

Rules of the Iraqi Game

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Stabilizing post-ISIS Iraq will require economic reform in addition to any political settlement.

Post-War Watch: Iraq's and Iraqi Kurdistan's economy is primarily based on profits from petroleum export, a dependency that has stunted growth of other sectors. Today, as questions of political development and governance post-ISIS are central, how will Iraq's and Iraqi Kurdistan's dependence on oil shape, hinder, or help efforts to address the types of political dysfunction that fueled anti-government sentiment? Does oil dependency disincentivize reform?

Bilal Wahab: In the Iraqi political system, everyone has an interest in the state's survival, but also in keeping it weak. Politicians understand these rules of the game, and unfortunately, they play as if this game was zero-sum. Since no one individual or group has the military and economic means by which to dominate the country, like Saddam Hussein did during his rule, political actors have developed a culture of deal making and often work with their opponents in temporary and transactional alliances.

Moreover, Iraqi politics operate in the middle ground between inclusiveness and competition. On the one hand, there is almost too much inclusion: every political party controls a ministry or high-level government position. By controlling a ministry, these parties can channel resources and funds to their coffers. Iraqi politicians want to maintain this state system because it allows them to secure funding and influence. This model leaves a state that is not rooted in rule of law, good governance, or service delivery; if the state could deliver these services to its people, the power of political parties would weaken as a result.

The political system described above is only possible in a rentier economy, where there is a resource like oil that is relatively cheap to produce and gives a high yield. In countries with a strong single party or unitary actor, the oil wealth -- rent -- will enable that ruler to maintain power and order through a mix of two means: co-opting the society by lavishing them with subsidies, free education, free healthcare, and largesse; and coercing the population through intricate, multi-layer security forces and intelligence agencies. The balance between these two methods changes

depending on the price of oil and level of opposition to the ruling party. During the 1980-1988 Iran-Iraq War, for example, the Saddam regime poured a great deal of money into local economies to silence dissent as increasing numbers of young Iraqis came home in body-bags. When the sanctions were imposed on Iraq in the 1990s, the regime had only enough funds to lavish the security agencies that protected it -- and in turn use these agencies to coerce the rest of the population into submission.

This unitary system changed after 2003 into a diffuse, multi-actor framework. The basic economic model is the same as before Saddam's ouster, but now there are many more political actors who are competing with each other. The basic calculations in Iraqi politics today is: "How much money is needed to win the next election?" These funds come from the oil revenue in government coffers -- accessed by holding a position in charge of a ministry, for example. Ultimately, to be in government, a politician needs money, and to have money, the politician needs to be in government. This dynamic -- which is very myopic, unstable, and transactional in nature -- characterizes Iraqi politics more than sectarian, ideological, or ethnic divides. Political debates at the national and local levels always come down to the issue of how much control an individual or party has over the state resources. When one looks closely at the budgetary debates in Iraqi Parliament, it becomes clear that the main problem is that of revenue-sharing.

How can post-ISIS Iraq move beyond this system? The answer lies in re-conceptualizing local laws and international support policies to build a more inclusive economic model. Oil will remain the main source of government revenue. The immediate conversation to have about post-ISIS Iraq should be about how to build a more equitable revenue distribution process across provinces and regions. For example, in the Kurdistan Region of Iraq (KRI), people in Sulaimaniya Province complain that they do not receive as many funds as their counterparts in the capital, Erbil, which has higher investment levels. These socio-economic grievances are critical; it may be possible to address them more readily than sectarian or ethnic divides. It is important to invest in state institutions and promote good governance, rather than focus on individuals and patronage networks.

Iraqis alone cannot achieve this goal, and they require international actors to engage with state institutions in the country to empower the parliament, court system, office of the attorney-general, or electoral system. Ironically, in the age of low oil prices, the opportunity exists to pursue these goals, as there is simply not enough money right now to maintain the patronage system.

PWW: On 30 November, OPEC member states [reached a deal \(http://www.reuters.com/article/us-opec-meeting-idUSKBN13POJA\)](http://www.reuters.com/article/us-opec-meeting-idUSKBN13POJA) to cut oil production, driving up slouching petroleum prices. Although Iraq -- which has long resisted any restrictions on its oil output -- agreed to OPEC's terms, Baghdad remains relatively powerless to force the Kurdistan Regional Government (KRG) to comply. Before the deal was announced, you [wrote about this challenge \(http://www.washingtoninstitute.org/policy-analysis/view/iraq-cant-commit-to-opecs-oil-output-deal\)](http://www.washingtoninstitute.org/policy-analysis/view/iraq-cant-commit-to-opecs-oil-output-deal). What leverage, if any, does the Iraqi government have in Erbil over oil production and export rates?

Wahab: The Iraqi government initially said it would not be part of any OPEC deal, which meant *de facto* that the KRG would also be excluded. In fact, policymakers in the KRG had earlier this year planned to boost production to offset low prices. However, Baghdad surprised observers by saying it would join the OPEC deal, and cut production. This was a smart move -- oil is one of the only sectors in which Iraq acts independently and pragmatically. On the other hand, Baghdad does not have much leverage over the KRG. Kurdish leaders were not at the table when the OPEC deal was made. Now, the KRG is under no obligation to follow the OPEC commitments. More importantly, the Kurdish region's energy industry is independent from Baghdad. In Kirkuk, for example, Erbil and Baghdad have agreed to manage output as two equal partners -- the Kurds control the oil pipeline to Turkey, but the Iraqi government governs the port in Basra. Even if the Iraqi government wants to adhere to the terms of the OPEC arrangement, the KRG will have little incentive to do so -- and could act on its own wishes. It is too strong to say that Erbil could spoil

the deal, but complications might arise.

All these considerations of the KRG's interests aside, it remains very difficult for federal Iraq to cut its own production. It is one thing to agree with the OPEC guidelines, but it is a very different thing to follow through on the terms. Every actor in OPEC has an incentive to cheat -- as the organization's history has shown. The production cuts should start in January 2017; if Saudi Arabia actually cuts its output then, Iraq may follow suit. If not, it would be surprising if Baghdad carried out the deal's terms on its own.

PWW: On 7 December, Iraq's parliament approved the 2017 national budget, which withheld the 17 percent of funds usually sent to the KRG to pay Peshmerga and civil servant salaries -- eliciting a strong reaction from Erbil. Does Baghdad's move impact intra-Kurdish rivalries between the region's political parties -- how does the Iraqi government's budgetary policy impact the KRG economically and politically?

Wahab: At the heart of the Erbil-Baghdad budget debate, from the KRG's perspective, is the question of whether they are better off continuing their policies from June 2014, selling Iraqi Kurdish oil directly to consumers -- or whether it would be more advantageous to surrender oil to the Iraqi government's State Oil Marketing Organization (SOMO) in turn for 17 percent of Iraq's budget. The KRG's view is that selling oil independently will result in a greater revenue stream for Erbil. However, the Kurdish government has not been able to pay public salaries -- the money for which is supposed to come from the 17 percent allocation in the Iraqi budget. Although there is language in the Federal Budget Law that says Baghdad will guarantee salaries for KRG employees, the KRG and Iraqi government each have different figures for the actual numbers of employees in Iraqi Kurdistan, resulting in a disparity between demand and payment.

Politically, the KRG's economic independence is a hard-won achievement. How much is the KRG willing to relinquish this level of independence, even if such a move would bring benefits to Erbil financially? Today, the Kurdish economy is hurting, and the government is under tremendous pressure from popular protests and strikes to give oil to federal Iraq in return for the much-needed salary funds. In Sulaimaniya, for example, teachers and administrators demonstrate regularly against their lack of pay, and resultantly, school has not fully started across the province. Internally within Iraqi Kurdistan, divisions between political parties also shape the debate vis-a-vis Baghdad. The main opposition parties, including Gorran and the Patriotic Union of Kurdistan (PUK), want to strike a deal with Baghdad that would allow them to claim that they have solved the public employee salary problem. The ruling Kurdistan Democratic Party (KDP) counters by arguing that Kurdish autonomy is a great achievement that should not be given away, and that it is instead important for Iraqi Kurds to remain patient through difficult -- but temporary -- economic times.

The KRG has a plan to achieve total self-sufficiency within two years. To reach this goal, Erbil will need to tighten its belt financially. Success will also require the KRG to undertake better accounting of its oil and gas sector -- a process it has already begun by signing contracts with consultancies Deloitte and Ernst & Young to build greater transparency and trust into the system. Finally, the Kurdish government must also cut subsidies, ghost employee salaries, and raise revenue from other non-oil sources like taxation and trade tariffs -- an effort it has launched with new measures like biometric employee registers. While tariffs may be damaging to trade with Turkey and Iran, they are designed to fuel growth inside the KRG, particularly within the agricultural sector. In November, for example, a Kurdish delegation traveled to Washington, DC -- comprising the KRG Ministers of Agriculture, Planning, and Electricity -- to encourage American businesses to directly invest in the non-oil sector.

Over the long-term, it is crucial to remember that the KRG is a rentier state, or what I have termed a "petroregion," and that its leaders created this system willingly, failing to fix or overcome the economic and political legacy of the Saddam period. Ultimately, it will take engagement from both the Kurdish government and public sector to overcome the economic challenge today. Equally necessary, however, are efforts like public education programs to

boost financial literacy among young Kurds. The region's spirit of entrepreneurship has been blunted by anti-market policies, corruption and crony capitalism. The government can address this deficiency by implementing protections for independent businesses; creating a banking system; making credit available for private enterprises; and, critically, building education programs and incentives to move away from a mentality of dependency on government for employment and fiscal security.

PWW: The government in Kirkuk Province -- which has been at the center of territorial dispute between the KRI and federal Iraq since 2003 -- has advocated for the creation of a federal region with autonomy from Baghdad. Is such an autonomous region sustainable, both economically and politically given its significance to politicians across Iraq?

Wahab: If the KRG fails to act as a unified entity that is clear about its desires in northern Iraq -- which historically have included a call to bring Kirkuk back into the Kurdish fold -- there is no reason Kirkuk should join a divided Kurdistan. Given Kurdistan's economic woes and internal political cleavages today, Erbil may not be the best partner for Kirkuk. The province currently has a strong and popular governor, Najmaldin Karim, who has managed to bring the region's various ethnic groups together. Critically, too, it has rich oil deposits and a pipeline, as well as the stature to strike deals with the KRG, Iraq, Iran, or Turkey. Whether Kirkuk chooses to go its own way or join with some sort of greater Kurdistan will ultimately depend on how attractive the KRG can make itself.

PWW: In the fight to push ISIS from Iraq, the Kurdish Peshmerga have seized areas not traditionally part of the KRI, including Sinjar, Kirkuk, and territory on the Ninewa Plain. In the past, the Iraqi Kurdish president Masoud Barzani has declared his intention to maintain Peshmerga control over these regions, eliciting condemnation from Baghdad policymakers and the leaders of powerful Popular Mobilization militias. Given the competition between these groups, who will negotiate the political future for these disputed regions -- how will interested parties be able to enforce any potential agreement?

Wahab: This is a critical question, and there really is not a clear answer -- it identifies the real gap in planning for post-ISIS Iraq. Policymakers in Iraq and the international community are not asking this question, preferring to postpone such a discussion until after ISIS is defeated. One thing is clear: any dealmaking in liberated zones will need to include local voices. These are traumatized regions, and it is impossible to re-establish the same kind of administrative structures that existed before 2014. People living under ISIS occupation have come of age in very different environments as did older generations; they have learned about the hardships of life under ISIS.

How can Baghdad or Erbil account for these realities? The culture of dealmaking is a good one, and should be encouraged to become more inclusive. One thing traditionally missing from this dealmaking process has been the economic component of reconciliation. Policymakers and Iraq's international partners need to realistically figure out plans to physically rebuild shattered areas like Sinjar, Tal Afar, Ramadi, Fallujah, or Mosul. Nobody is seriously talking about this critical need. If the Iraqi or Kurdish governments remain unable to pay their own employees' salaries, where will they find the massive amount of funding needed to reconstruct these regions? Local estimates note that in Ramadi, it will cost nearly \$10 billion (<http://www.epic-usa.org/putting-iraq-back-together/>) to reconstruct the city and clear landmines.

International and regional actors are always willing to provide money for some militia or faction. But which country is willing to send reconstruction money, engineers, bricks, or mortar to Iraq after the fighting has ended? Who will provide seed funding for development, giving young men in war-ravaged towns the chance to put down their weapons because there is another source of revenue for them? The Iraqi and Kurdish governments have thus far focused almost exclusively on winning the war against ISIS. Such a victory would gain legitimacy for the various actors -- the Shia parties, the militias, and the Peshmerga -- who remain fixated on the elections scheduled for 2018. Regional neighbors, including Iran and Turkey, see benefit from funding armed groups, but not so much from rebuilding the country.

Most policymakers and analysts today spend a great deal of time discussing the political settlement in Iraq after Mosul is liberated -- bringing in various involved parties for a negotiation. Yet, these conversations must be coupled with plans for economic and infrastructure rehabilitation. Over the past two and a half years, ISIS has been a force of unbridled destruction. It may be impossible to recover the precious heritage and artifacts lost to the militants. However, Iraq can rebuild the homes, schools and places of worship that have been razed, if it receives sufficient international support. There needs to be a plan for this reconstruction to complement any political dealmaking.

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