

The Political Economy of Autonomy:
A Comparative Analysis of the State of Iraq and the Federal Region of Iraqi Kurdistan

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Introduction

Defining Comparative Subjects (States)

The nation-state of Iraq has existed since it declared independence from the United Kingdom's colonial rule in 1932. Since this time the state has endured a number of conflicts which have led it to restructure its political and economic institutions. The most recent of these occurred in 2003 when the United States invaded Iraq on the premise that it would find weapons of mass destruction and that Iraq was involved in terrorist attacks targeting the United States. This conflict led to the longstanding president of Iraq, Saddam Hussein's removal and a further restructuring of the Government of Iraq (GoI). The latest incarnation, a federal parliamentary system was developed and written into a new constitution in 2005. The state of Iraq has a history of leadership by the Ba'athist tendency – a strain of socialist thought coupled with Arab nationalism. This political economic model has proven somewhat ineffective in Iraq and other nations who subscribe to Ba'athist or neo-Ba'athist thought, appear to be moving towards more economically liberal policy.

The Kurdish Region of Iraq (KRI), otherwise referred to as Iraqi Kurdistan, is a federal entity of greater Iraq included in the 2005 constitution. For simplicity in this analysis, the KRI will be referred to as a 'state' rather than an autonomous zone, though the KRI does not exercise complete sovereignty. The politics of the KRI are very similar to those of Iraq, however, the KRI has a great deal of autonomy in its governance. Since 1992, the KRI has operated under the administration of the Kurdistan Regional Government (KRG). This grouping of institutions is defined in the same terms you could use to define the government of a nation state. The institution underwent reforms at the same time as, Iraq and it too adopted a new constitution in

2005. This new constitution outlined and put into practice a parliamentary democracy largely based off of the prior structure of the KRG from 1992-2005. The KRG operates largely as if it were its own state, and has ample autonomy in policy decisions including choices in economic, fiscal, and monetary policy.¹ The KRG, having been under Ba'athist rule, still has a political economy which largely resembles that of Iraq and much like contemporary Iraq, shows a similar move towards developing into a more economically liberal state.

Basis for Comparative Analysis

There are a number of reasons that Iraq and the KRI serve as interesting subjects for a comparative analysis in political economy. Both of these states have very similar backgrounds as one has grown out of the other. While it could be argued that one could analyze Iraq as a single political economy, it would be impossible to do so without at least acknowledging the presence and differences inherent to the Kurdish model. This parallel history allows for in-depth, comparative analysis based off of institutional relationships informed by substantially different ideologies emerging from the cultural autonomy of the KRI. There have also been parallel trends in the development of each state away from the Ba'athist political tendency and towards political economic liberalism. As a result of Kurdish quasi-independence the KRI has developed, and is largely still developing, a capitalist political economy which differs from the state it is a part of. This essay establishes a framework for analysis focusing on the convergence and similarities of institutional development in both the KRI and the greater Iraqi state while observing the ideational roots of this development as it takes hold in emerging political economies.

Conceptual Framework for Analysis

1. Foote, Christopher, William Block, Keith Crane, and Simon Gray. "Economic Policy and Prospects in Iraq." *The Journal of Economic Perspectives* 18, no. 3 (2004): 47–70., 18.

A defining component of capitalist political economy is the relationship that the state has to the market. The conceptual framework used here is designed to analyze three aspects of the political economy of Iraq and the KRI as well as evaluate the ideational roots of these institutional relationships to provide insight into the development of each political economy. By evaluating, first, the institutional relationships and later giving ideational background to those relationships one can make a decisive claim as to the nature of the political economy of the state and speculate on future developments.

Institutional Relationships

This analysis depends on a comparison of the institutional relationships that these states have to different types of firms. Here, firms are to be differentiated industrially and by productive capacity meaning that this analysis looks at the states' relationship to key or defining industries like oil that comprise a significant portion of the nation's GDP. This framework also targets the relationship that these states have to smaller firms such as small scale manufacturing and the service industry. The second part of this conceptual framework is the relationship that the state has to employment. This means evaluating who can/is employing workers in the state focusing specifically on the presence of public sector versus private sector employers. The third aspect of these states' political economy that is being analyzed is the relationship they have to the financial sector focusing on how they interact with banks and foreign investment. By evaluating these institutional relationships one can see what role the state plays in the overall political economy and whether the state can be characterized as controlling or liberal. Unlike the Varieties of Capitalism (VoC) approach spearheaded by Peter Hall and David Soskice, this framework is

making institutional comparative evaluations on only the macro scale, looking to the broader practices of the states in their political economy.

Ideational Backgrounds

This analysis assumes that institutional relationships are rooted in ideology. Though both of these states have a shared history and may make similar choices in political economic policy, they are informed by significantly different ideational backgrounds. This framework outlines the confluence of these different ideologies in each states' political economy and shows how, despite having different a ideational basis behind policy, the two states have taken similar steps in the development of their respective political economies. The approach used in this paper to comparative ideational analysis follows two veins of thought. The first is a Weberian approach defined by a strict historical and cultural analysis of ideological elements which impact political economy. The second approach is inspired by political economist Deirdre Nansen McCloskey and their essay *The Great Enrichment Came and Comes from Ethics and Rhetoric*. The McCloskeyian perspective is utilized primarily to evaluate the impacts of international involvement in contemporary ideational developments in the restructuring of Iraq and the KRI.

Profiles/Contrasting Characteristics of Political Economies

Institutional Relationships in Iraq's Emerging Political Economy

Iraq, before the restructuring of 2005, was known for its politically dominating, “Pan-Arab Socialist Party”. It is important to understand that the political economy of Iraq, prior to the 2005 restructuring, was dominated by the state. The GoI controlled the entry of all new firms into the market and these firms were supposed to align their productive assets with the “national

plan”.² The prewar political economic environment of orthodox Ba'athism was based on the national control of industry without much foreign trade or investment.³ While there was some variation in the relationships between the firms and the state and not all industry was under complete state control. There was an active private sector, though as mentioned before, these firms were expected to comply with the government's national plan. This is the environment from which contemporary Iraq emerges after its restructuring.

The political economy of the immediate post-war era was far from stable. The state still retained a lot of the Ba'athist institutional structures of the previous era. A lot of the political economy of pre-war Iraq remained as serious reforms seemed unpalatable, or perhaps unfeasible given the landscape of the country recently out of a war. The Coalition Provisional Authority (CPA), an international reform organization chartered through a somewhat liberal interpretation of Article 64 of the Geneva Convention of 1949 was established to institute reforms to Iraqi political economy in the post-war era.⁴ The 2003 war was noted as, “... fundamentally [differing] from previous wars because this external intervention opened the window of opportunity to create new political and economic institutions”.⁵ The goal of the CPA was initially to make sweeping reforms, however they faced a number of limitations both legal and logistical.⁶ As a

2. Foote, Christopher. “Economic Policy and Prospects In Iraq.” Harvard University, April 28, 2008. 22.

3. Ibid., 23.

4. Foote et al., “Economic Policy and Prospects in Iraq.”, 15.

5. A.M El-joumayle, Omar. “Economic Growth, Abrupt Institutional Changes, and Institutional Policies: The Case of an Oil-Exporting Country.” Accessed March 18, 2017. https://www.dohainstitute.edu.qa/MEEA2016/Downloads/Omar%20El-joumayle_Final.pdf.

6. Foote et al., “Economic Policy and Prospects in Iraq.”, 15.

result, Iraq did not undergo many significant reforms and did not change many of the institutional structures which were features of the Ba'athist system.

The institutional relationships of contemporary Iraq, while still undergoing some reform and restructuring can be characterized in the following terms. The state's relationship to the firm has shifted towards a more liberal perspective. Rather than the state maintaining control over most, if not all institutions in the form of State Owned Enterprises (SOE), there is, from CPA reforms, some minute freedom in entrepreneurship. Frank R. Gunter notes in his book *The Political Economy of Iraq* that, “An estimated 192 SOE and 43 mixed ownership firms continue to dominate the economy of Iraq...”.⁷ The SOE model, a holdout of Ba'athist nationalized industry remains the defining feature of Iraqi political economy. Gunter goes on to note that,

The products and services produced by Iraqi SOE include almost all of those consumed by a modern economy. In addition to producing construction materials, petroleum production, weapons, and electricity generation; state-run entities also rent limousines, operate dairies, manufacture household furniture and cigarettes, weave carpets, and operate automobile dealerships and gas stations.⁸

It is clear that the SOE model has undergone little change since the days of Ba'athist rule and that the economy of Iraq is still primarily controlled by the state.

Oil, being the largest export in Iraq standing at 64.307% of GDP at the time of restructuring, is still almost entirely controlled by the government.⁹ The Iraqi Ministry of Oil and its sixteen SEOs accounted for, “... more than 90% of government revenue and 80% of foreign

7. Gunter, Frank R. *The Political Economy of Iraq: Restoring Balance in a Post-Conflict Society*. Edward Elgar Publishing, 2013., 164.

8. Ibid.

9. “Oil Rents (% of GDP) | Data.” *World Bank*. Accessed March 20, 2017. [http://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS?locations=IQ](http://data.worldbank.org/indicator/NY.GDP.PETR.RT.ZS?locations=IQ;); Gunter, *The Political Economy of Iraq*, 97.

exchange earnings”, for the state of Iraq in 2015.¹⁰ In other larger firms such as the natural gas industry and the declining large-scale manufacturing industry suffer from the same management style. The relationship between the state and key industries can be characterized as more controlling than liberal understood by the state ownership over the means of production in this area of their political economy.

While the political economy of Iraq is dominated by the SEO model, it is not limited to this SEO model. The state, while exercising significant control over its key industries, does allow for the continuing development of a small private sector. There has always been some presence of private sector industry in Iraq among smaller firms. Before 2003, this was focused primarily in small-scale agriculture as that was outside of the scope of state managers. Gunter writes,

Prior to 2003, with the exception of non-grain agriculture, the private sector was suppressed as part of the Arab Ba’athist Socialist Party’s philosophy. Since then, private sector growth has occurred mostly in the informal sectors of the economy. The quality of employment data is very low but an estimated 20 percent of the labor force was employed in the informal economy in 2009. As expected, most firms in the informal economy are very small and in the service sectors.¹¹

The Ba’athist pre-war economy returned its highest in Gross Capital Formation (GCF) in the years between 1989 and 1991.¹² During this time, the private sector reached its height as well, even outperforming government owned industry at the end of 1991.¹³ The same cannot be said of today. Gunter’s ‘informal economy’ is made up of small firms focused primarily on the service sector. There are two kinds of entrepreneurs emerging in contemporary Iraq. The first is the

10. “The World Factbook — Central Intelligence Agency.” *CIA World Factbook*. Accessed March 20, 2017. <https://www.cia.gov/library/publications/the-world-factbook/geos/iz.html>.

11. Gunter, *The Political Economy of Iraq*, 183.

12. Foote, “Economic Policy and Prospects In Iraq.”, 36.

13. Ibid.

Kirznerian, focused on the buying and selling existing products across markets. The second is the Schumpeterian type which is looking at the development of, "... new products, markets, [and] manufacturing processes..."¹⁴ Gunter argues that Iraq, as a result of the post-war society and the relative stability after a series of economic shocks, is in demand of entrepreneurs of both types in order to combat what others have referred to as, "Dealing with inefficient or nonfunctioning SOEs."¹⁵ The result is the slow growth of the private service sector among other small firms. The state has very little involvement with these firms and the entrepreneurial ventures in the informal economy are not tied to any national plan. It could be said that the relationship between the state and smaller firms is liberal, though a number of smaller firms, as previously mentioned, fall under the ownership of a variety of SEOs. While there is some opportunity for entrepreneurship, it is limited because of the oligopoly maintained by the state.

One of the reasons there is a call for the expansion of the private sector and the demand for entrepreneurship in Iraq is the state of the labor market. Gunter notes that, "Iraq faces a severe unemployment problem because of its rapidly growing population."¹⁶ The issue of employment in Iraq is serious as post-war unemployment was reported at levels as high as 28% in 2003.¹⁷ The unemployment rate dropped down to an estimated 16% as of 2012.¹⁸

While recognizing the importance of unemployment, another defining feature of Iraqi political economy is the state's relationship to its workforce. This framework has already found that the majority of the firms in Iraq are publicly owned with only a small contingent of private

14. Gunter, *The Political Economy of Iraq*, 185.

15. Ibid.; Foote, "Economic Policy and Prospects In Iraq.", 75.

16. Gunter, *Iraq's Political Economy*, 183.

17. Foote et al., "Economic Policy and Prospects in Iraq.", 14.

18. "The World Factbook — Central Intelligence Agency."

sector industry existing in the shell of the old Ba'athist economy. It is not hard then to extrapolate who the major employers are. In a 2003 – 2008 study conducted by the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) the following findings were published. Firstly, as of 2008, 31% of the Iraqi labor force is directly employed full time by the government.¹⁹ There remains 4% employment of part-time employees by the public sector, 25% full time employment by the private sector with 22% part time employment by private firms.²⁰

These employment numbers are very telling and make more apparent the role of control the state of Iraq exercises in its political economy. The same OCHA report that provided the employment data also published the conclusion that, “Opportunities for private sector job creation have been limited by a dominant public sector...”²¹ It is fairly clear that the Iraqi state, despite the reforms of 2005, is still fairly controlling in its relationship to the labor market. The expansion of the public sector to accommodate an exceptionally high unemployment rate is stifling to the expansion of private sector employment. Thus, the state is directly responsible for the lack of growth in the private sector and the constancy of the high rate of unemployment.

The Iraqi relationship to the financial sector and foreign investment is the third, and final piece of the conceptual framework for this analysis. The Iraqi state, prior to the 2003 war, was limited to a state-owned banking system with little to no foreign investment.²² This has since

19. “Iraq Labour Force Analysis 2003-2008.” United Nations Office for the Coordination of Humanitarian Affairs, January 2009.
<http://www.unglobalpulse.org/sites/default/files/reports/OCHAIAU%20LabourForceImpactsIraq%202009.pdf>, 2.

20. Ibid.

21. Ibid.

22. Foote, “Economic Policy and Prospects In Iraq.”, 23.

changed and the reforms of the CPA have had a significant impact in this area unlike the other two aspects of Iraqi political economy that have been evaluated thus far. Iraq is notable for having a somewhat ineffective banking system, however it has improved since 2005. Gunter describes the banking system as, “The two state-owned banks, Rafidain and Rasheed Banks, were once the leading financial institutions of the Middle East. Despite their relative deterioration, they still overshadow their private sector competition in Iraq.”²³ What is important to note here is that there is some growing competition. In addition, the deterioration of the duopoly between Rafidain and Rahseed banks has resulted in a number of other state owned banks emerging into the financial sector of Iraq effectively dispersing concentrated power. There are now six publicly owned commercial banks in Iraq with twenty-four competing private banks.²⁴ There are also nine publicly operated Islamic banks who adhere to the ethical standards of the Islamic faith, as well as seven which are privately run.²⁵ In addition there are a number of foreign banks which have stake in Iraq – twenty-two have been incorporated and are allowed to conduct business on Iraqi soil.²⁶ This is a stark shift from the duopoly of Ba'athist financial institutions which existed before restructuring.

Legislation passed in 2006 known as the National Investment Law, a legal structure that, “... provides a baseline for... [the protection of] foreign and domestic investors in addition to

23. Gunter, *Iraq's Political Economy*, 138.

24. “Iraqi and Foreign Financial Institutions.” *Central Bank of Iraq - Iraqi and Foreign Financial Institutions*. Accessed March 20, 2017. <http://www.cbi.iq/index.php?pid=IraqFinancialInst>.

25. Ibid.

26. Ibid.

providing investment incentives.”²⁷ This reform was a part of the CPA reform plan and its implementation helps to categorize and understand Iraq's political economy to be more liberal. On the issue of foreign investment, the central state has been gradually dispersing its power. Rather than all investment being managed by the state a great deal of agency has been afforded to the local governorates and their councils.²⁸ It is important to note that laws like the NIL do not apply to all of Iraq and the KRI is not under the jurisdiction of the legal framework that implements these advances in the liberalization of foreign investment.²⁹ Overall, Iraq's financial sector is indicative of a movement towards a more liberal political economy.

Ideational Foundations of Iraq's Emerging Political Economy

Max Weber, in his famous essay *Protestant Ethic and the Spirit of Capitalism*, establishes a precedent for ideational analysis in political economy that is predicated on cultural backgrounds and influences. In Iraq it is clear that the three defining ideational influences, from a Weberian inspired perspective, are Ba'athism, the Islamic faith including both the Sunni and Shiite sects of Iraq, and Western ideology as a result of international intervention. By evaluating the historic background of these influences, one can understand the background of the contemporary political economy of the state and suggest what influences are contributing to the developing 'spirit of capitalism' of Iraq.

Ba'athism has had a profound effect ideologically on the political economy of Iraq. The ideology itself emerged as a response to Western colonialism in the 1940s founded in the paths established by the wake of Arab nationalism left after the Arab revolt, the fall of the Ottoman

27. “Executive Summary 229082.” U.S. Department of State, June 2014.
<https://www.state.gov/documents/organization/229082.pdf>, 3.

28. Ibid.

29. Ibid.

Empire, and the end of World War I.³⁰ This Pan-Arabic ideology touts itself as “socialist”, though as many have noted, the definition of “socialism” was fairly ambiguous and this ideology had, “No role for class struggle...”³¹ Arabian unity was the main focus of this ideology and promoted nationalism and national sovereignty as core tenets of its platform. This ideology was focused on uniting Arabic peoples as a cohesive ethnic group and it is this set of ideas that inform the Ba'ath's policy positions. Like Francis Bellamy's efforts to promote the nationalization/socialization of industry by growing domestic nationalism, the Ba'athist position justifies state control of economic institutions and as a result effectively removes “... animating spirit...” of capitalism.³²

The Islamic faith has also been instrumental in suppressing the development of Western style liberal capitalism in Iraq. Contrary to the thesis laid out by Weber, that the “Protestant work ethic” was the cause of economic development in the West, it would appear that the Muslim work ethic which, according to Weber, is the ideational root of economic development, ideationally falls in line with Protestantism, but suffers from conflicts with gender equity.³³ Historically, Iraqi law has pushed the issue of gender equity, but confronted “religious and cultural strictures.”³⁴ The Ba'athist ideology, “... strongly supported female equality in government employment although there was substantial backsliding from this ideal during the sanctions period.”³⁵ Gunter writes that, in fact,

30. Devlin, John F. “The Baath Party: Rise and Metamorphosis.” *The American Historical Review*, 1991, 1396–1407.

31. Foote, “Economic Policy and Prospects In Iraq.”, 18.

32. McCloskey, Deirdre. “The Great Enrichment Came and Comes from Ethics and Rhetoric.” University of Illinois at Chicago. Accessed March 20, 2017., 32.

33. Gunter, *Iraq's Political Economy*, 18.

34. Ibid.

35. Ibid.

A more recent study concluded that Muslims ranked even higher than Protestants with respect to pride in work and willingness to sacrifice to make a better future (Zulfikar 2012). Therefore, it is ironic that the great benefit of this strong religion-based “work ethic” is more than offset by an unwillingness to allow one-half of the population to fully participate in building a better Iraq.³⁶

Coupled with the Ba'athist political ideology prevailing in governance, the religious and cultural issues of gender equity are incredibly restrictive aspects of Iraqi ideation which prevents greater economic growth and development.

While the years of Ba'athist rule as well as broader cultural beliefs have suppressed market developments there are other ideational influences which have both worked to create and proliferate a 'spirit of capitalism' in Iraq. The GoI has undergone a great deal of structural and institutional change in recent years and a great deal of this change was inspired by or initiated by Western interventionism. Rather than view the ideational shifts as the result of hegemony, it is arguably more productive to view the legal move of the GoI towards liberalization as a result of a change of rhetoric resulting from a confluence of events including the economic decline of Iraq in the 1980s to 1990s from changes in the oil market, the challenges to Ba'athist political economic systems during wartime, and the deposition of Saddam Hussein. Effectively the culmination of these political events resulted in ideational shifts that are not deeply rooted in culture or established ideology, but instead loosely informed by Western interventionism as Iraq and the powers involved in its restructuring sought alternatives to its existing institutions.

After the deposition of Saddam Hussein and the establishment of the CPA in conjunction with the GoI, the rhetoric shifted away from Ba'athism and Pan-Arab nationalism and towards liberalization. This is reflected in American diplomat Paul Bremer's speech to the WEF in 2003

36. Ibid., 19.

as he states, “... Iraq’s private sector needs a clear commercial code, honest courts, low barriers to entry and transparent corporate governance arrangements... Countries around the world are rediscovering these prerequisites to growth, and a burgeoning academic literature confirms their importance in empirical data.”³⁷ This rhetoric and focus on liberalization is pervasive in the CPA and the reforms that were instituted thereafter. This is reflected by a number of working groups which comprised of representatives from outside organizations working with the GoI in feasibility studies and recommendations on the use of Special Economic Zones (SEZs).³⁸ Some of these suggestions included the abolition or the phasing out of SEOs, or shutting down SEOs which failed to meet standards of productivity.³⁹ Similarly, discussions around liberalization of the oil industry, serious monetary reform, expanding foreign direct investment, and developing stable institutions for a transitional market economy took place among supranational organizations such as the World Bank.⁴⁰ While not all reforms that were suggested were implemented or have been implemented at this time, it is important to note that these were the discussions the GoI had been engaged in during the restructuring process. While this new rhetoric could not entirely supersede the Ba'athist legacy, these discussions greatly contributed to the shift in ideation which would inform the new policies and institutional structures of a post-war Iraq. The inspiration for much of the shift in rhetoric is

37. Foote, “Economic Policy and Prospects In Iraq.”, 61.

38. Reed, June. “EXECUTIVE SUMMARY FEASIBILITY STUDY OF BUSINESS DEVELOPMENT ZONES IN IRAQ.” November 2009. <https://www.oecd.org/mena/47563712.pdf>.

39. Foote, “Economic Policy and Prospects In Iraq.”, 78.

40. “BUILDING A SUSTAINABLE INVESTMENT CLIMATE IN IRAQ.” World Bank, September 27, 2004. <http://siteresources.worldbank.org/IRFFI/64168382-1092419012421/20266666/Investment%20Climate.pdf>. i – v.

rooted in the practices employed in Eastern European transitional states, though the reforms of the GoI and the organizations it worked with appear to emerge naturally rather than having been imposed or tied to the ideology of other nations.⁴¹

Institutional Relationships of the KRI's Emerging Political Economy

The KRI and Iraq have a very close history of institutional relationships. The KRI was, after all, under the GoI until 1992 when they were able to develop a regional government. Resulting from a long history of an Iraqi political economic environment, the Ba'athist regime has left the KRI with many of the same political economic relationships to institutions. Looking at key industries, the KRI, like Iraq, is incredibly dependent on the production of oil. This production, again like greater Iraq is managed by state owned firms.⁴² The same can be said of the Kurdish gas industry, and most heavy manufacturing.⁴³ While there is limited data on the KRI, there is information that points to the KRG moving towards liberalization far faster than the greater state of Iraq. Whereas the GoI showed few steps towards liberalization of the oil industry the KRI is far more open and even has a number of contracts with foreign companies. One may categorize this aspect of the political economy of the KRI as more liberal than Iraq itself.

The KRI is not quite as limited as Iraq when it comes to the development of its political economic institutions. As a result of monetary policies and regional non-involvement in the 2003 Iraq conflict, the KRG has remained relatively stable and has not suffered the same institutional

41. Foote, "Economic Policy and Prospects In Iraq.", 78.

42. "KURDISTAN REGION OF IRAQ REFORMING THE ECONOMY FOR SHARED PROSPERITY AND PROTECTING THE VULNERABLE." Kurdistan Regional Government. Accessed March 18, 2017.
<http://documents.worldbank.org/curated/en/672671468196766598/pdf/106132-v2-main-report-P159972-PUBLIC-KRG-Economic-Reform-Roadmap-post-Decision-Review-05-30-16.pdf>.

43. Ibid.

shocks that have hurt economic growth. Since the region has been so stable, the Kurds have been able to, “promote [their] burgeoning private sector and attract foreign investments in both oil and non-oil sectors.”⁴⁴ Relative stability in wartime proffered an opportunity for the KRG to engage in much needed economic reforms which led towards growth and economic development while the whole of the Iraqi state languished.

Pertaining to smaller firms, the same is true. The KRI, as it noted in this 2015 report from the World Bank,

The private sector grew, but from a low base, and the financial sector remained largely underdeveloped. Starting from a low base, registration of private sector firms has increased significantly in KRI, especially in Erbil Governorate. The number of KRI registered firms has grown from 7,440 in 2008 to 13,216 in 2011 and to 20,994 in July 2014. Most of these firms are local firms; of 20,994 registered firms, only 2,822 are foreign firms.⁴⁵

Entrepreneurship has a substantive role to play in revitalizing the political economy of the KRI. While the region's private sector is developing from a very small base, it is developing faster than that of its neighbors.

The relationship the KRG has to a developing private sector is well reflected in its employment data. The state, in relation to its labor force, is far less involved compared to Iraq. The labor force in the KRI measured around the same time as that of Iraq returned employment data that starkly contrasted that of the GoI. The KRI has about 50% of the active workforce employed full time in the private sector.⁴⁶ This is compared to the meek 25% in Iraq. The KRI, as a direct result of heightened economic growth does not suffer from the same unemployment

44. Ibid.

45. World Bank. *The Kurdistan Region of Iraq: Assessing the Economic and Social Impact of the Syrian Conflict and ISIS*. The World Bank, 2015. doi:10.1596/978-1-4648-0548-6. 22.

46. Ibid.

issues which effect Iraq. Rather, due to an absence in skilled workers the KRI has started recruiting foreign labor.⁴⁷ The relationship of the KRI to the labor market can be used to further the claim that the KRI is less controlling and provides a more liberal political economy.

The financial sector too contrasts the GoI. Where the GoI has stabilized and actually achieved some liberalization of their banking system, the KRI suffers from, “a low level of development of the financial sector.”⁴⁸ The financial sector of the KRI is dominated by three state owned banks. There are a number of private banks available as well as as well as several Islamic banks, however these firms are not nearly as active as in the Iraqi banking system. Where the political situation has remained stable in the KRG, the financial sector has not. The World Bank found that,

A general distrust in the banking sector is found because of decades of financial sector instability, with loss of deposits uncompensated. This has led to a strong preference for cash that continues, and salary payments (for both civil servants and private sector employees) are often made in cash, rather than through commercial banks.⁴⁹

Favoring cash over credit leads to the development of a weak financial sector. The lack of financial development has slowed growth in the private sector. In order to reverse this trend the KRI has said that they will be perusing, “... financial sector reforms will be needed to expand access to competitive financing for private businesses”.⁵⁰ Despite the relative state control in banking, the KRG has a far more significant relationship with foreign investment. As mentioned

47. Ibid.

48. Ibid.

49. Ibid.

50. “KURDISTAN REGION OF IRAQ REFORMING THE ECONOMY FOR SHARED PROSPERITY AND PROTECTING THE VULNERABLE.”, 87.

previously, as a result of the relative stability of the KRI, the region developed substantial foreign investment in a variety of industries.

Ideational Foundations of the KRI's Emerging Political Economy

What makes this comparative analysis so unique is that despite having similar direction and policy in their gradual liberalization, the KRI has been informed by radically different ideational backgrounds. Ba'athist thought, as defined above, still plays a role in the Kurdish region, but because the Kurdish have a different ethnic identity they do not subscribe to the same Pan-Arab ideology that developed throughout much of the rest of the Middle East. Instead, the KRI has a political history of secessionism and Kurdish nationalism. It is important to notice that there are several other regions which make up the greater Kurdistan in Iran, Turkey, and Syria. These groups do not have a cohesive or unified vision, nor do they have the same ideological influences. It is impossible then to ascribe an ideational background based solely in the Kurdish ethnic or religious identities. It is possible, however, to recognize what influences are prevalent in Iraq which do not play a role in the Kurdish region, as well as other political motivators which inform the institutional decision of Iraqi Kurdistan: the most prominent of which is the Kurdish push for independence.

The Iraqi Kurdish fail to fall within the bounds of the ideational analyzes of either Weber or McCloskey. Their diversity in religious values and their short and conflict ridden history fails to provide a solid basis for analysis. There has been, however, a constant motivator in the Kurdish world which is the move towards a independent Kurdistan. This political contingent comes into conflict with the more conservative federalists of the KRI.⁵¹

51. Ala Jabar Mohammed. "The Politics of Iraqi Kurdistan: Towards Federalism or Secession?" University of Canberra, 2013.

The KRI has been pushing for at least autonomy, the slightest bit of self determination, for decades. Since the fall of the Ottoman Empire, like many in Iraq, Syria, Palestine, and other Middle Eastern countries, the ethnic minorities have been suppressed. Ala Jaba Mohammed writes in his doctoral thesis,

... the Iraqi Kurds were subject to [marginalization], assimilation and genocide by the successive Iraqi regimes, especially Hussein 's regime (1979 - 2003). In 1990 , the Kurds revolted against Hussein's regime following the invasion of Kuwait. They succeeded in liberating a large part of Iraqi Kurdistan, but they were then defeated by Hussein's army.⁵²

The Ba'athist repression of the Kurds and Kurdish culture becomes the basis for the Kurdish push towards liberation and complete disenfranchisement with the pseudo-socialist ideology of the Hussein regime. It has been argued that the Kurdish region, having experienced years of oppression at the hands of the Ba'ath necessitates independence. The Kurds therefore have taken a great many steps in distancing themselves from the Ba'athist ideology and asserting a degree of sovereignty in their political and economic policy. Michiel Leezenberg of the University of Amsterdam writes in his report on the Kurdish move towards privatization that, "It should be stressed that strictly ethnic or political considerations on the side of the government were only one among many factors that led to this," however, Kurdish economic liberalization is heavily informed by years of cultural repression.⁵³

The other main ideological trend present in Kurdish political economy is the more conservative push for a more complete federalization. Despite the constitutional reforms of 2005, "... federalism has not been implemented in Iraq and has been widely rejected by Iraqi Arabs.

52. Ibid.

53. Leezenberg, Michael, and others. *Urbanization, Privatization, and Patronage: The Political Economy of Iraqi Kurdistan*. na, 2006. 5.

The political status of Iraqi Kurdistan is thus ambiguous and shaky.”⁵⁴ As a result of the ambiguity of the federal status of the KRG, as well as the fiscal dependence the KRI has on Iraq for funding of public programs such as their militia, there is a contingency among the Kurdish population that is pushing against independence from Iraq.⁵⁵

This is a conflict between the ethnically charged idealistic tendency and the pragmatist, reformist sect of the ideological groups of the KRI. While there is a great diversity of ethnic, religious, and political opinion in the KRI, these two ideological sects dominate the development of political economy in Iraqi Kurdistan. The secessionist sect pushes the state towards liberalization and independence for the Kurdish political economy, while the pragmatists look at institutional preservation and the options available for the gradual transition of the state-owned economy to a market economy which is compatible with the state of Iraq.

Conclusions

Observations and Evaluation

Iraq, having survived years of Ba'athist rule is a nation primarily defined by the state ownership of the means of production, high public sector employment, domineering state-run financial institutions, and a lack of significant foreign investment. These features are primarily holdouts of a Ba'athist run economy developed as a response to European imperialism.

54. Ala Jabar Mohammed. “The Politics of Iraqi Kurdistan: Towards Federalism or Secession?” 5.

55. Hawrami, Hemin. “The Future of the Kurdistan Region of Iraq: Mosul, Economic Crisis, and Self-Determination.” The Washington Institute for Near East Policy, February 8, 2016. <https://www.washingtoninstitute.org/uploads/Documents/other/Hawrami20160208-transcript.pdf>. 1.

The KRI on the other hand, while sharing a great deal of the same history as Iraq, has moved past the Ba'athist era and proceeded along the path of a transitional state making its way in becoming a liberal market economy. Though the KRI still suffers from some of the effects of its authoritarian past, it has made strides in distancing itself from the state-run modus operandi of post-war Iraq. Whereas the GoI suffered from an inactive private sector, the KRI has been able to grow theirs while attracting foreign investors, lessening their dependency on SEOs. The KRI is able to employ a significant portion of its population in contrast to Iraq in both the public and private sectors. While its financial sector is underdeveloped, it is at least on-par with that of Iraqi financial development, and is far from stagnant. The culmination of these comparisons is to observe the role that ideation plays in the development of political economic systems, and that despite sharing borders and history, the state of Iraq and the KRI have taken different steps and have been moving at different paces in their move towards developing transitional political economies.

Critique of the Possibilities of Capitalism in Iraq and the KRI

The fact that the two countries/states used for this case study are transitional states makes a clear case for the possibilities of capitalism in these two nations. By expanding markets, by expanding the private sector, and by further developing opportunities for investment and entrepreneurship, both Iraq and the KRI have ample room for growth. It would appear that by following the models of post-Communist transitional states in Eastern Europe there is a path forward in political economic development of these two states.

That is not to say that there have not been issues with this model thus far. Resistance to Western involvement and the influence of Ba'athist or Pan-Arabic ideology remains prominent in

Iraqi culture. The U.S. invasion of Iraq did not help to soften views on Western involvement or help to sell liberal economic policy. A number of reforms have been less than successful due to logistical, legal, or cultural constraints in both Iraq and the KRI. Despite these challenges, both states show varying commitments to further development of a market based economy.

On Autonomy and Developmental Political Economy

The purpose of this research was primarily to engage the idea that, by granting autonomy and governance to a region, that said region would develop its own political economy informed by the differences in ideation which informs the institutional relationships of the state. The results demonstrate that theoretically, in the case where there is an ideational landscape like Kurdistan which has developed primarily by ethnic identity and a history of conflict, that even granting semi-autonomy and limited self-rule will result in different developments in political economy. Further research is needed in order to determine whether or not this is a consistent trend, although by applying the same conceptual framework and methodology to nation-states which have similar autonomous zones one could expand and further develop this field of understanding.

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