

Iraq's Paradox: Winning Democracy & losing Rule of Law

Dr. Kamal Field Al-Basri & Mr. Muthar Sebahi
Iraq Institute for Economic Reform

The objective of the paper is to show that although Iraq is gaining democracy which is an achievement in its self, it has lost adequate rule of law which is an import factor for economic growth. Firstly, the paper outlines the economic achievements and their limitations. Secondly discussing the implication of democracy on the rule of law and institutions. The paper concludes with a rapid increase in oil revenue, the absence of the rule of law and sound institutions, Iraq is heading towards a crossroad. International support is required to assist Iraq with regulatory reform (to have a better business environment), and improve the Human Development Indicators (HDI) towards MDGs and enhancing the rule of law.

1. Economic Development:

Since 2004 there has been significant progress in the following areas: GDP per capita increased from \$1670 to \$5400 (2004 - 2011), relative contribution of Oil in GDP decreased from 70% in 2004 to 43% in 2012 (as contribution of other sectors increased), the value of GDP at constant price in 1981 increased from 41 to 61 trillion I.D (2004 - 2011), average daily oil production increased from 1.8 MB to 2.9 MB (2005- 2012), a decline in the rate of unemployment from 28% to 15% (2004 - 2011), a reduction in poverty from 54% to 23%, a lowered rate of inflation from 68% to 6% (2006 - 2011), an increase in the supply of electricity from 3500MW to 7500MW (2004 - 2011), a reduction of Iraq's debt from \$127 to \$54 (billion dollars), public spending has increased from 34 to 117 Trillion I.D (2007 - 2012), and Iraq is expected to achieve its highest rate of growth, reaching a growth rate of up to 10% in 2013.

On the flip side, due to the lack of sound institutions, the execution of the national investment budget is poor 60% (2005 to 2012). Public spending is not driven by robust economic strategy, for example, despite the decline in the education indicators (illiteracy rate is 28% of the total population aged 10 years and over, school dropout rates are 8% in primary education and 9% at the secondary level, shortages of over 5000 schools, and over 40% of existing schools are in need of reconstruction) the education budget is on average 9% of the total public expenditure, and less than 10% of education budget is for investment!.

As result of the above, public services are regarded as poor, the percentage of citizens not satisfied with health, education and other services (such as water & electricity) are 30%, 40% and 60% respectively (according to Ministry of Planning publication in 2007). Furthermore, the Iraqi Government has failed to engineer reforming the inefficient public sector and to promote the development of the private sector, for example the percentage of contribution of the private sector to GDP increased only from 31% to 35% (2004-2011). With a rapid expected increase in oil revenues, Iraq's economy will face the two challenges:

- ❖ The capacity to use financial resources to produce Public Services,
- ❖ The ability to improve the Rule of Law /Good Governance

The strategic options for the government are:

1. Implement Private Public Partnership (PPP) initiatives: given the weak status of national private & public sectors to execute high standard projects. Implementation of PPP with highly reputable organizations has the advantage not only to build the necessary infrastructure, but also diffusion of best practices for both National public & private sectors.
2. Improve Good Governance/Rule of Law: by investing in human development and education in particular.
3. Creation of a Sovereign Wealth Fund: as savings for future generations and to use it to promote a diverse source of revenue.

2. The Evolution of Democracy:

Despite all the political hurdles, Iraq has made significant political achievements relative to other countries in the region, which have manifested in the following: referendum of the constitution, several national and sub-national elections, improvement in political freedom and in human rights, enforcing decentralisation, high levels of participation within political parties in the current coalition government, freedom of press, civil liberty, but this does not mean that the abuse of Human Rights or bad practices has not occurred.

In assessing the overall development in Iraq, we should recognize that democracy has not evolved naturally and its maturity depends on existing culture and levels of education. Currently the function of cultural/religion & nongovernmental organizations to promote rule of law and social cohesion are very limited. Sadly to say, politics in Iraq has taken shape as a form of competition between political parties with sectarian and ethnic dimensions. Therefore democracy has failed to promote institutions and rule of law. Growth and development cannot take place in the absence of sound institutional environment. Institutions provide the necessary framework that allows transactions to take place in an orderly manner and in which economic agents are reassured that their contractual rights are protected and enforced by the law. In addition, economic stability can be provided only by good governance and sound economic policy-making. For these reason, Iraq has failed to attract Foreign Direct Investment (FDI), which is vital for the development of the economy.

Finally, for Iraq to be on the path of economic advancement, it needs to address the following issues: 1) Reforming the regulatory system and 2) Improving human development indicator (education in particular). Otherwise, Iraq will face the 3 possible states: (A) Missed Opportunity, (B) Disappointment, (C) Off-track. The following graph illustrates the implication on GDP structure.

