

INDIAN PROJECTS IN IRAQ : PROBLEMS AND PROSPECTS

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DECLARATION

Certified that the dissertation entitled
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PREFACE

In the seventies, the age old economic relation between Indian and oil rich West Asian countries underwent a qualitative change. The bourgening market of the latter opened new vista for the Indian companies to participate in overseas market in varieties of sector. Iraq along with the Algeria and Libya emerged as one of the successful market for the Indian companies in the field of project exports. Unlike the GCC states, facing the constraints of small domestic market, Iraq could envisage investment of its oil revenue to expand and diversify its economic base. These from infrastructure, agriculture to capital goods sector became the priority items on the development agenda of the country. The ambition to transform macro-culture profile of the economy into a modern industrial state, it^{'s} imperative to look for cooperation and collaboration with other countries. From the developing countries India emerged as one of the leading nations. It joined Iraq in its endeavour of economic reconstruction and development.

However, before the Iraqi economy could break the barriers of underdevelopment, it makes a leap forward to reach the take-off stages the steep fall in oil prices and the prolonged eight years war with Iran has not only checked its development pace but has drained off its solvency and reducing it to the level of a debtor economy. It has to re-start and

rebuild its economy too in a context which ^{is} not very conducive. It needs time to remobilise resources to meet the aspiration of people. In this formidable task India can play constructive role but it requires a careful planning, policy orientation and understanding between two countries.

Indian experience of project exports, the subject of the present study was undertaken with the view it comprehend the strength and weakness of Indian companies, in the field of civil and engineering construction activities in Iraq. It was expected that an evaluation of this kind would help in formulating a policy which could have earned optimal mileages out of this interaction. Ironically as the proceeded the difficulty of obtaining data from the Indian source started becoming so formidable that data on India has to be obtained from Western sources. Despite this repeated efforts of contracting officials of leading companies sending questionnaire, it is regrettable that the extensive information could not be obtained. Yet the merit of the study is that this happens to be first work of its kind in this field. It is hoped that this study would create grounds for more comprehensive and analytical work in future.

The study divided into five chapters. It begun with a brief appraisal of the Iraqi economy, identifying the leading trends and structural profile which provides the background of the market. In the second chapter, the focus is on the

construction market of Iraq, its expanse and evolution. It also provides the profile of the Indian projects in the market. In the third chapter, attempt has been made to evaluate the performance of the Indian companies. It also aims at to outline the problem faced by the Indian companies as well. The fourth chapter deals with project export policy of the Government of India. In the final chapter, the prospect of Indian companies are assessed in the background of the 'Reconstruction Programmes of Iraq'.

In collecting the data on the subject, I have had the privilege of meeting and interviewing with some senior officials of their companies. Though the experience has not been very pleasant, yet a few of them did spare time and furnished information. I will be failing in my duty if I do not acknowledge them. They include Mr.M.C.Srinivasan, General Manager, Iraqi Division, RITES, Mr.K.K.Singal, General Manager, Ansal Properties (P) Ltd., Mr. Rajagopalan, Special Officer, Iraqi Division, Water and Power Development Consultancy Services and Mr. Anup Kumar, Superentending Engineer (Civil), Iraq Cell, National Project Construction Corporation Ltd., New Delhi.

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Chapter I

IRAQI ECONOMY: AN OVERVIEW

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The contemporary profile of the Iraqi economy and its future behaviour both in the domestic sector as well as in the world economy including bilateral relations with India can be better appreciated by analysing the leading trends that emerged over the years. The year 1968¹³ is taken as bench mark for this study because a radical systemic transformation was attempted when the Ba'ath party took over the political command of the country.¹ It was expected that this transformation would pave the way for 'socialist' reconstruction. Accordingly, institutional structures were remoulded and the state became prime mover of the system. While the inter-play of domestic forces steered the evolution of the system, the international context both in strategic and economic terms has had its own role in its grooming particularly after the ushering of the 'oil era'. The dominance of oil linked the pace of the economy with the behaviour of international market to be more precise with the global oil regime.

Given the pre-ponderance of oil in making of Iraqi economy, the evolutionary account of last two decades since taking over the Ba'ath Party can be studied in terms of three phases: first, beginning from 1968 to 1973, the period when the role of oil in the economy was revised and redefined, second from 1974 to 1980 when the oil sector overtook the system by

1. J. Stork, "State Power and Economic Structure", in Tim Niblock, Iraq: The Contemporary State (London, 1982), p.32.

unprecedented price rise, and third from 1981 to 1988 when depressed oil price and war with Iran drained away the solvency of the system making it a net debtor economy. With the cessation of hostilities and stabilisation of oil prices, a new phase has begun. This will be analysed latter in assessing the prospect of the economy.

In recapitulating the leading trends during above mentioned period of the economy, the focus is kept on the agrarian sector, the Industrial landscape, oil sector and external accounts. While agriculture is the backbone of the economy, oil has been the propelling force capable of making the economy self-reliant or dependent in relation to world market, the industry represents the future of the economy. The future of the economy is shaped by the interaction among these four sectors. This, however, does not minimise the significance of other sector and their contribution in making of the Iraqi economy.²

Integration of a Dualistic Economy (1968-73)

Like most of the oil exporting economies, a sharp cleavage between the oil and non-oil sector has been the feature of the Iraqi economy. The oil sector, tied up with the external market, has had no linkages with non-oil sector thereby creating a classical case of dual economy. The control of the

2. R.Gabby, Communism and Agrarian Reform in Iraq (London, 1978), p.169.

oil sector by the foreign companies - Iraqi Petroleum Company (IPC) and its associates, Basra Petroleum Company (BPC), Mosul Petroleum Company (MPC), The Italian Company Ente Nazionale Idrocarburi (ENI) and the French Company Enterprise de Rescherck et d' Activities Petroliers (ERAP)-gave them power to reap all the advantage of the oil industry leaving inadequate surplus for the investment in non-oil sector.³ Thus, a change of ownership was felt a necessity to integrate oil and non-oil economies. This led to the nationalisation of the industry.⁴ Along with the changes in the ownership of the oil economy, need for corresponding changes were also felt in the agriculture sector. So the government launched land reform programme. In initiating the interaction between oil and agriculture sector, the significance of industrialisation became evident, so the government planned investment in industry as well. However, the scale of investment was determined by the size of the oil revenue. In the following pages, attempt is being made to analyse the behaviour of these sectors: (I) Agriculture, (II) Industry (III) Oil and (IV) External Account.

(I) Agriculture

Agriculture has been the backbone of the Iraqi economy.

It contributed 18.2 per cent to GDP in 1969 and employed 53.4 per cent of the entire

3. A.A.Kubursi, "Oil and Iraqi Economy" in the Arab Studies Quarterly, vol.10, no.3, 1988, p.289.

4. Ibid., p.288.

work force. During 1967-68 to 1973-74, the government allocated ID 413.0 million to agriculture sector of which only ID 208.2 million was disbursed. During the period 1965-70 the agriculture sector received only 32.4 per cent of its projected allotment, whilst during 1970-75 actual spending in the agriculture sector was 53.8 per cent of the allotted expenditure. Average 22 per cent of the total development budget was allocated to the agriculture sector during 1970-75 period compared with 11 per cent during 1961-65 period.⁵

To bring the necessary institutional changes, government launched various measures including transfer from private to public ownership. It was aimed at to make agriculture as the subsistence means for weaker section of the society.⁶ To promote equality the Government of Iraq issued law No.117 of 1970 which prescribed lower limit of the ownership and new regulation for land distribution. The main aim of this law was to guarantee peasant rights, to change the old production relation represented in feudalism and exploitation.⁷

During the period of national Development plan, 1970-74, the government had provided ID 365.0 million against ID 208.0 million in the previous plan, 1965-69. This investment was

5. R.Theobald, S.Jawad, "Problems of Rural Development in Oil Rich Economy: Iraq 1958-1975," in Tim NiBlock, Iraq: The Contemporary State (London, 1982), p.205.

6. Abbas Kalidar, The Integration of Modern Iraq (London, 1979), p.142.

7.

directed on flood control, irrigation, drainage, agricultural services, storage and marketing of agricultural products. The total area of cultivable land also increased during this period from 12 million donums to 23 million donums. Eight million donums was in private hand and rest was controlled by either the state ~~or~~ collective and co-operative societies. The state farms extended over 391,000 donums and collective farm extended over 11,000 donums. The basic feature of this period was reduction of land under private sector and increase the share of collective and cooperative societies. By 1974, there were 1,653 agricultural cooperatives controlling 4 million hectares, 72 collectives with 134,000 hectares and nine integrated state farms with approximately 100,000 hectares.⁸

The Government had launched country wide land reclamation programme. Specialised technical bodies were entrusted with the responsibility of undertaking intensive research in this field. The establishment of state organisation of land survey and reclamation under the law No.83 of 1973 has provided an organisational foundation for scientific research. The major dams were built to provide irrigation facilities. During this period, Plan was also prepared to irrigate 4.5 million hectares of land. According to official estimate some 25,000 to 30,000 hectares were lost each year through the effects of salinity and alkalinity on irrigated land. So, Plan had been

8. Kalidar, n.6, p.143.

formulated to commission one new irrigation project of the size of Kirkuk irrigation scheme at every four years to keep pace with the rate of loss in irrigated land.

The "High Agriculture Council" was formed through law No.116 of 1970 to direct the plan and pursue its execution. Its duties were as follows:⁹

- i) To outline the agricultural policy and objective.
- ii) Laying down detailed complementary programme for agricultural development and investment programme,
- iii) Taking decision to direct agricultural activities in the private sector guided by general objectives of adopted approved policy.

The Council was supreme authority to formulate the strategy of agricultural policy. The main characteristics of agriculture policy were as follows:

- i) Preparation of comprehensive land reform plan to rescue cultivated land from salinity and dampness through utilising national capital and in cooperation with friendly countries to accelerate land reform.
- ii) Enforcement of agrarian reform laws and putting an end of capital, commercial and ramp exploitation of peasants;¹⁰
- iii) Changes in the agricultural pattern to serve the socialist transformation by concentration on the following forms

9. Baghdad Observer (Baghdad), 19 June 1978.

10. Ibid., 18 January 1975.

according to their serial number: (a) state farms, (b) collective farms, (c) co-operative farms. State farms should be so developed to play the leading role in the agriculture sectors. Government had taken following steps to strengthen state bodies: (a) improving the administrative system; (b) applying socialist principles by transforming state into contemporary productive units, (c) combining the private interests of workers with that of agricultural production, (d) strengthening co-operative system by encouraging gradual formation of farmer's cooperative societies throughout the country, concentrating on the vertical development of these societies, (e) utilising potential productive capacities in the private sector through its re-organisation and direction to play a positive role in the agricultural development. Both legal and economic sanctions would be adopted to check exploitation in the private sector.¹¹

iv) Organising the use of water resources, formulating irrigation policy and executing projects according to preferential treatment which include dam and reservoir.

v) Developing the country's animal wealth to suffice local demand for meat, eggs, milk and other animal produce at reasonable prices.

Government, therefore, adopted several measures which is evident from above. Government also moved for mechanisation of

11. Rony Gabby, Communism and Agrarian Reform in Iraq (London, 1978), p.109.

agriculture. In this direction government proposed: (a) idealistic use of machinery supporting its stations by increasing number of serviceable machines and availability of trained personnels; (b) supporting collective farms to possess their own machines necessary for their work, (c) make use of machine-ries of private sector by organising work-shop, hire fare and offering repair centres.¹²

Government thus decided to provide various kinds of agricultural services enabling socialist sector to dominate the marketing process through gradual expansion and also to direct private sector to ensure the proper applications of agricultural policy and plans by abolishing the role of intermediaries.

It is argued that Government decided to develop agriculture on the basis of socialism with overall development of country-sides with balance development of all areas.¹³ Government had made progress also in this period. According to 1971 agriculture census, there were total 591,178 holdings in both rural and urban areas. Covering an estimated area of 22.9 million donums which came to about 13.2 per cent of the total area of the country. The analysis of the system of land tenure showed that area of holdings 7.24 per cent was privately owned 13.19 per cent under tabu holdings, 16.40 per cent was lagma holdings; 15.64 per cent owned according to agrarian reform law; 14.86 per cent rented from individuals; 1.46 rented from Waqf; 24 per

12. Baghdad Observer, 18 January 1978.

13. Gabbay, n.11, p.169.

cent rented from the agrarian reform; 0.58 per cent rented from other agencies and 6.6 per cent were other cases. Regarding land utilisation, it was found that of the total area of holdings, 2.64 per cent was under date palms and 0.19 per cent was under forest trees. The land allotted to temporary summer and winter crops and land left fallow during both the seasons accounted for 84.59 per cent of the total area of holdings. As regards employment in agriculture, the total number of workers on the agricultural holdings was 2,110,593 of which 86.92 per cent were the holders and unpaid members of their households while 13.08 per cent were the persons working for pay.¹⁴

(II) Industry

Industry contributed 9.3 per cent to GDP in 1969 and total allocation to industry was ID 366.0 million during 1970-74 Plan. The growth rate of industrial production increased from 0.3 per cent in 1967 to 5.3 per cent in 1969. The major objective of the government during this period was to expanding and diversifying of the industrial base of the country.¹⁵

The 1970-74 Development Plan aimed at to promote a growth rate which could yield a 75 per cent increase in value added in manufacturing between 1969-74 or with 12 per cent annual rate of growth. 85 per cent of the total investment

14. Ibid., p.120.

15. H.A. Al Hyally, Industrialisation and Regional Development in Iraq (Baghdad,), p.56.

was earmarked for industry during 1970-74 Plan. To give institutional support, government established state organisation for Industrial Development in 1973 under the industry ministry. It also brought in its control the Industrial Bank to coordinate industrial activity and Directorate General of Research and Industrial promotion which dealt with licensing and import permits. The allocation of investment during 1970-74 National Development Plan was ID 391.0 million while it was only ID 187.2 million in 1965-69 national development plan.¹⁶ Public sector had been given top priority in terms of allocation of investment which was clear indication of adoption of socialism as an ideology of the economic development.¹⁷ The share of public sector in industrial investment raised from 51.2 per cent of total during the period of 1961-64 to 57 per cent during 1968-74. Large new industrial investment were reserved primarily for the state. For example between July and September 1973 nearly a hundred licences were issued for projects in the private sector but these averaged only about ID 30,000 each whereas the four public sector licenses for projects ID 22 million each. It will be clear from following Table 1.1 because output of public sector had also increased than the private sector during this period.¹⁸

16. Khadim A. Al Eyd, Oil Revenues and Accelerated Growth: Absorptive Capacity in Iraq (New York: 1979), p.13.

17. Edith and Penrose, E.F., Iraq: International Relations and National Development (London, 1978), p.468.

18. Ibid.

Table 1.1.

LARGE INDUSTRIAL ESTABLISHMENTS - 1972-1973

Year	Sectors	Employees in 000	Value of out put million ID	No. of establish- ments
1972	Public	71.1	171.81	182
	Private	44.7	63.96	1107
	Total	115.8	235.77	1289
1973	Public	79.1	224.70	185
	Private	41.6	67.41	1090
	Total	120.7	292.11	1275

Source: Annual Abstract Statistics 1975 (Government of Iraq) Baghdad), p.124.

As it is evident from above table that public sector had upper hand over private sector in this period but value added per worker was higher in the private sector in food processing and textiles but public sector dominance in chemicals, oil products, capital intensive industries and vital national importance industries gave the public sector as a whole a higher output, input and value added per worker. Between 1968-73, the main area of private sector growth was in consumer durables. The main feature of industrial policy in this period was nationalisation of vital industries and dominance of public sector on private sector. The role of

private sector was only confined to supplement necessary inputs for the development of public sector.¹⁹

The greater part of Iraqi manufacturing was light industries based on local raw materials. Food beverages and tobacco processing accounted for about one quarter of the large firms, workers and wages and 38 per cent of the output in 1973. It will be clear from Table 1.2.²⁰

Table 1.2

PUBLIC SECTOR SHARE OF LARGE MANUFACTURING
PERCENTAGE

Year	Total firms	Total workers	Total wages	Total input	Total output
1965	22	52	64	55	65
1973	27	74	76	74	74

Source: Annual Abstract of Statistics, CSO, Ministry of Planning, Iraq, 1965 and 1975.

Textiles accounted for about 20 per cent of the firms, 28 per cent of the workers, 17 per cent input and 19 per cent output. Twelve large public sector textile firms employed 11666 workers each on average. All this facts thus indicated government's policy to dominate public sector over private sector for the economic development of the country.²⁰

19. Tim Niblock, Iraq: The Contemporary State (London, 1982), p.36.

20. Middle East Contemporary Survey, vol.I, 1976-77 (London), p.529.

(III) Oil Sector

Oil sector experienced major changes during this period both qualitative and quantitative. Its share in the national product was 30 per cent in 1969 jumped to 60 per cent in 1975. Its contribution to total government revenues increased from 52 per cent in 1968 to 87 per cent in 1973. The oil production in 1965 was 1,322 million barrels per day increased to 2,262 million barrels per day in 1973.²¹

The oil was struck at "Babagargur" on 5 October 1927. The British owned Iraqi Petroleum Company (IPC) obtained exclusive right to an area of some 32,000 square miles in the province of Mosul and Baghdad East of the Tigris.²²

The establishment of Iraq national oil company (INOC) came into existence by law No.11 of 1964. It is Iraqi government's first oil company and government expressed the hope that the IPC would co-operate with it. The major objective of establishment of this company to get some shares from exploration to scale. This law also for regulating the activities of Iraq Petroleum Company (IPC) and British Petroleum Company. This law defined the areas of foreign companies and granted INOC exclusive right to exploration in other areas. This development took place in the latter half of the 1960s when the foreign companies announced cuts in the posted prices of

21. Paul Stevens, "Iraqi Oil Policy: 1961-76" in Tim Niblock (ed.), n.1, p.175.

22. Edith and Penros, n.17, p.71.

middle eastern countries in which Iraq lost ID 30 million. Posted prices were the prices used by the companies to calculate profits to be shared with the government of producing countries. Posted prices thus determined the revenues on one hand and tax payment of the companies on the other hand.²³

This was seen by the producing countries as a move to cut their income from oil under the prevailing 50-50 profit sharing formula. The producer countries, therefore, sharply reacted to this move of the companies. Thus, Iraqi government took this measure to restore to the nation its just right in the country's oil and recovered from the company all but one half per cent of the concession area held by the IPC which this company had failed to explore.

The INOC had started producing its own oil from the Rumaila field, released from IPC by April 1970 and the first shipment of this oil began to go to the consumer, the same year in its tanker, also named Rumaila.²⁴

The Development of oil nationalisation started when the IPC suddenly cut down from its main northern "Kirkuk" oil fields. As a result of reduced production in March, April and first week of May 1972, the government's earning from Kirkuk

23. Ibid., p.259.

24. Thesis on "Economic and Trade Relation Between India and Iraq" by Abraham Al Khaleel in the Delhi School of Economics quoted from Balraj Mehta, India and World Oil Crisis (New Delhi, 19), p.10.

oil dropped by thirty three million pound sterlings. It made a crippling blow to the development plans of Iraq. The Iraqi government proposed to increase its production from Kirkuk field either on its own or in partnership with Iraqi national oil company to the level of 57 million tons. When the company did not accept this suggestion, and on 17 May 1972, the Iraqi Revolution Command Council addressed an ultimatum to the oil companies to:²⁵

- i) comply immediately with the government's demand to raise rates of production to maximum capacity of pipeline;
- ii) undertake to reach agreements with the ministry of oil and minerals with a view to drawing up a regular and long-term programme of production on scientific principles,
- iii) submit a positive offer, on the demands put by the government's negotiating delegation, which related to the following:
 - (a) production programming, (b) investment policy of foreign companies, (c) participation in companies concession, (d) pricing southern oil, (e) transfer of company headquarter from London to Baghdad, (f) financial control over foreign oil companies.

But the response of oil companies to this was negative. Then President of Iraq, Ahmad Hassan al-Baker in his address said,²⁶ "The monopolist companies have failed to comply with

25. M.Ali Sadiq, Response to Challenges (Baghdad, 1980), pp.41-42.

26. Government Document, President Speech, 1972 (Baghdad).

a new offer responding to our interest." Accordingly, the Revolution Command Council has decreed in the name of people to promulgate law No.69 for the nationalisation of the existing operations and facilities of the IPC. This law became effective on 1 June 1972.

The Ba'ath party government also adopted other measures in the field of oil, like exploration of new oil field which led to the increase in oil revenues. The exploration of a new big area to produce petroleum in Messan governate nearly 200 kms in the north of Basra had been taken by the government. This area was discovered in 1969 and 1971, where the petroleum fields of Bagerganand Abu Gharib were developed. Production started around 1974 on an average of 50,000 barrels daily. This measure of the government led to increase in oil revenues. The oil revenue which was \$224 million in 1958 at the time of revolution doubled to \$488 million. At the time of nationalisation of oil industry in 1972, it increased to \$575 million.²⁷

The percentage share of oil revenues in national income and GDP also increased between 1968-73 period. The share of oil revenue in national income in 1970 was 23 per cent which increased in 1972 to 34 per cent, and in 1973 to 40 per cent. In 1970, the share of oil revenue in GDP was 22.4 per cent which risen to 23.6 per cent in 1972 and 34.1 in 1973. Not only this, the crude oil production, refinery capacity and crude oil export also increased substantially between 1968 and 1973.

27. Thesis submitted by Abraham Al Khaleel, n.24, pp.148-49.

Table 1.3

OIL STATISTICS 1968-1973

Year	Crude oil production (1968-73 - 000 b/d)	Refinery capacity (1968-73 - 000 b/d)	Crude oil export	Proven reserve billion barrels
1968	1,503.3	102.7	1,429.2	28.0
1969	1,521.2	102.7	1,454.2	28.3
1970	1,548.6	115.7	1,683.9	32.0
1972	1,694.1	115.7	1,925.8	32.5
1973	1,970.1	183.5	1,946.8	32.6

Source: OPEC: Annual Statistics 1974-75.

It is true that during the sixties Iraq's oil production was low and also share of Iraq in total proven world reserve was also low. It was due to the cold war between government of Iraq and multinational oil companies. But Iraqi government made substantial development in this period.²⁸

The Development not only took place in oil but gas also. In 1972, a huge programme started to nearly 57 million cubic metres of gas annually in the southern areas of Iraq. The percentage of used gas increased successively due to the exploration of new oil fields which followed the availability of accompanying gas to the percentage use which increased after nationalisation of oil industry. A table can be presented in this connection.

28. Marion Forouk and Peter Sluglett, Iraq Since 1958: From Revolution to Dictatorship (London, 1986),

Table 1.4

GAS STATISTICS 1967-1973

Year	Produced gas	Burnt gas	(in million cubic feet)	
			Used gas quantity	Percentage
1967	194767	183716	16382	8.2
1969	200100	190673	26926	12.2
1971	282873	250197	32676	11.9
1973	308253	265532	42730	13.8

Source: Annual Abstract Statistics, CSO, Ministry of Planning, Government of Iraq, Baghdad, p.16, 1969-71.

During this period, as it is clear from above table production of gas increased successively and percentage of used gas raised from 8.2 per cent to 13.8 per cent.

This rapid development in oil sector by extracting and manufacturing took place after nationalisation of oil industry in June 1972.²⁹ Not only it financed other sectors of the economy but provided maximum possible integration between oil sectors and other sectors of the economy. Oil sector became leading sector of the economy especially after four fold price rise in 1974.³⁰

29. Sam Sulaiman, Iraqi Oil: A Political and Economic Study (Baghdad, 1979), p.285.

30. Atif A.Kubursi, "Oil and Iraqi Economy", in Arab Studies quarterly, vol.10, no.3, 1988, p.294.

(IV) External Sector

The structure of imports suggests the rapid rate of capital formation: imports of machinery, equipment and other capital goods increased from nearly ID 100 million in 1969 to over ID 725 million in 1973. Import of food was more than doubled between 1972 and 1975. But import prices increased by some 84 per cent during 1969-73.³¹ In this period, other major imports were food and live animals, beverage and tobacco, raw material except fuels, mineral fuels and lubricants, animal and vegetable oils and fats, chemicals and manufactured goods by materials.

The volume of trade had grown from ID 390 million in 1970 to ID 1030 million in 1973. The allocation on import has also risen from ID 144.2 million in 1968 to ID 1318 million in 1974. The division of allocation between public and private sectors clearly demonstrates the country's advance towards the dominancy of public sector on foreign trade. The share of public trade sector in import in 1974 was 95 per cent of the total allocation against the 58 per cent in 1968.³² Table 1.5 noted below to know the direction of trade of this period.

It is evident from the table that import had made long jump between 1971-72 from ~~77~~ million in 1971 to ~~8~~ 155 million in 1972. The main cause of this sudden increase import was

31. Edith and Penrose, n.17, p.468.

32. Baghdad Observer, 4 May 1976.

Table 1.5

TRADE DIRECTION 1968-73 (₹ million)

Year	Export total	Value of oil export	Non-oil export	Imports	Current account balance
1968	820	755	65	440	185
1969	823	761	62	439	181
1970	847	784	63	508	100
1971	1139	1062	77	702	194
1972	1108	953	155	705	545
1973	1955	1836	119	905	811

Source: OPEC Statistics Bulletin, 1970, 1971, 1973.

was government's intention to meet domestic demands and infra-structural development.³³ Import of machinery and equipment also strengthened public sectors for producing output for economy. Due to nationalisation of oil in June 1972, value of oil export also made a big jump from ID 953 million in 1972 to ID 1,836 million in 1973.³⁴

Despite adoption of socialism and determined effort of the government which came into power in a bloodless coup in July 1968, there were some weakness of the economic measures of the government. The estimates showed that during 1970-74 five year plan, only 40 per cent planned target was met due to

33. Baghdad Observer, 30 May 1974.

34. Ibid., 18 June 1974.

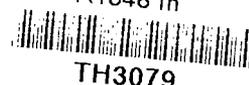
under-utilisation of a part of the productive capacities in many factories belonging to the public or private sector.³⁵ According to UN report entitled "Review and Appraisal of the process of decision making in the public industrial enterprises in Iraq" which was presented at a Conference in Beirut in October 1973 "Industrial enterprises were, in effect, organised as part of the state bureaucracy and were given very little autonomous power of decision. There were several levels of authority over enterprise, including not only the state organisation to which it belonged but also up to four ministries (industry, economy, finance and planning) and a variety of sub-ministerial agencies. Nearly all decision had to go through several layers, many of them had to go high ups in the relevant ministries. The planning, evaluation and implementation of investment decisions required approval from a number of sources. Full cost pricing was common, leading to excess capacity and unwanted stocks. Distribution and marketing were often separated from the productive enterprise, procurement of materials was subject to lengthy procedures and to numerous approvals regardless of the value of materials. The cost of capital is largely ignored and there is no effective provision against the misuse of fixed assets. There were large holding of inventories because of the time consuming purchasing system and there was excess involvement of high level management staff in routine decisions.³⁶ Thus, the difficulties of early

35. Edith and Penrose, n.17, p.467.

36. Ibid., pp.471-72.



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years of public sector were described in two UN Reports which was removed in oil boom period.

Oil Boom Period (1974-1980)

The four-fold rise in oil prices transformed the fiscal profile of the economy. The oil revenue went up from \$0.5 billion in 1972 to \$5.7 billion in 1974 and \$26 billion in 1980. Investment with the new finance boosted all the sectors of the economy and experienced a big leap.

I. Agriculture

The rapid increase in oil price has also made direct impact on agricultural development. Government allocated \$10 billion in 1975-80 plan to develop agriculture. In this plan, 15 per cent of agricultural allocations was for dams and large storage projects and over 42 per cent for irrigation and drainage.³⁷ The number of cooperative societies continued to rise from 608 in 1969 to 1,800 by 1976 with nearly 300,000 members. Loans to co-operative societies by Agricultural Bank for seeds, fertilisers, insecticides and machinery as well as for general purposes have risen very fast during this period from ID 108 million to ID 150 million.³⁸

Under 1976-80 plan, irrigation projects had been able to conserve 40 billion cubic waters to lands. The major dams

37. Ibid., p.456.

38. Baghdad Observer, 2 May 1976.

which was built during this period are Haditha Dam (on Euphrates), The Himarn Dam (on Diyala) river, the Mosul Dam on the Tigris. Four million drums of land had been reclaimed during this plan. An area of one million denums at Jagira valley has been put on lift irrigation after establishment of Mosul Dam.

This plan also aimed at extending the scope of land reclamation, research, soil survey, hydrological investigation and other relative activities with a view to achieving self-sufficiency and effecting a qualitative and quantitative change in the economic structure of the Iraqi countryside. The national development plan has undertaken following main activities between 1976-80:³⁹

- (a) Soil investigation and survey which includes drawing up land reclamation programmes;
- (b) Soil research irrigation studies, soil maintenance and proper utilisation of water resources for the irrigation of desert land;
- (c) Full combination between reclamation projects and economic research;
- (d) The reclamation of land with high productivity and economic returns has been undertaken.

Government, therefore, had taken above measures and also increase allocation of investment on agriculture from

39. Baghdad Observer, 7 May 1979.

ID 286.0 million in 1976 to ID 389.0 million in 1980. The major crops which production increased during this period were freight from 1,800 tons in 1970 to 2,291 tons in 1980. The production of fodder crop also increased from 67 thousand tons to 679.8 thousand tons. The production of cotton yields become more than tripled over the period 1950-74. It increased from an average of 17,367 tons to 44,125 tons. Accordingly the production of wheat, rice, cotton and some of lesser crops such as peas and broad beans have shown a tendency to increase.⁴⁰

Agriculture production grew markedly in 1978 after the very low level of 1977. Wheat production rose by 30 per cent. The barley harvest was 617,000 tonnes in 1978 - the highest since 1972. Rice output reached 172,000 tonnes and dates 389,000 tonnes in 1978. Food imports also increased from \$700 million in 1977 to nearly \$1.4 billion in 1980. Agriculture continued to employ primitive cultivation methods and depend on uneven rains. Table 1.6 presents the Agriculture Production of this period.

Irrigation and land reclamation projects were vigorously promoted in 1979-80. The 1980 Budget has increased allocation of irrigation by 30 per cent over previous year and work on existing projects was speeded up.⁴¹

40. R.Theobald and S.Jawad, n.5, p.206.

41. Middle East Contemporary Survey, vol.IV, 1979-80 (London), p.528.

Table 1.6
AGRICULTURAL PRODUCTION (000 Tonnes)

Produce	1975	1976	1977	1978
Wheat	845	1312	629	910
Barley	437	579	458	617
Rice	240	163	199	172
Cotton	15	16	13	14
Dates	-	372	-	389

Source: Middle East Contemporary Survey, vol.IV, 1979-80.

During this period, though the agriculture production did increase but was not adequate enough to meet the rise in demand triggered by the increase in income caused by the rise in oil prices of seventies. Thus, Iraq had to depend on import to meet its demand. The food import went up from \$286 million in 1974 to \$500 million in 1979.⁴²

II. Industry

Rapid industrial development took place in this period. The industrial growth rate was 32.9 per cent during this period against 8.3 per cent during 1969-74. The share of industry to GDP was 19.6 per cent in 1975 against 6.9 per cent in 1969. The allocation of investment was ID 390.0 million in 1970-74

⁴². Economic Intelligence Unit (EIU) Country Profile: Iraq 1988-89 (April 1988), (London), p.27.

raised to ID 4,369 million in 1976-80 period. Industry received largest share, 32 per cent, during this plan while agriculture 18.7 per cent and transport and communication received only 16.5 per cent.⁴³

The 1976-80 national Development Plan formulated for expanding and diversifying to industrial base. This plan put the total industrial investment at ID 4 billion - seven times that of previous plan. Approximately one half of the total investment went to extractive industries, chemicals and petrochemicals. Construction materials took ID 440 million, food processing 210 million, textile ID 147 million, paper ID 136 million and Engineering ID 88 million.⁴⁴ The main push of this plan was the establishment of heavy industries. An Iron and Steel Industry was set-up with French assistance at Ignor-Al-Zubair. The largest undertaking comprised the BASRA Chemical fertilizer plan, the Rumaila liquefied natural gas plant and BASRA ethylene plant. The value of output of public sector also increased during this plan. It can be presented in the following table.

Year	Value of output (ID million)	Employees in '000
1974	351.73	123.96
1975	436.43	134.6
1976	589.90	142.7
1977	721.78	150.1
1981	1520.77	173.1

Source: Annual Abstract Statistics, CSO, Govt. of Iraq, 1976-77-81.

43. Atif A. Kubursi, "Oil and Iraqi Economy" in Arab Studies Quarterly, vol.1, no.3, 1988, p.291.

44. Middle East Contemporary Survey 1982-83 (London), p.520.

It is clear from the above table that due to the rapid increase in the value of output the contribution of industry and manufacturing to GDP also increased rapidly. It was ID388.8 million in 1977 increased to ID 464.5 million and in 1979 it increased to ID 504.3 million. The investment on industry sector has quadrupled between 1972 and 1978 than all sectors of the economy. In 1971 it was ID 50.0 million risen to ID 225.0 million in 1974, it again risen to ID 448.0 million in 1975, ID 709 million in 1976, ID 966.0 million in 1977 and made a long jump in 1978 to ID 1352.4 million.⁴⁵

The Index of Industrial production also increased during this period due to heavy investment and expansion of industrial activities.

Table 1.2

INDEX OF INDUSTRIAL PRODUCTION (1962=100)

	1970	1975	1981
Foodstuffs, tobacco and beverages	117.6	216.0	485.7
Textiles	186.5	255.4	434.0
Clothing and Shoes	227.7	313.6	428.2
Oil refining	163.3	315.7	-
Chemical Industries	238.7	342.7	520.1
Cement and allied goods	137.5	196.5	-
Others	186.3	353.7	566.7
General Index	156.2	263.3	539.3

Source: EIU Country Profile, Iraq 1988 (April), p.31.

45. Middle East Economic Digest (London), March 1983, vol.27.

It is therefore clear from the above table that Industrial production jumped rapidly due to the increase in consumption of the industrial products.

III. Oil Sectors

The oil sector emerged as the leading sector of the economy in this period. It provided finance for 95 per cent of the development programmes. The oil revenue went up from \$5.7 billion in 1974 to more than 26 billion in 1980. The volume of crude oil production grew by more than 30 per cent from 2.63 million barrel per day in 1978 to 3.43 million barrel per day in 1980. Using production curve measured by IMF crude petroleum export volume index (100 points in 1975) production, 102 in 1977 increased to 116 in 1978 and 153 in 1979.⁴⁶

The rapid increase in oil production became possible due to the exploration of oil from new fields. The production Kirkuk field rose from 1.2 million barrel per day to 1.4 million barrel per day in 1976 and 1.8 million barrel per day in 1980. The government of Iraq had also given top priority to exploration of oil. In June 1975 exploration priority was formalised with the inauguration of a five exploration programme costing some \$1.5 billion.⁴⁷ The production also started from Jamboor

46. Middle East Contemporary Survey, vol.VII, p.528.

47. Middle East Economic Survey, (Nicosia), vol.XVIII, No.35.

and Bailey Hassan fields multiplied four times in order to jump from 70,000 barrel per day in 1976 over to more than 260 thousand barrels in 1980.⁴⁸

Table 1.8
OIL OUTPUT

Year	000 b/d
1974	1,971
1975	2,262
1976	2,416
1977	2,348
1978	2,562
1979	3,477
1980	2,646

Source: Country Profile Iraq, EIU, April 1988, p.27.

It is clear from the above table that oil production continued increased since 1974 to 1979. This led to the increase in export of coal, which led to the increase in oil revenues also. It will be clear from Table 1.9.

Table 1.9
OIL EXPORT

Years	Oil export 000 b/d	Value of crude oil export
1974	1,850	6,506
1975	2,059	8,176
1976	2,241	9,114
1977	2,167	9,505
1978	2,384	10,850
1979	3,275	21,289
1980	2,459	26,136

Source: EIU Country Profile Iraq, April 1988, p.26.

48. Tim Niblock, n.19, pp.169-70.

The massive increase in oil revenue led to increase in GDP, national income and per capita income.

Table 1.10
PER-CAPITA, NATIONAL INCOME AND GDP STATISTICS
1973-1981

Year	Per capita income in ID	National income in ID million	GDP in ID million
1973	135.5	1412.1	1587.5
1974	278.9	3002.5	3347.7
1975	337.2	3750.5	3970.5
1976	387.2	4478.8	4582.8
1979	825.9	10588.8	4714.2
1981	874.2	12334.6	5374.5

Source: Annual Statistical Year Book 1975-81, Central Statistical Organization, Govt. of Iraq.

It is clear from the above table that due to rapid increase in oil revenue, national income has gone up by three times between 1973-1976. It led to the rapid increase in demand for consumer goods of all kinds and the rapid expansion of the home market. It transferred to vast oil revenues to the domestic market and government used this new wealth to create infrastructure, needed to support its development projects in every sector of the economy⁴⁹ went up from \$2.3 billion in 1974 to \$13.6 billion in 1980 but the rise in export from \$6 billion in 1974 to \$26.2 billion in 1980 helped to finance the import means leaving a surplus of \$11.5 billion in 1980.

49. Marion Farauk Sleggett, and Peter, Iraq Since 1958: From Revolution to Dictatorship (London), p.229.

Table 1.11.

DIRECTION OF TRADE (1974-80)

Year	Export Total	Value of oil export	Import	(in million dollar)
				Current Account Balance
1974	6601	6505	2364	2836
1975	8297	8176	4214	2971
1976	9272	9114	3471	2627
1978	9649	9505	3899	3023
1979	21432	21289	7006	10823
1980	26278	26136	13642	11548

Source: Arab Studies Quarterly, vol.10, no.3, 1988, p.292
quoted from OPEC Annual Statistical Year Book, 1982.

It is thus clear from the above table that rapid increase in import is evident between 1974-75 and again between 1979-80. This rapid increase in the size of import necessitated by the process of economic development and reconstruction which took place since 1974 caused by rapid increase in oil revenues.⁵⁰

External Sector

The bouyant oil market ^{boosted} the global interaction of the Iraqi economy. While export was dominated by oil, the import structure underwent a dramatic change during this period both in terms of value and its composition. The plan to rebuild the economy on the strength of the oil revenues enlarged the dimensions of the Iraqi market. Iraq became importer of not

50. Abbas Kalidar, The Integration of Modern Iraq (London, 1979), p.156.

only food and other consumer durables but also of capital goods needed to execute the industrial strategy of the country. The following Table 1.12 shows shift in the behaviour of Iraqi import during first few years of oil boom.⁵¹

Table 1.12

COMPOSITION OF IMPORTS (1974-76)
ID million

Items	1974	1975	1976
1. Food and live animal	184.34	192.47	138.71
2. Beverage and tobacco	2.26	2.42	5.16
3. Crude materials mediabile excluding fuels	29.06	39.42	31.85
4. Mineral fuels, lubricants and related materials	2.01	3.44	1.85
5. Animal, vegetable oils and Fat	12.63	22.70	6.12
6. Manufactured goods classi- fied by materials	226.12	371.50	273.49
7. Machinery and Transport equipment	184.53	510.51	483.22

Source: IMF Direction of Trade Statistics.

Despite the multifold rise of imports the current account balance of the country remained in favour of Iraq.

51. Farouk and Sluglett, n.49, p.252.

War and Recession Period

The expansionary phase of Iraqi economy received a setback in the eighties. This was the most critical phase of the economy. The fall in oil prices, slump^P in dollars value and high cost of prolonged war with Iran transformed its nature.

I. Agriculture

Oil recession and war have affected agriculture development adversely. The budget allocation on agriculture also reduced. In 1979, the total amount allocated on agriculture was ID 219651000 declined to 198364000 in 1980 and 159364000 in 1982.⁵² Agricultural production also declined during this period. It is clear from following table.

Table 1.13

OUTPUT OF MAJOR AGRICULTURAL PRODUCTS

Years	(in 000 tonnes)					
	Wool	Wheat	Barley	Paddy rice	Grapes	Cotton
1982	12	965	902	163	455	14
1983	11	941	835	111	419	13
1984	11	250	275	80	402	10

Source: MEED Special Report on Iraq, October 1985, p.16.

52. MEED, vol.30, no.43, 25 October 1986, p.56.

It is clear therefore production of above commodities declined during 1982-83. It led to the rise in imports. By 1984, the value of agricultural imports was \$1.4 billion against \$500 million in 1978, a rise of 20 per cent. Two-thirds of total agricultural needs had been met by imports including 80 per cent of wheat and 75 per cent of rice and other agricultural goods. Government has taken agricultural credits from US to meet domestic demands of essential agricultural goods. US department of agriculture had given \$450 million credits to Iraq to purchase US wheats and other agricultural products in 1983. The food import bill grew by 7 per cent in 1984 to about \$3,100 million from \$2,900 million in 1983.⁵³

Encouragement to private sector was the major development of this period. Marketing rules were changed in 1983, allowing farmers to bypass the state organisation for agricultural marketing and sell direct to public wholesale markets or licensed private wholesale shops. Private companies were also allowed to import livestock without going through state establishments. The mixed sector company for agricultural products marketing was set up in 1984 to augment the state distribution system. Agricultural cooperative Bank made available \$174 million in 1985 against \$189 million in 1981-82.

53. Iraq: MEED Special Report, October 1985, vol.29, p.16.

In 1985-86, about 3.6 million hectares was available for planting. Wheat and Barley had been allocated 1.4 million hectares of each, yields of 650,000 tonnes and 427,000 tonnes respectively.⁵⁴ Government also provided other incentives to private sector also. In 1986, government announced incentives - fruits and vegetables export were subsidised by a basic 25 per cent and 35 per cent if foreign currency earnings repatriated. Government also provided other agricultural facilities to the private sector. Many landlords especially those of Jagira area had invested heavily in the tractor farming of cereals and had done to push the productivity of Iraqi farming.⁵⁵

II Industry

Industry contributed only 10 per cent to GDP in 1987. Major industrial expansion programmes had been abandoned due to high cost of war and low revenue caused by oil recessions. Investment in industrial sector also declined from ID 1966.0 million in 1978 to only ID 752 million in 1985. Industrial output also declined from ID 3640 million in 1979 to 2,891 million in 1985.⁵⁶

54. Ibid., p.18.

55. EIU Country's Profile (Iraq), April 1988, p.20.

56. MEED, 8 November 1986, vol.30, no.45, p.18.

Industrial sector has also experienced a major shift from nationalisation to privatisation in this period. A number of state run factories are to be sold off in a drive to boost private sector. Sheraton Hotel in Baghdad, one of the best in capital is being sold by its owner, the State Tourism Authority. The hotel is to be bought by a new joint company in which the government have 49 per cent interest but would not be represented in the Board. The remaining 51 per cent which will have capital of ID 50 million would be sold to Iraqi investor. Government had offered 70 state enterprises for sale or long term lease in 1984. A mixed sector stock market will be opened to take over the burden of share transactions at present handled by the Banks. The state organisation of Iraqi Airways, the national carrier would also be privatised. A new Iraqi Aviation Company would be set up to operate commercially as the new national air line.⁵⁷

III. Oil Sector

Oil was the major loser of this period. Iranian attacks were mainly concentrated on oil installations and oil tankers. The oil recession had also severely affected revenues. The austerity programme had become unavoidable as a result of the dramatic fall in oil export earnings from \$26 billion in 1980 to \$10.5 billion in 1981, \$10 billion in 1982 and \$6.7 billion in 1983.⁵⁸

57. EIU Country Profile (Iraq), Report No.1, 1989, pp.10-11.

58. Kuwait Times, 5 December 1988.

Another important factor was the heavy bombardment on refining installations which led to the reduction in refining capacity. During 1986 up to 125,000 barrel per day of products and 135,000 barrel per day of crude were trucked through Jordan and Turkey. The Turkish pipeline became the main source of oil supply, providing just about \$4,000 million annually which was supplemented by more than \$1,500 million from Iraq pipeline access. Saudi Arabia, \$1,290 million from divided zone sales and up to \$430 million from truck export.⁵⁹ Maximum export through both the Turkish and Saudi lines were achieved in 1986 which was disturbed since 1981: an average 1.02 million barrel per day went through Turkey and 500,000 barrel per day through Iraq pipelines across Saudi Arabia. Production and export remain low. During this period oil production, oil revenue and foreign reserves declined.

Table 1.14

OIL STATISTICS (1980-87)

	1980	1981	1982	1983	1984	1985	1986	1987
Oil production (M b/d)	2.6598	0.912	1.012	0.955	1.200	1.404	1.687	2.74
Oil Export revenue (\$ m.)	26786	10210	9507	8785	10402	10960	6585	11363
Foreign reserves (\$million)	37661	26301	7320	3967	3846	-	-	-

Source: Kuwait Times, 5 December 1988

59. MEED, 25 October 1986, vol.30, no.43, p.56.

Therefore, it is clear from this table that oil production decreased rapidly from 26598 million barrel per day in 1980 to only 2.74 million barrel per day in 1987. Oil export revenue also declined from \$26786 million in 1980 to \$11363 million in 1987. Value of crude oil export also declined from \$12,459 million in 1985 to \$7,500 million in 1986.

The massive decline in oil revenue made direct impact on every sector of the economy because oil has been the financing sector of Iraqi economy. The real growth rates in GDP also declined. In 1978, the real growth rates in GDP was 17.7 per cent which in late 1980 was only 2.1 per cent, -44.3 per cent in 1982, -8.0 per cent in 1984 and in 1987 a very slight increase 1.7 per cent. The contribution of oil to GDP also declined. It had contributed 69.8 per cent in 1979 to GDP 42.9 per cent in 1987.⁶⁰

The reduction in oil revenue has led to slow growth rate of the economy and ^{money} borrowed to finance war expenditures, which had led to the curtailment of development projects in the Iraq.

IV. External Sector

^{unlike} the preceding period, the balance of trade became adverse in this period. Import continued ^{to} increase in this period to meet war needs. Military equipment and defence related goods became the major element of import. Iraq had been given civilian and

60. Middle East Contemporary Survey 1983-84, vol.VII, p.569.

military equipment by France, UK, West Germany and USA. France has given credit to finance a major weapon contracts of \$200 million to Iraq in 1983. It is clear from Table 1.15.

It is clear from the above that import has surpassed export from 1981 to 1986. Agricultural, industrial and military equipment had been imported in this period.⁶¹

The Arab Monetary Fund has extended \$113 million loan denominated in Arab accounting dinars. It is an automatic loan, granted unconditionally to finance balance of payment deficits. It brought a total of \$523 million amount which Iraq received from this source since 1983.⁶²

An overview of the economy since 1968 outlined in the preceding pages makes it clear that evolution of the economy has not been either steady or smooth. On the contrary, it has been growing with twists and turns. While the first phase did show an effort by the Iraqi state to deploy oil wealth for the purposes of making economy more diversified and less dependent on oil. The rise of rent created a gap between the producing and consuming economy. So much so that Iraq became a dependent economy in all principal sectors - be it food, consumer durable, capital good or skilled manpower. However, before the economy

61. EIU Country Profile (Iraq), April 1988, p.23.

62. EIU Country Report (Iraq), no.1, 1989, p.16.

Table 1.15

DIRECTION OF TRADE - BALANCE OF PAYMENT, CURRENT ACCOUNT (1980-87)

(in million dollar)

	1980	1981	1982	1983	1984	1985	1986	1987
Trade Balance	14925	-10074	-15110	-3159	-1569	-92	-1733	3100
Export	28803	10595	10008	9248	10739	10357	6929	12021
Import	13878	-20669	-25118	-12407	-12308	-10449	-8662	-8921
Current Account	11399	-13130	-17349	-5198	-4416	-3108	-2686	-3200

Source: Kuwait Times, 5 December 1988.

could be stabilized at higher income level and develop adequate productive capacity to bridge the gap between its production and consumption, it received a setback in the eighties. The war and oil prices decline along with dollar value ^{cumulatively} made it a deficit economy ridden with massive debt having far reaching consequences.

The major financial losses were basically concentrated in the oil sector. Iraqi oil production declined from 3.4 million barrel per day in August 1980 to about 140 thousand barrel per day in October of the same year. Oil revenue declined from a peak of \$26.1 billion in 1980 to \$10.4 billion in 1981 oil revenue loss of Iraq between 1980-85 have been put at \$55.5 billion. To this, another \$26.2 billion could be added to reflect the net difference between potential GDP and actual GDP during the period 1980-85. The total of \$18.7 billion is actually the accumulated difference between GDP growing 6.5 per cent per year between 1980-85 and its actual growth during same period. To tally the full cost of war another \$94 billion should be added to the losses above to represent the direct expenditure on military. These calculation put the total cost of war at \$175.7 billion.⁶²

^{However,}
 according to Japanese Researcher the total cost of the war was \$226 billion up to the end of 1985.⁶³

62. A.A.Kubursi, "Oil and Iraqi Economy" in the Arab Studies Quarterly, vol.10, no.23, 1988, p.296.

63. EIU Country Profile (Iraq), April 1988, p.39.

Table 1.16
 COST OF THE GULF WAR -1980-85
 (\$ billion)

Losses	\$ billion
<u>Capital Losses</u>	
Loss of oil revenue	-65.0
Loss of military expenditure	33.0
<u>GDP Losses</u>	
GDP loss (oil sector)	120.8
GDP loss (non-oil sector)	64.0
<u>Fixed Capital Losses</u>	
Unrealised fixed capital formation	-43.4
Loss from destruction (non-oil sector)	8.2
Total	226.0

Source: Japanese Researcher quoted by EIU, April 1988.

It is thus clear from this table that heavy expenditure has been incurred to meet the cost of war. This heavy expenditure and recession of oil made Iraq a debtor nation. Short and long term debt increased during 1980-87 period. Following table can be presented to clear it.⁶⁴

64. Kuwait Times, 5 December 1988.

Table 1.17
DEBT BURDEN (1980-87)

	1980	1981	1982	1983	1984	1985	1986	1987
Medium or long term debt (\$ million)	1079	1053	913	2600	4829	7210	10200	11500
Short term debt (\$ million)	921	1500	2400	2200	2600	4400	6200	9200

Source: Kuwait Times, 5 December 1988.

Iraq was provided with debt guarantees by various export credit agencies of foreign countries like SACE of Italy, EID/MIIT of Japan, Hermes of West Germany, COFACE of France, ECGD of UK, OEKB of Austria and EFIC of Australia. Details of these debts are given in Table 1.17.

The precise size of Iraq's foreign debt is subject of much speculation. But figures obtained by MEED indicate that trade debt was approaching the annual value of export. Amounts covered by western export credit agencies alone totalled more than \$9 billion at the end of September 1985 according to figures compiled by Berne Union, the association of export credit agencies. Its third quarterly return for 1985 shows Italy well ahead of other western countries in providing guarantees for loans to Iraq. Most of its debt was short term followed by West Germany, France and the UK. Least exposed was USA owed just \$3.7 million.⁶⁵

65. MEED, 29 March 1986, p.16.

Table 1.18.

IRAQ: DEBTS GUARANTEED BY EXPORT CREDIT AGENCIES
REPAYMENT SCHEDULE 1985-89

Agency	Short term	(\$ million)					
		1985	1986	1987	1988	1989	un-allocated
SACE (Italy)	0.0	18.8	50.4	0.8	0.0	-	2,038.0
EID/MIIT (Japan)	1042.0	137.5	304.1	198.6	44.8	56.0	0.0
Hermes (W.Germany)	30.1	194.4	686.1	424.3	181.6	0.2	7.8
COFACE (France)	29.3	26.3	301.6	474.0	55.1	311.3	66.3
OCK (Austria)	242.7	0.0	0.0	-	-	-	241.8
EFIC (Australia)	41.5	35.6	168.6	65.3	0.0	0.0	0.3
ECGD (UK)	74.1	92.4	106.7	87.5	65.9	163.0	63.4
Total	1648.9	726.8	1913.2	1499.9	416.5	530.5	2590.5

Source: MEED, 29 March 1986, p.6 quoted from International Union of Credit Investment Insurers (Berne Union), 30 September 1985.

Unallocated amounts are sums to be repaid for which a repayment date as yet to be fixed.

According to EIU Report No.1, 1989, the total external debt including given by Arab countries was \$55.0 billion in 1984 \$65.0 billion in 1985, \$75.0 billion in 1986 and \$80.0 billion in 1987.

Thus Iraq's total debt is estimated in 1987 as over \$80 billion, of this \$25-30 billion is discounted by the Central Bank of Iraq as gifts from Iraq's Arab Friendly countries. About \$30 billion is long term commercial debt, more than half of which is owed to Iraq's main trading partners - Japan, Italy, France, West Germany and Turkey. Italy had given 2,100 million as the largest non-Gulf Civil creditor. Japan has given \$1,800 million and West Germany \$1,500 million. The combined French civil and military credit was \$3,500 million of which civil share was \$1350 million.⁶⁶

The Iraqi financial crunch became acute due to two reasons: first, the Decline in foreign reserves between 1980-87 and and second deferment of all debt payments due in 1986. The foreign reserves which was 37,661 million declined to \$26,301 million in 1981, \$7,320 million in 1982, \$3967 million in 1983 and \$3,846 million in 1984. In 1986 foreign reserve became so negligible that compelled Iraqi government to keep to secret.⁶⁷ Iraq signed agreement with France in 1986 to defer two \$12 million payment due in October 1986 and April 1987. Another agreement signed in 1983 by Iraqi national oil

66. MEED, 25 October 1986, vol.30, no.43, p.56.

67. Kuwait Times, 5 December 1988.

company for deferment of Euro-loan which payment were due since 1982 to include \$400 million to France, \$300 million to Italy, \$200 million to South Korea and over \$300 million to Japan. Rafidain Bank of Iraq stopped meeting letter-of-credit payments in March 1986.⁶⁸ The Bank had been trying to reschedule such payment over three years and also was forced to seek deferment of three remaining instalments - each of \$71 million - due on the \$500 million Euro-loan raised in 1983. Various credit agencies had given \$9330 million to meet domestic needs of Iraq for payment between 1985-90. Out of this about \$1,600 million was due for payment in 1986 but Iraq succeeded in deferring the bulk for two and three years. Iraq expressed its mobility to repay these debts in 1986.⁶⁹

It is therefore, clear that Iraq became a debtor nation despite the fact that war came into an end in September 1988. The deferment of bulk of debt which was due in 1986, was only short term satisfaction. It would not make a long term relief to Iraqi economy. Still Iraqi government is maintaining its defence expenditure which was during war period and also a lot of money is needed to meet the reconstruction programme. Iraq has also to face heavy repayment schedule in 1988-90 which were due since 1986. Iraq therefore has to face

68. MLSD, 25 October 1986, vol.30, no.43, p.56.

69. Ibid.

massive payment hump in 1988-90 to meet bulk of these obligations. It is clear indication of huge debt burden on Iraqi economy.

But the prospect of economy is not bad because with the cessation of hostilities with Iran, \$600 million per month cost of war would be saved and ^{which} would ^{possibly} be utilised for development programmes. The government intends to pay all commercial debt between 1990 and 1995 at the rate of about \$5,000 million annually over the five years. To do this, Baghdad will need a stable oil price. It has expressed its desire to join OPEC quota system.⁷⁰ Iraq was main beneficiary of Vienna OPEC accord held in June 1989 because it was granted output quota at 2783 million barrel per day. This represented a 74 per cent increase on its former nominal production of 1.54 million barrel per day. EIU forecasts an average oil price of around \$14.5 barrel for 1989 in view of world market condition which indicate slow growth in demand coupled with over supply. On the basis of average crude price of \$14.5 barrel and annual domestic consumption projected at 325,000 barrel per day Iraq is likely to earn around \$14.06 billion from oil export in 1989. In 1986 total oil reserves were officially estimated at 16,000 million barrels. An independent estimate put Iraq's proven published reserves at 47,100 million barrels at 1 January 1987.⁷¹

70. MEED, 25 November 1988, p.4.

71. MENA Year Book, 1988, (London, 1988), p.439.

By the end of 1989, the Iraq's total oil reserves are expected to increase from 16000 million barrels in 1985 to 200 billion barrels which place Iraq second only to Saudi Arabia in extent of reserves. Basra oil refinery would soon be started whose capacity is 140,000 barrels per day and 70,000 barrels per day capacity of Dawara refinery.

Thus, while in the short run Iraqi economy might be facing shortage of finance. In the medium and long term market is expected to regain its bouyancy.⁷²

72. Kuwait Times, 23 January 1989.

Chapter II

IRAQ'S CONSTRUCTION MARKET AND INDIAN PROJECTS

Iraq's Construction Market: An Overview

From a brief appraisal of the Iraqi economy given in the preceding chapter it appears that the new direction towards which the economy started moving in 1968 experienced an unprecedented pace during 1973 to 1980, but subsequently in the early eighties it received a set-back due to recession in world oil market and burden of the war that lasted for eight long years. During ^{last} decade, government initially made massive investment in infrastructure and construction activities to built the foundation of a modern economy . Like many oil exporting countries, Iraqi economy also experienced the construction boom during the year 1974-80. Since the local companies did not have the adequate know-how and capabilities to execute these projects, engineering as well as civil, - it became imperative to invite foreign companies. Iraq thus emerged as one of the important market for projects in West Asia. The expansion of construction sector during this period can be seen by the fact that the government investment in this sector went up from ID 134.8 million during 1965-69 to ID 283.0 million in 1970-74 and made quantum leap during 1976-80 when it was estimated at ID2,380 million - a rise by 740.9 per cent during oil boom period.²

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1. A.W.Ameen, "Investment Allocations and Plan Implementations: Iraq's Absorptive Capacity 1951-80" in Journal of Energy and Development, vol.6, no.2, 1981.
 2. Atif Kubursi, "Oil and Iraqi Economy" in the Arab Studies Quarterly, vol.10, no.3, 1988, p.29.

For the purpose of analysis, the project market can be divided into three sectors: (I) Agriculture, (II) Industrial and (III) Infrastructure. Under agricultural projects, major works which have been taken: dams, agro-based industries, pumping sets for irrigation facilities and land survey work. (II) Under the industrial projects, major works were setting up of heavy industries and plants like Iron and steel, major oil refineries, power generation plants and factories for essential goods and (III) Major infrastructural activities were confined to the building of roads, bridges, railway line and also the construction of buildings especially for administrative, universities, colleges, schools and hospitals, were completed. The government has constituted a number of organisations to supervise construction projects like state organisation for industrial design and construction (SOIDC), state organisation for electricity, state organisation for construction industries, national oil company, directorate general of projects (state organisation for grains), general establishment of studies and designs, state organisation for building works, Iraq Republic Railway organisation and state organisation for water and sewerage. These organisations were the major clients of foreign companies.³

Since the construction sector grew along with the oil sector, its appraisal is made in the following pages by dividing

3. Middle East Economic Digest (MEED) (London), 16-22 November 1985, vol.29, no.46, p.23.

it in three phases as has been done in the preceding chapter. During the year (1968-73) government has taken several measures to boost construction sector of the economy. A major step in this direction was the establishment of state organisation of industrial design and construction in 1970 to supervise and built industrial projects in Iraq. Another major organisation was Iraq Republic Railway organisation for construction and expansion of railway line and state organisation of water and sewerage had been set up to provide irrigation facilities throughout Iraq. One of the major function of these organisations was to carry-out study of proposed projects and prepare relevant tenders and advertise them.⁴

The government also increased the investment from ID 134.8 million in 1965-69 to ID 283.0 million in 1970-74 national development plan. In 1970-71 there were 829 contractors which increased to 2788 contractors in 1974-75 officially registered with the planning council. During 1970-74, the actual expenditures on construction was ID 171.0 million against ID 66.3 million in 1965-69.⁵

In this period majority of the construction was buildings and infrastructure. Details of the construction activity can be noticed from table 2.1.

It is clear from the table that every item made substantial development despite the fact that it was pre-oil

4. Baghdad Observer (Baghdad), 17 July 1975.

5. A.W.Ameen, n.1, p.271.

Table 2.1
CONSTRUCTION ACTIVITY DURING 1968-73

Items	Units	1968	1969	1970	1971	1972	1973
Number of persons engaged	No.	67052	72457	69132	74247	70679	64143
Number of employees	No.	66154	71316	67520	72787	69209	-
Wages and salaries of employees	million dinars	19.2	21.7	21.7	22.4	22.8	19.0
Value of total output	"	-	-	-	129.9	124.6	133.3
Value added	"	36.8	38.5	40.6	43.6	45.2	57.6
Gross additions to fixed assets	"	1.7	4.0	3.9	5.1	5.0	7.7
(a) Machinery and transport	"	-	-	-	4.9	4.7	7.6
(b) Buildings	"	-	-	-	0.2	0.3	0.1

Source: UN Construction Year Book 1968-77, p.117.

period-

The period 1974-80 is known as construction boom. The growth of construction sector took a dramatic turn. The rapid increase in oil revenue made its direct impact on construction sector. The construction boom was stimulated by large industrial and agricultural projects as well as by the increased scope of social services.⁷ In 1976-80 development plan, the allocation on construction sector was ID 2.4 billion of which construction materials was ID 440 million, the food processing ID 210 million, textile ID 147 million. Two major industrial projects undertaken in the aftermath of 1973-74 oil price revolution were completed in 1979-80. The Basra fertiliser complex (built by Japanese - Mitibish) at the cost of \$750 million, was started up using gas from South Rumaila oil field. Another, the Khor-Al-Zubair Sponge Iron plant at the cost of \$660 million, started production in 1980. In 1980, \$750 million have been invested in housing, \$1.9 billion in university and colleges buildings and \$ on construction of local authorities buildings.⁸

The share of construction and services in GDP increased from 30 per cent in 1980 to 56.3 per cent in 1981, 59.4 per cent in 1982 and 63.7 per cent in 1987.

7. K.A.Al-Eyd, Oil Revenues and Accelerated Growth: Absorptive Capacity in Iraq (New York, 1979), p.75.

8. Middle East Contemporary Survey, vol.VII, 1982-83 (London), p.588.

The main construction works therefore in this period was new administrative buildings, ministerial and defence buildings. The second area of activity was the construction of public utilities such as schools, colleges and hospitals. Government also undertook extensive building within these same programmes in most provincial towns. To meet the problems of housing due to migration of rural people to the towns massive houses were constructed and using foreign contractors for standard pre-fabricated designs for buildings. Details of the construction activity during 1974-80 is given in Table 2.2.

It is clear from the table that construction of buildings has increased rapidly between 1979 and 1980 while total new construction value has increased between 1977 and 1979, and value of output has also increased rapidly in this period. The major activities in this period were construction of big factory and a complex for the extraction of phosphates at AnBar. The biggest investment programme for the nine months of 1975 with the total allocations of ID 1,076 million. This allocation marks an increase of 20 per cent as compared with the investment programme of 1974-75, which was itself an extremely ambitious programme involving an increase of 300 per cent over the preceding investment programmes. The major construction activities under this investment programme are establishment of pulp and paper mill at Basrah of the value of 18 million dinars, establishment of chemical fertilizers project

Table 2.2

CONSTRUCTION ACTIVITY 1974-80

	1974	1975	1976	1977	1978	1979	1980
Number of persons engaged	65146	90881	112966	150636	208737	209256	240923
Wages and salaries of employees (ID million)	29.3	56.2	135.1	137.0	269.0	269.0	327.2
Value of total output (ID million)	192.1	253.0	681.6	-	1054.2	1054.2	1252.8
Value of new construction (total) (ID million)	18.6	34.8	43.6	-	-	1808.5	2127.6
Buildings (ID million)	2.7	1.1	1.2	-	-	1004.6	1194.0
Residentials (ID million)	-	-	-	-	-	514.6	675.6
Non-residentials (ID ")	-	-	-	-	-	490.0	518.4
Value addition (ID ")	69.1	91.3	355.1	415.9	559.3	993.8	1135.6
Gross addition to fixed assets (ID million)	21.3	35.9	44.8	-	63.2	63.2	137.2

57

Source: UN Construction Year Book, 1983, (Iraq), p.101.

at Basrah of 11 million dinars with daily production capacity of 420 tonnes of ammonium sulphate, 160 tonnes of urea and 10 tonnes of sulphuric acid, establishment of Rayon factory at Hindiyah Barrage of 12 million dinars and establishment of fine textile factory at Babylon of 9 million dinars. It also includes expansion of spinning and weaving factory at Nineven of the value of 4.25 million dinars, establishment of two hydro-electric power stations at Dokan and Derbend Khan Dam of 12 million dinars.⁹

A number of contracts have been signed for the establishment of phosphate fertiliser factory and a special company has been set up for this purpose with a capital of ID 350 million. Iraq occupies third place in the world next to USSR and USA in respect of the presence of raw materials for the phosphate fertilisers industry, namely phosphates, the sulphuric acid extracted from the sulphuric fields in Al-Mishraq and natural gas. The new electric generating station have been set up. These new generating station have added 500 MW to the present generating capacity. The new generating station are the Dokan hydro electric station (80 MW), the first unit of Nasiriya station (200 MW). 3660 villages got electricity under the rural electrification programme with the help of foreign assistance.

9. Baghdad Observer, 4 May 1976.

10. MEED, October 1985, Special Report on Iraq, pp.4-5.

The contribution of construction also increased from ID 2777 million in 1977 to ID 317.6 million in 1978 and ID 344.8 million in 1979. The private sector was the major beneficiaries and in this construction boom. In 1979, private sector contributed 87.8 per cent of GDP, rising to 93.8 per cent by 1981.¹¹ According to official statistics, the number of people employed in public sector construction in the seventies increased from 29,457 in 1973 to 38,021 in 1974 to 62,595 in 1975, rising to 92,580 by 1978. In 1970-71, there were 829 contractors officially registered with the planning council, three years later there were 2,788. Similarly, profits in the private building and construction sector leaped from ID 35.04 million in 1975 to ID 155.77 million in 1976, an increase of 400 per cent in a single year. Contracting became one of the most lucrative activities because most of the contractors were newcomers to the business, the rapid rise in their numbers gives a particularly clear indication of its attractiveness.¹² Other heavy contracts were awarded to foreign companies between 1970 and 1975.. The value of such contracts amounted to ID 682.4 million, rose sharply in second half of the seventies, reaching ID 1065.5 million in 1978, ID 4077.2 million in 1980.¹³ Most of the companies which have completed

11. Farouk Slogletat Marim and Sluglett Peter, Iraq Since 1958: From Revolution to Dictatorship (London, 1987), p.239.

12. Ibid., p.238.

13. Ibid., p.239.

their projects in this period were from France, Japan, Italy, Brazil, South Korea, West Germany, UK and India. 50 per cent of import also come from Japan and the West approximately 50 per cent while 11 per cent only from USSR.

Table 2.3 illustrates the increased demand in the construction sector and the number of buildings and repair permits trebled between 1975-80 and their value rose more than five fold over the same period. The increasing significance of the construction industry within the Iraqi economy is thus evident in this period. The contribution of this sector to GDP also increased which is clear from following table.¹³ The contribution of GDP to the construction sector at factor cost for the period 1974-80 (at factor cost).

Table 2.3

CONTRIBUTION OF CONSTRUCTION SECTOR TO GDP	
Year	(ID million)
1974	126.8
1977	415.9
1978	559.3
1979	993.8
1980	1135.6

Source: Annual Abstract of Central Statistical Organisation, Ministry of Planning, Government of Iraq.

It is clear, therefore, from the above table that rapid increase in oil revenue has made direct impact on the construction sector which led to rapid expansion of infrastructural

13. A.W.Ameen, n.1, p.276.

Table 24

PERMITS FOR BUILDING AND REPAIRS AND ESTIMATED COSTS 1974-80

Year	Building Permits		Repair permits		Total	
	Cost (ID million)	Nos.	Cost (ID million)	Nos.	Cost (ID million)	Nos.
1974	54.930	27910	1.242	15447	56.172	43657
1975	86.217	29902	2.228	13146	88.445	43069
1976	181.253	49891	2.871	15304	184.125	65195
1977	245.552	63180	5.802	30590	251.354	93770
1979	509.196	100476	8.346	26429	517.542	126905
1980	912.456	66621	13.322	15971	925.778	82590

Source: Annual Statistical Year Book 1975- and 1980, CSO, Govt. of Iraq, Baghdad.

activities in Iraq. It led to the rapid economic development of the Iraqi economy. That is why real growth rate increased rapidly from 12.3 per cent in 1973 to 17.3 per cent in 1978 and 23.5 per cent in 1979.¹⁴ In this period, oil sector was leader in growth averaging 13-14 per cent annually.

With the outbreak of war and its continuance for eight years, the depletion in the financial condition of the country led to decline in the outlays as well as shift in the construction activity. While the development projects were either shelved or scaled down, the war oriented construction work gained momentum. The fund allocation on development projects had also declined from \$24 billion in 1980 to \$10 billion in 1981. The major affected projects caused by this curtailment were Baghdad Metro, major irrigation schemes in vulnerable areas and industrial plants in Basra and Mosul of long gestation periods.¹⁵

Two kinds of defence related engineering projects had been completed during this period - first the preparations of earth works and dikes along with the war front. The major physical impact of this work with large lakes, now formed to the north and east of Basra. Second, supplies to the front and need to move the troops and equipment rapidly from one

14. K.A.Al-Eyd, n.7, pp.75-76

15. The Economist, (London), 3 September 1983, p.61.

area of the extended front to another had necessitated construction of roads and bridges in border areas. It is estimated that construction contributed 12-15 per cent of GDP and employed some 20 per cent of civilian and military work force in the war construction programme of the period.¹⁶

The sharp fall in oil revenue and depletion in the financial stock posed the problem of payment to construction companies before the Iraqi government. It was forced to defer the payment. Since 1983, Iraq government decided to convert most of its payment to foreign companies on projects from cash to credit. Iraq asked every company to arrange outside financing for the projects in which they were working or they wished to work in future.¹⁷

Deferred payment system affected countries like Japan, South Korea, West Germany, UK and India. Japan's half of overseas construction contract was in Iraq. Japan Exim Bank agreed in August to extend five year loans of \$1.5 billion to finance Japanese projects. The major objective of this loan was to protect the extensive interest of Japanese companies particularly the Marubeni, Mitsubishi and Sumito trading companies. In July 1983, a group led Marubeni corporation

16. EIU Country Profile (Iraq), April 1988, p.33.

17. Middle East Contemporary Survey, vol.VII, 1982-83.

agreed to take crude oil to cover part of debt aimed by Iraq on construction projects. According to agreement Marubeni would take 4.5 million barrels of oil in payment for \$132 million debt and Matubishi would take 1.5 million barrels of oil in lieu of cash payment.¹⁸ Total Iraqi debt to three main Japanese companies - Marubeni Corporation, Mitsubishi Corporation and Sumitomo Corporation is estimated at \$3070 million. Acting on behalf of 13 Japanese companies agreed to reschedule 1,100 million originally due in 1983 - first deferred until 1985 and then till 1987 and \$300 million due in 1984. This was initially deferred until 1986 and until 1988.¹⁹

West German Companies were also involved in deferred payment arrangement. Companies had completed worth \$1.5 billion work in Iraq. The largest contractor was Philip Holzman, complained that Iraq had blocked \$15 million payment. West German's export credit agency Hermes has given new proposals in response to Iraq's switch from cash payment principle to credit payment terms. Hermes's primary proposal was that Iraq must meet all outstanding foreign and local currency payments due in 1983. West German companies claimed \$1,000 million outstanding since November 1982.²⁰

18. MuED, November 1986 (Special on Japan).

19. Ibid., 29 November 1986, p.14.

20. Ibid., 25 March 1983, vol.27, no.2, p.28.

South Korean construction companies had also been hit by Iraq's deferred payment arrangement. Many South Korean companies had been forced in mid contract to find further external finance and other have had contracts cancelled or indefinitely postponed. Samsung construction company's \$700 million was blocked since 1983. In June 1982, Korean exchange bank made a guaranteed loans totalling \$2,000 million for assisting Korean projects in Iraq.²¹

Government's policy of deferring the payment was one of the main element of austerity programme announced in 1982 when Iraq was facing major financial crisis even in 1981 a moratorium was declared on new contracts. There was 83.5 per cent shrinkages in the construction activity in 1982. According to First Deputy premier Taha Yassin Ramadan that foreign companies will be treated in future for awarding new projects who had suffered in deferred payment arrangement and continued their projects during war period through their own finance. According to Mr.Yassin "Companies which showed reluctance in accepting deferred payment and fell short in their commitments to Iraq... (have) damaged their own interests as they will miss future opportunities."²²

The Iraqi foreign minister, Mr.Tariq Aziz said in a statement in Washington on 26 November 1984 "Preservance would

21. Ibid., 18-24 February 1983, vol.27, no.1, p.16.

22. Ibid., 7 December 1984, p.18.

earn foreign contractors priority concession and further work in Iraq." He also expressed confidence that payment due to contractors would be met in full and Iraq would pay up dollar for dollar whatever was delayed or rescheduled in 1983 in order to be paid in 1985 or 1987."²³

Iraq also considering as its policy that which payment would be most politic to meet and where requests to roll over payments will be most favourably received - bearing in mind that those countries most likely to agree and also the best potential sources of credit for new works.²⁴

Most of the foreign companies have accepted deferred payment agreement. Some companies like Indian and South Korean had accepted part payment in lieu of oil and other part on the basis of deferred payment basis. This was the most acceptable policy of the government of Iraq. The ability to accept part payment in crude oil was also a significant factor behind the award of a \$147 million contract to Indian company RITES for operation and management of Baghdad Akashat railway line.²⁵

President of Iraq, Mr.Saddam Hussain declared in June 1987 taking a cautious approach "we should not go on with projects and purchases on deferred payment basis, the deferred payment does not mean that projects are free of charges. It is in fact a financial commitment which should be met."²⁶

23. Ibid., October 1986, vol.30, p.18.

24. Ibid., 7 December 1984, p.20.

25. Ibid., November 1987 (Special Iraq), p.77.

26. Ibid.

Indian Construction Projects in Iraq : A Profile

Indian Construction companies also participated in the construction programme of whole West Asian region especially in Iraq. In fact, Iraq emerged one of the leading market for Indian projects. Indian companies participated broadly into two areas: (I) civil construction, and (II) consultancy. Major works under civil construction were rail, roads, bridges and buildings and under consultancy services were operation and maintenance of railway line, road and land survey, technical study of project and providing management skill for major projects. Both public and private sector companies participated in projects.²⁷

Between 1975-85, India secured civil construction contracts in the Gulf region exceeding Rs.52,000 crores. The cumulative value of the Indian projects both civil engineering and Industrial contracts was more than Rs.6,000 crores in this period former accounting for 80 per cent of it. The break-up is civil engineering Rs.4956 crores and industrial contracts Rs.1032 crores. The projection made by the task force on project exports maintains that by the year 1990, Indian project export can touch a target of Rs.15900 crores. In terms of four segments, the projection for the construction contracts in the year 1990 is Rs.9900 crores, for capital goods and turn-key jobs on cash payments¹⁵ Rs.1500 crores, for capital goods

27. The Economic Times, 16 May 1985.

and turnkey jobs on deferred payment Rs.3000 crores and for service contracts 1383 crores.²⁸ The details of the India's overseas civil construction projects can be seen from Tables 5 and 6.

It can be seen from the tables that Iraq has emerged as largest market for Indian companies. Despite war period, the percentage share of India's overseas civil construction project in Iraq between 1980-83 was 60.85 per cent. The order of 2316.5 crore from Iraq which was 44.23 per cent of the total. Thus, it is clear that Iraq has been the major market for Indian companies despite the war and recession period.²⁹

India has undertaken total projects between 1975-88 of the value of \$200.67 billion in which \$120 billion of civil construction and \$80.67 billion of consultancy services. Public sectors companies were dominated in consultancy services while civil construction projects were dominated by private sector.³⁰

Civil and Engineering Construction

Indian public and private sector companies participated in the civil construction in the Iraq. But the number of private sectors was more than the public sector which completed projects in civil construction in Iraq. According to an

28. Report of the Task Force on Project Export, Government of India.

29. Girijesh Pant, Seminar on Indo-Gulf Economic Relation Pattern, Prospects and Policies, JNU, New Delhi, Project Export to Gulf Countries.

30. Middle East Economic Digest, (London), 23 September 1983.

Table 2.5

INDIA'S OVERSEAS CIVIL CONSTRUCTION PROJECTS

(Rs. in crores)

Countries	1980	1981	1982	1983	Total	% Share
Iraq	1043	957	161	48	2209	60.35
Libya	114	600	107	4	835	22.73
Qatar	-	25	-	-	25	0.69
Kuwait	19	-	58	51	128	3.53
UAE	64	-	-	7	71	1.96
Saudi Arabia	-	-	6	29	35	0.96
Algeria	-	-	55	156	211	5.81
Others	80	12	21	13	126	3.47
TOTAL	1320	1594	408	308	3630	100.0

Source: Seminar on India Gulf Economic Relations, 25 April 1986, G.P. Pant, "Project Export to Gulf Countries," SIS, JNU New Delhi.

Table 2.6

INDIAN CONSTRUCTION COMPANIES ORDER IN THE MIDDLE EAST 1985-87

Countries	1985	1986	1987	Total	% share
Iraq	2214.9	85.6	16.0	2316.5	44.23
Algeria	1139.0	-	-	1139.0	21.75
Ethiopia	-	-	25.3	25.3	0.48
Jordan	167.1	1314.0	-	1481.1	28.28
Kuwait	28.8	-	-	28.8	0.55
Libya	192.6	-	-	192.6	3.68
Qatar	31.3	22.8	-	54.1	1.03
TOTAL	3773.7	1422.4	41.3	5237.4	100.0

Source: Middle East Economic Digest, 26 July 1988.

estimate total 43 Indian companies have been awarded projects in Iraq in which only 15 major public sector companies participated in civil construction projects and rest are private sector companies.³¹ Table 2.7 is given below in this regard.

Table 2.7

SOME OF THE MAJOR PUBLIC AND PRIVATE SECTOR COMPANIES
IN CIVIL CONSTRUCTION

S.No. Public Sector Companies	S.No. Private Sector Companies
1. Indian Railway Construction Corpn. (IRCON), New Delhi	1. Continental Const. Ltd., N.D.
2. Engineering Project (India) Ltd (EPI), N.D.	2. Ansal Properties P. Ltd, ND.
3. National Building Construction Corporation (NBCC), New Delhi	3. Jaiprakas Associates P. Ltd., New Delhi.
4. National Project Construction Corporation (NPCC) New Delhi.	4. Som Dutt Builders Pvt. Ltd., Bombay
5. Indian Road Construction Corporation, New Delhi	5. Asia Foundation and Construction Ltd., Bombay
6. National Thermal Power Corporation (NTPC), New Delhi	6. Shan Construction Co. Ltd., Bombay
7. UP Bridge Construction Corporation (UPBCC), Lucknow	7. Toyo Engineering India Ltd., Bombay
8. Oil and Natural Gas Commission (ONGC), Dehradun.	8. Hindustan Construction Co. Ltd., Bombay
	9. Gammon India Ltd., Bombay.
	10. Larsen and Tubro Ltd., Bombay
	11. Dodsai P. Ltd., Bombay
	12. Punjab Chemi-Plants Ltd., Chandigarh
	13. Uttam Singh Duggal and Co. P. Ltd., New Delhi
	14. Bhageetatha Engineering Ltd., Bombay
	15. Mahalinga Shetty and Co. P. Ltd., New Delhi.
	16. Bhandari Builders P. Ltd., New Delhi.
	17. Gannon Durkerly and Co. Ltd., Bombay.

Source: List obtained from Overseas Construction Council, N. Delhi.

31. Ibid., 21 January 1983.

Therefore, it is clear from the table that large number of private sector companies than the public sector companies participated in civil construction in Iraq.

I. Engineering Project India Ltd. (EPI)

Engineering Project India Ltd., is the leading public sector company. It has been awarded about \$1307.6 million projects between 1976-88 in Iraq. The EPI not only completed projects in Iraq but whole Gulf region also. The total value of its overseas project in the Gulf region under implementation in 1979 was \$666 million of which \$194 million was for contract in Iraq.

EPI won a contract in 1976 of the value of \$16.3 million for the construction of water supply to Um Qazr, Bashrah. Another contract was also awarded in 1976 for the construction of Mechanical Training Centre at Ishkandriya of the total value of \$12.6 million. In 1978, it was awarded a major project of the value of \$45.0 million for the construction of northern Grain silos (Lot 3A existing project) Baghdad and another project was also awarded in 1978 of the value of \$42.2 million for SAAD-3 project, Baghdad. In 1979 EPI was awarded a prestigious project for the construction of council of ministers building, Baghdad of the value of \$40.5 million. It was won by EPI with stiff competition from Japanese company.³²

32. Interview with General Manager, EPI (Iraqi Division), New Delhi.

Table 2.8

Year	Name of the Company	Nature of the work	Schedule of completion	Total value of the project (\$ million)	Total labour force employed.	Remarks
1976	Engineering Project India Ltd, New Delhi	Expansion of water supplies to Umm-Qasr, Basra	Original date October 1977 Extended to Sept. 1978	16.3		Actual completion of work took place Sept. 1978 (One year late)
1976	"	Mechanical Training Centre, Iskandariya, Iraq.	Nov. 1977	10.0		Work actually completed in Jan. 1978 and client was state organisation for Industrial Design & Construction (SOIDC)
1978	"	Northern Grain Silos project, lot. 3, Talfar, Sinjar, Shirkat.	March 1984	45.0 revised 47.5		Client was Directorate General of Projects, (State organisation for Grains).
1978	"	SAAD-3 project, Baghdad.	Nov. 1980 but actually completed in Oct. 1982	2.2		Client was SOIDC
1978	"	Central Grain Silos Baquba Tug and Khanaqin, Lot 4	March 1984	42.9 revised 45.0		Directorate General of Projects (State organisation for Grains). In March 1984 Baquba work is completed instead of May 1981. Tug actually completion date was Sept. 1981 but completed in Dec. 83. Khanaqin work date of completion was Jan. 1981 but work is suspended.

Year	Name of the Company	Nature of the work	Schedule of completion	Total value of the project	Total labour force employed	Remarks
1	2	3	4	5 (\$ million)	6	7
1979	Engineering Project India, Ltd., New Delhi.	Council of ministers Building Project (main works) Baghdad	Dec. 1981	34.5 revised 40.5		Client was state organisation of building (SOB) work suspended.
1979	-do-	Radio-TV research centre project at Baghdad.	Dec. 1981 extended to March 1982	14.3		work completed with Mitsubishi Corporation
1980	-do-	Northern Grain Silos expansion project at Talfar, Sinjar, Shirkat	Sep. 1983	29.0		Client was Directorate General of Projects (state organisation for Grains)
1980	-do-	Expansion of central grain silos at Baquba Tuz	Feb.83 for Baquba but completed March.84 Tuz Oct. 1983 completed.	16.9		"
1981	-do-	Council of ministers building project (external services) Baghdad.	Dec. 1984	23.1 revised 19.4		Work suspended client was SOB
1984	-do-	Modification work of council of ministers building projects, Baghdad.	July 1982	32.978		Client was SOB

Source: Interview with General Manager (Iraq Division) E.P.I., New Delhi.

In 1979, it was awarded \$14.3 million for the construction of Radio ^{Television} research centre at Baghdad.

Again in 1980, it got of the value of \$ 29.6 million for the construction northern Grain Silos project in Talafar, Sinjar and Shirkat. In 1980 another project for the expansion of Lot 4 of central Grain Silos was awarded of the value of \$16.9 million at Baduaba, Tuz, Kharakin. In 1981 of \$19.04 million project for council of ministers building was awarded to EPI.³³

But despite the award of such large number of project, EPI had to incur heavy losses in these projects due to non-payment for these projects. A cumulative loss of Rs.203 crore has been incurred by EPI in Iraq and EPI has also completed these projects two or three years late of schedule of completion.³⁴ A detail study will be made in next chapter.

II. National Project Construction Corporation (NPCC)

National project construction corporation is the another leading public sector company to have undertaken projects in Iraq. It has completed \$ 105.63 million projects between 1979-88. In January 1979 it was awarded for construction for Grain Silos (Lot-4) at Tuz. Baquba and Khanqun of the value of \$ 18.494 million and completed in June 1983. It employed approximately

33. Project information obtained from G.M., EPI (Iraqi Division), New Delhi.

34. Economic Times, 18 June 1989.

Table 2.9

Year	Name of Company	Nature of the work	Schedule of completion	Total value of the project (Million)\$	Total labour force employed	Remarks
Jan. 1979	National Project Construction Corporation New Delhi.	Grain Silos (Lot 4) Construction of vertical Grain silos	June 1983	18.494 (revised)	500 Indian workers.	This work was to be completed in May 1981 but it was completed on June 83 due to some changes in the project by client. Due to this value of the project was revised
Jan. 1980	-do-	Civil works for the construction of pumping stations for Al-Edwiyah	25.8.1982	2.96	100 Indian Persons	
-do-	-do-	Construction of 32 km long canal, its structures and lining for Nahar SAAD Project, Iraq.	15.10.83	42.58	200 workers	
Dec. 1981	-do-	Irrigation & Drainage system for Al-Edwiyah Reclamation project	26.8.86	49.39	500 Workforce engaged	
1984	-do-	Construction and execution of civil works for Al-Edawiyah land Reclamation project.	22.10.88	2.21	50 workers	

Source: Interview with General Manager (Iraq's cell) National Project Construction Corporation, New Delhi.

500 Indian persons. Again in January 1980, it was awarded of the value of \$42.58 million for the construction of 32 KM long canal, its structures and lining for Nahar SAAD project in Iraq and employed 200 Indian workforce. This work was stopped due to war condition after 84 per cent of the completion of work on 15 September 1983. In November 1980, NPCC got another project for civil works for the construction of 2 No.5 pumping stations for Al-Edawiyah project contract of the value of \$2.96 million and completed on 25 August 1982. This project handed over after completion to client on 31 March 1983. In 1981, it was awarded of the value of \$40.39 million for irrigation and drainage system for Al-Edawiyah Reclamation project. It completed on August 1986 and employed 500 persons. In 1984, it was awarded for construction and execution of civil works on Al-Edawiyah land reclamation project of the value of \$2.21 million. It was completed on 22 September 1988.³⁵

III. National Building Construction Corporation (NBCC)

National Building Construction Corporation is also a leading public sector company. It has completed \$138.62 million projects in Iraq during 1981-88. It was awarded in 1980 of the value of \$28 million projects for the construction of nine storey Mosul Hotel consists of 250 rooms in 20,000

35. Interview with General Manager, NPCC (Iraqi Division), New Delhi.

Table 2.10

Year	Name of Company	Nature of the work	Schedule of completion	Total value of the project(\$ ml)	Total labour force employed	Remarks
1981	National Building Construction Corporation, New Delhi.	Water treatment in Kirkuk Iraq.	10.11.1984	4.62		This project was awarded by Northern petroleum organization, Kirkuk and state contracting company for Industrial projects, Baghdad.
1984	"	Construction of passenger building loco-sheds, refueling stations, internal or external plumbing, erection of cranes upto 35 tonnes capacity for BAAR project, Iraq	8.9.87	80.94		
1985	"	Railway project at Kubaisa, Iraq.	11.12.83	3.24 3.24		
1980	"	Construction of 9 storey Mosul Hotel consists of 250 rooms Mosul, Iraq.	-	28.4		
1985	"	Two fly-overs near Baghdad Airport	-	6.2		
1985	"	New building complex for Baghdad University	-	6.9		
1986	"	3 star hotel complex at Dokan, Iraq.	-	8.2		

Source: Interview with General Manager (Iraq Division) National Building Construction Corporation, New Delhi.

square metres. Again in 1981, it was awarded for the Water Treatment Plant in Kirkuk of the value of \$4.62 million and completed in 1984. Another project was in 1984 of the value of \$80.0 million for construction of passenger building locosheds, refuelling stations and erection of cranes up to 35 tonnes capacity for Baghdad Alquaim Akasht Railway project in Iraq. It was completed in 1987. Again in 1985 it was awarded of \$3.24 million for railway project at Kubaisa, Iraq and completed in 1988. Again in 1985, it got contract for two flyovers near Baghdad airport of \$6 million and another project of same amount for new building complex for Baghdad University. It got another project of \$8 million for 3 star hotel complex at Dokan.³⁶

IV. Indian Railway Construction Corporation (IRCON)

Indian Railway Construction Corporation is also leading public sector undertaking under the ministry of Railway, set up in 1976 for the implementation of railway projects and schemes for augmenting existing facilities, expansion and modernisation of railway network.

IRCON has undertaken more than \$873.8 million projects in Iraq between 1977-87. In 1980, it was awarded a project for the construction of railway line section 3 and 4 of Mussayeb

36. Interview with General Manager, NBOC (Iraqi Division), New Delhi; and MEED 21 January 1987.

Table 2.11

Year	Name of the company	Nature of the work	Schedule of completion	Total value of the project (\$ million)	Total labour force employed	Remarks
1981	Indian Railway Construction Corporation (IRCon)	Construction of Railway line section 3 and 4 of Mussayeb-Kerbala-Najat Kafa-Samaw (MKNS) Railway project	7 July 1985	350.6	300	Deferred payment
1981	"	Signal & Tele-communication Electrical, Water Supply and outdoor electric works for section 3 and 4 MKNS Railway line.	Dec. 1984	24.9	-	Main client of this project was New Railway Implementation Authority, Iraq.
March	"	Construction of High speed branch line for Al-Mwthanna cement factory	5th July 1987	130.8	-	Payment for this project is partly on deferred basis and partly through the oil as per agreement between Govt. of India and Iraq.

Source: Ministry of Railway Report 1980-81, 1982-83, 1984-85, 1986-87 and 1987-88.

Kerbala-NeJaf-Kafa Samawa Railway Project of the value of \$389.6 million and 200 Indian workmen were employed in this work. This work was completed on 31 December 1984. Another project of value of \$24.6 million was awarded to IRCON in 1982 for signal telecommunication, electrical water supply and outdoor electric works for section 4. This work was completed in December 1984. Another major contract won by IRCON in 1983 of the value of \$112 million for the construction of high speed branch line for Al-Mathura Cement Factory. In 1985, IRCON won another prestigious project of the value of \$350.0 million for Mussayeb Samawa Railway Project in which 3,500 Indian workmen employed excluding 100 engineers. This work was completed on 5 July 1987.³⁷

V. UP State Bridge Construction Corporation (UPSBCC)

UP Bridge Construction Corporation is also a public sector company under the Government of Uttar Pradesh. It has also completed projects in Iraq. This firm has completed 36 bridges in Iraq in the last five years. UPSBCC was awarded a contract of the value of \$7.3 million in 1987 to build a bridge at Rawa, about 300 KM of the west of Baghdad on the road between capital and Al-Qaim. 80 per cent of the foreign currency payment have been deferred for two years. UPSBCC has also emerged as the lowest bidder for a contract to build a bridge at Sikhailah near the border with Turkey and Syria.

37. Report of ministry of Railway 1981-82, 1982-83, 1983-84, 1984-85 and 1986-87, Government of India.

The value of this contract was \$25.8 million. According to UP State bridge construction corporation's regional manager, Mr. Bageshwar Prasad that corporation is engaged in negotiation of forming a joint venture with Hammourabi for roads and bridges construction. Hammourabi would supply equipment and material for this purpose.³⁸

Among private Indian companies which have been awarded projects in Iraq in the civil construction are various companies as it is mentioned in the page 69 . The Continental Construction (P) Ltd. was one of the important private sector companies. It has completed \$774.48 million projects between 1977-88. It was awarded first project in 1975 of the value of \$6.590 million for construction of Abu Sakhair Fibre Board factory and employed approximately 300 Indian persons. It was successfully completed on 26 June 1977. Again in 1978, it was awarded for the construction of Amara Sewerage Scheme of the value of \$8.216 million and employed 350 Indian workforce. It was completed on 9 September 1980. Another project was also awarded in 1978 for Nassiriya and Sewerage project of the value of \$24.749 million and employed approximately 500 workforce. It was completed on 10 September 1982. In 1980, it won another project of the value of \$31.863 million for the Sulaimaniya Sewerage project and employed 450 Indian workforce. It was

38. Middle East Economic Digest, 16 September 1988, vol.32, no.37, p.21.

Table : 2.13

Year	Name of the Company	Nature of the work	Schedule of completion	Total value of the project (\$ million)	Total labour force employed	Remarks
1975	Continental Construction (P) Ltd., New Delhi	Abu-Sakhair Board factory project in Abu-Sakhair, Iraq.	26.6.77	6.590	Approx. 300 Indians	
1978	"	Amara Sewerage scheme at Amara, Iraq.	9.10.80	8.216	350	
1978	"	Nassiriya and sewerage project at Nassiriya Iraq.	10.10.82	24.749	500	
1980	"	Sulaomaniya sewerage project, Iraq.	31.7.82	31.863	450	
1980	"	West Bank Trunk sewer and pumping station project, Iraq.	21.8.82	13.393	350	
1981	"	Diwanayah sewerage scheme, Iraq.	26.4.84	48.396	600	
1981	"	Karkh water supply project, Baghdad, Iraq.	15.1.88	641.28	3500	

Source: Interview with General Manager, Continental Construction (P) Ltd, New Delhi.

completed on 31 July 1982. Again in 1980, continental was awarded of the value of \$13.393 million for the construction of West Bank Trunk Sewer and Pumping Stations and employed 350 Indian workers. It was successfully completed on 21 August 1982. In 1981, it got another project of the value of \$48.396 million for the Diwaniyah sewerage scheme and employed 600 Indian workers. It was completed on 26 April 1984. Again in 1981 it won a major project with a stiff competition from a South Korean company of the value of \$64.28 million for Karkh water Supply Project, Baghdad and employed 3500 Indian workers. It was completed on 15 January 1988.³⁹

Another important private sector company is the Ansal Properties (P) Ltd.. It has been awarded \$88.64 million project in Iraq between 1977 and 1984. It was awarded in 1977 of \$25 million for factories and industrial sheds Grain Silos 60,000 tonnes capacity and employed 1200 workers. It was completed in 1982. Another important project was awarded to Ansal in 1980 of the value of \$42 million for multi-storey office complexes, restaurants with complete services on turnkey basis, employed 1000 Indian workers. It was completed in 1985.⁴⁰

39. Interview with General Manager, Continental Construction (P) Ltd., (Iraqi Cell), New Delhi.

40. Interview with General Manager (Iraqi Cell) Ansal Properties (P) Ltd., New Delhi.

Another Delhi based private company is Bhandari Builders (P) Ltd., entered into Iraqi market. It has been awarded \$56.0 million projects in Iraq between 1980-83. In 1980, it won a contract of \$42.954 million for construction of 800 houses on turnkey basis at NaJaf, Iraq. It employed about 700 Indian workers. Another project was awarded to Bhandari Builder (P) Ltd in 1981 of \$5.727 million for Construction of Al-Hyat Building at Basrah, Iraq and employed 150 persons. Both projects had been completed within three years of year of award.

Some Indian Private companies have also worked as sub-contractors. Chahal Engineering (P) Ltd., is one of them. It got a project of \$10.38 million in October 1982 for Quarring (open cast mining) lime stone, crushing and transport of stone ballast for Saiqawa Railway project up to a lead of 200 KM. It was completed in February 1984. It worked in this project involving 200 Indian workers as a sub-contractor to IRCON Ltd.⁴¹

Another important private sector company which completed projects in Iraq is Bombay based Larsen and Toubro Limited. It has successfully completed \$59249.7/4 million projects in Iraq during 1983-87 period. In June 1980, it got of value of \$22.114 million project for the construction of International

41. Interview with General Manager, Bhandari Builders (P) Ltd. (Iraqi Incharge), New Delhi.

Table 2.13⁷

Year	Name of the Company	Nature of the work	Schedule of completion	Total value of the project (\$ million)	Total labour force employed	Remarks
June 1980	Larsen & Toubro Limited	Construction of International Football stadium at Missan, Iraq	July 1983	22,114	300	
April 1981	"	Construction of Boundary control points at Safwan, Iraq.	Sept. 1983	11833.00	150	FC position of bill deferred as per India-Iraq Govt. Agreement since 1983
Sept. 1981	"	Construction of Director General of Police Head-quarters Buildings at Baghdad, Iraq.	March 1987	47394.6	500	"

Source: Interview ~~via~~ through correspondence with General Manager, Larsen & Toubro

Football Stadium at Missan (Iraq) and completed on July 1983. It involved 300 work force. Another project which it has been awarded in April 1981 for the construction of Boundary Control points at Satwan (Iraq) of the value of \$71833.0 million and successfully completed in September 1983. The payment of this project has been deferred as per India-Iraq Government Agreement since 1983. Another major prestigious project of the value of \$47396.6 million, it got in September 1981 for the construction of Director General of police headquarter building at Baghdad, Iraq. It has been completed on March 1987. The payment of this work has also been deferred as per India-Iraq Government agreement.⁴²

It is clear, therefore, that Indian companies both public and private completed various projects in Iraq which got the admiration of government of Iraq. In 1982 alone, India's civil engineering contracts worth Rs.49,550 million in Iraq. The Engineering Export Promotion Council has envisaged that by the end of this decade, project will contribute half of the foreign exchange earnings by the engineering industry.⁴⁴

Other private sector companies which had completed projects in Iraq are Shah Construction and Som Dutt Builders.

42. Interview through correspondence with General Manager, Planning and Development, Larsen and Toubro Ltd., Bombay.

43. Ibid.

44. Economic Times, 16 May 1986.

Shah Construction completed two projects in 1983 which was awarded in 1981 of \$4.5 million to build the Basrah Branch of Real Estate Bank and another a road bridge at Al-Khudar in Mathura governorate. Shah had also completed two more projects in 1984 of a \$25 million to build 1,000 homes in Dujaila and another of value of \$16 million for Ishak Yathrab-Balad unified water supply scheme.⁴⁵

Som Dutt Builders, a Bombay based company has also completed a number of projects in Iraq. It has been awarded in 1986 of the value of \$80.6 million for water treatment plant at Mosul. Som Dutt Builders has officially received \$1.5 million compensation caused by war. This was the first settlement claim of an Indian company of war compensation. The project was to built 3,700 precast housing units in Baiji, Kirkuk and Khor-Al-Gubair under \$90 million. Another project awarded in 1985 to Som Dutt at a total value of \$132 million for water supply scheme in Hilla and Mosul. SDB has agreed to defer payment until work is completed. The construction period for both project is three year (1989) from contract signing (August 1985). Payment will be made four six monthly instalments.⁴⁶

It is clear therefore, that Indian public and private companies completed various kinds of projects of

45. MEED, 21 January 1983.

46. Ibid., 24 August 1985.

the civil construction. In the field of consultancy India also emerged as an Industrial Power Projects in the Gulf countries especially in Iraq. Therefore, consultancy is also vital for study.

Consultancy

Indian consultancy firms offer general consultancy services in three main areas:

- (a) Economic: area development services, market surveys and economic appraisal;
- (b) Management: manpower planning, computerisation, material management, work study, operation research, structure and modernisation;
- (c) Management of construction and operation: e.g., programming, scheduling, supervision and inspection, erection, equipment supplies and commissioning.⁴⁷

The specialised Indian firms provide whole range of services such as plan formulations, project reports, basic engineering, plant design and detailed engineering construction management and start-up services. The range of their specialisations reflects the broad spread of Indian Industry. They provide their services to metallurgical plants (iron and steel and non-ferrous) process plans (e.g. sugar, cement and chemicals) pulp and papers, textile and synthetic fibres,

47. Economic Times, 16 May 1986.

agriculture inputs, food processing and petro-chemicals. They also provide whole range of infrastructure and other civil engineering services such as power generation (nuclear thermal and hydro), transmission and distribution, irrigation and flood control, town planning and architecture, buildings and structures.⁴⁸

In the public sector, the oldest consultancy firm is the National Industrial Development, set up in 1954 (NIDC) which provide consultancy in economic and industrial development planning. Another important consultancy firm is water and power consultancy services (WAPCOS) provide consultancy services in dam, irrigation, upgradation of land and power. Another important public sector firm is Engineers (India) Ltd provide engineering services in civil constructions. Another most important public sector consultancy firm is the Railway India Technical Economic Services (RITES), set up in 1974 to provide consultancy services in all fields of railway transport and technology.

Among private sector consultancy firms, one of the older firm is M.N.Dastur and Co. (DATUR) which specialises in steel plant and other important firms are Kirloskar Development Consultant (P) Ltd., Birla Consultancy (P) Ltd., Technical Consultant (P) Ltd., Bhageeratha Engineering and Tata Consultancy Services specialises in management and data processing.⁴⁹

48. R.Thomas, "India's Emergence as an Industrial Power", Middle Eastern Contracts (London, 1982), p.f8.

49. Ibid., p.31.

I. Water and Power Development Consultancy Services (WAPCOS)

It has been in the Gulf market for the last one decade. It has also completed various prestigious and major projects in Iraq also. It has completed ~~23~~ \$4.32 million projects in Iraq during 1977-88 periods. Water and Power Development Consultancy Services (WAPCOS) cover feasibility surveys and the design of construction, and supervision of irrigation, drainage land reclamation, flood control and water supply projects with spread of activity in power generation (thermal and hydro) transmission and distribution. One of the most important project awarded to WAPCOS in December 1977 of the value of \$4.25 million for consultancy services in Amrah Irrigation and Drainage project and employed approximately 400 Indian workers for survey work. This project has been successfully completed in December 1981. In January 1977, it had won 9 project of the value of \$1.7 million, employed about 300 work force for the project of water research centre for consultancy on hydraulic research laboratory in Baghdad. Again in 1978, it got ground water development project of \$312 million and employed 1200 drillers throughout the Iraq. This work has been successfully completed in October 1983. WAPCOS reached its zenith in consultancy services in Iraq when it won despite the stiff competition with South Korean company, of the value of \$4.28 million in March 1982 for the project of the first phase of Rifil Shipoa irrigation scheme

Table 2.14

Year	Name of the Company	Nature of the work	Schedule of completion	Total value of the Project (\$ million.)	Total labour force employed	Remarks
Dec. 1977	Water power development Consultancy Services, New Delhi.	Amarah Irrigation & Drainage project at Amarah, Iraq.	2.10.1981	4.25	400	Personnel employed for consultancy services on hydraulic research centre Baghdad
Feb. 1976	"	Water Research centre, Baghdad, Iraq.	3.10.1982	1.17	30	
April 1978	"	Ground water development project throughout Iraq.	3.10.1983	3.12	1200 drillers employed throughout Iraq.	
March 1982	"	R.E.I Ship & Drainage project, Iraq (I Phase)	3.3.1986	4.28	200	\$ 4.28 million for both I and II phase.
March 1983	"	II phase	3.3.1988	II phase		
July 1982	"	Supply of Surveyors to Govt. of Iraq	10.12.1985	4.0 ^{1.0} million	300 Surveyors	
July 1988	"	Bakme Dam in Iraq, Hydraulic Research & model studies	3.7.1989	0.5	only study work	

Source: Interview with General Manager, Water and Power Consultancy Service, New Delhi.

and employed 200 Indian workers which has been completed in March 1986. The second phase of this project awarded in March 1983 employed about 800 Indian workmen and this project has been (during the last year of intense war with Iran) ⁵⁰ completed successfully in March 1988. Another project which WAPCOS got about the supply of surveyors to Government of Iraq of the value of \$1 million in which 300 surveyors employed. This work was completed successfully in December 1985. In July 1988, it has been awarded some consultancies work for Bakme Dam for hydraulic Research and model studies of the value of \$0.50 million and to be completed in the end of 1989.⁵¹

Therefore, it is clear that WAPCOS has successfully represented India as a consultancy power in the Gulf countries especially in Iraq.

II. Engineers India (Ltd) (EIL)

EIL has also provided technical assistance for design, engineering and project management services Iraqi State organisation for oil projects for the execution of following pipeline projects: (a) Nassiriya Kut multi product pipeline - diametre 8 m length 185 km, (b) heated fuel oil pipeline: from Basrah refinery to Hartha Power Station - diametre 12 metre, length 30 km, (c) Branch crude oil pipeline from Baguregan

50. Interview with the Project Officer, Iraqi Division, WAPCOS, New Delhi.

51. Ibid.

to crude oil pipeline, diameter 10 metre, length 4.5 km;
(d) Nassiriya gas pipeline - diameter 14 metre, length 175 km; (e) Nassiriya crude oil pipeline - diameter 12 m, 27 km. Iraqi state organisation for oil project also awarded a contract in 1978 to EIL for tender preparation for the MUFTAN Jetty project. A team of EIL engineers assisted Iraqi state organisation for Industrial Design and construction engineers in design review and review of detailed engineering and construction drawings.⁵² On the request of Iraqi state organisation and Industrial Design and construction, EIL sent a team in March 1976 to evaluate the Naphta cracker proposal made by Toya Engineering. EIL engineers also helped Iraqi state organisation for industrial design and construction to supervise construction of its Knor-Al-Gupair fertiliser plan.⁵³

Some private sector companies worked in Iraq as sub-contraction in the consultancy field. The Delhi based United Technical Consultant (P) Ltd. got a project in January 1989 of the value of \$0.430 million approximately for transmission line (132.0 km) in Baghdad area as a sub-contractor with a Yugoslavia Company 'Energoinvest' as main contractor. United Technical is expected to engaged 75 Indian workers in this project which is expected to be completed in December 1989.

52. R.Thomas, n.48, p.32.

53. Ibid., p.37.

This is the first contract Unitech was awarded after the end of war.⁵⁴

Railway India Technical Economic Services (RITES)

RITES institutionalised in 1974 renders consultancy services in all facets of transportation technology. RITES has come a long way in a comparatively small span of time to be recognised as a leading international consultancy organisation in the field of railway transport technology. Being closely associated with Indian railways, RITES is eminently to draw freely upon the vast pool of relevant experience, expertise and technical know-how acquired over of century of operation of Indian Railways. This unique facility for meaningful interchange of experts and specialists between RITES and Indian Railway has helped the organisation to keep abreast of technological advances. RITES provide services connected with management, technical support, contract supervision, transport studies, surveys, investment plans, human resources development and inspection of material.⁵⁵

RITES awarded \$169.8 million projects in Iraq during 1978-89 period which made India's emergence as an industrial power in Gulf countries especially in Iraq. In 1978 RITES

54. Interview with General Manager, United Technical Consultant (P) Ltd., New Delhi.

55. Railway Ministry Report of 1981-82, 1983-84, 1984-85 and 1986-87, Government of India.

has a railway project for general engineering and resident engineering services for Baghdad Al Qasim Akashq Railway Project (BAAR) of the value of \$⁵⁸1.00005 million employed 80 Indian workforce and successfully completed in 1987. Another major project which has been awarded to RITES in 1979 of value of \$⁸0.00000 million for integrated technical economic services to New Railway Implementation Authority in which 70 Indian people got job and this project has been successfully completed in 1987. In 1980 RITES signed an agreement with New Railway implementation Authority, Government of Iraq for Preliminary and detailed engineering survey for rail connection of the value of \$⁵⁴1.00005 million, employed about 100 Indian workforce and completed in 1984. In 1980 RITES got another project of \$⁷³1.00056 million for design and general services engineering serves to Iraqi Republic Railway, employed 600 Indian workforce and successfully completed this project in 1986. Another important project RITES got in 1984 with a stiff competition for the study of remodelling of Baghdad Marshalling Yard for Iraqi Republic Railways of the value of \$⁷⁸1.00056 million, employed only 75 experts and engineers and successfully completed this project in 1986. RITES reached in its zenith when it got a major project at time of climax of war between Iran and Iraq with stiff competition of the value \$150 million (highest amount project which RITES got) on May 1987 for the period of five

Table 2.15

Year	Name of the Company	Nature of the work	Schedule of completion	Total value of the project (\$ million)	Total labour force employed	Remarks
1978	Railway India Technical Economic Services (RITES) New Delhi	General engineering services to BAAR project.	3.3.1987	.00000558	80	
1979	"	Integrated technical economic services to Iraqi railway republic	2.1.1987	-000008	70	
1980	"	Iraqi railway survey.	3.2.1984	.0000518	100	
1980	"	Design General Engg. Services for IRR.	3.7.1986	.0000509		
1984	"	Baghdad Yard Marshalling & modelling services	3.11.1986	.000005678		
31 May 1987	"	Operation & maintenance of Baghdad Al-Akashat railway project, 600 km.	for five	150.2	1800	

Source: Interview with General Manager (Iraqi Division) RITES, New Delhi.

years for operation and maintenance (ORM) of Baghdad -Al-Qasm-Akashat Railway Project and involving placement over about 1800 railway personnel.⁵⁶

Thus, it is clear from above analysis for the emergence of India as an industrial power in the field of Railways also the main thrust of RITES is on the international front and its over 75 per cent earning are from Project abroad RITES got gross profit Rs.65.2 million in 1985-86 which increased to Rs.753 million in 1986-87. RITES got consultancy fee from project in Gulf countries especially from Iraq Rs.219.8 million in 1985-86 and Rs.296.6 million in 1986-87 which increased by 34.9 per cent over 1985-86. RITES got net profit of Rs.43.9 million in 1985-86 which increased to Rs.48.0 million in 1986.⁵⁷

Therefore, above analysis of construction consultancies reflects the fact of India's emergence as an industrial power in Gulf countries especially in Iraq. Most of the projects have been awarded to Indian companies during Iraq's war with Iran with a stiff competition with Japanese, South Korean and European companies. Given the fact that exports are going to play a much more critical role in the development strategy of India in the coming years, project exports eventually will

56. Railway Ministry Report of 1984-85, 1985-86, 1986-87 and 1987-88, Government of India, New Delhi.

57. Interview with General Manager, Iraqi Division, RITES, New Delhi.

become an important component of the exports. The Arab Gulf region, despite the oil recession, will continue to remain a crucial market for Indian projects. Apparently, a number of areas where Indian companies can compete are not sensitive to oil recession because Gulf economies will have to sustain them. In fact, it can be argued that with the declining oil revenue when the Gulf economies would be reviewing and revising the projects in favour of functional returns rather than high sophistication and being latest, they would find countries like India a natural commercial ally. Particularly in the maintenance sector Indian companies have decided advantage over the European counterparts. Thus, rather than looking at the oil generated regional recession as opportunity gone syndromes India needs to look at the sobering down of regional plans at the emerging opportunity of a scale and size which is within its reach and can be backed by the national economic base.

Chapter III

INDIAN PROJECTS IN IRAQ: ISSUES AND PROBLEMS

Chapter III

INDIAN PROJECTS IN IRAQ: ISSUES AND PROBLEMS

Participation of Indian companies in civil and engineering projects in Iraq spread over a ~~span of~~ decade has provided rich experience. While the Indian companies faced tough competition as the new entrants, The problem caused by war and slump in Iraqi economy affected very staying capacity of the Indian companies thereby eroding their market credibility. Similarly many times Indian companies did not find adequate support from the Indian government. An appraisal of the issues and the problems faced by the Indian companies during their stay in Iraq would provide requisite understanding to be incorporated in reshaping Indian project export policy. These issues and problems can be classified into three groups in terms of their origin. First, the problem faced by the Indian companies due to the changes in the Iraqi market, second, the limitations of the Indian companies to face the challenge of the Iraqi market and third lack of adequate policy support from the government of India.

1. Problems Related to Iraqi Economy

As it has been pointed out in the first chapter that Iraqi economy became the debtor economy due to war. The immediate impact of that problem was the deferment of payment to foreign companies including Indian companies which have completed their projects in Iraq. The situation became grave

in 1983. The government of Iraq announced austerity programme and postponement of a number of projects. Such situation compelled Iraq to enter into deferred payment agreement with Japanese, South Korean, West Germany and Indian governments.

(A) Problem of Deferred Payment of Indian Construction Companies

India lost first major contract in 1978 due to not accepting crude oil as part payment in 60 km Baghdad-Husaiba railway project of Rs.1,500 crores which RTES was confident of winning it. The contract was lost due to failure to link it to a long-term purchases of Iraqi crude in part payment.¹

India entered into deferred payment agreement with Iraq in August 1983. A distinction between priority and non-priority ventures governed payment negotiation with Indian companies. There were about 33 Indian firms working in Iraq in 1983 on 68 schemes with a total value of \$170 million. According to 3 August 1983 agreement regarding project completed in 1982 about \$295 million would be deferred for two years. This constituted 75 per cent of total payments due in 1983 for non-priority projects estimated at about \$390 million till 2 September 1983. The re-scheduled amounts would become payable in four instalments - on 31 August and 31 December 1985 and

1. Richard Thomas, India's Emergence as an Industrial Power Middle Eastern Contract (London, 1982), p.32.

30 June and 31 December 1986. An EXIM Bank of India team has settled the payment arrangements with the Central Bank of Iraq. All the due payments would bear interest equal to the London Inter Bank offered rate (LIBOR). The 25 per cent balance would be paid in 400,000 tonnes of oil and 100,000 tonnes of sulphur. The oil was to be delivered between December 1983-March 1984. The sulphur was to arrive before February 1984. Indian firms would get overdraft facilities from EXIM Bank of India to enable them to continue work. Part of the money would be in foreign currency and part in the Indian currency guaranteed by export credit guarantee corporation.² It was also agreed in August 1983 agreement that \$45 million in payment outstanding since January 1982 would be cleared before the end of 1983 in four instalments.³

In 1984 another agreement reached to defer about \$100 million due to Indian contractors in 1984. Deferment was for two years at the interest equivalent to the London Inter Bank offered rate (LIBOR). India would buy 300 million tonnes of crude oil worth about \$750 million in 1984 almost the same as in 1983. Indian government accepted Baghdad's request to re-schedule two payments due on 1983 deferment agreement.⁴

2. Hindustan Times, 13 January 1983. (New Delhi)

3. MEED (London), 23 September 1983.

4. Ibid., 24 May 1984.

Agreement in 1985 reached between New Delhi and Baghdad to re-schedule two payment due in 1985 of 1983 deferment agreement. The first instalment due was on 2 August 1985 would now had to meet on 31 December 1985 in the form of sulphur and crude oil. The second instalment originally due in December has been deferred for further 18 months, interest would be based on the London-Inter Bank offered rate (LIBOR). India had agreed to defer \$295 million repayable after two years in four equal instalments. Further deferment agreements were reached for 1984 and 1985.⁵

According to 12-14 July 1986 agreement India was to take oil in part payment for deferment due in 1986. It covered 60 per cent of payment owed. The State Organization of Oil Marketing, Government of Iraq was to supply 2.5 million tonnes of oil to Indian National Oil Corporation up to March 1987. Baghdad has relented its earlier insistence that the crude be priced at OPEC rates. Deliveries would be at market related prices.⁶ The deal valued at about \$190 million includes the first instalment due in 1985 on payment deferred in 1983. The second instalment was earlier deferred for 18 months, as were new bills for construction contracts underway. The interest on deferred payment would be at London Inter Bank Offered Rate (LIBOR). The Indian government had indicated its willingness

5. Ibid., 23 November 1985.

6. Economic Times (New Delhi), 14 October 1984.

to plough back about 50 per cent of receipts into new contracts awarded up to 1986. The outstanding 40 per cent would be deferred - some for two years and rest for three years.⁷ The situation became complicated in 1986 by Iraq's failure to meet deferred 1983 payments and by differences about settlement of foreign currency payments due on ongoing projects. In May 1986 Indian government banned companies from competing any work in Iraq. At the time of embargo only Rs.310 million worth of bids had been cleared by the EXIM Bank of India while in 1985 Rs.19,530 million value bids had been cleared by it. Finally the two sides reached agreement in July 1986 which include the oil barter.⁸

In September 1986 an agreement was also reached between Rafidain Bank of Iraq and Exim bank of India regarding financing and Banking arrangements. 90 per cent of the foreign currency payment due in 1986 on current projects would be deferred for at least 30 months. They will be paid in four equal instalments: on 30 June 1989, 31 December 1989, 30 June 1990 and 31 December 1990. Interest has set at the London Inter Bank offered rate would be paid only on the billings made after 15 July 1986 agreement. The remaining 10 per cent will be paid with crude oil.⁹

7. MEED., 26 July 1986.

8. Ibid., 11 October 1986.

9. Economic Times, 20 June 1986.

Settlement of payment due in 1987 should be agreed by the end of 1986. In case of delays, the 1986 payment deferment agreement would apply to payment falling due in January 1987.

Re-scheduling of about \$300 million worth of payment originally deferred in 1983 and due in four instalments: (a) India would take crude oil for the entire principal and interest of first \$75 million instalment, which originally fell due in August 1985, (b) the second instalment, due on 31 December 1985 has already been deferred for 18 months to June 1987. (c) 70 per cent of principal owing on the third instalment, due on 30 June 1986 would be met with crude oil. Interest would be set at LIBOR until the final shipment. The remaining 30 per cent or \$22.5 million would be deferred for 24 months. (d) The fourth instalment due on 31 December 1986 would be deferred for 24 months.¹⁰

All interest payments due in 1986 on payment deferred between 1983-85 would be settled with crude oil. These payments would also carry interest at LIBOR, until shipment are completed, probably March 1987. The agreements covers 64 projects, all of which started before the 1983 deferment agreement. The largest is the \$100 million plus Karkh water supply scheme.¹¹

According to 1-2 October 1988 agreement, India has agreed to expedite payment of the pending overdues to Indian firms under

10. MEED, 20 September 1986.

11. Economic Times, 20 June 1986.

the letter of credit opened by the Rafidain Bank. Agreement has also been reached on the issue of outstanding dues of final bill payments and release of retention money in respect of some cash contracts as also contracts covered under deferred payment arrangements.¹²

The deferred payment arrangement, therefore, was the product of Iran-Iraq war which led to many hardships to Indian companies in the market. Iraqi project authorities were unable to make regular payments against the certified bills of progress of work completed by Indian companies. This had led to the extension of contracts for no fault of Indian companies. Besides Indian companies have to shoulder additional financial burden by way of payments of commission against guarantees being issued by the EXIM Bank, Indian Commercial Banks and counter-guarantees issued by ECGC of loans being raised by them in foreign exchange for servicing their projects in Iraq. In such type of deferred payment arrangement, the Indian companies have to purchase modern and sophisticated equipment as desired by the consultant of Iraqi clients. The cost of such machinery is generally up to 20 per cent of the cost of project.¹³

2. Problems Related to Indian Companies in Market

Apart from the deferred payment problems Indian companies also faced a number of other important constraints in the market.

12. Times of India (New Delhi), 13 August 1988.

13. Seminar on "Perspective for Overseas Projects (1985-90)" Overseas Construction Council of India, Government of India, p.30.

Therefore some of the leading companies like Som-Dutt Builders, has to pull out of work after seven years working on projects valued at about \$300 million. This decision was prompted by the diminishing amount of new work, persistent cash shortages and loss problems.¹⁴ Indian companies started facing loss in the Iraqi market especially after deferred payment arrangements. Companies problems began when it had to resort heavy borrowings from commercial bank to complete their projects in Iraq. The example of Engineering Project India (EPI) is quite revealing in this connection. The loss of Rs.26 crores on Iraqi project was due to deferred payment and late completion of works. EPI has its interest burden of about Rs.163 crores. Of Rs.163 crores interest burden, Rs.100 crore is on account of the government borrowings and rest is from other sources. The lender include the State Bank of Bahrain.¹⁵

Most of the Indian companies completed work beyond the scheduled time. The Iraqi clients are reported to have been delaying indefinitely finalisation of formalities of giving final completion certificate (FCC) even after maintenance period is over, following satisfactory completion of work.¹⁶

Indian companies have been facing various type of litigations by Iraqi clients. Clients are also accused of violating the contractual provision whereby 50 per cent of retention bonds

14. Economic Times, 14 October 1983.

15. Ibid., 11 June 1989.

16. MEED, 8 November 1986.

are refunded. Clients also insisted on submissions of income tax certificate and custom clearance certificate before they will release the money. In this way, even the retention money deducted to prior to 3 August 1983 has not been refunded.¹⁷

In the recent past, it has been noticed that Iraqi clients impose penalties on Indian contractors on some pretext. This contravenes the understanding between two government that those firms which have continued to work in war affected areas would not subject to the imposition of penalties. The EPI has been imposed heavy penalties for the late completion of ~~all~~ but one of its 10 contracts in Iraq. The exception was water supply scheme in Basra. Penalties levied in respect of seven projects total value \$7.7 million. EPI has incurred losses on some of these projects. Work on the one of the EPI's biggest contracts for the council of ministers building in Baghdad was halted in September 1982 after EPI had failed to ^{Complete in} May of that year. The client state organisation for building has imposed penalties for delays.¹⁸

The \$59.9 million project, involving construction of two five storey buildings was originally scheduled for completion at the time of seventh summit of non-Aligned Governments' meeting in September 1982. The turnkey job was divided into two parts:

17. Ibid., 8 November 1986.

18. Ibid., 20 April 1984.

Civil works plus electro-mechanical equipment supplies valued at \$40.5 million and provision of external services costed at \$19.4 million. According to EPI, the client had introduced various design modifications and price revisions and then asked to resume work. EPI had lost \$22.4 million on the scheme of which civil works account for \$17 million. In 1984 the government of India's Minister of State for Industry, S.B.P. Patta Bhai Rama Rao has told Parliament that some clients had delayed approval of designs and failed to make payments on time. In addition Gulf war had caused shortage of construction materials and hindered their transportation to site. This was because of congestion at Basra Port and its subsequent closure.¹⁹

EPI was also involved in dispute with one of its sub-contractors - Japan's Mitsubishi Corporation which was working on Baghdad's radio and television centre. Civil, electrical and airconditioning works were completed in March 1982, but EPI is facing penalty of \$630,000.²⁰ EPI is blaming partly to client and partly to sub-contractor for delays in the completion of work. This matter has been referred to international arbitration.²¹

Another problem area is that of site and market conditions. Here, the contractor's difficulties start at the very beginning of its proposed entry to Iraq. In virtually every form of tender, and certainly in the final written contracts,

19. Ibid.,

20. Economic Times, 20 June 1986.

21. Interview with General Manager (Iraqi Division), EPI, New Delhi.

there are standard clause deeming the contractor to have visited the site, to have satisfied itself with local conditions and to have made due allowances for them in its bid.²² This is an obviously difficult area for contractors bidding from a distance. But if the site is in desert area and certainly virgin land earth work become difficult and contractors will have to import "Sabkha" perhaps from 20 kilometers away for backfilling and compacting to required density before pouring blöndings. Thus local knowledge counts a great deal in the price build-up.²³

A survey conducted by Export Credit Guarantee Corporation has suggested high cost of bidding in the Iraqi market is the main cause of failure of 85 per cent of the Indian bids. Some of the Exporters fail to quote competitive prices. Bidding in Iraqi projects has become highly specialised, sophisticated and expensive exercise. Japanese, French and West German companies adopt a sophisticated information system and use highly sophisticated computers to prepare bids. It has often been noticed that large amounts of about Rs.50,000 is incurred for bidding for a tender of Rs.10 crores and Rs.1 lakh for bidding for tender of Rs.30-40 crores.²⁴

22. National Herald (New Delhi), 9 July 1980.

23. MEED, special report "Construction", April 1983,

24. Interview with Mr.K.K.Singal, General Manager, Ansal Properties (P) Ltd., (Iraqi Division), New Delhi.

Another big problem of Indian companies in Iraq is the lack of adequate site accommodation, catering and medical care. Iraqi clients are not providing doctors facility on work site in large projects where 500 to 700 workers are working. Clients also not provide good living conditions and keep them in unhygienic conditions. This leads to the general strike which hampers work there. The example of 594 workers of Punjab based Punjab Chemical Plant Ltd (PCPL) is important in this connection. The PCPI had employed 594 workers in which 32 Indian workers were trapped in Iraq for the past three years and other workers had been repatriated to India at the government expense. The 32 workers have been denied exit visa by STA Organisation of Iraqi points as it wanted the construction company to honour its commitment before allowing the workers to leave. The Indian embassy in Baghdad was in touch with Iraqi authorities to seek repatriation of the 32 workers who had neither been paid salaries nor allowed to leave the country. Mr. Subhas Kamthan, Project Engineer of PCPL in Basra said that workers have made several unsuccessful pleas to Iraqi government to leave the country. Their companies stopped payment of salaries due to postponement of work caused by heavy Iranian shelling. Most of the workers were living on miserable conditions tried to meet means by working as coolies, plumbers, helpers in various private concerns. PCPI had recruited some 1200 workers for housing projects worth \$120 million in 1980 in war torn Basra.²⁵

25. Times of India (New Delhi), 13 August 1988.

The construction operations in Gulf countries particularly in Iraq are highly mechanised. The Indian companies have to purchase modern and sophisticated equipment as desired by Iraqi clients. The cost of such machinery is generally up to 20 per cent of the cost of the project. The finance required for the purchase of machinery are provided by the principals and the entire cost of such machinery is recovered from the bills of the contractors, before completion of project, as a result of which, a large percentage of the contractor's profits gets blocked in the cost of machinery. Besides the machinery, a further deduction of 5 per cent towards security deposit (as retention money) is made from the monthly running bills of the contractors. Both these measures seriously affect the liquidity of the contractor and do not have the scope for meeting the tax liability created as a result of the blockage of finance in these items.²⁶

3. Problem Emerged from Indian Government Policy

Despite the importance of the project export, the performance of Indian companies are not satisfactory because the government has not given adequate attention to respond to the needs of the market nor the problems faced by the companies in Iraqi market. The Japanese and South Korean governments have recognised the role of their overseas companies as a part of promoting export. That is why, these governments have provided

26. Economic Times, 14 October 1983.

tax concessions and fiscal incentives to their companies while the government of India has yet to grant these facilities to its companies.²⁷

The government of India policy on deferred payment is not stable because government sometimes refused to take oil in lieu of cash payment and sometimes agrees to take oil in lieu of payment. On other side, India's Som Dutt Builders had decided in 1984 to pull out of the work after seven years of working on project valued ₹300 million, only because of government of India's reluctance to allow companies to accept new projects on deferred payment or to provide credit to new works.²⁸ Not only Som Dutt Builders but other Indian companies have also faced problems. About ₹250 million in cash has still to be paid on 26 projects that were not included in 1983 agreement of government of India and Iraq on deferred payment.²⁸ Government of India has not taken matter with the Iraqi government on meeting obligations on projects of Indian companies and payment of retention money, advance mobilisation which are blocked for the last five years.²⁹

Fiscal Handicaps

Section 35 of income tax act was intended to provide fiscal incentives to the Indian companies to devote more resources for exploration of foreign markets with a view to

27. Hindu (Madras), 26 September 1988.

28. MEED, 11 May 1984.

29. Ibid., 8 November 1986.

boosting country's exports. The Finance Act of 1980 withdrew the benefits of weighted deduction on expenditure incurred on the following heads:

Clauses: (a) Obtaining information regarding markets outside India for such goods, services or facilities;

(b) Distribution, supply of provision outside India of such goods, service of facilities, not being expenditure incurred in India in connection there with or expenditure (wherever incurred) on the carriage of such goods to their destination outside India or on the insurance of such goods while in transit;

(c) Preparation and submission of tenders for the supply of provision outside India of such goods, service or facilities and activities incidental thereto, (d) furnishing to a person outside India, samples or technical information for the promotion of the sale of such goods, servicing or facilities,³⁰

(e) performance of services outside India in connection with or incidental to the execution of any contract for the supply outside India of such goods, services or facilities; (f) such other benefits for the promotion outside India of such goods, services or facilities as may be prescribed.³¹

The notification issued by the Central Board of Direct Taxes in August 1981 restoring some of the benefits of weighted deduction on expenditure incurred by them for preparation and

30. Task Force on Project Export (Government of India), pp.42-43.

31. Seminar on Perspective for Overseas Projects (1985-90), Overseas Construction Council of India, New Delhi, p.28.

submission of bids for internal tenders. The task force appointed by the Government of India has suggested in its report that all the benefits of weighted deduction under section 35B of the income tax Act be restored to Indian companies engaged or intending to engage in the project.

Construction Companies as Trading Companies

Construction companies are treated as a trading company, and not as an industrial company and therefore face following constraints:

(a) Payment of income tax at the rate of 65 per cent instead of at the rate of 55 per cent as applicable to the industrial companies;³²

(b) ~~7~~ per cent of capital employed is not allowed as a deduction from tax liability in each year for five years under section 80-83 of the income tax Act applicable to industrial companies.

(c) 25 per cent of the profits allowed as deduction to new industrial undertakings under section 80-81 of the Income Tax Act is not allowed to construction companies as they are treated as trading companies.

(d) It is optional for industrial companies to pay dividends to their shareholders depending on their necessity to retain profits for strengthening their capital and financial base.³³

32. Task Force on Project Export, Government of India, p.43.

33. Interview with General Manager, Iraqi Division, Ansal Properties (P) Ltd., New Delhi.

A strong case, therefore, exists for Indian construction companies to be treated as industrial companies for income tax purposes.

Tax on Employees

Under the present regulations, an Indian leaving India, is not eligible for income tax exemption on the basis of the period of residency. Even in a highly developed country like Denmark an engineer who serves abroad for not less than one year gets a non-taxable status, irrespective of the point of time in the financial year when he goes abroad. There is a great merit in the representation for framing policy on similar lines exempting income earned abroad by Indian citizens, provided they put in a minimum of one year of service abroad, irrespective of the point of time of departure from India or return to India. This would go a long way to mitigate very heavy burden of tax which fall on the shoulder of Indians who are not fortunate enough to leave India before 29 April or 29 May as the case may be. This also acts as a deterrent for senior technical executives accepting overseas assignments.³⁴

High Custom Duty

Another problem of Indian project exporters is the payment of high custom duty on equipment and machinery originally sent from India on its re-importation or to India after completion of the overseas projects. Customs duty on the

34. MEED, Construction Special, April 1983, p.14.

re-importation of such construction machinery and equipment purchased from third countries for overseas projects should be levied either on depreciated value reduced by 50 to 60 per cent or more (depending on the conditions and use thereof in a number of projects) of the original purchase price. According to rough estimates, equipment and machinery of approximate value of Rs.100 to 150 crores purchased by Indian companies from other overseas project accounts in Iraq is lying idle or will be rendered idle. This is because ongoing projects are near completion and new projects are not forthcoming caused by heavy debt burden on Iraq. One of the conditions of the contract is that the contractor should remove equipment and machinery from the site on completion of the project. The cost of warehousing of equipment and machinery abroad is not only prohibitive but also has to be paid in foreign exchange. The resale value of such used equipment is almost at throw away prices.³⁵

Therefore, there is no other alternative left for Indian companies but to reimport such equipment and machinery into India. The major hurdle is the heavy custom duties that Indian companies have to pay on re-importation of such equipment and machinery into India. This is because of Indian custom officials do not allow depreciation more than 10 to 15 per cent of the original f.o.b. value. There is strong case

35. Interview with General Manager, Iraqi Division, Ansal Properties (P) Ltd., New Delhi.

for allowing depreciation at least at the rate of 50 per cent to 60 per cent on purchase price of such equipment and machinery because of its wear and tear.

Problem of Cash Compensatory Support

The Indian construction project exporters at present are not entitled to cash compensatory support. The earlier stipulation that 51 per cent of the total value of a contract should constitute foreign exchange earnings for entitlement of cash compensatory support has now been deleted in the import-export policy (April 1984-March 1985) of the government. Unlike the Japanese and Korean companies, Indian companies have narrow capital base and inadequate liquidity and also high incidence of direct and indirect taxes. The Indian construction companies require large financial outlay. Therefore, the cost of finance plays an important role in successfully bidding and performing Iraqi projects. That is why South Korean, Japanese and French companies provide financial incentives to their companies for undertaking projects in Iraq. The South Korean exchange Bank provide guarantees to their companies on bid bonds, performing bonds, mobilisation advance and retention money etc. without charging any commission.³⁶

Defective Labour Policy

Most of the Indian governments were recruited through agents which make false tall promises to Indian workers. Labour

36. MEED, 3 February 1984.

Ministry has failed to check it. It led to general resentment among the workers when they failed to get expected salary and nature of job.³⁷

Another policy is pre-paid travel advice which led to major loss of major labour contract in Iraq. Workers recruited by Gulf Companies have been stranded at exit points due to Indian government insistence on the paid travel advice as a pre-requisite for travel. Around 4000 have lost their jobs and 30,000 are likely to be affected by the regulations as contracting companies are turning to other countries in the Far East for semi-skilled and unskilled labour. The PTA was enforced on 25 November 1988. The Bombay based Recruiting Agents Association of India (RAAI) has sent a representation to the Union Minister of Labour, Mr. Bindeshwari Dubey, for suitable amendment of the relevant clause which adversely affected the interest of the workers and foreign exchange earnings. According to RAAI that a group visa for workforce of 17,000 recruited for Iraq was cancelled when PTA had been issued. The Iran-Iraq truce has buoyed up employment potential and India was losing a major chunk of the market in Iraq due to this labour policy.³⁸

Even the deferred payment agreement attracted criticism from Indian firms. Because, it allowed to raise foreign currency

37. Economic Times, 13 June 1985.

38. Ibid., 13 February 1989.

loans needed to complete projects in Iraq. The loans are backed by the EXIM Bank of India and Export Credit Guarantee Corporation, they take $\frac{3}{4}$ per cent commission annually. But Indian companies argue that if payments by Iraqi clients against certified bills of progress of work had continued uninterrupted, such loans would not have been needed. They would then not have had to pay either the commission which is mounting up because of payment delays or the cost of managing loans raised through Indian Banks overseas branches. Companies also objected 14 per cent interest levied on rupee loans from Indian Banks raised to pay workers employed in Iraq. Companies say that they should either be allowed to borrow on international markets which costs less or be charged the concessional interest rate which applied on export credit from India.

Chapter IV

PROJECT EXPORT POLICY OF GOVERNMENT OF INDIA

PROJECT EXPORT POLICY OF GOVERNMENT OF INDIA

The construction boom in West Asia came at a time when India was looking for breakthrough after having completed a few projects in the Asia and Africa. Though the first Indian joint venture in the field of textile dates back to sixties, it was in the early seventies that Indian joint ventures and turnkey projects could come of age, ^{However} Indian experience of overseas joint venture has been mixed in nature. Indian companies needed greater exposure and the West Asian market provided them opportunity. With the advantage of cheap labour, geographical proximity and traditional economic ties, it was expected that Indian companies would be able to go in a big way. Some of the Indian companies did bag very prestigious projects amidst tough competition from the western companies. But an evaluation of Indian experience in retrospect suggest that Indian performance could ^{have been} ~~much~~ better had there been a systematic and co-ordinate approach and policy concerning project export. On the contrary, it appears that India has been responding to the situation in an ad-hoc way. There are no evidence to suggest where Indian initiative came anticipating the events. Now ~~when~~ the West Asian economies moving at a slower pace, the construction market no more remains bouyant but at the same time, it would not ^{be} correct to ignore the

potential of the market. With the cessation of hostilities, it is expected that the market will revive. Hence, it is imperative that the market is approached with clear objectives and policy perspective so that gains from market could be maximised.

Indian exports during last three decades have gone through two distinct phases of structural transformation. During the fifties, the composition of export trade was characterised by the preponderance of primary products. But the decade of sixties witnessed a distinct change in the structure and pattern of Indian export trade and also a major diversification in the composition of trade took place with the increase in the share of manufactured products - engineering goods in particular. The period of seventies saw the emergence of new dimension in India's foreign trades, marked by a shift in its pattern of export from products to projects.¹

During seventies, India has laid firm foundation of project export for powerful thrust in the world market. It is on this foundation that a strong super-structure of project has built up in the eighties. The initial stimulus for India's breakthrough in project exports was provided by the construction boom caused by high oil prices in the seventies in the West Asian region. Broadly India has made its presence felt

1. Report of the Task Force on Project Export, Government of India, 1981, p.14.

in the market in the following four segments of project export: (i) Turnkey Industrial Project, (II) civil engineering construction, (III) supply of capital goods on deferred payment, and (iv) service contracts covering export of technical and managerial know-how, engineering services for erection equipment and professional consultancy. These various segment are important for formulating a project export policy.²

The growth of turnkey project and capital goods have been quite phenomenal. From Rs.64 crore in 1973-74 to Rs.371 crore in 1980-81 which means a rise by about six times. According to the study conducted by EXIM Bank of India on a sample of construction projects financed overseas, the profits and overheads repatriated into India accounted for about 11 per cent of payments received from contract execution. The net foreign exchange earnings was calculated at Rs.150 crore in 1982 in and Rs.140 crore in 1983. It is pointed out in the study that companies expected to earn profits amounting to 12 per cent contract value. Additionally, these rprojects have also helped in providing jobs to the unskilled and skilled manpower from India. It is estimated that at least 6 per cent of the contract value of construction projects is repatraited into India. Thus, the projects exports help not only in

2. Ibid., pp.15-16.

promoting exports of engineering goods, jobs to unskilled and semi-skilled manpower but also remittances flow which adding to the solvency of the Indian economy. Thus, the cumulative foreign exchange earnings through usage of Indian materials, labour remittances overheads and profit came to about 20 per cent of the contract value.³

Table 4.1

TURNKEY PROJECT AND CAPITAL GOODS EXPORTS

Year	Export of capital goods	Annual growth rate in percentage	Percentage share to total exports of engineering goods
1973-74	64.04	18	33
1974-75	111.63	74	32
1975-76	154.8	38	38
1976-77	176.07	14	32
1977-78	202.46	13	32
1978-79	254.93	26	36
1979-80	275.00	8	39
1980-81	371.00	35	40

Source: Task Force on Project Export, Government of India.

The projection made by Task Force on project exports maintains that by the year 1990, Indian project exports can touch a target of Rs.15,900 crores. In terms of the four segments, the projection for the construction contracts in the

3. The Economic Times (New Delhi), 24 July 1985.

year 1990 is Rs.9900 crore for capital goods and turnkey jobs on cash payments Rs.1500 crores for capital goods and turnkey jobs on deferred payments Rs.3000 crore and for service contracts Rs.1393 crores. It assumes that construction contracts will register a growth by 415 per cent, capital goods and turnkey jobs on cash payments by 900 per cent capital goods and turnkey jobs on deferred payment by 945 per cent and growth of service contracts by more than 1000 per-cent.⁴

During the last three decades, India's capital goods and civil engineering industries had made spectacular headway. Without any foreign collaboration, India has designed and installed major projects in multifarious fields of fertiliser, oil refining, petro-chemicals, pharmaceuticals, power generation, transmission and distribution, sugar textiles, cement, paper, integrated steel plant, water treatment and waste treatment plants for environmental and pollution control, port and harbour development, road and highway construction, irrigation and electricity projects. Backed by the third largest trained technical manpower, Indian companies are well equipped to undertake basic infrastructure and related works. Thus, as a part of the overall strategy to increase exports, Government of India is laying emphasis on exports of construction and turnkey projects as also consultancy services which have been described as vehicle of project exports.



4. Report of the Task Force on Project Export, Government of India.

The value of the project exports from India stood at Rs.232 crores in 1975-76. It reached a peak in 1981 at Rs.1205 crores and then declined drastically due to slump in the construction activities in West Asia. It was as low as Rs.271 crores in 1983, Rs.353 crores in 1984, Rs.490 crores in 1987 and 383 crores in 1988. Table 4.2 clears the picture about project export.

Table 4.2

PROJECT EXPORTS

Projects	(Rs. crores)			
	1985	1986	1987	1988
Construction projects	237 (64%)	354 (67%)	118 (24%)	178 (46%)
Turnkey project	82 (22%)	141 (27%)	144 (29%)	144 (38%)
Consultancy Projects	50 (14%)	30 (6%)	228 (47%)	61 (16%)
TOTAL	369	525	490	383

Source: Economic Times, 6 July 1989.

While the construction project are high value contracts, there seems to be a distinct change in the average value realisation of turnkey projects that have gone up lately. According to data available from Kapoor Committee report, between 1975-82 Indian firms undertook 347 turnkey projects abroad, valued at Rs.1680.7 crores. In the wake of Gulf war and economic stagnation

in the Middle East, there seems to be a distinct uptrend in the participation of the turnkey contracts, as compared to construction projects. Various evaluation report show that while during the project boom, civil works oriented projects dominated the scene in the past, a discernible trend has emerged after 1982 towards the increase the share of equipment oriented projects in the total value of project exports.⁵

Distribution of project exports have also undergone major changes. Prior to 1980, about 42 per cent of project exports were mainly in the field of electricity generation and distribution followed by core industries like cement and machine tools (23 per cent). The project exports were shared private and public sector equally in the ration of 55:45. However, during the period between 1980 and 1984 transportation projects followed by water and sewerage treatment plants dominated the scene. During 1985 and 1986, 58 per cent of the value of project exports were accounted for by transportation projects, followed by telecommunication (16.3 per cent), textiles (10.9 per cent), power (7.2 per cent) and cement (6.5 per cent).

The above tendency reveals that overseas buyers have shown considerable interests in newer areas of technology available with India apart from the traditional spheres of expertise.⁶

5. The Economic Times, 6 July 1989.

6. Ibid.

Thus, with the cessation of hostilities, it is hoped that construction and maintenance activities would be resumed in near future which would enable Indian firms somewhat greater access to markets. In view of this importance, government of India has taken following decisions as a policy of project export.⁷

- i) Project assistance to the tune of 10 per cent of the net foreign exchange earnings from the service portion of the contracts in respect of industrial turnkey and civil construction projects as well as for export of consultancy services;
- ii) Market development assistance for reimbursement of 50 per cent of cost of bids for turnkey construction projects and consultancy services;
- iii) Market development assistance grant to consultancy organisations for opening and operating overseas offices at the rate of 60 per cent of the approved expenditure for the first two years, 40 per cent of the approved expenditure for the next two years and 25 per cent of the approved expenditure for the fifth year.
- iv) As an incentive, Indian promoters are allowed cash compensatory support of 10 per cent of f.o.b. value in India on exports effected by them.
- v) Reimbursement of 50 per cent of the financing cost of bid bonds.

7. FICCI, Seminar on Indian Joint Ventures Abroad and Project held on 30.9.1986 Export (New Delhi).

The following categories of contracts will be treated as project exports for the purpose of policy:

- i) Turnkey project namely those which involve the rendering of services like design, civil construction, erection and commissioning of plant or supervision there of along with the supply of equipment;
- ii) Engineering services contracts, involving the supply of services alone, such as design, erection, commissioning or supervision of erection and commissioning;
- iii) Consultancy services contracts which may include preparation of feasibility studies, projects reports, designs and advice to the project authority on specifications for plant and equipment, preparation of tender documents, evaluation of tenders and purchase of plant and equipment.
- iv) Civil construction contracts with or without preparation of design a drawing for civil works to be undertaken.
- v) Export-Import Bank of India has recently been persuaded by the government to reduce its interests rates to 7.5 per cent per annum to enhance the competitiveness of Indian bids for projects;
- vi) EXIM Bank in addition to supplier's credits and buyer's credit has also been extending lines of credit to various developing countries with a view to project exports.
- vii) From April 1989, the government has announced the extension of project assistance scheme for another three years,

under which 10 per cent ccs will be granted on the basis of net foreign exchange earnings from the service components of the turnkey or package projects. This scheme will be valid till March 31, 1992. Experts hold that present government seems to be keen on boosting up project exports through a system of incentives.⁸

viii) The government has decided to enter into co-financing agreement with World Bank with an initial contribution of half million US dollars to be used for in engaging Indian consultants for World Bank finance matters. Thus, it is hoped ^{not to} will try to counter the clutche of the consultants from developed countries who contrive to prescribe the specifications which make it difficult for Indian machinery and materials being used in the international multilateral agency funded projects.⁹

Apart from above provision, the commerce ministry has made special provisions as project export policy in its import and export policy designed to stimulate project exports. These are as follows:

i) According to para 108 of the policy, application for import of design and drawing, office equipment, instruments, tools, accessories and other items for import licences from the following: (a) technical consultancy firms; (b) construction

8. Ibid.

9. Ibid.

agencies; and (c) design engineering firms. Applications will be considered only for those items which are required for actual use by the applicant firm and cannot be imported under the normal policy. The value of licence granted shall not exceed 10 per cent of the net foreign exchange earned by the applicant as per the bank certificate. The application shall be submitted to the regional licensing authority concerned and will be subjected to clearance of the terms by ~~DGSE~~¹⁰ D.G.P.D.

ii) According to Para III (1) of the Policy, an exporter, the f.o.b. value of whose exports has been Rs.15 lakhs or more in 1980-81 or 1982-83 would be allowed to import, in a licensing period: (a) one electric typewriter, (b) one electrically operated calculating machine, (c) one photo copying machine, (d) one dictaphone and (e) photo-copying paper, calculating machine paper rolls toner and dispartant for photocopying purposes, spares for above mentioned machines and consumable tools required for these machines for a value not exceeding Rs.2,500. The imported machines and materials will be subjected to actual user condition, i.e. for use in the licence holder office/factory. While applying for a licence for the import of the office machines and other items some under the provision that applicant should furnish a declaration indicating the quantity and value of these machines and other materials for which import licences have been obtained or import applications

10. The Economic Times, 1 March 1989.

have been made during the same licensing period.¹¹

iii) According to 162(2) of the policy, turnkey projects may involve the extension of deferred payments to the buyer abroad, in the sense that foreign exchange remittance, according to the contract, will not be completed within the time limit after shipment stipulated in the foreign exchange regulations.

According to para 162(3), similar guidelines in respect of the construction project, the proposals relating to which are also cleared by the linking group of financial institutions, have been issued by RBI.

iv) According to Para 162(4) of policy, turnkey project exporter will have to indicate the extent of the import of equipment or machinery envisaged by them from a third country into the project country for supply to the buyer as a part of the project. When they forward their proposals for clearance according to Board guidelines, once the bank or working group as the case may be, approves the proposals, necessary permission for remittances of foreign exchange out of India, will also be given by RBI after completion of required formalities, no import licence will be required to be obtained for such third country imports into the project country.¹²

v) The para 162(5) of the policy states that project contractors, requiring construction equipment for enabling them to execute the project undertaken, may buy such equipment

11. Report of the Task Force on Project Export, Government of India, p.72.

12. Ibid., pp.73-74.

in the project country or from third countries. After completion of the project such equipment can be imported into India on a custom clearance permit, issued by the CCIRE, New Delhi. The proposed purchase of construction equipment will have to be indicated to the Bank of the working group and clearance obtained, as part of the proposals for which clearance is sought.

vi) The para 164 states that the Registered exporter^s in such cases will have the option to claim import replenishment either at the rate of applicable to the totality of exports covered by the project or at the rates applicable to individual parts of such exports. This option will be available only in cases where the project contract sets down the break up of plant prices items wise. When there is no such break-up in the contract, the exporter will be eligible to claim import replenishment only at the rate applicable to the plant as a whole.

According to explanatory note to the policy statement regarding^{project} export policy, even the items which are in the restricted or banned list can be allowed for export if required for the completion of a project abroad undertaken by the Indian contractor/sub-contractor and consultancy organisation. The export will be allowed on the basis of approval letter issued by the project committee in the ministry of commerce.¹³

13. Ibid., p.74.

The Government of India has set up the overseas project development committee (OPDC) in March 1980 to keep a close watch on the progress of project exports. The main function of the Committee are following:¹⁴

- i) To monitor progress in the field of project exports from the stage of issue of tender notice to the completion of the contract, in respect of the contracts of the value exceeding Rs.1.0 crore.
- ii) To undertake pre-tender monitoring of all possible contracts of value in excess of Rs.10 crores, and
- iii) To evaluate both successful and unsuccessful contracts with a view to suggest measures for improving the competitive strength and efficiency of performance.

The project committee under the ministry of commerce was set up by the government of India consequent to a decision taken by the overseas project Development Committee (OPDC). This inter-ministerial committee considers only procedural and operational matters relating to project exports. Its other functions are following:

- i) Request for grant of permission for export of banned or restricted items where such export is required for the execution of a project;
- ii) Request for allocation of scarce raw material for manufacturing items for export as a part of project contract;

14. The Economic Times, 26 December 1982.

- iii) Proposals for certification for a particular export for purposes of pre-shipment inspection;
- iv) Request for assistance relating to deputation of manpower abroad in connection with projects.¹⁵

It is imperative that only competent and selected Indian firms should participate in the civil engineering and construction projects in different parts of the world. Keeping this in mind, Indian firms desirous of undertaking such projects abroad are screened by a screening committee of EEPC consisting of Chairman EEPC, Chairman of the Construction Panel of EEPC, Chief of IDBI, ECGC and civil construction contractors. The firms are screened for their competence, resources and capability to work in the international market.¹⁶

Indian exporters are required to obtain prior clearance of the working group before tendering for contracts, the exception being pure service contract. With effect from 1 January 1980, bids for pure supply of engineering goods on deferred payment terms and turnkey contracts of a value of not exceeding Rs.1.0 crore are permitted to be cleared by the authorised dealers in foreign exchange in terms of power delegated to them by RBI. Similar powers to clear bids for civil construction contracts up to a value of Rs.1.0 crore have been delegated to authorised

15. Report of Task Force on Project Export, Government of India, p.71.

16. Ibid.,

dealers since September 1981.¹⁷ The working group comprises representatives of RBI, EXIM Bank and ECGC. It is functioning since 1 July 1975. Every bid cleared by the working group. The working group is also required to clear small value proposals, if they have any unusual features.¹⁸

The main areas in respect of which project exporters are required to obtain exchange control approvals in connection with execution of turnkey, construction and various types of service contract are listed below:¹⁹

- i) Opening and maintenance of temporary bank accounts abroad;
- ii) Opening and maintenance of temporary site offices and liaison offices abroad;
- iii) Payment of agency commission;
- iv) Raising working capital by way of borrowing abroad or through remittance from India;
- v) Purchase of materials/machinery/construction equipments from 'third country' sources;
- vi) Investment abroad of project funds rendered temporarily surplus, and
- vii) Inter project transfers of funds.

17. Ibid., p.59.

18. EXIM Bank Report 1987-88 (Bombay).

19. Ibid., p.13.

The registered exporter will have the option of claim import replenishment either at the rate applicable to the totality of exports covered by the project or at the rates applicable to individual parts of such exports. The option will be available only in cases where the project contract sets down the break-up claim import replenishment only at the rate applicable to the plant as a whole.²⁰

A new blanket exchange permit scheme for the exporters was announced by RBI in June 1987. The scheme is aimed at to give major thrust to the country's export promotion drive especially for the project exporter. The scheme is more broad based and flexible both as to the eligibility of exporters and the purposes for which exchange can be drawn by holders against their blanket permits. All project exporter whose annual foreign exchange earnings on account of their project export are not less than five lakhs will be eligible for the issue of blanket exchange permits. The minimum qualifying amount of foreign exchange earnings a year for the exporters of other products will be Rs.20 lakhs and for the companies executing civil construction contracts and consultancy contracts abroad it will be Rs.10 lakhs and Rs.5 lakhs respectively. In addition certain export oriented units and those exporters eligible for assistance from the export market fund are also eligible. The quantum of exchange permitted will be determined on the basis

20. Editor, "Indo-Arab Trade and Economic Relations", Economic Trends, 1 February 1986, FICCI, New Delhi, p.8.

of classification of the products, exported by it during the previous accounting year. The blanket permit that may be issued to any exporter initially will be subject to a monetary ceiling of Rs.2.0 crores.²¹

But as it is clear from above that government of India has not independent policy on project export. It has been incorporated in import-export policy of the government of India. Though India has been the beneficiary of the project market in the Gulf especially in Iraq, yet no serious thought has been given to formulate a policy towards the region in accordance with the national foreign economic policy. Indian response has largely of ad-hoc in nature. The policy of government for instance on deferred payment with Iraq during the war period was also ad-hoc. Some time India refused to take oil in lieu of cash payment and some time India agreed to take oil in lieu of cash payment. As it is clear from chapter III that India entered into agreement on deferred payment with Iraq in 1983. The policy of government of India for not allowing Indian companies to accept new projects on deferred payment basis. Due to this policy various Indian companies like Somdutt Builders had decided to pull out of work after seven years working. On the other side, government of India's policy to take part in more operation and maintenance work rather than increased involvement in construction contracts. ~~The~~

21. RBI Report on Currency and Finance, 1987-88, vol.II, p.154.

Government of India has also imposed restriction on Indian firms bidding for construction schemes. Government of India also failed to solve the problem of Indian companies in Iraq for the withholding of mobilisation advance payment for scheme awarded in past two years and delays in the release on project completion certificates.²² The Government of India imposed restriction on Indian firms for accepting deferred payment for new project despite the announcement of the government of Iraq in 1983 that only those companies that taken or completed projects on deferred payment during the war would be welcomed for future projects in Iraq. The loans provided by EXIM Bank for the completion of on going projects take three-fourth per cent commission annually.²³ While Indian companies argue that if the payments by Iraqi government against certified bills of progress of work had continued uninterrupted, then such loans would not have been needed. They would then not have had to pay either the commission which is mounting up due to payment delays or the cost of managing loans raised through Indian banks overseas branches. They also criticised to the 16½ per cent interest levied on rupee loans from Indian banks raised to pay workers employed in Iraq. Contractors requested to the Government of India that they should either be allowed to borrow

22. Middle East Economic Digest (MEED) (London), 1 November 1986.

23. MEED, 17 February 1984.

on international markets, which costs less, or be charged the concessional interest rate which applies an export credit from India. Due to these provision of the government of India, very few Indian firms have won projects in 1982 and 1983. While Japanese and South Korean Government have provided loans to their companies working in Iraq on a very concessional interest rate like on or two per cent. But government of India has not provided any concession on loans interest.²⁴

Though, it is right that India cannot behave like South Korea. The South Korean economy is structurally geared to the needs of the external market under the export-led regime. The economy as a unit gets sufficient support from the USA in meeting the needs of the structural adjustment required to meet the new market condition. The Korean government takes the responsibility to intervene with the help of external resources to give necessary strength needed by the Korean companies to get over the tough time. It is reported that the Korean government has announced a \$1000 million support programme to help the companies. But government of India cannot extent such a massive help. And even such financial support is given, there will not be any major breakthrough because of structural constraints of the Indian economy.²⁵

24. MEED, 3 February 1984.

25. Girijesh Pant, "Project Export to Gulf Countries", paper presented to the Seminar on "Indo-Gulf Economic Relations" Gulf Studies Programme, held on 25 April 1986 at School of International Studies, JNU, New Delhi.

Given the fact that exports are going to play a much more critical role in the development strategy of India, in the years, project export eventually will become an important component of exports. Due to the end of war between Iran and Iraq, then Iraq would again become crucial market for Indian companies in its reconstruction programme. India has advantage over European companies in the operation and maintenance sector. Recently Government of India recognised role of overseas construction companies in national export effort, which has introduced the measures to increase their competitiveness in overseas and fourteen economic areas have been singled out for such help by the government which is determined to increase export earnings with stable and permanent project export policy.

Chapter V

PROSPECTS OF INDIAN PROJECTS IN THE POST WAR
RECONSTRUCTION PROGRAMME

PROSPECTS OF INDIAN PROJECTS IN THE POST-WAR
RECONSTRUCTION PROGRAMME OF IRAQ

From the brief account of the Iraqi economy given in the first chapter, it is evident that after the war, the economy is entering into a new phase of recovery and reconstruction. The immediate priority for Iraq is to complete the rehabilitation of oil industry — the main source of income of the country. Modernisation of agriculture is another promising sector. This will reduce its food imports and create employment opportunities for a larger pool of army personnel who have been relieved from their duties. Construction of building and repairing of infrastructure has also been given top priority. Other priorities include road and ~~housing~~ projects, power stations, health, education, transport and communication ^{are} under post-war reconstruction programme.¹ As a matter of fact, Iraq has at least \$50 billion worth of projects listed in 1981-85 five year Development Plan, which were shelved because of the war. Now these schemes particularly in the heavy industrial sector have been revived by the government. They include:

1) Oil: rebuilding of the offshore oil exports terminals in the Gulf, central refinery, extension and upgrading of production, refining and pipeline facilities;

1. The Kuwait Times, 5 December 1988.

- ii) Industry: petro-chemical complex No.2, car manufacturing plant, pipe works, fertiliser plants, pharmaceutical factory, Joint Arab Industrial projects for float glass, penicillin and detergent power;
- iii) Power: 1,800 MW power stations at al-Anbar, 400 KV and 132 KV distribution networks,
- iv) Transport and Communications: expressway No.2 works from Baghdad to Turkey, Baghdad metro and MoSul International airports, and more than 3,000 km railway,
- v) Agriculture and Irrigation: Mandaula and Badush dams; further dams and barrage construction to strengthen river control, East Jagara and irrigation schemes.²

The estimate for reconstruction costs in Iraq is put at around \$30 billion over a ten years period. This figure does not include the lost oil revenue and economic activities during the war years. The Iraqi government maintained an optimistic view of the economy in the reconstruction programme. Some \$11.5 billion has been allocated for the 1988-89 investment programme. Iraqi government optimistic view based on four factors: higher oil revenues, the success of its economic reform programme leading to larger private sector participation, attracting Arab investors and funds in local industrial ventures and its ability to attract project related credit facilities. In 1988-89 investment programme, priorities have been given to

2. MEED, 25 November 1988.

oil, industry, agricultural sectors and public services. Within these sectors, emphasis have been given to projects listed in 1980-85 development plan. New projects are limited to those that boost local production and help ^{to} cut-down on the volume of imports or improve public services. The government is keen on reconstructing Basra's infrastructural base and to go ahead with two new power stations, a new central oil refinery, a fifth fertiliser complex and a series of water supply and sewerage projects.³

The Government of Iraq has first started reconstruction of oil Industry. The local state company for oil project has announced that it plans to implement 30 projects at the total cost of more than \$6 billion between 1988 and 1992. Seven of these schemes would be carried out in 1989 and 19 in 1990-91. The four remaining projects are still in the feasibility stage. Several projects include oil field development, forthcoming schemes include East Baghdad, North Rumaila, West Qurna, Khormal and Luhais. Pipeline project will include petrochemical feed-stock lines, a fuel line to Basra airport. Much of the work will involve expanding oil export facilities in the South for crude oil, products and LPG. The main project will be development of product storage and export facilities at Khor-Al-Gubair port. The five stage scheme is being studied by state company for oil project which expect work to start in 1990 and take 42 months to complete.⁴

3. The Kuwait Times,

4. MEED, 23 January 1989, vol.33, no.24, p.15.

About 100,000 men have been moved to southern port city of Basra to rebuild it after devastation in the Gulf war. According to President Saddam Hussain, the equivalent \$5 billion has been allocated to rebuild city especially port to facilitate oil export.⁵ The refinery at Al-Shuaibah near Basra was declared ready in January 1989. With this start up, Iraqi domestic refinery capacity would reach to 435,000 barrels a day. Foreign companies involved in exploration work in Iraq are reportedly estimating that Iraq's recoverable oil reserve could be much higher than 100 billion barrels (already claimed in 1988), 11.6 per cent of the total world oil reserves. Iraqi oil minister Mr. Issam Abdul Rahim Al Chalabi said that Iraq might have 110 billion barrels of oil reserve in 1989 and strong possibility of more 50 billion barrels in 1990. According to minister Iraq's export capacity will increase 5.5-6 million barrels a day in 1990 when IPSA 2 pipeline from Iraq's southern oil fields through Saudi Arabia to Red Sea and another pipeline to the Mediterranean through Turkey are completed.⁶ Iraq's export capacity through the Gulf will be increased to more than 2 million barrels a day in 1989. Repairs of Al-Bakr deep water terminal in the Gulf which was severally damaged during the war, have also been completed.⁶ The oil production in 1986 was 1.688 million barrels a day jumped to 2.615 million barrels a day in 1988 and oil

5. Economic Intelligence Unit (EIU), London, Report No. 2(1989)

6. Kuwait Times, 3 June 1989.

export earning which was \$7.2 billion in 1986 jumped to \$11.7 billion in 1988 and \$12.9 billion is expected in 1989. According to the Washington based petroleum finance corporation, oil export revenue running at an estimated \$3.4 billion in the first quarter of 1988 up by 26 per cent on the \$2.7 billion earned in the fourth quarter of 1988. On the basis of EIU projection of an average oil price of \$16.5 barrel, Iraq's receipt from oil exports in the end of 1989 should reach \$12.9 billion representing 10 per cent increase on 1988.⁷

In addition to oil, there are extensive deposits of phosphate and sulphur. A new plant at Mishraq is expected to boost sulphur exports by 30 per cent when production starts this year. Agriculture, the mainstay of the economy until oil production began on a large scale, still occupies 30 per cent of the labour force and accounts for around 15 per cent of the country's GDP in 1988-89. The sector is comparatively well developed with finance being directed towards controlling salinity and improving drainage in this post-war programme, with a view to producing a surplus for export. The state farms have been offered to the private sector for sale or lease due to Saddam Hussain's glassnost.⁸

Industry has been given top priority by the government in the post-war reconstruction programme. Investment worth

7. EIU, Report No.2, 1989.

8. The Kuwait Times, 5 December 1988.

billion dollars is planned by Iraq to establish a national industrial base strong enough to ease the country's almost total dependence on crude oil.⁷ New Industries will be set up and existing projects expanded. Steel capacity will be increased by one-third, to 2 million tonnes a year. An aluminium smelter is planned, plus a three-fold increase in fertiliser output to 4.5 million tonnes. The industry's military industrialisation ministry has been working to gear up these plants to resume production. The plans were first outlined at the end of 1988. They included: petrochemicals complex No.2, the one million-tonne-a-year iron and steel works no.2; a 200,000 tonne a year aluminium smelter; a one million tonne-a-year nitrogen fertiliser plant in the north, a one million tonner a year phosphate fertiliser works, a special steel plant, a factory to produce one million tyres a year, a 400,000 tonne a year salt works; two new power stations and a plant to produce industrial gases. The industry ministry put an estimated cost of over \$1 billion and looking for foreign companies to provide designs, basic engineering process and know-how as well as supply of equipment and machinery, supervision of civil works, installation and erection works and commissioning. Foreign firms were to be responsible for additional services such as water treatment and natural gas supply. Before the second iron and steel gets

9. MEED, 31 March 1989, vol.33, no.12, p.4.

underway, the ministry plans to underway the existing project at Khor-Al Gubair. Largely built by France's crucusot Laoire before the war, it comprises a 400,000 tonne a year steel works and two sponge iron works, both using the HYL direct reduction process to produce 440,000 tonne a year and 750,000 tonne a year respectively. The total cost of the complex was more than \$350 million. Earlier in 1989, a contract was awarded to Danieli of Italy to build a 300,000 tonne a year special steel plant to meet the local demand of this form of steel. Another Italian company, Icomsa engineering will also be involved. The Baghdad based Arab Industrial Development Organisation (AIDO) has promoted other projects to be built in Iraq. These include an \$80 million iron foundry with a 110,000 tonne a year capacity to be set up in cooperation with Egypt. The latest plans are also an estimated \$100 million factory project to produce 100,000 tonne a year of seamless pipes. Bids from Italian, South Korean, Japanese and West German Companies are being studied for a factory to produce 150,000 tonne a year of welded pipes. The site is in Ramadi and costs have been estimated at about \$75 million.

In view of the above planned development in the reconstruction programme, the projections for Iraqi economy is bright. It will be clear from Table 5.1.

The prospect appears to be bright because as it is evident from the table that real GDP growth rate would increase from 2.0 per cent in 1988 to 4.0 per cent in 1990.

Table 5.1

IRAQ: CURRENT ACCOUNT PROJECTIONS

	1987	1988	1989	1990	1991	1992
1. Trade Balance	3,100	3,022	2,838	2,842	4,297	4,596
2. Merchandise exports	12,021	12,622	13,038	14,342	17,497	19,596
3. Merchandise imports	-8,921	-9,600	-10,200	-11,500	-13,200	-15,000
4. Net invisible and transfers balance	-3,200	-3,100	-3,300	-3,500	-3,700	-4,200
5. Current Account Balance	- 100	-78	-462	-658	597	397
6. Crude oil prices (\$ b)	17.5	13.5	15.0	15.0	16.0	17.0
7. Crude oil production (million barrel a day)	2.125	2.615	2.708	2.879	3.89	3.99
8. Real GDP Growth (%)	1.7	2.0	2.5	4.0	4.5	5.5

Source: Kuwait Times, 23 January 1989.

and 5.5 per cent in 1992. Crude oil price is also expected to increase \$15.0 per barrel to \$17.0 per barrel. The latest figures from the International Energy Association suggests that the world demand for oil has been growing at an annual rate of 2 per cent in 1986-88. This together with the slight decline in non-OPEC production would raise the call on OPEC oil to 19.5 million barrel a day in 1989 which is 8 million barrel a day higher than 1987. Iraq is the major oil producing nation after Saudi Arabia in OPEC. So Iraq would get the advantage of this projection.¹⁰

It is clear from preceeding chapter that India has undertaken several important projects approximately of worth of \$200 billion between 1974-88. It is legitimately of the Indian companies are keen to be in the market to reap the advantage of post-war reconstruction plan. However, the prospect of Indian companies in the post-war reconstruction programme depend on ~~time~~ factors: (1) performance of Indian companies during war period, (2) the state support including credit facilities. The performance of most of Indian companies like RITES, ^{IRCON,} ~~IRCON,~~ NBCC and NPCC during the war period was up to the expectations of Iraqi clients.¹¹ Most of the Indian companies stayed during the war period and completed projects on their finance despite the deferred payment system. On the other side, Iraqi government promised that those companies

10. Kuwait Times, 23 January 1989.

11. The Times of India (New Delhi), 10 July 1989.

which continued their works during the war despite non-payment of their regular bills, would be rewarded in future projects. Therefore, Indian companies would come under such promise of Iraqi government. That is why, India has recovered \$330 million by the end of 1988 of deferred amount.¹² The first meeting of confederation of Indian Engineering Industry of the Iraqi Committee held on 12 January 1989 has identified following thrust areas of export to Iraq: (i) construction projects, (ii) supply of automotive components, (iii) rebuilding infrastructure, and (iv) export of consumer durables.¹³

The extend of credit facilities has been proposed by Government of India. India has already offered Iraq a \$50 million credit line to help finance its post war reconstruction projects.¹⁴ Some Indian companies have submitted bids for sewerage work. The Som-Dutt Builders is also one of the bidder in this work of the value of bid \$26.4 million with 70 per cent foreign exchange component. The continental construction submitted bids of \$27.5 million for cash contract with 70 per cent foreign exchange component.

The National Building construction Corporation also submitted bids of \$28.4 million for sewerage works. The

12. MEED, 25 November 1988.

13. CEI Sources (Meeting minutes).

14. Kuwait Times, 15 November 1988.

Arvind Construction bids of \$28.4 million with 67 per cent foreign exchange component. The Bhandari Builders bids for \$34.8 million. India's one of the important public sector consultancy company - the Water and Power Consultancy Service - has been asked by the Iraqi State Organisation for Dams to carry out model studies of hydraulic designs of the Bakme dam. The Company will receive \$580,700 for the job. This will come from the annual deferred payment agreement with India. The completion of work is expected in 1990.¹⁵

Indian companies have dominated the bidding for the third stage of east Jagira irrigation scheme, which covers more than 70,000 hectares in the northern Mosul, Shaikan and Hamdariya districts. The lowest Indian bidders are Som Dutt Builders of the bid value of \$160.6 million with an 80 per cent foreign exchange component and the continental construction with \$165.5 million with 85 per cent foreign exchange. The water scheme is one of the largest priority projects planned in Basra area at an estimated cost of up to \$600 million. The Jaiprakash Associate of India has started work on the \$200 million third stage of the city's sewerage scheme.¹⁶ The UP State Bridge Construction Corporation has won of the value of \$7.3 million contract to build a bridge at Rawa, about 300 km west of Baghdad on the road between capital and Al-Qaim.

15. MEED, vol.32, no.45, 11 November 1988.

16. Ibid., vol.33, no.9, 10 March 1989.

80 per cent of foreign currency payments on contracts are being deferred for two years. The company will receive a 1 per cent advance mobilisation payment in foreign currency and balance will be paid in cash every month. On maturity, the deferred payment will be settled on cash plus interest at the London Inter Bank Offered Rate (LIBOR). The UP State Bridge Construction Corporation will be responsible for bridge's foundations and for providing for expert services and technical know-how for sub-structure and super-structure works. Equipment and materials are to be supplied and erected by client, the quasi state Hammourabi Contracting Company.¹⁷

Building up social infrastructure, water sewerage, power, health and education are the cornerstone of the 1986-90 plan. Future investment in water supply has been targetted at more than \$3 billion.¹⁸ Thus Indian companies - Som Dutt Builders and UP State Bridge Construction Corporation have emerged as the lowest bidders for a contract to build a bridge in the Nineveh governarate. It will be built at Sikhailah near the border with Turkey and Syria.¹⁹ The client is the state commission for Roads and Bridges. The bids for Sikhailah bridge include (a) offer made on cash basis and (b) offer made on

17. The Economic Times, 1 September 1988.

18. MEED, vol.32, no.37, 16 September 1988.

19. Financial Express (Bombay), 18 January 1987.

deferred basis. They are Som Dutt Builders - (a) \$24 million (b) \$23.7 million. The UP State Bridge Construction Corporation (a) \$25.8 million (b) \$25.1 million.²⁰

Indian Railway Companies - IRCON and RITES are hoping to win projects both in construction and consultancy respectively. IRCON hopes to get two contracts and public sector railway consultancy company RITES has been told of Baghdad's intention to associate it with future railway consultancy jobs. RITES and IRCON are hoping to participate actively in the Iraq's efforts to establish rail links with Jordan, Saudi Arabia, Kuwait and Turkey. These are bound to be multi-million dollar projects. The prospect new business gained strength following the visit of minister of state for railways, Mr. Madhorao Sciendia to Baghdad in the last week of May 1989.²¹ In the last week of June 1989, IRCON was awarded of the value of \$6 million for railway siding project for a cement plant of 12 km Al-Hilawat line. Two more major projects, IRCON is expected to win, one is \$60 million order supply to install signalling and telecommunications along with Baghdad-Mosul railway line. Another project is \$62 million railway line between Baiji cement works and main Krkuk-Baiji Haditha line.²²

20. MEED, vol.33, no.2, 20 January 1989.

21. The Economic Times, 26 May 1989.

22. The Times of India, 10 July 1989.

Crude oil purchase as a part payment is the vital factor of getting more projects in Iraq by Indian companies. It has emerged in the joint commission meeting of Indo-Iraq which held in Baghdad from 1-2 October 1988. In this meeting, a lot of issues have been taken regarding on-going projects and future projects. India has also taken up pending overdues of India firms with Iraqi delegation. Iraq agreed that it would expedite the payment of the pending overdues to Indian firms under the letter of credits opened by the Rafidain Bank. On future projects, India agreed for credit facility. This credit facility would be extended through Export-Import Bank of India to Rafidain Bank of Iraq. The Indian side has given following list to Iraqi side for its useful work in the post-war reconstruction programme:

(1) Power Sector: In the power sector, the BHEL which had carried out the overhauling of a power station and a sub-station in Iraq has the capability and experience for undertaking supply of boilers, T.G. units and sub-station equipment as well as assignments in the power sector of Iraq. Iraq has shown the interest in utilising BHEL services for modification, modernisation, overhauling, operation and maintenance of the existing power stations.²³

(ii) Telecommunication Sector: Iraq expressed its desire to have cooperation with Telecommunication India Ltd on the

23. Ibid., 11 July 1989.

following areas: (a) establishment of training centres, (b) switching system, (c) operation and maintenance of micro-wave net work, (d) computerisation of telecom services, (e) rehabilitation of coaxial, microwave and (d) local plants net works.²⁴

iii) Machine Tool Sector: Hindustan Machine Tools got a contract of \$6 million in October 1988 for the supply of machinery. HMT has also been requested by Iraq to supply lamp components and assistance in the establishment of tools rooms.

iv) Water Resource: Iraq appreciated the services of WAPCOS in Iraq. It got a contract of \$580,700 in November 1988 for carrying out model studies of Bakme Dam. Iraq has also shown interest for co-operation with WAPCOS for construction and maintenance of dams and irrigation projects.

v) Railway: RITES and IRCON Services would be utilised in some projects of post-war reconstruction programme. The Iraq has expressed satisfaction over the performance of RITES for the operation and maintenance of Baghdad Al-Qaim Akashat Railway line which awarded in May 1987 for five years.

Therefore, it is clear that India got some projects in the post-war reconstruction programme and more projects

24. The Economic Times, 3 October 1988.

are expected in near future. But in terms of percentage share, India got only 1.32 per cent in total value of projects awarded in the last one year during March 1988 to April 1989. This can be seen from the following table.

Table 5.2
LEADING CONTRACTS AWARDED DURING THE ^{FIRST} YEAR OF
RECONSTRUCTION PROGRAMME 1988-89

Name of the country	No. of projects	Valuation of projects (million US \$)	Percentage share in project market
1. Soviet Union	2	797.000	22.31
2. UK	13	606.100	16.96
3. Yugoslavia	11	513.200	14.36
4. Italy	4	486.000	13.60
5. France	3	280.000	7.84
6. West Germany	3	238.435	6.67
7. Sweden	2	128.300	3.59
8. Brazil	1	100.000	2.80
9. Canada	2	98.000	2.74
10. Iraq	7	77.900	2.18
11. Jordan	3	50.800	1.42
12. India	<u>5</u>	<u>46.989</u>	<u>1.32</u>
13. USA	2	36.000	1.01
14. Netherlands	2	32.000	0.90
15. China	1	30.400	0.85
16. Japan	1	29.000	0.81
17. Turkey	2	12.000	0.34
18. Pakistan	1	10.000	0.30
TOTAL	65	3572.724	100

Source: MEED, 5 May 1989, (Iraq special) information available to MEED.

Therefore, following important things have emerged from above table:

- i) Soviet Union got maximum share (22.31 per cent) of projects in the Iraqi market followed by Britain 16.96 per cent during last one year 1988-89. Therefore two countries emerged as a major contractor in 1988-89.
- ii) Japan and South Korea have been the major client in Iraqi market for last one decade but during 1988-89 the share of USSR, UK, Yugoslavia, Italy, France and West Germany increased in the Iraqi project market.
- iii) The emergence of local firms is the important factor during 1988-89. The Government of Iraq policy to give preference to local firms became important ^{after} ceasefire. The local firms have got total seven projects of the value of \$77.9 million during 1988-89. Its percentage share was 2.18 per cent which was more than Japan and India.
- iv) The concept of joint ventures with local firms has become important in the post-war reconstruction programme due to the preferential treatment to local firms by the Iraqi government. Due to this, UP State Bridge Construction corporation is negotiating for a joint venture with Hammourabi for roads and bridge construction. It is also one of the most easy way for getting more projects in the post war reconstruction programme.²⁵

25. MEED, 5 May 1989. (Iraq Special).

As it is clear from above table that India got very small share (1.32 per cent) during 1988-89. It has already been spelled out in the third chapter that Indian companies are facing some problems. One of the major cause of this low share has been inability of Indian companies to offer credit terms as offered, by the Soviet Union, UK, Yugoslavia and West Germany.²⁶ As pointed out in fourth chapter that Indian project export policy is yet to gear up to meet the challenges of the market in the post-war reconstruction programme. Given the potential and constraints of the market, India will have to reinforce its policy. Following suggestion could be its ingredients.

1) At present Indian companies have to pay guarantee commissions to ECGC, EXIM Bank and other commercial banks at the rates ranging from 1.40 per cent to 1.90 per cent in addition to payment of commission at the rate of 1 per cent in foreign exchange to foreign confirming banks for counter guarantees against bids bonds, performance bonds, mobilisation advance and retention money etc. It is, therefore, suggested that the guarantee commissions charged by ECGC, EXIM Bank and other commercial banks on bid bonds, performance bonds, mobilisation advance and retention money etc. be reduced to 0.50 per cent. To strengthen the liquidity of the Indian companies, it is further suggested that guarantee commissions

26. The Economic Times, 6 July 1989.

charged by ECGC, EXIM Bank and other commercial banks on bid bonds, performance bonds, mobilisation advance and retention money etc. should accept in easy instalments without levying any interest and without insisting upon furnishing any bank guarantee.

Since ECGC's major source of revenue is from commissions and premia charged from Indian project exporters particularly construction project exporters as construction contracts are of large value, it is suggested that some relief in the form of bonus or rebate may be given to project exporters who have successfully executed their overseas projects without any penalties from their clients.

(II) Due to the deferred payment arrangement with the government of Iraq as Iraqi authorities were unable to make regular payments against certified bills of progress of work completed by Indian contractors. This has led to extension of contracts for no fault of Indian contractors. Besides Indian contractors have to shoulder additional financial burden by way of payments of commission against guarantees being issued by ECGC, EXIM Banks of loans raised by them in foreign exchange for servicing their on going projects in Iraq as well as interest rates of 14 per cent on rupee loans being raised by them for payment. In this context, there is therefore, no justification in ECGC charging additional premia for extension of guarantees of contracts which had to

be extended due to deferred payment arrangements in Iraq.²⁷

iii) It is also suggested that ECGC may introduce 100 per cent insurance cover to project exporters against unfair calling of bids by foreign clients/project owners without charging any extra premia on lines similar to those operated by ECGD of UK. In fact move for such cover was mooted by the Chairman of ECGC himself. The main objective is that ECGC and other public financial institutions should play a developmental role for expansion of project exports rather than treat them as a source of revenue.²⁸

iv) Bidding costs a company about Rs.2 to 3 lakhs for an overseas construction project of a value of Rs. 10 to 30 crores regarded as a project of a modest value. It is, therefore, suggested that the entire guarantee commission paid to ECGC, EXIM Bank and other commercial banks on infructuous bids should be refunded so that Indian companies are encouraged to bid for a large number of overseas projects. In this connection, it may also be mentioned that the Indian Banks do not carry any contingent liability on failed bids.

v) Construction companies in India are not allowed the following benefits under the income tax act normally allowed to industrial companies: (a) investment allowances on actual

27. Seminar on Perspective for Overseas Projects (1985-90), Overseas Construction Council of India, p.23.

28. Interview with General Manager, Ansal Properties, Iraqi Cell, New Delhi.

cost of machinery and plant; (b) 25 per cent of the profits exemption under section 80(1); (c) additional 20 per cent exemption from income tax for setting up the industries in backward areas; (d) 25 per cent investment allowance on cost of new machinery under section 32-A; (e) additional depreciation on plant and machinery for double shift working; (f) deduction under section 80 HHC on export turnover; (g) Exemption under Section 104(4) from payment of dividends.

It is, therefore, suggested that suitable amendments in the income tax Act may be made to treat construction companies as industrial companies so that they could enjoy the above referred benefits available to industrial companies.²⁹

vi) Under section 80 HHD of the income tax Act, an Indian company is allowed 25 per cent of profits and gains from a project abroad if equivalent amount is brought into India in convertible foreign exchange.

It is suggested that section 80 HHD of the income tax Act may be suitably amended so that 100 per cent of the profits and gains brought into India from an overseas project by an Indian company in convertible foreign currency could be exempted from payment of any income tax.³⁰ This will not only

29. Report of the Task Force on Project Export.

30. Interview with finance officer, RITES, New Delhi.

encourage larger inflow of foreign exchange into India but also will help Indian companies working abroad to expand their capital and a liquidity base.

vii) The observation made by the "Task Force on Project Exports" in its report regarding sections 35B and 80-O, "It was represented to us that the notification issued by the Central board of Direct taxes in August 1981 restoring some of the benefits of weighted deduction under Section 35 B of the income tax act did not provide relief to the Indian companies engaged in overseas projects, as even now they are not entitled to the benefits of weighted deduction on expenditure incurred by them for preparation and submission of bids for international tenders. The overseas construction council has represented to us that this has seriously eroded the competitive capacity of the Indian companies engaged or intending to engage in project exports."³¹

Therefore, all the benefits of weighted deduction under section 35 B of the income tax act be restored to Indian companies engaged or intending to engage in project exports.

viii) Indian construction companies mainly or wholly engaged in overseas projects should be treated as 100 per cent export oriented units and all facilities available to 100 per cent export oriented units may be extended to such construction companies also.³²

31. Ibid.

32. Interview with General Manager, Continental Construction (P) Ltd., New Delhi.

ix) It is suggested that plant and machinery whether shifted to another project abroad or brought to India should be allowed special rate of depreciation as well as shift allowance as against the rate of depreciation allowed to such plant and machinery operating into India. The reimportation into India of such equipment and machinery purchased from third country without any outflow of foreign exchange should be encouraged as it will help in modernising Indian construction industry.³³

x) India should enter into the agreement with Iraq for avoidance of double taxation.³⁴

These suggestions, would strengthen Indian export because project export has emerged as an important component of it. In the context of balance of payment crisis, project export can help in obtaining the export targets fixed by government of India. The value of project export in 1986 was Rs.525 crores which was about 4.86 per cent of the total export. It was almost double from 1985 in which Rs.265 crores was value of project export, 2.44 per cent of the total export.³⁵ The task force on project-export has projected the prospect of project export in 1990 of the value of Rs.15,900 crores of

33. Interview with General Manager, Ansal Properties (Pvt) Ltd., New Delhi.

34. Report of the Task Force on Project Export, Government of India.

35. The Economic Survey 1987-88, Ministry of Finance, Government of India, pp.91-92.

which Rs.10,000 from construction contracts and Rs.5,900 crores from capital goods and turnkey contracts. It anticipates foreign exchange earning in 1990 of Rs.7,800 crores from project exports of which around Rs.3,000 crores from construction contracts and Rs.4800 crores foreign exchange earnings from capital goods and turnkey contracts are expected in 1990.³⁶ It would remove balance of payment crisis of India substantially.

The prospect of consultancy services is more bright than construction contracts. India has third place in the world of trained technical manpower and it is in a position to provide cheap total range of services including process, design, engineering procurement, supervision, commissioning, project management and training in diverse fields like power generation and transmission system, petro-chemicals, steel plants, textile and infrastructure. India has about 200 consultancy organisation both in the public and private sectors which can provide consultancy for a very broad range of services. Though, India's share in the consultancy services in the international market is very small, but consultancy companies have won major consultancy contracts not only in developing countries but developed countries also.³⁷

36. The Economic Times, 6 July 1989.

37. The Economic Survey, 1987-88, Ministry of Finance, Government of India, p.92.

Summing up, it can be stated that Indian experience of project export in Iraq as outlined in the preceding pages, suggests that given the appropriate policy support, the Indian companies can have better performance. Participation of Indian companies would not only contribute in improving the balance of payment position of India but also helps Iraq to reduce its exclusive dependence on developed countries and make the market more competitive. It will be a good example of South-South cooperation.

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