

# The Gulf War and The World Economy

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**T**HE 42-day conflict between the 28-nation coalition led by the United States of America on the one side, and the Republic of Iraq on the other, better known as the Gulf War, ended on February 28th, 1991 with the unilateral suspension of military operations by the Coalition Forces against Iraq. Iraq was forced to accept all the resolutions of the United Nations in relations to Kuwait. During the conflict the territory of Iraq was subjected to heavy carpet bombing by the Coalition Forces. The most modern sophisticated and destructive military technology was employed in the operation.

It was an engagement between unequal powers. Iraq did not stand the remotest chance of realising its objective of annexing and holding on to Kuwait in spite of its legitimate historical claim to that territory. President Saddam Hussein failed to realise that the present geo-political arrangements in the Middle East, that had emerged upon the subversion and disintegration of Ottoman Empire upon the defeat of Turkey in the First World War, have since then suited and served well the interests of the European powers so far as the exploitation of both the human and material resources of the region are concerned.

The invasion of Kuwait by President Saddam Hussein on August 2, 1990, provided the West-

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ern Powers with another excellent opportunity to re-assert their hegemony over the Middle Eastern region and its resources. The United States and its allies had planned and prepared well for the proposed course of action at all levels. The United Nations Security Council was effectively used as a forum to pass the necessary and required resolutions for the initiation of military action against Iraq. Available information media were fully used to turn domestic public opinion in favour of military action.

The Western Powers resorted to open bribery and corruption to get the cooperation, consent and acquiescence of the world's majority. For instance, the United States wrote off six billion dollar worth of loans due from Egypt; France forgave forty per cent of the outstanding debts of its erstwhile African colonies; The Soviet Union and China were promised substantial economic aid; and smaller countries such as Yemen and Cuba when they refused to support the Western Powers in the Security Council, were subjected to punitive measures such as sub-

stantial reduction in their aid packages by their donors.

Now, with the cessation of hostilities, one will have to face some legitimate questions regarding the cost, benefit and the impact of this conflict on the world economy. Here one can only be brief for detailed answers to these questions require considerable time, effort and data—facts and figures—not easily accessible at the moment. Moreover, the questions themselves though simple, their answers are quite complex. Nevertheless, some conclusions of a general nature can be drawn in so far as the impact of this conflict is concerned on the belligerents and on some macro-economic variables.

For Iraq the human cost is loss of 1,50,000 civilian lives and more than 1,00,000 military personnel. In terms of property and other physical infrastructure Iraq has suffered untold damage. It witnessed the destruction of its factories, bridges, communication facilities, housing and oil fields. Besides, damage to environment both in Iraq and in Kuwait has been enormous. The polluted ri-

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vers and atmosphere have posed tremendous health hazards to the population.

The six hundred oil wells that still continue to burn and the estimated six billion barrels of oil production lost till today, have adversely affected the current and potential sources of much needed revenues. A valuable exhaustable world resource has unnecessarily been destroyed. This war has created further tens of thousands of refugees in their own lands. Especially in the case of Iraq this war has nullified the fruits of economic and technological development so painstakingly gathered over these many years. Overall, this damage to human life, property, environment and finally the human psyche can never be adequately quantified in terms of the numeraire the economists are used to.

Iraq has borne the human and other costs of this conflict on its own. The Coalition Forces' estimated their monetary cost at US \$ 70 billion. However, 50 per cent of this cost burden has been shared by Saudi Arabia, Kuwait, The Emirates and by Japan and though the last mentioned country was not directly involved in the conflict. In terms of human lives the Coalition Forces have suffered very little.

No doubt, this conflict was confined to the Middle-Eastern region yet its global impact is going to manifest itself through the developments in several of the economic variables such as output, employment, foreign aid, etc. for sometime to come. At the outset, however, it must be taken as a foregone conclusion that the principal beneficiaries from this conflict would be the major Coalition Powers themselves U.S.A., U.K., France; other beneficiaries being mostly Japan and the industrialized economies of Europe.

We may, examine, briefly the likely developments in some of the macro-economic variables given the reconstruction needs of the war-affected economies of the Middle East.

Firstly, any benefit of increase in the output of goods and services as a consequence of the reconstruction needs of the devastated economies of the Middle East, particularly Kuwait, will accrue to the major industrial economies—U.S.A., U.K., France, Germany and Japan in that order. The reconstruction requirements will increase the demand for capital goods and equipment and also the demand for consumer durables. The structure of demand for some time will favour the civilian vis-a-vis the military production sector and thus this change in output mix will help considerably these economies to tide over their current recession.

Secondly, in view of the above, the level of employment in the export industries particularly the capital goods sector will be rendered stable rather than experienced actual growth. Thus outcome is more probable due to higher productivity of the work force and the presence of unutilized production capacity in the industrial economies. Moreover, most of the expertise and the skilled manpower for the reconstruction activity will come from amongst the industrial economies. The United States in particular is going to be a significant beneficiary in this regard as a supplier of required technology and manpower for the Gulf oil sector.

Thirdly, this war will not affect significantly international trade flows in the sense of trade creation, diversion or changes in the structure of international trade. The Gulf market has long been cornered, particularly by the multinationals of the industrial countries. The victory of the Coalition Forces has reinforced this position and has facilitated their entrenchment in the Middle Eastern markets.

Fourthly, the Gulf War has affected the finances of the Western donor nations inspite of the burden sharing. However, it must be mentioned that foreign aid in general, has been dictated by political considerations rather than by any rational economic criteria.

This is evident from the aid record of donor countries who in general have extended aid to countries that fit in within the foreign policy objective of the donors and without much regard to effective utilization of aid proceeds for genuine programmes of economic upliftment.

The countries that have readily sunk such huge sums for destruction of life and property have often proved to be less generous when it comes to extension of aid for actual economic development. The demands for reconstruction and the cost of maintaining the Western armed forces in the Gulf region have put the finances of the Gulf's donor countries such as Kuwait and Saudi Arabia under considerable strain. These countries normally have been better donors over the years in that on the average they have contributed about one and one-half per cent of the G.N.P. as foreign aid. This is in quite contrast to the miserable figure of less than half of one per cent (to be precise 0.4 per cent) of G.N.P. which has been the aid contribution of the industrial economies.

Thus the reduced flow of aid from this specific source, mainly the Gulf donors, will affect adversely the economies of Egypt, the Sudan, Yemen, Jordan etc. Moreover, Third World borrowers, in general will face increasingly harder terms in international financial markets. There is every possibility of these being 'crowded out' in view of the reconstruction finance needs of the Gulf States who will be in a position to offer more attractive terms to the lenders.

Fifthly, the events in the Gulf have demonstrated the weakened role, nay, the helplessness of the Soviet Union and China as countervailing powers in the present global political atmosphere. This is likely to substantially slow down technological change in military weaponry and consequently adversely affect the concomitant change in the production technology in the civilian goods and services sectors.

Finally, considering the impact of the Gulf War on oil prices and on economic growth, we note that

the War has brought down oil prices which at present at 20 dollars a barrel are almost at 50 per cent figure of their once peak level. This favourable development in the oil market is likely to ease to some extent the balance of payments problems of Third World oil exporters. By keeping down their oil bill these countries may be able to sustain their employment and output levels for the present. But oil prices cannot possibly remain at the present level for long. So long as the stocks last, there will be price stability in the oil market. Hence it is obvious that the fall in oil prices is more of a temporary phenomenon. The price trend is going to reverse itself and in the near future oil prices are bound to rise. Production loss from the wells of Kuwait and Iraq and Iran cannot easily be made up from other sources such as Saudi Arabia, The Emirates, Nigeria and Venezuela.

The strains of lower oil revenues have already begun to have their adverse impact on the economies of the oil exporters. This has forced even Saudi Arabia to seek accommodation with the I.M.F. The low oil prices and consequently low revenues will not be tolerated especially by the Gulf States that are entirely dependent upon oil revenues for their economic development and reconstruction programmes.

Thus any hope of continued present stability, let alone a secular fall in oil prices, is indicative of unwarranted optimism. Those consumers hoping for oil flows at low prices will soon face disappointment. The expectations of cheaper oil as reparation damages from Iraq will not be realised easily in view of the unsettled political situation in that country's oil producing regions, namely Basrah and Kirkuk. Be that as it may, first and foremost the amount of reparation payments due from Iraq is yet to be worked out.

Next we may ask the legitimate question. "What is in store for India as an aftermath of this war?" Frankly in our opinion, not very much. The geographical proximity of India to the Gulf region and its traditional role as a supplier of non-durable consumer goods will

boost our exports to some extent. But these exportables will be at the expense of the domestic consumer, who will bear the brunt of inflationary pricing in the market for durables. The role of India as a supplier of other goods and services, connected with the reconstruction needs of the Gulf region, is mostly dependent upon the hopes of subcontracting by multinationals. India may further be able to supply generally semi-skilled and unskilled manpower for the reconstruction needs. Yet, even here there can be no firm assurance that these manpower needs will not be met from other competitive sources such as Thailand, Philippines, Sri Lanka etc.

It is significant to note that the present position of one India's most important trade partner, namely Iraq, has adversely affected the market for Indian goods and services, and for skills. On balance, we might visualise some improvement in the foreign exchange and balance of payments position of the country in the not too distant future and hopefully, the remittan-

ces from Indian workers from abroad will flow in. Still we must emphasize that the contribution of these remittances is going to be marginal.

In no way the developments in the country's external sector will be so much favourable enough to ease the difficult balance of payments situation. Stability or no stability in the oil market, the country has to meet its mounting external debt obligations. Not only will India draw the entire amount of the proposed five billion dollar I.M.F. loan, but will also approach the other international financial institutions and financial markets for more funds at considerably more stringent terms. Be that as it may, the plight of India may aptly be described by the situational caption to one R. K. Lakshman's cartoons in the *Times of India*, 'He (India) has come back for a loan to repay the earlier one in order to enable him to come back for another new loan to repay this one'. How we wish, we could disagree with Lakshman on facts!

## Manual on Transnational Business Information

THE United Nations Centre on Transnational Corporations has just published a manual on the information requirements of Governments when dealing with transnational corporations (TNCs) entitled: *Transnational Business Information: A manual of needs and sources*.

The manual discusses the needs of developing countries for information in all phases of their relations with TNCs and suggests sources that can help meet those needs. Its purpose is to help Governments and local enterprises in developing countries establish a collection of information sources.

The 179-page manual, plus an index, is organized along the lines of a typical decision process. The first of its four comprehensive chapters deals with issues considered by developing countries before becoming involved with TNCs. The second seeks to prepare possible host countries with information sources for the industries in which they want TNC participation. Scre-

ening TNCs to select candidates they might wish to negotiate with is the subject of the third chapter, which also provides directories containing information on a number of companies. The final chapter concerns individual TNCs and the host countries dealing with them.

The design of the manual allows readers interested in only one or a few of the topics discussed to consult the relevant sections, without referring to information that may be contained in other sections, since each topic is treated as an independent unit.

The manual includes over 500 citations of books, periodicals, data bases on line and on disc pertinent to transnational business negotiations. Full information is given on where and how to obtain the item cited and its cost. Products that can be obtained free of charge from the United Nations, the Organizations for Economic Co-operation and Development (OECD) and other organisations are highlighted.