

The Gulf Crisis



On the morning of 20 March, as Indians were getting ready to start their day, the first Tomahawk missiles struck Baghdad. US military analysts said those first raids were against targets of opportunity, jargon for Saddam and his chums. The logic, decapitate Iraq in a lucky strike and bring about a smooth change of regime. At the Indian prime minister's residence in Delhi, an emergency meeting was called to decide India's response. Those present included deputy prime minister L.K Advani, finance minister Jaswant Singh, and external affairs minister Yashwant Sinha. The much anticipated, much debated and very controversial Anglo-American attack on Saddam Hussein had begun.

In history, this date has witnessed the start of several events that have ended in death and destruction. On 20 March 1345, the planets Mars, Jupiter and Saturn were in conjunction with Aquarius. Astrologers who saw this as an omen claimed it brought on the bubonic plague. Centuries later, on 20 March 1815, Napoleon returned to Paris from Elba and made a last stab at dominating Europe, a bid that ended in Waterloo three months later. What will 20 March 2003 bring for the world and more specifically for India?

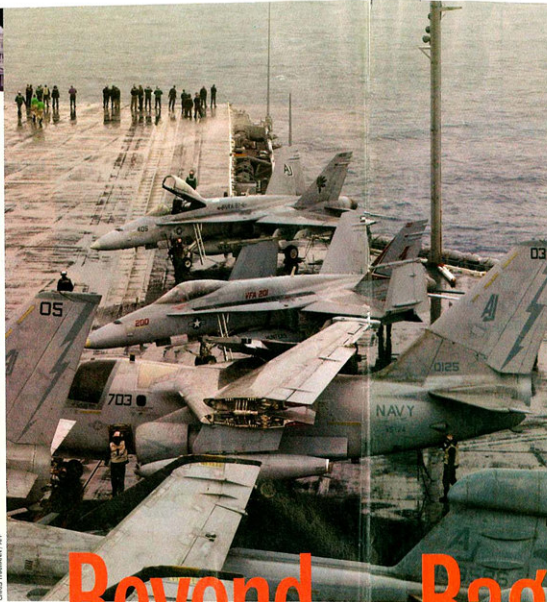
India's interests lie broadly in three areas — economy and oil prices, political stability in the Middle East and a role in rebuilding Iraq. Much will depend on how long the war lasts. Former army chief V.P. Malik expects Baghdad to fall in a week. "In case Saddam engages in a defence of Baghdad, then I expect the war to last around four weeks, but not more," he says.

A short war will not cause a flutter in oil prices. Today, Iraq produces 2 million barrels per day (mbpd). If that supply were to be disrupted, there is enough spare capacity sloshing around to hold prices. The International Energy Agency (IEA) has reserves of four billion barrels. OPEC is sitting on 5 mbpd of spare capacity. Fadhil J. Chalabi, director of Centre for Global Energy Studies (CGES), a London-based think-tank, says that even if Saddam sets fire to Iraqi oil fields, he doesn't expect prices to spike very much. "In such an instance, I don't see prices rising to more than \$40 per barrel," he says. Chalabi, who was acting secretary-general to OPEC in the mid-1980s, was earlier a high-ranking official in the Iraqi ministry of oil.

Given that, like India, the US, too, imports large quantities of oil (some 10 mbpd), a short and decisive war will help it as much as India. In fact, the global oil markets are bullish that the war will be short and the benchmark Brent crude is down to \$28 per barrel. But what if the war is long?

There are several doomsday scenarios. What if Iraq lobes a missile towards Israel, which retaliates and all of Middle East is aflame? What if Iraq destroys the Saudi and Kuwaiti oil fields? What if Saddam, realising that his end is near, detonates biological or chemical weapons in the area?

It's difficult to assess what will happen if everything spins out of control. But, even if the dire predictions (chemical warfare, etc.) do not play out, a war that just goes on, say beyond four to six weeks, can hurt India. Fict estimates it will pull India's industrial growth to 2.5%, ratchet up inflation levels, drive oil prices up and so on. According to International Monetary Fund ballparks, the first round impact of oil price hike is pretty harsh — a \$10 per barrel rise sustained over a year reduces the gross global GDP by 0.6%.



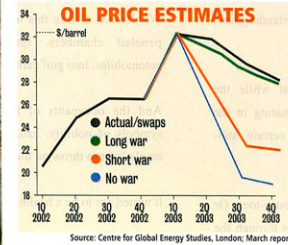
CHRIS TOMLINSON / AP

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19 March 2003: The military might of the Americans on display. The flight deck crew on board the aircraft carrier USS Theodore Roosevelt, which has been deployed in Operation Enduring Freedom, gets ready for D-day

And the impact on oil importers such as India is higher than the average. Again, given that 10% of our exports are to the Middle East, a long war can cause trade imbalances, besides raising freight rates, reducing tourist arrivals, etc. Says Biswajit Nag, assistant professor at the Indian Institute of Foreign Trade: "Almost 35% of our total exports go through Western ports and significant parts through the Suez Canal. During war, there will be a lot of disturbance."

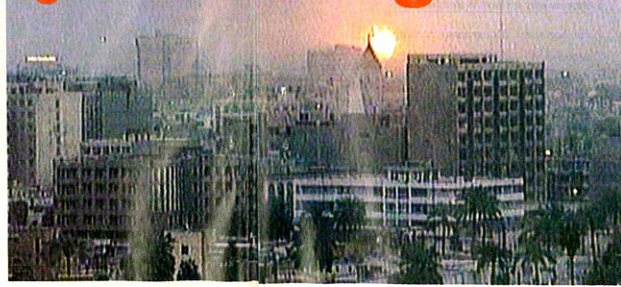
In an article in *World Today*, Vincent Cable, former chief economist at Shell and Britain's shadow secretary of state for trade, argues that much will depend on how the war is funded — and uncertainties over its financing could "easily precipitate a collapse of external and internal confidence in the US economy". In a globalised economy, this could adversely affect us.



AP/WIDE WORLD

Beyond Baghdad!

20 March 2003: A fireball illuminates the horizon after an explosion on the Baghdad skyline. Jets roar overhead as US bombs and cruise missiles hit Baghdad. Gulf War II has just begun.



REUTERS TELEVISION

Sundeep Waslekar of Strategic Foresight Group feels that it's not the war, but what happens next in the socio-political context that should worry India. "There are over 10 million unemployed youth between the ages of 15 and 35 in Iraq, Iran, Saudi Arabia, Pakistan and Afghanistan; events like this can easily inflame their passions." Moreover, Iraq itself could undergo upheaval due to tension among the Shias, the Sunnis and the Kurds in the country. One commentator describes Iraq as the Middle East's Yugoslavia. But it may be Saudi Arabia where unrest could be most troubling. Given that post Saddam, Iraqi oil, which is available in plenty and for as little as \$1 a barrel will be flowing, experts believe that the Saudi influence in the region will diminish. Iraqi oil could also reduce oil prices globally. Today, revenues from oil account for almost 80% of Saudi's fiscal revenues, Saudi per capita incomes have fallen by more than 60% since the 1980s, and disparity in incomes are rising. So, any further jolt could inflame opinion on streets further. Remember, except in Israel, the US isn't terribly popular with the common man anywhere else in that region. The bottomline: political stability in the Middle East is still a long way off.

The Anglo-US alliance hopes that after toppling Saddam, it will be able to build a model Arab state, maybe even a democratic one, that will run on oil. That may take some time; in the interim, rebuilding Iraq could fetch India hefty dividends if it plays its cards right. Chalabi estimates that it could cost \$5 billion-6 billion to get Iraq's oil infrastructure to pre-1990 levels of production (3.5 mbpd) alone.

There are indications that the US is keen on India (a democracy, it has existing links with Iraq) playing a part in this reconstruction. Therefore, Indian outfits, especially in IT and infrastructure, can find business there. However, much will also depend on how the government reacts to a war that hasn't been sanctioned by the United Nations.

On 20 March, the BSE Sensex closed 72 points higher on the back of expectations of a short war followed by reconstruction activity in Iraq. The first reaction of the markets need not be right. But this time round everyone is hoping the bourses know something that they don't.

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