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# Iraq: economic sanctions and consequences, 1990–2000

ABBAS ALNASRAWI

**ABSTRACT** *It is a well known fact, of course, that Iraq has been under a UN Security Council system of comprehensive embargo for the past 10 years. The consequences of the embargo have been catastrophic for the people and the economy of Iraq. Yet our understanding of the humanitarian emergency in Iraq will be enhanced if we examine the impact not only of the embargo but of other factors as well. This paper identifies four such factors: (1) the decision by the Iraqi government to initiate the 1980–88 war against Iran; (2) the militarisation of the Iraqi economy; (3) Iraq's invasion of Kuwait and the ensuing 1991 Gulf war; and (4) the sanctions regime which has been in place since August 1990. The paper argues that, while all the non-sanctions factors played their different roles, it is, in the last analysis, the force of the intensity and the open-endedness of the sanctions regime which bears the major share of the responsibility for the current conditions in Iraq.*

Most of the discourse on Iraq since the ending of the Gulf war on 28 February 1991 has tended to focus on the comprehensive economic embargo which the United Nations Security Council (UNSC) imposed on Iraq in the aftermath of the invasion of Kuwait on 2 August 1990. This concern with the 11-year-old embargo should not be surprising given the embargo's catastrophic effects on the people of Iraq and their economy.

Yet our understanding of the humanitarian emergency in Iraq and the implications of the sanctions for the future of Iraq would be enhanced if analysed in relation to the consequences of certain major policy decisions taken by the Iraqi government over the past two decades. Such decisions include: (1) the decision to start the 1980–88 war with Iran; (2) the militarisation of the economy; and (3) Iraq's invasion of Kuwait and the ensuing 1991 Gulf war. In addition to these policy decisions one must add, of course, the decision by the UNSC in 1990 to impose, and retain to this day, a comprehensive system of economic sanctions on Iraq.

## **Impact of the Iraq–Iran war**

When the government of Iraq decided to launch the war against Iran in September 1980 the Iraqi economy was on the threshold of another decade of

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economic growth. The immense increase in oil revenue, from less than \$1 billion in 1970 to \$26 billion in 1980, had made it possible for the government to increase spending simultaneously on infrastructure, the bureaucracy, goods producing sectors, social services, imports and the military.

The war-caused destruction of oil facilities led oil output to decline sharply from 3.4 million barrels per day (MBD) in August 1980 to 0.9 MBD in 1981. This in turn resulted in the collapse of Iraq's oil revenue from \$26 billion in 1980 to \$10 billion in 1981, a drop of 60%.

For a country that had grown dependent on a single export these external shocks forced the economy to cope with a number of serious problems, some of which had become structural. Among such problems were the following: (1) Iraq's major oil exporting capacity was either destroyed, blocked or closed; (2) Iraq's heavy industries were destroyed or in need of major repair; (3) the infrastructure was extensively damaged; (4) a major segment of the labour force (one-fifth) was in the armed forces; (5) agricultural and industrial growth was either stagnant or negative; (6) rural workers had either been drafted into the army or drifted to the city; (7) the large number of foreign workers imported during the war had become a burden on the economy; (8) dependence on food imports increased; (9) inflation had become a structural problem; (10) privatisation was not succeeding according to expectations; (11) Iraq had become a major debtor country; (12) levels of imports had declined; (13) development planning and spending had virtually ceased; and (14) the higher living standards which were promised during the war could not be delivered in the postwar period.

In short, the government's big gamble of winning a quick victory over Iran led the economy to a dead-end with no prospect for recovery. What staved off total economic collapse was the pumping of funds and credit into the economy by the Gulf states, the OECD and the former Soviet Union (Alnasrawi, 1994: 83–100).

### **Militarisation of the economy**

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

In 1975 Iraq had 3% of its labour force in the armed forces. By 1980 the armed forces absorbed more than 13% of the labour force. And by the time the war with Iran ended in 1988 the government was employing more than 21% of the labour force, or one million persons, in the armed forces.

The other side of this expansion in the armed forces was the sharp rise of the military's claim on Iraq's fiscal resources. Thus in 1970 the government spent less than \$1 billion on the military, or 19% of GDP—a high ratio by world standards. By 1975 the government had increased military spending more than fourfold to \$3.1 billion. By 1980 the government raised military spending more than sixfold over the 1975 level to \$19.8 billion, or nearly 39% of GDP. The share of military spending of GDP continued to rise to absorb between one-half and two-thirds of GDP in the 1980s.

Another way of looking at the burden of military spending is to relate it to

Iraq's oil revenue. Thus, during the five-year period 1981–85, military spending amounted to \$120 billion or 256% of the same period's oil revenue of \$46.7 billion. The five-year deficit of \$73.3 billion was financed by drawing down of Iraq's international reserves, foreign debt, suppliers' credit, grants from Gulf states, abandonment of development plans, and a reduction of imports and social services (Alnasrawi, 1994).

### **The invasion of Kuwait and the imposition of sanctions**

Iraq entered the postwar period with a smaller and more disorganised economy that was overburdened with unemployment, inflation and foreign debt. To cope with the economic crisis, and also to fund an ambitious programme of military industrialisation, Iraq had to rely on a shrinking source of oil revenue which in 1988 generated only \$11 billion, compared with \$26 billion in 1980.

The exhausted state of the economy was made worse by the 9% decline in GDP in 1989 over 1988—a decline that constituted a severe blow to the government and forced it to adopt an austerity programme of spending. But to reduce government spending in a period of severe economic crisis had the effect of worsening the crisis. What the economy needed at that particular juncture was an increase in the supply of goods to dampen inflation and restore some of the living standards that had been severely eroded during the war. In order to achieve these objectives Iraq had only one option—to raise oil revenue. And it was in this particular arena that the stage was set for Iraq's conflict with Kuwait.

During the 1980s Iraq witnessed not only the devastation of its economy thanks to the eight-year war with Iran but it and other OPEC member countries suffered from a drastic decline in their oil revenues. The primary explanation for this decline was the oil price collapse of 1986. In order to stabilise their revenue, OPEC member countries agreed in October of that year to return to their system of quotas, which they had abandoned earlier in the year, and to set the price at \$18 per barrel, a price that was deemed by all member countries to be necessary for their social and economic development. The significance of the October 1986 accord lay in the linkage it created between economic and social development on the one hand and certain levels of output to be sold on the world market at a given price on the other. This linkage also meant that a country that chose to expand its output above its quota would do so at the expense of fellow producers, causing a decline in their oil revenue and unwanted implications for their development.

Yet several countries, especially Kuwait and the United Arab Emirates chose not to comply with their quotas, thus forcing the price to decline to \$12 per barrel by October 1988. Although market conditions improved, causing the price to reach \$20 per barrel in January 1990, Kuwait and other non-compliant OPEC countries, decided to raise their output to such a level that the price had declined by one-third by June of that year—a decline that wiped out a major portion of Iraq's oil income and of that of other OPEC countries. It is important to note that, given Iraq's oil exporting capacity at that time, a drop in price of \$1 per barrel meant a loss of \$1 billion in oil revenue per year. It is also worth noting that Iraqi president Saddam Hussein gave an ominous warning at the May 1990 meeting of

the Arab Emergency Summit Conference when he characterised oil policies leading to above quota production and lower prices as causing damage to the Iraqi economy similar to the economic damage inflicted by conventional wars (Alnasrawi, 1994: 105–118).

In addition to the issue of production and prices, Iraq accused Kuwait of using diagonal drilling to pump oil from that part of the Rumaila oil field that was located inside Iraqi territory.

On 17 July 1990 the Iraqi president 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. Ten days later and in the shadow of Iraqi troop movements along the Iraq–Kuwait border, OPEC decided to raise the reference price for its oil from \$18 to \$21 per barrel and adopt new quotas. But on 2 August the government of Iraq decided to invade and occupy Kuwait.

The invasion of Kuwait was looked at as a short-cut solution to Iraq's economic crisis and the regime's failure to improve living standards. This policy decision was articulated by the deputy prime minister for the economy when he stated that Iraq would be able to pay its debt in less than five years; that the 'new Iraq' would have a much higher oil production quota; that its income from oil would rise to \$38 billion; and that it would be able to vastly increase spending on development projects and imports (Alnasrawi, 1994: 118).

Iraq's invasion of Kuwait prompted the UN Security Council, under the leadership of the USA, to vote on 6 August to adopt Resolution 661, which imposed a sweeping and comprehensive system of sanctions which is still in effect.

### **Impact of sanctions and war: an assessment**

To assess the impact of the sanctions one has to deal with four phases of their evolution since August 1990. These are: (1) the embargo which the UNSC imposed on Iraq following the invasion of Kuwait; (2) the six-week Gulf war of 1991; (3) the further sanctions regime under Resolution 687; and (4) the sanctions under the oil-for-food programme.

#### *The UNSC embargo: August 1990–April 1991*

The centrepiece of the sanctions system at this phase was UNSC Resolution 661. This resolution and subsequent sanctions resolutions created a set of conditions which virtually cut Iraq off from the world economy. The sanctions included a ban on all trade, an oil embargo, a freezing of Iraqi government financial assets abroad, an arms embargo, suspension of international flights, and banned financial transactions. The UNSC also called upon member states to enforce naval and air blockades against Iraq. All shipping on the Shatt-al-Arab waterway in the south of Iraq was intercepted and all vessels approaching the Jordanian port of Aqaba were boarded and inspected (Cortright & Lopez, 2000: 39–41). In short, the embargo was intended to prevent anything from getting through to Iraq. The embargo appeared to support the contention that the UNSC was using famine and starvation as potential weapons to force Iraq into submission (Freedman &

Karsh, 1993: 191–193).

The blockade had an immediate impact on food availability in Iraq, since the country's dependence on imported food was 70%–80% of total caloric intake. The blockade-caused food shortages resulted in sharp increases in food prices ranging from 200% to 1800% between August and November 1990 (Provost, 1992: 584–586).

To blunt the double impact of scarcity and inflation the government introduced a food rationing system effective 1 September 1990. The public rationing system saw to it that certain food items—flour, rice, vegetable oil, sugar, tea and baby milk—were provided on a monthly basis at pre-embargo prices. This diet was judged by the Food and Agriculture Organisation (FAO) to supply on per capita basis 37% of the average calorie intake in 1987–89 (FAO, 1993: 3).

The effectiveness of the blockade was so pronounced that in a 5 December 1990 testimony before the US Senate Committee on Foreign Relations it was reported that the embargo had effectively shut off 90% of Iraq's imports and 97% of its exports and produced serious disruptions to the economy and hardships to the people (*New York Times*, 6 December 1990: A16).

### *The air war and the economy*

On 16 January 1991 the Coalition forces led by the USA started the six week Desert Storm campaign which culminated in the eviction of Iraqi forces from Kuwait by the end of February.

The bombing of Iraq was aimed not only at military targets but also at such assets as civilian infrastructure, power stations, transport and telecommunications networks, fertiliser plants, oil facilities, iron and steel plants, bridges, schools, hospitals, storage facilities, industrial plants and civilian buildings. And the assets that were not bombed were rendered dysfunctional because of the destruction of power generating facilities.

The impact of the intensity and the scale of the bombing was assessed by a special UN mission to Iraq immediately after the war 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 age, but with the disabilities of post-industrial dependency on an intensive use of energy and technology. (UN, 1996: 186–188)

This vast scale of destruction, which must have set the economy back to 19th century status, should not be surprising in light of the fact that the initial plan of bombing had focused on 84 targets but had been expanded in the course of the war to include 723 targets (House Armed Services Comm, 1992: 86).

In a postwar study of the air campaign it was acknowledged that the strategy went beyond bombing armed forces and military targets. In addition to purely military targets the bombing revealed that: (a) some targets were attacked to



destroy or damage valuable facilities which Iraq could not replace or repair without foreign assistance; (b) many of the targets chosen were selected to amplify the economic and psychological impact of sanctions on Iraqi society and (c) targets were selected to do great harm to Iraq's ability to support itself as an industrial society. Thus the damage to Iraq's electrical facilities reduced the country's output of power to 4% of its prewar level. And nearly four months after the war the national power generation was only 20%–25% of its prewar total, or about the level it was at in 1920 (Hiro, 1992: 354; Gellman, 1991).

### *The sanctions under Resolution 687*

In April 1991 the UNSC adopted Resolution 687 which the former UN Secretary-General described as one of the most complex and far-reaching sets of decisions ever taken by the Council (UN, 1996: 29–33). In this resolution the UNSC affirmed all its previous resolutions and set out in great detail the terms and requirements for the lifting of the sanctions. These requirements included boundary settlement; elimination of Iraq's weapons of mass destruction (WMD); Iraq's unconditional undertaking not to acquire or develop nuclear weapons or nuclear-weapons-usable materials, as well as any subsystems or components or any research, development, support or manufacturing facilities; the adoption of a plan for the future ongoing monitoring and verification of Iraq's compliance with the nuclear ban; the establishment of a compensation fund financed by Iraq to settle claims against Iraq; the demand that Iraq adhere scrupulously to its foreign debt obligations; and repatriation of all Kuwaiti and third country nationals (UN, 1996: 29–33).

The new resolution introduced an important modification in the sanctions by allowing Iraq to import foodstuffs by dropping the reference to 'in humanitarian circumstances' which had been part of Resolution 661/1990. But since Iraq was not allowed to sell oil to pay for imported foodstuffs this modification proved to be of no consequence.

The Council also decided to review Iraq's compliance with the new requirements every 60 days to determine whether to lift or modify the sanctions. In the meantime exceptions to the oil embargo would be approved when needed to assure adequate financial resources to provide for essential civilian needs in Iraq (UN, 1996: 29–33).

As was stated earlier, the Sanctions Committee had refused to recognise the existence of urgent humanitarian needs in Iraq during the period August 1990–March 1991. This meant that the bulk of the enormous food needs of the Iraqi people—more than 10 000 tons per day of food grain alone—were unmet. The case of medical supplies was not much better (Dreze & Gazdar, 1992: 924).

The humanitarian emergency conditions in Iraq and the pending human catastrophe were highlighted in the 20 March 1991 report by a UN mission led by UN Under Secretary-General Martti Ahtisaari (and representatives of six other UN agencies) (UN, 1996: 186–188). The bleak picture which the report presented regarding living, health and economic conditions in Iraq concluded as follows:

I, together with all my colleagues, am convinced that there needs to be a major mobilization and movement of resources to deal with aspects of this deep crisis in

the field of agriculture and food, water, sanitation and health ... It is unmistakable that the Iraqi people may soon face a further imminent catastrophe, which could include epidemic and famine, if massive life-supporting needs are not rapidly met ... Time is short.

Only two days after the release of this report the Sanctions Committee made the following determination:

In the light of the new information available to it, the Committee has decided to make, with immediate effect, a general determination that humanitarian circumstances apply with respect to the entire civilian population of Iraq in all parts of Iraq's national territory. (UN, 1996: 189)

But since Iraq's foreign-held assets were frozen and its oil exports were embargoed the Sanctions Committee's determination proved to be of no benefit to the population.

In the meantime another mission led by the Executive Delegate of the UN Secretary-General for Humanitarian Assistance submitted its 15 July 1991 report on humanitarian needs in Iraq. The new mission concentrated its work on four sectors: food supply, water and sanitation systems, the oil sector and power generation.

The mission estimated the cost of returning the systems in each of the four areas to their prewar conditions to be \$22.1 billion (UN, 1996: 273–279).

The mission also offered a one-year estimate of the costs based on scaled down goals rather than prewar standards and came up with the figure of \$6.8 billion for food imports, power generation, the oil sector, health services, water and sanitation, and essential agricultural inputs. It is worth pointing out that the proposed \$1.62 billion for food imports was based on the ration level that the World Food Programme provides to sustain disaster-stricken populations (UN, 1996: 273–279).

In addition to the humanitarian merits of the case the mission advanced two other arguments. First, the amount of funds that Iraq required to meet its humanitarian needs was simply beyond what the international community was willing to provide. Only Iraq has the resources to fund its needs, provided, of course, it was allowed to export its oil. Second, at a time when there were other disasters of daunting dimension around the globe, Iraq should not have to compete for scarce aid funds with a famine-ravaged Horn of Africa and a cyclone-hit Bangladesh. The report concluded with this recommendation:

It is clearly imperative that Iraq's 'essential civilian needs' be met urgently and that rapid agreement be secured on the mechanism whereby Iraq's own resources be used to fund them to the satisfaction of the international community. (UN, 1996: 273–279)

The UNSC, however, chose not to act on either set of recommendations, thus deepening the crisis of the Iraqi population.

### *The first oil-for-food UNSC resolutions*

The continued humanitarian crisis in Iraq which the UNSC finally had to acknow-



ledge and the need for funds to finance UN operations in Iraq and to provide financial resources to the UN Compensation Fund prompted the UNSC to authorise the export of \$1.6 billion of oil over a six-month period under Resolutions 706 and 712 of August and September 1992, respectively.

Although the authorisation was set at \$1.6 billion, Iraq was slated to have access to around \$1 billion only, with the balance being earmarked to the Compensation Fund (30% of oil sales) and to fund UN operations in Iraq and pay oil transit fees to Turkey. Funds generated by the oil sales were to be deposited in a special escrow account under the control of the UN. All payments out of this account were to be pre-approved by the UN Secretariat. All transactions with respect to the sale of oil or the purchase of imported goods had to be approved by the Sanctions Committee. And all goods imported into Iraq under this programme were to be distributed to the Iraqi population either by the UN or under its supervision.

It is not clear how the UNSC arrived at the figure of \$1.6 billion (actually \$1 billion after the deductions) at a time when it acknowledged in the preamble of Resolution 706 that it was 'concerned by the serious nutritional and health situation of the Iraqi civilian population ... and by the risk of a further deterioration of this situation'. In other words if the authorisation was to mitigate deteriorating human conditions, why limit the sale to any fixed amount? For its part the Iraqi government rejected these resolutions, thus passing up an opportunity to activate its oil exports and import desperately needed food and medicine.

The failure to implement Resolutions 706 and 712 meant the continued deterioration of the Iraqi economy and further decline in the living conditions of the people, as attested to by UN agency reports (FAO/WFP, 1993, 1997).

### *Oil-for-food under Resolution 986*

It was not until April 1995 that the UNSC decided to revisit the issue of sanctions when it adopted Resolution 986 allowing Iraq to sell \$2 billion-worth of oil every six months to provide funding for the Compensation Fund and for various UNSC-mandated operations in Iraq, and to help Iraq purchase food and medicine. Except for the increase in oil income—from \$1.6 billion under the 1991 resolutions to \$2 billion under this new resolution—the core of the scheme remained the same. The UNSC retained for itself the necessary mechanisms to monitor all sales and purchases, and all funds were to move in and out of a UN-administered escrow account.

With 30% of the proceeds to be diverted to the Compensation Fund and other deductions to pay for UN operations in Iraq, it is estimated that Iraq would get \$1.3 billion every six months to finance its imports of food, medical supplies and other essential humanitarian needs.

Although the UNSC-authorized sale of oil was insignificant relative to civilian needs, the income from the sale of oil, however, would have provided much needed relief. Yet the Iraqi government decided to reject Resolution 986, thus plunging the economy into even deeper crisis. One indicator, among many, of the depth of the economic crisis was the collapse of the value of the Iraqi dinar (ID) *vis-à-vis* the dollar; it declined from ID706 in January 1995 to nearly ID3000 in

January 1996. The resulting hyperinflation and further collapse of what remained of personal income purchasing power forced the government to reverse its position in January 1996 and agree to enter into negotiations with the UNSC over the implementation of Resolution 986. An agreement was reached in May 1996 over the implementation of the resolution. But it was not until December 1996 that Iraqi oil finally reached the world market.

Soon after the flow of Iraqi oil to the world market, it became clear that the authorised \$2 billion every six months was far from sufficient to meet minimum needs. To increase oil revenue the UNSC decided in February 1998 to raise the ceiling on oil sales to \$5.2 billion every six months. And in December 1999 the UNSC decided to remove the ceiling on oil exports altogether but to keep all other parts of the programme.

As to the impact of the oil-for-food programme, its contribution to the well-being of the people of Iraq has been minimal in that it failed to reverse the deterioration in the social and economic conditions of the country. It could not be otherwise since the revenue generated under this programme is too small to meet the basic needs of the population. Indeed the UN Secretary-General acknowledged that ‘... resolution 986 (1995) was never intended to meet all the humanitarian needs of the Iraqi people’ (El-Bayoumi, 2000: 26).

A quick look at the financial data reveals the inadequacy of the programme. As of 31 July 2000 the cumulative total proceeds from the sale of Iraqi oil under the programme amounted to \$32.3 billion. These funds were distributed as follows:

- \$16.7 billion or 53% for central and southern Iraq;
- \$4.1 billion or 13% for Kurdistan;
- \$9.7 billion or 30% for the Compensation Fund;
- \$0.9 billion or 2.8% for UN administrative and operational costs;
- \$0.9 billion to Turkey for transportation costs of Iraqi oil.

Of the \$20.8 billion appropriated to all of Iraq, only \$8.4 billion-worth of goods for all sectors of the economy had arrived in Iraq by the end of July 2000 (UN Office of the Iraq Programme, September 2000). Relating Iraq’s imports under this programme to the total population of the country we find that the programme enabled Iraq to import \$109 per person per year compared with pre-embargo (1980–89) civilian imports of \$508 per person.

It is obvious from the data that, while the oil-for-food programme provided some relief, it failed to change the underlying conditions of a deteriorating economy. Moreover, by channelling all transactions through the government, the programme increased government control over the population. As one of the Security Council panel concluded: the programme does not contribute to the stimulation of the economy, has a negative impact on agriculture and has permitted increased state control over a population whose private initiative is already under severe constraints of an internal and external nature (UN, 1999: para 48). Moreover, the programme did not have a cash component to be spent on domestically produced goods and service.

### Impact of the sanctions

The preceding analysis suggests that several factors combined to ensure that the impact of the sanctions regime would be catastrophic. These include the Iraq–Iran war, which bankrupted the economy and turned a creditor country into a country saddled with an enormous amount of foreign debt. The air bombing campaign which destroyed the country's infrastructure made the prospects of any economic recovery impossible while the sanctions were still in place. Moreover, the impact of the sanctions on the economy and the people was particularly devastating because of the country's high dependence on the oil sector for its foreign exchange earnings and for imports of essential items such as food, medicines and industrial and agricultural inputs.

Numerous international and non-governmental organisations which visited Iraq over the past decade are in agreement about the extent of the damage inflicted by the sanctions on the people, their economy and their living conditions. The details may vary from one study to another but the magnitudes are similar.

Thus there is a general agreement that infant and child mortality has increased; death rates across the board have increased and life expectancy has declined by several years. Estimates of the number of people who lost their lives because of the sanctions range up to 1.5 million people, including more than 500 000 children. The World Health Organisation (WHO) concluded that the health system had been set back by some 50 years (WHO, 1996: 17). This is not surprising in the light of the fact that per capita GDP in the 1990s was lower than that of 1950.

The impact of these drastic developments can be seen in the changes in some of the social and economic indicators. The decline in nutritional standards, which is a direct outcome of the virtual disappearance of imports led to a sharp rise in infant and child mortality rates. According to UNICEF the infant mortality rate, which had declined from 117 per thousand live births in 1960 to 40 in 1990 then increased to 103 in 1998. Similarly, the under-five mortality rate, which had declined from 171 to 50 reversed its trend to rise to 125 by 1998 (Pellet, 2000: 161). The rise in mortality rate led Richard Garfield to conclude that this was the only instance of a sustained, large increase in mortality in a stable population of over two million in the past 200 years. Another consequence of the sanctions which affected the children of Iraq was the decline in the number of children attending school, leading the overall literacy rate among adults to decline from 80% to 58% (Garfield, 2000: 36, 47).

The social and economic consequences of the sanctions can be seen also in the loss of more than two-thirds of the country's GDP, the persistence of exorbitant prices, collapse of private incomes, soaring unemployment, large-scale depletion of personal assets, massive school drop-out rates as children were forced to beg or work to add to family income, and the phenomenal rise in the number of skilled workers and professionals leaving the country as economic refugees in search of better economic conditions.

It is important to note also that the regime adopted certain discriminatory policies and measures which had the effect of widening the income gap between various groups, classes and regions. Also, certain elite groups were favoured by giving them access to lucrative foreign trade transactions that were conducted

outside the UN-approved trading system. This parallel economy tended to bring quick profits to the privileged and well connected, thus widening the gap in the distribution of income. The gap was further widened as a result of the failure of the government to continue to provide the social services which it had traditionally supplied freely to lower income groups (Graham-Brown, 2000: 11).

### **Prospects for economic growth and the lamentable oil industry**

In the light of the foregoing analysis it is difficult to see how the prospects for growth can be promising. To give an idea of the enormity of the problem suffice it to say that GDP per capita in 1999 was estimated to be \$883 in 1990 dollars compared with the \$6151 GDP per capita obtained in 1980.

In addition to the decline of the economy through wars and sanctions Iraq will face a monumental task of reconstruction and development. To begin with Iraq will enter the post-sanctions era with heavy financial burdens of foreign debt of over \$130 billion, Gulf war compensation claims of more than \$200 billion and claims by Iran of \$100 billion for its war losses. If we were to add to this bill of \$430 billion the replacement cost of infrastructure and other assets destroyed in the course of the Gulf war we would arrive at an astronomical figure of financial requirements which are simply beyond the capacity of the Iraqi economy to generate. It is clear from these figures that the task of rebuilding becomes an impossible one. The government of Iraq will not be able to do much for its people if foreign creditors and war reparations claimants do not forgive or adjust their claims downward. Oil, while essential, will be of limited assistance because of the magnitude of the financial claims on the oil sector. But what are the prospects for the oil industry in Iraq? A few observations are offered on the prospects for the oil sector in the following paragraphs.

Iraq, it should be noted, has the world's second largest oil reserves, with an endowment of some 113 billion barrels of proven reserves. These are located in 73 structures but only 14 of these structures have actually been developed and are producing. No other reserves-rich country with such a long petroleum history has developed so few fields. It is beyond the scope of this study to analyse the corporate and political considerations—domestic, regional and international—responsible for this state of affairs.

Development of new fields and expansion of existing fields since 1960 pushed Iraq's production capacity to 3.5 MBD in 1979. Major developments in the oil transportation and refining systems were also attained. These important developments in the oil sector, which dominated the 1970s, were first disrupted during the Iraq–Iran war, then came to a halt in 1990 in the aftermath of the invasion of Kuwait, the Gulf war and the UN economic sanctions. In 1991 production declined to a mere 0.3 MBD. By 1996 output reached 0.6 MBD. This was doubled in 1997 to 1.4 MBD under the supervision of the UN Security Council in accordance with the provisions of Resolution 986. By 1999 output reached 2.5 MBD. And by May 2000 output peaked at 3 MBD (*Middle East Economic Survey* (MEES), 9 October 2000: A14).

One of the major problems which has been plaguing the oil industry in Iraq in the 1990s has been the embargo placed on the import of necessary equipment and

spare parts. A March 1998 report by a group of oil experts sent by the UN Secretary-General to study the conditions of the oil industry in Iraq concluded that the industry was in a 'lamentable state'. Following this group of experts' report the UNSC adopted Resolution 1175 in June 1998 authorising, for the first time, the import of up to \$300 million-worth of equipment and spare parts for the oil sector every six months. In January 2000 another group of experts in yet another report concluded that the lamentable state of the Iraqi oil industry had not improved, the oil transportation sector had not been improved over the previous two years, and insufficient spare parts and equipment had arrived in time to sustain production. In short:

decline of conditions of all sectors of the oil industry continues, and is accelerating in some cases. This trend will continue, and the ability of the Iraqi oil industry to sustain the current reduced production levels will be seriously compromised, until effective action is taken to reverse the situation. (Group of Experts, 2000: 4)

In response to this new report the UNSC adopted Resolution 1293 in March 2000 which raised the cap on imports for the oil sector to \$600 million for each six months. The problem, however, is not with the level of oil sector imports, although that is important; it is with the UNSC Sanctions Committee's refusal to approve all the contracts which the UN Secretary-General has already approved for Iraq's oil sector imports. The disruptive impact of withholding approval of such contracts was expressed by the UN Executive Director of the Iraq Program when he told the Security Council:

The Council last year doubled the allocation for oil spare parts and equipment. This was most welcome for the sector that is the lifeline of the humanitarian programme. However, that was the end of the good news—we continue to experience serious delays and the number of holds placed on applications has become unacceptably high. On the one hand, everyone is calling on OPEC to increase the export of oil. On the other hand, the spare parts and equipment that are the minimum requirements of Iraq's oil industry, have been facing serious obstacles in the Security Council Committee. (Sevan, 2000: 3)

For its part the government of Iraq believes that the withholding of applications prevented it from reaching its goal of 3.4 MBD in 2000. But should the applications be approved the government expects to reach that level of output in Spring 2001 (MEES, 25 September 2000: A3).

As to the future the government of Iraq plans to increase capacity to 6 MBD. This planned increase in oil production as well as associated expansion in other parts of the oil sector will be influenced by at least three sets of factors that will determine the course of the future development of the Iraqi oil industry and the economy. These are: the lifting of the UN sanctions; the technical and financial requirements for the development of the oil sector; and the reaction of OPEC member countries to the re-entry of Iraqi oil on the world market.

The lifting of the sanctions is essential for any work on the rehabilitation and development of the oil sector. The sanctions not only prohibit the free export of oil, they also prohibit Iraq from importing the spare parts and equipment needed to perform the task. The country is also prohibited from entering into contracts



with foreign firms to carry out the necessary work. This means that none of Iraq's current plans can be implemented before the removal of sanctions.

As to the technical and financial requirements, it is estimated that, in order for Iraq to raise output above the historic peak of 3.5 MBD in 1979, the country will have to develop its new oilfields to increase production. At the moment Iraq is in a position to raise production capacity to 6 MBD according to Iraqi oil industry experts. But to do so would require up to seven years and some \$20 billion to be invested in the production end. In addition to this investment the country will need to invest in other parts of the oil industry such as transportation, refining and the development of natural gas. The cost of this programme has been estimated to be \$30 billion spread over a period of 10 years following the lifting of the sanctions (Haider & Farraj, 1998: 13).

The last important factor to affect the future of the oil industry is how OPEC member countries will act when the sanctions are lifted, allowing Iraq unhindered participation in the world oil market. When Iraq's oil was initially re-introduced to the world market in December 1996 under Resolution 986 OPEC had no policy on the matter. As a matter of fact OPEC simply watched as Iraq's oil re-entered the world market, contributing to an already existing glut. This glut, which led to the collapse of the OPEC oil price to \$10 per barrel in February 1999, forced the organisation to lower production levels in order to put an end to the decline. Since Iraq's production is constrained by the oil sector's own limitation and the ceiling on revenue set by the sanctions OPEC was able to absorb Iraq's output without too many difficulties.

The oil-glut conditions which forced OPEC to cut output in 1999, together with the rise in world demand for oil, reversed the price decline to a rise to \$28 per barrel in July 2000. This change in the world oil market conditions provided a hospitable environment for the absorption of Iraq's oil exports.

### **Concluding remarks**

There is a general agreement that the sanctions regime imposed on Iraq was unprecedented in its comprehensiveness, severity and length, and in the enormous human and economic cost which it inflicted on Iraq. Although the severity of the sanctions was made worse by the consequences of the Iraq–Iran war and the destruction of the infrastructure in 1991, the fact remains that the people of Iraq have been suffering for the past 11 years with no prospects on the horizon of an early end to the sanctions, which have transformed Iraq from a country of relative affluence to a country of massive poverty.

The prospects for economic reconstruction, rehabilitation and growth will be sharply compromised by Iraq's external liabilities of debt and war reparations. While the contribution of the oil sector to the growth of the economy will be essential it will be rather limited given the scale of the problem.

In the meantime there are several complicating factors which will continue to accentuate the suffering of the people. In the first place the very design of the food-for-oil programme was conceived as a substitute for the removal of the sanctions regime. Its intent remains containing the suffering rather than reversing it.



The current system of sanctions has, furthermore, turned economic policy into a one-dimensional exercise determined by how much oil is produced, with the rest of the economy administered by the UN bureaucrats and arms inspectors.

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