

**ECONOMIC ASSESSMENT OF INVESTMENT IN THE IRAQ  
ECONOMY**

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*In the article the volume of foreign direct investment in the Iraqi economy are evaluated.*

Nowadays the escalation of the world tension, the formation of new alliances, as well as the newest arms race and the alleged shift of the center of regional attraction continues. The Middle East with its rich oil and gas reserves can justifiably be considered the “energy center” of the modern world, and Iraq is an essential component of its efficient functioning.

The region, that is now included in the somewhat artificial nation-state of Iraq, has had a very important role in world history. It is known, that Iraqi economy is dominated by the oil sector, which has achieved about 95 percent of foreign exchange. By the size of confirmed oil reserves Iraq ranks second in the world behind Saudi Arabia.

Iraq’s industrial sector was created, in large part, as a result of government efforts to diversify the economy through economic development projects using the proceeds from Iraq’s oil wealth and borrowed funds. Many of these initiatives were not viable without government subsidies.

Before the US invasion of Iraq, the latter has suffered absolute declines in gross domestic product (GDP), chronic inflation, wholesale depreciation of its currency, virtually non-existent foreign investment and the accumulation of a crushing debt burden. The United States acted as a “lifevest” for Iraq. After the overthrow of Saddam Hussein's regime, US economic recovery aid amounted \$26.5 billion. The newly created allied government gave a boost to the country's economic recovery [1].

However, the next invasion of Iraq happened in the summer of 2014. About a third of the entire country's territory, including rich in oil regions, got under the control of the "Islamic state" militants. Over the course of three-year war Iraq's economy suffered huge losses. By experts estimate for-by \$88 billion is required to restore country's housing recourses and infrastructure.

In general, the Iraqi government plans to attract foreign investors to implement 157 projects. Among them is the restoration of the largely destroyed oil industry complex. In return, the government of Iraq is meeting the needs of capital providers by ensuring a favorable climate for the investments, such as developing a system of guarantees, providing tax breaks (that release providers from taxes for 10 years), offering insurance for investment projects. Such conditions will enable the inflow of the additional economy funding. As the oil market is experiencing a small deficit of resources, the attractiveness of this sector of industry is especially engaging for investments [2].

The government primarily has hopes for long-term cooperation with the US, not only in the military, but also in the economy, trade and other spheres.

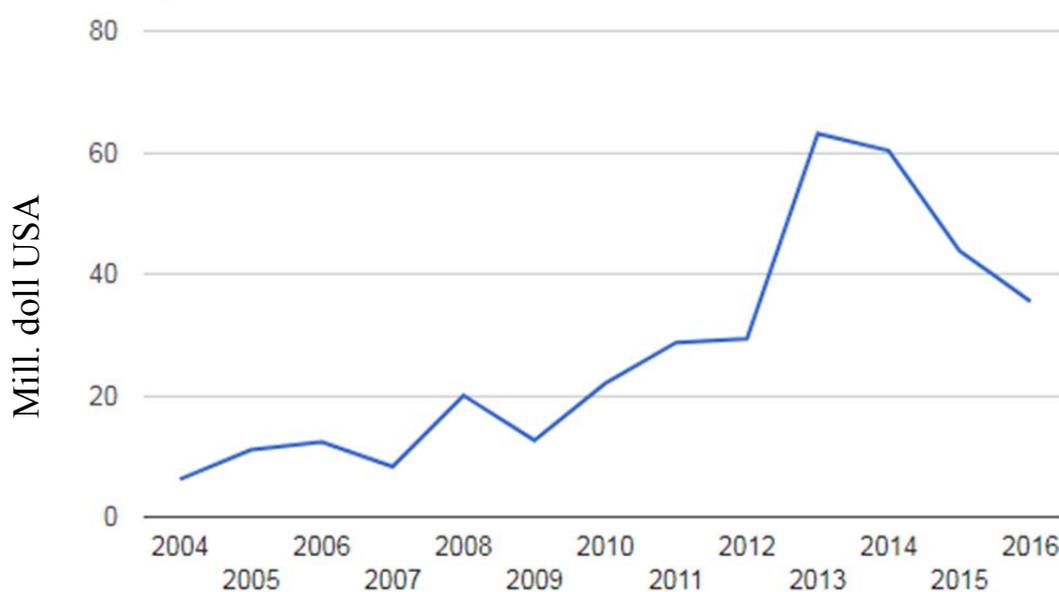


Figure 1 - The volume of foreign direct investment in the Iraqi economy from 2004 to 2016 [3,4].

That is a huge potential but slow progress. Iraq is gradually moving towards prosperity, adopting the laws necessary to boost the economy, and political reforms aimed at appeasing investors. On course to achieve the goal, the government faces many obstacles: a weak security system, an unstable political situation, growing corruption, outdated infrastructure, a shortage of skilled labor and obsolete commercial laws.

The 4th Iraqi Energy Forum (IEF) was held March 28 - 29, 2018, where the Prime Minister highlighted important current goals for Iraq: transition to the diversified economy, development of the private sector, business support, fight against corruption at all levels and attraction of foreign direct investment. All of them contribute to the achievement of the same goal, which is to create conditions for stability and peace.

All of this may appear impossible. But given the large inflows from the oil industry, the relatively young and able-bodied population, this doesn't seem so unachievable. In addition, it is possible to achieve confidence by carrying out reforms. The "General Framework of the Government Program 2014-2018" details the stages of economic reforms. They include promotion of the private sector, realignment of state-owned enterprises, and improvement of the investment climate. Slowly but surely, Iraq is changing its approach to prioritizing economic activity.

Changes are coming in the oil industry likewise. Experts believe that by 2020 there may be a redistribution of leaders in this industry. Iraq will outstrip Saudi Arabia in the oil extraction and export. In the latter, oil production stopped at 9-10 million barrels per day, and exports are reduced by 2-3% per year in the last three years.

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