

TURKISH BUSINESS IN THE KURDISTAN REGION OF IRAQ

In the Kurdistan Region of Iraq (KRI), economic development and infrastructure recovery expanded at a monumental pace over the last decade. However, the economic boom also had negative aftershocks, including a significant rise in housing costs, local workers struggling to find employment with foreign companies, and the difficulties faced by the local private sector trying to operate in an emerging economy dominated by the public and oil sectors. In this article, the author argues that ensuring Turkish companies hire a minimum percentage of local employees, provide training opportunities as well as a minimum and fair wage, safe working environments, and make a social contribution in exchange for the rent-free use of land and access to sell products and services could enhance human security in the KRI.

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The leadership of modern Turkey has historically viewed its relations with the Iraqi Kurds through a traditional security lens. The prospect of a Kurdish nation – the Kurdistan Region of Iraq (KRI) – emerging as an autonomous region within Iraq and possibly an independent state was viewed as an existential threat to the unitary nature of the Republic of Turkey.¹ A viable KRI was viewed by Ankara as a development that would inevitably spark a nationalist contagion effect upon the Kurdish peoples of Iraq, Syria, and Iran for a transnational union of all Kurds, including and maybe dominated by the Kurdistan Workers' Party (PKK)² in Turkey.³ After the US-led invasion of Iraq in 2003, diplomatic, political, and military circles in Turkey were alarmed by the consequences of Iraq's disastrous civil war, the resulting collapse in economic activity and trade with Iraq, the rise and possible spread of Al Qaeda-associated terrorists, and the uncertainty surrounding the anticipated withdrawal of American combat troops.⁴

The Turkish military was always concerned about the PKK's support for guerrilla warfare in eastern Turkey and their ability to sabotage crude oil pipelines, threatening the Turkish economy from the mountain base camps in the KRI and possibly from Syria.⁵ The much-vaunted expansion of the Turkish trade and energy corridor from Iraq to Europe was contingent on the safe movement of Turkish goods and Iraqi energy via roads and pipelines to destinations in Iraq and Turkey.⁶ To facilitate economic development and stability, Ankara chose to capitalize on mutual interests with Iraq. Ankara sought assistance in jointly containing the PKK threat, but also to ensure that Al Qaeda-connected violence and subversion in Iraq did not spillover into Turkey, or jeopardize mutually beneficial trade.⁷ To successfully address these challenges, the joint security effort of Ankara and Baghdad required the active support of the Kurdistan Regional Government (KRG), as well as intelligence targeting information from the American occupation forces in Iraq.

¹ Bill Park, *Turkey's Policy Towards Northern Iraq: Problems and Perspectives* (International Institute for Strategic Studies, 2005).

² The PKK is listed as a terrorist group by Turkey, the US, and the EU.

³ Cicek Cuma, "Elimination or integration of pro-Kurdish politics: limits of the AKP's democratic initiative," *Turkish Studies*, Vol. 12, No. 1 (2011), pp. 15-26.

⁴ The U.S.-Iraq Status of Forces Agreement (SOFA) was signed by President George W. Bush in 2008. Under the SOFA, U.S. combat troops were to withdraw from Iraqi cities by 30 June 2009 and all U.S. combat forces were to leave Iraq by 31 December 2011.

⁵ Robert Olson, "From the EU Project to the Iraq Project and back again? Kurds and Turks after the 22 July 2007 elections," *Mediterranean Quarterly*, Vol. 18, No. 4 (2007) pp. 17-35; Ofra Bengio, "The challenge to the territorial integrity of Iraq," *Survival*, Vol. 37, No. 2, pp. 74-94; C. Onur Ant, "Kurdish rebels say they sabotaged Turkey pipeline," *USA Today*, 7 August 2008, http://usatoday30.usatoday.com/news/world/2008-08-07-2864158504_x.htm; James E. Kapsis, "From Desert Storm to metal storm: how Iraq has spoiled US-Turkish relations?," *Current History*, Vol. 104, No. 685 (2005), pp. 380-388.

⁶ Mitat Çelikpala, "Protecting the key national utilities and energy infrastructure," In: James Ker-Lindsay and Alastair Cameron (eds.) "Combating International Terrorism, Turkey's Added Value," *Royal United Services Institute*, Occasional Paper (October 2009), pp. 1-28, https://rusi.org/sites/default/files/200910_op_turkeys_added_value.pdf

⁷ Funda Keskin, "Turkey's trans-border operations in Northern Iraq: before and after the invasion of Iraq," *Research Journal of International Studies*, Vol. 8 (2008), pp. 59-75.

Turkey-KRG: Deepening of Diplomatic and Economic Relations

Despite opposition from some elements of the public and security sectors in Turkey, Ankara pursued a multidimensional foreign policy framework to assist economic development and stability in the region. The first official Turkish government delegation visited Erbil in 2008 to formalize strategic dialogue with the KRG. The follow-on trip by then-Turkish Foreign Minister Ahmet

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Davutoğlu to Erbil in October 2009 was a significant moment in Ankara-Erbil relations as it marked the first visit by a Turkish foreign minister since the establishment of the KRI. After his meeting with Davutoğlu, President Masoud Barzani announced, “This visit of the Foreign Minister to Erbil is an important step, indeed an historic step. We know that Turkey has an important role in our development, and this relationship requires special attention. I am, therefore, delighted to announce that Turkey will open a Consulate General in Erbil.”⁸ The Turkish Consulate was opened in Erbil in 2010, signaling Ankara’s decision to enhance trade relations and to capitalize on the lucrative liberal business environment in the KRI. The first Turkish Consul General, Aydın Selcen, a distinguished diplomat, worked tirelessly to break down stereotypes and bolster Ankara-Erbil relations. A significant portion of his consulate staff efforts were focused on facilitating the success of Turkish private sector operations in the KRI.

In 2011, then-Prime Minister Recep Tayyip Erdoğan became the first Turkish premier to ever visit the Iraqi Kurdish-held region. He attended the inauguration of Erbil International Airport, which had been constructed by *Makyol Cengiz*, a Turkish joint venture. During Erdoğan’s visit to Erbil, President Barzani affirmed, “We consider this to be a very historic moment. We believe that this visit will build a very solid bridge of bilateral relations between Iraq and Turkey and (especially) between the Kurdistan region and Turkey.”⁹ President Barzani and KRI Prime Minister, Nechirvan Barzani, subsequently visited Ankara in May 2012 to continue strengthening bilateral and economic relations between Turkey and KRI. In 2014, President Barzani again visited Ankara to discuss economic, energy, political, and military cooperation. Soon afterwards, Davutoğlu traveled to Erbil and confirmed

⁸ “President Barzani and Turkey’s Foreign Minister Davutoğlu hold historic meetings, announce plans to open consulate,” *KRG Cabinet*, 31 October 2009, <http://cabinet.gov.krd/a/d.aspx?s=010000&l=12&a=32216>

⁹ “Barzani and Erdogan Open Erbil International Airport and Turkish Consulate,” *Iraq-Business News*, 31 March 2011, http://www.iraq-businessnews.com/2011/03/31/barzani-and-erdogan-open-erbil-intl-airport-and-turkish-consulate/?utm_source=twitterfeed&utm_medium=twitter%20

“In 2010, an estimated 25,000 Turkish workers were operating in the KRI followed by approximately 30,000 Turkish citizens in 2012.”

(IDPs) and refugees who fled the brutal rule of ISIL in Syria and in Iraq.

The KRG Is Open for Business

Unlike the other governorates in Iraq, the KRI was, for the most part, unaffected by the sectarian fighting and terrorism that exploded following the 2003 US invasion. The termination of UN economic sanctions on Iraq, the end of the Baathist regime’s internal sanctions on the KRI, and the formal recognition of the Kurdistan Region in the Iraqi Constitution in 2005 were significant developments for the expansion of the Turkish private sector. The KRG adopted the Bush administration’s neoliberal agenda concerning the ease of doing business in the region. Although state socialism still dominated, there was willingness to allow market capitalism to emerge in conjunction with the rise of the oil industry as the economic driver of the economy. The KRG was assured that 17 percent of the Iraqi central budget would, in recognition of their percentage of the total population, be transferred to them by Baghdad. It was these budget transfers that gave the KRG the financial capacity to begin reconstruction of inadequate and damaged infrastructure in its jurisdiction. The recognition of the KRG, as a legitimate governing body, allowed foreign companies to negotiate and sign agreements directly with its agencies. The open and liberal business environment also attracted much needed international private investment from companies that possessed the capital and capability to undertake infrastructure recovery and the restoration of basic services in the KRI.

Presence of Turkish Companies in the KRI

The creation of a liberal business and investment climate aimed at the international private sector, coupled with the entrepreneurial spirit of the Turkish private sector and the normalization of relations between Ankara and Erbil, resulted in significant economic cooperation, unthinkable a decade ago.¹⁰ Furthermore, the close proximity of the KRI market, consumer demand for new goods, and the trans-border

¹⁰ Aylin Ş. Görener, “Turkey and Northern Iraq on the course of rapprochement,” *Foundation for Political, Economic and Social Research*, June 2008, <http://arsiv.setav.org/ups/dosya/7354.pdf>

mercantile culture of companies in Turkey and the KRI contributed to the rapid expansion of economic interdependence between Ankara and Erbil.¹¹ Due to the visa-free regime for Turkish citizens who wished to stay in the KRI for under 15 days, Turkish companies were able to send workers of all skill levels to the KRI without foreplanning, without completing any government paperwork, and at a relatively low cost.¹² Turkish companies that wanted their employees to stay in the KRI simply applied for either a short or long term residency permit.

Figure 1: Turkish Companies Operating in Iraq including the KRI¹³

Year	KRI
2009	485 companies
2010	730 companies
2012	1,023 companies
2013	1,500 companies

In 2010, an estimated 25,000 Turkish workers were operating in the KRI followed by approximately 30,000 Turkish citizens in 2012. Sinan Çelebi, KRG Minister of Trade and Industry, during his April 2012 visit to Turkey, pointed out that 25 new Turkish companies entered the KRI every month and that Turkish companies comprised more than half of all foreign companies registered by the KRG.¹⁴ Pre-crisis, in 2013, there were approximately 1,500 Turkish companies operating in the KRI.¹⁵ Now, it is difficult to measure exactly how many Turkish companies are engaged in the region as many have temporarily ceased operations with the intention of relaunching their activities once the security environment and the economy have stabilized.

Presence of the Turkish Construction Sector in the KRI

Following the US invasion of Iraq, the infrastructure in the KRI needed a complete overhaul. Airports, bridges, clinics, electrical power and distribution networks,

¹¹ Robert Olson, "Relations among Turkey, Iraq, Kurdistan-Iraq, the wider Middle East, and Iran," *Mediterranean Quarterly*, Vol. 17, No. 4 (Fall 2006), pp. 13-45; Henri J. Barkey, "Turkey and Iraq: the perils (and prospects) of proximity," *United States Institute of Peace*, Special report No. 141 (2005), pp. 1-24.

¹² "Nationalities requiring a visa to enter Kurdistan," *Kurdistan Regional Government, Ministry of Interior, General Directorate of Citizenship*, <http://erbilresidency.com/countries.php>

¹³ Kemal Kirişçi, "Turkey's foreign policy in turbulent times," *Institute for Security Studies*, Chaillot Paper. No. 92 (2006), p. 47; "Kuzey Irak'ta 730 Türk firması var" [730 Turkish firms in Northern Iraq], *Sabah*, 23 July 2010, http://www.sabah.com.tr/Ekonomi/2010/07/23/kuzey_irakta_730_turk_firmasi_var

¹⁴ "İnsaatçılar kuzey Irak'ta tekel oldu" [Builders became a monopoly in northern Iraq], *Ekofinans*, 26 April 2012, <http://www.ekofinans.com/insaatcilar-kuzey-irakta-tekel-oldu-h4193.html>

¹⁵ "Determined to grow: economy," *Invest in Group*, October 2013, <http://investingroup.org/review/236/determined-to-grow-economy-kurdistan/>

“The Turkish construction sector was the key player in the restoration of the critical infrastructure recovery necessary for the population [of the KRI] to secure access to basic services.”

a Finnish-Swiss report, approximately 75 to 80 percent of the construction projects were undertaken by Turkish companies.¹⁷ Over the last decade, the construction sector experienced above-average employment growth and a substantial share of employment, despite the limited amount of job opportunities offered by Turkish companies.¹⁸

Dependence on Turkish Goods and Services

According to Turkey’s Trade Ministry, the Turkish-Iraqi trade relationship amounted to about 940 million dollars prior to the US-led invasion of Iraq in 2003.¹⁹ With the end of the United Nations economic sanctions and Saddam Hussein’s internal embargo, Turkish manufactures and exporters were able to capitalize on low-transportation costs to the KRI, increased stability, familiar cultural reference points, a growing commercial infrastructure, and the demand for reasonably priced high-quality goods by the burgeoning Kurdish middle-class. Turkish companies rapidly expanded their share of the market and supplied roughly 80 percent of Iraqi Kurdish consumer imports including furniture, food products, and textiles.²⁰ It quickly became evident that the commercial relationship between Ankara-Erbil-Baghdad was more favorable to Turkey’s economic growth because without oil and gas, exports from Iraq – including the KRI – to Turkey were insignificant, ranging from 87 million

hospitals, housing, roads, schools, tunnels, and water and sewage systems all needed to be constructed or renovated.¹⁶ The Turkish construction sector was well positioned to win most bids, due to its depth of experience; proven track record of performance in Russia, Central Asia, the Middle East and North Africa; contiguous land borders with the KRI for low-cost transport of equipment and materials; availability of Turkish Kurds to act as intermediaries with Iraqi Kurds; and similar cultural values. According to

¹⁶ “Socio-economic infrastructure needs assessment for Kurdistan Region,” *UNDP-SEINA* (2012).

¹⁷ “Report on joint Finnish-Swiss fact-finding mission to Amman and the Kurdish Regional Government (KRG) area,” *Switzerland: State Secretariat for Migration (SEM)*, 10-22 May 2011, <http://www.refworld.org/docid/533a82c64.html> ; “Turkey: investing in Iraq,” Oxford Business Group (2012), http://www.oxfordbusinessgroup.com/economic_updates/turkey-investing-iraq

¹⁸ Howard J. Shatz et al., *An assessment of the present and future labor market in the Kurdistan Region-Iraq, implications for policies to increase private-sector employment* (Santa Monica, CA: RAND Corporation, 2014).

¹⁹ Ayla Oğuş and Can Erbil “The effects of instability on bilateral trade with Iraq,” *Turkish Policy Quarterly*, Vol. 4, No. 4 (Winter 2005), pp. 1-11, <http://www.turkishpolicy.com/article/161/the-effects-of-instability-on-bilateral-trade-with-iraq-winter-2005>

²⁰ Hasan Turunc, “Turkey and Iraq,” *London School of Economics*, <http://www.lse.ac.uk/IDEAS/publications/reports/pdf/SR007/iraq.pdf>

dollars to 153 million dollars between 2007 and 2014.²¹ Turkish companies not only exported goods to the KRI, but they utilized the warehouse and transfer infrastructure in the region to store goods before transporting them to other Iraqi governorates or on to Iran, Kuwait, and Syria.

Figure 2: Turkish Exports to Iraq with Estimated Exports to KRI²²

Year	Exports to Iraq	KRI's Est. Share	Est. Exports to KRI
2007	\$2,844,767,091	50 %	\$1,422,383,546
2011	\$8,310,129,576	61 %	\$5,060,868,912
2013	\$11,948,905,271	67 %	\$8,029,664,342

Impact of the Turkish Private Sector on Economic Security in the KRI

The Turkish construction sector was the key player in the restoration of the critical infrastructure recovery necessary for the population to secure access to basic services. Those public works included electrical generation systems, hospitals, roads, schools, and water supply systems – all essential to guarantee the management of basic services by the KRG independent from Baghdad. However, not all economic growth associated with the expansion of the construction sector had a positive impact on long-term development. Negative aspects of the construction boom included a drastic rise in housing costs that created real economic stress for much of the middle class and the poor. The Turkish impact on sustained job creation for locals was negligible since their companies could bring in low-wage workers from South Asia, and were able to utilize the visa-free regime and seemingly relaxed residency permit issuance for their own citizens to supply skilled and professional staff. Therefore, local workers struggled to find reliable employment opportunities with Turkish companies due in part because project timelines for remaining in the KRI did not lend to lasting relationships with workers in the region.

Furthermore, the local private sector expanded in part as an entity dependent on the KRG's domination of business activities, which compromised its independence and made it more vulnerable to economic shocks. The expansion and rehabilitation of the KRI road network was not in itself able to counter the continuing neglect of what

²¹ Turkish Statistical Institute website, <http://www.turkstat.gov.tr/Start.do>

²² Soner Çağaptay, Christina Bache Fidan, and Ege Cansu Saçıkara (2015) "Turkey and the KRG signs of booming economic ties," *The Washington Institute for Near East Policy*, <http://www.washingtoninstitute.org/uploads/Documents/infographics/TurkeyKRGSignsofBoomingEconomicTies2.pdf>; Soner Çağaptay and Tyler Evans, "Turkey's changing relations with Iraq: Kurdistan up, Baghdad down," *The Washington Institute for Near East Policy*, October 2012, <http://www.washingtoninstitute.org/policy-analysis/view/turkeys-changing-relations-with-iraq-kurdistan-up-baghdad-down>

could be a productive and self-sufficient, agricultural economic component. The development and diversification of the local agriculture sector, the advancement of new technologies, the integrity of the environment, and the protection of infant agricultural industries would lessen long-term dependency on food imports from Turkey and thereby strengthen food security in the KRI.

Turkish Businesses Can Do More to Enhance Economic Security in the KRI

There were a number of key factors that attracted the Turkish private sector to the region, such as the passing of the KRG Investment Law in 2006, the relatively safe business environment, high return on investment, the visa-free regime and relaxed residency permit issuance for Turkish citizens in the KRI, a shared border with Turkey, overlapping cultural traits and social relationships, and a secure atmosphere in the KRI. However, it is imperative that the KRG insists on international private sector investments in human capital development and other areas of socioeconomic development in order to improve economic security. The presence of the international private sector could be leveraged to enhance access to basic income, poverty alleviation, expansion of professional opportunities, skills transfer between personnel from Turkey and the KRI, job creation, social safety nets, and the dismantling of illegal economic networks. It is also important that Turkish companies understand they will likely witness higher returns, a wider loyal customer base, and overall better performance if they provide better business models, and invest more substantially in the local labor market and the local private sector.

KRG: A Bloated Public Sector

The KRG remains the major employer in the KRI, which prevents the government from utilizing the budget for more critical areas important to its survival. A RAND study found that “of all the jobs in the region, only 20 percent are wage-paying jobs in the private sector.”²³ Taking the current economic and humanitarian crises into consideration, the KRG can no longer afford to provide the majority of employment opportunities. There must be a serious public sector downsizing to allow for the funding of priority budget areas. A drastic cut in public sector jobs is so politically risky that the KRG leadership will have to be very clever in how it will address waste, inefficiency, and public opinion. Any serious change in the patronage and make-work programs will need to be coupled with supportive efforts to ensure growth of employment opportunities in the private sector. The KRG, in cooperation with the business community, should intentionally expand human capital development programs to advance the

²³ C. Ross Anthony et al., “Building the future, summary of four studies to develop the private sector, education, health care, and data for decisionmaking for the Kurdistan Region – Iraq,” *RAND Corporation and Kurdistan Regional Government, Ministry of Planning*, p. 3, <http://www.mop.gov.krd/resources/Investment%20Projects/PDF/bilding.pdf>

indigenous labor force, as well as IDPs and refugees. Part of that effort should include a consistent and enforceable effort to replace foreign workers, such as professional engineers, technicians, skilled craftsman, service workers, and day laborers with persons from the indigenous workforce.

Impact of the Humanitarian Crisis in the KRI

The existential threat of ISIL, the collapse of global oil prices, the inability or unwillingness of Baghdad to support the KRG's budgetary needs, as well as the continuing burden of hosting approximately two million IDPs and refugees, made progress towards improving human security in the KRI very problematic. Many IDPs and refugees exhausted their personal reserves (of financial, human, and social capital) and completely rely on the KRG and the international humanitarian community for assistance. The KRG is having a difficult time providing quality education, electricity, food, health, housing, and water and sanitation to not only IDPs and refugees, but to its own citizens as well. From 2014 to 2015, the economic and humanitarian crises had a significant impact on the KRI economy, which contracted by up to 5 percent. The poverty rate more than doubled, from 3.5 percent to 8.1 percent.²⁴ Stabilization costs – the additional spending needed to restore the well-being of KRG residents from the inflow of IDPs and refugees – are estimated to be about 1.4 billion dollars, or 5.6 percent of the KRG's non-oil GDP.²⁵ Recently, the number of people immigrating from the KRI to escape the economic crisis and increasing political pressure on opposition voices has also increased.

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The KRG's Fair Share of the Iraqi Federal Budget

The ongoing dispute between Erbil and the central government of Iraq in Baghdad over the KRG's scheme to directly market and sell their own natural resources, especially oil, triggered Baghdad's refusal to disperse 17 percent of the federal budget to the KRG. The failure of Baghdad to transfer the funds to Erbil meant that the KRG was unable to pay its debts. The withheld payments to the construction and contractors

²⁴ Sibel Kulaksız, “Kurdistan Regional Government: economic and social impact assessment of the Syrian conflict and ISIS insurgency,” *World Bank*, p. 2, <https://openknowledge.worldbank.org/handle/10986/21628>

²⁵ Ömer Karasapan and Sibel Kulaksız, “Iraq's internally displaced populations and external refugees – a soft landing is a requisite for us all,” *Brookings Institute Blog*, 2 April 2015, <http://www.brookings.edu/blogs/future-development/posts/2015/04/02-iraq-refugees-kulaksiz-karasapan>

“The KRG is having a difficult time providing quality education, electricity, food, health, housing, and water and sanitation to not only IDPs and refugees, but to its own citizens as well.”

the second obstacle to economic security, was a burdensome reality created by the rise of ISIL in Iraq and Syria and which caused many people to seek refuge in the KRI. It is essential the KRG not only immediately receive its obligatory portion of the Iraqi federal budget, but it should also receive an expanded amount to reflect the costs of hosting the additional two million Iraqis and Syrians that are currently living in the KRI.²⁷ It is imperative Baghdad and Erbil resolve their political dispute over hydrocarbon policy and jointly address human security needs, in order to preempt subsequent violent struggles over political power and resource allocation in the future.

Despite significant progress in the areas of infrastructure development and access to basic services, funded in large part by the lucrative oil sales and previous budget transfers from Baghdad, the KRG has struggled to both achieve self-reliance and build an independent, local, private sector to mitigate the effects of conflict and human insecurity. Institutional support capacities for the promotion and development of the local manufacturing by SMEs is particularly important for the development of an independent and resilient local private sector. The realization of the local manufacturing potential must encourage both Good Manufacturing Practices (GMP) and inclusive growth patterns. It is vital that the KRG pursue political economic reforms for all citizens to achieve long-term sustainable peace and development in the KRI. This includes IDPs and refugees, since it is very unlikely that either of these two vulnerable groups will be able to return to their homes of origin in the near future. Business as usual will allow income and gender disparities, social exclusion, employee exploitation, and poor working conditions to expand across the region.

²⁶ Abdelhak Mamoun, “First batch of one billion dollars delivered from Baghdad to Erbil on Monday,” *Iraqi News*, 23 November 2014, <http://www.iraqinews.com/features/first-batch-one-billion-dollars-delivered-baghdad-erbil-monday/>

²⁷ Daniel Dombey, Shawn Donnan, and John Reed “Isis advance reverses decade of growth in Middle East trade,” *Financial Times*, 2 July 2014, <http://www.ft.com/intl/cms/s/0/96efa904-0081-11e4-a3f2-00144feab7de.html#axzz-3wahxN4L0>