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Predicting actions taken to counter economic sanctions: an examination of U.S. government financial data collection and its usefulness in determining if foreign governments anticipate economic sanctions : a case study of Iraq.

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Economic sanctions have been a long-standing strategic policy instrument used by the United States. While much research has been conducted on the effectiveness of sanctions, little has been written on whether governments anticipate economic sanctions and take measures to protect assets held in foreign countries. Using Iraq as a case study, this thesis uses publicly available U.S. Government-collected information to track the flow of financial data within the United States to determine if it is possible to identify events which may indicate that a country is attempting to protect its foreign assets in anticipation of economic sanctions. The thesis concludes that Iraq did not anticipate U.S. imposed economic sanctions prior to invading Kuwait in August 1990, and that financial data collected by various U.S. Government agencies are not particularly useful in conducting timely financial flow analysis.

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PREDICTING ACTIONS TAKEN TO COUNTER ECONOMIC SANCTIONS
AN EXAMINATION OF U.S. GOVERNMENT FINANCIAL DATA COLLECTION AND ITS USEFULNESS IN DETERMINING IF FOREIGN GOVERNMENTS ANTICIPATE ECONOMIC SANCTIONS: A CASE STUDY OF IRAQ

by
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ABSTRACT

Economic sanctions have been a long-standing policy instrument used by the United States. While much research has been conducted on the effectiveness of sanctions, little has been written on whether governments anticipate economic sanctions and take measures to protect assets held in foreign countries. Using Iraq as a case study, this thesis uses publicly available U.S. Government-collected information to track the flow of foreign financial data within the United States to determine if it is possible it identify events which may indicate that a country is attempting to protect its foreign assets in anticipation of economic sanctions. The thesis concludes that Iraq did not anticipate U.S. imposed economic sanctions prior to invading Kuwait in August 1990, and that financial data collected by various U.S. Government agencies are not particularly useful in conducting timely financial flow analysis.

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I. INTRODUCTION

A. BACKGROUND

The United States has used economic sanctions as a foreign policy tool with increasing frequency over the last two decades. From World War I through 1969 a total of 26 U.S. initiated sanction incidents occurred. From 1970 to 1992 the United States used sanctions in over 100 cases (Hufbauer, 1990, pp. 16-24) (CRS, 1992, pp. v-vii). This increase in the use of sanctions highlights several key issues that have been the focus of the literature on sanctions: the scope and variety of economic sanctions, the usefulness of sanctions as a policy tool and the purpose of imposing sanctions.

The intent of this thesis, however, is to explore two additional issues that have received insufficient attention in the literature on economic sanctions. These issues may have implications for future economic intelligence gathering and governmental data collection as the U.S. government moves away from an emphasizing Soviet issues in favor of tackling new problems, including economic intelligence, nuclear proliferation and technology transfer (Bush, 1991, p. 1).

First, it must be asked, is it possible to determine if foreign governments anticipate sanctions? Secondly, is it possible to track the flow and ownership of foreign investments and commercial transactions in the United States in order to identify unusual activity or measures a country may take to protect its assets? In other words, can foreign powers about to engage in hostile or potentially unacceptable action adequately protect their holdings in advance of that action; and can the flow of foreign investments and business transactions in the United States be tracked and used as an indicator of pending actions? These issues will be explored in detail by determining whether Iraq anticipated economic sanctions and if Saddam Hussein took precautionary measures to protect financial assets prior to the imposition of sanctions in August 1990.

While the focus of this thesis is on Iraq, there is already a case where a leader did anticipate sanctions to protect assets. According to press reports, Libya anticipated possible U.N. economic sanctions for failing to hand over two agents accused of bombing a Pan Am airliner over Lockerbie, Scotland. Libya withdrew vast sums of money from European banks and forwarded those funds to financial institutions in the Arab world. The shift of between $2 billion and $3 billion occurred in the few months before U.N. sanctions were imposed on 15 April 1991. During this timeframe, Libya also demanded payment for its oil exports in Swiss francs, instead of U.S. dollars. The Libians deviated from their normal practice of accempting U.S. currency to minimize the number of transactions which had to be cleared through U.S. banks, where

Tripoli feared the funds would be vulnerable to seizure. (Littlejohns, 1992, p. 1.)

B. HYPOTHESIS

The working hypothesis of this paper is Saddam Hussein anticipated economic sanctions against him prior to invading Kuwait in August 1990 and took precautionary measures to protect Iraqi assets held in the United States. The hypothesis posits that it is possible to track the flow of financial data in press reports and U.S. government reports to make such a determination before a unilateral or multilateral decision to impose sanctions occurs.

C. METHODOLOGY

Information compiled from surveys, press reporting and personal interviews will be used to determine whether Iraq altered its financial position with the United States prior to invading Kuwait and if it were feasible to track associated financial data flows. For the purpose of this thesis, sources of information were limited to government organizations, banking agencies and press reporting. Sources were selected based on an initial telephone interview process to determine whether an organization held relevant material. Organizations found to maintain pertinent data were the Department of Commerce, Department of Treasury, Federal Reserve Board of Governors, Federal Reserve Bank of New York, and the

Securities and Exchange Commission. Questionnaires were sent to these organizations.

Questionnaires were developed to determine the type of information pertaining to Iraqi financial and business transactions in the United States held by government agencies and whether that information was readily available for independent analysis (Appendix A contains specific questions and responses). Other public and private organizations including Congressional committees, the Library of Congress, the State Department, the International Monetary Fund, the World Bank, the Wisconsin Project and the Institute for International Economics provided extremely useful background information.

The types of sanctions that have been employed in the past were identified to develop a set of actions that countries normally take when they invoke sanctions against other countries. Additionally, potential target country responses to potential sanctions were postulated. These actions were condensed into seven questions that form the basis for analysis to determine if Saddam Hussein anticipated economic sanctions.

D. ORGANIZATION

Chapter II examines Iraq's recent economic history during the period from 1970 to 1987. Due to limited public information available after 1987, some projections are presented for 1988 to 1990. Basic background data on Iraq, a description of the Iraqi economy and a discussion of major economic policies implemented by Saddam Hussein are documented to explain the U.S. relationship with Iraq and the economic motivations behind Saddam Hussein's decision to invade Kuwait.

Chapter III contains theoretical information on economic sanctions, discusses the types of sanctions used by the United States and the success of sanction actions imposed against Iraq. This chapter also lays the foundation for analysis by outlining four major financial sanction options the United States could have used against Iraq.

Chapter IV analyzes data obtained through media reporting and U.S. government agencies to determine if the government of Iraq changed its financial and trade position with the United States prior to invading Kuwait. This chapter also documents the type of unclassified information that is available through U.S. government and U.S. bank sources.

Chapter V presents findings and recommendations.

II. THE IRAQI ECONOMY

A. INTRODUCTION

Within the last two decades, the military actions of Iraq have had a noticeable impact on world affairs and U.S. policies. For example, one reason the United States may have adopted an economically supportive policy toward Iraq during the Iran-Iraq war was the hope that Saddam Hussein would counter-balance a potentially over bearing Iran. The United States also wanted to encourage Saddam Hussein to be a moderate stable influence in the Middle East region.

Although Iraq holds much of its military and economic information as State secrets, an overview of the Iraqi economic system and major economic policies will assist in understanding Iraq's financial transactions prior to the Iraqi invasion of Kuwait in August 1990.

Iraq's move in the 1980's toward privatization and diversification of the economy may also help explain U.S. policy in dealing with Iraq, the type of goods Iraq imported from the United States and why Iraq may have been less susceptible to economic sanctions imposed by the United States. Additionally, Saddam Hussein's economic goal of transforming Iraq from a lesser developed country (LDC) into a modern nation, combined with the fact that his economy was severely weakened by the eight year war with Iran, may have been a contributing factor to his decision to invade Kuwait in August 1990. A quick fix to some of his economic woes would have resulted from the increased revenues obtained by controlling additional Kuwaiti oil facilities and free access to the Persian Gulf.

B. BACKGROUND

1. Geography and Population

Iraq, with a total land area of between 433,970 and 437,520 (estimates differ) square kilometers, is bounded by Turkey to the north, Iran to the east, Kuwait to the south, Saudi Arabia and Jordan to the southwest and Syria to the northwest. The country can be divided into four main geographic regions. The west and southwest portions of the country are predominantly desert. Rolling uplands characterize the north central region between the upper Tigres and Euphrates Rivers. Highlands cover the north and northeast. The central and southeast areas are considered alluvial plains through which the Tigres and Euphrates Rivers flow. Over one fifth of the country's land mass is farmland.

This predominantly Muslim Shiite and Sunni nation realized a steady increase in population, despite the Iran-Iraq War. Estimated census totals were 12.029 million in 1977, 15.6 million in 1984 and 16.278 million in 1987. (Metz, 1990. p. 79) A flight from rural areas to the cities resulted in urban populations comprising 61 percent, 64 percent and 70 percent of the total for 1977, 1984 and 1987, respectively. (Metz, 1990, p. 79)

2. Politics

Saddam Hussein has been the central figure in Iraqi politics and government since his calculated rise to power, which began after the 1968 Revolution. Initially, Saddam Hussein was an influential behind-the-scenes leader and displayed talents as an effective Baath party politician. He was particularly adept at organizing clandestine opposition activity and eliminating opponents. By 1977, all Baath party bureaus, intelligence organizations and ministers reported directly to him. In 1979, Iraqi President Ahmad Hasan al-Bakr appeared on television on the eleventh anniversary of his rise to power to announce his retirement and his successor, Saddam Hussein (Karsh, 1991, p. 111). Saddam Hussein consolidated power during the next nine years, becoming President of the Republic, Secretary of the Baath Party, Regional Command Council (RCC) Chairman and Commander in Chief of the Armed Forces. (Metz, 1990, p. xvii) The RCC exercises both executive and legislative functions. With a strong desire to ensure his total and absolute control over every sphere of political life, Saddam Hussein became the ultimate decision maker for all political and economic policies.

By the late-1970's, Saddam Hussein strived to strengthen his popularity by improving the economy. He attempted to accomplish this through a state sponsored industrial modernization policy. His stated objectives were to effect a wider distribution of wealth, permit greater social mobility and redistribute land for the Iraqi people. He planned to conserve money to achieve these goals by cutting costs of direct and indirect government subsidies, tapping private sector savings to stem capital outlays, reducing the balance of payments deficit by fostering import substitution and promoting exports and using economic reforms to convince Western commercial creditors to continue to loan Iraq money.

3. Iran-Iraq War

The Iran-Iraq War officially began in September 1980 when Iraqi troops marched into Iranian territory and Saddam Hussein announced he was abrogating the 1975 Algiers Agreement by returning Shatt al Arab to Iraqi sovereignty (Farouk-Sluglett, 1987, p. 259). However, hostilities were noted as early as June 1979 when an Iraqi air raid across the Iranian border killed six men. Skirmishes along the border increased during the intervening period between June 1979 and September 1980. A cease fire occurred in August 1988 and a negotiated settlement with Iran followed.

Several reasons may have led Saddam Hussein to invade Iran. Iraq had minimal access to the Persian Gulf and wanted more. There was a longstanding disagreement over territories as well as a religious hatred among Iraqis and Iranians. After the Shah of Iran was overthrown in February 1979, Saddam believed Iran's military was unprepared for war and he could militarily annex Iran with little to no cost in money or manpower.

His decision to invade may have been a personal miscalculation based on ambition and a misplaced sense of Iranian vulnerability. Regardless, failure to win a swift and decisive victory greatly weakened Saddam's political and economic regime and resulted in over a one percent population loss (approximately 200,000 men). (Farouk-Sluglett, 1987, p. 262)

Specific effects of the War are discussed in subsequent sections. Generally, however, Iraq's war with Iran slowed the growth rate of productive elements of the economy. From 1980 through 1984, Iraq suffered a negative growth rate of six percent (Hilal, 1987, p. 25). Additionally, it cost Iraq over U.S. $25 million daily to wage the war (Metz, 1990, p. 123). The direct cost of the war from 1980 to 1985 is estimated at U.S. $226 billion (Metz, 1990, p. 121). Major economic impacts of the war are highlighted in Table 1 (Joffe, 1988, p.24).

Table 1: VARIOUS COST ESTIMATES OF IRAN-IRAQ WAR

Source	Date	Component of Cost	Costs ($bn)
Nasrawi	1985	Military expenditure	94.0
		GNP losses	26.2
		Oil revenue losses	55.5
		Total	**175.7**
JIME	1985	**Total**	**226.0**
Tachibana/Tsuji	1987	Oil Industry	7.8
		Non-oil damage	15.0
		Gross fixed capital loss	46.5
		Total including others	**112.8**
Mufid	1987	Gross fixed capital loss	112.0
EIU	1988	**Total**	**198.0**
IISS	1988	Damage and arms purchases	30-87
Sipri	1988	General losses	100.0
		War costs	27.0
Washington	1988	Arms purchases (war use)	30-35
		Lost oil revenues	40-45
		Lost non-oil revenues	35-45
		Compensation to war dead	7-8
		Pipeline reconstruction	3-4
		Total	**115-137**

Sources:
Nasrawi - Dr. Nasrawi, Vermont University.
JIME - Japanese Institute of Middle East Economies.
Tachibana/Tsuji - "The Reconstruction of Iran and Iraq," JIME, Tokyo 1988.
Mufid - "The Economic Consequences of the Iran-Iraq War, 1980-mid 1987," paper presented at The Institute of Developing Economies, Tokyo, January 1988.
EIU - Economic Intelligence Unit
IISS - International Institute of Strategic Studies.
Sipri - Stockholm International Peace Research Institute.
Washington - Petroleum Finance Corporation.

4. Post Iran-Iraq War to Pre-Kuwait Invasion

Eight years of war with Iran left Saddam Hussein's regime with a substantial military establishment, a still unbridled ambition to lead the Arab world and an enormous public debt. In 1988, Iraqi foreign debt was estimated at between $60 and $80 billion. War had reduced Iraq's estimated reserves from approximately $30 to $8.1 billion or less. (Joffe, 1988, p. 28) Because of Iraq's huge and growing unserviceable debt, Iraq found little western commercial credit.

By the end of 1989 and into 1990, Saddam Hussein was running out of cash. He was routinely defaulting on loans despite having the second largest oil reserve in the world. In mid-1990 (prior to invading Kuwait), Saddam Hussein asked Egypt, Jordan and Yemen for $30 billion in loans. He wanted Saudi Arabia and Kuwait to write-off an additional $30 billion in loan debt (Barber, 1991, p. 2). By July 1990, Iraq accused unnamed Gulf States of crippling Iraq's economic recovery by driving down oil prices. He specifically accused Kuwait of stealing Iraqi oil and demanded compensation for lost oil revenues and additional financial assistance for Iraq's economic reconstruction.

Saddam Hussein's political fervor increased again during July, espousing a long standing belief that Kuwait is really part of Iraq. He also made major concessions in the Iranian peace settlement, relinquishing undisputed control of Shatt-al-Arab waterway to Iran. These two events may have indicated that he was looking to Kuwait for free access to the Persian Gulf. (Middle East, 1990, p. 6) By 1 August 1990, talks between Iraq and Kuwait collapsed and Iraqi troops massed along the Kuwaiti border. Iraqi forces crossed into Kuwait on 2 August, quickly gaining control of the country. (Middle East, 1990 p. 24) Iraq's dire economic situation and unanswered requests for money may have provided significant impetus to his decision to invade Kuwait.

C. MAJOR ECONOMIC GOALS

1. General

Iraq has a centrally planned economy with a dominant public sector. By 1970, all important branches of industrial production were under government ownership. Despite rapid modernization, Iraq is still largely underdeveloped (Hilal, 1987, p. 24). According to Batie Khalifa Hilal, a major policy issue in "the field of economic growth...is how to bring about a simultaneous expansion in both agriculture and industry that would reduce oil as the main source of foreign exchange earnings." (Hilal, 1987, p. 1) This is especially difficult since oil is the catalyst for growth in the Iraqi economy.

Iraq suffers from problems common to underdeveloped nations. The social backwardness and lack of educated and trained workers as well as a structural defect of production methods decrease the rate of economic growth and development. (Hilal, 1987, p. 19)

From 1960 through 1980, the government designed comprehensive five-year plans (considered state secrets) to improve the economy. The primary goal of these plans was to reduce dependency on oil through economic diversity. These plans separated annual expenditures into three major categories: annual expenditure budget for government operations, annual investment budget to achieve the goals of the five year plans and annual import budget.

2. The Five Year Plans

The first Five Year Plan covered the period 1960 to 1964. The Plan emphasized agricultural and industrial development. The next Plan, in effect from 1965 to 1969, actually raised the standard of living among the citizenry. Iraq accelerated the economic growth rate, diversified away from oil with more resources committed to investment and production and encouraged growth in the industrial and agriculture sectors through development of commodity markets. From 1970 to 1974, the Plan focused on labor efficiency, foreign trade, research and development and expanding investment. The Plan stressed coordination and balance between investment and savings policies and consumption and development needs. Nationalization of the oil industry occurred in 1972.

The 1975 to 1980 Plan concentrated on industrial development and diversification. In 1975, over 10.7 million Iraqi Dinar (ID), or 42 percent of the budget, was allocated for industry (Hilal, 1987, p. 42). The government tried to reduce dependence on oil, develop alternative exports, enhance processing of the country's raw materials, increase local manufacturing to satisfy increased domestic consumption needs, improve agriculture production and expand education.

Successful realization of these goals would have made Iraq less dependent on oil revenues and more self-sufficient. Due to an oil revenue windfall, economic policies for this period were merely concerned with the redistribution of wealth and modernization of the infrastructure. No concern was given to economic efficiency.

The next Plan (1981 to 1990) was suspended due to the Iran-Iraq War which brought central planning in Iraq to an impasse. Limited resources for economic expansion and deficit spending, because of the war effort, were new problems faced by Saddam Hussein who never formulated the Fifth Five Year Plan. To cope with the economic burden of war, Saddam implemented significant market oriented reforms to reduce government intervention and move closer to an open market system.

The year 1987 marked a new era of economic reforms in Iraq and an increasingly closer economic relationship with the United States. Saddam said, "From now on, the state should not embark on uneconomic activity." (Hilal, 1987, p. 129) The Iraqi economy moved dramatically toward privatization of previously state-owned enterprises including industry, services, agriculture and factories. However, the most important source of revenue, oil, was still under almost complete State control. In 1989, Iraq planned for higher oil production in order to develop new state controlled industries to supply the military, civilian and export markets. Iraq's ambitious plans included government sponsored construction of oil refineries, petrochemical complexes, steel and aluminum plants, vehicle assembly and expansion of its indigenous defense industry. These plans were thwarted due to lack of funding and lower oil prices.

D. ECONOMIC POLICIES AND PRODUCTS

1. Policy Trends

Iraqi economic policy trends may be divided into three time periods. The 1970's were marked by dominant government control over industry and a growing bureaucracy with restrictive economic policies. Throughout the early and mid-1980's there appeared to be a slight move toward reduced governmental intervention. In 1986, probably due to the economic constraints suffered during the Iran-Iraq war, major reforms occurred. Increased privatization, less government control and a trend toward a more open market economy highlighted this period. The state's commitment to modernization and its substantial oil revenues generated opportunities for private business. Because most firms lacked the ability to carry out major infrastructure and high technology endeavors, sub-contracting became extremely profitable. (Farouk-Sluglett, 1990, p. 22)

Each major portion of the Iraqi economy was effected by the Five Year Plans. A chronology of economic growth, policy and policy analysis is provided for the Gross Domestic

Product (GDP), Oil Industry, Non-oil Industry, Agriculture, Transportation and Trade.

2. Gross Domestic Product

The following Gross Domestic Product (GDP) figures contained in Figure 1 and Table 2 show major trends for the years 1970 to 1988 (National Accounts Statistics, 1991, p. 870). Overall the economy expanded, albeit at a slower rate than Iraq expected due to the Iran-Iraq War. The huge growth in oil revenues gave Saddam the power to ensure the government's preeminent role within the economy. The State was the main investor as well as customer of local and international private capital and was the main generator of investment opportunities. (Farouk-Sluglett, 1987, p. 253)

Table 2: GROSS DOMESTIC PRODUCT TABLE

Kind of Activity, in Current Prices

Million Iraqi dinars

	1970	1975	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
1 Agriculture, hunting, forestry and fishing [a]	194.8	311.6	741.9	955.5	1310.4	1413.8	1941.9	2160.3	2173.7	2519.7	2791.3	
2 Mining and quarrying	370.5	2081.5	9647.5	3295.0	3166.5	2883.8	3565.5	3464.5	2181.2	3594.8	3390.0	
3 Manufacturing [bc]	118.0	270.8	709.0	717.1	949.8	1060.9	1255.4	1425.1	1839.9	2071.1	2073.2	
4 Electricity, gas and water [c]	12.7	17.2	49.5	92.4	107.8	124.3	163.3	200.3	219.9	298.5	343.2	
5 Construction	40.8	356.1	1135.8	1721.6	2250.1	1839.1	1416.8	1343.9	1297.1	1430.8	1061.8	
6 Wholesale and retail trade, restaurants and hotels [bc]	98.8	208.7	811.4	1127.3	1520.4	1565.0	1854.9	1931.1	1916.3	2182.7	1967.3	
7 Transport, storage and communication	71.2	184.6	667.2	782.8	848.9	801.7	807.9	772.3	1104.3	1259.7	1290.9	
8 Finance, insurance, real estate and business services [d]	80.9	198.0	651.0	811.2	899.1	1042.5	1534.9	1300.2	1647.5	1788.6	1653.8	
9 Community, social and personal services [a]	28.5	43.0	72.4	97.2	94.5	117.4	138.6	153.0	198.4	200.4	273.6	
Total Industries	1011.8	3651.3	14485.5	9600.0	11147.3	10825.3	12677.2	12770.7	12378.3	15355.3	14745.1	
Producers of Government Services	187.5	453.8	1309.1	1750.3	2047.9	2103.9	2434.5	2587.7	2847.8	3228.0	3152.5	
Other Producers					48.8	35.3	29.2					
Subtotal [e]	1199.1	4105.1	15794.6	11350.3	13243.8	12957.5	15141.0	15456.4	15226.1	18583.3	17897.7	
Less: Imputed bank service charge	27.2	130.8	147.8	134.3	217.8	433.8	720.9	571.1	767.0	983.3	862.9	
Plus: Import duties												
Plus: Value added tax												
Plus: Other adjustments [f]	85.2	116.2	177.7	-203.3	62.4	200.8	371.0	482.1	411.0	300.6	321.4	
Equals: Gross Domestic Product	1257.1	4090.5	15824.8	11012.5	13088.4	12734.5	14791.1	15389.4	14870.1	17900.8	17358.1	

a) Agricultural services and related activities such as cotton ginning and pressing are included in item 'Manufacturing'
b) Distribution of petroleum products is included in item 'Wholesale and retail trade'
c) Gas distribution is included in item 'Wholesale and retail trade'
d) Business services are included in item 'Community, social and personal services'
e) Gross domestic product in factor values
f) Item 'Other adjustments' refers to indirect taxes net of subsidies

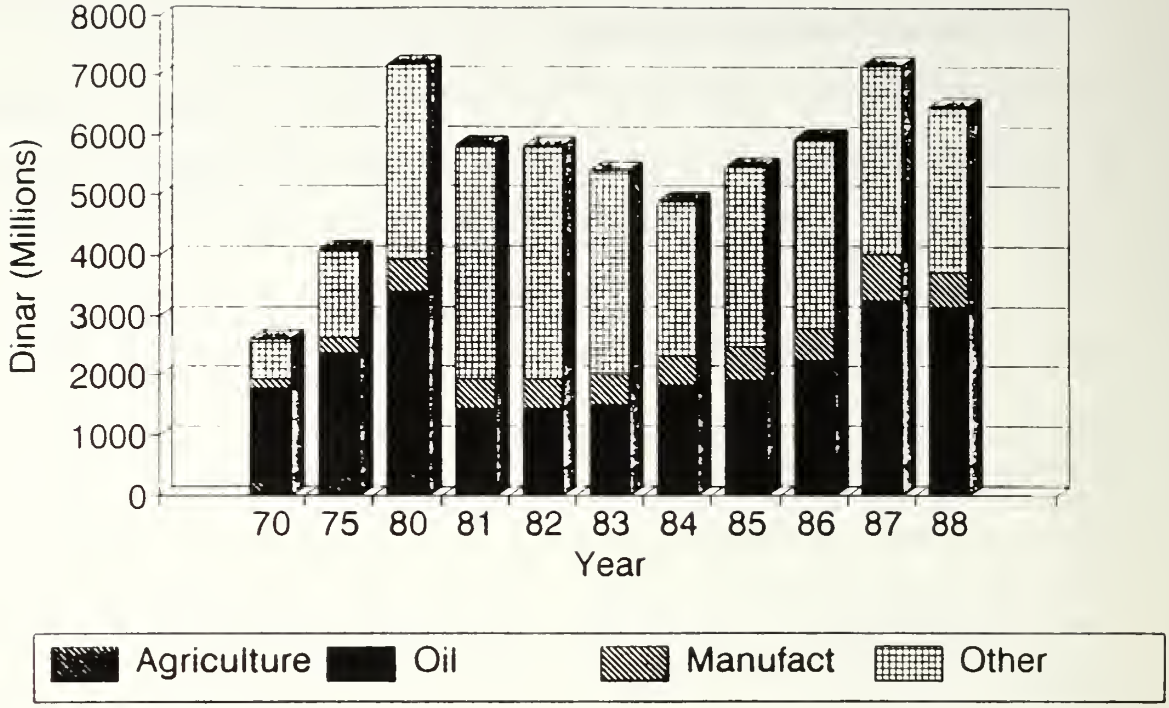

Figure 1: Gross Domestic Product Chart

3. Oil, Mining and Quarry

Oil, mining and quarry account for the majority of the Iraqi economy, with crude oil providing most of the revenues. Other goods produced include natural gas, sulfur, stones, soil, salt and phosphate.

By 1975, all foreign interests in the oil industry were nationalized. Increased oil prices of the late 1970's resulted in skyrocketing revenues. Iraq used the money to expand its oil industry and improve its oil-producing infrastructure. In 1976, a new Ministry of Oil was established to direct planning and construction in the petroleum sector and to accept responsibility for all facets of production. Between 1977 and 1987, 67 oil related infrastructure projects were completed, costing U.S $2.85 billion. Nineteen other projects were underway, costing U.S. $2.75 billion. (Metz, 1990, p. 144)

Iraq's oil production peaked at a level of 3.4 million barrels per day (bpd) in 1979, with proven crude oil reserves estimated at 65.0 billion barrels (Hilal, 1987, p. 18). Pre-Iran-Iraq War refining capacity probably reached 3.5 million bpd with exports at 3.2 million bpd. At the beginning of the Iran-Iraq War, Iran damaged two main Iraqi off-shore export terminals, Mina al Bakr and Khawal Amayah. In 1982, Syria closed Iraq's pipeline to the Mediterranean. Oil revenue bottomed at U.S. $6.8 billion in 1986 from a peak of $26.5 billion in 1980 (Metz, 1990, p. 143). This was a temporary setback. By 1988, Iraq had built new refineries and new pipelines through Turkey and Saudi Arabia which boosted transport capability to approximately 2.75 million bpd and production to 2.8 million bpd. Oil revenue recovered to U.S. $11.3 billion (Metz, 1990, pp. 142-143). Forecasts for 1989 and 1990 indicated an export capacity of 2.5 million bpd and 2.8 million bpd, respectively. (Joffe, 1988, p. 20) Iraq claimed oil reserves of 103 billion barrels in 1988 (Joffe, 1988, p 19). However, the decline in oil prices resulted in reduced revenues.

One of the early pillars in Saddam Hussein's economic plan was to move away from an oil dependent economy and to use oil generated revenues (as investment dollars) to diversify into other growth sectors of the economy (industrial production, agriculture, transportation, etc.).

Four major events resulted in a prolonged drain on oil investment dollars. Economic resources were diverted and production resources were destroyed during the Iran-Iraq War. Oil prices collapsed on the world oil markets and other sectors of the economy outside the oil sector required continued investment. As a result, Saddam had difficulty achieving his diversification goal and the government entered into a period of increased deficit spending and foreign borrowing to simultaneously sustain the war effort and pursue diversification goals. By 1988, the United States had become a primary lender to Iraq.

4. Non-Oil Industries

Iraq's oil wealth led to a growing welfare state system. At the same time, the state supported capitalization of public and private enterprises. Early efforts at economic diversification using oil wealth were successful as industries expanded from the 1960's through the 1980's. By 1978, the Iraqi government completed a reorganization of the public industrial sector by establishing ten independent state organizations for major industries including spinning/weaving, chemicals and engineering. Under state direction, capital investments in large scale industrial facilities grew and plant construction outpaced infrastructure development.

In some cases, the newly manufactured intermediate materials were under employed because of low demand. Excess capacity, resulting from lack of a free market system, strained the economy's ability to absorb the new goods. Iraq had to import finished goods and other materials because intermediate products could not be converted to meet market needs. This again illustrated ineffective government control. Basically, Iraq defeated the purpose of building these plants. (Metz, 1990, p. 147) These investments did not lead to optimization or efficiency in the overall economy. In summary, productivity relative to investment was low due to government controls, unused capacity and overstocked inventories of under utilized resources. Serious inefficiencies occurred because the Iraqi government controlled the type of industrial goods being produced instead of allowing the competitive market to decide the appropriate mix and quantity of goods and services.

Despite problems, there were still significant gains in industrial production. Steel production and construction enjoyed a 17.6 percent growth rate from 1973 to 1980 and accounted for 6.8 percent of GDP by 1980. (Hilal, 1987, p. 33) During the same period, construction accounted for a 7.6 percent increase in GDP, representing an annual growth rate of

69.2 percent. (Hilal, 1987, p. 33) Throughout the 1980's, both public and private expenditures in industry rose. Legislation exempted the private sector from duties and taxes on certain goods. Exemptions for capital investment and research and development also grew. By 1982, the private sector contributed 93.8 percent of GDP (including the oil sector) while private sector employment and wages were ahead of the public sector. (Farouk-Sluglett, 1987, p. 238)

The year 1987 saw the privatization of the State bureaucracy largely accomplished. Forty State-run factories had been privatized due to inefficiency and unprofitability of industry while under governmental control. (Metz, 1990, p. xxv) Privatization steps by the government reflected a desire for greater economic efficiency rather than a change in political or economic ideology. Government controls on the economy were further reduced by cutting subsidies, allowing partial foreign ownership and reducing bureaucratic regulation of enterprises. Labor costs accounted for 20 to 40 percent of output compared with 10 percent in non-socialist economies. (Metz, 1990, p. 128) A potential boost to labor productivity came as a result of Decree 653 of May 1987. The decree abolished labor laws guaranteeing adults life time employment and gave individuals the freedom to choose jobs. This was intended to give the Iraqi people an incentive toward upward mobility.

5. Agriculture

Agriculture, supplemented by State assistance, was a growing sector of the economy which employed a large portion of the labor force. Food was produced primarily for domestic consumption and included dates, barley, wheat, rice and vegetables. From 1976 through 1986, Iraq spent $4 billion in agriculture investments.

By 1977, Iraq gave 7.75 million hectares of land, previously sequestered from feudal lords, to poor farming cooperatives. (Farouk-Sluglett, 1987, p. 244) During the 1970's, initial land reforms were implemented to break up large estates (government or feudally owned) into small owner-operator farms. Government still limited the amount of land individuals could hold and would seize land without compensating owners. Small farms, lack of capital and inadequate technical expertise made mechanization and economies of scale difficult to achieve. Much land lay fallow. Rural labor flight and subsequent farm labor shortages occurred in the late 1970's.

In 1981, Iraq moved away from privatization and established 28 collective state farms with profit sharing incentives (Metz, 1990, p. 158). Urban migration continued, though, with only 31 percent of the population living in the countryside. The Iran-Iraq War also forced Iraq to employ immigrant labor to replace fighting men. Due to this war, Iraq was compelled to increase the country's self-sufficiency.

By 1983, the government issued permits to allow local and foreign Arabs to rent unlimited plots of land (below market price) for 15 to 20 year periods from the Ministry of Agrarian Reform. (Farouk-Sluglett, 1987, p. 245) By 1986, agriculture represented 8 percent of total GDP and 30 percent of the labor force (Metz, 1990, p. 155).

Reprivatization was again activated in 1984 and continued through at least 1987. Many agricultural collectives returned to the private sector. Nonetheless, despite major State investments, production and productivity in agriculture continued to decline. The uncoordinated nature of investments, bureaucracy in reform implementation and urban opportunities for better work contributed to poor agricultural development.

6. Transportation

Transportation, communications and storage, all required to move goods in a growing economy, were considered poor in 1974. However, the Iraqi government invested heavily in this category from 1973 to 1980 (45 percent annual increase and 4.7 percent of GDP). From 1980 to 1984, there was only 7.5 percent growth, probably due to the war. (Hilal, 1987, p. 37)

By the late 1980's, transportation was one of the most active sectors of the economy and received a large share of the domestic development budget. Improvements in this area were considered essential to support the Iran-Iraq War effort, reduce transportation bottlenecks that limited industrial development, promote regional integration and provide more central government presence in remote regions.

Airports received much attention in 1987. A new facility was built in Baghdad and the airfield at Basra was upgraded. Prior to 1987, the State Enterprise for Iraqi Airways (SEIA), run by the government, maintained 35 Ilysuhin cargo planes and 14 Boeing passenger jets. Privatization occurred in this year and the Iraqi Aviation Company (formerly a part of SEIA) began to operate commercially as a national airline. Stock was sold to the public, with the Iraqi government maintaining a minority share.

7. Trade

Throughout the 1970's, import of plastics and chemicals doubled and tripled, respectively. Tariffs and other trade barriers were erected to protect Iraqi infant industries from foreign competition. This impeded importation of certain vital materials (spare parts and machinery) necessary to improve Iraqi production capabilities. (Metz, 1990, pp. 148-148)

In the 1980's, more than 95 percent of Iraqi exports consisted of raw materials and food. Iraqi foreign trade was shaped by the Iran-Iraq War, resulting in deficit and debt problems. Iranian attacks on petroleum facilities reduced oil exports sharply. Highlights from this period include a 1981 trade deficit of U.S. $10 billion. In 1982, the trade deficit reached U.S. $23 billion. In response to the large trade deficit, Iraq cut imports in half during 1983. During 1986, GDP was U.S. $35 billion and oil contributed 33.5 percent to GDP.

Iraqi exports for 1987 were valued at between U.S. $7.5 and $12 billion. Crude oil, refined petroleum, natural gas, chemical fertilizers and dates accounted for the majority of exports. The apparent drop in exports from previous years was due to a plunge in oil prices. Even an increase in production volume was not enough to off-set these lower prices. (Metz, 1990, p. 168) Iraqi imports totaled $10 billion with capital goods accounting for 34.4 percent, raw materials 30 percent, food stuffs 22.4 percent and consumer goods 12.5 percent. (Metz, 1990, p. xvi) There was an increasing reluctance by trading partners to extend credit.

During 1987, the Ministry of Trade implemented a national import policy by allocating portions of a total budget among imports according to priority. The highest priority was spare parts and management services for maintenance of large industrial projects. The Ministry wanted to minimize the possibility of having to close facilities which would have huge start up costs should they be reopened. The goal was to gradually replace imported manufactured goods with domestically produced goods and then increase export sales.

Further, the Iraqi government recognized that increased domestic production required importing intermediate goods (previously restricted) and State companies were permitted to use private agents to facilitate importing limited private goods. Some deregulation of the private sector ensued and the government abolished private licensing for construction material, raw material spare parts and machinery for plant modernization and expansion.

Additionally, foreign investment was encouraged by loosening direct investment restrictions. All foreign firms engaged in development projects were exempt from paying taxes and duties. Foreign employees did not pay Iraqi taxes.

E. SUMMARY

Basic background information on Iraq and Iraqi economic policies spanning the period from 1970 through the late 1980's has been presented. Throughout this timeframe, Iraq embarked on aggressive expansion policies touching every facet of economic development. While many of Saddam Hussein's economic programs were touted as free market reforms, in actuality most policies just changed the nature of governmental controls or were never fully implemented. Saddam Hussein's economic reforms could not be achieved without parallel political reforms. "He thus found himself trapped by the incompatibility of his own desire to maintain absolute rule and the basic requirements of a market economy," explain Marion Farouk-Sluglett and Peter Sluglett (Farouk-Sluglett, 1990, p. 23). Therefore, it is not completely clear whether Saddam Hussein embarked on a series of financial reforms for his own aggrandizement or for the welfare of his people.

Initially, while the country enjoyed extremely high revenues from oil, the government maintained strict planning and control over policy and implementation and acted as a vehicle to redistribute wealth. The Iran-Iraq War took a significant toll on the economy. As a result of the major economic and social losses, policy makers appear to have relinquished some authority in an effort to adopt free market reforms.

By the end of the Iran-Iraq War, the Iraqi economy was weak and in need of loans and currency to rebuild infrastructure and oil production facilities. In order to rebuild and protect modest gains in agricultural and industrial development, Saddam Hussein looked to the West for financial support in the form of loans and western agricultural and industrial exports.

III. ECONOMIC SANCTIONS

This chapter discusses sanctions, definitions, successes and failures in general terms to assist the reader in understanding specific actions that were taken on the part of the United States against Iraq. The chapter also outlines the rationale used in formulating specific questions that comprise the basis for analysis which appears in Chapter IV.

A. SANCTIONS OVERVIEW

There are numerous types and diverse definitions of sanctions. This thesis will focus on finance and trade related economic sanctions highlighted in Figure 2. Initially, an overview of the different types of sanctions, the purpose of sanctions, success, failure and reasons for using sanctions will be presented.

Sanctions may be defined as rewards or punishment for a given action. In a legal context, Margaret Doxey describes sanctions as "negative measures which seek to influence conduct by threatening and, if necessary, imposing penalties for non-conformity with the law." (Doxey, 1972, p. 528) Johan Galtung provides the most comprehensive generic definition of sanctions "as actions initiated by one or more international actors...against one or more others...by depriving them of some value and/or to make the receivers comply with certain norms the senders deem important." (Galtung, 1967, p. 379)

United States policy makers have a variety of sanction tools at their disposal to change another country's behavior. For example, in foreign policy endeavors, diplomatic, communication, military and economic options can be used individually or in combination to pressure or influence others. Diplomatic sanctions may include non-recognition, expulsion of diplomats from the host country or complete severing of diplomatic relations. Communication sanctions may take the form of loss of mail contact or cessation of general telecommunications and transportation links. (Galtung, 1968, p. 383) Military sanctions run the gamut from a threat to use force, to a regional show of force, to a full scale invasion. In the case of Iraq, all of these measures were used in varying degrees to express the United States' displeasure after the Iraq invasion of Kuwait in August 1990.

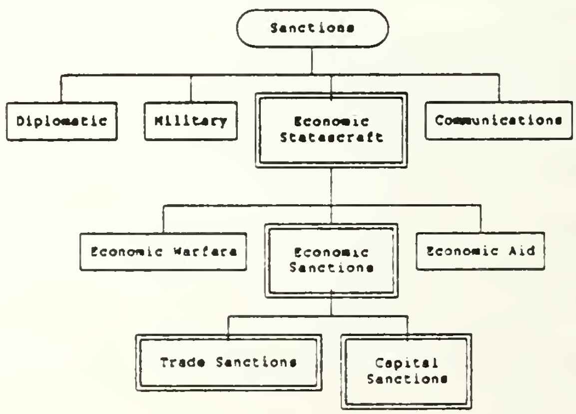

Figure 2: Economic Sanctions

B. ECONOMIC STATECRAFT

Having discussed the general definition of sanctions, this section will explore the various types of economic statecraft that can be employed against a foreign country. The purpose is to define the various economic options available to policy makers, identify those particular sanctions used against Iraq and develop the criteria for the list of seven sanction questions to be answered later in order to determine if Saddam Hussein anticipated sanctions. A complete list of sanctions actually imposed against Iraq is contained in Appendix B.

Economic statecraft are those economic measures that leaders can use to influence international actors (Baldwin, 1985, p.1). Included are "all economic means by which foreign policy makers might try to influence other international actors." (Ellings, 1985, p. 40) Economic statecraft has a broader definition than economic sanctions because it integrates the disciplines of economics and political science. Economic statecraft has three component elements: economic warfare, economic aid and economic sanctions.

1. Economic Warfare

Economic warfare is usually associated with instances where countries are engaged in military conflict. Economic warfare measures may include pre-emptive purchases, global embargoes, coercing neutrals to cooperate, blockades and bombing factors of production behind enemy lines." (Hufbauer, 1985, p. 6) Both Yuan-li Wu and Robert Schelling have slightly broader definitions in that military hostilities are not necessarily part of the equation. Yuan-li Wu perceives economic warfare in terms of international measures that enhance the strength (war making potential) of a country relative to an actual or potential enemy. Schelling defines it in terms of the economic means by which damage is imposed on other countries or the threat of damage used to bring pressure on them. (Baldwin, 1985, pp. 36-38) Yet most other definitions of economic warfare are closely tied to military actions. Economic warfare, Richard Ellings states, "...includes military attacks against an enemy's industrial installations, blockades, and strictly economic actions such as embargoes." (Ellings, 1991, p. 154) Margaret Doxey adds, "In conditions of war, the target is the enemy; the objective is to hasten defeat, to reduce or eliminate its capacity to wage war and to undermine morale." (Doxey, 1980, p. 9)

In the case of Iraq, on August 11, 1991, the United States initiated economic warfare by enforcing a naval blockade and embargo against Iraq. Shortly thereafter, the United States embraced UN Sanction 661 which, in part, banned sales and supplies of arms to Iraq. Australian, British, French and U.S. naval units interdicted petroleum and other shipments out of Kuwait. Saudi Arabia and Turkey stopped oil exports via pipelines through their countries. (Eilts, 1991, p. 10)

2. Economic Aid/Positive Sanctions

While most connotations of sanctions have a negative implication, economic aid is considered a positive sanction. Economic aid can be used as an incentive to gain foreign policy goals. (Doxey, 1972, p. 2) Providing a country with economic aid indicates a positive or supportive orientation toward the recipient even though it may not imply approval of specific policies or actions (Ellings, 1985, p. 102). Historical uses of positive sanctions include the Marshall Plan, U.S. private investment in the Commonwealth of Independent States to support emerging capitalist interests and development aid to Less Developed Countries such as Iraq. Table 3 lists the types of positive sanctions (Ellings, 1985, p. 42).

Table 3: POSITIVE SANCTIONS

TRADE	CAPITAL
- Tariff discrimination (favorable)	- Providing aid
- Granting most favored nation	- Investment guarantees
- Tariff reduction	- Encouragement of private capital exports/imports
- Direct Purchase	
- Subsidies to exports or imports	
- Granting licenses (import/export)	- Taxation (favorable)
- Promises of above	- Promises of above

Prior to the Persian Gulf War, the United States made extensive use of positive sanctions in an attempt to influence

Saddam Hussein's policies. President Bush defined U.S. policy toward Iraq in October 1989 when he signed National Security Directive 26. This Directive proposed economic and political incentives for Iraq to moderate its behavior and to increase U.S. influence with Iraq. Undersecretary of State Robert Kimmett declared, "Iraq was very important to U.S. interests in the Middle East...and was a key to maintaining stability in the region, offering great trade opportunities for U.S. companies." (Barber, 1991, p.2) These supportive policies provided some assistance to rebuilding the beleaguered Iraqi economy.

It appears that extensive agricultural loans, guaranteed under the U.S Department of Agriculture's Export Credit Guarantee Programs were the cornerstone of U.S. policy. Loans were supposed to be used for agricultural products and related goods only; however, there is some indication that loans were also used for other types of goods including military armament. Under the auspices of the Commodity Credit Corporation (CCC), U.S. exporters and any financial institution operating in the United States (including Banco Livorno Nationale (BNL), an Italian bank with a branch in Atlanta, Georgia) were guaranteed repayment for credit sales made to Iraq. At the time of the invasion, CCC had a $2 billion liability under loans guaranteed for Iraq.

Increasingly larger export credit guarantees were approved for Iraq from 1983 through 1989 and eventually totalled $4.5 billion. An additional $500 million was approved for 1990 despite Iraq's uncreditworthiness and BNL's alleged bank fraud of over $750 million unauthorized, unreported CCC guaranteed loans to Iraq. Loans were intended to be used for Iraqi purchase of agricultural producted and related goods.

Iraq also benefitted from other agricultural export programs totaling over $511.7 million from 1986 to 1990. (GAO-NSIAD-91-76, 1990, p. 2) Even after the BNL improprieties were exposed, a January 1990 order allowing the Export-Import Bank (Exim-bank) to offer fresh guarantees for Iraqi loans was approved. (Barber, 1991, p. 2) In 1988, U.S. companies sought to secure Exim-bank financing for Iraqi projects totaling $13 billion (U.S. Congress, 1991, p. H2552).

Just prior to the invasion, the United States was still considering Iraq's request for another $500 million in loan guarantees despite the fact that Iraq was in arrears on payments. These loan programs ceased after the invasion. In fact, continuation of aid to Iraq until just prior to the Gulf War may have sent mixed signals regarding U.S. intentions and reactions to the invasion of Kuwait.

3. Negative Types of Economic Sanctions

"Economic sanctions are economic measures directed toward political objectives...and are employed in an attempt to achieve political ends by economic means," according to

Johan Galtung (Galtung, 1967, pp. 367-383). Richard Ellings defines economic sanctions as "governmental policies involving the cut-off of economic exchange by one or more nations for the purposes of coercing the target(s) according to norms of the sanctioners with (usually) immediate goals." (Ellings, 1985, p. 8) Hufbauer and Schott state that economic sanctions are "the deliberate government-inspired withdrawal, or threat of withdrawal, of customary trade or financial relations." (Hufbauer, 1985, p. 2) While foreign aid techniques achieve more public attention, negative sanctions are principally employed by U.S. policy makers. There are two categories of negative sanctions: trade and capital/financial. Some of the techniques of each type will be described below. Trade and financial sanctions against Iraq appeared to have been comprehensive.

a. Trade Sanctions

Trade sanctions can be defined as measures in which one country publicly suspends a major portion of its trade with another country to obtain political objectives (Baldwin, 1985, p. 154). Trade sanctions are highly visible, often legislated. Both sender and target countries stand to lose when sanctions are applied (Olson, 1979. p. 477). Trade sanctions include a variety of actions: embargo, boycott, tariff increase, unfavorable tariff discrimination, withdrawal of most favored nation treatment, blacklist, quota, license denial, dumping, preclusive purchasing, export/import restrictions or threats of the above (Galtung, 1967, p. 383) (Ellings, 1985, p. 41) (Hufbauer, 1985, p. 28) (Wallensteen, 1968, p. 248) (Doxey, 1980, p. 92) (Baldwin, 1985, p. xii).

There are varying degrees of application ranging from total disengagement to slight declines. Richard Olson advocates non-public subtle techniques such as delays in delivery of spare parts or snags in licensing/technical transfers. Subtle measures can "...create serious economic distress...while not providing much in the way of a nationalism-generating scapegoat." (Olson, 1979, p. 485)

U.S. trade sanctions against Iraq were neither gradual nor subtle. Boycotts, embargoes and import-export restrictions were strict and severe. On 2 August 1990, the Administration initiated a comprehensive trade embargo against Iraq. A 9 August Executive Order further prohibited export and import of goods, technology and services between the United States and Iraq. In addition, no U.S. person would be permitted to deal in Iraqi goods; there would be no transportation to and from Iraq and all Iraqi property held by the United States or U.S. citizens would be blocked. (U.S. Congress, 21 Feb 1991, pp. 36-37) According to John C. Kelly, Jr., Director of Strategic Investigations Division, U.S. Customs Service, from August 1990 through February 1991, "Customs made more than 70 seizures of goods destined for Iraq...valued at nearly $10 million." (U.S. Congress, 21 Feb

1991, p. 4) Additionally, the Department of State revoked all licenses and approvals authorizing the export or transfer of defense items to Iraq (CRS, 10 Aug 1992, p. 598).

b. Capital Sanctions

Capital sanctions usually involve the suspension, curtailment, manipulation or freezing of a target country's financial and/or commercial assets. Target countries are often hurt through a reduction of commercial and official finance (Hufbauer, 1985, p. 28). This may require the target country to pay a higher interest rate to alternative creditors. Due to Iraq's poor credit rating and successful international compliance with sanctions, it is doubtful that any government officially will loan money to Iraq.

Although financial sanctions are not new, Ellings suggests that technological advances have made some of these measures easier to implement. He said, "Foreign bank deposits are susceptible to 'freezes,' and export-control bureaucracies have grown much more sophisticated." (Ellings, 1985, p. 26) As will be shown later, however, ease of implementation does not translate into ease of transaction tracking.

Freezing includes impounding assets and denying access to bank accounts or other financial assets owned by the target country. Controls on import or export of capital involve restrictions on who can transfer how much capital for what purposes into or out of a country. The U.S. sanctions against Iraq prohibited the commitment or transfer of funds or other financial or economic resources by any U.S. person to the Government of Iraq or Iraqi citizens. Blocking financial transactions is accomplished through the Federal Reserve Bank of New York, which in turn issues direction to other Federal Reserve member banks.

Aid suspension is another type of financial sanction and is the reduction, termination, or slowdown of aid transfers. Section 513 of the fiscal year 1982 Foreign Assistance Appropriation Act first prohibited direct assistance funds to Iraq. This Act was strengthened in 1991 with a similar piece of legislation which, from a financial standpoint, ceased: all U.S. support for assistance from international financial institution; Exim-bank guarantees and credits; any assistance or credit from the Commodity Credit Corporation (CCC); and all assistance under the Arms Export Control Act and the Foreign Assistance Act of 1961, other than emergency and humanitarian relief. (CRS, 10 Aug 1992, pp. 593-599)

There are several other types of financial sanctions that may be used by a country but were not employed by the United States against Iraq. Expropriation, or seizing ownership of property belonging to a target State, is one technique. A country may also tax assets of a target or withhold dues and payments to international organizations.

C. PURPOSE OF SANCTIONS

There are three major reasons why a country may impose sanctions on another country. Richard Ellings describes these as Security/Order, Justice and Economic Issues (Ellings, 1985, p. 8). Additionally, there are moral and symbolic reasons to impose sanctions.

Security/Order objectives are the most prevalent reasons for a country to use sanctions. This type of sanction usually occurs when an entity is threatened by the actions of another country or to show displeasure with aggressive behavior. Ellings noted a total of 72 economic sanction cases world-wide from 1945 to 1982 that were precipitated by security concerns (Ellings, 1985, p. 128). Punishing or deterring foreign military adventures, changing or de-stabilizing an unfriendly government, limiting proliferation of nuclear weapons, curbing international terrorism and damaging or threatening the wealth and economic capability of a country are primary motivators for a government to impose security/order sanctions. Displays of economic power, deterrence against future misdeeds and substitutes for stronger actions are other reasons a country may choose to impose security/order sanctions.

Justice is the second major reason for using sanctions. Ellings lists a total of 18 instances of sanctions world-wide in this category (Ellings, 1985, p.128). Human rights violations are a primary cause for imposing justice sanctions. These sanctions are usually levied to show moral outrage or disapproval with a country's actions or to pressure a country to improve its human rights posture.

Economic issues, the last category, usually involve disputes over fishing, ocean or property rights. These are the least likely reasons for a country to impose sanctions with only 15 cases recorded from 1945 to 1982 (Ellings, 1985, p. 128).

The United States imposed sanctions against Iraq in August 1990 for both security and justice reasons. President Bush stated four objectives for his reaction to the invasion of Kuwait. His goals were to force the Iraqis unconditionally out of Kuwait, to restore the legitimate government of the Emirate, to protect American citizens and to preserve/enhance the security of the Persian Gulf (U.S. Congress, Dec 1990, p. 310). In a 16 August 1990 Washington Post article, President Bush was much more to the point:

> Our action in the Gulf is not about religion, greed or cultural differences...Our jobs, our way of life, our own freedom and the freedom of friendly countries around the world would all suffer if control of the world's greatest oil reserves fell into the hand of that one man - Saddam Hussein (Coll, 1990, p. A31).

Additionally, the United States was interested in deterring future aggressive actions by Iraq against Saudi Arabia. Certainly the United States was morally outraged with Iraqi aggression toward Kuwait and with the more dismal prospect of having Hussein control a majority of the Middle East's oil production. According to a Congressional Research Service

Report, other goals and reasons for sanctions against Iraq were to cripple Iraq's military capabilities and willingness to intimidate neighbors, to set an example for the post-Cold War new world order and, specifically, to oust Saddam Hussein.

There are additional reasons to impose sanctions. "Even if the imposition of economic sanctions achieves no substantial results, they are said to symbolize our distaste for specific heinous actions of terrorists and our anathema toward human rights violators," explain Henry Bienen and Robert Gilpin (Bienen, 1980, p. 89). Margaret Doxey expresses a similar view, "Effectiveness must be judged on a case by case basis, and although authorized sanctions may have more symbolic value, the absence of authorization for collective measures does not necessarily rob them of efficacy." (Doxey, 1987, p. 531) Even if the United States did not think sanctions would have been totally effective against Iraq, U.S. policy makers probably would have used them anyway to show moral outrage with Iraq's unacceptable international behavior.

To date, however, it appears that Saddam Hussein is not affected by world or internal public opinion. Despite international outcry, he continued to bomb Kurdish rebels until the U.N. established a no-fly zone in northern Iraq.

D. SANCTIONS: SUCCESS, EFFECTIVENESS AND FAILURE

1. Definition of Success

A wide variety of opinion exists on what constitutes a successful sanction. For example, Margaret Doxey describes an effective sanction as "one which succeeds in producing the desired behavioral response from the individual or group to which it is communicated." (Doxey, 1980, p. 529) Using Doxey's definition, economic sanctions against Iraq would not be considered successful because Saddam Hussein did not retreat from Kuwait until after military force was applied. Even if sanctions had been given more time to work, it is doubtful that Saddam Hussein would have complied. Even in 1992, with many sanctions still in place, he still presented opposition to terms of the peace settlement and UN resolutions. Lack of Iraqi cooperation during inspections of nuclear facilities is another example of policy failure.

Richard Ellings ties success or failure to the "capacity to inflict economic deprivation." (Ellings, 1985, p. 7) In Congressional testimony, CIA Director William Webster stated, "Sanctions have all but shut off Iraq's exports (97 percent) and reduced imports to less than ten percent of their pre-invasion level." (U.S. Congress, Dec 1990, p. 113) Using Ellings' definition, sanctions would be considered successful.

Other gauges have been used to measure the success of economic sanctions. Most notably, an extensive history and analysis of 116 cases of economic sanctions is presented by Gary Hufbauer, Jeffery Schott and Kimberly Elliot (Hufbauer, 1990, p. 32). The authors judge the effects of sanctions using a standard set of criteria and then draw policy conclusions using historical information to determine if sanctions have worked.

> ...Success of an economic sanction has two parts: the extent to which the policy outcome sought by the sender country was in fact achieved, and the contribution made by the sanctions (as opposed to other factors, such as military action) to a positive outcome (Hufbauer, 1990, p. 41).

Their model also assesses political and economic variables in order to determine if a sanction is successful. In the case of Iraq, an overall assessment was not made because the outcome of the case was still unclear as the book went to press in 1990. However, the authors stated that they were "relatively optimistic that sanctions would contribute to a positive outcome - the withdrawal of Iraq troops from Kuwait, the release of all hostages, and the restoration of a credible, independent government in Kuwait - but not the complete defeat of Saddam Hussein." (Hufbauer, 1990, p. 298)

2. Effectiveness of Sanctions

Two themes emerge from a survey of the literature consulted. First, economic sanctions are ineffective, are often counter-productive and are becoming an increasingly useless tool. Hufbauer concluded that although economic sanctions are being used more frequently, they are meeting with less and less success. For example, their analysis determined that between 1914 and 1973 sanctions were effective 36 percent of the time while from 1973 through 1984, sanctions were effective only 28 percent of the time (Hufbauer, 1985, p. 80).

Other writers express similar views. According to Peter Wallensteen, "Major powers have never been able to deter military adventures of other major powers simply through the use of economic sanctions." (Wallensteen, 1968, p. 5) Margaret Doxey and Judith Miller concur with this view and note that, "...there is little evidence that economic sanctions provide reliable means of inducing states to adhere to an internationally accepted code of conduct and are often an ineffective means to achieve foreign policy objectives." (Doxey, 1972, p. 125) (Miller, 1980, p. 118) James Barber also espouses this view and explained that while trade boycotts, embargoes, and other economic sanctions are legitimate alternatives to military action, they rarely work (Barber, 1979, p. 373).

This perspective is probably true in the case of Iraq because until military force was applied, Iraqi forces did not retreat from Kuwait. Wallensteen also noted, "Target countries are seldom cut off from alternative markets or financing sources when sanctions are imposed; trade and finance channels usually remain open, even through at higher cost." (Wallensteen, 1968, p. 5) Bruce Bartlett concurs with this view and explained that trade sanctions, especially when unilaterally imposed, just alter trade patterns rather than inflict serious damage (U.S. Congress, 11 March 1986, p. 1).

While it is generally valid that countries find other sources for trade and finance, due to the multinational broad-based support for sanctions, this was not the case with Iraq. Saddam Hussein was virtually cut off from all markets and, at least during the period of the Gulf War, had little access to the outside world except through Jordan. Jordanian ties to Iraq are understandable since no less than 160 Jordanian firms had strong commercial and industrial connections to Iraq and by 1990 about three-fourths of Jordan's industry was working primarily for export to Iraq. Saddam Hussein also gave large sums of money to influential Jordanian institutions and personalities to cultivate their support (Baram, 1991, p. 58).

The second theme that emerges from the literature is that sanctions do have limited political usefulness in a defined set of circumstances. Success hinges on a wide variety of issues including the relationship between sender and target, whether the sanction is imposed multilaterally or unilaterally, the size and relative power of the sender and target, the purpose of the sanction and the measure of success.

David Baldwin states that the utility of economic techniques of statecraft are underestimated because of the inadequate analytic framework used to make estimates. There are non-economic measures of success including "...shame, isolation from the world community and as a signal to use more radical measures that cause a target country to reexamine policies." Baldwin points out that failures in traditional cost/benefit analysis occur because not all benefits are observable. (Baldwin, 1985, p. 53)

James Barber also is concerned with the framework of the analysis and notes that it is difficult to evaluate the effectiveness of sanctions because "...their application cannot be isolated from other factors. Circumstances and objectives change over time, and there is always a diversity of objectives against which success or failure may be measured." He suggests in the cases of Yugoslavia, Uganda and Cuba, "...although sanctions may not achieve their primary goal, sometimes they do have an economic effect on the target country...Even the threat of sanctions to economic interests cannot be taken lightly." (Barber, 1979, p. 367) There is little doubt that sanctions continue to have a negative impact on the economy of Iraq; however, the extent and length of time it will take for sanctions to have the desired impact is still unknown.

Of those sanctions that are considered useful, certain types may be considered more successful than others. For example, according to Hufbauer, "...financial sanctions can be more effective than trade sanctions because there is not backlash from business at home, long term relations are unsettled when financial sanctions are imposed and denial of finance may disrupt plans of a government." (Hufbauer, 1985, p. 59.) Hufbauer stated in congressional testimony that nothing gets a government's attention more quickly than being denied finance (U.S. Congress, 11 Mar 1986, p. 71). Given the perceived effectiveness of financial sanctions and in order to determine if Saddam Hussein anticipated financial sanctions prior to invading Kuwait, Iraq's financial transactions in the United States will be analyzed in a subsequent chapter.

An important point made by Richard Ellings is that economic sanctions could have a counter-productive effect on the target country by stiffening resistance in the target county. (Ellings, 1985, p. 138) This was most evident in the 1960's sanctions against Rhodesia. Due to the strong hold Saddam Hussein has on the Iraqi people, they probably are not showing resolve against sanctions but are displaying resignation in accepting a deprived and austere lifestyle. Saddam Hussein has made a career of manipulating and consolidating the loyalty of his countrymen through propaganda and, when necessary, through force. The Iraqi people have already shown during the Iran-Iraq War the ability to make great sacrifices. It appears that while the masses are suffering, Saddam Hussein is attempting to preserve a modicum of comfort for his extensive family, the elite and the military.

3. Reasons Sanctions Fail

Sanctions fail for a variety of reasons. Deterrence in any form would not have worked against Iraq, explained Janice Gross Stein. She stated that Saddam Hussein believed the United States was trying to destabilize the Iraqi regime since at least April 1990 and probably as early as 1989 when credit loans to Iraq were curtailed. (Stein, 1992, p. 166) Saddam Hussein's actions were aimed at protecting himself from what he perceived to be a definitive threat from the United States to oust him.

Galtung emphasizes the difficulty of compliance and the degree to which the target is vulnerable. Some countries will not participate in enforcing the sanctions. Target countries may find ways of circumventing sanctions such as smuggling and use of third parties. The target country may choose to run on internal resources. (Galtung, 1967, p. 411)

Critics charge that lax enforcement has permitted some smuggling into Iraq across Jordanian, Turkish and Iranian borders. "With the help of smuggled goods and equipment, the Iraqi elite continue to live comfortably and Saddam is able to project an image of rebuilding Iraq back to a state of normalcy despite the embargo," reported a Congressional Research Service document (CRS, 17 Apr 1992, p. 19).

Imposition of sanctions may create a wartime spirit of resistance in the target state as the target attempts to stockpile goods, find alternative markets, diversify the domestic economy, and divert the economic impact away from politically strong groups (Barber, 1979, p. 376). Even if sanctions are effective, moral outrage of citizens in sending or neutral countries may result in political pressure causing the sender to revoke or modify sanctions. According to information in the Congressional Record, there has been some discussion, albeit minor, regarding the negative impact of the sanctions against Iraq on U.S. businesses (specifically loss of revenue for agriculture and defense industries). Additionally, some sanctions have been modified to permit humanitarian aid.

Richard Ellings blames incidents of failed sanctions on a global loss of power experienced by dominant states, "Sanctions are a sign of growing weakness and are a response by the world power to retain leadership in an environment of increasing disorder." Over time, a powerful country such as the United States becomes increasingly weaker until its sanction policies have minimal impact on world affairs. (Ellings, 1985, p. 41) Although this is an interesting theory, it does not appear to hold true in the U.S.-Iraq instance. The United States showed strong military and political leadership as the keystone of the coalition against

Iraq and in light of the new world order, is the undisputed international military power.

Hufbauer lists several other reasons for sanction failure including: the means are not adequate for the task, sanctions themselves may create their own antidote, the target country allies may support their cause, or there may be a backlash at home or abroad creating an unwelcome atmosphere for sanctions.

4. Why Sanctions Are Used

The majority of references consulted revealed a general consensus that economic sanctions are unsuccessful. Why, then, do they continue to be employed? According to James Lindsay, "Sanctions...have a great deal of appeal as international and domestic symbols." (Lindsay, 1986 p. 153) Sanctions are also viewed as a way to communicate displeasure without the costs of using military force. "Political leaders use them to signal resolve and demonstrate leadership or to divert attention from domestic issues. They communicate to transgressing regimes and their own population outrage, firmness or solidarity," stated Ellings (Ellings, 1991, p.1). Congressman Tony Roth, in a Hearing before the Sub-committee on International Economic Policy and Trade, supported this view. He noted that the frequency in the use of trade sanctions as an instrument of national policy coincides with a national desire to limit or avoid the use of military options in conflicts around the world and to find appropriate and justified responses (U.S. Congress, 11 Mar 1986, p. 3). Finally, Baldwin points out that while it is difficult to measure the effects and utility of economic sanctions, other diplomatic efforts are equally as difficult to quantify (Baldwin, 1985, pp. 138-144). Therefore, sanctions appear to be no better or worse than other non-military policy options.

In summary, it appears that sanctions have been very effective in cutting off trade and finances to Iraq. According to CIA Director William Webster, "Baghdad's foreign exchange reserves are extremely tight, leaving little cash left to entice sanction busters." He added that many industries have been shut down and the U.N. imposed embargo deprives Iraq of approximately $1.5 billion in foreign exchange monthly. (U.S. Congress, Dec 1990, p.113) Unfortunately, sanctions against Iraq have not been particularly effective as a political tool to achieve U.S. policy goals. "The only way sanctions will work is if that converts in his (Hussein's) mind to the destruction of his reputation and political power, and that will be a long time in coming," stated psychologist, Dr. Jerrold M. Post, in Congressional testimony. (U.S. Congress, Dec 1990 p. 76) To date, the Iraqi leader remains strong in his pan-Arabic and anti-Western rhetoric and appears to be motivated only by the use of military force. Iraq still refuses to accept the conditions prescribed in U.N.

resolutions for sale of oil to buy food. Saddam Hussein has also militarily suppressed revolts by Kurds and Shiites. (CRS, 10 Aug 1992, p. 593)

E. TYPES OF SANCTIONS AND TARGET COUNTRY RESPONSES

After discussing the variety of sanctions a country has at its disposal and the relative usefulness of financial sanctions, four major areas dealing with financial and commercial transactions will comprise the basis for further analysis: suspending trade, freezing capital assets, suspending credit and loans and expropriating business and property.

1. Suspending Trade

Suspending trade, including embargoes and boycotts on all imports and exports, is one action the United States could have taken against Iraq. If Iraq anticipated U.S. suspension of trade, it could have curtailed vital exports (oil) to the United States. However, Iraq only supplied a small amount of oil to the United States and was in a cash poor position; thus, Iraq's response would likely increase the sale of oil to raise needed funds for a war effort. One might also expect Iraq to increase imports in order to stockpile needed foodstuffs, war making materiel and weapons prior to the invasion of Kuwait.

2. Freezing Capital Assets

Capital asset sanctions, (suspension, curtailment, manipulation or freezing a target country's financial and/or commercial assets (gold, currency, stocks, bonds, mutual funds)), are other measures the U.S could have taken against Saddam Hussein. If Iraq anticipated sanctions, it is possible that government officials or private individuals could have transferred financial holdings in the United States to banking institutions in the Middle East or other countries less likely to impose sanctions. Likewise, selling U.S. owned stocks and bonds or transferring ownership to third parties would also protect assets.

3. Suspending Credit and Loans

In anticipation of suspension of commercial credit, Iraq could have attempted to expedite loans and other commercial credit offers prior to invading Kuwait in order to raise additional capital. Iraq also may have stopped payment on its loans to foreign countries.

4. Expropriating Businesses and Property

The United States could also have expropriated or seized Iraqi owned property located in the United States (including businesses and real estate). With enough warning, Iraq may have tried to sell its U.S. commercial real estate and business holdings.

F. SUMMARY

This chapter began with a broad definition of sanctions, describing increasingly narrower meanings of economic sanctions. It also showed how sanctions were used against Iraq. Sanctions were generically described as actions taken by sender countries against receiver/target countries to deprive them of some value and/or to make targets comply with certain norms. Economic statecraft, which consists of economic warfare, positive economic aid and negative economic sanctions, considers sanctions within a geopolitical context. Subsequent chapters will specifically concentrate on negative financial and trade sanctions.

In addition to explaining different sanctions, the various purposes of sanctions were outlined and categorized into three major areas: Security/Order, Justice and Economic Issues. Criteria for success was also explained. The difficulty in defining what constitutes a successful sanction was described.

A general overview of sanction effectiveness revealed that most scholars do not view economic sanctions as a valuable tool in gaining target country compliance with the sender's views. Some scholars believe sanctions are somewhat effective under certain limited circumstances, with financial sanctions being the most useful. In the case of Iraq, sanctions may be considered financially effective since most trade and money flows have been curtailed. However, from a political perspective, sanctions have not been worthwhile because Saddam

Hussein has failed to comply with most U.N. resolutions and military action was required to oust him from Kuwait. Stein suggests that Saddam Hussein probably could not have been deterred from invading Kuwait regardless of U.S. policy. Finally, four major areas of concentration were presented that will form the basis for analyzing data presented in Chapter IV.

IV. DATA COLLECTION AND ANALYSIS

A. BACKGROUND

Having discussed economic sanctions U.S. policy makers could use against Iraq, this chapter analyzes financial transactions between Iraq and the United States between August 1989 and August 1990. Selected financial flows and trade statistics will be reviewed to determine if Saddam Hussein anticipated economic sanctions against his country (i.e., did Iraq take precautionary measures to protect their assets in the United States). Data collection methodology, data collection limitations, information accuracy limitations and other factors influencing Saddam Hussein are discussed first.

B. DATA COLLECTION: METHODOLOGY AND LIMITATIONS

Data for this thesis were obtained from various U.S. government and banking agencies responsible for tracking financial, trade and banking facts. This information was augmented by press reporting and statements from Congressional hearings. Data were gathered by submitting a questionnaire and requests for information to the U.S. Federal Reserve System Washington, D.C., the U.S. Federal Reserve Bank of New York, the U.S. Treasury Department, the U.S. Commerce Department and the Security and Exchange Commission. Appendix A contains the responses received to specific questionnaires. As a general rule, information obtained from government organizations was incomplete. Data were not collected in a manner that would be useful in determining if a country anticipated sanctions. It was also reported too late for indications and warning purposes. Appendix C discusses general data collection and information shortfalls in greater detail.

1. The Federal Reserve

The Board of Governors of the Federal Reserve System provided the "Federal Financial Institutions Examination Council Statistic Release Country Exposure Lending Survey." This document displays, by country, the amount of money that foreign borrowers owe U.S. banks. Information is presented on a quarterly basis and also shows the type of borrower and maturity distribution of loans.

The Federal Reserve Banks provided some statistical information but did not complete the questionnaire because they are not a government agency and are not bound by the Freedom of Information Act (FOIA). The Federal Reserve Bank of New York stated, "The request encompasses confidential account information exempt from disclosure based on 5 U.S.C.A ss 552(b)(4)." The Federal Reserve also possesses commercial or financial information obtained from banks, staff opinions, and analysis that is not available by law except to a party or an agency in litigation with the Federal Reserve.

Of note, during Congressional testimony, Alan Greenspan, Chairman of the Federal Reserve Board, refused to provide specific information relating to Iraqi banking transactions in the United States. This information was requested in direct questions posed by Congressman Henry Gonzalez, Chairman, U.S. House of Representatives Banking, Finance and Urban Affairs Committee. Greenspan again cited banking laws which prohibited release of banking and transaction information.

2. The U.S. Treasury Department

The U.S. Treasury Department (Office of Foreign Asset Control (OFAC)) completed the questionnaire indicating it had information regarding the sale of Iraqi oil, Iraqi government bank accounts in the United States and Iraqi government stock and bond holdings in the United States. However, OFAC listed all data as proprietary (confidential business records) and was unable to provide specific data for this study. OFAC does not routinely maintain the information outlined above unless a country is under U.S. imposed sanctions. In this case, OFAC leads U.S. government policy and enforcement efforts after embargoes are in place. The questionnaire was also submitted to the Treasury Department's public information office which declined to complete the questionnaire.

3. The U.S. Department of Commerce

The U.S. Department of Commerce (International Trade Administration, Bureau of Economic Analysis and Bureau of the Census) provided the most useful statistics on international trade, including information related to the sale of Iraq oil, Iraqi commodity transactions in the United States, Iraqi commercial real estate holdings and Iraqi private business stock holdings and transactions.

4. The Security and Exchange Commission

The Security and Exchange Commission did not provide a response to the questionnaire. No additional governmental sources of information could be identified that would provide information on Iraqi stock and bond transactions.

C. LIMITATIONS ON INFORMATION ACCURACY AND AVAILABILITY

In addition to data collection limitations noted above, there are five other significant factors that reduce the accuracy and availability of information about Iraqi finances, trade and economics. These include Iraqi State secrets, Iraqi front companies, illegal shipments and transshipment, Iraqi secret financial networks and non-adherence to bank reporting procedures.

1. Iraqi State Secrets

Iraq classifies most of its economic information as state secrets and does not publish standard trade and economic data. Thus, the most current information on the Iraqi economy is based on projections and extrapolations.

2. Iraqi Front Companies

Iraq allegedly has extensive front company networks operating world-wide. This reduces the accuracy of several key pieces of information concerning bank holdings, the number of Iraqi owned businesses in the United States, the value of Iraqi commodity transactions and the amount of outstanding loans owed to U.S. banks. The Treasury Department openly identified 52 businesses and 37 individuals as Iraqi Specially Designated Nationals (SDNs) only after sanctions were in place. SDNs are foreign government representatives, intermediaries or front companies located abroad and functioning as extensions of their government. SDNs may be overt or covert. (U.S. Treasury Department, 1 May 1991) Alleged Iraqi front companies, like Matrix-Churchill[1] and Associated Instrument Distributors[2] are known to have received guaranteed bank loans from BNL to procure dual-use technology items that supported Iraqi military build-ups (Boyd, 1983) (Allen Friedman, 1990, p. 1.) (U.S. Congress, 21 Feb 1991 p. 7) In a statement before the House of Representatives, Committee on Energy and Commerce, Subcommittee on Commerce, Consumer Protection and Competitiveness, Chairwoman Cardiss

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[1]A Solon, Ohio-based subsidiary of TMG Engineering Group.

[2]Based in Atlanta, GA.

Collins remarked, "Here in the United States, Iraq has bought companies, stolen parts and components for nuclear weapons and even now [February 1991] continues to place orders for needed supplies." (U.S. Congress, 21 Feb 1991, pp. 4-8)

3. Illegal Shipments and Transshipments

Another data accuracy problem is that some U.S. companies illegally attempted to ship goods to Iraq without legal export licenses. Items that U.S. companies unsuccessfully attempted to ship to Iraq include foodstuffs, water purification equipment, gas masks, chemical warfare precursors, missiles and radar technology. Compounding the illegal export problem are instances where U.S. products are legally shipped to allies who then transship the goods to Iraq. These types of transactions also reduce the amount and accuracy of data available for analysis.

4. Iraqi Secret Financial Networks

Closely tied to front companies are Iraqi secret financial networks. Accounts that are hidden or disguised under false names reduce the accuracy of Iraqi account balances. British and U.S. authorities believe that wealthy Iraqi exiles, including Saddam Hussein's half brother and Saddam Hussein's former jeweler, were part of a secret financial network that may have invested billions of dollars outside of Iraq for Saddam Hussein's regime and family (Ignatius, 1992, p. 1). In a 24 February 1992 speech in

Kuwait, R. Richard Newcomb, Director of the Treasury's Office of Foreign Asset Control, warned that Iraqi agents want to use hidden assets to carry out Iraq's financial activities and rebuild its arms and technology infrastructure (Ignatius, 1992, p. 1).

5. Non-adherence to Bank Reporting Procedures

Also clouding the Iraqi financial picture are domestic and foreign owned banks operating in the United States that do not adhere to Federal Reserve Banking procedures. These procedures require banks to report transactions over $10,000 to the Federal Reserve. Inaccurate reporting underestimates bank loans and account balances. For example, Banco Nationale del Lavoro (BNL), an Atlanta-based branch of an Italian-owned bank, concealed Iraqi financial transactions with a sophisticated money-laundering process using chains of banks in the United States and Europe. From 1984 through 1989, BNL was Iraq's primary source of credit in the United States. Arthur J. Wade Jr., a Department of Agriculture investigator who led a federal task force investigating the Atlanta Branch of BNL, stated that the financial network was so elaborate that U.S. intelligence agencies monitoring telexes did not know the extent or the purpose of $2.6 billion in unsecured loans arranged for the Iraqis before the Gulf War (Fialka, 1992, p. 1). Perhaps Congressman Gonzalez summed it up best with remarks during the Bank of Credit and Commerce International (BCCI) investigation, September 13, 1991.

> There is nobody here that can say Iraq, even at this moment, that Saddam Hussein doesn't have a few million dollars around in our country...Our regulatory agencies never really had any control over the tremendous amount [between $800 billion and one trillion dollars total foreign investment] of international money floating around....Just a small portion of it can be highly leverageable for such things as anything from armaments procurement indirectly through other banks and such things as drug money laundering. (U.S. Congress, 13 Sep 1991, p. 32) (U.S. Congress, 1992, p. H1274)

D. OTHER FACTORS INFLUENCING SADDAM HUSSEIN

1. Increased Use of Sanctions by U. S.

In recent years, the United States has significantly increased its use of economic sanctions, especially in the Middle East (see Chapter I.A.). Significant examples of this include U.S. sanctions introduced against Iran in 1979. President Carter embargoed oil imports from Iran, prohibited foreign aid to Iran and froze Iranian deposits in U.S. banks. Later, in 1986, the United States froze approximately $12 billion worth of Libyan assets. (Hufbauer, 1985, pp. 627-635) (Lindsay, 1986, p. 159) Closer to Baghdad, the United States imposed trade sanctions against Iraq from 1980 to 1982 to encourage Saddam Hussein to terminate support for international terrorists. Again, in 1988, both the House and Senate passed bills that cut the $800 million credit line to

Iraq because it used chemical weapons against the Kurds (Joffe, 1988, p. 12).

In view of the United States' propensity to use sanctions in a punitive or negative way, Saddam Hussein should have anticipated some type of economic sanctions when he decided to invade Kuwait.

2. U.S. Policy: Mixed Signals

Despite the United States' proclivity for using sanctions, there are significant events that may have misled Saddam Hussein, causing him not to anticipate sanctions. For example, on the financial front, two policy decisions that could have confused Saddam Hussein involved the misuse of farm credit and loan guarantees. The U.S. administration treated Iraq with leniency, brushing aside evidence that U.S. companies and Baghdad abused government guaranteed Iraqi farm credits used to purchase non-farm items. Indeed, by January 1989, President Bush declared it in the national interest to allow the Exim-bank to guarantee further loans despite government studies which concluded that Iraq was not credit worthy. (Barber, 1991, p.2)

In 1982, the U.S. State Department took the initiative to remove Iraq's name from its list of terrorist supporting countries, and in the summer of 1990, expedited delivery of food and food credits to Iraq. Throughout this time period (1982-1990), the State Department generally continued to support pro-Iraqi goals. Reflecting on this apparent lenient policy toward Iraq, former U.S. Ambassador to the United Nations Jean Kirkpatrick stated, "I have no doubt Hussein was misled by these actions. He would encounter very little opposition from the United States so he felt free to move in on Kuwait." (U.S. Congress, Dec 1990, p. 734)

Undersecretary of State, Robert Kimmitt, explained this rationale for continued U.S. support for Iraq. He said, "Iraq was very important to U.S. interests in the Middle East...and was a key to maintaining stability in the region while offering great trade opportunities for U.S. companies." (U.S. Congress, Dec 1990, p. 2) He noted that terminating guarantees for Iraq was contrary to the president's intentions and would most likely further damage relations between the two countries.

As late as April, May and June 1990, when high-level interagency meetings were held at the White House, the administration rejected economic sanctions against Iraq (U.S. Congress, Dec 1990, p. 2). One week before the Iraqi invasion of Kuwait, U.S. officials were still seeking ways of persuading Saddam Hussein to play a moderate role. This culminated in a meeting between the U.S. Ambassador to Iraq, April Glaspie, and Saddam Hussein in which critics say she failed to warn Iraqi leaders in strong enough terms to stay out of Kuwait (U.S. Congress, Dec 1990, p. 2).

3. Front Companies/Financial Networks

It is possible Saddam Hussein believed Iraqi front companies and surreptitious financial networks were safe from exposure. This would have enabled him to continue to obtain some required goods and money. If this were the case, then he would have had little need to worry about sanctions, and may not have taken complete action to protect his assets.

E. RESULTS

Based on the four types of financial sanctions outlined in Chapter III, seven questions were developed to determine if Saddam Hussein anticipated economic sanctions prior to invading Kuwait in August 1990. The following questions are analyzed in detail:

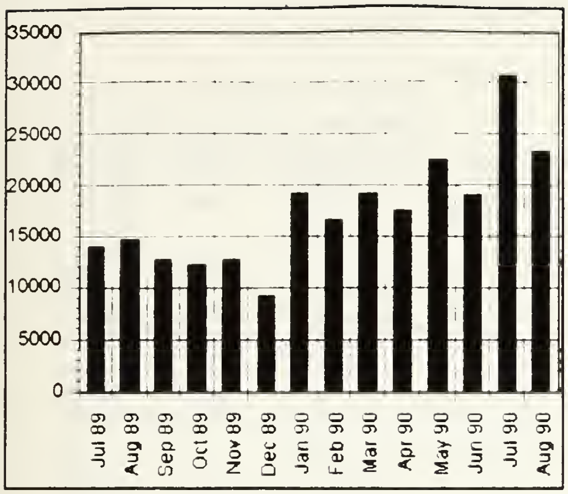
- Did Iraq increase oil exports?
- Did Iraq increase imports of U.S. commodities?
- Did Iraq transfer money out of U.S. banks?
- Did Iraq sell U.S. stocks and bonds?
- Did Iraq increase requests for U.S. loans?
- Did Iraq abruptly cease loan payments?
- Did Iraq attempt to sell U.S. business and real estate holdings?

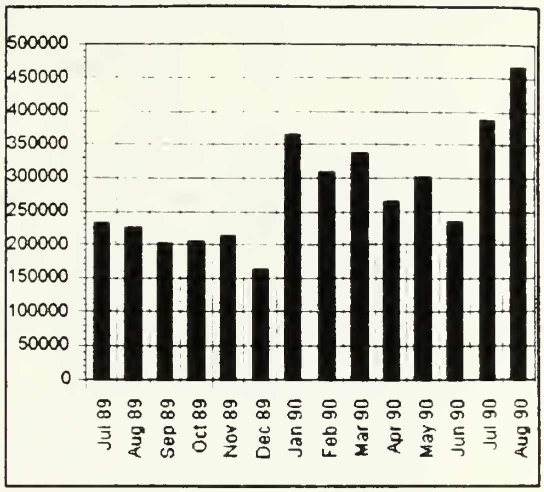
1. Did Iraq Increase Oil Exports?

The U.S. Department of Commerce issues monthly reports on the quality and value of U.S. oil imports. These reports are summarized in Table 4 and Figure 3 (U.S Dept of Commerce, FT900, 1989 - 1990). No distinct pattern emerges for the one year period treated in this thesis. However, Iraq appeared to sell more oil to the United States as the price of oil declined. A significant increase in oil sales occurred between June 1990 and July 1990 when Iraq sold approximately 11 million more barrels of oil to the United States than in the previous month. This represents a 61.3 percent increase in oil sales and the highest change in quantity for the entire year. If Saddam Hussein anticipated sanctions, the increased cash obtained from sales would have provided some cushion against sanctions and enabled him to purchase war-related goods on the open or black markets. Increased oil sales is not a definitive indicator of hostilities. For example, the sudden increase in oil sales could be equated to a cash-poor country in urgent need of revenue.

Table 4: U.S. IMPORTS OF IRAQI CRUDE PETROLEUM

Date	Net Qty	$ Value	$/Barrel	Qty Diff
Jul 89	13973	232554	16.6431	
Aug 89	14662	225709	15.39415	689
Sep 89	12739	202980	15.93375	-1923
Oct 89	12296	204497	16.63118	-443
Nov 89	12640	215078	17.01566	344
Dec 89	9179	162690	17.72415	-3461
Jan 90	19181	364761	19.01679	10002
Feb 90	16595	308589	18.5953	-2586
Mar 90	19227	336971	17.52593	2632
Apr 90	17518	263914	15.0653	-1709
May 90	22498	301413	13.39732	4980
Jun 90	19060	235237	12.34192	-3438
Jul 90	30748	387979	12.61802	11688
Aug 90	23285	465662	19.99837	-7463





Quantity of oil $ Value of oil

Figure 3: U.S. Imports of Iraqi Crude Petroleum

2. Did Iraq Increase Imports of U.S Commodities?

The U.S. Department of Commerce publishes aggregate commodity import and export statistics on a bi-annual basis. This information, for the period January 1989 to June 1990, is summarized in Table 5 (U.S. Department of Commerce, Table 9. 1989-1990, pp. 16-17).

Table 5: LEADING U.S. EXPORTS TO IRAQ

(Thousands of Dollars)

CAT	COMMODITY	1 JAN-JUN 1989	2 JUL-DEC 1989	3 JAN-JUN 1990
D	Passenger vehicle	0		107660
D	Industrial Machinery, temp treatment	2	34	18677
D	Helicopters	0		18000
D	Machinery for molding inner tubes	0	5900	15938
D	Pitch Pine Sawn Wood	11685	14198	11236
D	Plywood	0	2055	10284
D	Machine parts for pneumatic tires	568	3954	6050
D	Airplane/Helo Parts	9474	4597	4818
D	Additives for Lube Oil	0		3642
D	Surveying Instruments	48	394	3503
D	Air Compressors	0		3479
D	Special Purpose Vehicles	1212	181	3265
D	Red Oak Wood	0		2504
D	Machines for working plastic/rubber	0	2129	2417
D	Machinery for work material	0		2717
D	Parts filtering/purifying machinery	249	893	2251
D	Refridg/Freezer Parts	304	48	2060
D	Drill Bits	0	641	1950
D	Machines for Wire Working	0		1944
D	Air Condix Machinery w/ refridg unit	2708	1238	1875
D	Special Attachment for Machine Tools	0	458	1829
D	Machine Parts (temp treatment)	0	28	1783
D	Quenching/Cutting Oils	0	1327	1511
D	Airplane/Helo Parts	326	1909	1406
D	Medical/Surgical Equipment	15	23	1296
D	Thiophosphoric esters, salts	0		1251
D	Titanium Oxides	0	27	1155
D	Sub-total	23542	40034	234501
F	Rice	67757	48705	65677
F	Rice Parboiled	4968	0	11312
F	Wheat	54188	107311	57965
F	Corn	24911	38773	40232
F	Poultry Feed	47388	39776	39208
F	Cane/Beet Sugar	31958	0	17759
F	Soybean Oil Cake	25962	45136	17306
F	Barley	0	8326	13345
F	Beans	9523	0	10127
F	Sunflower Seed Oil	3330	0	6831
F	Cheddar Cheese	0		5728
F	Butter	4868	3199	4919
F	Birds' eggs for hatching	6799	8741	4229
F	Powdered Milk and Cream	0		3861
F	Cigarettes	1000	1950	2811
F	Yeast	148	671	2810
F	Bovine/Equine	0		2393
F	Sugar/Syrup	0		2370
F	Yellow Peas	1684	2183	1658
F	Tobacco	0		1216
F	Malt	0	676	1107
F	Sub-total	284484	305447	312864

CAT	COMMODITY	1 JAN-JUN 1989	2 JUL-DEC 1989	3 JAN-JUN 1990
A	Center Pivot Irrigation Equipment	50	4356	19674
A	Irrigation Equipment	0	1827	3725
A	Watermelon Seeds (for sowing)	0		1417
A	Irrigation Coils	12799	680	1411
A	Sub-total	12849	6863	26227
I	Combed Wool in Fragments	4804	13202	14543
I	Soil Pipe of Cast Iron	0	5575	6204
I	Tallow	6500	5237	4914
I	Pulp Fibrous Cellulosic Mat'l	0		4637
I	Lube oil add petro/bituminous mineral	867	426	3920
I	Preparations for Beverage Manufac	6485	0	3643
I	Str wire w/o st cr not ftd w/ ftgs	0		3136
I	Newsprint rolls/sheets	0	2040	2261
I	Cattle Hides	0	1823	1884
I	Chemical Wood Pulp (dissolving)	1797	3977	1833
I	Machine Parts (manufac hot glass)	9	1868	1700
I	Paper/Paperboard	0		1500
I	Cultured Crystal	0		1174
I	Machines to work formed material	0		1082
I	Sub-total	20462	34148	52431
O	Parts for oil and gas field machines	8817	9307	9709
O	Oil/Gas Field Machines	0		3200
O	Oil Well Tubing	0		1690
O	Sub-total	8817	9307	14599
	Total	350154	395799	640622

Legend
D - Dual Use industrial/military
I - Industry/Business
O - Oil Industry related
F - Foodstuffs
A - Agricultural

The data indicate an overall increase in U.S. commodity exports to Iraq of 13 percent from period 1 (January to June 1989) to period 2 (July 1989 to December 1989). A significant (61 percent) increase occurred from period 2 (July to December 1989) to period 3 (January - June 1990).

From 1982 to 1990, Iraq was one of the biggest buyers of U.S. commodities. Rice and wheat were major U.S. exports to Iraq. Iraq also purchased $5.5 billion in crops and livestock with U.S. federally guaranteed loans and agricultural subsidies. (Wines, 1990, p. A1) U.S. commodity exports to Iraq are divided into five major categories. In comparing the three periods, foodstuff export levels remained fairly constant with modest gains of 7.4 percent and 2.4 percent, respectively. This could indicated that even if Saddam Hussein anticipated sanctions, he did not believe the U.S. would ever cut off humanitarian assistance to Iraq. He would not need to stockpile food.

In contrast to agriculture, the largest export growth occurred in the military/industrial dual use category, where the change in exports from the first to the second half of 1989 rose from $23.5 billion to over $40 billion, a 70 percent increase. The third period saw an even larger increase of 486 percent as Iraq increased purchases of many dual use commodities including vehicles, aircraft, machinery parts and air conditioning parts, wood, and medical equipment.

Increases between 50 percent and 70 percent were noted in the Industry and Oil categories. Agricultural equipment realized a gain in the second period; however, there were so few items purchased this increase may not be statistically significant.

Although this thesis is primarily concerned with financial transactions, it is worth mentioning that the U.S Department of Commerce also tracks export licenses. Export licensing policy toward Iraq evolved with overall U.S. foreign policy. In 1982, the State Department deleted Iraq from the list of terrorist supporting states. As a result, dual-use items could be shipped to Iraq, except for goods that could contribute to nuclear weapons development in Iraq or that could be diverted to the Soviet Union, Eastern Europe or the Peoples Republic of China. Eight chemical weapon precursors were added to export controls in 1984. In November 1984, diplomatic relations with Iraq were resumed after a 17 year suspension. In April 1987, export controls were expanded to include ballistic missile developmental items. Later, in July of that same year, exports to Iraq were further curtailed for chemical precursors. Additional restrictions were added for weapons-related chemical and biological agents at that time. On 2 and 9 August 1990, President Bush issued Executive Orders suspending all trade with Iraq. (U.S. Department of Commerce, BXA Facts, undated, p. 1)

A brief review of the export licensing data, which included only a numerical count and biannual tally of license requests, showed a slight increase in the number of licenses requested by Iraq. From January to June 1989, Iraq applied for 112 licenses; from July to December 1989, Iraq applied for 129 licenses; and from January to July 1990, Iraq applied for

131 licenses. Based solely on this count, it does not appear that Iraq attempted to stockpile goods. (U.S. Department of Commerce, BXA, 1990)

3. Did Iraq Transfer Money Out of U.S. Banks?

Two days before Saddam Hussein invaded Kuwait, telexes were sent by Iraq to correspondent banks in the Middle East and Europe asking that they transfer funds from their Iraqi accounts to the Central Bank of Jordan, according to Arab sources quoted in the Washington Post. Allegedly, between $100 million and $400 million was retrieved. Financial analysts say the telexes were part of a feverish scramble by Iraq to gather hard currency, gold and other liquid assets in anticipation of international sanctions. (Frankel, 1990, p. 1)

In response to this Washington Post article, Alan Greenspan stated that a Federal Reserve review of Iraqi and Jordanian accounts in the United States indicated accounts were at a modest level and did not show any unusual activity during the days prior to Iraq's invasion of Kuwait. The review found no evidence that Iraq transferred funds to the Central Bank of Jordan. However, Greenspan admitted that the data were not conclusive with respect to transfers involving other institutions. Since account balances were low, even if

Saddam Hussein anticipated sanctions, it probably was not worth the risk of alerting the U.S. by moving money from accounts.

4. Did Iraq Sell U.S. Stocks and Bonds?

No information was obtained on this subject.

5. Did Iraq Increase Request for U.S. Loans?

Loan data lists quarterly aggregate bank claims against Iraq. Data indicate that only a small number of U.S. chartered banking organizations had claims on Iraq (U.S. Congress, 13 Sep 1991, p. 187). From September 1989 through September 1990, Iraqi account balances remained steady (see Tables 6 and 7). In June 1990, 164 consolidated banks held $614 million in total claims against Iraq, with $475 million in bonds. Approximately $106 million were claims on public borrowers; $33 million were claims on private non-bank borrowers. After adjusting for guarantees by non-Iraqi entities, Iraq only owed $112 million. (Board of Governors of the Federal Reserve System, Washington D.C. Federal Financial Institutions Examination Council Statistical Release, Country Exposure Lending Survey, 1989-1990)

Table 6: AMOUNTS OWED U.S. BANKS BY IRAQI BORROWERS

Claims by Quarter (Dollar figures in millions)

Date	Total Owed	Guaranteed by others: Banks	Guaranteed by others: Public	Guaranteed by others: Others	Owed minus Guaranteed
Sep 89	421	196	67	0	158
Dec 89	440	301	8	19	112
Mar 90	557	320	122	21	112
Jun 90	614	399	102	1	112
Sep 90	440	330	0	1	109

Table 7: IRAQ CROSS BORDER AND NON-LOCAL CURRENCY CONTINGENT

Claims by Quarter (Dollar figures in Millions)

		Letters of Credit			Commitments	
Date	Total	Commercl	Standby	Others	Other	Iraqi
Sep 89	172	153	8	11	149	23
Dec 89	93	48	1	44	31	62
Mar 90	243	189	3	51	211	22
Jun 90	353	251	6	96	323	22
Sep 90	244	213	0	31	242	22

There is no direct evidence that the government of Iraq attempted to obtain additional loans from the United States just prior to invading Kuwait. In part, this may be due to U.S. banking institutions' unwillingness to support an uncreditworthy borrower and the 1989 discovery of over $5 billion worth of BNL loans to Iraq, far in excess of the amounts BNL reported to the Federal Reserve.

6. Did Iraq Abruptly Cease Loan Payments?

Iraq was mostly current on U.S. debts; however, Iraq was known as a poor credit risk throughout the rest of the world. Iraq was, at best, erratic on international loan payments and played one creditor off another. Between 1988 and 1990, Iraq ceased debt service to France, stopped interest payments on some Japanese loans and fell behind on some short and medium term loan payments to Britain. (Hargreaves, 11 Aug 1990, p. 3) As late as June 1990, Iraq paid several million pounds to Britain for long term loans (Hargreaves, 10 Aug 1990, p. 3). Iraq did not pay $2.8 million to the World Bank when it was due in July 1990 (London Financial Times, 1990, p. 2).

By August 1990, U.S. owned banks had over $100 million exposed to Iraq (owed by Iraq but not solely guaranteed by Iraq) (U.S. Congress, 1991, p. H847). On the date of the invasion, Iraq defaulted on $2 billion of Commodity Credit Corporation credits and $200 million on a credit program through Exim-bank (guaranteed by the United States.) (U.S. Congress, 1992, p. H6697).

7. Did Iraq Attempt to Sell U.S. Business and Real Estate Holdings?

The Iraqi direct investment position in the United States was considered negligible ($1 million or less) during the period 1980 to 1991. Direct investment is defined as ownership or control by a foreign national of 10 percent or more of the voting securities in incorporated U.S. business enterprises, including equity and debt. The Department of

Commerce does not even list Iraq in its normal statistical reporting on Foreign Direct Investment in the United States. Iraqi direct investments listed with the Commerce Department included holdings in Saks Fifth Avenue (a department store), an ice cream store, a floor covering store and a sporting goods store. No information could be found on Iraqi real estate holdings in the United States. No evidence was found to suggest that Iraq attempted to sell its limited U.S. business holdings. (U.S. Department of Commerce. International Trade Administration, Various Editions)

F. TIMING

In considering the seven precautionary measures a country could take to protect its assets from economic sanctions, the question of timing must be considered. Some actions are better suited to short term implementation (several weeks to several days). Other actions take longer to achieve (several months to a year).

1. Short Term

Three of the seven actions could have been completed just days or weeks prior to the invasion of Kuwait because of the nature and ease of certain transactions. Actions in this category include: transferring money out of U.S. banks, selling stocks and bonds and abruptly ceasing loan payments. Waiting until the last minute would have enabled Saddam Hussein not to tip his hand prior to taking action and could also indicate that he did not plan the invasion of Kuwait very far in advance.

2. Medium to Long Term

Four other actions would have taken longer to accomplish and Saddam Hussein would have had to plan anywhere from several months to a year in advance to fully achieve these goals. If Saddam Hussein were interested in selling oil to raise capital for purchasing war-related material, he would have had to plan this far enough in advance to sell and ship the oil, purchase the goods and then have them delivered to Iraq. Several months may be considered an average timeframe to accomplish these tasks. The same time lag also applies to his ability to request and receive additional loans and increase/receive imports. Selling Iraqi owned businesses and real estate in the United States could also take from several months to several years to achieve, depending on the market demand.

V. CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

This section determines whether Saddam Hussein anticipated U.S. economic sanctions against Iraq, within the scope of the data collection outlined earlier. Additionally, the question of whether it is possible to track financial flows using publicly available government sources is also addressed.

1. Did Saddam Hussein Anticipate Sanctions?

a. Evidence Suggesting Anticipation

(1) Iraq increased its sale of oil to the United States by 61.3 percent between June and July 1990. While this is not a definitive indicator that sanctions were expected, it does indicate anomalous behavior.

(2) U.S. exports to Iraq increased in the year before Iraq invaded Kuwait. It is unclear whether or not increased U.S. exports, especially in the dual use military/industry category, indicate pending military actions since Iraq was still attempting to rebuild its infrastructure after its long war with Iran.

(3) Conflicting information exists on the question of whether Iraq transferred money out of U.S. banks prior to the Iraqi invasion of Kuwait. Alan Greenspan stated that Iraqi-owned U.S. bank accounts were at a modest level and did

not show any unusual activity immediately prior to Iraq's invasion of Kuwait. However, press reporting indicated telexes were sent by Iraq to correspondent banks in the Middle East and Europe asking them to transfer funds from their Iraqi accounts to the Central Bank of Jordan (CBS, 1992, p. 4).

b. Evidence Against Anticipation

(1) In a statement before Congress, R. Richard Newcomb stated that most of the $1.2 billion of blocked Iraqi assets consisted of bank deposits for purchases of Iraqi oil already enroute to the United States (U.S. Treasury Department, Newcomb, 1991). This tends to suggest that Iraq did not plan on or take seriously the threat of U.S. imposed economic sanctions.

(2) No evidence was found to suggest that Iraq increased its requests for U.S. loans just prior to invading Kuwait. Loan payments on outstanding debts to the United States were mostly current.

(3) Although the Iraqi direct investment position in the United States was considered negligible, no evidence was found to suggest that Iraq attempted to sell its limited U.S. business holdings.

No information was obtained on Iraqi real estate, stock or bond holdings in the United States.

c. *Weighing the Evidence*

Taking into account all the factors noted above, both pro and con, it does not appear that Saddam Hussein anticipated U.S. economic sanctions, or if he did, he may not have taken the implicit threat seriously. One would expect that a country anticipating sanctions would take positive actions to protect its overseas financial interests. Such actions would inevitably leave some discernable traces that would appear in the banking and business statistics collected by the U.S. government. However, during the course of this study, no such evidence was positively identified. Any hints or allegations that tend to suggest that Saddam Hussein anticipated sanctions were accompanied by other plausible explanations or were directly contradicted by other sources.

The limited scope of data availability and sources used in this thesis may have precluded the identification of evidence supporting the argument that Iraq anticipated and attempted to circumvent sanctions in advance. Only after expanding the scope of the data collection and analysis effort can this question be answered definitively.

2. Is it Possible to Track Financial Flows?

Within the scope of data collection established for this thesis, it was possible to track some Iraqi financial flows in the United States. There are two problems that precluded further data collection and analysis.

First, current U.S. bank laws prohibit U.S. banks and other financial institutions from revealing the names and account balances of foreign account owners. This type of information remains protected within the banking system and reportedly is not readily shared by the Federal Reserve System with other governmental agencies. While some argue that revealing the names and amounts of holdings would make U.S. investment opportunities less attractive to foreigners, there are several reasons why this data should be shared within the Government, in addition to the sanction tracking argument. For example, more accurate disclosure and oversight may have shed light on foreign ownership of U.S. banks and prevented the BCCI banking scandal. BNL is another case in point where illegal loans were easily hidden. The U.S. Government needs to know how much foreign money is invested in this country, not for the purpose of interference in free trade but to make informed policy decisions.

Secondly, import/export, commodity and foreign commercial investment data are not available in a format that easily lends itself to analysis. Most data are produced and reported on a quarterly or bi-annual basis. In order to detect surges or declines in transactions, data collected by U.S. banks and U.S. government agencies on selected foreign governments and foreign individuals needs to be reported more frequently (ideally weekly) into a consolidated inter-agency data base.

B. RECOMMENDATIONS

1. Expand this Thesis to Include Other Information

This thesis could be expanded to include other categories of information; i.e., license requests, real estate transactions, stock holdings, bond holdings, intelligence documents and non-financial topics. On-line electronic pay services (LEXUS/NEXUS and Dunn and Bradstreet) which contain detailed information on finances should also be included in future studies. This would provided a more balanced examination of the questions. Another productive area for study would be to investigate the actions of a government that actually anticipated economic sanctions. Libya would be an excellent choice to model how a government actually circumvents sanctions.

2. Establish Centralized Data Base

All sources of financial and trade data collected by the U.S. Government should be maintained in a central location. Authorized Government users could have electronic access to the data to perform economic or policy analysis. Classification and privacy restriction considerations would need to be incorporated into such a data base.

3. Modeling

A model should be developed to support more effective Government monitoring of foreign financial transactions within the United States. Such a model, used in conjunction with a centralized database of financial and trade information, would enable Government officials to spot trends, establish norms and detect anomalies in a timely manner. This thesis provides some input to such a model, but further development is necessary.

APPENDIX A

RESPONSES TO QUESTIONNAIRE

QUESTIONNAIRE

1. NAME OF ORGANIZATION: Office of Foreign Assets Control, Dept. of the Treasury.
Allen Sohm (202) 622-2440

2. DOES YOUR ORGANIZATION MAINTAIN OR HAVE ACCESS TO ANY OF THE FOLLOWING TYPES OF INFORMATION:

A. Statistics related to the sale of Iraqi oil.
YES ✓ NO ______

B. Iraqi Commodity transactions in the United States (sales/purchases either in the aggregate or by individual commodity type).
YES ______ NO ✓

C. Iraqi government bank accounts in the United States (transfers/payments).
YES ✓ NO ______

D. Iraqi private citizen bank accounts in the United States (over $1 million) (transfers/payments).
YES ______ NO ✓

E. Iraqi balance of trade payments.
YES ______ NO ✓

F. Iraqi commercial real estate holdings/transactions in the United States.
YES ______ NO ✓

G. Iraqi government stock holdings/transactions in the United States.
YES ✓ NO ______

H. Iraqi private business stock holdings/transactions in the United States.
YES ______ NO ✓

I. Iraqi government bond holdings/transactions in the United States.
YES ✓ NO ______

J. Iraqi private business bond holdings/transactions in the United States.
YES ______ NO ✓

K. Iraqi currency exchanges of over $1 million (from U.S. dollars to Iraqi dinar or other foreign currency).
YES ______ NO ✓

3. IF YOU ANSWERED YES TO ANY OF THE ABOVE QUESTIONS 2-A THROUGH 2-K, REQUEST YOU PROVIDE AVAILABLE DATA FOR THE PERIOD AUGUST 1989 THROUGH AUGUST 1990. (BROKEN DOWN BY MONTH IF POSSIBLE).

4. IF YOU ANSWERED YES TO ANY OF THE ABOVE QUESTIONS 2-A THROUGH 2-K AND YOU ARE UNABLE TO PROVIDE THAT DATA, REQUEST YOU INCLUDE THE REASONS THAT THE DATA CANNOT BE RELEASED (FOR EXAMPLE, SPECIFIC LAWS, REGULATIONS, OR ORGANIZATIONAL POLICIES THAT PRECLUDE YOU FROM SHARING THE INFORMATION).

2A. Proprietary/Confidential Business information and records.

2B. ____

2C. Proprietary/Confidential business information and records.

2D. ____

2E. ____

2F. ____

2G. Proprietary/Confidential business information and records.

2H. ____

2I. Proprietary/Confidential business information and records.

2J. ____

2K. ____

5. I WOULD APPRECIATE ANY ADDITIONAL COMMENTS, SUGGESTIONS, DATA, SOURCES OF INFORMATION, OR IDEAS YOU MAY HAVE THAT WOULD ASSIST ME WITH THIS RESEARCH.

Approximately one half (~~about~~ $700 million) of the Iraqi assets blocked by the U.S. involved oil on the high seas in route to the U.S. at the time of the invasion. This would tend to suggest a lack of planning on Iraq's part. Attached is [redacted] congressional testimony given by the Director of Foreign Assets Control in May 1991 for further background.

DEPARTMENT OF THE TREASURY
BUREAU OF THE PUBLIC DEBT
WASHINGTON, D.C. 20239-0001

August 27, 1992

Dear Mr. Kotlar:

This refers to your Freedom of Information Act (FOIA) request dated August 3, 1992, for information on Iraqi financial transactions during the period August 1989 through August 1990.

Department of the Treasury regulations require that before a FOIA request is processed, requesters need to state their agreement to pay fees. From the content of your letter, it appears that you are in the category for fee purposes of "all other requesters." This means that you would be charged for search time in excess of two hours and for duplication in excess of 100 pages. It is estimated that the search cost to you would be about $118.00. We would be searching our registered account system and our TREASURY DIRECT book-entry system.

I need to mention, however, that even if records you have requested are found, they would be exempt from disclosure under exemption 4 of the Freedom of Information Act, 5 U.S.C. 552(b)(4), which exempts financial information that is privileged or confidential. It has long been the Treasury Department's position that records relating to the purchase, ownership of, and transactions in Treasury securities are held confidential.

In the commercial book-entry system, Federal Reserve Banks maintain securities accounts on their records for the account of various depository institutions. Those depository institutions hold securities for other entities or individuals. The actual beneficial ownership of the book-entry securities is reflected only on the records of a financial institution or broker or dealer. Neither the Treasury Department nor the Federal Reserve Banks have records of ownership.

Sincerely,

D. Louise Bennett

D. Louise Bennett
Disclosure Officer
(202) 219-3307

Mr. Kim L. Kotlar
Lieutenant
United States Navy
114 Spray Avenue
Monterey, CA 93940

UNITED STATES DEPARTMENT OF COMMERC
International Trade Administration
Washington, D C 20230

SEP 2 1992

Lieutenant Kim L. Kotlar
114 Spray Avenue
Monterey, California 93940

Dear Lieutenant Kotlar:

This is the United States Commerce Department's response to your Freedom of Information Act (FOI) request, dated August 3, 1992, requesting data on Iraqi financial transactions in the United States during the period August 1989 through August 1990.

We have identified a variety of documents and statistical reports which are responsive to your request. They are enclosed in their entirety.

The documents provided by the Department's Census Bureau include copies of the supplements to their press releases for the requested time period. They have also provided copies of pages from U.S. Merchandise Trade: Exports and General Imports by Country, which is publicly available for sale. An order form for that purpose is included. The Census Bureau has provided representative data from 1989 and 1990 for your convenience, and will run special detail tabulations for you on a "for fee" basis. Should you have any questions on these documents, or have additional requests, contact Mr. Gary Austin and the Census Bureau on phone: 301-763-1244.

In light of your interest in data pertaining to Iraqi oil sales and commodity transactions, I would suggest you contact the U.S. Departments of Energy and Agriculture respectively for information they might have.

Sincerely,

Karl S. Reiner
Director
Office of the Near East

Enclosures

FOI 92-101

DOCUMENTS RELEASED IN THEIR ENTIRETY

Economic Affairs

- Untitled page from the Bureau of Economic Analysis

International Trade Administration

- Foreign Economic Trends and Their Implications for the United States, September 1989, IRAQ, prepared by the American Embassy, Baghdad
- U.S. Trade with Near East/North African Countries, 1988, 1989, January-June 1989, 1990
- Table 8--Iraq: Leading U.S. General Imports (January-June, 1990)
- Table 9--Iraq: Leading U.S. Total Exports, 1989 and January-June 1989 and 1990 (2 pages)
- Table 9--Iraq: Leading U.S. General Imports (1985, 1986, 1987, 1988, 1989)
- Table 9--Iraq: Leading U.S. Domestic Exports (1985, 1986, 1987, 1988, 1989)

Census Bureau

- FT927/Annual 1989: U.S. Merchandise Trade
- FT927/Annual 1990: U.S. Merchandise Trade
- FT900/Supplement: Report on U.S. Merchandise Trade August 1989 (dated October 18, 1989)
- FT900/Supplement: Report on U.S. Merchandise Trade September 1989 (dated November 17, 1989)
- FT900/Supplement: Report on U.S. Merchandise Trade October 1989 (dated December 18, 1989)
- FT900/Supplement: Report on U.S. Merchandise Trade November 1989 (dated January 18, 1990)
- FT900/Supplement: Report on U.S. Merchandise Trade December 1989 (dated February 20, 1990)
- FT900/Supplement: Report on U.S. Merchandise Trade January 1990 (dated March 21, 1990)

DOCUMENTS RELEASED
Census Bureau (Continued)

- FT900/Supplement: Report on U.S. Merchandise Trade February 1990 (dated April 19, 1990)
- FT900/Supplement: Report on U.S. Merchandise Trade March 1990 (dated May 18, 1990)
- FT900/Supplement: Report on U.S. Merchandise Trade April 1990 (dated June 18, 1990)
- FT900/Supplement: Report on U.S. Merchandise Trade May 1990 (dated July 18, 1990)
- FT900/Supplement: Report on U.S. Merchandise Trade June 1990 (dated August 20, 1990)
- FT900/Supplement: Report on U.S. Merchandise Trade July 1990 (dated September 19, 1990)
- FT900/Supplement: Report on U.S. Merchandise Trade August 1990 (dated October 19, 1990)
- U.S. Department of Commerce, Bureau of the Census, U.S. Foreign Trade Reports Order Form

FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N.Y. 10045-0001

AREA CODE 212-720-5000

August 14, 1992

Lieutenant Kim Kotlar
114 Spray Avenue
Monterey, CA 93940

Dear Lieutenant Kotlar:

I am writing in response to your Freedom of Information Act ("FOIA") request dated August 3, 1992, which the Federal Reserve Bank of New York (the "Bank") received on August 11, 1992.

The Bank is of the view that the disclosure provisions of the FOIA do not apply to the Bank because the Bank does not fall within the definition of an "agency" of the Federal Government for purposes of the FOIA. However, under certain of its internal rules, which are set forth in the Bank's Operating Bulletin 39, the Bank complies with the spirit of the FOIA in making information available to the public if disclosure would not adversely affect (a) some legitimate public or private interest intended to be protected by law and (b) would not impede the effectiveness of the Federal Reserve System. Consistent with its internal rules, the Bank has reviewed your request as if it were a request subject to the FOIA. However, the treatment of your request in this manner does not constitute an admission that the Bank is an "agency" within the meaning of the FOIA, 5 U.S.C. § 552, or that the provisions of the FOIA are directly applicable to the Bank.

You have requested the following:

> In order to complete my research, I request your assistance, under the Freedom of Information Act, by completing the enclosed questionnaire and providing any available data on Iraqi financial transactions during the period August 1989 through August 1990.

The first portion of your request is directed toward the completion of a questionnaire regarding whether the Bank "maintains or has access to" to certain specified commercial information relating to the Iraqi government and "Iraqi private business." If the FOIA were directly applicable to the Bank, it would not require the Bank to generate new documents or complete documents on your behalf. See Assassination Archives & Research Center v. C.I.A., 720 F. Supp. 217, 219-20 (D.D.C. 1989) affirmed 925 F.2d 487 (D.C. Cir. 1991). As a consequence, the Bank hereby declines to fulfill the first portion of your request.

The second portion of your request seeks "any available data on Iraqi financial transactions during the period August 1989 through August 1990." In light of the extraordinarily broad scope of this request, the attempt to locate these records is unduly burdensome on this Bank and "unfairly places the onus of non-production on the recipient of the request and not where it belongs -- upon the person who drafted such a request." See Commonwealth of Massachusetts v. U.S. Dept. of Health and Human Services, 727 F. Supp. 35, 36 n.2 (D.Mass. 1989) and American Federation of Gov't Employees v. Dept. of Commerce, 907 F.2d 203, 208-09 (D.C. Cir. 1990). In addition, your request encompasses confidential account information which, if the FOIA were directly applicable to the Bank, would be exempt from disclosure as confidential business or financial information. See 5 U.S.C.A. § 552(b)(4). Therefore, the Bank is unable to make the requested records available to you at this time.

You may appeal this determination by submitting a written request for appeal to the Secretary of the Bank within ten (10) business days of your receipt of this letter. The President of this Bank or such officer or officers as he may designate, will make a determination with respect to any such appeal within (20) business days after its receipt, and will notify the appealing party of the decision on the appeal.

If you have any questions regarding the disposition of your FOIA request, your questions should be directed to Paul D. Patton, Esq., whose direct line is: (212) 720-5002.

Very truly yours,

TNOppenheimer

Theodore N. Oppenheimer
Assistant Secretary

Enclosures

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

September 2,1992

Lt. Kim L. Kotlar
United States Navy
114 Spray Avenue
Monterey, CA 93940

Dear Lt. Kotlar:

This is in response to your letter dated August 3, 1992, received by the Board on August 11, 1992, in which you request, pursuant to the Freedom of Information Act ("Act"), 5 U.S.C. § 552, copies of "any available data on Iraqi financial transactions during the period August 1989 through August 1990." In addition, you request that the questionnaire which you included be completed with respect to the availability of certain information you seek at the Board. By letter dated August 25, 1992, the time period for our response to your request was extended.

The Act does not require an agency to create records in order to respond to FOIA requests. The FOIA does not require an agency to answer questions presented in the form of FOIA requests. Accordingly, we cannot provide you with the information you request in the questionnaire.

The staff's search of Board records has revealed several documents that are responsive to your request. Two of those documents will be provided to you in their entirety. We have determined, however, that the remaining documents contain the following kinds of exempt information: commercial or financial information obtained from a person and privileged or confidential; and staff opinions, recommendations, and analyses that would not be available by law to a party other than an agency in litigation with the agency. Such information will be withheld from you under authority of exemptions 4 and 5 of the Act, respectively, 5 U.S.C. §§ 552(b)(4) and (b)(5). The documents containing the exempt information have been reviewed in accordance with the last sentence of subsection (b) of the Act, and no reasonably segregable nonexempt information has been identified.

Your request for information, therefore, is partially granted and partially denied for the reasons stated above. All documents being made available pursuant to this authorization will be sent to you under separate cover. If you believe you have a legal right to any information that is being withheld, you may appeal this determination in accordance with section 261.9(d) of the Board's Rules Regarding Availability of Information, a copy of which is enclosed for your information.

Very truly yours,

William W. Wiles
Secretary of the Board

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Excerpts from the Board's Rules
Regarding Availability of Information
12 CFR Part 261
Section 261.9(d)

(d) Appeal of denial of request for records--(1) Request for review; time limits. Any person denied access to Board records requested in accordance with this section may file with the Board a written request for review of the denial by the Board or Board member(s) designated to hear such appeal. The request shall be filed within ten working days of the date on which the denial was issued, or, where a request for documents has been partially approved but access to the documents has not been given, within ten working days from the date such documents are transmitted to the requester. The request shall prominently display the word "appeal" on the first page. An initial request for records may not be combined in the same letter with an appeal.

(2) Untimely appeals. The Board may consider an untimely appeal if:

(i) It is accompanied by a written request for leave to file an untimely appeal; and

(ii) The Board or designated Board member(s) determines, in its discretion and for good and substantial cause shown, that the appeal should be considered.

(3) Decision on appeal; time limits. The Board or designated Board member(s) shall make a determination with respect to any appeal within 20 working days of actual receipt of the appeal by the Secretary and shall immediately notify the appealing party of the determination and the right to seek judicial review if the determination upholds, in whole or in part, the denial of the request for records. Such determination is not subject to review under Section 265.3 of this chapter which provides for review of actions taken under delegated authority.

(4) Mootness of appeal. (i) The Board, a Board member, or a staff person designated by the Chairman may declare an appeal wholly or partially moot and instruct the Secretary of the Board to reconsider the previous denial or to release the requested documents, where a determination is made that intervening circumstances or additional facts not known at the time of denial have or may have eliminated any need or justification for withholding the requested documents.

(ii) The Secretary may reconsider a denial being appealed if such intervening circumstances or additional facts come to the attention of the Secretary while an appeal is pending.

Effective July 11, 1988

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street, N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address INTBAFRAD
Cable Address INDEVAS

September 14, 1992

Lieutenant Kim L. Kotlar
Naval Postgraduate School
Monterey, CA 93940-5000

Dear Lieutenant Kotlar:

I refer to your letter of August 3, 1992 requesting that we fill questionaire and provide data on Iraq. As you know, the World Bank has not had active relationship with Iraq since 1973. As a result, we regret that we do not have data you are seeking. The answers to questions in your questionaire are therefore all "no". I wish you luck with your research.

Yours truly,

Sawai Boonma

Sawai Boonma
Senior Economist
Middle East and North Africa Region

APPENDIX B

SANCTIONS IMPOSED ON IRAQ

[This Appendix is reproduced in its entirety from the Congressional Research Service Report for Congress, "Economic Issues Raised by the Sanctions Against Iraq," dated 17 April 1992.]

Shortly after Iraq invaded Kuwait on August 2, 1990, the U.N. and individual countries imposed comprehensive economic sanctions on the Iraqi regime. These sanctions have remained in place (albeit with some modifications) since the end of operation Desert Storm (February 27, 1991). A brief description of the sanctions imposed by the U.N., the United States, and the other major participants in the international coalition opposing Iraq follows.[3]

U.N. SECURITY COUNCIL SANCTIONS

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[3]Unless otherwise indicated, this chronology draws from Marjorie Ann Brown, Iraq-Kuwait: U.N. Security Council Resolutions-Texts and Votes, CRS Report to Congress, no. 90-513 F (Washing, DC: United States Library of Congress, congressional Research Service, 4 December 1990); Marjorie Ann Brown, Iraq-Kuwait: U.N. Security Council Resolutions Texts and Votes--1991, CRS Report of Congress, no. 91-395 F (Washington DC: United states Library of Congress, congressional Research Service, 25 October 1991); Clyde R. Mark, Iraq: U.S. Economic Sanctions, CRS Issue Brief, no. IB90109 (Washington, DC: United States Library of Congress, Congressional Research Service, 22 January 1991) and Keesing's Record of World Events, vol. 36, nos. 7-8 (July-Aug., 1990), p. 37639, no. 9 (Sept., 1990), p. 37695; vol. 37, no. 3 (March 1991), p. 38083; vol. 37, no. 4 (April 1991), pp. 38164-65; vol. 37, no 5 (May 1991), p. 38211; vol. 37, no. 6 (June 1991), p. 38,308; vol. 37 nos. 7-8 (July-Aug. 1001), p. 38,361; vol. 37, no. 9 (Sept. 1991), p. 38452.

Resolution 661

On Aug. 6, 1990, the U.N. Security Council passed Resolution 661 imposing mandatory economic sanctions against Iraq and Kuwait under Chapter VII of the U.N. Charter. Under the Resolution's terms, all trade in oil and other commodities was banned as were new investments and any sales or supplies of products including arms. Only medical supplies and food were exempted and then only for humanitarian reasons. A U.N. Sanctions Committee was also established.[4]

Resolution 665

On Aug. 25, 1990, the Security Council passed Resolution 661 authorizing the United States and other states deploying naval forces in the Gulf area to use these forces to enforce the embargo.

Resolution 666

On Sept. 13, 1990, the Security Council passed Resolution 666 permitting Red Cross delivery of foodstuffs for humanitarian reasons.

Resolution 670

On Sept. 25, 1990, the Security Council decided that the blockade also encompassed air traffic unless flights were for humanitarian reasons. United States and other allied air forces enforced this ban. The resolution also warned that sanctions might be imposed against U.N. member states whose citizens violated the Iraq embargo.[5]

Food Export Sanctions Eased

Following the conclusion of the ground war on Feb. 27 1991, the U.N. Sanctions Committee agreed on March 23 to ease sanctions on the export of food to Iraq in the wake of reports of widespread postwar suffering and food shortages in Iraq.

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[4]Under U.N. Resolution 669 of Sept. 24, 1990, the Security council charged the Sanctions Committee with responsibility for determining whether assistance should be given to countries which suffered hardship from complying with the embargo.

[5]Hufbauer, et al., Economic Sanctions Reconsidered: History, pp. 289-90.

By the end of 1991, more than 30 countries reportedly notified the Committee that they would send 5.4 million tons of food.[6]

Resolution 687

The cease-fire resolution passed by the Security Council on April 3, 1991 confirmed that sanctions would not be lifted until Iraq had complied with all cease-fire terms. The embargo on food exports to Iraq was lifted but other sanctions were maintained subject to bi-monthly review and with exceptions for humanitarian reasons. On June 11, the Security Council reconfirmed its decision to maintain sanctions.

Unfreezing of Iraqi Assets

On May 9, 1991, the U.N. Sanctions Committee unanimously agreed to the unfreezing of Iraqi assets to pay for essential civilian items. In June 1991 the Sanctions Committee authorized 31 countries to release frozen Iraqi assets if Iraq could verify that they would be used for humanitarian purposes.[7]

Resolution 700

Guidelines for an international arms embargo against Iraq were adapted by the Security Council on June 17, 1991.

Resolutions 706 and 712

On Aug. 15, 1991, the Security Council authorized a U.N. sale of $1.6 billion of Iraqi oil in order to purchase medicine and foodstuffs to be distributed by the U.N. The Resolution was passed in the wake of the July 15 release of a report by the U.N. Inter-agency Humanitarian Program for Iraq and Kuwait urging that Iraq be permitted to sell some of its oil and spend currently frozen assets in order to pay for humanitarian needs. Security Council Resolution 712 of Sept. 19 implemented the planned sale, although Iraq has not agreed to the resolution's terms. The Security Council refused the Secretary General's recommendation that Iraq be permitted to

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[6]Paul Lewis, "U.N. Says Hussein Is Most Responsible for Travail in Iraq," The New York Times, 6 Feb. 1992, p. A10.

[7]Kenneth Katzman, Iraq: Future Policy Options, CRS Report for Congress, no. 91-896 F (Washington, DC: Library of Congress, Congressional Research Service, 12 December 1991), p. CRS-28.

sell an additional $800 million of oil to prevent what U.N. aid agencies identified as a major health crisis and food shortages.

Resolution 715

On Oct. 11, 1991 the Security Council passed a resolution barring Iraq from pursuing any atomic programs, including civilian programs. Only limited exceptions permitted use of low-level isotopes for medical, industrial, and research purposes. The resolution also mandated regular intrusive inspections in Iraq for as long as Saddam remained in power.[8]

Iraqi Oil-Sale Monitoring Plan

On Oct. 15, 1991 the U.N. Sanctions Committee announced procedures for monitoring Iraqi oil sales pursuant to Resolution 712. U.N. appointed monitors and U.N. staff were to oversee Iraqi oil sales and purchasing of food and medicine. Funds used in these transactions were to go into e U.N. escrow account.[9] Iraq continued to refuse to agree to the plan.

Security Council Retains Sanctions

On Feb. 5, 1992, the Security Council decided to maintain sanctions, charging that Iraq was not observing the cease-fire terms.[10]

UNITED STATES SANCTIONS

Immediately after Iraq's invasion of Kuwait the United States also initiated sanctions against Iraq. On Aug. 2, 1990, President Bush, under authority of the International Emergency Economic Powers Act, issued Executive Orders 12722 and 12723 which, in addition to instituting a <u>total embargo on all U.S. trade with Iraq, also froze all Iraqi end Kuwaiti assets in U.S. banks and prohibited any U.S. loans, credits, or grants</u>. Medical supplies and food for humanitarian purposes were exempt from the embargo. On Aug. 9, two

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[8]"U.N. Council Bans Iraqi Atomic Programs," <u>Facts on File</u>, vol. 51, no. 25656 (17 October 1991), p. 782.

[9]Ibid.

[10]Lewis, op, cit.

superseding Executive Orders (nos. 12724 end 12725) brought U.S. sanctions into conformity with U.N. Resolution 661.[11] On Aug. 11, the United States announced that it would enforce a naval blockade against Iraq. This was followed by Secretary of State Baker's announcement on Aug. 12 that the exiled Kuwaiti government had formally requested U.S. assistance in enforcing the sanctions under the self-defense provision in Article 51 of the U.N. Charter. On Aug. 29, President Bush announced an "action plan" whereby coalition members would share the costs of possible military intervention, of blockading Iraq, and of assisting front-line states bordering Iraq and those states adversely affected by the embargo. By Sept. 23, nearly $21 billion was committed to the plan by general Gulf states, Japan, South Korea, the E.C., and Germany.[12]

EUROPEAN, SOVIET, ARAB, AND JAPANESE SANCTIONS

On Aug. 4, 1990 the European Community announced an embargo of Iraqi and Kuwaiti oil imports, the freezing of Iraqi assets, an embargo of arms sales to Iraq, and suspension of scientific, technical, and military agreements with Iraq. On Aug. 13, the United Kingdom, followed by France on Aug. 19, announced that their naval forces in the Gulf were ordered to enforce the embargo. Belgium, Italy, Greece, Spain, and the Netherlands all announced that they would contribute naval forces on Aug. 20-21. On Sept. 5, West Germany said that it would not contribute to President Bush's "burdensharing plan" but instead would supply planes and ships to transport U.S. troops to the region.[13]

On Aug. 7, Turkey and Saudi Arabia closed oil pipelines through which Iraq ships a significant share of its oil production. On Aug. 2, the Soviet Unions suspended weapons shipments to iraq. Japan, on Aug 5 banned Iraqi oil imports,

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[11]Harry L. Clark and Keith A. Matthews, "Iraq/Kuwait Sanctions: Trade Relations on a War Footing," International Lawyer, vol. 25 (Summer 1991), pp. 391-92, 394-95 and Hufbauer, et al., Economic Sanctions Reconsidered: History, p. 283.

[12]Hufbauer, et al., Economic Sanctions Reconsidered: History, pp. 288, 296.

[13]Ibid.

froze economic aid and investment, and embargoes trade. On Sept. 13, Japan announced that it would contribute an additional $3 billion in aid to the alliance effort of which $1 billion would be for the multinational forces and $2 billion would go to assist front-line states.[14] In addition, the People's Republic of China and Brazil, two important suppliers of arms to Iraq, also suspended arms sales in early August and Switzerland, although not a U.N. member, announced that it would join the embargo.

[14]Ibid., pp. 287-89.

APPENDIX C

DATA COLLECTION WITHIN THE U.S. GOVERNMENT

A. BACKGROUND

Today there are at least 20 federal departments or agencies collecting statistical data and other information on foreign investment in the United States. (GAO-NSIAD-90-25, 1989, p.1). The primary governmental organizations (excluding intelligence groups) are identified. A brief description of data they collect and produce is also provided. General data limitations are presented first. A summary of organizations and data collection responsibilities is provided in Figure 4.

	Banking	Business	Invest. Stocks Bonds	Comm. Real Estate	Agri.	Energy
Fed	x					
Treasury	x	x	x			
FDIC	x					
Currency	x					
SEC		x	x			x
Commerce		x		x		x
Agriclt					x	
Energy						x
DoD		x				x

Figure 4: Government Data Collection Chart

B. LIMITATIONS

Congressional, Government Accounting Office (GAO), and Federal Reserve reports levy much criticism on the government's current financial data collection and reporting. One congressional report noted, "There is a paucity of reliable data related to foreign investment here." This is because the United States imposes fewer restrictions on foreign investment than any other nation and has no formal mechanism for screening investments. (Spenser, 1988, pp. ix-29)

GAO reports indicate that there is some duplication of data collected by various agencies while the federal government has no central repository to track and store all information needed to analyze foreign investment in the United States. Additionally, GAO finds some data is considered confidential, not routinely available to other federal agencies, is two or more years old when published and lacks sufficient detail to analyze specific industry sectors. (GAO-NSIAD-90-25, 1989, pp. 1-2)

Although the Federal Reserve Board disputed one harsh finding, Susan J. Tolchin, author of Buying Into America, alleged, "Some experts believe at least 50 percent of all foreign investment goes unreported." She blames this on lax reporting requirements, hidden ownership and other circumventions of the law. (Tolchin, 1988, p. 9)

In large part, data accuracy depends on voluntary compliance with the law. While a few cases have been brought to trial, enforcement is difficult and has been limited to prosecuting cases of voluntary disclosure. There is little investigation of those who have failed to disclose information.

In the banking sector, foreign-owned financial institutions generally must comply with the same laws and regulations and have the same rights and privileges as U.S. banks (Spenser, 1988, p. 52). This includes protection under the Right to Financial Privacy Act 1978 which shields customer records maintained by certain financial institutions from improper disclosure to officials or agencies of the federal government. It should be noted that requests from intelligence agencies and the secret service are exceptions to this law. (Fischer, undated, pp. 13-23)

C. SOURCES

1. The Banking Sector

There are several types of banking organizations foreigners can own in the United States. Specific reporting requirements depend on the organization's primary regulatory authority (Comptroller of the Currency, the Federal Reserve, or the FDIC). In most cases, the Federal Reserve acts as the agent for the U.S. Treasury and Comptroller of the Currency.

The Federal Reserve requires each foreign bank with a subsidiary, branch or agency in the United States to file an "Annual Report of Foreign Banking Organizations." This includes the bank's parent's financial statements which are available to the public. Other information about related foreign companies, directors' earnings, hidden reserves, loan loss experience and other sensitive items can be disclosed by banks in a non-public confidential report called the "Foreign Banking Organization Confidential Report on Operations." Another confidential report is the "Report of Inter-company Transactions for Foreign Bank Holding Companies and Their U.S. Bank Subsidiaries." This quarterly report monitors transfers of assets and foreign exchange transactions between the U.S. bank subsidiaries and foreign banking organizations.

The Federal Reserve also collects information on the balance sheets of American-based banks (foreign and domestically-owned). The most important document is the quarterly "Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks." This computerized data is maintained by the FDIC and is available to the public.

Several other reports must be filed by banks and sent to the Federal Reserve. The international capital series of monthly and quarterly reports provide information on assets and liabilities due from/to foreign countries or persons. Foreign currency monthly reports discuss positions in certain key currencies. (GAO-NSIAD-90-25, 1989, pp. 15-16) (FED-401, 1991, pp. 11-14)

The Federal Reserve Bulletin, the Country Exposure Report and the Country Exposure Lending Survey are reports that contain the aggregate output of the data collected from the banking sector. (FED, 1986, pp. 690-691)

The U.S. Treasury Department is also involved in gathering information on banking. Treasury maintains a financial data base to collect information from the following banking reports, "Currency and Monetary Instrument Report", "Currency Transaction Report" and "Foreign Bank Account Report." This data may be disclosed to federal, state and local law enforcement agencies to assist in law enforcement efforts. (Fischer, undated, pp. 4-7)

The U.S. Treasury Department is responsible for collecting information on foreign portfolio and direct investment. The Office of Data Management in the Office of the Assistant Secretary of International Affairs, compiles data on portfolio investment from monthly or quarterly data reported by financial intermediaries. This information is compiled by country and type of investor in U.S. equities, bonds and foreign funds held in banks. It is input to Treasury's International Capital Reporting System and published in quarterly Treasury Bulletins in aggregate form to protect individual investors' privacy. The Treasury's Office of Thrift Management collects data on foreign investors interest in U.S. savings and loan companies.

2. The U.S. Department of Commerce

The U.S. Department of Commerce is charged with collecting information on foreign business activity and foreign direct investment in the United States (data on portfolio investment is maintained by the Treasury Department) (U.S. Department of Commerce, 1990, p.29). The International Trade Administration (ITA), the Census Bureau and the Bureau of Economic Analysis (BEA) are mainly involved in data collection and publication for the Department of Commerce. Of note, the Foreign Direct Investment and International Financial Data Improvements Act of 1990 tasks the Department of Commerce with preparing an annual report addressing the "history, scope, trends, market concentration and effect on the U.S. economy of foreign direct investment." This legislation also allows statistical data to be shared among some federal agencies. (GAO-NSIAD-92-107, 1992, p.2)

The International Trade Administration (ITA) tracks foreign acquisition, new plant construction, increases in equity, joint ventures, and commercial real estate purchases. No governmental organization tracks private real estate investments. Information is culled from public sources, trade journals and newspapers (Spenser, 1988, p. 30). ITA lists names of foreign investors and identifies specific investments but does not provide summary statistics on the amount of investment by country or industry. ITA reports are not considered comprehensive because they are based solely on public reporting. (GAO-NSIAD-90-25, 1989, p.9)

The Census Bureau maintains detailed but confidential data on the operations of individual U.S. domestic and foreign-owned businesses such as individual factories. This information is contained in the computerized Standardized Statistical Establishment files and is derived from IRS and Census Bureau data. Foreign ownership is not highlighted in reporting. (GAO-NSIAD-90-25, 1989, p. 9) (Spenser, 1988, p. 32) (GAO-NSIAD-92-107, 1992, p. 2)

The Bureau of Economic Analysis (BEA) tracks foreign ownership based on data reported by consolidated business enterprises (not individual businesses) (GAO-NSIAD-92-107, 1992, p. 2). However, since data are based on individual responses to mandatory reporting, only aggregate data are released (Spenser, 1988, p. 30).

BEA conducts and reports on four major surveys. The "Foreign Direct Investment Position and Balance of Payment Flows" measures flows of capital, income, fees, royalties and service transactions between foreign parent companies and U.S. affiliates. "U.S. Business Enterprises Acquired or Established by Foreign Direct Investors" includes outlays made annually by foreign investors to establish or obtain new U.S. affiliates. "Foreign Direct Investment in the U.S." details operations of U.S. affiliates of foreign companies including the value of total assets at year end, balance sheet items, sales of goods and services and research and development expenditures. The most comprehensive BEA report is the "Benchmark Survey of Foreign Direct Investment in the U.S." This report compiles information contained in the previously discussed reports (down to the $1 million investment level) but it is published only once every five years. (GAO-NSIAD-90-25, 1989, p. 6)

BEA and the Census Bureau are now allowed to share information on foreign ownership of U.S. businesses and real estate. (CRS, 1992, p. 5) Improved coordination should improve the overall quality of data; however, release of information will still be at the aggregate level due to confidentiality restrictions (GAO-NSIAD-92-107, 1992, p. 31).

3. Others

Numerous governmental organizations are involved in tracking foreign business dealings in the United States. For example, the Department of Agriculture collects data on foreign direct investment in agricultural land. Annual reports are issued on foreign ownership by region, parcel size and method of acquisition. Foreign investors are required to report holdings if annual gross receipts exceed $1000. (GAO-NSIAD-90-25, 1989, p. 10)

The Securities and Exchange Commission (SEC) requires extensive public disclosure and reporting of ownership in publicly held U.S. companies. Any United States or foreign holder with more than five percent interest in a public U.S company's shares must disclose its holdings to the SEC. (GAO-NSIAD-90-25, 1989, p. 17) Foreign companies operating in the United States are also required to register with the SEC. Again, much of this data is protected and not reported publicly due to privacy laws.

The Department of Energy, Energy Information Administration, follows foreign investment, energy operations and financial performance in U.S. energy enterprises. The Department of Energy uses corporate annual reports, ITA reports, 10K reports filed with the SEC, public sources and industry contacts to provide an annual summary to Congress. (Spenser, 1988, p. 32) (GAO-NSIAD-90-25, 1989, p. 12)

The Department of Defense (DOD) is responsible for assuring domestic production of needed goods including U.S. industrial base capabilities. DoD is also responsible for protecting classified technology and accomplishes this through the DOD Industrial Security Program. The Defense Industrial Network (DINET) is one information system used to track pertinent data. (GAO-NSIAD-90-25, 1989, p. 13)

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DATA COLLECTION

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