

Experts urge Kurdistan Region to diversify economy.

By Ari Khalidi



AKFA speakers at a seminar on Kurdistan Region's economic challenges and solutions at the University of Kurdistan Hewlêr (UKH), May 3, 2017. (Photo: UKH)

ERBIL, Kurdistan Region (Kurdistan24) - At a seminar in Erbil the American-Kurdistan Friendship Association (AKFA) Wednesday assembled experts in a bid to search for answers to economic challenges the Kurdistan Region faces amid a war against the Islamic State (IS) and budget cuts from the federal government in Baghdad.

The seminar AKFA organized at the University of Kurdistan Hewlêr (UKH) included speakers UKH Dean of School of Social Sciences Dr. Anwar Anaid, Senior Economic Advisor to the Kurdistan Regional Government James Park, and Commercial Officer at the Consulate General of the United States in Erbil Sharyn Fitzgerald.

In his opening remarks, Dr. Anaid explained what key political and security factors lie beneath the current financial crisis and ensuing economic problems Kurdistan Region is going through.

Those include a sharp decline in global oil prices in 2014, an unexpected Islamic State (IS) assault the same year, the ensuing increase in the number of refugees and IDPs from Iraq and Syria, and the federal Iraqi government's cut of 17 percent budget share in response to independent Kurdish oil exports.

The IS attack, particularly, was an attack "on the very existence of Kurdistan," said Anaid.

Enormous pressure on the government followed as civil servants and Peshmerga soldiers needed to be paid while the region had to fight off an IS blitzkrieg.

The response to the surprise, multilayered crisis was strikes by teachers and a short phase of violence in Silemani and Garmiyan areas.

For the region to overcome the challenges, Anaid exemplified several economic models from around the world.

Among Anaid's proposals for economic reform in Kurdistan were the Swedish model in which the economy is subordinated to local needs.

Developmental capitalism of Asian countries as Japan, South Korea, and Singapore implemented is a way of mobilizing the nation to increase production.

Having survived the pan-Arab Baath regime, its genocidal policies and the oil-for-food program Kurdistan in comparison to Iraq relatively succeeded in the free market economy, a game the region is "luckily" new to, said Anaid.

However what Kurdistan primarily needs is a diversification of its assets as a means of reducing a heavy reliance on oil, Dr. Anaid argued.

Investment of oil money in education, healthcare, and similar public service would reduce transaction costs and create space for competition in other sectors.

"The KRG should promote competitive control in businesses to make sure prices go down while production goes up," added Anaid reminding his audience of the Iranian and Turkish dominance in the Kurdish market.

"We know we cannot compete with Iranians and Turks, but we can trade with southern Iraq," Anaid continued.

Kurdistan's political economy is unique, said Anaid.

It is one of the few places where people are dependent on the state but at the same time enjoy democratic rights, according to Anaid.

As Kurdistan marches on for statehood, the government's addressing of socio-economic inequalities is imperative while elites should put aside their interests, concluded the UKH dean.

The USCG diplomat Fitzgerald focused on how the US was working in tandem with Kurdish authorities to help with reform measures.

Commending the KRG for its commitment to structural economic remodeling it has undertaken under the initiative of Deputy Prime Minister Qubad Talabani, Fitzgerald stated the government has done its best to keep Kurdistan secure in "very very extreme times of crisis."

Shortcomings and mistakes in the result of political impediments on the part of the government were evident, but it has to be recognized that most of the shocks were external, said the American officer.

Currently, the majority of US funds are allocated to the fight against the IS and humanitarian aid to refugees, Fitzgerald told the audience.

Fitzgerald revealed that the United States Agency for International Development (USAID) is working with the government in providing technical assistance, in as well as the field of taxation, payroll, and public financial management.

One vital area the US helps the KRG is how to develop the private sector through entrepreneurship exchange programs between the two countries.

"Last summer, we sent seven leaders from local chambers of commerce to our international visitor leadership program to Washington, DC, Los Angeles and North Dakota to attend training on how to develop the private sector," she said.

The US is also trying to get Iraq and Kurds into the World Trade Organization in which they have the observer status, according to Fitzgerald.

The tourism, banking, and retail sectors, for example, are slowly recovering with increases in revenues as small enterprises take the lead.

"I had a conversation last week with a gentleman in Duhok who runs a boutique travel company, and he is trekking with 20 Germans and five Americans somewhere around Amedi right now. Not only am I very jealous but I am actually very optimistic that kind of low-level tourism activities will grow into something substantial," Fitzgerald illustrated.

As the KRG has put a lot of effort in developing agriculture, tourism and banking sectors, there are signs that those areas will flourish, hoped USCG official.

Steps to accelerate such a processes include political reconciliation and reconvention of the Parliament, she advised.

KRG's senior economic adviser Parks, on his part, spoke of the region's survival mode in the immediate aftermath of the rise of IS and budget crisis.

An ongoing modernization program is at the center of the economic reform priorities and fiscal sustainability, he said.

"We see a very sustained reduction in [civil services] expenditure, and that has been at the heart of the austerity program," Parks pointed out.

Parks mentioned the "survival" posture the KRG had to take in the face of a shock.

A painful progress was still made, as reforms in light of the need for diversification were heeded.

Not spending all oil revenues on salaries, but cycling those profits into the financial sector to fund and create private investments is a step ahead, Parks said.

Another step that should be taken so as to regulate monetary policy is opening up a branch in Kurdistan of the Iraqi central bank since the two share currency, Parks explained.

Parks urged a change in state employees' understanding of working for the government, which should not only mean "getting a salary."

"There is a lot to be done there," he said.

The natural market for Kurdistan is the rest of Iraq, as Iranian and Turkish ones are superior, argued Parks, reiterating Dr. Anaid's point.

Geographic barriers such as mountains are a big challenge particularly when it comes to transportation of the goods, but to the south in Iraq, there is favorable geography and an easily accessible population to sell them goods and services.

Developing the market would also optimizing the availability of Kurdish workers and companies.

Parks gave the example of reconstructing the war-torn city of Mosul in the post-IS era and said the Kurds could participate in that process.

The electricity sector as much as needed is also a huge potential for the private sector.

Tackling a "massive" need for infrastructure is yet another responsibility of the authorities in Kurdistan's goal of bettering the economy.

Most importantly for those steps to succeed in macroeconomic aspect, a sense of political stability is critical so investors could see what the regime would be not just today but over coming decades, added Parks.

One of the event's organizers, an AKFA board member and lawyer from the Kurdistan Legal Services Rejna Alaaldin sounded optimistic.

"Kurdistan has the capacity, experience, and political maturity to move forward and resolve its economic challenges," Alaaldin told Kurdistan24 in a statement.

"More importantly, the crisis has forced the KRG to re-think its economic policies and adopt an economic model that is sustainable in the longer run and that, fundamentally, ensures the mistakes of the past are not repeated," she concluded.

Editing by Ava Homa

Source: Kurdistan 24, 5 May 2017

<http://www.kurdistan24.net/en/news/83650d03-36bf-4995-bc81-3077b189ca00/Experts-urge-Kurdistan-Region-to-diversify-economy>