

The background of the cover is a light yellow-green color with several faint, stylized leaf motifs scattered across it. Each motif consists of a stem with two leaves pointing upwards and to the right.

THE ECONOMY OF IRAQ

Oil, Wars, Destruction of
Development and Prospects, 1950–2010

Abbas Alnasrawi

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To the Children of Iraq

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Introduction

In 1960, Iraq's real GDP measured in 1980 prices was \$8.7 billion. In 1979 GDP peaked at \$54 billion. And by 1993 Iraq's GDP has declined to \$10 billion, the equivalent of what it was in 1961. Put another way, these figures inform us that more than three decades of real GDP growth have been erased. But these dismal statistics tell a small part of this unique episode in the history of the second half of this century. This is so because the GDP in 1961 had to support 7 million people; in 1993 it had to support a population that has grown to nearly 21 million. Such a drastic collapse in per capita GDP translates into the nullification of nearly half a century of growth and improvement in the living standards of the population.

To place this change in some international context, Iraq in the years prior to its invasion of Kuwait was at the top of the per capita GDP ladder of developing countries. By 1993, real monthly earnings were lower than the monthly earnings of unskilled agricultural workers in India—one of the poorest countries in the world.

What happened to an economy noted for the wealth of its oil reserves, agricultural potential, water resources, relatively high rates of literacy and skills, vast access to foreign technology and expertise, an enviable balance-of-payments surplus and foreign reserves, and a long history of determined effort to develop and diversify the economy?

Simply stated, the central concern of this work is to find an explanation or explanations of what happened to cause this unprecedented and unparalleled collapse. To this end, the first chapter is devoted to an examination of the critical role of the oil sector in the Iraqi economy. Chapter 2 is devoted to a study of Iraq's development policies under the monarchy and assesses development programs and policies in the

1950s. In the following chapter, the development plans of the republican regime in the period 1958–68 are evaluated. In Chapter 4, the Baath party's economic philosophy, development strategies, and plans are analyzed. The demise of development that started with the outbreak of the Iran–Iraq war of 1980–88 is examined in Chapter 5. In Chapter 6, the economic consequences of the 1990 invasion of Kuwait, including the impact of the United Nations sanctions on the Iraqi economy, are examined. Chapter 7 examines Iraq's changing economic fortunes in the period 1950–93, and the last chapter attempts to shed some light on Iraq's economic future against the background of the economic destruction of the two Gulf wars.

THE ECONOMY OF IRAQ

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CHAPTER 1

The Evolution of Iraq's Oil Industry

One of the most striking features of the world oil map is the concentration of crude oil reserves in a few countries. In the Western Hemisphere, most of the oil reserves are concentrated in the United States, Venezuela, Mexico, and Canada. In the Eastern Hemisphere, they are concentrated in the former Soviet Union, North Africa, and the Middle East. Because of the stage of their economic development, the United States and the former Soviet Union developed their oil industries primarily to meet their countries' own demands for energy. But since other oil-producing countries have a very low indigenous demand for energy, their oil resources were developed to meet world demand for oil—mainly that of the industrialized countries of Western Europe, Japan, and later on the United States.

Foreign capital and technology had to be called upon to develop oil resources since capital requirements for developing, producing, transporting, refining, and finally marketing oil products were well beyond the capabilities of countries like Venezuela, Iraq, Iran, Kuwait, Saudi Arabia, Libya, Indonesia, Nigeria, and Algeria.

The pattern of relationships between Iraq, as well as other oil-producing countries, and the oil companies exploiting oil resources was regulated by concession agreements. According to the provisions of the concession, the foreign-owned oil company obtained an exclusive right to develop and export Iraq's oil; it was the sole determinant of the level of oil output and export; and it alone had the prerogative to set the price of oil. In short the government had no input in the development or the pricing of what became the most important commodity of the national economy. The role of the government was a passive one in that it became a recipient of a fixed sum per unit of export.¹

OIL CONCESSIONS IN IRAQ AND THE AGREEMENT OF 1952

The history of foreign capital seeking investment in Iraq oil goes back to the latter part of the nineteenth century when Iraq was still part of the Ottoman Empire.² It was not until 1925, however, that the first concession for the exploration and production of oil was granted to the Turkish Petroleum Company (subsequently renamed Iraq Petroleum Company – IPC) for a period of seventy-five years. Oil was first struck in commercial quantities in 1927. Two affiliates of IPC, Mosul Petroleum Company (MPC) and Basra Petroleum Company (BPC), secured additional concessions from the Iraqi Government. MPC was awarded a seventy-five-year concession in 1932; and BPC obtained another seventy-five-year accord in 1938. The three concessions covered the total area of Iraq.³

These three companies were owned in equal shares of 23.75 percent by British Petroleum (BP), Shell Petroleum (Shell), Compagnie Française des Pétroles (CFP), and Near Eastern Development Corporation, which was owned equally by Standard Oil of New Jersey (Exxon) and Mobil. The remaining 5 percent went to Participation and Exploration Company.

The 1951 nationalization of the oil industry in Iran, the adoption of the principle of profit-sharing between some of the companies and host governments such as Venezuela and Saudi Arabia, and the persistent demand of Iraq for more royalties led to a series of negotiations between IPC, MPC, and BPC and the government. These negotiations culminated in the agreement of 1952⁴—henceforth called the Agreement—the two most important provisions of which are: (1) The hitherto fixed payment per unit of production was replaced by a new formula of profit-sharing according to which the government would receive annually 50 percent of the profits resulting from the operations of the companies in Iraq. Profits were defined as the difference between the posted price of oil exports and the cost of production, and (2) the government was entitled to receive f.o.b. seaboard terminal, as part of its 50 percent share, up to 12.5 percent of the net production. The government had the option to sell this amount at whatever price it could obtain.

THE GROWTH OF OUTPUT AND REVENUE

The Agreement was an important landmark in Iraq's petroleum history and economy in that it ushered in an era of unprecedented growth in the oil sector.

The growth of the oil industry was a response to the worldwide increase in demand for petroleum in the post-World War II period. It resulted from the need to rebuild the shattered economies of Europe,