

The Role of Foreign Direct Investment in the Oil Industry of Iraq

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Abstract

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Introduction

Foreign Direct Investment funding is vital for fiscal growth. It boosts the GDP of a country, consequently contributing to the country's economic growth. FDI is acknowledged as the net inflows of investment to receive a long-lasting administration interest in a business performing in an economy besides that of the venture capitalist. It generally occurs when a venture capitalist develops overseas business operations or obtains foreign enterprise assets in a foreign firm. Besides, FDI entails more than just one capital underwriting since it may encompass the provisions of management or automation. The primary feature of FDI is that it creates either efficacious administration of or at least considerable impact over the resolution-making of an overseas enterprise. Moreover, FDI often brings in many benefits to the country. Some of the benefits include but are not limited to bringing financial resources for development, generating more employment opportunities, alongside bringing in a more competitive business environment. FDI is essential for financial growth, particularly overseas capital inflows, which are key for the monetary improvement of developing international relations. Iraq has long-term potential for foreign investments since it has various sectors that offer opportunities for foreign investment. Some of these sectors include the oil industry, cement industry production alongside the construction and public works. FDI plays a crucial role in various Iraq's sectors to promote the economy's growth and foster its sustainability. Therefore, this literature review offers literature on the role of FDI in Iraq's oil industry to give insight into the benefits of FDI and its contributions to the country's overall economic growth.

Literature review

Iraq has long-term potential for foreign investment because it has the fourth-largest proven oil reserves globally. The Iraqi law permits foreign investors to make investments in Iraq on terms not less than those pertinent to an Iraqi venture capitalist, and the amount of overseas engagement is not restricted. The law has promoted foreign investment into Iraq's oil industry, thereby inducing some benefits, which have strengthened the economic growth of Iraq and its economic sustainability (Fahad & Ahmed, 2016). FDI plays a role in increasing employment within Iraq's Oil industry. Foreign enterprises operating in the oil sector often tend to employ the nationals of Iraq, consequently improving the level of employment in the country. The absence of FDI in the oil sector would mean that no jobs would be created for the Iraqi nationals; thus, FDI plays a significant role by creating jobs for people, consequently lowering unemployment in the country. The presence of more employed citizens due to the creation of more jobs by FDI often makes the country receive more tax from the employee due to the increase in taxable citizens (Habibi & Sharif Karimi, 2017). Increased taxations, in turn, help pump more money into the economy and eventually contribute to the economic growth and sustainability of the country. Therefore, FDI has significantly helped create jobs within Iraq's oil industry; thus, impacting the country's economy by promoting its economic growth and stability. More jobs translate to more taxes collected from the taxable citizens; hence, this has dramatically helped stabilize Iraq's economy, which has been affected by the ISIS crisis over a long time.

Besides, FDI plays a role in promoting growth in Iraq's oil sector. The Iraqi government is attempting to execute a stable microeconomics framework to obtain drastic growth in both the oil and gas sector alongside non-oil industries. For instance, the government is offering unlimited investment rooms requiring over \$30 of overseas investments annually. Furthermore, the government is granting a list of warranties and privileges to attract and motivate foreign investment to spurring Iraq's oil industry's economic growth and sustainability (Kalyuzhnova & Patterson, 2016). Some of the warranties and privileges offered by the government to attract overseas investment encompass the right to repatriate the capital which is brought from Iraq into the original country, the entitlement of ownership and security against seizure, tax holidays for 10 years together with the right to deal on the Iraq stock exchange (Hamawandy, Azzat, & Hamad, 2021). The warranties and privileges have significantly assisted in attracting more foreign investors to Iraq's oil industry; hence this has, in turn, affected the sector by spurring its growth, consequently contributing to the economic growth and stability of Iraq due to the increase in its GDP. Iraq's economy mainly relies on the oil sector since crude oil export contributes to over 90 percent of the country's input from foreign coinages. Therefore growth in the oil industry due to FDI will positively affect the economy of Iraq by stabilizing it. A stable economy will also contribute to improving the standards of living

and wellness of the Iraqi citizens (Khdir & Białek-Jaworska, 2020). The bar chart below illustrates the increase in the oil production in Iraq due to FDI.

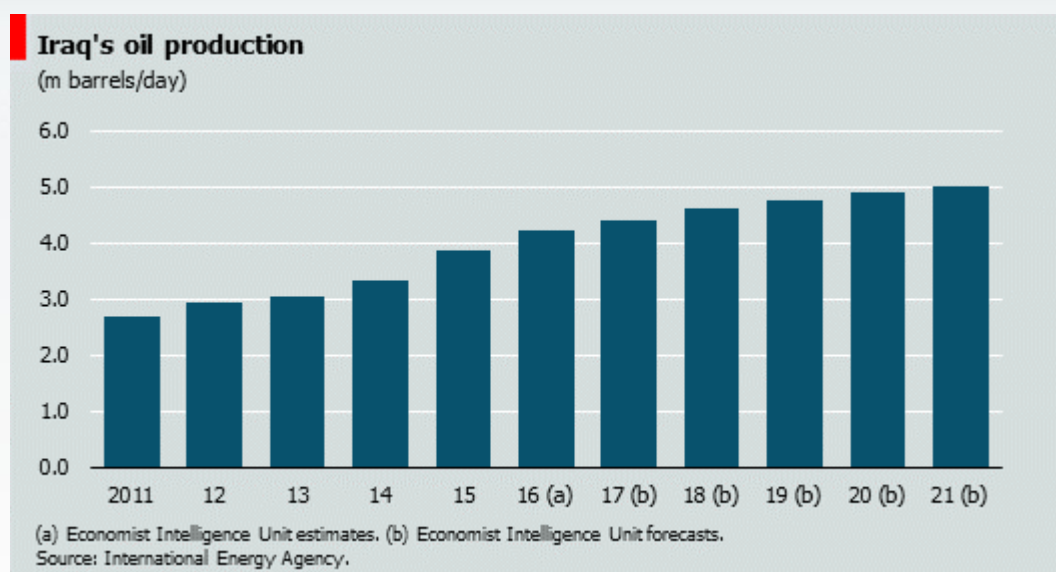


Figure 1: Bar chart illustrating an increase in Iraq's oil production from 2011-2021 (Hamawandy et al., 2021).

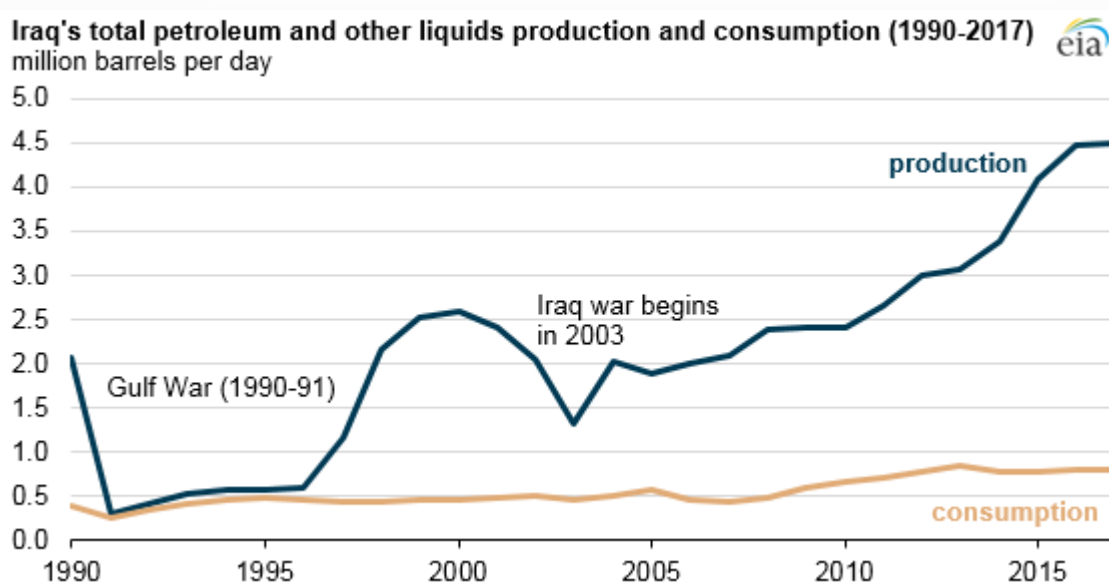


Figure 2: A graph showing trend in Iraq's total oil production and utilization from 1990-2017 (Hamawandy et al., 2021).

Likewise, FDI plays the role of removing the balance of payment constraints in Iraq's oil sector. FDI typically offers an inflow of foreign exchange resources and eliminates the constraints of the balance of payment. BOP is acknowledged as a declaration of all dealings made amidst institutions in one country and the rest of the world over a specified duration. Most of the developing nations suffer from the BOP shortages for their demand for convertibility, which often exceeds their capability to earn. FDI usually removes the BOP constraints through its inflows because FDI inflows provide foreign exchange resources, which remove constraints for the countries looking for higher growth rates (Dimitrova, Rogmans, & Triki, 2019). Hence, FDI has significantly impacted Iraq's oil industry by eliminating BOP constraints, consequently promoting higher growth rates, which have massively helped ensure the industry's growth and sustainability. The oil sector has unique characteristics and conditions pertaining to investment like huge capital, advanced automation, high technical expertise, and high uncertainties alongside long-term projects. In order to promote the growth and success of the oil industry despite its unique characteristics, it is necessary to remove BOP constraints which often tend to impede the growth

of the industry (Kanabi Yaba, 2018). The FDI inflows usually remove the constraints; thus, this makes FDI crucial to Iraq's oil industry because it helps in spurring the industry's growth, resulting in the growth and sustainability of the whole nation. The table below illustrates the trends in FDI inflows in Iraq from 2007-2012.

Table 2. Foreign Direct Investment in Iraq for Years 2007 - 2012*

	2007	2008	2009	2010	2011	2012
FDI Inflows (\$ mil)	972	1,856	1,598	1,396	2,082	2,549
FDI Outflows (\$ mil)	8	34	72	125	366	549

Note. *Based on data from UNCTAD (2013) - World Investment Report 2013

Figure 3: A table illustrating Iraq's FDI inflows from 2007- 2012 ((Dimitrova et al., 2019).

Moreover, FDI plays the role of bringing technology, management, and marketing skills to Iraq's oil industry. FDI usually brings new assets to the developing countries to promote the successful operation of foreign companies in such countries (Kanabi Yaba, 2018). The assets are technology as well as management skills that must be present to promote development. Iraq's oil industry is unique since it has special characteristics and requirements regarding advanced technology and high technical expertise. Advanced technology and expert skills are vital for the operation in the sector (Abdullah, 2020). Foreign investment often assists in bringing new technologies and management skills that are crucial for the operation of overseas companies in the host countries. Thus, FDI significantly impacts Iraq's oil industry by equipping it with advanced technology, managing, and marketing skills that promote its growth. The industry's growth would eventually promote overall Iraq's economic growth and stability because foreign exchange from oil products contributes to the more significant portion of the country's GDP. The table below illustrates the significance of oil revenue to the Iraq's economy.

Table 1. Importance of Oil Revenues in Iraqi Government Budgets for Years 2012 -2013*

	Year 2012 (\$ billions)	Percentage of Total Revenues Year 2012	Year 2013e** (\$ billions)	Percentage of Total Revenues Year 2013
Oil Revenues	81.15	92.23%	95.51	93.11%
Other Revenues	6.83	7.77%	7.06	6.89%
Total	87.98	100%	102.57	100%

Note. *Data provided by Iraqi Parliament Research Center (2012). ** e: estimate

Figure 4: A table illustrating the significance of oil revenues on Iraq's GDP ((Aziz, 2020)

Furthermore, FDI encourages the creation of contracts in Iraq's oil sector to promote foreign investment. There are various forms of FDI contracts in the oil industry, and they include oil concession contracts, technical service contracts, and production sharing contracts. The Iraqi government usually gives concessions to corporation or corporations to operate in specific sectors, including oil, gas, or mineral resources. The government benefits from oil concession contracts by receiving a certain percentage of royalties and levies in addition to social levies and bonuses (Aljawareen, 2019). On the other hand, a production sharing contract is an agreement amidst one or several investment firms and the government, where the entitlements to prospection, research, and extraction of natural resources from a given locality are over a specified period. Under this contract, the firms share profit oil with the host country based on the previously agreed upon equation (Aljawareen, 2019). Hence, FDI has a role in promoting the signing of various agreements between the foreign firms and the Iraqi government to promote the smooth operation of the overseas companies in Iraq to spur economic growth. The diagram below illustrates the process of contract creation in Iraq.

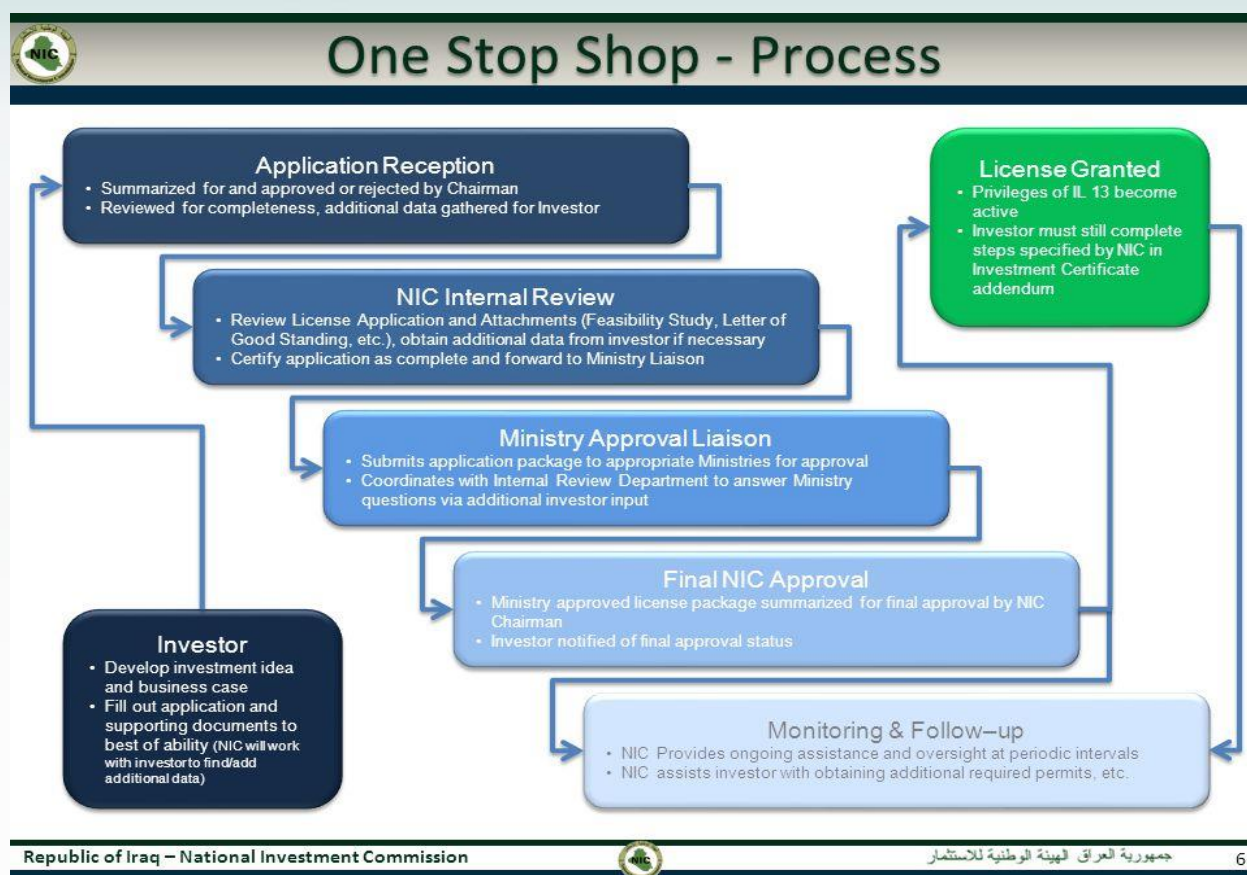


Figure 5: A diagram illustrating the processes of creating contract in Iraq (Aljawareen, 2019).

Additionally, FDI plays the role of generating a competitive environment within Iraq's oil market. The entry of foreign companies into the local oil market creates a competitive environment that forces the national companies to contend with the overseas corporations operating in the market (Razek & McQuinn, 2021). An increase in competition due to the presence of overseas companies in the local oil market, in turn, leads to higher productivity and better products alongside services. Also, FDI plays the role of providing capital to the Iraq oil industry (Abdulkhaleq & Abdulqadir, 2017). The entry of foreign companies into the industry helps in pumping capital into the oil sector. These companies usually invest their capital in the industry to attain the increased target of growth in national income. Besides, FDI is often an effective source of additional source of capital required to promote the growth and sustainability of industry; thus, it provides capital to Iraq's oil sector to foster its growth and sustainability.

Conclusion

FDI is acknowledged as the net inflows of underwriting to gain a long-term administration interest in a business functioning in an economy in addition to that of the venture capitalist. FDI is essential for financial growth since it provides overseas capital inflows, which are key for the monetary improvement of developing international relations. Moreover, FDI plays various roles in Iraq's oil sector. Some of the roles include removal of the balance of payment constraints in the industry, creating a competitive environment, bringing technology, management, and marketing skills to the company, and promoting growth in Iraq's oil sector. FDI usually removes the BOP constraints through its inflows since FDI inflows provide foreign exchange resources, which remove constraints for the countries looking for higher growth rates. Additionally, FDI impacts Iraq's oil sector by creating more jobs. FDI plays a role in increasing employment within Iraq's Oil industry. The overseas enterprises operating in the oil sector often tend to employ the nationals of Iraq, consequently improving the level of employment in the country.

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