Reforming Iraqi State-Owned Enterprises: Lessons From The China's Experience

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Abstract

The research highlights the significant importance of State-owned enterprises for the Iraqi economy and society. They provide goods and services and create many work opportunities. They also dominate many vital industries, such as oil, electricity, construction, pharmacies, nutrition, finance, and other sectors. However, they went through continued financial and administrative difficulties that negatively affected their efficiency and productivity. Therefore, the research discusses national attempts to reform SOEs either by collaboration with international agencies or through public-private partnerships and the difficulties hindering these reform processes. The difficulties include the interest of political parties in SOE activity, an externally imposed plan for economic change, and possible negative social effects that could result from privatising Iraqi SOEs. Then, it compared the suggested reforming plan to China's experience in developing its economies and improving the efficiency of its SOEs. The comparison is based on similarities between the two countries regarding legal backgrounds and the SOEs' importance to their economies. The research proposed a reforming plan suggesting that serious measures should be taken to prevent political interests from influencing the structure or performance of SOEs. State-owned enterprises must also enhance their corporate governance practices to become more transparent and accountable and improve their competitiveness in local and global markets. This could contribute to developing the economy and permit a smooth transition to a market-oriented economy.

Keywords: State Owned Enterprises, Iraqi economy, Strategic industries, State capitalism, China's SOE Reformation

إصلاح الشركات المملوكة للدولة العراقية : دروس من تجربة الصين

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الملخص

هـذا البحث يسـلِّط الضـوء على الأهميـة الكبـيرة التي تتمتـع بها الـشركات المملوكة للدولـة بالنسـبة للاقتصاد والمجتمع العراقي، فهي توفر السـلع والخدمـات وتخلق العديد مـن فـرص العمل، كـما تهيمن على العديد مـن الصناعـات الحيوية، مثل النفـط والكهرباء والبنـاء والأدوية والغذاء والتمويل وغيرها من القطاعـات. ومع ذلك، تمرُّ هذه الشركات بصعوبات ماليَّة وإداريَّة مسـتمرة تُؤثِر سلبًا على كفاءتها وإنتاجيتها، لذلك فإنَّ هذا البحث يناقش المحاولات الوطنيَّة لإصلاح الشركات المملوكة للدولة؛ إمَّا بالتعاون مع الوكالات الدوليَّـة أو مـن خـلال الشراكات بـين القطاعين العام والخـاص والصعوبـات التي تعوق عمليـات الإصلاح هـذه، والتـي تتمثَّل بتدخـل الأحزاب السياسـيَّة في نشـاط الشركات المملوكـة للدولة، وخطط الإصلاح الاقتصـاديّ المفروضة من الخارج، بالإضافة إلى الآثار الاجتماعيَّة السلبية المحتملة التي يمكن أن تنجم عن خصخصة الشركات المملوكة للدولة.

ويقـترح البحـث خطة لإصـلاح هذه الـشركات بالمقارنة مـع تجربة الصـين في تنمية اقتصادها وتحسـين كفـاءة شركاتها المملوكة للدولة. وتسـتند المقارنة إلى أوجه التشـابه بين البلديـن فيـما يتعلَّـق بالخلفيات القانونيـة وأهمية الـشركات المملوكة للدولـة لاقتصاديهما؛ إذ يُقـدِّم البحـث خطةَ إصلاح تقترح اتخـاذ تدابير جادة لمنع أيِّ مصالح سياسـيَّة أو تدخل في تشـكيل الإدارات الخاصَّـةً بالـشركات المملوكة للدولة أو طريقة عملهـا، كما يتعيَّن على هـذه الـشركات أن تعمل على تعزيز ممارسـات حوكمة الشركات وتطبيق معايير الشـفافية والمساءلة، وتحسين قدرتها التنافسية في الأسواق المحليَّة والعالميَّة ممَّا يسهم في تنمية الاقتصاد ككل ويسمح بالانتقال السلس إلى اقتصاد السوق.

الكلمات المفتاحية:

الـشركات المملوكـة للدولة، الاقتصاد العراقيّ، الصناعات الاسـتراتيجية، رأسـمالية الدولة، إصلاح الشركات المملوكة للدولة في الصين.

Introduction

State-owned enterprises (SOE) are the dominant players in the Iraq economy and have a significant impact on its politics and society. Iraq has more than 170 SOEs that dominate many vital industries, such as oil, electricity, construction, pharmacies, nutrition, financial and other sectors. They employ more than half a million people and create a large number of other jobs in different subsidiary economic fields.[1] However, they went through continued difficulties and political and administrative circumstances that negatively affected their efficiency and productivity. According to the World Bank, only one-quarter of the Iraqi SOEs are profitable, while the rest are considered losing enterprises and burdening the whole economy.[2] This situation became more complex after the United States invaded Iraq because of implementing, in a short time, mysterious plans that were put in by completely foreign experts, which confused the administrative and legal system of the SOEs. Then, the government in Iraq signed many agreements with international bodies to reform the whole economy, es-

(1) Stephen Rimmer and Mohammed Al-Ani, *Reform of State Owned Enterprise and Public Private Partnership (PPPs) in Iraq*, (World Bank, 2012) <https://openknowledge.worldbank.org/server/api/core/bitstreams/06f79abc-3ddb-5529-a35c-dde2e3e2e5a9/content>.

(2) World Bank, *State Owned Enterprises Reform in Iraq* (World Bank, 2004)<https://documents.worldbank.org/en/publication/documents-reports/documentdetail/946591468752784895/state-owned-enterprises-reform-in-iraq>.

pecially the SOEs, to overcome economic and financial difficulties. However, these reforming plans were unsuccessful not only because of the lack of political attitude that is required to support such type of economic reform but also because SOEs were suffering from increased political corruption.

This research first gives an overview of SOE in Iraq, explaining the situation before and after the invasion of Iraq in 2003. It examines the issues identified by Iraqi authorities and concerned international organisations, including legal, administrative and political problems. It also discusses the experience of reforming SOE in China, which led to a unique model of economic growth. Then, the research will analyse and criticise the national attempts to reform the SOEs compared with China's and other successful experiences that implemented reformation plans to develop their economies and improve the efficiency of their SOEs. The comparison was based on similarities between the two countries related to their economic and legal backgrounds as well as the importance of the SOEs to their economies. The research proposed a reforming plan suggesting that SOEs should enhance their corporate governance practices to become more transparent and accountable enterprises and improve their competitiveness in local and global markets. This could contribute to developing the whole economy and permit smooth transfer to a market-oriented economy.

An overview of State-owned Enterprises in Iraq

This section will highlight the role and size of state-owned enterprises in the Iraqi economy and their situation before and after the 2003 invasion. It also clarifies the progress made in reforming SOEs and the whole economy, either through collaboration with international agencies or public-private partnerships.

The Role and Size of State-owned Enterprises in Iraq

The Iraqi economy, since the 1968 revolution, has been heavily centralised and dominated by state control. Consequently, the government had established state-owned enterprises for strategic and non-strategic industries, compared to other countries, where they are limited to strategic sectors.[1] It is estimated that Iraq has around 170 state-owned companies (down from 192 in 2003–2004)[2] which are distributed among various ministries.[3]

(1) State ownership is still present in competitive sectors such as wholesale trade and retailing, even as the private sector share has risen. For example, the government depends heavily on the State Company for Foodstuff Trading and the Iraqi Grain Company (both fully state-owned) for importing and marketing basic foodstuffs.

(2) World Bank, *Governance Reforms of State-Owned Enterprises: Lessons from Four Case Studies (Egypt, Iraq, Morocco, and Tunisia)*, (World Bank, 2015) 26 <https://documents1.worldbank.org/curated/en/829511468279359781/pdf/P143247-AAA-Final-Output.pdf>.

Some of Iraqi SOEs from banking sectors were merged by Coalition Provisional Authority Order No 76. See the Annex A of CPA Order No 76 (20 May 2004).

(3) For example, there are 16 companies owned by the Ministry of Oil and 71 companies owned by The Ministry of Industry and Minerals. In addi-

Most state-owned companies are large and many of them have several branches.[1] Together they employ over 630,000 workers, roughly one-eighth of the country's workforce.[2] State-owned enterprises were established for a variety of public policy goals. This includes controlling natural resources to generate revenue for the treasury; addressing market failures; achieving self-sufficiency in producing basic goods and services; providing essential services such as finance, water, and electricity; and promoting social objectives such as regional development, basic infrastructure and employment generation.[3]

The Government monopolises the ownership and operation of companies in critical sectors where competition is not deemed feasible, such as energy, hydrocarbons, and natural resources, including oil and gas. As a result, most national companies operating in the oil and gas industry are wholly owned by

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tion, there are over 40 mixed-ownership firms in which individuals and private companies hold shares jointly with the state.

(1) Branches of state-owned companies are located at different sites, quite far from the main headquarters. They do not have legal autonomy and, therefore, cannot sign contracts directly with customers or receive credit from banks since they are not registered as legal entities. However, they act as separate entities when they carry out their technical functions.

(2) Rimmer and Al-Ani, above n 1.

(3) World Bank, *Corporate Governance of State-Owned Enterprises: A Toolkit*, (World Bank, 2014) <https://documents1.worldbank.org/curated/en/228331468169750340/pdf/Corporate-governance-of-state-owned-enterprises-a-toolkit.pdf>.

the state.[1] This is attributed to the significant value of oil and gas as the most important national resource and the primary source for the state budget. In addition, there is a fear that privatisation would weaken the state's sovereignty and decrease its income. Dependence on oil income, the prohibition of non-Arab foreign direct investments, and the effect of economic sanctions in the 1990s contributed to a significant state role in stimulating and directing production and distributive activities. This led to a private sector contraction and increased the importance of state-owned enterprises in the economy.[2] According to the World Bank, state-owned enterprises in Iraq remain central economic players. They are expected to be essential in transitioning to a sustainable economy, specifically in the post-conflict situation.[3]

The Situation of State-owned Enterprises Before and After the Invasion of Iraq in 2003

In addition to the socialist system and the state-controlled

(1) In some cases, private companies successfully awarded a license to invest in the oil industry, but only in the refining and hydrocarbons sectors.
(2) World Bank, *Governance Reforms of State-Owned Enterprises: Lessons from Four Case Studies (Egypt, Iraq, Morocco, and Tunisia)*, above n 4, 25.
(3) World Bank, *Corporate Governance of State-Owned Enterprises: A Toolkit*, above n 8, 27. It seems that 'conflicts' in this World Bank document refer to the continuing conflicts from 2003 until the declared defeat of ISIS.

economy, economic sanctions prevented the country and companies from attracting investment and precluded their participation in international trade, which, therefore, impacted the efficiency of the SOEs. Iraq was subject to United Nations economic sanctions from 1990 to 2003. Resolution 661 established the sanctions following the 1990 invasion of Kuwait and the subsequent Gulf War. Resolution 661 prevented all States from importing or supplying commodities and products from, in, or into Iraq for business purposes. The only items excluded from this blockade were supplies intended strictly for medical purposes and foodstuffs in humanitarian circumstances.[1] Iraqi government financial assets abroad were also frozen, and all States were prohibited from making any funds or monetary or economic resources available to the Government of Iraq or any commercial, industrial, or public utility undertaking in Iraq.[2] The economic sanctions completely isolated Iraq from international trade, with only a few exceptions.[3] This isolation also

(1) See, SC Res 661, UN SCOR, 2933rd mtg, UN Doc S/RES/661(6 August 1990) para 3.
(2) Ibid para 4.
(3) Security Council Resolution 986 in 1995 established the 'oil-for-food' program, which allowed Iraq to sell oil to finance the purchase of humanitarian goods. This program was established to respond to the humanitarian needs of the Iraqi people. However, commercial transactions under this program cannot be considered competitive because they were limited and run by government agencies under the supervision of a UN Committee.

influenced the laws issued during the 1990s. The two corporation laws issued in 1997 did not contain provisions for an efficient corporate management system or force companies to develop their competitive capacity. Modern management systems such as corporate governance and corporate social responsibility, which emerged and were effectively applied in many other countries at that time, were also not considered. As a result, all Iraqi firms, both private and state-owned, became uncompetitive because there were no alternatives or competitors and the absence of effective management systems.

Further, the SOEs suffered from significant technical issues. This is because the technology and equipment were outdated, with most equipment installed in the 1970s, limited maintenance or investment in new technology, damage from three wars, and massive looting.[1] They were also overstaffed, with 30-50 per cent more staff than would usually be needed elsewhere for similar productions. Most SOEs shut down or operated only partially after 2003.[2] Without further capital investment, they could not maintain operations or secure raw materials to restart regular operations.[3] According to the United Nations and the

(1) United Nations and World Bank, *Iraq Needs Assessment Working Paper: State-Owned Enterprises*, (October 2003) <https://documents1.worldbank.org/curated/en/154451468262743791/pdf/315460IQ0STATE1ENTERPRISES01public1.pdf>.

(2) Ibid.

(3) World Bank, State Owned Enterprises Reform in Iraq, above n 2.

World Bank estimates, Iraq's SOEs would need US$356 million in technical assistance and capacity-building support from 2004 through 2007 to become viable entities.[1] For all of the above, almost all Iraqi SOEs were ineffective and could not survive without further investment.

Following the old regime's fall in 2003, economic sanctions were lifted, and a new authority was established that issued many commercial orders. The UN Security Council Resolution 1483, issued in May 2003, lifted all prohibitions related to trade with Iraq and providing financial or economic resources. In addition, Resolution 1483 recognised the authority and responsibilities of the United States of America and the United Kingdom, under applicable international law, as occupying powers under a unified command. The coalition's occupying authority, later known as the Coalition Provisional Authority (CPA), was founded and took over the functions of governance in Iraq for the interim period until the complete handover of power to the legitimate Iraqi government in June 2004.[2] CPA was established based on the laws and usages of war and UN Security Council Resolution 1483, adopted in May 2003, which recognised the specific authorities, responsibilities, and obligations of CPA as an occupying power for post-conflict processes in Iraq.[3] The CPA was

(1) United Nations and World Bank, above n 15, 72.

(2) SC Res 1483, UN SCOR, 58th sess, 4761st mtg, UN Doc S/RES/1483 (22 May 2003) <https://www.iaea.org/sites/default/files/unsc1483.pdf>.

(3) Ibid, para 8.

headed by an administrator vested with all executive, legislative and judicial authority necessary to achieve CPA objectives.[1] The CPA undertook significant steps to integrate Iraq into the global economy by modifying its legal framework. Accordingly, CPA published 100 Orders suspending or replacing parts of existing Iraqi laws, more than a quarter of which enacted reforms of a commercial nature, focusing on liberating the Iraqi economy.[2]

To promote foreign investment access and privatise Iraqi SOEs, the CPA issued Order 39, which replaced all existing foreign investment laws and reshaped the international business environment in Iraq.[3] Order 39 afforded foreign investors equal

(1) Coalition Provisional Authority Regulation No1 (16 May 2003) s 1(2)<https://govinfo.library.unt.edu/cpa-iraq/regulations/20030516_CPAREG_1_The_Coalition_Provisional_Authority_.pdf>.

(2) CPA issued 12 Regulations, 100 Orders, 17 Memoranda and 13 Public Notices. Regulations were instruments defining the institutions and authorities of the CPA, whilst Orders were binding instructions or directives to the Iraqi people, creating penal consequences or having a direct bearing on how Iraq was regulated, including changes in Iraqi law. Memoranda expanded on Orders or Regulations by creating or adjusting the applicable procedures. Finally, public notices communicate the intentions of the administrator to the public. They required, for example, adherence to security measures with penal consequences or reinforced aspects of existing law that the CPA intended to enforce. Based on these definitions, the most critical and relevant CPA instruments for this research are the Orders.

(3) Coalition Provisional Authority, Order No 39, Foreign Investment, (19 September 2003), 3(1), 4(1).

treatment similar to those applicable to Iraqi investors and permitted one hundred per cent foreign ownership of Iraqi business entities, except for the natural resources sectors, banks, and insurance companies.[1] In addition, foreign investors could establish branches and trade representation offices of foreign companies.[2] Concerning company ownership, the CPA issued Order 64 in 2004, which amended Iraqi Company Law No. 21 of 1997 to eliminate restrictions on foreign ownership of Iraqi companies. As a result, foreign persons or legal entities are allowed to establish or own an interest in a domestic Iraqi company. It also abolished all provisions that required approval by a Competent Sector Authority and required the Company's Registrar to either approve or disapprove in writing any application to register a new company within ten days, while before, it could take 60-90 days.[3]

The CPA had an American perspective regarding the socialist regime; thus, in reforming Iraq's economic system, it was following an extreme version of what is called 'shock therapy'.[4] To implement its privatisation theory, the CPA plan was to de-

(1) Ibid, 6(1).

(2) Iraq Ministry of Trade, Ministerial Instruction no 149 (2004), Registration of Branches and Trade Representation Offices by Foreign Companies.

(3) Coalition Provisional Authority, Order No 64 (29 February 2004).

(4) Michael Schwartz, 'Neo-Liberalism on Crack Cities Under Siege in Iraq' (2007) 11(1) City 21, 69.

mobilize all the SOEs except oil companies. At that time, the CPA planned to sell 150 of the 192 SOEs in Iraq, including electricity, cement and construction corporations. However, the SOEs were shuttered for a long time as the privatisation plan was stymied by a lack of private sector members who are willing to bear the security risks in Iraq.[1] The CPA prevented SOEs from repairing facilities damaged by military activities or other reconstruction projects funded by the United States.[2] Instead, it contracted with international corporations to restore functioning infrastructure and install new operating systems that do not fit the existing techniques and domestic expertise.[3] The authority also excluded the SOEs from implementing subcontracts for the multinational companies until they sold to the private sector. To maximise their benefits, the American (multinational) corporation hired American experts and low-wage Asian workers to implement reconstruction projects.[4] That increased Iraq's dependency on importing equipment and foreign experts instead of developing domestic values. To summarise, the CPA failed to

(1) Ibid.

(2) Bassam Yousif, 'Economic Restructuring in Iraq: Intended and Unintended Consequences' (2007) 41(1) Journal of Economic Issues 43, 60.

(3) Yousef Baker, Global Capitalism and Political Control: Investigating the Invasion and Occupation of Iraq (University of California 2014) 43 <https://www.alexandria.ucsb.edu/lib/ark:/48907/f3cf9n73>.

(4) Schwartz, above n 27.

make any economic reformation progress; their decisions led to a loss of national expertise and left a misguided legacy of economic policies that distracted Iraqi decision-makers.[1]

On the other hand, the CPA established a new political system in Iraq based on consensual democracy.[2] The authority's institutions were distributed on the community's ethnic and religious components. Since the Iraqi SOEs are owned by ministries, based on the centralised system mentioned above, they were the main subjects for political division and benefits after any federal election. For example, the political party that takes over the trade ministry will have the right to run all its enterprises, appoint senior managers and control their decisions.[3] There is no transparency or accountability in SOEs as long as each party or coalition manages the ministry's companies to their advantage. The SOEs' staff and experts are frustrated because the administration lacks stability, a clear perspective on operating the enterprises, and motivation to develop the companies' performance. This political situation is a massive obstacle to applying any government reformation plan because governance improvement may prevent parties from controlling the SOEs in many ministries.

(1) Nora Bensahel et al, After Saddam: Prewar Planning and the Occupation of Iraq (RAND Corporation, 2008) <https://www.rand.org/content/dam/rand/pubs/monographs/2008/RAND_MG642.pdf>.
(2) Daniel Byman, 'Constructing a Democratic Iraq: Challenges and Opportunities' (2003) 28(1) International Security 47, 78.
(3) Bensahel et al, above n 32.

To summarise, although economic reformation and access to foreign investment were the leading programs for vital contributions to the reconstruction process after the regime change, SOEs' reformation was not on the short-term agenda after the war and the old regime's fall. Several constraints must be overcome before steps towards SOE reformation can be taken, especially if this involves implementing essential changes like privatisation.[1] As noted above, most SOEs have experienced a lack of investment, over-employment, and political corruption involving SOE managers and ministry officials to which they are attached.[2] Other constraints include the absence of appropriate institutions and regulatory frameworks, the weakness of the Iraqi stock market and the impact of conflict and security insta-

(1) Organization for Economic Cooperation and Development, 'FDI in Fragile and Conflict Affected Economies in the Middle East and North Africa: Trends and Policies' (December 2018) <http://www.oecd.org/mena/competitiveness/ERTF-Jeddah-2018-Background-note-FDI.pdf>.

(2) According to the Transparency International Corruption Perceptions Index, Iraq is one of the ten most corrupt countries in the world. The Index emphasises that political instability, war, internal conflicts, and terrorism are reasons for increasing corruption, particularly political corruption. See, Transparency International Organisation, Transparency International Corruption Perceptions Index 2016 <http://www.ey.com/Publication/vwLUAssets/EY-Transparency-International-Corruption-Perceptions-Index-2016/$FILE/EY-Transparency-International-Corruption-Perceptions-Index-2016.pdf>.

bility. Addressing these restraints requires developing a clear and comprehensive reform plan that could secure a successful transition towards economic liberalization. Many international agencies have advised Iraq to adopt economic reform and use the SOEs as a lead sector. The suggested improvement includes two parts: first, restructuring the management system based on governance and second, private sector participation. This will be explained in the next section.

Progress in Reforming Iraqi State-owned Enterprises and the Economic

Since 2006, the Iraqi government has undertaken initial reforms to the economy and related legal frameworks. Given the considerable role of SOEs in the economy, reforming state-owned companies became essential in many government policy agendas. Most reform strategies and action plans were implemented in cooperation with international agencies. Nonetheless, partnerships with private sectors also accelerated SOE reform, as will be explained in the following sections.

Reforms by Collaboration with International Agencies

The government of Iraq collaborated with many international agencies, including the UN, the Organisation for Economic Co-operation and Development (OECD), the World Bank, the International Monetary Fund (IMF), and others, seeking assistance to design comprehensive long-term economic reform policies.[1] This was mainly to overcome shortcomings in institutional performance or legislation, enforcement of existing laws, lower management capacity and lack of experience, non-transparency, and corruption.[2]Cooperating with international agencies can bring to Iraq the experience of other countries in similar circumstances. It can also provide comprehensive assistance for the government in several vital areas, such as financing, management capacity building, identifying the priority of resource allocation, and increasing investors' trust to bring in more capital.

The early attempt for economic reform brokered by the International Monetary Fund was the agreement between Iraq and Paris Club members on significant debt relief. Paris Club members (nineteen advanced industrial countries) hold around US$40 billion in Iraqi debt, as estimated in 2004.[3] In November 2004, the two sides agreed to write off 80 per cent of Iraqi debt in three stages.[4] The first 30 per cent, amounting to US $11.6

(1) Rimmer and Al-Ani, above n 1.
(2) United Nations and World Bank, above n 15.
(3) The Paris Club debt was part of Iraqi foreign debt, estimated to total US$120.2 billion at the end of 2004. Paris Club, The Paris Club and the Republic of Iraq Agree on Debt Relief (21 November 2004) <http://www.clubdeparis.org/en/communications/press-release/debt-relief-on-iraq-212004-11->.
(4) The United States, who already wrote off its debt ($5 billion),

billion, is to be written off on the date of the signature without conditions. The second 30 per cent reduction will be delivered if the IMF reform program is approved. This will reduce the debt stock by another US $11.6 billion. The final 20 per cent (US $7.8 billion) reduction will be granted upon successfully concluding the IMF program over three years.[1] Put another way, 30 per cent of Iraqi debt will be written off only if the IMF and Iraqi government agree on an economic ‘reform’ package, and another 20 per cent will be excused only if the Fund is satisfied that Iraq has implemented the terms of this package.[2] Beyond the amount of money involved in restructuring the debt with the

supported Iraq›s call for a 95 per cent write-off on other debt. However, four countries out of 19 Paris Club members with the largest creditor (Japan, Russia, France, and Germany) did not want to exceed a 50 per cent discount. After days of complex negotiations, the Paris Club agreed to an 80 per cent discount conditioned on reaching an agreement for a Stand-By Arrangement designed by the IMF. For more details about Iraqi debt payment and relief arrangements, see Graciana Castillo, Rebuilding War-Torn States: The Challenge of Post-Conflict Economic Reconstruction (Oxford Scholarship Online, 2009); Martin Weiss, ‘Iraq: Paris Club Debt Relief’ (22 November 2004) Congressional Research Service: The Library of Congress.

(1) Iraq must complete the third phase by 31 December 2008. In addition, starting in 2011, it will have to repay the remaining 20 per cent of the debt (US $7.78 billion) over 23 years.

(2) Robert Looney, ‘The IMF›s Return to Iraq’ (2006) 49(3) Challenge 26, 47.

Paris Club, the repair program facilitated by the IMF is the most related here.[1]

Iraq's Emergency Post Conflict Assistance (EPCA) program was provided as a Stand-By Arrangement.[2] It was designed to support economic growth and aimed to 'maintain macroeconomic stability while laying the groundwork for sustainable growth over the medium term and making efforts to improve governance and advance Iraq's transition to a market economy'.[3] From its side, the Iraqi government promised to undertake major financial improvement and restructuring of SOEs.[4] As indicated above, an essential element in the Paris Club agreement was the

(1) The agreement with the Paris Club was very successful because it reduced Iraq›s total debt from US $120 billion to US$89 billion and assisted the Iraqi government in seeking comparable treatment from all its other external creditors.

(2) International Monetary Fund, Iraq: Request for Stand-By Arrangement—Staff Report; Staff Supplement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Iraq (17 January 2006) International Monetary Fund <file://ad.uws.edu.au/dfshare/HomesPTA$/90928758/Downloads/_cr0615.pdf>.

(3) Ibid, Appendix (1) 'Memorandum of Economic and Financial Policies for 20052006-'.

(4) The Iraqi government›s promises under the SBA included restructuring SOEs, raising the price of petroleum products, improving governance and transparency in the oil sector, enhancing monetary policy to Increase liquidity, and undertaking structural reforms regarding tax administration, payments and settlement systems.

stipulation of Iraq's undertaking and completing the Stand-By Arrangement program. In December 2008, the IMF confirmed to the Paris Club that Iraq's government had met the specific requirements of the Stand-By Arrangement. As a result, Paris Club creditors decided to deliver the last phase of debt cancellation after receiving approval from the IMF.[1] This program has been relatively successful in providing macroeconomic stability. However, some institutional and administrative reforms have been delayed mainly because of obstacles resulting from the challenging security environment during the implementation time and the need to redirect resources to meet the high costs of security provision and repair infrastructure damaged by conflicts.[2]

The government of Iraq continued collaboration with international agencies for economic reform. The government launched (2009) a Task Force for Economic Reforms and Private Sector Capacity (TFER) in cooperation with MENA-OECD and the United Nations Development Programme (UNDP). The TFER aims to guide and support the government in legislation

(1) Paris Club, The Paris Club Delivers the 3rd Phase of Debt Reduction for Iraq (22 December 2008) Paris Club <http://www.clubdeparis.org/en/communications/press-release/last-phase-of-debt-reduction-for-iraq-222008-12->.
(2) International Monetary Fund, above n 44.

improvement, designing policies, institutional reform, project implementation, and diversifying the economy through private enterprise enhancement. Improving legislation includes redrafting laws to create a business-friendly regulatory environment (e.g., transparency, competition, free trade zones, industrial zones, and labour law).[1] The TFER also involved a range of systematic policies and projects for economic reconstruction. For example, the Business Climate Development Strategy aims to improve Iraq's business environment and competitiveness, benefiting from similar projects implemented by OECD in the Middle East and North Africa region countries such as Egypt, Morocco and Tunisia. The World Bank has also supported the government in this stage by working closely with several government agencies, including Ministries, to develop an approach to reform over 80 SOEs. The support focuses on strengthening the capacity of ministries to oversee and lead SOE reforms, as well as monitoring and evaluating ongoing activities.[2] Without such external support, the SOEs cannot survive and may hinder the development of the whole economy.

(1) Middle East and North Africa, High-level Meeting of the Task Force for Economic Reforms and Private Sector Capacity (2021- January 2009) OECD <http://www.oecd.org/mena/competitiveness/high-levelmeetingofthetaskforceforeconomicreformsandprivatesectorcapacity-summary.htm>.
(2) Rimmer and Al-Ani, above n 1.

The other reform program was also sponsored by the World Bank, which was based on an emergency loan of US$1,200 million for the Development Policy Financing series approved in December 2015. It aims to help safeguard economic stability and lay the foundations for longer-term structural reforms. To achieve that, the reforms were built around three pillars (also the objectives of the program), namely to improve (1) expenditure rationalisation, (2) energy efficiency, and (3) the transparency and governance of SOEs.[1] Regarding the third pillar of this reform plan, the government approved an SOE Charter of Good Governance to improve Iraq's SOE corporate governance framework. This would help improve the monitoring of SOEs' performance, liabilities, and financial risks for both the Ministry of Finance and state-owned banks.[2]

However, this pillar is not expected to contribute to the government's short-term fiscal consolidation efforts. That is mainly because this operation comes at a time when the country is fac-

(1) For details, see World Bank, The Republic of Iraq: Emergency Fiscal Stabilisation, Energy Sustainability, and State-Owned Enterprise Transparency Development Policy Financing (17 December 2015) <http://documents.worldbank.org/curated/en/383411468185394560/pdf/97938-REVISED-PGD-P155962-PUBLIC-R20152--0244-Box394828B.pdf>.

(2) Shivan Doski, 'The Necessity of Issuing a Corporate Governance Code for the Kurdistan Region' (2015) 18 Journal of Finance and Accountancy 1, 19.

ing a dual shock from the Islamic State of Iraq and Syria (ISIS) and the sharp fall in oil prices by the second half of 2014. The war with ISIS was fiscal, socially, and politically costly and undermined State legitimacy. On the other hand, oil prices dropped by over 50 per cent in June 2014. This fall caused a sharp and sudden deterioration of the country's public finances and balance of external payments. This decreased oil revenue in the government budget and export revenue by an estimated 19.3 per cent between 2014 and 2015. With the continuing low oil price, Iraq is expected to face fiscal pressures over the following years.[1]

The TFER, mentioned above, also provides Public-Private Partnerships (PPPs) and joint venture initiatives that can help overcome privatisation difficulties and bring about real change in SOE performance. This will be explained in the next section.

Reforms Through Public-Private Partnerships

In addition to collaborating with many international agencies, the government of Iraq also implemented a Public-Private Partnership (PPP) and joint venture strategy to reform SOEs by drafting PPP legislation for an ongoing approach. This reforming approach was preferred because it can address capital requirements while overcoming privatization obstacles, increasing profitability, and enhancing corporate governance.

(1) Ibid.

As mentioned earlier, privatisation was not the right solution because of the absence of a legal framework, over-employment, and high-security risks in the following years of the occupation. However, PPP can be an alternative to privatisation because it can supply the capital needed without dismissing many employees. The private partner will provide the necessary capital for reconstruction and technical equipment and reemploy the surplus workers. In this way, PPP reduces the fiscal pressures on the government that arise from SOE reconstruction and the social implications of the reform, or at least defers this impact.[1]

In addition, PPP can increase SOE's profitability. This is because mixed ownership brings talent, experience, and ideas to the company's board, which may enhance the achievement of its core function. Also, when competitive forces are insufficient to push SOE's reform, a partnership with the private sector is an important option to achieve this. External pressure from private partners can prompt SOEs to increase their competitiveness and adapt to market rules because profit is the most critical priority of private investors.[2] In 2012, the government focused initially on restructuring 30 priority SOEs, preparing them for PPPs. The approach was to support them in developing practical business

(1) Rimmer and Al-Ani, above n 1.

(2) World Bank, Governance Reforms of State-Owned Enterprises: Lessons from Four Case Studies (Egypt, Iraq, Morocco, and Tunisia), above n 4.

plans, focusing their business operations on core market activities, and undertaking structural reforms. The goal was to attract potential long-term joint ventures with successful companies having the appropriate capital, skills, and capabilities.[1] These reforms were successfully implemented in some industrial SOEs.[2]

The joint venture approach is widely implemented in the oil sector. State-owned oil companies enter into joint venture projects with international oil companies under production service contracts to develop oil fields and increase production. As a joint venture partner, state-owned oil companies have up to 25% of the share, depending on the contract. The parties must establish a joint management committee to supervise and control petroleum operations.[3] These joint venture partnerships have led state-owned oil companies to improve corporate governance practices, becoming more transparent and accountable than other SOEs.[4]

(1) Rimmer and Al-Ani, above n 1.

(2) The companies include the State Company for Drug Industries, the State Company for Mechanical Industries, and Al Mansour State Company (a construction SOE).

(3) Sujata Ashwarya, 'Post-2003 Iran-Iraq Cooperation in the Oil and Gas Sector: Initiatives, Challenges, and Future Secenarios' (2017) 4(1) Contemporary Review of the Middle East 84, 118.

(4) Iraqi Extractive Industries Transparency Initiative, '2021 Transparency Report, Oil Gas and Mining' 2023 <file:///Users/hudaalshabebi/Downloads/doc-12376-53_09_08_31_12_2023-.pdf>.

The following section will discuss China’s experience of reforming SOEs. The aim is to compare the approach implemented in China with the steps taken to reform Iraqi state-owned enterprises and identify lessons that can be learned.

The Experience of Reforming SOEs in China

State-owned enterprises have been recognised as the backbone of China's economic, political, and social life, similar to Iraq's. China, as a socialist and one-party system, considers the ownership of the enterprises' shares as a goal itself. SOEs contributed to more than 40% of industrial output and most employment. They are also responsible for providing their employees with social welfare, housing, school and health care.[1] Hence, the SOEs are not just business entities but also have a broad effect that includes social and political aspects in China.

In the pre-1978 stage, China’s SOEs were used as units to apply and execute government planning duties under a strictly centralised planned economy. As a governmental entity, SOE management relied on government planning, regulation, and administrative allocation for financial, material, and human resources. Although they have many economic and legal features, their absence of self-regulation or autonomy was considered an

(1) Deborah Johns, ‘Reforming the State-Enterprise Property Relationship in the People›s Republic of China: The Corporatization of State-Owned Enterprises’ (1995) 16(3) Michigan Journal of International Law 911, 940.

essential problem. This problem created two negative impacts: direct, which threatened the ability to produce, and indirect, which strained the state's sources of finance.[1]

However, in 1978, China launched an economic reform strategy that addressed the SOE's problems and inefficiency. The reform plan has many vital features that give China's experience a unique identity compared to other countries.[2] These include reforming mechanisms and ownership structure and balancing state control and foreign investment. The following sections will discuss these.

Mechanisms of Reforming China's SOEs

China is a one-party state, so the Communist Party plays a significant role in managing and controlling state-owned enterprises.[3] There are strong ideological and economic links between them and the Communist Party. The one-party system creates two important advantages for corporation performance in China. First, the high executive members of large holding

(1) Until 1979, the state-owned enterprises in China were funded through the state›s public budget. However, the inefficiency of those corporations led to a continuous request for more subsidies, which amounted to 3% of the gross domestic product, Ibid.
(2) Jiang Wang, 'The Political Logic of Corporate Governance in China's State-owned Enterprises' (2014) 47(3) Cornell International Law Journal 631, 669.
(3) Ibid.

businesses are essential members of the Communist Party. The Politburo Standing Committee systematically and consistently appoints and evaluates them, while many other essential managers are appointed directly by the State-Owned Assets Supervision and Administration Commission (SASAC).[1] This mechanism could not be based on personal quality to undertake such high positions, however, it in the same time imposes a strict observation on the manager's performance and provides them with a significant level of stability.[2] Second, there is an enforcement strategy for the corporation to develop their performance by creating effective competition among them. Therefore, from 2003 to 2007, the SASAC reduced the number of subordinate corporations from 196 to 152. Moreover, the head of SASAC, who is an effective member of the Communist Party, announced several times that the plan is to reduce the number of subordinate businesses to under 100 firms, which led to a furious scramble to cross the threshold and prove efficiency.[3] On this basis, the management that is directly subordinate to the governing party

(1) Barry Naughton, ‹SASAC and Rising Corporate Power in China› (China Leadership Monitor, No 24) <http://media.hoover.org/sites/default/files/documents/CLM24BN.pdf>.

(2) Curtis Milhaupt and Wentong Zheng, 'Beyond Ownership: State Capitalism and the Chinese Firm' (2015) 103 The Georgetown Law Journal 665, 681.

(3) Ibid.

in a one-party system creates powerful enterprises with the ability and motivation to succeed in the competition.

The strategic reform of SOEs in China has been planned to cover three main pillars of those enterprises: ownership, management, and competition, which makes them leading companies.[1] The way of regulating all of these essential issues has become unique and could be described as an approach that differs from any other economic reform in the world. The structure of SOE ownership has been designed to be flexible, allowing competition, granting investment incentives, and, most importantly, keeping the state as a controlling shareholder.[2] Moreover, tightening political and legal control over SOEs' performance is the cornerstone of managing them in China. Influential party members have filled high administration positions to achieve the reform policy adopted by both the ruling party and the rest of the state institutions.[3] Furthermore, building a global competition strategy has been one of the most influential factors in SOEs' development and has stimulated the rest of China's economic activities.

(1) Dong Zhang and Owen Freestone, 'China's Unfinished State-Owned Enterprise Reforms' (2013) 2 Economic Round-Up 77, 99.
(2) Wang, above n 62.
(3) Nicholas Howson, 'China›s ‹Corporatization without Privatization› and the Late 19th Century Roots of a Stubborn Path Dependency' (2017) 50(4) Vanderbilt Journal of Transnational Law 961, 1006.

However, the reformation plan was implemented gradually and experimentally to ensure comprehensive feasibility outcomes. For over forty years, reforming SOEs in China has been essential to its comprehensive economic reform.[1] The SOE transformation was the most productive element among other institutional and economic policy reforms to transform China into a market-based economy. However, due to their vast socio-politic impact, Chinese decision-makers decided to follow an experimental and gradualist approach to implementing the reform strategy.[2] To avoid any side effects of the transformation plan, China realised the necessity of creating the required conditions in the first stage as a ground to begin their long-term reform. Although the official beginning of SOE reform was in the 1970s, the incremental approach may have been started earlier in many localised experiments. Chronologically, the process of reforming the Chinese SOEs can be determined by four phases:

(1) Razeen Sappideen, ‘Corporate Governance Chinese Characteristics: The Case of State Owned Enterprises’ (2017) 12(1) Frontiers of Law in China 90, 113.

(2) This approach is in complete contrast to the Russian approach to reformation as another socialist economy. Russia, in its experience, adopted what is called a shock therapy approach, which simply means implementing reformation in various fields at the same time. See Trevor Buck et al, ‘Different Paths to Economic Reform in Russia and China: Causes and Consequences’ (2000) 35(4) Journal of World Business 379, 400.

1978–1992, 1992–2003, 2003–2013 and 2013 to the present.[1] Choosing a gradual approach has granted China an efficient opportunity to evaluate the previous steps and analyse the next step carefully without taking a high level of risk. However, reformism has emerged and has been implemented gradually to replace central planning and absolute state enterprise ownership. As a result, this practical thinking of Chinese reformers has produced impressive implications for SOEs' continuous economic reform process in China.[2]

Nevertheless, the earlier step of reformation was adopting the corporatization strategy, which means the transformation of economic state organs into joint-stock corporations to maintain the state ownership of SOEs and hold the control rights by the ministries.[3] However, corporatisation in its first shape was considered a failed experience then. Therefore, the second at-

(1) Ligang Song, 'State-Owned Enterprises Reform in China: Past, Present and prospects' in Ross Garnaut, Ligang Song and Cai Fang (eds), China's 40 Years of Reform and Development 19782018- (Australian National University Press, 2018) 345, 362, p 346.

(2) In recent years, around 100 Chinese corporations, most of them SOEs, have been listed in the Fortune Global 500 Companies. That means that, globally, the economic reformation has put Chinese companies second on the list after the United States of America. See, Sappideen, above n 70.

(3) Li-Wen Lin and Curtis Milhaupt, 'We are the (National) Champions: Understanding the Mechanisms of State Capitalism in China, (2013) 65(4) Stanford Law Review 697, 759.

tempt was creating SASAC in 2003 as a ministry-level agency that controls various state-owned enterprises, especially shareholder rights.[1] As it has become the world’s largest controlling shareholder with impressive financial revenue, SASAC is considered a successful plan that enhanced state control rights over the SOEs. SASAC came with broad responsibilities and crucial functions that created its ability to preserve, evaluate, restructure, and enhance the value of SOEs.[2]

Moreover, the SASAC has the power to appoint and remove the top executive managers of the SOEs and issue and formulate the regulations of the state’s corporation management in China.[3] Under the People’s Republic of China on State-Owned Assets of Enterprises 2008 (SOEs Asset Law), which has been legislated to preserve the underlying economy of China, SASAC was recognised as an investor and shareholder in SOEs. According to SOE Asset Law, SASAC has the essential duties and rights of an ordinary shareholder, by which SASAC can control and discipline the SOE performance in service of state plans and

(1) Dan Puchniak, ‘Multiple Faces of Shareholder Power in Asia: Complexity Revealed’ (Working Paper No 2014005/, National University of Singapore-Faculty of Law) 27 <https://law.nus.edu.sg/wps/pdfs/005_2014_Dan_Puchniak.pdf>.

(2) Wang, above n 62.

(3) Ibid.

national interests.[1] In fact, SASAC is an official institute that links the ideological with the economic perspective in China and works to coordinate the various benefits of enhancing the SOEs.

The Ownership Structure of China's SOEs

The Chinese SOE reform has produced a multidimensional ownership system based on its purpose or importance for the economy, including group ownership and restricted privatisation. Chinese enterprise groups have a vertical integration structure that shapes the entity and disciplines its operations toward the achievement of its goals. The hierarchical structure of shareholding has made an ownership conical structure. Firms are connected from top to bottom, with some exceptions that allow cross-ownership or an upstream structure among corporations. The majority of state-owned enterprises in China have a quadratic structural formation that contains four components.[2] That includes (1) the parent (core) holding company, which is wholly owned by SASAC; (2) the global representative of the SOE, usually one or more subsidiaries entities that the holding company holds its shares; (3) a financing company that provides all the financing needs to the group, and (4) a research institute that responsible for coordinating inventions and scientific de-

(1) Lin and Milhaupt, above n 74.

(2) Milhaupt and Zheng, above n 65.

velopment of the enterprise. The parties of each group are often joined by either asset ownership or contractual agreements with corporations in the same or complementary industries. The alliance parties within the holding enterprises usually have a convergent industrial specialisation and include non-economic formations such as research institutions. On this basis, the essential shareholder in each holding group is the core company, which is entirely owned by SASAC. The parent corporation formulates the business policy and coordinates the group's operations, which are bound to execute and promote the public policies of the state. As a result, despite the wide impact and rising reputation of Chinese economic reformation, the state in China still owns the SOEs. SASAC is a governmental supervisory authority and a holding company at the same time; it owns 100% of the parent corporations of more than a hundred large state-owned groups and has the whole legal rights of any other shareholder.[1]

China commenced privatisation for the first time in the 1990s, when the government allowed SOEs to privatise to avoid pressure on the public budget, as many of them are losses to corporations.[2] From a practical perspective, the experience of SOE reform in China could be described as corporatisation, which simply means the conversion of SOEs into share-issuing

(1) Ibid.

(2) Sappideen, above n 70.

corporations by which the Chinese government maintains the dominant position. Under the corporatisation system, China's legislation created three different types of stocks that focus on providing more state control while opening the doors for global trade connections.[1] The first stock type is non-tradable shares that are distributed to the concerned state agencies and considered the guarantor of its domination. The second is stocks that could be subject to direct transactions but not in the stock exchange. Legal persons could own this kind of stock, and they have the right to trade it with another legal person, especially the parent company or other members of the business group. The third stock type is tradable shares, which count not more than 25% of the corporate assets. However, the freedom of trading these stocks is also restricted; part of the specific amount could be sold to foreign investors, while another part has to be sold domestically.[2] As a result, even with the conversion of ownership into stocks, the majority of the issuance stocks are either non-tradable or restricted for the purpose of maintaining state domination over the SOEs in China.[3]

(1) US International Trade Commission, 'China: Description of Selected Government Practices and Policies Affecting Decision Making in the Economy (Investigation No 332492-, December 2007) 28 <https://www.usitc.gov/publications/332/pub3978.pdf>.
(2) Howson, above n 69.
(3) Jean Chen, 'Corporatisation of China's State-Owned Enterprises and

However, the ownership of enterprises that were a part of overseas investment plans was supported to be more globally competitive and capable of increasing their capital. These types of corporations were usually listed in Shanghai, Shenzhen or the Hong Kong market, by which foreign investors have the ability to own the enterprise’s shares. However, the ownership under this shares system was designed to confer the outsiders a limited scope of control, instead it reserve China state control.[1] Most of the SOEs were publicly listed in China and have become mixed ownership companies so the state could hold its position of control. Later, this kind of ownership was considered the most popular company’ system for the SOE transformation and reformation in China and contributed to more than 40% of China’s GDP.[2] Other SOEs were subject to the intermediary stage, which was partially privatised, but the state held the voting control shares.[3]

On the other hand, many other enterprises were kept completely under the state’s ownership and control due to their importance to the state. Considered a strategic industry as they

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Corporate Governance’ (2004) 1(2) Corporate Ownership and Control 82, 93.

(1) Buck, above n 71.

(2) Milhaupt and Zheng, above n 65.

(3) Sappideen, above n 70.

used to promote the implementation of government policies, the state continues its domination on sectors such as banking and research institutions.[1] The privatisation of SOES has made a minor contribution to emerging China's private sector. Instead, it adjusted the ownership system to maintain state control over them.[2]

Balancing State Control and Foreign Investment

State control over the various economic aspects is an essential tool for the success of the Chinese economic strategy, and there is always a plan to maintain its policy domination. On this basis, the decline of state ownership, whether in the mixed or private sector, has been addressed by an effective mechanism that ensures the power of control, directly or indirectly, for all types of businesses. The primary mechanism relies on three pillars. First, the continuation of state domination and absolute controlling power for the most critical industries or what is terminologically called 'strategic industries'.[3] Second, using indus-

(1) Song, above n 72, p 356, 357.

(2) Ibid, 330.

(3) In 2006, SASAC announced a directive titled "Guiding Opinion on Promoting the Adjustment of State-Owned Capital and the Reorganization of State-Owned Enterprises" as an industrial policy that has classified precisely the industries that China's government estimates as strategically important. These include defence, electricity production and distribution, petroleum, telecommunication, coal, civil aviation, and shipping. See

trial policies to regulate and direct the content of the national economy and enhance the state's effective ownership. Some of the best examples of the efficiency of industrial policies are the establishment of SASAC in 2003 and the adoption of the industry policy in 2006. Third, there is strict state control of the banking sector and financing agencies that provide lending and support for various economic activities.[1] There are more than 780 investment funds in China and many banks, all of which are State-owned institutions that give the state additional ability to strengthen its economic domination.

Since adopting the "Go Global" strategy, China's SOE reformation programs have functioned to develop its global economic relationships.[2] That was built on two sides: access foreign direct investment (FDI) through the corporation's assets and encourage SOEs to invest overseas.[3] This approach was adopted by the consensus of the governmental and partisan perspectives, which were considered an obstacle to changing the ownership of SOEs.[4] Thus, the objectives of global activations have been

Song, above n 72, p 357.
(1) Kellee Tsai, 'The Political Economy of State Capitalism and Shadow Banking in China' (2015) 51(1) Issues and Studies 55, 97.
(2) Milhaupt and Zheng, above n 65.
(3) Sappideen, above n 70.
(4) In 1993, government bodies issued regulations enhancing the Administration of outward investment. On the other hand, in 1998, the

achieved through restructuring the SOE structure and ownership system and including overseas investment in the national economic and social development plan.

Again, the Chinese government has designated state-owned enterprises as leading companies and provided significant support to promote their competitiveness on the international level.[1] In this regard, government agencies have been using two ways to support the global effectiveness of their corporations, which are: (1) allow the public listing on the stock exchange markets, domestically and internationally, under a planned mechanism; (2) regulate the process of international merger and acquisition.[2] The global goals of Chinese SOEs were a vital engine that helped the corporation to expand financially and professionally and integrate with foreign investment. Therefore, with its strict management and high governmental support, China SOEs have become among the largest enterprises around the world.

The next section will explain how Iraq could benefit from at least some of the steps implemented in China to reform its SOEs and the whole economy. It will explain the difficulties of

central committee of the Communist Party urged many competitive SOEs to invest overseas, especially in the Middle East, Africa, Middle Europe, and Latin America. Ibid.

(1) Ibid.

(2) Song, above n 72, 357.

reforming Iraqi SOEs and the lessons that could be learned from the Chinese experience.

The Possibility of Applying China’s SOE Reformation Approach to SOEs in Iraq

This section will discuss the difficulties hindering the reform process of Iraqi SOEs compared to the reformation approach implemented in China and provide tips for a suggested reforming plan. The obstacles include Iraq's multi-partyism and interests in the SOEs, the externally imposed plan for economic change, and the possible negative social effects that could arise from an unwise reforming policy.

The first obstacle is that China is a one-party state, whereas Iraq has over a hundred political parties interested in the SOEs. Due to its one-party state, China has a very high level of political stability, providing a fabulous opportunity to create its own reform strategy. Such stability is necessary for policymakers, especially when they are developing a plan that depends on the state conditions and uses domestic features in addressing issues or creating growth. The way of implementing SOE reform and transforming their work strategy maintained the economic and ideological ties between the Communist Party and the enterprises. The reform planners realised that the communist party was involved in all the stages of the corporation›s performance and had a strong economic reliance on that. Therefore, the success of the reform strategy had to maintain and use the party existence within SOEs. Otherwise, there would be a conflict of interest between the reform plan and the party rule.[1] Maintaining the effective existence and connection with the communist party provided a remarkable integration between the authority of decision-making and the implementation of the reform plan. The party's ability to control its members' performance throughout the corporations, whether managers or employees, has been used in a satisfactory manner to support and prompt the SOE reform in China. Therefore, Iraq, with its political pluralism, should enhance political stability as a vital requirement for implementing any economic reformation plan.[2]

Moreover, as mentioned above, the corruption level in Iraq, especially in SOEs, is among the world's highest, and it contributes fundamentally to the disruption of any reform initiative. Political parties dominate the SOEs in Iraq for their advantage, and they provide political protection for the managers against the law rules. While in China, the situation is very different due to the involvement of both political and economic interests in the same strategy. The state party in China provides a mixed

(1) Howson, above n 69.
(2) In the last election in 2021, Iraq had more than 200 officially registered political parties. This enormous number of political parties has been raised quickly since the first federal election in 2006.

approach that integrates the rules of laws with global best practices under the supervision of the dominant party, which adopts the same development perspective.[1] That means SOE managers in China are subject to a two-dimension system: the law and the party rules, and the party discipline instructions are more severe than those determined by the law.[2] Therefore, the role of party effectiveness does not halt at the point of control of the manager's performance but has a remarkable role in appointing efficient and loyal executives who promote the implementation of state strategy. However, because of the multi-party system in Iraq, the mechanism of parties' participation or direct political interests within the structure or performance of SOEs should be avoided. Otherwise, more conflicts will be allowed, creating new political parties that demand additional economic stakes.

The other obstacle is that unique economic reforms in China have been implemented gradually over a long time, while the earlier attempt to reform the Iraqi economy was externally designed and included sudden imposed change. China's model of SOE reform has been described as a unique model of economic growth.[3] This system built what is called 'state capitalism', an invented approach that resulted from an accurate comparison

(1) Wang, above n 62.
(2) Ibid.
(3) Ibid.

of different reform approaches worldwide.[1] Also, implementing the SOE plan in China was identified as a gradual method that took decades and experiments for several alternatives. However, the Iraqi experience has been imported from the US, suggested by their experts during their occupation of Iraq from 2003-2010 and regulated by the Coalition Provisional Authority (CPA) at that time. The CPA started its mission in Iraq with the primary plan to transform the Iraqi economy from a centrally planned to a free market and privatise state-owned enterprises.[2] During only one year, the CPA issued all the required regulations to apply their point of view, which they described as a plan that laid the 'foundation for a revolutionised economy'.[3] Another side of liberalising the Iraqi economy was integrating it with the global economy and overcoming the impact of 13 years of isolation by the UN economic sanction. However, CPA used the multinational corporations as a start to reconnect Iraq with the world without any participation of Iraqi companies or expertise. Regardless of the real goal of using foreign companies to implement such a policy, the Iraqi SOEs and other corporations were excluded from an opportunity for reparation and years of

(1) Milhaupt and Zheng, above n 65.
(2) Yousif, above n 29.
(3) Schwartz, above n 27.

imposed isolation.[1] On this basis, the reform under CPA policies was unsuccessful because neither the regulation ground nor the operating businesses were planned or decided by Iraqi experts or Iraqi decision-makers. Although the Iraqi government signed some agreements with international agencies, it does not seem that it will absolutely undertake those plans. In fact, the government was bound to sign reformation agreements under the pressure of reducing Iraqi debt or obtaining international loans. Therefore, all the reformation agreements are disabled, and there are no clear steps to be applied shortly.

Another difficulty in Iraqi SOE reform is the social effects of such a change. For instance, the Iraqi labour market, to a large extent, depends on SOEs. The sale or disposal of SOE assets may carry a high cost in terms of security and public resistance, which entails wholesale dismissals. This could also result in security issues for the SOE and blockades preventing operations. Any privatisation plan should necessarily involve dealing with the labour issue not only in terms of the very large number of workers laid off but also the associated negative social consequences, which add to the existing high levels of unemploy-

(1) Christopher Foote, William Block, Keith Crane, and Simon Gray, ‘Economic Policy and Prospects in Iraq’ (2004) 18(3) Journal of Economic Perspectives 47, 70.

ment.[1] Consequently, the social cost may be higher than the economic benefit of privatising SOEs. To avoid any social crisis, it is a matter of priority to prepare a range of measures to cushion workers from the effects of enterprise reform. These social safety measures may include generous termination payments, training programs to upgrade needed skills, and a range of programs to assist workers in re-entering the job market, such as establishing employment agencies. Introducing these safety net measures parallel to the reform of SOEs is important to reduce any social side effects. This example is one of many other massive problems in privatising SOEs, and the government must deal with it cautiously. It demonstrates how SOE reform has to be part –but the most critical part– of a significant economic reforming plan to permit the smooth development and implementation of transferring to a market-oriented economy.

However, Iraq could benefit from the Chinese's experience in reforming state oil enterprises. Despite many attempts to privatise the oil industry or parts of its activities, the legal framework maintains it under the control of the oil ministry through SOEs because Oil and other natural resources are essential industries for the Iraqi economy and people's welfare.[2] Experts also sup-

(1) Rimmer and Al-Ani, above n 1.

(2) Iraqi Constitution 2005, art 111, 112. For further explanation on Iraqi constitutional provision on oil resources see, Muhammed Mazeel, Iraq

port the state's approach of controlling all natural resource activities.[1] Moreover, Iraqi oil and gas enterprises are qualified to play a more effective global role as they are well-established companies with national competencies, making them able to compete in the worldwide oil market. Encouraging Iraqi oil companies to enter international competition can also enhance enterprises from other sectors and promote their development, supporting comprehensive economic development in Iraq. Notably, remarkable success experiences exist in other oil countries, such as Malesia, Brazil, and Saudi Arabia, which used oil companies to enhance their existence on the international market and stimulate additional economic sectors affected by oil corporations.[2]

Iraqi SOEs urgently need clear and comprehensive reform plans. The primary purpose of the reform is to build strong, modern, and competitive enterprises. To achieve that, a wide range of measures should be undertaken. Firas, state-owned companies should enhance their corporate governance practices

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Constitution: Petroleum Resources Legislation and International Policy (Diplomica Verlag, 2010) 1015-.

(1) Andrew Bauer, 'Upstream Oil, Gas and Mining State-Owned Enterprises' (Extractive Industries Transparency Initiative, 2018 <https://eiti.org/sites/default/files/documents/eiti_soe_report_a_bauer_september_2018_final_0.pdf>.

(2) Ibid.

to be more transparent and accountable enterprises. This is a necessary precursor to increasing local and foreign investment and improving domestic financial and capital markets. However, this requires major changes in laws, regulations, and associated institutions. The second urgent need for SOE reform is modern and commercially adept management expertise. It is important to use qualified and skilled CEOs so they can improve the enterprise's efficiency and performance. Finally, serious efforts must be made to list SOEs in the stock exchange, or at least some of them from the non-oil sector where private ownership is possible, which may lead SOEs to be competitive. Reform measures must be complemented by extensive provisions for anti-corruption and rebuilding the financial sector, including banking and the stock market. Nevertheless, institutions to implement such programs may be a hindrance to the enforcement of any reform plan. Therefore, the government has to be more assertive and serious in implementing the will-designed reforming program.

Conclusion

State-owned enterprises significantly impact the Iraqi economy and social welfare. They dominate many vital industries and create many work opportunities. However, many political and administrative circumstances have negatively affected their efficiency and productivity, affecting their ability to support economic development. Nevertheless, they did not lose their value or the chance for reformation. Thus, they urgently need comprehensive reform plans to build strong, modern, competitive enterprises and consider the social dimension of restructuring SOEs at the same time.

The Iraqi government have been trying to support SOEs through national efforts and collaboration with several international organisations. However, for different reasons, the reformation program's outcomes in Iraq did not create the necessary change to revive the corporations. Therefore, the research tried to compare the Iraqi situation with China's experience, which is one of the most successful reformation strategies in the world. The comparison was based on similarities between the two countries, which were related to their economic and legal backgrounds and the importance of the SOEs to their economies. However, the study highlighted many differences that should be considered in reformation attempts.

First, with its political pluralism, Iraq should enhance its political stability as a vital requirement for implementing any economic reformation plan. However, the mechanism of parties' participation or direct political interests within the structure or the performance of SOEs should be avoided. Otherwise, more conflicts will be allowed, creating new political parties that demand additional economic stakes.

Second reforms in China have been implemented gradually over decades, while the earlier attempt to reform the Iraqi economy was externally designed and included sudden imposed change. The reform under CPA policies was unsuccessful because neither Iraqi experts nor decision-makers planned or decided on the regulation ground or the operating businesses. Although the Iraqi government signed some agreements with international agencies, it does not seem that it will undertake those plans. The government was bound to sign reformation agreements under pressure to reduce Iraqi debt or obtain international loans. Therefore, all the reformation agreements are disabled, and there are no clear steps to be applied shortly. Evidence shows that reforming by collaboration with international agencies was not a successful experience, but public-private partnerships are the most suggested approach, especially in reforming state oil enterprises.

Third, the Chinese authorities have built a socialist market economy, making state-owned enterprises the leading companies. The strategic reform of SOEs in China was planned to cover three main pillars of those enterprises: ownership, management, and competition. Compared to state-owned enterprises in Iraq, they must enhance their corporate governance practices to become more transparent and accountable and improve their competitiveness in local and global markets. This could contribute to developing the economy and permit a smooth transition to a market-oriented economy.

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