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face a very difficult year. Unfortunately for Iran, even substantial victories in the war may bring new problems as an alarmed West — and possibly the Soviet Union as well — tries to contain the potential threat to the status quo in the region.

Iraq

Red tape cut in economic shake-up

THE year opened dramatically, with a series of sustained Iranian attacks on the southern port city of Basra. Equally dramatic was the domestic upheaval that followed, as the government sought to galvanise the economy through a radical overhaul of financial and administrative structures.

The combined effects of attrition on the war front — one-tenth of the air force was lost in heavy fighting at the start of the year — and the 1986 oil price crash served to deepen the foreign exchange crisis.

The policy of deferring payments continued wherever possible. Rafidain Bank succeeded in rescheduling \$785 million in payments due on two Euroloans raised in 1983 and 1985. However, by mid-1987, official directives stated that projects or purchases should not be initiated on a deferred payments basis.

To exploit more fully the years of investment in industry and agriculture, a series of radical measures was introduced aimed at boosting the quantity and quality of local production. The aim was two-fold — to increase import substitution and to make more goods available for export.

Greater efficiency was emphasised. Laws were passed reorganising ministries and the state companies' structure.

The youth affairs ministry was disbanded, and the agriculture and irrigation ministries merged. All state organisations were abolished, effectively removing an entire layer of bureaucracy. Ministers and directors were encouraged to show more initiative, and incentives were offered to state workers.

Abolition of the labour law effectively ended the distinction between white and blue-collar workers, enabling staff to be transferred from offices to factories, or from company to company.

The privatisation process continued. Inefficient, or loss-making, state factories, farms and companies — including Iraqi Airways — were offered for sale or lease to the private sector. Private businesses

were helped by a decision to ease import restrictions and foreign currency regulations. In addition, the security forces were told not to interfere in economic matters.

The introduction of the economic and administrative programme, initiated by President Saddam Hussain, was reflected in changes at ministerial level. Young technocrats and party officials were brought in to oversee the restructuring at the key ministries of oil, industry, transport and communications, agriculture, interior, trade and finance.

The government became noticeably more optimistic during the year, as non-oil production increased and more export contracts for non-oil goods were signed. At the same time, the oil price started to rise and firm.

The second oil export pipeline across Turkey opened in August, bringing export capacity to the Mediterranean and across Saudi Arabia to the Red Sea to 2 million barrels a day (b/d). Three months later, Oil Minister Issam Abdel-Rahim al-Chalabi announced that production had risen to 2.75 million b/d.

The 250,000-b/d Baiji tube oil refinery also started up, enabling the country to become self-sufficient in lubricants with a surplus available for export.

Iraq continues to export at levels well above its OPEC quota, but has stated that it is prepared to abide by the organisation's allocations if it is given parity with Iran.

Income from oil exports in the year was projected to reach \$11,000 million, almost double 1986 revenue. Prospects were enhanced by the September award of a long-awaited contract to build IPSA 2 — the second stage of the pipeline across Saudi Arabia — to a consortium of international companies led by Italy's Saipem. By late 1989, Iraq will be able to export a further 1.2 million b/d, bringing total export capacity close to the pre-war level of 3.2 million b/d.

The IPSA 2 award moved other projects up the priority scale. The proposed fifth fertiliser scheme probably tops the list now, although new refinery and pipeline schemes rank high. Electricity generation and transmission, and water treatment remain important.

Future project work is likely to be affected by the new economic guidelines. There will probably be fewer turnkey invitations to international companies. Overseas firms are likely to be confined to bidding for equipment supply packages, leaving as much work as possible to local entities.

Finance is still a problem, however. Contractors in many of the main trading partners, particularly France, West Germany, Italy and Japan, are

GOVERNMENT OF IRAQ

Head of State, Prime Minister and Chairman of Revolution Command Council (RCC) Saddam Hussain
RCC Vice-Chairman Izzat Ibrahim
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Deputy Premier, Foreign Affairs Tariq Aziz
Deputy Premier, Defence Adnan Khairallah
Culture & Information Latif Nasif al-Jassem
Interior, Higher Education & Scientific Research (acting) Samir Mohammad Abdel-Wahab
Trade Mohammad Mehdi Saleh
Finance Hikmat Omar Mekhailef
Justice Munzer Ibrahim
Housing & Construction Mohammad Fadel
Agriculture & Irrigation Karim Hassan Redha
Oil Issam Abdel-Rahim al-Chalabi
Heavy Industries Abdel-Tawab Abdullah Mullah Huwais
Industry Hatem Abdul-Rasheed
Planning Samal Majid Faraj
Health Sadiq Hamid Alloush
Local Government Adnan Daoud Salman
Education Abdel-Kadir Izzadin
Labour & Social Affairs Bakr Mahmoud Rasoul
Transport & Communications Mohammad Hamza al-Zubaidi
Awqaf (religious endowments) Abdullah Fadel Abbas
Minister of State for Military Affairs General Abdel-Jabbar Khalil al-Shanshal
Head of the Presidential Diwan Ahmad Hussain
Speaker of the National Assembly Saadoun Hammadi

constrained by lack of export finance or guarantees.

Baghdad received a boost in September, with the UK's agreement to continue to make export credit available. The £175 million (\$306 million) credit line is to back exports in 1988.

The Soviet Union continued to finance projects in oil, power and agriculture. Other Eastern bloc countries, Austria and India also provided credit or government support for suppliers and contractors.

Washington, too, continued to provide large amounts of credit for agricultural goods. It agreed \$916 million worth of credits for agricultural purchases in 1988.

The Export-Import Bank of the US resumed short-term export cover in July, and an economic and commercial co-operation accord was signed in Washington the following month. This came despite an incident in May, when Iraqi aircraft attacked the frigate USS Stark in mid-Gulf.

The improvement in ties with the US was followed by a slight chill in relations with the Soviet Union. Nevertheless, Moscow continued to supply economic aid and helped to re-equip the air force.

Diplomatic relations with Libya were restored in October. They were renewed with Egypt after the Amman Arab summit conference in November.

Saddam Hussain's decision to accept the terms of UN resolution 598, passed on 20 July, received

official Arab backing in Amman, where the conference decided to support the resolution as it stood.

However, the Gulf war, now in its eighth year, seems likely to drag on. Any key Iranian offensive will probably again be directed at Basra in the early months of 1988. The Iraqi air force will continue to attack economic installations in Iran, and oil export facilities and shipping in the Gulf. Iran, for its part, will keep on directing retaliatory missiles at the capital, Baghdad.

Jordan

Diplomatic moves lift economic prospects

THE early-November emergency Arab summit in Amman focused attention on the importance of Gulf security to Jordan's economic prospects. It also returned King Hussain to centre stage in regional politics: he laid much of the groundwork for the meeting, and was rewarded with the Dag Hammarskjold Academy peace prize.

Iraq and Syria, among the most bitter rivals in the Arab world, were persuaded to attend the Amman talks and then to compromise over some of their differences regarding the Iran-Iraq war. The two countries, which border Jordan, are seen