Iraq’s Trade Import and Export Patterns and their Repercussions

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Authors’ contributions

This work was carried out in collaboration between all authors. Author AGP designed the study and wrote the first draft of the manuscript. Authors LJZ and AHJAS further managed the literature searches and analyses of the trade patterns. All authors have interpreted the results and have elaborated the discussion and the conclusion. The final manuscript was read and approved by all three contributors.

Article Information

DOI: 10.9734/BJEMT/2016/20523

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Complete Peer review History: http://sciencedomain.org/review-history/12069

Received 30th July 2015
Accepted 30th September 2015
Published 2nd November 2015

ABSTRACT

Aims: To diagnose the actual situation in Iraq in terms of import and export patterns, taking into consideration both trade agreements and sanctions from the international community, in order to determine whether the needs of its recovery and reintegration are covered or not and what type of future action needs to be taken.

Methodology: A thorough analysis of the goods imported and exported by Iraq, respectively their afferent trade formalities, along with the main countries or international organizations having commercial relationships with the Arab country, was undergone. Moreover, in the attempt to relate to the international stage, several comparisons between the current situation in Iraq in terms of trade and the one from its neighboring countries were also made.

Results: Iraq’s trade import and export patterns do not fit perfectly the requirements of a country in Iraq’s position, but the mismanagement of the government and the inefficiencies in managing foreign investments are directly responsible for the malfunctioning of trade relationships.

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**Conclusion:** The government of Iraq needs to attract importers, foreign investors and business persons by fighting against the lack of transparency and the high level of corruption, and to fund the timely development of the private sector in order to succeed the transition to a real market economy.

*Keywords:* Import; export; trade relationships; corruption; transparency; foreign investors.

**1. INTRODUCTION**

The last several decades of conflicts and sharp decline of a wide range of sectors has left their mark on the history of the countries belonging to the Middle East and Northern Africa region, exerting a far-reaching impact on all the aspects of the lives of their citizens. As a direct result, the economy of Iraq was destabilized, leading to the instauration of one of the most severe humanitarian crisis. The expansion of the self-styled Islamic State of Iraq and Levant, which has increased the number of armed conflicts and hostilities in the area, has also triggered the high influx of refugees and internally displaced persons in Iraq. Simultaneously, the dreadful condition of infrastructure and the collapse of public services, along with the plunge in oil prices have left the government of Iraq unable to gather in real time the necessary resources in terms of security, shelter, food, access to clean water and electricity for providing the essential living conditions for its population.

This regional instability and vulnerability has been serving as a source of inspiration for numerous publications emerging after the invasion of Iraq. For example, in his book “The Iraq Effect: The Middle East after the Iraq War”, Frederic Wehrey expresses his strong opinion related to the fact that, regardless of how the conflict in Iraq ends, its effects on the broader Middle East will be certainly felt for the decades to come, presenting both new challenges and opportunities for policymakers [1]. However, it appears that the long-term consequences that Iraq is still facing have diminished the momentum for political reform, as well as created new circumstances for international involvement. On the other hand, Greg Muttitt further outlines that following the departure of troops from Iraq, the majority of plans and preparations were in place to shape policies in favor of foreign energy interests. In spite of the labyrinth of clandestine meetings, reneged promises and abuses of power; the Iraqi society has been struggling ever since for their own say in their future, in spite of their dysfunctional government and rising levels of violence [2]. Unfortunately, regardless of the multiple attempts to reconstruct Iraq as a viable democratic state, there has been a breach of trust in the authorities of Iraq due to the lack of human development capacity and sustainability, as a direct consequence of misconduct and corruption. The international community was forced to intervene again in the process of recovery and reintegration, aiding the insufficient strengthened democratic Iraq to meet the challenges posed by the dire threat of state failure.

Notwithstanding, Iraq’s patterns of international trade are extremely relevant for the manner in which the nation deals with the constant challenges, since compliance and devotion to the common goal of recovery and reconstruction of Iraq should not have been taken for granted by the international community. While the initiation of structural reforms for consolidating both the private and public sector development is up for discussions, the imports and exports, along with the foreign investments, must back up the needs of such a demanding country like Iraq [3].

**2. METHODOLOGY**

Both trade agreements with foreign countries and restrictions from international authorities affect the way in which Iraq handles the import and export of commodities, as well as the fulfillment of the afferent trade formalities. Therefore, the aforementioned aspects will be thoroughly analyzed in order to create a pattern of how the government of Iraq sets priorities and allocates available funds in terms of trade, together with their consequences reverberating on the international economic scene. Furthermore, the present paper aims to forecast the future balance of trade of Iraq, in the attempt to assess its suitability to the needs of restructuration and recovery of the Arab nation, while outlining possible paths for progress and improvement that may be followed in the medium and long term.

Over the past decades, Iraq has signed numerous international agreements in the attempt of reaffirming its position on the market,
relying on its previous contacts with foreign parties. First of all, Iraq is a member of the Arab League, whose main purpose is to stimulate economic cooperation and foster trade between its members, undertaking several major initiatives in this regard until now, such as the creation of an Arab Free Trade Area. Being gradually implemented with a 10% reduction in custom fees, it aimed to eliminate the trade barriers between Arab countries. Thereby, the Greater Arab Free Trade Agreement was afterwards reached, stipulating the elimination of most tariffs among the member states. As a result, nowadays, there are certain products from specific countries of origin which benefit from preferential treatment in Iraq [4].

Secondly, Iraq is also a member of the International Convention on the Harmonized Commodity Description and Coding System, the Organization of Petroleum Exporting Countries/Organization of Arab Petroleum Exporting Countries, the World Customs Organization and an observer government in the World Trade Organization (WTO), collaborating with them for overcoming the problematic situation in which the Arab country finds itself by facilitating international trade with the Middle East region [5].

Additionally, the Free Zones Law has further proved to be propitious for attracting investments projects in Iraq because the goods imported in the aforementioned zones, along with the devoted capital and income, are exempt from taxes and additional fees. Nonetheless, there are several steps to be followed in order to initiate a project, for example the request must be submitted to the General Commission for Free Zones. Basrah/Khor Al-Zubair, Ninevah/Flaifil and Al-Quwaym are the free trade zones in Iraq, while Neameit Al-Faluga is under construction as the fourth free zone.

2.1 Background of Trade Restrictions

Generally, trade restrictions, including tariffs, quotas and embargoes, are designed to safeguard domestic industries, serving a solely economic purpose, but they can be also liable for imposing considerable costs. Taking Iraq as example, one of the world’s longest running embargoes was imposed by the United Nations and the European Union after the Kuwait invasion, aiming to ensure the proper protection and security of the civilians, but impacting heavily not only on the international trade relationships of Iraq. In her book “Invisible War: The United States and the Iraq Sanctions”, Joy Gordon argues that the 1990-2003 sanctions against Iraq nearly devastated a whole civilization, destroyed infrastructure beyond repair and left the Arab country close to bankruptcy, questioning the compliance of the administration of the United States of America to the Geneva Convention [6]. Nonetheless, together with the abolition of the dictatorial government of Saddam Hussein, the trade sanctions and restrictions on arms were lifted by the United Nations, acknowledging the need of the new government to rebuild its security and defense strategy. Nevertheless, special emphasis was put on limiting the possession and usage of weapons by unauthorized persons, so the arms embargo persisted for end users, other than the multinational forces.

Besides the strict regulations of weaponry trade, during the next period, the United Nations have been supervising Iraq’s import and export relationships with foreign countries, keeping records on the quantity of commodities to be allowed to enter the country in exchange for the export of the most valuable asset of Iraq, oil. Targeting food and medicine imports for allowing the government of Iraq to provide the essential civilian needs, the international authority has permitted Iraq to expand its oil sales in order to increase its purchasing power.

Having the majority of trade regulations restored to their normalized state by 2004, Iraq has focused on improving trade relationships with the international community, heavily cooperating with the European Union and the United States of America in this regard. Targeting fuels, medicines, food and manufactured products in terms of imports, Iraq has been ever since struggling to bring its trade regime at the standards of the multilateral international system.

2.2 Iraq Trade Imports

Having established a factual background of the relationships and commitments of Iraq to both the international community and certain organizations, an assessment of the previous management, decisions and tangible actions related to trade of the government will be further undergone, aiming to disclose if the requirements of a country in Iraq’s position are met, bearing in mind its aspiration to macroeconomic stability.

In spite of the prolonged period of conflict and economic disequilibrium, Iraq has managed to
stabilize its import expenditure, steadily increasing year by year due to the lack of resources to cover the needs of an expanding population. Accordingly, the main imports of Iraq are machinery and transport equipment, such as cars, delivery trucks, planes, helicopters, spacecraft, iron bars, pipes and structures, accounting for 38% of the total imports, and manufactured articles, such as insulated wire, electric generating sets and electric transformers, representing 27% of total imports. Moreover, mineral fuels, chemicals and related products also stand up for an important percentage of the imports, namely 10% and respectively 7%. As far as the food sector is concerned, Iraq imports a significant quantity of rice, wheat, raw sugar, poultry meat, wheat flours and vegetable oils.

In connection with the government expenditure on import, the total values encompassing supplies for all sectors, reaching an all-time high of $ 50155 million in 2013 and decreasing in the following year, are depicted in Fig. 1. It appears that the main focus of the government of Iraq revolves around supporting the development of domestic industries and strengthening the national infrastructure, so the budgeted expenditure is accordingly.

Statistically, the components present in the time series are represented by the past values of import, which have been further used in order to determine the linear trend line of the import value for Iraq. Thereby, the trend line formula is \( y = 4603.8x + 12803 \), where its slope is 4603.8 and its intercept is 12803. Bearing in mind that a trend line is the most reliable when its coefficient of determination \( (R^2) \) is near 1, the value of this coefficient in the present case can be calculated and is equal to 0.8525. In consequence, the future value of imports can also be computed easily, for instance by 2020 it will continue to increase, approaching the value of $ 64251 million.

There are a considerable number of countries from which Iraq imports the aforementioned products, among which Turkey and China, standing up for 33% and respectively 15% of the import value. Furthermore, South Korea, Germany, India, Jordan and the United States provide Iraq with a variety of products, each of them representing below 6% of the total value of goods imported.

Besides the budgeted expenditure, the government of Iraq has established a set of regulations for the commodities to be imported into Iraq. For example, a certain quantity of tobacco, spirits and Iraqi national currency is imposed for free import. Antagonistically, there are several prohibited items that cannot be imported into Iraq, including films and magazines opposed to public and religious norms, narcotic and psychotropic substances (i.e. cocaine, heroin), as well as certain plant species (i.e. cannabis sativa), cement and varieties of cement and specific chemical substances or pesticides recognized as hazardous goods. As far as imported foodstuffs are concerned, meat containing pork or products made from genetically modified organisms may not be imported into Iraq.

Bearing in mind the previous embargoes put on Iraq by international authorities, the import of ammunition, explosives or other goods which could be used for torture, capital punishment or similarly inhuman treatment is strictly regulated, allowing only official bodies, namely national security bodies, to approve such imports with the purpose of protecting civilians. These restrictions further apply to chemical, biological and nuclear weapons [7].

Since the Arab League boycott of Israel, an organized effort for isolating the latter country from an economic point of view has been undergone by several Arab nations, which are currently prohibited to maintain trade relationships with the Israeli government and even its citizens, extending its limitations to any entity that have does business with Israel. The impact of the boycott is still difficult to be assessed due to the ambiguous application of restrictions, but in consideration of Iraq as an active participant, the import of any items of Israeli origin into Iraq’s territory is forbidden.

Special attention from Iraqi authorities is further required when it comes to the travellers entering Iraq, besides the items they are carrying. For example, persons suffering from tuberculosis, syphilis or leprosy are not allowed to enter the country or they risk being deported. In addition, an AIDS test is mandatory for every traveller willing to visit Iraq.

### 2.2.1 Import formalities

The obligation to guarantee full compliance with the international standards and norms for import of commodities in Iraq lies with particular competent bodies, the main one being the
Nonetheless, the Iraqi customs officials are the ones who actually verify if the import documentation respects the abovementioned norms before allowing the commodities to enter the country.

The customs law has established specific categories in which the commodities to be imported fall, depending on their scope: Release for free circulation (for products intended for home consumption), transit, customs warehousing, temporary admission, re-export and drawback, use in free zones. Regardless of the abovementioned classification, the foreign exporters who are willing to import their products into Iraq must comply with several mandatory procedures, which are influenced by the demands of authorities, importers and forwarders, and by the trade practice. Hence, an exporter needs to prepare and show to the Iraqi customs authorities the supporting documentation of the sales contract, comprising the commercial invoice, the manifest, the freight documents (i.e. air waybill, bill of lading), the certificate of origin, the insurance certificate, the delivery order, the commercial registration and the customs clearance license. Depending on the category in which the imported products fall, additional conditions must be fulfilled, for example animal products or even live animals, which must come together with a Veterinary Health Certificate, need to deal with a veterinary inspection at the customs office of entry. When it comes to pharmaceutical products and medical devices to be imported in Iraq, before their actual importation the foreign manufacturer and his traded products must be registered with the Ministry of Health. Likewise, the importation of hazardous goods (i.e. sources of ionizing radiation) depends upon the issue of a Permit to Import Radioactive Sources by the Iraqi Radioactive Sources Regulatory Authority. Simultaneously, certain legal documents have to be previously certified by the Chamber of Commerce and legalized by the Consular Section of the Iraqi Embassy of the country of export in order for the transaction to be viable [8].

Despite the official requirements that an exporter must fulfill, the sales contract itself remains of the utmost importance in international trade, its stipulations representing obligations for the parties involved. In order to facilitate the allocation of costs and risks, the contracts for international sale of commodities are usually defined by the International Commercial Terms (Incoterms), established by the International Chamber of Commerce.

Being the only global international organization dealing with the rules of trade between nations, the World Trade Organization has introduced...
strict measures for ensuring the safety and protection of the member states population, when it comes to international trade, by its formerly named Agreement on the Application of Sanitary and Phytosanitary Measures. Bearing in mind that Iraq is one of the observer governments of the World Trade Organization (WTO), the Arab country may set its own standards regarding foreign transactions, but it is directly liable to follow and comply with the abovementioned regulations in a transparent manner. An assessment of the potential risk of both domestic and imported products must be undergone in order to avoid the spread of diseases and toxins. Therefore, the Iraqi authorities must ensure that the commodities they import come from a disease-free area, were subject to proper treatments and have passed the mandatory inspections. Likewise, the World Organization for Animal Health acknowledges several countries as having what is called the bovine spongiform encephalopathy risk and accordingly, Iraq prohibits the import all types of manufactured products containing meat from this range of countries.

2.3 Iraq Trade Exports

Aiming to spur economic development, the government of Iraq is constantly seeking to promote policies for strengthening the country’s small private sector and creating jobs for lowering the alarmingly high rate of unemployment. Formerly, Iraq was the larger exporter of date fruits, supplying Australia, America and Europe, but nevertheless, oil has remained its most valuable export, placing the Arab country on the seventh place as the biggest exporter of oil in the world, but also making it vulnerable to destabilizations in the oil market, such as the crash of prices from the current year [9]. Crude petroleum, refined petroleum and petroleum gas account for more than 99% of the total exports, hence the oil sector provides more than 90% of government revenue and 80% of foreign exchange earnings. However, the contracts of the Iraqi state with major oil companies will not have potential to further expand oil exports and revenues, unless the Arab country makes significant upgrades to its oil processing, pipeline and export infrastructure to enable these deals to reach their economic potential.

Notwithstanding, Iraq’s capacity for producing and exporting was tightly limited by the security concerns posed by the rise of the Islamic State of Iraq and Levant as a de facto state. However, Iraq's huge potential directly linked to the possession the world's fourth-largest oil reserves cannot be neglected and in order to strengthen the ties with the other Arab nation, the Iraqi government seeks for a more significant role in the Organization of the Petroleum Exporting Countries. Even though at the moment the Iraqi policymakers are constrained by the instability of the infrastructure and the lack of centralized government efforts and control, the main focus is on upgrading the basic services with the aid of export revenues.

Besides oil, Iraq exports gold and precious metal scraps, tropical fruits, fertilizers and chemical substances such as sulphur and alkyl benzenes, excavation machineries and sheep, equine and bovine leather. Until 2013, the total value of exports in Iraq averaged $ 31629.03 million, reaching an all-time high of $ 94208.60 million in 2013, due to the impressive reserves and the increased petroleum production for export. The past export value of Iraq as well as the export trend line for the following years is depicted in Fig. 2. Since it is needless to mention that Iraq's largely state-run economy will continue to be dominated by the oil sector, the government stakes on the targeted recovery of the infrastructure aims not only to expand oil sales, but also to develop the complementary industries.

From a statistical point of view, the past values of Iraqi export represent the components from the time series, which have been further used in order to determine the linear trend line of the export value for Iraq. Thus, the trend line formula is $y = 8725.8x + 13342$, where its slope is 8725.8 and the intercept is 13342. The coefficient of determination ($R^2$) is 0.8375, so the statistical model is reliable. Consequently, the future value of exports can be forecasted smoothly, for example the exports of Iraq are projected to trend around $143403.28 million in 2020.

China is among the favorite export destinations of Iraq, maintaining a mutually beneficial trade relationship, since it also exports a substantial part of its domestic production to the Arab country. Nonetheless, India is the main importer of Iraqi commodities, standing up for 30% of the total exports. South Korea, Italy, Spain and Japan are also important export destination of Iraq, representing 16%, 7%, 6% and respectively 4.2% of the value of exports.
The export formalities need to respect the requirements of the country of importation, depending on the particular goods to be exported and the parties involved in the transaction, such as exporters and consignors, importers and consignees, end users, freight forwarders and their agents, banks and financial institutions. Generally, Iraqi authorities have to standardize the scope of goods to be exported through the export control authorities, which will further monitor the delivery chains. Several documents must be submitted by both the importer and the exporter, such as the end-user or delivery verification certificates. The Iraqi exporters are individually and legally responsible for the foreign transaction, encompassing certain features of trans-boundary movements of goods and services [10].

2.4 Trade between Iraq and the European Union

Over time, the European Union has proved to be one of the key trading partners for Iraq, closely competing with the United States of America, India and China. Since the first contractual relation between the European Union and Iraq, represented by the Partnership and Cooperation Agreement signed and ratified in 2012, the balance of trade of the European Union has significantly increased, as shown in Fig. 3.

The previously mentioned non-preferential trade agreement establishes a community regime for controlling the transfers between the two parties, the responsibility for properly implementing the provisions of the regulations lying with the competent authorities of each member state. More than 99% of the European Union imports from Iraq consist of oil and derivatives, while the members of the politico-economic union exports to the Arab country include mainly transport equipment, machineries, chemicals and foodstuffs [11].

The Iraqi political changeover has caused the postponement of further meetings for discussing the role that the European Union is willing to play on the recovery and reintegration of Iraq within the Middle East area. However, it is estimated that the active involvement of the European Union will have a tremendously beneficial effect on the development of the economically vulnerable country. Aside from the closer trade ties between the parties, the European Union has already shown its support for the suffering population of Iraq through compelling investments.
3. RESULTS

Considering all of the above, the previous trade relationships and agreements of Iraq with foreign parties have proved to be necessary for stabilizing the fragile crisis situation, but not sufficient for reconstructing Iraq as a flourishing economy. At the moment, the imports together with the domestic production are not able to provide the growing population with essential living conditions, while the revenues from exports have stagnated due to their dependency to the stability and strength of the oil market.

Briefly, one of the major components of Iraq’s balance of payments is represented by the trade balance, namely the difference between the country’s exports and imports, being reported by the Central Bank of Iraq. Not only the imports are included among debit items, but also the domestic investments and spending abroad, while the exports, foreign investments and spending in the domestic economy are credit items. Until 2013, the Iraqi trade balance, graphed in Fig. 4, averaged $ 10.117 million, reaching its highest value of $ 44,053 million in 2013, a significant trade surplus for a country in Iraq’s position.

An overview of the current situation of Iraq in terms of trade is depicted in Table 1, which will further constitute the foundation for discussions concerning what actions has been previously taken by both the national government and the international community, and what measures still need to be implemented in order to strengthen the Iraqi economy, as well as to reaffirm the position of the Arab nation in the Middle East stage.

Given the fact that Iraq was not the only country affected by the prolonged period of conflict destabilizing the whole Middle East and North Africa region, its current situation in terms of trade, which has been previously analyzed, shall be briefly compared to its neighboring countries [12]. For instance, the economies of the Islamic Republic of Iran and Iraq are similar to a certain extent in the light of the heavy reliance of oil, as a major source of revenues. Nevertheless, the election of new president in Iran in 2013 has brought about widespread expectations of improvements and greater international engagement among the Iranian public, but at the moment Iran’s economy is still marked by statist policies, an inefficient state sector, price controls and subsidies.

Since the beginning of 2014, the balance of trade of Iran has been on a downward slope, recording a trade deficit of $ 2405 million by the end of the aforementioned year, which is further expected to increase, as reported by the Central Bank of Iran. Overall, the Iranian trade balance averaged $ 5435.34 million from 1974 until 2014, reaching an all-time high of $ 39427.20 million in 2007,
which has been decreasing ever since. On the other hand, the balance of trade of Iraq has been increasing over the past years, as it was previously depicted. Consequently, the current account of the Iran is a negative one, while the value of imports and exports is by far smaller than the one of Iraq.

Additionally, the gross domestic product of Iran is almost double compared to the one of Iraq, whereas the inflation rate of the latter mentioned country is with more than 80% lower than the inflation rate of Iran [13]. As far as the crude oil production is concerned, Iraq has slightly surpassed Iran, finding itself on the sixth position in the world. However, their levels of production are quite similar and as a result Iran is being on the seventh place among the countries producing crude oil. Generally, it appears that throughout time, Iraq has managed in a more efficient manner than Iran to handle the distortions that weight down its national economy, undermining the potential for private-sector-led growth.

Similarly, another neighbor country of Iraq is the Syrian Arab Republic, which also used to benefit from high oil revenues, as a major oil producer. Syria and Iraq have been facing similar challenges amid the on-going conflict that began in 2011, i.e. the increased number of violent outbreaks due to the tremendous rise of the Islamic State of Iraq and the Levant, and both economies were deteriorated due to widespread infrastructure damage, reduced domestic consumption and production and sharply rising inflation. Lately, violence escalated tremendously in the Syrian state and the country descended into civil war as rebel brigades were formed to battle government forces for control. Nowadays, Syria is under international sanctions and foreign
trade has been brought to a halt. Comparing the two Arab nations, it appears that Iraq has successfully followed to a certain extent the recovery path shaped by the international community, while the Syrian Arab Republic find itself in the grip of a humanitarian crisis fueled by years of chronic underdevelopment and conflict. Regardless of their past resemblance, the two Arab countries cannot be compared in terms of trade, since Syria is now struggling to deal with a trade balance with prevailing negative values, low gross domestic product, extremely high inflation rate and increased unemployment rate.

4. DISCUSSION

The past years of hostilities and sanctions have isolated the Iraqi courts from advancements in foreign commercial transactions, determining the system to become obsolete compared to the international upgraded procedures [14]. On the account of the recent growth in complex transactions, the Iraqi judiciary has acknowledged the urgent need for specialization in the area of sales contracts, arbitration, mediation and litigation. Thereby, the Commercial Law Development Program, established by the United States Department of Commerce, represents an ambitious initiative for supporting the commercial courts of Iraq through thorough training of Iraqi citizens. Nevertheless, the deficiencies of the executive, legislative and judicial systems of the government request more similar initiatives in order to be able to respond to the challenges posed by the reconstruction of the post-war country and further build on the foundations set by the international community.

As far as the monetary and fiscal policy is concerned, the past efforts of the authorities together with the Central Bank of Iraq have been beneficial for ensuring the stability of prices and the predictability of exchange rates. In the struggle for appreciating the domestic currency, the Iraqi Dinar, the alarmingly high inflation from the previous years was tempered. Thus, the commercial banks were subject to several limitations in their usual activities for maintaining the cohesion of the monetary system. For example, the banks might engage in transactions in any foreign currency, but they needed to narrow their involvement in forward transactions in the domestic currency for speculative reasons.

Nowadays, there are no restrictions in practice on capital or current transactions, considering that the documentation supporting the transaction is valid and meets all the required conditions. Notwithstanding, the foreign countries or international organizations that have reached a trade agreement with Iraq need to comply with the obligations and conditions agreed on, along with the international standards. When it comes to expropriation, the Constitution of Iraq stipulates that it may be faced only in exceptional circumstances, for the public benefit in exchange for compensation.

Having established the factual background, it is imperative for the government of Iraq to align its interests to the common goal of economic prosperity of the international community. Therefore, the Iraqi Ministry of Trade needs to play a more active role in encouraging and facilitating trade and commerce in its country [14]. The evolution and improvement of the private sector needs to be induced by the reorganization of the regulations that are currently blocking trade. Anti-corruption drive, consumer welfare and protection need to be key elements in creating a new trading environment, which will further allow the proper implementation of far-reaching investment projects.

According to the International Trade Centre, a joint venture of United Nations and the World Trade Organization, Iraq has successfully attracted an impressive amount of foreign direct investments over time, in spite of the difficult conditions and unexpected costs that the investors had to face. The unclear, but business-friendly investor law and the partially stable security situation have played strategic roles in drawing the attention of foreign businesses, but the deficiencies of the neither reliable nor transparent system, ranging from red tape and corruption to implementation delays and inefficiencies, have certainly discouraged them. For instance, even if a foreign business meets all the requirements for employing Iraqi nationals, there is a lack of skilled workforce in Iraq and it is expected from the foreign party to train the national employees and improve their abilities. Further on, the opacity of the manner in which the government of Iraq promulgates regulations, not all of them being officially published, leads to additional burdens for persons willing to do business in Iraq, not to mention the unclear lines of authority and budget restrictions. Consequently, the number of foreign and domestic firms which have applied for investment licenses in Iraq until now outreaches by far the number of the firms that have actually moved to the execution phase after receiving the license.
Even so, the potential investors and business persons should remain actively seized in the matter, by being aware of the practical barriers to conducting business in Iraq, which are likely to persist at least in the short-run as the Arab country transitions to a market economy with a diversified and extensive private sector base.

5. CONCLUSIONS

Being ranked in the last decile in the overall ease of doing business and both transparency and control of corruption index by the World Bank, Iraq has publicly recognized the need to offer more comprehensive terms in future commercial transactions, but it has not specified what terms are liable for changes, so it is imperative that the direction of development is set by the international community. The efforts to address the impediments to conducting business and to establish a strategic framework for spurring economic development in Iraq must be centralized, encompassing a wide range of areas, such as energy, services, transportation, technology, environment, trade and finance [15].

Although the balance of trade has stabilized over the past years, Iraq still has to improve its trade regulations, since the foreign parties involved in commercial relationships with the Arab country face more challenges than opportunities. Corruption remains the main impediment for creating a proper climate for attracting potential partners and fostering ties with the investors. While significant progress in some trade areas have been made, the past failed attempts of the government to implement decisive anti-corruption strategies has undermined the independence of Iraqi main bodies to combat corruption. In the context of the expansion of the Islamic State of Iraq and Levant due to untraceable funding, Iraq has acceded to the Middle East North Africa Financial Action Task Force and targets to address its acknowledge deficiencies system-wide by meeting the standards of the aforementioned regional body. Initially being non-compliant in more than half of the categories evaluated, Iraq’s willingness to work toward complying with the goals of the Middle East North Africa Financial Action Task Force has materialized in the establishment of new authorities in the Iraqi territory. The instauration of an unprecedented operational body in the Middle East area, namely the Financial Crimes Task Force, along with a virtuous and potent Financial Intelligence Unit under the Central Bank, represented milestones in the long journey for the restructuration of Iraq, which has to be further followed. Now, Iraq needs to commit itself to continue to push through new and standardized legislation in order to reach its full potential.

As has been noted, after decades of an oil-driven economic policy, Iraq must not only acknowledge the pressure of the international community for highly investing in the development of its private sector, but also take action in this regard. In spite of the constraints of the actual feeble infrastructure, the economy of Iraq must be diversified, its dependency to oil production and exports has to diminish and jobs need to be created for the national labor force.

Considering all of the above, Iraq finds itself at the moment in an inconvenient position, struggling to transition to a real market economy. In order to overcome the limitations and build on the foundations established together with the international community, it has been proven that Iraq should strengthen its trade relationships by restructuring the import and export plans and attracting investors for covering the needed budget expenditure.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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