
HOW EUROPE CAN HELP IRAQ'S ECONOMIC DEVELOPMENT

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The European Union can play a role in the stabilisation of Iraq that could contribute to economic growth and peace while helping stem migration flows from the region, writes Dr. Theodore Karasik.

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Economic stability and job creation in Iraq are central to achieving a long term peace in the Middle East, yet the decline in the price of oil and associated revenues for the government has compounded the countrys economic woes.

Without a diversified economic recovery Iraq will continue to destabilise a region reeling from the political and economic turmoil of the last fifteen years.

In a country already torn by insurgency, terrorism, regionalism and sectarianism, endemic corruption not just in Baghdad but also on a provincial level where localism reigns supreme, the ingredients are in place for a perfect storm that impacts the future of Iraq.

The European Union can play a role in the stabilisation of the region that could contribute to economic growth and peace. Economic investment from the European region would not only benefit Iraq, but the EU as well as being a means of stemming the flow of refugees from the country.

To be sure, the oil factor is a major hindrance on Iraqs economy. Iraq derives the vast majority of its income from the sale of oil from its numerous fields and substantial reserves.

As a result, government workers in a bloated bureaucracy havent been paid in months, in some cases, and outside assistance has been needed to partially fill the cash shortfalls. Many local companies that rely on the oil business have significantly reduced employment □ or stopped trading altogether □ due to a reduction in business and income with a knock-on effect in other non-oil sectors of the economy.

Such economic downturn has a trickle-down effect to the poorest people of the region and influences peoples economic means to be able to stay in the region.

New business ventures and investment in Iraq by European companies could certainly have an impact on its prosperity. While there is no perfect answer to solve the problem, this would be a step in the right direction in terms of promoting business growth in the region.

The current gloomy view is compounded by loose regulations and legal norms that do not meet

international standards let alone regional sensibility. The government of Prime Minister Haider Al-Abadi continues the tradition of his predecessor Nouri Maliki by leveling arbitrary levies, fees and taxes on the private sector and foreign companies operating in Iraq.

Legal and fiscal stability are required for European companies to begin or to continue to invest in Iraq. The EU-Iraq Partnership and Cooperation Agreement signed in 2012 focuses on the rule of law and seeks to promote trade between the regions. Total bilateral trade between the EU and Iraq amounted to billion in 2014. Oil imports account for 99.6% of all EU imports from Iraq, and result in a huge surplus in favour of Iraq.

Despite the efforts of the National Investment Commission to create an environment which supports foreign investment through exemptions, incentives and guarantees for investors, there are constant legal challenges and changes as a result of ministerial and local fiefdoms jockeying for additional income via tariffs. This toxic combination is holding the Iraqi government hostage to creating a more positive business environment.

A ubiquitous sense of entitlement reigns supreme among Iraqs numerous interest groups when money is involved. The contradiction between the come invest and seize your money mentalities continue to be Iraqs worse enemy which is notable given the countrys security environment that requires a sane and stable approach to keeping the country afloat.

Lets be clear: There is a real time need for the Iraqi government to enforce and respect international business agreements in order to foster foreign investment. Bilateral and international free trade agreements are clearly governed by international law. By riding roughshod over agreements to which the Iraqi government is a signatory is damaging Iraq now and in the future, simply because the basis of trust has been lost.

The private sector is critical to generating real jobs which add economic value, especially those which cross the sectarian divide; this is essential if the nation is to prevent another insurgent group simply replacing Daesh (ISIS). Iraqis need employment not only to sustain their families and their communities, but also to offer a safe haven from the recruitment mechanisms of terrorist and extremist groups.

The Iraqi government is increasingly seeing foreign investors as a quick source of cash to cover its budget deficit but this behavior is sending shock waves across the business community invested in Iraq.

For example, the Iraqi government has frozen mobile telecom operator Zain Iraqs assets to the tune of \$430 million, allegedly for non-payment of a retrospective claim for capital gains tax dating from when Kuwaiti headquartered Zain acquired another operator in Iraq eight years ago. Absurdly, the Iraqi government is attempting to apply capital gains tax on the buyer when typically it is applied to the seller. Here, politics is clearly trumping legal rule of law.

This situation could worsen relations between the two Arab states a few months after Kuwait let Iraq postpone paying \$4.6 billion in war reparations until 2017, helping ease strains on Baghdads financial situation.

Such facts may serve as a reason for some European companies not to enter the Iraqi marketplace. Yet, the need to invest in the crippled region has become more important than ever when considered alongside the ongoing migrant crisis that faces Europe. The opportunity for

businesses to have a stake in the region would promote job growth and signal a pro-business attitude. Ultimately, it would also lead to a lower number of Iraqi refugees coming to Europe.

If the Iraqi government does not act fast to reverse asset seizures, abide by international agreements and create a supportive environment for foreign investment based on cooperation, transparency, and compliance, foreign investments from Europe and elsewhere may never come to fruition.

Kaynak/Source: