



the Hollings Center
for international dialogue

Dialogue Snapshot
Iraq's Foreign Policy and Economic Challenges: A Next-Generation Dialogue
March 2013

For the past two years, the Syrian civil war and the tortuous transitions in Egypt and elsewhere have stolen Iraq's media limelight. Yet, Iraq is in a critical stage of political and economic development, and its growing potential as a regional lynchpin runs alongside great domestic uncertainty, divisions and soul-searching about where the country is headed.

What can Iraq do to turn its internal diversity into an asset for foreign policy rather than a liability? Will the economy remain singularly oil-dependent, or will Iraqis find a way to create a more dynamic private sector that is not subject to the curse of oil wealth? Where is Iraq headed as a nation, and what can next-generation Iraqi leaders do to bridge regional and sectarian divisions?

To address these and other questions, the Hollings Center convened a three-day Next-Generation Dialogue entitled, *Iraq's Foreign Policy and Economic Challenges*. Held in Istanbul, the dialogue brought together a young group of scholars, journalists, civil society members, development workers, government officials and entrepreneurs from Iraq, the United States, Turkey and the broader region. The dialogue was a rare opportunity for Iraqis from the country's various regions and communities to share their thoughts and experiences with one another and with their American counterparts.

“Everytime we talk about Iraq, we talk about the past and about who is to blame for our current problems. I don’t want to hear these old versions or threaten to separate if things don’t get any better. This would not be a next-generation dialogue.” Iraqi participant

While this dialogue snapshot cannot convey to readers the full extent of the discussions—at once emotional, contentious, inspiring and productive—it presents several highlights:

- Iraq's international image has improved more slowly than the country's actual progress. In an interactive exercise, participants mapped Iraq's progress, enduring challenges and potential fixes. The surprising results can be found in the **table** (page 6).

- Iraq produces multiple foreign policies that are often at cross purposes. If Iraq unifies its foreign policy, it will become a force to be reckoned with in the region.
- Iraq's politics have become more pragmatic in the past two years, but this pragmatism is easier to spot locally within Iraq's regions rather than nationally.
- It's hard to see how Iraq can break its dependence on oil; but legal and capacity-building measures can deploy oil wealth to better foster social and economic development.

Dueling Foreign Policies

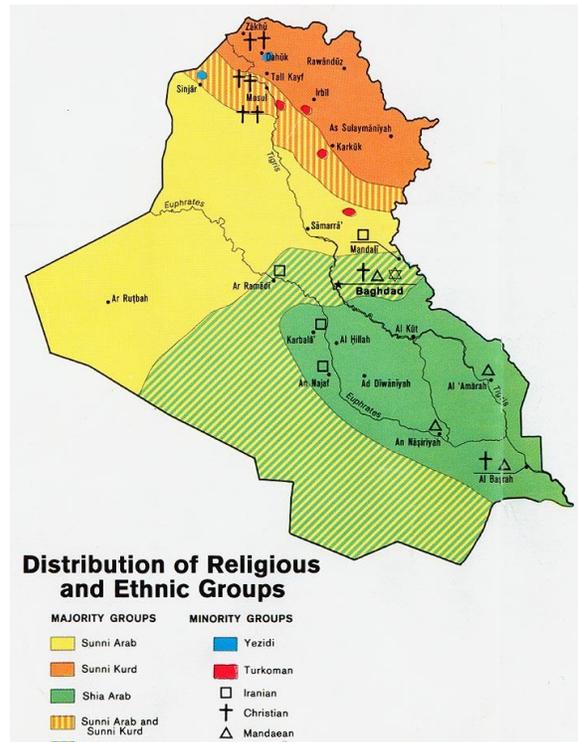
Does Iraq have a foreign policy? This question implicitly framed much of the dialogue's debate on Iraq's relations with its neighbors, the broader Middle East and the United States. Iraq is, after all, a country with pronounced regional, political and institutional divisions whose competing interests undermine the pursuit of a coherent foreign policy. While most observers cite divisions between Baghdad and the Kurdish Regional Government (KRG) as the primary example, the dialogue discussions revealed lesser-known dilemmas in Iraq's foreign policy. In principle, Iraq's foreign policy is supposed to be made by the Prime Minister's office in coordination with key ministries such as Defense, Trade, Foreign Affairs and the NSA. In reality, divisions across Baghdad's ministries may prove more frustrating for foreign-policy making than the tussles between Iraqi Prime Minister Maliki and KRG President Barzani.

Some participants noted that neighboring states such as Turkey and Iran enable Iraq's regions to pursue *de facto* foreign policies. One participant cited Turkey's relations with the KRG: "As long as the north feels that they have an export route through Turkey, they have no incentive to find a resolution with the central government." Another participant noted that Turkey may be Iraq's largest trading partner, yet Tehran's influence is "more pervasive, smarter and more intricate." A number of Iraqi participants claimed Iran's influence is overstated: "Iran is itself weak, divided and needs Iraq to circumvent sanctions." However, this will change if Assad falls in Syria and Iran doubles down on Iraq.

Iran may not be Iraq's biggest problem in forging a unified and more independent foreign policy. One of the dialogue's surprising moments revealed growing tensions between Iraq and Qatar. Doha has aggressively armed Sunni militias in Syria and reached out to disaffected Sunnis in Iraq. Indeed, recent protests and violence in Anbar (a heavily Sunni Iraqi province abutting Syria) may have triggered a warming between Iraq, Jordan and Saudi Arabia.

Although Iraq's internal diversity and neighboring countries have made it difficult for Baghdad to pursue a unified foreign policy, the country has noted some diplomatic milestones. Baghdad treaded very carefully during the Syria crisis and successfully led a productive meeting of the Arab League in 2012 in an effort to improve its diplomatic image in the region. At the same time, participants at the dialogue admitted that there was much room for improvement and out-of-the-box thinking.

Bilateral relations between Iraq and a number of other regional countries remain thorny, and fixing these is *prior* to Iraq becoming an energy hub for the region. Instead, a couple of participants suggested that Iraq can deploy its current oil stocks and revenue more strategically in the region to improve its relations with key states. This happened recently with Jordan, and one participant suggested that Iraq do the same with Egypt to help ease the country through its economic crisis. This suggestion met with some skepticism as one participant asked, “What can Egypt possibly give Iraq?” The *Ikhwan* (MB) has tremendous influence over Sunnis, including those in Iraq, was one response. While the viability of this proposal remains untested, it does suggest that Iraq could become a regional force, if it consolidates its foreign policy. In that respect, Iraq’s diversity may be turned from a liability to an asset; Iraqi communities can be used to better bilateral relationships with states in the Middle East.



Map of Iraq. Does the US see Iraq through sectarian-colored glasses?

The role of the United States was discussed throughout the dialogue, but it was during the discussion of foreign policy that these exchanges were the most challenging and thought-provoking. An American participant asked, “Tell us what you want from the United States in the coming years.” This triggered both emotional and candid responses from Iraqis who expressed great distress about the state of the bilateral relationship. One Iraqi noted that American officials, media and the educated public see Iraq as hopelessly sectarian, making it easier for the US to disengage in the future. Another Iraqi praised the cultural and educational exchanges sponsored by the US in Iraq but also noted that the 2008 American elections had been highly traumatizing for the Iraqi public. The lack of attention on Iraq during the campaign generated Iraqi fears of abandonment that linger today. She suggested that American policymakers and politicians think more deeply about how messages geared for the American public affect Iraqis who are also following U.S. news.

In Search of a Social Contract

Can Iraq be more than the sum of its parts? Answering this question is no easy task in the wake of the civil conflict that raged in 2006 and 2007 and which continues to weigh heavily on all Iraqi communities, including the country's youth (50% of the population is less than 19 years old). Intermarriage rates in Iraq are dismally low, with 99% of Shia, Sunnis and Kurds marrying within their communities now. The dialogue took place following demonstrations in Anbar province that stoked a political crisis and have dominated Iraqi news. Participants at the dialogue made a concerted effort to move beyond simple diagnosis of Iraq's social problems and made a number of suggestions to address these.

"We often talk in regional terms, but politics in the Middle East is much more local now. Egyptian, Tunisian, Libyan politics are all very local. Iraq is no different."
American participant

"Politics in Iraq are more pragmatic these days, but among ourselves at the local level." Iraqi participant

Iraq's Constitution may be one of the key vehicles in this process. Nearly 80% percent of voters supported the text, but as one participant pointed out, not many voters had the opportunity to fully read the text to understand its implications. The text of the Constitution governs a series of crucial issues—the powers of the regions, electoral laws and parties, the judiciary, oil wealth and the greater political economy—but it is riddled with contradictions and ambiguities that leave many of its clauses open to interpretation. The Constitution has outlived its usefulness in the present form and produces more crises than it resolves. The crises between the KRG and Baghdad on oil and regional versus federal powers are typically cited, but lesser-known examples are equally consequential. For example, Iraq's electoral system means that citizens in provinces vote for party lists rather than individual candidates. As a result, people are represented by parties and rarely know who their representative is in Parliament. This allows Parliament members to pass the buck on crucial issues affecting constituents and to skirt accountability. Amending the Constitution will not be an easy task; as one Iraqi participant put it, "Everyone is afraid that if it is amended, they will lose something in the process."

Dialogue participants also suggested a number of other fixes: In a breakout session on capacity building, participants agreed that Iraq's unions and professional associations (doctors, teachers, engineers, workers and lawyers) are an excellent way to deal with political and economic development problems in Iraq. Professional associations have been surprisingly underutilized in this regard given that many Iraqis have strong attachments to their professional identities. These attachments can cut across ethnic and religious lines and channel country-wide initiatives on capacity-building and development. This suggestion goes hand in hand with the observation made by one participant that there remains precious little space for technocrats in many of Iraq's bureaucracies. Professional associations may be a good vehicle to push government officials to replace "politicians" with "technocrats."

In the Shadow of Oil

It would be an understatement to say that Iraq's economy is oil-dependent. Oil constitutes over 60% of GDP, 90% of government revenue and 99% of exports. This is at once a blessing and a curse. On the upside, the government benefits from a secure pool of revenue, a resource that few post-conflict states have at their disposal. On the downside, the agricultural sector is in decline (it is cheaper to import crops than to grow them), parts of Iraq suffer from severe environmental degradation (land-based oil spills from pipelines and tanker trucks) and patronage structures are awash in cash. Moreover, easy access to revenue creates little incentive to develop a robust and diverse private sector beyond petroleum.



Randa Slim, the dialogue's moderator, organizing the breakout sessions.

At the dialogue, participants discussed the drag that an oil-fueled public sector exerts on the private sector. More than one-third of the labor force is in the public sector (similar to rates in the Saddam Hussein-era). This creates bureaucratic inertia and also dissuades young Iraqis from entering the private sector. To address this imbalance, participants made various suggestions: reduce public salaries to channel more interest into the private sector; amend labor laws to help small and medium-sized enterprises; and institute a publically-funded social safety net for the private sector.

Using the example of cities in the KRG, one participant explained that “political and economic development appear to be at cross-purposes.” Erbil, the regional capital, is rich but has authoritarian political tendencies, whereas in Sulaymaniyah the economy lags but politics is more democratic and civil society is stronger. At the same time, the abundance of consolidated government revenues in Erbil has created certain opportunities for the private sector. Politicians there are now focused on multi-billion dollar oil contracts and have taken an increasingly laissez-faire approach to small businesses that once were encumbered by formal and informal fees and taxes from government officials.

Lastly, participants commented on the underdeveloped state of Iraq's domestic infrastructure, in particular the road and rail network. The subject triggered an interesting debate on where Iraq is headed as a nation. As one participant put it, the various communities in Iraq are oftentimes more transnationally connected than they are nationally. Arab-Iraqis from the center and south have little opportunity to see first-hand the economic dynamism of Erbil in the north. And civilians from Erbil rarely go to Baghdad where they might visit an Iraqi Parliament that, for all its faults, is more politically contentious and vibrant than their own. As one Iraqi summed it up, “Without mobility, you can't build a national identity.”

Iraq: A Baseline 2013		
Positive Developments	Ongoing Challenges	Possible Fixes
Foreign Policy		
Iraq's geographic position, economic resources and internal diversity create potential for cultivating better relations with neighbors	Influence and veto power of external actors (for example, Iran)	More participation in multilateral initiatives
Foreign policy is no longer identity-based but pragmatic, as in the case of KRG-Turkey relations	Lack of cohesive foreign policy - regions, ministries, parties adopt countervailing or uncoordinated policies in foreign relations	Use economic assets to improve relations with key states and consolidate regional role
Economic		
Increased per capita GDP – from \$683 USD in 2003 to \$3,758 USD in 2011	“Resource curse”: no incentive to diversify the economy	Promote more downstream development—incentivize production of refined oil instead of crude oil exports
Huge boom in oil exports is creating record levels of revenue - \$75-80 billion USD or 90% of government revenue	Increased oil revenue fuels patronage in politics	
Increased security in the north leads to increased investment	Security issues south of KRG are a disincentive for international companies	
	Bloating of public sector, particularly at the expense of small and medium-sized businesses	Promote publicly-funded social safety nets
	Weakened agricultural sector and environmental degradation	

Iraq: A Baseline 2013 (cont.)		
Positive Developments	Ongoing Challenges	Possible Fixes
Political		
Existence of provincial councils and growing civil society	Provincial councils still lagging in skill sets and implementation	Promote tenure of technocrats and insulate them from shifting sectarian and political appointments
Politicians more willing to appeal directly to people	Gap between the political elite and the public	Amend electoral system based on smaller constituencies
Pragmatism starting to trump sectarianism – political parties forming cross-sectarian alliances	Political pragmatism is still locally confined and sectarianism determines cross-regional politics	
	Imbalance of powers (executive > legislative > judiciary) Rule <i>by law</i> , not <i>rule of law</i>	Amend constitution to include unambiguous provisions on term limits of leaders, judicial indep., freedom of press and protection of indep. commissions
Social		
Iraq is a country of great diversity – rich social capital	Iraqi policymakers focus on large sectarian groups; smaller minorities and non-sectarian fault lines less visible	Reactivate professional associations that cut across ethnic and religious fault lines
Overall decrease of sectarian violence, especially Shi'a restraint	Trauma of the 2006-2007 sectarian conflict still vivid, which makes people unwilling to deal with pressing reform issues	
Iraqi population more global in part thanks to educational and cultural opportunities for Iraqis abroad	Low internal mobility	Promote more inter-Iraqi exchanges



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The Hollings Center for International Dialogue is a non-profit, non-governmental organization dedicated to fostering dialogue between the United States and countries with predominantly Muslim populations in the Middle East, North Africa, South Asia, Eurasia and Europe. In pursuit of its mission, the Hollings Center convenes dialogue conferences that generate new thinking on important international issues and deepen channels of communication across opinion leaders and experts. The Hollings Center is headquartered in Washington, D.C. and maintains a representative office in Istanbul, Turkey. Its core programs take place in Istanbul—a city whose historic role as a crossroads makes it an ideal venue for multinational dialogue.

To learn more about the Hollings Center's mission, history and funding:

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