

THE ECONOMIC TRACK IN DETAIL

Strategic Summary: *Restore, Reform, Build*

- The economic track is based on **six core assumptions**:
 - **First**, Iraq has the potential to be not just viable, but prosperous and self-sustaining.
 - **Second**, a free and prosperous Iraq is in the economic interest of everybody, including Iraq's neighbors and the greater Middle East. A flourishing Iraq can spur economic activity and reform in one of the world's most vital regions.
 - **Third**, increased economic opportunity in Iraq and a growing economy will give larger numbers of Iraqis an economic stake in a peaceful country, and drain the influence of radicals and rejectionists who recruit the unemployed and thrive on resentment.
 - **Fourth**, economic change in Iraq will be steady but gradual given a generation of neglect, corrosive misrule, and central planning that stifled entrepreneurship and initiative.
 - **Fifth**, Iraq can be a reliable and contributing partner in the international economic community, demonstrating the fruits of good governance and transparency.
 - **Sixth**, Iraq will need financial support from the region and international community as its economy transitions from being guided by command principles and hampered by poor infrastructure to a more self-sustaining posture.

STRATEGIC LOGIC BEHIND THE ECONOMIC TRACK

- Our efforts have focused on helping Iraq restore its neglected infrastructure so it can provide essential services to the population while encouraging economic reforms, greater transparency, and accountability in the economic realm. The international community has been instrumental in these efforts, but there is room for the international community to do more. Foreign direct investment, over time, will play an increasing role in fueling Iraq's economic growth.
 - How will these efforts help the Iraqis -- with Coalition support -- defeat the enemy and achieve our larger goals?
 - The rebuilding of Iraq's infrastructure and the provision of essential services will **increase the confidence of Iraqis** in their government and help convince them that the government is offering them a brighter future. People will then be more likely to cooperate with the government, and provide intelligence against the enemy, creating a less hospitable environment for the terrorists and insurgents.
 - Efforts in the reconstruction realm have **significant implications in the security realm** when they focus on rebuilding post-conflict cities and towns. Compensation for civilians hurt by counterterrorism operations and the restoration of some economic vibrancy to areas formerly under terrorist control can help ease resentment and win over an otherwise suspicious population.
 - Economic growth and reform of Saddam-era laws and regulations will be critical to ensuring that **Iraq can support and maintain** the new security institutions that the country is developing, attract new investment to Iraq, and become a full, integrated member of the international economic community.
 - Economic growth and market reform -- and the promotion of Iraq's private sector -- are necessary to expand job opportunities for the youthful Iraqi population and decrease unemployment that makes some Iraqis more vulnerable to terrorist or insurgent recruiting.

PROGRESS ON THE ECONOMIC TRACK

- Our **restore, reform, build**, strategy is achieving results:
 - Oil production increased from an average of 1.58 million barrels per day in 2003, to an average of 2.25 million barrels per day in 2004. Iraq presently is producing on

average 2.1 million barrels per day, a slight decrease due to terrorist attacks on infrastructure, dilapidated and insufficient infrastructure, and poor maintenance practices. We are helping the Iraqis address each challenge so the country can have a dependable income stream.

- Iraq's nominal GDP recovered from its nadir of \$13.6 billion in 2003 to \$25.5 billion in 2004, led primarily by the recovery of the oil sector. According to the International Monetary Fund, GDP is expected to grow in real terms by 3.7 percent in 2005 and nearly 17 percent in 2006.
- Iraq's exchange rate has been stable since the introduction of its new currency in 2004 and remains so at approximately 1,475 Iraqi Dinar/\$1. A stable currency has allowed the Central Bank of Iraq to better manage inflationary pressures.
- According to the IMF, per capita GDP, an important measure of poverty, rebounded to \$942 in 2004 (after dropping to \$518 in 2003), and is expected to continue to increase to over \$1,000 in 2005.
- Since April 2003, Iraq has registered more than 30,000 new businesses, and its stock market (established in April 2004) currently lists nearly 90 companies with an average daily trading volume over \$100 million (from January to May 2005), up from an average of \$86 million in 2004.
- Iraq is rejoining the international financial community: it is on the road to WTO accession, has completed its first IMF economic health report card in 25 years, and secured an agreement that could lead to as much as 80 percent reduction from the Paris Club for Saddam-era debt.
- At the October 2003 Madrid International Donors Conference, donors other than the United States pledged over \$13 billion in assistance for the reconstruction of Iraq, including \$8 billion from foreign governments and \$5.5 billion in lending from the World Bank and International Monetary Fund, to be disbursed from 2004 through 2007.
- Iraqi business leaders are decidedly optimistic about the growth of the economy as well as the growth of their own businesses.
 - According to a September poll by Zogby International for the Center for International Private Enterprise, **77 percent** of Iraqi businesses anticipate growth in the national economy over the next two years and **69 percent** of respondents describe themselves as being "**optimistic**" about Iraq's economic future.
- Today in Iraq there are more than 3 million cell phone subscribers. In 2003 there were virtually none.

CONTINUED CHALLENGES IN THE ECONOMIC SPHERE

- Even with this progress, Iraq continues to face multiple challenges in the economic sphere, including:
 - Facilitating investment in Iraq's oil sector to increase production from the current 2.1 million barrels per day to more than 5 million per day;
 - Overcoming decades of Saddam's neglect of Iraq's basic infrastructure;
 - Preventing, repairing, and overcoming terrorist and insurgent attacks against vital infrastructure, especially electricity and oil related nodes;
 - Dealing with an increased demand for electricity;
 - The liberalization of border trade and increased salaries of Iraqis, has led to increased demand for electrical goods since 2003, which has driven up demand for electricity. At the same time, insurgent attacks and dilapidated infrastructure have complicated efforts to bring more electricity on-line. The Iraqis, with our assistance, are working to ease electricity constraints by providing greater security to transmission lines, investing in new generation capacity, and evaluating the prospects of using natural gas --as opposed to inefficient fuels -- to keep generators running.
 - Creating a payment system and a banking infrastructure that are responsive to the needs of the domestic and international communities, and that allow transactions

involving possible money laundering, terrorist financing and other financial crimes to be detected;

- Balancing the need for economic reform -- particularly of bloated fuel and food subsidies -- with political realities;
- Building the administrative and technical capacities of Iraqi ministries;
- Ensuring as much reconstruction assistance as possible flows to Iraqi entities (ministries and businesses);
- Encouraging local and regional capacity building after decades of a highly centralized government, so that reconstruction and essential services can be more evenly distributed throughout Iraq;
- Facilitating progress toward a market-oriented economy by reforming commercial laws and other bureaucratic obstacles to attract investment and private sector involvement;
- Encouraging many in the region and the international community to disburse their pledges more quickly and contribute even greater resources to Iraq's reconstruction.

ORGANIZATION FOR VICTORY

The 8 Strategic Pillars

- Our strategy for victory along the political, security, and economic tracks incorporates **every aspect of American power**, with assistance from agencies throughout the federal government, and the involvement of the United Nations, other international organizations, Coalition countries, and other supportive countries and regional states. *It is predicated on the belief that we must marshal these resources to help Iraqis overcome the challenges remaining before them.*
 - Our strategy is **comprehensive**, and relies on a sustained and courageous effort by hundreds of thousands of Americans and Coalition partners, military and civilian, in the security, political, economic, and diplomatic realms -- in addition to the millions of Iraqis they work with everyday.
 - To organize these efforts, we have broken down our political/security/economic strategy into **eight pillars** or strategic objectives:
 1. Defeat the Terrorists and Neutralize the Insurgency
 2. Transition Iraq to Security Self-Reliance
 3. Help Iraqis Form a National Compact for Democratic Government
 4. Help Iraq Build Government Capacity and Provide Essential Services
 5. Help Iraq Strengthen its Economy
 6. Help Iraq Strengthen the Rule of Law and Promote Civil Rights
 7. Increase International Support for Iraq
 8. Strengthen Public Understanding of Coalition Efforts and Public Isolation of the Insurgents
- Each Strategic Pillar contains at least five independent lines of action and scores of sub-actions, with specific objectives being met by military and civilian volunteers, Iraqis, and our international partners.
- Underlying each line of action is a series of missions and tasks assigned to military and civilian units in Iraq. These missions and tasks are largely classified, but we seek to characterize them in the unclassified appendix that follows. By understanding our organization, Americans can better understand our strategy and the steps we are taking to achieve long-term victory in Iraq.
- Each pillar has a corresponding interagency working group -- where professionals from the National Security Council, State Department, Defense Department, Treasury Department, Commerce Department, Homeland Security, and other agencies coordinate policy, review and assess the progress that is being made, develop new proposals for action whenever necessary, and oversee the implementation of existing policies.
- Weekly strategy sessions at senior levels of the United States Government ensure that Iraq remains a top priority for all relevant agencies with actions along all the eight pillars of activity integrated and calibrated to changed circumstances whenever necessary.

- This is the essence of a conditions-based strategy: constantly reviewing conditions as they evolve and changing and redirecting tactics as needed to keep a trajectory towards long-term success.
- Our team in Baghdad -- led by Ambassador Zalmay Khalilzad and General George Casey -- works to implement policy on the ground and lay the foundation for long-term success.
- The following appendix outlines each Pillar to provide a sense of how our mission in Iraq is organized. As these pages demonstrate, there is hard work to do, but the stakes could not be higher, and we are organized for victory to an extent not seen since the end of the Cold War.

"There's always a temptation, in the middle of a long struggle, to seek the quiet life, to escape the duties and problems of the world, and to hope the enemy grows weary of fanaticism and tired of murder. This would be a pleasant world, but it's not the world we live in. The enemy is never tired, never sated, never content with yesterday's brutality. This enemy considers every retreat of the civilized world as an invitation to greater violence. In Iraq, there is no peace without victory. We will keep our nerve, and we will win that victory."