."[62]

Iraq has also negotiated loans with the Islamic Development Bank for hospital construction and import funding, and the Arab Monetary Fund for balance of payments support. Other loans have been signed with the Arab Fund for Economic and Social Development on a project-specific basis.[63]

III. Internal Iraqi Developments

From 1974 to 1980 Iraq's Gross Domestic Product (GDP) rose by an estimated 12 percent per year, and industry, primarily oil, grew at an annual

59. *Middle East Economic Digest*, 10 May 1986, p. 16.
60. "Iraqi Debt: A Rosier Tint to the Financial Horizon," *Financial Times*, 15 October 1984.
61. *Middle East Economic Survey*, 16 December 1985.
62. *Arab Banking and Finance* 2 (March 1983), no. 1.
63. *Middle East Economic Survey*, 16 December 1985.

rate of 13.6 percent.[64] The manufacturing and service sectors grew at yearly rates of 14.4 percent and 10.4 percent respectively.[65] However, after 1981 wartime demands brought a halt to this impressive growth. GDP is thought to have dropped by 20-33 percent in 1981, 5 percent in 1982 and 1983, and a further 3 percent in 1984.[66] Moreover, despite the fall in oil-related revenues after the cutoff of Gulf export facilities, oil's sectoral contribution as a percentage of GDP has continued to grow. This dominance, 67 percent in 1980, is estimated at well over 85 percent today. Figure 3-1 below provides a breakdown, in percentages, of the main sources of GDP for 1980.

Wartime constraints and the lack of investment funds are likely to continue to hamper growth rates through 1986. However, the expansion of export facilities through Saudi Arabia and Turkey will provide some boost to the economy. The size of the boost will depend on the stability of world oil prices.

Iraq's balance of payments has not fared well. By 1981, Iraq's current account moved into deficit as the country attempted to sustain a high level of imports in the face of falling export receipts. This deficit continued to grow at a rate of over $10 billion a year through 1983. Iraq financed its deficit primarily by liquidating large overseas holdings.

In 1984 and 1985 Iraq's trade balance showed some improvement as figure 3-2 illustrates. However, 1986 saw a reversal of this trend: *Middle East Economic Digest* estimates point to a deficit of $1-$3.7 billion for the year.

FIGURE 3–1
MAIN SOURCES OF GDP
1980

Agriculture	7.0
Industry	6.0
Petroleum	67.0
Services	19.0
	100.0

Sources: *Economist Intelligence Unit, No. 4, Iraq, 1985*, p. 8.

64. *Quarterly Review of Iraq*, p. 7.
65. Ibid.
66. *Financial Times*, 20 August 1985.

FIGURE 3–2
IRAQ: BALANCE OF PAYMENTS, 1984-1986
($ million)

	1984	1985	1986
Exports	10,585	11,753	a) 8,000
			b) 5,300
Imports	11,178	12,000	9,000
Neutral Zone Sales	3,175	3,175	a) 1,640
			b) 1,100
Trade Balance	−593	−247	a) −1,000
			b) −3,700

a = Oil price @ $15/barrel
b = Oil price @ $10/barrel
Source: "Iraq: Gulf War Soaks Up the Revenue," *Middle East Economic Digest*, 19 April 1986, p. 37.

Iraq continued and even expanded its large-scale development program in the early years of the war. In 1981, development spending rose by an estimated 29 percent and in 1982 by some 12 percent.[67] In 1983, however, there was a cutback of 29 percent in the development budget.[68] By 1984 the government had eliminated all elements of the investment program except those projects which directly contributed to the war effort or which offered outside financing of their own. As a result, most projects contained in the 1976-1980 industrialization program not completed by the outbreak of the war were slowed down or suspended indefinitely.

Nevertheless, some $1.6 billion over the next five years was recently allocated to light industrial projects.[69] The 1986 plan involves 132 projects and focuses on import substitution schemes and projects aimed at complementing existing factories. It was also reported that 13 industrial and service projects were completed in 1985.[70]

Iraq, unlike many of its Arab neighbors, has great water resources. This, combined with its large population (over 14 million) provides the country an

67. *Quarterly Review of Iraq*, p. 3-20.
68. Ibid.
69. *Middle East Economic Digest*, 11 January 1986.
70. Ibid.

expanded economic base in agriculture and industry. Consequently, the government has continued its water control and storage program despite wartime delays. Bids for a $2 billion dam on a tributary of the Tigris in the northeast section of Iraq were submitted in mid-1985.[71] Construction of river control projects at Hindiya and Kifl-Shinafiya[72] continues and at least 15 other projects are planned. However, predictable cash flow constraints mean that these and other projects will need to be financed before building can begin.

There has been some loosening of restrictions on the private sector since the war. The government has reportedly sold some of its nationalized companies to private businessmen but there are no published statistics available to measure the impact of this trend. Moreover, despite the substantial private ownership of small (10-250 employees) manufacturing enterprises, the public sector dominates the large manufacturing companies.[73] The relaxation of controls over the private sector is thought to have been quite modest and to have raised productivity levels only slightly.

Imports and Exports

Iraq's export revenues decreased by some 60 percent while imports actually increased by an estimated 28 percent. This trend continued until 1983 when import spending finally began to reflect the realities of reduced oil income. Moreover, a new import structure developed as Iraq strove to concentrate its import program on essential foods, medicines, and raw materials for industry and agriculture.

In 1985, anticipation of enhanced oil export receipts prompted further increases in import spending. These levels have largely been maintained in 1986 although the government recently announced plans to cut imports by some $2 billion. These measures, however, are not expected to take effect until some time in 1987.

The government also plans to increase non-oil exports such as sulphur, fertilizers, cement, agro-industrial products, and dates.

In its attempt to reduce imports, the state has somewhat loosened its control over the private sector, allowing it to produce a limited amount of consumer goods. Yet the private sector is not likely to become a major actor in the Iraqi economy. It has never accounted for more than 5 percent of

71. *Middle East and North Africa* (Europe Publishing Ltd., 1986).
72. Ibid.
73. *Middle East Economic Digest*, 11 January 1986.

imports[74] and this figure has dropped even further since late 1982 when the government withdrew many of its traditional importing privileges. Virtually all of Iraq's importing is now done through state trading organizations.

Western Europe and Japan have become Iraq's main trading partners. With the exception of France and Germany, all of Iraq's principal trading partners increased their export levels to that country.

An important development is the rapid drop in iron, steel, and machinery imports over the period 1982-1984. This decrease corresponds with the reduction in investment spending and the freezing of many development projects beginning in 1982. Such a slowdown is likely to exert heavy downward pressure on capital imports.

Although Iraq exports a fair amount of oil to developing countries such as Brazil, India, and Turkey, its major export markets are in the industrialized West. A more recent export destination is the United States. American companies imported 82 percent more oil from Iraq in 1985 than in 1984. This increase translated into revenues of $38.6 million in the first six months of 1985 compared with $6.9 million in the whole of 1984.[75]

Revenues and Reserves

According to one State Department source, Iraq's foreign exchange earnings in 1984 were $11-$12 billion, producing a shortfall of some $3-$4 billion.[76] Although these numbers are "soft" and should be viewed only as approximate figures, they roughly correspond with those given by the *Financial Times* and other journals.

The defense budget absorbed an estimated one-fourth to one-third of Iraq's revenues even before the war with Iran. However, after 1980 this figure rose to one-half.[77] In 1982 Iraq was spending some $1 billion a month on arms. By 1984, war-related expenditures had fallen to $400 million as Iraq had completed much of its military buildup. According to the *Economist*, Iraq spent $5-$8 billion on the war in 1985. This included the cost of arms, overseas operations, debt servicing, and other indirect costs.[78]

74. *Quarterly Review of Iraq*, p. 3-20.
75. Ibid.
76. Personal communication with a State Department official, February 1986.
77. *Quarterly Review of Iraq*, p. 3-20.
78. Ibid., p. 11.

A recent study estimates that Iraq's military expenditures were at a rate of $15.7 billion per year during the war years 1980-1985, and now total over $94 billion. The report further estimates the country's oil revenue losses at some $55.5 billion and a resulting Gross National Product (GNP) loss of $26.2 billion.[79] Thus, total war-related costs are put at $175.7 billion.

Iraq had about $30 billion in reserves prior to the outbreak of the war. At least $25.5 billion of this was bank deposits in Western nations.[80] Dollar deposits constituted the largest block of these claims although yen-dominated deposits were substantial: at the end of September 1982 deposits with Japanese banks had reached $2.7 billion.[81]

For the first two years of the war Iraq drew down its reserves at an estimated rate of $1 billion a month.[82] Accordingly, Iraq's deposits with Western banks fell to $15.8 billion in 1981 and $1.21 billion in 1982. By December 1983, these had dropped to $837 million.[83] In addition to its official reserves, Iraq has Special Drawing Rights (SDR) holdings of $1.4 billion at the International Monetary Fund (IMF).

Iraq's reserve situation in 1986 is little better. One U.S. government official noted that Iraq's foreign exchange reserves were now no more than $2 billion and that the country was hanging on by "the skin of its teeth."[84] Another remarked that Iraq was "operating on very close margins."[85]

Inflation and Money Supply

Iraq has experienced high rates of inflation since the early 1970s. These rates have risen sharply in the years since the war despite government measures aimed at stabilizing prices and the state's almost total control over import distribution systems. Figure 3-3 provides a rough estimate of consumer prices for the years 1975-1982.

What do these price increases mean for the average Iraqi consumer? In 1983 a Western journalist visiting Baghdad observed the prices of a number of commodities: beef at $15 a pound, cauliflower at $6 per head, and cigarettes

79. *Middle East Economic Survey*, 28 July 1986, p. 5-6.
80. Richard P. Mattione, *OPEC's Investments and the International Financial System* (Washington, D.C.: The Brookings Institute, 1985).
81. Ibid.
82. Phebe Marr, *The Modern History of Iraq* (Boulder, Colo.: Westview Press, 1985), p. 300.
83. Ibid.
84. Personal communication with a State Department official, February 1986.
85. Ibid.

FIGURE 3–3
CONSUMER PRICES

1975	1976	1977	1978	1979	1980	1981	1982
100.0	118.0	134.1	144.3	163.4	191.9	232.2	301.9

Source: *Economist Intelligence Unit* estimates

for $4 per pack.[86] And experts forecast continued inflation rates in the 25 percent-30 percent range.[87]

The government has sought to keep the money supply manageable and to control inflation through a number of schemes. It has inaugurated several savings bond campaigns and slashed government subsidies on rice, sugar, and gasoline. In an effort to absorb excess cash, Iraq raised the dinar ceilings on private sector investment and increased the tax benefits for imports in underdeveloped areas and for mixed-sector companies. The state also legalized betting at the Nadi Al-Furusiy, or Riding Clubs, and has sold tickets to two national lotteries.[88] In addition, the state treasury has sought to avoid increasing the rate of printing dinars and has imposed severe penalties for those caught dealing on the black market.

Perhaps the most successful government-initiated campaign was its crusade to collect gold and cash "donations" from the general public. Families were called upon to donate gold and jewelry to the state. A country-wide campaign was launched, and President Saddam Hussein himself awarded women contributors "the Qadisiyya token" for bravery. By August 1983 it was reported that the government had collected some 30 tons of gold and jewelry[89] worth $662 million. This gold was then added to Iraq's gold reserves, bringing their level to a reported $1.4 billion.[90]

Iraq's currency exchange system is pegged to the dollar with official dinar rates fixed relative to that currency. The dinar is officially worth $3.30 but presently trades on the Kuwaiti exchange for $.90.[91] One source reported that the average rate for the dinar between March 15, 1985 and September 6,

86. *Wall Street Journal*, 15 March 1983, p. 50E, 56E.
87. *Quarterly Review of Iraq*, p. 3-20.
88. *Christian Science Monitor*, 12 July 1984, p. 9.
89. *Middle East Journal* 40 (Winter 1986): 35-50.
90. *Quarterly Review of Iraq*, p. 3-20.
91. *Middle East Journal* p. 35-50.

1985 was $1.17.[92] All foreign exchange transactions must be approved by the Rafidain Bank.

Commercial Banking

Rafidain Bank is Iraq's only commercial bank and has the largest assets of any Arab bank. Although the bank's activities have been closely monitored by government authorities, recently the state has allowed it to participate in Arab as well as international syndicated loan and bond markets.

Agriculture

Although almost one-half of Iraq's land is suitable for agriculture, less than one-third is actually cultivated. Irrigation of arable land is vulnerable to outside manipulation. Because the headwaters of Iraq's major river systems lie outside its borders — in Syria, Turkey, and Iran — the country's annual agricultural output can be disrupted by neighboring states. This happened in 1975, when Syria retained irrigation waters behind the Tabka dam.

Agricultural exports have been largely halted and the sector's contribution to GDP has steadily fallen by an estimated 1.8 percent annually for the last several years.[93] Despite this generally dismal crop performance, there have been some recent sector developments. In a recent article in the *Middle East Journal*, one writer reported an important increase in the role of the private sector in Iraqi agriculture.[94] This increase has apparently been brought about by a new "open door" or "infitah" policy in agriculture since 1979 which includes new credit policies and the permission to bypass state intermediaries for the purchase of agricultural machinery and the sale of farm produce on the wholesale market.

Food Imports

Even during the 1970s, food imports represented a substantial part of Iraq's total import bill. Damage to the agricultural sector sustained since the war has further increased the cost of food imports. According to one source, Iraq's food import bill in 1984 reached $3100 million, up $200 million from 1983.[95]

92. *Quaterly Review of Iraq*, p. 3-20.
93. *Quarterly Review of Iraq*, p. 3-20.
94. *Middle East Journal*, p. 35-50.
95. *Quarterly Review of Iraq*, p. 3-20.

Self-sufficiency in food supplies is not likely to become a reality until Iraq increases land cultivation by an estimated 25 percent.[96]

Iraq's major food suppliers are the European Economic Community (EEC) and the United States. By 1985 the U.S. had increased its share of agricultural exports to Iraq to 17 percent under a substantial U.S. Department of Agriculture (USDA) commodity export credit program. Meanwhile, EEC countries, which had supplied $770 million in farm products in 1982, found their share of the market fall to 16 percent.[97]

By 1984, the U.S. had supplied Iraq with $840 million in commodity credits. In 1985 this figure increased to an estimated $1.8 billion. The USDA estimated that Iraq would purchase some 450,000 tons of rice in 1985, up 10,000 tons from the previous year,[98] and in December 1985 the U.S. agreed to sell Iraq 150,000 tons of wheat flour. The sale reportedly contained a grant element.

Australia, New Zealand, Canada, Turkey, Thailand, and Brazil also supply Iraq with food on credit. In 1984, Iraq agreed to purchase $141 million worth of Brazilian beef. The deal was Brazil's largest single beef export and was partially paid for in oil supplies.[99] In October 1985, Australia reported agreement on a five-year deal worth an estimated $700 million. The agreement binds Iraq to a minimum purchase of 800,000 tons of wheat per year and a total of at least 6 million tons over the five-year period.[100] Australia had previously supplied Iraq with 400,000 tons of wheat per year but this latest arrangement makes Iraq one of its biggest buyers.

Acute food shortages reported earlier in the war have largely been eliminated. A recent *Financial Times* article reports that Baghdad's souks and shops are for the most part well-stocked.[101] Supplies of basic foodstuffs have improved and the main shortages appear to be in consumer durables.[102]

Labor

Labor patterns evident before the war became intensified after 1980. For years, young Iraqis had resisted involvement in agricultural activity, preferring instead to migrate to the country's urban centers. The war exacerbated this

96. Ibid.
97. Ibid.
98. Ibid.
99. *Financial Times*, 31 August 1984, p. 4C.
100. *Financial Times*, 31 October 1985.
101. *Financial Times*, 20 August 1985.
102. Ibid.

problem by "draining off" young male members of the labor force into the army. The drafting of all males between the ages of 18 and 34 meant that many jobs had either to be filled by women or left vacant.

Women did move to fill positions vacated by men. This was especially evident in the administrative sector despite government attempts to maintain employment levels in the civil service. These moves included issuing a decree banning all officials of less than 10 years seniority from resigning posts in either the civil service or other public sector employment. Nevertheless, women, as a percentage of the industrial labor force, rose from 19 percent to 28 percent in 1985.[103] Indications are that women will continue to hold more jobs in all sectors of the economy.

Prior to 1983, Iraq sought to ease its labor shortage by importing a large number of foreign workers. These included Koreans, Filipinos, Indians, and Egyptians. By 1983, however, remittance outflows from this large foreign population had placed an intolerable strain on Iraq's foreign exchange holdings. The government responded by cutting back on its foreign work force. By 1983, the number of Asians had decreased by 50 percent and the number of Egyptians by 30 percent.[104]

In the last few years, Iraq has again turned to foreign workers to ease its chronic labor shortages. Foreign companies operating in the country are instructed to supply their own labor and the number of management contracts has increased. Moreover, Iraq is one of the few remaining Gulf countries open to Egyptian blue-collar workers. This author passed the Cairo offices of Iraqi Airways frequently during the summer of 1985, and could see block-long lines of Egyptians eagerly waiting for their chance to purchase tickets for transportation to jobs in Iraq.

One important issue confronting post-war Iraq is that of finding a place in the economy for those returning from the front. It is likely that many rural recruits will not willingly return to the farm. This will add more pressure to Iraq's growing urban population and may signal a major social adjustment.

Transportation

Effects of the war on Iraq's shipping have been quite dramatic. The impact can best be seen by looking at changes in the Iraqi fleet over the last few years. Those vessels belonging to the United Arab Shipping Company (UASC) registered in Iraq have all been transferred to Kuwait. Three other UASC

103. Marr, p. 302.
104. Ibid., p. 301.

vessels have been laid up in the port of Jebel Ali since 1983. Iraqi flag vessels in the Arab Maritime Petroleum Transport Company fleet have either been sold to the Kuwait Oil Tanker Company or to non-Arab buyers, and three tankers belonging to the Iraqi Oil Tanker Enterprises are in lay at Lisbon. The Iraqi Line has two vessels at Basra where they have been moored since 1980 and four of the line's general cargo ships were recently advertised for sale in the West German press.[105] Thus, the merchant marine, totalling some 18.19 million gross registered tons (grt) in 1980, was estimated at 0.49 million grt at the end of 1984.[106]

Despite these changes, some development of Iraqi ports and waterways has continued. Major inland navigation schemes on the River Tigris linking Baghdad to Basra are underway. These include the building of wharves, dredging, and the installation of navigational aids. The State Organization for Water Transport expects that by 1990, 3.5 million tons of cargo will be able to move on the Tigris. By the end of the century this figure is expected to reach 5 million tons.[107] Other projects include plans made by Hyundai, the Korean construction firm, to build a $754 million ship repair yard.[108]

Road transportation has become increasingly important as a result of the war. The country has come to depend on overland trucking routes through neighboring countries for much of its imports. A six-lane, 1,200 km expressway linking Iraq, Kuwait, Jordan, and Syria is currently under construction. In 1980, the State Organization for Roads and Bridges awarded a number of building contracts for the road. Since then all firms have been asked to refinance their contracts. Most, including Yugoslav, Japanese, Polish, West German, and Brazilian contractors, complied and have since resumed construction, although the Filipino Construction and Development Corporation, and a French consortium, withdrew from their contracts.[109]

Iraq has also striven to increase its truck fleet to expand traffic to Saudi Arabia, Kuwait, Jordan, and Turkey. According to one report, Iraq has expanded its trucking routes and purchased a large fleet of trucks at a cost equal to an estimated 5-8 percent of its oil revenues.[110] This same source further estimates that trucking costs have added some $500 million to Iraq's import bill.[111]

105. *Seatrade Arab Shipping Guide*, 1985, p. 65.
106. Ibid.
107. Ibid.
108. *Financial Times*, 6 November 1985.
109. *Middle East and North Africa*, p. 433.
110. Thomas Stauffer, "Economic Warfare in the Gulf;" *American-Arab Affairs*, Fall 1985, no. 14, p. 109.
111. Ibid.

By May 1985, a British consortium had secured a $129 million contract for the design of an underground public transportation system for the city of Baghdad.[112] The entire system is expected to cost $10 billion. However, additional financing is needed, and the project is reportedly running behind schedule. Another project under construction is the new Baghdad International Airport, the first stage of which has already been built. The Basra airport, too, is undergoing expansion, at an estimated cost of $420 million.[113]

Power and Electricity

Iranian sorties seriously disrupted Iraq's electricity supply network in the early stages of the war. Iranian aircraft deliberately targeted Iraq's major power plants and damage was severe enough to require power rationing in urban centers. To replace its lost capacity, Iraq awarded an estimated $2 billion in contracts for the construction of generating facilities in 1981.[114] These included a $570 million contract for a 600-megawatt power station in Hadith.

Iraq has sought to replace its nuclear power station destroyed by Israeli bombardment in 1982. French technicians have been retained to scout out appropriate sites for the new reactor and Saudi Arabia has apparently agreed to finance part of the project's development costs. Brazil and Portugal have arranged to supply uranium and the Italians will provide nuclear technology. Finally, the Soviet firm Atomenergoexport has been commissioned to build the plant. The Soviets have apparently offered the Iraqis attractive financing terms and have agreed to accept oil in part payment.[115]

Other electricity supply contracts have been awarded in recent years. Hyundai won a $730 million contract to build an oil-fired electric power plant near Baghdad in 1984 and has recently been awarded a further $208 million contract for the construction of four 400-kilovolt transformer stations.[116] The stations are to be located in the suburbs of Baghdad and will be completed by the end of 1987. In addition, the French state-owned Compagnie Generale d'Electricite has been awarded a contract to set up seven transformer substations on a turnkey basis.[117]

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112. *Middle East and North Africa*, p. 432.
113. Ibid., p. 433.
114. Ibid.
115. *Petroleum Economist*, September 1984, p. 327.
116. Ibid.
117. *Financial Times*, 25 March 1985.

In an interesting agreement that includes elements of an oil barter arrangement, Brazil's Construtora Mendes Junior, in collaboration with the China Civil Engineering Construction Corporation (PRC), has been retained to build a $1.4 billion, 1500-megawatt hydroelectric plant on the Greater Zab River, a tributary of the Tigris. The Brazilian contractor has extensive experience in Iraq and has built a number of infrastructure projects in recent years.[118]

As a result of its reconstruction and development efforts, Iraq is likely to see its generating capacity double from 3,000 megawatts to 6,000 megawatts in 1986. It is further expected that the country will be able to supply most of its rural areas with electricity. Moreover, output is likely to keep pace with the estimated 30-40 percent annual rise in consumption rate.[119]

CONCLUSION

Iraq has indeed scored major economic gains since the early days of the war. These include expanded export facilities through Turkey, Saudi Arabia, and Jordan. The Iraqis have maximized their dependence on a variety of sources and in doing so are dependent on no single export source. Yet 1986 has been a bad year for Iraq. Despite enhanced exports, falling prices coupled with the dollar's decline have virtually halved the value of oil receipts. As a result, Iraq's trade balance is expected to show a $1 billion-$3.7 billion deficit in 1986.

Iraq has mortgaged its oil production for future years through extensive rescheduling and other debt arrangements. Evidence of this is the estimated $3 billion in debt service payments Iraq will have to provide its international creditors at least until 1990. Yet, the continued willingness, however grudgingly, of OECD countries and individual companies to guarantee much of Iraq's commercial debt generates some confidence in Iraq's long-term prospects.

A worst-case scenario would combine military setbacks with declining oil prices and intransigence of Iraq's Western creditors on debt arrangements. Major battlefield losses would likely produce reluctance of major creditors to extend further credit. Yet such an outcome is far from assured and Iraq's recent access to international financial markets demonstrates that Western confidence in Iraq's ability to stave off military defeat remains high.

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118. *Financial Times*, 7 June 1985.
119. *Middle East and North Africa*.

Although the economic costs of the war have been high, they are not irreversible. Some economic benefits have been scored. These include the moderate liberalization of the private sector, especially in agriculture. Emphasis away from imports to import substitution and domestic production of consumer goods has provided Iraq with prospects for future self-sufficiency. And the likelihood of increased oil revenues will enable Iraq to maintain at least some aspects of its domestic development program.

In general, then, the Iraqis have largely made the best of a potentially devastating situation. Although they were rather late in responding to the economic challenges posed in the early stages of the war, they have since exhibited the ability to deal with wartime constraints. In the process, they have developed an experienced bureaucracy adept at dealing with economic crisis management. Indeed, one might argue that the Iraqis have positioned themselves far better than some of their Persian Gulf allies to deal with a continuing international environment of oil glut, competitive prices, and the resulting uncertainties.