A CAUSE FOR HOPE
Economic Revitalization in Iraq

**Paul Brinkley,
Deputy Under
Secretary of Defense
for Business
Transformation**

I need not tell you that the world situation is very serious. That must be apparent to all intelligent people. I think one difficulty is that the problem is one of such enormous complexity that the very mass of facts presented to the public by press and radio make it exceedingly difficult for the man in the street to reach a clear appraisement of the situation. Furthermore, the people of this country are distant from the troubled areas of the earth and it is hard for them to comprehend the plight and consequent reactions of the long-suffering peoples, and the effect of those reactions on their governments in connection with our efforts to promote peace in the world.

—George C. Marshall

Paul A. Brinkley is Deputy Under Secretary of Defense for Business Transformation. In June 2006, he was tasked by the deputy secretary of defense to lead the Task Force for Business and Stabilization Operations, Iraq. Mr. Brinkley holds bachelor's and master's degrees in industrial engineering from Texas A&M University and has completed coursework for a Ph.D. in operations research from North Carolina State University. The holder of four U.S. patents for systems and process technologies, he was a senior executive with several successful international companies prior to joining the Department of Defense in 2004.

PHOTO: Women working in a ready-to-wear factory in Najaf, Iraq (photo courtesy of the author).

THESE WORDS, spoken before the commencement of Harvard graduates in June of 1947, captured the distress of postwar Europe and the challenge of helping the average American comprehend the import of events of the day. Weary of sacrifice after four years of global war and motivated to focus on domestic prosperity, most Americans in 1947 were unmoved by appeals to assist in new international challenges.

George C. Marshall and his fellow statesmen recognized the absolute necessity of restoring economic vitality to stabilize postwar Europe and stop the further spread of Soviet communism. Similarly, the U.S. recognized the need for economic reconstruction and development in Iraq following the fall of the Saddam Hussein regime in 2003. That recognition of need, however, is where similarities end between the two eras and their respective reconstruction efforts. The Marshall Plan focused intently on revitalization of industry, restoring factory capacity and associated employment, wealth generation, and intracontinental trade among nations that had recently been at war with one another. It required European leaders to define their own economic and industrial revitalization plans, promising massive amounts of U.S. financial assistance in return for progress in economic restructuring and integration. This approach facilitated the reestablishment of effective government in war-torn, demoralized nations and laid the groundwork for the future economic integration of Europe now embodied in the European Union.

In contrast, Iraqi reconstruction has primarily consisted of U.S.-financed and U.S.-managed construction programs to rebuild damaged basic infrastructure. Financial incentives to encourage political and economic development have not been part of the strategy for reconstruction.

The differences in the effects of these approaches are stark. Iraq today faces ongoing sectarian violence and an insurgency that threatens the elected government. This continuing violence is in no small part a result of economic distress. Our armed forces face an increasingly difficult situation—attempting to secure areas that, four years after the hope and promise of liberation, lack any improvement in economic fortunes. The nonmilitary arm of the U.S. Government has yet to fully support our armed forces with effective economic engagement so that security, once established, can be sustained.

Today in Iraq, we confront challenges and opportunities similar to those faced by Marshall. We have the imperative opportunity to invest additional American effort, creativity, and treasure to uplift the economic fortunes of ordinary Iraqis—not by building things for them, but by re-enabling them to build for themselves. To understand this opportunity, we have to grasp what has already occurred and then confront inaccurate presumptions about Iraq that continue to hinder progress in establishing economic vitality and security.

Reconstruction in Iraq

Following the fall of the Hussein regime, the U.S. Congress appropriated $2.48 billion via the Iraq Relief and Reconstruction Fund (IRRF 1) followed by an additional $18.2 billion (IRRF 2) to support the reconstruction of Iraq. The planning associated with this investment allocated percentages among six key sectors (Table 1).

The $20.7 billion in total IRRF appropriations was only a fraction of the $60 billion the World Bank estimated Iraq would need to fully modernize its infrastructure. However, it does represent a sizeable down payment on what will be an ongoing effort to rebuild damaged Iraqi infrastructure—an effort that will take many years to complete.

IRAQI RELIEF AND RECONSTRUCTION FUNDING ALLOCATION I & II	
Electricity	30 percent
Public Works and Water	23 percent
Security and Justice	7 percent
Oil	10 percent
Buildings, Health, and Education	6 percent
Transportation and Communications	3 percent

Table 1.

This investment was managed by the Coalition Provisional Authority (CPA) in 2003 and 2004. It transitioned to Department of State oversight in August 2004.[1] Under the IRRF, hundreds of projects were completed across all areas of Iraq—a legacy of goodwill that has received little positive acknowledgement in the media. Employing Iraqis was one desirable aspect of these projects, but it was not the main aim. The goal was to establish a basic infrastructure capable of supporting a stable society and economy.

To augment the IRRF, the CPA in 2003 created the Brigade Commander's Discretionary Recovery Program to Directly Benefit the Iraqi People, since renamed the Commander's Emergency Response Program (CERP). Beginning in 2004, Congress, appropriated a total of over $1.7 billion in CERP funding to enable unit-level military commanders to quickly fund local construction projects.[2] Over the past three years, an increasing percentage of CERP investments has been focused on creating employment as a primary objective via small construction and service projects.

Noticeable in its absence in reconstruction is a focus on restoration of sustained employment through revitalization of Iraqi industry. There are a number of reasons for this, most of them the result of well-intended presumptions that have proven inaccurate and a failure to adjust policy when these inaccuracies became apparent.

Iraqi Industry

Prior to 2003, the Iraqi workforce was generally acknowledged as among the most diverse, educated, and broadly skilled in the Middle East. Many presumed that UN sanctions imposed from

1991 to 2003 had negatively impacted this position, yet there was a widely held opinion among Western leaders that Iraq had the potential to become a unique nation in the Middle East—not simply a model for democratic government, but also a model for a diversified economy in a region too long dependent strictly on oil for revenue. That vision remains unrealized.

Upon their arrival in Iraq, CPA economic leaders presumed that, under the Ba'athist Hussein government, the Iraqi economy was typically Soviet in its structure. There was ample evidence to support this presumption. Ministries were highly empowered, decisions were heavily centralized, and industry was largely state-owned, with over 200 factories covering a range of industrial sectors. According to the World Bank, over 500,000 people worked in state-owned enterprises prior to 2003. Most factories were overstaffed with workers, and payrolls served in many cases as reward funds for political patronage or corruption. Based on these facts, the CPA assumed that Iraqi factories were incapable of manufacturing goods that would be competitive in the world market.

Given this situation, CPA economic leaders applied policy successfully employed in Eastern Europe after the fall of the Iron Curtain. Lessons from Eastern Europe seemed clear: nations that were more aggressive in their divestiture and disempowerment of state-owned industry, either through rapid privatization or shutdown of operations, experienced the most rapid growth, while nations that were more socially sensitive in their approach generally lagged behind those that applied "shock therapy" to their state-owned industrial sectors. At the root of the shock-therapy approach was the assumption that a free market of new, naturally competitive industries would thrive best in the absence of competition from existing subsidized public-sector operations.

In 2003, U.S. forces were welcomed as liberators. The Iraqi diaspora indicated a strong desire to invest in their home country, and there was an image of Iraq as ripe for private investment—a place with a long-constrained skilled workforce ready to move out of staid public industries and into vibrant new private businesses. It is easy to understand the assumptions that a free market would rapidly emerge and create full employment in Iraq.

Based on these assumptions, a series of decisions were made that, in retrospect, sowed the seeds of economic malaise and fueled insurgent sympathies. Because of fears of potential theft, corruption, or transfer of funds to terror networks, each state-owned factory's cash balance in state-owned banks was seized and transferred into the Development for Iraq (DFI) fund as a contribution to infrastructure reconstruction projects. Cash-receivable balances were cancelled for each factory, essentially stopping all cash flow and starving factories of the working capital necessary to sustain operations. The economic portion of the CPA reconstruction plan explicitly prohibited commanders and diplomats from doing any business with state-owned industries. De-Ba'athification stripped the government of the central planning staff formerly responsible for managing industrial demand, and as a result, orders to many factories essentially dried up. Finally, the CPA implemented a new salary structure, turning the salary of the average worker in an Iraqi factory into a stipend worth 40 percent of that worker's pay under the Hussein regime. The goal of this salary structure was to ensure that workers could meet basic needs for food and shelter, but also to encourage them to take new jobs quickly in the private businesses that would arise in the new Iraqi free-market economy.

The effect of this combination of policies was swift. Industrial production collapsed across sectors. Importation of goods increased dramatically. Food processing factories were idle, depriving farmers of markets for produce and grain. Fertilizer factories experienced production declines of over 90 percent, which transformed Iraq from a regional net exporter of urea-based fertilizer to a nation with significant shortages of fertilizer. Net agricultural production in Iraq has decreased by over 50 percent since 2003.

Heavy industry experienced similar declines. Factories manufacturing a variety of industrial products, including trucks, tractors, buses, pipeline equipment, pressure vessels, cement, construction material, and basic machining experienced reductions in production in excess of 80 percent. Many essentially shut their doors.

As industrial output declined, imports of goods increased exponentially. In an effort to open the Iraqi market to goods long denied to Iraqi consumers

Courtesy of author

Workers assembling a bus in the SCAI bus and tractor factory, Iskandariyah, Iraq.

under UN sanctions, the CPA allowed and encouraged open international trade. This resulted in a burst of consumption by Iraqis and a corresponding rapid expansion of the retail sales sector, but had a wide range of other impacts—including further depression of economic activity in Iraqi factories, over-consumption of electrical power on a strained national electrical grid, and the near-crippling of Iraqi agriculture as cheap produce and foodstuffs poured across the border from neighboring states, especially Iran. This open trade situation has remained largely unchanged over the past four years.

Initial post-occupation unrest discouraged private investment. With Eastern Europe, the European Union had been ready to make investments to take advantage of a lower-wage skilled workforce, but the absence of such a bloc in Iraq made the post-Soviet shock-therapy approach ineffective there. The U.S. Government's focus on large construction contracts without incentives for Iraqi managerial capacity development did result in improvements in infrastructure, and Iraqis were employed for the duration of those projects; however, those projects did not create sustained employment or managerial competence, and upon project completion, associated jobs ceased. The failure to recognize the negative effects of these initial policies and to adjust accordingly represents a major shortcoming of economic development efforts to date.

Unemployment in Iraq

Unemployment in Iraq today is very high by any standard, and is a major contributor to instability.[3] It is measured by the U.S. Agency for International Development and the Central Organization for Statistics and Information Technology, the Iraqi agency responsible for social statistics in partnership with the UN. Categories of unemployment are defined, based on perceived humanitarian risk, as segments of the workforce at risk of hunger or homelessness. The measurements are unemployment (no job, no income), 18 percent; underemployment (employed less than 15 hours per week and at humanitarian risk), 38 percent; and total unemployment/underemployment, 56 percent.

Because workers at state-owned industries continue to receive approximately 40 percent of their pay, they are not viewed as being at humanitarian risk, and therefore are not counted in the unemployment/underemployment statistics. In any other nation, these workers would be counted as unemployed and on social welfare. Adding this estimated population of 500,000 workers to the statistics increases effective unemployment/underemployment to over 60 percent.

The impact of unemployment in Iraq is exacerbated by family dynamics. In the West, a single worker supports, on average, four dependents, but in Iraq, a single worker supports eight.[4] Thus, losing a job has twice the negative impact on family well-being in Iraq than in Western nations.

This level of unemployment among a formerly skilled workforce would cause massive social upheaval in any culture. At the peak of the Great Depression in the United States, unemployment reached 25 percent, and social unrest was widespread. In a culture already targeted by terrorist networks and violence, a 60 percent unemployment rate contributes greatly to sympathy for the insurgents. Every military command in Iraq has examples of captured insurgents engaging in acts of violence for cash. In the absence of any economic opportunity, young Iraqi men are easily tempted to engage in violence for hard currency.

After four years of postwar economic strife, average Iraqis no longer believe America has their best interests at heart. Conversations with Iraqi businessmen invariably include conspiratorial accusations about America's desire to subjugate the Iraqi workforce.

It is regrettable that the net effect of U.S. policy was to shut down Iraqi industry. This had immediate direct effects on employment and continues to have negative secondary effects on agriculture, small business, and society at large. Our men and women in uniform face an immeasurably difficult task attempting to establish and maintain security in such an environment.

There is one final statistic to consider. While today Iraqi unemployment is at crisis levels, 40 percent of the Iraqi population is under the age of 15. These young Iraqis are a large pool of future recruits for terrorist networks. Creating economic opportunity and hope for a future in Iraq is therefore absolutely essential to our national security. We ignore this problem at our peril.

An Opportunity Recognized

In the fall of 2006, coalition commanders, to include Lieutenant General Peter Chiarelli, then commanding Multi-National Corps-Iraq, forced a policy debate within the U.S. Government regarding state-owned industry. At the direction of Deputy Secretary of Defense Gordon England, the Task Force for Business and Stability Operations—Iraq (TF-BSO) was established, placing a team of highly qualified American and international manufacturing leaders and business analysts in Iraq. The task force supports commands by providing civilian expertise in industrial operations and factory management—skills not previously found in the American presence in Iraq. Detailed on-site assessments of industrial operations in Iraq began in November 2006 under the security of, and in partnership with, civil affairs commands within deployed divisions across all of Iraq.

Restoring Iraqi state-owned factories is now a key economic element of the strategy of General David Petraeus, Commander, Multi-National Force-Iraq (MNF-I), for stabilizing Iraq. This strategy applies Petraeus's counterinsurgency doctrine of following the establishment of security with rapid economic development to restore normalcy in areas subjected to violence.

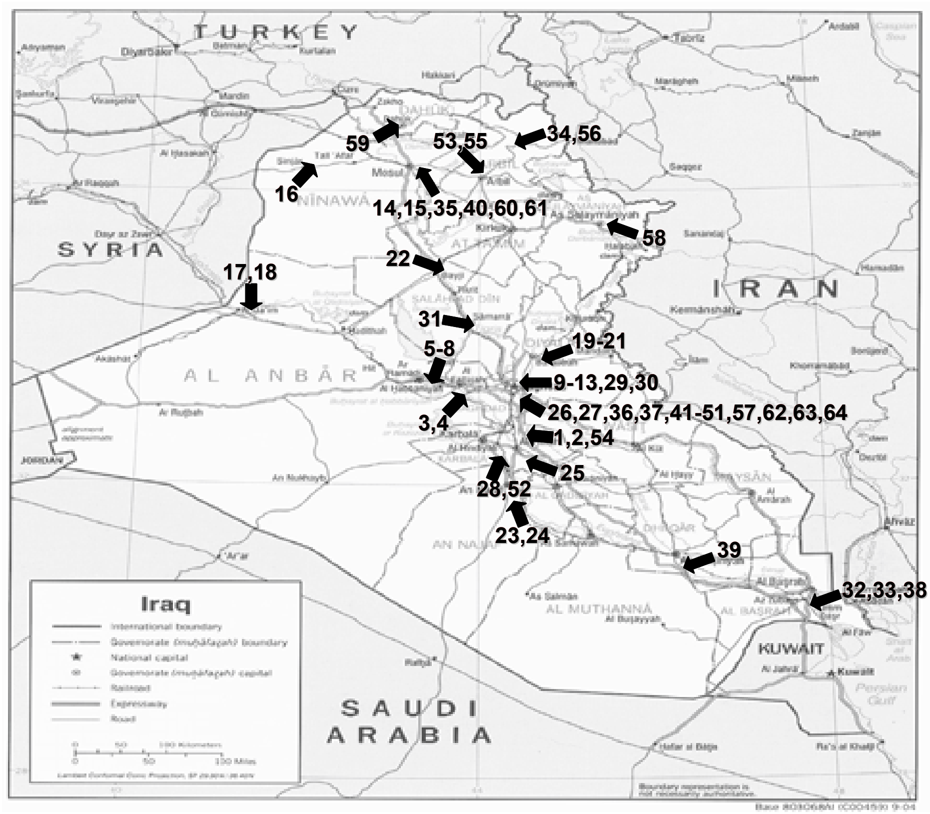
The TF-BSO serves as a civilian resource for MNF-I and is command-aligned with the Deputy Commanding General for Strategic Effects. Task force resources work under the operational control of a variety of subsidiary organizations within MNF-I, including Joint Contracting Command (JCC) for Iraq/Afghanistan, the economic lines of operation within Multi-National Corps-Iraq, and each multi-national division (North, Baghdad, Central), as well as Multi-National Force-West. These command relationships ensure that every activity of the task force is aligned with the overall command intent of MNF-I as well as with the localized objectives of subordinate organizations.

To date, the TF-BSO has assessed 64 major industrial operations all across Iraq (see map and table 2). Much has been learned about the nature of these factories, their capabilities, and their relationships with the central government before and after regime change. Based on these assessments, many presumptions about the state of Iraqi industry have been revisited.

Presumptions and Facts

As aforementioned, the core assumption driving the application of shock-therapy economic policy to Iraqi industry was that Iraq was a classic Soviet-style central economy. The reality, however, is more complex. The old Iraqi economy could best be described as a semi-centralized kleptocracy. Many factories operated in a near autonomous manner, managing their own day-to-day affairs, selling their products directly to customers, and simply donating a portion of their profits to the Hussein regime. Others were highly controlled by the regime and were given classic central plans for production of goods, which were then shipped to other ministries for distribution.

There are geographic and industrial sector correlations to these different relationships between factories and the central government, and variations on these two primary models exist across the factories in Iraq. Each factory had a unique relationship with Baghdad that was largely dependent on the local population's relations with the Hussein regime, the plant manager's relationship with the Ba'ath party and the Hussein regime, and the nature of the factory's product. Heavily subsidized, non-competitive factories were more centrally managed. The more profitable a factory was, the more



1. State Company for Mechanical Industries (SCMI), Iskandariyah
2. State Company for Automotive Industry (SCAI), Iskandariyah
3. Iraqi State Company for Cement, Fallujah
4. Iraqi United Gypsum, Fallujah
5. State Company for Glass and Ceramics - Plate Glass, Ramadi
6. State Company for Glass and Ceramics - Consumer Glassware, Ramadi
7. State Company for Glass and Ceramics - Ceramic Tile, Ramadi
8. State Company for Glass and Ceramics - Ceramic Fixtures, Ramadi
9. Al Sumood State Company - Steel Structures, Taji
10. Al Sumood State Company - Foundry, Taji
11. Nassr State Company for Mechanical Ind. - Trailers, Taji
12. Nassr State Company for Mechanical Ind. - Foundry, Taji
13. Nassr State Company for Mechanical Ind. - Machine Shop, Taji
14. Northern Cement State Company - Badoush, Mosul
15. State Company for Drugs and Medical Supplies - Ninawah, Mosul
16. Northern Cement State Company - Sinjar, Sinjar
17. Iraqi State Company for Cement, Al Qa'im
18. State Company for Phosphate, Al Qa'im
19. Diyala State Company for Electrical Industries - Transformers, Baqubah
20. Diyala State Company for Electrical Industries - Electric Meters, Baqubah
21. Diyala State Company for Electrical Industries - Optic Cable, Baqubah
22. State Company for Fertilizer - North, Bayji
23. State Company for Ready Hand Made Wear, Najaf
24. State Company for Rubber Industries, Najaf
25. State Company for Textile Industries - Hilla, Hilla
26. State Company for Cotton Industries, Baghdad
27. State Company for Leather Industries, Baghdad
28. Al Furat State Company - Chemical, Al Hindiyah
29. That Al Sawary State Company for Chemical Industries - PVA, Taji
30. That Al Sawary State Company for Chemical Industries - Resins, Taji
31. State Company for Drugs and Medical Supplies - Samarra
32. State Company for Petrochemical Industries, Basrah
33. State Company of Fertilizers - South, Basrah
34. Harir Tomato Paste and Fruit Processing Plant, Harir
35. State Company for Construction Industries - Concrete Pillars, Mosul
36. State Company for Heavy Engineering Industry (HEESCO), Doura
37. State Company for Hand Woven Carpets, Baghdad
38. State Company for Paper Industries, Basrah
39. Ur State Company for Engineering Industry, Tallil
40. Northern Company for Furniture, Ninawah
41. Baghdad Factory for Furniture, Baghdad
42. State Company for Cotton Industries, Baghdad
43. State Company for Electrical Industries (SCEI), Baghdad
44. State Company for Vegetable Oils Industry, Baghdad
45. Al Monsour State Company, Baghdad
46. State Company for Tobacco and Cigarettes, Baghdad
47. Baghdad Electrical, Baghdad
48. State Company for Batteries Industries, Baghdad
49. State Company for Construction Industries - Stone Cutting, Baghdad
50. State Company for Woolen Industries, Baghdad
51. State Company for Dairy Products, Baghdad
52. Al Furat State Company - Detergent, Hindiyah
53. State Company for Construction Industries - Marble Cutting, Erbil
54. Southern State Company for Cement - Sedda, Sadat al Hindia
55. Kani Bottling, Kani
56. Kurdish Textiles, Erbil
57. State Owned Slaughterhouse, Baghdad
58. Sulymania Apparel Company, Sulymania
59. UB Group Brick Factory, Dahok
60. Mosul Ready to Wear, Mosul
61. Ahram Foodstuff Manufacturing Company, Dahok
62. National Metal and Bicycle Plant, Mahmoudiyah
63. Ready Made Clothing (RMC Company) Mahmoudiyah
64. Al Hamara's Biscuit Company, Mahmoudiyah

Table 2. Iraqi factories assessed to date by the Task Force for Business and Stabilization Operations.

independent the management was. In some cases, profitability led to greater independence; in others, independence from the ministry led to greater profitability. There was no fixed rule. Generally, factories in the southern (predominantly Shi'a) areas of Iraq were more centrally managed while factories in the west and north were more autonomous. But again, exceptions to this generalization have been found in each region.

The CPA's second primary assumption was that all Iraqi factories could never compete effectively in a market economy. As a general statement about Iraqi industry, this is simply inaccurate. Assessments have revealed many factory operations, idled now for four years, that had skilled workers, Western-educated management, modern equipment, and robotics and automation (less than five to ten years old in some cases). It is clear, based on the state of equipment in many Iraqi factories, that during the period of UN sanctions (1991-2003) significant investments in manufacturing capacity took place. Without question, some Iraqi factories are out of date and should not reopen, but they are the exception, not the rule. There are factories in Iraq idled today that could easily manufacture goods for consumption in Western markets if they were situated in other countries.

The CPA's third assumption about Iraqi business was that private companies would quickly make up for lost employment in the public sector. However, the shutting down of Iraqi public-sector factories negatively impacted the private sector. Under UN sanctions, private Iraqi companies could not sell goods internationally; they sold their goods inside Iraq, often serving as suppliers of goods and services to large state-run factories. Many state-run factories are surrounded by small businesses—machine shops, service businesses—similar to the industrial parks one finds anywhere in the world. Thus, shutting down state-run industries crippled the existing Iraqi private sector. While most future job growth will result from small private firms, the private sector cannot get off the ground as long as the core industrial base remains depressed.

The TF-BSO's mission is to revitalize Iraqi industry by restarting factories wherever possible. This should restore economic vitality and hope to the workforce and simplify the job of our armed forces by lessening economically motivated violence.

Approach to Industrial Revitalization

The task force is currently taking the following steps in its efforts to serve as a catalyst for the revitalization of Iraqi industry:

- *Contracting for goods and services to support U.S. forces*. To sustain U.S. forces in Iraq, we currently contract for several billion dollars a year in materiel, goods, and services, much of it imported from regional suppliers outside of Iraq. The task force is partnering with JCC-Iraq/Afghanistan and its commander, Air Force Major General Darryl Scott, to enable JCC to direct contracts to Iraqi private- and public-sector businesses. As a result of these efforts, supply and service contracts worth over $100 million a month are now being awarded to Iraqi firms, generating jobs for almost 42,000 Iraqis—a significant economic stimulus.
- *Reestablishing intra-Iraqi demand*. The task force is actively working to reestablish business connections between sources of demand in Iraq and potential Iraqi factory suppliers. This has major social implications that have been ignored to date. As Iraqi factories were idled, vital business relationships between Iraqis were severed. Under UN sanctions, Iraqi factories did not export goods; they sold to other Iraqis. Sunni sold to Shi'a, Shi'a sold to Kurd, and so on. These commercial ties are critical in all cultures; they form a web of beneficial relationships that stabilize society. Severing these ties has fueled social destabilization and sectarian biases. Recreating mutually beneficial economic ties among Iraqi sects, tribes, and regions is critical to establishing a stable, prosperous Iraq.
- *Linking Iraqi industry to the global economy*. The task force has successfully engaged, and continues to engage, senior executives from American and international industry to provide support for Iraqi industrial revitalization. International businesses receive the following appeal: "If your firm is acquiring a good or service internationally, and an existing Iraqi business can demonstrate capacity to provide that good or service, consider adding that business to your base of suppliers." The response has been encouraging. Within American industry there is an untapped reservoir of goodwill for our armed forces and a strong willingness to assist when asked. To support the military surge strategy with a corresponding economic surge, these efforts must accelerate.

The effort to link Iraqi businessmen to global economic relationships has potentially far-reaching strategic implications. Almost without exception, business leaders across Iraq have expressed a strong desire for access to the business opportunities that are driving economic growth and prosperity across eastern and southern Asia. Estimates place the Iraqi gross domestic product in 2007 at $40 billion, with most of this coming from oil and gas production. Gross domestic product in the United States, by contrast, exceeds $12 trillion. Shifting a small percentage of the demand we currently place for goods and services from nations such as China and India to Iraq would improve the livelihood of every Iraqi worker, creating goodwill and partnership in place of disappointment, frustration, and their attendant violence.

Creating a diverse, globally integrated economy in Iraq would send a powerful signal of inclusion to the entire Middle East. It would undermine the radical messages of terror networks that prey on perceptions that the Middle East is being left behind economically due to sinister intent.

Upon restarting factories, the task force will provide the Iraqi Government with privatization plans for each operation with restored production. Privatizing factories that are viable, operating entities is far easier than holding a fire sale of idled plants and equipment. The task force has received significant statements of interest from Iraqi, regional, and international businesses eager to invest in Iraq once stability takes hold.

Progress to Date

In assessing Iraqi factories, TF-BSO has found that each factory has a unique set of needs to fulfill before it can restore full production and employment. These include spare parts, equipment maintenance, workforce training, generators to ensure sustained electrical power, working capital for raw materials, and in some cases, simply market demand for products. Where equipment or training is required, funding is needed in small amounts. Typically, the restart costs for an Iraqi factory do not exceed $1 million.

The task force has developed a prioritized list of factories eligible for restoration of employment and has aligned this list with commanders' priorities and the requirements for economic stabilization driven by the Baghdad Security Plan.

To date, six factories have restored production operations. These factories include major industrial operations in Iskandariyah, a town thirty miles south of Baghdad on the "fault-line" of the Sunni-Shi'a sectarian divide and a hotbed of insurgent sympathies resulting from economic depression. In Najaf, a large, modern clothing factory has been restarted, restoring employment to over 1800 employees. Over 70 percent of these employees are women, including supervisors and engineering staff. The six factories represent only a small beginning. With modest sufficient funding, the task force believes it can restart dozens of factories in calendar year 2007, restoring employment to tens of thousands of Iraqis and creating significant economic uplift in wide areas of the country.

U.S. Army/SFC Robert C. Brogan

The author (in sunglasses) discusses operational details with the director of plant operations during a tour of a fertilizer plant in Bayji, Iraq, 28 February 2007.

Challenges and Issues

The total funds required to restart Iraqi industries that are viable (that is, have not been looted or damaged) is estimated at less than $200 million. Until the 2007 Defense Supplemental Budget appropriated $50 million to the task force to fund industrial revitalization, there were no provisions in the U.S. Government budget to support this initiative. Under CPA orders that are now Iraqi law, the Iraqi budget cannot be invested in state-owned factories; thus, the Iraqi budget does not include funds to restart idled industries. This leaves us with a $150 million shortfall.

Given these constraints, the TF-BSO has partnered with the Iraqi Government, specifically the Ministry of Finance and the Ministry of Industry and Minerals, to establish a low-interest loan program run by state-owned banks. The Iraqi Government subsequently approved issuing $26 million in loans to restart over 20 factories. Regrettably, after several months of negotiation over this relatively small amount of funding, as of the time of publication no loans have been made to factories. Ongoing debates among various U.S. and Iraqi governmental organizations about the legality of these loans, philosophical discussions about the appropriateness of state-owned banks making loans at below-commercial terms, and a general lack of urgency within layers of bureaucracy have hindered the funding of factory restarts via loans. As a result, less progress can be reported than was expected at this stage of the effort.

The TF-BSO plans to quickly apply its $50 million in congressionally appropriated funds to restart as many factories as possible. Its goal is to provide the minimum materiel, training, or other tangible support needed to get a factory started again. This effort is about restoring employment lost in 2003 and giving Iraq's business community a chance to develop. It aims to lift the core industrial base out of depression, with multiplying benefits to other sectors, especially agriculture, retail sales, small businesses, and other secondary economies that idled industries have negatively impacted.

What Must Be Done

To achieve an economic awakening in Iraq, we must reengage Iraq's large base of skilled workers. To achieve political reconciliation among sects, we must reenergize mutually beneficial economic relationships. These universal truths applied to postwar Europe, and they apply to postwar Iraq as well. Iraqi business leaders want the same things business leaders in every other part of the world want: a secure home for their families, education for their children, and access to economic opportunity in which hard work brings prosperity.

The time to provide that access is now. A comprehensive plan for industrial revitalization should include three new actions:

- *Restoration of factory bank account balances in state-owned banks.* Factories assessed by the task force to date that have a competent management team and are viable for restoration of production should be told what conditions to meet to have their balances restored. At a minimum, they should have to establish a viable business plan, a profit-and-loss-based management structure, a compensation plan that provides incentives for business growth, and a capital investment strategy. Task force accountants would monitor each transaction against the restored funds for a period of one year to ensure that business plans are followed and funds are expended only on factory operations or capital investments.

Restoring the bank-account balances would empower management teams to make decisions, cutting out the non-Iraqis who currently decide which investments to make and which spending plans to execute for the minor equipment, training, and raw material purchases needed to support restarts. Most important, restoring the balances would immediately stimulate economic activity as factories made rapid capital investments and acquired materiel to restore normal production.

- *Implementation of fair trade practices for the Iraqi economy*. Establishing standard tariff and trade policies with neighboring countries would create breathing room for many sectors of the Iraqi economy, including industry and agriculture. If the United States had to operate under the trade practices currently in place in Iraq, it would lose every textile mill and most of its farms to international competitors. Iraq must be placed on a fair trade platform with its neighbors if its economy is to recover.

- *Alignment of economic development with political reconciliation efforts.* The loss of economic ties among segments of the Iraqi population has removed the mutually beneficial relationships between tribes and sects that help stabilize society.

WHAT MUST BE DONE

- **Restore factory bank account balances in state-owned banks.**
- **Implement fair trade practices for the Iraqi economy.**
- **Align economic development with political reconciliation efforts.**

Our efforts at political reconciliation must include necessary economic motivators—the reestablishment of economic ties that are mutually beneficial to different sects, creating motivators for stability. The absence of these economic incentives make political reconciliation far more challenging.

Overall, we need to apply lessons learned from Iraq to better support our security and political objectives. The U.S. Government is designed to project two primary instruments of foreign policy: diplomacy and force. We must identify the key actions necessary to leverage the U.S. economy more effectively as a vital tool for post-conflict stabilization. An operating model for interagency collaboration that leverages the industrial expertise of the Department of Defense, the policy guidance of the Department of State, the monetary policy and fiscal discipline of the Department of the Treasury, the development expertise of the Department of Agriculture, and the business relationships of the Department of Commerce is missing today in Iraq. Defining that model and putting it to work is a critical step if we are to leverage our greatest national asset—our economic strength—in future conflicts.

A Challenge for Our Time

The American economy is an engine of prosperity not only for the American people, but for the world at large. Idealized images of our lifestyle saturate the world through television and the Internet. These images, constant reminders to the disenfranchised of the challenges within their own societies, foster the resentment on which terrorist networks feed. The United States has yet to use its most potent weapon—its economy—in support of its armed forces, whose mission grows more difficult as Iraq's economic malaise worsens. Again, George C. Marshall best articulated the situation we face:

> *I am sorry that on each occasion I have said something publicly in regard to our international situation, I've been forced by the necessities of the case to enter into rather technical discussions. But to my mind, it is of vast importance that our people reach some general understanding of what the complications really are, rather than react from a passion or a prejudice or an emotion of the moment. As I said more formally a moment ago, we are remote from the scene of these troubles. It is virtually impossible at this distance merely by reading, or listening, or even seeing photographs or motion pictures, to grasp at all the real significance of the situation. And yet the whole world of the future hangs on a proper judgment. It hangs, I think, to a large extent on the realization of the American people, of just what are the various dominant factors. What are the reactions of the people? What are the justifications of those reactions? What are the sufferings? What is needed? What can best be done? What must be done?*
>
> —George C. Marshall, June 1947

As liberators of the Iraqi people, we have an obligation to seek remedies to Iraq's postwar depression. This depression puts our armed forces at risk today, and our children at risk of violence tomorrow. It is the challenge of our time. How will we respond? ***MR***

NOTES

1. *Report to Congress of the Special Inspector General for Iraq Reconstruction*, April 2007.
2. President George W. Bush, National Security Presidential Directive (NSPD) 44, <http://www.fas.org/irp/offdocs/nspd/nspd-44.html>.
3. U.S. Agency for International Development (USAID), *Employment Participation and Unemployment in Iraq* (Washington, DC: Government Printing Office [GPO]), May 2007.
4. USAID, *Household's Average Monthly Consumption by Quintiles* (Washington, DC: GPO, June 2007).