

Indo-Iraq Economic Relations in Post Saddam Period

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The March 2003 war on Iraq by United States and allies was successful in removing Saddam Hussain and the Bathist Party from power in Iraq. Saddam Hussain remained at the helm of affairs of Iraq for twenty five long years. Saddam was replaced by a provisional authority headed first by J.M. Garner and then very soon by Paul Bremer.¹

In June 2004 Bremer appointed and handed over the reign of Iraq to his hand picked person Mr. Iyad Allawi as Prime Minister and Nouri al Maliki as new President. This followed with the referendum for a constitutional council which brought Ibrahim-al-Jafri at the helm of affairs in Iraq. Eventually a general election for centre and provinces was conducted in early 2005. Nouri-el-Maliki, a Shia leader was elected as Prime Minister while Jalal Jalibani, a Kurd leader was elected as President. Although the elections took place in the environment of boycotts, rigging and various other alleged malpractices but it was generally endorsed by the world.² Nouri-el-Maliki's government's five year term is going to be over soon. The next general election in post Saddam Iraq is slated to be held in January 2010. Contrary to the expectations Nouri-el-Maliki was able to suppress Shia and Sunni extremist elements to some extent and take Shia, Sunni and Kurdish nationalist sections along with him successfully. The completion of five years term by Maliki's government has provided Iraq with semblance of political and economic stability.

India's relations with Iraq have been age old. Even the economic relations between the two countries are centuries old. It is reported that Indian rupee was in circulation and accepted for trade and commerce even during

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the Ottoman rule in the region. With the British takeover of Iraq in the first world war, Indian rupee functioned as the official currency of Iraq. The Indian postal department also ran Iraq's postal system till the mid 1930s.³ After independence, India signed the first trade agreement with Iraq in 1953. The advent of the oil era in Iraq further strengthened Indo-Iraq economic relations. India-Iraq economic and technical cooperation agreement took place in 1973 followed with the establishment of Indo-Iraq Joint Commission in 1974.⁴ Indo-Iraq economic cooperation kept on growing even during 1980-88 Iran-Iraq war. Upto late eighties India had very significant economic relations with Iraq. Iraq had been a reliable and important supplier of oil to India whereas India has substantial export to the Iraqi market, the project export being very prominent. Thousands of Indians were employed in Iraq and earned precious remittances.⁵ However, all this came to a halt with the imposition of economic sanctions on Iraq imposed by United Nations in 1990. This came due to Saddam Hussain's misadventure of invading and occupying Kuwait that year. The sanctions continued till the removal of Saddam Hussain in 2003. It should be mentioned that the massive reconstruction business in post Saddam Iraq was monopolized by U.S companies.⁶ This paper is an effort to study the process of re-establishment of Indo-Iraq economic relations since then. So that academic input could be made available for devising strategies to revive the Indo-Iraq economic cooperation to new heights.

Indo-Iraq Trade

The data regarding Indo-Iraq trade in recent years has been provided in Table-1. However, it should be mentioned that the Ministry of Commerce in India has not provided detailed data of Indian imports of petroleum during the period 2000-2001 to 2005-06 and consequently the data on Indian imports from oil exporting countries during this period is under valued. This would get reflected in Indo-Iraq trade during this period despite the expectation of very low petroleum imports from Iraq due to the turbulence there. However, this anomaly in data has been corrected in 2006-07 as the data on petroleum imports from various countries has again been made available. From Table-1, it is found that Indo-Iraq trade increased from \$ 75.3 million in 2003-04 to \$ 7,103.7 million in 2007-08. Thus during this period Indo-Iraq trade grew enormously by over 94 times. During the same period India's total trade increased from \$ 142.0 billion to \$ 414.5 billion, thus growing by about 3

times. Therefore, it is evident that India's trade with Iraq during the above period grew extraordinarily faster than growth in India's trade with the rest of the world. It is also reflected in the percent share of Indo-Iraq trade in India's total trade which increased from 0.05 percent in 2003-04 to 1.71 percent in 2007-08. However, it is necessary that various aspects of trade between India and Iraq are investigated in detail. The next section deals with India's exports to Iraq in recent years.

Table-1

Trends in India-Iraq Trade (\$ Millions)

Year	India's Import from Iraq	India's Total Imports	Percent
2003-04	0.14	78.149.1	0.0
2004-05	1.12	111,517.4	0.0
2005-06	2.05	149.165.7	0.0
2006-07	5,521.7	185,604.1	2.97
2007-08	6,832.5	251,562.3	2.72

Source: Ministry of Commerce, Government of India

The data about the commodity composition of India's imports from Iraq is provided in Table-5. India's total imports from Iraq increased from \$ 5,521.7 million in 2006-07 to \$ 6,832.5 million in 2007-08, thus growing by 23.7 percent during the above period. Import of petroleum oil crude dominates the total Indian imports from Iraq. Imports of petroleum oil crude constituted 99.9 percent of India's total imports from Iraq during 2006-07 and 2007-08. The India's imports of petroleum oil crude from Iraq increased from \$ 5,519.2 million in 2006-07 to \$ 6,829.3 million in 2007-08, thus growing by 23.4 percent. Other notable item in India's imports from Iraq have been wool, fine or coarse animal hair, horse hair and woven fabric. India's import of these items from Iraq increased from \$ 2.11 million in 2007-07 to \$ 2.15 million in 2007-08, thus growing by 2 percent. However, it is clear that Iraq is again becoming an important source of supply for India's energy requirement.

India's Exports to Iraq

Table-2 provides information about India's exports to Iraq. It is observed that India's export to Iraq improved from \$ 75.2 million in 2003-04 to \$ 271.2 million in 2007-08. Thus during the above period, India's export to Iraq grew by a whopping 361 percent. Whereas during the same period India's total export increased from \$ 63,842.6 million to \$ 162,984.0 million, thus growing by 255 percent. And hence Indian exports to Iraq grew much faster than the growth in India's export to the rest of the world. This trend is also confirmed by the growing percentage share of India's exports to Iraq in India's total exports. India's exports to Iraq constituted 0.12 percent of India's total export in 2003-04. This increased to 0.17 percent in 2007-08. Thus India's export to Iraq has grown faster than India's export to the rest of the world. However, an in-depth study of Indian exports to Iraq requires a detailed analysis of commodity composition of the same.

Table-2
Trends in India's Export to Iraq (\$ Millions)

Year	India's Export to Iraq	India's Export to World	Percent
2003-04	75.2	63,842.6	0.12
2004-05	131.2	83,536.0	0.16
2005-06	156.0	103,090.5	0.15
2006-07	203.3	126,262.7	0.16
2007-08	271.2	162,984.0	0.17

Source: Ministry of Commerce, Government of India

The information about the commodity composition of India's export to Iraq has been given in Table-3. From the table it is found that India's export to Iraq increased from \$ 203.3 million in 2006-07 to \$ 271.2 million in 2007-08, thus growing by over 33 percent. Articles of Iron or steel has been the most important item in India's exports basket to Iran. Exports of iron or steel from India to Iraq improved from \$ 36.8 million in 2006-07 to \$ 109.3 million in 2007-08, thus growing by about 200 percent. However, India's export of salt, sulphur, plastering materials, lime and cement decreased from \$ 70.9 million in 2006-07 to \$ 42.2 million in 2007-08, thus declining by 40 percent. In the meanwhile India's export of pharmaceutical products increased from \$ 12.4 million in 2006-07 to

\$ 20.4 million in 2007-08, thus growing by 65 percent. Exports of electrical machinery and parts thereof from India to Iraq increased from \$ 7.2 million in 2006-07 to \$ 18.0 million in 2007-08, thus growing by about 150 percent. India's export of cereals to Iraq improved from \$ 2.8 million in 2006-07 to \$ 13.8 million in 2007-08, thus growing by 391 percent. Exports of meat and preparations from India to Iraq increased from \$ 3.1 million in 2006-07 to \$ 12.0 million in 2007-08, thus growing by 283 percent. India's export of machinery and mechanical appliances to Iraq increased from \$ 9.0 million in 2006-07 to \$ 12.0 million in 2007-08, thus improving by 32 percent. India's export of vehicle other than railway and parts thereof grew tremendously during the above period. It must be mentioned that India's exports to Iraq were severely hampered by the economic sanctions imposed by United Nations against Iraq since 1990-91 gulf crisis.¹ Prior to this Indian export had quit satisfactory existence in the Iraqi market. Iraqis also awarded Indian companies substantial number of projects, both in private and public sectors. Indian companies were extensively engaged in implementing projects in various sectors of the economy. India's project exports to Iraq were probably the single largest to any country in the world.² All this collapsed in the aftermath of the UN economic sanctions. Thus the crisis in Iraq not only devastated the Iraqi economy but it hit the Indian economy as well. It should be further noted that there were thousand of Indians working in Iraq before the gulf crisis.³ Indian expatriate workers are present in large numbers in the neighbouring gulf countries and are an important source of remittance earnings for the country. Since the gulf crisis Iraq became a closed chapter for Indian employment seekers in that region. However, in the post Saddam era, there have been little or no role for Indians in the massive Iraqi reconstruction programme. Both public and private sectors in India shall have to make serious efforts to get a foothold in the Iraqi market.

Table-3
Commodity Composition of India's Export to Iraq (\$ Millions)

Commodity	2006-07	2007-08	%Growth
T O T A L	203.3	271.2	33.4
Articles of iron or steel	36.8	109.3	196.6
Salt, sulphur, earths and stones			
plastering material, lime and cement	70.9	42.2	-40.4
Pharmaceutical products	12.4	20.4	64.7
Electrical Machinery and parts thereof	7.2	18.0	149.3
Cereal	2.8	13.8	291.3
Meat and preparations	3.1	12.0	32.4
Machinery and Mechanical appliances	9.0	12.0	32.4
Vehicles other than Railway and parts thereof	0.6	7.6	1,222.4

Source: Ministry of Commerce, Government of India

India's Import from Iraq

The trends in India's imports from Iraq have been provided in Table-4. It should again be pointed out that the data concerning India's imports of petroleum from different sources have not been made available for the period 2000-01 to 2005-06. Thus data on Indian imports from oil exporting countries would remain underestimated. However, the data on Indian imports of petroleum from different countries is again available since 2006-07. Thus the data on Indian imports from Iraq stands corrected since 2006-07. From the table it is found that India's imports from Iraq increased from \$ 0.14 million in 2003-04 to \$ 6,832.5 million in 2007-08. This growth is extraordinary. There are two reasons for this phenomenon. First is the removal of the economic sanctions on Iraq imposed by United Nations since the removal of Saddam Hussain in 2003. With the UN sanctions going away, Iraq became free to do business with the rest of the world. And it became possible for countries like India to engage Iraq in bilateral economic cooperation. The second reason has been the re-continuation of making data on oil imports available for various sources separately and consequent inclusion of this figure in data on total imports from various oil exporting countries. Anyway, India's imports from Iraq constituted 2.72 percent of India's total imports during the year 2007-08.

It would be further useful to study the commodity composition of India's imports from Iraq.

Table-4

Trends in India's Export to Iraq (\$ Millions)

Year	India's Import from Iraq	India's Total Imports	Percent
2003-04	0.14	78.149.1	0.0
2004-05	1.12	111,517.4	0.0
2005-06	2.05	149.165.7	0.0
2006-07	5,521.7	185,604.1	2.97
2007-08	6,832.5	251,562.3	2.72

Source: Ministry of Commerce, Government of India

The data about the commodity composition of India's imports from Iraq is provided in Table-5. India's total imports from Iraq increased from \$ 5,521.7 million in 2006-07 to \$ 6,832.5 million in 2007-08, thus growing by 23.7 percent during the above period. Import of petroleum oil crude dominates the total Indian imports from Iraq. Imports of petroleum oil crude constituted 99.9 percent of India's total imports from Iraq during 2006-07 and 2007-08. The India's imports of petroleum oil crude from Iraq increased from \$ 5,519.2 million in 2006-07 to \$ 6,829.3 million in 2007-08, thus growing by 23.4 percent. Other notable item in India's imports from Iraq have been wool, fine or coarse animal hair, horse hair and woven fabric. India's import of these items from Iraq increased from \$ 2.11 million in 2007-07 to \$ 2.15 million in 2007-08, thus growing by 2 percent. However, it is clear that Iraq is again becoming an important source of supply for India's energy requirement.

Table-5

Commodity Composition of India's Import from Iraq (\$ Millions)

Commodity	2006-07	2007-08	% Growth
T O T A L	5,521.7	6,832.5	23.7
Petroleum oils and oils obtained from bituminous crude	5,519.23	6,829.3	23.7
Miscellaneous chemical Products	0.31	0	-100.00
Raw hides and skin (other than fur skins) and leather	0.06	0.32	416.0
Wool, fine or coarse animal hair, horse hair, yarn and woven fabric	2.11	2.15	2.0

Source: Ministry of Commerce, Government of India**Balance of Trade**

From the analysis in previous sections, it is found that India's trade with Iraq has grown very fast in recent years. However, it remains to be investigated whether this growth is balanced or unbalanced. Table-6 provides data about India's balance of trade with Iraq from the year 2003-04 to the year 2007-08. It has already been pointed out that data on Indian imports from Iraq between 2003-04 to 2005-06 may be underestimated. This anomaly will be carried out in data on India's balance of trade also. From the data in table it is observed that India had maintained surplus in its trade with Iraq between 2003-04 to 2005-06, as long as data on petroleum imports was not included in India's total imports from Iraq. However, once the data on petroleum imports was added in India's total import from Iraq since 2006-07, the balance of trade altered drastically. During 2006-07 India suffered a trade deficit of \$ 5,318.4 million whereas in 2007-08 the deficit further increased to \$ 6,561.3 million. Comparing the size of India's deficit with Indo-Iraq total trade it is found that Indo-Iraq trade is severely unbalanced against India. This should be taken seriously and efforts

should be made to devise strategies for enhancing India’s export to Iraq.

Table-6
Trends in India’s Trade Balance with Iraq (\$ Millions)

Source: Ministry of Commerce, Government of India

Scope of Energy Cooperation

Year	India’s Export	India’s Imports	Total Trade	India’s Balance of Trade
2003-04	74.2	0.1	73.3	75.1
2004-05	131.2	1.1	132.3	130.1
2005-06	156.0	2.0	158.0	154.0
2006-07	203.3	5,521.7	5,725.0	5,318.4
2007-08	271.2	6,832.5	7,103.7	6,561.5

Prior to the UN economic sanctions, Iraq had been an important supplier of petroleum to the global energy market. Iraq was one of the original member of Organization of Petroleum Exporting Countries (OPEC) and also a member of Organization of Arab Petroleum Exporting Countries (OAPEC). Before the break of the Iran-Iraq war, in 1979, Iraq had been the second largest exporter of oil next to Saudi Arabia only.² Further, by 1st January 1990, Iraq’s proven oil reserves were conservatively estimated at 100,000 million barrels placing it second only to Saudi Arabia and sufficient to last for about one hundred years at the 1989 production level.³ However, with UN economic sanctions in force since 1990, Iraq became a non player in the global oil market. For the new regime, the foremost task after getting stable would be to revegorate the Iraqi oil industry. The oil minister in the new regime Hussein Shahrstani has been making all the efforts to bring the industry back on track. The new government of Iraq was reported to be working on legal framework of investment in the energy sector. All the world’s oil major companies have been eyeing for entry into Iraqi oil industry.⁴

India’s first entry into Iraq came, though controversial, when Reliance

Industries Ltd. (RIL) signed two Production Sharing Contracts (PSC) with the Kurdistan Regional Government (KRG) covering petroleum exploration activities in the Rovi and Sarta blocks in Kurdistan region. Under the terms of contract, Reliance exploration and production DMCC, a wholly owned subsidiary of RIL would serve as the operator. The blocks measuring 517 and 607 square kilometers respectively have almost 80 percent oil bearing structure.⁵ However, this deal was taken very negatively by Iraqi government. The federal government of Iraq urged the regional government of Kurdistan against signing any deal. The Iraqi oil minister warned that these contracts had no standing with the Iraqi government. The minister threatened to ban such companies in future Iraqi contracts.⁶ The oil minister also warned that Iraq would not allow such companies to export oil. Companies producing oil in the Kurd region have to necessarily go to Southern ports that come under the administrative control of the federal government of Iraq.⁷ Consequently Reliance Industries could not participate in the qualification round to be eligible to bid for oil and gas contracts in Iraq to develop one of the world's largest oil fields. ONGC Videsh Ltd. (OVL), the overseas arm of the public sector Oil and Natural Gas Cooperation was the only Indian company in the list of 35 firms that the Iraqi federal government found eligible for bidding for the contracts.⁸ A total of 120 companies had sought to pre-qualify for the first Iraqi licensing round after the fall of Saddam Hussain's regime. OVL already has license for block 8 in Iraq.⁹ Anyway, once the Iraqi oil industry opens for the foreign participation, the Indian oil companies would have to compete successfully. The response has to be fast but cautious. Further, Iraq would like to acquire its previous status of large oil exporter as soon as possible. For this it would require consuming markets. India has been one of the largest oil consuming and importing country. This makes India very important in any Iraqi strategy to revive its oil industry. India can bargain for greater participation in the Iraqi oil industry and also try to arrive at long term contracts for meaningful energy cooperation. In addition to the oil industry, India can also participate in upcoming capital projects in other sectors of the Iraqi economy. Iraq is expected to spend increasingly larger amounts on capital projects to reconstruct the Iraqi economy as the oil revenues begin to inflow. During 2008, Iraq was reported to spend \$ 19 billion on projects.¹⁰ This amount would certainly increase with the increase

in stability, decline in violence and rise in oil revenues inflow. It should be noted that India had once been the largest project exporter to Iraq. India must try to revive the thriving economic cooperation that it enjoyed with Iraq in the nineteen eighties. The biggest asset for India is the general warmth and feeling of goodwill that the Iraqis have for India.¹¹ India's democracy, its technical expertise, manpower and its emerging economic strength could prove to be attractive for Iraqis. It is high time that policy makers pursue an active and high profile policy to rejuvenate the Indo-Iraqi economic cooperation. Many tough competitors have emerged at the global level in the last twenty years. It should be noted that China became the first foreign country to win participation in Iraqi oil industry in post Saddam period. The China National Petroleum Corporation (CNPC) was awarded a \$ 3 billion deal to develop the Al-Adab Oil Field located 160 kms South East of Baghdad. China was also setting up the Zubeidiyah Power Plant of an estimated capacity of 1,320 MW.¹² Thus China has already become ahead of India in promoting economic cooperation with Iraq. It is well known that during the first decade of twenty first century China has left India far behind in expanding market share for its exports in the neighbouring gulf countries also. This requires Indian policy makers, public and private companies to devise urgent, effective and timely strategies to become an important partner in the reconstruction and development of the Iraqi economy.

Conclusion and Recommendations

- The Indo-Iraq trade has grown tremendously in the post Saddam period.
- Indian exports to Iraq are very low and have grown very slowly in the post Saddam period.
- Indian imports from Iraq has risen very fast.
- Petroleum crude has been the dominating item in India's imports from Iraq.
- Iraq has again become an important source of Indian oil imports.
- However, the growth in Indo-Iraqi trade has been drastically unbalanced.
- India has suffered large deficits in its trade with Iraq in the post Saddam period.

- India has to strive to increase its share in the Iraqi import market to bring balance in Indo-Iraq trade.
- India had been the largest project exporter to Iraq in Nineteen Eighties.
- Indian public and private sectors should become active to participate in Iraqi projects. In this context competition from Chinese companies should be taken seriously.
- Similar steps should be taken by Indian oil companies. Again competition from Chinese companies should be taken seriously.
- India should advertise its democracy, technological achievements, substantial English speaking population, skilled manpower, its management and technical institutions and its universities to become well known in Iraq.
- The commercial section of Indian embassy in Iraq should be made extraordinarily active.
- The frequent exchange of delegations at the governmental level will be a catalyst in this direction.
- Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI) and other such organizations should devise their own strategies for Indian companies to enter and expand in Iraq.
- The strategies so adopted should be for long time period to put the Indo-Iraqi economic cooperation at the highest level.

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