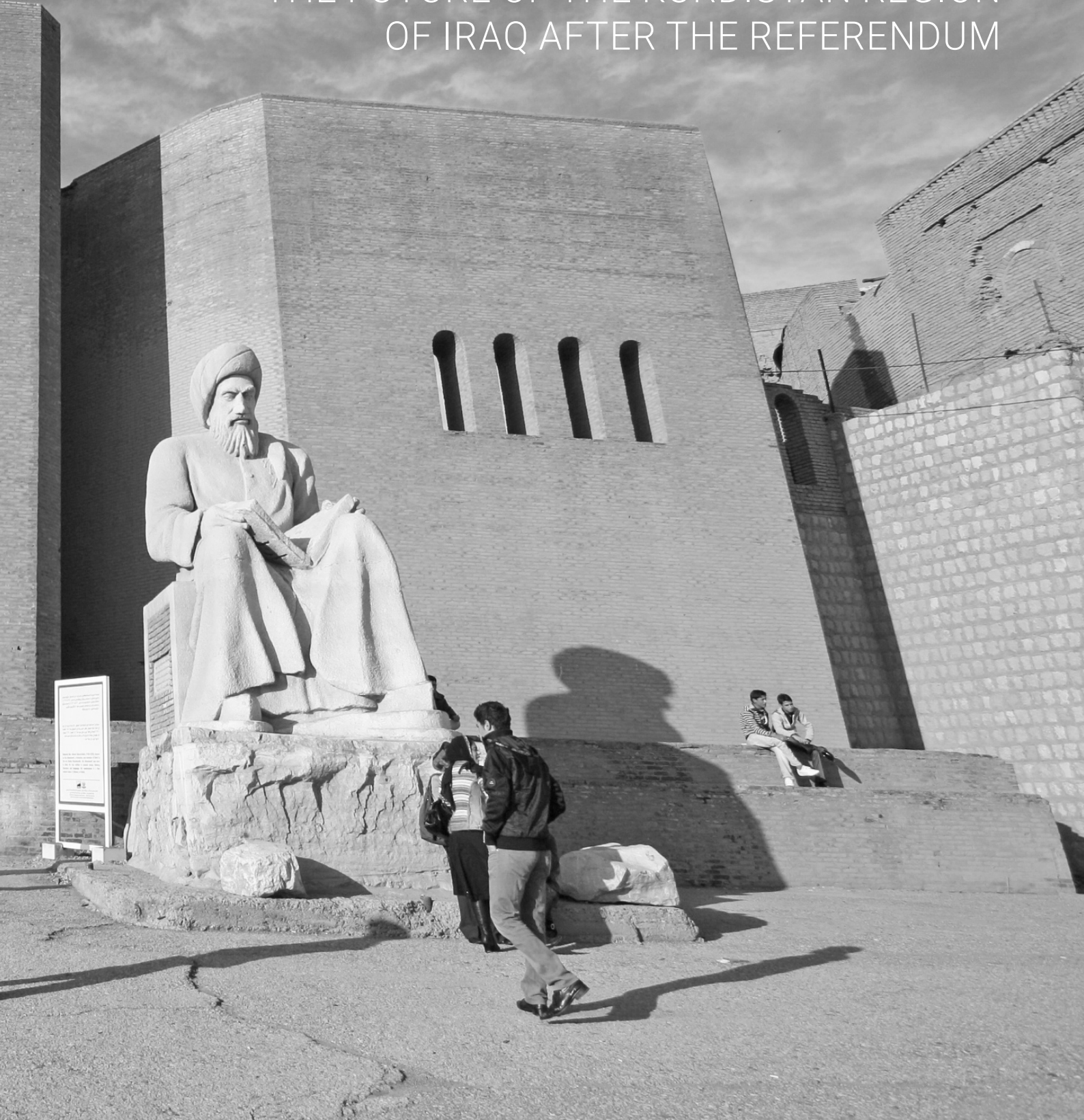




Middle East
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IRAQ AND ITS REGIONS

THE FUTURE OF THE KURDISTAN REGION OF IRAQ AFTER THE REFERENDUM



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The Erbil Citadel and statue of Ibn Al-Mustawfi

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Iraq and its Regions: The Future of the Kurdistan Region of Iraq after the Referendum

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Despite huge Iraqi, regional and international opposition, Masoud Barzani, then President of the Kurdistan Region of Iraq (KRI), went ahead with an independence referendum on 25 September 2017. The overwhelming vote in favour preceded a disastrous aftermath, with the KRI losing the territorial gains made during the fight against Islamic State (also known as ISIS) and Barzani announcing his resignation. Iraq imposed a blockade on international flights to and from the KRI, sent troops into Kirkuk, and withheld public salaries and oil revenues. The KRI's internal political divisions deepened, protests around salaries and corrupt patronage networks intensified, tensions within the Patriotic Union of Kurdistan (PUK) mounted and the economic crisis worsened – any chances of realising Kurdish independence now appear remote. The post-referendum crisis showed the severity of Baghdad and Erbil's outstanding issues: territorial disputes, distribution of the federal budget and the ownership and sale of oil. 2018's federal and KRI elections have rendered any political solution fraught as leaders on both sides scramble to appear strong to their constituencies. The shifting positions of regional and international actors, including Iran, Turkey, Russia and the United States (US), further complicate any likely resolution.

The LSE Middle East Centre convened a workshop on 16 March 2018, bringing together Kurdish political, economic and social analysts with other experts on Iraq and the KRI. The workshop examined the major dynamics that will shape Kurdish politics in Iraq, and the report that follows is a summary of the proceedings of the day's four sessions. The first examined the history of protest in the KRI, and the circumstances under which it has arisen. The second focused on state–society relations in the KRI, looking at service delivery, democratic mechanisms and the government's repressive apparatus. The third looked at the KRI's political economy, with a focus on the oil sector and the public payroll. The final panel discussed the KRI's international relations and the regional fallout in the wake of the referendum.

Mapping the Demonstrations: A History of Protest in the KRI since 1991

Soon after the 2003 invasion of Iraq, protests started re-occurring in the KRI; some focusing on Kurdish trans-state issues like the attacks on the Syrian Kurdish towns of Kobane and Afrin, but the majority targeting the Kurdistan Regional Government (KRG). The protests have been more prominent in Sulaymaniyah and Halabja, partly as a result of the less oppressive governance styles in these provinces, and due to less effective service provision. Internal power struggles within the PUK, the dominant party in these areas, have further opened up opportunities for protesters, who have also been aided by a more substantial network of civic groups and opposition media, and fewer employment opportunities than in Erbil.

Core demands have remained stable, revolving around two main axes: service and infrastructure provision (including electricity, water, education, health services, road development and enormous income disparity) and governance (accountability, transparency and the corrupt party–state apparatus). Protesters aim to reshape the relationship between state and society in the KRI; they are not questioning Kurdish self-determination, of which the vast majority are supportive, but rather the manner in which it is unfolding.

Phases of Protest

There have been three main phases of protests in the KRI. The first was in 2005–9, which was a ‘resource-mixed’ period, with activists aware that a lot of money was entering the system, feeling that they were not receiving their fair share, and therefore conscious that protests could create leverage to achieve results. Protests focused on improving service provision and infrastructure. One of the most notable examples was the attempt by protesters to prevent officials from exploiting the memory of Halabja for political gain in March 2006. These protests were thin, student-led, and had little backing from parties or civic groups, though they did mobilise activists who would become central figures in later phases.

The second phase was between 2009–15; a resource-rich period that had new resources for activists in the form of institutions and political space to mobilise. The context of the Arab uprisings placed a new emphasis on systemic reform and calls for transparency, and many more organisations were able to mobilise people. ‘Radical democracy’ organisations articulated a ‘second-wave’ Kurdish national identity where legitimate governance was no longer based on historic or charismatic figures of the national struggle, but instead demanded a legal and rational basis.

The third phase is from 2015 onwards; after the financial crisis and the suspension of the KRI parliament, when the system’s resources began to shut down. In this severely weakened context activists have not been able to expect or achieve radical change. Their repertoires have included more sustained strikes and demonstrations in addition to more violence. Parties and professional organisations like teachers’ groups have become more important, female students have been more active, and there has been a general deterioration in state–society relations. The concept of the KRG still holds legitimacy but is increasingly seen as a government in name only. Hundreds of thousands have come onto the streets. Many of the activists’ early demands (including many from 2006’s Halabja protests) have been met, including opening a university and declaring Halabja a province. Street protests therefore did achieve certain goals, but the broader goals of systemic reform, democratisation and accountability remain remote.

Cracks in the Ruling Bargain

Poor governance over the past 25 years has led to the problems driving protest today. Public employees still await their November 2017 salaries, and, according to the Kurdistan Investors’ Union, 90 percent of all private sector job opportunities have been lost over the past 5 years. In lieu of solutions, the KRG has responded with crackdowns (both from the Kurdistan Democratic Party (KDP) and the PUK, though the former is more prone to immediate repression of any protests), which is a prime recipe for civil war. Police and security officers in Sulaymaniyah and Halabja have vowed not to retaliate even if their offices are burned during protests, and though individuals in the Peshmerga are loyal to those in government who pay their salaries, they share many grievances with the protesters. The referendum was an attempt to cover Barzani’s failings in government, and itself led to more security and economic problems.

During 2015–16 in Sulaymaniyah province, there were near-daily protests centred around salaries. Those leading the protests – teachers and other government employees, including lawyers and water workers – were effective at disrupting daily life through blocking roads and holding mass demonstrations. However, the lack of organised leadership and any movement beyond the province limited their impact. During the protests in December 2017, there were instances of Peshmerga and police refusing orders to fire on protesters. The nature of these protests was different, with offices belonging to almost all parties burned in multiple cities. Spearheading this latest wave were unpaid public workers and angry unemployed youths. Though the latter were blamed for instigating violence, there are reports that political parties deployed agents provocateurs so as to justify the eventual crackdown. Realising its loss of legitimacy, the government deployed great force (including rubber bullets and tear gas) at the cost of several lives to ensure its survival, lest the protests spread to Erbil and elsewhere.

Many in the KRI now feel the dark days of the 1990s have returned, with the economy failing and a repressive and unresponsive authoritarian leadership in power. Elections, if free and fair, could forestall violent revolution or serious unrest. A representative system would include the segment of the population that wants to see a better relationship with the federal government and believes in a strong Kurdistan within a strong Iraq, which the current leadership will not be able to deliver. As the Iraqi Prime Minister Haidar Al-Abadi seeks to reform the KRG's finances, the public payroll is set to shrink, with handouts thus drying up and a consequent change in the political dynamics in Erbil and Dohuk.

There are glimmers of hope; the upcoming KRG elections in September 2018 will see several new parties standing and pluralist success could create some prospects for reform, and the Baghdad–Erbil negotiations look set to result in the return of at least half of KRG public employees' wages, though the problem of Kirkuk's long-disputed oil remains a sticking point.

State–Society Relations: Service Delivery, Repression and the State of Democracy

The KRI has moved from being a quasi-state to a local chiefdom, though this does not mean it has reverted or de-developed. The Westphalian post-liberal state is failing everywhere and authoritarian dynamics are resurgent (which happens when pressure is applied to a system). As such there are no solutions, either Iraqi, regional or international, for Kurdish demands.

The status of tribes is receding in many parts of Kurdistan and sociologically, the role of an individual inside the tribe has changed. There is now a process of ruralisation where people are moving to the countryside, and political and military groups have emerged as the main community actors. No one group dominates militarily and there are about five Peshmerga groups. Politico-religious dynamics are on the rise, more so in cities than in villages, and often more in marginal cities. In the cities, a new economic sector is forming around paramilitary mafia groups. Political parties, translocal narratives and political

representation are in crisis, which will lead towards further local management crossing cities, tribes and ethnicities. The devolution of power may be a solution and could serve as a model for the divide between Sulaymaniyah and Erbil. With tribes subordinated today, local society stands poised to become a more important actor, dividing sovereignty.

Though Baghdad has historically abdicated its responsibilities towards the people of Kurdistan, the KRG has also failed to provide for its population. After 1994, services disappeared completely, with the dispute between the KDP and PUK preventing resource distribution. The fall of Saddam led to renewed hope regarding self-government, but though the KRI witnessed an economic boom there was no accompanying improvement in governance. When problems came later – including ISIS, a fall in oil prices, and the central government cutting revenues – the KRG decided to create a new problem in the form of the referendum. Though it is Iraqi Kurds' legal right to self-determine, this had very negative consequences for ordinary people, not least of which was the depletion of the KRI's human resources as people fled the unrest.

Opportunities remain to rectify the problems facing the KRI. The elections (at both the regional and federal level) are the initial steps, as policy-makers have an important role to play. There is also a need for wider freedom of expression, and decision-makers need to rethink relations with the central government and with neighbouring countries. The dispute between the parties needs to be set aside in the interests of the people, with empowering local government one possibility, thereby avoiding the monopolisation of authority. The role of women in decision-making is also essential as part of a broader effort to repair and rebuild the connection between policy-makers and the public.

The Nature of the KRI

As a quasi-state the KRI defies easy categorisation. The much-vaunted military has widespread support. At the time of the referendum young men declared their willingness to die for the sake of Kurdistan. Yet, in the face of the Iraqi invasion the Peshmerga was completely unable to defend Kirkuk. The 'state' is a paradox, both strong in terms of repression and weak in terms of institutionalisation and international recognition. It can hardly be characterised as neoliberal, as the KRI is isolated from international cash flows. It is not even a rentier state as it is so precarious, with much of its oil revenue cut off in 2014. Neither is it a developmental democracy, and indeed it more closely resembles a predatory state, though some services are provided. There are some newly affluent classes, but these are based on patronage and are thus not a proper bourgeoisie.

The KRI has inherited a kind of Leninism from Saddam's Iraq, with no division between party and state. Linked to this is a Stalinist cult of personality (particularly around powerful figures from the Barzani and Talabani clans) and an overreliance on state security, a trend observable since 1991. Party politburo repression has curtailed any civil society initiatives, with many journalists assassinated and political parties dominating the few civil institutions that exist. The top-down structure has become very visible and from 1997 there have effectively been two one-party states. KDP/PUK rule became very entrenched in their respective territories and in this sense 2003 marked no rupture, with the situation continuing even

as elections were finally held in 2005. With no new state institutions (separate from the political parties) created or even nascent, and strongly Leninist state–party relations, recent years have not witnessed development towards statehood. Instead we have seen Foucault’s techniques or ‘tactics of governance’, rather than institutions. In the context of the KRI these techniques are patronage, surveillance of all opposition movements and any adversarial journalism, and information-control in the form of blatant propaganda.

Understanding the Political Economy of the KRI: Oil, Employment and Corruption

After Barzani and Iraqi Prime Minister Abadi’s meeting in March 2018, Baghdad agreed to reopen the KRI airports under federal control, and to pay salaries while a review of the KRG accounts is undertaken. Naturally this plays well for both leaders in the upcoming elections, with Abadi able to claim that he has extended federal control to the KRI, and Barzani claiming that he managed to secure concessions and restore salaries which had been cut since 2014. The central government needs to show that it does not intend to punish the people of the KRI and is trying to alleviate the economic situation.

Iraq’s many divisions have translated into its political economy. 1991 set the scene, where the Kurds were beset on all sides. The golden period of 2004–14 was followed by the rise of ISIS, the refugee crisis, budget cuts and the collapse in oil prices. These were serious problems, and the KRG should have responded more astutely. Oil accounts for around 80 percent of the budget and there is an excessive role for the public sector, with 50 percent of all jobs within the government. There is furthermore a major dependency on imports as nothing is locally produced.

Policy-makers have not invested in diversification. There is a weak financial system with a cash-based economy. The core economic issue at the heart of the KRG–Baghdad dispute is oil revenues and budget allocation, the latter (17 percent to be apportioned to the KRI) being constitutionally-mandated. It is worth noting that the 2014 Economist Intelligence Unit report on the KRG showed that the KRI suffered from less corruption than the rest of Iraq, and was closer to the standard of neighbours like Turkey.

Patronage

Patron–client relationships characterise every level of society in the KRG. A patron could be a chieftain, minister, warlord or the head of a political party – someone with access to resources or power. A client is someone who benefits from that resource (a teacher getting a job, a company getting ministerial approval for a contract or a politician being selected to head the electoral list). Patrons in the KRG can also give out resources in the form of protection (military, security or even protection from the law). A further resource is identity: belonging to the tribe, school or party is a valuable asset in a chaotic society. The reverse side of the patron–client relationship is of course allegiance, without which the system cannot function.

In the KDP–PUK civil war era, patronage was primarily based on coercion, resources being scarcer. After the 2003 invasion and especially after 2007 with the increase in oil-based revenues, the patronage system added an element of ‘co-optation’, whereby money was used to buy loyalty, tying different segments of society’s interests to the state and the parties running it. This also undermined the incentive for the KRG to build institutions, as money could simply be thrown at the problem. When the various crises of 2014 hit, the system faltered: the government lost the ability to provide perks, give contracts and create jobs. With no prior investment in institutions, and with oil dominating government revenue and the public sector, in turn, dominating the economy, the crisis was profound. The bloated public sector led to the displacement of accountability that would normally exist in a strict one-to-one patron–client relationship.

Oil in the KRG

In July 2002 the then-PUK politician Barham Salih signed a production-sharing agreement for the Tak Tak oilfield. This was codified in 2007 and set out an institutional framework for the industry – where four independent institutes with technocratic management would administer key aspects of the oil and gas sector, from drilling to services and refining. A fifth institution, the Kurdistan Oil Trust Organisation, was supposed to act as a single treasury account for all oil revenue. Open and public accounting was to be carried out according to an international standard, the Extractive Industries Transparency Initiative (EITI). Unfortunately, none of this happened. The KRG has not published a single oil contract, partly under pressure from ExxonMobil not to do so. The EITI mandates that governments reconcile revenue and oil figures by compiling relevant data from independent sources, then comparing the two (or more) sets of data. The KRG collected all the data itself, thereby invalidating the process, and inserted politically-motivated information about sector development.

The federal budget for the KRI was cut after the KRG declared in 2014 that it would start exporting oil independently from federal control. The KRG then started publishing detailed reports, and for a time it was arguably the most transparent oil sector in the world, only to abruptly stop this practice in October 2016. The KRG’s response to the loss of federal revenue since 2014 was improvisational and chaotic, leaving it with a deinstitutionalised financial system. Previously federal budget money flowed into Kurdistan in two parallel streams, with cash sent to nominated branches of Iraq’s central bank in Erbil and Sulaymaniyah, a legacy from the pre-2005 period of dual single-party administrations run by the KDP and PUK.

From 2014, oil exports were handled by trading houses through a contracted intermediary. Petrodollars flowed to banks in Turkey, and later Switzerland. The removal of the opposition party Gorran’s ministers from a unity cabinet in October 2015 put oil and revenue management almost entirely into the hands of the KDP, when the roiling crisis over the KRG presidency reached its peak. Privately, senior PUK officials overseeing a party in turmoil said they couldn’t trust how the oil sector was run. The political splintering of the region was as acute as any time since Kurdistan’s civil war in the 1990s; the parliament

having failed to pass a regional budget since 2013. Even then, budgeting was just a sluice to direct patronage payroll, with the Ministry of Natural Resources acting as a parallel finance ministry, disbursing billions of dollars from oil contract bonuses.

The KRG recognises that it is politically important to appear to be transparent, but this often reveals very little. If it were serious about improving transparency, the KRG could publish reports each month and reconcile the figures later. This would restore a modicum of trust with the central government, and furthermore boost investor confidence.

The Future of the KRI's International Relations

Given the very strong regional and international opposition, the botched independence referendum will enter the history books as a colossal miscalculation by the Kurdish leadership. Masoud Barzani is not the only person to blame for this strategic blunder. His allies in the PUK, Kurdistan Islamic Union (KIU) and smaller parties, his local and international advisors, the opposition, an army of co-opted and profiteering journalists, and the party and shadow media all share responsibility for this failed gamble. After losing 50 percent of the disputed territories and half its oil revenues, the KRI is almost bankrupt.

The story was different before the crisis. The KRG's para-diplomacy had secured diplomatic missions of one form or another for 37 countries and international organisations in the KRI. Despite some setbacks, oil and gas multinationals made major investments in unexploited fields. These efforts, along with the fight against ISIS, further bolstered the KRG's role in Iraq. Paradoxically, the diplomatic achievements were made possible partly by the Iraqi constitution of 2005 (with its ambiguity over jurisdiction in foreign relations), and partly by the energetic diplomatic drive of the KRG.

The KRG completely misjudged Turkey's position towards the referendum, with Barzani assuming their economic interdependence would push President Erdoğan to accept the new reality. Turkey's threat to close the pipeline that carries KRG oil to the outside world – Erdoğan warning that 'we have the tap' – did not materialise, but they made clear their firm opposition to any independent Kurdistan emerging on their south-eastern border, and they are now using the fallout as a bargaining chip.

Senior Iranian officials, including special forces commander Qasem Soleimani, delivered stern warnings against holding the referendum. Iran briefly shut the border and supported Iraqi troops – facilitated by the withdrawal of the Talabani faction of the PUK – to retake Kirkuk and other disputed territories. The Iranian state is still, however, keen to sustain political relations with the KRG, and the KDP has initiated a quiet rapprochement, seeking to explore the possibility of exporting Kurdish oil through the Islamic Republic. The KRG also now has no choice but to repair relations with Baghdad. March 2018's agreement to restart partial salary payments and reopen KRI airports under federal control was a start, but elections cast uncertainty over how far the Iraqi government is prepared to go, especially regarding revenue allowances, power-sharing and the final status of disputed territories.

An unwritten rule for Kurdish secession is that a regional power (Iran or Turkey) or a superpower (the US) must offer at least tacit support if it is to happen. Some assumed that Baghdad would acquiesce to a *fait accompli*, leading to a civic divorce as the Czechs and Slovaks achieved. Barzani acted on a supposed commonality of interests, as in the gilded age the majority of the KRI's 600,000 barrels a day were going to Turkey. Half of Turkey's exports to Iraq (its third biggest market) were also going to the KRG. Turkey wanted to maintain the KRG as a buffer against Shi'a Baghdad and Iran, and also as an ally against the rival Kurdish bloc represented by the Kurdistan Workers' Party (PKK) and allied parties in Syria and Iran. However, Barzani miscalculated the nature of the current ruling bargain in Turkey. The dominant alliance of ultranationalists and Erdoğanists is united by an exclusively anti-Kurdish platform. The very nature of the neo-nationalist alliance in Turkey made it impossible for Ankara to countenance the notion of Kurdish independence.

The relationship between Turkey and the KRG has soured, but geopolitical imperatives and mutual interests will preserve a certain level of relations between Ankara and Erbil. Turkey wants the KRG to remain a vassal, not an equal partner, and any attempt by the KRG to alter this relationship will be strongly opposed by Ankara. Following the referendum, the new leading politician in Erbil, Prime Minister Nechirvan Barzani – known to be a Turcophile – visited Tehran but was not received in Ankara. Both sides are reluctant to resume the relationship. As the Turkish military onslaught against the Kurdish enclave of Afrin in north-western Syria sparked nationalist fervour in Turkey and precipitated pan-Kurdish hostility towards Ankara, both sides refrained from trying to restore ties.

The US–KRG and Russia–KRG relationships run in parallel, but the cornerstones of the partnerships are different, and focus respectively on security and economics. The reactions to the referendum varied even within domestic US politics, as the traditional US foreign policy process involves different bureaucracies developing different stances about the same issue. The doctrine of maintaining a 'balance of power' in Iraq has led to the current policy that the US is in favour of maintaining the territorial integrity of Iraq. Though the vote led to no major shift in US–KRG relations, US Special Presidential Envoy Brett McGurk made dissenting gestures and indicated that it was not the right time for such a move. Relations remain fraternal, with existing bases maintained by the US (and five new bases planned) and aid flows remaining in place (including \$365 million in congressional funding for the Peshmerga in 2018).

Russian Minister of Foreign Affairs Sergey Lavrov expressed explicit political support for the referendum and reaffirmed Moscow's close ties with Erbil afterwards. As has been shown by the 2017 Rosneft deal (the Russian oil and gas giant agreed to fund a natural gas pipeline in the KRI at a cost of \$1 billion), the KRG will maintain economic and strategic relations with Russia, and though the latter wishes to reengage with Iraq, it still regards the US as the main player there. Therefore, the referendum did not mark a new beginning (or new end) to the KRI's relations with the US or Russia.