The Iran-Iraq War: Geopolitical Economy of the Conflict

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Abstract

On September 22, 1980, Iraqi troops under former dictator Saddam Hussein invaded Iran. An almost eight years of war complicated socio-economic and political problems in the region like never before. Strategically, the Iran-Iraq war was one of the worst military encounters of the twentieth century which, apart from others, severely threatened the oil interests of the two countries. In other words, the consequences of the conflict were particularly visible on the political economy as the warring sides, which account for one fifth of the world’s oil reserves, failed to achieve their real status in the international arena. As this article intends to show, since the victory of Iran could affect the oil interests of the United States and its hardcore regional ally, Saudi Arabia, they left no stone unturned to take advantage of the conflict with their direct or indirect support to Iraq and then abandoning them with deep wounds. The article by using assumptions such as “Political Economy of Conflict” and collecting documentary data from the Iran-Iraq War shows that while the conflict in the short-term caused huge loss of resources to the two countries, it damaged the Iranian political economy adversely. The study concludes that the war deprived both Iran and Iraq not only of their influence in the global oil markets but smashed up their international political economy in the medium term, as well.

Keywords: Iran, Iraq, War, Oil, Political economy.
1. Introduction
The present research aims to survey the political economy of Iran and Iraq, emphasizing the role of the United States and Saudi Arabia as the world's largest oil market actor. The scope of this paper is during the Iraqi imposed war on the Islamic Republic, starting on September 22, 1980 until July 17, 1988 when Iran notified its formal acceptance of UN Resolution 598. In this conflict, an estimated 500,000 people on both sides were killed, and over 4 million people became homeless as a result of shelling and aerial bombardment of cities. The paper survey and reviews the material damage incurred in the battle zones. It further explains how the war caused economic hardship for both Iranian and Iraqi people. The study also looks at Saudi Arabia’s role in reducing oil prices so that Iran and Iraq would fail to access to sufficient oil revenues and make Baghdad dependent on cash and military assistance from Arab states to continue its war. Another topic to be discussed is how the US helped intensify the hostilities. The paper tries to answer the questions that What impact did the eight-year war had on the political economy of Iran and Iraq? The article shows that the Iran-Iraq war, in the short-term, led to the massive destruction of resources of the two countries, with one-fifth of the world's oil reserves. It too consequently isolated the two from the international political economy. Literature studies provide some articles about Iran-Iraq geopolitical issues, for example Sajjadjpour & Amiri Moghadam (2009), Darvishi & Ramezani (2010), Khalili & others (2014), Taheri & Naghosi (2017), Abdi & Shirzad (2016), Kavianirad & Chamran (2012). Each of them presents indirectly analyzes of Geopolitical Economy of the Conflict dimensions in the Iran-Iraq war. the innovation of this paper is a comparative study of the damage of Iran and Iraq in the eight-year war and survey the damages caused by the conflict for both countries. This paper shows when national authorities are not the only, nor even most powerful geopolitical players, the great powers will benefit most from the competition of small powers. The research method in this paper is descriptive and analytical, and in part of the research method, Numerical calculations and «predictive functions» have been used.

2. Conceptual Framework: Geopolitical Economy of Conflict
Geopolitical economy is a new approach to understanding the evolution of the capitalist world order, international relations and international political
The first and most fundamental argument insists on the materiality of nations. It sees the capitalist world order and its historical evolution as the product of the interaction – conflicting, competing or cooperative – of multiple states. From this point of view, this economic role involves both domestic and international engagement. (Kurecic, 2015: 524) Meanwhile, all wars, large and small, new and old, have a ‘political economy’ (Andreas, 2012). The literature on the ‘Political Economy of Conflicts’ emphasizes as how a war between two countries turns into an economic transaction and a political problem. A political approach to conflict avoids shortcomings of a pure economic approach. It captures the costs of conflict and focuses on the rule-producing function of conflicts. Therefore, economics of a conflict cannot be anything but a political economy (Vahabi, 2012). Meanwhile, armed conflicts in developing countries have been strongly influenced by developed and rich states, because warring sides always require hard currency to support their military adventurism and the population on whom they rely on for support (Fitzgerald, 2000). The Political Economy department at the University of Sydney defines the political economy during conflicts as “key assumptions” of economics serving an “ideological” purpose (Lynch, 2011: 5).

Placing the political economy of conflict as a theoretical framework in this article is not only a fruitful analytical move but it helps push against an overly identity-driven account of the Iran-Iraq war. With the same perspective, Simon Bromley believes that the control of oil is center of gravity of US economic hegemony and thus the logical complement of its declared strategy of permanent, unilateral military supremacy (Bromley, 2005: 227). This paper assumes the political economy of conflict and Geopolitical economy as equivalent and believes that great oil powers are pleased with the war of their oil rivals.

Based on this line of argument, the ‘Iran-Iraq War’ can be seen as, part of a Geopolitical economy and indeed a global strategy to assert and embed US dominance in the international system, especially due to Washington’s growing competition with others as well as in the light of future challenges and the ever-increasing importance of Middle Eastern oil. As the analysis of the political economy of a conflict indicates, the United States was able to fashion a new form of influence in the 1980s based on an increasingly close
3. The Cost of War for Iran & Iraq

In less than a few weeks after the Iraqi invasion of Iran, Iraqi troops occupied more than 14,000 square kilometers of Iranian territories. These lands, including a few prosperous provinces and the oil ‘capital’ of the country, suffered greatly (Hoagland, 1989:6).

The Iran-Iraq war scarred the political economy of both countries, with huge loss to economic and human resources in general and at the battlefront and in particular. Early in the war, Iran’s total refinery capacity fell from 1.32m b/d to 615,000 b/d forcing the country to begin importing refined products – another drain on its scarce reserves of hard currency (EIU, 1986:97).

3.1. Iran Cost

During the course of the war, Iran’s public sector suffered damage totaling $182 billion, according to a report by the Iranian Planning and Budget Organization (PBO). The report did not cover the private sector, disability and life claims. It put damage suffered by the oil sector at $209 billion, followed by agriculture $ 252 billion. The total figure for reparations would add up to some $700 billion in 1988, which in total is equal to $1428 billion, as inflation adjusted 2018 (Iran Planning and Budget Organization Report, 1990). Notably, fifty percent of the damage came to Iran in the last two years of the war. The following table shows the direct and indirect loss of Iran in different sectors:

<table>
<thead>
<tr>
<th>Sector</th>
<th>Agriculture</th>
<th>Electricity, Water, Gas</th>
<th>Industry</th>
<th>Oil</th>
<th>Public Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Damage</td>
<td>35.7</td>
<td>27.3</td>
<td>33.6</td>
<td>159.6</td>
<td>333.9</td>
</tr>
<tr>
<td>Indirect Damage</td>
<td>296.1</td>
<td>35.7</td>
<td>16.8</td>
<td>287.7</td>
<td>52.5</td>
</tr>
</tbody>
</table>

Source: Iranian Planning and Budget Organisation (PBO), 1990 (Billion US$, inflation adjusted 2018)

According to a report published by the Petroleum Intelligence Weekly, Iran suffered one of the (two) largest drops in OPEC revenues during January-June 1986, when it had seen its revenues dive to $16m a day in
June as against $32.5m in January the same year (AOG, 1986: 3; Economist, August 9, 1986: 56).

In 1989, then President Hashemi Rafsanjani stated that ‘some 60% to 70% of the country’s income was spent on the war’. Even the Japanese Institute of Middle Eastern Economics estimated Iran’s total loss at over $500 billion by the end of July 1988. As regards to the oil sector, Iran’s greatest losses were in refining and petrochemicals (AOG, 1988). Moreover, according to British retail and commercial bank Lloyds, during the course of the ‘tanker war’ from May 1981 to the end of June 1988, 639 ships were damaged or destroyed, 94 of them being attacked during the first six months of 1988 alone (Ibid). The direct annual damage to the oil sector was estimated at 20% of its annual value added to the damage to the sector’s capital stocks and stood at some 145% of total investments in the sector during the 1981-86 periods. In other words, the war destroyed all investments in the oil sector from 1981 plus some 45% of the sector’s pre-war capital stocks.

In mid-1984, The Financial Times calculated that the war was costing Iran some $250m a month in foreign exchange alone (The Financial Times, July 3, 1984). The following year, the same British daily quoted the total cost of $300m a month and $500m for offensives (Financial Times, April 1, 1985). The budget for FY 1987 showed that funds for the war exceeded financial allocations to all other economic sectors (Metz, 1987).

3.2. Iraq Cost

Iraq has about 10 percent of the world’s proven oil reserves and resources, which could satisfy current US crude imports for almost a century. Although Iraq initiated the war on Iran, it too incurred huge damage to the Iraqi government and people. In fact, Baghdad experienced the first phase of economic decline during this war (1980-88). In other words, the war dealt a devastating blow to the Iraqi economy, destroying a large part of the country’s capital stock, reducing oil production and exports, and depleting much of its foreign assets and forex reserves. It was estimated that the total cost of war to Iraq was $452.6 billion, amounting to about eight years of Iraq’s GDP at that time (Mofid, 1990:125). As Freedman and Karsh write, “It increasingly became evident that Iraq had emerged from the war as a crippled nation. From a prosperous country with some $35 billion in
foreign-exchange reserves in 1980, Iraq had been reduced to dire economic straits, with $80 billion in foreign debt and shattered economic infrastructure” (Freedman and Karsh, 1993: 37).

Although Iraq enjoyed good agricultural land with plenty of water resources to feed its 60 million people, the country was forced to import 75% of its agricultural needs from abroad at the end of the war. In the 1990s, it was able to produce only 16% of its wheat, and imported about 3.6 million tons (Al-Samarrai, 2009:26). Investment in agriculture and industry were reduced drastically while import programmers were subjected to closer scrutiny to ensure that foreign reserves, which had declined from $30 billion at the start of the war to $10 billion by the end of 1982, would be used judiciously and only when necessary (Al-Nasrawi, 1986: 877). “The annual cost of the war to Iraq then estimated to be $15.7 billion. This figure does not include the value of fixed assets destroyed during the war, nor does it include lost oil revenue or lost output” (Ibid: 883). The chart below shows the oil dependence of Iran-Iraq during 1980-1988.

Chart 1. Iran-Iraq Oil Dependences during War


A secret report released by the CIA in 1985 revealed that the Iraq economy “had a little recourse” and “Iraqi people would suffer a significant decline in living standards over the next 12 months.” According to this report, “$25 Billion in financial support from Saudi Arabia and Kuwait since the beginning of the war helped maintain Iraqi living standards, but current aid levels would probably fall far short of Baghdad’s growing needs” (CIA, 1986:4-6). The following table gives comparative figures showing the consequences of war for Iran and Iraq.
Table 2. Consequences of Iran-Iraq War

<table>
<thead>
<tr>
<th></th>
<th>IRAN</th>
<th>IRAQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Death Tolls</td>
<td>208000(1)</td>
<td>200000(2)</td>
</tr>
<tr>
<td>Wounded</td>
<td>520000(3)</td>
<td>500000(4)</td>
</tr>
<tr>
<td>Loss of Oil Revenue</td>
<td>350</td>
<td>160</td>
</tr>
<tr>
<td>War Damage</td>
<td>450</td>
<td>67</td>
</tr>
<tr>
<td>Debt (Financing of War Efforts)</td>
<td>12</td>
<td>110</td>
</tr>
<tr>
<td>Damage to Infrastructure</td>
<td>180</td>
<td>90</td>
</tr>
<tr>
<td>Purchase of War Equipment</td>
<td>24</td>
<td>80</td>
</tr>
<tr>
<td>Cost of Re-routing Imports to Smaller Ports</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Compensation for Victims’ Families</td>
<td>25</td>
<td>9</td>
</tr>
<tr>
<td>Construction of New Pipelines</td>
<td>6.1</td>
<td>3</td>
</tr>
</tbody>
</table>

Sources: Razoux (2015), Arab Mazar (2014), Mofid (1990); (Iran Martyr and Veterans Affairs Foundation Report, 2017) (Kurzman, 2013)

Based on what was reviewed, if the Iran-Iraq war had not occurred, a possible scenario for the economy of both countries was to maintain their growth trends of the past two decades. Thus, one can predict the GDP per capita of the two between 1980 and 1988 based on the trends of the 1960-1979 period using time series analysis.

For this prediction, the Box and Jenkins methodology (Box et al., 1994) has been used. First, the serial dependency of the GDP per capita of both Iran and Iraq are investigated. Using the Ljung-Box test (Ljung and Box, 1978), the GDP per capita of Iran is shown to be serially dependent on lags one to five at the significance level of 0.01. However, the GDP per capita of Iraq could not be shown to be serially dependent on lags one to five at the significance level of 0.01.

Table 3. P-values of the Ljung-Box test for testing the serial dependency Iran - Iraq GDP per capita (1960-1979)

<table>
<thead>
<tr>
<th></th>
<th>Lag = 1</th>
<th>Lag = 2</th>
<th>Lag = 3</th>
<th>Lag = 4</th>
<th>Lag = 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Iran GDP per capita</td>
<td>0.0001401</td>
<td>4.994e-06</td>
<td>1.759e-06</td>
<td>2.598e-06</td>
<td>6.53e-06</td>
</tr>
<tr>
<td>Iraq GDP per capita</td>
<td>0.04881</td>
<td>0.07583</td>
<td>0.1221</td>
<td>0.1356</td>
<td>0.1813</td>
</tr>
</tbody>
</table>

Next, we tried to predict the GDP per capita of Iran and Iraq using an “autoregressive integrated moving average (ARIMA)” model. To do this, a prediction package (Hyndman, 2017; Hyndman RJ and Khandakar, 2008) in the statistical software R (R Core Team, 2016), was used to model the per capita GDP behavior of Iran and Iraq based on their 1960-1979 data.
Assuming that the economic trends for Iran and Iraq between 1960 and 1979 continued over the course of the war, the prediction of the GDP per capita with the 95% confidence interval for each country would be as shown in Table 4 and Chart 2.

Table 4. Point Forecast and its 95% Confidence Interval for the GDP per Capita of Iran and Iraq over the Horizon of 1980-1988

<table>
<thead>
<tr>
<th>Year</th>
<th>IRAN</th>
<th></th>
<th></th>
<th>IRAQ</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Point Forecast</td>
<td>Low 95%</td>
<td>High 95%</td>
<td>Point Forecast</td>
<td>Low 95%</td>
<td>High 95%</td>
</tr>
<tr>
<td>1980</td>
<td>2612.733</td>
<td>2266.586</td>
<td>2958.88</td>
<td>3444.611</td>
<td>2987.57</td>
<td>3901.652</td>
</tr>
<tr>
<td>1981</td>
<td>2799.011</td>
<td>2219.424</td>
<td>3378.599</td>
<td>4036.828</td>
<td>3223.671</td>
<td>4849.985</td>
</tr>
<tr>
<td>1982</td>
<td>2985.29</td>
<td>2162.793</td>
<td>3807.787</td>
<td>4629.045</td>
<td>3424.922</td>
<td>5833.168</td>
</tr>
<tr>
<td>1983</td>
<td>3171.569</td>
<td>2090.02</td>
<td>4253.117</td>
<td>5221.262</td>
<td>3587.908</td>
<td>6854.617</td>
</tr>
<tr>
<td>1984</td>
<td>3357.847</td>
<td>1999.964</td>
<td>4715.731</td>
<td>5813.48</td>
<td>3713.974</td>
<td>7912.986</td>
</tr>
<tr>
<td>1985</td>
<td>3544.126</td>
<td>1892.764</td>
<td>5195.487</td>
<td>6405.697</td>
<td>3805.111</td>
<td>9006.283</td>
</tr>
<tr>
<td>1986</td>
<td>3730.404</td>
<td>1768.931</td>
<td>5691.878</td>
<td>6997.914</td>
<td>3863.252</td>
<td>10132.577</td>
</tr>
<tr>
<td>1987</td>
<td>3916.683</td>
<td>1629.067</td>
<td>6204.299</td>
<td>7590.132</td>
<td>3890.13</td>
<td>11290.133</td>
</tr>
<tr>
<td>1988</td>
<td>4102.961</td>
<td>1473.777</td>
<td>6732.146</td>
<td>8182.349</td>
<td>3887.276</td>
<td>12477.421</td>
</tr>
</tbody>
</table>

Source: Authors

Chart 2. Iran and Iraq’s Actual GDP per Capita vs. Predicted GDP per Capita (1980-1988)

Source: Authors

The comparison between the actual GDP per capita of the two countries with predicted values shows that Iraq had suffered more economic hardship despite receiving massive economic and military aid from foreign governments during the war.
4. The Impact of Saudi Oil Policy on War

It can be argued that the Saudi oil policy greatly damaged the economy of Iran and Iraq during the war and in its aftermath. The Saudi regime quite reasonably saw post-Islamic revolution Iran as a threat, and it became apparent to the Saudis that whatever reservations they might have toward the US-sponsored Camp David Accords, they would have to be subordinated to their common opposition to the Islamic Republic. As a matter of fact, the regional focus of the Saudi policy had to be shifted from the Arab-Israeli conflict to finding ways and means of dealing with and containing new realities in Iran. Prior to the Islamic revolution, the Shah's military influence on Iran’s neighbors were viewed with considerable unease in Riyadh (Entessar, 1984: 49).

Iranian views on oil pricing and production policies have been another source of friction with the other oil producing Persian Gulf countries. Iran, particularly, blamed Saudi Arabia for overproduction of oil with the aim of creating a glut in markets. Tehran has long branded the Saudi regime as “a puppet of the West” (Entessar, 1984: 43).

The Saudi attempt to contain and weaken the new Iranian regime using oil as a weapon had two aspects. First, Riyadh intended to rally other Persian Gulf countries behind its leadership against attempts led by Iran to lower crude production and raise prices. Second, the Saudi support for Iraq during its eight-year-long war was part of the same strategy to rally regional support to contain Iran and the Islamic Revolution. A report in the New York Times estimated that the Saudi financial support to Iraq alone amounted to more than $50 billion since 1982. The report quoted a Palestinian official as saying that ‘all the Arab aid to Egypt, Syria, Jordan and the Palestinians over the past 40 years was a fraction of the aid they had given to Iraq in six years’ (New York Times, July 24, 1988: 2). Some estimates went as high as $60 billion. Iraq was also at least $15 billion in debt to non-Arab states and owed those $1.5 billion annually in interest.

In fact, the Saudis had decided to raise their oil output in 1978 as soon as the Iranian output began to decline due to oil workers’ strikes in support of the revolution. Saudi output, which was 7.1m b/d in September 1978, was raised to 10.4m b/d by December of that year - a jump of 46% - even though global markets were already suffering from a surplus. Iranian oil output
increased again but the Saudis continued their high output, well above their usual level of 8.5m b/d.

Having decided to continue producing at higher pace of 9.5m b/d, the Saudis started to charge lower prices than their competitors in order to sell their oil. By August 1980, Iran’s output (1.3m b/d) was still one-fourth of the 1978 level of 6m b/d, and its exports one-seventh of their 1978 level of 5m b/d. The other side of the Iranian loss was the increase in Saudi sales. It should be noted that the rise in Saudi output (from 8.3m b/d to 9.9m b/d) and exports took place at the height of the American hostage crisis, which began in November 1979. This was not surprising, given the common interests of Saudi Arabia and the United States.

When the war broke out, it provided the Saudis with yet another opportunity to expand their share of oil market - this time at the expense of not only Iran but Iraq as well. It is worth mentioning that the weakened demand for the Persian Gulf oil cut the price from around $30/b to $10/b, that somewhat could be stabilized in 1987 at $18/b. However, the real price on the market was about $9/b to as low as $6/b. In fact, the market could be more fragile if Iran was successful in increasing its production and regaining some of the market shares it had lost to Saudi Arabia. The chart below shows Saudi Arabia's oil production growth at the beginning of the Iran-Iraq War.

Chart 3. Iran-Iraq-Saudi Arabia Oil Productions at the Start of 1980-88 War

5. The Role of the US in Iran-Iraq War

Indeed, all the available evidence leads us to a single direction. The US understood or knew that Iraq was planning an attack on a neighboring country and, at the very least, took no steps to prevent it. According to a Pentagon report disclosed in May 1980, the administration of then President Jimmy Carter had been working toward ‘improving relations with Iraq because of its military strength’ (Amirahmadi, 1990:35).

As it was evident, the United States did not like the Islamic Revolution hence; it tried to support Iraq since Iran had different ideology than the one promoted by Washington. Moreover, Ayatollah Khomeini, the leader of Iran’s revolution in an interview in Paris in 1978 named his enemies; “firstly, the Shah, then the American Satan, followed by Saddam Hussein and his Baath party” (Geoff, 1994: 274). As a Reagan administration’s State Department official put it: "We don't give a damn as long as the Iran-Iraq carnage doesn't affect our allies in the region or alter the balance of power"(Entessar, 1984: 45).

The new US policy began in 1977-78, when the Iranian Revolution was just about to take shape. Washington saw Iraq as strong and independent enough to limit the expansion of Soviet influence, especially after it’s signing of the 1975 Algiers treaty with Iran. Therefore, both Iran and Iraq became key buffer states between the West and the East. Indeed, as was made public in a report of April 1980 by the Joint Economic Committee of the US Congress, some ten Pentagon officials, together with thirty to forty other government officials, visited Iraq between 1977 and 1980 (US Congress, April 21, 1980). That occurred at a time when there were no diplomatic relations between the two and Iraq was still on the US president’s official list of ‘state sponsors of terrorism’.

In addition, when Iraq invaded Iran, Carter was quoted as saying that ‘the fighting might convince Iran that it needs friends’ (New York Times, 23 September 1980).

Overall, the US-Iraq relations continued to improve, despite the Israeli bombing of a nuclear reactor near Baghdad in June 1981. The Reagan administration condemned the Israeli attack and censured Tel Aviv at a UN Security Council vote. The text of the resolution was agreed upon by both the US and Iraq and was considered the harshest censure of Israel ever endorsed by the US at the UN (El-Azhari, 1983: 614). The stage was now
set for further progress in relations between Baghdad and Washington. For instance, Iraq was removed from the list of countries accused of aiding and abetting terrorism, thus lifting US export restrictions. There then followed high-level official visits to Iraq which led to $2 billion in trade credits being given to the country in 1983 (The US Senate Report, 1984).

The American participation in the Iran-Iraq war initially involved its escorting of reflagged Kuwaiti oil tankers through the Persian Gulf on March 7, 1987. Kuwait had asked U.S. protection for its oil tankers hence; for the first time the war became internationalized. ‘In the last half of 1987, some 75 American, French, British, Italian, Belgian and Dutch warships steamed into the Persian Gulf in what became the largest peacetime naval operation since World War II … Officially …these warships were to ‘protect the freedom of navigation’ from Iranian and Soviet threats’ (Hippler,1988: 18-21). This official position seems misleading, to say the least, since Iraq had initiated attacks on ships in the Persian Gulf and had been responsible for some 65% of all attacks. Sick has described what occurred when, on May 11, 1987, Richard Murphy, the US Assistant Secretary of State for Near Eastern Affairs visited Iraq. ‘(Murphy) reportedly promised Saddam that the US would lead an effort in the UN Security Council for resolutions calling for a mandatory halt of arms shipments to Iran’. Thereupon, Sick added, the US introduced a draft resolution on the war which was ‘deliberately written in a form that Iran could not accept and included a provision for mandatory sanctions against any party that rejected it’ (Sick, 1989: 240).

In sum, the US backing to Iraq during the course of war can be summarized in the words of Ted Koppel, American broadcast journalist reported on ABC's Nightline: “the United States did so much to ensure that Iraq would not lose its war against Iran that the Reagan and Bush administrations became allies to Saddam Hussein. Throughout the '80s and into the '90s, US assistance to Saddam and his government dwarfed anything this country did for Iran. As we’ve been reporting for more than a year now, the Reagan/Bush administrations permitted - and frequently encouraged - the flow of money, agricultural credits, dual-use technology, chemicals, and weapons to Iraq.”
6. Conclusion
The war between Iran and Iraq, the two Shia-majority countries, which accounted for nearly 20 percent of the world's oil reserves, can be analysed through a variety of dimensions. The longest war of the twentieth century, which pitted the two neighbours, came to the conclusion only after the international community and the warring sides wanted a negotiated end to the conflict. Within days of the outbreak of the war, both countries targeted each other’s oil exporting capabilities, putting them out of operation, including loading facilities, pumping stations, refineries, terminals and pipelines.

The extent of the damage is reflected in the fact that both countries were reduced to a small fraction of their pre-war output. The loss of Iran’s oil exporting capacity was by far the most devastating economic blow of the war because since 1973, and more so after the 1979-80 price hike, oil had become by far the most important sector of the economy in terms of its contribution to GNP and as the main source of foreign exchange. This article reviewed the damage incurred by the war to Iran and Iraq and showed how Saudi Arabia and the United States played out to continue the conflict.

From the point of view of international political economy, the victory of either Iran or Iraq and taking of one-fifth of the world's oil could lead to overcoming global energy resources. With respect to Iran, its new oil policy and its aims after revolution were to conserve oil resources, stabilize the official OPEC price, limit the consortium’s activities in Iran, and deal directly with other states particularly with developing countries. On the other side, Iraq’s Ba'athist government was seeking to upgrade its geopolitical position in the Middle East since it believed that geopolitical restrictions could limit Iraq's national interests.

In short, the United States, as the global superpower, and Saudi Arabia as a regional rival to Iran and Iraq, wanted none of the two turn victorious in the war and they were happy to leave both countries with deep and long wounds. Of course, evidence shows that the Soviet Union, the People's Republic of China, along with Britain, France and Germany, were also contemplated in the continuation of this war, which requires further study.
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