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Prospects for Iraqi Economic and Political Reconstruction Are Better Than Anticipated

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On July 30, 2003, the U.S. Institute of Peace held a briefing on Capitol Hill about where things stand in terms of Iraq's reconstruction. This USIPeace Briefing summarizes the remarks of one speaker, Training Program director George Ward, who from February to June 2003 directed U.S. humanitarian operations in Iraq.

In Iraq today, the coalition is in some respects further ahead on reconstruction than many imagined prior to the war. For example:

- The coalition projected that no oil would flow from Iraq's wells for six months or longer. In fact, production and refining never completely stopped, and Iraq is now a net exporter.
- The United Nations and other agencies postulated up to one million refugees and displaced persons. Actual numbers never exceeded a small fraction of that total, and the vast majority of the newly displaced have returned to their homes.
- Widespread hunger, even famine, was foreseen as a possibility. In fact, the food distribution system survived the war almost intact, food imports re-commenced promptly, and regular public ration distribution resumed on June 1. Domestically, a large grain crop has been harvested and is supplementing imports.
- Disease outbreaks, often associated with conflict, were predicted. In fact, the number of cases of cholera so far has been below the level normally seen during the summer season in Iraq.

If these humanitarian nightmares have not become reality, why then is there such a pervasive public impression of disorder, even chaos? Why are Iraqis so vocal in expressing their unhappiness with the coalition's performance?

- First, success in relief and reconstruction is not like that in baseball. A .300 hitter in the humanitarian assistance and reconstruction league is a failure, not a star. The coalition has a batting average much better than that, but has failed markedly to provide the degree of public safety needed for Iraqis to go about their daily lives without fear either of criminal assault or terrorist attack. Although progress in the arena of police and justice is taking place, the pace is much too slow and suffers from the lack of international participation.
- Second, Iraq is a sophisticated urban society with a complex and relatively advanced infrastructure. A nationwide electrical grid tied everything together. When that was disrupted by the war and later suffered extensive sabotage, many other systems, including water and sanitation, were affected.
- Third, Iraq's urbanized population is accustomed to a relatively high standard of living. For the Iraqi middle class, air-conditioning, not just fans; television, not just radio; and cheap, subsidized gasoline compensated in some measure for Saddam Hussein's depredations. Expectations at this level have

not been the norm in other peace and stability operations. The bar has been set quite high for the coalition administration and the new Iraqi authorities.

- Fourth, Iraq's proud history as a birthplace of civilization and the Iraqis' historical sense of dignity and honor mean that some traditional means of distributing relief supplies and services are seen as offensive. Iraqis want to receive food through the Iraqi-government administered nationwide distribution system, not through relief agencies. They want medical care through Iraq's hospital system, which once was excellent, not through foreign field hospitals.
- Fifth, the rule of fear imposed by a brutal government for more than a quarter century has made Iraqis reluctant to take the initiative. Too many talented and capable Iraqis spent weeks "waiting for orders" rather than taking action to repair infrastructure and restore basic services. Likewise, the coalition authority initially suffered from reluctance to appear to be giving orders. The resulting inaction hurt the reconstruction cause.

The challenges of economic and political reconstruction are daunting, but success is well within the capabilities of an Iraqi-coalition partnership. How should the coalition respond? First, there are two general points that need to be emphasized at every opportunity:

- The United States will not cut and run, but will remain engaged in Iraq for as long as it takes to restore basic services, create a stable and representative government, and launch a market economy.
- The United States will not seek to exploit for its own advantage either Iraq's oil resources or its strategic location.

Iraq's economy has long been dominated by inefficient and corrupt state enterprises. The few sizeable private enterprises that existed were very often dependent upon politically based purchasing and investment decisions of the state. Market economics governed, if at all, only at the retail level and in the shadowy gray and black markets. There is no greater challenge for the new Iraqi authorities and the coalition than to jump-start the market economy. This process requires wise lawmaking and investment. There are a few immediate priorities:

- **Develop a mechanism for transferring oil income directly to Iraqi families.**
 - One possibility would be to institute a direct profit-sharing system similar to that used in the state of Alaska. Each Iraqi family would receive a cash share of the proceeds from the oil industry.
 - Some such step is essential to dispel the myth that we fought the war to gain control of oil.
 - Sharing the income would also provide the purchasing power required for transition away from the state-run ration distribution system to a market-based alternative.
- **Strongly encourage the emerging Iraqi government to promote international private investment.**
 - Even under an optimistic scenario, oil revenues available for reconstruction and support of the Iraqi people will not exceed about \$1,000 per capita for a long time.
 - Without substantial outside private investment, even that level will be difficult to reach because of the dilapidated state of the production and refining machinery in the Iraqi oil industry.
 - Current Iraqi law severely restricts foreign private investment. Unless these statutes are liberalized, Iraq will be unable to accept outside investment and will lose the single most important source of capital needed for modernization of its infrastructure.
 - In addition to making these statutory changes, the new Iraqi authorities should leave in place current liberal import and export policies. These policies are fostering the development of small- and medium-sized businesses throughout the country.

- **Persuade Iraq's neighbors and the wider international community that the dawning of a new era in Iraq means that old policies need to be re-thought:**
 - Iraq's creditors should meet soon in order to reschedule Iraq's debt on a liberal basis.
 - Iraq's neighbors should agree to forego at least a large proportion of compensation payments currently due. The benefits that Kuwait and other countries will receive from having a free Iraq as a neighbor far outweigh the value of compensation that they might receive.

In the political field, the coalition authority has made a good start with the appointment of the Iraqi Governing Council and the election of a multi-person presidency. A multitude of political groups and parties has emerged, as has a free media sector. Still, Iraqis from every walk of life are asking for a broader vision that will reassure them that full sovereignty is the coalition's goal. To that end, the coalition authority should commit itself as soon as possible to a rough timetable for the restoration of Iraqi sovereignty. In focusing on the national scene, the coalition should not neglect the task of supporting the development of democracy from the bottom up. In fact, elections for town and city councils should be utilized as proving grounds for democratic practices and can provide the milieu for testing potential national leaders. To effectively foster democracy at the local level, the coalition should:

- Move away from its current regional strategy and establish robust civilian organizations in all of Iraq's 18 provinces, with emphasis on building civil society and developing grass-roots democracy.
- Foster a national dialogue on the future of Iraq. Private and governmental organizations from a wide range of countries could contribute to this process by organizing structured provincial dialogues that would listen to under-represented groups such as women and youth, and help them learn how to build a better future.

Finally, the coalition must avoid at all costs the temptation to sacrifice quality of effort for speed. We must stay the course.

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This USIPeace Briefing was written by [George Ward](#), director of the Institute's [Professional Training Program](#) and former coordinator for Humanitarian Assistance in Iraq, Office of Reconstruction and Humanitarian Affairs, U.S. Department of Defense (February-June 2003). The views expressed here are not necessarily those of the Institute, which does not advocate specific policies.

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