

I. INTRODUCTION

While the Iraqi regime fell with little resistance in a military campaign carried out almost solely by the United States, the rebuilding of Iraq, both politically and economically, will prove more challenging, and a task that the United States can not and should not facilitate alone. Political reconstruction will require time, patience, extensive negotiations and most importantly, the involvement of both the international community and the multiple social groups in Iraq. Economic reconstruction should follow in suit, led by an international coalition of countries. There are many uncertainties regarding the future of Iraq, but the larger goal is to create a stable political system and prosperous economy. Thus the new regime must be capable of governing Iraq, its multiple ethnic and religious factions, and simultaneously managing its extensive natural resource base. The first half of this paper will focus on the political and social obstacles both inside and outside of Iraq that threaten successful political reconstruction in the post-war period. The second half of the paper will focus on economic reconstruction in Iraq.

II. THE KEY PLAYERS

Ethnic and religious groups are already demanding political power and moving to exercise new political freedoms long-oppressed by Saddam Hussein's regime. There are many deep-rooted factions dividing Iraq and it is these ethnic and religious conflicts that are perhaps the single, most destructive force threatening to hinder Iraq's future growth and development. In fact, competing interests are so complex that it may be easier for the international community to re-create Iraq without the input of these feuding groups. Doing so, however, would ultimately mean failure for a new regime in the long-term. In order for a successful political system to be implemented, the majority of Iraq's key

players and groups must be in support of the action taken. Thus, the wishes of these diverse groups and their input in the future political system of Iraq is vital for success.

The ethnic make-up of the Iraqi population is approximately 55% Shia Arab, 20% Sunni Arab, and 25% Kurdish, including a sprinkling of smaller players such as the Turkmen, Chaldeans, and Assyrian Christians. (Ottaway/Yaphe, 2) Since the time of Ottoman rule, the Sunni Arabs, clearly the minority of the population, have ruled Iraq. In post-war Iraq, this asymmetry in political power is bound to change, but how to bridge the fundamental differences between these groups and their different views will be difficult. Furthermore, protecting the Sunni Muslims from possible outlashes of violence or punishment from their years as Iraq's elite class is also a concern. Now for a closer look at the key players inside of Iraq.

The largest ethnic group in Iraq are the Kurds, geographically located in the northern portion of the country. The Kurds have withstood the brutal nature of Saddam Hussein's regime, including his use of chemical weapons on the population and his attempted genocide. Nearly 200,000 Kurdish people have died at the hands of Saddam's old regime. (Const. Structure, 9). Recently, the regional Kurdish government has drafted a Constitution of the Federal Republic of Iraq, outlining a recommendation for the new regime. The plan suggests a confederal Iraq divided into an Arab region (the middle and south of Iraq) and a Kurdish region (the northern part of the country, but double the size of its current area and including many historically disputed sites). It is proposals such as this one by the Kurds that are likely to ignite sparks of conflict between different ethnic groups in the re-settling of Iraq.

Another ethnic group ignored under Saddam's reign are the Shi'a Arabs. Shi'a Arabs were not allowed to engage in political participation in the old regime, but their involvement in the reconstruction of Iraq is vital to ensure that the dominant segment of Iraq's population is represented in the new political system. There are many concerns, particularly among U.S. officials, that the Shi'a Arab population in Iraq will desire to unite with the Shi'a Arabs of Iran or even create a similar political state. Given the historically poor relations between the U.S. and Iran and the trade sanctions imposed on the country, this would only worsen ties between the United States and a future Iraq. Thus far, however, the Shi'a Arabs have not expressed any desire to unite with other Shi'a Arabs, nor have they stated their views on post-war Iraq, something that must be understood before reconstruction begins.

Minority groups such as the Turkomans, Chaldeans, Yezidi, and Assyrians also must be taken into account in the new political system. For example, how will these small ethnic minorities be represented in the new regime and will they be able to exercise the same political freedoms as larger and more dominant ethnic groups? These questions and more remain unanswered.

Overall, the complex ethnic make-up of Iraq promises to be one of the primary obstacles in rebuilding the country. These internal factions however, are only a small piece of the puzzle. External forces and the intentions (known or unknown) of other countries in the international community could lead to outbreaks of violence or a tumultuous future for the Iraqi people.

III. THE LEADERS IN REBUILDING IRAQ

There is considerable debate concerning who should be in charge of re-building Iraq. The United States believes that since it dismantled the old regime, that it should be the primary facilitator. Others believe that nation-building is best undertaken by an international body such as the United Nations that can draw on a widespread resource base to aid its cause. Additionally, such an international coalition may help to relieve the Iraqi peoples' concerns regarding the United States' continued military occupation and its economic or political pursuits in Iraq. Finally, others believe that the Arab nations should serve a larger role in rebuilding Iraq because of the many common features shared by countries in the Middle East.

While it remains unseen who or whom will guide the immediate future of Iraq, there is widespread concern that other countries' individual agendas will neglect what is best for Iraq and the Iraqi people. For example, Turkey is worried that complete Kurdish autonomy in Iraq will encourage its own Kurdish people to demand increased independence. Iran would likely welcome a Shi'a led government favorable to its own regime, while Saudi Arabia would probably welcome a Sunni government.

(Ottaway/Yaphe, 11) These are only some of the agendas that may shape the political future of Iraq and it only accounts for Iraq's nearest neighbors, nevertheless the Bush administration's favorable disposition towards implementing a democratic, secular state.

The success of democracy in Iraq will only be answered with time. The U.S. administration has declared that it will begin democratic reforms and then turn Iraq over to its people when it is ready. Information regarding the U.S. administration's plans for post-war Iraq were initially revealed on February 11, 2003. It was then that three stages

of development were identified. 1. Stabilization, a period where an interim military administration would be established, lasting up to 2 years. 2. Transition, where authority is passed from the interim council to Iraqi institutions. 3. Transformation, the final stage whereby a democratic government would rule Iraq freely. (U.S. Inst. Peace, 6) At first glance this proposed strategy seems rather simple, undoubtedly underestimating the magnitude of the impending religious and ethnic conflicts and power struggles that this paper has already discussed above. Regardless of the long-term success of the Bush administration's plans for transition, there are many specific events that must occur immediately following the post-war period in order to set the democratic process in motion.

IV. BUILDING BLOCKS

The United States Institute for Peace argues that, "the U.S.-led coalition's most important objective should be establishing the rule of law." (U.S. Inst. Peace,1) This process will be two-fold, dealing with the past and also erecting a future legal system through which the new established regime can receive its legitimacy, stability, and order. Dealing with the past refers to the fates of former Baath party members. With the fall of Saddam, party members were rendered obsolete, but will there be punishment for the gross atrocities carried out by high-ranking party members and military officials during the regime's being? As searchers continue to unearth mass graves, such as the one discovered at Hilla containing 3,000 bodies, the answer is likely, "yes". (NY Times, 5/30) Furthermore, there is widespread speculation that given the number of executions of political opposition groups, ethnic groups, dissidents, and their families throughout Saddam's reign, that this is not the only mass burial site in Iraq. (NY times, 5/30)

As a result, it will likely be necessary to create an international war crimes tribunal in order to consider charges brought against Saddam and other high-ranking party members who facilitated these crimes against humanity. Such a process will begin the healing cycle and also allow for a cleansing and rebirth to take place.

The second item that must be addressed is the planning and development of a legal system in Iraq. This will serve as the foundation of the new regime and will include elements such as a constitution, legislative system, judicial system, and executive branch. Establishing a rule of law is particularly important since governing institutions are in disarray and looting, demonstrations, and the discovery of newfound political freedoms will likely create chaos and instability, particularly in the interim period. Thus promoting security is essential in fostering peace, development, and growth.

As stated before, the Bush administration's plan for Iraqi political reconstruction is far too simple. There has been no discussion around the actual governmental structure of the new Iraq except for its inherent democratic nature. For example, will Iraq have a parliament, and if so, will it be unicameral or bicameral. How large should the parliament be and how will elections be held. Should a set number of seats be designated for ethnic minorities, or should all seats be proportional to the ethnic diversity found in the country. Who will be the new Iraqi leader who will unite the masses or advocate for democracy. Will it be a minority, and exiled Iraqi, or a Shi'a Arab belonging to the majority population in the country? What about setting up courts, criminal and commercial legislation, reconstructing prisons, or policing the streets. How will human rights be guaranteed and protected in the new system or territory divided between different ethnic groups. Finally, when will drafting of a new constitution begin and who

will be responsible for its writing. How difficult will it be to ratify the constitution, make amendments to its content, and ultimately, how long will it last.

It is evident that there are significant fundamental decisions that must take place in the near future in Iraq. These decisions will be made in large part by the United States and the international community. It is also vital that representatives of Iraq's population are included in the formulation of its new government and the establishment of a democratic system. This will allow for a higher probability of success. The interim period will most likely be unstable with outbreaks of chaos. It is for this reason that a legal system must be implemented as soon as possible. Overall, one of the most impeding factors to the political reconstruction of Iraq are the ethnic factions that separate its population. In the post-war period religious revival or even strong nationalism may take root and blossom into something other than democracy. It is for this reason that the immediate post-war period be handled with the utmost precaution and decisions be made to protect Iraq, its people, and its future while simultaneously fostering economic growth and development.

ECONOMICS IN IRAQ

V. CURRENCY

Iraq needs to begin by booting the Dinar and launching a currency that is both a reliable medium of exchange and physically different. Changing currencies is both symbolic and pragmatic; new money would serve as very tangible evidence of regime change and would mark the beginning of a new era for the Iraqi economic system. There have been some bids to merely implement the use of the American dollar; however, this would be a mistake (The Economist, p27). Again, symbolic importance

should not be underestimated and the adoption of a western currency would only fuel the fire of critics who accuse capitalist nations of impending imperialism. Nevertheless, the new currency needs to be reliable in order to promote economic stability, and the most sensible solution is also the most obvious: peg the Iraqi monetary unit to either the dollar or perhaps a fifty-fifty basket of dollars and euros for about five years or until the domestic economy strengthens to the point where it could progress from a currency board to a system that promises more flexibility (The Economist, p24). This is a clean-cut compromise that would confer almost immediate credibility for the new legal tender. There is one catch to fixing the currency to the dollar and that would be opening Iraq up to be susceptible to capricious oil prices. On the other hand, when the currency board is abandoned, Iraq will be able to go to an arrangement with increased elasticity, which would safeguard against any severe blows caused by the fickle nature of oil prices (The Economist, p 31).

VI. WAR REPARATIONS

The settlement of all external debt is imperative and should be of critical concern to Iraq's nation-builders. Iraq has accrued an enormous debt since the first Gulf War with respect to war reparations with analysts estimating totals to be in the neighborhood of over \$200 billion dollars. Learning from the disaster that resulted in part from holding Germany to its heavy reparations bill after the First World War, it would be reasonable to suggest that Iraq's war debt be cancelled. This will allow the nation to start recovering economically without the pressure of an ominous and seemingly impossible repayment program. It is logical enough to assume that the Iraqi people should not have to

compensate for the transgressions of their former dictator by shelling out billions of dollars that will likely cripple their economy.

However, the same consideration cannot be liberally applied to all Iraqi debt. The nation's international financiers will want to call in their loans made under the Saddam regime. Economists from a London-based think tank suggest that the best way to manage these types of non-reparation based debt would be to defer the loans through the London and Paris Clubs. If this does not adequately address the problem, economists propose that the debts be forgiven as in the case of Poland after the fall of the Soviet Union when loan repayments were cancelled on the grounds of political fallout (INSERT SOURCE).

On the other hand, some repayment is seen as some as critical to erasing its image as an international pariah and upgrading Iraq's standing in the international credit markets. The combination of debt postponement and absolution should allow the nation-state to regain entry into international cash markets to gather capital for reconstruction. Fortunately, foreign aid in the form of financial contributions will not be a large part of reconstruction due to Iraq's enormous oil wealth..

VII. THE ROLE OF OIL

There have been predicted two scenarios that greatly concern the international community; the first, that the engaged powers—which is by and far the United States—seize the oil resources and second, that oil wealth will be impounded for the personal use of Iraq's new leaders. It may be the least controversial and most efficient to give multilateral guardianship temporarily or until a new Iraqi administration demonstrates the capacity to handle it. Until then, the international oil management should have the unambiguous purpose of alleviating Iraq's international debt load. Some analysts put

forth that occupying authorities are entitled only to returns from the vending of oil belonging to existing fields, but is not justified to claiming any ownership to the oil itself. The occupying country or cooperation of countries should not take the opportunity of their dominant presence to construct new oil wells in order to expropriate the oil for themselves and furthermore, no oil sales should contribute to the profit of non-Iraqi firms by the process of privatization (Reed).

Because oil is an intrinsic component to Iraqi reconstruction, any revenue created from the selling of oil assets should be funneled directly to programs intended to help the nation itself. Eradicating hunger, reconstructing public structures such as roads, and the institution of democratic establishments should be priorities. Although the coalition of the willing, headed by America and Britain, have promised on multiple occasions that the oil assets will not be seized for British and American use, it must be guaranteed that revenues will not be expropriated by the occupying powers, nor should an assets be used to pay war reparations (Vieth). Regardless, the Geneva Convention mandates the occupying powers help alleviate the repercussions of the war that they began. Grassroots humanitarian aid would include providing access to drinkable water and restoring electricity.

Iraq's abundant oil fields are its greatest resource, and will help attract many financial investors and lending institutions (Glain). Economic restructuring must ensure against the mismanagement of the reserves, a common outcome for countries with copious natural resources. Oil companies who will closely work with the government should be given contracts to extract oil, and there should be a federal tax imposed on those revenues in order to generate a cash flow for the government. Although the Oil-

For-Food-Program has many downfalls, it could serve as a good theoretical construct for the administration of oil, assuming the assets are under international guardianship (The Economist).

The aforementioned program should successfully ensure a productive method for accruing Iraq's largest and most reliable source of revenue; however, a second question must now be asked: How will Iraq spend its money? Budgetary measures should be under the explicit prerogative of a domestic leadership, and the reins should be handed over to a committee immediately. New government administrators need to be chosen to head up the public sectors of law, medical, education and municipal services (Glain). A director of budget and spending, who should also be responsible for the creation of a tax code, should coordinate the budgets of all of these sectors. Under the wings of the World Bank or the International Monetary Fund, these fledgling representations of a democracy will set the foundation for the new Iraqi government and set the nation on the path to democracy. The need for international advice from the supranational organizations is derived from the fear that the local elite will revisit the sins of the former ruling class and lavishly consume the desperately needed public revenue; consequently, the need for internationally enforced financial plans and budget constraints stands clear.

Oil is not only an essential to the savvy reformation of the macroeconomic structure and budget modifications, but it is also a key component to the efficient rejuvenation of economic structure (Vieth). The most simplistic solution would include the sale of the state oil industry to the premier bidder. This process would also achieve efficiency maximization because the parties vying for exclusive rights to the reserves will bid higher and higher until the price paid will be from a company that will end up only

making a realistic and average amount of profit, which will result in all of the economic rents---which with respect to oil are gigantic (Reed) because the global price of each barrel is usually far away more than the actual cost of production; the sale price can range between seven and twelve times the cost of producing one barrel--flowing to the state. The problem with economic rents of a tremendous size is the potential for corruption derived from any system that would promote an Iraqi monopoly on the reserves, the incentive and temptation would be too great to expropriate the large revenues (Vieth). Oil companies allowed to bid for the rights to Iraq's resources should not be limited to American firms; regardless of the diplomatic tensions that exist between the occupying force and the coalition of the unwilling, It would be in the best interest of the state of Iraq if all bidders, even those from Russia and France, were permitted to vie for a stake in the sector.

The revenue raised from the oil should not be spent, but rather put in a trusteeship of the government and invested. There has been a great deal of stipulation as to the benefit of allocating shares of the trust fund to the Iraqi people, a process that would really symbolize that the oil wealth "belongs" to the citizens. A second alternative would be to distribute yearly cash outs to each adult Iraqi that is deposited in an IRA type fund (Vieth). If the trust fund was invested for the long term in external markets, it could have the added benefit of limiting the exchange rate by lessening the influx of foreign currency, which would then secure the competitive edge of the remaining sectors of the economy (Glain).

It has also been suggested by a handful of economists that economic efficiency would best be guaranteed by a scheme which included mass-privatization. The way this

would work would be as follows: the entire industry would undergo a massive partitioning where multiple companies would be allowed to bid for only a split portion of the total industry. The companies would then be obliged to deliver shares in their stock to each and every Iraqi citizen, another symbol of Iraqi rights to possession of the oil resources(Varouhakis). The downfall with this proposition, however, comes in the form of a lack of any empirical model of this sort functioning in history. On the contrary, a similar operation was put into action in Russia, with respect to the privatization and delivery of shares, but it ultimately resulted in the elite exerting a skewed amount of power and a lack of central accountability (Varouhakis). In addition, since the average Iraqi shareholder is facing dire financial situations, it is most likely that the common shareholder will actually sell of his or her piece of the pie below cost in order to reap immediate monetary gratification and thereby, shorting their potential personal gain. It would have to be arranged, by law, to forbid the selling of stock before economic rejuvenation – maybe up to 6 years.

VII. AND EVERYTHING ELSE

As for the remaining sector of economic restructuring, the tried and true lessons learned from past economic rejuvenation programs can certainly be applied here. These doctrines of sensible and reliable economic administration would include: clear barriers to entry and other economic obstacles in order to maximize competition; ensure the publication of an efficient, sensible and reliable tax code and most importantly, wage a war against bureaucracy.

In closing, the most important point to take away is that restructuring is a challenge. The largest challenge with respect to reviving an Iraqi economy will be the

ability to efficiently, adequately and fairly allocate an equal portion of the oil wealth to each citizen. Taking into account the political and economic suggestions put forth by the above arguments, the prevailing importance learned from previous attempts at nation building is assuredly the interconnection between political and economic restructuring. They are an intertwined challenge and it is an empirical certainty seen time and again that the first cannot happen without the second. If this lesson is taken seriously, then the peace process will be one of success, resulting in social stability and long term nationhood.

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