

RESEARCH NOTE

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Conflict in Iraq and Australian Trade

The effect of conflict in Iraq on Australian trade is dependent upon many variables including, but not limited to, the duration and intensity of conflict, international opinion on the humanitarian cost and the design of any post-conflict administration.

The three arguments below explore a range of views on the effect of limited conflict on trade, from an Australian perspective.

1. Conflict negatively affects trade

The argument that limited conflict negatively affects trade is based upon tangible and intangible costs incurred as a result of disruption to trade in the lead-up to, during and after conflict.

Tangible costs include the cancellation of contracts, the inability to continue current trade due to wartime restrictions, and the increased cost of shipping and insurance in regions affected by conflict.

To date there have been no reported cancellations of Australian contracts as a result of the conflict in Iraq. A report by the Business Review

Weekly (BRW) in February, in which major Australian companies dealing with the Middle East were contacted, found that there were no negative tangible effects on Australian trade with the region.¹

The conflict in Iraq has impeded the Australian Wheat Board's (AWB) delivery of two shipments of wheat (approximately 100 000 tons) to Iraq under the United Nations 'oil for food' program. On 17 March 2003 the UN Secretary-General, Kofi Annan issued a statement on the withdrawal of all personnel from Iraq effectively suspending the oil for food program. Since that statement the Australian Government has announced its decision to purchase the wheat as part of its contribution to the humanitarian effort in post-war Iraq. Australia has been Iraq's major traditional supplier of wheat, with AWB sales totalling approximately \$840 million in 2001–02.

In post-war Iraq this dominance could be challenged, with the US already announcing plans for the release of 600 000 tons of grain from the government grain reserves. The US Department of Agriculture stated

Table 2: Australian Car Exports 2001 (%)

Middle East	41
NAFTA Area	23
New Zealand	12
South Korea	7
Japan	3
Indonesia	3
U.K.	1
Rest of World	10
Total	100

NAFTA : North American Free Trade Agreement
Source: Dept of Industry, Tourism and Resources- Key Automotive Statistics 2001 (Includes vehicles and accessories)

that 200 000 tons would be released immediately. Critics see this move as strategically placing US wheat exports into a prime position for post-war Iraq. US farm lobby groups, such as the Washington Wheat Commission, have already initiated campaigns to seek greater access to the Iraqi market that has been inaccessible to them since the 1991 Gulf War.

Conflict can also increase costs, making exporting to the region a less viable option. There has already been a significant increase in shipping costs to the Middle-East due to higher freight charges, risk assurance premiums and security screening delays.

The intangible costs to Australian trade of conflict in Iraq are potentially more harmful in the long term than the immediate tangible costs, but remain near impossible to calculate. These costs could include the negative impact on Australia's image in the Middle East and the wider Islamic world or the loss of confidence and/or desire of Australian business to engage in the Middle East market.

A survey carried out by the Holden company, referenced in the February BRW report, found only negligible levels anti-American or anti-

Table 1: Australian Merchandise Exports to the Middle East (A\$ million)

	GCC	Other Middle East	North Africa
2001–02	4760.1	2977.8	235.6
2000–01	4141.6	2655.6	164.8
1999–00	2845.6	1863.7	99.9
1998–99	2441.9	1740.7	160.1
1997–98	2091.5	1315.7	214.7
1996–97	1528.0	1903.2	116.7

GCC (Gulf Cooperation Council): Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and UAE.

Other Middle East: Cyprus, Egypt, Iran, Iraq, Israel, Jordan, Lebanon, Palestinian Territories, Syria and Yemen.

North Africa: Algeria, Libya, Morocco and Tunisia.

Source: DFAT, Composition of Trade 2001–02

Table 3: Australian Exports to Iraq 1989–2001 (\$A'000)

1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
378 914	244 553	42 350	144 183	24 449	72 888	6 580	20 296	300 849	311 851	256 765	590 070	829 178
		1991 1991 Gulf War		1993 Allied air raids in southern Iraq			1997 Start of 'oil for food' exports		1998 Operation 'Desert Fox'			2001 US and British air raids

Source: DFAT Composition of Trade Series

Australian sentiment in the region. However, the global rise in anti-Americanism may have a more deleterious effect in the long term. One of Australia's fastest growing exports to the Middle East, passenger motor vehicles (PMV), currently relies upon the appeal of American brands, such as the Holden Monaro which on export is re-badged as the Chevrolet Lumina.

The Middle East is a promising market for Australian exports. The region has shown a five year (1996–97 to 2000–01) trend growth rate of 19.6 per cent, far exceeding more traditional markets. Given the maintenance of stability, the region holds strong potential for Australia, including opportunities in auto and agribusiness exports and education, tourism, mining and health services.

One alarmingly negative consequence of conflict in the region would be a loss of Australian business confidence in the region as a market for exports. The Australian Trade Commission has already temporarily closed offices in Amman, Riyadh and Tel Aviv. Travel advisory warnings currently advise the immediate departure of Australians from Kuwait, Israel, Jordan, Syria and Oman, and advise the deferment of non-essential travel to Lebanon, Saudi Arabia, Yemen, Bahrain, Iran, Qatar and the United Arab Emirates. While advisory warnings may be lifted at the end of conflict, hesitancy on the part of Australian small to medium-size enterprise (SME) exporters may remain much longer.

2. Conflict does not affect trade

This argument is based on the maxim 'companies trade, countries do not'. Once the physical restraints on trade as a result of conflict are over, the argument assumes normal

trade will resume rapidly. It relies on the fact that companies seek profit, irrespective of politics.

Australia maintained its dominant position as a supplier of wheat to Iraq despite direct Australian involvement in the 1991 Gulf War and government support for US and British strikes on Iraq throughout the 1990s (Table 3).

However the argument does not take into account the potential expansion of trade that may have occurred in the absence of conflict, nor the legitimacy of that war in which a number of key regional trading partners participated.

3. Conflict positively affects trade

This argument focuses on the expectation that after conflict the impediments to trade imposed under current circumstances will be removed, thus positively affecting future trade.

In the context of Iraq this would include the lifting of restrictions imposed under UN Security Council resolutions, and the cessation of regime influence on trading relations, such as the recent politicisation of Australian wheat purchases in the lead up to the current conflict.

Regime change in Iraq would allow an expansion of trade with immediate reconstruction creating opportunities in infrastructure, energy, education, agribusiness and mining. Estimates of the cost of reconstruction range from US\$25 billion to US\$100 billion. However, Australian participation in the reconstruction may prove to be limited, with the majority of contracts to be awarded to US contractors for security reasons. This has already caused international and

non-governmental organisation (NGO) concern over the handling of reconstruction contracts by the United States Agency for International Development (USAID).²

Comment

The arguments presented do not take into consideration the many unknowns that invariably occur as a result of conflict. The inability of even modern commanders to see through what the 19th century soldier and theorist, Carl Von Clausewitz called the 'fog of war', applies just as strongly to the effect of conflict on trade.

A majority of commentators agree, however, that Australian trade will be least affected if there is a rapid cessation of hostilities and a favourable post-conflict environment. Also essential will be increased overseas and domestic export promotion to alleviate any possible long term effects.

1. 'On the eve of war: the trade implications', *BRW*, 6 February 2003.
2. Paul Blustein, 'US set to award 7 contracts for rebuilding of Iraq', *Washington Post*, 21 March 2003.

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