Introduction

Well before the second Gulf War started in March 2003, many analysts wrote about the economics of the war. In their arguments, they contended that billions of dollars would be needed to fight the war. Twelve months after the war has officially ‘ended’, economic planners and analysts are now coming to terms with the fact that the Iraqi economy needs to be rebuilt, and the task may require far more financial resources than was needed to oust Saddam from power.

Financial resources for waging the war had been planned for and guaranteed well before the war began. However, the task of reconstructing postwar Iraq was not, and continues not to be, considered with the same determination or tenacity. Of course Iraq has oil and gas, but it would be naïve and highly imprudent to rely on these resources alone for the gigantic project ahead.

While the coalition powers continue to engage the remnants of the insurgents around the Sunni Triangle, the interim Iraqi government has started on the task of economic reconstruction of Iraq. As a matter of fact, the magnitude of financial resources required for this reconstruction exercise has staggered the imagination of many analysts. Are the proceeds from Iraq oil and gas going to be enough? Of course not!
The prewar economic situation of Iraq

The fact that Iraq had endured years of extremely crippling economic sanctions prior to the war makes the reconstruction of its economy a formidable task. The war, the destruction and the looting that followed have further widened the size of the reconstruction exercise required and these, as a result, have raised the magnitude of financial resources required for postwar reconstruction of the economy.

The invasion of Kuwait by Saddam Hussein in 1991 sparked the first Gulf War. The allied forces stopped short of marching to Baghdad, but ensured that Saddam Hussein was no longer able to threaten its neighbours by wiping out his military capability and limiting his economic potential. In effect, substantial parts of Iraqi military and economic infrastructures were severely damaged. As part of the agreement to end the military hostilities, stringent economic and military sanctions were imposed on Baghdad, which were scrupulously enforced. Under the Oil for Food programme that followed, Baghdad was allowed to sell oil abroad under the supervision of an international monitoring group. Only essential medical and consumable items were allowed into Iraq. This went on for more than 10 years, and as a result Iraq witnessed very high levels of inflation, unemployment and negative economic growth.

Twelve years on, and with economic and military sanctions still in place, the second Gulf War was launched in 2003. The destruction of the already devastated economy of Iraq was complete and decisive. In an attempt to hasten the fall of Baghdad, the coalition forces ensured that the transport system, communication networks, and the little remaining production capacity of the Iraqi economy were targeted and destroyed. Then, after the fall of Baghdad, the looting started. Together, these events brought what was left of the state of the Iraqi economy to a complete standstill.

There are estimates from various quarters as to exactly how much would be required for the task of reconstructing the Iraqi economy. In my view, approximately $200 billion may be required. It may be more.

Will earnings from Iraq oil and gas be enough?

Going by its daily output of 2.5 million barrels of crude oil per day, it is unlikely that Iraq will be able to finance such a project from the