

# How Vulnerable is Iraq's Economy?

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Brief Analysis

A sanction-induced economic crisis cannot be counted on to force Saddam Hussein out of Kuwait, much less out of office. Iraq has good prospects of surviving sanctions through the end of 1991 by a combination of tightening consumer's belts and loosening the socialist tourniquet now tied around the Iraqi private sector. Even if all governments in the area cooperate with the sanctions against Iraq, smuggling is sure to continue. International commerce is performed by traders, not by governments, and some businessmen will be eager to make a large profit through by-passing government rules.

Iraq's Iranian, Syrian and Turkish borders are hard to police because there are population centers near the border. The Iranian and Syrian frontiers are relatively easy to cross because of the many back roads or unpaved tracks there. Before we criticize the Iranian government (or the Turkish or Syrian), let us remember how unsuccessful we have been in stopping smuggling on our own border with Mexico. The constraint on smuggling will eventually become Iraq's difficulty in paying for goods. The Iraqi government, however, could certainly mobilize \$2 billion -- from the \$1 billion it took in liquid assets from Kuwaiti banks, from friendly governments (like Libya), and from loans by crooked banks. These sources should provide at least a year's worth of vital spare parts for the military and industry. The money to pay for food smuggling could come from the private sector. As a rule of thumb, if their children are starving, the parents will sell the family silver.

Sanctions will eventually weaken Iraq's military and economy. In the first few months of the crisis, however, Iraqis have not yet felt the pain. They have benefited from the looting of Kuwait, which has led to a tremendous increase in the stock of consumer durables -- 50,000 automobiles alone have been seized by Iraqis! Those lucky enough to steal in Kuwait obviously have done well, but so has the ordinary Baghdad consumer. The streets are said to be full of vendors of goods from Kuwait, goods of a quality and profusion not seen in Baghdad since before the war, if even then.

Sanctions will hit industry, but Iraq's industries are too small to matter much to that nation's economy. Furthermore, that industry will adjust, finding new foreign technicians and new spare parts' suppliers as well as delaying repairs on existing machinery while cannibalizing unused equipment. To be sure, output will drop, but that will not be the end of the world for Iraq's economy.

Shortages will increase, but Iraqi consumers are used to shortages; they can postpone most purchases or find local

substitutes. The real problem for the Iraqi government will be in maintaining three vital industries, namely the oil refineries, without which Iraq's transport system would come to a halt in weeks; the dozen major electric generating; and the water pumping/filtration stations in Baghdad.

With regard to food, neither the world community nor the United States have the stomach for using the starvation of Iraqi (and Kuwaiti) civilians as a tool of policy. The United States has consistently criticized those regimes who use starvation as a tactic in war, be it in Eritrea, southern Sudan or Cambodia. Given these practical constraints, there is no point in asking whether the United States is capable of starving out Saddam Hussein.

Seeking humanitarian aid would indeed be a last resort for a proud Iraq. Saddam's advisors may urge him to use the issue of humanitarian aid as a political tool with which to split the world alliance against him. He would not, however, want actually to depend on such aid for Iraq's vital food supplies.

Iraq can make do for months without humanitarian food aid. Until the June 1991 harvest, Iraq could survive at the current ration levels, thanks to the existing food stocks and minor smuggling. Thereafter, at least through the end of 1991, Iraq could make do without international food aid.

Iraq has demonstrated that it has a breath-taking potential to increase food output. Three times in the last 25 years (1968, 1972 and 1985), Iraq's cereal output has doubled in one year compared to the next. Saddam knows what has to be done and he is doing it now: increasing prices paid to farmers (40 percent on average for 1990/91), providing inputs at low cost, turning a blind eye to farmers who circumvent the official marketing channels.

If Saddam kept up good economic policies, Iraq could be a rich agricultural country. Ba'athist-ruled Iraq has had one of the three or four worst agricultural records in the world. The problem has been idiotic government policies, designed to keep food cheap in Baghdad at the expense of the farmers.

It is clear already that the prospects for the Iraqi economy are desperate over the next few years. However, neither Saddam, those who might overthrow him, nor the man in the street will necessarily react politically to these prospects so long as the day-to-day situation seems manageable. Psychologically, the sanctions may not stimulate action because the effect on Iraq will be a long, slow decline in which each day seems only marginally different from the day before. There may be no dramatic moments that would move people to action.

The Bush administration assumes that Saddam will seek a compromise when the sanctions start to hurt Iraq's economy. It is not clear that he would abandon his path if economic problems became severe. In the past, Saddam Hussein has usually faced adversity with tactical retreats only, without abandoning his goals. We would need some assurances that he would not lick his wounds, prepare his nuclear missiles, and try again in a few years.

Iraq has rich agricultural land, well-trained manpower, and the world's second-largest oil reserves, after Saudi Arabia. Despite these many advantages, Iraq has remained a poor country compared to its neighbors in the Gulf Cooperation Council. The tragedy of the Iraqi economy is that such a potentially rich nation has been cursed with such a bad government. The Ba'ath party and especially Saddam Hussein have pursued a stupid economic policy and have bled the country to feed their military machine.

Neither Saddam nor his predecessors have been willing to sacrifice the political ideals which they hold sacred for economic gain. Iraq's oil income per capita could have been close to Saudi levels if Iraq had not taken an isolationist and confrontational approach to the oil industry. It would be imprudent to assume that Saddam will change course and suddenly give priority to economics over politics. The historical record suggests that Saddam will not be easily deterred by economic problems. Perhaps sanctions will cause Saddam to seek a compromise, but perhaps not. We should certainly keep our powder dry so that we can have a ready alternative to sanctions.

Patrick Clawson is the editor of Orbis and a resident scholar at the Foreign Policy Research Institute. He was desk

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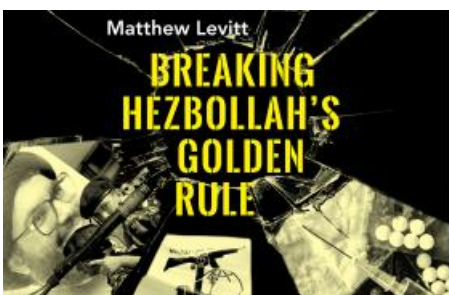
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