

## TAKING IRAQ PRIVATE

COMMENTARY, By Robert McFarlane and Michael Bleyzer  
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Imagine the day after the war has ended and Saddam Hussein is gone. Tens, if not hundreds of thousands of our uniformed men and women will be engaged in peacekeeping and humanitarian operations. These troops and other U.S. government officials (and, we hope, key allies) will be facing a highly complex, multi-year campaign to establish political, economic and social stability by helping to build the basic institutions that make democracy possible.

It's a picture both daunting and grand in its scope. Yet it's also missing a key element that could make the difference in securing genuine post-war progress in Iraq and the region: the critical role that the private sector can play in providing support -- intellectually and financially -- in the rebuilding process.

Typically in the past, when the U.S. and its Western allies were involved in wars, they assumed a major financial burden in post-war reconstruction. Official assistance became the principal source of financing, with emphasis on the reconstruction of infrastructure and utilities damaged by the war. The World Bank and other international agencies were called upon to develop plans and finance the reconstruction and revival of the economy.

In the case of Iraq, it is unlikely that this approach will be followed for several reasons. Most G-7 countries are facing considerable fiscal deficits and cannot afford to channel a significant amount of resources to the effort. The willingness of these countries to help will also be affected by the split over the decision to go to war, inevitably putting the greatest financial burden on the U.S. and others involved in military action. The international financial agencies will be putting their priority on social relief but not on stimulating long-term sustainable growth.

Since Iraq is a relatively rich country in natural resources, particularly oil, it will be able to absorb the cost of rebuilding the physical infrastructure. But the revival of the economy -- based on new investment, project development and job creation -- will have to be led by the private sectors of the global economy. At a time when President Bush and other administration leaders pursue their vision for political reform and democracy in Iraq, we in the private sector should help create and implement the policy measures that will make an attractive investment climate in Iraq.

This public-private partnership could play a critical role in making possible dramatic social and economic changes in Iraq and other countries in the region.

In order for this investment to flow, the interim government of the new Iraq must move quickly to put in place an economic policy framework that will persuade investors and lenders to take the risks involved.

Countries throughout Asia, Africa, the former Soviet bloc and South America provide vivid examples of unattractive business environments, low rates of economic growth, corruption and limited foreign capital investment. To escape this trap, successful developing countries -- and this can include Iraq -- must put in place policies founded on transparency and legal recourse that attract private investment. The private sector brings the coveted economic growth.

What concrete policy measures are we talking about that make such a difference? Empirical evidence backed by a thorough recent analysis of the economic policies of 128 countries identified several key drivers for a business environment that will attract foreign direct investment: a predictable legal

system, sound corporate and public governance, liberal policies toward foreign trade and international capital movements, and the reduction of corruption and government abuse of power.

In the case of Iraq, the U.S. and its allies would be well advised to put together a team of private sector business leaders as a "steering committee" to supervise and monitor the execution of such policy measures. Private sector specialists could also help identify and develop specific oversight measures needed to maintain Iraq's performance on key elements of reform.

In the oil sector, priority should be given to improved transparency and predictability to encourage the early involvement of private international companies. Today, Iraq's oil industry is plagued by corruption and bitterly resented by the Iraqi people. Cleaning it up would boost the economy and give Iraqis some evidence that change and social benefit is coming.

Properly implemented, this effort will play a major role in accelerating the influx of investment, diversifying the economy and providing sustainable and significant job opportunities for Iraq's people. Private investment can make a major contribution to reducing poverty, improving the quality of life for the Iraqi people and eradicating this breeding ground for terrorism.

The U.S. must demonstrate that it is not only the most powerful military power on the planet, but also the foremost market economy in the world, capable of leading a greater number of developing nations to a more prosperous and stable future. Major U.S. corporations, jointly with other multinationals, should lead the effort to create capital-friendly environments in developing countries.

Foreign direct investment in Iraq will help bring prosperity and regional stability. That is as much in the interest of our own national security as in theirs.

*Mr. McFarlane served as national security adviser to President Reagan. Mr. Bleyzer is the CEO and president of SigmaBleyzer, an international equity fund management company.*