# Iraq: Eximbank the key to US relations

IRAQ'S relations with the US are at a crossroads. There is strong political pressure on The Export-Import Bank of the US (Eximbank) to resume financing for US industrial exports to Iraq. At the same time, there are compelling reasons for the Reagan administration to change its policy towards the Gulf war.

Eximbank had intended to announce in late May the resumption of limited cover for Iraq. Around $200 million in export finance was to be made available, but cover would be restricted to no more than one year. The bank would give approval in principle to US exporters seeking finance, but it would be left to the Iraqis to decide which of a cluster of proposals passed from Eximbank to Baghdad should get priority approval.

The 17 May Iraqi air attack on the USS Stark forced the announcement to be postponed, and no fresh date has been agreed for cover to resume. Eximbank had been reluctant to resume cover in the first place; the original decision was taken only after lobbying by a trio of US officials, National Security Adviser Frank Carlucci, Assistant Secretary of State Richard Murphy and Undersecretary of State Michael Armacost.

The three argued that long-term political considerations demanded the US should win a greater share of the Iraqi market, bearing in mind Baghdad's statements that it would not forget those who stood by it during the war. Since the Stark incident, short-term considerations have prevailed. The Reagan administration is now trying to devise a policy towards the Gulf that will not result in another precipitate withdrawal of American forces, such as ended the US intervention in Lebanon.

## Even-handed

When plans were first drawn up for the US to reflag Kuwaiti tankers, the aim was to promote Iraqi, as well as Kuwaiti interests by ensuring the safe passage of merchant vessels to Kuwait. However, this line appears to be changing — worries about possible clashes in the Gulf are forcing a reappraisal. The US is now studying the advantages of adopting a more even-handed approach: an end to all attacks on Gulf shipping — Iraqi as well as Iranian — as part of international efforts to end the war, or at least to limit its international impact.

This calls for pressure to be applied to Baghdad, as well as Tehran — and export credits provide a useful incentive. If Iraq is to obtain a resumption of Eximbank guarantees in the post-Stark era, it may have to agree to a ceasefire in the tanker war.

Yet Washington still prefers to deal with Baghdad rather than Tehran. There is a widespread feeling that the US and Iraq share long-term interests in Gulf stability, based essentially on maintaining the status quo and resisting revolutionary change of the kind favoured by Iran.

Such views were put forcefully by Nizar Hamdoun, Iraq's retiring ambassador in Washington, and former National Security Council Middle East specialist Geoffrey Kemp at a recent closed-door seminar in the US capital organised by the US-Iraq Business Forum. They were shared by officials from both the Reagan administration and congress — and not least by many of the business people on whose behalf the meeting was held.

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Iraq's ability to pay for imports was emphasised by two speakers. Petroleum Finance Company's Vahan Zanoyan argued that, on the non-military side, Iraq's current account should be in balance in 1987, following a $3,500 million deficit in 1986, as a result of a projected 60 per cent increase in merchandise exports. Moreover, he added: "If oil prices remain in the $17-18 a barrel range, Iraq will be in a position to increase merchandise imports by about 10 per cent a year during the next few years, without undergoing a current account deficit."

## Rising oil revenue

Zanoyan forecast that Iraq's 1987 oil revenues will amount to around $10,900 million, against an estimated $6,813 million in 1986. Assuming oil prices hold steady, revenues are projected to reach around $12,200 million in 1988 and $13,700 million in 1989.

Looking further ahead, one Arab banker prominent in the US emphasised his belief that, in the early 1990s, Iraq is likely to enjoy oil revenues of around $20,000 million a year, putting it back on course to achieving its goal of becoming a fully developed country. Iraq's oil reserves, he argued, have been grossly underestimated.

"The Iraqi oil reserves total about 100,000 million barrels, second only to Saudi Arabia. And it should be pointed out that one-half of 1 per cent of the total Iraqi landscape has been prospected for oil. That means 99.5 per cent of the land remains virgin."

The banker was careful to distinguish between today's Iraq — a debtor country suffering from stalled development programmes — and the Iraq of the 1990s, with its great potential. "Iraq, with a population that is twice as big as Saudi Arabia, could be a $20,000 million market once the war ends. And the US share of that market would amount to approximately $4,000 million a year. Iraq sees the US as a major supplier of high-tech goods and services, foods, consumer goods and other items." Agribusiness and computers offer particularly good prospects for US exporters.

But it is the oil sector the banker finds most intriguing. Representatives of at least 10 US oil and petrochemicals companies heard him talk of the most tantalising possibility of all — joint ventures between the Iraqi government and major western companies. "At present, investment is banned, except by other Arab countries." However, at a recent meeting in Baghdad, one senior US executive raised the possibility of joint ventures with a government representative. He was told that regulations prohibiting joint ventures "do not really apply in cases where a joint venture can be used to develop the resources of the country."

## Joint ventures

No such announcement has been made publicly by the Iraqi government. Nor is one likely to be made. If joint ventures do go ahead, they are likely to be few and far between, and may not formally be termed such. What interested the US oil representatives was a feeling that the atmosphere in Baghdad has changed — that there is real opportunity for work in Iraq.

The banker was emphatic that this is the case. "I believe the oil sector in Iraq after the war will expand dramatically. My feeling is that, once the war is over, Iraq will have to export at least 3 million barrels a day (b/d). They may go as high as 4 million b/d. The process of rebuilding is going to be a major one, and Iraq has no choice but to export at least 3 million or 3.5 million b/d. So the Iraqi

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*National Security Adviser Frank Carlucci — lobbied Eximbank to resume cover*

oil sector would need to be expanded. Exploration equipment and service companies would benefit." This does not mean Iraq is going to grant concessions to foreign oil companies, the banker noted.

If the meeting had a single point, it was that the congruence of interests between Iraq and the US is not something short term, but a political and economic shift that will survive the Gulf war. On the political side, Iraq favours stability and it is no coincidence that its allies in the region — Egypt, Saudi Arabia and Jordan — are also those Arab countries with which the US has the closest ties. In the economic sphere, it is to the US and the West that Iraq will turn for the goods and services needed to rebuild a war-ravaged economy.

The prize held out to the US business people attending the seminar is one worth waiting for. But they would feel much happier about their chances of securing that prize if they could do a little business now — and to do that, they need export credits.

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reversal in the recession, which began more than two years ago.

General expenditure is to grow by almost the same amount as revenue, but the total disguises wide variations between the budget's different sections. The government wages bill goes up by more than 10 per cent. As civil service recruitment is now strictly controlled, and inflation is running at little more than 1 per cent, this suggests a significant improvement in the standard of living of government employees, who account for about two-thirds of the labour force. This in turn should help recovery in the domestic retail and wholesale trades.

Spending on construction goes up by 3.5 per cent, against the 5 per cent expected by some analysts. For the second year running, no addition has been provided to the capital of Kuwait Fund for Arab Economic Development.

The nominal budget deficit goes up by 3.4 per cent to KD 1,376.5 million ($4,870 million). The strictly defined deficit – excluding the 10 per cent of revenue transferred to the Reserve Fund for Future Generations – goes up by a similar amount, to KD 1,178.6 million ($4,170 million).

However, as Central Bank of Kuwait governor Shaikh Salem Abdul-Aziz S al-Sabah points out: "This is an accounting deficit rather than a real one. When investment income is included in the public revenues, the budget will show a surplus. So the deficit itself is of no great concern, and doesn't significantly affect our fiscal policy objectives."

Figures provided by Shaikh Salem show that investment income rose sharply – by 57.2 per cent – in calendar 1986, to reach KD 2,180 million ($7,715 million). This was well above the estimated $5,500 million provided by oil revenues.

## World Bank bond issue

The ***National Bank of Kuwait (NBK)*** is to arrange and lead manage a KD 30 million ($106.2 million) bond issue on behalf of the World Bank. It follows a KD 20 million ($70.8 million) issue for the Republic of Finland in May – the first for a non-Kuwaiti borrower since 1982 (MEED 16:5:87).

The seven-year bonds, issued at par, carry a coupon of 7½ per cent, representing an attractive funding cost. This pricing for the World Bank, which has previously used private placements to borrow in the Kuwaiti dinar capital market, is about 100 basis points cheaper than comparable issues on the Eurodollar market.

The issue surpasses the previous record set by the Finland borrowing and is the culmination of a four-year marketing drive. NBK beat ***Kuwait Investment Company (KIC),*** which has arranged previous World Bank issues, to the deal. All the main Kuwaiti financial institutions are expected to take part. Signing is set for London on 10 July.

"We are working closely with the monetary authorities to develop mechanisms for a sound, stable and sustained capital market in Kuwait. In this effort, we have enjoyed consistent support from the central bank, which must approve all KD issues," NBK says.

Acknowledging that there is a limit to the number of issues, the bank added: "We place particular emphasis on ensuring that the steady evolution of the capital markets does not impact adversely on liquidity in the domestic money market; development must proceed in a most careful fashion balancing fundamental investment demand with a very select number of top-quality issues."

Private banking and retail branch demand absorbed around 60 per cent of the Finland issue; NBK placed a total of 80 per cent. The bank has a 50-branch network, and believes its retail and private banking clients will also be attracted to the World Bank issue. NBK markets units as small as KD 20,000 ($70,800); it gets a large number of subscriptions ranging up to KD 100,000 ($354,000).

The World Bank support is seen as a positive signal for Kuwait, given recent market volatility, tight liquidity and the tense political climate in the Gulf.

## Brown Boveri to supply radio transmitters

An Information Ministry radio station in Kabd is to be extended and upgraded by Swiss and West German companies. A KD 3.9 million ($13.9 million) contract to supply and install two 500-kW shortwave transmitters was signed in Kuwait on 29 June with a consortium of Switzerland's ***BBC Brown Boveri & Company*** and its West German affiliate, ***Brown Boveri & Compagnie.***

The contract is in four parts:

☐ supply of the transmitters by the Swiss firm

☐ modification of the matrix switching mechanism

☐ modification and updating of the existing curtain antenna

☐ supply of new turntable and curtain antenna by the German company.

Supply and installation work will take 18 months. There is also a 12-month operation and maintenance period.

## Road contract boosts local order book

A contract to build roads in Abdally brings to more than $30 million the value of orders won by the local ***United Gulf Construction Company*** since January. The company's order book is now worth $100 million-plus.

The latest order — Ministry of Public Works (MPW) contract RA/158 — is for 22