ECONOMIC SANCTIONS; THEORY, EFFECTIVENESS AND APPLICATION TO IRAQ

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Abstract

العقوبات الإقتصادية: النظرية والفاعلية
مع التطبيق على العراق

تتناول هذه الدراسة العقوبات الإقتصادية كما جرى تطبيقها خلال العقود السابقة، وأوضحت الظروف التي جرى إستخدامها فيها، وسعت إلى تقدير كلفتها وفاعليتها بالنسبة إلى كل من الدول التي تفرضها والدول المستهدفة بها، ودرجات نجاحها. وتم تقسيم العقوبات إلى قسمين: أحدهما تجاري والآخر مالي، وهو ما أظهر مدى إرتباط فاعلية العقوبات بدرجة إنفتاح الإقتصاد المعني وحجمه. وقد إنتهى عدد كبير من الباحثين إلى أن العقوبات عجزت في أغلب الأحوال عن تحقيق أهدافها. ثم إنتقلت الدراسة إلى إستعراض أوضاع العراق في الثمانينات، وبيان كيف تأثرت بتقلبات أسواق النفط والحرب العراقية الإيرانية. ووجدت الدولة نفسها في مواجهة مشاكل عديدة بموارد قليلة. ثم أضاف موقف الكويت من تحديد الأوبك لأسعار النفط إلى تلك الصعوبات، وساد تصور لدى العراق بأن ضم الكويت يساعد على مواجهتها. وأوضحت الدراسة أن العقوبات التي فرضها مجلس الأمن بلغت من الشمول حدا غير مسبوق، كما أشارت إلى الخسائر الضخمة التي ترتبت على الحملة التي شنها الحلفاء على العراق خاصة وقد إرتفع عدد الأهداف المنتخبة من ٥٧ إلى ٧٠٠. وفي ضوء حجم الخسائر المتحققة وأقصى حجم ممكن لعائدات النفط تنبأت الدراسة بمستقبل قاتم للعراق.

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Introduction

In his *Economic Statecraft* David Baldwin divides, the policy instruments a state may use to attain foreign policy objectives in four groups. These are:

1. Propaganda. Here the state attempts to influence certain outcomes by relying on the deliberate manipulation of verbal symbols.

2. Diplomacy. Under this instrument the attempted influence is sought through negotiations.

3. Economic statecraft. Under this broad group of measures the state will rely on resources which have a market price in terms of money.

4. Military statecraft. To achieve its objectives the state will rely primarily on violence, weapons, or force.(1)

This classification, or any other classification for that matter, does not mean that the deployment of one set of instruments excludes the deployment of others. Manipulation of words and symbols often accompanies diplomacy or the attempt to inflict economic harm or the actual resort to weapons and violence.

This study will concentrate, however, on the use of economic sanctions as have been practiced in recent decades. The first part of the study will provide a definition or definitions of economic sanctions; the circumstances and conditions under which they were used; their costs; their effectiveness; and the degree of their success. The second part of the study will be devoted to an examination of the unique nature of the economic sanctions which have been imposed against Iraq since August 1990 and their impact on its economy.

I. ECONOMIC SANCTIONS; MEANING AND EFFECTIVENESS

Within a national society sanctions can be viewed as measures of enforcement which follow violations of that society's laws. In other words they are penalties which define the limits of certain conduct and encourage compliance with known rules. Furthermore, they are intended to deter potential wrong-doers by the prospect of punishment and if some are not deterred, then the penalties can perhaps deter the violators from repeating their offenses and also serve as a warning to others. While questions of law, authority, norms of behavior, penalties, enforcement, etc. are known within the national boundaries of the state this is not the case with respect to international society. This is so because the actors are not individuals but sovereign states subject to no single law enforcing authority.(2)

Even when there are internationally recognized legal and political bodies such as the World Court of Justice or the United Nations these organizations, unlike their member states, are devoid of the means to enforce their rulings. Indeed the very legitimacy of the rulings of these bodies have often been questioned or ignored by offending states. This phenomenon is reinforced by the obvious inequality in the distribution of power among states within the same international body such as the United Nations. The concentration of power among the permanent members of the United Nations Security Council is a case in point. The veto power which is vested in the five member states protect these states, their, friends and clients from the imposition of mandatory sanctions by that world body even when there is a clear case of violation which calls for penalties. The exercise by the US. government of its veto in the Security Council to shield Israel from punitive sanctions is well known.

Another complicating factor in the study of economic sanctions and which derives from the absence of a single international authority with enforcement powers is the liberty which one state or a group of states may take in imposing sanctions. Thus a state may impose sanctions under the pretension that its actions were intended to defend international norms rather than to advance its own national policy objectives.

Recent history shows, however, that economic sanctions were imposed by a variety of bodies. Thus at the multilateral level economic sanctions were imposed by a world organization such as the United Nations on a single country such as Italy, Rhodesia, South Africa and Iraq for reasons that were deemed valid by these world organization. In addition, there were sanctions imposed in regional settings outsides the framework of an organization like the United Nations.

Still there are many instances when sanctions were imposed outside any regional or multilateral framework. This is true when one country chooses to impose sanctions on another country or a group of countries for the benefit of its own broad foreign policy objectives. Thus the trade embargo which the United States imposed against Cuba when Fiddle Castro came to power or against Nicaragua in the 1980s or against the Soviet Union and other East European countries fall into this category. Here the reason was not that any of these states has violated any agreed upon norm of conduct; rather it was ideological. In other words the trade sanctions had the broad objective of undermining the economy of an ideological adversary in the hope of changing the entire political system of adversary.

The U.S. trade embargo against Cuba illustrates this point. Although Secretary of State Dean Rusk disavowed that the policy was likely to bring down the Castro regime, its objectives were explicitly articulated by him to be: First, to reduce Castro's will and ability to export subversion to other American states; second, to impress upon the Cuban people that the Castro's regime cannot serve their interests; Third, to demonstrate to the peoples of the Western Hemisphere that communism has no future in that hemisphere; and Fourth, to increase the cost to the Soviet Union of maintaining a Communist outpost in the Western hemisphere.(3)

It is very clear from this policy statement that the United States was not aiming to impose economic penalty for a specific violation since there was none. Instead, the U.S. government wanted to demonstrate, within the context of the cold war era, that the trade embargo was an expression of a foreign policy which had broader objectives and which went far beyond the nature of the regime in Cuba. These objectives include: 1) the sending of a message to the Soviet Union that neither its ideology nor its presence in the Western Hemisphere were acceptable; 2) the sending of a message to would be revolutionary movements that they will not be tolerated; 3) to reassure ruling elites in the hemisphere of the U.S. intense hostility to any significant changes in the status quo; 4) to reduce the attractiveness of the Cuban example; 5) to demonstrate to Europe, Japan as well as the countries of the Third World of the U.S. opposition to non-capitalist paths to development and, 6) to impose costs on the Cuban people for this continued support for Castro.(4)

Economic Sanctions: Objectives and Cost:

For the purposes of this study international economic sanctions will be taken to mean penalties threatened or imposed as a declared consequence of another country's failure to observe international standards or international obligation.(5)

The country which initiates or imposes the sanctions will be called the sanctioner or the imposer while the country which is the subject of the sanctions will be called the target.

As to be expected there is a wide range of economic sanctions which a sanctioner may choose from. Generally such sanctions fall into two broad groups of measures: measures related to foreign trade and measures related to financial flows. These measures are summarized in Table (1)

For the sanctions to have any measurable impact on the target the economy of the latter must be an open economy. In other words the higher the degree of self-sufficiency of an economy the weaker the impact of the sanctions will be. Thus sanctions will have no impact on a self-sufficient closed economy while their impact will be greatest if the target's economy is totally dependent on its interaction with the world economy.

A corollary of this is that the more universal and comprehensive the application of the sanctions the more pronounced the impact will be. An illustration of this point may be found in the way the US grain embargo of 1980 was handled. Following the December 1979 movement of Soviet troops in Afghanistan the Carter Administration decided in January 1980 to impose a number of economic sanctions including embargo on the export of grains which had already been contracted, while other Western grain exporters committed themselves not to increase their sales above normal levels Argentina on the other hand decided to increase its grain sale to the Soviet Union. This lack of external support for the embargo coupled with its unpopularity within the United States itself allowed the Regan

Administration to drop the sanction in the following year without affecting Soviet policy in Afghanistan.[(6)]

Objectives of Economic Sanctions:

Generally speaking sanctions are intended to attain one or more than one of the following objectives: The first objective of economic sanctions, both historically and conceptually, is punitive. In this sense sanctions are similar to sentencing an individual violator of the law to a term in jail. To serve this purpose effectively sanctions should be designed in terms of their severity and duration in proportion to the magnitude of the offense. Second, economic sanctions are intended to deter potential violators from committing a punishable offense. Another objective of economic sanctions is to send a message to the target as a response to a provocative act. In this case economic sanctions are stronger than words and diplomatic disapproval but not as strong as military action. Another objective of economic sanctions is to restrict economic and military capabilities of the target state. The denial of military and other forms of technology, denial of trade and access to financial markets are some of the measures utilized to attain this objective. The fifth objective of economic sanctions is to compel a change in behavior. The objective of economic sanctions here is to force or coerce the target state to change a specific policy or the outcome of a military conflict or negotiation.[(7)]

It is important to note that economic sanctions should not be confused with what might be described as economic warfare. Economic sanctions are specific measure applied by the imposer to compel a policy change in the target state. The grain embargo against the Soviet Union is a case of economic sanctions. But the ongoing embargo on exports to the Soviet Union, China and Cuba were not intended to compel a change of a particular policy on the part of the target state. Rather these measure were intended to overthrow the entire social, economic and political basis of the target states. It would be more accurate to characterize such measures as economic warfare and not economic sanctions.

Table (1)

Economic Sanctions: Trade and Financial Flows

Trade Sanctions	Financial Sanctions
(a) Quotas on Imports.	(a) Reduction / suspension / cancellation of aid; military, food, development, funding of technical assistance.
(b) Quotas on exports.	(b) Reduction / suspension cancellation of credit facilities at concessionary / market rates.
(c) Restrictive import licensing.	(c) Freezing / confiscation of bank assets of target government.
(d) Restrictive export licensing.	(d) Confiscation / expropriation of other assets belonging to the target.
(e) Limited/total embargo on imports.	(e) Ban on interest payments.
(f) Limited/total embargo on exports.	(f) Ban on other transfer payments.
(g) Discriminatory tariff policy (includes denial of most favored nation status).	(g) Refusal to refinance, reschedule debt repayments (interest and principal).

Table (1), Cont.

Trade Sanctions	Financial Sanctions
(h) Restriction / cancellation / suspension of fishing rights.	(h) Control / ban on capital movements.
(i) Suspension/cancellation of joint projects, industrial ventures.	(i) Threat of the above.
(j) Cancellation of trade agreements.	
(k) Ban on export of technology.	
(l) Blacklisting of individuals/firms trading with the target.	
(m) License denial.	
(n) Threat of the above.	

Source: Doxey, pp. 10-12; Baldwin, p. 41.

Costs of Economic Sanctions:

Economic sanctions impose costs on the sanctioner as well as on the target.

Cost to Sanctioning State:

When a sanctioning state curtails its exports to the target there will be a loss in its export earnings, employment and income. The cost to the economy of the sanctioner will depend of course on the magnitude and the duration of export reduction as well as on the multiplier effect. There will also be an income redistribution effect in favor of the non-affected industries. The effects of export reduction will be more pronounced depending also on the relative importance of exports in the national economy. A single commodity based economy will obviously suffer much more from export reduction than a diversified economy. Similarly if the export embargo affects one industry or a small number of industries then the effects of the sanctions could be contained through domestic policies. The impact of the sanctions will vary also depending on the phase of the cycle. If the sanctions were imposed in the upswing phase of the business cycle then their effects will be much less severe than if they were imposed in a period of recession and high unemployment.

It can be safely said that the cost of the sanctions on the sanctioning state can be easily absorbed the larger and more diversified the economy. This means that poor economies cannot afford to impose sanctions or be a party to sanctioning efforts without seriously undermining their economies. Historical experience in this century supports the conclusion that large economies are in a position to absorb the shocks and cope with dislocational effects associated with sanctions.(8) It is worth noting in this context that a sanctioning state may be able to accomplish its objective vis-à-vis the target and at the same time avoid the negative consequences of its sanctions. This would be the case when a small fraction of its global exports constitutes the major portion of the target's import of the commodity or commodities being embargoed.

On the import side a sanctioning state must take into consideration how important imports from the target state are for the functioning of its economy. This is especially important if the target is the source of more than one commodity essential to the sanctioning state. The effect of this form of dependence on the target can be blunted in two ways. First, if in preparation for the imposition of the sanctions the imposer has increased its stockpiles of these commodities. Second, the commodities in question are available from other suppliers on the world market. In either case, however, there are costs to be incurred such as higher prices or higher transportation costs or that the commodities are not perfect substitutes or that they may take long time to deliver.

The cost of financial sanctions to the imposer is related to the relative importance of the target's transactions in the financial and capital markets of the imposer. Obviously markets such as the Euromarket or the American financial system are not going to feel the consequences of the sanctions on one or more than one small country when such targets are denied access. Loss will be incurred if the target state as a retaliatory measure against the imposer decides to repudiate or suspend payment of its foreign debt obligations. In this case the cost of the sanctions will fall on the creditors in the sanctioning state.

Cost to Target State.

Since the end of World war II economic sanctions were imposed by the industrialized countries against the countries of the Third World. There are few exceptions to this generalization. These include the economic sanctions which the United States and its allies imposed against the Soviet Union. There are few cases where the imposers were developing countries as was thte case of India versus Portugal; Indonesia versus the Netherlands; Nigeria versus Biafra; Arab oil producing countries versus the United states and the Netherlands; China versus Albania; the Arab League versus Egypt; China versus Vietnam; and India versus Nepal.

Unlike the limited cost effect of sanctions on the imposer the cost to the target is far more serious. In the first place the economies of developing countries are far more dependent on trade with the industrialized countries in terms of their exports and imports. Second, the economies of developing countries are far from diversified and their bases are limited and small. Third, the manner in which the economies of developing countries have evolved since the end of World War II tended to increase their dependence on the industrialized countries. Fourth, most developing countries have become increasingly dependent on Western financial markets for credits and loans. Therefore, with these structural difficulties in many developing countries an interruption in normal flows of economic transactions tende to have significant effects on their economics.

The first casualty of economic sanctions is loss of exports generated foreign exchange earnings. The impact of such a loss will be greater the larger the volume of export with the imposer or imposers. Furthermore, the impact on the target will be more severe the narrower the range of its exports. This is particularly the case when the target is a single commodity exporter. It is true that the target may find alternative markets for its exports but the trade diversion is time consuming and is neither easy nor cost free. The target may be forced to accept lower prices for its export or enter in sub-optimal counter trade arrangements. The cost impact on the target's economy will be magnified the higher the relative importance of its export sector to its gross domestic product.

Moving from exports to imports a developing economy will be forced to suffer serious losses when the sanctioning state suspende its exports to the target. the impact of these measures will be more severe the more dependent the target's economy on that of the imposer. The problem will be complicated if in addition to consumer goods the target state also imports from the sanctioning state raw materials and other inputs, intermediate goods and capital goods. It is worth noting in this context that the lower the elasticity of demand for imports such as consumer necessities and capital goods the more severe the impact of the sanctions will be. In time the impact of the sanctions will spread throughout the economy causing more reductions in output, employment, incomes and exports. In short the higher the ratio of imports (or exports) to GDP the larger the loss to the economy of the target.

Similarly, if sanctions are extended to financial flows then the target will experience further shrinkages in its economy. A target state which has organized its development plans around foreign investment, foreign credit and foreign loans will be particularly affected by financial sanction.

It is important to note that in addition to the direct cost of the sanctions outlined here there are indirect costs which include cost of trade diversion, cost of adaptability to new markets and substitute products, dislocational cost, sanctions-induced unemployment and decline in income.

There is also the possibility of sectoral chain reaction in that a decline in one sector of the economy will cause decline in other sectors. The general slowdown in the economy which is bound to result from sanctions may take the target state a long time to reverse in the post-sanctions era.

Factors Affecting Force of Sanctions:

Aside frome the rare cases of universal application of sanctions against a target state there are forces at work both at the national and the international levels which tend to limit the scope of the effectiveness of sanctions and thus reduce the vulnerability of the target state.

First, in those cases when the decision to initiate sanctions takes time the target state may engage in an accelerated program of stockpiling of essential commodities. Many countries tend to accumulate a number of strategic commodities in normal times and under normal conditions to avoid unpredictable interruption of supplies.

Second, in the absence of universal application of sanctions a target country can always rely on third party suppliers. The experience of the US grain embargo failed because other countries were willing to supply the Soveit Union with its needs of grains. Similarly when the US decided to close its market to Cuban sugar when Castro assumed power the Cubans found in the Soviet Union a willing buyer of their sugar. Cuba, moreover, was able to secure spare parts for its American made equipment from third party sellers.

A third factor which tends to limit the effectiveness of sanctions is their cost to the imposing state. As the sanctions are prolonged export markets may be lost and the economy will be deprived of essential imports. Target state may retaliate by suspending debt and interest payments and pre-sanctions forged economic links may have to be breden off. One of the ironies of sanctions is that the closer the economic links between imposer and target the the stronger the likelihood that sanctions will work; but at the same time the higher will be the cost for the imposer. (9)

Another factor limiting sanctions effectiveness is the differing assessments of a given situation by different potential imposers. Agood illustration of this factor may be found in the approach which the US government took vis-a-vis the Soviet Union in December 1981. Following the declaration by the Polish government of martial law in that country the Regan Administration announced a number of economic sanctions against the Soviet Union and Poland including an embargo on supplies to the Soviet Union of equipment for the Siberian natural gas pipeline. Although the U.S. government pressured its Western allies to join the embargo they refused to do so on the grounds that the martial law issue was an internal matter for Poland. Indeed members of the European Community went ahead and concluded long term agreements to import Soviet natural gas. But in June 1982 the U.S. government announced an extension of the ban on sale of oil and gas equipment to foreign subsidiaries of U.S. companies and foreign companies producing equipment under U.S. license. This extraterritorial extension of U.S. regulations was promptly denounced by the Europeans as violating their sovereignty; was contrary to international law; and was insensitive to their commercial interests and ordered their companies to honor their contracts with the Soviet Union despite the Regan's ban. A by-product of the U.S. ban was a decision by the Soviet Union to build its own pipeline equipment which made the ban less effective.(10)

A fifth factor which undermines the effectiveness of the sanctions is the pressure which affected groups exert on the government of the imposing state to dilute or remove the sanctions. Sanctions by their very nature tend to impose cost on certain sectors of the economy and/or certain parts of the country. This was illustrated in 1981 when president Regan lifted the grain embargo against the Soviet soon after his election as president.

The fear that economic sanctions may lead to military conflict especially if the target is a major military power is still another factor in reducing sanctions effectiveness. Thus it was postulated that one of the considerations for the West German reluctance to go join the U.S. in imposing sanctions following the Soviet military power. Yet the Germans as well as other members of the European Community showed more sympathy for sanctions against Iran because of its detention of American diplomats.(11)

Last but not least is the reaction of the target country itself to economic sanctions. The target could implement a number of policies to lessen the severity of the sanctions. These include austerity budget, rationing of consumer goods, repudiation of foreign debt, nationalization of foreign assets and convincing non sanctioning countries to expand their trade and financial networks with the target state.

The target state, depending on the structure of its economy and the stage of its economic development and its resource endowment, may engage in import substitution industrialization that would help it avoid the consequences of the sanctions and even improve its economic performance in certain sectors. In the case of Rhodesia, which became the subject of the U.N. Security Council sanctions in 1965, managed to increase its industrial output by 98 per cent by 1975 and to expand the range of output from 802 to 3837 products during the same period.(12) Another example is South Africa which has been subject to a mandatory UN arms embargo since 1977. A decade after the imposition of the embargo South Africa became the seventh largest arms producer in the world competing with some of its former suppliers.(13)

Table (2)
Summary Assessments of Effectiveness/Success of Sanctions

Author	Assessment
1. H. Bienen and R. Gilpin	"The analysis of these cases lends support to the nearly unanimous conclusion of scholars that **sanctions** seldom achieve their purposes and more likely have severe counter- productive consequences."
2. P. Wallensteen	"The general picture is that economic **sanctions** have been unsuccessful as a means of influence in the international system."
3. C. P. Kindleberger	"Most **sanctions** are not effective."
4. R. F. and H. J. Taubenfeld	"In modern times at least, economic **sanctions** against a non-belligerent do not ever appear to have achieved the stated aims of the sanctionists."
5. K. Knorr	"On the whole, the power to give **foreign aid** only has ordinarily uncertain effectiveness and decidedly low utility when used for purposes of coercing other states or of establishing a position of unequal influence over them. this finding parallels our similar conclusion regarding the use of trade policy for these purposes."
6. H. R. Strack	"There seems to be a consensus among scholars that **sanctions** are not only an ineffective means to secure policy objectives, but may well be dysfunctional or counter-productive, producing results opposite to those desired by the initiators of sanctions."

Table (2), Cont.

Author	Assessment
7. S. Weintraub	"Most theorists insist that the **economic coercion** is rarely successful."
8. G. Adler-Karlson	"The burden of proof is clearly on those who claim that an **embargo** policy is an efficient instrument of foreign policy. Experience seems to indicate the contrary."
9. M. P. Doxey	"In none of the cases analyzed in this study have economic **sanctions** succeeded in producing the desired political result."
10. D. O. Wilkinson	"Turning next to the **economic means of policy**, we shall find that their direct utility as tools of action is strictly limited..."
11. R. S. Olson	"It is worth noting at the outset that there is a consensus in this literature that economic **sanctions** are largely ineffective."
12. J. Gatlung	"In this article the conclusion about the probable effectiveness of economic **sanctions** is, generally, negative."
14. D. L. Losman	"The three **boycotts** studied have thus far failed to accomplish their political ends, and it seems unlikely that economic measures alone will fare better in the future."

Source: Baldwin, pp. 55-57

It can be seen from the above analysis that the vulnerability of a target state to economic sanctions is drastically reduced without universal application. It should be added that even when sanctions are effective in the sense of imposing cost, dislocation and disruptions on the target they may still not succeed. This is so because the target state may be able to absorb the punitive cost of sanctions without changing its behavior, a behavior which provoked the imposition of sanctions in the first place. The conclusion that economic sanctions have historically failed to accomplish their objective is supported by many students of this subject as can be seen in table 2.

It is clear from these assessments that economic sanction whether applied multilaterally or by one or more than states were far from successful in achieving their goals.

The second part of this study will be devoted to a study of the sanctions against Iraq.

Part II: Economic Sanctions Against Iraq 1990-1993.

The imposition of economic sanctions as a collective instrument of coercion to compel a state to changes its policies is a twentieth century phenomenon. The first and only such application before the outbreak of World War II was undertaken by the League of Nations following Italy's invasion of Ethiopia in October 1935. While Italy suffered some economic losses due to the sanctions, however, failed to force Italy's eviction from Ethiopia. And by July 1936 the League's Sanctions Committee recommended the lifting of the sanctions.(14)

Since the establishment of the United Nations there have been only three cases of United Nations Security Council (UNSC) approved economic sanctions. These cases involved Rhodesia, South Africa, and Iraq.

First, in 1966 the UNSC imposed comprehensive economic sanctions against Rhodesia after the government of Ian Smith declared unilaterally its independence from Britain. Although the measures were intensified over time and lasted thirteen years, they were largely unsuccessful. Second, since 1977 an arms embargo was imposed against South Africa because of that country's government policies of apartheid and human rights violations.(15) The third case involves Iraq, the subject matter of the remainder of this study. Before dealing with the UNSC regime of sanctions against Iraq and its impact on its economy it would be useful to outline some of the more notable conditions of the Iraqi economy prior to its government decision to invade Kuwait.

Problems of the Iraqi Economy Prior to the Invasion:

In order to understand Iraq's economic conditions on the eve of its government's decision to invade Kuwait on August 2, 1990, one must go to September 1980 when the government decided to initiate hostilities against Iran. Regardless of the reasons, the motives and the objectives behind Iraq's decision the consequences of the war, proved to be disastrous for Iraq, and Iran of course, in terms of human losses and economic destruction. This is so because the war, which the Iraqi government undoubtedly thought .would be a short and successful blitzkrieg, lasted eight long years.

When the war started Iraq was at the peak of its oil capacity-exporting 3.3 million barrel per day (MBD) and was anticipating between $ 35 and $ 40 billion in oil revenue in that year. The destruction of its oil export facilities in the Gulf region, however, forced Iraq to slash its oil exports by 72 per cent for the balance of 1980. But even with this drastic cut in its export Iraq's revenue from oil in that year amounted to $ 26.3 billion-the highest in its history. Moreover, almost all economic indicators - GDP, personal income, development spending, industrial output, construction, transport and communication, fixed capital formation, private consumption, etc. - were registering high rates of growth. The only weak spot in the Iraqi economy was the agricultural sector but this weakness was easily covered by food imports. And thanks to a healthy balance of payment Iraq had some $ 30-35 billion of accumulated foreign reserves on the eve of the war.

The first major economic casualty of the war was the drastic decline in oil export which brought down Iraq's oil revenue to $ 10.4 billion in 1981. Next was the unavoidable rise in import cost as Iraq was forced to re-route its imports through Jordan and Turkey since its import handling facilities in the Gulf region were destroyed or blockaded. Thanks to Iraq's accumulated reserves, supplier credit, long terms debt and considerable financial support from Kuwait and Saudi Arabia, the government was able to carry on a policy which sought to continue civilian levels of spending while expanding its military budget. This can be seen in the sharp rise in imports from $ 4.2 billion in 1978 to $ 21.6 billion in 1982 an increase of more than 400 per cent. A close examination of the composition of imports reveals that non-military imports accounted for the bulk of the increase in imports. Thus between 1978 and 1982 the value of non-military imports increased from $ 2.6 billion or 62 per cent of total imports to $ 17.3 billion or 80 per cent of total imports.(16) Since foreign trade was a monopoly of the state this means that any increase in imports must have been the outcome of a deliberate policy decision by the government. Thus the sharp increase in non-military imports must be looked at as a political decision by the government to lessen the impact of the war on living standards by making consumer goods available in large quantities. One observer summed this situation as follows:

> The apparent capacity of the Ba'ath regime in Iraq to weather the war against Iran is indicated by the return to normality to Baghdad. The slogan of the Ba'ath that business is as usual is being converted there to providing a flow of foodstuff and consumer goods to the population on a scale rarely observed before the war.(17)

Yet the Iraqi regime's ability to continue this policy came to an end in 1982 when the war front moved to Iraqi soil where it remained for the next six years. This military development coupled with the sharp decline in oil revenue and the change in the military balance forced the Iraqi regime to adopt programs of retrenchment and austerity and halt development project except for those related to the war effort. Moreover, the persistent glut in the oil market in the 1980s exerted a downward pressure on the price of oil thus compounding Iraq's economic difficulties.

The glut, according to the Saudi oil minister Ahmad Zaki Yamani, was "engineered" by his government to keep prices from rising.(18) This policy of glut was criticized by the Iraqi president for its harmful effect on Iraq and other oil producing states.(19) The Iraqi oil minister on the other hand accused the Saudi oil glut policy of having the objectives of prolonging the Iran-Iraq war.(20)

In retrospect, however, neither the Saudi government nor OPEC as a whole could have done much to stem the decline in oil exports. This is so because of the decline in the price and demand for oil was due to the success of industrial countries' energy conservation and substitution measures. Suffice it to say that OPEC's total oil exports had declined by 1985 to 13.3 MBD from their 1979 peak of 28.9 MBD. By the same token in 1986 the price collapsed at one point to as low as $ 7 per barrel, from $ 34 per barrel in 1982, yielding total revenue for OPEC of $ 76.8 billion in 1986 compared with $ 284.5 billion in 1980.(21)

Iraq, throughout these turbulent changes in the oil market, was no more than a bystander. And by 1986 its oil revenue reached a low level of $ 6.9 billion compared with $ 26.3 billion in 1980.

These changes meant that Iraq's economic and military survival revolved around its oil revenue, Arab economic aid and foreign supplier credit. As one observer put it:

> One of the main props of Iraqi military turnaround since the parlous days of 1982 has been the supply of foreign credit. Total economic collapse was staved off through the generosity of the Arab states of the Gulf and then the pumping in of OECD and Soviet credit.(22)

The Deterioration of the Iraqi Economy:

The decade of the 1970s especially, its second half, witnessed unprecedented high rate of growth in almost all facets of the economy. Yet beneath this prosperous picture there were structural problems which the government failed to tackle. These problems include labor shortages, stagnant agriculture, rising urban population, persistent inflation, rising dependence on foreign consumer goods especially foodstuffs and rising dependence on oil. But the fundamental problem which the Iraqi regime, as well as other oil producing countries, failed to recognize was that oil, in the last analysis, was a commodity the demand for which can not remain inelastic in the long term. The failure to comprehend this simple fact that the demand for oil actually declines if prices remain high proved to be disastrous.

In the case of Iraq the rise in oil revenue in the 1970s was so blinding that the regime seems to have assumed that the upward trend was irreversible. Even if Iraq's oil export capacity had not been drastically reduced in the course of the war with Iran, its export and revenue would have been sharply reduced due to the general decline in demand for oil as was noted earlier. The point here is that in the last analysis Iraq's oil revenue is externally determined and beyond any government oil policy.

Thus when the war broke out and lasted far longer than the Iraqi regime had thought the government had no choice but to change its economic policies in response to the destructive consequences of the war in the first two years. These consequences manifested themselves in the general deterioration of the economy, exhaustion of Iraq's owned foreign reserves, general decline in output, high inflation rates, expansion of the armed forces, decline in agricultural and industrial output, re-routing of foreign trade, labor shortages, curtailment of investment spending, rise in food dependency, curtailment of imports, rise in foreign indebtedness, rise in military spending and the confinement of development spending to the war effort.

An important effect of the war was its financial claims on Iraq's resources. Suffice it to note that Iraq's military expenditures increased from $ 3.1 billion in 1975 to $ 19.8 billion in 1980 and to $ 25.9 billion in 1984 to decline gradually to $ 12.9 billion in 1988. Relative to GDP Iraq's military expenditures absorbed 22.5 percent; 38.8 percent; 54.4 percent and 20 percent of GDP respectively. And in relation to its oil revenue military expenditures amounted to 37.9 percent; 75 percent; 276 percent; and 117 percent during the same four years. It is worth noting that during the war with Iran, Iraq's military expenditure alone amounted to $ 178 billion or 171 percent of its oil revenue and 41 percent of GDP during the period 1980-1988.(23)

It goes without saying that the length of the war, its destructive impact on the economy, and the magnitude of the resources it absorbed depressed living conditions and created long term structural problems for the economy. One such problem was the problem of inflation which haunted and continues to haunt the economy. A recent study on the severity of inflation in Iraq shows that inflation rate as measured by the consumer price index rose from an average annual rate of 5 per cent in the decade of the 1960s to more than 6 per cent in the early 1970s. Inflation rate took off, however, in 1975 when it reached 18 per cent and all the way up to 68 per cent in 1979 with 1973 as the base year. But due to the sharp rise in government spending and the war conditions, the inflation rate jumped to 95 per cent in 1980; 139 per cent in 1981 and all the way up to 369 per cent in 1988.(24)

How Much Did the War Cost?

In addition to the tragic and considerable human losses there are two types of economic losses: explicit and implicit. While the first type is quantifiable the second is not. Implicit cost includes such items as morbidity and early mortality, disability, cost of welfare and veterans, inflation, missed opportunities for growth, opportunity cost of the armed forces and arms imports, loss of income from destroyed, damaged or uncompleted projects and disorganization of planning.

The explicit cost elements include military expenditure and arms imports, replacement cost of destroyed assets, lost oil revenue, cost of trade re-routing and decline in GDP.

In a comprehensive study of the economic losses which both Iraq and Iran incurred during the war Kamran Mufid concluded that the combined loss of the two countries was $ 1.097 trillion ($ 644.3 billion for Iran and $ 452.6 billion for Iraq).(25)

It is worth noting that the $ 452 billion is several times the oil revenue which Iraq has received during its entire long petroleum history and it is more than Iraq's combined GDP for the period 1980-1988.

Many Problems and Few Resources:

When the cease fire came into effect on August 20, 1988 Iraq found itself facing severe and structural economic problems including diminished oil exporting capacity; destroyed or damaged industrial capacity and infrastructure; stagnant agriculture; a rural labor force that had either been drafted into the army or drifted to urban centers; large number of non-Iraqi workers who were brought to run the economy during the war but have become a burden on the economy after the war; rising dependence on food imports; rising dependence on the oil sector; hyper-inflation; failed privatization policy; failure of Arab and foreign capital to flow; low levels of imports; and the servicing of Iraq's rising foreign debt.

With such a list of problems the regime came to the realization that the prosperity it promised the people once the war ended was becoming just that - a mere promise.

On top of these economic problems the oil sector on which the entire economy had come to depend left much to be desired. In 1986, the year of the collapse of oil prices Iraq's oil revenue reached a low level of $ 6.9 billion. In 1987 Iraq's revenue reached $ 11.4 billion but declined to $ 11 billion 1988 to rise again to $ 14.5 billion in 1989 or 55 per cent of what it was in 1980. Against this declining but highly vital source of revenue the government had to balance a multitude of urgent claims. These claims include the need for more imports, foreign debt service, expenditure on reconstruction and development, financing ordinary government functions, and funding an ambitious program of military industrialization. In the meantime the government was called upon to fight abnormally high rates of inflation.

But the 9 per cent decline in 1989 real GDP over the 1988 level seems to have shocked the government into adopting austerity measures in the public sector. Thus it was decreased to lower government spending in 1990 by 7 per cent from the 1989 spending level and government departments were ordered to cut the size of their staff by 50 per cent.(26) The decline in the 1989 GDP must have been a severe below to the government since oil revenue in that year increased to $ 14.5 billion or by 31.8 per cent over the 1988 revenue of $ 11 billion.

But the austerity measures could not be effective since the crisis of the economy has become a condition rather than a temporary phenomenon. It was this pressing need to raise revenue which led the regime to its oil confrontation with the Kuwaiti government and its subsequent invasion of Kuwait on August 2, 1990.

Conflicting Views on Oil:

It was stated earlier that oil producing countries suffered in the decade of the 1980s from a decline in their oil exports and revenues. The continued erosion of OPEC's market share and revenue after 1982, once the Iran-Iraq war induced panic demand conditions were satisfied, was transformed into a disastrous price collapse in 1986 as OPEC abandoned all restraints on output in order to regain its market share. This behavior in turn led to a sharp decline in the price from $ 29 per barrel in 1983 to less than $ 10 per barrel (at one point $ 7 per barrel) in 1986 and caused the combined oil revenue of OPEC to plummet from $ 131 billion in 1985 to $ 77 billion in 1986 while its combined oil exports increased by 17 per cent during the same period.

The 1986 price collapse forced OPEC in October of that year to return to its system of quotas and to an agreed upon official or reference price of $ 18 per barrel, a price that was deemed by all member countries to be necessary for their social and economic development.(27) What this meant in effect was that, any attempt by a member country to produce above its quota will have to be at the expense of the complying members causing unwanted implications for their economic and social development.

Yet a number of countries choose not to observe their agreement and decided to produce above their quotas thus causing the price to fall well below the $ 18 per barrel bench mark averaging $ 16.92 per barrel in 1987; $ 13.22 in 1988; and $ 15.69 in 1989. While Kuwait and the UAE were among the countries which increased their exports, Iraq was not in a position to do so since its export outlets were severely limited. The government felt doubly frustrated as the country's economic crisis continued to deepen. The oil price movements prior to the invasion of Kuwait illustrate the chaos in the oil market which the following brief review will outline.

In October of 1988 the selling price of oil has sunk to $ 12 per barrel; but by the end of 1988 it had recovered to reach $ 14 per barrel. The late 1988 upward movement in the price continued throughout 1989 and the early part of 1990 when it reached $ 19.98 per barrel in January 1990. But this price was not allowed to continue as Kuwait and other producers increased their output causing the price to fall sharply to $ 14.02 by June of that year - a decline of 30 per cent which wiped out a major portion of the oil income of many countries.

The position of the government of Kuwait toward this decline in the price was articulated in February 1990 by its oil minister Ali Khalifa Al-Sabah when he stated the following:

> First of all, I will tell you that we are producing above quota at the moment. Let us not beat about the bush on that. And I think that our obligation to stay within the quota applies when the price of the OPEC basket is below $ 18/B

and if the price is above $ 18/B, I think everyone should be, and even encouraged to be, producing above quota.(28)

The oil minister went on to say that the OPEC current price of $ 18 per barrel would remain at that level and not be adjusted for inflation and dollar depreciation for at least three or four years. As to the OPEC quotas he said he would like to see them scrapped as soon as possible: From a practical standpoint they are already irrelevant, so all that is needed is a recognition of that fact (29)

These statements provide a clear oil policy for Kuwai,t the elements of which are: (a) the nominal price of oil should remain stable at $ 18 per barrel, (b) that the OPEC quota system should be scrapped, and (c) that whenever market forces pushed the price above the $ 18 per barrel mark member countries should expand their output to force the price down.

The problem with this policy position is that Kuwait was a member of OPEC and therefore any action by it would have implications for other countries' oil revenue. Such a policy would have made considerable economic sense for Kuwait if Kuwait was outside OPEC since its production capacity was about 2.5 MBD or 1 MBD above its quota; that its oil reserves were vast; and that its population was very small. Moreover, Kuwait had invested considerable capital in downstream outlets and facilities for its own oil in Europe and it had a large portfolio investment the income from which exceeded in certain years its revenue from oil.

The problem with Kuwait's policy position was the central fact that Kuwait was not acting in a vacuum since there was a high degree of interdependence among oil producing countries and that one country's gain could not be attained except at the expense of other countries. Moreover, Kuwait could not announce the demise of the quota system and still remain a member of OPEC. In short, Kuwait or any other member of OPEC could not remain in OPEC and at the same time acts as if it was not a member of OPEC.

As a result of overproduction prices declined by one third in the first six months of 1990, from nearly $ 20 per barrel to $ 13.67 per barrel.

On May 30 Saddam Hüssein made a statement at the Arab Emergency Summit Conference in Baghdad in which he spoke of the economic damage inflicted upon Iraq as a result of the oil price decline. Given Iraq's export capacity at the time he asserted that a drop in the price of oil $ 1 per barrel meant a loss of $ 1 billion of oil revenue per year and that the longer the price remained low the larger the economic loss that Iraq will have to endure.

From Saddam Hussein's perspective the punishing effects of over-production were similar to the economic damage inflicted by conventional wars. He expressed this view as follows:

> I wish to tell those of our brothers who do not seek war, and those who do not intend to wage war on Iraq, that we cannot tolerate this type of economic warfare which is being waged against Iraq. I believe that all our brothers know our situation and are informed about it and that, God willing, the situation will turn out well. But I say that we have reached a state of affairs where we cannot take the pressure. I believe we will all benefit and the Arab nation will benefit from the principle of adherence to OPEC resolutions on production and prices.(30)

The desperate state of the Iraqi economy was made clear by Saddam Hussein when he said that:

> A few billion dollars could solve much that has been at a standstill or postponed in the life of the Iraqis.(31) Saddam Hussein's statements were followed by other steps.

In a memorandum to the League of Arab States Iraq characterized Kuwait's actions as tantamount to military aggression and accused its government of being determined to cause a collapse of Iraq's economy:

> As far as the Kuwaiti Government is concerned, its attack on Iraq is a double one. On the one hand Kuwait is attacking Iraq and encroaching on our territory, oil fields and stealing our national wealth. Such action is tantamount to military aggression. On the other hand the Government of Kuwait is determined to cause a collapse of the Iraqi economy during this period when it is confronting the vicious imperialist Zionist threat, which is an aggression no less than military aggression.(32)

On July 17 Saddam Hussein accused rulers of the Gulf states of being tools in an international campaign waged by imperialists and Zionists to halt Iraq's scientific and technological progress and to impoverish its people.(33)

On July 27, in the shadow of Iraqi troops movement along the Iraqi-Kuwaiti border, OPEC agreed to set a higher reference price of $ 21 per barrel and adopt new quotas without allowing any member country to exceed its allocated share for any reason whatsoever.(34)

But on August 2 Saddam Hussein decided to invade and occupy Kuwait. And on August 8 the Iraqi government announced the annexation of Kuwait.

Before dealing with the consequences of the invasion it is worth noting that the invasion of Kuwait must have seemed to the Iraqi regime to be the only mean to pull the economy out of its economic crisis.

After the invasion, Iraq's foreign minister Tariq Aziz drew a link between Iraq's economic crisis and the invasion of Kuwait:

> The economic question was a major factor in triggering the current situation. In addition to the forty billion dollars in Arab debts, we owe at least as much to the West. This year's state budget required seven billion dollars for debt service, which was a huge amount, leaving us with only enough for basic services for our country. Our budget is based on a price of eighteen dollars a barrel for oil, but since the Kuwait began flooding the world with oil, the price has gone down by a third. When we met again - in Jidda, at the end of July - Kuwait said it was not interested in any change. We were now desperate, and could not pay our bills for food imports. It was a starvation war. When do you use your military power to preserve yourself ?(35)

An important insight in Iraq's objectives and policy making toward Kuwait may be found in the following statement by Tariq Aziz:

> President Saddam had no intention of invading - he didn't think of it before the end of June. It was never discussed at any level of government ... The issue of Rumaila oil field and our border demands became a part of our talks with the Kuwaitis only in late June, by which time we had concluded that they had joined some sort of conspiracy to destroy our regime. Finally in mid-July, we decided to dispatch troops to the Kuwaiti border, hoping it would make the Kuwaitis change their minds.(36)

The importance of Kuwait's resources for Iraq's economy was underscored by the deputy prime minister for the economy when he said that Iraq now will be able to pay its debt in less than five years; that the new Iraq's oil reserves have doubled; that the "new Iraq" would have an oil production quota of 4.6 MBD instead of 3.1 MBD; that its oil income will reach $ 38 billion per year to rise to $ 60 billion in the near future; that there will be considerable expansion in the private sector once the two economies are integrated; and that Iraq will be able to vastly increase spending on development projects and imports.[37] But such economic dreams turned into ashes as a number of countries under the leadership of the United States took it upon themselves to undo what the Iraqi regime has done on August 2.

The Comprehensiveness of Sanctions:

No sooner had Iraq invaded Kuwait than the U.S. government, its allies and the United Nations Security Council (UNSC) moved to deny Iraq the benefits of its invasion and to reverse the invasion itself. The sanctions regime which UNSC imposed on Iraq was described as follows:

> The array of economic measures that comprise the United Nations sanctions against Iraq is sweeping in scope and remarkable for its comprehensiveness and simultaneous nature. Never before had an offending state been subjected to enforcement action by the Security Council in such a prompt and determined manner.[38]

The UNSC resolutions covered two distinct but interrelated sets of conditions. The first group of resolutions dealt with conditions of occupation and were aimed at ending the occupation while the second group of resolutions aimed at regulating Iraq's economic, military and political future. The first group of resolutions demanded the withdrawal of Iraqi troops; imposed a tight system of trade, financial and travel embargo and blockade; declared that the annexation to be null and void; allowed naval interdiction; and finally authorized states to use force to end the occupation if Iraq does not withdraw from Kuwait before January 15, 1991.[39]

The comprehensiveness of the sanctions may be seen in the unprecedented manner in which food imports were handled. It is commonly believed that imports of foodstuffs into Iraq was not covered by the sanctions. It was Iraq's inability to generate funds to pay for such imports that was at the root of the problem. Yet a careful reading of UNSC 661 of August 6, 1990 shows that it was the intention of the UNSC to deny Iraq access to food imports except "in humanitarian circumstances".

Indeed in an earlier draft of the resolution the word "special" had appeared before "humanitarian". The intent of the UNSC was clearly to use starvation and famine as potential weapons to starve Iraq into submission. As Freedman and Karsh concluded: The determination of Washington to prevent anything getting through into Iraq appeared to support that interpretation.(40)

The use of food as a weapon in the sanctions regime against Iraq was made clear in September 1990 when the UN, in putting the provisions of resolution 661 in effect, it was decided that any exemption for food must be strictly monitored by the appropriate international agencies to ensure that food reaches only those for whom it is intended, with special priority being given to meeting the needs of children.(41)

Even with this highly restricted exemption president Bush found it necessary to warn that there was not going to be wholesale shipment of food to Iraq:

> I hope that nobody around the world interprets this as our view that now there should be wholesale food shipments to Iraq ... So this should not be interpreted from the U.S. standpoint as a wholesale big hole in the embargo.(42)

Economic Effectiveness of the Sanctions:

The comprehensive nature of the sanctions system had its impact on the Iraqi economy soon after its imposition. The effectiveness of the embargo may be seen in the 86 percent decline in Iraq's oil output from 3.3 MBD before the invasion to less than 0.5 MBD in subsequent months - enough to meet the needs of local consumption. And since the price of oil has been raised to $ 21 per barrel Iraq's oil revenue in 1990 was going to be much higher than in 1989. Even before the new price rise took effect Iraq's oil revenue of $ 9.5 billion for the first six months of 1990 was 34 per cent higher, on annual basis, than the 1989 level.

In a December 5, 1990 testimony before the U.S. Senate Foreign Relations Committee it was reported that the embargo has effectively shut off 90 percent of Iraq's imports and 97 percent of its exports resulting in serious disruptions to the economy and hardships to the people.(43)

The embargo-induced loss to the economy in the six months period prior to the January 1991 bombing of Iraq was estimated by the Iraqi government to have amounted to $ 17 billion-$ 10 billion in lost oil exports; $ 5.1 billion in production cuts cost; $ 1 billion in increased production costs; $ 0.7 billion in losses resulting from delays in development projects; and $ 1.3 billion for other losses.(44) But such economic losses and hardships were, in retrospect, minor in comparison to the destruction inflicted upon Iraq by the 1991 Gulf War.

The six-weeks bombing campaign which started on January 16, 1991 was aimed not only at military targets but also at such assets as civilian infrastructure, power stations, transport and telecommunications networks, fertilizers plants, oil facilities, iron and steel plants, bridges, hospitals, storage facilities, industrial plants, and civilian buildings. And the assets that were not bombed were made disfunctional due to the destruction of power generating facilities. The impact of the intensity and the scale of the bombing was assessed by a special United Nations mission to Iraq as follows:

> It should, however, be said at once that nothing that we had seen or read had quite prepared us for the particular form of devastation which has now befallen the country. The recent conflict had wrought near apocalyptic results upon what had been, until January 1991, a rather highly urbanized and mechanized society. Now, most means of modern life support have been destroyed or rendered tenuous. Iraq has, for sometime to come, been relegated to a pre-industrial dependency on an intensive use of energy and technology.(45)

This vast scale of destruction should not be surprising in light of the fact that Iraq is a small developing country where the allies dropped 88,500 tons of munitions in forty two days of bombing.(46) Moreover, the scope of the damage was widened as the list of targets was continued to expand in the course of the war. When Iraq invaded Kuwait U.S. military planners were said to have designated 57 sites in Iraq as strategic targets. But in the course of the war the list was expanded to 700 targets in order to amplify the economic and psychological impact of the UN sanctions.(47) It was also suggested that a number of targets were destroyed to increase Iraq's dependence on the West especially the United States after the war:

> Some targets, especially late in the war, were bombed primarily to create postwar leverage over Iraq, not to influence the course of the conflict itself. Planners now say that their intent was to destroy or damage valuable facilities that Baghdad could not repair without foreign assistance.(48)

In summing up the dollar value of the total loss which the Gulf crisis inflicted on Iraq's infrastructure and other economic assets the authors of the Unified Arab Economic Report 1992 estimated that the loss to Iraq amounted to $ 323 billion.(49)

The Postwar Economic Sanctions

The plight of Iraq did not end with the end of the war and its withdrawal from Kuwait. Following the cease-fire the Security council passed a number of resolutions affecting Iraq's future. Some of these resolutions made the removal of the sanctions contingent upon the government's compliance with new demands relating to the status of its border; elimination of its capacity to produce weapons of mass destruction and long range missile; the Kurdish question; issues relating to human rights; and payment of compensation to individuals, organizations and governments for damages suffered as a result of the invasion. The following paragraphs will concentrate on the economic aspects of these sanctions since other issues fall outside the scope of this study.

The most important facet of the postwar regime of sanctions is that it continued the pre-war economic sanctions. This meant that Iraq could not sell its oil or have access to its frozen assets or be able to import since other countries were still barred from exporting to Iraq. Furthermore, the postwar sanctions created the compensation Fund to which 30 percent of oil sales will be embarked.

The UNSC decided in August 1991 to relax the sanctions on oil exports slightly by allowing Iraq to sell $ 1.6 billion worth of oil over a period of six months. The sale and the use of the proceeds were saddled with so many conditions that the government alleged that the plan would make "a trusteeship of Iraq".(50)

Although the government refused to accept the sale proposal at the time the deteriorating economic and health conditions of the overwhelming majority of Iraqis seem to have persuaded the government to reexamine its position on this particular issue two years later.(51)

The Impact of the Sanctions on Living Conditions:

"When people get to the point where they start selling their property and their jewelry, we know, statistically, that they are approaching the famine stage" observed one United Nations expert in describing the conditions of the people in Iraq in August 1991. This should not be surprising in a country where the embargo had been in effect and where inflation was reaching 2000 percent per year and where the government food rationing system was supplying between 50 and 60 percent of calorie requirements. Yet the embargo has barely affected the regime's top cadres, who far from feeling the pinch, benefit hugely in one way or another from hefty profits in the private sector.(52)

A measure of the collapse of the Iraqi economy is the change in Iraq's real per capita GDP, measured in 1980 prices, which rose from $ 1745 in 1970 to $ 4083 in 1980. By 1988, however, it had declined to $ 1756 and to $ 627 in 1991.(53) Indeed one has to go back to the decade of the 1940s to find comparable per capita GDP.

But per capita GDP data do not tell the full story of the decline in living standards since a major portion of GDP is devoted to military and similar forms of spending. The depth and the deteriorating living conditions of most Iraqis was captured by the findings of the International Study Team(54)

After having analyzed the behavior of prices, incomes and employment for the year ending August 1991 the study arrived at the following conclusions:

1. While there has been a shift in the distribution of employment from the formal to the informal sectors of the economy, monthly earnings remained stagnant.

2. Consumer prices during the same period increased considerably especially the food price index which increased by 1,500 to 2,000 percent in that year.

3. Real monthly earnings or the food purchasing power of private income has declined by a factor of 15 or 20 or to 5-7 percent of its August 1990 level.

4. Real monthly earnings are lower than the benchmark used by the Iraqi government before 1990 to identify "destitute households" eligible for government support.

5. These earnings are lower than the monthly earnings of unskilled agricultural workers in India-one of the poorest countries in the world.

General Observations, Assessment and Prospects:

The imposition of sanctions let alone invading another country or going to war are complex projects in origin, design, execution, outcome and consequences. This means that there is no one single explanation for these acts. Instead, one can speak of a hierarchy of motives and explanations. It can be said, however, that one of the most important if not the single most important explanation for the crisis has been oil in both its regional and global contexts.

It will be recalled that in order to find an explanation for Iraq's invasion of Kuwait one had to go back to 1980 when the Iran-Iraq war was initiated. It can also be said that in the absence of oil, which had enabled Iraq to acquire its war capability, the Iran-Iraq war would have not been initiated. And certainly it would not have lasted as long as did. Again, Iraq's economic crisis which was caused by the 1980-1988 war and depended by a weak oil market and low oil revenue was an important determining factor in its policies toward Kuwait. Similarly it is very unlikely that the U.S. government followed by the UNSC, would have played the role which they did if Kuwait did not have one tenth of the world reserves. This point was clearly spelled out by President George Bush when he said:

> ... [at stake] access to energy resources that are key, not just to the functioning of this country, but to the entire world. Our jobs, our way of life, our own freedom and the freedom of friendly countries around the world would all suffer if control of the world's greatest oil reserves fell into the l ands of that one man - Saddam Hussein.(55)

When the invasion was cast in such terms by a hegemonic power which gave every indication of its willingness to accept the cost of the confrontation and the cost of going to war there was not much room for allies and partners to remain neutral. Because of its power and resources a hegemonic power can increase the penalties attached to non cooperation or the benefits to those who cooperate. Moreover, the U.S. control over the rules of the international system gives it an important lever to obtain compliance from other countries. Furthermore, the U.S. is in a position to manipulate international institutions such as the World Bank and the International Monetary fund and economic conditions to change the costs and benefits of compliance or non-compliance(56)

Leaving aside for the moment the importance of the hegemonic position of the U.S. the sanctions against Iraq as imposed by UNSC had to be effective because of the particular conditions which surrounded the application. First, the sanctions were imposed quickly and were sweeping in scope. Second, international support for the sanctions was strong and broad. Third, the imposers appeared to be determined to achieve their objectives. Fourth, Iraq was vulnerable to sanctions and had little or no chance of developing evasion strategies.(57)

Although the UNSC economic sanctions against Iraq were unprecedently sweeping, comprehensive, deep and effective it is difficult to say whether they could have been successful in reversing Iraq's occupation of Kuwait. Had the sanctions not been followed by the war as a companion or complementary policy instrument no one will ever be able to judge whether the sanctions would have succeeded in ending the Iraqi occupation of Kuwait.

Now the war and the sanctions have succeeded not only in reversing the invasion but in destroying the economy of Iraq in the process. The question is what are Iraq's economic prospects in the future ? The shortest answer is that Iraq's economic future is bleak and it will need decades before the economy can regain the initiative it once had. Why ?

Adding up the value of assets destroyed by the two Gulf wars, war reparations, and debt payments will amount to more than $ 600 billion or more than sixty times Iraq's 1993 real GDP. The $ 600 billion is the sum total of these items: 1) $ 232 billion the value of assets destroyed in the Gulf war; 2) $ 67 billion the value of assets destroyed in the Iran-Iraq war; 3) $ 97 billion - Iran's potential claims for war reparations; 4) $ 100 - $ 150 billion - war reparations as a result of the invasion of Kuwait; and 5) $ 75 billion-foreign debt.

To cope with claims of this magnitude and to pay for imports essential to the lives of ordinary citizens and the functioning of the economy

Iraq will have to rely on its revenue from oil. Given the current and the near future conditions of the world oil market it is difficult to see how the oil sector can be expected to generate more than $ 20- $ 25 billion per year.

Therefore, unless and until the external financial claims against Iraq - war reparations and foreign debt - are relaxed, rescheduled, curtailed or written off Iraq's economic future will indeed be bleak for decades to come.

Notes

(1) See David A. Baldwin, *Economic Statecraft*, Princeton: Princeton University Press, 1985, pp. 13-14.

(2) See Margaret P. Doxey, *International Sanctions in Contemporary Perspective*, New York: St Martin's Press, 1987, pp. 2-3.

(3) See Baldwin, pp. 176-178.

(4) *Ibid.*

(5) Doxey, pp. 4-5.

(6) See Baldwin, pp. 262-277; Doxey, pp. 77-78.

(7) See David Leyton-Brown, *The Utility of International Economic Sanctions*, New York: St Martin's Press, 1987, pp. 303-310.

(8) For detailed studies of the costs of trade sanctions see Gary Clyde Hufbauer, Jeffrey J. Schott and Kimberly Ann Elliot, *Economic Sanctions Reconsidered: History and Current Policy* (2nd. ed) Washington: Institute for International economics, 1990. Henceforth Hufbauer, *Sanctions Policy*. Also by the same authors: *Economic Sanctions. Reconsidered: Supplemental Case History* (2nd. ed.), Washington: Institute of International economics, 1990 Henceforth Hufbauer, *Sanctions: Case Histories*.

(9) See Makio Miyagawa, *Do Economic Sanctions Work ?*, New York: St Martin's Press, 1992, p. 66.

(10) For a more detailed discussion of this episode see Hufbauer, *Economic Sanctions: Policy*, pp. 205-220; Miyagawa, pp. 68-71.

(11) See Miyagawa, p. 76.

(12) See Donald L. Losman, *International economic Sanctions: The Cases of Cuba, Israel, and Rhodesia*, Albuquerque; University of New Mexico Press, 1978, p. 112 and Doxey, p. 112.

(13) Doxey, p. 112.

(14) For details of this episode see Doxey, pp. 25-31.

(15) See Christopher C. Joyner, "Sanctions, Compliance and International Law: Reflections on the United Nations' Experience Against Iraq", *Virginia Journal of International Law*, Vol. 32, No. 1, Fall 1991, pp. 7-8 and Doxey, pp. 35-52.

(16) See Abbas Alnasrawi, "Economic Consequences of the Iraq-Iran War", Third World Quarterly, vol. 8, No. 3, 1986, pp. 869-895 especially Table 3.

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

(18) For Yamani's statement on the glut see *Middle East Economic Survey* (MEES), April 27, 1981 (Supplement), pp. 1-2.

(19) See *MEES*, July 27, 1981, pp. 1-2.

(20) See *MEES*, September 7, 1981, p. 2.

(21) See OPEC, *Annual Statistical Bulletin, 1991*; Abbas Alnasrawi, *Arab Nationalism, Oil, and the Political Economy of Dependency,* Westport: Greenwood, 1991, ch. 7.

(22) EIU, *Economic Review of Iraq*, No. 4, 1984, p. 11.

(23) Derived from U.S. Arms Control and Disarmament Agency, *World Military Expenditures and Arms Transfer* (Annual); Stockholm International Peace Research Institute, *SIPRI Yearbook. 1992*; United Nations, National Accounts Statistics: Analysis of Main Aggregates, 1988-1989, New York; 1991.

(24) See Abdel Moneim Al-Sayed Ali and Hail Ajami Jamil Al-Ganabi, "The Political Economy of Inflation in Iraq 1988-1992, "*Arab Economic Jouranl* (in Arabic) No. 1, Autumn 1992, pp. 91-113.

(25) See Kamran Mofid, *The Economic Consequences of the Gulf War*, London: Routledge, 1990, ch. 10.

(26) EIU, *Economic Review of Iraq*, No. 2, 1990 pp. 11-12.

(27) See OPEC, *OPEC Official Resolutions and Press Releases, 1984-1989*, Vienna, 1990, p. 254.

(28) *MEES*, February 12, 1990, pp. 1-5.

(29) *Ibid.*

(30) See "Documentation on Iraq-Kuwait Crisis", *MEES* July 23, 1990, pp. D1-9. pp. D1-9

(31) *Ibid.*

(32) See "Documentation ", P. D5. It is worth noting that Iraq's accusation that Kuwait was exploiting its economic difficulties to exact border concessions was supported by an official letter sent by Kuwait's Director General of the State Security Department to Kuwait's minister of interior on the former's visit to the CIA:
"We agreed with the American side that it was important to take advantage of the deteriorating economic situation in Iraq to put pressure on that coun-

try's government to delineate our common border. The Central Intelligence Agency gave its view of the appropriate means of pressure, saying that broad cooperation should be initiated between us, on condition that such activities are coordinated at high level."

See Pierre Salinger and Eric Laurent, *Secret Dossier: The Hidden Agenda Behind the Gulf War*, London: Penguin Books, 1991, pp. 239-241.

(33) See "Documentation "

(34) See *OPEC Bulletin*, September 1990, p. 7.

(35) Cited in Janice Gross Stein, "Deterrence of Compliance in the Gulf, 1990-91: A Failed or Impossible Task," *International Security*, Vol. 17, No. 2, Fall 1992, P. 158.

(36) *Ibid.*

(37) See "Iraq: Dreams and Figures", *Tareeq al Shaab*, October, 1990, P. 5. See also *MEES*, September 17, 1990.

(38) See Joyner, p. 12.

(39) For a good summary of these resolutions see Joyner, pp. 8-12; for the text of the resolutions see Dilip Hiro, Desert Shield to Desert Storm: The Second Gulf War, New York: Routledge, 1992, pp. 527-552.

(40) See Lawrence Freedman and Efraim Karsh, *The Gulf Conflict 1990-1991: Diplomacy and War in the New World Order*, Princeton: Princeton University Press, 1993, pp. 191-193.

(41) *Ibid.*

(42) *Ibid.*

(43) See *The New York Times*, December 6, 1990, p. A16.

(44) See *MEED*, August 30, 1991, p. 22.

(45) See *Report to the Secretary-General on humanitarian needs in Kuwait and Iraq in the immediate post-crisis environment by a mission to the area led by Mr. Matti Ahtisaari, Under Secretary-General for Administration and Management, dated 20 March 1991*, p. 5.

(46) Yahya M. Sadowski, "Allied Air War Struck Broadly in Iraq: officials Acknowledge Strategy Went Beyond Purely Military Targets, "*The Washington Post*, June 23, 1991.

(47) Barton Gellman, "Allied Air War Struck Broadly in Iraq: Officials Acknowledge Strategy Went Beyond Purely Military Targets", *The Washington Post,* June 23, 1991.

(48) *Ibid.*

(49) Arab Monetary Fund and al, *United Arab Economic Report, 1992,* Abu Dhabi, 1993, p. 18.

(50) See Jerry Gray, "UN Decided to Permit Iraq sales of $ 1.6 billion", *The New York Times, August 16, 1991* and Marian Houk, "Plan to Allow Iraqi Oil Sale Puts UN Chief in Charge, And Iraqi Officials Bristle", *The Christian Science Monitor,* August 19, 1991.

(51) For a good discussion of this issue see Walid Khadduir, "The Politics of Iraqi Oil Exports", *MEES,* May 24, 1993. For the decision of the government to accept in 1993 the UNSC terms of the sale of oil which it had rejected in 1991 see *MEES,* July 5 and 12, 1993.

(52) See Francoise Chipaux, "Saddam sits pretty as Iraqi people suffer", *Manchester Guardian Weekly,* August 11, 1991, p. 13.

(53) Derived from sources cited in notes 24 and 25.

(54) See Jean Dreze and Haris Gazdar, "Income and Economic Survey", in International Study Team: *Health and Welfare in Iraq After the Gulf Crisis: An In-Dept. Assessment*, October 1991, pp. 10-32.

(55) *The Washington Post*, August 16, 1990, cited in Hufbauer, *Sanctions: Policy, p. 290. Bush was referring, of course to Saudi oil reserves.*

(56) See Lisa L. Martin, *Coercive Cooperation: Explaining Multilateral Economic Sanctions*, Princeton: Princeton University Press, 1992, p. 28.

(57) See Joyner, p. 38.