

U.S. 2002 Pre-invasion Plan to Divide Iraq Into Three Separate States

By [Gary D. Halbert](#)

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Global Research Editor's Note:

The following text was first published in October 2002 prior to the invasion of Iraq. It suggests that dividing up Iraq along ethnic lines and redrawing national borders was part of the US foreign policy/military agenda prior to the onslaught of the war.

U.S. Considers Dividing Iraq Into Three Separate States After Saddam Is Gone

October 1, 2002

1. Stratfor's Latest Intelligence On Iraq.
2. Iraq Is Too Big For One New Government.
3. US Would Divide Into Three Separate States.
4. Central Iraq (Sunnis) Would Join With Jordan
5. The Shia Region Would Join With Kuwait.
6. The Kurds Get Their Own State In The North.
7. Iraq Ceases To Exist; Baghdad No Longer Capital.
8. Investment Market Implications.

A US war against Iraq appears to be only a matter of when, not if, despite the latest rumblings from a few high-level Democrats who oppose the idea. The latest Zogby poll shows that 70% of Americans believe that Saddam Hussein is a legitimate threat to the safety and security of the United States, compared to 25% who believe Hussein is just another ruler whose policies are anti-American. Most Americans also have little doubt that we will win a war with Iraq handily, complete with the removal of Saddam Hussein.

But the question I have been most interested in is whether there is any group in Iraq that can successfully manage and govern that country after Saddam and his thugs are removed from power. It would be a terrible mistake for the US to clean out Saddam & Company, only to see the country fall back into the hands of tyrants, especially religious extremists who are sympathetic to al Qaeda, in another year or two.

Most observers agree that there is no one group in Iraq who could successfully govern and manage it in the post-Saddam era, given its diverse population and different religions. Given that, what are the US and our allies to do?

Well, my good friends at STRATFOR.COM released a fascinating report last Friday. Stratfor.com is one of the most respected geopolitical intelligence services in the world. Stratfor's high-level sources tell them that one of the leading long-term strategies being considered by US war planners is one that will DIVIDE Iraq into three separate regions. Under this plan Iraq would CEASE TO EXIST.

Stratfor believes the plan would divide Iraq as follows:

1. The central and largest part of Iraq that is populated by the Sunni Arabs would be joined with JORDAN to form one "United Hashemite Kingdom," which would be ruled by Jordan's King Abdullah. This area would include Baghdad, which would no longer be the capital.
2. The Kurdish region of northern and northwestern Iraq, including Mosul and the vast Kirkuk oilfields, would become its own autonomous state.
3. The Shia Region in southwestern Iraq, including Basra, would make up the third state, or more likely it would be joined with Kuwait.

Stratfor's sources indicate that the plan to divide (and thus eliminate) Iraq as described above is not the only plan under consideration, and it is also not finalized. However, such a plan makes a lot of sense to me.

Stratfor says that such a plan reportedly was discussed at an unusual meeting between Crown Prince Hassan of Jordan and pro-US Iraqi Sunni opposition members in London in July. Further, they say that in September, the Israeli newspaper, Yedioth Ahronoth, stated that the US goal in Iraq was to create a United Hashemite Kingdom that would encompass Jordan and Iraq's Sunni areas. Also, Israeli terrorism expert Ehud Sprinzak recently echoed this sentiment on Russian television on September 24.

So whose idea is this? According to Stratfor, Sprinzak stated that the authors of the "Hashemite" plan are Vice President Dick Cheney and Deputy Secretary of Defense Paul Wolfowitz, both considered the most hawkish of Bush administration officials. That is not surprising.

Why Such A Plan Might Make Sense

As noted above, the Bush administration may be considering the proposal because the current goal of replacing Saddam Hussein with a pro-US Iraqi government still would not guarantee long-term democratic stability over the territory and its oil. It may become too hard for a new government in Baghdad to effectively control the whole country, even with US troop support. An example is Afghanistan, in which the government of President Hamid Karzai still controls only the capital. Stratfor offers the following analysis:

"The new government's attempts to establish control over all of Iraq may well lead to a civil war between Sunni, Shia and Kurdish ethnic groups, with US troops caught in the middle. The fiercest fighting could be expected for control

over the oil facilities. But uniting Jordan and Iraq under a Hashemite government may give Washington several strategic advantages.

First, the creation of a new pro-US kingdom under the half-British Abdullah [king of Jordan] would shift the balance of forces in the region heavily in the US favor. After eliminating Iraq as a sovereign state, there would be no fear that one day an anti-American government would come to power in Baghdad, as the capital would be in Amman [Jordan]. Current and potential US geopolitical foes Iran, Saudi Arabia and Syria would be isolated from each other, with big chunks of land between them under control of the pro-US forces.

Equally important, Washington would be able to justify its long-term and heavy military presence in the region as necessary for the defense of a young new state asking for US protection — and to secure the stability of oil markets and supplies. That in turn would help the United States gain direct control of Iraqi oil and replace Saudi oil in case of conflict with Riyadh.”

Benefits To The US

According to Stratfor’s sources and the Israeli media, the richest oil areas would go not to the Hashemite kingdom but to the autonomous Kurdish region in the north. To make sure the new Kurdish state is not seen as a threat to Turkey, our ally, the US would deploy armed forces and build new military bases in the area, not only to prevent any hostilities along the border, but also to insure the free flow of oil from this area.

As a part of this plan, it is believed that the Bush administration would also negotiate new deals to build US military bases in the Hashemite kingdom and in the Shia Region to the south. This would be a huge development in the War On Terror. With US military bases in the three new states, the US would be in an ideal position should it choose in the future to go after Iran, Saudi Arabia or other states in the region that are supporting terrorism.

With Iraq divided as described above, with US aid and military assistance, and not to mention, huge oil revenues going into government coffers (as opposed to Saddam’s pocketbook), this region could become very prosperous very quickly.

Benefits For Israel And Jordan

Stratfor suggests that the division of Iraq, as described above, will reap big benefits for both Israel and Jordan. Iraq, arguably Israel’s most determined enemy, would be eliminated. The end of Saddam’s regime would also deprive the Palestinians of much financial and other assistance, which could reduce the effectiveness of their attacks against the Jewish state.

King Abdullah of Jordan would vastly expand his role and prominence in the region with a joint Hashemite state, becoming the second-most important US ally in the region after Israel. In addition to his huge territorial gains, he also would get a chunk of Iraqi oil. And Palestinians, who currently make up half of Jordan’s population, would become a minority in the new state, with much less potential to stir up trouble.

Difficult, But Not Impossible

Stratfor is quick to admit that the division plan above may not be the final strategy. Others are on the table as well. Stratfor also acknowledges that the plan will be difficult to achieve,

and there are obviously some risks. Certainly, it will be difficult to get the various factions in Iraq to agree to the new arrangement. Obviously, Saudi Arabia and Iran, and perhaps others in the region, will have major heartburn over such a plan. Stratfor cautions that even Turkey could have a problem with this plan. In addition, Stratfor says:

“The plan may not be free of negative consequences for Washington, however. Iraq’s Shia majority — whose anti-Hussein opposition seems currently divided between the United States and Iran — probably would not agree to become a part of the new kingdom. Iran may interfere by urging Iraqi Shias to join with Tehran. Washington might counter by agreeing to attach the Shia Iraqi region to Kuwait, Israeli media speculates. Turkey, despite a U.S. military presence in Kurdish areas, still might have reservations about the plan. Finally, it is unclear how Sunni tribal and other leaders inside Iraq would react.”

Conclusions

As noted at the beginning, I believe a plan that involves splitting Iraq into separate entities is a very good idea. Assuming Saddam’s regime is toppled, it will still be very difficult, if not impossible, for any one faction to control the entire country. If the plan includes provisions for permanent US military facilities in the new states, that will make the prosecution of the War On Terror much easier.

There are certainly arguments against a permanent US military presence in the region. Some will argue that we are setting ourselves up for another Vietnam-like conflict that could last many years. And there will be plenty of other negatives voiced if this plan is actually adopted.

Yet in the end, some type of plan that splits Iraq and eliminates Baghdad as the capital may be the best long-term solution, as Stratfor suggests.

The Economy — Disappointment Ahead

Earlier this month, the Wall Street Journal surveyed 11 leading economists for their predictions for the 3Q and 4Q. Their average forecast for the 3Q was +3.8%, while their average for the 4Q was +2.9%. I expect both forecasts to be too optimistic.

In late September, the Commerce Dept released its second estimate of 2Q Gross Domestic Product. The government revised its estimate from +1.1% to +1.3% (annual rate of growth) for the 2Q. So, what is it that 11 leading economists are seeing to make them think that 3Q GDP will rise at an annual rate of 3.8%? Whatever it is, I don’t see it.

Here’s what I do see. One of the most reliable barometers of the economy’s trend is the Index of Leading Economic Indicators (LEI). The LEI has been down for the last three months in a row. This suggests to me that 3Q GDP may be as bad as the +1.3% number for the 2Q, not +3.8% as expected by the economists in the latest WSJ survey. The 4Q may not be much better and could be worse.

American consumers have remained in “spend mode” despite the sluggish economy and the plunge in the equity markets. Consumer confidence has edged lower in the last four months, but it has yet to plunge. Why? Because most households have seen more increase in the value of their homes than decrease in their stock portfolios.

The question is, are we going back into recession? Assuming housing prices remain firm, the odds are good we will not dip back into recession. On the other hand, if housing prices fall significantly, consumer confidence will really go in the tank, and another recession will follow. I don't see that happening over the next two quarters.

For a more detailed analysis of what is likely to happen to housing prices, go to my website at www.profutures.com. Look in the archives for my May 2002 issue of my Forecasts & Trends newsletter (the monthly hard-copy edition). In it you will find the latest Harvard study on the outlook for residential home prices. [Hint: it's very positive.]

Whether the economy can rebound firmly next year depends on housing prices, as noted above, the war with Iraq, a stabilization of corporate earnings and a bottom in the equity markets. And of course, no more serious terrorist attacks.

The Investment Markets

The equity markets continued to drill down to new, four-year lows in the last week. The S&P 500 Index is down over 28% for the year, and almost 50% from the peak in March 2000. The Dow Jones fell 12.4% in September, the worst month since August 1998. The S&P fell just slightly more.

The Fed's decision to leave interest rates unchanged at its last policy meeting (Sept. 24) precipitated the latest plunge to new lows in equities. September certainly lived up to its legacy as the worst month of the year for stocks.

Yet as this is written (Tues), the markets are sharply higher. Traders are buying on the chance that the markets are so oversold, we're overdue for a strong rally, even if it's just a "correction" in the bear market. Time will tell.

Whether this is "the bottom" or not, I do expect to see a meaningful rally before the end of the year. The next Fed meeting is on November 6 at which time I expect a full 50 basis-point reduction in interest rates.

This suggests that the slide in equities will end, at least for a meaningful time, BEFORE November 6.

Picking major bottoms in the investment markets is much more about LUCK than about skill, so I will not venture a guess as to when the markets bottom. However, another excellent buying opportunity should happen in the next several weeks.

Treasuries are about as overbought as I have ever seen them. Bullish sentiment on bonds is near 90%, suggesting that the risk of a nasty selloff is very high just ahead. Whenever the flood of investors who are cashing out of equities in favor of bonds is over, expect bond yields to ratchet back up again.

The only way I would get into bonds now is in a professionally managed bond-timing program. To learn more about the only Investment Advisor I recommend to do this for you, read my latest Special Report, "How To Own Bonds Today" at www.profutures.com.

As suggested last week, gold prices should remain firm overall, due to all the global uncertainty and the coming war with Iraq. If gold can close firmly above \$330, the June high, that will be a very positive technical development.

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Articles by: **[Gary D. Halbert](#)**

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