

# NAVAL POSTGRADUATE SCHOOL MONTEREY, CALIFORNIA



## THESIS

**TURNING BACK THE CLOCK: U.N. SANCTIONS  
AGAINST IRAQ**

by

James D. Alger

June 1997

Thesis Advisor:

Robert E. Looney

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**TURNING BACK THE CLOCK: U.N. SANCTIONS AGAINST IRAQ**

James D. Alger  
LCDR, United States Navy  
B.A., Valdosta State College, 1985

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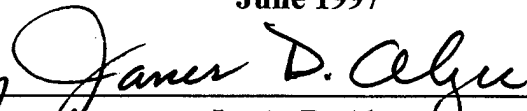
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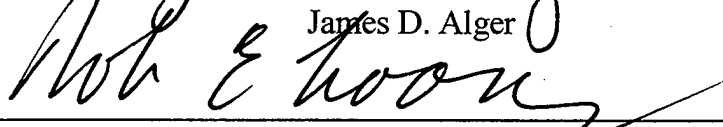
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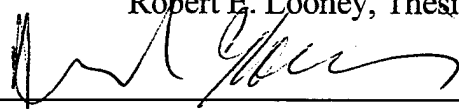
**June 1997**


Author:

  
\_\_\_\_\_  
James D. Alger

Approved by:

  
\_\_\_\_\_  
Robert E. Looney, Thesis Advisor

  
\_\_\_\_\_  
Ahmad Ghoreishi, Thesis Advisor

  
\_\_\_\_\_  
Frank C. Petho, Chairman  
Department of National Security Affairs



## ABSTRACT

This thesis is a single case study analyzing the impact of sanctions on Iraq's current and projected future economy. The evidence presented indicate sanctions caused long-term economic devastation, but appear incapable of promoting political change. The paper outlines Iraq's economy in four sections. The first, demonstrates the nation's economic position prior to sanctions showing Iraq's vulnerability to international pressure and economic isolation. Next, sanctions are defined, illustrating the reasons, the variety and demonstrating their comprehensive application. The third section details the current economy after six years of unified global embargo and looks at Saddam Hussein's desperate attempt to generate foreign exchange despite multinational opposition. Finally, the paper projects Iraq's ability to promote economic recovery following the removal of sanctions. Evidence concludes that Iraq's economic growth potential for the next three decades has been stymied, thereby, making economic sanctions unnecessary. The hard-line U.S. stand against Iraq, is preventing the settlement of war reparations, imposing a generation of Iraqi people to poverty and causing friction among our allies. As the second term of the Clinton administration begins, perhaps now is the time to develop a new U.S. regional strategy.



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## EXECUTIVE SUMMARY

On the second of August 1990, Saddam Hussein violated Article two, section four of the United Nations Charter which calls upon members to:

...refrain from, in their international relations, the threat or use of force against the territorial or political independence of any state.

This violation, as the paper illustrates, set forth a chain of resolutions that represent every possible category of sanctions and has resulted in the devastation of Iraq's economy. Today, sanctions have curtailed the rate of growth of Iraq's economy and caused serious economic, financial, social and psychological consequences.

By 1997, after more than six years of international isolation, the United Nations is continuing to apply sanctions against Iraq. Although time and the enactment of resolution 986, has slightly diminished their impact, the economy has suffered considerably. In the last quarter century, the application of sanctions initiated by the U.S. have occurred with such regularity that it seems little consideration is given to the impact on the target country or the sanctioning body. Nor does the United States focus on how effective sanctions are at achieving the desired political outcome.

This research is a single case study designed to analyze the current and future economic impact of sanctions imposed on Iraq and determine if the lifting of sanctions is appropriate. The hypothesis is that sanctions have accomplished their intended goal of crippling Iraq's economy well into the next century, but are not capable of fulfilling their political goals given the desired objectives. Evidence from this research suggests the application of sanctions will continue to influence the country's growth potential for the next three decades, regardless whether or not sanctions are continued. Thus, it is unnecessary to continue economic sanctions when the economic goal has been accomplished. By understanding Iraq's economic situation, the United States can evaluate the Iraqi threat to the U.S. and our regional allies. By reviewing the current economic statistics and Iraq's projected future, the data may support the lifting of sanctions in order to

maintain Iraq's sovereignty, allow payment of war reparations and forgo any further human tragedy.

The Iraq economy has been in a thirty year cycle of growth and decline that is best represented in the country's GDP. Due to the impact of sanctions, the current GDP is approximately the same as that of the 1960s. Since the 1950s, the economy has grown due to the revenues generated from exports and its redistribution into other areas of the economy. The revenues supplied by Iraq's exports support all forms of domestic programs, all government expenditures, the majority of all consumable purchased, and most capital and durable items. As exports grew, so in turn did the well being of the nation. In three decades annual gross domestic product grew eight-hundred percent and oil revenues by 2200 percent. By the end of the 1980s, revenues began to decline, forcing Iraq into rapidly accumulating foreign debt and financial strain on its balance of payments. By 1990, Iraq estimated its foreign debt to the non-Arab countries at forty-two billion dollars, seventy-five billion with interest.<sup>1</sup> This debt coupled with the country's need for foreign exchange made it highly susceptible to international pressure and as seen by the application of sanctions, Iraq's economy has crumbled.

Since the application of sanctions, Iraq has lost the equivalent of twenty-two billion dollars of per annum in lost income. This is the result of tremendous loss in export earnings, a depreciation in the unofficial exchange rate of the Iraqi dinar, a substantial decrease in national income, and a dramatic increase in the price of goods and services. This dramatic chain reaction initiated by United Nations sanctions has altered the economic livelihood of every man, women and child in Iraq.

Sanctions have effectively isolated Iraq from the remainder of the world. The economy suffers from a ninety-seven percent cut in export earnings, a four-thousand percent increase in inflation and hundreds of billions in national debt. Iraq's road to economic recovery, once sanctions are lifted, will be hampered by a substantial portion of

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<sup>1</sup> Keith Bradsher, "War Damages and Old Debts Could Exhaust Iraq's Assets," *New York Times*, (March 1, 1991); and *Middle East Economic Survey*, (May 13, 1991).

revenues having to be allocated to service the increasing debt, pay war reparations, and repair and replace capital.

The current economy has "leveled" at the pre-industrial or agricultural base that the country acquired in the 1960s. This is a reflection of the country's production and consumption capabilities given its water and arable land resources. Humanitarian aid began arriving in March which has eased some of the burden on the citizens of Iraq and provided Saddam a short lived moral victory in the eyes of his people. As Saddam Hussein promotes his propaganda, the reality of continued two-hundred percent inflation occurring over the next two years will eventually erode his and the public's optimism.

The sanctions imposed on Iraq have forced the country to utilize whatever means available to generate income for its survival. Due to the desperate situation in the country, Iraq feels compelled to test the strength of the coalition forces. A vast number of maritime deceptive strategies are being employed by vessels carrying illegal products. Iraq's desperate hope is to generate foreign currency by whatever means necessary in an effort to improve the domestic situation in Iraq and make a political statement to the world.

Large accumulated debt and insignificant revenue production describes Iraq's current economic environment and its probable future. Provided the situation remains constant, Iraq has no short term hope for economic revitalization. In Iraq's present dilemma, the prospect for economic reconstruction and recovery are dependent on oil revenues, foreign debt rescheduling, war reparations, and the lifting of United Nations sanctions. Damage to the country's infrastructure, lack of capital and Iraq's inability to secure future credit will restrict exports of oil and slow the recovery process. It is impossible to see any future for Iraq until these variables are addressed. Any recovery, of course, is based on the premise that sanctions are lifted, OPEC allows Iraq to produce at previous levels, the country's capability still exists to be productive without credits for capital and production equipment, and the international community is willing to deal with whatever government is in power. The combination of two wars, coupled with the

application of sanctions for the last five years, have ensured a crippled Iraq economy for the next fifteen-to-fifty years.

This being the case, the United States should adopt a new strategy for the region that lift economic sanctions and promote diplomatic exchange and cooperation. With the projected economic outlook for Iraq, Saddam Hussein's regime will be forced to cooperate with the its neighbors and the international community. The fact remains that Iraq does not possess the power or influence of a nation such as China, and any activity contrary to international law and good behavior will not be tolerated.

## I. INTRODUCTION

### A. ORGANIZATION

In 1997, after more than six years of international isolation, the United Nations is continuing to apply sanctions against Iraq. Although time has slightly diminished the impact of sanctions, the economy of Iraq has suffered considerably. From all indications, the economic hardships Iraq is currently experiencing will continue well into the next century. This will occur despite the November 1996 agreement reached between Saddam Hussein and the United Nations over Resolution 986.

The oil-for-food resolution was agreed upon to provide humanitarian relief through the sale of four billion dollars of Iraqi crude per year. This resolution is up for review every six months and most economists believe the export ceiling will increase. The revenue generated by Resolution 986 will provide some relief for the beleaguered Iraqi citizens, but will do little to strengthen the economy or improve the country's balance of payments position. With the relaxing of some of the export restrictions, this may be the time that the United States should review their position on sanctions towards Iraq.

Nations around the world have used economic sanctions as a foreign policy tool with increasing frequency over the last two decades. For example, from World War I through the 1960s a total of twenty-six United States initiated sanction incidents occurred. From 1970 to 1992 the United States used sanctions in over one-hundred cases.<sup>2</sup> Sanctions seem to be the United States first line of defense when poised against a uncooperative international actor. These sanctions are applied with such regularity that little consideration is given to the impact on the target country or the sanctioning body. Nor does the United States focus on how effective sanctions are at achieving the desired political outcome. The

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<sup>2</sup> Hufbauer, Schott, Elliot, *Economic Sanctions Reconsidered: History and Current Policy*, (Washington DC: Institute for International Economics, 1990) 16-24.

sanctions imposed against Iraq characterize a form of punishment instead of pressure directed towards reintegrating the country into the international community.

The economic sanctions directed against Iraq appear to be achieving the intended economic pressure, but are failing to achieve their political objective. Secretary of State Madeleine Albright stated that Iraq would continue to be subjected to sanctions until it ceased to pose a threat, but that Saddam's regime would by its very nature always pose a threat.<sup>3</sup> The Secretary of State implied that sanctions would stay in place, come what may, so long as Saddam Hussein is around, and that it is out of the question for the U.S. to deal with or even coexist with his regime.<sup>4</sup> If this is, in fact, the position of the administration, then the impact of sanctions or its apparent ability to succeed or fail is irrelevant.

The position this research takes is that sanctions are a political tool of diplomacy designed to promote political change. Sanctions must have a well defined political objective that can be achieved by their application. In the case of Iraq, the political objective is compliance with United Nations Security Council Resolutions and a change in the regime. These objectives must be accomplished through economic pressure applied by international isolation.

What this research is designed to analyze is the current and future economic impact of sanctions imposed on Iraq and determine if the lifting of sanctions is appropriate. The hypothesis is that sanctions have accomplished their intended goal of crippling Iraq's economy well into the next century, but are not capable of fulfilling their political goals given the desired objectives. Evidence from this research suggest, regardless whether or not sanctions are continued, their application over the last six years will continue to influence the country's growth potential for the next three decades. Thus, it is unnecessary to continue economic sanctions when the economic goal has been accomplished.

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<sup>3</sup> Salah Alnaswari, "Question Marks Hang over US Intentions towards Iraq and Iran," *Mideast Mirror*, (23 April 1997).

<sup>4</sup> Ibid.

The paper analyzes the single case study of sanctions against Iraq to determine the economic impact now and in the future. First, to better understand the implications of sanctions, it is necessary to review Iraq's economy prior to its application and illustrate the countries vulnerability to export restrictions. Next, the focus shifts to a study of sanctions, the variety their imposed and the types available. This section demonstrates the variety of reasons sanctions are used, the types available and their comprehensive application against Iraq. The next section provides a detailed analysis of the current conditions in Iraq as a result of over six years of unified global economic isolation. The second to last section compares Iraq's struggle to export despite sanctions and the coalition's efforts to enforce them. This illustrates the complete isolation Iraq is experiencing and its feeble but frantic attempt to generate foreign exchange. Finally, the paper evaluates forecasts found in the literature that illustrate Iraq's prospects for the future given the removal of sanctions.

## **B. FOCUS**

The purpose of this research is to determine Iraq's current economic situation and the impact of sanctions on its future. By understanding Iraq's economic stability, the United States can evaluate the threat Iraq poses to the U.S. and its allies in the region and determine if the lifting of sanctions is appropriate. By reviewing the current economic statistics and Iraq's projected future, the data may support the lifting of sanctions in order to maintain Iraq's sovereignty and forgo any further human tragedy. Arguably sanctions are not achieving their political goals and are, in fact, punishing the current generation of Iraqi adults and children presumably for the duration of their lives. It is time to reevaluate whether one man is worth the economic deprivation of an entire nation.

## **C. METHODOLOGY**

A comprehensive review of available literature on the economy of Iraq was analyzed to determine its current and future situation. The economic information, gathered as the basis for the economy of Iraq, was supplied by numerous statistical documents and

journals, such as, the International Trade and Development Statistics, IFS Supplement on Trade Statistics, Economists Intelligence Unit Country Profile, Joint Arab Economic Report, Middle East Executive Reports, Middle East Economic Digest, Balance of Payments Statistics and others listed in the references. It is imperative for the reader to understand that Iraq's economic information, after the mid-1980s, is considered state secrets and thus the statistics listed in this report are derived from information openly available and may not be comprehensive or unquestionably accurate.

## II. THE ECONOMY BEFORE SANCTIONS

### A. TRADE

The Iraqi economy, in the last four decades, has been supported by foreign exchange generated by exports to the international community. The revenues supplied by Iraq's exports support all forms of domestic programs, all government expenditures, the majority of all consumable purchases, and most capital and durable items. As seen by the application of sanctions, Iraq's open market economy is not sustainable without international exchange of goods and services via exports and imports.

#### 1. History

Iraq has evolved from a local exporter of goods and materials to its Middle Eastern neighbors, to an international supplier with a substantial clientele. To fully understand Iraq's trade relationship with the international community, a brief overview of Iraq's trade history is necessary.

In spite of the arid nature of the Iraqi countryside, agriculture was the main supporter of the economy prior to the exploitation of oil. Agricultural commodities included wheat, barley, dates, cotton and sorghum. The most important agricultural exports were dates and cotton. The foreign exchange earned from these agricultural exports provided the funds for the import of capital for the gradual development of the country. For example, total government revenue rose moderately from an average of slightly over twelve million a year in the period 1931-35 to only seventy-four million a year in the period 1946 to 1950.<sup>5</sup> During this period, prior to the production of oil, the land and water resources were the backbone of the economy.<sup>6</sup>

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<sup>5</sup> Edith and E.F. Penrose, *Iraq: International Relations and National Development*, (Boulder CO, Westview, 1978), 82.

<sup>6</sup> Fahim, I. Qubain, *The Reconstruction of Iraq: 1950-1957*, (New York, Praeger Publishing Inc., 1958), 17-36 and International Bank for Reconstruction and Development (IBRD), *The Economic Development of Iraq*, (Baltimore MD, John Hopkins, 1952), 1.

Oil was discovered in Iraq in the 1920s. By the 1930s, following the country's independence, oil in substantial quantities was discovered in the north and limited exploration was conducted in other parts of Iraq. At the initial stages, Iraqi oil was developed mainly by British and French companies under the auspices of the Turkish Petroleum Company. The ownership structure of the company was seventy percent British, twenty percent French and the remaining ten percent was Iraqi owned. After independence the Iraqi Petroleum Company, a consortium of companies from Britain, France and the United States, was formed. The IPC became the principle oil developing company in Iraq. The company found abundant reserves, but continuous conflict between the different components of the company and the development of alternative sources of petroleum, kept both production and government oil revenues low.

Prior to World War II, Iraq traded few commodities regionally, a direct reflection of its lack of industrial development, overall economic backwardness and low productivity. The isolation of its market and the inadequacy of transportation, communications, and marketing facilities also prevented economic expansion. As part of the Middle East trading area, Iraq's trade was influenced by the low levels of demand by other countries of the region. Iraq's limited capacity to allocate its existing resources to produce commodities required by other nations, prevented it from achieving a comparative production advantage in international markets.

After 1950, Iraq was able to expand trade markets in a wider range of capital and consumer commodities, thus, enabling it to diversify its external transactions. Serious efforts at development of the economy were undertaken in the late 1950s and early 1960s when oil began to contribute substantial amounts to public revenues.

Starting in 1953, Iraq realized its first trade surplus of ten million dollars. The reason for this expansion was the rapid increase in petroleum production, Iraq's major export commodity. The value of Iraq's trade increased from \$856 million in 1960 to

\$22.275 billion dollars in 1989 or by more than 2500 percent.<sup>7</sup> As a consequence, the country's balance of payments position improved. This provided the economy the much needed foreign exchange to pay for imports, particularly capital goods and raw materials. Based on the prospects of higher revenues, government economic policies were formulated to utilize these revenues to correct imbalances and to reduce the country's dependence on international trade. It was recognized then that oil was a non-renewable resource and its contribution to the economy would lessen over time. The government launched numerous plans to improve the economic strength of the country, increase the standard of living, and attempt to maximize industrialized production which, if successful, would reduce the dependency on international exchange and promote the country's independence. These plans were fueled by the revenues produced by the increase in oil production.

Throughout the 1960s, Iraq exported increasing quantities of oil to an enlarging European market. By the mid-1960s, this enlarging market included eighteen European nations and produced revenues over one-half billion dollars.<sup>8</sup> With increasing exports, Iraq pushed to expand its oil production capability. This economic expansion had a spill-over effect, increasing import requirements and causing parallel growth in Iraq's domestic economy. Improvements in infrastructure, social programs, education, and expansion of the country's military and bureaucracy emerged from the growing relationship with the international community. This trend of expansion, although paled in comparison with the hyper-accelerated growth witnessed in the 1970s, was the foundation for Iraq establishing its position as an industrialized Middle East superpower and a major international economic player.

The 1970s were a decade of unparalleled growth for all the oil rich countries of the Middle East and Iraq positioned itself to take full advantage of the opportunity. In 1972, the government nationalized the oil industry. This action, along with the government's push

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<sup>7</sup> Roubaie and Elali, "The Financial Implications of Economic Sanctions Against Iraq," *Arab Studies Quarterly*, 17, no. 3, (Summer 1995), 54.

<sup>8</sup> IMF: *Direction of Trade Statistics 1966-71*, (DOTS), 240.

to industrialize, promotion of labor force improvements, and the management of financial flows from exports enabled Iraq to better control its long term goals and increase its centralized governmental domination.

The catalyst for Iraq's economic growth was inflated oil prices and increased crude oil production capability. These two variables produced record oil exports to international markets and unequaled revenue for Iraq. By 1971, for example, sales to Europe were over 1.2 billion dollars and Iraq continued to increase production and expand market share.<sup>9</sup> As the decade ended, over fifty percent of Iraq's oil production was sold to European countries, netting profits of over fifteen billion dollars.<sup>10</sup> The growth and profits from Iraqi exports during 1979 and 1980 were greater than the total of all previous years combined.<sup>11</sup> These figures demonstrate the acceleration of the Iraqi oil export industry and the subsequent growth in the economy.

The expansion of exports, coupled with increased oil prices and production quantities, allowed Iraq to import more goods and services. In the European market, for example, Iraq expanded imports from 250 million in 1970 to over 10.5 billion by 1980.<sup>12</sup> The increase in imports included: capital goods, raw materials, chemicals, finished products, product for industrialization, heavy equipment, military hardware, technology and technological support. These and numerous other items were designed to support Iraq's economic growth, raise the standard of living, strengthen the position of the regime, and develop the country into one of the leading economic powers in the Gulf region.

## **2. Partners and Deficits**

During the 1980s, Iraq expanded its international exports to include all industrialized and lesser developed countries of the world. Although the number of

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<sup>9</sup> IMF: *Direction of Trade Statistics 1971-77*, (DOTS), 58.

<sup>10</sup> IMF: *Direction of Trade Statistics 1971-77 and 1977-83*, (DOTS), 58 and 214.

<sup>11</sup> IMF: *Annual Abstract of Statistics 1972 and 1973*, (AAS), 41 and 58. also, IMF: *International Financial Statistics 1960*, (IFS), 128 also, 1964, 1970, 1977.

<sup>12</sup> IMF: *Direction of Trade Statistics 1966-71 and 1971-77 and 1977-83*, (DOTS), 240, 58, 214.

countries and the quantity of oil produced increased, revenues generated from sales equaled between 3.5 and 4.5 billion a year throughout the decade.<sup>13</sup> The revenue totals represented a large reduction from the fifteen billion earned in 1979.<sup>14</sup> The percentage of total exports comprising crude oil or other petroleum products during the 1980s were greater than ninety-seven percent. These revenues were used by Iraq to fuel the war effort against Iran and purchase standard-of-living commodities attempting to disguise the costs of the war. The industrialized countries of Western Europe extended credit to Iraq and supplied the majority of its imports.

While oil was Iraq's primary export, the country imported numerous products, such as agricultural, chemical, capital goods, industrialized, raw materials, and most of all weapons and weapon technology from Western Europe, China and the Soviet Union. Economic Intelligence Unit Statistics list some five-hundred products imported in substantial quantities by Iraq. In the 1980s, none were more important to the country than the procurement of vast amounts of military hardware. It has been said that the industrialized countries of Western Europe are responsible for arming Iraq and arguably prolonging the Iran and Iraq War.<sup>15</sup> The evidence shows that during the first five years of the conflict, Iran and Iraq accounted for seventy-eight percent of China, sixty-eight percent of France, and fifty-one percent of British arms exports.<sup>16</sup> Throughout the war, Iraq was spending more of its gross national product on military expenditures than any other country in the world.<sup>17</sup> During this period, Iraq imported more arms than any other Middle Eastern country and spent more on arms than all Middle Eastern countries except Saudi Arabia.<sup>18</sup>

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<sup>13</sup> IMF: *Direction of Trade Statistics 1977-83 and 1984-89*, (DOTS), 214 and 240.

<sup>14</sup> IMF: *Direction of Trade Statistics 1977-83*, (DOTS), 240.

<sup>15</sup> Douglas Jehl, "Who Armed Iraq? Answers the West didn't want to hear," *New York Times*, (July 18, 1993, Late Ed.).

<sup>16</sup> Paul Lewis, "Rise of the Blue Helmets," *New York Times*, (November 6, 1994).

<sup>17</sup> US Arms Control and Disarmament Agency: *World Military Expenditures and Arms Transfers*, 1990, (USACDA), 10-11.

<sup>18</sup> Ibid.

The start of the Iran and Iraq conflict interrupted the booming trade Iraq was conducting with the industrialized world. The conflict and damage sustained during the fighting drastically reduced oil exports. This reduction in export revenues, however, did not decrease the quantity of imports into the country. On the contrary, Iraq's imports quadrupled as the country's demand for military arms increased. The industrialized nations supplying arms and technology to Iraq throughout most of the war period. The main industrialized nations of Europe to include France, the United Kingdom, Germany, Italy, and Switzerland all provided billions of dollars in weapons and weapon manufacturing technology.

One of the primary exporters to Iraq in the 1980s was France. The French seized the opportunity to increase exports when other industrialized nations were boycotting Iraq and Iran. The French's questionable trade practices started attracting attention in 1980, with the Osirak nuclear reactor project near Baghdad.

A company in France was contracted to build a nuclear powered electrical generating plant that would also supply Iraq with the materials to make weapons grade plutonium. This project came to an abrupt end when Israeli planes bombed the site, destroying the reactor prior to it becoming operational. To insure the project was terminated, saboteurs destroyed two reactor cores in a French warehouse and assassinated the Egyptian physicist who headed the Iraqi Atomic Energy Program.

This international message did not deter France from continuing the export of billions of dollars of military hardware, such as, mirage fighter aircraft, artillery guns and ammunition, and "exocet" surface-to-air missiles. The French provided non-military assistance such as materials and technical support for an underground diesel fuel plant. A French owned electronics group, known as Thompson-CSF, won a controversial one billion dollar contract to produce an electronics industry in Iraq that specialized in telecommunications, radar, and other electronic equipment with dual military and civilian applications. As these examples indicate, France was a main supplier of weapons and technology to Iraq throughout the 1980s. Exports from France were finally suspended in

1990, not because of the internationally imposed embargo as other European nations had done, but due to Iraq's inability to continue payments on its 4.5 billion dollar accumulated debt. By the end of the decade, France had supplied over seventeen billion dollars worth of credits in armaments to Baghdad.<sup>19</sup>

Highly advanced weaponry and technology was supplied to Iraq from Germany. It has been said that there is hardly a weapons system in Iraq that can't be labeled "made in Germany."<sup>20</sup> In the 1980s, German scientists provided technical assistance to projects that extended the range of Iraq's SCUD missile arsenal, which put Saudi Arabia and Israel within striking range. The development of Iraq's enormous chemical weapons program was supplied by German chemical companies and banks. Starting early in the "Eight Year war," West Germany was essential in supplying missile systems and Mercedes-Benz tractors and flat-bed trailers fitted with mobile launching pads to Iraq. These advanced systems were Saddam's trump card during the Gulf War and were of great concern, however, they were only marginally effective against allied forces. Under pressure from Washington in 1985, Germany tightened its once flaccid export controls and joined the arms embargo of Iraq. This action closed normal trade relations between the two countries and forced Iraq to utilize covert measures to fill military requirements.

As a result of trade restrictions, Iraq located front companies in Germany. This allowed the flow of goods to continue despite restrictions. One front company known as H&H Metalforms was packing weapons in crates marked "dairy plant parts." In fact, the intercepted metal parts were a supplement to the 27,436 SCUD missile parts valued at 28.2 million that had already been diverted to Iraq.<sup>21</sup>

Germany was not the only country that had Iraqi front companies operating inside its borders. Iraq's thirst for weapons and the trade restrictions imposed by industrialized

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<sup>19</sup> Alan Riding, "The Iraqi Invasion; Europe and Japan Support Embargo," *New York Times*, (8 August 1990, Late Ed), 10.

<sup>20</sup> Kenneth R. Timmerman, "Nuclear Middlemen," *New York Times*, (28 February 1996, Late Ed), 17.

<sup>21</sup> Douglas Jehl, "Who Armed Iraq? Answers the West Didn't Want to Hear," (18 July 1993, Late Ed).

countries, forced Iraq to develop a network of front companies. This network of fifty-seven confirmed business were comprised of banks, machine tool, electronics, engineering, shipping and trade companies throughout Britain, France and Germany.<sup>22</sup> These companies are accused of trying to smuggle items, such as American made nuclear triggers, from Europe to Iraq. The front company's agents searched for parts for the gigantic supergun, technology for a gas-centrifuge plant designed to extract plutonium, stocks of refined uranium ore, and lathes and milling machines for the making of nuclear weapons. All of these products were purchased and transported to Iraq through a network of Iraqi owned front companies.

Britain was heavily involved in the Iraqi military buildup prior to and following the ban prohibiting arms sales by the British government. Aside from British conventional arms, communication equipment, and weapons manufacturing equipment, British companies were involved in production of specialty items desired by the Iraqi government. The Sheffield-Forge and Masters gigantic "supergun" and ammunitions machinery that doubled the range of conventional weapons munitions, are examples of Iraq's desire for unique and powerful weaponry.<sup>23</sup> These deals occurred despite a trade embargo banning British companies from supplying Baghdad with arms, ammunition or anything that might exacerbate or prolong the eight year Iran-Iraq conflict. Even Britain's minister of trade openly congratulated the British arms industry in:

...obtaining lucrative contracts in a difficult market and reassured them that, so long as European competitors were supplying similar products to Iraq there was no reason why the United Kingdom should block the licenses.<sup>24</sup>

By the end of 1988, Iraq had become the third largest export market for the machine-tool industry and, as a result, British trade had increased from 2.9 million pounds to 31.5 million

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<sup>22</sup> "The Arming of Iraq," *New York Times*, (April 2, 1991),

<sup>23</sup> Douglas Jehl, "Who Armed Iraq? Answers the West Didn't Want to Hear," (18 July 1993, Late Ed).

<sup>24</sup> Ibid.

pounds.<sup>25</sup> Throughout the 1980s, the British willingly supplied Iraq weapons, ignoring government restrictions and the possible future international implications.

Besides the European "big three," trade information shows that Italy, Switzerland, and Austria were substantial trading partners with Baghdad. Italy was contracted to supply ten warships at a cost of 2.6 billion dollars and provided advanced nuclear technology.<sup>26</sup> This technology coupled with Switzerland's high performance presses could have given Iraq the capability to extract plutonium and make nuclear weapon parts. Austria's trade relationship with Iraq centered on the production and delivery of large numbers of howitzers and tanks.

Regardless how Iraq acquired imports and who provided them, the economic truth is the quantity of goods and services purchased throughout the 1980s and decreasing export revenues caused a huge deficit to the government. This trade deficit was most apparent in 1981 and 1982, when Iraq's export deficit to industrialized European countries was over ten billion each year. This trend of deficits, although decreasing and eventually ending by late 1988, resulted in a forty billion dollar Iraqi debt to the world's industrialized nations.<sup>27</sup>

## **B. EARLY GROWTH**

Starting in the early 1950's Iraq realized its first export surplus spurring economic growth and a move towards international power and independence. From 1953 through 1980, the government adopted comprehensive economic plans designed to improve the economy. Iraq's primary goal was to reduce its dependency on oil exports and promote economic diversity. The Iraqi budget, under these plans, separated annual expenditures into three divisions: expenditures for government operations, investments to achieve the goals of the government's five year plans and the annual import budget.

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<sup>25</sup> "How Minister Helped British Firms to Arm Saddam's Soldiers," *Sunday Times*, (December 2, 1990).

<sup>26</sup> Alan Riding, "The Iraqi Invasion: West Europeans Join U.S. in Condemning Invasion," *New York Times*, (3 August 1990)

<sup>27</sup> Abbas Alnasrawi, "What Economic Future for Iraq," *Middle East Executive Reports*, 19, no. 3.

By 1960, Iraq's gross domestic product was seven billion and on the rise. The per capita gross domestic product was \$1400 and the growing economy allowed the political leaders to emphasize agricultural and industrial development.<sup>28</sup> Throughout the remainder of the 1960s, governmental plans raised the standard of living among all Iraqi citizens. Iraq accelerated its economic growth rate, diversified away from oil with more resources committed to investment and production, and encouraged growth in the industrial and agricultural sectors through a developing commodity market.

### C. THE OIL BOOM

The 1970's were marked by a centrally planned economy dominated by government control over industry. A growing bureaucracy forced restrictive economic policies on the public sector, which, by 1970, ensured all important industries and their production were under government ownership. Despite rapid modernization, Iraq was still largely underdeveloped.<sup>29</sup> The government, in the early 1970s, focused on labor efficiency, increasing foreign trade, research and development, and expanding investment. The government's plan stressed coordination and balance between investment and savings policies, and consumption and development needs. The regime attempted to reduce the dependency on oil by developing alternative exports, enhanced processing of raw materials, increased local manufacturing to satisfy increasing domestic consumption needs, improve agricultural production, and expand education. Successful realization of these goals would have made Iraq less dependent on oil revenue and would have promoted independence.

This concept was especially difficult since oil exports provide the basis for all other economic activity in Iraq and without international markets, the country's economy would deteriorate. This is the main problem suffered by numerous underdeveloped nations whose economy is dependent on a single revenue source. The social backwardness and lack of

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<sup>28</sup> Ibid.

<sup>29</sup> Batei Hilal, *Economic Growth in Iraq with Special Emphasis on the Contribution of Labor Force to Growth during the Period 1960-1984*, (Diss. Ohio University, 1987), 24.

educated and trained workers, as well as, a structural defect of production methods decreased Iraq's rate of economic growth and development.<sup>30</sup>

Following the 1972 Iraqi nationalization of the oil industry and throughout the decade, the government focused its attention on industrial development and diversification. In 1975, over 10.7 million Iraqi dinar(ID), or forty-two percent of the budget, was allocated for industry.<sup>31</sup> This was again an effort to promote independence and reduce the dependency on imports. With the increase in oil prices and rapid growth in all areas of the economy, one of the government's main concerns was controlling redistribution of wealth and modernization of the country's infrastructure. Little thought was given to economic efficiency and, as a result, much of the enormous revenues generated by the exports were squandered. By the end of the decade, the military, the bureaucracy and the demands on the revenues from oil had caused a deficit in the balance of payments of \$1.1 billion dollars.<sup>32</sup>

#### **D. THE IRAN/IRAQ DRAIN**

The 1980s were marked by decreasing revenues, reduced oil exports, increasing imports, ballooning debt, and a shrinking economy. After an all time per capita gross domestic product high in 1979 of \$4219, the economy of the 1980s began a rapid decline. The cause of Iraq's economic problem was the economic drain attributed to the war with Iran.

The war officially began in September 1980 when Iraqi troops marched into Iranian territory and Saddam Hussein announced he was abrogating the 1975 Algiers Agreement by returning Shatt al Arab to Iraqi sovereignty.<sup>33</sup> After eight years of war, the regime was left with a substantial military establishment, a still unbridled ambition to lead the Arab world

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<sup>30</sup> Ibid., 19.

<sup>31</sup> Ibid., 42.

<sup>32</sup> Roubaie, Elali, "The Financial Implication of Economic Sanctions Against Iraq," 63.

<sup>33</sup> Farouk, Sluglett, *Iraq Since 1958; From Revolution to Dictatorship*, (London; KPI Limited, 1987), 259.

with a substantial military establishment, a still unbridled ambition to lead the Arab world and an enormous public debt. By the end of the 1980s, Iraq's foreign debt was estimated at between sixty and eighty billion dollars. War had reduced estimated reserves from approximately thirty to 8.1 billion or less.<sup>34</sup>

Due to Iraq's huge and growing unserviceable debt, continued western commercial credit was denied. The country's growing economic problems caused major governmental reforms to occur in all areas, except, the oil industry which remained government controlled.

This period was highlighted by reduced governmental intervention, increased privatization and a trend towards a more open market economy. Although revenues were down, the state continued a commitment to modernization. With the substantial oil revenues that remained Iraq was able to generate opportunities for private business. The government's actions were an attempt to combat the effects of the war and continue the standard of living of the 1970s, which resulted in a move towards an open market system. Because most firms lacked the ability to carry out major infrastructure and high technology endeavors, subcontracting became extremely profitable.<sup>35</sup>

In 1989, Iraq planned for higher oil production to support the development of new state controlled industries that would supply military, civilian and export markets. Iraq's ambitious plans included government sponsored construction of oil refineries, petrochemical complexes, steel and aluminum plants, a vehicle assembly capability and expansion of its indigenous defense industry. These plans were thwarted due to lack of funding and lower oil prices.

Following the Iran and Iraq War, and throughout the remainder of the decade, the foreign debt continued to grow despite increased oil exports and revenues. The balance of

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<sup>34</sup> Joffe, McLachlan, "Iran and Iraq: Building on the Stalemate," Special Report #1146: *Economist Intelligence Unit*, (London, November 1988), 28.

<sup>35</sup> Farouk, Sluglett, "Iraq Since 1986: The Strengthening of Saddam," *Middle East Report*, (November-December 1990), 22.

spending policy. The government artificially kept the standard of living high by borrowing wherever possible. Iraq's problems were exacerbated by high import levels and consumption outside the production possibilities curve. Throughout this time frame, Iraq embarked on aggressive expansion policies that touched every facet of economic development. While many of the government's economic programs were considered free market reforms, in actuality, they just changed governmental control or were never fully implemented. The regimes economic reforms could not be achieved without political change and increased free enterprise.

He (Saddam) thus found himself trapped by the incompatibility of his own desire to maintain absolute rule and the basic requirements of a market economy.<sup>36</sup>

These government actions mortgaged Iraq's future and made the country more susceptible to international pressure.

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<sup>36</sup> Ibid., 23.



### III. SANCTIONS

#### A. DEFINITIONS

Sanctions are defined as:

...negative measures which seek to influence conduct by threatening and, if necessary, imposing penalties for non-conformity with the law.<sup>37</sup>

Another definition provided by Johan Galtung states:

...actions initiated by one or more international actors...against one or more others...by depriving them of some value and/or to make the receivers comply with certain norms the senders deem important.<sup>38</sup>

These two definitions imply some action taken by one nation or a group of nations acting against another, for actions or policies which are contrary to the thoughts or beliefs of the imposing body. These actions come in many forms but are broken into four basic categories; diplomatic, military, economic statecraft, and communications. They can be used individually or in combination to pressure or influence other nations to conform with international policy.

Diplomatic sanctions include non-recognition of a nation, expulsion of diplomats from the host country and the cancellation of all forms of diplomatic ties with the sanctioned country. Communication sanctions take the form of severed communications between countries, loss of mail contact and termination of technological or telecommunications links. Military sanctions are a threat of force, a regional show of force, or a full scale military invasion. In August 1990, the United Nations imposed all possible forms of sanctions against Iraq.

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<sup>37</sup> Margaret Doxey, "International Sanctions: A Framework for Analysis with Special Reference to the United Nations and Southern Africa," *Internal Organization*, no. 26, (Summer 1972), 528.

<sup>38</sup> Johan Galtung, "On Effects of International Economic Sanctions: with Examples from the Case of Rhodesia," *World Politics*, 119, no. 3, (April 1967), 379.

The last category of sanctions is economic statecraft. This variety of sanctions has the most direct affect on a nation's economic activity. Economic statecraft are those economic measures that leaders or foreign policy-makers use to influence international actors.<sup>39</sup> The definition of economic statecraft differs from economic sanctions because it includes the disciplines of economics and political science. The three components of economic statecraft are; economic warfare, economic aid, and economic sanctions.

A nation's utilization of pre-emptive purchases, global embargoes, coercing neutrals to cooperate, blockades, and bombing factors of production behind enemy lines are all examples of economic warfare.<sup>40</sup> Economic sanctions are economic measures directed toward political objectives...and are employed in an attempt to achieve political ends by economic means.<sup>41</sup> There are two categories of negative sanctions that affect a nation's trade and capital/financial economy.

Trade sanctions can be defined as measures in which one country publicly suspends a major portion of its trade with another country to obtain political objectives.<sup>42</sup> Trade sanctions include a variety of actions: embargo, boycott, tariff increase, unfavorable tariff discrimination, withdrawal of most favored nation treatment, blacklist, quota, license denial, dumping, preclusive purchasing, export/import restrictions or threats of the above.<sup>43</sup>

Capital sanctions usually involve the suspension, curtailment, manipulation or freezing of a target country's financial and/or commercial assets. Target countries are often

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<sup>39</sup> David Baldwin, *Economic statecraft*, (Princeton: Princeton University, 1985), 40.

<sup>40</sup> Gary Hufbauer, "Economic Sanctions and US Foreign Policy," *Political Science*, (Fall 1985) 6.

<sup>41</sup> Johan Galtung, "On Effects of International Economic Sanctions: with Examples from the Case of Rhodesia," 379.

<sup>42</sup> David Baldwin, *Economic Statecraft*, 154.

<sup>43</sup> Johan Galtung, "On Effects of International Economic Sanctions: with Examples from the Case of Rhodesia," 338; Ellings, *Embargoes and World Power Lessons from American Foreign Policy*, (Boulder CO, Westview, 1985), 41; Hufbauer, "Economic Sanctions and US Foreign Policy," 28; Doxey, "International Sanctions: A Framework for Analysis with Special Reference to the UN and Southern Africa," 92.

hurt through a reduction of commercial and official finance.<sup>44</sup> This may require the target country to pay a higher interest rate to alternative creditors. Due to Iraq's poor credit rating and worldwide compliance to sanctions, its doubtful that any institution or government will loan money to Iraq. Freezing the assets of the targeted country and denying access to bank accounts or other finances are another form of capital sanctions. Controls on imports or exports of capital involve restricting the transfer of capital for certain purposes, either into or out of a country.

## B. REASONS FOR SANCTIONS

There are three reasons why sanctions are imposed against a nation; for security/order objectives, for justice reasons, and for economic reasons.

Security/Order objectives are the most prevalent reason for a country to use sanctions. This type of sanction usually occurs when an entity is threatened by the actions of another country or to show displeasure with aggressive behavior. From 1945-1982 a total of seventy-two documented economic sanction cases were precipitated by security concerns worldwide.<sup>45</sup> Punishing or deterring foreign military adventures, changing or destabilizing an unfriendly government, limiting proliferation of nuclear weapons, curbing international terrorism and damaging or threatening the wealth and economic capability of a country are primary motivations for a government to impose security/order sanctions.

Ellings lists a total of eighteen instances worldwide where justice, the second major reason for using sanctions, were implemented.<sup>46</sup> The violation of human rights are the primary reason for imposing this type of sanction against another nation. A nation, by imposing sanctions for reasons of justice, demonstrate moral outrage or disapproval with the target nation's actions. These sanctions are implemented in an effort to improve a country's human rights posture.

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<sup>44</sup> Hufbauer, "Economic Sanctions and US Foreign Policy," 28.

<sup>45</sup> Ellings, *Embargoes and World Power, Lessons from American Foreign Policy*, 128.

<sup>46</sup> Ibid.

The final reason for imposing sanctions are primarily economic in nature and usually involve disputes over fishing, ocean, and/or property rights.

### C. UNITED NATIONS SANCTIONS AGAINST IRAQ

Iraq's invasion of Kuwait in August 1990 caused the United Nations Security Council to authorize economic sanctions and the freezing of Iraq's financial assets. These actions suspended all trade and financial relations between Iraq and a good part of the world. The sanctions implemented by the United Nations against Iraq comprise, in one form or another, the application of every variety and category in its power to administer.

On August the second, 1990, Saddam Hussein violated Article two, section four of the United Nations Charter which calls upon members to:

...refrain from, in their international relations, the threat or use of force against the territorial or political independence of any state.<sup>47</sup>

This violation set forth a chain of resolutions that fall into all of the four previously mentioned categories and has had a devastating effect on Iraq's economy.

Diplomatic sanctions were imposed almost immediately in an attempt to combat the aggressive actions taken by Iraqi forces in Kuwait. The five permanent members of the United Nations: United States, United Kingdom, France, Russia, China, along with the rotating members: Canada, Finland, Romania, Columbia, Zaire, Ethiopia, Ivory Coast, Malaysia, Cuba, and Yemen voted 14-0 (with Yemen abstaining) to institute Resolution 660.<sup>48</sup> This resolution condemned the invasion of Kuwait as a "breach of the peace" and demanded Iraq's immediate withdraw. Following this action, numerous diplomatic sanctions were delivered in response to security and justice violations that Saddam Hussein was conducting against Kuwaiti citizens.

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<sup>47</sup> Forest Griebes, "Gulf Crisis, International law, and American Foreign Policy," *Montana Business Quarterly*, (22 September, 1991).

<sup>48</sup> Ibid.

- 9 August 1990, Resolution 662, with a vote of 15-0, proclaimed that Iraq's annexation of Kuwait had "no legal validity" and was "declared null and void" under international law.
- 18 August 1990, Resolution 664 demanded the safe passage from Kuwait all detained foreigners and warned that military action was forthcoming if they weren't released.
- 16 September 1990, Resolution 667 condemned action taken by Iraq against diplomatic missions and personnel in Kuwait.
- 24 September 1990, Resolution 669 called on the committee established under Resolution 661 to examine requests for assistance by states under Article fifty of the United Nations Charter. Article 50 provides assistance for nations who are indirectly affected by the sanctions due to their economy dependency on the sanctioned body.
- 29 October 1990, Resolution 674 demanded Iraq stop taking third-country nationals hostage, that it no longer mistreat Kuwaiti nationals, and that it protect diplomatic and consular missions in Kuwait.
- 28 November 1990, Resolution 677 condemned attempts to change the demographic composition of Kuwait and to destroy its civil records and asked the Secretary General to keep a copy of the population registration as of August 1, 1990.
- 29 November 1990, Resolution 678 granted a pause of goodwill to allow a final opportunity to withdraw from Kuwait, while authorizing member states to "use all necessary means" to implement resolution 660 if Iraq has not complied by January 15, 1990.
- 5 April 1991, Resolution 688 condemned oppression of its Kurdish population and other segments of the civilian population and asked the Secretary General to investigate their plight.<sup>49</sup>

These examples demonstrate the United Nations' desire to enforce international law through the use of diplomatic measures.

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<sup>49</sup> Ibid.

The United Nations threat and eventual use of military force against Iraq demonstrated the global intensity of the conflict. The security council adopted two resolutions which allowed the allied forces to apply additional pressure and bring the conflict to an end. These two resolutions are examples of the use of military sanctions in an international dispute.

- 25 August 1990, Resolution 665 called for a naval embargo to support the implementation of United Nations Security Council sanctions.
- 2 March 1991, Resolution 686 demanded Iraq formally accept the current borders of Kuwait; surrender all material that can be used to make nuclear and other dangerous weapons; agree to put a portion of its future oil profits toward Kuwait reparation payments; renounce terrorism; and accept a ban on imports of weapons as condition for an end to the Gulf War.<sup>50</sup>

The United Nations use of economic statecraft has, by far, caused the most evolutionary change in Iraq. The implementation of resolution 661 and resolution 986 have isolated the nation of Iraq from the international community, stripped the country of all economic sovereignty and predicated its survival on the decisions of the council.

- 6 August 1990, Resolution 661 imposed sanctions on Iraq, with a vote of 13-0 (Yemen and Cuba abstaining), on over three-hundred products that were imported to the country. The restrictions included the export of all commodities to all nations except Jordan.
- 14 April 1995, Resolution 986 conditionally authorized states to permit the import of Iraqi petroleum and petroleum products up to a total export amount of one billion dollars per quarter. The revenues of the sales will be forwarded to a United Nations escrow account, who will in turn distribute the funds after Kuwaiti war reparations and United Nations expenditures are extracted.<sup>51</sup>

Resolution 661 has been active for more than six years and is impacting the economy to a point where its poisoning every facet of Iraqi civilization. In the middle of

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<sup>50</sup> Ibid.

<sup>51</sup> Ibid.

May, 1996, Iraq accepted the terms of resolution 986, but aggression by the regime against the Kurds in August, 1996 delayed the sale of oil. For over six years the regime resisted economic resolutions, stating the stipulations imposed by the United Nations infringed upon Iraq's sovereignty. The Iraqi government's acceptance of Resolution 986 and its yielding to international pressure, demonstrate the desperate Iraqi economic situation.



#### IV. CURRENT ECONOMY

Today, sanctions have curtailed the rate of growth of Iraq's economy and caused serious economic, financial, social and psychological consequences. According to a Washington DC Institute for International Economics study, there has been the equivalent of 21.6 billion dollars of per annum in lost income.<sup>52</sup> This is the result of tremendous loss in export earnings, a depreciation in the unofficial exchange rate of the Iraqi dinar, a substantial decrease in national income, and a dramatic increase in the price of goods and services. This dramatic chain reaction initiated by United Nations sanctions has altered the economic livelihood of every man, women and child in Iraq.

War and prolonged sanctions have caused such comprehensive damage to the Iraqi economy that it is now impossible to maintain these sanctions in their present form without perpetuating, and perhaps even accentuating the state of acute poverty in which a large part of the population is now plunged. The debate about sanctions cannot ignore this simple truth.<sup>53</sup>

The Iraq economy has been in a thirty year cycle. Since the 1950s, the economy has grown due to the revenues generated from exports and its redistribution into other areas of the economy. As exports grew, so in turn did the well being of the nation. Between 1960 and 1989, gross domestic product grew from seven billion to fifty-four billion.<sup>54</sup> The rapid increase in crude petroleum production produced a revenue increase from less than one billion in 1960 to twenty-two billion by 1989.<sup>55</sup> As a consequence, the country's balance of payments position improved, providing the economy with much needed foreign exchange to pay for imports, particularly capital goods and raw materials.

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<sup>52</sup> Hufbauer, Schott, Elliot, *Economic Sanctions Reconsidered: History and Current Policy*, 74.

<sup>53</sup> Dreze, Gazdar, *Income and Economic Survey*, World Institute for Development Economics Research, (October 1991), 9.

<sup>54</sup> Abbas Alnasrawi, "What Economic Future for Iraq."

<sup>55</sup> Roubaie, Elali, "The Financial Implications of Economic Sanctions Against Iraq," 54.

This degree of openness in Iraq's economy can be illustrated by the ratio of exports and imports to gross national product. The share of exports to total gross national product increased from 27.7 percent in 1960 to 62.1 percent in 1989.<sup>56</sup> Also, the ratio of total imports to gross domestic product remained high throughout the period. The larger the ratio of exports and imports to income, the greater the expected damage sanctions will have on the economy. The wide variation in these ratios reflects the volatility of Iraq's trade and also its importance to the national economy.<sup>57</sup>

By the end of the 1980s, revenues began to decline, forcing Iraq into rapidly accumulating foreign debt and financial strain on its balance of payments. Iraq's gross national product had declined to ten billion by 1993 and nine billion by 1994.<sup>58</sup> This thirty year cycle in gross national product was magnified by an increase in population by more than fourteen million people between 1960 and 1994. Iraq's diminishing gross national product is better illustrated in the per capita GNP of \$1400 in 1960, up to \$4219 in 1979, down to \$485 in 1993, and finally \$421 in 1994.<sup>59</sup>

It is obvious that sanctioning international trade has had a damaging affect on Iraq's economy. Iraq's open economy is highly dependent on external trade. The country's productive capacity is incapable, at least in the short term, of producing enough goods and services to substitute for imports. Iraq's industrial base is not solid enough for the domestic production of capital goods and all production output requires a large import component. Industrial production depends heavily on imported machinery, spare parts, and raw materials. Imports are financed by foreign currency earned by exports, mainly petroleum, making it Iraq's most valuable commodity. The application of sanctions against Iraq has gradually weakened its capacity to maintain production as industry exhausts the available stock of spare parts.

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<sup>56</sup> Ibid.

<sup>57</sup> Ibid.

<sup>58</sup> Abbas Alnasrawi, "What Economic Future in Iraq."

<sup>59</sup> Ibid.

In an effort to determine the effect of sanctions on the current economy, a simple Keynesian multiplier model is used. This is done for us by Roubaie and Elali in an article in the Arab Studies Quarterly. Due to the lack of data and doubts about its accuracy, economists elect to use Keynes to estimate the impact of sanctions on Iraq. The model is run using two scenarios: first using a ninety percent limit on Iraqi exports, and the second assumes no limit on exports. The model is designed to determine the effect on GDP between 1989 and 1994. The author determined that a ninety percent boycott of Iraqi exports resulted in a twenty-three percent decline in GDP the first year and a two-thirds decline by 1994.<sup>60</sup> The second run where sanctions were never imposed concluded that Iraq would realize an nine percent growth in GDP over the period.<sup>61</sup> These findings are echoed by other literature and support the notion that economic sanctions have had a severe impact on Iraq's fragile economy.

Iraq's dependency on trade is believed to make the economy and all domestic programs sensitive to changes in world markets. For example, because the value of oil exports account for more than ninety-seven percent of Iraq's total exports, its economic development is directly linked to the ability of oil to supply required financial resources. Most of Iraq's oil investments are made by the public sector, but most of the oil income goes to the government. Without oil, Iraq can not support the functions necessary to maintain a semi-open market economy and a strong centralized government. Fluctuations in oil volume and price are transmitted to the national economy via balance of payments, which directly affect income, employment, government revenues, prices, and output. By preventing Iraq from exporting oil, considerable damage has been inflicted on productivity, the ability of the government to function, and the economy.

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<sup>60</sup> Roubaie, Elali, "The Financial Implications of Economic Sanctions Against Iraq," 59, also confirmed by information found in *The Economics Intelligence Unit* (17 January 1997) and Coplin and O'Leary, eds., *Country Forecasts*, (Political Risk Services IBC, January 1997), 182.

<sup>61</sup> Roubaie, Elali, "The Financial Implications of Economic Sanctions Against Iraq," 59. By reviewing the growth rates of other oil dependent nations, Saudi Arabia, Venezuela, and Libya in IMF, World Bank, and IBC statistical abstracts, it is reasonable to conclude that Iraq could well have realized growth rates indicated in Roubaie's article.

## A. DEBT

To meet Iraq's financial commitments and sustain its economic development, the country sought external loans. Between the period of 1975-1989, the total outstanding debt increased from 1.17 billion to 22.752 billion or an increase of about 2000 percent.<sup>62</sup> By 1990, Iraq estimated its foreign debt to the non-Arab countries at 42.1 billion dollars, 75,1 billion with interest.<sup>63</sup> The debt to the Arab countries, due to the Iran and Iraq War, is estimated to exceed forty billion.<sup>64</sup> Iraq has refused to acknowledge the Arab debt, stating that the amount was a grant from the Arab nations.

The foreign debt that Iraq owes is only a small portion of the financial burden that has accumulated since the invasion of Kuwait. First, in 1991 the United Nations estimated some ninety-seven billion was owed to Iran for damage inflicted by Iraq during their Eight Year War.<sup>65</sup> Although Iraq's government does not acknowledge this debt, its recognized by the international community and will always be an obstacle to Iran and Iraq relations. Second, Kuwait has estimated the damage to its infrastructure to be around 240 billion.<sup>66</sup> This is the result of Iraq's occupation of the country during the war. Third, United Nations Security Council resolution 687 states:

...thirty percent of Iraqi revenues will go to the compensation fund for war reparations and damage inflicted by Iraq during the Gulf War.<sup>67</sup>

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<sup>62</sup> Abbas Alnasrawi, "What Economic Future in Iraq."

<sup>63</sup> Keith Bradsher, "War Damages and Old Debts Could Exhaust Iraq's Assets," *New York Times*, (March 1, 1991); and *Middle East Economic Survey*, (May 13, 1991).

<sup>64</sup> Ibid.

<sup>65</sup> UNSC correspondence, "Letter Dated 24 December 1991 from the Secretary General, Addressed to the President of the Security Council," 15. It should be noted that the Iranian government's estimation of these damages exceed those made by the United Nations.

<sup>66</sup> Arab Monetary Fund, Joint Arab Economic Report 1992, p. 18; supplied by the *Middle East Economic Digest*, January 8, 1993, 10.

<sup>67</sup> William Huth, Esq., "UN Compensation Commission: A New Approach to Settlement of International Commercial Disputes," *Middle East Executive Report*, (January 1996), 9.

So long as a Kuwaiti debt remains, the United Nations will manage all revenues Iraq generates in order to guarantee the repayment of this debt. Forth, the people of Kuwait have filed UN claims against the government of Iraq for damages as a result of the war, this figure is estimated to be 220 billion.<sup>68</sup> These claims are based on the deaths of family members, income losses, damage to private business, and pain and suffering incurred during the war. Fifth, according to the Joint Arab Economic Report, the value of destroyed infrastructure and other economic assets in Iraq that can be attributed to the 1991 Gulf War has been estimated at \$232 billion.<sup>69</sup> Sixth, the damage to Iraq, during the war with Iran, is estimated at sixty-seven billion.<sup>70</sup> Due to the lack of resources available throughout the period of both wars and the limited time prior to the start of the Gulf War, it is assumed that most of the damage inflicted over the last fifteen years has gone without permanent repair.

The huge debt that Iraq faces will continue to increase with each passing day so long as sanctions are in place and Iraq's ability to generate income is blocked. This debt is exacerbated by the increasing service on the debt and the increasing cost of repairing infrastructure due to inflation. Accumulating a large debt has further aggravated Iraq's financial situation due to the increased revenues necessary to satisfy the interest. Iraq's total debt service increased by more than eleven hundred percent between 1975 and 1989 and that figure will continue to rise for many years following the removal of sanctions.<sup>71</sup> The road to economic recovery will be hampered by a substantial portion of revenue generated having to be allocated to service the increasing debt, pay war reparations, and repair and replace capital.

When Iraq's sanctions are finally lifted, its external position will be measured in terms of the relationship between its international reserves and its external debt. As

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<sup>68</sup> A UNSC estimate of 100 billion was quoted in *Middle East Economic Digest*, (January 8, 1993), 10. A 1996 figure listed in the *Economic Intelligent Unit-Iraq*, (15 April 1997) was over 220 billion dollars.

<sup>69</sup> *Joint Arab Economic Report*, (Abu Dhabi, 1973), 18, found in Abbas Alnasrawi, "What Economic Future in Iraq."

<sup>70</sup> K. Mofid, *The Economic Consequences of the Gulf War*, (London, Routledge, 1990), 128.

<sup>71</sup> Roubaie, Elali, "The Financial Implication of Economic Sanctions Against Iraq," 61.

illustrated above, Iraq's external debt is almost insurmountable and its international reserves are believed to be nonexistent, thus, Iraq has no hope for further financing and debt rescheduling will only be done out of absolute necessity.

## **B. HYPER-INFLATION**

In the period prior to the invasion of Kuwait, over two-thirds of Iraq's food requirements and most of its capital and consumable items were imported. The elimination of imports from Iraqi consumers has created a shortage of all products including basic essentials. This has caused a sharp rise in prices on the few products that are domestically produced. Inflation rates are estimated at one-thousand percent per year for every year sanctions have been in place. The official exchange rate of the dinar prior to the Gulf War was 3.22(ID) dinar per U.S. dollar. Since the conflict and as a result of continuing sanctions, the dinar has traded for as little as three-thousand (ID) per dollar.<sup>72</sup> Inflation rates have made Iraq's currency unacceptable to the outside world as a medium of exchange and the government can no longer afford to support the official exchange rate. As a direct result, the price of imported goods have increased reflecting changes in the exchange rate and thus, are no longer affordable to the average citizen.

The price of goods, whether produced domestically or imported against sanctions, are beyond the capacity of a vast majority of the population. Inflation has driven prices to the point where a month's salary is required to purchase thirty eggs, one egg is \$256 and two months pay will buy a pair of shoes.<sup>73</sup> The average Iraqi, provided he supports the government, survives on a ration card that provides one-half of his nutritional needs. To supplement their diet, the people of Iraq pay highly inflated prices on the black market. After more than six years of sanctions, the average person has sold everything of value and

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<sup>72</sup> *Economic Intelligence Unit Country Report Iraq*, (7 February, 1995).

<sup>73</sup> *Ibid.*

exhausted whatever savings in an effort to survive. As a result, the crime rate has increased, homeless is the norm, and panhandling is the way of life.

### **C. SPILL-OVER EFFECT**

Sanctions have had a negative economic impact on both Iraq and its trading partners. For example, the loss of comparative advantage between trading countries causes lost opportunity for both nations. The removal of trade privileges between nations reduce consumption levels that result from comparative advantage. This economic concept explains a country's ability to produce certain commodities better than other nations and at a reduced cost. In order for the international community to benefit from a country's productive advantage, the producer must be able to trade that commodity for a product that another country has a comparative advantage producing. This trade between the two nations allow both to consume the other country's products for less than the cost of domestic production. This concept enables nations to consume higher quality and increased quantity of products at reduced costs, resulting in higher consumption levels, increased employment, a higher standard of living, and increased gross domestic product. The removal of free market international trade between nations causes the inverse if replacement markets are not found.

In Europe, for example, sanctions have caused considerable hardships in both the private sector and some European governments. The European debt that Iraq owes has affected currency flows in Europe, caused a short-term increase in inflation, some unemployment, and currency reserve problems for banks. Inflation over the past six years has also de-valued the debt Iraq owes. This means the purchasing power of the currency has decreased, which costs the European governments and its financial institutions. The forty billion dollar debt Iraq owes is frozen and due to sanctions, its payment in the near future is doubtful. All of these factors equate to a substantial loss to the world's industrialized nations.

The private sector that was unfortunately conducting business with Iraq has also suffered great losses. In England, employees have abandoned work on what should have been one of their most lucrative projects in recent years. A 150 million dollar contract to build four turbine generators for a power station 240 miles north of Baghdad. The Paris employees of Airbus have discontinued work on five A310 wide body jets, due to the sanctions imposed by the United Nations. The contract with Airbus included five additional jets and could have netted as much as six billion dollars. The meat producers of Ireland have lost millions over the past five years in lost sales due to the embargo. Throughout Europe financial institutions are holding notes worth billions of dollars. For example, Bulgaria and Romania are owed around 1.5 billion dollars each for uncollected debts on products shipped years ago. In Germany, forty companies are stuck with over two billion dollars in unpaid debt on deals that have been partially completed. All of these European countries were greatly affected by sanctions. The current losses add up to billions of dollars and all were anticipating billions of dollars of trade with Iraq in the coming future. The British, for example, were estimating exports to Iraq in 1991 to exceed 732 million dollars. Sanctions have had a huge impact on the economies of numerous countries throughout the world as illustrated by these examples.

#### **D. IRAQ 1997**

As sanctions continue, economists forecast a leveling of Iraq's economy with moderate gains in oil exports and GDP. The economy has "leveled" at the pre-industrial or agricultural base that the country acquired in the 1960s. This is a reflection of the country's productive and consumption capabilities given its water and arable land resources. With Saddam Hussein's acceptance of the conditions outlined in UNSC Resolution 986, Iraq will experience an estimated thirty percent increase in real GDP.<sup>74</sup> This growth, although

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<sup>74</sup> *Economics Intelligence Unit Country Report Iraq*, (15 February 1996).

appearing significant, does not represent real economic growth due to the extremely low base from which it is achieved.

Resolution 986 allows Iraq to export one billion dollars of oil per quarter, netting about six hundred million dollars in humanitarian aid after war reparations and UN costs.<sup>75</sup> Humanitarian aid began arriving in March which has eased some of the burden on the citizens of Iraq and provided Saddam Hussein a short lived moral victory in the eyes of his people. As Hussein promotes his propaganda, the reality of continued two-hundred percent inflation occurring over the next two years will eventually erode his and the public's optimism.

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<sup>75</sup> *Economics Intelligence Unit Country Report Iraq*, (16 January 1997).



## V. DESPERATE MEASURES

The sanctions imposed on Iraq have forced the country to utilize whatever means available to generate income for its survival. Due to the desperate situation in the country, Iraq feels compelled to test the strength and resourcefulness of the coalition's maritime interdiction operation. At southern Iraqi ports, ships load agricultural goods and petroleum products bound for international destinations and coalition opposition. In an attempt to deceive their opponent, Iraq is utilizing all means at its disposal to export goods to willing customers. A vast number of maritime deceptive strategies are being employed by vessels carrying illegal products. Iraq's desperate hope is to generate foreign currency by whatever means necessary in an effort to improve the domestic situation in Iraq and make a political statement to the world.

### A. BANNED IMPORTS

The trade sanctions imposed by the United Nations have eliminated the import of a broad spectrum of goods. Imagine a parking lot at a hospital full of broken-down ambulances, all requiring spare parts that are sanctioned by the United Nations. Hospitals are attempting to treat patients without bedding, x-ray machine parts, general anesthesia and other medicines, sterile bandages and surgical equipment that are all necessary for marginal health care. The city streets are polluted with raw sewage and the supply of drinking water is contaminated because chlorine can be used for chemical weapons. The ban on these medical health-care products has caused the infant mortality rate to increase dramatically, the life expectancy to decrease, and the rapid decline of the general population's health.

The sanctioning committee has banned more than five-hundred products using criteria whose logic is not always apparent. Some of the proscribed articles on the "red list," which continues to grow, are electric light bulbs, socks, wristwatches, ovens, sewing machines and needles, mirrors, diskettes for computers, carpenter's nails, a wide range of

textiles, grain mills, and refrigerators.<sup>76</sup> The ban on these items has caused unexpected consequences for schools due to the scarcity of paper, textbooks, maintenance supplies and pencils.

In a country covered by the world's second richest oil reserves, a person can die of malnutrition or lack of medical treatment. This is the unfortunate reality of the international stand-off and the result of the United Nations actions to preserve the peace and protect the world. Throughout the last six years Baghdad has attempted to illegally trade through deceptive means and their efforts have been met head-on by the United Nations and the coalition's maritime force. The coalition's task is to enforce the United Nations resolutions that impose the embargo on all goods bound to or from Iraq. This process is ongoing and will continue until the United Nations is satisfied that Iraq has conformed to all the demands placed upon them. Although the coalition has been successful at reducing Iraqi exports by over ninety percent, the regime is compelled to continue to challenge the embargo. Iraq's desperate economic situation calls for desperate measures.

## **B. SADDAM STRATEGY**

There are numerous methods and advantages being exploited by the Iraqi regime to export goods via commercial vessels. These vessels, both large and small, are loading at Iraqi ports and venturing out, gambling on being able to reach their destination. By relying on one or all of the following; confusion, forged manifests, the sheer number of vessels being used, and efforts to visually deceive the coalition force, the Iraqi government is attempting to slip by the maritime force and journey through the straits. The following will illustrate some of Saddam Hussein's well documented strategies to promote foreign exchange and provide funding for the government.

Most of the vessels departing Iraq have forged manifests and untraceable charter documents. The shipping documents held on board the merchant vessels list port departures

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<sup>76</sup> Eric Rouleau, "America's Unyielding Policy towards Iraq," *Foreign Affairs*, 74, no. 1 (January 1995), 63.

and arrivals that do not coincide with the known routes the vessels are traveling. A vessel interrogated outside the Shatt al Arab waterway had paperwork that listed its point of departure in the United Arab Emirates with a destination in Indonesia. The vessel was found to be carrying dates from Iraq and was forced to divert to Kuwait for disposition of its cargo. Shipping documents detaching vessels from the Philippines to locations throughout Southeastern Asia are being found on vessels in the Persian Gulf. Most of the charter companies guilty of these violations are located in third world countries throughout Southeast Asia, South Africa and South America, although charter companies throughout Europe are guilty of attempting to purchase Iraqi goods as well.

Punishment for violations of sanctions are seldom enforced by most countries due to income generated and cheap import goods offered by the rogue charter companies. If discovered by the coalition forces, the vessel's contents are confiscated, the crew is detained for a couple of weeks, and the vessel is allowed to depart after a short period of time. It is rare for a country to de-flag a vessel for sanction violations. Evidence indicated that most countries do not take any action or acknowledge the violation at all.

Since the start of the United Nations imposed sanctions, the Iraqi government has flooded the Persian Gulf with as many vessels as possible. This action is Baghdad's effort to overwhelm the coalition with merchant ships, making identification and tracking as difficult as possible. Since the early 1990s, the number of ships in the western gulf region has increased. During that time Iraq still had the funding to keep its oil tanker merchant fleet underway. The strategy was to patrol the Persian Gulf inside Iraqi territorial waters with a load of cargo or oil and look to exploit weakness in the coalition forces. After years of utilizing this tactic, Iraq's financial reserves have exhausted and forced the government to shift to smaller vessels in an effort to keep the level of ship activity high.

Earlier in shipping we saw larger ships, and we pretty much shut that down, now what we are seeing is a lot of small vessels like dhows with smaller cargoes...These dhows, not ships, are a new tactic we are now seeing in an

attempt to violate United Nations sanctions by sending smaller vessels and more of them.<sup>77</sup>

The dhows are one to four-hundred ton capacity wooden cargo vessels that are common throughout the gulf region and the world. Numerous dhows have been boarded and diverted to ports for final determination if sanctions violations have occurred. It seems that Iraq's tactic of deploying dhows will continue as long as economically possible. The fact that the vessel is very common in the region and practically identical to every other dhow in the gulf, make the coalition's task that much more difficult. A United States official stated that:

...as of Tuesday, 18 November 1995, observers were watching more than twenty dhows loading at Iraqi ports.<sup>78</sup>

The geographical location of these ports to Iran and both countries twelve mile exclusion zones are advantages Iraq is attempting to use to confuse the coalition force.

The Shatt al Arab waterway defines the southeastern border between Iraq and Iran. Located on the Shatt al Arab is Iraq's two commercial ports, Al Basrah and Az Zubayr and located nearby is the oil and cargo terminal, Umm Qasr. These Iraqi port facilities are located less than 25 miles from two major Iranian ports, Abadan and Khorramshahr. The close proximity of these facilities provide Iraq a considerable advantage in avoiding the embargo and an element of confusion for the coalition forces. Without close monitoring of all ship movements, vessels who transit to and from various ports in the region can easily be confused. Commercial vessels transit up the Shatt al Arab carrying false manifests that list their destination as one of the Iranian ports. Once entering the narrow waterway, the vessels continue past Iran and enter one of the Iraqi facilities. The vessels are loaded with Iraqi exports and depart the port. During the transit to open waters, vessels detour to one of the Iranian facilities where a fee is paid. The stop in Iran is designed to confuse the interdiction

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<sup>77</sup> Christine Hauser, "UN Suspects Iraq using Dhows to Evade Sanctions," *Reuters North American Wire*, (November 21, 1995).

<sup>78</sup> Ibid.

force's surveillance operation. From Iranian waters the vessels anchor at the entrance to Shatt al Arab, waiting nightfall or the most opportunistic time to depart and avoid detection.

After the vessels enter international water, they transit using normal shipping lanes and avoid attracting unwanted attention. There can be a large volume of vessel activity in this region of the gulf and ships that maintain a low profile blend in with the commercial traffic and thus, enhance the possibility of avoiding detection.

Apart from direct shipments from Iraq, the regime is employing a strategy using Iran as a middleman for its exports. Vessels containing Iraqi goods transit directly to Iranian ports, where the cargo is reloaded into vessels bound for international ports. Unless the cargo can be positively identified as originating in Iraq, it is allowed to transit through the coalition force. Due to the hostilities between Iran and the United States, there is no "free access" to the Iranian ports and its difficult to determine the origin of Iranian cargo. The limited range between these facilities also favors the exchange of cargo in this manner. In December, 1994, the United States government sent a letter of formal complaint to the United Nations sanctions committee, saying that Iran is:

...helping Baghdad to sell refined products...products are loaded at Iraqi ports, with false documents giving their origin as Iran, then Iran either transfers the oil to its own facilities or sells it as Iranian oil to other gulf countries. According to the United States Ambassador to the United Nations, the Iraqi government receives approximately five dollars for crude in this way.<sup>79</sup>

Another asset that Iraq is using to its advantage is the twelve mile Iranian territorial sea zone. It has been alleged, by United Nations representatives, that:

...the Multinational Interception Force which enforces sanctions had observed that Iran was allowing ships with contraband oil to enter Iranian waters for 'a standard fee' to evade inspections.<sup>80</sup>

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<sup>79</sup> Quote taken from the *Economists Intelligence Unit Country Report-Iraq*, (7 February 1995).

<sup>80</sup> "Iran Denies Breaking Iraq Sanctions, Accuses United States," *The Reuter European Business Report*, (August 15, 1996).

By departing the Shatt al Arab waterway via Iranian territorial waters, vessels full of contraband can control their entrance into international waters. By monitoring radar and maritime radio reports, a kin to the CB trucker network, a ship in violation of sanctions can select a route that minimizes the chance of discovery.

The Al Aqabah port in the southern most part of Jordan has contributed significantly to the export strategy of the regime. The UN sanctions exclude Jordan which provides Baghdad a border that has limited patrols and a second access to the sea. The amount of commodities that crossing the border into Jordan is difficult to determine, but there is concrete evidence that a portion is arriving at Aqabah for delivery abroad. The port offers excellent access to the Mediterranean Sea and European markets. Evidence suggests that large quantities of products were being transported across the border to Aqabah where they were repackaged resembling Jordanian cargo and shipped abroad. Finally, in 1995 the United Nations placed on-shore inspection teams at Aqabah that began to ebb the tide of contraband being exported. Although the amount of Iraqi exports from this facility has reduced significantly, most observers conclude that the flow will never completely stop.

Iraq's attempt to deceive the maritime interception force involves the altering of the external look of ships; repainting, renaming, flying a different country's flag, and altering the vessels light configuration. All of these documented methods of deception have been used to deceive the interception force, although the frequency is decreasing. One technique, the repainting of vessels, has maintained its popularity over the duration of sanctions. A good example of this technique is provided by a Bulgarian company known as Kintex. This company supplies arms around the world, specializing in countries that are under international pressure and where competition has been eliminated. These arms smugglers standard operating procedure is to manufacture a false bill of lading and load the weapons for shipment. Once they arrive near Iraq, the smugglers try to fool the United States reconnaissance satellites that track ships in the gulf. After entering the Persian Gulf, outside the Shatt al Arab waterway, the crew waits until night and repaint the deck a different color.

In the morning the satellite assigns the repainted vessel a new tracking number.<sup>81</sup> This causes enough confusion to allow the vessel to transit to an Iraqi port to unload its cargo. If the vessel wishes to return with Iraqi goods, it simply attempts the same strategy the following night after its departure from port.

These examples of maritime trade account for only half of Iraq's current illegal activity. Recently, the majority of the illegal trade has centered on border oil sales and the wholesale trade of capital equipment. Oil is selling for five-to-eight dollars a barrel to the Kurds in northern Iraq, in the black-market in Jordan, and to the Iranians. The government's desperate need for revenue has resulted in the dismantling and wholesale shipment across the border of entire manufacturing plants. The Iraqi government is liquidating its capital, road graders, dump-trucks, cranes and farm machinery in an effort to generate currency.

Although Iraq is attempting to exploit its export advantages to generate foreign exchange, the present export levels are insignificant compared to levels prior to sanctions. Until sanctions are lifted, Iraq's illegal export ventures are simply providing political resistance and little revenue.

### **C. THE COALITION'S COUNTER**

The Multinational Maritime Interception Operations off the coast of Iraq stand poised to prevent the commercial exchange between the target country and any nation, company, or individual attempting to test the coalition's resolve. The maritime force is a Multinational Joint Task Force subjected to international rules of engagement and whose composition has varied over time.

At the time of Iraq's invasion of Kuwait, there were fourteen warships located in the gulf, eight American, four British, one French and one Soviet.

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<sup>81</sup> Peter Fuhrman, "Trading in Death," *Forbes*, (May 10, 1993), 99.

By mid-November approximately 150 warships were available to support the sanctions against Iraq,[ and thirty-seven nations provided varying degrees of physical support].<sup>82</sup>

In 1996, the United States Fifth Fleet continues to be the backbone of the force providing thirty-four ships and fifteen thousand sailors.<sup>83</sup> The other nations comprising the coalition forces are France, Greece, Argentina, Britain, Norway, Spain, Denmark, New Zealand, Australia, Canada, the Netherlands, Italy, Saudi Arabia and Belgium. This multinational cooperative has solidified into an efficient and effective operating force. Over the last six years, the maritime force has adopted joint operating procedures which has enabled it to overcome confusion, conflict and hardware problems.

Since the multinational operations began in August 1990, ships from fifteen coalition countries have questioned 22,000 vessels, boarded 10,000 and diverted 573 under suspicion of carrying United Nation prohibited cargo, for having inaccessible cargo or because of improper documentation.<sup>84</sup>

Of the 22,000 ships questioned, 11,000 ship were intercepted the first year of the coalition embargo. After 1991, productivity in Iraq decreased, causing a subsequent reduction in imports and exports. Although the numbers support the reduction in traffic originating from and imported to Iraq, the estimated dollars generated from the export of oil has remained constant throughout the six year gulf conflict. An estimate of 5.6 billion dollars is earned annually through the export of Iraqi oil and petroleum products, of that 1.2 billion is shipped to or through Jordan.<sup>85</sup> Of the billions generated during sanctions, a large portion is Iraq's dwindling capital which will require replacement in the future if economic growth is to be realized.

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<sup>82</sup> "Huge Number of Ships Intercepted But Doubts Over Sanctions," *Navint: The International Naval Newsletter*, 2, no. 4, 7, (December, 1990).

<sup>83</sup> "New Head of United States Fifth Fleet Takes Over," *Reuters North American Wire*, (July 17, 1996).

<sup>84</sup> "Iraq Sanctions Patrol Nabs 76 Ships Since 1990," *Reuters North American Wire*, (April 30, 1996).

<sup>85</sup> Quote taken from *The Economist Intelligence Unit Country Report-Iraq*, (April, 1995).

The coalition's enforcement of the embargo has proven effective in preventing vast amounts of exports from reaching the international market. As outlined earlier, the coalition's efforts have successfully supported sanctions and caused Iraq's economic demise.



## VI. ECONOMIC FUTURE

Large accumulated debt and insignificant revenue production describes Iraq's current economic environment and its probable future. Provided the situation remains constant, Iraq has no short term hope for economic revitalization. In Iraq's present dilemma, the prospect for economic reconstruction and recovery are dependent on oil revenues, foreign debt rescheduling, war reparations, and the lifting of United Nations sanctions. It is impossible to see any future for Iraq until these four variables are addressed.

It is apparent that Iraq's economic future is predicated on revenues generated by the sale of oil. In order to predict oil revenues in the future, a set of assumptions must be made based on information available in 1996. Current forecasts predict a steady growth rate of oil consumption from present levels. Secondly, we must assume Iraq can reclaim its prior position in the international market. Iraq, like other countries in the OPEC alliance, must find markets for its oil to survive. The revenue generated from oil sales are required to fuel the rebuilding economy. To make an accurate forecast of possible revenues, an analysis of oil consumption and Iraq's share of the market must be determined.

Oil consumption has increased through the 1990s to an estimated seventy million barrels a day in 1996.<sup>86</sup> Provided the world's population continues to grow at the present two or three percent a year, the estimated oil consumption requirements in fifteen years will be no less than 76 million barrels a day.<sup>87</sup>(see Table 1)

Provided technology does not produce alternate forms of fuel or the population decreases, oil consumption will meet or exceed current projections. OPEC estimates that they will supply seventy-five percent of the increase in consumption.<sup>88</sup> This will increase

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<sup>86</sup> Information provided by *British Petroleum Statistical Review of World Energy* : OPEC Annual Bulletin of Statistics found in Abbas Alnasrawi, "What Economic Future in Iraq."

<sup>87</sup> Subroto, *Increased Production Capacity and its Financing in OPEC, Member Countries.*, OPEC Bulletin, April 1993, pp. 5-8 found in Abbas Alnasrawi, "What Economic Future in Iraq."

<sup>88</sup> Abbas Alnasrawi, "What Economic Future in Iraq."

**Table 1. EIA 2010 Oil Consumption Estimate (mb/per day)**

Region/Country	1992	Case	Low	High
<b>OECD</b>	40.6	48.9	47.2	54.6
--United States	17.0	20.9	20.4	22.5
--Canada	1.6	1.9	1.8	2.2
--Mexico	1.8	2.7	2.6	3.3
--Japan	5.5	6.6	6.2	7.9
<b>OECD Europe</b>	13.6	15.4	14.8	17.2
--United Kingdom	1.8	2.0	2.0	2.3
--France	1.9	2.2	2.1	2.4
--Germany	2.8	3.2	3.1	3.6
--Italy	1.9	2.2	2.1	2.4
--Netherlands	0.8	0.9	0.8	1.0
--Other Europe	4.3	4.9	4.7	5.5
--Other OECD	1.0	1.4	1.4	1.6
<b>EE/FSU</b>	7.8	9.2	8.6	9.8
--Former Soviet	6.7	7.5	7.1	8.0
--Eastern Europe	1.1	1.7	1.5	1.8
<b>NON-OECD Asia</b>	8.8	16.4	16.0	17.3
--China	2.6	4.0	3.7	4.3
--Other Asia	6.2	12.4	12.2	13.2
<b>Middle East</b>	3.7	5.4	5.4	5.6
<b>Africa</b>	2.2	3.3	3.2	3.6
<b>Cent/South America</b>	3.5	5.3	5.2	5.6
<b>TOTAL WORLD</b>	66.7	88.7	87.4	94.9 <sup>90</sup>

production levels to approximately twenty-eight million barrels a day, which is the same level they were producing in the mid-1970s.<sup>89</sup>

Once sanctions are lifted, the question is:

How much will Iraq export and what revenues can they expect?<sup>91</sup>

<sup>89</sup> OPEC, *Official Resolutions and Press Releases 1960-1990*, (Vienna, 1990), 305-308.

<sup>90</sup> Department of Energy, Energy Information Agency found in a Defense Intelligence Agency report (May 1996).

<sup>91</sup> In a comprehensive review of the literature, few have the knowledge or the inclination to venture a guess as to Iraq's future. As a result, this study's forecast for the future is heavily dependent on Alnaswari's research and information forecast by the *Economic Intelligence Unit*.

Since sanctions, OPEC nations have increased output to supply the demand vacated when Iraq was forced out of the market. Political and economic advisors are unsure whether OPEC member countries will reduce production rates purely for the benefit of Iraq. From Iraq's viewpoint, its share of OPEC output should be equal to, or greater than, the 13.96 percent share prior to sanctions.<sup>92</sup> Assuming OPEC allows Iraq to enter at its previous level, they can expect output to reach 3.9 million barrels a day by 2010, of which .6 percent will be domestically consumed.<sup>93</sup> The remaining 3.3 million barrels a day would be available for export.

In an effort to be optimistic, let's assume an average price per barrel of oil of twenty-five dollars over the fifteen year period. If sanctions were removed in 1997 and oil production resumed, the first year's production would result in about fifteen billion dollars. The reduction in output capacity is due to damaged infrastructure and would require repair prior to increased production. With repairs, estimated increases in output of approximately one billion every year can be realized, reaching a maximum of thirty billion in fifteen years. The total revenue for the period would be 360 billion dollars. This 360 billion is gross revenues without any deductions or reparations.<sup>94</sup>

Next, Iraq's foreign debt, war reparations and infrastructure repairs are to be paid once revenues start to flow into the country. These debts, which were presented in an earlier section, are 108 billion for the compensation fund, seventy-five billion external foreign debt which includes interest, 299 billion worth of damage to Iraq's infrastructure, 220 billion for Kuwaiti war claims, ninety-seven billion in damage to Iranian infrastructure during the Iran and Iraq war, and 240 billion in damage to Kuwait. This debt equals a staggering 1039 billion dollars.

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<sup>92</sup> For distribution of output quotas, See OPEC, Official Resolutions and Press Releases 1960-1990 (Vienna, 1990) pp. 305-308.

<sup>93</sup> Estimates derived from OPEC, Annual Statistical Bulletin found in Abbas Alnaswari, *The Economy of Iraq*, (Westport, Conn., Greenwood, 1994), 154.

<sup>94</sup> *Ibid.*, 157. The information derived from this model corresponds with the information found in *Economic Intelligence Unit Iraq* (January 1997) study.

Iraq's expectation for recovery is remote due to the huge gap in revenue and debt. Comparing the possible revenues Iraq can generate in fifteen years and the current accumulated debt, a deficit of 679 billion dollars is projected. It is apparent that Iraq's ability to reschedule, write-off, ignore, exchange debt for equity will affect the amount of foreign exchange it will have at its disposal and therefore its prospects for recovery.

Damage to the country's infrastructure, lack of capital and Iraq's inability to secure future credit will restrict exports of oil and slow the recovery process. This, of course is based on the premise that sanctions are lifted, OPEC allows Iraq to produce at previous levels, the country's capability still exists to be productive without credits for capital and production equipment, and the international community is willing to deal with whatever government is in power. The combination of two wars, coupled with the application of sanctions for the last five years, have ensured a crippled Iraq economy for the next fifteen-to-fifty years.

## VII. CONCLUSION

A wide variety of opinions exist on what constitutes a successful sanction. For example, Margaret Doxey describes an effective sanction as:

...one which succeeds in producing the desired behavioral response from the individual or group to which it is communicated.<sup>95</sup>

Using this definition, economic sanctions against Iraq have failed their political objective of persuading Saddam Hussein to comply with UN resolutions or force his removal from office. Ellings ties success or failure to the "capacity to inflict economic deprivation" therefore, using this definition sanctions have been an overwhelming success. In the case of Iraq, worldwide cooperation with the UN have ensured that the criteria for success provided by Ellings has been satisfied.

Throughout the decade of the 1980s, Iraq was locked in a bitter conflict with Iran which weakened its economic structure. The war brought decreased revenues, increased import requirements, negative economic growth, and a large national debt. Iraq's weak economic posture prior to the Gulf War supported the idea that sanctions were sure to succeed. This notion accepts the fact that economic means can lead to a political end. As time has shown, Iraq is the perfect case study contrary to that notion. The evidence suggests that economic sanctions have performed their task, but their ability to achieve a political objective is suspect.

The United Nations imposed sanctions against Iraq in August 1990 for both security and justice reasons. The United Nations' objectives mirrored those of the United States, in that, the goals were to force Iraq unconditionally out of Kuwait, to restore the legitimate government of the Emirate, to protect American citizens and to preserve/enhance the

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<sup>95</sup> Margaret Doxey, "International Sanctions: A Framework for Analysis with Special Reference to the United Nations and Southern Africa," *Internal Organization*, no. 26, Summer 1972.

security of the Persian Gulf.<sup>96</sup> Since the end of the Gulf War, the United States seeks to cripple Iraq's economic and military capability, ensure the U.S. vision of security in the region, set the example for the post-Cold War "New World Order" and oust Saddam Hussein. Apart from the removal of the regime, these goals have been accomplished.

Generally, most scholars do not view economic sanctions as an effective weapon in gaining a country's compliance. Under certain limited circumstances, sanctions are persuasive when the objective is easily obtained by the country under the sanctioning pressure or when easily applied by the sanctioning body. Sanctions against Iraq were neither easily applied nor extremely palatable for Hussein to swallow, but the overwhelming global support shown for economic sanctions have guaranteed their success.

Sanctions against Iraq must be viewed through the framework outlined in Ellings definition. The evidence shows that they have been successful in accomplishing their designed task, but are simply the wrong foreign policy tool for this situation. It becomes increasingly more apparent that another approach is necessary with the UN adoption of resolution 986 and the "leveling of Iraq's economy." To proponents of the regime, these two events, although their long term impact on the economy is negligible, will ignite renewed resolve and temporarily strengthen Hussein's position. For this reason, the U.S. should relax its hard-line stand and investigate other diplomatic measures to ensure our interests in the region.

With the debt facing Iraq, the uncertainty of its ability to achieve a substantial market share in OPEC, and the multitude of domestic problems facing them, it is difficult to envision a powerful and productive Iraq anytime in the next half-century. Without international assistance, starting with the removal of economic sanctions, Iraq could conceivably cease to exist.

The loss of international trade in Iraq has terminated their only significant source of revenue. As discussed earlier, Iraq's economy is fueled by the revenues generated in the

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<sup>96</sup> US Congress, House Committee on the Armed Forces, *Hearing on the Crises in the Persian Gulf*, 101st Congress, 2nd Session, December 1990, 310.

international export market and without it, the country is experiencing economic collapse. Prior to sanctions, exports comprised over sixty percent of the gross domestic product. Without the large input of export revenue, the country can not continue to grow, and without growth, the country stagnates and eventually ceases to exist.

Despite limited investment capital, large debt ratio and damaged production capability, numerous countries are anxious to rekindle a relationship with Iraq. The motivation for this renewed trading spirit is the enormous debt owed by Iraq to the industrialized countries, Iraq's thirst for foreign investment and the large oil reserves buried in the desert. It has been said that:

...if you owe the bank a little money, then the bank owns you, but if you owe the bank a large sum of money, you own the bank.

If this is true than the debt Iraq owes will work to draw countries to Baghdad.

Provided nations agree to invest in capital, abolish the barriers to trade and provide service and technical support, Iraq can eventually reclaim some of its previous market share. This evolution will take the better half of a century to restore Iraq to pre-Gulf War economic levels. First, Iraq must prove it can foster a favorable economic environment before profits can be realized.

Regardless of the quantity of trade and international investment over the next twenty years, the people of Iraq will continue to suffer the burden of multilateral sanctions. The country will continue to experience inflation, unemployment, the rationing of consumable, widespread poverty and sickness. This can all be attributed to a devastating miscalculation by one man and a worldwide retaliation that is unequaled in history.



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