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IRAQ'S ECONOMY: WHAT'S LEFT?

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Iraq may soon be at war with the United States. What is left of Iraq's economy after the 1980-88 war against Iran and the Gulf war of 1991? And what are the prospects for rehabilitating Iraq after another war?

Between 1980 and 1990, Iraq's GDP rose from $53 billion to $77 billion in current prices and exchange rates. The real increase was about 9% but since the population increased by about 43%, from 13.2 million to 18.9 million, real GDP per capita fell by 24%. This was due to the effects of the war with Iran and the decline in oil prices.

In 2000, GDP came to an estimated $32 billion, 42% of its 1990 level. The population had increased by another 25%, to 23.6 million, so GDP per capital came to only $1,356 -- less than one-third of the 1990 level in real terms. The collapse of income between 1990 and 2000 was due to the massive damage inflicted on the economy in the 1991 war. If the economy had grown at a modest rate of 3% a year from 1980, then by 2000, GDP would have been about $96 billion, or about $4,070 per head in current prices. If it had grown at 5% a year, GDP would have reached $140 billion, or $5,960 per head.

Macro-economic indicators reflect other, even more serious developments. Since the 1950s, the Iraqi economy has lost its international competitive advantage. What was once a country with a broad resource base, a variety of economic sectors, and a skilled labor force has become an extreme *rentier* state. The dominance of the public sector, restrictions on the private sector and capricious political and bureaucratic interventions have played havoc with the economy. Oil wealth has been squandered on war and on high consumption levels among those in and close to the regime. It also resulted in an overvalued exchange rate that further discouraged economic activity outside the oil sector.

In the 1970s, as the oil boom took hold, Iraq suffered from shortages of skilled labor, stagnant agriculture, inflation, and increasing reliance on imports, especially of food. It lacked administrators and managers as well as those with the technical knowledge to carry out the investment projects that were being developed. The economy became increasing dependent on oil revenues that played dominant roles in the state budget and the balance of payments.

In those years, Iraq accumulated foreign assets as a result of balance of payments surpluses, and these, together with loans from Arab states, enabled it, at least initially, to finance the war with Iran without cutting private consumption. In 1983, however, oil revenues collapsed as a result of war damage and lower international prices. Iraq was forced to cut its imports and restrain consumption. The call-up of hundreds of thousands of men, particularly in 1984, meant that the economy became reliant on imported labor, mainly from Egypt. These workers sent home their earnings, with adverse effects on Iraq's balance of payments. In 1970, there were 62,000 men in the armed forces, or nearly 3% of the labor force. By 1988, there were one million men under arms, 21% of the labor force. Military spending rose from less than $1 billion in 1970 to $19.8 billion in 1980. In 1984, it peaked at $25.9 billion, which was over three times Iraq's oil revenue and equal to 60% of GDP.

The 1880-88 war cost Iraq some $450 billion in GDP losses. This included damage to the infrastructure in all sectors, losses of oil revenues, interest on reserves that were consumed by the war, and drawdowns on foreign reserves because of massive defense imports. By 1990, Iraq had a foreign debt of $86 billion, though it acknowledged a debt of only $42 billion (excluding interest payments), arguing that funds received from Arab states during the war were actually grants. It had begun the war with virtually no debt.

The 1991 war resulted in $232 billion of losses due to destroyed infrastructure. Iraq may be liable to pay compensation of up to $100 billion to Kuwait. Damage to the Iranian economy may result in compensation claims of a similar amount at a future date. If the losses from the two wars, compensation claims, the effects of sanctions, and foreign debt increases are added together, then the total exceeds $780 billion. This is twenty-eight times the size of the GDP in 2001 and fifty-eight times Iraq’s current level of oil revenues!

What of the future? Iraq has the second largest proven oil reserves in the world. It also has huge reserves of gas. It is generally agreed that oil production and exports could be increased quite rapidly if foreign technology and investment were available. Assuming that international oil markets could absorb a growth in Iraqi exports, oil revenues could reach $20-25 billion within a few years. This, however, would do little to compensate Iraq for the damage inflicted by Saddam Hussein’s regime on the economy. The scale of that damage is so huge that it would take 30-40 years to make repairs, even if all of the $20-25 billion in oil revenues were used just for that. This is an unreal assumption given that current needs would also have to be met out of these revenues.

Moreover, a change in the type of regime rather than just in its leadership will be needed if some of the underlying structural problems facing the economy are to be tackled. Since the 1970s, the economy has been in increasing need of diversification. The natural resources exist for a flourishing agricultural sector that could feed the growing population, but this will require making large investments in agriculture and in people, something that the Baathist regime has never done. In the 1950s, Iraq had one of the most skilled labor forces in the Middle East, but this, too, has been neglected for many years. Iraq, like many other states in the region, has an expatriate population and capital abroad that could play a role in reconstruction. Without the promise of long-term stability, regime change alone will not induce labor and capital to return.

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