

# **Oil and Development in Iraq: Implications for State-building and Energy Security**

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## **Introduction**

In the aftermath of the international intervention in Afghanistan and the American invasion in Iraq the purpose, legitimacy, and effectiveness of “state-building” has generated a debate and renewed an awareness of the relation between security and development. State-building or nation-building is nothing new. The past state-building efforts and particularly colonial nation building mean that the failed and quasi-states of the current era are intertwined with the international conflicts and the dynamics of state-building. Because there are abundant data to demonstrate the fact that majority of conflicts since the end of World War II have been in the post-colonial states.<sup>1</sup> However, the international interventions in the post-September 11 era have neglected to consider the lessons of colonial nation building and specific national trajectories that gave birth to failed or quasi states.

Although in the post-September 11 era the term, nation building has been reinstated in the context of failed-states or quasi-states, the Bush administration’s largely unilateral and defiantly prosecuted intervention in Iraq starkly lacked emphasis on postwar state-building and was planned as a limited exercise of the removal of the regime.<sup>2</sup> The US foreign policy was subordinated to the misperceptions of the Bush administration that American military intervention in Iraq will be short in duration once a regime change is accomplished by an overwhelmingly superior military force. There was a miscalculation that the regime change would be sufficient to re-orient the functioning institutions of the Iraqi state in line with the neoconservative means of imposing state reform and as an end for neoliberal policies of democratization and market liberalization in the Middle East.<sup>3</sup>

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<sup>1</sup> Stockholm International Peace Research Institute, *SIPRI Yearbook 2007: Armaments, Disarmament and International Security*, (Oxford, UK: Oxford University Press, 2007).

<sup>2</sup> President Bush was against using US troops for state building. His speech on 25 September 2001 and George W. Bush, *The National Security Strategy of the United States of America*, Washington, DC: White House, 2002, p. 31. <http://www.whitehouse.gov/nsc/nss.html>.

<sup>3</sup> Larry Diamond, “What Went Wrong and Right in Iraq,” *Foreign Affairs*, 83, 2, March/April 2004; Johanna Mendelson Forman, “Striking Out In Baghdad: How Post Conflict Reconstruction Went Awry,” in Francis Fukuyama (editor) *Nation-Building: Beyond Afghanistan and Iraq*, (Baltimore: John Hopkins University Press, 2006); Toby Dodge, “Iraqi Transitions: from regime change to state collapse,” *Third World Quarterly*, 26, 4-5,

However, the almost complete collapse of Iraq state, following the removal of Saddam Hussein from power and the consequent looting for several days in Baghdad, was an early warning for the on-going domestic chaos, battleground for transnational terrorism, and inter-ethnic violence. Thus, the building of a new political order has become a complex and potentially contradictory task, which requires a long-term project of state-building beyond the immediate need for imposing order.

State-building is defined here as an externally facilitated attempt to establish or reconstitute a stable and ideally a democratic government over an internationally recognized territory that entails international legal sovereignty recognized by the United Nations. While there has been an interchangeable use of state-building and nation-building, the increasing use of state-building in the post-September 11 era seems to reflect a political preference primarily, if not exclusively to delink nation-building failures of the cold war era or a mixed record of other international interventions.<sup>4</sup>

This paper aims to examine the challenges and alternatives for state-building process in Iraq with specific focus on governance of Iraqi oil wealth. First, the literature on state-building will be reviewed in light of the failures and challenges of rebuilding political structures in post-Saddam Iraq. Second, the prospects for organization and ownership of the oil and gas industry and management of oil revenues in Iraq will be assessed to discuss implications for state-building process and particularly difficulties for civil society engagement in achieving a sustainable development and democratic governance. The conclusion ends with a brief emphasis on policy implications in the broader context of regional cooperation in energy security.

### **State-Building as an “Ahistorical Comparativism”**

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2005; and Larry Diamond, *Squandered Victory: The American Occupation and the Bungled Effort to Bring Democracy to Iraq*, (New York: Times Books, 2005).

<sup>4</sup> For example, while interventions in Bosnia, Kosova, Namibia, El Salvador, Mozambique, East Timor, and Sierra Leone resulted in ending violence, reestablishing some political order, and opening way for a questionable democratic development, in Cambodia only violence ended. In Somalia, Haiti, the Democratic Republic of Congo, Afghanistan, and Iraq violence continues; and where a fragile political order is reestablished, the legitimacy, development goals, and democratization process remains highly vulnerable.

There is a large body of influential theories of political change and state-building in development studies.<sup>5</sup> Within the framework of geopolitics of development, greater attention was given to normative theory formation for state-building (mostly labeled as nation-building) in the Third World concurrently with decolonization in 1950s and under the influence of the distinctive bi-polarization of the international system during the cold war.<sup>6</sup> The early classical political modernization theories were characterized by optimistic conceptions of political change as mutually reinforcing sequences of economic growth, political stability, national integration and democratization.<sup>7</sup> Although there had been no considerable empirical evidence for this optimism, the historical trajectories of developing countries and their economic, social, and cultural differences were not a central concern in theory formation because institutions and structures in the modern and highly industrialized countries were claimed to be replicable and transferable. A major assumption to justify the replicable and transferable nature of the institutions was the autonomy of the political system from the society. Thus, the undeveloped and traditional countries were perceived in a stagnant state preceding modernization rather than in a dynamic process influenced by colonial nation-building.

On the other hand, another set of approaches categorized under the term “dialectical modernization theory” added nuances to the classical modernization theories by asserting that traditional institutions are not necessarily an impediment for political development.<sup>8</sup> Instead of a same pattern of change as in normatively constituted classical modernization theories, the developing societies would have different trajectories determined by a dialectical interaction between different traditional institutions such as social networks, ethnicity, and religion in a society and state.<sup>9</sup> Thus, the massive transfer of Western-type of institutions in creating an “ideal state” such as modern Weberian bureaucracy, democratic elections, political parties, and rule of law justified by the dichotomy of traditional/modern was not necessarily

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<sup>5</sup> For a comprehensive review see John Martinussen, *Society, State, and Market: A Guide to Competing Theories of Development* (London: Zed Books, 1997), p. 165-181.

<sup>6</sup> For a discussion of the rise of modernization theory and nation-building in North American political science studies see M. E. Latham, *Modernization as Ideology: American Social Science and 'Nation-Building' in the Kennedy Era* (Chapel Hill, NC: University of North Carolina Press, 2000).

<sup>7</sup> Lucien W. Pye, *Aspect of Political Development* (Boston, MA: Little, Brown & Co., 1966); Gabriel Almond and J. Coleman (eds), *The Politics of the Developing Areas* (Princeton, NJ, Princeton University Press, 1960); and James S. Coleman, “Modernization: Political Aspects,” *International Encyclopedia of the Social Sciences*, vol. 10 (New York: Collier, Macmillan, 1976).

<sup>8</sup> Martinussen, p.172.

<sup>9</sup> J. Gusfield, “Tradition and Modernity: Misplaced polarities in the Study of Social Change,” *American Journal of Sociology*, 72, January 1976; and L. Rudolph and S. Rudolph, *The Modernity of Tradition: Political development in India* (Chicago, IL: Chicago University Press, 1967).

championed. Rather it was argued that some traditional institutions might facilitate a smooth transition from old institutions to new ones.

The third group of theories was characterized by a strong emphasis on political order and the capacity of government. Although they shared basic assumptions with the classical modernization theory, scholars in this approach asserted that the nature of transformation process especially in the early phases would lead to political instability, even chaos or a break down of state if state-building process did not prioritize strengthening state apparatus including military.<sup>10</sup> Thus, a distinct strategy of state-building favoring control and rule by the strengthened political institutions prior to economic and social changes was prescribed.

These state-building theories were criticized by highlighting their “ahistorical comparativism” which has neglected the historical roots of modern states.<sup>11</sup> The criticism of state-building theories opened the way in theory formation to consistently integrate long-term historical perspective while simultaneously considering how states and political systems were individually created. However, the transformation of the global political economy since 1980s and the dominance of neoliberal models of state reform and development promoted by “Washington Consensus” particularly after the disintegration of the Soviet Union reintroduced the dichotomous representation of the liberal democratic states of the West and the failed or quasi states of the Third World. Despite the historical evidence that demonstrates the emergence of the modern sovereign state as the precondition for the formation of the nation state almost in all cases in Western Europe<sup>12</sup>, the post cold war era continues to downplay issues of history, culture, and identity in conceptualizing state-building. Furthermore, according to Mohammed Ayoob, the failed states or quasi states of the Third World should not be compared with the industrial democracies today, but with the situation from the sixteenth to the eighteenth century in Western Europe which was the state-building process for the early modern sovereign states of Europe.<sup>13</sup> It should be also noted that the

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<sup>10</sup> Samuel Huntington, *Political Order in Changing Societies* (New Haven, CT: Yale University Press, 1968).

<sup>11</sup> Jean-Francois Bayart, “Finishing with the Idea of the Third World: The Concept of the Political Trajectory” in J. Manor (ed.), *Rethinking Third World Politics* (London: Longman, 1991); and Jean-Francois Bayart, *The State in Africa: The Politics of the Belly* (London: Longman, 1993, French edition 1989).

<sup>12</sup> Charles Tilly, *Coercion, Capital, and European States, AD 990-1990* (Cambridge, MA: Basil Blackwell, 1990).

<sup>13</sup> Mohammed Ayoob, “State Making, State Breaking, and State Failure” in Chester A. Crocker, Fen Osler Hampson, and Pamela Aall (editors) *Leashing the Dogs of War: Conflict Management in a Divided World* (Washington, DC: United States Institute of Peace Press, 2007), p. 96.

building of modern sovereign states and the emergence of nation-states in the nineteenth and twentieth centuries were different processes.<sup>14</sup>

Regardless of the historically specific trajectories of modern sovereign states, the renewed focus on state-building continues to treat nation-state as key unit or sub-unit of analysis without problematizing the universalization of nation-state system. Likewise, the awareness of the connection between security and development does not treat development as a post-modern phenomenon, rather operates within the limited prescriptions of a neoliberal agenda.<sup>15</sup> A recent study by F. Olser and D. Mendeloff provides a comprehensive review of the debate on intervention and nation-building.<sup>16</sup> The study is a valuable contribution to the debate since it reveals the philosophical assumptions that underlie each approach, thus, clarifying how to assess different approaches in the debate given our concern on “ahistorical comparativism” in state-building theories. Accordingly, the following section will discuss the main approaches in the debate in light of the normative conceptualization of state-building by the classical modernization, dialectical modernization, and political order schools.

### **State-building in Post-intervention: Doomed to fail?**

F. Olser and D. Mendeloff’s study classifies nation-building approaches in three groups.<sup>17</sup> First, “fast-track democratization” takes the assumptions of traditional liberalism, namely, “that there is an inherent predisposition on the part of all people and societies, independent of culture or creed, to embrace ‘freedom and democracy’ – the rule of law, liberal values such as human and civil rights, and the principles of representative government.”<sup>18</sup> While all individuals share the basic liberal value of freedom, they would eventually like to exercise rule of law and representative government, which in turn would advance their natural freedom and rights. Thus, nation-building is equally perceived as democratization which is the ultimate end to liberate oppressed societies.

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<sup>14</sup> Ayoob , p.97.

<sup>15</sup> For example F. Fukuyama’s work is an ahistorical effort to analyze state-building and governance. Francis Fukuyama, *State-Building: Governance and World Order in the 21<sup>st</sup> Century* (Ithaca, NY: Cornell University Press, 2004).

<sup>16</sup> Fen Osler Hampson and David Mendeloff, “Intervention and the Nation-Building Debate” in Chester A. Crocker, Fen Osler Hampson, and Pamela Aall (editors) *Leashing the Dogs of War: Conflict Management in a Divided World* (Washington, DC: United States Institute of Peace Press, 2007), p. 679-699.  
F. Olser and D. Mendeloff, 2007.

<sup>17</sup> F. Olser and D. Mendeloff prefer to use nation-building without specifying if any difference exists between nation-building and state-building. On the other hand, this paper focus on state-building which was defined in the introduction and recognizes the fact that there has been an interchangeable use of state-building and nation-building with similar definitions presented in this paper.

<sup>18</sup> Olser andMendeloff, p. 680.

Like the classical modernization school the fast track democratization perspective continues a dichotomous representation of modern and traditional institutions that favors a mass intervention to transfer liberal institutions. Such an intervention would unleash the democratic forces, which are naturally embedded in all societies regardless of their different historic, political, social, and economic features. Accordingly, the challenge for state-building is to identify a right mixture of external military and political pressure to liberate and strengthen legal and electoral institutions. Indeed, the “Operation Iraqi Freedom” of the Bush administration intervening in Iraq carries a similar doctrine of classical liberalism of John Locke, Thomas Jefferson, and Jean-Jacques Rousseau.<sup>19</sup>

Similarly, the lack of substantial pre-war planning for state-building in post-intervention era reveals such an ideological approach, which was utilized along with the neoconservative means of intervention in Iraq- coercive democratization by using military force. The reliance on one of the key exiled opposition parties, the Iraqi National Congress (INC), in fact, reflected the lack of knowledge about the country as well as the ideological belief in the virtue of fast track democratization. The INC’s Ahmed Chalabi and his team supplied the US government with information on Iraqi government and society. Although this group was absent from Iraq many years, the Pentagon was convinced with the “decapitation thesis” of the INC.<sup>20</sup> The thesis utilized a liberal understanding of Saddam’s regime arguing that the government was extremely vulnerable and unstable. The Iraqi government had been relying on a small number of people for its hold on power and political control rather than ideological or institutional roots in the Iraqi society.<sup>21</sup> Therefore, the need for a detailed plan for post-intervention state building was negated since the US military force would be welcomed as liberators while setting a representative government and holding elections would complete the neoliberal model of democratization in Iraq. But the early reliance on the INC cadres created further problems in providing the support of Iraqi society for the new political structures of Iraq in the so-called democratization/liberation process.<sup>22</sup>

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<sup>19</sup> Olser and Mendeloff, p. 681.

<sup>20</sup> For creation of Iraq National Council (INC), see Anthony H. Cordesman and Ahmed S. Hashim, *Iraq, Sanctions and Beyond* (Boulder, CO: Westview Press, 1997), p. 64-68.

<sup>21</sup> For details see Dodge, 2005, p. 711-713.

<sup>22</sup> For example, a series of interviews conducted by Toby Dodge with a cross section of population in Baghdad in May 2003 revealed “at best indifference and more usually anger towards the returned exiles,” especially the secular INC and Ayad Allawi’s party Iraqi National Accord (INA). Dodge, 2005, p. 713. Similarly, A. H. Cordesman and A. S. Hashim argued long before the US occupation in Iraq that the opposition of Shi’ite and Kurdish that are out of the formal structures of Iraq in the center is unlikely to acquire power peacefully. “In

The on-going chaos, battleground for transnational terrorism, and inter-ethnic violence in Iraq undoubtedly demonstrate the constrained efforts and failures of the intervention and the state-building strategy built on “coercive democratization” entailing neoliberal ideological premises.<sup>23</sup> Nevertheless, major policy think tanks guided by the quantitative and technocratic approaches continue to operate on similar assumptions of fast track democratization perspective. For example, according to the RAND report on the challenges of “nation-building”, the most important “controllable” variable in explaining the level of success in intervention is the amount of effort measured in terms of the number of troops employed, the amount of money that was spent, and the length of operation. Rather than problematizing whether western liberal democratic institutions are transferable or not, they argue that what distinguishes international interventions in Germany, Japan, Bosnia, and Kosova on the one hand, Somalia, Haiti, and Afghanistan on the other, are not their levels of economic development, culture, or national homogeneity. Strategies that reflect only quantitative and technocratic construction of state-building process should be reformulated to draw attention to a more critical, historical and post modern conceptualization of development ensuring local, regional, and global contexts that goes beyond the ethnocentric normative theory formation to explain the relation between security and development.

The second group in the state-building debate is the “security first” approach. It argues that security and political stability should be the immediate priorities of nation-building and international interventions. “Security first” approach entails the Hobbesian view of anarchic world, thus, security takes priority above all without specific consideration given to different political regimes that might be formed after the international interventions. Therefore, the major challenge of intervention is not to establish or reconstitute political institutions especially a democratic political order but to provide physical security and political order. In short, “security first” perspective stresses that without security a country cannot initiate a democratization process.

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spite of the rhetoric of groups like the INC, there is no unity in the opposition movements, there is no opposition outside the ‘center’ that can command nation-wide support, and a ‘peripheral’ strategy threatens to create a civil war between Kurd, Shi’ite Arab, and Sunni Arab and possibly to divide the country.” Cordesman and Hashim, p. 110.

<sup>23</sup> Marina Ottaway argues that countries that are “forced by the international community to adopt a democratic system of government regardless of existing conditions and/or citizens’ preferences” are the objects of coercive democratization. Marina Ottaway, “Is Democracy the Answer?” in Chester A. Crocker, Fen Osler Hampson, and Pamela Aall (editors) *Leashing the Dogs of War: Conflict Management in a Divided World* (Washington, DC: United States Institute of Peace Press, 2007), p. 603-619.

A particular concern for this approach is the cases of divided societies that experienced violent conflict, oppression, war or civil war among ethnic, religious or clan-based tribal communities. In such cases, any broader national identity is crucially important since constructing a new national identity or reestablishing an old one requires a very long time and large amount of coercive power.<sup>24</sup> Thus, rather than traditional liberal principles of freedom and respect to individual rights, “security first” approach would prioritize to strengthen the state’s monopoly of power in order to impose political order and prevent the dissolution of territorial integrity. Like in political order school led by Samuel Huntington in 1960s, the security first perspective prioritizes strengthening of state capacity via the components of civil administration as well as the military since they are ultimately responsible for law and order.<sup>25</sup> Consequently, the authoritarian nature of the regime might be tolerated in order to guarantee stability and long-term security.

However, the success of the intervention built on the Hobbesian logic would be a conditional one. When the physical security of some or all citizens cannot be guaranteed under even authoritarian regimes, the citizens would reserve their right to look at other alternatives.<sup>26</sup> In the case of Iraq, indeed, the coercive means of monopolizing state power and undoubted technological superiority of the US military was not enough to impose order. Against the backdrop of Bush administration’s claim connecting Saddam regime to the terrorist network of al Qaeda and reliance on the INC cadres, not only legitimacy of imposing order but also equally important the potential administrative capacity of the technocrats in the former Baathist political institutions was greatly undermined. Given the ideologically driven neoliberal assumptions of the pre-war planning, the US intervention was never intended to be state-building rather a limited exercise of state reform by neoconservative means of employing military force.<sup>27</sup>

Accordingly, high expectations of victory in the aftermath of removal of Saddam Hussein in relatively a short time contributed to the Coalition Provisional Authority’s (CPA) misleading

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<sup>24</sup> Chaim D. Kaufmann, “Possible and Impossible Solutions to Ethnic Civil War,” *International Security*, 20, 4, 1996.

<sup>25</sup> Huntington, 1968.

<sup>26</sup> Olser and Mendeloff, p. 686-687.

<sup>27</sup> For a discussion of mistaken neoconservative assumptions and calamitous war-planning and occupation decisions see Larry Diamond, “What Went Wrong in Iraq” *Foreign Affairs*, 83, 2, March/April 2004; and Ahmed S. Hashim, *Insurgency and Counter-Insurgency in Iraq* (Ithaca, NY: Cornell University Press, 2006).

approach to complete the transition of power to Iraqis as quickly as possible. The replacement of Saddam regime by a small ruling elite mostly composed of exile leaders worsened the quest for legitimacy since the Iraqi opposition parties in the INC and particularly the Kurdish Democratic Party and Patriotic Union of Kurdistan introduced a distinctive view of Iraqi society, which was presented as divided between sectarian and religious groupings distrusting each other.<sup>28</sup> The INC could not mobilize any political support within the Iraqi society and further exacerbated the divide between the US forces and the Iraqi society. When the US realized that the state was already collapsed and there were no reliable strong institutions to be reformed, in July 2003 the Iraqi Governing Council (IGC) in cooperation with the UN was established aiming to lessen the rising unpopularity of the US occupation and politically motivated violence.

The supposedly representative nature of the IGC's membership aggravated the ethnic divide and caused a great deal of anxiety in Iraqi society since the interpretation of Iraqi society and national identity was largely based on primordialism rooted in nation-building efforts of the British colonial powers in 1920 when they created the Iraqi nation by merging three disparate provinces (vilayets) of the Ottoman Empire. In fact, despite the importance given to any previous national identity by the "security first" approach to facilitate political order and prevent the dissolution of territorial integrity, the US faced the dilemma of dismantling of Saddam regime's institutions because of their oppressive and illiberal practices and led the way for excess sectarian representation in the new political structures of post-Saddam Iraq.<sup>29</sup> The Bush administration set 30 June 2004 as the deadline for transferring sovereignty to Iraq regardless of the criticism against the IGC and its explicit sectarianism that had no formal position in the Iraqi political discourse.<sup>30</sup> Likewise, the interim government of Iraq that was handed sovereignty on 28 June 2004 and the new Iraqi government elected on 30 January 2005 were crippled from the beginning since they did not carry the necessary capacity to

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<sup>28</sup> Isam al Khafaji, "A few days after: state and society in a post-Saddam Iraq" in Toby Dodge and Steven Simon (editors), *Iraq at the Crossroads: State and Society in the Shadow of Regime Change* (London and Oxford: International Institute for Strategic Studies and Oxford University Press, 2003).

<sup>29</sup> For details see Dodge, 2005, p. 713-718.

<sup>30</sup> For example, A. H. Cordesman and A.S. Hashim analyzes in detail the role of ethnical and sectarian issues in the recent history of opposition movements in Iraq stating that "Iraq's opposition political parties are very weak, and consist largely of exile groups with a negligible power base. Iraq's Kurds present the risk of separatism or creating a regime that may degenerate into civil war, and Iraq's Shi'ites present risk of backing an Islamic regime – possibly one sympathetic to Iran. These risks are not a reason for policy paralysis. There are many Kurds who would accept a federation that recognized Kurdish rights to a separate culture and a fair share of Iraq's oil revenues. Many Iraqi Shi'ites are secular in character. As well as being nationalists and Arabs." Cordesman and Hashim, p. 59.

impose order nor indigenous mediation with the Iraqi society to legitimize any monopoly of power by the newly created political structures over the territorial integrity of Iraq.

State-building strategies constructed through “security first” approach shares with classical modernization school several basic assumptions including the top-down elitist representation of state over society without giving any consideration to historical circumstances of state-building in the Middle East and the meaning of state for the society.<sup>31</sup> Consequently, no matter how much political will, capacity, and military power the US occupation forces have, the replacement of existing authoritarian institutions to impose order might result in violence as a post modern phenomenon of perceived “legitimate violence”.<sup>32</sup> Accordingly, people excluded and marginalized through the modernization process of post-colonial nation-building do not recognize the state’s monopoly of power rather establish a parallel political discourse out of the state structures and legitimize violence. Thus, any claimed legitimacy of the state’s monopoly of power based on an ungrounded modernization process should be shifted to local, regional, and global context of marginalization in the globalization process.

The third group in the state-building debate is the “slow democratization” approach which rejects a one-size fits-all approach and follows a utilitarian assumption that democratic institutions must be adapted to the special cultural and historical circumstances of the societies. In contrast to “fast track democratization” the means for establishing democracy is not simply holding elections and establishing legal institutions rather democratization involves fostering a civic culture with a strong, well-functioning administrative state capacity. The “slow democratization” approach shares to an extent philosophical assumption of John Stuart Mill about the social and cultural requirements for democracy and particularly political and legal guarantees for minority opinion and culture so that the tyranny of majoritarian rule would be prevented.<sup>33</sup>

In fact, according to this approach transforming political structures quickly to install competitive electoral policies without a highly competent administrative capacity and

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<sup>31</sup> For history of Iraq see Hanna Batatu, *The Old Social Classes and Revolutionary Movements of Iraq* (Princeton: Princeton University Press, 1978); and Phebe Marr, *The Modern History of Iraq*, (Boulder, CO: Westview Press, 1985).

<sup>32</sup> Martinussen, p. 178. For a new conceptual framework to understand development, innovation, marginalization, and legitimate violence see David E. Apter, *Rethinking Development, Modernization, Dependency and Postmodern Politics* (Newbury Park, CA: Sage Publication, 1987).

<sup>33</sup> Olser and Mendeloff, p. 686-687.

institutions developed through consensus, the countries would risk civil war, sectarianism, or terrorism. The turmoil in Iraq and the failures of the US war planning and post-intervention state-building process, indeed, emphasizes the pre-conditions for democratization in a historical context. For “fast track democratization” a sufficient “level of effort” measured in manpower, time, and money as in the cases of Japan, Germany, Bosnia, and Kosovo is important for nation-building success.<sup>34</sup> But for “slow democratization” approach, like Fukuyama institutional preconditions are more important, while international commitments have been necessary.<sup>35</sup> According to Fukuyama, the determining factor would be to what extent local-capacity building is prioritized to create viable institutions through participation and ownership of the state-building process.

However, despite the growing literature highlighting the importance of engaging local participants in state-building process for ownership of the constructed norms sensitive to local culture, there is a range of political assessments and policy prescriptions arguing the limitations of local participation.<sup>36</sup> Like John Stuart Mill questioning the traditional liberal myth about the inherent freedom and democracy embedded in all societies, “slow democratization” perspective draws attention to preparedness for democracy measured in terms of level of education, social awareness, and responsibility of citizenship.<sup>37</sup> For example, in the Middle East, where preparedness for democracy is disputed, “slow democratization” approach, like “security first” approach, favors stability and order; and is willing to tolerate authoritarian rule as long as it effectively builds highly competent administrative capacity and institutions laying the foundation for democratic development. Thus, while “slow democratization” approach shares same assumptions with the dialectical modernization school in development studies, it continues to present skepticism towards traditional societies lacking civic culture; and therefore, local capacity and opportunities for ownership of people. Furthermore, in cases of failed states where there is no viable state apparatus and local

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<sup>34</sup> James Dobbins et al (editors), *America's Role in Nation-Building: From Germany to Iraq*, (RAND Corporation, 2003).

<sup>35</sup> Fukuyama, 2004.

<sup>36</sup> For a discussion of constitutional and political institutional design in multiethnic societies see Andrew Reynolds (ed.), *The architecture of Democracy: Constitutional Design, Conflict Management, and Democracy* (New York: Oxford University Press, 2002); and Philip G. Roeder and Donald Rothchild (editors), *Sustainable Peace: Power and Democracy After Civil Wars* (Ithaca, NY: Cornell University Press, 2005).

<sup>37</sup> Olser and Mendeloff, p. 692.

capacity, there are scholars favoring international trusteeship or shared sovereignty like Stephen Krasner, James Fearon, and David Laitin,<sup>38</sup>

But these scholars do not convincingly demonstrate how the most critical issue of legitimacy would be overcome. Without any consideration given to the problems stemming from post colonial nation-building, the superpower rivalry during the Cold War in the form of proxy wars in the Third World, the on-going transfer of weapons of to governments and insurgents in failed or quasi-states, and marginalization and alienation of people by the neoliberal models of development in the uneven and unequal globalization process, a discussion on the crystallization of international norms of sovereignty as well as alternative forms of sovereignty are doomed to fail as neo-imperial projects.

Overall, while the “slow democratization” approach prioritizes the formation of state capacity and institutions, the dual challenge of reconsolidation of state’s monopoly of power for a well functioning state and democratization should be conceptualized as a process. Such a process has been constructed simultaneously through specific local, regional, and global contexts rather than a dichotomous or politically and ideologically driven state-building strategies prioritizing strong government over civil society development without problematizing the universalization of nation-state system, construction of national identities during post-colonial nation-building, and the transformation of the global economy under a dominant neoliberal ideology.

### **Oil-led Development and State-Building in Iraq**

The curse of oil particularly for the prospects of democratization in oil rich countries has been extensively stressed in the state-building literature.<sup>39</sup> The argument, accordingly, asserts that the larger oil revenues and oil-led development of these countries created rentier or distributive states instead of liberal democracies because the political leadership in oil rich countries distributes selective benefits to certain political and social groups in exchange for

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<sup>38</sup> Stephen D. Krasner, “Sharing Sovereignty: New Institutions for Collapsed and Failing States.” in Chester A. Crocker, Fen Osler Hampson, and Pamela Aall (editors) *Leashing the Dogs of War: Conflict Management in a Divided World* (Washington, DC: United States Institute of Peace Press, 2007), p. 653-678; and James D. Fearon and David D. Laitin, “neotrusteeship and the Problem of Weak States,” *International Security*, 28, 4, spring 2004.

<sup>39</sup> For a systematic discussion and analysis of state-building in oil rich countries, see Kiren Aziz Chaudhry, *The Price of Wealth: Economies and Institutions in the Middle East*, (Cornell University Press, 1997); Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, (University of California Press, 1997); Dirk Vandewalle, *Libya since Independence: Oil and State-Building*, (Cornell University Press, 1998).

political acquiescence. The dependence of prominent state bureaucrats, military officials, and regional administrators on the allocation of revenues and resources that are strictly controlled by the political leadership and its extended network of family/clan members further strengthens undemocratic governing institutions. The leaders in power decouple themselves from their constituents because they do not need to extract resources from a domestic economy that lacks diversified sectors.

While this structural problem of the distributive or rentier state combined with the interests of Western states in energy security has long been the major obstacle to domestic political reforms, the theories which stress the impact of oil and Western imperialism tend to neglect the specific trajectories of state-formation and associated problems of nation-building during and after colonialism before the discovery of oil. In fact, Iraq had faced the most formidable obstacles to state-building process given the sheer arbitrariness of Iraq's existence under a British mandate since 1920. The specific historical circumstances had delayed a genuine and indigenously driven moderation between the political leadership and people to monopolize state power in Iraq. For example, the reorientation of economic activity (i.e. expanding agricultural production, redirecting trade towards Britain) drawing three provinces (Musul, Baghdat, Basra -vilayets of Ottoman Empire) in Iraq into closer exchanges with each other, the Ottoman land reform law of 1858 displacing tribal nomadism in these provinces with large-scale estate formation and associated large landowners who were tribal sheikhs, the Shi'ite tribal revolt of 1920-21 against the British, the British support for the Hashemite monarchy, and the continuing tribal revolts of the period between 1936-41 were some of the major developments for the delay of a "social contract" between the state and Iraqi people since the late nineteenth century were.<sup>40</sup>

Furthermore, when the military coup overthrew the monarchy and established a republic in 1958, despite the autonomy of Iraqi state from society there was no consolidation of state power till 1968, the second Ba'athist coup. The new ruling was the civil and military officers of the state replacing the monarchy which used to be supported by the big tribal landlords. While the 1958 revolution had both an anti-imperialist and an anti-landlord character, the Ba'ath Party became a pan-Arab socialist party based on a genuine popular movement and a Sunni-Shi'ite partnership. However, the partnership between Sunnis and Shi'ites deteriorated

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<sup>40</sup> For Iraq's history see Batatu, and Marr.

by rising Arab nationalism of Sunni Ba'athists and the party became an extension of the Sunni ruling elite between 1963 and 1968.<sup>41</sup> Especially after Saddam Hussein the mobilizing ideology of the Ba'ath Party, Arab nationalism, was reshaped in order to unite Iraqis of all ethnic and sectarian groups. Saddam Hussein attempted to construct an Iraqi national identity based on a pragmatic "Iraq-first" ideology and the idea of Mesopotamian embracing both Arab and non-Arab, and Islamic and non-Islamic characteristics. The consolidation of state power and maximization of state's autonomy from society was completed in the post-1968 Ba'ath regime and especially after the increasing oil revenues and the dominant role of the security apparatus created by Saddam Hussein.

Oil became central to the Ba'ath Party's grip of political power. In 1972 the Iraqi Petroleum Company was nationalized. Following the 1973-74 oil crisis, the oil revenues accounted for nearly two thirds of GDP, nearly 90 percent of state revenue.<sup>42</sup> Thus, the political economy of Iraq became dependent on oil-led development in which the Iraqi population was increasingly dependent on state welfare system well funded by oil wealth. Consequently, the state-building in Iraq suffered both from distributive nature of the state and the narrow ethnic and religious basis of the Saddam regime impeding a legitimate and democratic governance. However, this should not be read as an inherent ethnical or sectarian opposition among Kurds, Shi'ites, and Sunnis competing for political power struggle. Rather the dependence of prominent state bureaucrats, military officials, and regional administrators on the allocation of revenues and resources that are strictly controlled by the political leadership prevented the emergence of independent forms of opposition or pressure groups based on modern social constituencies.

However, the eight year war with Iran, the 1990-91 Gulf War, and the imposition of economic sanctions resulted in poor maintenance of oil industry and decreasing oil revenues. The sharp reduction in oil revenues changed dramatically the support basis of historically generous welfare system of Iraq and worsened Saddam Hussein's oppressive rule based on informal networks of patronage and security apparatus. The state institutions and particularly the well educated middle class of Iraqi society impoverished. The macroeconomic crisis gave way to widespread corruption and bribery since civil servants' income evaporated. Thus, the faulty

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<sup>41</sup> For details see Simon Bromley, *Rethinking Middle East Politics* (Cambridge, UK: Polity Press, 1994), p. 138-139; and Cordesman and Hashim, p. 37-39.

<sup>42</sup> Bromley, p. 140.

assumptions and perceptions of the pre-war planning exacerbated the already failed state in Iraq and resulted in its collapse.

In light of the historical trajectory of state-building in Iraq, the prospects for establishing a constitutional framework to manage oil wealth in Iraq are utmost important. The ownership and management of oil and gas industry as well as distribution of oil revenues are particularly central to the debate on state-building strategies discussed in the previous section. The process of drafting the constitution and the role played by each party is also critical to our understanding of state-building in Iraq. However, such an assessment is beyond the scope of this article.<sup>43</sup> Rather, the focus is on how the constitution and its related articles to oil were designed and its impact on state-building process.

There is a set of ambiguities, omissions, and contradictions contained in the related articles of the constitution. First, the most controversial issue is about the structure of the republic namely federalism. The constitution which was adopted by a referendum in October 2005 defines the Republic of Iraq as “a single federal, independent and fully sovereign state in which the system of government is republican, representative, parliamentary, and democratic” in Article 1 in Section One, Fundamental Principles. The major goal seems to be the removal of the authoritarian power from the hands of the President or a central government, however, federalism created a fear of dismemberment of Iraq especially with the increasing turmoil and lack of physical security except limited provinces in the north which are prominently Kurdish. Although no federal unit can separate from Iraq technically, Article 119 recognizes the right of one or more governorates to organize into a region and Article 117 specifically endorses the region of Kurdistan as a federal region. These articles along with the Article 140 which asks for a census and a referendum in Kirkuk and other disputed territories “to determine the will of their citizens” create ambiguity for defining territorial borders of regions and oil fields that belong to one or neighboring regions.<sup>44</sup>

The federalism creates, thus, significant problems for the ownership of oil. While Article 111 in Section Four, Powers of the Federal Government states “oil and gas are owned by all the

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<sup>43</sup> For a comprehensive assessment see Ibrahim Al-Marashi, “Iraq’s Constitutional Debate” *Middle East Review of International Affairs*, 9, 3, September 2005.

<sup>44</sup> There are several joint fields among provinces that are namely Kirkuk, East Baghdad, Kifl, Ajil, and fields not yet discovered. In addition, some other fields are so close to the borders that they could be considered joint too. Among 18 provinces of Iraq Kirkuk province has the second largest oil production and second largest proven oil reserves after Basra province in Iraq.

people of Iraq in all the regions and governorates,” Article 112.1 is contradictory since it refers to the joint management of “present fields” by the federal government, producing governorates and regional governments, implying that new exploration and production to be fully in the control of regions and provinces excluding the federal government.

Second, there is ambiguity regarding the management of oil sector under such a federal structure. The exclusive authorities of the federal government are defined in Article 110 in Section Four, Power of the Federal Government. On the other hand, Article 115 and 121.2 endorses that the regions and producing governorates have the final say in the areas of shared (defined in Article 114) and regional (defined in Article 121) jurisdiction. In light of these specific articles of the constitution, the meaning of “present field” in Article 112.1 presents the most contentious point. “Present field” is not a standard term in the terminology of petroleum industry. Thus, it can be interpreted in multiple ways.<sup>45</sup> There are 24 developed fields and 71 undeveloped discovered fields holding approximately 115 billions of barrels of oil and equivalent in Iraq. While there is no production in the undeveloped fields, not all the 24 developed fields are producing currently.<sup>46</sup> If all undeveloped fields are considered “present field”, then there is no confusion. However, if they are not included in present fields, some of the giant fields that have been partially developed would create obviously conflict not only for management of oil fields but also for distribution of oil revenues between the federal government, the regions, and the governorates.<sup>47</sup>

Third, the ambiguity in the meaning of “present field” in Article 112.1 creates disputes for a revenue sharing formula. The Article 112.1 clearly states that the federal government with the producing governorates and regional governments distributes the revenues from the present fields “in a fair manner in proportion to the population distribution in all parts of the country.” Thus, revenue sharing in proportion to population is limited only to “present fields.” Unless “present fields” are defined as developed and undeveloped discovered fields of Iraq, the

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<sup>45</sup> One definition can be the oil fields which are currently producing oil and gas and contain (depending on interpretation) between 40-80 billion barrels of liquid. Another definition can be referring to all discovered structures of oil in Iraq, producing or not.

<sup>46</sup> Kamil al Mehaidi, *Geographical Distribution of Oil Fields and Its Relation with the New Constitution*, (Revenue Watch Institute Report, 27 May 2006), pp. 12-13.

<sup>47</sup> These giant fields are Majnoun field (potential 600,000 barrels per day capacity) and Nahr Omar field (potential 400-500,000 barrels per day capacity) in Basra province, East Baghdad field (potential 120,000 barrels per day capacity) in the provinces of Baghdad and Salaheddin, and West Qurna field (potential 800,000 barrels per day capacity).

revenue distribution would obviously favor the provinces where the bulk of oil reserves is located.<sup>48</sup> Moreover, the revenue sharing principle in Article 112.1 is inconsistent with Article 111, which defines that oil and gas are owned by all Iraqi people. Article 112.1 also endorses a specific treatment for a specified period for the disadvantaged regions and ensures a balanced development. Nevertheless, this provision would be favorable only in the short term because for the long term when production from present fields drop, the disadvantaged regions (including non-producing or small producing provinces) will lose their subsidies from the large producing provinces.

Within the framework of the ambiguities and contradictions contained in the oil related articles of the constitution, it is plausible to argue that the state-building process in post-Saddam Iraq reflects the failures of the fast-track democratization approach in the US's limited state-reform strategy. Thus, regardless of the "level of effort" committed by the intervention the ideological belief of freeing Iraqi people from the oppressive Saddam regime dominated mostly by a small cadre of elites in exile oversimplified not only the legacy of nation-building in Iraq since the nineteenth century and the associated problems of national identity but also the historical trajectory of the relation between the oil and state-building. Likewise, the federal structure of the state simply assumed to remove the old guard of Sunni elites and the Ba'athists from a central government and decentralize the management of oil industry based on a faulty perception of the deep ethnical and sectarian differences in Iraqi society.

Accordingly, shifting the burden of imposing law and order via the new constitution to "liberated" Iraqi political leaders without strengthening the administrative capacity of technocrats and the newly built institutions undermines the democratization process, if any, since it ignores the history of consolidation of state power and the distinct autonomy of the state from the society in Iraq.<sup>49</sup> In fact, the opening of the new constitution with "We, the people of Mesopotamia" ironically mimics the rhetoric of the national identity constructed

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<sup>48</sup> For example, Anbar, Duhok, Babail and Diwaniya provinces have no developed or discovered oil and gas fields. Furthermore, the ethnic and sectarian distribution of population in oil and gas rich provinces favors relatively Shi'ite and Kurdish except Kirkuk which is a multi-ethnic province.

<sup>49</sup> For example, Toby Dodge argues that state legitimacy has failed both during state-building under British occupation in the 1920s and the current American occupation. British colonial officers rather than strengthening state institutions relied on a centralized rule (*hakumat al tayarra*- government by aircraft). The early centralized role of the state was worsened through the consolidation of power from monarchy to republic at the expense of democracy and distancing state from the society. Toby Dodge, "Iraq: The contradictions of exogenous state-building in historical perspective," *Third World Quarterly*, 27, 1, 2006.

through the Saddam regime and contradicts with the federal structure built on the perception of securing freedom for ethnical and sectarian groups.

A particular attention in “security-first” approach in the state-building debate is given to the cases of divided societies that experienced violent conflict, oppression, war, or civil war among ethnic, religious or clan-based tribal communities. Looking at the situation in Iraq, the “security first” approach would prioritize to strengthen the state’s monopoly of power to impose political order and prevent the dissolution of territorial integrity in Iraq. Likewise, rather than creating a federal state, a centralized power structure would be prioritized to provide physical security and political order since the “security first” perspective stresses that without security a country cannot initiate a democratization process.

However, the new Iraqi government elected in January 2005 was crippled from the beginning since the legitimacy of the government was overshadowed by the selective representation along ethnical and sectarian lines as well as the role of the US occupation in Iraq. The replacement of existing authoritarian institutions with the new government and the new constitution rather resulted in violence and impeded imposing order. Even if security were maintained currently in Iraq, there is already embedded institutional weaknesses to consolidate power, distribute and redistribute wealth because of the contradictions and ambiguities in the new federal structure. For example, when the Kurdistan Regional Government passed the new regional petroleum law in the local parliament in August 2007, the potential disputes between the federal government and regional governments regarding management of oil fields and distribution of oil revenues have been triggered. Meanwhile, the voting of the the final draft of the federal law on petroleum was delayed till September 2007 since there has been considerable opposition by oil technocrats, unions, Sunni parties, and some Shi’ite parties even threatening to boycott the parliament.<sup>50</sup>

Thus, a state-building strategy based on the “security-first” approach would further jeopardize the long term stability by favoring a centralized power structure given the legacy of rentier state in Iraq historically and its impact on creating patrimonial networks weakening state

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<sup>50</sup> *The New Anatolian*, “New Iraqi Kurdish oil law may trigger confrontation with Baghdad, won’t attract leading oil companies,” 14 August 2007.

Furthermore, according to a poll by KA Research and Custom Strategic Research for Oil Change International, 63 percent of the respondents prefer Iraq’s oil to be developed and produced by state-owned companies. *Iraq Directory*, Iraqis Call for State-Owned Oil Company, 10 August 2007.

capacity and inflaming ethnical and sectarian conflicts. Despite the federal structure brought by the new constitution, the on-going violence should not be merely interpreted as lack of the monopoly of state's power to impose order and provide physical security. Rather violence in Iraq needs to be re-interpreted in a local, regional, and global context of marginalization in the globalization process.

Lastly, "the slow democratization" approach in the state-building debate would focus on local-capacity building to create viable institutions through participation and ownership of the state-building process. Accordingly, while the new federalism in Iraq allow for such local-capacity building, how and to what extent the regional governments in Iraq would ensure people's participation and contribute to a collective civic culture beyond securing ethnical, religious, and cultural rights. For example, while establishment of the Kurdistan Oil Trust Organization is endorsed in the new petroleum law of Kurdistan Regional Government, how much of the revenues and where these revenues would be dedicated to education, health, infrastructure, and other sustainable development needs is not specified. Looking at the experiences of other natural resource funds in oil and gas rich countries, these funds function best in established democracies like Norway or Canada.

Nevertheless, in the "slow democratization" perspective there is an inherent skepticism towards traditional societies lacking civic culture; and therefore, local capacity and opportunities for ownership of people. Despite the decentralized authority given to regional governments in the new constitution to make new contracts for exploration and development other than "present fields," there has been a strong pressure by the US government since the prewar planning to open Iraqi oil and gas industry to foreign investment under the neoliberal principles of market efficiency. For example, the insistence on production sharing agreements as a model for oil contracts in the drafted federal petroleum law and the committed amount of spending to increase oil output according to the Stand by Arrangement with the IMF signed in December 2005 reflects a political preference over a national oil company.<sup>51</sup> Similarly the draft federal petroleum law allows establishment of the Federal Council for Petroleum and

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<sup>51</sup> IMF, *Iraq: 2005 Article IV Consultation*; and D. Forston, A. Murray-Watson, and T. Webb, "Future of Iraq: The spoils of war," *The Independent*, 7 January 2007. For example, the proposed production sharing agreement (PSA) allow oil companies to take up to 75 percent of the profits till they recover initial drilling costs and after that, they would collect 20 percent of all profits. While the profit share is twice the industry average, PSA are applied usually in places where development costs are high, oil fields are marginal or complex, and high risk exploration is required. In Iraq none of these conditions exist except the currently very high security risk.

Natural Gas in which multinational oil companies are represented.<sup>52</sup> Thus, the draft law implies indirectly a loose form of “shared sovereignty” as suggested by Stephen Krasner describing indeed a similar arrangement of the Chad-Cameroon pipeline.<sup>53</sup>

But such formulations under the new federalism in Iraq as well as politically and ideologically driven state-building strategy of “slow democratization” do exacerbate the critical issue of legitimacy and historical skepticism in the Middle East towards neo-imperial ideas.

Consequently, a state-building strategy prioritizing local capacity and institution building over civil society development without problematizing the historical of post-colonial nation-building and the transformation of the global economy under a dominant neoliberal ideology might reinforce a “post modern legitimate violence” ready to be exploited by radical Islamist terrorists.

## **Conclusion**

Decades of neglect, war, and sanctions have deteriorated the Iraqi oil and gas industry in terms of both human resources and infrastructure. The need for new investment and technology to develop the present and undeveloped oil fields as well as to explore undiscovered oil fields creates additional tension about the question of how to engage foreign investment in the Iraqi oil and gas industry. In line with the challenge of finalizing the federal petroleum law and clarifying the ambiguities and contradictions in the new constitution, the recovery of oil production and oil exports strictly depends on how the management of oil industry and distribution of revenues would be organized.

Accordingly, decentralization in the oil and gas industry might undermine not only regional energy security but also the required coordination among regional governments since there is a need for some centralization in the hands of the federal government to coordinate a strategy for and to manage pipelines, refineries, export terminals and databases. For example, the reserves in the Northern Iraq are land-locked so cooperation with the federal government and neighbouring countries particularly Turkey is an imperative to export oil and gas from this region. Thus, there is a need for broadening the definition of energy security along with the

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<sup>52</sup> Michael Howard, “The Struggle for Iraq’s oil flares up as Kurds open doors to foreign investors: Baghdad is trying to reassert central control of reserves run by Kurdish authorities,” *The Guardian*, 7 August 2007. Check *Guardian* or *Independent* in August before August 8, 2007.

<sup>53</sup> Krasner, p. 668.

new dimensions of security, which contains human security. This broader definition implies looking not just at the mercantilist race to access and transport energy resources but also the new challenges of foreign policy including environment, human rights, democratization, terrorism and sustainable development.

Moreover, the oil and gas producing countries should acknowledge the emerging framework for energy security to protect the entire energy supply chain and infrastructure rather than the old system, which focuses on how to handle any disruption of oil and gas supplies from producing countries. Today, long-distance, cross-border pipelines are gaining importance in global energy trade. The already heavy tanker traffic in the Gulf of Basra, in fact, is along the chokepoint of the Strait of Hormoz, which in turn creates particular vulnerabilities. However, any project for cross-border pipelines or management of oil industry that entails a lucrative deal for multinational oil companies driven by political and ideological principles of ethnocentric state-building strategies would undermine the broader definition of energy security.

Consequently, without any consideration given to historical trajectory of state-building in Iraq the US policy on post-intervention state-building continues to treat development through the myopic perspective of neoliberalism utilized in line with the neoconservative means of intervention. Such a policy exacerbates the critical issue of legitimacy and historical skepticism in the Middle East towards neo-imperial ideas.