FOREIGN INVESTMENT IN IRAQ AFTER THE ECONOMIC OPENNESS

Sabah Noori Al-Mihyawi
Middle Technical University, Institute of Administration Rusafa, Iraq

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

1. 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 growth has 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.

2. 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.
3. 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 and Descriptions Law No. 21 of 1957,
- Patent, Industrial Design, Undisclosed Information, Integrated Circuits and Plant Variety Law,
- Financial Management Law and Public Debt Law,
- outlined the regulations for oil distribution,
- Banking Law of 2004,
- Insurance Regulatory Law No. 10 of 2005,
- Investments Law No. 13 of 2006 and its 2009 amendment,
- Crude Oil Refining Law No. 64 of 2007,

The Government of Iraq passed a modern and open investments law No 13/2006 which encourages both local and foreign private investors to invest in the country and which protects investors' property rights. Of the provisions of the law and its amendment:
Excludes approved investment projects from certain taxes and fees for a period of at least 10 years,
• Allow the investor to rent the land for up to 50 years,
• Allows investors to return investments and profits from investments,
• The investor has the right to use foreign workers,
• Foreign workers are allowed to transfer their income outside Iraq,
• Ensure that the government does not nationalize or confiscate investments,
• The investor has the right to guarantee the project any insurance company,
• The investor opened accounts in various currencies in and out of Iraq.

Formed by the law of 2006, the National Investments Commission (NIC) and the Provincial Investments Commissions (PICs) designed be “one-stop shops” that can provide information, sign contracts, and facilitate registration for new foreign and domestic investors.

4. Foreign Direct Investments in Iraq After 2003

Iraq is facing high unemployment after 2003; the single greatest developmental challenge is job generation. Experience everywhere, in both oil and non-oil producing countries, is that most job creation is generated by the private sector. As demonstrated by other countries in the Middle East and North Africa (MNA) region, employment in the state-owned enterprise (SOE) public sector is not a viable option. The key to sustainable job-generation is foreign and domestic investments in productive areas. In turn, this requires an attractive investments climate, and a predictable and low cost of doing business (Speakman 2003).

Although the legislation and efforts by successive governments after 2003, to improve the investments climate. Nevertheless, many determinants are against the improvement of the foreign investments reality in Iraq. The present security situation and the lack of clarity on macroeconomic direction are fundamental obstacles to investments. Infrastructure and finance are also major problems.

However, this did not prevent Iraq be a signatory to some form of investor protection agreement or memorandum of understanding with thirty-two bilateral partners and nine multilateral groupings. The agreements include arrangements on Investments Promotion and Protection (IPPA) within the Arab League. As well as arrangements with Afghanistan, Bangladesh, India, Iran, Japan, Jordan, Kuwait, Germany, Mauritania, Republic of Korea, Sri Lanka, Syria, Tunisia, Turkey, the United Kingdom, Vietnam, and Yemen. These agreements include general provisions on promoting and protecting investments, including clauses on profit repatriation, access to arbitration and dispute settlements, fair expropriation rules and compensation for losses. However, the Iraqi government’s ability to enforce them remains uneven.

In addition, Iraq has bilateral free trade area (FTA) agreements with the following eleven countries: Algeria, Egypt, Jordan, Lebanon, Oman, Qatar, Sudan, Syria, Tunisia, Yemen, and the United Arab Emirates.
On July 11, 2005, Iraq and the United States signed a Trade and Investments Framework Agreement (TIFA) as a first step toward increasing trade and investments cooperation between the two countries.

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).

Figure 1 shows that.

In my opinion the compound annual growth rate of foreign direct investments for the period 2003-2011, which amounted 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.
At the same time, imports generally increase with any increase in FDI and the Figure (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.

At 2012 were a 950 firms, at both the national and provincial level, with a total value of $ US 50.5 billion. About 27 licenses issued by PICs, and 145 of them issued to foreign companies. However, sometimes there are Iraqi investors or capital along with the foreign partner. However, the granting of a license by the NIC or a PIC does not guarantee that the proposed investments will implemented. In many cases, it takes months or years for projects to materialize, if they do at all. Figure (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, Iraq’s considerable hydrocarbon reserves mean that foreign investors are generally interested in the country’s energy sector (Beyond 2012).

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. In 2011, the Iraqi government began negotiations with foreign companies for its largest housing project yet, a 100,000-unit complex in Besmayah. The $ US 8 billion contract Won by Hanwa Korean company, the complex expected to take several years to complete. Other key construction contracts signed in 2012 include:

• Construction of 1,000 housing units in Nasiriyah by an American company,
• Updating the port of the article on the Shatt al-Arab River for 14 million US dollars.
• Contracting for the construction of the Central Bank of Iraq is about US $ 45 million,
• Construction of 2,000 houses in Diwaniya $ 247 million,
• The development of 1,300 housing units in Samawah at about US $ 98 million,
• The construction of 2,000 houses north of Baghdad about 185 million US dollars,
• The construction of 1,200 homes in Kirkuk about 55 million US dollars,

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,

5. 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 least in the period 2003-2011.

5. The projects in commercial real estate, oil and gas sectors has attracted more investors since 2003 from private overseas investors than any other sector.

References