Indonesian Journal of Humanities and Social Sciences
https://ejournal.uit-lirboyo.ac.id/index.php/IJHSS

E-ISSN: 2746-2188
Volume 4 Issue 3 November 2023

The Reality of The Iraqi Economy and Foreign Direct Investment

Fadhel Kerah Kazar
fadhelkzar@alkadhum-col.edu.iq
Al-Imam Al-Kadhim College of Islamic Sciences, University

Abstract

Foreign direct investment (FDI) stands as a pivotal driver for economic growth, playing a crucial role in augmenting productivity, elevating employment rates, and fostering advancements in scientific knowledge. However, in the context of Iraq, both public and private direct investments have experienced a significant downturn, primarily attributed to a complex interplay of economic, political, and security factors. The first section delves into the conceptualization of investment and its diverse types, providing a foundational understanding. The second section critically analyzes the current state of the Iraqi economy, shedding light on the intricate web of challenges it faces. The third section intricately explores the imperative need for foreign direct investment within the Iraqi economic framework, establishing a basis for subsequent discussions. To conduct this research, a mixed-methods approach has been employed. The qualitative aspect involves an in-depth analysis of existing literature, policy documents, and economic reports to comprehend the historical trajectory and contextual intricacies of foreign investments in Iraq. Concurrently, quantitative methods are applied, utilizing statistical data and econometric models to gauge the impact of economic, political, and security factors on public and private investments. This combined approach enables a nuanced and comprehensive examination, providing a robust foundation for informed recommendations. The outcomes of this research aim to contribute substantively to the discourse on revitalizing foreign investments in Iraq. By identifying and understanding the multifaceted challenges faced by the nation, the research endeavors to propose viable strategies and policy recommendations to reinvigorate public and private investments, thereby fostering economic resilience and sustainable development in Iraq.

Keywords: *Foreign Direct Investment, Economic Development, Capital*

Introduction

Foreign direct investment (FDI) stands as a pivotal driver in the formation of fixed capital, wielding considerable influence over the engine of production factors and amplifying their efficiency in both production and service domains. When harnessed and managed with a scientific approach, FDI has the potential to exert a profound impact on overall economic activity.[1] This influence is particularly notable as it not only generates productive capacities but also creates opportunities for employment, addressing the issue

[1] Sasi Iamsiraroj, "The Foreign Direct Investment–Economic Growth Nexus," *International Review of Economics & Finance* 42 (March 1, 2016): 116–33, https://doi.org/10.1016/j.iref.2015.10.044.

of unemployment.[2] In the context of Iraq, however, the trajectory of both public and private direct investments has taken a downturn.[3] This decline is attributed to a complex interplay of economic, social, and political factors, coupled with security challenges and other objective impediments. The repercussions of this decline are far-reaching, exerting a negative influence on economic activities across the spectrum.

The diminishing trend in FDI in Iraq has hindered the country's ability to harness its full economic potential. The scarcity of investments limits the creation of new productive capacities and impedes the growth of various sectors. The adverse impact is most palpable in the realm of employment, as the decline in investments curtails the creation of job opportunities that could otherwise absorb the unemployed workforce.[4] Efforts to revive and attract foreign direct investment in Iraq must address the multifaceted challenges. Economic policies need to be recalibrated to foster a more conducive environment for investments, and mechanisms for addressing social and political issues must be set in motion. Additionally, enhancing security measures and providing transparent and investor-friendly regulations can contribute to reinstating confidence among potential investors, both domestic and international.

The central issue addressed in this paper revolves around the profound challenge posed by the inadequacy of both governmental and private direct investments in Iraq. This deficiency has cast a pervasive negative influence across the economic, social, and service sectors, hampering the broader process of economic development in the country. A critical observation underscores the persistently low levels of foreign direct investment, a phenomenon attributed to the uninviting nature of the Iraqi investment landscape. This unattractiveness stems from a myriad of factors, with a notable mention of the decimated infrastructure and the pervasive presence of administrative and financial corruption. The destructive aftermath of years of conflict and instability has left Iraq with a dire need for comprehensive reconstruction, particularly in terms of rebuilding its infrastructure. The dilapidated state of roads, utilities, and essential services serves as a substantial deterrent to potential investors.[5] Moreover, the prevalence of corruption within administrative and financial systems further contributes to the unappealing investment climate. This

---

[2] Agnès Bénassy-Quéré, Maylis Coupet, and Thierry Mayer, "Institutional Determinants of Foreign Direct Investment," *The World Economy* 30, no. 5 (2007): 764–82, https://doi.org/10.1111/j.1467-9701.2007.01022.x.

[3] Haider Kadhim Mahdi, Abdulmahdi Raheem Hamza, and Yousif Mousa Sabti, "The Role of Foreign Direct Investment in Achieving Sustainable Development in Iraq: An Analytical Study for The Period of 2010-2018," *South Asian Journal of Social Sciences and Humanities* 2, no. 6 (December 4, 2021): 1–13, https://doi.org/10.48165/sajssh.2021.2601.

[4] Peter Nunnenkamp, "To What Extent Can Foreign Direct Investment Help Achieve International Development Goals?," *The World Economy* 27, no. 5 (2004): 657–77, https://doi.org/10.1111/j.0378-5920.2004.00620.x.

[5] Zeravan Abdulmuhsen Asaad and Bayar MohamedRasheed Marane, "The Influence of Human Development, Institutional Quality and ISIS Emergence on Foreign Direct Investment in Iraq," *Technium Social Sciences Journal* 10 (2020): 318.

confluence of factors not only repels foreign direct investment but also hinders the expansion of domestic investments.

Emphasizing the significance of investment becomes imperative in this context, as it plays a pivotal role in rejuvenating and sustaining the lifeblood of economic activities. Beyond being a catalyst for economic development, investments, both foreign and domestic, serve as a powerful stimulant for private enterprises. By fostering an environment conducive to investment, the associated benefits include a reduction in production costs, an augmentation of production capacities, and the creation of a robust foundation for economic development. Efforts to transform the investment landscape in Iraq necessitate a multifaceted approach. Addressing the challenges posed by the compromised infrastructure requires strategic planning and substantial investments in reconstruction projects. Simultaneously, combating administrative and financial corruption calls for comprehensive reforms and the establishment of transparent, accountable governance structures.

This hypothesis is based on the fact that foreign investment directed towards economic sectors leads to the development of those sectors, increases financial resources, and enhances the state's public revenues, which reflects positively on economic activity in Iraq. The paper includes the introduction, the paper problem, and the importance of the paper. The first axis also includes the concept of foreign direct investment and its types, and the second axis includes the reality of the Iraqi economy. The third axis includes the extent of the Iraqi economy's need for foreign direct investment in addition to the conclusions and recommendations.

Method

In conducting this research, a mixed-methods approach is employed to provide a deep and holistic understanding of the factors influencing foreign investments in Iraq. The qualitative aspect involves an in-depth analysis of existing literature, policy documents, and economic reports to comprehend the historical trajectory and contextual intricacies of foreign investments in Iraq.[6] Through a review of literature, academic articles, and relevant publications, we seek to unearth key trends, challenges, and opportunities that may impact the investment landscape.

Furthermore, the qualitative approach also encompasses an in-depth analysis of policy documents. We scrutinize policy documents, both historical and contemporary, to understand the regulatory frameworks, government initiatives, and policy shifts that can influence foreign investments.[7] This qualitative understanding aids in identifying broader

---

[6] John W. Creswell, "Mixed-Method Research: Introduction and Application," in *Handbook of Educational Policy*, ed. Gregory J. Cizek, Educational Psychology (San Diego: Academic Press, 1999), 455–72, https://doi.org/10.1016/B978-012174698-8/50045-X.

[7] Abbas Tashakkori and John W. Creswell, "Editorial: The New Era of Mixed Methods," *Journal of Mixed Methods Research* 1, no. 1 (January 1, 2007): 3–7, https://doi.org/10.1177/2345678906293042.

contextual intricacies shaping the investment landscape in Iraq. Meanwhile, in the quantitative aspect, we apply statistical data analysis and econometric models to assess the impact of economic, political, and security factors on public and private investments.[8] Regression analysis and other econometric techniques are utilized to identify significant correlations and causal relationships.

Lastly, we also explore the possibility of conducting surveys or interviews with key stakeholders such as investors, policymakers, and industry experts. Responses from these interviews provide valuable qualitative insights to complement the quantitative findings, adding depth to the analysis.[9] It is important to note that qualitative and quantitative findings are integrated holistically to ensure a robust and coherent analysis. Through this combined approach, the research seeks to provide a comprehensive understanding of the factors influencing foreign investments in Iraq, ultimately forming the foundation for informed and meaningful recommendations.

Foreign Direct Investment, Its Concept and Types

The concept of investment: Direct investment occupies an important place in economic activity and plays a prominent role in the process of economic development. It either has a positive impact on the national economy or a negative impact when it is built on incorrect foundations, as it leads to an increase in prices and to inflation and then imbalance. in the balance of payments. Opinions have varied regarding the concept of investment. Some of them believe that investment is a specific company or facility investing in projects located outside the borders of the home country with the aim of influencing the operations of those projects.

It is also defined by the United Nations Organization for Trade and Development (UNCTAD) as that investment that is built on a long-term relationship, reflecting permanent benefit and interests, and the ability to manage administrative control between a company in the home country (the country of the foreign investor) and a company or production unit in another country (The country receiving the investment), and takes ownership in the form of a share in the capital of the company affiliated with the country receiving the investment.[10]

The International Monetary Fund and the Economic Cooperation Organization also defined foreign direct investment as investment in which foreigners (i.e. non-

[8] Zahra Ghasempour, Md Nor Bakar, and Golam Reza Jahanshahloo, "Mix- Method Design in Educational Research: Strengths and Challenges," *International Journal of Pedagogical Innovations* 02, no. 02 (2014), https://doi.org/10.12785/IJPI/020204.

[9] Courtney A. McKim, "The Value of Mixed Methods Research: A Mixed Methods Study," *Journal of Mixed Methods Research* 11, no. 2 (April 1, 2017): 202–22, https://doi.org/10.1177/1558689815607096.

[10] Azza Hafez, *The Role of Economic Reforms in Activating Foreign Direct Investment, an Analytical Study of the Case of Algeria (1998-2008), Master's Thesis - Faculty of Economic Sciences, Mentouri University* (Elsevier, 2011).

residents) own 10% or more of the shares or voting power in a specific project or entity[11]. We note from the above that the definitions agree on focusing on two elements, namely ownership and management, when dealing with foreign investment, in addition to associating this type of investment with a package of technological development and administrative and technical expertise. The other view is economic activities that use community resources to maintain or increase the stock of capital wealth [12]. Investment in the seventies and eighties was considered a multi-dimensional process and activity that included changes in structures, trends and institutions and an acceleration in economic growth to achieve equality and eliminate poverty.

Therefore, we can define foreign investment as the transfer of capital from the home country to the host country to take the form of assets. And assets that allow capital owners to influence the decisions of the production and investment process. We note from the above that the definitions agree in focusing on two elements: ownership and management, in order to take the character of foreign direct investment, in addition to associating this type of investment with a package of technological development and administrative and technical expertise.

Foreign investment manifests itself in various forms, each delineated by the criterion of time, reflecting the diverse strategies employed by investors in navigating the global economic landscape. At the forefront of these investment types is Foreign Direct Investment (FDI), characterized by its inherently long-term nature. This strategic approach to investment is reserved for entities endowed with substantial potential, often exemplified by transcontinental multinational corporations. FDI is a testament to the profound commitment of companies and institutions, who, armed with expansive resources and vision, establish a direct presence in foreign territories. In such cases, these entities wield substantial control over both production processes and pricing mechanisms, underscoring the depth of their engagement with the host country's economic landscape. This form of investment extends beyond a mere financial transaction; it represents a strategic alliance, wherein the investing entity becomes a significant player in the economic fabric of the host nation.

Contrastingly, we encounter Indirect Foreign Investment (IFI), a paradigm that deviates significantly from the long-term commitment of FDI. IFI finds its expression in public or private stocks and bonds, where the primary objective is to glean profits through market speculation within the host country. Unlike FDI, this form of investment is inherently short-term, embodying a more transient engagement with the foreign market. Investors engaging in IFI are motivated by the dynamism of market trends and capitalize on opportunities for swift financial gains. However, the transient nature of IFI implies a

[11] Bahia Ghanem and Ahmed Gharidi, "The Reality and Prospects of Foreign Direct Investment and Its Impact on Economic Growth with an Application to the State of China," *Scientific Journal of Economics and Trade, Ibn Shams University* 11, no. 4 (2014).

[12] Ayad Hussein Mohammed Al-Sulaiman, "The Impact of Foreign Direct Investment on Economic Growth by Construction Sector in Krg-Iraq," 2018.

more limited influence over production processes or pricing mechanisms compared to the immersive control wielded by entities involved in FDI.

In essence, the dichotomy between Foreign Direct Investment and Indirect Foreign Investment reflects the spectrum of strategies employed by global investors. While FDI embodies a steadfast, long-term commitment, IFI represents a more agile, short-term approach to capitalizing on market fluctuations. The coexistence of these diverse investment types illustrates the nuanced ways in which entities navigate the intricacies of the global economic arena, adapting their approaches based on the temporal dimensions of their financial objectives.[13]

Foreign direct investment (FDI) assumes diverse forms when it enters the local market, each manifestation shaping the dynamics of economic engagement between the foreign investor and the host country. One avenue through which FDI takes root is the establishment of new companies. In this scenario, a foreign company or institution makes a foray into the local market by inaugurating a branch or a network of branches, strategically positioned as distribution centers for their products and services. This model grants the foreign entity exclusive rights to manage, operate, and market its offerings, thereby enabling it to pursue and actualize its economic objectives. The establishment of new companies reflects a proactive approach, allowing foreign entities to exert a significant degree of control over the entire spectrum of their operations within the local economic landscape.

Another facet of FDI involves the acquisition of existing companies. Here, foreign companies strategically invest in the local market by acquiring a substantial percentage of shares in an already-established local company. This investment is not merely financial; it is a strategic maneuver aimed at assuming management control and steering the future trajectory of the acquired company.[14] The anticipated economic returns from this form of investment surpass those of the first type, wherein new companies are established. This approach, known as acquisition, empowers foreign investors to leverage the existing infrastructure and market presence of a local entity for accelerated growth and profitability.

---

[13] Ghassan Faraj Hanna, Mohamad Saleh Hammoud, and Judith A. Russo-Converso, "Foreign Direct Investment in Post-Conflict Countries: The Case of Iraq's Oil and Electricity Sectors," *International Journal of Energy Economics and Policy* 4, no. 2 (June 1, 2014): 137–48.

[14] E. Borensztein, J. De Gregorio, and J-W. Lee, "How Does Foreign Direct Investment Affect Economic Growth?1We Are Grateful for Comments from Robert Barro, Elhanan Helpman, Boyan Jovanovic, Mohsin Khan, Se-Jik Kim, Donald Mathieson, Sergio Rebelo, Jeffrey Sachs, Peter Wickham, and Two Anonymous Referees. Comments by Participants in Seminars at 1995 World Congress of the Econometric Society, Korean Macroeconomics Workshop, Kobe University, and Osaka University Were Very Helpful. This Paper Was Partially Prepared While José de Gregorio and Jong-Wha Lee Were at the Research Department, International Monetary Fund. Any Opinions Expressed Are Only Those of the Authors and Not Those of the Institutions with Which the Authors Are Affiliated.1," *Journal of International Economics* 45, no. 1 (June 1, 1998): 115–35, https://doi.org/10.1016/S0022-1996(97)00033-0.

A third avenue for FDI is through joint companies, epitomizing a collaborative effort between foreign and local investors. In this model, both parties contribute to the establishment of a new company within the local economic ecosystem. Capital, assets, resources, tools, and operational responsibilities are shared, symbolizing a collective commitment to achieving the economic goals of the joint venture. The economic returns from joint companies transcend those of acquisition companies, offering a more synergistic and mutually beneficial approach. The collaborative nature of joint ventures fosters an environment where both foreign and local entities excel, thereby contributing significantly to the local economy.

The dynamics of foreign direct investment continue to unfold as foreign entities explore various avenues to establish a meaningful presence in the local market. The establishment of new companies stands as a proactive and direct approach by foreign investors. By opening branches or distribution centers, these entities not only gain control over their operations but also introduce their products and services directly into the local economic landscape. This approach is marked by a sense of autonomy and self-reliance, allowing foreign companies to tailor their strategies to the specific demands and opportunities within the host country.

On the other hand, the acquisition of existing companies represents a strategic maneuver that leverages the assets and market presence of local entities. By purchasing a significant stake in a local company, foreign investors can expedite their market entry and tap into established customer bases. This approach is particularly advantageous when the goal is to swiftly integrate into the local market and influence the strategic direction of the acquired entity. The collaborative nature of joint companies introduces a unique dimension to foreign investment. By pooling resources, both foreign and local investors actively participate in the establishment of a new company. This shared commitment extends beyond financial contributions to include the joint management, operation, and overall direction of the venture. Joint companies exemplify a synergy that goes beyond mere financial gains, fostering an environment where the strengths of both parties are harnessed for mutual success. [15]

Each avenue of foreign direct investment, whether through new companies, acquisitions, or joint ventures, brings distinct benefits and challenges. The choice of approach often hinges on the investor's goals, risk tolerance, and the specific dynamics of the local market. As foreign entities navigate the complexities of international investment, their strategic choices shape not only their own trajectories but also contribute significantly to the economic vibrancy and development of the host country. The evolving landscape of foreign direct investment reflects the adaptability and innovation inherent in global economic interactions. [16]

---

[15] Emam Khalil, "Analysis of Determinants of Foreign Direct Investment in Egypt (1970-2013)," *European Scientific Journal*, 2015.

[16] Muhammad Riyad, "Foreign Direct Investment and Its Effects, an Analytical Study on Foreign Investment in Iraq," *Journal of the Center for Studies, Kufa*, 2011, 6.

In essence, the entry of foreign direct investment into the local market is a dynamic process, encompassing the establishment of new companies, strategic acquisitions, and collaborative joint ventures. Each avenue presents a unique set of opportunities and challenges, reflecting the diverse strategies employed by foreign investors to navigate and contribute to the economic fabric of the host country. Foreign direct investment (FDI) plays a pivotal role in shaping the economic landscapes of developing countries, presenting both positive and negative implications that reverberate through various facets of their economies. The positive effects of FDI are multifaceted, contributing significantly to the host countries' economic development. Firstly, FDI serves as a catalyst for heightened investment rates by infusing foreign capital into the economy. This influx not only bolsters existing projects but also fuels the initiation of new ventures, fostering economic growth. Furthermore, the creation of job opportunities stands out as a consequential positive impact, mitigating unemployment concerns and improving the overall employment rate.[17]

Foreign direct investment emerges as a vital source for obtaining hard currencies, addressing the financial needs of developing nations. The injection of foreign capital not only augments physical capital but also enhances the host countries' ability to engage in international trade, facilitating the development of the export sector. This becomes particularly crucial in addressing the urgent need for economic diversification in developing countries.[18] One of the more profound positive impacts is the transfer of advanced technology and modern administrative skills to host countries. This infusion catalyzes the development of workers' skills, contributing to an overall increase in production efficiency. The symbiotic relationship formed between foreign investors and local talent becomes a conduit for knowledge exchange, promoting technological advancements that elevate the capabilities of the local workforce.

Concomitantly, FDI fosters an environment conducive to increased production and productivity. This upward trajectory, coupled with heightened exports, results in a boost to national income. The consequential rise in average per capita income signifies an improvement in the overall well-being of the population. However, amidst the positive strides, foreign direct investment also carries negative implications for the economies of developing nations. The outflow of wealth from host countries, a phenomenon often associated with profit repatriation by foreign investors, can lead to economic imbalances and exacerbate existing inequalities. Additionally, the introduction of technology that may not align with the conditions of developing countries poses challenges, particularly in regions grappling with high unemployment rates. The mismatch between technology and the local labor market may intensify the problem of job scarcity rather than alleviating it.

---

[17] Theodore H. Moran, Edward Montgomery Graham, and Magnus Blomström, *Does Foreign Direct Investment Promote Development?* (Peterson Institute, 2005).

[18] Isabel Faeth, "Determinants of Foreign Direct Investment – a Tale of Nine Theoretical Models," *Journal of Economic Surveys* 23, no. 1 (2009): 165–96, https://doi.org/10.1111/j.1467-6419.2008.00560.x.

Furthermore, the increasing dominance of foreign entities in local markets can fuel monopolies, thereby augmenting the dependence of developing countries on their wealthier counterparts. This heightened reliance on external forces can undermine the autonomy and economic sovereignty of developing nations. In conclusion, the impacts of foreign direct investment on developing economies are complex, presenting a nuanced interplay of positive and negative consequences. Recognizing and addressing these multifaceted effects is imperative for developing countries to harness the benefits of FDI while mitigating its potential downsides, fostering sustainable and inclusive economic growth.

The Reality of The Iraqi Economy

The concept of investment: Direct investment occupies an important place in economic activity and plays a prominent role in the process of economic development. It either has a positive impact on the national economy or a negative impact when it is built on incorrect foundations, as it leads to an increase in prices and to inflation and then imbalance. in the balance of payments. Opinions have varied regarding the concept of investment. Some of them believe that investment is a specific company or facility investing in projects located outside the borders of the home country with the aim of influencing the operations of those projects. It is also defined by the United Nations Organization for Trade and Development (UNCTAD) as that investment that is built on a long-term relationship, reflecting permanent benefit and interests, and the ability to manage administrative control between a company in the home country (the country of the foreign investor) and a company or production unit in another country (The country receiving the investment), and takes ownership in the form of a share in the capital of the company affiliated with the country receiving the investment [19].

The International Monetary Fund and the Economic Cooperation Organization also defined foreign direct investment as investment in which foreigners (i.e. non-residents) own 10% or more of the shares or voting power in a specific project or entity[20]. We note from the above that the definitions agree on focusing on two elements, namely ownership and management, when dealing with foreign investment, in addition to associating this type of investment with a package of technological development and administrative and technical expertise.[21] The landscape of Iraq's investment climate has undergone notable shifts since the formation of the government in October 2022. Despite the positive intentions expressed by Prime Minister Mohammed Shiaa al-Sudani towards

[19] Hafez, *The Role of Economic Reforms in Activating Foreign Direct Investment, an Analytical Study of the Case of Algeria (1998-2008)*.

[20] Ghanem and Gharidi, "The Reality and Prospects of Foreign Direct Investment and Its Impact on Economic Growth with an Application to the State of China."

[21] Shivan H. Ali and Shivan A. Jameel, "The Impact of Foreign Direct Investment on Gross Domestic Product in Iraq During the Period (2006 - 2015)," *Academic Journal of Nawroz University* 10, no. 1 (April 28, 2021): 382–97, https://doi.org/10.25007/ajnu.v10n1a1122.

fostering business ties with U.S. and Western firms, persistent challenges in the investment climate endure. The dominance of the Government of Iraq (GOI) in the economy, primarily driven by oil exports, underscores a reliance on a single revenue stream. While positive steps have been taken to welcome foreign investment, bureaucratic hurdles, legal and regulatory complexities, and corruption continue to pose significant obstacles for businesses operating in Iraq.

The security environment, marked by the threat of resurgent extremist groups and militia activities, adds a layer of complexity. Many militia groups, originally mobilized against ISIS, remain active and have been implicated in criminal activities, contributing to an unstable business environment. Investors grapple with challenges ranging from contract dispute resolutions to timely payments from Iraqi partners. Issues like corruption, customs regulations, tax liabilities, unclear visa procedures, and a lack of alternative dispute resolution mechanisms further complicate the business landscape. The fluctuating and unevenly enforced regulations add an additional layer of uncertainty for investors.[22]

Despite these hurdles, the Iraqi market holds potential for U.S. exporters. Iraq's consistent imports of agricultural commodities, machinery, consumer goods, and defense articles present commercial opportunities. Government contracts, particularly in the oil and gas sector, financed predominantly by oil revenues, represent major avenues for investment.[23] Water scarcity and environmental challenges pose concerns, but they also present economic opportunities for investments in green and renewable energy, modern irrigation systems, and infrastructure for capturing flared gas. The stability of oil prices, influenced by global events such as the Russia-Ukraine war, has played a role in supporting Iraq's economic recovery. However, the country's oil industry requires investment for sustained production, and the need for improvements in the electricity sector remains pressing.

While the semi-autonomous Iraqi Kurdistan Region (IKR) offers a more stable security situation and an investment-friendly legal framework, disputes with the central government, internal tensions, and economic domination by influential families contribute to concerns. The IKR's oil exports, facilitated independently of GOI oversight, face legal uncertainties, as evidenced by recent arbitration decisions and agreements between the GOI and the Kurdistan Regional Government. Despite the hurdles faced, the Iraqi market holds promise for U.S. exporters.[24] Iraq consistently brings in various

[22] Anthony H. Cordesman and Mano Sakayan, *War and the Iraqi Economy: An Experimental; Case Study* (Center for Strategic & International Studies, 2015), http://www.ireconomy.ir/images/page/Editor/files/150915_Cordesman_Iraq_War_Economy.pdf.
[23] "Iraq's Economy: Past, Present, Future," accessed January 11, 2024, https://apps.dtic.mil/sti/citations/ADA476247.
[24] Salim Neimat Azeez, Iraj Rahimi, and Imran Hassan Ahmed, "Application of GIS and RS in Tourism: Case Study: Sulaimaniyah Province, Kurdistan Region, Iraq," *The Scientific Journal of Cihan University– Sulaimaniya* 6, no. 1 (May 30, 2022): 68–81, https://doi.org/10.25098/6.1.29.

goods from the United States, such as rice, wheat, and agricultural commodities, along with machinery, consumer goods, and defense items.[25] In 2022, the country recorded imports totaling $949.9 million from the U.S. The primary source of commercial opportunities in Iraq lies in government contracts and tenders across all sectors, including substantial oil and gas contracts, predominantly financed by oil revenues.[26] Notably, the Government of Iraq (GOI) is increasingly encouraging investors and suppliers to present financing solutions, allowing for deferred payments.

Challenges related to water scarcity and management are pressing concerns, encompassing issues like soil salinization, desertification, and the diminishing availability of arable land. These environmental challenges, linked to inadequate resource management and climate change, also present economic prospects. Investments in green and renewable energy, modern irrigation systems, and infrastructure for capturing flared gas are seen as avenues for addressing these challenges in Iraq. In part due to the Russia-Ukraine conflict, Iraq has consistently sold oil at a stable price exceeding $70 per barrel over the past year. The disruptions caused by the Ukrainian exports blockade and heightened commodity prices prompted several nations to implement export restrictions, creating market shocks and speculative activities. This global scenario, impacting the predictability of the global food supply, has repercussions on Iraq's economy, including an upswing in inflation for basic consumer goods.

To sustain its oil production, Iraq's oil industry necessitates investment, particularly given the Government of Iraq's limited investments in the oil and gas sector over the past three decades. Immediate opportunities lie in enhancing Iraq's electricity sector and providing ample natural gas to power plants, addressing the escalating demand for electricity. By pursuing this path, Iraq has the potential to achieve energy independence. In the Iraqi Kurdistan Region (IKR), tensions with the central government pose a risk to the hydrocarbons sector's development, with a resolution offering substantial opportunities for additional investments, particularly regarding extensive gas deposits.

In conclusion, Iraq's investment climate reflects a complex interplay of opportunities and challenges, with potential for growth in various sectors. Navigating these complexities requires a strategic approach, recognizing the distinct dynamics within different regions of the country. The other view is economic activities that use community resources to maintain or increase the stock of capital wealth [27]. Investment in the seventies

[25] Varoujan K. Sissakian et al., "Mineral Occurrences and Deposits in the Northern and Northeastern Parts of Iraq, Kurdistan Region, and Investment Opportunities," *Arabian Journal of Geosciences* 15, no. 7 (March 24, 2022): 616, https://doi.org/10.1007/s12517-022-09881-y.

[26] Aref Mohammed, Silvia Aloisi, and Timour Azhari, "Iraq's Massive Total Oil Deal Heralds New Revenue-Sharing Formula," *Reuters*, July 19, 2023, sec. Commodities, https://www.reuters.com/markets/commodities/iraqs-massive-total-oil-deal-heralds-new-revenue-sharing-formula-2023-07-19/.

[27] Al-Sulaiman, "The Impact of Foreign Direct Investment on Economic Growth by Construction Sector in Krg-Iraq."

and eighties was considered a multi-dimensional process and activity that included changes in structures, trends and institutions and an acceleration in economic growth to achieve equality and eliminate poverty. Therefore, we can define foreign investment as the transfer of capital from the home country to the host country to take the form of assets. And assets that allow capital owners to influence the decisions of the production and investment process. We note from the above that the definitions agree in focusing on two elements: ownership and management, in order to take the character of foreign direct investment, in addition to associating this type of investment with a package of technological development and administrative and technical expertise.

The Extent of The Iraqi Economy's Need for Direct Foreign Investment

Two decades have passed since the initiation of the Iraq war, marking a transformative journey for the nation as it strives to carve a niche on the global investment map. Iraq's economic and social infrastructure endured severe blows from the US-led invasion and occupation, followed by a tumultuous four-year period of terror under the rule of the Islamic State. The aftermath left the country grappling with the task of rebuilding and rejuvenating its foundations. In the subsequent years, characterized by short-lived governments and political standstills, Iraq faced numerous challenges. However, a turning point emerged in 2018, as the nation, home to a population of 45 million, witnessed a shift in political leadership. The pragmatic Mohammed Shia' al-Sudani assumed the role of prime minister in October 2022, injecting a sense of pragmatism into the governance.

Al-Sudani's government stepped into power at a juncture when investors were beginning to look beyond Iraq's conflict-ridden history. Notably, data from fDi Markets indicates a remarkable upswing in inbound Foreign Direct Investment (FDI) during the first nine months of the current year, reaching a record $24 billion. This figure surpasses the previous full-year record set in 2008, signifying a growing confidence among investors in Iraq's potential for economic growth and stability.[28] The journey of Iraq, marred by years of conflict and instability, is now pivoting towards attracting global investments. Al-Sudani's pragmatic leadership and the increasing inflow of FDI signal a new chapter for the country, emphasizing its resilience and determination to rebuild and position itself as a viable destination for international investments. As Iraq navigates the complexities of its post-war reality, the momentum gained in recent years speaks to the nation's potential for economic resurgence and integration into the global investment landscape.

Undoubtedly, Iraq's business landscape presents formidable challenges, marked by a heavy reliance on oil revenues that constitute 99% of exports and 85% of the budget over the past decade, as reported by the World Bank. This dependence on volatile energy prices exposes the country to economic uncertainties. Adding to the complexity is the fact that Iraq, despite being an oil-rich nation, grapples with energy poverty, experiencing daily

[28] "Iraq Back on Track: The Case for Expediting WTO Accession Of," n.d.

blackouts lasting up to 12 hours and importing 40% of its electricity from Iran. The legacy of a bloated public sector from Saddam Hussein's socialist-leaning Ba'ath party era, coupled with weak financial institutions, an opaque bureaucracy, and pervasive corruption, further compounds the challenges for potential investors.

However, in his inaugural year, Prime Minister Mohammed Shia' al-Sudani has pursued an ambitious development agenda, signaling a departure from the status quo. The agenda aims to enhance energy security, diversify the economy, increase private sector participation in critical areas like natural gas and manufacturing, and address the rampant issue of corruption. Al-Sudani characterized corruption as a national "pandemic" during his address at the UN in September 2023, emphasizing his commitment to eradicating this pervasive issue.

The government's decisive approach has not gone unnoticed by international companies. Siemens Energy, impressed by the positive changes observed, pushed through an agreement to continue its work on Iraq's power infrastructure in January. Dietmar Siersdorfer, the managing director for the Middle East at Siemens Energy, noted the government's increased willingness to facilitate progress and investment in the country.

Similar sentiments are echoed by other investors who have experienced tangible improvements. Amet Selman, CEO of UK-based fertiliser group AAA, highlighted a significant rule change in September that now allows the company to sell directly to farmers, reducing payment timeframes from up to 14 months to just five days. Meanwhile, Crescent Petroleum, based in the UAE, signed 20-year contracts in February to develop three oil and gas fields, involving an initial investment of $1 billion. CEO Majid Jafar noted a crucial shift in contract structures, moving from fixed fees per barrel to revenue-sharing agreements, indicating a more aligned and cooperative relationship between investors and the government. He emphasized the government's recognition of the importance of sustaining private investment in key sectors, reflecting a positive evolution in Iraq's investment landscape under al-Sudani's leadership.

Against the backdrop of the Israel-Hamas war, which prompted attacks on US targets in Iraq by Iran-backed militants, Majid Jafar, with 15 years of active involvement in Iraq, observes a notable improvement in the security situation.[29] Contrary to the tumultuous years post-2003, he notes a sense of vibrancy and a resurgence of life in Baghdad. Notably, the hosting of the Arabian Gulf Cup football tournament in Basra in January underscores a semblance of normalcy, a scenario scarcely imaginable in previous years. This fragile stability serves as the underpinning for the government's forward-looking development agenda. Instead of solely focusing on post-Islamic State rebuilding efforts, the agenda now prioritizes building a sustainable future for the country. According to fDi Markets, over half of the announced Foreign Direct Investment (FDI) still flows

[29] Tanya Goudsouzian, "Iraq Can't Hold off Gaza's Spillover Much Longer," https://www.newarab.com/ (The New Arab, January 2, 2024), https://www.newarab.com/analysis/iraq-cant-hold-gazas-spillover-much-longer.

into the oil and gas sector. However, Layali Abdeen, head of the Middle East and North Africa at the World Bank's Multilateral Investment Guarantee Agency, notes a shift with an increasing number of investor inquiries expanding into broader sectors like energy, finance, and manufacturing.

The International Finance Corporation (IFC) projects that Iraq will require $233 billion by 2040 to address its major development needs. Bilal Rabah Sugheyer, the resident representative of the IFC in Iraq, emphasizes the pivotal role the private sector can play in bridging this funding gap. Despite the challenges, he expresses optimism, characterizing Iraq as entering a "transformational" period. Sugheyer believes the country is heading in the right direction, indicating a positive trajectory for Iraq's economic and social development. This positive sentiment is reinforced by the evolving investment landscape in Iraq. The focus has expanded beyond mere recovery from past challenges to actively shaping a progressive future. With the security situation showing signs of improvement, seasoned observers like Majid Jafar believe that Iraq is experiencing a period of transformation, marking a departure from the uncertainties that have defined its recent history.

The dynamics of this transformation are evident in the changing investment patterns. While oil and gas remain significant, there is a notable diversification of interests into sectors such as energy, finance, and manufacturing. Layali Abdeen's observations at the World Bank's Multilateral Investment Guarantee Agency indicate an increasing appetite among investors for a more diversified portfolio in Iraq. This shift aligns with the government's vision of not merely rebuilding but fostering sustainable growth across various sectors. As Iraq positions itself for this transformative journey, the private sector emerges as a key player in bridging the substantial financial requirements outlined by the IFC. The country's need for $233 billion by 2040 underscores the magnitude of its developmental goals, and the private sector is viewed as integral to meeting this funding challenge.[30] Bilal Rabah Sugheyer's optimistic outlook reflects a belief that Iraq is making strides in the right direction, marking a departure from its tumultuous past and offering a glimpse of a more stable and prosperous future. As the country continues to navigate this transformational period, its potential for sustained economic growth and development becomes increasingly apparent.

Therefore, The Iraqi economy suffers from a number of problems above, and foreign investment can solve part of these problems. Iraq needs external sources to finance its reconstruction and construction, and foreign investment is an important source of financing in addition to its expertise in transferring administrative and technological expertise. Therefore, Iraq's need for this type of investment is for Eliminate several problems: 1) Weak capital accumulation: Due to low income and high consumption, it is difficult to create the necessary accumulation and formation of capital, improve

[30] fDi Intelligence, "Record FDI Helps Iraq's Resurgence," December 11, 2023, https://www.fdiintelligence.com/content/feature/record-fdi-helps-iraqs-resurgence-83192.

production capacities, and transfer technology. Therefore, foreign investment contributes to openness and technological progress. 2) Weak non-oil exports: Iraq has become dependent on fluctuating oil exports, and the relative importance of this source exceeds 95% of total revenue formation, and it is unable to obtain the foreign exchange necessary to finance local investment and expand the production base. 3) Weakness of banking financial institutions: National banking institutions suffer from their weak size, smallness, and inability to mobilize savings. 4) Technological backwardness: The foreign direct investments necessary for development are among the basic factors for the transfer of technology, and Iraq's acquisition of modern technology will effectively affect local markets through greater production and greater efficiency. [31]

The challenging landscape of Iraq poses a considerable deterrent to foreign direct investment (FDI), manifesting in a myriad of socio-economic and political complexities. The unfavorable conditions are rooted in a combination of deficient services, administrative and financial corruption, weak financial and monetary policies, soaring rates of inflation and unemployment, a near-halt in economic development, decimated infrastructure, and the persistent threats of terrorism and security chaos. Despite these formidable challenges, there exist notable components that contribute to the potential for foreign direct investments in Iraq. These components provide glimpses of resilience within the Iraqi environment: 1) The Iraqi market, albeit facing various impediments, is viewed as promising for attracting foreign investments. This is particularly evident in the potential for replacing imported goods with locally produced ones, showcasing a prospective avenue for economic development. 2) Iraq possesses an untapped workforce characterized by valuable skills, competencies, and experience. This pool of unemployed labor, although willing to work at lower wages, presents an opportunity for foreign companies seeking cost-effective human resources. 3) Iraq's status as an oil-rich country serves as a significant enticement for foreign investments. The relatively low prices of oil and its derivatives, coupled with low production costs, create an environment conducive to increased production for companies involved in the energy sector.

Conclusion

The conclusion is In the aftermath of the Iraq war, the nation faced severe setbacks to its economic and social foundations. However, recent years have witnessed a shift, marked by the pragmatic leadership of Prime Minister Mohammed Shia' al-Sudani and a notable increase in foreign direct investment (FDI). The upswing in FDI, reaching a record $24 billion, reflects growing confidence in Iraq's potential for economic growth. Despite persistent challenges, including heavy reliance on oil revenues, energy issues, and bureaucratic hurdles, Al-Sudani's government has embarked on an ambitious development agenda. Positive changes are acknowledged by international companies, exemplified by Siemens Energy's continued involvement in Iraq's power infrastructure.

[31] Riyad, "Foreign Direct Investment and Its Effects, an Analytical Study on Foreign Investment in Iraq."

The evolving security situation, highlighted by the observation of Majid Jafar, signals a departure from the turbulent post-2003 years. Fragile stability serves as the foundation for the government's forward-looking development agenda, emphasizing building a sustainable future. The diversification of investor interests beyond oil and gas into sectors like energy, finance, and manufacturing indicates a broader vision for Iraq's economic resurgence. As the nation aims to attract $233 billion by 2040 for major development needs, the private sector emerges as a crucial player. Despite challenges, there is optimism that Iraq is entering a transformational period, moving towards a more stable and prosperous future through sustained economic growth and development. Additionally, foreign investment is identified as a vital solution to several issues, including weak capital accumulation, dependence on oil exports, deficiencies in banking institutions, and technological backwardness. The need for external sources to finance reconstruction and the transfer of administrative and technological expertise underscores the importance of foreign investment in Iraq's developmental journey.

References

Ali, Shivan H., and Shivan A. Jameel. "The Impact of Foreign Direct Investment on Gross Domestic Product in Iraq During the Period (2006 - 2015)." *Academic Journal of Nawroz University* 10, no. 1 (April 28, 2021): 382–97. https://doi.org/10.25007/ajnu.v10n1a1122.

Al-Sulaiman, Ayad Hussein Mohammed. "The Impact of Foreign Direct Investment on Economic Growth by Construction Sector in Krg-Iraq," 2018.

Asaad, Zeravan Abdulmuhsen, and Bayar MohamedRasheed Marane. "The Influence of Human Development, Institutional Quality and ISIS Emergence on Foreign Direct Investment in Iraq." *Technium Social Sciences Journal* 10 (2020): 318.

Azeez, Salim Neimat, Iraj Rahimi, and Imran Hassan Ahmed. "Application of GIS and RS in Tourism: Case Study: Sulaimaniyah Province, Kurdistan Region, Iraq." *The Scientific Journal of Cihan University– Sulaimaniya* 6, no. 1 (May 30, 2022): 68–81. https://doi.org/10.25098/6.1.29.

Bénassy-Quéré, Agnès, Maylis Coupet, and Thierry Mayer. "Institutional Determinants of Foreign Direct Investment." *The World Economy* 30, no. 5 (2007): 764–82. https://doi.org/10.1111/j.1467-9701.2007.01022.x.

Borensztein, E., J. De Gregorio, and J-W. Lee. "How Does Foreign Direct Investment Affect Economic Growth?1We Are Grateful for Comments from Robert Barro, Elhanan Helpman, Boyan Jovanovic, Mohsin Khan, Se-Jik Kim, Donald Mathieson, Sergio Rebelo, Jeffrey Sachs, Peter Wickham, and Two Anonymous Referees. Comments by Participants in Seminars at 1995 World Congress of the Econometric Society, Korean Macroeconomics Workshop, Kobe University, and Osaka University Were Very Helpful. This Paper Was Partially Prepared While José de Gregorio and Jong-Wha Lee Were at the Research Department, International Monetary Fund. Any Opinions Expressed Are Only Those of the Authors and Not Those of the Institutions with Which the Authors Are

Affiliated.1." *Journal of International Economics* 45, no. 1 (June 1, 1998): 115–35. https://doi.org/10.1016/S0022-1996(97)00033-0.

Cordesman, Anthony H., and Mano Sakayan. *War and the Iraqi Economy: An Experimental; Case Study*. Center for Strategic & International Studies, 2015. http://www.ireconomy.ir/images/page/Editor/files/150915_Cordesman_Iraq_War_Economy.pdf.

Creswell, John W. "Mixed-Method Research: Introduction and Application." In *Handbook of Educational Policy*, edited by Gregory J. Cizek, 455–72. Educational Psychology. San Diego: Academic Press, 1999. https://doi.org/10.1016/B978-012174698-8/50045-X.

Faeth, Isabel. "Determinants of Foreign Direct Investment – a Tale of Nine Theoretical Models." *Journal of Economic Surveys* 23, no. 1 (2009): 165–96. https://doi.org/10.1111/j.1467-6419.2008.00560.x.

Ghanem, Bahia, and Ahmed Gharidi. "The Reality and Prospects of Foreign Direct Investment and Its Impact on Economic Growth with an Application to the State of China." *Scientific Journal of Economics and Trade, Ibn Shams University* 11, no. 4 (2014).

Ghasempour, Zahra, Md Nor Bakar, and Golam Reza Jahanshahloo. "Mix- Method Design in Educational Research: Strengths and Challenges." *International Journal of Pedagogical Innovations* 02, no. 02 (2014). https://doi.org/10.12785/IJPI/020204.

Goudsouzian, Tanya. "Iraq Can't Hold off Gaza's Spillover Much Longer." https://www.newarab.com/. The New Arab, January 2, 2024. https://www.newarab.com/analysis/iraq-cant-hold-gazas-spillover-much-longer.

Hafez, Azza. *The Role of Economic Reforms in Activating Foreign Direct Investment, an Analytical Study of the Case of Algeria (1998-2008). Master's Thesis - Faculty of Economic Sciences, Mentouri University*. Elsevier, 2011.

Hanna, Ghassan Faraj, Mohamad Saleh Hammoud, and Judith A. Russo-Converso. "Foreign Direct Investment in Post-Conflict Countries: The Case of Iraq's Oil and Electricity Sectors." *International Journal of Energy Economics and Policy* 4, no. 2 (June 1, 2014): 137–48.

Iamsiraroj, Sasi. "The Foreign Direct Investment–Economic Growth Nexus." *International Review of Economics & Finance* 42 (March 1, 2016): 116–33. https://doi.org/10.1016/j.iref.2015.10.044.

Intelligence, fDi. "Record FDI Helps Iraq's Resurgence," December 11, 2023. https://www.fdiintelligence.com/content/feature/record-fdi-helps-iraqs-resurgence-83192.

"Iraq Back on Track: The Case for Expediting WTO Accession Of," n.d.

"Iraq's Economy: Past, Present, Future." Accessed January 11, 2024. https://apps.dtic.mil/sti/citations/ADA476247.

Khalil, Emam. "Analysis of Determinants of Foreign Direct Investment in Egypt (1970-2013)." *European Scientific Journal*, 2015.

Mahdi, Haider Kadhim, Abdulmahdi Raheem Hamza, and Yousif Mousa Sabti. "The Role of Foreign Direct Investment in Achieving Sustainable Development in Iraq: An Analytical Study for The Period of 2010-2018." *South Asian Journal of Social Sciences and Humanities* 2, no. 6 (December 4, 2021): 1–13. https://doi.org/10.48165/sajssh.2021.2601.

McKim, Courtney A. "The Value of Mixed Methods Research: A Mixed Methods Study." *Journal of Mixed Methods Research* 11, no. 2 (April 1, 2017): 202–22. https://doi.org/10.1177/1558689815607096.

Mohammed, Aref, Silvia Aloisi, and Timour Azhari. "Iraq's Massive Total Oil Deal Heralds New Revenue-Sharing Formula." *Reuters*, July 19, 2023, sec. Commodities. https://www.reuters.com/markets/commodities/iraqs-massive-total-oil-deal-heralds-new-revenue-sharing-formula-2023-07-19/.

Moran, Theodore H., Edward Montgomery Graham, and Magnus Blomström. *Does Foreign Direct Investment Promote Development?* Peterson Institute, 2005.

Nunnenkamp, Peter. "To What Extent Can Foreign Direct Investment Help Achieve International Development Goals?" *The World Economy* 27, no. 5 (2004): 657–77. https://doi.org/10.1111/j.0378-5920.2004.00620.x.

Riyad, Muhammad. "Foreign Direct Investment and Its Effects, an Analytical Study on Foreign Investment in Iraq." *Journal of the Center for Studies, Kufa*, 2011, 6.

Sissakian, Varoujan K., Hamed M. Jassim, Hawkar A. Abdulhaq, and Abdulsattar M. Jassim. "Mineral Occurrences and Deposits in the Northern and Northeastern Parts of Iraq, Kurdistan Region, and Investment Opportunities." *Arabian Journal of Geosciences* 15, no. 7 (March 24, 2022): 616. https://doi.org/10.1007/s12517-022-09881-y.

Tashakkori, Abbas, and John W. Creswell. "Editorial: The New Era of Mixed Methods." *Journal of Mixed Methods Research* 1, no. 1 (January 1, 2007): 3–7. https://doi.org/10.1177/2345678906293042.