

In March 2003, a U.S.-led force invaded Iraq with the explicit aim of toppling the regime of Saddam Hussein. The rationale for the operation was that regime change provided the only sure means of disarming Iraq of its weapons of mass destruction (WMD). At the same time, the U.S. administration argued that the construction of a stable and democratic Iraq would promote reform and, hence, security in the wider Middle East. Having failed to secure support from the French, Chinese, and Russian governments, all veto-wielding members of the UN Security Council, for a second UNSCR explicitly authorizing the use of “all necessary means,” the U.S. and British governments claimed authority for the operation under UNSCR 1441, the latest in a long line of resolutions calling for Iraqi disarmament.

A number of U.S. allies provided diplomatic support for the operation, notably the United Kingdom, Spain, Japan, and Australia. U.S. allies in the region, including Jordan and Saudi Arabia, expressed their behind-the-scenes support once they were convinced of the U.S. government’s determination to “finish the job” but remained cautious in their public statements. Key U.S. allies, such as Turkey, France, and Germany, opposed the operation. After a long process of bargaining and internal political strife, Turkey eventually permitted U.S. overflights, as did France and Germany, and the resupply of U.S. ground forces in northern Iraq. But Turkey did not permit U.S. or British ground troops to use its territory to invade Iraq.

The deadlock at the UN and opposition from key allies reinforced the U.S. administration’s desire to retain control of both military operations and postconflict planning. Therefore, even as combat ended, it was unclear to the international community whether the United

States saw a major role for the UN or for any but a limited number of U.S. allies in postwar reconstruction or political transformation.

As of this writing, the final shape of a postconflict settlement is still evolving. Nonetheless, the general outlines of the postwar situation are clear. U.S. forces are stationed in Iraq, undertaking both pacification and constabulary duties. Military assistance will be provided by an initially limited number of allies in a "coalition of the willing,"¹ operating under a U.S. military command. The Coalition Provisional Authority (CPA) has transitional responsibility for immediate reconstruction, reconstitution of the civil administration, and establishing an Iraqi transitional authority. The UN will have a role in advising on political transformation, but UN efforts will focus largely on providing humanitarian services and technical assistance through UN agencies.

CHALLENGES

Not since the occupation of Germany and Japan has the United States undertaken such an ambitious task: the military occupation of a sizable country and a stated commitment to wholesale political transformation. Bosnia and Kosovo are the most comparable in terms of ambition, but both are smaller entities and are in more-conducive strategic environments, and the interventions enjoyed more international support. As in Bosnia and Kosovo, there is no consensus on the nature of the Iraqi nation; Iraq has a deeply fractured polity, with entrenched sectarian and ethnic divides. Unlike the Balkans, Iraq is in an unstable and undemocratic region and is surrounded by neighbors who will be unsympathetic to democratization. Hence, Iraq combines many of the most troublesome features of the other cases analyzed in this report.

The challenges that the United States faces in Iraq can be grouped into those that are specific to Iraq, those that are common to societies emerging from totalitarian rule, and those that result from the postwar international environment.

¹The United Kingdom and Poland have agreed to administer two of the zones into which the United States has divided Iraq for administrative purposes.

Some of Iraq's troubles mirror those in the Balkans, such as unresolved questions over national as opposed to communitarian identities. In Iraq's case, the political structures the British created after World War I did nothing to resolve these questions. Instead, Iraq was left with no tradition of pluralist democracy. Instead, politics have always been about authoritarian rule and the settlement of disputes by force. Although a sense of Iraqi national identity does exist, this does not override communal forms of identity along ethnic, geographic, tribal, or religious boundaries. The majority of the population, the Kurds and Shiites, have no real tradition of representation as communities in national Iraqi politics; they will now have to be brought into the polity. More generally, the vibrant Iraqi middle class that emerged in the middle of the 20th century and that provided the basis for a civil society has been hollowed out by over a decade of sanctions and two decades of turmoil under Saddam Hussein's dictatorship. In addition to these long-standing political problems, organized crime and banditry are now deeply rooted.

In addition to these particular Iraqi problems, the country faces the familiar challenges of a society emerging from a long period of totalitarian rule. The military, security services, and bureaucracy need to be radically reformed and purged. Justice needs to be achieved for victims of human rights abuses. The economy needs a major overhaul to make it competitive in global markets.

Any attempt to achieve transformation in Iraq would have had to face these challenges. Because of the diplomatic circumstances of the conflict, the United States has to cope with unsympathetic neighbors—Iran, Syria, and Turkey. All have an interest in shaping Iraqi politics and perhaps in destabilizing a smooth transition. The United States also needs to make sure that events in the wider region, such as in the Israeli-Palestinian conflict, do not undermine its credibility and position in Iraq. At the international level, the prewar splits in the UN Security Council make it much harder for the United States to adopt the burden-sharing models in Bosnia, Haiti, Kosovo, and Afghanistan. At the same time, the United States was unable to undertake prewar preparations that would have eased postwar transition, such as coordinating humanitarian relief with the UN and NGOs, organizing international civil police forces, and establishing an international political authority to rebut Arab suspicions of U.S. imperialism.

Nonetheless, Iraq does have some advantages for nation-builders. First, it has a nationwide civil administration that is relatively efficient. This administration needs to be rebuilt but not reconstructed from scratch. This administration, staffed mainly by Iraqis, will reduce the need for direct international intervention and will facilitate security and development across the country. Second, the civil administration and the extensive links with UN agencies mean that the humanitarian issues should be soluble. Third, Iraq's oil means that the country will not remain dependent on international aid in the medium term.

Meeting the Challenges

The postwar challenges—security, humanitarian assistance, creating a civil administration, political transition, and economic reform—can be considered in the short, medium, and long terms. In the short term, U.S. military preponderance is likely to ensure security from large-scale violence, but rapid action will be needed to reestablish law and order and to replace discredited Iraqi policing, internal security, and judicial structures. There will be a need to deal decisively with retributive violence and political power struggles that become violent. A functioning civil administration can rapidly be reconstituted based on the current administrative setup, once it is given an injection of external financial and technical aid. The United States, the UN, and NGOs will have to devote considerable effort to humanitarian assistance. Immediate economic efforts will focus on resuscitating the oil industry to generate export revenues.

In the medium term, all these issues, aside from the humanitarian one, become more challenging. Wide-scale conflict is unlikely if the United States manages to engineer a political agreement that meets the demands of the major armed groups in Iraq and forestalls overt Iranian or Turkish military intervention. However, there will be an ongoing struggle for influence within Iraq that will engage Iraq's neighbors, either overtly or covertly. Given the lack of experience in the country with resolving political differences peacefully and the proliferation of weapons and armed groups, it is likely that the protagonists in this struggle will use violence. Against this backdrop, it will be a priority to reform Iraq's police, military, and security services to allow U.S. and allied forces to stand back from constabulary and internal security duties.

Building a stable and lasting civil administration in the medium term will require a substantial overhaul of personnel systems, including purging senior Baathists and a careful integration of expatriate returnees. The long-term evolution of these administrative structures into real centers of power, free of the “shadow state,” will be more difficult.² The United States will have to neutralize the informal networks of power that underlie and subvert the formal bureaucratic structures. Substantial reform of key sectors, such as education and health care, will also be vital.

Building the political superstructure will be a medium- to long-term challenge, since the development of the Iraqi nation has been stunted and since it is very difficult to foresee the nature of political dynamics in post-Saddam Iraq. A pluralist electoral process, perhaps starting from the bottom up, may be feasible, but there will be difficult balances to be struck between democratic legitimacy and accommodating current centers of power. It will be important to balance communitarian politics and identity with a commonly acknowledged national identity. Determining the polity’s constitutional end-state will be vital but fraught with difficulties.

The Iraqi economy has potential for high economic growth, if its human capital can be harnessed, its oil sector modernized, and conditions created for sustained growth. This will require not only substantial investment but also deep structural reform of the legal and financial systems.

Security

Politics in Iraq have historically been bloody. One type of violence has been that between the regime and organized groups that resist authority. Another has been violence to effect regime change, with which Iraq has a long history. Iraq’s coups and revolutions since the 1950s have been significantly bloodier than those of its Arab neighbors.³

²Charles Tripp, “After Saddam,” *Survival*, Vol. 44, No. 4, Winter 2002–2003, pp. 23–37.

³As Charles Tripp has noted, “the use of violence in political life has . . . been an important part of Iraqi history” (*A History of Iraq*, 2nd ed., Cambridge, UK: Cambridge University Press, 2001, p. 7).

Compared to other cases, such as Kosovo, Somalia, and Afghanistan, Iraq benefits from having a strong state capable of imposing order on society. Aside from the Kurdish autonomous zone, the central government controlled a nationwide internal security, policing, and judicial apparatus, backed up by strong military forces. In the medium term, there is no reason that this apparatus cannot be used to ensure a secure environment for the Iraqi populace and for the new regime. In the short term, however, the United States faces significant challenges in establishing a secure environment. These can be grouped into four categories: expressive violence, instrumental violence, force and regime protection, and law and disorder.

In dealing with these threats, the United States will have to take prompt action to restructure Iraq's military and security forces so that these can be deployed for national defense, internal security, and constabulary duties. However, removing senior Baathists and serious human rights violators from the officer corps of the Republican Guard and armed forces, security services, and police forces and demobilization of personnel will have to be systematic and politically sensitive.

Expressive Violence. The term "expressive violence" indicates that the perpetrators are unlikely to have realistic political objectives, and yet their violence goes beyond simple criminality. The United States is likely to face two types of expressive violence: regime holdouts and score-settling.

First are the regime holdouts. Despite the rapid and comprehensive military defeat of the regime's special military forces, there will be some capacity for regime loyalists to go underground and wage armed resistance against the occupation forces.⁴ A long tradition of conspiratorial politics involving the military, widespread ownership of small arms, and a political-tribal culture of settling scores by violence means that episodic, guerrilla-style violence by those groups and individuals disenfranchised by the new status quo are likely. The regime's encouragement of suicide attacks in its dying days provided evidence of a planning for underground guerrilla-style operations.

⁴Perry Biddiscombe, *The Last Nazis*, Stroud, UK: Tempus Publishing, 2000

Second, score-settling is taking place and is likely to continue for some time. On previous occasions when the former regime lost control of the streets, such as during the 1991 *intifada* in the south or the Kurdish campaign in the north, large numbers of individuals associated with the regime or with the security forces were killed. Senior members of the Saddam regime are likely to be particularly in danger of retribution. Prominent families and tribes who have lost relatives will exact revenge on officials of the former regime and the *Ahl al-Thiqa* (people of trust), when they can be found.⁵

More generally, score-settling may involve two much broader groups. First, Iraqis are likely to take revenge on the legion of petty Baathist officials, secret policemen, and informers recruited by the security services throughout Iraqi society. The secret police informer network is reputed to have been as pervasive as the Ministerium für Staatssicherheit network in the former German Democratic Republic. Revenge killings began to take place soon after U.S. and British forces occupied the first towns. Second, many Iraqi citizens are likely to settle scores with the wider group of individuals who have benefited from the regime. For instance, the regime expelled thousands of Shiites to Iran in the early 1980s; their property and livelihoods were taken over by poor Iraqis, often of rural origin. In the north, the regime displaced thousands of Kurds in favor of Arab settlers. Kurdish property owners have already begun to reclaim their properties. If not properly regulated, such disputes are likely to turn violent.⁶

Instrumental Violence. It will not be surprising if organized substate groups or neighboring states actively promote their political, territorial, or strategic interests in part through violence. Such actors as the Turkish armed forces or, more likely in the face of the overwhelming U.S. military presence, any of the myriad proxy groups in the region might undertake such violence. Two categories of actors may use such “instrumental” violence because it has a political purpose: Iraqi substate groups and foreign states. In addition to the organized use of political violence for instrumental ends, violence between religious and ethnic groups (e.g., between Sunni and Shiite, between

⁵These comprise the “families, clans, long-standing associates and opportunists who have attached themselves to the regime” (Tripp, 2002–2003).

⁶Gareth Smyth, “US Will Oversee Return of Displaced Kurds,” *Financial Times*, April 24, 2003.

rival Shiite groups, between Muslims and Christians or Assyrians) could well break out. At a low level, this can be treated as “simple” disorder; it would become a serious security threat if political and paramilitary movements orchestrated such violence for political ends.

Iraqi Groups. Depending on the success that the United States has in brokering an acceptable power-sharing arrangement between opposition groups, several groups with a claim to a share of power in Iraq have the military capability to make a power grab.

First, Shiite radical groups, including the Supreme Council for the Islamic Revolution in Iraq (SCIRI), al-Daawa, and loyalists of Muqtada al-Sadr may not have the wholehearted allegiance of a majority of the Iraqi Shiite population, but they appear to have extensive support networks in the country and the capability to mobilize lightly armed fighters and crowds. Their actions will depend in part on guidance from Tehran, but these groups could use violence to assert their authority and exploit popular feelings of insecurity to enhance their political position. In addition, the removal of the regime has allowed rivalries to surface within the Shiite political and religious hierarchy, the *hawza*.⁷ Individuals close to the Sadr movement are already employing violence; some of these people were allegedly behind the killing of Abd al-Majid Khoei in Najaf. In general, leaders of Shiite radical activist groups are likely to exploit the anti-American sentiments that are likely to arise because of the U.S. occupation of the land in which the Shiite holy places, Najaf and Kerbala, are located.

Second, the capabilities of Kurdish groups, notably the Patriotic Union of Kurdistan (PUK) and the Kurdish Democratic Party (KDP), have been reinforced by the seizure of heavy weaponry from Iraqi army units. These parties might thus be tempted to use force in any of four ways:

- to make economic gains by seizing strategic territory or extending their control over oil assets or transportation facilities

⁷*Hawza al-ilmīyya'* [realm of knowledge].

- to resist future Turkish attempts to extend its military presence in northern Iraq and to consolidate a “buffer zone” inside Iraqi Kurdistan
- to improve their bargaining position or to make local geopolitical gains in northern Iraq, either against one another or against other groups, such as Arab nationalists or Turkomans
- to recover Kurdish property “Arabized” by the Saddam regime.

Third, other significant internal groups with access to arms include smaller movements with an “official” political or opposition status, such as the Turkoman parties, the Iraqi National Accord, or the Iraqi National Congress, and the wider set of “unofficial” regional “barons” who are exploiting the power vacuum to exercise local authority. Other, more disparate, internal groups could include military units and tribes with strong military links. These groups may use the cover of the conflict to stake out territorial or political bargaining positions. Any of these groups could seek to strengthen its postwar bargaining position over resources or a role in the new state through military action. All these groups are possible proxies for foreign powers.

Foreign Intervention. A period of weakness following the fall of the regime may tempt Iraq’s neighbors—Turkey, Iran, and Syria—to intervene. Turkey’s principal motive for intervention is to prevent Turkey’s Kurdish insurgents, primarily the Kurdistan Workers Party, from using the conflict as an opportunity to consolidate their rear areas. Turkey fears that Iraqi Kurdish groups might funnel arms or other support to Turkish Kurds and that an extension of Kurdish influence in Iraq might embolden Turkey’s Kurds to seek autonomy or independence. Turkey has both historic and economic motives for attempting to extend its influence over the northern oil fields and trade routes, but the U.S. statement that Iraq’s oil belongs to the Iraqi people has probably served to dissuade any Turkish adventurism. Turkey has made clear its desire to promote the interests of Iraqi Turkomans, ostensibly out of concern for their fate. In reality, Turkey’s intent is to exercise influence over the shape of the Iraqi polity through the Turkoman minority. This support could potentially spill over into support for Turkoman militias.⁸

⁸Such as the Turkoman Front, led by Mustafa Ziya.

Iran appears to have little interest at present in promoting wholesale Islamic revolution in Iraq, but it has extensive influence through its covert and paramilitary presence on the ground in the south and north of Iraq. The Iran-Iraq War taught Tehran that the majority of Iraq's Shiites were Iraqi nationalists first and coreligionists second. However, Iran retains a vital interest in influencing the future of Iraqi politics and security policy. More generally, it will remain intimately engaged in security, political, religious, and cultural developments in the Shiite religious heartland of southern Iraq.

In addition to normal diplomatic and economic measures, this influence is exercised through covert action, psychological appeals along religious lines, and infiltration of paramilitary forces and supplies (e.g., the Badr Brigade). While Iran will be wary of provoking U.S. retaliation, it will support elements favorable to it in the Iraqi polity and seek to weaken elements deemed hostile. Although reports are unclear, U.S. officials have expressed concern about the infiltration of Iranian agents into southern Iraq. If the Mujahideen-i Khalq Organization continues to operate from Iraqi territory into Iran after its cease-fire with U.S. forces, Iran will have an additional motive for intervening forcibly inside Iraq.⁹

Finally, Syria will suffer economically from the emergence of a new Iraqi regime, which will reduce Syrian gains from the illicit trade in oil and supplies that flourished in the last years of sanctions. More importantly, Syria will be worried that a new Iraqi government may support peace with Israel at the expense of Syrian strategic interests and may demonstrate the benefits of economic liberalization and political pluralism to Syria's populace. For all these reasons, Syria will be tempted to exploit its ties with Iraqi leftists, Arab nationalists, and Baathists, notably in the Iraqi military, to destabilize the new Iraqi regime. Nonetheless, Syria will be wary of provoking a U.S. response or fomenting serious unrest in Iraq that may spill over into Syria.

Force and Regime Protection. Physical threats to the U.S. and allied forces and the new Iraqi administration will come from three sources. First, expressive violence may threaten U.S. forces either from regime diehards or from elements of the Iraqi population if the

⁹*Middle East Online*, "US Strikes Accord with People's Mujahedeen," April 23, 2003.

U.S. presence is seen as a heavy-handed occupying force. Given the lack of reliable information about attitudes among the Iraqi population, it is impossible to reliably judge the medium-term attitudes of Iraqis to U.S. forces. The initial evidence is mixed. Many may be relieved by the removal of the previous regime, but this is tempered by dismay at civilian casualties, the failure to control looting, and wariness at foreign occupation. With memories of the resistance to British occupation relatively fresh, it would not be hard for “accidental atrocities” by U.S. or British forces to arouse popular ire, especially in crowd-control situations.¹⁰

The second set of risks to U.S. forces comes from Iraq’s neighbors operating through proxies, as Iran and Syria did in Lebanon in the 1980s. Both Iran and Syria are adept at using terrorists. Iran might work through the Shiite community, including using groups such as al-Daawa and SCIRI, to attack the regime or occupation forces. Syria has extensive assets in Iraq, particularly in the Iraqi military. While not enough to overthrow Saddam, these assets could be used to launch attacks on the next regime or on U.S. forces.

Third, a final source of risks involves jihadist terrorism against U.S. forces. Sunni jihadists view the U.S. presence as another example of the war against Islam and see the future Iraqi regime as *jahiliya* (corrupt). Jihadist assets and networks in Iraq appear to be limited: Ansar al-Islam partisans have been removed by joint Kurdish-U.S. action; Arab volunteers who joined the Iraqi fight were ineffective; and Osama bin Laden’s calls for action had little effect. Nonetheless, an extensive U.S. military and civil presence may present a target-rich environment for future jihadists.¹¹

Law and Disorder. Aside from politically motivated violence, U.S. forces will face three law-and-order issues. The first is that of social chaos, allowing circumstances in which looting, revenge killing, and general malfeasance run unchecked. The extent of this challenge was borne out as the regime collapsed, with widespread looting and vigilantism in Iraq’s major cities. The failure to curb this lawlessness

¹⁰Such as the fatalities during crowd-control incidents in Fallujah.

¹¹The May 2003 terrorist bombings in Saudi Arabia underlined this continuing threat.

rapidly has already undermined the credibility of the U.S. and British forces' ability to provide security.

The second is that of banditry. It is endemic in most postwar environments and is fueled by military desertion, the breakdown of social structures, and demobilization. In Iraq, much of what is often presented as political insurgency can better be classed as banditry. This has been a particular problem in the south, where army deserters have turned to banditry. Deserters have also been something of a problem in the north.

The third is that of "normal" crime. This will be a challenge, since an important goal of a U.S.-supported Iraqi administration will be to create a climate of personal security for Iraqi citizens. The highly politicized Iraqi criminal justice system gives little real insight into the extent of crime in Iraq, but anecdotal evidence suggests that a combination of economic necessity, social breakdown, the focus of police forces on political and regime security, and the proliferation of weapons has led to relatively high levels of crime. It is already clear that organized crime is deeply entrenched in Iraqi society, as it was in the Balkans. Saddam's release of "ordinary" criminals in early 2003 will exacerbate the situation.

An additional problem has been the deliberate decision the Saddam regime made to encourage a return to tribal justice as part of its policy of retribalizing Iraq to fragment political opposition. This policy has meant that significant portions of the population have effectively been distanced from the state's criminal justice system, resorting instead to tribal elders and a range of traditional, sometimes summary, forms of justice. It is debatable whether this trend exacerbates or contains the level of violence. In any case, a new regime in Baghdad is likely to want to reextend the central state criminal justice system to the entire populace.

Instruments of Control. While U.S. and allied forces will dominate the macrosecurity environment, the new state will want to deploy indigenous security, intelligence, police, and military forces sooner rather than later. The following assets will be of most significance:

- Special Republican Guard and Republican Guard
- regular army, air force, and navy
- security and intelligence services

- police forces
- judiciary and criminal justice system
- assorted paramilitary groups formed by the state (tribal, Kurdish, etc.).

There are a number of important challenges. The first is dismantling the units most closely associated with the regime and agreeing on appropriate treatment of officers and men. The collapse of the Republican Guard and Special Republican Guard during the conflict has made this task much easier, since the organizations effectively ceased to exist as formed units. The regular army also disintegrated during the conflict, but it will be important to undertake a formal process of demobilization and a program to reintegrate enlisted personnel and junior officers into the civil economy. For more-senior officers and those suspected of human rights abuses, a thorough purge will be necessary to “de-Baathify” the officer corps. The extent of prosecution for crimes against humanity will have to be weighed against the need for “truth and reconciliation.”

The future of the Iraqi army will be an important question to be addressed in the medium term. The United States is likely to retain some responsibility for Iraq’s external security. However, a restructured and reoriented Iraqi military will have to find a new role that does not threaten its neighbors but that can preserve Iraq’s interests and territorial integrity. Efforts to rebuild the Iraqi army will have to take into account the army’s long tradition of involvement in both domestic politics and internal security.

Because of their intimate connection with the former regime and involvement in human rights abuses, the security and intelligence services may have to be dismantled and rebuilt from the ground up. However, functioning security services will be vital for preserving the security of the new regime.

It will also be important to establish an effective and credible new criminal justice system. The police forces should be purged, but a balance needs to be struck between deep reform and an effective police force. For instance, respect for human rights and the rule of law are not features of normal police behavior in Iraq; these will have to be inculcated into existing and newly recruited officers. It will be equally important to purge the judiciary while ensuring the applica-

tion of transparent and objective justice. These reforms need to be accompanied by reform of the prison system and rehabilitation of political detainees.

Paramilitary forces loyal to opposition groups will also want to play a security role in a future Iraq. The significant forces include Islamist groups, notably SCIRI. SCIRI, whose military strength is concentrated in the Iranian-hosted Badr Brigade, could field forces in the south and has increased its presence in the north of Iraq. Since it has gained much of its reputation and leverage through military action against the Saddam regime, it will be reluctant to disband unless this leverage is translated into political gains in the Iraqi power structure. Other Islamist groups, such as al-Daawa, do not have formal militias, but they are likely to form such militias rapidly in postconflict Iraq, if given the opportunity.

The PUK and KDP field substantial militia forces in northern Iraq, which have been used to police the Kurdish zone and to pursue intergroup power and land grabs. Possession of these militias is part of the very identity of Kurdish political leaders. Nonetheless, a political settlement acceptable to both Kurdish leaders (within the north, between the north and Baghdad, and with the Turks) could encourage the PUK and KDP to draw down their standing forces.

Since armed force has been the currency of power and politics in Iraq, many political or political-religious groups have some form of armed wing. Some of these were built up before and during the conflict (Iraqi National Congress by the United States, Turkoman by the Turks). These groups may be easier to demobilize.

The challenges that will be faced in respect to these militias will include whether to seek full demobilization or partial incorporation into the reconstituted armed forces, police, or security services. It will also include the extent to which it is worth pursuing a program of disarmament. Iraq is likely to be awash in small arms. Voluntary disarmament is likely to be token; forceful disarmament by U.S. and allied forces could provoke popular unrest.

Weapons of Mass Destruction. The leakage of WMD to any of the internal Iraqi groups, foreign states, or bandits would greatly exacerbate the security challenge. We assume that the U.S. occupation forces will make it a priority to secure all Iraq's WMD and WMD-

related infrastructure, including personnel. A thornier challenge will be dealing with Iraqi know-how in the long term. As with the former Soviet Union, solutions will have to be found for Iraqi scientific personnel who had been involved in WMD programs. The solutions could include detaining the most-senior researchers and ensuring productive work in Iraq or abroad for other staff. A longer-term program of international monitoring and verification and adherence to treaties, such as the Chemical Weapons Convention and Nuclear Non-Proliferation Treaty, will be essential.

Humanitarian

To date, the humanitarian situation in Iraq has been better than expected. This is fortunate because the United States and United Kingdom have been less well prepared than they might have been to tackle the foreseeable challenges.

The humanitarian challenges are primarily short term. In the medium term, once the Iraqi civil administration and economy are functioning, most humanitarian issues should be manageable. Outstanding problems, such as IDPs, should be solvable once security is achieved and economic reconstruction starts. Structural humanitarian issues, such as child mortality, the lack of supplies in the medical sector, and poor sanitation, should be soluble once sanctions are lifted and revenues are directed into economic and social reconstruction.

Fortunately, extensive damage to the oil sector, transportation, and electric power infrastructure was avoided. Nonetheless, the short-term humanitarian challenges are formidable. They are also of longer-term political significance in generating popular support for the U.S. presence.

There are a number of fundamental problems. To begin with, the Iraqi populace is much less resilient than it was in 1991. Declines in employment, income, nutrition, health, and household assets mean that Iraqis are much less able to fend for themselves than they were in 1991. They are more likely to suffer from disease and hunger. Since 1991, the majority of the population has become dependent on the state for the bulk of its food, in addition to other supplies and services. The World Food Program has estimated that 16 million Iraqis,

approximately 60 percent of the total population, rely solely on food rations distributed through the Oil-for-Food Programme to meet household needs.¹² During the war, this supply network was dislocated because of the disruption of the civil administration in the wake of regime collapse. Finally, the level of resilience in the Iraqi physical infrastructures is relatively low. For instance, the power generation and distribution and water supply and sanitation infrastructures have been rebuilt since 1991 but suffer from inadequate maintenance and lack of spare parts.

Against this backdrop, the immediate humanitarian challenges include:

- **Refugees.** UNHCR is currently caring for 130,000 registered refugees inside Iraq.
- **Food supplies.** UN planning before the war assumed that 2.2 million people were highly dependent on the official distribution system and that there “would be a progressive run down and eventual cessation of distribution of commodities” in the rest of the country.¹³ In the short term, it is important to reconstitute the ration distribution system, working with local agents and the UN. In addition to normal food distribution, the UN Children’s Fund (UNICEF) estimates that some 3 million people, malnourished children and pregnant or lactating women, are in need of “therapeutic feeding.”¹⁴
- **Health care and medical supplies.** The World Health Organization points to the following health care challenges:¹⁵ (1) people requiring treatment for direct and indirect traumatic injuries from the conflict; (2) an increase in respiratory and diarrheal diseases as a result of disruptions of the potable water supply and possible air pollution; and (3) possible epidemics of infectious

¹²USAID, “Iraq Humanitarian and Reconstruction Assistance Fact Sheet,” No. 24, May 1, 2003.

¹³According to a UN planning report to the Secretary General that had been widely leaked before the war (UN, “Likely Humanitarian Scenarios,” New York, December 10, 2002). Also see James Harding and Frances Williams, “Over 4 Million Iraqis May Need Food Assistance in Long War,” *Financial Times*, February 14, 2003, p. 7.

¹⁴UN (2002), p. 6.

¹⁵UN (2002), p. 6.

diseases, such as cholera, dysentery, and measles, as a result of poor sanitation and current low levels of vaccination.¹⁶

- **Electricity.** Because of disruptions to the electrical infrastructure during the conflict, the most immediate humanitarian effect has been on potable water supplies and sewage facilities. Iraq is an urban society, and over two-thirds of Iraqis live in cities. Baghdad has over 5 million people, and 12 other cities have populations of about 1 million people or more.¹⁷ Urban residents depend on municipal sewage and water supplies. Any closure of water and sewage systems has dire consequences for public health.
- **Demining.** Minefields in the south and along the border with the Kurdish areas in the north, as well as unexploded ordnance expended during the conflict, will pose an ongoing hazard to Iraqi civilians and foreign personnel. There is currently no mine awareness program in the center and south; this will have to be developed and accompanied by a sustained effort to remove unexploded ordnance. With appropriate training and equipment, this could provide useful employment for some members of the former Iraqi army.

Before and during the conflict, U.S. and United Kingdom forces took major steps to lessen the postwar humanitarian burden. These steps included minimizing damage to key nodes in the civil infrastructure (e.g., bridges, the electricity distribution network), stockpiling humanitarian supplies in the region, and securing key entry routes (e.g., the Umm Qasr port and the land route from Jordan).

Led by USAID, significant planning took place to address humanitarian issues rapidly. USAID's Disaster Assistance Response Teams were deployed to the region, and tenders were issued for hundreds of millions of dollars of contracts for immediate and longer-term reconstruction of Iraq's infrastructure.¹⁸ However, political tensions preceding the conflict reduced the desire and ability of U.S. agencies to

¹⁶UNICEF's vaccination program.

¹⁷Five million people have access to a sewage network that relies on pumping stations, perhaps 10 percent of which have backup generators (UN, 2002).

¹⁸Mark Fineman, "U.S. Agency Offers Blueprint for Rebuilding Iraq," *Los Angeles Times*, March 21, 2003.

work with the UN, the EU, and other allies on humanitarian relief and reconstruction plans, which may have reduced the responsiveness of these organizations. The U.S. military, through its civil affairs units, has become very proactive in humanitarian affairs, but its relationship with relief agencies remains unsettled.¹⁹ In light of this tension, it appears to have taken some time for the Office of Reconstruction and Humanitarian Assistance (ORHA) to develop working relationships with the UN agencies already present in Iraq. It has also taken some time for the Oil-for-Food Programme to reconstitute existing critical infrastructures, such as the food distribution network, and to work with NGOs for the rapid delivery of humanitarian assistance.

As the immediate issues are dealt with, it will be important to ensure that humanitarian aid does not translate into dependency. In the medium term, there will be no benefit in replacing an interventionist and distributive Iraqi state with a similar aid infrastructure. Self-help, notably in agricultural areas, should be a priority. Moreover, the availability of financial resources to fund quick projects, such as clearing war rubble, making damaged buildings safe, and repairing combat damage, could provide jobs and promote a general feeling among Iraqis that progress is being made.

Civil Administration

Political and administrative transition in Iraq starts with one huge advantage: There is a relatively advanced and functioning civil administration covering large parts of the country. The corresponding disadvantages are the lack of real knowledge about the political forces and attitudes within Iraq and the lack of consensus on Iraq's future political structure.

The establishment of a civil administration and the road map for political transition will be treated separately here, but it is important to recognize that short-term pragmatic decisions made to establish a new administration will significantly affect the shape of the longer-term political transition. For instance, the individuals, institutions, and networks that held positions of formal or informal power and

¹⁹The UN and many NGOs argue that the direct delivery of assistance by the military has "more 'cons' than 'pros'" (UN, 2002).

influence in Iraq under the Saddam regime may be useful to the hard-pressed U.S. forces and CPA as they seek to deliver security, stability, and services in the short term.²⁰ The reconstitution of these power centers under the new regime may, however, undermine progress toward a new political settlement in the longer term.

Nature of the State. It is important to understand the nature and dynamics of Iraqi politics, yet our understanding of Iraqi political dynamics is woefully inadequate. While insightful analysis on Iraq's political and social dynamics in the pre-Saddam period exists, the closed nature of the former state means that there is little more than informed speculation to guide current policymaking.²¹ Saddam's totalitarian system sought to destroy politics, and the external Iraqi opposition provides little real guide to forces and attitudes within the country.

Nonetheless, it is possible to make a number of contextual observations. While the British and the Hashemite monarchy sought to undertake state- *and* nation-building, both projects remain very much unfinished. State-building, in terms of the organizational and physical infrastructure of a modern, unitary state, made the most progress, until the 1990s. This is the basis on which a new civil administration can be structured. Nation-building, whether in a monarchist, Arab nationalist, communist, or revolutionary Baathist guise, has proceeded in fits and starts since the 1920s. The fact that few, if any, active Iraqi politicians now call for a breakup of the Iraqi polity or for secession is testimony to the relative success of the nation-building project. Nonetheless, despite the adherence of exiled opposition groups to the formula of a "united, federal Iraq," there is little evidence that basic questions of national identity are settled or that a transfer of loyalty to the Iraqi nation has taken place.²²

Iraq has evolved into the most extreme example of what Nazih Ayubi has labeled the "fierce state."²³ This form of state features an authori-

²⁰Examples include the army (more particularly, the Sunni officer corps) but also parts of the *mukhabarat*, certain tribal confederations and major business leaders.

²¹Hanna Batatu, *The Old Social Classes and the Revolutionary Movements of Iraq*, Princeton, N.J.: Princeton University Press, 1978.

²²Ironically, the dependence of citizens on the state ration system under the Oil-for-Food Programme may have increased this sense of national identity.

²³Nazih Ayubi, *Overstating the Arab State*, London: I. B. Tauris, 1994.

tarian power structure combining three elements. First, the *dimuqratiyyat al-khubz* (democracy of bread) is a tacit social contract in which the regime provides social and economic welfare in return for political loyalty.²⁴ Second, the fierce state employs a totalitarian coercive apparatus (the *mukhabarat* state). Third, it creates an ideology, which was Baathism in the case of Iraq. The central feature of the fierce state is that politics in this model is “largely deferential and nonparticipatory, conditional on the state’s providential capacity.”²⁵ In Iraq, this model has been overlaid with the characteristics of a rentier state. Oil revenues accruing directly to the regime have enabled the regime to implement a policy of *dimuqratiyyat al-khubz* to an extreme degree. It is important to note that Iraq went beyond the well-recognized model of the modern authoritarian-praetorian state.²⁶ While key military units buttressed the rule of Saddam Hussein, it was the intelligence services, or *mukhabarat*, that were the “keystone” in his rule.²⁷ These “bureaucracies of repression” shared in power at the highest levels.²⁸

A real challenge for political transition in Iraq is that, while the emergence of the authoritarian state in the Arab world has been a topic of some interest to political scientists for a number of years, the real dynamics of the *mukhabarat* state and of “state violence has received . . . [limited] systematic attention in recent scholarship.”²⁹ There is therefore a very poor understanding of what effects Saddam

²⁴Larbi Sadiki, “Towards Arab Liberal Governance: From the Democracy of Bread to the Democracy of the Vote,” *Third World Quarterly*, Vol. 18, No. 1, 1997, pp. 127–148.

²⁵Sadiki (1997), p. 135; also see Jill Crystal, “Authoritarianism and Its Adversaries in the Arab World,” *World Politics*, January 1994, pp. 262–289.

²⁶Perlmutter defines *authoritarian praetorianism* as military-civilian fusionist rule in which the ruling elite of officers, bureaucrats, and technocrats “restrict political support and mobilization” and whose main “source of support . . . is the military establishment” (A. Perlmutter, *The Military and Politics in Modern Times: On Professionals, Praetorians and Revolutionary Soldiers*, New Haven, Conn.: Yale University Press, 1977, p. 95).

²⁷Such as the Special Republican Guard and Republican Guard.

²⁸The term is adapted from the title of a 1994 Middle East Watch report on Iraq’s security services.

²⁹Crystal (1994). Impressionistic and journalistic assessments of Arab police states, however, abound. On Iraq alone, see Samir al-Khalil, *Republic of Fear*, London: Hutchinson, 1989; Kanan Makiya, *Cruelty and Silence*, London: Jonathan Cape, 1993; and Hussein Sumaida, *Circle of Fear*, Toronto: Stoddart, 1991.

Hussein's regime has had on the Iraqi polity or the structures of power and authority in Iraqi society.³⁰

Establishing a Civil Administration. This process will need to take account not just of the formal bureaucratic structures but of the "shadow state." Iraq has relatively well-established formal administrative structures. These cover all aspects of society, from central to local government, from education through public works to the oil industry. These structures are staffed by relatively well-educated and competent technocrats. Many of the most educated and skilled Iraqi technocratic elites are now in exile, but some will return home to assist in reconstruction.

There are six key challenges in revitalizing these administrative structures. First, although Iraqi ministries formally exercised competence under the Saddam regime, the totalitarian regime in fact deliberately undermined the authority of ministers and civil servants. The authority of the civil administration was essentially hollowed out. This authority needs to be rebuilt. At the same time, the senior civil service needs to be purged of discredited Baathists, and the worrying levels of corruption in the civil service need to be addressed. This will involve reforming recruitment and promotion systems to replace promotion on loyalty criteria with meritocratic criteria, and establishing a functioning system of ministerial responsibility.

Second, it will be important to balance expatriate expertise and influence with insider presence. There is a temptation for U.S. forces to fill senior positions with Westernized Iraqi technocrats who are not tainted with Baathism and who may have worked on transition plans.³¹ This temptation needs to be balanced with the effects on

³⁰Among the classic political science studies on the authoritarian state are Samuel Huntington, *Political Order in Changing Societies*, New Haven, Conn.: Yale University Press, 1968; Samuel Huntington and Clement H. Moore, eds., *Authoritarian Politics in Modern Society: The Dynamics of Established One-Party Systems*, New York: Basic Books, 1970; A. Perlmutter, *Egypt: The Praetorian State*, New Brunswick, N.J.: Transaction Books, 1974; and A. Perlmutter, *Modern Authoritarianism: A Comparative Institutional Analysis*, New Haven, Conn.: Yale University Press, 1981. Approaching the topic from a different angle, Stohl and Lopez have argued that social science has been too "antiseptic" and has ignored the real nature and political role of state repression and terrorism (Michael Stohl and George A. Lopez, eds., *The State as Terrorist: The Dynamics of Governmental Violence and Repression*, London: Aldwych Press, 1984).

³¹For example, in DOS's Future of Iraq project.

morale among Iraqi officials who feel they have stayed “inside” to keep the system running and who have nationalist memories of the British presence after independence.

Third, pay and morale will be an extremely pressing challenge. Civil servants have suffered heavily in terms of declining relative income and living standards since 1991. Anecdotal evidence suggests that most civil servants have difficulty surviving on their salaries and have been forced to draw down their assets and to take on additional work. To make the civil administration function effectively, salaries need to be paid immediately and regularly, and relative incomes need to be restored. These measures will also help to get a grip on rampant corruption.

Fourth, the role of the state administration in the Kurdish northern zone is also an issue. Since the mid-1990s, the Kurds have established effective administrative structures in the north of the country. Decisions will need to be taken on the relationship of these structures to the Baghdad-based apparatus, probably involving a degree of autonomy within a centralized framework.

Fifth, the role of the state administration among tribal communities will have to be settled. During the 1990s, the Saddam regime gave more authority to traditional tribal leaders and power structures at the expense of the civil government. It is likely that a new regime will want to reverse this retribalization, which goes against attempts to build a “modern” Iraqi state.

Finally, significant and far-reaching decisions will be required about the relationship between the state and the civil society. The redistributive and authoritarian nature of the Iraqi state has been reinforced by the countrywide ration system, which has made the bulk of the population dependent on state handouts and has reinforced the state's penetration, surveillance, and control of society.³² Restructuring this relationship will require taking small steps, such as reenergizing private-sector pluralism and civil society, but also requires a more fundamental rethinking of the nature of the Iraqi state.

³²Through some 43,000 food and flour agents.

In addition to these general issues, a medium- and long-term challenge will be to reform the educational, cultural, and media establishments, which were co-opted by Saddam's totalitarian system. Both the quality and the content of Iraqi education will require radical transformation, without, however, raising concerns over "educational imperialism." This will be particularly important, given the relative youth of Iraq's population.

In reforming the civil government administration, attention will have to be paid to the consequences of the postwar disappearance of the other major administrative structure covering the country: the Baath Party. The Baath Party, as an institution, was hollowed out by Saddam and had no political authority, but it did serve as an instrument of social monitoring and control. Like the Chinese Communist Party under Mao, its presence was felt on every street block. Although the party effectively disappeared with the fall of the regime and was subsequently banned by U.S. authorities, it is not yet clear what the fragmentation of such a pervasive institution of social control will mean. In some cases, it has been replaced by vigilantism and local power grabs.

Informal power structures are common throughout the Arab world. *Wasta*, based on personal, family, or clan connections, both subverts formal bureaucracies and helps to soften the edges of the region's police states. Even after the removal of Saddam and his key lieutenants, the "shadow state" still exists. Thousands or tens of thousands of Iraqis exercise influence and deploy resources regardless of their formal bureaucratic positions. Understanding and engineering these power structures will be an important challenge for the transitional authorities.

A Road Map for Political Transition. A road map for political transition should be framed that takes account of the previous attempts to build a stable Iraqi nation. Such efforts date back to British rule after World War I, when British colonial personnel sought to create a new Iraqi identity and political structure. Since the 1920s, the major thrust in Iraqi politics has been to regard politics as "mainly . . . a way of disciplining the population to ensure conformity with the rulers' visions of social order."³³ The Bush administration's visions of a

³³Tripp (2001), p. 2.

rapid transition to a pluralist democracy must be seen against this backdrop.³⁴

The overarching requirement is for agreement on a new constitutional end-state for Iraq. Iraq has never had a constitutional and political structure that has engaged the interests of all its communities. As Kosovo has shown, failure to agree on the political end-state can perpetuate instability. Unfortunately, publicly touted political road maps to date have drawn on simplistic models of Iraqi politics. Options that have been touted include reliance on the Sunni officer corps to sustain an authoritarian, centralized system; a three-party federation, in which the Sunni, Shiites, and Kurds share power; and a pluralist "democracy," in which there is representation from multiple ethnic and religious communities, such as the Shiite, Sunni, Kurd, Turkoman, and Assyrian groups.

Any future Iraqi political settlement will have to address three critical questions. First, what is the nature of community politics in Iraq? Iraqi regimes have often deliberately reinforced communitarian identities (religious, ethnic, tribal). This has undermined attempts to build parties on horizontal, cross-community lines. It is unclear to what extent a future Iraqi polity will need to take account of vertical communal identities. Given the strength of the Kurdish movements and the relative success of the institutions in the north, there is no question that some form of Kurdish autonomy in a federal structure will be required. However, there is no demographic reality to the concept of a Shiite south and a Sunni center, so it is not clear what the units in a wider federation might be.

Second, how can the Shiites be enfranchised? While Shiites have been politically active in Iraqi politics since the 1920s, the Shiite lower classes and religious establishments have been disenfranchised politically and economically. There is, however, no such thing as a united Shiite polity. Iraq's Shiites are divided along geographic and tribal lines. Many Iraqi Shiites are secular; indeed, there is a long tradition for support of secular class-based movements. Since the 1920s, politicians from a Shiite sectarian background have often been very active in leftist or communist movements that sought to

³⁴George W. Bush, speech on the future of Iraq, delivered to members of the American Enterprise Institute at the Washington Hilton Hotel, Washington, D.C., February 26, 2003.

empower the rural and urban working classes and often opposed Sunni Arab nationalists. Among more religious-minded Shiites, there are major differences between followers of different factions. Even in the short period since the fall of the regime, clear divisions have emerged between, for instance, Grand Ayatollah Ali Sistani of Najaf and the al-Sadr and al-Khalisi families.

Third, how can the need for demographic and democratic legitimacy be reconciled with existing centers of power? The formal power assets—military, security, and police services; civil technocracy; and business groups—are dominated by a Sunni elite. In addition to the Tikritis, the elite is often drawn from particular tribal confederations. Power in the Kurdish north is held by those close to the Barzani and Talabani clans. Therefore, even if a formal pluralistic system is established, this may not affect the real levers of power. Indeed, it is likely that the Sunni military and technocratic elite would vigorously oppose the ascendance to power of even a moderate Shiite leadership.

Given these challenges, any road map for political transition must balance the interests of different power brokers with the need to gain legitimacy and engagement from the disenfranchised populace. It needs to prevent politicians from exploiting community and religious politics for sectional ends, as happened in post-Tito Yugoslavia. Because of the lack of connection between the Iraqi opposition in exile and the Iraqi population, there is no clear process for legitimizing a new political dispensation in Iraq. The notion of “parachuting in” a government in exile was rightly rejected.

One factor that may help postwar transition is that Iraq has long had democratic structures, however nominal these have been in practice. Saddam’s elections and the resultant party makeup in parliament were transparent frauds, but they at least preserved the form of pluralist institutions. On the other hand, Iraq’s long experience with mock democracy, dating back to the British Mandate, will leave citizens justifiably skeptical of new democratic institutions that have form but no substance.

Rather than moving rapidly to national, party-based parliamentary elections, the transitional authorities would be advised to focus upon developing democratic building blocks, such as a free press, the rule of law, and local elected authorities. The Kurdish north now has

some experience with these elements. At the same time, an all-encompassing constitutional convention could provide some legitimacy to any future political structure.

Reconstruction

Iraq faces a central economic problem familiar to its neighbors: how to generate growth to absorb its rapidly increasing and young population. Iraq is a particularly poignant case, since its people became accustomed to rapidly rising living standards in the 1970s. The Iraqi economy has long-term structural problems that will have to be addressed if a basis for sustainable growth is to be laid. These include dependence on an oil sector that requires heavy investment and modernization, a sclerotic set of nationalized industries, and an agricultural sector in need of reform. At the same time, the legal and financial frameworks have been distorted by the arbitrary and authoritarian nature of power. While these structural problems must be tackled, the immediate need will be to generate revenues from oil exports.

Initially, foreign aid is also likely to be important. In the longer term, foreign direct investment may also contribute to an acceleration of economic growth. Initially, revenues from oil exports and foreign aid will be needed for government salaries, humanitarian aid, and such vital services as health care. Iraq will also need to devote resources to critical short-term investments, such as in the oil industry.

Economic activity in Iraq plummeted after the 1990–1991 Gulf War. Three of the few semireliable indicators of the state of the economy indicate that output and living standards fell sharply. Oil production fell 85 percent in 1991, to just 305,000 barrels per day. Official imports fell from \$9,899 million in 1989, the year before Iraq's invasion of Kuwait, to \$423 million in 1991. The rate of infant mortality rose 50 percent in the year following the war, to 99.7 per 1,000 births. Since 1991, infant mortality rates have fallen slowly. Current estimates of Iraqi infant mortality, especially outside the Kurdish areas in the north, are still well in excess of the average of 43 per 1,000 in the Middle East and North Africa.

The decline in economic activity immediately following the 1990–1991 Gulf War had differential effects on income groups and regions. Iraq's large middle class suffered sharp declines in living standards

and wealth as oil export revenues plummeted and as families drew down savings in an attempt to partially preserve former levels of consumption. Saddam Hussein's military campaign to put down the uprising in Shiite areas of southern Iraq had a devastating effect on the nonoil economy in that region. Kurdish areas in the north, partially protected by the U.S. and British governments, fared somewhat better. They benefited economically from smuggling oil out of Iraq and other goods in and from UN assistance. However, internecine conflict disrupted economic activity in the region through the mid-1990s.

Evaluations of the state of the Iraqi economy and of average living standards in 2003 are based largely on guesswork. A number of indicators suggest that the economic situation had become less dire by the end of the decade following the Gulf War. Oil production, one indicator of economic activity for which statistics are available, rose steadily through 2000, when it hit 2.571 million barrels a day (mbd). This was the highest level of output since 1989 and the third highest on record (1979 was the peak year, at 3.477 mbd). Valued in current dollars, oil output has risen from \$1.8 billion in 1991 to \$25.0 billion in 2000. Estimates of infant mortality show improvement since 1991. Imports are up sharply since the mid-1990s, providing further evidence that the economy rebounded from its low point in the immediate aftermath of the Gulf War. The apex of Iraq's post-Gulf War recovery probably came in 2000. Oil production fell by 139 thousand barrels per day in 2001 and an additional 481 thousand barrels per day in the first 10 months of 2002. In addition, world market prices for oil fell by about one-fifth in 2001, reducing export revenues even further. On the other hand, oil prices rose in 2002, probably by enough to compensate for the decline in production. The U.S. Central Intelligence Agency estimates that Iraqi GDP rose 15 percent in 2000 but then fell about 6 percent in 2001. The decline in oil production in 2002 suggests that the economy slipped again that year.

Iraq's basis for sustainable growth has severely deteriorated over the past decade. There has been little investment in public infrastructure. Maintenance has been deferred, and a number of utilities are in very poor condition. Some analysts trace the declines in oil output in 2001 and 2002 to a combination of depletion and deterioration in the oil field infrastructure. In addition, anecdotal evidence suggests that the health care and educational systems have also deteriorated.

Although Iraq has a substantial number of individuals trained at universities, the decline in oil wealth has curtailed the number of Iraqis able to study abroad. Illiteracy is relatively high, at 42 percent. In contrast to other Middle Eastern countries, illiteracy rates in Iraq do not appear to have declined over the last decade, suggesting that some children in poorer or rural families are being missed by the educational system.

In short, the Iraqi economy had less resilience going into the conflict in 2003 than it had at the start of the 1990–1991 Gulf War. As a consequence, Iraq has emerged from the recent conflict with a much-reduced stock of physical capital and probably less human capital than at the end of the Gulf War, making economic recovery to pre-Gulf War levels of GDP all that much more difficult.

BEST-PRACTICE INSTITUTIONAL AND POLICY RESPONSES

As outlined in the preceding section, the challenges the United States faces in Iraq are formidable. It is nonetheless possible to derive valuable lessons on how to deal with these challenges from the case studies examined in this report. There are four overarching grand strategic lessons to be drawn.

First, democratic nation-building is possible given a sufficient input of resources and a long-term commitment. However, these inputs could be very high. It is unlikely that Iraq would get the same per capita level of international troops, police presence, or foreign aid that Bosnia or Kosovo did. Nonetheless, lessons should also be drawn from the British experience in the 1920s and 1930s of seeking to secure Iraq on the cheap with aerial policing and from the consequences of the much-lower levels of security and economic assistance provided to Somalia, Haiti, and Afghanistan.³⁵

Second, overly short departure deadlines are incompatible with the requirements of nation-building. The United States will only succeed in Iraq if it is willing to spend time establishing robust institutions and does not tie its departure to artificial deadlines. In this regard, setting dates for early national elections can be counterproductive.

³⁵Michael Eisenstadt and Eric Mathewson, eds., *U.S. Policy in Post-Saddam Iraq: Lessons from the British Experience*, Washington, D.C.: Washington Institute for Middle East Policy, 2003.

At the same time, Iraqi memories of the British mandate are fresh. Any suggestion of a long-term U.S. or UN “neocolonial” presence will arouse opposition.

Third, political, ethnic, and sectarian fragmentation and lack of support from neighboring states are important hindrances to successful nation-building. Germany and Japan had homogeneous societies, while Bosnia and Kosovo’s neighbors either supported transition or were powerless to disrupt the process actively. Iraq combines the worst of both cases.

Fourth, a balance between unity of command and international burden-sharing is critical to achieving successful political and economic transformation and long-term legitimacy. In Iraq, the United States is experimenting with a novel model that brings military and civilian efforts under one unitary command. While the current arrangement theoretically provides clear lines of authority, ORHA’s early performance has shown the difficulties involved in securing wholehearted participation from other agencies, other nations, and international organizations, all of which have become more important than they were in 1945. The postwar uncertainty about a possible command role for NATO and the nature of the UN’s “vital role” in managing transition indicate the importance of clear, early decisions on the role for international burden-sharing.

Security

Defeated or liberated populations are often more docile, cooperative, and malleable than usually anticipated. Nonetheless, the degree of success in establishing a secure environment depends on a number of variables. Of the six identified here, several are outside the control of the occupying power (e.g., social and ethnic unity), while others are under the control of the occupying power (e.g., troop and police levels).

First, social and ethnic unity of the society and the propensity of a society to internal violence as a result of political divisions or criminality have major consequences for internal security. An external intervention can reverse the relationship between the victims of oppression and their oppressors. Iraq has a tradition of political violence; criminality is rife; and arms are abundant. The society is also deeply divided along a number of lines. The looting that followed the

collapse of the regime in April 2003 indicated the potential for conflict between “haves” and “have nots.”

Second, the nature of the political settlement is of great importance. A comprehensive political settlement reduces the scope for violence more than would one that is partial in geographic or political terms. Iraq has never had a lasting political settlement that involves all stakeholders in a peaceful and inclusive political process. The prospect for such an all-inclusive settlement is reduced insofar as there are fundamentally incompatible or zero-sum demands (e.g., for a Shiite theocracy, for elimination of class privileges).

Third, the nature and extent of demobilization can reduce the likelihood of further conflict. A failure to demobilize and disarm fighters and incumbent security forces can perpetuate violence and abuses. Iraq suffers from banditry and lawlessness, which are rife among a heavily armed populace. There are also numerous rival militias in the country. The first step should be rapid demobilization of remaining Special Republican Guard and Republican Guard personnel. Senior officers and individuals suspected of crimes against humanity need to be dealt with by an established justice and reconciliation system. Other personnel need to be reintegrated into civilian life. The remaining regular armed forces need to be gradually and systematically demobilized while the interim authority decides on the creation of a new military and whether to retain conscription or form smaller, volunteer armed forces. This decision must be taken in the context of wider, Iraqi-led discussions about the role of the military in a future Iraqi state. Meanwhile, political and tribal militias need to be demobilized or integrated into the national forces.

In addition, significant restructuring, demobilization, and purging of the security and intelligence agencies need to take place. Strong security and intelligence agencies will be required to confront external and subversive threats, but these should not include senior officers from existing agencies or individuals guilty of serious crimes against humanity.

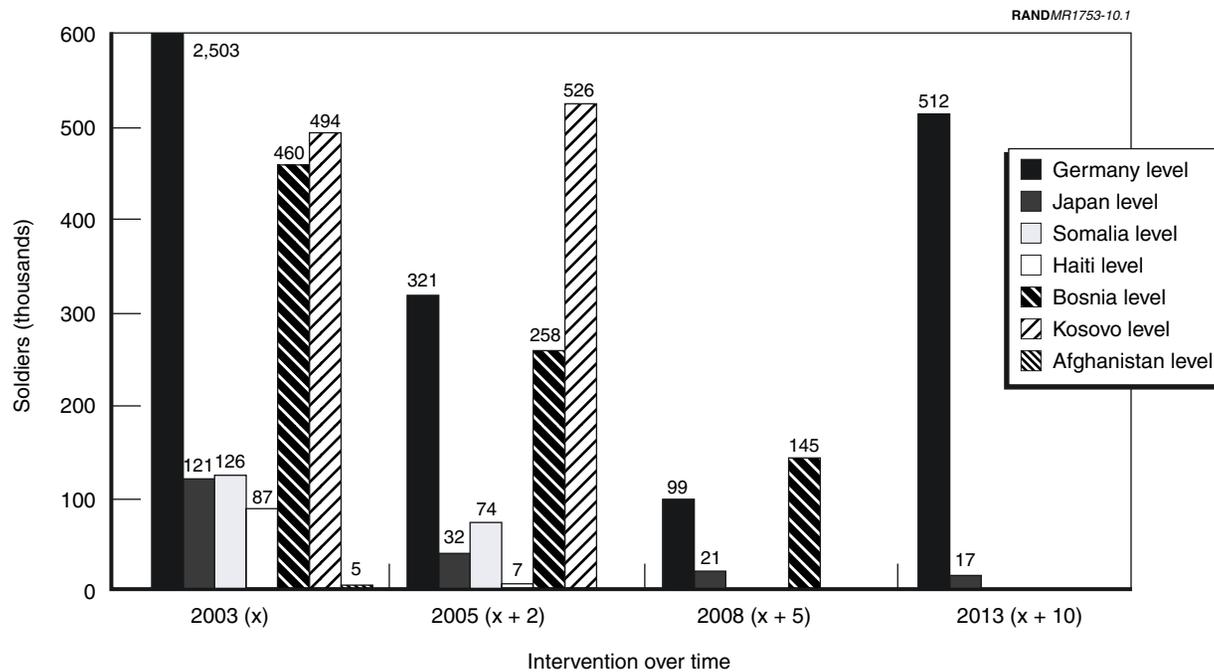
Fourth, Iraq's neighbors can either improve or exacerbate the security climate in the country. A stable regional environment, in which neighbors support the transition rather than seek to intervene, makes it easier to promote security. Iraq is surrounded on three sides by neighbors—Iran, Syria, and Turkey—that all have vital strategic

interests in the country, many of which are incompatible with U.S. interests. These neighbors have the ability to intervene to shape Iraqi politics and to destabilize the country. The United States therefore needs to take unequivocal responsibility to prevent them from becoming involved in significant overt or covert intervention in Iraqi affairs. At the same time, the United States must assert control over Iraq's borders to prevent infiltration by jihadists. The United States should also establish a consultative framework, which would give all Iraq's neighbors a forum in which to voice their legitimate concerns over the nation's future and to be kept abreast of U.S. plans and intentions.

Fifth, the size, deployment, posture, and command of the occupation forces will greatly influence the peace. The sizes of military forces deployed for postconflict security and nation-building have varied. Figure 10.1 projects these force sizes onto the Iraqi population. It indicates that, if Kosovo levels of troop commitment are used, some 526,000 foreign troops would need to be deployed through 2005. At Bosnian levels, this figure would be 258,000 by 2005; approximately 145,000 international troops would still be required to ensure security at Bosnia levels through 2008.

In addition to the overall force size, it is important to ensure an appropriate deployment of occupation forces that are configured for and attuned to constabulary duties. Large numbers of combat-ready forces confined to barracks will be of little use in promoting stability and security. Smaller numbers of forces trained for stability operations, including crowd control, will be much more effective. It will be important for these forces to be culturally sensitive and not to prioritize force protection at the expense of gaining local knowledge.

Furthermore, it is important to retain unitary command of occupation forces and the ability to act rapidly and decisively to prevent score-settling, attacks on minorities, and power grabs by local armed groups. The United States will initially hold command in Iraq—albeit with an ad hoc coalition of willing partners, such as the United Kingdom, Australia, Italy, and Poland—but can look to Kosovo for a good example of unitary command under NATO auspices that combines adequate U.S. leadership with very broad participation. Although



NOTE: Here, year x is the year of intervention, 2003.

Figure 10.1—Military Presence Projections for Iraq

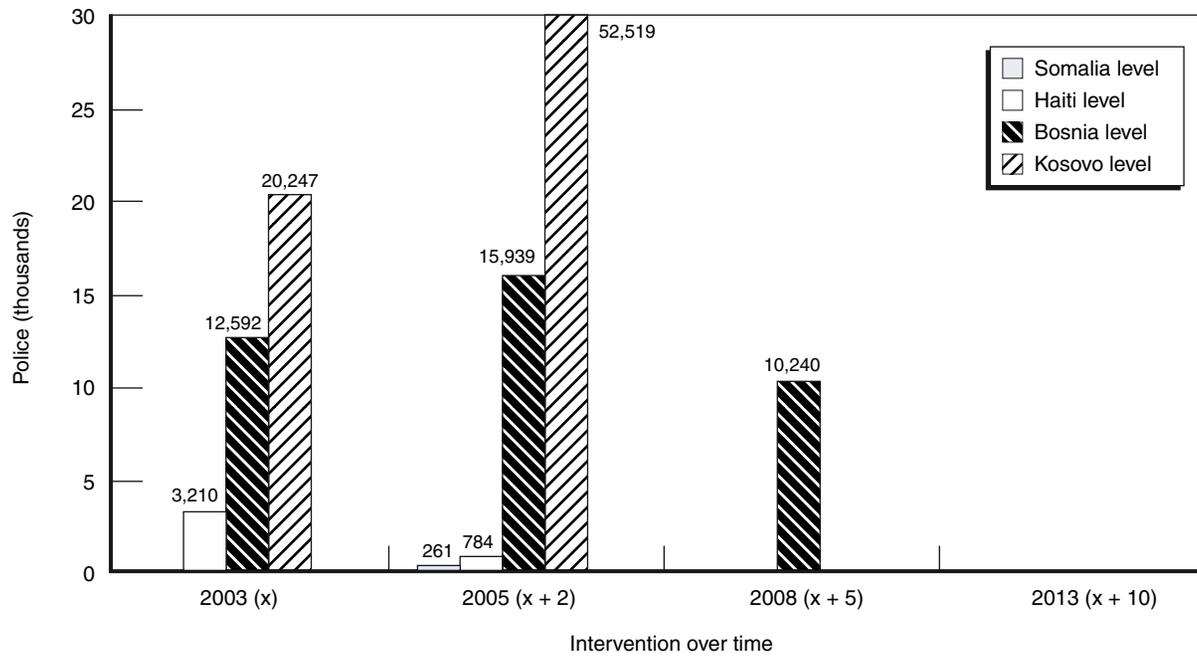
some have argued for an Arab or Islamic force, there is no guarantee that such a force would be more welcome than U.S. forces—and good reason to believe otherwise. The presence of Jordanian, Saudi, Egyptian, Syrian, and certainly Turkish forces would raise additional fears of outside intervention in Iraqi politics.

Sixth, the extent of organized crime will influence the security climate. In the transition from authoritarian rule, organized crime can emerge as the greatest ally of rejectionist forces. If organized criminal groups make common cause with political rejectionists and armed militias, they can act as major spoilers in the process of transition. Therefore, the speed of deployment and the effectiveness of a reformed criminal justice system and civil police force are vital. A consistently weak aspect of such interventions as Kosovo has been the slow pace at which policing and criminal justice functions have been removed from discredited incumbents and the military and passed to international and reformed local civil police and courts.

International assistance with policing, economic reform, and anti-smuggling measures is vital for building the rule of law. Although Iraq has a functioning police and judicial system, it will need to be substantially purged and overhauled. This will involve the deployment of international civil police personnel and advisers. As Figure 10.2 illustrates, if countrywide deployment of international police officers were attempted on the same scale as in Kosovo, the numbers of international police personnel by 2005 could reach almost 53,000. This number is unlikely to be forthcoming. Instead, after order has been restored in the major Iraqi cities, priority should be given to deploying specialist units, such as organized crime investigation squads, to tackle serious crime and corruption and “third forces,” such as Gendarmerie and Carabinieri units, to assist with public order.

Humanitarian

In almost all our post-1990 case studies, international institutions and NGOs have been the primary providers of humanitarian assistance. In Kosovo, KFOR initially provided humanitarian assistance as it moved into Kosovo. Within two months, KFOR transferred all these responsibilities to UNHCR, which coordinated deliveries of humani-



NOTE: Here, year x is the year of intervention, 2003.

Figure 10.2—International Police Projections for Iraq

tarian aid, primarily through NGOs, such as the Red Cross. The only exception to this pattern has been Afghanistan, where the U.S. military is taking a major role in providing humanitarian assistance.

In the immediate transition from combat to peace operations in Iraq, U.S. and United Kingdom military personnel have been the ones primarily responsible for the distribution of humanitarian relief. This approach has led to confusion over the role of USAID in the humanitarian aid process. More importantly, the U.S. and United Kingdom military face a number of challenges in pursuing this objective. For instance, military logistics systems were not designed and military personnel have not been trained for this role. NGOs and UN humanitarian agencies have already expressed discontent with the performance of the United Kingdom troops who distributed initial relief in southern Iraq.

Instead of relying heavily on the military, it makes sense to draw on international institutions and NGOs. The UN Office of the Humanitarian Coordinator in Iraq (UNOHCI) should serve as the primary coordinator for humanitarian assistance, working closely with other NGOs. Security in Iraq will probably be better than it was in Afghanistan, once coalition forces have deployed across the country effectively. This will make operating conditions for NGOs more secure. Some NGOs, such as the Red Crescent, have staff members who are native-language speakers and are familiar with local customs and problems. It could also be useful to request specific on-the-ground assistance from Arab countries. Although most Arab countries do not have extensive experience with disaster assistance, there is popular sympathy in the Arab world for the Iraqi people. The Gulf states will also have an economic and geopolitical interest in providing aid. An extra effort to involve Arab and Islamic institutions in humanitarian relief might stimulate the development of Arab NGOs, possibly setting up institutions that would compete with radical mosques that have taken the forefront in assisting the poor in most Muslim Middle Eastern countries. The Red Crescent will certainly be a valuable partner. At the same time, it will be important to guard against the use of Arab NGOs that may serve as conduits for terrorism and extremism.

The Oil-for-Food Programme provides a good institutional basis for distributing foodstuffs and other humanitarian assistance. Indeed, the World Food Program has expressed its determination to reinvigo-

rate the distribution program. Distribution channels for importing and distributing food have been set up. The UN oversees the program, but Iraqis implement the distribution. The program should be able to expand to cover distribution of clothing and hygiene supplies, such as soap and water treatment tablets, without undue difficulty.

Civil Administration

As outlined above, the prospects for reconstruction of the civil administration in Iraq in the medium term are quite good. Revitalizing and reshaping the Iraqi economy will be crucial and feasible, drawing on the experience of international institutions, such as the IMF. Getting the civil administration back on its feet in the absence of the old regime's power structures and in light of the breakdown of law and order will be difficult but should not take too long, if adequate forces are provided. However, the most challenging questions that the United States faces in Iraq are over the broader program of political transition and democratization. Many lessons can be drawn from the case studies in this regard.

Leadership. Most international attention in the immediate postconflict period has focused on the question of who should lead reconstruction and nation-building in the interim before a stable and legitimate Iraqi administration emerges. At their summit meeting in Belfast on April 8, 2003, President Bush and Prime Minister Tony Blair proposed that the UN play a supporting role in providing humanitarian and financial aid and "advising" on political reform. This approach was confirmed in the draft U.S.-UK-Spanish UNSCR circulated in mid-May, which called for a "vital" UN role in "helping the formation of an Iraqi Interim Authority."³⁶ It is clear that prewar divisions affected this postwar debate, but it is useful to consider the longer-term lessons of the case studies. Recall that we concluded the following:

- Unilateral nation-building can be easier than multilateral efforts.
- Unilateral nation-building can be less effective than multilateral efforts at promoting regional reconciliation.

³⁶10 Downing Street, "Draft Resolution Calls for Vital UN Role in Iraq," news release, May 12, 2003.

- The UN is an instrument through which national leadership can, with some difficulty, be exercised; it is not an alternative to such leadership.
- In peace operations, international military and civil functions should be closely coordinated and not rigidly divided.

In the short term, unilateral U.S. leadership in managing the civil and political transitions would likely lead to faster results and more rapid institutional change. However, a multilateral effort, particularly one conducted under UN auspices, may defuse popular resentment in Iraq and in the Arab world against U.S. “imperialism” and make it easier to ensure regional reconciliation and stability. The experiences of nation-building in the 1990s, however, demonstrate the importance of a careful balance. The UN Security Council, especially one as divided as it became in the run-up to the war, cannot exercise firm leadership. U.S. leadership will remain important, but the UN is a very important mechanism for legitimization and burden-sharing.

Whatever leadership mechanism is chosen, there are two important lessons to be drawn. First, it is vital to ensure close coordination between civil, economic, and military functions. In Afghanistan, these elements have been sadly fragmented. In Kosovo, they were better coordinated. Moreover, in Kosovo, the international authorities focused initially on macroeconomic stabilization and institution-building rather than on immediately trying to solve the underlying political problems of the disaffected province. Even if the United States or NATO retains the lead on military and security affairs, the chain of command needs to be closely engaged with the civil and economic chains of command, whether this is U.S.-led or international. It will also be important to transfer real administrative and civil authority to Iraqis as quickly as possible to avoid stoking resentment against either the United States or international agencies.

Is Democratization Feasible? Iraq has little history of democracy; most of its neighbors have fared no better, and there are clearly strong forces inside Iraq militating against democracy. Nonetheless, the case studies show that democracy is transferable and that democratic transformations can be aided by military occupation and can endure when the element of compulsion is removed. Moreover,

democracy is transferable to non-Western, as well as to Western, societies.

Thus, there is no reason why Iraq cannot be democratized and establish democratic institutions and a pluralist polity. There are, however, a number of reasons why democratization will not be rapid or smooth in Iraq. The lack of a democratic experience and a tradition of authoritarian politics are complemented by the absence of agreement on power-sharing among the country's main ethnic, sectarian, and tribal groups. The hollowing out of the Iraqi middle class and a young population with little experience of the outside world do not provide a conducive environment for democratization. Existing power elites and the "shadow state" will resist transfer of power from their hands and may retain the economic and physical authority to undermine attempts to bring in new elites and power centers. Suspicion of the motives of the United States and United Kingdom, which many Iraqis will charge with having imperialist ambitions, may hamper progress.

Steps Toward Democratization. The initial approach toward democratization that the U.S. government championed envisaged a three-step process. First, authority would be vested in a U.S. military administration, with ORHA acting as the civil administrative arm. Second, an Iraqi Interim Authority would be created, to which civil authority would be gradually transferred. Third, an Iraqi constituent assembly would be convened, perhaps along the lines of the Afghan *loya jirga*, to elect a new Iraqi administration and possibly write a new Iraqi constitution. Under Lieutenant General Jay Garner, ORHA began the process of engaging Iraqi political groups and community leaders by holding "town hall" meetings across Iraq in mid-April.

As laid out in the discussion above, the construction of a democratic and pluralist Iraqi polity faces many challenges. Two of the most challenging issues will be drawing up a constitution able to meet Kurdish demands for autonomy, ensuring the construction of a democracy that will allow the disenfranchised majority to be represented, and protecting minority rights.

The case studies provide three lessons that may be of assistance in the Iraqi case:

- **The co-option of existing institutions can facilitate democratic transformation, but the results may sometimes be less thoroughgoing than starting anew.**

Relying on existing Iraqi institutions, power networks, and notable figures after superficial “de-Baathification” will be the path of least resistance for the U.S. transition team. Co-opting these institutions will ensure that the civil administration is rapidly rebuilt and that stability is preserved. However, these institutions and individuals are likely to capture the political agenda and to ensure that resources remain centralized and that pluralism is undermined. A root-and-branch overhaul of state and political structures would involve the creation of wholly new organizations at the local and national levels and the recruitment, training, and management of new staff. This approach would be tremendously costly and would involve a long period of direct U.S. administration, akin to the early years of British administration of the Iraqi mandate or the Allied administration of Germany. It would, however, lay a sounder basis for long-term reform.

- **Elections are an important benchmark in progress toward democracy. Held too early at the national level, they can strengthen extremist and rejectionist forces rather than promote further transformation.**

The case studies demonstrate that elections should start at the local level to allow the new balance of social and political forces to emerge and coalesce. While elections are an important tool to foster a spirit of pluralism, the lack of real party organizations in Iraq means that the electoral process will have to be gradual. Holding local elections around the 8- to 12-month mark seems to be reasonable. National elections around the two-year mark may then also be reasonable.

- **Imposed justice can contribute to transformation.**

There is now extensive international experience with different models of postdictatorship and postconflict justice, ranging from efforts to draw a line under the past through a “truth and reconciliation” process, as in South Africa, to pursuing criminal prosecutions, as in the cases of Germany and Bosnia. Bringing senior figures accused of human rights abuses to justice is an important

step and can assist in democratic transformation. As far as possible, the new Iraqi administration needs to determine the process and its extent, but the UN may be suited to provide judicial mechanisms. An important adjunct to this process will be the peaceful resolution of conflicts over property between victims of Saddam Hussein and his beneficiaries.

Reconstruction

A number of factors contribute to generating substantial sustained increases in economic output over long periods. Unfortunately, Iraq does not currently possess such key attributes as a highly educated population and well-developed transport and communications infrastructures. On the other hand, it does have a better-educated population and better infrastructures than many other countries in the world. It also has a well-developed petroleum industry and very large petroleum reserves. More importantly, Iraq should be able to create institutions and implement policies conducive to long-term growth. Below, we discuss "best practice" policies for fostering economic growth in postconflict Iraq.

The first order of business, as in any postconflict situation, will be establishing personal security for the Iraqi people and ensuring that they are fed and clothed. Next, the postconflict authority will need to create a framework for providing economic stability. Finally, the authority will need to create institutions and implement policies that are conducive to economic growth.

Just as unity of command is important for security and civil administration, so it is for economic reconstruction and development. Afghanistan has demonstrated the perils of allowing a "free-for-all" among international financial institutions and donors, while Kosovo provides a good example of centralized economic authority able to take decisive and rapid decisions. The United States would be advised to put in place a clear line of authority on economic matters, reporting to the head of the civil administration.

The following are the most pressing issues affecting the economic stabilization of Iraq:

1. controlling inflation and stabilizing the value of the currency
2. ensuring the solvency of the financial system

3. ensuring the security of property
4. rebuilding the oil sector
5. setting price, trade, and fiscal policies
6. beginning reconstruction
7. revitalizing the agricultural sector
8. resolving foreign-debt issues.

Controlling Inflation. Iraq is currently a multicurrency economy. A large share of the financial assets of both households and businesses is in foreign currencies. The dinar, the domestic currency, is used primarily for transactions. To create stable conditions for growth, the postconflict authority will have to restore confidence in the domestic currency. Iraq has a central bank and a cadre of nationals, at home and abroad, with experience in central banking or international financial markets. The IMF has a substantial amount of expertise in helping countries set up and operate central banks and the requisite statistical systems needed for a central bank to function effectively. The IMF has played a key role in setting up new monetary authorities in Afghanistan, Bosnia, and Kosovo and has provided assistance to Haiti. Asking the IMF to provide support for reviving Iraq's central bank and financial statistical system would be the best approach to creating an institutional framework for a new Iraqi financial system.

The IMF, if involved in postconflict Iraq, will have its own ideas on exchange-rate policy. However, the case studies analyzed in this report suggest that the best initial policy is a pegged exchange-rate regime. Germany, Japan, and Bosnia pegged their currencies to a foreign currency. Kosovo has adopted the euro. Because of Afghanistan's chaotic situation and limited financial resources, it is using a floating exchange rate.

Initially, pegs are preferable to free floats because they provide a nominal anchor for all economic actors—households, businesses, and the government. Because households and businesses already save in foreign currencies, the peg facilitates economic calculations, reduces uncertainty, and provides a medium-term guarantee for holders of the domestic currency. It also helps control inflation after a conflict, as import competition forestalls rapid increases in prices. Because of the potential size of Iraq's economy and its dependence on oil for export earnings, Iraq is likely to want to adopt a floating

exchange-rate system in the medium or long term. As a consequence, the Bosnian currency board option would be inappropriate for Iraq because it would make the transition from a fixed exchange rate to a floating rate more difficult. For the same reasons, adopting a foreign currency as the national currency would not be in Iraq's long-term interests.

To operate a pegged exchange-rate system, the Iraqi central bank will need adequate reserves. The U.S. government or other parties will need to loan the Iraqi central bank sufficient reserves immediately in the postconflict phase to make a pegged regime credible. Although the IMF may eventually provide substitute or additional financing, it is unlikely that it will be able to act quickly enough to provide the necessary funds. Because the reserves needed to operate a pegged exchange-rate system for a country the size of Iraq are likely to be sizable, the U.S. government should be prepared to advance the necessary funds very quickly.

Financial System. We assume that Iraq's commercial and retail banks, Rafidian and Rasheed, are technically insolvent. The immediate task is to restore a national payment system. Such a system is highly important for facilitating money transfers, both within the country and from expatriate Iraqis abroad to family and friends within the country. A payment system will also quickly become important for relief efforts because it is needed to transfer funds for payment of local staff and for supplies. In Kosovo, branches of the central monetary authorities served as deposit-taking institutions and made money transfers. Although this is not a good long-term solution, it was very effective on a short-term basis.

The re-creation of a domestic financial system is fraught with hazards. Banking crises and panics have been a principal cause of recession throughout the world. In the case of Iraq, the postconflict authorities will probably inherit a series of bankrupt state-owned banks. In addition, Iraq, like all Middle Eastern countries, is home to a large number of private moneychangers, who transfer money among themselves through what are referred to as *hawala networks*.

The reconstitution of Iraq's financial system needs to proceed cautiously, on a market basis. In the more-successful cases we studied, the banking system grew in tandem with the recovery in economic activity. In many cases, the initial demand for financial services was

primarily restricted to holding savings and making payments. Lending was not a precondition for jump-starting economic growth. It emerged naturally as the recovery became stronger.

To create a solid financial system after the reconstitution of the central bank, the postconflict authorities will need to set up clear bank licensing procedures, set high minimum capital requirements, and create a strong bank supervisory branch within the central bank. These are prerequisites for a solid private banking system. The IMF has successfully helped Bosnia and Kosovo set up these systems and should be tasked with helping in Iraq as well. The postconflict authorities should then open up a level playing field for domestic and foreign investors to create new banks or purchase state-owned banks in Iraq through open tendering procedures. Historically, Iraq has had a domestic banking system. A number of Iraqis at home and abroad have the financial experience to run banks profitably.

That said, most countries have found that purely domestic banking systems are more vulnerable to runs and fraud than those in which foreign banks have an appreciable market share. It is highly probable that a number of the banks in the Persian Gulf would be interested in investing in Iraq, although probably not in the immediate aftermath of the conflict. Western banks may eventually be interested as well. In the interim, the postconflict authorities will inherit the formerly state-owned banks. They will need to set up strong boards of directors and probably partner Iraqi staff with experienced foreign staff to clean up and run these institutions. Some assistance programs in other countries have focused on creating such financial institutions as cooperative banks, microlending facilities, and regular commercial banks, with mixed success. Some cooperative and commercial banks that have received assistance have gone bankrupt, and some microlending programs have had extraordinarily high transaction costs per dollar lent. In our view, at the early postconflict stage, energies would be better spent on expanding the payment system throughout the country and delaying assistance in creating financial institutions until the economy has stabilized and the postconflict authorities have a better sense of the remaining weaknesses of the financial system.

Property Ownership. An endemic problem of authoritarian regimes is the concentration of ownership in the hands of associates of the leaders of the former regime. Iraq is no exception. Adjudication of

ownership disputes tends to be a lengthy, difficult process that usually has to involve an impartial arbitrator or judge and a system of property law. In the case of Iraq, we believe the postconflict authorities should take control of companies owned by the Iraqi government or associates of the current regime in the name of a future government of Iraq. The postconflict authorities will need to provide a legal promise to current owners that their claims will eventually be adjudicated through a transparent legal process but at an indeterminate time in the future. No promises concerning the extent of compensation, if any, should be made.

As with the banking system, teams of foreign managers should be sought to reorganize and operate each company in conjunction with Iraqi staff. Best practice in this regard consists of partnering each foreign manager in the team with an Iraqi counterpart who can expect to take over the responsibilities of the foreign manager gradually. Lower-level foreign staff members are usually the first to depart; the positions of chief executive officer, controller, and chief financial officer are usually the last to be turned over to local management. Strong boards of directors need to be created for each company that includes Iraqi and foreign directors. Partnering is probably essential because indigenous managers lack the expertise or incentives to reorganize state-owned companies in a way that will encourage enduring incentives to improve efficiency and controls to prevent the divergence of funds.

Despite the economic benefits of private ownership, it would be inadvisable in our view to embark on a privatization program until a national Iraqi government is set up. The postconflict authorities can encourage such a government to embark on a privatization program and explain the benefits of privatization. However, a number of countries, such as the United States, have state-owned companies, especially in the areas of transportation, electric power, natural gas, telecommunications, and energy extraction. The privatization of these entities is often very controversial. For example, proposals to privatize the Tennessee Valley Authority in the United States have been repeatedly blocked in Congress. In our view, it is more appropriate to have elected Iraqi authorities, not the postconflict authority, make these decisions. Uncontrolled privatization can also result in the wholesale transfer of state assets to well-placed individuals, as was often the case in post-Soviet Russia.

The Oil Sector. The future control of Iraq's state-owned oil companies is a particularly knotty instance of the disposal of state property. It is also a matter that cannot be decided on economic grounds alone. Although Saddam Hussein's Iraq, like many of its Gulf neighbors, was moving to give foreign oil companies a greater role in the development of Iraqi oil deposits, memories of the struggle against British control of Iraqi oil are very recent in Iraqi minds. Although Iraq's oil sector needs foreign expertise and capital, it is important not to allow opponents of an interim authority to make capital out of nationalist populism.

Nonetheless, on economic grounds, major reform will be required. State-owned energy companies around the world have tended to become enclaves unto themselves. Managers of these companies and their associates, political or otherwise, have been able to divert revenues into their own pockets or for their own political purposes. Overmanning and inefficient operations are often the norm.

Pairing foreign staff with Iraqi staff in state-owned firms, including in the oil sector, and establishing strong boards of directors will partially mitigate this problem. In addition, the postconflict authority should set up transparent royalty and tax systems to deal with the oil sector. These can eventually be applied uniformly to all future participants in the oil sector. Too often, state-owned oil companies are treated as treasuries from which revenues can be diverted at will. A clear, transparent energy tax code will ensure both that the Iraqi government can rely on a clearly defined set of tax revenues from the oil sector and that state-owned companies will be able to retain sufficient funds to conduct their own operations efficiently.

Under Saddam Hussein, the Iraqi oil industry consisted of a number of state-owned oil companies under the authority of the Ministry of Oil. However, the ministry acted more as a holding company than a regulatory agency. The Iraqi government exercised tight control over the industry, hiring and firing managers. Although the technical expertise of many of these managers has been rated highly by some observers, the industry still is inefficient. To improve the efficiency and transparency of the industry, the postconflict authority should break up the industry into production companies and independent refining and distribution companies. Oil production is capital intensive and politically sensitive. Refineries are also capital intensive. In the distribution business (filling stations), on the other hand, firms

face limited barriers to entry. By removing all remaining barriers to entry into distribution, the postconflict authorities will provide opportunities for the Iraqi private sector and create competition for state-owned distributors. In the refining sector, the postconflict authorities can create competition by opening the economy to imports of refined oil products. Iraqi refineries are reportedly in disrepair. In light of the surfeit of refinery capacity in the Persian Gulf, it does not seem wise to divert limited Iraqi resources to rebuilding or expanding refinery capacity unless market forces indicate that this would be profitable. By placing Iraq's refinery operations in independent companies and forcing them to compete against imports, the managers of these companies will be better able to determine the extent to which investment in refinery operations is warranted.

An elected Iraqi government can impose additional disciplines on the state-owned oil companies by setting up clear, transparent procedures for tendering for exploration and development blocks. Blocks would be awarded on the basis of the highest bid. An elected Iraqi government might wish to provide more-favorable terms for domestic or state-owned oil companies, much as the U.S. government provides more-favorable contract opportunities for small businesses in the United States. However, these concessions need to be set ahead of time and made public. In addition, bids should be opened and judged by a board that initially includes representatives of the postconflict authorities. All bids should be published, and the criteria for choosing the winner should be explained.

Such a system assumes that royalties and corporate income taxes will be in line with international practices and will not be confiscatory. Some commentators appear to equate Iraqi oil revenues with potential Iraqi government revenues. This is not the case. Two well-regarded policy briefs argue that the oil industry has suffered from inadequate expenditures on maintenance and development of new fields.³⁷ Any new taxation system on oil companies needs to be structured so that companies can obtain an adequate rate of return.

³⁷Edward P. Djerejian, Frank G. Wisner, Rachel Bronson, and Andrew S. Weiss, *Guiding Principles for U.S. Post-Conflict Policy in Iraq*, New York: Council on Foreign Relations Press, 2003, and Frederick D. Barton, and Bathsheba N. Crocker, *A Wiser Peace: An Action Strategy for a Post-Conflict Iraq*, Washington, D.C.: Center for Strategic and International Studies, January 2003.

This implies that tax revenues from oil will be constrained by the international oil market and Iraqi oil companies' financial performance. The postconflict authorities need to resist the temptation to treat the industry as a revenue source rather than a business.

Price, Trade, and Fiscal Policies. Monetary and exchange-rate policies should stabilize the Iraqi currency and quell inflation fairly quickly; humanitarian assistance should provide a minimum level of subsistence to all Iraqis. However, the policies the postconflict authorities pursue and the associated public expenditures will heavily influence reconstruction and economic growth.

Under Saddam Hussein, Iraq was cut off from the global economy. The country relied almost exclusively on oil for export revenues, and oil also provided the bulk of government revenues. The government used some of these revenues to support the population, in the forms of food deliveries and subsidized health care, education, and utilities. The government was also the largest employer.

Some have argued that oil is a curse rather than benefit for the economic development of nations. They point to Angola, Nigeria, Venezuela, and some North African and Middle Eastern countries as examples of states that have failed to develop economically despite their oil wealth or have become totally reliant on their energy sectors for economic growth. On the other hand, a number of countries, including Malaysia, Mexico, China, and Egypt, have benefited from tax and export revenues from oil even as other sectors of their economies have enjoyed rapid growth. The differences between the experiences of these two sets of countries tend to lie in their economic policies, especially those concerning trade, prices, and industry.

Given the seven case studies and the experience of the more-successful energy exporters, the postconflict authority in Iraq should immediately liberalize trade. In light of the availability of tax revenues from oil exports, the postconflict authorities would be well advised to eliminate all tariffs and thereby incentives for smuggling. Smuggling has been a key source of income for warlords and criminal bosses in Bosnia, Kosovo, and Afghanistan. Eliminating this potential source of revenue for similar individuals in Iraq would make it much more difficult for them to retain or gain power, as

much of their authority is based on their ability to employ armed young men to terrorize their local communities.

Trade liberalization assumes price liberalization. The postconflict authorities should eschew any attempts to set prices, except for public monopolies that are also natural monopolies. For example, the state-owned oil company should be free to set prices at market-clearing levels but should also be subject to competition from imports. In the instance of natural monopolies, the postconflict authorities will have to make short-term decisions on pricing, basing them on comparable prices elsewhere or cost-recovery levels. Whenever possible, the authorities should introduce competition and remove themselves from price-setting activities. Eventually, an Iraqi government will need to create transparent systems for rate-setting and to appoint rate-setting authorities for the remaining national monopolies, but these activities are not a short-term priority.

The postconflict authorities will not have time to revamp the Iraqi legal system immediately. This is a long-term process that would be best for a representative government of Iraq to undertake. However, the postconflict authorities can simplify the system of registering and incorporating new businesses and ensure that licensing and regulatory systems are not set up to extort money from private businesses. Eliminating these barriers to entry will be key to restarting the economy.

The postconflict authorities should begin to introduce other types of taxes as soon as practical. Excise taxes on refined oil products are highly beneficial because they encourage more-efficient use of this national resource. They are also easier to collect than customs duties on consumer goods. The postconflict authorities should also plan for the gradual imposition of sales taxes, which would eventually be converted to a value-added tax. Payroll and income taxes can also be gradually introduced, as well as corporate profit taxes. Payroll taxes should be tied to pension and health-insurance systems because participation in these systems can be used as an incentive for compliance.

However, fiscal expenditures should not initially be constrained by tax collections. The experience of other postconflict countries shows that, in the immediate aftermath of conflict, tax revenues are minuscule. Initially, it is more important to restart the functions of the gov-

ernment, relying on external assistance to cover costs than to try to maximize tax revenues in the immediate aftermath of the war. The postconflict authorities need to ensure that effective systems are operating for paying government employees, especially teachers, health care workers, police, and firefighters. These payments help jump-start the economy because they ensure that, in every community, at least a few families are receiving a regular income. In addition, the postconflict authorities need to ensure that Iraqi pensioners are paid.

Reconstruction. The Kosovo case shows that government expenditures should be split between operating expenditures and capital expenditures. To reform government operations, as in state-owned companies, foreign staff should be recruited to work in tandem with Iraqi counterparts to revamp and help run Iraqi ministries. Government operations should be sized to correspond to likely future levels of tax revenues and then be constrained to these activities.

As in Kosovo, separate government entities should be established to supervise reconstruction. All domestic and foreign funds should be channeled through these entities. Again, foreign staff should be partnered with Iraqis to determine priorities for reconstruction, let and manage bids, conduct project audits, and release payments. All projects should be open to international tender, but stipulations concerning employment of Iraqi citizens and more-favorable treatment of Iraqi bidders may be in order.

The postconflict authorities need to confine their reconstruction activities to publicly owned infrastructure. Housing reconstruction is best stimulated by providing construction materials for households whose dwellings have sustained war damage. Otherwise, this sector can fend for itself. If tax systems are set up appropriately and if international oil companies are permitted to tender for blocks, the oil industry can also fend for itself. In a few instances involving capital-intensive industries, such as cement plants and oil refineries, the postconflict authorities could permit the reconstruction authority to authorize loans to the industries involved. However, the bulk of the reconstruction authority's activities should focus on reconstruction of transport infrastructure and public utilities, such as water and sewage. In these instances, grants may be in order. However, reconstruction of telecommunications and electric power grids should be financed by loans, repayable to the reconstruction agency.

A few brave souls have attempted to estimate the cost of reconstructing Iraq. We will not venture to do that here. Nonetheless, some observations are warranted concerning likely future government revenues and potential expenditures on reconstruction. As noted above, Iraq's oil production hit a post-Gulf War peak of 2.571 mbd in 2000, slipped to 2.432 mbd in 2001, then fell by an additional 20 percent in 2002, before rising in the first quarter of 2003. Oil industry observers argue that the recent decline is due to inadequate maintenance and depletion of existing wells and that substantial investment will be necessary to boost production to 3.5 mbd, the previous peak. The total value of Iraqi production in 2000 was about \$25 billion, but this fell to an estimated \$19.4 billion in 2001 and to roughly the same level in 2002. These are, of course, gross figures. Production costs, suitable depreciation allowances, and capital expenditures would greatly reduce the amount. If the Iraqi state-owned oil companies were to win exploration and production contracts, a substantial share of net revenues would be needed for development, at least until foreign financial institutions felt comfortable lending to such entities.

These figures suggest that, initially, Iraq will require substantial external funds for humanitarian assistance and budgetary support. Taxes on the oil sector are highly unlikely to be adequate to fund the reconstruction of the Iraqi economy in the immediate future. Judging by the experiences of Kosovo and Bosnia, which have higher per capita incomes than Iraq, budgetary support will be necessary for quite some time. In fact, in the case of operating expenditures, the postconflict authorities should first establish a reasonable level of expenditures, create a transparent tax system, and ask foreign donors to pick up the difference until Iraq gets on its feet. We believe this will be the most efficacious avenue to economic recovery.

While it is too early to predict the required levels of foreign aid accurately, we can draw comparisons from our other case studies. As Figure 10.3 demonstrates, supplying Iraq a level of foreign aid equivalent to that provided to Bosnia would require \$36 billion over the next two years, which is equivalent to 16 percent of Iraq's GDP in 2001. Conversely, aid at the same level as Afghanistan would total \$1 billion over the next two years and would constitute about 1 percent of GDP.

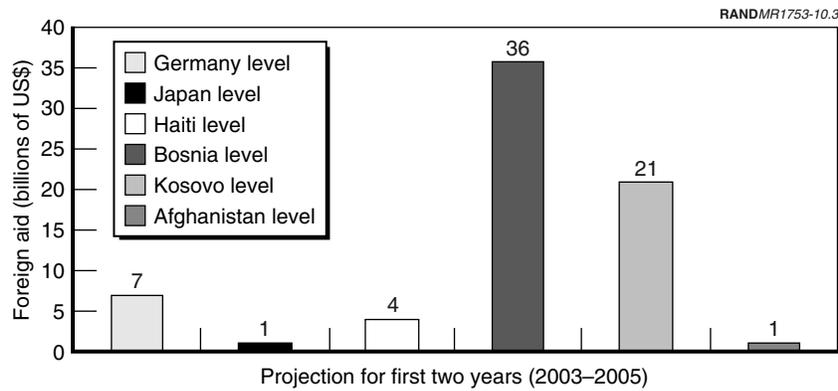


Figure 10.3—Scenarios of External Assistance to Iraq

It would probably not be helpful for postconflict authorities to provide traditional development assistance to Iraq. Foreign assistance programs are frequently criticized for trying to do too much with too little. Providing foreign staff to help run government ministries in conjunction with Iraqi partners and fully funding Iraqi government operations, especially in education and health care, would be far more effective uses of donor money than demonstration projects would be. Only after a period of recovery and economic stabilization would it be wise to consider starting more-traditional assistance programs, such as rural development and aid to small and medium businesses, for which the track record is mixed. The postconflict authority would be much better advised to focus first on making the Iraqi government apparatus work well and only then turn to more traditional, targeted development programs.

Agricultural Sector. In this regard, the postconflict authorities need to be aware of the effects of assistance programs on various economic sectors, especially agriculture. After an initial period, the postconflict authorities should move from providing in-kind humanitarian assistance to alleviating poverty through targeted financial assistance. Historically, Iraq has been an agricultural country. If food is sold at market-clearing prices, farmers will have an incentive to compete with imports. In this context, “dumping” U.S. or European agricultural surpluses on Iraqi markets through Oil-for-Food or other

such programs should be discouraged and ended before the first planting because market prices have a heavy influence on farmer behavior. Because rural households tend to be the poorest, providing targeted financial assistance, as opposed to free agricultural commodities, will help them generate economic activity and income. In the medium and longer terms, the Iraqi government will have to address the structural challenges the Iraqi agricultural sector faces, including land reform and mechanization.

Iraqi Debt and Other Obligations. The Center for Strategic and International Studies estimates that total foreign claims on Iraq run \$383 billion.³⁸ Of the total, claims remaining from the first Gulf War constitute about \$199 billion (52 percent); foreign debt makes up about \$127 billion (33 percent); and the remainder represents money Iraq is obligated to pay on various contracts, amounting to about \$57.2 billion (15 percent).

Some of the pending contracts may be abrogated under *force majeure* provisions; others are being sorted out and honored through the Oil-for-Food Programme. It appears likely that contracts that provide needed, legitimate imports will be honored, while others, undertaken to provide goods to satisfy Saddam, probably will not.

The 1990–1991 Gulf War reparations are a stickier issue. The UN has recognized these obligations, and it created a system to adjudicate claims and sequester funds from Iraqi oil export revenues to pay them. Initially, Germany and Japan made some reparations. However, the U.S. occupying authorities quickly judged that the economic costs of transferring resources during the initial recovery period were so large that they were curtailing economic recovery. Reparations were scaled back and then halted, although after a period of economic growth, Japan and Germany provided substantial compensation or aid to a number of countries and individuals that suffered during World War II. In light of the costs of reconstruction that Iraq is likely to face, reparations would impose a considerable burden on the country that would slow economic recovery. The post–World War II experience suggests that forgiving reparations would greatly benefit Iraq's recovery. The U.S. government may have

³⁸Barton and Crocker (2003), Supplement I.

to take the lead at the UN to argue for the reduction or elimination of reparations in the postconflict period.

According to the Center for Strategic and International Studies, Iraq's total foreign debt could run \$127 billion, which includes an estimated \$12 billion debt to Russia and a \$47 billion debt to banks and governments from the Gulf Cooperation Council states. Iraq owes the rest to a variety of creditors, including a number of Eastern European and Middle Eastern states. In addition, unpaid interest is an estimated \$47 billion.

Iraq's creditors do not have a strong hand. Iraq has not made payments on its foreign debts since the mid-1980s, when Iraq was entangled in the Iran-Iraq War. Iraqi paper is worthless on international financial markets. Notional debt levels are such that creditors have no prospect of Iraq fully servicing this debt. In such situations, creditors meet with the borrower and reduce the country's obligations to levels that can be serviced. The other option is continued nonpayment.

In our view, since Iraq is highly unlikely to be able to borrow on commercial terms for quite some time, debt renegotiations are not a pressing issue and can be postponed until an Iraqi government is formed. Iraq has no outstanding obligations to the IMF, so it is in a position to draw upon assistance from the IMF as soon as a new government is recognized. Moreover, debt negotiations almost invariably take years to conclude. Consequently, although useful, they are unlikely to be concluded in the near future and are not an overly pressing issue for the postconflict authorities or even a newly constituted Iraqi government. Russia and, to a lesser extent, France have rejected this view. Russian President Vladimir Putin, in particular, has stated that Russia has no intention of paying for the 2003 Iraqi war by forgiving debt owed it. However, having joined the Paris club of creditors, Russia is likely to find it most effective to pursue its claims within the club's negotiations. It is difficult to see how these negotiations will proceed quickly, leaving Russia and other Iraqi creditors cooling their heels.

As it embarks on its most ambitious program of nation-building since 1945, the United States can learn important lessons from the case studies we have examined. It has staked its credibility on a successful outcome in Iraq. This will require an extensive commitment

of financial, personnel, and diplomatic resources over a long period. The United States cannot afford to contemplate early exit strategies and cannot afford to leave the job half completed. The real question for the United States should not be how soon it can leave, but rather how fast and how much to share power with Iraqis and the international community while retaining enough power to oversee an enduring transition to democracy and stability.

PROGRESS TO DATE

In its early months, the U.S.-led stabilization and reconstruction of Iraq has not gone as smoothly as might have been expected, given the abundant, recent, and relevant U.S. experience highlighted in this study. This is, after all, the sixth major nation-building enterprise the United States has mounted in 12 years and the fifth such in a Muslim nation. In many of the previous cases, the United States and its allies have faced similar challenges immediately after an intervention. Somalia, Haiti, Kosovo, and Afghanistan also experienced the rapid and utter collapse of central state authority. In each of these instances, local police, courts, penal services, and militaries were destroyed, disrupted, disbanded, or discredited and were consequently unavailable to fill the postconflict security gap. In Somalia, Bosnia, Kosovo, and Afghanistan, extremist elements emerged to fill the resultant vacuum of power. In most cases, organized crime quickly became a major challenge to the occupying authority. In Bosnia and Kosovo, the external stabilization forces ultimately proved adequate to surmount these security challenges; in Somalia and Afghanistan, they did not or have not yet.

Over the past decade, the United States has made major investments in the combat efficiency of its forces. The return on investment has been evident in the dramatic improvement in warfighting demonstrated from Desert Storm to the Kosovo air campaign to Operation Iraqi Freedom. There has been no comparable increase in the capacity of U.S. armed forces or of U.S. civilian agencies to conduct postcombat stabilization and reconstruction operations. Throughout the 1990s, the management of each major mission showed some limited advance over its predecessor, but in the current decade, even this modestly improved learning curve has not been sustained. The Afghan mission can certainly be considered an improvement over Somalia but cannot yet be assessed as being more successful than

Haiti. It is too early to evaluate the success of the postconflict mission in Iraq, but its first few months do not raise it above those in Bosnia and Kosovo at a similar stage.

Nation-building has been a controversial mission over the past decade, and the intensity of this debate has undoubtedly inhibited the investments that would be needed to do these tasks better. Institutional resistance in departments of State and Defense, neither of which regard nation-building among their core missions, has also been an obstacle. As a result, successive administrations have treated each new mission as if it were the first and, more importantly, as if it were the last.

This expectation is unlikely to be realized anytime soon. Since the end of the Cold War, the United States has become increasingly involved in nation-building operations. In the 1990s, the Clinton administration conducted a major nation-building intervention, on the average, every two years. The current administration, despite a strong disinclination to engage U.S. armed forces in such activities, has launched two major nation-building enterprises within 18 months. It now seems clear that nation-building is the inescapable responsibility of the world's only superpower. Once that recognition is more widely accepted, there is much the United States can do to better prepare itself to lead such missions.