



Foreign Investment in Iraq after the Economic Openness

Sabah Noori Al-Mihyaw

Institute of Administration – Rusafa / Middle Technical University, Iraq

ss66nn@ioar.org

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Abstract :

Iraq has suffered for many years from severe economic centralization, was one reason that led to the reluctance of foreign direct investment to enter the Iraqi market. After 2003, with the transformation of the political and economic system in Iraq, successive governments have sought to facilitate the enactment of laws and procedures that help to attract foreign direct investment. The research aims to shed light on the foreign direct investment in Iraq after the economic liberalization that followed the 2003 process. Those related to investment in the oil sector as the most attractive after the opening economic. Considering that, foreign investment contributes to raising the rates of economic growth. Despite all the efforts and incentives provided by the government to attract foreign investment, many determinants have prevented the flow of foreign investment to Iraq in proportion to the incentives provided through the investment law.

Keywords: Foreign direct investment (FDI), Law investment, Import, Export

JEL classification codes: F21

Introduction:

Foreign direct investment refers to the movements of international capital that seek to establish, develop, or maintain foreign subsidiaries and have a significant influence on the management of a foreign company. Foreign investment in very short terms means that an individual or institution in a country has the assets of an institution or institutions operating in another country.

The foreign investment is divided into two types: the first is an investment in the ownership of shares and bonds. In this case, the investor does not have a real presence on the land of the country in which he invests, whether there are offices or individuals working for him or even headquarters or otherwise. The second type of foreign investment is direct investment, which means international capital movements seeking to establish, develop or maintain other foreign companies belonging to the foreign company. On the other hand, control and influence the management of a foreign company.

Undoubtedly, reducing restrictions on foreign investment contributes to increased investment flows. Several studies have indicated that increased foreign investment leads to higher rates of economic growth (Louzi and Abadi 2011). Mottaleb (2007) in his study about impact of economic growth in developing countries found there is a relationship between economic growth and FDI. The study of Archanun Kohpaiboon (2008) shows that the growth impact on FDI in Thailand for the period 1920-2000 (Louzi and Abadi 2011).

Iraq has suffered from decades of political and economic instability that has had a negative impact on the economy, so the need for economic openness and attracting foreign investment is an urgent need after the 2003 change. Thus this study is important to analyze the effect of the opening economy after 2003 in attract the foreign investment in Iraq. We chose the period of the study due the stability of it during the all period in Iraq after 2003.

The main objective of this study is to answer the questions below:

- Is Iraq attractive to foreign investment in general?
- The extent of foreign investments in Iraq before 2003, and was the investment environment attractive at the time?
- Has there been a change in investment laws after 2003, and has economic openness helped attract investment?
- Which economic sector is the most attractiveness?

The problem of study is the weakness of foreign investment due to several factors, the most important of which is political and economic instability, destructive infrastructure, administrative and financial corruption.

1. The elements of attracting investment in Iraq

Iraq has many advantages that make it a country attracting foreign investment if the appropriate environment is met, the most important of these features can be mentioned below:

- Iraq is characterized by abundant natural resources and many untapped,
- occupies a global center advanced in oil reserves,
- has a large local market to accommodate the various types of goods that are currently imported from abroad,
- provide a comfortable and skilled workforce,
- there are encouraging investment incentives and tax exemptions,
- Iraq enjoys a distinct geographic location, which is the link between East Asia and Europe.

2. Legislation to Encourage Investments since the Iraqi State Establishment

The legal framework for doing business in Iraq traces its roots in the early nineteenth century and Iraq's transition from Ottoman rule to

British occupation at the end of World War I. During the ensuing four decades, from 1917, to 1958, Iraq experienced economic instability and minimal economic growth because of successive coups, wars. After the Hashemite monarchy re-established in 1958, Iraq enjoyed relative prosperity until Saddam Hussein acceded to the presidency in 1979, ushering in a long period of war and economic instability.

With the end of the Iran-Iraq war and the need for the Iraqi economy advancement after the war, released in 1988 act Arab investments No. 46, this law, grant a privilege and exemptions for the investor Arab likeness of what granted to the national investor. This law aims to attract Arab investments in development projects.

This followed by the Investments Law No. 25 /1991, which grants privileges and exemptions of a comprehensive for investors to stimulate the private sector and encouraged. In 1998, a law No. 20, passed, which included many privileges, such as; leasing land from the state, conducting import, granting of loans, technical support and grant investors the absolute freedom to choose the type and size of the project and its site and the type of technology used in it.

In 2002, the Arab Investments Law was issued in No. 62, which aims to provide a means of support for projects covered by the provisions of this law, and granting exemptions and guarantees necessary for the continuation and evolution.

However, these laws or some of them did not have opportunity to apply because of the economic blockade that has passed through Iraq after the 1990. Many of the decisions and laws issued by the occupation authority and successive governments then, after 2003, improved investments climate. Accompanied by Iraq adopted a system open to trade and investments while working to strengthen the private sector. Some of these laws are below (Toone 2011):

- Trade Liberalization Policy 2004,

- Central Bank Law,
- Amendment to Iraqi Company Law No. 21 of 1997,
- Interim Law on Securities Markets,
- Amendment to the Trademarks,
- Industrial patent law,
- Financial Management Law and Public Debt Law,
- outlined the regulations for oil distribution,
- Laws governing the work of banks and the insurance sector,
- Investments Law and its amendment,
- Crude Oil Refining Law No. 64 of 2007,

Iraq's efforts to attract foreign investment increased after 2003 in light of the change in the political system and economic openness. Therefore, the Iraqi government sought to enact an investment law that protects the rights of investors and provides them with various incentives and the most prominent provisions of the new law:

- Exemption of specific investment projects from certain taxes for many years to encourage investment in some economic sectors,
- The possibility of investing the land by the investor for many years may be up to half a century,
- The investor is allowed to use foreign skilled labor and these workers have the right to transfer their income abroad,
- The investor is allowed to insure on the project and open bank accounts wherever they wish,
- The government provides adequate guarantees for foreign investments inside Iraq in accordance with international laws,

In order to expedite the process of attracting foreign investments to Iraq after the war, the National Investment Authority (NIA) was formed as the central body responsible for providing all support to investors, in addition to several regional investment bodies that support them.

4. Foreign Direct Investments in Iraq After 2003

After the events in Iraq after 2003, unemployment rates rose sharply, and the government faced great challenges in security and economic and security stability. The biggest challenge was to create jobs in a difficult economic situation.

Many papers have shown that most of the jobs that can be created in Middle East countries are generated by the private sector. The Iraqi government should therefore have been encouraged to attract foreign investment. This is done by providing an appropriate investment climate and reducing the cost of doing business as key investment factors based on the study Speakman (Speakman 2003).

There is no doubt that there are many determinants of attracting foreign investment to Iraq. The country still does not provide the appropriate investment climate or the attractive environment for investment. Problems such as political and security stability, declining infrastructure, and funding are determinants of foreign investment flowing into the country, despite all the efforts made by successive governments to improve the investment climate.

However, this has not prevented Iraq from concluding bilateral cooperation agreements to promote and protect foreign investment with more than 13 countries, and bilateral free trade area (FTA) agreements with 11 Arab countries. In addition, Iraq signed the Trade and Investment Framework Agreement (TIFA) with the United States of America as a first step towards increasing investment between the two countries. These agreements included provisions relating to the promotion and protection of foreign investments.

These and other agreements were suitable for the flow of investments into Iraq after 2003; the year was exceptional because of the Iraq occupation and did not have a suitable ground for the flow of investments in it.

According to statistics from the United Nations and the World Bank in 2004, realizing a net foreign investments inflows of \$ US 300 million, a percentage of 0.04 percent of the total global investments flows and about 1.78 percent of GDP and 23.73 percent of the total fixed capital formation. In the year 2005, the investments amounted to \$ 515 million at an annual growth rate of 71.6 percent.

The growth rate fell in the year 2006 to - 25.6 percent of total amounted to \$ US 383 million, which is equal to 0.026 percent of the total global investments. After that the FDI flows continued to rise and reached a largest in 2008 when they reached \$ US 1856 million. The highest proportion of foreign investments received from the total global investments was 0.122 percent in 2009 (Iraq 2015).

The net direct investments for the year 2011 surplus of \$ US 1716.3 million and this has come as a result in an increase in total amounts entering Iraq, amounting to \$ US 2082.3 million. While the amounts transferred from Iraq to abroad for investments purposes amounted to \$ US 366.0 million (Iraq 2015).

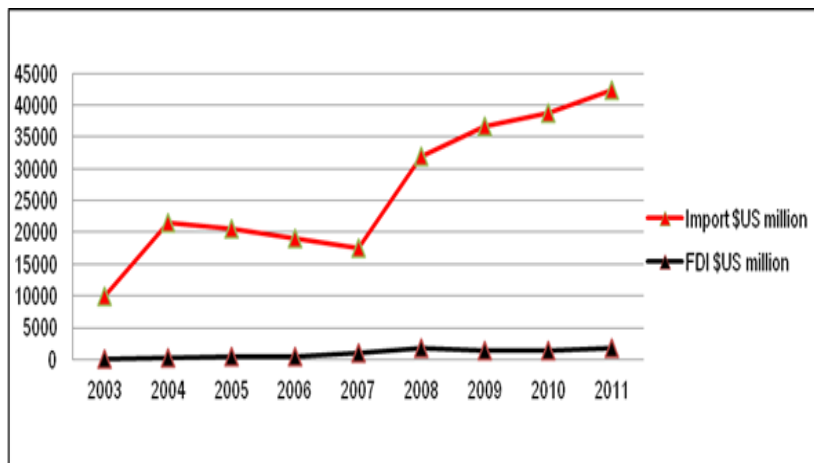
Graph 1. FDI and Export un-oil in Iraq 2003-2011 \$US million



Source: UNCTAD (2015)

In my opinion the compound annual growth rate of foreign direct investments for the period 2003-2011, which amounting to 90.93 percent not accompanied by a compound growth rate of non-oil exports for the same period. Where amounted to a negative value - 48.67 percent, this means there are not impact of foreign direct investments on exports Iraq's non-oil at less in this period. Figure (1) shows that.

Graph 2. FDI and Imports in Iraq 2003-2011 \$US million



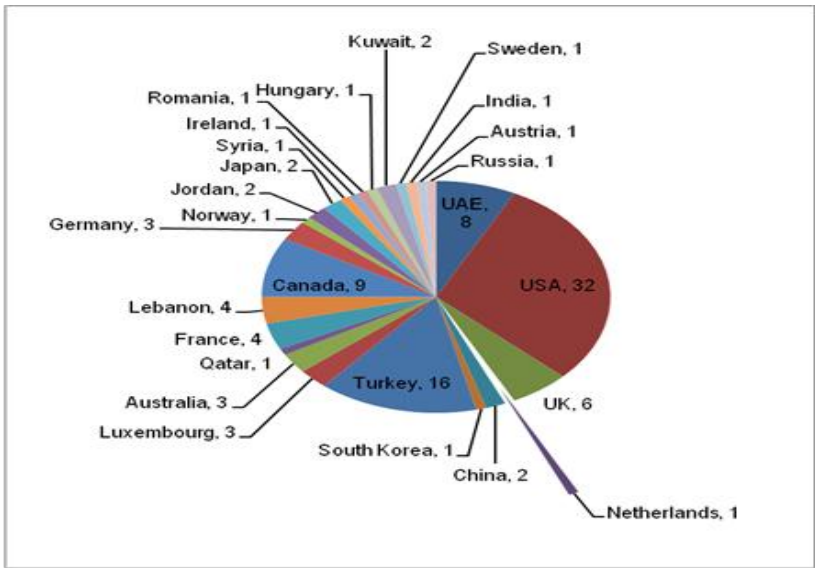
Sources: UNCTAD (2015)

At the same time, imports generally increase with any increase in FDI and the Graph (2) illustrated that. According to the National Investments Commission, in 2010 over than 350 firms had filed for investments licenses in Iraq, totaling about \$ US 10.5 billion.

The volume of foreign direct investment in 2012 reached 50.5 billion dollars distributed among 950 companies, of which 145 foreign companies. This is based on the statistics of the regional and local investment bodies on the licenses granted, but this does not necessarily mean that all these licenses have been implemented or are in the process of implementation. Graph (3), shows the number of project investments by the origin in Iraq.

The foreign investments in the oil sector starting in last few years for the first time since the nationalization of Iraqi oil in 1972, large reserves of hydrocarbons in Iraq provide attractive investment opportunities for foreign investors who are generally interested in the country's energy sector (Beyond 2012).

Graph 3. No. of project investments by Origin in Iraq, 2003-2009



Sources: Dunia Frontier Consultants (2009)

Iraq has sought to develop oil fields by offering many fields to take part in production in two rounds of the licensing contracts. These rounds intended to increase production capacity and export to Iraq of crude oil and natural gas.

The real estate sector remains the largest non-oil area of foreign participation in Iraq’s economy. The real estate sector remains the largest non-oil region for foreign participation in Iraq's economy, where the total investment agreements to be implemented in this sector about \$ 8.6 billion dollars distributed in 8 Iraqi provinces.

It is clear from the above that the projects in real estate, oil and gas dominated investments sector in Iraq. Iraqi residential and commercial real estate has attracted more investors since 2003 from private overseas investors than any other sector.

However, Iraq is seeking to diversify the areas of investments through planning to establish “Investments Zones” to attract investors into specialized industry clusters. The provisions of the

draft “Investments Zone Regulation” authorize the NIC to supervise the Investments Zones development, including the designation of their locations, supervising feasibility studies, licensing the developers, and monitoring the users. The primary purpose of the Investments Zones, therefore, is to provide coordinated administrative and logistical services and necessary infrastructure facilities in designated areas (and generate local employment opportunities).

The NIC is working with provincial investments commissions and preparing tenders for feasibility studies to develop the first six Investments Zones (El-Erian 2012):

- An industrial zone in Babil Province,
- A commercial and air cargo logistics zone in Baghdad Province,
- A petrochemical and port cargo logistics zone in Basra Province,
- A construction, glass and ceramics zone in Anbar Province,
- A specialized mechanical industrial zone in Ninewah Province,
- A foodstuffs industry zone in Karbala and Najaf Provinces.

Conclusion

1. Iraq is an attracting foreign investment country due to the many advantages that make it in general attractive country.
2. The investment environment was not attractive before 2003 because a long period of war and economic instability.
3. Many determinants are against the improvement of the foreign investments reality in Iraq. The security situation and the lack of clarity on macroeconomic direction are fundamental obstacles to investments after 2003. Although the legislation and efforts by successive governments after 2003, to improve the investments climate.
4. There are not impact of foreign direct investments on exports Iraq's non-oil at less in the period 2003-2011.
5. The project in commercial real estate, oil and gas sectors has attracted more investors since 2003 from private overseas investors than any other sector.

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