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Foreign Direct Investment in Post-Conflict Countries: The Case of Iraq's Oil and Electricity Sectors

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ABSTRACT: Foreign direct investment is new phenomenon to Iraq, a post conflict country with abundance of natural resources. With dominant state-controlled public sector, attracting foreign investment is an added challenge to an economy devastated by years of wars. A qualitative case study was conducted to assess determinants of foreign direct investment in Iraq's energy sector. Data was collected from interviews with business and government subject matter experts, and a review of publically available documents. Lack of security, political instability, corruption, and inadequate government policies towards foreign direct investment as symptoms found and typically shared by other post-conflict countries. The persistence of violence was not seen as a deterrent; however, foreign direct investment activity in the energy sector was virtually limited to the semi-autonomous region of Kurdistan. Investments were either wholly-owned or joint-venture enterprises. Implications to other post conflict countries, using Kuwait and Nigeria as illustrative examples, are presented and recommendations made.

Keywords: Foreign direct investment; Iraq; post-conflict country; energy
JEL Classifications: F21; F23; O53; P28

1. Introduction

Foreign direct investment (FDI) by multinational enterprises (MNEs) is considered an important means to achieve economic growth by developing countries (Denisia, 2010). Investors have shown increasing interests in countries with abundance of natural resources that await extraction and development, especially highly marketable commodities such as oil and gas. However, many developing countries with abundance of natural resources are marred by internal and/or external conflicts (Collier, 2006; Glynn, 2009). As such while those countries present economic opportunities for investors, they also present political risks that could lead to changes in the business climate that could impact negatively their investment.

The subject of FDI in countries with natural resources has been addressed in several studies (Abdel Gawad and Muramalla, 2013; Asiedu, 2013; Poelhekke and van der Ploeg, 2010). The presence of natural resources and political instability has been discussed in existing literature with conflicting results (Baek and Qian, 2011; Basedau and Richter, 2011; Glynn, 2009; Le Billon and Nicholls, 2007; Li, 2006; Ross, 2004). However, the subject of FDI in post-conflict countries, such as Iraq, that have abundance of natural resources and whose economies were ravaged by foreign and/or civil wars has not been addressed adequately. In this qualitative case study research, Iraq was used as an illustrative example of a post-conflict country with rich resources, to assess the determinants of foreign direct investment in its oil and electricity sectors. The study identified and established the factors impacting FDI at a country level, and how those factors fit into FDI theoretical framework of the OLI paradigm. Dunning (1980) argued that an enterprise will seek cross border activities if it had or could acquire certain assets not available to another country's enterprises. These assets exist in the context of what is called the eclectic or OLI paradigm: ownership (O) specific advantages, location (L) endowment and internalization (I) advantages.

Iraq's oil and gas industry since nationalization in 1975 has suffered from a severe lack of investment because of poor management, isolation from western countries, and lack of funding due to the multiple wars Iraq went through. Iraq's economic infrastructure (including oil and electricity) was severely damaged due to the Gulf War of 1991, 13 years of international sanctions (1990-2003), and from the US-led invasion in 2003. The rebuilding of Iraq and its economic resurgence without oil is a near impossibility. Oil revenues amounted to 92.23% of Iraqi government revenues in 2012 and are estimated to be 93.11% for 2013 (see Table 1).

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

The largest industrial customer of electricity has been the oil and gas sector (U.S. Energy Information Administration, 2013). Large-scale increases in oil production would also require large increases in power generation. With electricity shortages common, Iraq has struggled to keep up with the demand for power. To supply additional power, the electricity sector requires major improvements. To rebuild Iraq and its energy sector as well as meet its ambitious plans to increase production, the need for foreign investment could not be overemphasized.

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

The 2003 US invasion of Iraq established the foundations for Iraq Investment Law 13 of 2006 that opened its state-led economy for the first time to all foreign investors[1]. Despite its potential, Iraq was only able to attract limited amount of investment (see Table 2). This could be attributed to myriad of reasons such as the general political and security conditions in the country as well as the business environment for foreign investment. The data compiled by Table 2 does not break down foreign investment by sector and hence it's not known if UNCTAD report claims to include FDI in Iraq's oil and electricity sectors, which combined were allocated 21.27% of Iraq's 2013 government budgetary spending (Iraqi Parliament Research Center, 2012).

Iraq has ranked near the bottom of a list of 185 nations in the easiness for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations (see Table 3). Instead of improving ranking through creation of regulatory environment conducive to operating a business, Iraq has slipped from rank of 152 in 2009 to that of 165 in 2013 (The World Bank, 2013). In

[1] In 2002, Iraq issued Arab Investment Law 62 that was limited to Arab investors. It was replaced by Law 13/2006. Provisions of Law 13 apply to all areas of investment including oil and gas processing projects but exclude those in extraction and production as well as investment in banks and insurance companies which are yet to be regulated.

comparison to adjacent Middle Eastern economies and for Year 2013, Saudi Arabia ranked at 22, United Arab Emirates 26, Jordan 106, and even Iran which is facing a range of problems with the international community ranked at 145 in ease of doing business ahead of Iraq by 20 points (The World Bank, 2013).

Table 3. Iraq's Ease of Doing Business Rankings*

Year	Ease of Doing Business Rank	Starting a Business Rank	Getting Credit Rank	Enforcing Contracts Rank	Protecting Investors Rank	Resolving Insolvency (Closing a Business)
2009	152	175	163	148	113	181
2010	153	175	167	139	119	183
2011	166	174	168	141	120	183
2012	164	176	174	140	124	183
2013	165	177	176	141	128	185

Note. Rank 1= Best country, Rank 183= Worst country
*Based on reports co-published by The World Bank and International Finance Corporation. The World Bank (2013) report was for ranking out of 185 countries.

In the recent Corruption Perceptions Index for 2013 Report published by Transparency International, Iraq ranked among the most corrupt at 171 out of 177 countries surveyed (see Table 4). The Corruption Perception Index measures the perceived levels of public sector corruption in countries worldwide. Iraq has consistently and over the period of 2008 to 2012 scored near bottom in its widespread corruption index. Corruption, high unemployment rate, and decline in education level are the main factors behind having 25% of Iraq's population living below the poverty line despite the enormous income it receives from the sale of its oil (Bertelsmann Stiftung, 2012).

In order to understand the reasons why successive Iraqi nationalist governments from 1958, when the pro-west monarchy was toppled, up till the US invasion of 2003 looked at foreign investment suspeciously, one needs to understand the dependency theory and its concept of exploitation of developing countries by the more advanced western powers. From 1958-2003, Iraqi nationalist leaders treated foreign oil companies as a continutation of old colonial powers and implemented policies that discouraged foreign investment, especially in the oil sector. In understanding dependency theory one would understand the theoretical foundations to many of the current challenges facing FDI in Iraq, including the continuous legacy of mistrusting foreign investors that still persists today in many of Iraq's political circles.

Table 4. Corruption Perceptions Index - Iraq *

Year	Rank	Total Number of countries surveyed	Score
2008	178	180	13
2009	176	180	15
2010	175	178	15
2011	175	183	18
2012	169	176	18
2013	171	177	18

Note. Score 0 = Highly Corrupt, Score 100 = Very Clean
*Compiled from annual reports by Transparency International.
http://archive.transparency.org/publications/annual_report

In the case of Middle Eastern and North African (MENA) countries, including Iraq, the issues raised by dependency approach remain to be as relevant as those of Latin America's dependentistas during the 1950s and 1960s (Ates et al., 2005). Globalization did not bring with it the much needed FDI to the Middle East and North Africa region due to the continuous political instability that mars the area (The World Bank, 2012). Even the rich Arab nations shied away from investing in other MENA countries. Huge trade deficit with advanced economies threatens the financial resources of MENA countries (Saif and Choucair, 2009). This combination of trade deficit and low levels of FDI investment assures the dependence of MENA countries on foreign aid and foreign goods to sustain their economic activities. The manufacturing sector is very weak in MENA countries ensuring continuous dependence on the more advanced economies with what that entails of being susceptible to any financial or economic problems that impact them. The combined exports of non-oil related goods of all the Arab countries (22 states with total of 350 million people) hardly exceed those of Finland, a nation of 6 million citizens only (Khoury and Wagner, 2010).

Major conflicts, as those Iraq went through, undermine economic growth directly and indirectly; directly, by destroying lives and property, and indirectly, by diverting resources from productive investment in human and physical capital to that of destructive military activities (Bolnick et al., 2009). Conflict also disrupts partially or completely essential public services. It also, impacts the state's administrative and financial ability for post conflict recovery. This forces the state to borrow heavily to reconstruct what was destroyed, leaving huge debts that burden future budgets (Brahimi, 2007). In most post-conflict countries, economic governance issues such as policies, laws, institutions, and human capital that determine the context in which a country's economic activity takes place, are inextricably intertwined with security and political issues (del Castillo, 2010).

Conflict and growth are two constructs that work in opposite directions, as the risk of violence is accentuated by poor economic performance which further complicates efforts to achieve political reconciliation. Country risk factors, such as political, economic, and financial risks have adverse effects on the cash flows generated by an FDI project (Jones, 2010). Governments interested in attracting FDI need to lower their countries risk factor.

In order to attract foreign investment and improve the living standards of its citizens, a post conflict state, such as that of Iraq, must undertake the creation or rebuilding of the destroyed infrastructure, transition from war economy to market, resume relations with the international community, and finally transition to the rule of law (Ghani et al., 2006). A state in transition represents a major challenge to FDI since it exasperate the investment risks due to the lack of the institutions and systems required to guarantee an investment.

Assessing determinants of foreign direct investment in Iraq's energy sector should be of particular interest for the development and testing of FDI theory in post conflict countries rich in natural resources. The theoretical framework of the OLI paradigm treated MNEs expansions of their business activities worldwide from the perspective of the ownership (O), internalization (I), and locational (L) advantages that governed those activities. While the ownership and internalization advantages are firm specific, locational advantages address those factors that make a country attractive to FDI inflows. Those locational advantages were referred to in this study as "FDI determinants"; the country specific factors that could impact FDI inflow positively or negatively.

In line with the most recent study of Dunning and Lundan (2008), the researchers integrated the classical OLI paradigm with the institutional and political economy perspectives on the role of the state in attracting FDI. Iraq's oil and electricity sectors are state owned. The benefits derived from FDI depend on the sector in which the investment is made in and the level of economic development of the host country (Poelhekke and van der Ploeg, 2010).

In order to develop a better understanding of the implications of the study of FDI in Iraq on other post-conflict countries, two such countries - Kuwait and Nigeria - were chosen as illustrative examples. Table 5 shows FDI statistics for the three post-conflict countries of Iraq, Kuwait and Nigeria for the years 2007 thru 2012[2]. As the case is with Iraq, oil revenues make up 95% of Kuwait exports as well as of government income (Central Intelligence Agency [CIA], 2013), while it makes 95% of Nigeria's exports and 80% of its government income (The Heritage Foundation, 2013).

Table 5. FDI in Iraq, Kuwait and Nigeria for Years 2007 – 2012*

Post conflict country	FDI Inflows in millions of dollars					
	2007	2008	2009	2010	2011	2012
Iraq	972	1,856	1,598	1,396	2,082	2,549
Kuwait	111	- 6	1,114	456	855	1,851
Nigeria	6,087	8,249	8,650	6,099	8,915	7,029

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

[2] Data for Iraq is repeated from Table 2 for ease of comparison.

Kuwait suffered major devastation to its oil infrastructure during the Gulf War of 1991 that ended Iraq's occupation of the country. Since then the political relationship between the re-established National Assembly and the al-Sabah ruling family has been characterized by continuous protests against corruption and the excessive power of the Amir (ruling prince). For the period of 2006 -2013, the Amir dissolved the National Assembly five times and reshuffled the cabinet 12 times (CIA, 2013). To improve its attractiveness to foreign investors, Kuwait introduced Law No. 116/2013 which repealed FDI Law No. 8/2001 (Kuwait Foreign Investment Bureau, 2013). Nigeria regulated foreign investment operations thru the Nigerian Investment Promotion Commission Act No.16 of 1995 (Ekwueme, 2005). Despite being Africa's top recipient of FDI, Nigeria continues to be plagued by its longstanding communal conflict, rebel activities in oil producing Niger Delta and since 2009 by an increasingly violent insurgency led by Islamist extremist groups in the predominantly Muslim north.

2. Research Method

A qualitative research methodology and an explorative case study design were utilized to assess the determinants of foreign direct investment in Iraq's oil and electricity sectors. The usage of quantitative method was considered inappropriate because such approach aims at using already identified independent variables and attempt to construct statistical modeling in order to explain their relationship with the dependent factor (Castellan, 2010). Quantitative methods are used to test hypotheses, identify evidence regarding cause-and-effect relationships, and make predictions (Hopkins, 2000; LoBiondo-Wood and Haber, 2010), whereas, the use of a qualitative method provided a rich description of the studied phenomenon (Schwandt, 2007).

Case study research was the appropriate choice when answering questions which begin with *why* and *how* of an event the researcher has little or no control over (Yin, 2003). *Why* FDI inflows behave the way they do in Iraq, and *how* its determinants acquiesce to the OLI paradigm. Case study method was an appropriate design tool when dealing with a new phenomenon, such as FDI in Iraq, which needed to be investigated and understood in order to identify the factors impacting it. Another advantage for conducting a case study was data were captured from those who have shared experiences, who have experienced or currently experiencing the phenomenon. Once the qualitative data (FDI inflows and determinants) were explained, categorized, and defined, a quantitative method could then be utilized to develop a mathematical modeling that measures the relationship between those factors and FDI inflows in Iraq. It is recommended that this type of quantitative study be conducted to explore the effect of each of those determinants on the performance of FDI in Iraq.

Comparative studies that use multiple countries differ on their degree of abstraction compared to those that use single country. The more countries used in the research, the higher is the level of abstraction. A single-country study, and despite its limitations, produces a more detailed picture of each case and offers practical policy inferences (Zhang and Zhao, 2007). Sartori (1991) rejected the notion that a single case investigation could be categorized as a comparative method "though it may have comparative merit" (p. 252). Whereas, Landman (2008) stated that "a single-country study is considered comparative if it uses concepts that are applicable to other countries and/or seeks to make larger inferences that stretch beyond the original country used in the study" (p. 28). While conflicts might have differing internal and external causes in countries with differing history, social, cultural, political, and economic conditions, this single case study would meet Landman (2008) criteria since locational factors might differ among post conflict countries only in ranking and importance of the factor compared to others. Also, the undertaken intensive investigation of the single case of Iraq met Sartori (1991) criteria of having a comparative merit being a post-conflict country with abundance of natural resources. Still, and in order to expand the implications of the findings to other post conflict countries, two case studies that of Nigeria and Kuwait were utilized.

The primary data for the qualitative research were collected through one-on-one interviews with subject matter experts (SMEs), while secondary data were collected through conducting a review of publically available documents (e.g., reports by government and private organizations). Based on the research topic, a sample size of 22 SMEs was considered sufficient to satisfy the concept of saturation and to meet the research purpose. The participants were Iraqi government officials, employees of MNEs investing in Iraq's energy sectors, and members of the academia or professionals familiar with the topic. A semi-structured and an in-depth interviewing format were utilized for the collection of data.

Analysis was made by coding data collected according to specific OLI paradigm locational factor accepted by existing literature as an FDI determinant (e.g., political stability, infrastructure, institution, corruption). Once patterns were found and explained, the interpretations were linked to theory. Those patterns represented the potential determinants (i.e., the locational factors) of FDI inflows in Iraq.

In order to ensure trustworthiness, the tangible outcomes of the research were presented through demonstration of how verification strategies were used to shape and direct the research. Careful consideration of potential causes and effects were used and final conclusions reached through a comprehensive understanding of the data made by systematically eliminating 'alternative' explanations. A triangulation method was employed where multiple data sources were used to cross-check information and conclusions. When different sources were in agreement, then corroboration was achieved. This data triangulation was achieved by analysis of secondary data provided by publically available literature, and the fact that the sample of interviewees used included three different groups of people; government officials, MNEs employees, and members of academia and professionals. As anticipated each group emphasized a slightly different set of factors impacting FDI inflows in Iraq. This fact enhanced confidence in the ensuing findings.

3. Research Results

All 22 participants (SMEs) lived and/or worked in Iraq where interviewing took place. Table 6 is a display of interview participants' qualifications. Pseudonym P1 thru P22 were assigned in order to protect confidentiality of the participants; it was the responsibility of the researchers to ensure no data were linked back to anyone individual. Table 7 is a display of the factors considered by SMEs as the most important in impacting foreign direct investment in Iraq. The FDI determinants were ranked from 1 (most important) to 11 (least important). However, several participants chose certain factors as equivalent in their priority and as such gave them equal ranking; thus the reason for duplicated values appearing for some factors.

Table 6. Participants' Qualifications

Participant Pseudonym	Qualifications
P1	Member of Iraqi Parliament (chairman of relevant parliamentary committee)
P2	Member of Iraqi Parliament
P3, P4	Member of Advisory Commission - Iraqi Prime Minister's Office
P5, P6, P7	Employee (P5 a manager) of Iraq National Investment Commission – Council of Ministers
P8	Manager, Iraq's Ministry of Oil
P9	Manager, Iraq's Ministry of Electricity
P10	Manager, Economic Section, Iraq's Council of Ministers
P11*, P12*, P13*, P14*	Managers (P14 was Vice President) at foreign oil companies investing in Iraq
P15	Iraqi Economist, ex-deputy minister
P16	Academic Researcher, ex-employee of Iraq National Investment Commission – Council of Ministers
P17, P18	Manager, Board of Investment - Kurdistan Regional Government (KRG) – Iraq
P19*, P20*	Consultant, employee of a German firm providing advice on investment policy to Board of Investment, KRG - Iraq
P21	Manager, Ministry of Oil, KRG - Iraq
P22	Member of Kurdistan Parliament – Iraq

Note. *Participant's firm will not be declared, since the individual participated as own SME rather than representative of his company

As stated by 16 out of 22 (73%) interviewees, security was the main factor impacting foreign investment in Iraq. As a post-conflict country in transition, Iraq continued to suffer from an active insurgency supported by a dis-satisfied group of the society as well as by foreign and neighboring powers interested in the destabilization of Iraq. Lack of security was not the major concern for employees of oil companies. That was in line with the known tendency of oil companies to accept higher risks due to the high returns of such investment.

Table 7. Determinants of FDI in Iraq's oil and Electricity Sectors as Ranked by Research Participants

Factor Name	Rank (1: Most important 11: Least important)	Number of Participants Agreeing on the Corresponding Rank of the Factor
Security	1	16
Political Instability	2	18
Abundance of Oil	3	17
State and Economic Institutions	4	17
Government Policies	4	19
Corruption	5	18
Openness of Economy	6	14
Banking System	7	18
Human Capital	8	16
Bureaucracy and Red Tape	8	16
Market size	9	16
Infrastructure	9	16
Democracy	10	18
Technology Gap	11	16

The evolving theme of political stability or instability in Iraq includes issues related to the alignment of the legislator, the central government, and the local government of Kurdistan region. Most of the participants (18 out of 22 or 82%) agreed with the notion that political instability had direct impact on FDI inflows. It should be noted that while 77% of participants agreed that Iraq's abundance of oil was a major attraction for foreign investment, views differed on whether such investment should be packaged as Technical Service Contracts (TSC) where investors are paid simple fees or allowed to exist as Production Sharing Contracts (PSC) which provide ownership rights.

Iraq's Investment Law 13/2006 does not apply in all parts of the country. The semi-autonomous region of Kurdistan in northern Iraq has been known for its continuous conflicts with the central government in Baghdad. Kurdistan has been considered as 'the other Iraq' by foreign investors who have been attracted to its relative peace, more liberal economic policies, and welcoming environment. Kurdistan Regional Government (KRG) declared its Law 4/2006 as holding precedence in the region over that of the national Law 13/2006. Furthermore, after failing to secure a national hydrocarbon law, the KRG decided in June 2007 to enact its own Petroleum Law Region to govern contracts and regulations.

The availability of local skilled labor was an important ingredient of attraction for foreign investors interested in investing in Iraq's oil and electricity sectors. Table 8 is a display of Iraq's efforts in meeting its needs of oil and electricity engineering human resources. The determinants of FDI impacted the choice of location of investment in Iraq (e.g. Kurdistan region versus other parts) and how the internalization advantages were realized (e.g. wholly-owned asset or as a joint-venture) in Iraq's oil and electricity sectors. Remarks by the interview participants about FDI, or more accurately lack of it, in the electricity sector (outside Kurdistan) were revealing, since the researchers approached the topic based on Iraqi government public media that emphasized the existence of FDI opportunities in the electricity sector. In the "Accomplishments of National Investment Commission (NIC) - 2011" report (in Arabic) provided to the researchers, NIC stated that 300 investment licenses were issued in 2011. Among those issued were three investment licenses to build power plants by foreign companies interested in investing in Iraq's electricity sector. Two were issued by the Basra Provincial Board of Investment, and the third by the Najaf Provincial Board of Investment. Upon further investigation, it became clear those licenses while issued but no work was actually done due to problems with Ministry of Electricity. All three projects ended up to be cancelled. Several interview participants stated that while Iraq could use foreign and/or private investors to resolve its electricity shortages, the atmosphere at Ministry of Electricity continued to be unfavorable of such involvement.

Table 8. Engineering and Technical Graduates of Iraq's Universities and Technical Institutions*

Year of Graduation	Electrical Engineering University Graduates	Oil Engineering University Graduates	Electrical Institutes Graduates (2-year diploma)	Electrical Engineering Technology Graduates (2 year diploma)	Petrochemical Engineering Technology Graduates (2 year diploma)
2006	709	153	2387	230	45
2007	806	156	1650	374	63
2008	599	119	2169	182	59
2009	644	181	1696	198	65
2010	572	133	1852	279	54
2011	590	114	2188	228	57
2012	628	190	2100	243	44
Total Number of Graduates	4548	1046	14042	1734	387

Note. *As provided by Iraqi Ministry of Higher Education and Scientific Research per unpublished document dated February 13, 2013 (in Arabic)

In contrast to what foreign investors face in parts of Iraq under the control of Ministry of Electricity, the semi-autonomous region of Kurdistan offers them a much welcoming environment. With local and foreign money to support its operations, Mass Group Holding (MGH), has been successful in building three power plants and resolving the electricity shortages in Kurdistan (see Table 9). The success of MGH in resolving electricity shortages has been used by pro-FDI in Baghdad in their push to rebuild Iraq's war-torn economy along market principles and away from government controlled public sector.

Table 9. Privately Owned Power Plants - Kurdistan Region*

Location of power plant	Electricity Generation Capacity	Planned Capacity
Erbil	750 MW	1.0 GW
Sulaymaniyah /Chemchemal	750 MW	1.0 GW
Dohuk	500 MW	None

Note. *All plants are wholly-owned and operated by Mass Group Holding

In addition to the three power plants, Kurdistan region is also home to three privately owned refineries (see Table 10) and 50 Production Sharing Contracts as joint ventures. In contrast, there is only one joint venture in Iraq's oil and gas sector. Basra Gas Company is jointly owned as 51% by the Iraqi government and the remaining 49% split between Shell (44%) and Mitsubishi (5%) corporations. It should be noted that the presidents (and stockholders) of both Mass Group Holding and KAR Group (which owns Erbil refinery) are Iraqi expatriates of Kurdish ethnicity adding credence to the ownership advantages of their respective companies.

Table 10. Refineries – Kurdistan Region

Location	Operator	Capacity (bpd)
Erbil (Khabat)	KAR Group	80,000
Bazian	WZA Petroleum	34,000
Tawke	DNO	5,000
Taq Taq (planned -2015)	Genel Energy	60,000

The data collected in this study was in alignment with the FDI theoretical framework of the OLI paradigm. Multi-national enterprises preferred investment in Kurdistan region of Iraq as that location provided the advantages favored by foreign investors. MNEs ownership advantages such as technology, know how, managerial and marketing abilities were internalized through either wholly owned and/or joint venture enterprises. It's interesting to note, that while preferring PSCs contracts to invest in Kurdistan region oil reserves, MNEs were also attracted to Iraqi government Technical

Service Contracts which offered MNEs fees, rather than ownership rights, for oil extracted and produced as well as quick recovery of their initial investment.

4. Evaluation of Results

This investigation used Iraq as a case study to understand FDI activities in post conflict countries with abundance of natural resources. This qualitative study utilized both in depth interviews with 22 SMEs as well as rich sources of previously inaccessible (or unacquainted with) Arabic-language documents both private and official by Iraqi government agencies that addressed the subject of investment and/or its determinants. The evaluation of findings of this study relied also in part on the understanding of FDI activities in the case studies of post conflict countries of Kuwait and Nigeria. They were used for comparison purposes to improve the applicability of findings to the larger population of post conflict countries.

Based on the data from the interviews, the SMEs confirmed that lack of security, in a post-conflict country such as Iraq, increases substantially the costs associated with normal guarding and protection operations of investment projects. The opinions expressed during the interviews solidified the prevalent view in the literature that security and political instability are major factors impacting economic development in post conflict countries such as Iraq. Political instability and lack of security's impact on FDI inflows in post conflict countries should be understood more in the concept of levels of severity rather than in absolute detrimental terms. Actually, Nigeria was the highest African recipient of FDI in 2012 with $7 billion despite its ongoing violent insurgency. FDI in Iraq as data showed continued to flow with $2.5 billion in 2012. Kuwait, after liberation from the Iraqi occupation, showed far lower security problems and political instability than either Iraq or Nigeria, however, FDI activities over the period 2007-2012 were far lower than either country.

Abundance of oil was the third most important FDI factor mentioned by SMEs. The presence of abundance of oil was not by itself the reason for FDI inflows in that sector but rather the number of untapped or not fully developed oil wells. This could explain the reasons for the relatively higher FDI amounts in Iraq, where new oil exploration and production increase operations are active, compared to that of Kuwait where such operations have either reached saturation or simply deemed unattractive at this stage. The case of Iraq showed that MNEs while preferring ownership rights in the form of PSCs continued to invest in those oil projects that offer them simple fees.

Corruption in Iraq's electricity projects resulted in the arrest of one minister and the firing of another. Discussions with participants about corruption levels in Iraq confirmed reports by international groups such as Transparency International which placed Iraq in its 2013 report among the seven most corrupt countries in the world. Due to weaknesses of state institutions of post conflict countries, corruption has been widespread. This has been even more so in those post conflict countries with abundance of oil such as Nigeria and Kuwait. The rentier type of state the presence of oil creates (whereby governments rely on oil revenues rather than taxation to finance their operations) tends to make governments less accountable to their populations and with that comes corruption.

The concentration of FDI in Iraq's oil sector, as the case is in other post conflict countries with abundance of oil, has both negative and positive implications. Foreign investment in the extracting sectors could bring quick revenue for the local governments, a much needed capital for rebuilding their damaged economies. Dependence on oil revenues results in rentier states which as this study showed suffer from the excesses of corruption (same could be said about Nigeria and Kuwait). When bad policies coupled with corruption lead to waste of finances and consequently a delayed economic recovery, post conflict countries could be locked in an oil-based economic structure for many years to come.

The quality of local institutions, whether economic, political or social, is gaining in importance in the final risk analysis of the attractiveness of a country for foreign investment. Interviews with participants and a study of the existing political conditions in Iraq confirmed a situation of a state with multiple centers of powers. The region of Kurdistan drew its own laws and policies that either superseded or simply ignored those of the federal government. To illustrate Iraqi post-conflict state fragility, indicator of high risk of recurring conflict or renewed violence, the findings revealed a situation where the Iraqi political opposition wanted to be represented in the government all while playing opposition to that same government they were part of.

Despite the pro-FDI legislation and supportive statements by Iraqi officials, the overall investment climate in Iraq faces serious challenges. The dominant and controlling position of the public sector on Iraq's economic activities tend to discourage private investors to take on entrepreneurial projects due to their inability to compete. This dominant position exists even with and despite weak revenue generation by the publicly-owned enterprises. The private sector on the other hand is weak and ineffective due to the unfavorable conditions it finds itself in.

Iraq with its almost two separate locations/parts in what they entail of two investment laws and differing legal environments represents a unique case of the locational advantages of the OLI paradigm. The theoretical framework of the OLI paradigm have considered locational advantages of countries or regions but not an almost state within a state, as is the actual case of Kurdistan region inside the state of Iraq. The modes of market entry or how MNEs internalize their ownership advantages were divergent between the two parts of Iraq. Those in Kurdistan region were spread between joint-ventures and wholly-owned enterprises, while in other parts of Iraq FDI investment was either non-existent or limited to the lone case of a gas joint-venture in southern Iraq.

The findings of this study indicated that four of the six wholly-owned FDI projects in Kurdistan region were owned by companies chaired by Iraqi expatriates. Due to their knowledge of culture, language, and how the local Iraqi system works, this study's findings consider the presence of Iraqi expatriates in leadership roles in MNEs as a critical strength of their ownership advantages. This role of expatriates influencing the decision making of the MNEs they worked for highlighted a variable of the ownership advantages that has not been addressed adequately by scholars investigating the OLI paradigm.

Iraq's challenges such as lack of security, political instability, corruption, and inadequate government policies towards FDI are symptoms shared by other post-conflict countries. The importance of each factor impacting FDI varies from one post-conflict country to another. FDI's locational variables depend on the local history of the conflict, local culture, level of economic devastation due to war, post-conflict dynamics between the warring groups, degree of weakness of the state institutions, and the geo-political location of the country vis-à-vis global relations and competition between powerful states.

The findings of this study can be directed to that the volume of FDI inflows and their positive contributions, or lack of, to post-conflict countries' economies depended to a large extend on the understanding of policy makers of their own country's place in investors' global map. Developing too aggressive policies to attract FDI might backfire due to the fact that MNEs engagements in FDI activities are done to improve their own profitability and/or their marketing position vis-à-vis their competitors. FDI spillovers are a byproduct of MNEs activities to increase their profits rather than an intentional charitable act to benefit host countries. Hence, only a combination of right vision and right policies could lead to the full utilization of FDI's spillovers and its integration in country's economic development.

5. Conclusions and Recommendations

Foreign direct investment in Iraq's oil and electricity sectors, as this study confirmed, was small and limited (a situation shared by other post conflict countries) despite the country's strong potential for attracting foreign capital. Almost all of the FDI in the oil sector is in the Kurdistan region of Iraq. There exists a substantial foreign commercial activity in Iraq, but very few projects would qualify as FDI. The findings of this study agreed with existing literature on the importance of political stability, security, and corruptions as factors impacting negatively FDI inflows.

This case study of Iraq presented in part a unique condition of the theoretical framework of the OLI paradigm. The locational advantages were considered in the single state of Iraq, a country that offered foreign investors two internal locations, each with its own investment laws and environment, but not totally two separate parts. The implications of these findings were reflected in MNEs' choices of market entry. The findings of this study showed Iraqi expatriates playing important roles in utilizing the resources of their multi-national firms to invest in their original home country. It is recommended that a future quantitative study be undertaken to develop a statistical modeling of the relationship between the identified locational variables (determinants) and FDI as well as to test them as predictors of its flow; this was beyond the scope of this study.

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