

Export and Investment Promotion Planning System

88/89 Trade and Economic Overview

Mission: 346 BAGHDAD

Country: 305 IRAQ

ALTHOUGH IRAQ CONTINUES TO WAGE THE SEVEN YEAR WAR WITH IRAN, ECONOMIC CONDITIONS IN IRAQ HAVE SHOWN A CONSIDERABLE IMPROVEMENT IN THE PAST YEAR, AND THE PROSPECTS FOR ADD'L RECOVERY & GROWTH APPEAR MUCH BETTER THAN IN '86. HOWEVER, THE MODEST RECOVERY EXPERIENCED BY THE IRAQI ECONOMY HAS NOT YET FULLY BEEN FELT IN THE TRADE SECTOR. IRAQ'S MAIN SOURCE OF FOREIGN REVENUE IS ITS EXPORT OF CRUDE PETROLEUM AND PRODS. IN '87 IRAQ HAS BEEN ABLE TO INCREASE ITS PROD'N CAPACITY BY WELL OVER 1 MN BARRELS PER DAY. CURRENTLY, IRAQ IS PRODUCING AT LEAST 2.7 MN BARRELS PER DAY OF WHICH ONLY 400,000 BARRELS PER DAY ARE CONSUMED LOCALLY. THIS INCREASE IN PROD'N COMBINED WITH A FIRING OF THE PRICE OF OIL TO AROUND US\$ 18 PER BARRELL HAS SIGNIFICANTLY IMPROVED IRAQ'S FOREIGN EXCHANGE EARNINGS. IN ADD'N TO INCREASED FOREIGN EXCHANGE EARNINGS, IRAQ HAS EFFECTIVELY REDUCED IMPORTS TO A LEVEL OF BETWEEN US\$7 TO 8 BN. THIS CONTRASTS WITH IRAQI IMPORTS OF OVER \$20 BN IN '81. DOMESTIC INFLATION COMBINED WITH A SCARCITY OF IMPORTED GOODS HAS DRASTICALLY AFFECTED THE STANDARD OF LIVING IN IRAQ, YET THROUGH A REDUCTION OF IMPORTS, IRAQ HAS BEEN ABLE TO IMPROVE ITS CURRENT ACCOUNT POSITION TO THE POINT WHERE IT MAY BE BALANCED BY EARLY '88. DURING '87 IRAQ HAS IMPROVED ITS PAYMENTS RECORDS. THIS HAS BEEN DONE IN A NUMBER OF AD HOC AND FORMAL WAYS. RESCHEDULING AGREEMENTS HAVE BEEN REACHED WITH MOST OF IRAQ'S MAJOR CREDITORS INCLUDING FRANCE AND ITALY. SMALLER AMOUNTS OWED ON UNPAID L/CS AND VARIOUS FINAL PAYMENTS OUTSTANDING FM CIVIL CONSTRUCTION & CAPITAL PROJECTS IN THE EARLY PART OF THE WAR HAVE BEEN SYSTEMATICALLY RESCHEDULED & CONSIDERABLE AMOUNTS HAVE BEEN PAID TO MANY COUNTRIES INCLUDING CDA. DESPITE THE MARGINAL IMPROVEMENT IN IRAQ'S RECORD, GIVEN THAT THE CONSIDERABLE GROSS NATIONAL DEBT IS STILL IN EXCESS OF US\$55 BN, IT IS NOT LIKELY THAT IRAQ WILL QUICKLY EMERGE FROM ITS DIFFICULTIES EXPERIENCED DURING THE CONDUCT OF THE WAR. AS AN EXAMPLE OF THIS, IRAQ CONTINUES TO INSIST ON DEFERRED TERMS FINANCING OF AT LEAST TWO YEARS. FOR PROJECT WORK, TERMS OF BETWEEN 5-10 YEARS ARE THE NORM. IT IS HOWEVER SIGNIFICANT THAT IRAQ HAS BEEN ABLE TO ATTRACT NEW CREDIT FROM MAJOR SUPPLIERS, THE MOST NOTABLE OF WHICH IS THE U.S. AT THE END OF '87, THE U.S. HAS ANNOUNCED APPROX. US\$940 MN WORTH OF CREDIT FOR SALES OF US AGRICULTURAL FOOD AND INDUSTRIAL COMMODITIES TO IRAQ. THIS CREDIT WAS MADE AVAILABLE IN PART AS A RECOGNITION OF IRAQ'S IMPROVED ECONOMIC PERFORMANCE. FOR CDA, '88 MAY PROVIDE UNIQUE OPPORTUNITIES. SOME FORM OF CANADIAN GOVERNMENT FINANCING WILL BE NECESSARY IN ORDER TO SECURE A SIGNIFICANT MARKET POSITION FOR CANADIAN EXPORTERS IN SECTORS OF LONG-TERM INTEREST TO CANADA E.G.: AUTOMOTIVE, TELECOMMUNICATIONS, OIL AND GAS EQUIPMENT, AND SERVICES.