TRADE POLICY IN IRAQ AFTER 2003 AND IT'S IMPACT ON FORIEGN DIRECT INVESTMENT

*Assistant Prof. Dr. Mudhafar Husni Ali**

First : Introduction:

In the last 30 years, Iraq's economic involvement in the world market has dramatically fluctuated— fluctuations brought, in part, by damage in the infrastructure during the Iran-Iraq War of the 1980s, followed by a multinational military response and years of economic sanctions as a result of its invasion to Kuwait in 1990.

In the seventies of the last century the Iraqi public sector was taking the responsibility for most of the activities of exports and imports. The main exports products in Iraq were crude oil, which formed the average between (8 4% to 96%) of the total Iraqi exports in most of years. Iraq government established some of the industries mainly for exports, such as; oil products, Petro chemistry, fertilizer, and cement industry.

In the early of the 1980s when the first Gulf War started between Iraq and Iran , most of these industries stopped, as a result of war and the Iraqi economy transformed to war economy. This situation continued until the early 1990s, when the second Gulf War started and its consequences on Iraqi economy by imposing the economic embargo , which continued until 2003.

Over than 30 years, the trade policy in Iraq was bound, the law of the tariff number (77) for the year 1955 and its updates, which has been considered as one of the highest level of tariff laws. The most important restrictions was getting import license that allowed government to controll the imports. For instance, it was not possible to import a private car without import license, which was not provided to everyone he can get it only for very special cases, and the tariff level was vary according to the origin of the car and may it reach up to 300% of the value of the car.

The formal exchange rate of Iraqi dinar was too low for government imports, but for private sector trade there was a multiplicity of exchange rates and most of these prices were not given the real value of the Iraqi dinar. That led to a large deformation in the prices of goods in international trade.

* Teaching Staff/ AL-Mustansiryah University, college of Administration and Economics

Most of Iraq's trade agreements with other countries based on the business transactions to achieve the national goals related to the requirements of the war or against the conditions of the economic blockade.

After 2003 the PCA (Provisional Coalition Authority) decided to stop working with all laws and regulations that restricted foreign trade under the authority's decision No. (38) issued in 2003 and resolution No. (54) issued in 2004, which set a fee of 5% on any goods imported as a form of reconstruction of Iraq, there were exceptions for the imports of the governmental and humanitarian organizations from the payment of this fee? The border has become fully open to all forms of commercial activities. In the other side , the decisions of foreign investment, in general are increasing by many factors such as the stable of the security situation , the existence of laws, which regulate the investment process , the availability of economic resources and infrastructure that encourage investors ….etc.

This research is based on the following hypothesis:

The investment decisions are affected by trade policy in Iraq, and the lack of clarity of this policy leding to a significant lack in foreign direct investment.

The aim of the research is determining the tools and the procedures of trade policy to determine, who is responsible for the trade policy in Iraq, and the effects of this policy on the decisions of foreign direct investment.

The struture of the research will start by studying the most important indicators of foreign trade in Iraq to identify the importance of trade in Iraq and some of other important things relating to trade.

The other section will determine who is responsible for the trade policy in Iraq by showing the most important tools and procedures of trade policy.

The final section will show the flow of foreign direct investment to Iraq after 2003 and try to link between these flows and the lack of clarity in Iraqi trade policy.

Second : Indicators of foreign trade in Iraq

1 – The importance of trade in Iraq:

The ratio of trade to GDP is one of the most important indicators that show the importance of foreign trade in the economy, although the rise in this ratio or decline is not enough to know the role of foreign trade, somtimes this percentage will increase due to decrease in GDP, on the other hand adecrease comes as a result of increase in the value of GDP, and these changes in the GDP may not be for real economic reasons, but they may be due to rates of inflation.

Table (1) shows the importance of foreign trade in Iraqi economy for 2003 - 2010. To measure of this importance we use the value GDP of current prices, which shows the direction of this ratio is to decline and this, is due to the dramatic rise in the value of GDP, because of annual inflation rates on the Iraqi economy. To exclude the effects of the domestic inflation, one should use the value of GDP at constant prices; this shows that the trend of trade importance is toward rising. The problem here is the difficulty of excluding the effect of foreign inflation rates, which included in the prices of imported or exported goods.

Table (1) Total of trade / GDP in Iraq 2003 – 2010

Year	Trade importance ratio to the GDP at Current price %	Trade importance ratio to the GDP at Constant price (1988=100) %
2003	131	141
2004	111	143
2005	96	164
2006	83	163
2007	71	164
2008	77	232
2009	70	172
2010	60	171

Source : central bank of Iraq ,statistics and research department ,annual bulletin various issues

2 – Trade Balance:

The trade balance is one of the most important accounts of the balance of payments. The trade deficit is not desirable case, unless if there are flows in the other items in the balance of payments, which can covered the value of trade deficit.

Table (2) shows the status of Iraq's trade balance for 2003 - 2010. It is clear that changes in the net trade balance greatly affected by fluctuations in revenue from Iraqi oil exports [(1)]. The direction of the value of imports is more stable in general, moving towards increased; it was affected by the situations of Iraq or the levels of world prices for imported goods, especially food commodities.

Trade balance data shows that the amount of surplus that has been achieved in some years, it was much larger than the deficit that took place in other years , this means that the government needs for more attention about the trade policy to control the fluctuations in the trade balance .

Table (2) Iraqi Trade Balance

Million of US $

Year	Import (C.I.F)	Export (F.O.B)	Trade Balance
2003	9933.5	9711.1	- 222.4
2004	21302.3	17810.0	- 3492.3
2005	23532.0	23697.4	+ 165.4
2006	21707.5	30529.4	+ 8821.9
2007	21516.2	39590.0	+ 18073.8
2008	35495.5	63726.1	+ 28230.6
2009	41511.5	39430.4	- 2081.1
2010	34915.3	51763.6	+ 16848.3

Source: central bank of Iraq, statistics and research department, annual bulletin various issues

3 - Trading partners of Iraq:

Knowing the main partners of the trade is one of the important things in the development of trade policy for any country. This shows the extent of trade dependency on other countries in foreign trade.

Table (3) shows the main exports partners, as group Iraqi of counties. Although the North and South American countries imports have a highest percentage of Iraqi exports, this percentage dropped for the Asian and European Union countries. In 2003 the Iraqi exports for North and South American countries were 72.1% then it dropped to 30.7% in 2010. And the Iraqi exports to European Union countries grown from 13.3% to 21.6%, and for Asian ones from 2.8% to 42.5% in the same period.

It's good that if Iraq is to diversify the countries which exported to them, but the problem is that Iraq's exports are oil only, and his ability to diversify export markets is very limited. It is known that in 2003, the amount of oil exported was very little, because of the war and United States was the main importer of Iraqi oil[(2)] , later Iraq was able to increase the amount of oil so the ratio changed for the other countries.

Table (3) partners of exports Iraqi %

Zone / Year	2003	2004	2005	2006	2007	2008	2009	2010
Arab Countries	8.8	8.7	3.2	3.1	3.6	3.6	2.2	2.2
North and South American Countries	71.2	60.8	55.7	55.8	54.9	54.9	49.7	30.7
European Union Countries	13.3	17.6	26.5	22.3	23.8	23.8	26.1	21.6
Other European Countries	1.0	0.7	1.6	2.1	0.8	0.8	2.9	2.5
Asian Countries	2.8	12.1	9.7	16.6	15.7	15.7	12.8	42.5
Other Countries	2.9	0.1	3.3	0.1	1.2	1.2	6.3	0.5

Source: central bank of Iraq, statistics and research department, annual bulletin various issues

The important issues about the Iraqi data of trades

Table (3) depends on the official data of central bank of Iraq .and the official data of Iraqi trade Ministry gives different data about Iraqi exports partners .

Table (4) shows the most important countries as trade partners for Iraqi exports in 2009[(3)] . When we compare these data, we find it is differ. For example, in Table (3) Iraq's exports to the Asian countries group in 2009 were 12.8%of the total , if we collected Iraq's exports to Asian countries in table (4) we get aratio more than 36% in the same year .

Table (4) most important countries as trade partners for Iraq exports – 2009

Countries	%
U.S.A	27.6
India	14.5
Italia	10.1
South Korea	8.6
Taiwan	5.6
China	4.2
Holland	4.1
Japan	3.9

Source: Ministry of Trade - Department of Foreign Economic Relations - Division of the statistical data and economic analyzes - foreign trade of Iraq 2010

Table (5) shows the Iraqi trading partners of imports as a group countries, noted changes in the relative importance between 2003 to 2010 . The Iraqi imports from Arab countries increased also as was from North and South American countries. While the Iraqi imports from European Union countries decreased and this ratio was fluctuating for the Asian countries.

Table (5) imports partners of Iraqi %

Zone / Year	2003	2004	2005	2006	2007	2008	2009	2010
Arab Countries	19.9	11.1	30.6	37.6	46.2	46.2	36.6	23.7
North and South American Countries	0.2	8.8	15.1	7.9	11.2	11.2	13.1	11.9
European Union Countries	36.4	42.6	11.4	14.1	6.5	6.5	8.7	13.4
Other European Countries	13.2	12.3	29.6	29.8	24.3	24.3	24.7	30.2
Asian Countries	25.7	18.7	10.8	10.5	11.5	11.5	13.3	19.2
Other Countries	4.6	6.5	2.5	0.1	0.3	0.3	3.6	1.6

Source: central bank of Iraq, statistics and research department, annual bulletin various issues

It can noticed the same problem of Iraqi data in table (6), which shows the most important countries as trade partners for Iraqi imports in 2009 , this table don't gives the Iraqi imports from Iran which is the largest neighbor country to

Iraq and in the all Iraqi regions any one can know that the Iraqi imports from Iran is more than Iraqi imports from Turkey, but the Iraqi trade Ministry data don't show the real data about Iraqi imports from Iran for political reasons .

Table (6) most important countries as trade partners for Iraqi imports – 2009

Countries	%
Turkey	24.9
Syria	17.6
U.S.A	8.6
China	6.8
Jordan	4.1
Italy	3.9
Germany	3.9

Source: Ministry of Trade - Department of Foreign Economic Relations - Division of the statistical data and economic analyzes - foreign trade of Iraq 2010

Note the difference in trading partners to Iraq for exports comparod with imports. This will be made the performance of trade policy very weak, so that it can not be commercial gain by the link between trading partners for imports to promote and diversify the Iraqi export.

4 – The role of public and private sector in trade:

Since Iraq's exports is only the crude oil, and government is doing this activity, there is no role for the private sector in export activities in Iraq, but this role can be seen in the import activities .

Table (7) shows the role of public and private sector in imports activities. The role of the private sector during the period 2003 - 2010 is increased, because of removal of all the barriers on imports [(4)] .

Table (7) imports according to sector %

Year	Public sector	Private sector
2003	71.0	29.0
2004	73.8	26.2
2005	69.2	30.8
2006	61.9	38.1
2007	44.3	55.7
2008	44.3	55.7
2009	34.2	65.8
2010	25.6	74.4

Source : central bank of Iraq ,statistics and research department, annual bulletin various issues

This improvement in the imports activity for the private sector in Iraq may consider as a positive point, but this consideration can be more important if that the private sector has an important role in foreign trade in both side by the developing its share in exports activity too .

Third : Who is responsible for trade policy in Iraq?

Because of war conditions and international sanctions, Iraq was one of the most countries used the barriers for external trade [(5)]. After 2003 the trade policy has changed in Iraq. Trade policy includes several tools and procedures and there are many government departments which responsible for managing these tools and procedures such as:

1 – Tariff:

Tariffs were the most important tools of the trade policy in Iraq. After 2003 CPA have stopped implement of the Tariff law under the decision No.38 in 2003(6) , and the decision No. 58 in 2004(7), which set a tax to rebuild Iraq by a rate of 5% on the commodities imports to Iraq , this decision started in effect 2004 .

There were many exceptions from this tax on the commodities like foodstuffs, medicines and imported goods for the OFFP (Oil for food program). In addition, there were the tariff exception of the commodities imported by the government, the humanitarian organizations, UN and foreigners which working in Iraq (8). All these exceptions reduced the importance of tariff as a tool to achiev a revenue and as a tool to organize the Iraqi imports.

In 2004 Iraqi government submitted an apply to join a WTO [(9)], this joining required many actions by Iraq, the first thing was anew tariff schedule and customs reforms. So the Iraqi government started working on tariff law draft until approved the new tariff law number 22 at Feb.2010 to be working in the following year [(10)]. The WTO considered that this law does not agree with WTO compliant [(11)]. In the same time, Iraqi government still didn't activate the new tariff law.

Also, Iraqi government has not started the drafting of the customs law. This delay in the legislation and implementation of laws leads to lack of clarity in trade policy in Iraq , especially when it comes to such important laws. The Ministry of Finance is responsible for set tariff law, but failed to implement this law, because of public rejections to this law.

2- Non tariff barriers:

There are a lot of procedures affecting the foreign trade, so the trade policy hase to include clear laws about these procedures such as[(12)] :

- **Technical barriers to trade.**
- **Sanitary and phytosanitary measures.**
- **Intellectual property rights.**

These procedures need many new laws and more than one of Iraqi ministries must working on these laws, for example the intellectual property

rights need law about patents from planning Ministry, the trade mark law from the industry and minerals Ministry and copyrights law by culture Ministry. These laws, in addition to others are a set of non-tariff barriers on foreign trade, it should be achieved by Iraqi government and the should be clear laws and comply with the WTO.

3 – Free zones:

The free zones help to increase the economic production and foreign capital resources, improvement of the balance of payments and attract new technologies, in addition to create new job opportunities.

Iraq has a law for free zones No.3 at 1998[13] , this law was legislated for organizing the exchanges and processes in the Iraqi free zones to attract foreign investment – industrial , commercial and service facilities. The Ministry of Finance is responsible for management these free zones.

There are 4 free zones in Iraq now [14] :

- **Free Zone in Khor Al-Zubair**
- **Free Zone in Nineveh .**
- **Free zone in Al-kaiem .**
- **The free zone near Baghdad (Fallujah Enaimah) .**

Although these free zones located at important areas in Iraq , and Iraq have many Memorandums of Understanding with neighboring countries for investment in these free zones , the large gap in the infrastructures in all of these free zones makes it has no importance in trade or investment in Iraq.

4 - Anti-dumping policy:

The anti-dumping measures are one of the most important tactics in trade policies. WTO allows countries to take measures against to dumping when this dumping leads to harm some economic activities in those countries [15]

Because of the removal of all barriers on foreign trade in Iraq , Iraqi markets have faced deferent forms of dumping. Iraqi government was worked to legislate the law for the protection domestic production, and legislate the law No.11 at 2010[16] .

This law includes all anti-dumping procedures , but according to this law, of checking the status of dumping takes a long period of time up to a year , then the Ministry of Industry makes a recommendation to the Prime Minister to make the decision about anti-dumping. In addition, the decision will be set some tariff barriers on the goods that published under the case of dumping, at the same time, the customs procedures were not activated originally.

5 - Trade agreements:

In most of countries, the trade agreements are an important trade policy tools. Iraq has many trade agreements with a lot of countries, especially with the neighbors. The Trade Ministry is responsible for these agreements. This research aims to study these agreements with the neighbors countries to find out the main contents of the agreements and how much extent to Iraq.

The problem is the trade Ministry refused to give any information about these agreements. The Iraqi Trade Minister considered that it is top secret information.

All can easily know that Iraq is a country that imports all kinds of goods from many countries, including neighboring countries. And Iraq cannot take advantage of his trade relations in promotion of the export activities. Because of the big cases of corruption in government imports in recent years, the Ministry of Trade blocked the information, even that for scientific researches [(17)] .

6 - Exchange rate:

The exchange rate is a tool to link the local economy with the international economy. The exchange rate was fluctuating, a lot in Iraq before 2003, and there was a multiplicity of exchange rates. Central Bank of Iraq tried after 2003 for the stability of the exchange rate, and has succeeded in stabilizing the external value of Iraqi Dinar. In the years follow 2003, the value of the Iraqi Dinar has improved as a result of increasing in the revenues of crude oil exports.

Although the success of the Iraqi Central Bank in the management of exchange rate, but the improvement in the value of Iraqi Dinar was not a result of better performance of the real economic sectors. At the time when crude oil revenue improved, the competitiveness of the industrial and agricultural sectors has deteriorated. This is known as "Dutch disease", where all imported goods become cheaper than domestic products then the unemployment rates risesed , and the economy is facing many problems . The trade balance of Iraq shows the rates of increasing in Iraqi imports after 2003[(18)] .

7 - WTO Accession:

Iraqi government made a request to join the WTO in 2004, and has been accepted as an observer member in the same year. Completing the requirements to join the WTO helps in developing a clear trade policy in Iraq , because that requirements need a lot of new laws related to foreign trade , If the Government was able to complete these laws.

These laws will show the government departments, which responsible for trade policy in Iraq. For example, the GATS is required by the laws related to the services sectors within this agreement such as: Tourism, Finance, Telecommunications, Construction, Transportation, Education, Environment and health.

The overall effects of WTO membership will be[19]:

- **Increased market access to new technologies**
- **Increased market access to imports and exports**
- **Greater choice of production and consumption patterns in line with the Law of Comparative Advantage**
- **Reduced corruption by imposition of rule of law to reduce bureaucratic discretion in administering trade-related services and increase accountability among trade-related agencies**
- **Increased security of contracts and intellectual property**
- **Reduced cost of doing business**
- **Expanded employment opportunities**
- **Improved alignment of domestic wages and prices with international markets.**

All of that will promote the confidence of foreign investors to investin the Iraqi markets .

Fourth : Foreign direct investment in Iraq after 2003:

Foreign direct investment is very important for most of countries in order to bring many benefits and achieving some such things as: transfer of new technology to promote domestic production of good and services, increasing the competitive capacity of domestic production to face foreign competition, provide enough money for investment, create job opportunities and increase incomes for the workers …etc .

For all these benefits, Iraq begins to put the necessary mechanisms to encourage foreign direct investment to Iraq after 2003.in order to attracting foreign investment, Iraqi government set a new law for foreign investment numbered 13 at 2006[20] .

In spite of the Iraqi needs for the foreign investment, and the investment law tried to encourage investment in Iraq, this process has not achieved its target to attract the foreign investment to Iraq.

Table (8) shows the value of foreign direct investment in Iraq from 2003 - 2010 . This table shows that the value of foreign investment is limited and it was fluctuating over the time, so that the annual rate of change, changes dramatically.

Table (8) foreign direct Investment in Iraq 2003 - 2010
(Million dollar)

Year	Direct investment	Annual change rate %
2003	1000.0	---------
2004	300.0	- 70.0
2005	515.3	+ 71.7
2006	78.0	- 84.8
2007	971.8	+ 1145.9
2008	1855.7	+ 90.9
2009	1598.3	- 13.8
2010	1396.2	- 12.6

Source : central bank of Iraq ,statistics and research department , annual bulletin various issues

Foreign direct investment in Iraq affected by many factors, such as:

- **the security situation , since the capital place always looking for more secure places, and Iraq was not secured always.**
- **Provide energy sources, like oil, natural gas, which Iraq have many of those resources.**
- **skilled labors , the labor market in Iraq has always excess trained and skilled labors.**
- **infrastructure , like seaports , airports , railways , roads bridges , communications and financial services , banking , insurance and the provision of water …that Iraq suffers from the lack of infrastructure.**
- **Statistical data, which is very important in any country for investors, but the data viewing and the statistical Iraqi data non clear.**

Finally, if, the trade policy for Iraq had been developed appropriately, it can be a good introduction to attract the foreign investment. Then the investors can protect their intellectual property rights. And be aware of tariff levels, to be able to calculate the costs and profits of his investment. As well as, the clarity of customs procedures will make the foreign investors able to do their activities in Iraq at clear rules.

Fifth : Conclusion

1.The main objectives of the trade policy in Iraq must be :

- **Diversity of exports by attracting foreign investment in economic sectors which have competitive advantage in services and some export industries and agricultural products. This will helps to create jobs and diversify the production and economic stability**
- **Organizing of the imports in terms of observing the rules of origin and quality of imported goods.**

2. **The liberalization of the trade policy achieves the objectives of economic growth and help attract foreign investment.**
3. **Iraq's trading partners for exports are different from Iraq's partners for imports; how can make link between the volumes of imports to the export gains?**
4. **Trade policy has to take advantage of trade agreements with neighboring countries for commercial gain.**
5. **WTO Accession , can be a roadmap for new Trade Policy for Iraq , to promote the foreign direct investment to be more active in Iraq .**

References :

1. **Central Bank of Iraq ,statistics and research department ,annual bulletin several years .**
2. **Vivian C.Jones , Iraq's Trade with the world: Data and Analysis CRS Report for Congress ,Order Code RL32025, September 2004 , P.4.**
3. **Ministry of Trade - Department of Foreign Economic Relations - Division of the statistical data and economic analyzes - foreign trade of Iraq 2010.**
4. **Barriers have removed for external trade, according to the decisions of free trade of the CPA.**
5. **Vivian C.Jones , opcit , p. 12 – 14 .**
6. **Al Wakaiee Al iraqia , Vol 3980 ,in 01 , 03 , 2003 p 28 (Origin in Arabic) .**
7. **Al Wakaiee Al iraqia , Vol 3980 , in 31 , 12 , 2003 p 45 (Origin in Arabic) .**
8. **Al Wakaiee Al iraqia , Vol 3980 ,in 01 , 03 , 2003, Part 2.(Origin in Arabic) .**
9. **Dr.Midhat Kadhim Alquraishi , "The impact of Iraq's accession to the WTO on the industry of Iraq and the national economy" AL-Mansour Journal. No.14 , Special Issue , part one 2010 P.57 (Origin in Arabic)**
10. **Al Wakaiee Al iraqia , Vol 4170 ,in 06 , 12 , 2010, Part 0.p ,1 .**
11. **USAID – IRAQ , Briefing On Iraq's WTO Accession Status < March 2011 ,P.18.**
12. **OPCIT . P 21.**
13. **http://www.iraqifreezones.com/**
14. **Dr.Faris Kareem Brehai , " Activation of the Free Zones in Iraq , Necessity to support and motivate the National Economy " Iraqi Trade , Specialized Magazine in Trade ans Investment , Iraqi Trade Ministry . No. 13 Feb. 2011 , P. 62-63 .**
15. **http://www.wto.org/english/tratop_e/adp_e/adp_e.htm**
16. **Al Wakaiee Al iraqia , Vol 4174 , in 03 , 01 , 2010 p 1 (Origin in Arabic) .**
17. **Interview in many Departments in Iraqi Trade Ministry , 2011 .**
18. **Dr.Abdalhusain mohammed Al- Anbaki , "Economic reform in Iraq " p 19 – 25(Origin in Arabic)**
19. **USAID , OPCIT , P.3.**
20. **Al Wakaiee Al iraqia , Vol 4031 ,in 17 , 01 , 2007, P.4.(Origin in Arabic) .**