Assessing Determinants to Foreign Direct Investment in Iraq's Oil and Electricity Sectors: An Exploratory Case Study

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GHASSAN FARAJ HANNA

Prescott Valley, Arizona
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by

Ghassan F. Hanna

Approved by:

19 Dec 13

Chair: Judith A. Converso, Ph.D. Date

Member: Dr. Mohamad Hammoud, Ph.D.

Certified by:

12/20/2013

School Dean: Arthur Lee Smith, Ph.D. Date

Abstract

Economic development, including foreign direct investment (FDI), is important for every country; however, it's vital in those countries that have gone through armed conflict and are living its aftermath. To improve on their predicament and fulfill their aspiration of becoming developed economies, post conflict countries such as Iraq need to embrace economic openness and engage the world economy through trade and investment. Economic development plays an important role in creating peace and the rebuilding of a post-conflict county. The need for foreign capital inflows to augment a post conflict country exhausted resources becomes inevitable. The impact of state institutional fragility when coupled with abundance of natural resources and environmental risk factors on FDI has not been addressed adequately in current literature. The objective of this study was to assess the determinants of foreign direct investment in post conflict countries, such as Iraq, with abundance of natural resources. A qualitative method and exploratory case study design were utilized to conduct the investigation. Interviews with 22 subject matter experts were conducted. Security, political instability, government policies, state and economic institutions, corruption and banking systems were found to be the most important factors impacting FDI in a post conflict country such as Iraq. While FDI determinants (or more accurately locational variables) in post-conflict countries with abundance of natural resources reflect those of Iraq, however, the rankings of their importance differ from one country to another due to differing history, local culture, economic conditions, and conflict levels. The persistence of violence in post-conflict countries was not seen as a deterrent to investment activities by multinational enterprises (MNEs). While natural resources were the main motivation for FDI inflows

in Iraq and other post conflict countries with abundance of natural resources, however, high-value infrastructure projects also attracted noticeable investment. It is recommended that future quantitative studies validate the results of this investigation and demonstrate the relationship between FDI and the assessed factors impacting its inflow.

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Chapter 1: Introduction

Economic development, including foreign direct investment (FDI), is important for every country; however, it's vital in those countries that have gone through armed conflict and are living its aftermath. Post-conflict, fragile, countries face unique challenges due to risks of new or renewed violence and its consequences of weakening state institutions and damaging country's infrastructure. Although FDI in countries with abundant natural resources has been addressed (Bannerman, 2007; Poelhekke & van der Ploeg, 2010), not much academic research is done on post-conflict countries with fragile states, such as Iraq, that has an abundance of oil and gas and whose economy was ravaged by foreign and civil wars.

Iraq's economy is dominated by its public sector and efforts are underway to rebuild it to one where private sector and foreign investment play more important roles. This economy-in-transition that was triggered by the US invasion of 2003, presents a challenge and an opportunity to foreign investors. 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 (Jones, 2004). The rebuilding of Iraq and its economic resurgence without oil is a near impossibility (US General Accounting Office [GAO], 2007). Oil provided half of Iraq's gross domestic product, and 90 percent of its national revenue (Energy Information Administration [EIA], 2013). To rebuild Iraq and its energy sector, the need for foreign investment could not be overemphasized. Foreign direct investment by multi-national enterprises (MNE) in developing countries rich in natural resources has faced many challenges over the years. 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 eclectic paradigm, constructed by Dunning (1980) is the most used FDI theoretical framework (Denisia, 2010). It consists of three constructs that explain why multinational enterprises engage in FDI to serve foreign markets. They are: Ownership, Location, and Internalization (OLI) advantages (Dunning, 1980). Ownership advantages address the firm's specific characteristics that allow it to overcome the costs of operating a foreign market. Location advantages focuses on where an MNE chooses to operate at. Internalization advantages addresses the mode of entry an MNE chooses to operate in a foreign country (i.e., licensing, wholly-owned subsidiary, or joint-venture). At a country level, the most commonly researched determinants of FDI are the locational advantages which include market size, political stability, trade openness, and institutional development.

There is a need in current literature to address determinants of FDI in post-conflict countries rich in natural resources and fragile states' structures ravaged by wars and political instability. This case study of Iraq shed light on challenges facing FDI in a post-conflict and oil-rich country. This research addressed the determinants of FDI in Iraq's energy sectors. Based on an extensive review of the literature it appeared to be a research area that had not been addressed previously. The intent of this research was to test and expand existing FDI theory to cover post-conflict countries (or states in situation of fragility) with abundance of natural resources, similar to that of Iraq.

Chapter 1 addresses FDI in countries with abundance of natural resources, along with an overview of Iraq's post-conflict economic and investment challenges, specifically those in its energy sector. The chapter addresses the two research questions asked, namely - what are the determinants of FDI in Iraq's oil and electricity sectors? and how do these determinants fit into FDI theoretical framework of OLI paradigm? – together with a preview of how those questions are addressed as well as a discussion of the significance and value of answering them.

Background

Foreign direct investment 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.

Post-conflict or in conflict countries are characterized by fragile states' institutions that require rebuilding as a precondition for sustainable economic development (The World Bank, 2011). State fragility is the situation where a country transitioning from war to peace faces not only the same challenges of economic reconstruction of developing countries, but also the added challenge of achieving reconciliation and peace (del Castillo, 2010). Economic development is important for every country; however, it's vital in those countries that have gone through armed conflict and are living its aftermath. A crucial period is needed for peace building, recovery and reconstruction (Turner, Aginam, & Popovski, 2008). In those countries, foreign financial support whether in the form of foreign government funds or foreign private investors play crucial roles in the rebuilding of state institutions and providing for people's economic needs (Wolff, 2011). Development aid cannot by itself transform weakened economies, hence the need for foreign direct investment as a valuable tool to rejuvenate industries and rebuild infrastructures and eventually eliminate the need for aid (Turner et al., 2008). However, FDI inflows result from two distinct decisions, one related to investment location and the other to the investment amount (Li, 2006). Those decisions take into consideration the effects of state fragility and political violence (Multilateral Investment Guarantee Agency [MIGA], 2011).

The subject of FDI in countries with natural resources has been addressed in several studies (Bannerman, 2007; Poelhekke & der Ploeg, 2010; Romero Mascarell, 2011). The presence of natural resources and political instability has been discussed in existing literature with conflicting results (Baek & Qian, 2011; Basedau & Richter, 2011; Glynn, 2009; Le Billon & Nicholls, 2007; Li, 2006; Ross, 2003a). However, the subject of FDI in post-conflict countries, such as Iraq, with abundance of natural resources has not been addressed adequately. The institutional and environmental risk factors in fragile states and their impact on foreign direct investment need to be studied and explored further.

Conflict-affected and fragile states are defined as "... the group of countries and territories identified by the political risk insurance (PRI) industry as carrying the highest risk of political violence as of January 1, 2010" (MIGA, 2011, p. 29). Among those countries, 18, including Iraq, are considered economically dependent on natural resources

(MIGA, 2011). The World Bank group, the Multilateral Investment Guarantee Agency (2011) defines resource-dependent (or resource-rich) countries as those "...whose primary sector accounts for more than 20 percent of GDP" (MIGA, 2011, p. 49). That classification took into consideration the impact of the primary sector on the political and economic decision making in those countries (MIGA, 2011).

Iraq has been classified as a conflict-affected fragile state by United Nations and numerous state-building programs were underway to improve the capacity and transparency of its institutions (Brinkerhoff & Johnson, 2009). For the period of 2005-2008, Iraq has accounted for 40 percent of all of the Organization for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) assistance to conflict-affected fragile states (MIGA, 2011). In this 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.

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 oil sector suffered immense damage due to the impact of eight years of war with Iran (1980-1988), the Gulf War (1991), over 13 years of United Nations sanctions, another war in 2003, and finally the ongoing problem of sabotage by the Iraqi insurgency. The US invasion of 2003 has brought with it a new opportunity for FDI to return back to Iraq. Iraq's need for FDI cannot be overemphasized.

Iraq was the world's 12th largest oil producer in 2009, and with 143 billion barrels, has the world's fifth proven petroleum reserves (International Energy Agency

[IEA], 2012). A small percentage of Iraq's known fields are in development and Iraq due to sanctions and wars had little exploration done on new fields leaving vast reserves, proven and unknown, barely exploited (EIA, 2013). Oil experts have estimated that relatively unexplored territory in the southern and western deserts may contain an estimated additional 100 to 150 billion barrels of recoverable oil (Rabia, 2008).

Approximately 94% of Iraq' energy needs are met with oil (EIA, 2013). The state-led oil sector alone accounts for 66% of Iraq's GDP, 89% of government revenues and 45% of employment (Bertelsmann Stiftung [BTI], 2012). In 2008, Iraq initiated an ambitious plan to develop its oil fields and to increase its oil production as it recovers from three decades of conflict and instability (EIA, 2013). Table 1 shows Iraq's oil production.

Table 1

*Iraq's Production of Oil, Gas and Electricity for Years 2007-2012**

Commodity	2007	2008	2009	2010	2011	2012
Oil (barrels per day)	2,096,600	2,385,600	2,400,300	2,408,500	2,634,600	3,035,000
Natural Gas (billion cubic feet)	51.560	66.392	40.542	45.910	31.077	N/A
Electricity (billion KWH)	31.530	34.802	43.032	47.395	46.39**	48.96**

Note. * Based on reports of US Energy Information Administration (EIA) (www.eia.gov)
** Based on Index Mundi Iraq report July 2012; Source:
www.indexmundi.com/iraq/electricity_production.html

Iraq seeks to reach an oil output in excess of 9 million barrel per day (mb/d) by 2020 from its current 3 mb/d (Razzouk, Smith, & Shenk, 2012). However, industry estimates that Iraq's oil production would be more in the range of 6.1 mb/d by 2020 and reaches 8.3 mb/d in 2035 (IEA, 2012). In this scenario, Iraq will need cumulative energy investment of over $530 billion with the highest investment of an average of $25 billion per year occurring in the current decade (IEA, 2012). This much needed investment would be at risk if the Iraqi government does not improve the business environment for foreign investment.

The International Energy Agency (2012) estimates if Iraq fails to improve its investment environment and instead was only able to attract $9 billion per year, then its oil production would only reach 4 mb/d in 2020 and 5.3 mb/d in 2035. IEA estimates this delay could cost $3 trillion in lost national wealth for Iraq and could bring difficult times to international oil markets. This loss of potential revenue would have tremendous impact on Iraq's economy. When oil export revenues are sharply lower, other industrial and services sectors would have difficulty to develop making the progress to cheaper and more efficient electricity supply harder to achieve (IEA, 2012). The need to assess the determinants of FDI in Iraq's oil and electricity sectors in order to draw the right policies, carry important urgency as high volumes of foreign investment are yet to materialize.

The largest industrial customer of electricity has been the oil and gas sector, with over 10% of total demand. Large-scale increases in oil production would also require large increases in power generation (United States General Accountability Office [GAO], 2007). 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. According to reports by various U.S. government agencies, multilateral institutions and other international organizations, long-term Iraq reconstruction costs could reach $100 billion or higher (Central Intelligence Agency [CIA], 2012). Actually, Sami al-Aaraji, chairman of Iraq's National Investment Commission, estimated that Iraq needs up to $1 trillion in investment to rebuild its economy and infrastructure (Kapsch, 2012, December 5).

Despite enormous oil reserves, Iraq's oil sector has suffered from lack of investment due to years of sanctions and wars. Iraq may be one of the few places left where vast oil reserves are yet to be exploited (EIA, 2013). While Iraq's confirmed oil reserves have stood at 143 billion barrels (bbl) and its gas at 121 trillion cubic feet (tcf), industry experts estimate the reserve potential could ultimately reach 330 billion bbl of oil and 324 tcf of gas (IEA, 2012). This potential would turn Iraq into having the world largest oil reserves, bypassing current leader, Venezuela, which recently boasted to have the world's largest proven reserves at 297 bbl, replacing Saudi Arabia, which has 267 bbl of proven oil reserves (Rowling, 2012).

Iraq's oil and gas investment opportunities are considered immense and world class. They include the following (Nakhle, 2008):

- The development of existing producing fields, which according to the Iraqi government, include 9 'super giant' fields (over 5 billion barrels reserves), and 22 'giant' fields (over 1 billion barrels).
- Oil fields that has been discovered but not developed, which according to the International Energy Agency (IEA) amount to 60% of Iraq's 143 billion proven reserves (IEA, 2012). Iraq has 64 super-giant and giant oil and gas fields of which only 23 fields were actually developed and put on production.

- Oil fields that are yet to be explored, specifically the Western Desert region which is yet to be investigated. According to IEA (2012), 90% of Iraq has not been explored for oil.

Although foreign investors viewed Iraq with increasing interest in 2011, most are still hampered by difficulties due to investment challenges such as high security costs, cumbersome regulations, and corruption (US Department of State [DOS], 2011). Add to that, Iraq's current uncertain legal structures have not provided the necessary investing environment for the desperately needed foreign direct investment (IEA, 2012). Actually, Iraq's history with private investment has been marred all along with difficulties.

Foreign direct investment in Iraq prior to the US invasion of 2003 was looked at suspiciously and resisted by the successive nationalist governments that ruled Iraq since 1958 when the pro-Western monarchy was toppled. In 1961, Iraq nationalized most of its oil fields followed by nationalization of assets of all the foreign oil companies during the period of 1972-1975 (Jaffe, 2007). Due to those actions, Iraq suffered from international ostracism and abandonment from western trading partners until the 2003 US invasion (Jaffe, 2007). FDI in Iraq is a new phenomenon not studied adequately (no academic study or scholarly article was identified), and as such the factors that determine FDI have not been established in a scholarly research. As such, it was imperative at this stage of research to identify those factors in a qualitative method of inquiry, to be followed by a future quantitative study that will statistically test the impact of those factors on the flow of FDI in Iraq. This study was designed as a qualitative exploratory case study in order to capture and identify the overall determinants of FDI in Iraq's oil and electricity sectors.

The 1958 revolution that toppled the pro-West monarchy had mixed effects on industrial development. While expanding state investment in the industry, private investors were frightened by its socialist rhetoric and the agrarian reform that followed, and capital began fleeing the country. The military regime of General Abd al-Karim Qasim also moved against one of the principle vehicles for foreign involvement in Iraqi oil sector. Law 80 in 1961 expropriated all land not utilized by the foreign oil company (Ozlu, 2006); a total of 99.5% of concessionary area owned by the American and British-owned, Iraq Petroleum Company, leaving the company with only the areas currently in production. Although industry was exempted from nationalization by General Qasim, unlike the agricultural and the petroleum sectors, however, in July 1964, 27 of the largest privately owned industrial firms were nationalized by a new military government led by General Abd al-Salam Aref (Sanford, 2003). The private sector was then relegated to a minor role after a series of decrees, provoking an exodus of many business entrepreneurs, and accompanied by more capital flight.

The 1968 Baath coup that saw the rise of Saddam Hussein to power, gave a higher priority to industrial development and despite pouring money into the public sector, state organizations remained overstaffed and unproductive. Still, Iraq's growth rates between 1975 and 1980 were remarkable and GDP increased by 11%, industry by 14.2%, construction by 15.8%, mining by 6.5%, and transportation and communications by 20.3% (Ozul, 2006). Iraq, before the 1980 Iran-Iraq War was considered as one of the most prosperous and advanced Arab countries, with sizable middle class, substantial technical capacity, decent standards of education and health care, and an increasing presence of women in the economy (Tripp, 2007).

Perhaps the worst mistake of the Baath regime was the nationalization of the oil industry in 1972 (Rabia, 2007). According to Rabia (2007) the ruling Baath party at the time believed that move would put the oil industry in the hands of the Iraqi people as well as modernize it. Instead, foreign investment and the technical expertise that comes with it completely vanished, leaving Iraq to rely on its own resources only. The sharp increase in price of oil after 1973 Arab-Israeli war, gave the false pretention that foreign investment was not needed, as country's oil revenues increased substantially (Rabia, 2007). According to Rabia (2008) the regime used that increase in revenue as a proof that nationalization really worked.

As oil prices stabilized and revenues remained the same, it became apparent that Iraq was unable to sustain the costs of new exploration and development projects (Rabia, 2007). Vast areas of Iraq were left unexplored, and even when new oil discoveries were found there was no money or the needed technology to move forward with field developments (Rabia, 2008). In addition to the disappearance of FDI from the country, Iraq went through two major wars, the Iran-Iraq war (1980 - 1988) and the Gulf War (1991) that had devastating impact on its economy. Add to them 13 years of international sanctions that totally ruined the Iraqi industry when the country was prevented from buying even the most basic equipment for maintenance (Tripp, 2007).

Because of the absence of FDI from Iraq since 1972 and the government's limited resources, most experts believed that the majority of the world's undiscovered oil reserves lie within the sedimentary rocks of Iraq (IEA, 2012). This belief was warranted because most of the other oil nations had extensive seismic and exploration drilling since the 1970s to delineate new reserves. Today Iraq represents a major investment attraction for FDI, if the necessary business conditions are deemed encouraging for foreign investors (The World Bank, 2012c).

Iraq has suffered from acute shortages of electricity. The available supply of electricity in Iraq averaged about 56% of demand, and while the total generation capacity is roughly 16,500 MW, production averaged only 5,784 MW for the first quarter of 2011 (O'Hanlon & Campbell, 2011). In 2009, Iraq's Council of Representatives was considering a draft law to grant authority to the Ministry of Electricity (MOE) to engage domestic and foreign private companies in the production of electricity (Webb, 2009). This law is yet to see the light. Days after MOE signed a $3.0 billion contract with GE Energy to provide the war-torn country with 7 GW of generating capacity; Iraq's Prime Minister announced that his government cannot afford paying for the contract (Power Engineering, 2009). Reasons cited were failure of Iraqi parliament to issue bonds to raise money for the project and the inability of MOE to manage a contract of that proportion.

Large increases in oil production, as current Iraqi government plans call for, would also require large increases in power generation (International Energy Agency, 2012). This would require significant upgrades to the electricity sector to supply the additional power. The Government of Iraq awarded several major contracts to international companies totaling $4.8 billion to produce 8,000 MW of electricity (United Nations Inter-Agency Information and Analysis Unit [IAU], 2010). In 2010, the Ministry of Electricity invited private investors to build several power plants with total production capacity of 3,250 MW (Dashar, 2010).

Iraq has ranked near the bottom of a list of 183 nations in the easiness for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations (International Finance Corporation, 2012). For the years 2012 and 2013, Iraq ranked 165 out of 183 countries (International Finance Corporation, 2012) (see Table 2). 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), indicating that things are getting more difficult rather than easier for businesses to operate.

Table 2

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 comparison to adjacent Middle Eastern economies, Saudi Arabia ranked at 22, United Arab Emirates 26, Jordan 106, 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). Iraq is rated the worst country when it comes to closing a business and has consistently ranked at the absolute bottom of the list for the past five years (2009 – 2013) in a row. Iraq falls within the Middle East and North African region, and compared to the regional average of 98, Iraq is off by 67 ranks (The World Bank, 2013).

In the recent Corruption Perceptions Index for 2012 Report published by Transparency International, Iraq ranked among the most corrupt at 169 out of 176 countries surveyed (see Table 3). 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

Table 3

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

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

enormous income it receives from the sale of its oil (BTI, 2012). In August 2011, Iraq's Electricity Minister Raad Shallal al-Ani resigned after allegations surfaced of fraud and mismanagement in two contracts (Dunia Frontier Consultants, 2012).

Foreign direct investment in Iraq over the period of 2007 to 2010 saw limited activity. See Table 4. However, according to a report by Dunia Frontier Consultants (2012), foreign firms and investors reported $55.67 billion in investment, service

Table 4

*Foreign Direct Investment in Iraq 2007 - 2010 **

Economic Indicator	2007	2008	2009	2010
GDP $ mil	56,989.9	86,530.1	65,192.7	82,150.3
GDP % growth	1.5	9.5	4.2	0.8
FDI % of GDP	1.7	2.1	2.2	1.7
FDI $ mil	968.8	1,817.1	1,434.2	1,396.5

Note. *Based on data from Bertelsmann Stiftung (2012)

contracts and other commercial activity across Iraq in 2011. This represented 40.3 percent increase in total deal value over the previous year. Of that investment, $12,769 billion was in oil and gas and $11,196 billion in the electricity sectors (Dunia Frontier Consultants, 2012).

In order to attract international oil companies to participate in the development of Iraq's oil resources, Iraq's Ministry of Oil auctioned out several oil fields during 2008 to 2012 (International Energy Agency, 2012). The first three auctions went relatively well, however, the May 2012 auction failed to attract enough bidders. Given the risks involved in Iraq's unstable political conditions, foreign companies complained of the unfavorable terms of the contracts offered and in only 4 out of 12 oil blocks did companies decide that the opportunity was sufficiently enticing to submit a bid (Dunia Frontier Consultants, 2012, June 4). Further, only two blocks out of four were contested bids.

To attract international expertise and share financial burden of rebuilding the power sector, the Iraqi Ministry of Electricity launched a series of independent power projects in 2010. The program which totaled 3,250 MW of power capacity was scaled down to 2,750 MW and presented in four projects (Ratcliffe, 2012). In mid-2011, the ministry cancelled the tender citing disappointing bid submissions and the poor quality of bidders involved. International developers decided to avoid the tender due to security issues, risks associated with payments and corruption (Ratcliffe, 2012).

The importance of FDI and its positive contributions to the host economy depend on the existence of a number of factors. These factors are the economic policies pursued by the host country, the political risks present, the sectors in which investment is made, the availability of human capital, availability of effective institutions and the presence of developed financial markets (Li & Liu, 2004; Nunnekamp, 2004). These factors constituted what is called the absorptive capacity of a host country (Jones, 2010; Liu, 2008). Assessing the validity of the eclectic (OLI) paradigm in explaining the rationale behind FDI in Iraq's oil and electricity sectors provided insights into the theoretical foundations for investors' motivations.

Statement of Problem

The general issue addressed in this proposed study is the International Energy Agency estimated that in order for Iraq to meet its declared goal of increasing oil production from its current 3 million barrels per day (bpd) to 6 million bpd, it would need an average of $25 billion in investment annually to meet that target more in 2020 than Iraq's target of 2017 (IEA, 2012). The specific problem investigated in this research study was the needed private investment is not occurring due to challenges facing potential investors such as security concerns, regulatory hindrances, and corruption (United States Department of State [DOS], 2010). The focus of this study was the identification of the potential determinants to foreign direct investment in Iraq's oil and electricity sectors in order to better understand the factors impacting foreign investment in fragile states.

Post conflict or in-conflict countries (states in situations of fragility) with abundance of natural resources are in need of FDI to rebuild their shattered economies. While the impact of political risk on FDI has been addressed, the subject of FDI in post conflict or in conflict countries with abundance of natural resources has not been addressed adequately. An in-depth study of Iraq, a country with abundance of oil which went through several wars over the past 20 years and is still suffering from active insurgency, will be used to test and develop FDI theory (the OLI paradigm) in countries in state of fragility and abundance of natural resources.

Purpose of the Study

The purpose of this qualitative research methodology and exploratory case study design was to identify the potential determinants of foreign direct investment in Iraq's oil and electricity sectors. The identification of those determinants should predict FDI future performance to economic or policy changes made by Iraq. In performing this study, a better understanding was achieved of the factors impacting FDI in post-conflict countries, similar to Iraq, that have abundance of natural resources. Document review of relevant literature and interviewing of a purposefully chosen sample of subject matter experts (SMEs) from private and government agencies (both Iraqi and American), were utilized to conduct this research. Individuals selected had to meet the criteria of demonstrated knowledge (through publications, experience, or position) of Iraq's economic and political environment and/or knowledge of FDI and international business.

The sample size was 22 participants purposefully selected from an identified pool of SMEs compromising of (1) Iraqi and American government employees, (2) members of academia, and (3) private enterprises conducting business in Iraq. The three different groups of SMEs were willing and able to shed light on the topic from different angles. Government employees who were engaged in regulating the FDI environment presented a different view from foreign investors seeking better terms for investment in seeing less regulation and easiness of bureaucratic processes. The academic, on the other hand, presented a view more of an observer with or without own biases. The intent for selecting SMEs was to explore the factors impacting FDI in Iraq as well as to explore the decision making process of MNEs investing in Iraq: Data collection was made from the semi-structured, one-on-one, hour long interviews where there was more emphasis on the interviewees elaborating on points of interests (Denscombe, 2007). Purposeful sampling, which implies information-rich participants, was chosen since in a qualitative research concerned with meaning, one incidence of data was as valuable as several in understanding the subject under study (Mason, 2010).

Determining sample size for this qualitative study was dictated by the concept of data saturation, which renders the collection of new data as repetition of what has already been understood (Sandelowski, 1995). Making the determination of a sample size of 22 SMEs was with the intent to ensure most, if not all, of the important views were captured, since too large of a sample size would have led to repetition of data (Mason, 2010) or point of saturation (Patton, 1999). In addition, the decision for selecting the sample size was based on typicality of participants as representatives of the population, which provided far more confidence than large samples of participants with widely differing views (Maxwell, 1998). Therefore, based on the literature and the research topic, a sample of 22 SMEs satisfied the concept of saturation, meet the expectation of being representative of the greater population, and was sufficient to meet the research purpose (Onwuegbuzie & Leech, 2007). In summary, this study, used Iraq as the target country to test and expand existing FDI theory to cover FDI flow in post conflict countries with abundance of oil resources.

Theoretical Framework

With the resurgence of capital flows to developing countries in the beginning of the 1990s, a number of studies attempted to analyze the forces behind this phenomenon (Dadush, Dhareshwar, & Johannes, 1994; Hernandez & Rudolph, 1997; Singh & Jun, 1995; Fernandez-Arias & Montiel, 1995). Generally, these were macro-based studies aiming at identifying the principle variables shaping the movements of capital flows to developing countries. A noteworthy study was by Calvo, Leiderman and Reinhart (1993) whom aimed at explaining the forces behind the surge in capital flows in Latin America in the beginning of the 1990s. The authors pointed out the importance of external factors (US macro variables) in driving capital flows to the region. The results of Calvo et al. (1993) study started a debate on the importance of external versus domestic factors that could explain capital flows. The debate led to the development of the Push-Pull theory of FDI (Moosa, 2002). According to the push explanation, external factors like exchange rates are the main driving force behind the surge in capital flows (Fratzscher, 2011). On the other hand, according to the pull version, domestic factors were perceived to be more important than external ones in attracting capital flows.

The OLI, or eclectic, approach to the study of foreign direct investment (FDI), developed by John Dunning (Dunning, 1988, 1998, 2001), proven to be robust and, over time, has become one of the most influential streams of thought in the international business literature (Buckley & Hashai, 2009). For more than two decades, the eclectic paradigm has remained the dominant analytical framework for accommodating a variety of operationally testable economic proposals of the determinants of FDI (Amal, Tomio, & Raboch, 2010). Intrigued by the productivity differences between the US and UK manufacturing industries in the 1950s, and by the impact of multinational activity on reducing such differences, Dunning ultimately identified ownership advantages, location advantages, and internalization advantages as the keys to explaining the scope, geography, and impacts of MNE activities (Verbeke & Yuan, 2010).

Dunning (1988) suggested that an all-embracing theory of FDI is unattainable given that it must integrate three distinct theories – the theory of international capital, the theory of multinational enterprise and the theory of international trade. The most that can be done therefore is to formulate paradigms to provide analytical frameworks for explaining various aspects and theories of FDI (Narula, 2010). Dunning's *eclectic* paradigm has been probably the most authoritative treatment of FDI (Li & Liu, 2005). 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.

The ownership (O) advantage, has presented the argument that enterprises seeking to engage in FDI activities must possess ownership of some firm-specific tangible or intangible asset such as technological or marketing knowledge, as well as superior managerial capabilities that provides a competitive advantage over other firms (Lundan, 2010). Dunning argued that the greater the competitive advantages of the investing firms- relative to those of other firms, operating in countries in which they are seeking to locate their activities- the more they are likely to be able to engage in, or increase, their foreign production (as cited in Rugman & Verbeke, 2008, p. 91).

The location (L) advantage is country or region-specific (Buckley & Hashai, 2009). Location advantage is represented by the comparative cost of country-specific inputs (e.g., materials, labor, natural resources) accessible by enterprises operating within the country's borders, or by the cost of trade barriers between countries, which may include transportation costs, tariffs, and non-tariff barriers (Eden & Dai, 2010). The location advantage avers that the more the immobile, natural or created endowments favor a presence in a foreign location, the more firms will choose to augment or exploit their own-specific advantages through international production (Lopez, 2010).

Internalization (I) advantage is a transaction attribute (Buckley & Hashai, 2009). Internalization advantage applies to the case where the firm prefers to exploit its ownership advantage internally, rather than by licensing or any other collaborative mode, in order to minimize the transaction costs associated with the inter-firm transfer of proprietary knowledge and capabilities (Uiboupin & Sorg, 2006). Thus the eclectic paradigm avows that the greater the net benefits of internalizing cross-border intermediate product markets, the more likely a firm will prefer to engage in foreign production itself, rather than license the right to do so (Verbeke & Yuan, 2010). The framework suggested that it may be in a firm's interest to retain exclusive rights to assets, which gives it a significant competitive advantage (Rugman & Verbeke, 2008). It is important to mention that while the ownership (O) and internalization (I) conditions are firm-specific determinants of FDI, the (L) is location-specific and has a crucial influence on a host country's inflows of FDI (Liang, Ren, Zhu, 2011).

Ownership specific advantages that an enterprise may have include capital, technology, marketing, organizational and management skills (Li & Rugman, 2007). These enterprises may wish to exploit location specific variables in a host country such as factor endowments, investment incentives, tariffs, government policies, and infrastructure (Kinoshita & Campos, 2002). This is done through direct investment instead of trading because by internalization the enterprise may circumvent or exploit market failures (e.g., risk and uncertainty) in order to reduce transaction costs (Dunning, 1988; Liu, 2008). Internalization advantages stem from the capability of firms to use economies of scale production and/or advantages that occur anywhere the transaction of a particular good or service yields costs and benefits exterior to that transaction (i.e., those not reflected in the terms agreed to by the transacting parties) (Rugman & Verbeke, 2008).

While the eclectic paradigm retains a dominant position in study of international business, its elements (ownership, location and internalization advantages) are yet to be formalized within a general equilibrium model (Buckley & Hashai, 2009). While in their formal modeling of MNEs, some scholar (Carr, Markusen, & Maskus, 2001; Ethier, 1986; Markusen & Venables, 1998) used certain acumens from the eclectic paradigm, several others (Cantwell & Narula, 2001; Eden, 2003) considered it more of a broad tent than a model to formalize. In critical assessment of eclectic theory, Itaki (1991) argued that there is no need to stress ownership advantages to explain international activities of MNEs as they are already captured in internalization theory. Another critique to eclectic theory is the explanatory variables identified by it are so numerous that its predictive value is almost zero (Hagedoorn, 1996; Williams, 1997). The eclectic paradigm was not offering a full explanation of all kinds of international production, and that it insufficiently allowed for differences in the strategic response of firms to any given configuration of OLI variables (Cleeve, 2009; Uiboupin & Sorg, 2006).

In response to his critics, Dunning (2001) admitted that most of the OLI paradigm criticism are valid logically, however, they could apply just as well to other general theories of FDI and MNE activity. Dunning (2001) argued that the kinds of market failure relevant to explaining resource-based investment are totally different from those explaining rationalized investment. Dunning (2001) admitted that there is no single theory that could fully explain FDI. Still, the eclectic paradigm is the most useful model in explaining the FDI phenomenon (Cleeve, 2009; Kebonang, 2006; Liang, Ren, & Zhu, 2011; Mooya, 2003; Narula, 2010). At the organizational level, there is no competing theory like the OLI paradigm which has successfully explained the foreign investment activities of MNEs (Denisia, 2010; Narula, 2010). However, little research has been done on integrating political and institutional perspective with the classical OLI paradigm in order to explain the ongoing FDI phenomena in international business (Liang, Ren, & Zhu, 2011). In summary, the eclectic paradigm is a theory of FDI.

This research was to identify the determinants of FDI in Iraq's oil and electricity sectors will be used to interpret the theoretical framework of the OLI paradigm in the

Iraqi case. Iraq locational advantages will be identified. In line with the most recent study of Dunning and Lundan (2008), the researcher 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 (Bressand, 2009).

The theoretical framework of the OLI paradigm treated MNEs expansions of their business activities 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. This research was a study of the factors that make up the locational advantages of a country. More so, it was a study of the locational advantages of the theoretical framework of the OLI paradigm in the context of post conflict countries.

Research Questions

To address the research problem and fulfill the research purpose, the following research questions were investigated. The intent was to determine the factors impacting foreign direct investment in Iraq's oil and electricity sectors.

1. What are the determinants of foreign direct investment in Iraq's oil and electricity sectors as perceived by subject matter experts?
2. How do these determinants fit into FDI theoretical framework of OLI paradigm?

The first question led to the identification of FDI determinants in Iraq and its energy industry that account for the effects of post-conflict instability (or state in situation of fragility). It addressed the impact of environmental risk factors on the flow of FDI. The environmental risks in consideration included security and political risks, expropriation risks, capital movement risks, transparency risks, and contract validity and enforcement by new government (Bohmer, 2010). Institutional included governance and cultural hazards (Dikova & van Witteloostuijn, 2007; Slangen & Beugelsdijk, 2010). The second research question led to the interpretation of FDI theoretical framework of OLI paradigm, specifically FDI locational advantages, in Iraq's oil and electricity sectors. To further investigate the determinants to FDI in Iraq, it is recommended a future quantitative study be undertaken to develop a statistical modeling of the relationship between the identified variables (determinants) and FDI as well as to test them as predictors of its flow; this was beyond the scope of this study. In summary, this study attempted to expand and test FDI theory in Iraq, a fragile state with abundance of oil resources.

Nature of the Study

A qualitative research methodology and an explorative case study design was utilized to assess the determinants of foreign direct investment in Iraq's oil and electricity sectors. According to Moloo & Khachaturian (2009) "post-conflict economies are a particularly interesting case study, as they often are starting anew in drafting laws applicable to foreign investment." Iraq has been categorized as a post-conflict country with abundance of natural resources (Brinkerhoff & Johnson, 2009). Investigating the case study of Iraq, should shed light on countries with similar criteria of state fragility and abundance of natural resources. Countries such as Afghanistan, Libya, Nigeria, Angola, Iran, and South Sudan are but few of those countries that share Iraq's characteristics of state fragility and abundance of natural resources.

Case study method was an appropriate design tool when dealing with a new phenomenon, such as foreign direct investment in Iraq, which needed to be investigated and understood in order to identify the factors impacting it. Once those factors were 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's recommended that this type of methodology and future study would take place to explore the effect of each of those determinants on the performance of FDI in Iraq.

A sample of a 22 SMEs was chosen for interviewing to seek their views on the factors impacting FDI in Iraq. 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. The researcher was the sole investigator and served as interviewer and collector 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 of FDI flows in Iraq.

Significance of the Study

A single-country case study method was used to conduct the investigation of assessing determinants of foreign direct investment in Iraq's oil and electricity sectors. The qualitative case study method was especially helpful in the analysis of foreign direct investment in developing countries, like Iraq, transitioning from a command based economy into a free market, because the phenomena was new and secondary data sources were limited (Flyvbjerg, 2006). While cross-country studies are useful, single-country research, despite its shortcomings, yields a better indication of the detailed picture for each case and provides practical policy implications (Zhang & Zhao, 2007).

The phenomenon being researched, that of FDI in Iraq fulfilled a need in literature that has not been apparently addressed so far. Iraq being a post-conflict fragile state with abundance of natural resources shares those criteria with each of Afghanistan, with its abundance of minerals, and South Sudan, Kuwait, Libya, Angola, Iran, and Nigeria with their abundance of oil. Those countries have been rated in the two highest risk categories by the political risk insurance industry (MIGA, 2010). Syria, a modest oil producing country with its potential of unexplored gas across its shorelines and current political turmoil, could well be added to the list (EIA, 2011). The factors impacting FDI in post-conflict fragile states with abundance of natural resources have not been addressed adequately in current literature. The findings from this case study of Iraq should shed an in depth light on determinants to FDI in such countries.

An enhanced appreciation of Iraq's investment environment and government development programs and policies impacting FDI in oil and electricity sectors was provided by an in-depth case study research. This type of research design increased the likelihood that the research results would provide both the depth and richness necessary for enlightened Iraqi public policy and foreign investment decisions. Extensive literature review was conducted to gather data relevant to fulfilling the purpose of the study. Assessing the validity of the eclectic (OLI) paradigm in explaining the rationale behind FDI in Iraq's oil and electricity sectors should provide insights into the theoretical foundations for investors' motivations in post-conflict fragile states.

FDI has been a new phenomenon in Iraq and a review of existing literature did not yield a scholarly study of its determinants. According to International Energy Agency (2012), Iraq could by 2035, lose up to $3 trillion in revenue if it is unable to improve its investment environment. The results from this research should aid in better understanding of the determinants to FDI and consequently in the development of appropriate policies to improve FDI flows into Iraq.

This study confirmed Iraq as a fragile state with developing institutions marred by competing views between those seeking a new economy based on market forces and where the private sector plays an important role, and those of the "old guard" pushing back to keep Iraq's economy dominated by its highly inflated and inefficient public sector. This study adds a new case to current literature investigating the challenges faced by MNEs in post-conflict countries and provides new insights into competing views reaching the level of creating two distinct government policies; one in Kurdistan region of Iraq and the other in the rest of the country. The first practices its strongly pro-FDI policies, while the later unable to settle its internal differences and put its pro-FDI public statements into real actions.

The FDI theoretical framework as exemplified by the eclectic paradigm showed that when it came to Iraq, a post-conflict country with abundance of oil, MNEs investment in its oil and electricity sectors took the shape of joint-ventures with the local government as partner. Ventures acquired as wholly-owned were more a result of the influence of Iraqi expatriates on their respective companies. The role of expatriates signifies an important ownership advantage of MNEs willing to invest in post-conflict countries.

Definitions of Key Terms

Multinational enterprise (or corporation). This term refers to a corporation or an enterprise that has assets or facilities in at least one country other than its home country (Jones, 2010). Such companies have factories and/or offices in different countries while having centralized headquarters where they manage global business. Very large multinationals have budgets that exceed those of many small countries (Stopford, 1998).

Foreign direct investment (FDI). The International Monetary Fund (IMF) defines FDI as a category of international investment that reflects the objective of a resident entity in one economy (the direct investor) obtaining a lasting interest in an enterprise resident in another economy (the direct investment enterprise) (IMF, 1993). A foreign direct investor could be an individual, an incorporated or unincorporated public or private enterprise, a government, a group of related individuals, or a group of related enterprises that are incorporated and/or unincorporated which own a direct investment enterprise – that is a, a subsidiary, associate or branch – operating in a country other than the country or countries of residence of the foreign direct investor or investors (OCED, 1996).

FDI spillovers. Spillovers are an empirical phenomenon. An accepted argument in the international business and economics research is that foreign firms from developed countries typically enjoy technological superiority and strong management capabilities and their technologies and management practices can be transferred to or imitated by domestic firms in emerging markets (Meyers, 2003). These so called *spillovers* are defined as positive externalities that benefit domestic firms with the presence of FDI, which can result in productivity increases among domestic firms (Zhang, Li, Li, & Zhou, 2010). Still, some studies have found that FDI may either have no spillover effects or even have negative effects on domestic firms' productivity in emerging markets (Liu, 2008).

FDI theories. The importance of and growing interest in the causes and consequences of FDI has led to the development of a number of theories that try to explain why MNEs indulge in FDI, why they choose one country in preference to another to locate their foreign business activity, and why they choose a particular entry mode (Moosa, 2002). These theories also try to explain why some countries are more successful than others in obtaining FDI. Thus, some of the theories try to explain outward FDI (Dunning, 1980; Fayerweatherm, 1982), whereas others try to explain inward FDI (Schneider & Frey, 1985; Stevens, 2000). The presence of a number of competing theories with varying degrees of power to explain FDI, led Agarwal (1980) (quoted by Moosa, 2002, p. 23) to refer to them as hypotheses.

Eclectic (OLI) paradigm. Developed by Dunning (1980) is a mix of three different theories of direct foreign investments (O-L-I) and is the most used to explain FDI (Denisia, 2010). The 'O' from Ownership advantages (e.g., right to a particular technology, monopoly power and size, access to raw material, and access to cheap finance). 'L' from location (i.e., location advantages of different countries) are key factors in determining who become the host for FDI (Narula, 2010). 'I' from internalization, which refers to choices made by MNE in trading off costs of full control of operations over the foreign business with that of engaging in franchising, licensing or a joint-venture with a local firm (Antras & Helpman, 2004). The eclectic, or OLI paradigm, suggests that when firms possess great 'O' and 'I' advantages that could be augmented with 'L' advantages from a location outside its home country, the more FDI will flow outward (Dunning, 2001). Where firms possess substantial 'O' and "I" advantages, but the 'L' advantages favor the home country, then domestic investment will be preferred to FDI and foreign markets will be supplied by exports (Dunning, 2001).

Post-conflict country (state of fragility). According to The World Bank (2011), close to 1.5 billion people in around 40 fragile states, live in violent or recurring crises environments. Countries suffering from fragility and conflict also suffer from poor economic development as a consequence of fragility (Organization for Economic Co-operation and Development [OECD], 2011a). In post conflict countries, there is absence of war, but real peace is not yet achieved. Prolonged conflict leads to physical destructions and terrible human losses. It often results in the collapse of the institutions that make a viable society functions and those are the systems that need to be rebuilt

(Brahimi, 2007). The post conflict state is characterized by its inability to manage its population's expectations in creating an inclusive political, economic, and social order governed by the rule of law (Institute of State Effectiveness, 2005).

Summary

For many developed countries, oil and gas exploration has brought wealth and provided funds for generous social policies and the development of a diversified private sector (McGuigan, 2007). With oil prices hitting record highs the past couple of years, increasing oil production takes special importance for a war-torn country like Iraq. Iraq's oil sector has suffered over the past several decades from sanctions and wars, and its oil infrastructure is in need of modernization and investment (EIA, 2013). Furthermore, Iraq's oil and gas industry has been the largest industrial customer of electricity, with over 10% of total demand (EIA, 2013). Large-scale increases in oil production would also require large increases in power generation (International Energy Agency, 2012). However, Iraq has struggled to keep up with demand for power, with shortages common across Iraq. Significant upgrades to the electricity sector would be needed to supply additional power (Looney, 2008).

In order to meet its goals, the government of Iraq publically stated its commitment to attracting foreign investment and took several steps to improve its investment climate (DOS, 2010). Foreign direct investment is an important source of capital for growth in developing countries. The oil development projects are characterized by large capital investments which are determined by the balance (or perceived balance) between opportunity and risk (Bressand, 2009). Opportunity in finding commercial quantities of oil and gas, and the significant business risks resulting from the intensive capital required for undertaking exploration and production (Bressand, 2009).

According to The World Bank (2012a), Iraq ranked 164 out of 183 economies in ease of doing business compared to a ranking of 166 out of 183 in 2011. This is a measure of the ease or difficultly "for a local entrepreneur to open and run a small to medium-size business when complying with relevant regulations" (The World Bank, 2012a, p. 4). This lack of progress to improve ranking reflects serious challenges facing investors seeking to do business in Iraq (O'Brian-Ali, 2012).

Dunia Frontier Consultants (2012) reported that foreign commercial activity in Iraq's oil and electricity sectors was $12.769 billion and $11.196 billion, respectively, in 2011. In order to attract foreign investment, Iraq held in 2012 a fourth licensing round to increase its oil production (Iraqi Ministry of Oil, 2012). Governments can promote investment opportunities by adopting proactive approach to attracting foreign partners by improving entry procedures and providing incentives for investment (Beevan, 2000). Important determinants of FDI are type of host investment climate (restrictive or liberal), political environment and stability, legal framework, human capital, poor infrastructure, and corruption (Cho, 2003).

Based on a review of the literature, there has not been a specific, documented study conducted to assess determinants of foreign direct investment in a natural resource rich country that was and still is engaged in conflict. Thus there was an apparent need for further empirical research. The results from this study may fill this gap by using Iraq, an oil rich country that underwent two decades of external and internal strife. Wars and continuous instability had significant impact on the very foundations of the State of Iraq and with it the risks that would represent to foreign investors. The findings from this research should contribute to FDI literature by providing an in depth understanding of factors impacting foreign direct investment in conflict-affected fragile states such as Iraq.

Chapter 2: Literature Review

The purpose of this literature review was to provide a critical look at the existing research that is significant to the study of determinants of foreign direct investment in Iraq oil and electricity sectors. The intent was to provide background information, establish importance of the research, and to demonstrate familiarity with the subject matter. The literature review outlines important FDI research trends, assess the strengths and weaknesses of existing FDI research, identify potential gaps in knowledge, and establish a need for this research project (Penn State Graduate Writing Center, 2010).

The strategy used to conduct this literature review followed the guidelines established by Penn State Graduate Writing Center (2010), namely: planning, reading and research, analyzing, drafting, and revising. The literature reviewed was identified and sorted to provide background information for the research questions of this qualitative case study of assessing determinants to FDI in Iraq's oil and electricity sectors. While the literature review addressed economic and political concepts, however, the emphasis was on business management perspective which constitutes the primary field of this research project. The key sources used in this literature review included current (mostly within the past five years) peer-reviewed articles, books, and publications by the Iraqi and US governments, The World Bank, United Nations Conference on Trade and Development (UNCTAD), and the International Monetary Fund (IMF).

The intent of the proposed research study was to address determinants of foreign direct investment in Iraq's energy sector. In order to determine all the potential factors impacting foreign investment, it was important to understand the environment that makes up Iraq; a post conflict country with abundance of oil resources. Of same importance was the understanding of FDI theories and current developments in the field in order to contribute through this investigation to existing body of knowledge.

Multinational Corporations and FDI

Foreign direct investment by multinational enterprises is considered an important means to achieve economic growth by developing countries (Denisia, 2010). Business and economic research have devoted considerable efforts to explore the impact of FDI on emerging as well as developed markets. Issues such as the contributions of FDI to a country's economic growth, the extent of regulation of MNEs entry into a national market, and impact of FDI on country's fiscal policy have been high topics on policymakers' agenda (Ayanwale, 2007). In order to influence the regulatory regime under which MNEs operate, policy makers attempt to study the impact of MNEs on the local firms, and their country's economic development and national welfare (Meyer, 2004). Different sectors of the economy react differently to FDI, leading governments to develop FDI policies that are sector specific (Lejour & Rojas-Romagosa, 2006).

Large business conglomerates developed in the United States during the Second World War at a time Europe was being ravaged by war and economic crises. This allowed the U.S. economy to develop into the most powerful center of the capitalist world expanding into the economies of both developed and underdeveloped countries (Almond & Ferner, 2006). Increased U.S. government intervention in the economy accelerated growth and enabled impressive scientific and technological developments (Slaughter, 2009). This vast economic, technological and (as a consequence) political power allowed multinational corporations to produce huge quantities of products to sell to both local customers as well as foreign governments. Those institutional developments in the United States were the driving force behind the expansion of multinational corporations into the international economy (Almond & Ferner, 2006).

In their initial venture into foreign economies, multinational corporations followed specific patterns. First, they exported their finished products, and then established sales organizations abroad, followed by allowing local producers to use their licenses, and if the venture proved successful, to buy the local producer in order to establish either a wholly or partially owned subsidiary (Jones, 2010). This led to the development of a new structure of international economic relationships where trade was no longer of that between a local firm and a foreign one, but rather an internal transfer between a multinational firm and its subsidiary in the foreign country, leading to the removal of the local firm from the picture (Rugraff & Hansen, 2010). As a consequence, free-market forces became more susceptible to the plans of the multinational firm.

Multinationals corporations were the main drivers behind foreign direct investment in developing countries (Rugraff & Hansen, 2010). The reasons for this investment were rooted in the major economic changes taking place in the developed countries. As the ever industrializing and urbanizing Western world was exhausting its local resources, a need developed for more minerals and foodstuff from the developing countries. Foreign direct investment became the means for multinational corporations to construct the physical and services infrastructure needed to exploit those resources (Jones, 2010).

According to one view, multinationals create jobs and wealth and improve technology in countries that are in need of such development (Ofori-Brobbey, Ojode, & Woldie, 2010). On the other hand, critics of multinationals say they can have undue political influence over governments, can exploit nations as well as create job losses in their own home countries (Contessi & Weinberger, 2009). While views differ, what's certain is the ever persistent presence of multinational corporations in every country of the world leading to the ever integrating global economy.

Foreign direct investment arises when the host country has an investment opportunity that it cannot exploit by itself because it lacks the means or technical know-how or because its access to capital markets is limited (Azzimonti & Sarte, 2007). A multinational enterprise may be able to exploit such an opportunity because it has the necessary capital, technology, and managerial skills to do so (Azzimonti & Sarte, 2007). FDI is a transfer of capital across borders, which allows the receiving economy to increase investment beyond its savings rate (Meyers, 2003). Developing economies have focused on this addition to the capital stock as core contribution of foreign investment to economic development. FDI, unlike portfolio investment, has a long-term approach where by foreign investors make a stronger commitment to the host country (Meyers, 2003). FDI investor cannot withdraw the capital quickly if faced with economic downturn or the foreign country went through violent political upheavals. However, the commitment by foreign investors comes at a price as the high risk investment conveys expectations of high returns (Meyers, 2003).

FDI can be classified as inward FDI and outward FDI depending on the direction of money (Shih, Yang, Yang, Tsai, & Gao, 2009). Inward FDI occurs when foreign capital is invested in local economy (Shih et al., 2009). Foreign capital is attracted to tax breaks, low interest rates and grants that local governments provide. Outward FDI is usually backed by the government against all associated risks (Contessi & Weinberger, 2009). There appeared to be literature that documented inward FDI to have positive effects on a country's economic productivity, while outward FDI having negative effects on it (Bitzer & Gorg, 2005; Huang, 2004; Kokko, 2006). Also documented in the literature were case-studies that reached the opposite conclusion, where inward was found to be negative (Aitken & Harrison, 1999; Koning, 2001) and outward positive (Yang, 2008). The effects of FDI are certainly quite diverse for different host or home countries, different sectors and in different time periods, and are most likely to depend on the type of FDI (Vahter & Masso, 2006).

Foreign direct investment plays an important and growing role in international business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills, and financing (Graham & Spaulding, 2004). Proponents of foreign investment point out that the exchange of investment flows benefits both the home country (the country from which the investment originates) and the host country (the destination of the investment) (Bengoa & Sanchez-Robles, 2003). Opponents of FDI note that multinational conglomerates are able to wield great power over smaller and weaker economies and can drive out much local competition. The truth lies somewhere in the middle.

Knowledge and technology are considered important elements of competitiveness for both firms and countries; and technology and knowledge transfers are among the much sought out benefits of MNEs (Green, Mostafa, & Preston, 2010). Multinational firms also contribute, directly or indirectly, to the host country by generating new knowledge when, for example, they bring new managerial expertise to their local organizations (Meyers, 2003). This interaction with MNEs which results in the obtainment of new skills is after all the ultimate goal of the host countries. However, in order to get the benefit of new knowledge, MNEs would not agree to this transfer without getting an appropriate compensation for its know-hows (Rugraff & Hansen, 2011).

Multinational enterprises are profit maximizing, and thus naturally not interested in creating benefits for others without a good price for it. Spillovers may arise from market transactions if the value of the resource sold exceeds the price charge, known in economics as the consumer surplus (Meyer, 2003). Thus unless the seller is able to apply perfect price discrimination, the buyer will be better off as a result of the transaction. Moreover, spillovers arise from non-market transaction when resources, notably knowledge, are spread without a contractual relationship between the owner and recipient of the knowledge (Meyer, 2003). Whether foreign investors allow such spillovers depend on their opportunity costs of sharing the knowledge, and the transaction costs of establishing barriers to knowledge flows (Graham & Spaulding, 2004). For a host country which receives the investment, FDI can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development (Contessi & Weinberger, 2009).

FDI spillovers are free benefits obtained by host countries. While MNEs are willing to give away certain levels of spillovers, however, they tend to hold back the knowledge required for strategic leadership. That is while they're willing to transfer knowledge for specific applications; however, knowledge required for independent technological innovations is not shared (Harrison & Rodriguez-Clare, 2010). That way MNEs are able to control local competition from emerging. Actually, MNEs market power could inadvertently (or quite intentionally) overwhelm local competition and subject whole sectors of industries of host countries to their strategies (Rugraff & Hansen, 2011).

Firms are engaged in FDI for a number of reasons. Jones (2010) identified three main factors: *supply factors*, which include reduced productions costs, more favorable locations, lower distributions costs, better availability of natural resources and access to technology; *demand factors*, which include better marketing power through a presence on the ground, protection of a brand name through better monitoring and closer proximity to business customers; *political factors*, which are the benefits of avoiding set of trade barriers, as well as tax and economic incentives from host governments. The presence of just one of those factors lead MNEs to engage in FDI rather than pursue an alternate means of serving foreign markets, such as exporting, licensing or franchising (Kobrin, 2005; Wells, 1998).

The Dependency Theory and FDI

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 theoritical 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.

Early theories on the impact of foreign capital and MNEs on host countries can be found in the writings of the dependency school (Cardoso, 1977; Cardoso & Faletto, 1979; Frank, 1966). Dependency theory was developed by Latin American liberal reformers and Marxists in reaction to the modernization theory of development. Modernization argued that developing countries will inevitabily progress towards modernity and reach similar socio-political and economic development levels as that of western economies (Matunhu, 2011). Its theorists argued that modernization is an evloutionary process that transforms societies from tradionalism to modernity in stages, and as did the western societies so will the developing nations (Ates, Es, & Bayraktar, 2005). However, modernization critics pointed out that such argument did not account for the role of coloniasim in distorting that process in developing countries (Matunhu, 2011).

The dependency theory addresses the relationship between the dominant/center and dependent/periphery countries. Central to the understanding of dependency is the eloquent definition provided by Dos Santos (1970) of dependence as:

> a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of inter-dependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominants ones) can expand and can be self-sustaing, while other countries (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or negative effect on their immediate development. (p. 231).

At the core of the dependency relationship is the inability of the dependent countries to develop independent technological innovations due to dominant countries controlling the technology generating systems (Cardoso & Faletto, 1979). Dependency assumes that external forces have major impacts on the economic activities within the dependent countries. External forces may include multinational corporations, foreign assistance, international commodity markets, and any other means by which advanced industrialized countries can represent their economic interests abroad (Ferraro, 2008). Dependency theory also consider the relationship between dominant and dependent states as dynamic because the economic exchange between the two reinforces and magnifies that unequal interaction. Sunkel (1972) elaborated further on this aspect of dependency:

> ...local development and modernization are seen not in isolation but as part of the development of an international capitalist system, whose dynamic has a determining influence on the local processes. Therefore, foreign factors are seen not as external but as intrinsic to the system, with manifold and sometimes hidden or subtle political, financial, economic, technical and cultural effects inside the underdeveloped country ... Thus, the concept of "dependencia" links the postwar evolution of capitalism internationally to the discriminatory nature of the local process of development, as we know it. Access to the means and benefits of development is selective; rather than spreading them, the process tends to ensure a self-reinforcing accumulation of privilege for special groups as well as the continued existence of a marginal class. (p. 519)

Dependency is a long historical process, rooted in the colonial systems and the internationalization of capitalism (Ferraro, 2008). The dependency school theory views foreign investment from the developed countries as harmful to the long-term economic growth of developing nations out in the periphery (Fan, 2002). It claims that MNEs penetration of developing economies help them to control natural resources that might otherwise be used for national development (Heller, Rueschmeyer, & Snyder, 2009). Dependency theorists argued that developing economies suffer negative consequences from foreign investment as a result of profit repatriation, declining reinvestment, and lack of local economic spinoff (Ferraro, 2008).

Dependency claimed that during the colonial period, the commercial and financial capital of the colonialist state built a productive structure in the colonies devoted to the export of raw materials and agriculture products (Dos Santos, 1970). This resulted in a financial and industrial dependency on the colonialist state as well as producing a distorted economy structure in the colony. After the Second World War, a new type of dependency was consolidated by multinational corporations. The MNEs began investing in local industries of the underdeveloped countries creating new technological-industrial dependence (Heller et al., 2009). The *dependentistas* (as they were called) argued that international capitalism was the reason behind the dependency relationships. The dependentistas position with regard to FDI and MNEs centered on the following propositions (Moran, 1978):

Dependencia Proposition 1. The benefits of foreign investment are unequally distributed between MNE and host country with the latter paying too high a price for what it gets in return. The dependentistas argued that FDI did not take place to seek higher marginal rate of return, as is the case in perfect capital markets (and as the neo-classicists postulated), but rather because the investing MNE had a technological or management advantage that could only be exploited through direct investment (Moran, 1978). That special advantage over competition in the host country generated higher-than-normal return on investment (what's termed *oligopoly rent*). Corporations undertook FDI to enable them to extract oligopoly rents. The dependentistas argued that the lower limit of oligopoly rent the MNEs should be paid was a "just" price, the amount necessary to induce it to invest and/or prevent it from withdrawing (Moran, 1978). The upper limit, however, would be the value of MNEs service to the host country (i.e., the maximum price the host country is willing to pay for those services). Any other price between those two limits will depend on the strength of the bargaining position of the MNE and that of the host country.

Dependencia proposition 2. Multinational corporations distort the local economy. First, by hindering the development of indigenous economy by putting out of business local entrepreneurs in the sectors MNEs invest in. Second, MNEs employ sophisticated technology that requires fewer people to operate compared to host country older and people-intensive methods of production, and in doing so they add to the host country unemployment. Third, MNEs worsen the income distribution of the host country. Fourth, MNEs change the consumers tastes and in doing so they undermine the culture of the host country.

Dependencia proposition 3. Foreign investors distort or undermine the political processes of the host country 1) by siding with the local elites (business groups, landowners, or other conservative groups); and/or 2) by influencing their home governments to intervene with and pressure the host governments on behalf of beleaguered investors; and/or 3) by restructuring the international trade system in favor of MNEs needs to the detriment of host countries.

Neo-Dependency Concept Replacing Dependentistas?

Dependence as a particular concept to explain underdevelopment drew its theoretical foundations largely from Marxist and neo-Marxist thinking on imperialism which divided the world into a capitalist rich and an exploited poor. While external influences and conditioning factors are true in the case of underdeveloped countries, one can make similar arguments to define the relationship between the European countries and the United States, the dominant capitalist power (Sen, 2008). Dependency theory was criticized as an incomplete description of the socioeconomic conditions of underdeveloped countries, by making the argument that countries on the periphery are not destined to stagnation (Ghosh, 2001). Many countries on the periphery (i.e., third world countries), such as India, China, Brazil, Korea, and Taiwan were able to change their economic structure and achieve rapid growth after the second-world war.

Following the collapse of the Soviet block and the emergence of the post-Cold War era, globalization in the context of privatization and free markets as well as democratization became a world-wide phenomenon (Sekhri, 2009). Hence, the classification of the international system on the basis of periphery and center questioned the soundness of the dependency theory. The post- Cold War international system was in favor of integrating the peripheries in this new world system rather than keeping the periphery and center separated (Sekhri, 2009). This new development rendered the dependency theory as outdated thoughts and perceptions. Vernengo (2004) went further and claimed that dependency theory has almost disappeared from academic curricula – in the US at least.

Miller and Pisani, (2007) argued for a growing discontent with globalization resulting from a neo-dependency on MNEs home countries by their manufacturing subsidiaries within emerging economies. While third world countries are progressing, they remain dependent on the most advance economies, albeit in different ways (Guillen, 2001). Foreign direct investment as a form of controlling interest assures the neo-dependency of the foreign subsidies and sectors of emerging economies on MNEs home countries (Miller & Pisani, 2007). This neo-dependency is subject to the institutionalized routines of MNEs from the developed economies and the constraints they impose on the development of foreign subsidies (Miller & Pisani, 2007). Institutionalized routines refer to all the repeated behaviors in organized firms. Those routines need to be legitimized and changed when employed in emerging economies. Only in doing so could they address and deal with the neo-dependency issue and the problem it represent to the development of those economies.

Despite the dependency theory shortcomings, it remains useful in analyzing the politics of many Third World countries, several of which still struggle against dependence, both domestically and externally (Sekhri, 2009). The examples of Cuba's struggle under Castro to break out of dependence on the United States, and that of Algeria to overcome dependence on France, are two examples supporting the notion that dependency (or parts of) is still a useful theoretical framework to explain underdevelopment. Globalization and foreign direct investment have failed to turn underdeveloped countries into industrial, and exchanging raw material for manufactured goods still characterizes the South-North economic relationship of post-Cold War era (Miller & Pisani, 2007). The Secretary-General of UN Conference on Trade and Development (UNCTAD), Supachai Panitchpakdi, stated in 2006 that "the expectation for foreign direct investment to create growth, to create diversification, technology spillover and jobs has not really been fully realized according to expectations" (quoted in Sekhri, 2009). FDI was still attracted to extractive industries such as oil and mining. Dependency literature argues that foreign investment causes distortions in the local economy as well as distortions in the host countries political processes.

Sekhri (2009) argued that the global financial crisis of 2008 actually validated the dependency theory because its impact on the underdeveloped countries proved their dependence; they were affected by a crisis not of their own creation. This demonstrates that underdeveloped economies are conditioned by the development and expansion of the industrialized economies. Any disturbance in the latter will lead automatically to a negative impact on development of underdeveloped countries.

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, 2012b). 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 & 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 (Ates et al., 2005). 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 & Wagner, 2010).

Foreign Direct Investment Theories

Although the phenomenon of FDI was addressed by several researchers, no theory has dominated the decision making process of FDI (Bitzenis, 2003); every new evidence adds some new elements and criticism to the previous ones (Denisia, 2010). In his survey of the literature on the determinants of outgoing FDI, Agarwal (1980) classified the studies into three main classifications based on used hypothesis. The first group included hypotheses that assumed perfect markets. The second group included hypotheses that assumed market imperfections. The last classification encompassed hypotheses based on the inclination to invest. All of these studies were based on the industrial organization literature, and hence were not concerned with how countries managed to attract different levels of FDI, or which country factors influenced flows (Moosa, 2002).

Early 1990s saw a resurgence of FDI flows to developing countries. This led to a number of studies attempting to analyze the forces behind this phenomenon (Dadush, Dhareshwar, & Johannes, 1994; Fernandez-Arias & Montiel, 1995; Hernandez & Rudolph, 1997; Singh & Jun, 1995). These country-based studies aimed at identifying the principle variables impacting FDI flows into developing countries. A noteworthy study was that by Calvo, Leiderman and Reinhart (1993) that provided an explanation of the factors that could be attributed to FDI surge in Latin America early 1990s. The authors highlighted the role of external factors, such as US macro variables, in influencing capital flows to the region. The results of Calvo et al. (1993) study started a debate on the importance of external versus domestic factors that could explain capital flows. The debate led to the development of the Push-Pull theory of FDI (Moosa, 2002). According to the push explanation, the surge in capital flows could be explained through the influence of external factors such as exchange rates (Fratzscher, 2011). On the other hand, according to the pull version, the reasons behind MNEs decisions to invest in a foreign market have more to do with domestic factors of the host country.

The classical theory of FDI. The expropriation of multi-national enterprises by many developing countries particularly during the early days of their independence symbolized a rejection by these countries of being externally dependent upon "foreigners" (Kennedy, 1992). However, the hostility directed at MNEs in the 1950s and 1970s has largely waned (Kebonang, 2006). Instead of throwing hurdles at FDI as being a source of foreign involvement in local market and control of local assets, many countries have recognized the positive economic contributions that FDI could bring to their local markets (Gao, 2005; Kobrin, 2005). Since the 1990s, following the disappearance of commercial bank lending for most countries, FDI has become a very important financial source for developing countries (Kobrin, 2005). Just about every government is involved in trying to attract more FDI by promulgating laws and regulations that are investor friendly (Kebonang, 2006).

In broad terms, classical theorists advance the claim that FDI and MNEs contribute to the economic development of host countries through a number of channels. These include the transfer of capital and technologically advanced equipment and skills (Gao, 2005; Mody, 2004), the improvement in the balance of payments, the expansion of the tax base and foreign exchange earnings, the creation of employment, infrastructure development and the integration of the host economy into international markets (Li & Liu, 2005, Janiba, 2004). These claims about FDI have been amplified by the phenomenal economic growth of the newly industrialized countries, Hong Kong, Taiwan, Singapore and South Korea, especially in the 1980s and early 1990s and more recently by China's impressive economic growth (Cheung & Lin, 2004; Kebonang, 2006).

The intervention/middle path theory of FDI. The intervention or middle path school attempts to analyze FDI from the perspective of the host country as well as that of the investor (Kebonang, 2006). Arguments from both the classical and dependency theories are integrated in the middle path theory. The theory argues that foreign investment must be protected only to the extent of the benefits it brings the host state and the extent to which foreign investors have positively promoted the economic and social objectives of the host country (Li & Rugman, 2007). The theory calls for a mixture of intervention (regulation) and openness and too much regulation or intervention (Seid, 2002). The theory recognizes that there are instances where the market is better placed to act and other instances where government is necessary. For best utilization of FDI, the theory called for a balancing act between activities best handled by the market and those controlled by the government (Kebonang, 2006).

FDI Theories and Research Project

The topic of the study is FDI in Iraq's oil and electricity sectors and the factors that impact it and the need to understand the existing FDI literature cannot be underestimated. Different theories assess the subject of FDI from different perspectives. There are those that see FDI as a major contributor to economic development that should be encouraged by all means, while others question the claimed contributions of FDI to economic growth.

The classical theory of FDI argues for minimal government intervention in order to encourage FDI inflows into the host economies. The dependency theory, on the other hand, argues that FDI, unless properly regulated, can worsen the under development problem, by repatriation of profits and the crowding out of domestic firms (Kebonang, 2006). Apart from the need to regulate FDI, what is also clear is that FDI can contribute to economic growth through capital flows, technology transfer, and employment creation. These benefits are not, however, automatic. As Kokko (2002) pointed out "there is strong evidence pointing to the potential for significant spillover benefits from FDI, but also ample evidence indicating that spillovers do not occur automatically" (quoted in Nunnenkamp, 2004). The benefits derived from FDI depend on the sector in which investment is made and the level of economic development of the host country (Kebonang, 2006).

Between the arguments presented by the dependency and classical theories, the middle path theory takes an accommodating position. It recognizes that states and markets cannot do without each other. They're complements, "each providing a check on and facilitating the functioning of the other" (Stiglitz, 1999, p. 579). How and where the state or market should intervene is a matter to be assessed on a case by case basis.

The eclectic paradigm as the most important theoretical framework for the analysis of determinants of FDI addresses the location competitive advantages of a host country (including its economic sectors and firms) and the type of investment being sought out in that location (Amal, Tomio, Raboch, 2010; Rugman & Verbeke, 2008). FDI activities in a particular country could take one or more of the following four types: strategic asset seeking, natural resource seeking, market seeking, and efficiency seeking FDI activities (Amal et al., 2010). The strategic asset seeking FDI attempts to protect or supplement the existing ownership advantages of the investing enterprise by securing assets (e.g., plants, technology) of foreign firms through acquisition or joint ventures (Paul & Wooster, 2008; Yaprak & Karademir, 2010).

The resource seeking FDI takes place in countries rich in natural resources, e.g., oil and gas, minerals, agricultural products, and cheap labor (Brouthers, Brouthers, & Werner, 1999). The market seeking FDI attempts to satisfy the needs of a particular foreign market. While its immediate impact is turning the host country into an importer of the investing firm's products, it often leads to creating a trade relationship with the host country (Eden & Dai, 2010). In the efficiency seeking FDI, MNEs attempt to create a more efficient use of foreign and domestic assets through better utilization of labor and specialization (Cleeve, 2009). MNEs engage in efficiency seeking FDI to further the specialization of affiliates in its internal network as well as to consolidate its assets and rationalize its operations (Holsapple, Ozawa, & Olienyk, 2006). Efficiency seeking FDI tends to supplement and improve the asset, resource and market seeking FDI activities (Amal et al., 2010).

Studies were also undertaken to look closely into the forces directing FDI and shaping its distribution among developing countries. Singh and Jun (1995) gauged the effect of socioeconomic stability on FDI for the 1970-1993 period. Gastanaga, Nugent and Pashamova (1998) assessed the relative importance of host country reforms in driving flows. Interestingly enough, those studies justified the apparent stability of FDI by asserting that FDI follows countries' own attraction factors more closely than cyclical variables such as the exchange rate (Fratscher, 2011).

Less developed countries, in general, lack the necessary requirements (e.g., economic and social stability, skilled labor, infrastructure, and liberalized markets) in order to engage in innovative activities that lead to new discoveries and designs (Bengoa & Sanchez-Robles, 2003). Consequently, they have to take advantage of technology that originates somewhere else. FDI plays the medium through which this technological diffusion from more advanced countries to less developed countries takes place. Technological advances used by multinationals in their operations in developing countries tend to spill over to the rest of the economy, giving rise to unintended beneficial externalities that encourage domestic business activity. Borensztein, De Gregorio, and Lee (1998) argued that the rate of economic growth of a backward country depends on the extent of adoption and implementation of new technologies that are already in use in leading countries. Host countries could benefit from FDI once certain prerequisite factors are met such as an adequate level of human capital, economic and political stability, liberalization of markets and sufficient infrastructure (Bengoa & Sanchez-Robles, 2003).

Many researchers investigated the effects of the volatility of the exchange rate on FDI with different conclusions. The exchange rate volatility was examined by Goldberg and Kolstad (1994) and Baek and Kwok (2002) who found positive effects on FDI with total investment abroad rising as exchange rate volatility increases. Goldberg and Kolstadt (1994) concluded that exchange rate volatility had an insignificant impact on domestic investment activity. Tomlin (2000), on the other hand, found insignificant results pointing to increased overseas investment in response to increased exchange rate volatility. Benassy-Quere, Fontagne, and Lahreche-Revil (2001) calculated coefficients of variation and correlation of the nominal exchange rate (host currencies against home currencies) and got significantly negative effects on 17 countries belonging to Organization for Economic Co-operation and Development (OECD) with FDI in 42 developing economies. Baek and Kwok (2002) reported that, on average, a stronger home currency is related to a higher propensity to choose a subsidiary and engage in FDI.

The degree of adoption and implementation of new technologies used in advanced countries has a direct impact on the rate of economic growth in a less developed country. The transmission of ideas and new technologies is accomplished through a variety of channels. A major channel for accessing those technological advancements is through foreign direct investment by multinational corporations. In examining the role played by FDI in enabling technology diffusion and economic growth in developing countries, Bitzer and Gorg (2005) concluded that positive effects of FDI holds true only when the host country has a an adequate level of skilled human capital. Therefore, FDI would contribute positively to economic growth only when the host country possesses an appropriate absorptive capability of the advanced technologies.

Policies in many countries are designed to encourage FDI inflows due to the important role it plays in their overall development strategy (Anyanwu, 2012; Contessi & Weinberger, 2009). In addition to capital inflows that accompany FDI, there are spillovers to consider which depend on several factors to materialize. Determinants of FDI spillovers include absorptive capacity of domestic firms, human capital stock, support infrastructure, the size and export capacity of domestic firms, entry mode of FDI (merger/acquisition vs. Greenfield investment), the degree of foreign ownership of investment projects, trade policy, intellectual property rights, and level of local competition multinational enterprises face (Crespo & Fontoura, 2005). The overall effect of spillovers is difficult to assess, since some of these factors work in opposite directions to others. The empirical results generated by the authors' study proved insufficient to support definitive conclusions to which of the factors influence spillovers most. The most definitive empirical result concerned that of the absorptive capacity of domestic firms to capture the spillover benefits of FDI. This was in agreement of the empirical evidence showing FDI spillovers appearing to be greater in more developed regions.

The role of an enabling environment for FDI, including political stability, as a key factor in attracting and maintaining investors cannot be overemphasized (Cho, 2003). An important determinant of FDI is the type of host investment climate (restrictive or liberal) Iraq is presenting to FDI (Lim, 2001). Lack of skilled workforce and poor infrastructure have direct impact on amount of risk investors are willing to take (Alfaro, 2003). Needed private investment in the oil and electricity sector is not occurring because Iraq lacks an adequate legal and regulatory framework, including comprehensive hydrocarbon legislation that would regulate granting of exploration rights and oversee distribution of future oil revenues (GAO, 2007). All of the FDI theories are limited, in that they provide a blanket rational for FDI, but without allowing for regional variations (Sethi, Guisinger, Ford, & Phelan, 2002). Although several researchers have tried to explain the phenomenon of FDI, no theory has dominated the decision making process of FDI (Bitzenis, 2003).

Foreign Direct Investment and State Fragility

Ghani, Lockhart, & Carnahan (2006) proposed ten core functions a state must perform in modern world. They're: "(1) legitimate monopoly on the means of violence; (2) administrative control; (3) management of public finances; (4) investment in human capital; (5) delineation of citizenship rights and duties; (6) provision of infrastructure services; (7) formation of the market; (8) management of the state's assets (including the environment, natural resources, and cultural assets); (9) international relations (including entering into international contracts and public borrowing); (10) rule of law." (p. 2). State-building strategy must be directed at making sure each of the functions is performed rather than the level of the performance (Ghani et al., 2006). In being capable of performing all the essential functions, a state will gain legitimacy both at home and abroad. Building an all-encompassing state that serves its citizens in an accountable and transparent way is a key factor in avoiding and curtailing persistent conflicts (Wolff, 2011).

The two key domains of state-building are constitutive and output domains. The constitutive domains include political settlement (e.g., constitutions, elections), security (e.g., military, police), rule of law (e.g., legal framework political actors abide by), and administrative governance (e.g., civil service, public financial management) (Fritz & Menocal, 2007). The output domains include service delivery (e.g., health, education, utilities), justice system (e.g., administration of justice, transitional justice), and economic governance (e.g., institutional underpinnings of markets, natural resource management, infrastructure/regulation, employment) (Fritz & Menocal, 2007). The economic governance is the area where the state should look for FDI to support its activities (Organization for Economic Co-operation and Development, 2011a).

Fragile states transitioning to stability require multitude of challenges to be addressed and resolved. Parties to a conflict must agree on a political mechanism to resolve differences without resorting to violence. The security of the lives of the citizens, their property, and movement should act as a good measure of the success of any political agreement (Dabo, Salmon, Venancio, & Keuleers, 2011).

To earn legitimacy, a post conflict state should engage in management of public finances in a transparent way. It should be capable of nurturing human capital and delivering sustainable services to its citizens. In order to attract foreign investment and improve the living standards of its citizens, the post conflict state 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.

Major conflicts 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 direction to each other, as the risk of violence is accentuated by poor economic performance which further complicates efforts to achieve political reconciliation (del Castillo, 2008). 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. An important economic justification for treating foreign capital favorably is the fact that FDI inflows could result in technology spillovers that hasten economic growth in recipient countries (Liu, 2008).

The U. S. reconstruction strategy in Iraq was built on the assumption that a secure and safe environment was going to prevail throughout most of the rebuilding efforts; the ongoing insurgencies and sectarian violence have clearly toppled that assumption (Turner, 2007). Immediately following the 2003 war, Iraq faced countrywide looting and arson causing an estimated $12 billion in damages (Rathmell, 2005). Government buildings were burned, Iraqi government records were stolen or destroyed, and thousands of top government bureaucrats fled the country fearing persecution by the U.S. (Coyne, 2010).

Countries emerging from protracted wars have to confront the normal challenges of socio-economic development while simultaneously accommodating the additional burden of national reconciliation and peace consolidation (del Castillo, 2008). The effects of conflict on the economy are widespread and well documented in the literature (Dabo, Salmon, Venancio, & Keuleers, 2011; Manning & Trzeciak-Duval, 2011) such as diversion of resources towards unproductive activities, destruction of country's infrastructure, reduction in size of investment due to uncertain outcomes or the risk of expropriation, and an increase in military expenditures that take public resources that could otherwise be invested in infrastructure, education or health. In post-conflict countries, the governments need to play active roles (including the use of subsidies and price support mechanism) to promote private investment and economic inclusion (del Castillo, 2010).

Conflict usually results in the collapse of state structures and institutions necessary for promoting sustained development for its citizenry. The weakening of state capacity or accountability leads to failure to provide services or generate economic growth in an accountable and inclusive way, which in turn creates political instability and return to conflict (The World Bank, 2005). In post conflict situation, state rebuilding is at the heart of the requirement for achieving lasting peace, delivery of basic social services, and core economic governance (Manning & Trzeciak, 2011).

The international community should help states to move out of fragility by committing necessary political, financial and human resources long enough to ensure success (Manning & Trzeciak, 2011). The involvement of the international community should be sensitive to the local players and directed at a constructive state-society engagement (OECD, 2011b). It's important to understand and support the political, social, and economic processes to construct the relationship between state and society.

Extraction of natural resources, such as oil and gas, is usually done by foreign MNEs which bring in capital and know how. FDI in natural resources is very capital intensive and has fewer spill-over effects on other sectors of the economy since it uses few local suppliers and subcontractors (Poelhekke, & van der Ploeg, 2010). With resource abundance come the hypothesis of 'resource curse', a widely discussed thesis in literature. Resource curse refers to the phenomena that many countries with abundance of natural resources have lower economic growth rates than countries with poor resources (Bannerman, 2007; Buccellato & Alessandrini, 2009; Hodler, 2006; Isham, Woolcock, Pritchett, & Busby 2005).

Natural resource curse could damage economic growth in several ways. With changes in oil prices comes volatility in government revenues which could lead to inflation and varying government spending (Frankel, 2010). Natural resource revenue could make countries vulnerable to Dutch Disease – the inclination for the country's currency to get overly appreciated compared to other foreign currencies– which leads to decline in competitiveness of the manufacturing sector and its eventual contraction (Frankel, 2010; Polterovich, Popov, & Tonis, 2010). Revenue from natural resource could damage institutions (legal system and governance) by removing incentives to improve infrastructure and reform the bureaucracy leading to a weaker, more corrupt, and less accountable government (Alexeev & Conrad, 2009; Frankel, 2010). This in turn provokes wars and conflicts for control over those resources (van der Ploeg, 2011; de Soysa & Neumayer, 2007).

While resource curse is widely discussed, recent literature questions the entire hypothesis and concludes that resource abundance could impact economic growth either positively or negatively depending on several factors, paramount among them is the health of the country's institutions (Mehlum, Moene, & Torvik, 2006; Stijns, 2005). Countries, such as Nigeria and Libya, with bad institutions, dictatorships, and undeveloped financial systems have experienced low levels of economic growth while others with more advanced institutions, such as Norway and Botswana were able to utilize their natural resources and experience high growth rates (Buccellato & Alessandrini, 2009; van der Ploeg, 2011; Ross, 2012). In both cases, foreign investment was instrumental in enabling the resource rich countries to exploit their resources, which otherwise would not have been able to undertake. Multinational enterprises with their deep pockets and technological know-how spared local governments and firms the high costs of research and extraction. Actually, Bannerman (2007) concluded that FDI could reverse the Dutch disease if utilized correctly to induce growth in the manufacturing sector.

FDI in Middle East and North Africa (MENA) Countries

Iraq is a part of the region that comprises the MENA countries (See Appendix A for a list of MENA countries), and understanding FDI behavior in this region should shed light on the factors impacting its flows into Iraq. Majority of FDI studies performed on

MENA countries exclude Iraq due to lack of data, which makes this research carry significant importance to existing literature. The MENA countries are not homogeneous in their economic structures but share similar characteristics that discourage FDI (Shirazi, Rodrigues, & Karnik, 2008). Significant social unrest and uncertainty characterize conditions in the Middle East and North Africa region. This investment risk instability is detrimental to attracting FDI to MENA countries.

Foreign direct investment is an important source of financing particularly in developing nations. FDI is an important means for technology transfer including know-how and technical skills. FDI spill overs include improving managerial knowledge and skills, increasing efficiency and productivity, as well as adding new array of goods and services to the economy contributing in the process to economic growth (Mohamed & Sidiropoulos, 2010). Given their low savings rates and limited access to international financial markets, MENA countries capacity to invest is limited unless it is accompanied by other foreign finance such as FDI (Mohamed & Sidiropoulos, 2010).

Historically, the MENA region had a long tradition of anti-trade policies due to its colonial legacy which brought anti-western regimes that were also opposed to the interests of private sector (Henry & Springborg, 2001). This is particularly true for North Africa, Syria and Iraq. In the oil rich gulf economies, the newly established post-colonial regimes were run by monarchies which took a different path to development. While MENA countries went through an evolution of trade and political regime characteristics that were undermining its FDI attractiveness, geo-economic and geo-political factors still need to be overcome (Neaime & Marktanner, 2009). Geo-economically relate to the incompatibility of production profiles of MENA countries between capital-rich natural-resource rent extractors in Gulf countries with that of capital-poor diversified economies in the rest of the Arab world. This incompatibility prevents spillover effects from capital accumulation, a must ingredient for economic growth (Solow, 1994). The Arab-Israeli conflict and the region's country risk factor are significant geo-political distractors to FDI.

Foreign investors in MENA countries face a myriad of challenges including dealing with state policies that restrict FDI to a few sectors, prevention of a majority ownership by foreigners, requirement of local partners in joint ventures, and the relatively slow pace of privatization (Shirazi et al., 2008). The poor performance of FDI in MENA countries could also be attributed to the dominance of the state in the economic sector, the country's weak economic structure, heavy reliance on oil making it the principal economic sector, underdeveloped financial and state institutions, and low productivity labor force (Caetano & Caleiro, 2009; Mohamed & Sidiropoulos, 2010; Neaime & Marktanner, 2009).

Despite being home to some of the richest oil producing countries, FDI in MENA countries is considered the lowest in the world. FDI inflows to the region were $22.7 billion in 2010 dropping to $8.6 billion in 2011 (The World Bank, 2012b). The decline is attributed to the disruptions caused by the so-called Arab Spring. In contrast, FDI inflows in 2011 in the rest of the world increased by 23 percent compared to 2010 reaching a total of $624 billion (The World Bank, 2012b).

As seen in Table 5, in 2011, FDI inflows in China and the rest of East Asia Pacific region totaled $272.2 billion, while it registered $104.7 billion in Europe and Central Asia region, $155.0 billion in the Latin America and the Caribbean region, $51.6

billion in South Asia region, and $32.5 billion in Sub-Saharan Africa (The World Bank, 2012b). The United States, being the premier attraction for FDI received in 2011 a total of $234.0 billion (compared to $205.8 in 2010) in foreign investment bypassing China's $228.6 by $5.4 billion only (OECD, 2012). As the data shows, FDI registered a significant increase in 2011 over previous years in all regions of the world with the exception of MENA countries. Individual economies depend on different drivers for their economic development, trade orientation, workers' remittances from jobs abroad, and foreign direct investment, and as such different factors affect these drivers differently (Saif & Choucair, 2009).

Table 5

Net FDI inflows in Different Regions of the World 2009 - 2013 ($ billions)

Region	2009	2010	2011e	2012f	2013f
Middle East & North Africa	26.1	22.7	8.6	12.2	18.5
Europe & Central Asia	85.9	86.3	104.7	80.8	94.4
Latin America & the Caribbean	78.3	112.6	155.0	118.8	131.3
South Asia	39.4	28.0	51.6	45.0	48.5
Sub-Saharan Africa	32.8	28.8	32.5	31.2	35.9
East Asia and the Pacific	137.5	227.7	272.2	229.7	265.1

Note. e = estimate, f = forecast
Data based on Global Economic Prospects June 2012 (The World Bank, 2012b)

The factors affecting or determining FDI flows depend on the drivers of foreign investment. As such motivation should be at the forefront when analyzing and evaluating FDI performance of any host country or region (Kayam & Hisarciklilar, 2009). Dunning

(1980) location advantages are among the important factors that attract foreign MNEs to the region. Those include the size of the domestic market of the host country, and the export opportunities the location could provide to its neighborhood and to other parts of the world (Mohamed & Sidiropoulos, 2010). Cost-reducing factors such as infrastructure and skilled labor conditions could also motivate foreign investors to choose a particular host country over others (Caetano & Caleiro, 2009). In the case of MENA countries, we could also add resource-seeking FDI since the region is known for its large oil reserves and other natural resources. Actually, the MENA region is highly based on oil, a major factor that weakens its economic base.

Location advantages are those that arise from investing in a specific host country compared to others (Dunning, 1980). MENA countries have distinct features which may deter or attract foreign investors. Political instability and institutional factors play a major part in the considerations of MNEs to invest or not to in MENA countries (Daniele & Marani, 2006; Hakro & Omezzine, 2011; Mina, 2012). Democracy, transparency, instable policy, good governance and openness, and corruption are among those institutional factors that are common to most MENA countries. The impact of those institutional-oriented factors on FDI decision making in MENA region seem to dominate the market-oriented variables such as rate of return on investment, economic instability, infrastructure, and inflation which are the common factors impacting FDI flows in other regions of the world (Kayam & Hisarciklilar, 2009).

Transparency in economic policies is important for foreign investors since its absence adds extra costs to MNEs due to lack of information about activities and future plans of government departments (Caetano & Caleiro, 2009). There is a positive relationship between FDI attractiveness and economic freedom. Free markets stimulate productivity and investment profitability as well as promoting a better factor allocation (Shirazi et al., 2008). Since FDI involves significant sunk costs (more in Greenfield investment than others), it's very sensitive to host country's political stability and to the security offered by the legal system to intellectual property rights (Mina, 2012). Hence, the existence of clear and predictable economic policies on investment and trade could be powerful impetus to attracting FDI flows (Caetano & Caleiro, 2009).

Busse and Hefeker (2007) who studied 83 countries on the relationship between political risk, institutions and FDI flows found that investment profile, conflict (internal and/or external), and democracy were significant determinants of FDI flows. On the other hand, Mohamed and Sidiropoulos (2010) revealed that the size of the host economy, government size, natural resources and the institutional variables (investment profile and corruption) were the key determinants of FDI inflows in MENA countries. The study is unique in its conclusions as no reference was made to the impact of political instability on FDI flows.

In summary, FDI in MENA countries, when compared with other regions of the world, is unique and of marginal size and impact (especially outside the dominant oil sector) (Khoury & Wagner, 2010). There are five features that characterize FDI in MENA countries: first, FDI flows into MENA countries consistently lagged behind other parts of the world, resulting in lower average stocks. Second, most of the FDI that took place went to a handful of MENA countries in a few of their publically owned sectors, which are typically characterized as being low in productivity and as limited in investment scope (Khoury & Wagner, 2010). Third, FDI flows and stocks constitute an insignificant part of MENA economies both in terms of gross domestic product and gross fixed capital formation. Fourth, of the small amount of FDI flows in MENA countries, a significant proportion of it comes from intra-Arab investment. Finally, when technology gap, the level of workforce education, financial development, physical infrastructure, and institutional quality are combined, the absorptive capacity in MENA countries presents a major challenge to FDI (Krogstrup & Matar, 2005). A recipient developing country can only achieves benefits from FDI once it has a sufficient absorptive capacity (Nguyen, Duysters, Patterson, & Sander, 2009).

Foreign Direct Investment in Israel

In order to have a better appreciation of Iraq's case study, a brief discussion will be presented of FDI in Israel since the country faced similar political instability as that of Iraq due to its prolonged Palestinian *intifada* and its several external wars with its Arab neighbors. Economic development theorists have generally held the view that security is a prerequisite for economic growth (del Castillo, 2010; Grossman & Kim, 1996; Mejia, 2004). However, despite its long war-torn history, Israel has been able to create a strong, modern, and diversified economy; one which rivals that of developing countries and well ahead of its Arab neighbors (Hecht, Razin, & Shinar, 2004). With a history of an average of one war per decade along with constant terrorist attacks, Israel lacked the kind of security required by development theorists for economic growth (Hecht et al., 2004). However, in the case of Israel it's important to distinguish between a lack of security due to an external war with that of internal lack of law and order (Sharaby, 2002). When addressing the relationship between economic development and security, much of the literature is concerned with internal violence, such as rebel attacks or tit-for-tat political violence (Shaffir & Peled, 2000). Such model might be applicable to pre 1948 Palestine, however, it does not apply to post-1948 Israeli economy (Sharaby, 2002).

Israel's main security threats were always external emanating from neighboring Arab states, that is, until the breaking out of the first Palestinian intifada in the Gaza Strip and the West Bank in December 1987 (Hecht et al., 2004). Current Israel's security situation is dependent on satisfying both internal as well as external factors that impact its economic development (Shaffir & Peled, 2000). Another problem specific only to Israel is that from 1950 onward, Arab (and some Islamic) countries boycotted and banned trade relations with Israeli firms. This boycott was later expanded to include several international companies trading with Israel (Sharaby, 2002). While this boycott had an impact on Israeli economy, however, it had no effect on its security (Hecht et al., 2004). To that extent, Israeli economy developed under different conditions from that of Iraq whose current instability is strictly a result of internal strife.

Given the conditions under which it developed, Israeli economic success story is quite unique among those of other developing countries. With factors such as few natural resources, government socialist policies, outside wars, and absorption of mass immigration, Israel's economy had to overcome daunting challenges (Hecht et al., 2004). The percentage of GDP devoted to Israeli defense budget has consistently been higher than those of developed economies. In 1977, at the height of its military spending, Israel's defense budget was 30.7% of its GNP (Sharaby, 2002). In comparison and for the same year, the United States spent 5.7%, the United Kingdom 4.9%, and France 3.85% (Sharaby, 2002). Despite massive reductions, Israel's defense budget for 2011 is

6.3% compared to 4.7% for the United States, 2.7% United Kingdom and 2.5% for France (Stockholm International Peace Research Institute [SIPRI], 2012).

In addition to direct military expenditures, there were other costs mandated by defense operations. Resources were directed to satisfy the provision that every residential building should contain a bomb shelter. This was followed by building a sealed-off room in every home, a requirement born out of the Gulf War's biological-chemical attack scare (Sharaby, 2002). While maintaining a superior defense capability required expensive spending, those costs were mitigated by the substantial revenue generated by Israel's military-industrial complex as well as by the significant annual assistance the United States provides to Israel (Sharaby, 2002). In addition to the defense costs, Israel had to deal with the Arab economic boycott (established by the Arab League in 1951) of any company that does business with the state of Israel (Shaffir & Peled, 2000).

At its height, a total of 18 Arab and 10 non-Arab Muslim states enforced the boycott against Israel (Hecht et al., 2004). A private study quoted by Sharaby (2002), put the damage the boycott did to Israel's economy at $40 billion for the period 1948-2000. The most harm the Arab boycott did was in deterring foreign investment which during the 1970s was only a few million dollars per year with the highest being $149 million in 1973 (Aharoni, 2011). In a study commissioned by US Congress, Weiss (2006) commented on the current status of Arab boycott as "sporadically applied and ambiguously enforced" (p. CRS-3). The study concluded that its effectiveness "measured by capital or revenue denied to Israel by companies adhering to the boycott was difficult to measure" (Weiss, 2006, p. CS-3). In addition to that, there is a limited trade between

Israel and some Arab countries, mainly Egypt, Jordan and the Palestinian Authority amounting to total Israeli exports of $192 million (Weiss, 2006).

To achieve its high level of economic development, Israel relied on substantial inflows of foreign capital (Shaffir & Peled, 2000). Private capital is attracted to resource-rich and stable countries, something Israel could not claim. Still, Israel managed to attract considerable foreign investment coming primarily from donations of world Jewry and wealth transfer resulting from Jewish immigration, as well as from German reparations and U.S. aid (Sharaby, 2002). Those donations and investment were driven by political and ideological motives rather than by economical ones (Hecht et al., 2004). The fact that capital inflows came overtly for development purposes rather than profit, allowed successive Israeli governments considerable flexibility to channel those funds towards development projects and to subsidize a high standard of living (Sharaby, 2002). Israel's massive foreign aid is the highest per capita in the world (Shaffir & Peled, 2000).

According to Aharoni (2011) there were four reasons why Israel was not successful in attracting foreign investment until the 1990s. First, the Arab boycott made conflict and geopolitical instability to be perceived as synonymous with Israel. Second, Israel was not well developed with an infrastructure lacking behind more developed nations (Aharoni, 2011). Telephone and transportation services were inadequate to support industrial growth. Third, the tiny size of Israel's domestic market was not very attractive for large MNEs. Finally, Israel's political system was dominated by socialist ideology where the government interfered in all aspects of business (Aharoni, 2011). It was not until 1985, that new fiscal and monetary policies were implemented and accompanied by reforms that liberalized the economy, freed the market from government interventions, abolished foreign exchange controls, accelerated the process of privatization, and made the economy more competitive (Aharoni, 2011). As a result of those policy changes, foreign investment grew to 6.2% of GDP by 1995 amounting to $5.9 billion, and in 2010 it was 36.1% of GDP totaling $77.8 billion (United Nations Conference on Trade and Development [UNCTAD], 2011).

Responsible fiscal and monetary policies and a host of reforms aimed at liberalizing the economy have allowed Israel, a small country with limited resources, to stand out as one of the world's most competitive economies (Aharoni, 2011). Despite being surrounded with hostile nations, Israel has evolved from an emerging to an industrialized economy (Hecht et al., 2004). A key factor in attracting FDI has been Israel's capacity for innovation resulting from its highly-educated and skilled workforce (Aharoni, 2011).

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. Discussion of those implications for the states of Kuwait and Nigeria was made in Chapter 4 of this study. What follows is a brief background of Kuwait and Nigeria. Table 6 shows FDI statistics for the three post-conflict countries of Iraq, Kuwait and Nigeria for the years 2007 thru 2012.

Case Study 1 – Foreign Direct Investment in Kuwait

Kuwait, a wealthy oil country with world's fifth crude oil reserves of nearly 105 billion barrels, was occupied by Iraq in 1990 (CIA, 2013). It suffered major devastation to its oil infrastructure during the Gulf War of 1991 that ejected Iraq from Kuwait. 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) (globalEdge, 2013). For the period of 2006 -2013, the Amir dissolved the National Assembly five times and reshuffled the cabinet 12 times (CIA, 2013).

Table 6

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. Data from World Investment Report – 2013, a publication by the United Nations (2013)

Oil revenues make up 95% of exports' as well as of government income (CIA, 2013). For a small country of 2.6 million people (half of which are on temporary-visas' non-nationals), Kuwait's budget amounted to $109.60 billion in 2011 (globalEDGE, 2013a). Despite this huge figure, Kuwait services an external debt of $30 billion (globalEDGE, 2013a). The ease of doing business in Kuwait ranked 82 out of 185 countries in 2013 (The World Bank, 2013). Foreign investment in Kuwait is barred from petroleum and real estate. Other difficulties facing FDI include long bureaucratic delays in starting new businesses, requirements of local agency and sponsorship, and family and clan based business culture that restrict foreign investors' participation (DOS, 2013). To improve its attractiveness to foreign investors, Kuwait introduced Law No. 116/2013 in

June 16, 2013 which repealed FDI Law No. 8/2001; however, the new law will not enter into effect until December 16, 2013 (Kuwait Foreign Investment Bureau, 2013).

Case Study 2 – Foreign Direct Investment in Nigeria

With a population of 160 million people and an oil-based economy that provides 95% of exports earnings and 80% of government budgetary revenue, Nigeria is plagued by political instability, corruption, inadequate infrastructure, economic mismanagement, and long standing ethnic and religious problems (The Heritage Foundation, 2013). This large West African country has witnessed since 2009 an increasingly violent insurgency led by Islamist extremist groups (e.g., Boko Haram, Ansaru) in the predominantly Muslim north (Armed Conflict Location and Events Dataset [ACLED], 2013). By adding to the long standing communal violence in north-central parts of the country and rebel activity in the oil-producing Niger Delta, violence in Nigeria has profound impacts on its political stability and economic development (ACLED, 2013).

Nigeria's economy, fueled by oil revenues, has been growing at a rate of 7% for the years 2009 - 2013 (The Heritage Foundation, 2013). The ease of doing business in Nigeria was ranked at 131 out of 185 countries, indicating the difficulties facing businesses in the country (The World Bank, 2013). Nevertheless, Nigeria, as Africa's top oil producer, received $7 billion in 2012 in foreign direct investment (a 21.34% drop from $8.9 billion in 2011) making it the content top recipient of FDI (Vanguard, 2013). Nigeria regulated foreign investment operations thru the Nigerian Investment Promotion Commission Act No.16 of 1995 (Ekwueme, 2005).

Economy of Iraq

Iraq's economy is dominated by oil, which provides more than 90% of government revenue and foreign exchange earnings (CIA, 2011). Oil is central to the Iraqi economy and will remain so for the foreseeable future. Its oil reserves can drive economic growth for decades to come (The World Bank, 2006). Even if it extracted 6 million barrels of crude oil a day – three times the current level of production- Iraq has more than 50 years' worth of oil left in its proven and developed reserves; more oil is likely to be discovered in areas that await exploration (The World Bank, 2006). However, managing oil revenue well has challenged many producing countries, rich or poor. The economic performance of oil exporting countries is often inferior to that of resource-poor countries (Crocker, 2004). An outcome often attributed to the harmful influence of oil wealth on governance and on the real exchange rate for the rest of the domestic economy (commonly known, as the Dutch disease) (Cordesman, 2010).

In their study on Iraqi economy, Foote, Block, Crane and Gray (2004) reported that the greatest effect of the 2003 war on Iraq's economy was the subsequent decline in oil and electricity production. Oil production had been running at 2.5 million barrel per day (bpd) before the war. It dropped to near zero in April 2003 and exports ceased until June 2003 (Foote, Block, Crane, & Gray, 2004). Electricity generation fell by about 25%, not regaining pre-war levels until October 2003 (Foote et al., 2004). Based in part on these figures, the International Monetary Fund (IMF) estimated that GDP fell by about 22% in dollar terms for 2003 (Foote et al., 2004). In addition, economic activity had been declining even before the war. From 1999-2003 when Iraq had a state-directed policy regime and sanctions were still in place, GDP fell by cumulative 29.1 percent

(Bolnick, Greenbaum, James, & Hendry, 2009). From 2005 to 2007 the growth rate was weak and erratic, averaging 2.4% per year – well below the global Lower Middle Income (LMI) median of 6.0% (Bolnick et al., 2009). Accounting for population growth, per capita income for 2007 was an estimate $3,600 in purchasing parity terms, below the global LMI median of $4,713. Moreover, per capita GDP in 2007 was only half the pre-war peak of $7,347 reached in 1999 (Bolnick et al., 2009). In 2008, however, a reduction in violence and political uncertainty, while far from satisfactory, brought about a marked improvement in economic performance (Cordesman, 2010). According to IMF estimates, GDP grew by 9.8% in 2008 despite the steep decline in oil prices in the second semester (Bolnick et al., 2009).

Transforming Iraq into a market economy is particularly challenging because the features that made Iraq function as a command economy (where the government rather than market forces regulated supply of goods and their prices) are precisely the opposite of those needed for a market economy (Rathmell, 2005). Iraq as a command economy lacked any of the legal, regulatory, political, and economic institutions that form the basis of market economies (Coyne, 2010). Saddam's command economy had its relatively successful moments: Before 1990, Iraq was one of the more prosperous and economically advanced countries in the Arab world, boasting a sizeable middle class; technical capacity; and, compared to other Middle Eastern countries, relatively high standards of education and health care, as well as high numbers of women educated and contributing to the economy (Coyne, 2010). The challenge of remaking Iraq's economy is twofold: to transform a centralized economy into a market economy and to reconstruct a war-torn economy (Coyne, 2010). In post conflict countries, the task of rebuilding the economy is one of the central challenges, intimately connected with security, governance, and justice (Crocker, 2004).

The GAO (2007) report addressed several issues about rebuilding Iraq foremost among them is the fact that Iraq's economic resurgence without oil is a near impossibility. Oil provides half of Iraq's gross domestic product, and 90% of Iraq's national revenues. The report noted from fiscal years 2003 to 2006, the United States spent about $5.1 billion to rebuild Iraq's oil and electricity sectors. The US spent another $3.8 billion of Iraqi funds. This investment is only a fraction of what remains needed. In spite of the need for capital improvements, the Iraq Ministry of Oil spent only around 3% of its 2006 capital expenditure budget of $3.5 billion, and did not spend all the available international aid moneys. The Iraqi government lacks integrated planning, management, and coordination for the oil and electricity sectors. These two economic sectors depend upon each other because Iraqi electricity generation requires oil (which they are not getting), and Iraqi oil production depends upon having a steady electrical supply (which they are also not getting).

The economic sectors in Iraq with the greatest investment potential include: energy, including both hydrocarbons and the electrical power sectors; infrastructure; information and communications technology; health; and agribusiness (DOS, 2011). Of those, the energy sector is critical (oil providing much needed revenue and electricity being the building block for other sectors) to Iraq's economic development. Unreliable electricity supply is seen as the biggest single hurdle on the road to reconstructing war-torn Iraq (Lewarne & Snelbecker, 2004). But attracting investment into the sector, seen as crucial to economic growth, has not been easy (Webb, 2009, January 12). Much of Iraq's current oil revenue is being directed to address its security situation, its international debt, and its extensive welfare system (Looney, 2008). In order to meet its economic development plans, Iraq is seeking FDI to expand its oil production and electricity generation (Donovan, 2010).

Policy-making and implementation exert a very strong influence on FDI: economic policies allowing free investment and trade are key determinants of FDI inflows (Wilhelm & Witter, 1998). Sectarian tensions and increased violence and insecurity were factors preventing foreign investors from working in Iraq (Yousif, 2007). The instability, along with the firing of senior Ba'this (Saddam's political party), many of whom were managers and professionals, induced much needed skilled labor to flee Iraq (Struck, 2006, January 23). The result has been the destruction of productive assets, restrained investment, and the delayed and increased cost of rebuilding (Yousif, 2007).

Oil production is a capital-intensive enclave that does not have a large direct impact on jobs or livelihood opportunities, though it is overwhelmingly important as a revenue source for the government (Bolnick et al., 2009). Given the investment needs of Iraq's oil and electricity sectors, the question of how to raise the $50 billion mentioned earlier (Donovan, 2010) will have to be addressed. Lack of definition for how prospective outside investors will participate in the oil sector could potentially widen the prospects for corruption and profiteering and increase acrimony among political factions vying for power inside Iraq (United States Special Inspector General Iraq Reconstruction [SIGIR], 2009). The ability of Iraq to attract outside funds for capacity expansion and oil field development will be dependent on the attractiveness of fiscal terms offered to potential investors; the legal and regulatory environment; and the establishment of well-defined, legally authorized roles for various state oil sector institutions and provincial authorities (Jaffe, 2006).

In 2009, two bids for Iraq's oil fields were successfully administered, and while awarding majority of producing fields to international oil companies, the government of Iraq managed to maintain significant control and remuneration over its oil wealth. The issue of control of country's oil wealth played an important role in the 2010 Iraqi elections (Donovan, 2010). However, the newly elected government made no changes to the legal and constitutional foundations that govern Iraq's upstream oil and gas industry and left it to uncertain fate. The Iraqi government needs to make serious moves to get the hydrocarbon law approved by the legislature. Iraq's political stability depends on a large extent on the ability of its factions to chart a road map that clearly defines the path for a comprehensive development of the oil industry (Donovan, 2010). A key factor to societal reconciliation and to equitable distribution of oil wealth is the introduction of a national legislation that addresses revenue division between the government of Iraq and the provinces.

Under the *National Development Plan* prepared by the Iraqi Ministry of Planning (IMOP), the reconstruction expenditures required for the period 2010-2014 were estimated at $186 billion; $100 billion to be funded by the Iraqi federal budget and the remaining $86 billion to be funded by domestic and foreign private investors (Iraqi Ministry of Planning [IMOP], 2010). The IMOP report estimated that oil and electricity sectors will amount to 15% and 10% respectively of the total anticipated investments of the plan (IMOP, 2010). In other words, Iraq plans a total of $46.5 billion investment in its oil and electricity sectors.

In order to understand FDI flow in Iraq, a qualitative methodology will be utilized. A case study design will be used to perform this qualitative research. In their investigation of FDI in sub-Saharan Africa, Basu and Srinivasan (2002) opted for a case study approach due to the limited availability of reliable and consistent data on FDI as well as lack of adequate information on policies implemented by relative governments to promote FDI. Mooya (2003) settled on a literature review of determinants of FDI and data from IMF, The World Bank, and UNCTAD to conduct a case study investigation of FDI in Zambia. Claiming data constraints, Larrain, Lopez-Calva, and Rodriguez-Clare (2000) conducted their investigation of FDI in Central America using case study qualitative method. The fact that some of the foreign investors in Iraq's oil sector are Chinese and Malaysian consortiums supported by their respective governments, finding reliable data of their total investment is expected to prove to be challenging. Using case study method should address this constraint.

There are four types of qualitative research methods: phenomenology, ethnography, grounded theory, and case study (Hancock, 2002). Phenomenological methods emphasize the importance of individuals' own experiences and perceptions, and therefore at challenging structural or normative assumptions (Lester, 1999). Ethnography is a methodology that studies cultures and people in a descriptive manner. Grounded theory is concerned with collection and analysis of data of a social phenomenon with the explicit goal of developing a new theory to explain the results (Fendt, 2008).

The case study method is a specific field research method that investigates phenomena as they occur without significant intervention by the investigators (Runyan, 1982). Fidel (1984) suggested that case study methods are appropriate for investigating phenomena when " (1) a large variety of factors and relationships are included, (2) no basic law exist to determine which factors and relationships are important, and (3) when the factors and relationships can be directly observed" (p. 273). Yin (2003) categorized case studies as explanatory, exploratory, or descriptive. Since the research questions are about real-life situation that are too complex for the survey or experimental strategies, the answer would be best served by an exploratory case study analysis.

There are four principle types of designs of case study designs, based primarily on a combination of the number of cases in a research (single-case vs. multiple-case) with that of number of units of analysis within each case (holistic vs. embedded) (Yin, 2003). The single-case study of assessing determinants of FDI in Iraq's oil and electricity sectors would be described as an embedded since it involves the analysis of multiple factors (i.e., units of analysis) within Iraq (e.g., absorptive capacity, infrastructure, investment legal framework, political system and stability).

In order to establish the determinants of foreign direct investment in transition economies, Bevan and Estrin (2000) used a panel dataset containing information, taken over specific period, on FDI flows from 18 established economies to 11 transition economies. The data was used to build an econometric model of the foreign direct investment process into the transition economies. In a case study approach, Ayanwale (2007) investigated the relationship between FDI and economic growth in Nigeria. The study used data provided by Central Bank of Nigeria, International Monetary Fund, and the Federal Office of Statistics. To ascertain the relationship between the FDI, its components and economic growth, Ayanwale (2007) developed a growth model that was estimated via the ordinary least squares and the two-stage least squares (2SLS) method.

The material discussed so far, clearly suggests that when conducting case studies, researchers in the field (McGuigan, 2010; Turner, 2007) relied on literature analysis and field work that included interviews with government officials and private investors. Researchers, who studied the impact of FDI on multiple countries or multiple sectors of the economy, utilized theoretical models to test their findings and generalize their results. Seidel (1998) stated that the goal of collecting research material is "1) to make some type of sense out of the collection, 2) to look for patterns and relationships both within a collection, and also across collections, 3) to make general discoveries about the phenomena being researched" (p. 3).

Bashir, Afzal, and Azeem (2008) argued that qualitative research does not necessarily follow the same norms of rigor and validity applied to quantitative research. However, in qualitative research, validity means the degree data is plausible, credible, and trustworthy; and therefore could be defended and challenged. The concepts of reliability and validity are used to attain rigor in qualitative research by utilizing self-correcting verification strategies during the execution of the study. Reliability and validity in qualitative design are abstracted as trustworthiness, rigor and quality. Reliability and validity could be achieved by eliminating bias and increasing the researcher's truthfulness of his/her proposition through the use of triangulation.

Determinants of FDI Flows to Developing Countries

Dunning (1993) identified four main categories of motivation for investment abroad by MNEs from developed economies: resource-seeking, market-seeking, efficiency-seeking, and strategic asset or capability seeking. Although no comprehensive theory of FDI exists, researchers have identified a number of variables as critical to FDI flows to developing countries. These include the openness of the economy, rate of return on investment, natural resource availability, political stability, infrastructure, corruption, human capital, bureaucracy, and macroeconomic indicators (Onyeiwu, 2003).

Rate of return on investment. The decision to invest in a country depends on risk-return tradeoff on investment in a host economy. Rate of return on investment is defined as gain or loss of an investment over a specified period (Bodie, Kane, & Marcus, 2009). Foreign investors seek profit on their investment. Capital tends to flow to economies with low risks and high rates of return. In very risky countries, and in order to attract FDI, the risk-adjusted rate of return on investment must be reasonably high. Capital scarce countries, which also tend to have a low per capita Gross Domestic Product (GDP), usually have higher rates of return on investment which attracts higher flow of FDI (Onyeiwu, 2003).

Openness of the economy. Studies have shown a positive relationship between FDI flows and economy's openness (Favara, 2005; Saif & Choucair, 2009; Shirazi et al., 2008). Openness of the economy refers to openness to trade and openness to capital flows. Openness to trade refers to the ease by which goods and services are imported and exported, while openness to capital flows refers to the absence of controls on the movement of capital (Onyeiwu, 2003). Export-oriented FDI is attracted by trade openness, while trade restrictions attract tariff-avoiding FDI which is interested in taking advantage of the local market (Krogstrup & Matar, 2005).

Natural resource availability. Poelhekke and van der Ploeg (2010) showed the importance of natural resources in attracting FDI. Jenkins and Thomas (2002) observed that "resource-seeking investors will locate subsidiaries abroad to secure a more stable or cheaper supply of inputs, generally raw materials and energy sources, but also factors of production" (p. 6). Increase in oil prices tends to increase FDI flows to economies with natural resource endowments.

Political stability. The political stability of a country is determined by the type of existing regime (democratic or dictatorial), the stability of its government, the relationship between existing political groups as well as the state of its democratic institutions (if any); combined they play a major factor in attracting foreign investment (Baek & Qian, 2011; Busse & Hefeker, 2007). Political stability has been found to have a direct impact on FDI (Bannerman, 2007; Li, 2006). Other things assumed constant, democratic and political stable economies attract more FDI than undemocratic and unstable countries. FDI is attracted to democratic countries, since their regimes will more likely respect the rule of law, civil liberties and property rights which are encouraging features to FDI flows (Onyeiwu, 2003). Countries that are characterized as lacking political and institutional stability are considered as high risk which tends to discourage FDI flows (Daniele & Marani, 2006; Hakro & Omezzine, 2011).

Infrastructure. Foreign investors prefer economies with well-developed network of roads, transport networks, water supply, electrical power, and telecommunication services (i.e., phone, fax, and internet). Poor infrastructures tend to increase the cost of doing business which reduces the profitability of investment (Ngowi, 2001). Production costs are usually higher in countries with poor infrastructures than those with well-developed infrastructures. Consequently, FDI will tend to prefer countries with good infrastructures (Jenkins & Thomas, 2002).

Corruption and bureaucracy. Corruption and bureaucratic red tape have negative impact on FDI even with the existence of favorable investment environment in the host country (Onyeiwu, 2003). Governmental legal, judicial, and administrative corruption tend to increase cost of doing business by increasing the time to obtaining business permits necessary for operation in the host country (Caetano & Caleiro, 2009). In order to lower corruption's impact, Transparency International has been compiling data on corruption on different countries since 1995.

Corruption has constantly been listed by numerous studies as a deterrent to foreign investors (Hakkala, Norback, & Svaleryd, 2008; Seldadyo & De Hann, 2011; Zhou, 2007). Corruption may deter FDI by making the host country unattractive to foreign investors by increasing the cost of entry and adding uncertainty, as well as by distorting incentives to investment (Qian, Sandoval-Hernandez, & Garrett, 2012). Bribes paid by MNEs act as taxes, and corruption practices add extra costs due to the inability of MNEs to enforce contracts, resulting in further waste of resources (Qian et al., 2012). On the other hand, smaller number of studies have found that in countries entangled by bureaucratic processes and weak institutions, corruption could act as an FDI incentive when bribes lead to more host government projects with more favorable terms resulting in increased profits (Chang, 2012; Egger & Winner, 2005). It could also act as a lubricant or a helping hand to obtain the legal permissions for setting up foreign operations (Chang, 2012).

Human capital. The presence of a skilled workforce to perform modern business transactions is an important factor impacting FDI flows. Israel, for instance, and despite its Arab conflict, has been a major recipient of FDI, and mainly due to the presence of highly educated workforce in the country (Aharoni, 2011).

Macroeconomic indicators. In addition to the above factors, FDI is also impacted by country economic indicators, such as real GDP growth rate, inflation, corporate tax rate, and external debt. Countries that undergo a growth in their GDP tend to attract more FDI, while those imposing high corporate tax and suffer from high rates of inflation and external debt of host country usually deter FDI (Anyanwu, 2012).

Summary

Although FDI in countries with abundance of natural resources has grown in recent years, not much academic research is done on determinants of FDI in post conflict countries (or states in situation of fragility) that have an abundance of natural resources. Iraq, a country ravaged by wars, should be of particular interest to development and testing of FDI theory in countries with abundance of oil and a ravaged state structure that needs rebuilding. It should also make it of interest to testing and development of the FDI theory as it relates to MNEs decision making process in choosing a mode of entry in a foreign market characterized by abundance of oil and a fragile state.

In order to meet its goals, the government of Iraq in 2009 embarked on a path of improving its investment climate and publicly engaging and encouraging foreign investors (DOS, 2010). This was a result of a comprehensive new thinking that considered foreign direct investment as an important source of capital for growth. Although foreign investment has increased in 2011 from previous years, there are still serious challenges that need to be addressed such as high security costs, cumbersome regulations, and corruption (DOS, 2011).

The oil development projects are characterized by large capital investments which are determined by the balance (or perceived balance) between opportunity and risk (Bressand, 2009). That is opportunity in finding commercial quantities of oil and gas, and significant business risks resulting from the large amounts of capital needed to undertake exploration and production (Bressand, 2009). Governments can promote investment opportunities by adopting proactive approach to attracting foreign partners by improving entry procedures and providing incentives for investment (Beevan, 2000). Important determinants of FDI are type of host investment climate (restrictive or liberal), political environment and stability, legal framework, human capital, poor infrastructure, and corruption (Cho, 2003).

Post conflict fragile states, natural resources curse, and FDI have been addressed in current literature, however, the topic of FDI in a fragile state with abundance natural resources is yet to be addressed adequately. Iraq is a post conflict country with abundance of oil resources; however, to rebuild its economy Iraq needs to attract FDI in its oil sector since oil makes up 90% of state's revenue (United States Department of State, 2012). FDI phenomenon is new in Iraq and as such has not been addressed previously by an academic research. The intent of this study was to assess the determinants of FDI in Iraq's oil and electricity sectors and to identify the factors impacting FDI inflow in Iraq. The results from this study can be used to expand and test FDI theory both on a country level and on an MNE firm level in post conflict and resource abundant environment. To conduct this study, literature review and data collected from public and private sources was utilized. A qualitative case study was used to identify the factors that make Iraq attract more or less FDI.

On a firm level, the OLI paradigm explained the rationale behind MNEs engagement in foreign investment. Current literature and factors identified included market size, institutional health, barriers to trade, and political stability (Liu, 2008; McGuigan, 2007; Zhang, Li, Li, & Zhou, 2010). In terms of ownership modes, foreign companies might prefer full ownership of business operation over joint ventures or strategic alliances agreements. Market entry modes decision making play an important role in determining whether an MNE conducts business in a foreign country (Julian, 2009). Country risk factors and MNEs investment decision making process as it relates to mode of entry were assessed to determine the factors having the most influence on FDI flow in Iraq's oil and electricity sectors.

Chapter 3: Research Method

The aim of this qualitative research method was to identify the determinants of FDI flow in Iraq's oil and electricity sectors as perceived by subject matter experts (SMEs). Iraq has been a post-conflict developing country with ongoing political instability and abundance of oil. In addition, this research was intended to assist business administrators in the understanding of the roles played by natural resources and fragility of state in influencing FDI inflows. The current FDI theory was interpreted in the case of Iraq, a post conflict country characterized by its abundance of natural resources and state fragility. It's the researcher's recommendation that future studies will verify SMEs perceived determinants of FDI in Iraq's oil and electricity sectors and establish them as the real factors influencing foreign investment in Iraq.

Because the aim of this study was to identify the perceived determinants of FDI flows in Iraq and understanding the impact of abundance of natural resources and state fragility on those inflows, the usage of quantitative method was considered inappropriate. Quantitative research method aims at using already identified independent variables and attempt to construct statistical model in order to explain their relationship with the dependent factor (Castellan, 2010). That is to test hypotheses, identify evidence regarding cause-and-effect relationships, and make predictions (Hopkins, 2000; LoBiondo-Wood & Haber, 2010). The aim of quantitative methods is to determine whether the predictive generalizations of a theory holds true (Arcidiacono, Procentese, & Di Napoli, 2009); whereas, the use of a qualitative method provided a complete description of the studied phenomenon (Schwandt, 2007). The qualitative methodology was selected as the most appropriate for identifying the factors impacting FDI inflows.

This study employed the use of qualitative measures to answer the research questions. The study identified and established the factors impacting FDI at a country (macro) level, and how those factors fit into FDI theoretical framework of the OLI paradigm. Using a qualitative exploratory case study design was deemed appropriate for identifying the determinants of FDI in Iraq's energy sectors as well as identifying MNE market entry mode decision making process. The case study was chosen due to the need for an in-depth understanding of the potential determinants of FDI inflows in Iraq's energy sectors. Case study research was selected to answer 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.

The research objective was to improve the understanding of FDI inflows in Iraq, a post conflict country with abundance of natural resources. The study objectives were met by answering the following qualitative case study research questions:

1. What are the determinants of foreign direct investment in Iraq's oil and electricity sectors as perceived by subject matter experts?
2. How do these determinants fit into FDI theoretical framework of OLI paradigm?

The first question was designed to lead to the identification of FDI determinants in Iraq and its energy industry that account for the effects of post-conflict instability (or state in situation of fragility). It addressed the impact of environmental and institutional risk factors on flow of FDI. The environmental risks in consideration included security and political risks, expropriation risks, capital movement risks, transparency risks, and contract validity and enforcement by new government (Bohmer, 2010). Institutional included governance and cultural hazards (Dikova & van Witteloostuijn, 2007; Slangen & Beugelsdijk, 2010). The second research question was designed to lead to the interpretation of FDI theoretical framework of OLI paradigm, specifically FDI locational advantages, in Iraq's oil and electricity sectors. To support the findings of this study with empirical evidence, it is recommended that researchers conduct a quantitative study utilizing statistical modeling to test the relationship between each of the identified variables (determinants) and FDI as well as a predictor of its flow in Iraq; this was beyond the scope of this particular study.

The research questions led to the identification of FDI determinants in one country and its energy industry that accounts for the effects of violence and state fragility on FDI inflows. This cross-industry research was designed for the particular country of Iraq and its oil and electricity sectors. In summary, this study was an attempt to expand and test FDI theory in Iraq, a fragile state with abundance of oil resources.

Research Method and Design

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 (Landman, 2008). A single-country study, and despite its limitations, produces a more detailed picture of each case and offers practical policy inferences (Zhang & Zhao, 2007). Sartorie (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 Landmans (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 Sartorie (1991) criteria of having a comparative merit being a post-conflict country with abundance of natural resources. In order to expand the implications of the findings to other post conflict countries, two case studies that of Nigeria and Kuwait were utilized.

It was deemed by the researcher that the research questions were best answered using a qualitative case study. Qualitative research examines a setting or a phenomenon from the perspective of deep understanding rather than micro-analysis of limited variables. Instead of trying to prove or disprove a hypothesis, qualitative research seeks themes, theories, and general patterns to emerge from the data. Qualitative research is "hypothesis generating" (Merriam, 1988, p. 3) rather than hypothesis testing as is the case with quantitative research. Once factors impacting FDI in Iraq's oil and electricity sectors were identified through a qualitative method, future quantitative studies could be utilized to test the effects of those factors on FDI inflows.

Yin (2003) categorized case studies as explanatory, exploratory, or descriptive. Since the research questions were about real-life situation that are too complex for the survey or experimental strategies, and since FDI phenomenon was new in Iraq, the answer would be best served by an exploratory case study analysis. Case study research designs are divided into four main types depending on the number of cases (single-case vs. multiple-case) used in the research design and the number of units of analysis (holistic vs. embedded) within each case (Yin, 2003). The number of units of analysis in a case may be interpreted as the number of determinants of FDI in Iraq. The case study of determinants of FDI in Iraq's oil and electricity sectors were described as embedded since it involves the analysis of multiple factors within Iraq (e.g., absorptive capacity, infrastructure, investment legal framework, political system and stability).

The data for the qualitative research project was collected primarily through conducting a review of documents (e.g., reports, articles, and news items) and one-on-one interviews with SMEs. Qualitative data consisted of words and observations, not numbers. As with all data, analysis and interpretations were required to bring order and understanding. This required creativity, discipline and a systematic approach (Fossy, Harvey, McDermontt, & Davidson, 2002).

Journal articles, books, and Internet resources (e.g., annual reports, marketing information, and popular press articles that provide information on the case) were the three main pools from which information from documents was collected and analyzed. Due to their trustworthiness, Iraqi and US governments' publications, The World Bank, United Nations Conference on Trade and Development (UNCTAD), and the International Monetary Fund (IMF) were the key sources for collecting data. A number of different websites will be used to collect relevant and up to date information about current events impacting Iraq's investment environment, political stability, infrastructure, investment legal framework, human capital, and corruption.

By using a number of references from a variety of sources, the results were considered more rounded, valid and objective conclusions are reached. Secondary data was utilized due to the broad amount of relevant material available, and the fact a descriptive analysis could be conducted out of it. Additionally, it was quicker to collect, and as such research progress could be made once collected. The review of these documents was used to fine-tune the actual questions asked during the interviews to ensure relevancy and accuracy of information.

Participants

Interviews with 22 SMEs in the research topic were conducted in order to identify the determinants to FDI inflows, and to have better insights into the challenges facing FDI in Iraq's oil and electricity sectors. Many considerations went into deciding the appropriate method for primary data collection. Questions like cost, time available, staffing, access to records, and required sample size were evaluated. Qualitative research techniques such as focus group, structured, or survey techniques were considered. At the final analysis, semi-structured and in-depth interviewing was chosen as the appropriate method due to the advantages warranted.

Determining sample size in qualitative studies is based on the concept of saturation when the collection of new data does not shed any further light on the issue under investigation (Sandelowski, 1995). To ensure most or all important perceptions are covered, qualitative samples must be large enough but not too large to cause data to be repetitive, and eventually redundant (Mason, 2010). In purposeful sampling, a small sample that has been systematically selected for typicality and relative homogeneity provides far more confidence that the conclusions adequately represent the average members of the population than does a sample of the size that incorporates substantial random or accidental variation (Maxwell, 1998).

Based on the research topic, a sample size of 22 SMEs satisfied the concept of saturation and was sufficient to meet the research purpose. The selection of SMEs was based on the demonstrated knowledge by the selectee of foreign direct investment and Iraq reflected either by job position or publications that confirm knowledge in the subject area. Employees of MNEs were chosen for their professional knowledge in the subject rather than as representatives of their respective employers. The interviewees were solicited to explain SMEs' views on what they consider to be the factors impacting FDI in Iraq and why they believe so. Views were encouraged to nominate any dominant factor that has more impact on FDI inflows. Specifically, the impact of state fragility and abundance of oil on FDI inflows was investigated thoroughly. Views were also encouraged to discuss Iraq's absorptive capacity, FDI spillovers if any, and whether lack of either should call for changes in government policies towards FDI. This aided in developing insightful recommendations at the end of the study.

Materials/Instruments

The case study of Iraq included document review of relevant materials and semi-structured and an in-depth interviewing of 22 subject matter experts on Iraq and foreign direct investment. The data collection instruments were a document review recording form (review notes) and an interview script.

Document review notes. The document review was a review of data extracted from Iraqi government and private reports, marketing information, and popular press articles that provided information on the case. The parameters selected included investment, post conflict countries, state institutions, security, oil, electricity generation, business and economic conditions, financial institutions, corruption, skilled labor, educational institutions, legal system, private sector, and public sector. Examples of these sources included, but were not limited to: International Energy Agency (2012) report that analyzed Iraq's energy outlook, report by United Nations Inter-Agency Information and Analysis Unit (2010) on electricity generation in Iraq, Iraqi Ministry of Oil's (2012) tenders and bids report, Multilateral Investment Guarantee Agency (2011) publication on world investment and political risk, The World Bank (2013) on doing business in Iraq, Ajrash and Razzouk (March 3, 2011) newsreel on Iraq's oil export, and Central Intelligence Agency (2012) fact book on Iraq. The intent was to find relevant material that may shape the questions to be asked during the interviews and to assist in the coding of data. Unpublished Iraqi government documents that were provided to researcher by one or more of the participants were used as secondary data to provide further insights into FDI conditions in Iraq. Field notes were used to record relevant information (see Appendix C). The notes were then used to ensure the interview questions are accurate and timely, relative to what had been documented or published. Document review of the case studies of Nigeria and Kuwait was also conducted with similar parameters selected as those used for Iraq.

Interview script. An interview script was used to guide the researcher in conducting the interviews. The script was comprised of 3 main sections. Section I was designed to include the personal introduction and explanation of the purpose and scope of the research. Terms of confidentiality of information and anonymity of participants were also addressed (Turner, 2010). Section II contained questions regarding factors impacting foreign investment in Iraq in general. And finally, Section III was designed to ask questions to facilitate the analysis of current FDI investment. Each section included a set of follow-up questions to achieve a greater, in-depth explanation from the SMEs (see Appendix B). To ensure construct and content validity of the script, an expert review was conducted (Kvale, 1996). To further ensure validity and reliability of the interview script, a pilot test was performed whereby a list of questions was asked of 3 respondents (individuals outside the group of people that were interviewed, but representative of the group) in order to detect and remedy potential problems in data collection procedures (Basu & Srinivasan, 2002; Larrain, Lopez-Calva, & Rodriguez-Clare, 2000). This ensured that appropriate questions were being asked, the right data collected, and data collection method was viable. Based on feedback, the script was revised as required.

Data Collection, Processing, and Analysis

Data were collected from publically available publications and reports by Iraqi and American governments, internet sources, and respective United Nations publications. Semi-structured interviews with 22 SMEs were also utilized for data collection. Data processing consisted of carrying out activities such as checking the completeness and quality of collected data, checking the relationships between data items (e.g., interviews, field notes, and audio recordings), and preservation of source confidentiality and anonymity. Data were then converted into electronic text format suitable for both preservation and dissemination. Data analysis included a description of sample population, coding of collected data, displaying of data summaries to facilitate interpretations, drawing conclusions, and finally developing strategies for confirmation of the findings.

Document review. Upon receipt of Northcentral University's Internal Review Board approval, a review of documents then commenced and conducted prior to conducting the interviews. The document review was designed to extract data from the following types of publications: annual reports, marketing information, popular press articles that provide information on the case. This data were recorded using the document review form (See Appendix C). The data were then analyzed looking for emergent patterns or themes. The researcher was aware these patterns or themes may modify the interview questions to be asked. In addition, the patterns or themes assisted in the categorization and coding of data when reporting results from this study.

Interviews. Following the document review, interview questions were fine-tuned, as applicable. Interviews were then scheduled with the pool of selected participants, with anticipated duration of each interview not to exceed one hour in length. The sample size consisted of 22 SMEs to assess their views on determinants of FDI in Iraq. Questions from the interview script were asked to seek responses that were ultimately utilized to answer to the research questions. The researcher was the sole investigator conducting the interviews and collecting data. Interviewing was performed in Iraq. English was the main language of interviewing, however, in interviewing Iraqi officials, Arabic language was used when appropriate. The researcher was well versed in both Arabic and English with native-level proficiency in both languages, and having been born in Iraq was well aware of its cultural sensitivities and practices. Most Iraqi officials interviewed were English-speaking individuals, having been educated in English-speaking western nations. In conducting the interviews, US-based laws covering privacy, confidentiality, and ethics that govern Northcentral University regulations in conducting a research were adhered to regardless of the location of the interview.

Analysis of data. In planning for the analysis, data were collected from multiple sources (private and public; Iraqi and foreign; English and Arabic print) on foreign direct investment in Iraq and specifically that in the oil and electricity sectors. Jorgensen (1989) defined qualitative data analysis (QDA) process as:

> Analysis is a breaking up, separating, or disassembling of research materials into pieces, parts, elements, or units. With facts broken down into manageable pieces the researcher sorts and sifts them, searching for types, classes, sequences, processes, patterns or wholes. The aim of this process is to assemble or reconstruct the data in a meaningful or comprehensible fashion. (p. 107)

In order to assess in the understanding of the determinants of FDI, the state of Iraq's oil and electricity sectors was examined in detail. Literature was collected on all possible factors impacting FDI flows into these two sectors. The state of the Iraqi economy, banking system, Iraq's political system stability and country's security situation, labor force and Iraq education system, legal framework (investment law, hydrocarbon law, legal system and labor disputes), corruption as a factor impacting investment, and Iraq's infrastructure (railroads, seaports, water supply, electrical grids, telecommunications) are all possible factors that could impact investment in Iraq. Data analysis consisted of (Ebrahim & Sullivan, 1995):

1. **Describing the sample population**. This included a brief description of the number of participants and their qualifications in each of the three categories the SMEs belong to; government officials, MNEs employees, and professionals and academics.

2. **Coding of the data**. Raw field notes were transformed into a well-organized set of notes, and in an order suitable for analysis. Ordering was done in relation to the objective of the research which is assessing the determinants of FDI in Iraq's oil and electricity sectors.
3. **Displaying summaries of data** in such a way that interpretation were made easier to summarize. Data were ordered and labeled to facilitate summarizing. Data belonging together were listed together. The next step was to summarize the data in a graphical matrix form to visualize possible relationships between the collected FDI factors (e.g., listing *processing of business licenses* under the category of *bureaucracy* as the factor impacting FDI).
4. **Drawing conclusions.** Unlike the case of quantitative studies, collection, processing, analysis, and reporting of qualitative data happened together. Qualitative research method helped the researcher find associations among data being collected during the fieldwork; some appeared to be related but could not be explained, while others logically went together or no relationship or association was found. Identifying key FDI determinants and the relationships between them was essential to drawing conclusions.
5. **Developing strategies for confirmation of findings.** The following methods were used to increase the validity, trustworthiness, and confirmation of the findings:
    a. *Checking for representativeness of data*. SME interviewed must be representatives of the field in order to generalize findings.

b. *Checking for bias*. Bias could be that of the participant and/or the effect of the researcher on the situation.

c. *Crosschecking data with evidence from other independent sources*. Cross checking of data, looking for independent evidence or counter evidence was used in order to enhance the validity of data.

d. *Comparing and contrasting data*. This technique was utilized to identify FDI determinants and confirming associations between them.

e. *Getting feedback from participants*. SMEs reactions to the findings could help refine the explanations and increase their validation.

Data analysis using constant comparative method allowed themes and patterns to emerge from the multiple sources of evidence (Glaser, 1965). These emergent themes and patterns were examined to reveal similarities or differences. Common patterns and themes from across the different views were recorded (Glaser, 1965).

Immediately following the interview, the interview notes which constituted the collected data were read thoroughly from start to finish getting a holistic view of data (Taylor-Powell & Renner, 2003). Preliminary notes were made on the margins. Collected data were systematically searched to identify and categorize specific factors that impact FDI inflows in Iraq. Based on initial identification of themes, the interview notes were summarized on 4x6 index cards to act as individual units of analysis. Each card was assigned a unique number. A second pass at the data was made using the constant comparative method. Different categories were expected to emerge. The data was then searched for those categories and for the frequency of their occurrence (Taylor-Powell & Renner, 2003). The next step involved placing the categories under a number of pillars. Some of those pillars were; openness of the economy, infrastructure, state fragility, government policies, and availability of natural resources. The pillars were entered into an Excel spreadsheet with categories placed under each pillar. The database enabled a third look at all data from multiple perspectives; by participant, category and pillar. Those emerging patterns were used to develop rich explanations and answers to the research questions (Yin, 2003). The final product of research included those patterns as the determinants of FDI in Iraq's oil and electricity sectors.

High quality analysis implemented adhered to the four principles as argued by Yin (2003). They were: (1) focusing on the most important issue in the study, (2) attending to all the evidence while considering alternative interpretations and rival hypotheses, (3) addressing all major rival interpretations, and (4) the researcher should utilize own prior knowledge in the analysis. Every effort was made to make sure this study will adhere to the above four principles.

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 (please, refer to Tables 1 thru 4 in Chapter 1, as examples of such data), 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.

Methodological Assumptions, Limitations, and Delimitations

For any given research there are underlying assumptions, limitations and delimitations (Creswell, 2007). They are critical components of a viable research proposal that need to be articulated to improve validity and credibility of the research proposal (Ellis & Levy, 2009). The following is a list of assumptions, limitations and delimitations that were used in this study.

Assumptions. The assumptions serve as the basic foundation for this proposed study. They constituted what was taken for granted. The following is a list of the assumptions made for this study:

1. FDI in post conflict countries brings additional capital for investment that could be utilized to rebuild their devastated economies. FDI is over hundred years' old phenomenon and is expected to continue playing an important economic role due to MNEs activities that are ever integrating world economy. Investigating FDI activities in post conflict countries with abundance of natural resources is needed due to limited existing literature investigating the subject. Results should add to body of knowledge and help policy makers develop necessary FDI policies.
2. Answers to interview questions were assumed to be truthful due to anonymity and confidentiality of participants that was preserved by researcher. Also, due to the fact participants were volunteers that could withdraw from the study anytime they

wish with no ramifications. A pilot study was also performed to ensure interviews conducted would go to the heart of the research problem and enable answering the research questions.

3. The OLI paradigm, the most widely accepted FDI theory, was used to explain FDI activities of MNEs and to provide the theoretical framework for the study.

Limitations. The limitations were those elements over which the researcher had no control over. The factors influencing results of this study were:

1. All above assumptions were by default the limitations of the study.
2. This investigation utilized case study design. As in all case studies, generalizations or in this study the implications to other post conflict countries are suggestive of having similar factors impacting FDI as those of Iraq; however, additional research is needed to verify the findings in those countries.
3. The findings of determinants of FDI in Iraq and their rank of importance are constraint by the conditions of Iraq at the time of the study. Those findings and their rankings might change once Iraq is more stable and security conditions are improved.

Delimitations. The delimitations are the choices made by the researcher. They describe the boundaries set for this study. They include:

1. This study investigated determinates of FDI in Iraq's oil and electricity sectors. Iraq was used as a case study of a post conflict country with abundance of natural resources. Also investigated was how those determinants fitted into the theoretical framework of the OLI paradigm

2. The determinants of FDI investigated represented the locational variables of the OLI paradigm.
3. This research used a qualitative method with an exploratory case study design that utilized extensive literature review as well as semi-structured and an in-depth interviews.
4. Choosing 22 SMEs to interview met the saturation criteria and was considered as representative of those SMEs with verifiable knowledge of FDI and/or Iraq's oil and electricity sectors.

This qualitative exploratory case study included secondary data collection as well as semi-structured interviewing of a sample size of 22 SMEs in the area of FDI and Iraq. Three different categories of SME's were utilized; government officials, MNEs employees, and academics and professionals. A sample size of 22 participants met the saturation concept, however, the fact they were spread across three different categories of job classification (government, MNE and academia employees) led to differing biases, necessitating the need to making sure that a minimum of 5-participants of each category was obtained.

For the case study, data integrity was met by ensuring congruence among reviewed literature, questions asked, and strategies for data collection and analysis (Golafshani, 2003). Data were methodically checked, research focus maintained, and data analysis and interpretation were constantly monitored (Morse, Barrett, Mayan, Olson, & Spiers, 2002). Critical self-reflection was used to check potential personal biases and predispositions as these might affect the research process and conclusions. Triangulation was maintained by using multiple sources of evidence. This verification strategy helped to identify when to intervene in the research process in order to improve reliability and validity while ensuring rigor (Shenton, 2004). In addition to that, this study abided by the guidelines for reporting and evaluating qualitative research of the British Sociological Association Medical Sociology Group (1996), as cited by Reid and Gough (2000). The guidelines were:

1. Are the methods of the research appropriate to the nature of the question being asked? The research questions of this investigation could not be addressed by a quantitative approach, but rather by a qualitative explorative case study.
2. Is the connection to an existing body of knowledge or theory clear? This case study verified the applicability of the OLI theory to FDI in Iraq.
3. Are there clear accounts of the criteria used for the selection of subjects for study and of the data collection and analysis? This study collected secondary data as well as interviewing a sample of 22 participants to collect primary data. Data collections was made from private, government sources, and international sources as well as from a purposeful sampling of 22 subject-matter-experts who were interviewed to gain insights into factors impacting FDI in Iraq's oil and electricity sectors.
4. Is the selection of cases or participants theoretically justified? There is a need in literature to address FDI in Iraq, an oil-rich and politically unstable country that, over the past 30 years, went through three major wars with its neighbors, was occupied by a foreign power, went thru a brief period of civil war and is still plagued by a strong insurgency. Iraq was used as a case study to verify the OLI theory of FDI in a resource rich post-conflict country.

5. Does the sensitivity of the methods match the needs of the research questions? While determinants of FDI are country specific, however, the common factors explored by the OLI paradigm were examined critically rather than taken for granted.
6. Was the data collection and record keeping systematic? Careful record keeping was employed and made available for independent examination, and, where possible, transcripts of conversations with interviewees were kept.
7. Is reference made to accepted procedures for analysis? Case study coding and categorizing was employed for this qualitative study.
8. How systematic is the analysis? All data collected were analyzed vigorously for validity. For case study, patterns, linkages, and plausible explanations were described through inductive analysis. Competing themes and explanations were explored inductively and logically. Inductively, by re-organizing the data in a way that could lead to different findings, and logically by considering other possibilities that could be supported by the data (Patton, 1999).
9. Is there adequate discussion of the evidence both for and against the researcher's argument? Alternative explanations were considered if data existed to support competing view. Failure to find evidence supporting alternative explanations should increase the level of confidence in the original explanation generated by the analyst (Patton, 1999). Considering alternative explanations should increase credibility of the final set of findings as well as demonstrates intellectual integrity (Fossy et al., 2002).

10. Have measures been taken to test the validity of the findings? Triangulation was used to cross-check results. Findings about the determinants of FDI in Iraq were checked with similar studies that investigated factors impacting FDI in other countries, including post conflict ones.
11. Is the research clearly contextualized? All relevant information about Iraq's oil and electricity sectors was supplied. All factors (e.g., country risk factor, investment legal framework, skilled workforce) were studied as part of an integrated framework, where one variable could impact another, rather than as an abstracted and decontextualized.
12. Is the author's own position clearly stated? The researcher perspective was clearly stated taking into consideration possible bias in interpreting the data.
13. Are the results credible and appropriate? The investigation was conducted in order to seek plausible and coherent findings that address the research questions. Extensive literature review augmented by a field trip to Iraq to interview SMEs as well as employing methodical data collection and analysis rendered a highly valid and credible results.

In summary, verification strategy was implemented to achieve reliability and validity of the research. This helped to increase the trustworthiness of the findings. A list of credible determinants of FDI in Iraq's oil and electricity sectors was achieved.

Ethical Assurances

To ensure ethical conduct and maintain integrity of research, the following ethical guidelines set by the researchers of the University of Pittsburg (2011) were followed:

a. Credit was given where deserved for data, words, or ideas of other authors. Failure to do that was considered as an act of theft and plagiarism, and thus committing research misconduct (University of Pittsburg, 2011).

b. No breach of confidentiality was made. No privileged unpublished document was utilized.

c. Research results were accurately reported and no falsification or fabrication of data will be made. Clear and complete records of data acquired were maintained.

d. Conflict of interest: There were no personal or financial interests in the research outcomes made out of this study. The study was not sponsored nor supported by any private or governmental entity.

An informed consent form was generated and forwarded to Northcentral University Institutional Review Board (IRB) for approval. No data collection was initiated prior to IRB approval. To ensure confidentiality and anonymity of research participants, each SME was given a label, an alphabetical letter for identification. Data collected from Participant A was saved and stored separately from that collected from Participant B. For the purposes of this study, confidentiality meant that what had been discussed would not be repeated without permission. The notion of confidentiality and anonymity was raised and discussed with each research participant. Confidentiality of data and anonymization of participants were protected (Wiles, Crow, Heath, & Charles, 2006):

1. Maintaining confidentiality of data/records:

- Ensured the separation of data from identifiable individuals (i.e., encrypted identifiable data)
- Removed any face sheet that contain identifies (e.g., names and addresses) from interview notes, field notes, and audio tapes
- Properly dispose, destroy or delete study data/documents upon completion of the researcher study and award of the degree by Northcentral University
- Limited access to identifiable information to the researcher
- Securely stored data documents within locked room
- Assigned security code to researcher computerized records
- No discussion of issues raised by the individual interviewed was made with others in ways that might identify the individual.

2. Anonymizing individuals and/or places in the dissemination of the study to protect participant's identity. Pseudonyms were used to label participants.

In summary, moral rules that govern ethical research were observed. Ethical conduct and integrity of research were maintained. Anonymity, confidentiality and privacy of participants were upheld.

Summary

A qualitative case study was used to conduct the investigation of assessing determinants of foreign direct investment in Iraq's oil and electricity sectors. The results of the study explained and identified the locational factors impacting FDI inflow into Iraq's energy industry. The qualitative research method was in line with existing research methodology for determinants of FDI, and was shown to be especially helpful in the analysis of foreign direct investment in developing countries, like Iraq, transitioning from a command based economy into a free market, because the phenomena is new and secondary data sources were limited (Flyvbjerg, 2006).

To answer the research questions, a qualitative case study method was utilized to evaluate all potential determinants of FDI. At a country level, the most commonly researched determinants of FDI were the location advantages which include market size and growth potential, natural resource endowment, skill of workforce, openness to international trade, quality of financial institutions, and the quality of the physical infrastructure (Botric & Skuflic, 2005). Empirical data was needed to evaluate Iraq's oil and electricity sectors' absorptive capacity of foreign investment.

Iraq's political system, security and stability played a decisive role in attracting foreign investment. Corruption as it exists in Iraq could have detrimental impact on FDI. In the 2011 Corruption Perception Index, published by Transparency International, Iraq was ranked bottom 175 out of 183 countries, making it among the top eight most corrupt countries in the world (Transparency International, 2012). Public sector integrity and regulatory quality were critically important for the confidence and decision making of all potential investors when considering reaping the benefits of investment.

Literature review included peer reviewed articles and published books that addressed foreign direct investment (FDI) and following topics: technology transfer, economy of developing countries, FDI theories, natural resources 'curse', post conflict countries, political violence, state rebuilding, Iraqi political and legal systems after 2003 US invasion and only as far as its impact on foreign investment. Interviews (via Skype - video/audio internet software, over the phone as well as by email) were conducted with subject matter experts in order to gain primary data. The data on FDI flows in Iraq was available from private and public sources.

Data collected from research on the determinants of FDI in Iraq's oil and electricity sectors was used to validate the OLI paradigm. In line with the most recent study of Dunning and Lundan (2008), the research data was used to integrate 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 were state owned. The benefits derived from FDI depend on the sector in which investment was made and the level of economic development of the host country (Bressand, 2009).

Individual researchers bear the social responsibility of maintaining the integrity of their work in order to uphold the confidence and respect of the society at large (Swanson & Fisher, 2010). Social research as any other could never be entirely objective. There was always the possibility that topics selected are the result of cultural or personal biases (Taylor, 2010).

The phenomenon being studied, that of FDI in Iraq fulfilled a need in literature that had not been addressed to date. An improved understanding of Iraq's investment environment and associated factors impacting FDI in oil and electricity sectors was provided by a qualitative case study research that utilized interviewing of a sample of Iraqi and non-Iraqi subject matter experts from academia, private industry as well as government employees. The use of such a research design increased the probability that research results would provide both the richness and depth necessary for enlightened Iraqi public policy to attract much needed FDI, as well as rational foreign investment decisions.

Chapter 4: Findings

In this chapter, the results and evaluation of findings of this qualitative study are presented. The purpose of the study was to identify the potential determinants of foreign direct investment in Iraq's oil and electricity sectors. In order to address the study purpose and answer the research questions of what are the factors impacting FDI as perceived by SMEs, and how they fit into the theoretical framework of OLI paradigm, an interview-based exploratory study was conducted. Field data (Arabic language reports and documents) published by Iraqi government was also collected.

This chapter presents the results from interviewing 22 subject matter experts (SMEs) in addition to the field data collected. The interview setting is presented and discussed. The findings are presented first in their raw data format to be followed by critical analysis and evaluation. The chapter includes a discussion of the most important factors affecting FDI in Iraq's oil and electricity sectors. Existing FDI projects in Iraq's oil and electricity sectors are discussed along with Iraqi government own investments in these two important sectors. Finally, the determinants of FDI in Iraq's oil and electricity sectors are listed. The chapter concludes with summary of key points presented.

Interview Setting

In order to conduct the research, it was decided to travel to Iraq and perform on-site interviews with SMEs. Due to inability to get IRB approval on time, 14 candidates were met (nine in Baghdad and five in Erbil) in an informal manner to gain awareness of the research topic in Iraqi context, cultivate personal rapport with potential research participants, and develop a list of potential pool of research participants to contact upon researcher's return to the United States (U.S.). Some of the interviewees were contacted initially from the U.S. whom in turn, and upon meeting them in Baghdad and Erbil, recommended other SMEs to talk to. Once IRB approval was granted, data were collected upon return to the US by email and interviews conducted over the internet (using Skype video/audio software) and by phone. The participants were divided into three categories: Iraqi government officials, foreign companies' employees (interviewed for their expertise rather than as representatives of their respective companies), and finally academics and professionals with knowledge of FDI in Iraq's oil and/or electricity sectors.

Prior to moving forward and discussing details of the interviews and the recruitment of research participants, one should first understand the environment in which some of the interviews were conducted. As was discussed in previous chapters, Iraq is a post-conflict country with active insurgency. Baghdad, the capital city where most of the research participants live in, suffers from acute security problems where bombings and extensive grid of military and police check-points are part of the daily life. Important government buildings are located in what's called the "Green Zone", a high security militarized area requiring special permits in order to enter and/or meet with government officials. Ordinary Iraqis seldom venture near the area. The researcher was sponsored by an Iraqi Member of Parliament (MP) and the leader of Assyrian Democratic Movement, Mr. Younadem Kanna, who was instrumental in arranging the informal meetings with government officials to discuss the research topic and study; and in addition navigating the researcher through the Green Zone military check points.

Several meetings were also conducted in Erbil, capital of the autonomous region of Kurdistan, and a peaceful city that does not suffer from the security ills of Baghdad.

Meetings with local Kurdish government officials required another type of sponsorship, that of a prominent employee of the Kurdish Ministry of Culture, who was instrumental in arranging the meetings with those officials. All meetings were conducted with participants either residing in Baghdad or Erbil.

Prior to the conduct of the formal interviews upon the researcher's return to the United States, and in order to ensure validity and reliability of the interview script, a pilot test was performed whereby a list of questions was asked of 3 respondents (individuals outside the target sample that was officially interviewed, but representative of the greater target population) in order to detect and remedy potential problems in data collection procedures (Larrain et al., 2002). The questions asked were taken from the interview script in (see Appendix B). The pilot-test participants included one Iraqi MP and two US-based SMEs, an American academic (an economist), and an Iraqi-American employee of a power company. Based on responses, no problems were detected in data collection instruments; thus no changes were made to interview script (see Appendix B).

The total number of interviewees was 22 participants. They were comprised of eight Iraqi federal government officials, three Kurdistan regional government officials, four foreign companies' employees, with the remaining seven being academicians and professionals. In this professional categorization, Iraqi members of parliament (formally known as Council of Representatives) were treated as 'professional SMEs' since they were members of a legislative body that is separate than that of the government or administration. The qualifications and expertise of the participants are listed in Table 7. The age of the participants ranged from 35 years to that of 74 years with average age being 51.2 years. The list included one German-born, one British-born, one

Table 7

Participants' Qualifications

Participant Pseudonym	Qualifications
P1	Member of Iraqi Parliament (chair 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

Turkish-born, one American-born, and the remaining 18 being Iraqis. Seven of the 18 (39%) Iraqi participants had Ph.D. degrees (among them the only female participant). Their titles (e.g., Dr. Px) was not used in order to maintain their confidentiality and anonymity, in case using it might lead inadvertently to identifying them.

Results

One-on-one interviews were conducted with the 22 SMEs; saturation was reached with this number and no additional participants were interviewed. The semi-structured interviews utilized the sample questions found in Appendix B. The in-depth interviews lasted between 30 – 60 minutes. Member checking (Harper & Cole, 2012) was conducted via follow up conversations to clarify or verify certain statements and/or require further information. Field data, including Arabic documents and reports published by the Iraqi government and by Iraqi academics were also collected. The Research Office of the Iraqi Parliament was utilized to collect relevant data. The results of this study were based on information collected from field data as well as from views of SMEs that were personally interviewed.

In order to keep the anonymity of the sources, the researcher used pseudonyms for all participants. The naming convention was a lettering system that referred to the participants as P1, P2, P3, ... P22. See Table 7 for the position and qualifications of each of the participants.

The results are reported based on the research questions they address and using the following convention: quotes and statements by participants followed or led by a discussion of the topic. The discussion was a result of the views made by the participants and the material provided and/or pointed to by them. Arabic material that was not available previously was utilized. The researcher was a native-level Arabic speaker and contents quoted from or referenced to Arabic-language articles, were treated as meeting the highest level of professional translation.

Research Question 1: What are the determinants of FDI in Iraq's oil and electricity sectors? In order to answer the first research question, the interviews conducted with participants were utilized to generate a list of FDI determinants. The data were transcribed on 8 ½" x 11" size papers. Data were then read to seek common terms (factors impacting FDI) examples of which are shown in Appendix B – Section II, Article 3. Participants' selections of factors were then organized in 4" x 6" size papers to account for the frequency of usage of that particular factor. Table 8 shows the factors considered the most important in impacting foreign direct investment in Iraq. The FDI determinants were ranked from 1 (most important) to 14 (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.

During the analysis phase, the factors were given a particular ranking by counting the frequency the participants ranked it at the chosen rank or better. As a result, the factor 'Security' was ranked as number 1 (most important) by counting the number of times it was ranked by participants at that level. It was then compared to all other factors ranked also as number 1. The frequency 'Security' was ranked by participants as 1 - 16 times and as 2 - 2 times, compared to as 1 - 10 times and as 2 - 8 times of the next in order of ranking, that of 'Political Stability'. Hence, 'Security' was listed as the most important determinant as it was ranked the greatest number of times as number 1 by the participants (see Table 8).

Table 8

Determinants of FDI in Iraq's oil and Electricity Sectors

Factor Name	Rank (1: Most important 11: Least important)	Number of Participants Agreeing on the Listed Rank of the Factor (out of total of 22 SMEs)
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

Using the same approach, the factor of 'Corruption' was given the rank of 5 in its importance by counting the number of times participants marked it at the rank of 5, 4, and 3 (no participant ranked it above 3). A ranking of 6 or lower was counted against the rank of 5. The frequency of participants ranking 'Corruption' at 5 or better was compared to other factors receiving similar rankings. In this case 'Corruption' had 18 participants ranking it at 5 or better. 'Openness of Economy' had 14 participants ranking it at 6 or better, 'State and Economic Institutions' had 17 participants ranking it at 4 or better, while 'Market Size' and 'Infrastructure' were both ranked at 9 in their importance since equal number of 16 participants ranked each at 9 or better. Similar criteria are used in finding the rankings of all other determinants of FDI in Iraq's oil and electricity sectors.

In seeking an answer for the first research question, certain factors impacting FDI in Iraq's oil and electricity sectors were discussed by participants more often than others. The following subheadings are presentations of those factors as discussed and evaluated by the participants:

Security. As stated by 18 out of 22 (82%) 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 dissatisfied sections of the society as well as by foreign and neighboring powers interested in the destabilization of Iraq. Violent attacks by the insurgency have ranged from targeting random civilian gatherings to government buildings (including police and military check points) and economic targets (including oil and electrical installations). The insurgency attacks were more common in central and western parts of Iraq where Sunni Arabs make up the majority of the population or represent a significant portion of it. Shia Arabs have dominated southern Iraq, an area which experiences fewer attacks than those inhabited by Sunni Arabs. Kurdistan has been immune to a large extend to insurgency attacks due to aggressive polices by the Kurdistan Regional Government.

According to P3, a high ranking member of the Advisory Commission for Iraqi Prime Minister Office "The Japanese government advised its business people against going to Iraq because of the security situation. Just recently, they're allowing them to go to southern Iraq." On the other hand, Participant P1, the chairman of a relevant Iraqi parliamentary committee disagreed with that assessment, when he said:

> In the worst security problems and political instability times, you always had foreign investors willing to invest in Iraq. The problem is not security but rather the anti-private sector mentality of the ruling elite. You hear a lot of talk about security problems being the distractor of foreign investment in Iraq. Don't believe it. It's a lie. The problem was never security issues impacting distribution lines of goods. It's not security, but rather the insistence of the government to take over the production activity of the economy. The government role should be monitoring, control, and protection of the citizenry not the engagement in building and running factories, power plants, etc. Those should be left to the private sector to perform not the government. (Participant P1, Chairman of a Parliamentary Committee)

"Security is a pre-condition for investment, without it, there would not have been any investment in Kurdistan" was the remark made by investment consultant P20 when asked about the importance of security for investors he was dealing with. In contrast, oil executive, Participant P14, was less concerned with security:

> We considered investing in all of Iraq. We chose to invest in Kurdistan for commercial and profit reasons and not because of better security. However,

> security is a factor. I know of problems getting employees to some oil fields in Basra in southern Iraq. (Participant P14, Oil Company Executive)

This statement was in line with the known positions of oil companies to accept higher risks when investing in the oil sector due to the high returns of such investment (Stafford, 2012). The strategic nature of oil for the industrialized world also brings with it the willingness of major powers such as the United States to provide political (and sometimes) military protection for the oil fields and oil shipping lines to the West. Big oil companies usually use private security companies to protect their assets in the oil fields. Most of currently in-production Iraqi oil fields are located in remote areas (outside populations' centers) allowing better control and protection of those assets through the usage of private security companies. That by itself is no guarantee to stopping attacks by insurgent groups. Iraqi oil and gas fields continue to be attacked as recent as early April 2013 (Rasheed, 2013).

Political environment. 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. When asked about Iraq's political environment and its impact on conducting business, Participant P14, an oil executive remarked "In this country work is never far from politics, and hence, we need to be careful how much we advertise our views." As was the case of security, the issue of Iraq's political environment was high in the minds of the participants. Participant P3, Member of Advisory Commission – Iraqi Prime Minister Office summoned the concerns over political stability as "Political stability has direct impact on FDI. Iraq's nascent stock market reacts quickly to negative political developments." Almost all participants (19 out of 22, or 86%) expressed similar sentiments when asked about the impact of political instability on FDI activity in Iraq.

Participant P4, Member of Advisory Commission - Iraqi Prime Minister Office argued that weak investment in Iraq is a result of "the entire problem had to do with the political process." Participant P1, Chairman of Iraqi Parliamentary Committee argued against political instability being a factor impacting foreign investment:

> Iraq has a constitutional problem with the government delaying the approval of the hydrocarbon law debated by members of parliament in 2007. Iraqi government is still using Saddam's era laws instead of working with the parliament to enact new ones. The Kurdistan Regional Government and the central government do things their own ways without coordinating with each other which is a violation of Article 112 of Iraqi Constitution. Iraqi government, being the body that receives the huge sums of oil proceeds, does not listen to parliament. The executive branch ignores and even rejects laws enacted by the legislative branch. The parliament is unable of enforcing its laws and stopping government ministries from ignoring them (Participant P1, Chairman of Iraqi Parliamentary Committee).

Iraq's investment legal framework. All 22 participants (100%) thought it was important when studying foreign direct investment in Iraq to first understand Iraqi investment laws. Participant P5, a senior manager at Iraq's National Investment Commission (NIC), started the interview as "You're studying foreign investment? Sure, I'll give you a copy of Iraq's investment law." Similar remarks were made by three other participants stating the importance of Iraq's Investment law.

In addition to data collected from the interview participants, secondary data in the form of documents were also utilized in order to validate the findings. On October 10, 2006, Iraq adopted Investment Law 13 which revoked Coalition Provisional Authority's Order 39 that was issued in 2003, and annulled Law 62 issued in 2002 by Saddam Hussein's regime to encourage Arab investment in Iraq. Law 13/2006 laid out the legal framework for foreign investment in Iraq. It granted private and foreign investors specific privileges, benefits and guarantees. Investment Law 13 also called for the establishment of the National Investment Commission (NIC) and defined the organization's design, purpose, and responsibilities. The National Investment Commission was created in 2007 to "... serve as the promoter, facilitator, and policy advisor for investment into Iraq" (Iraqi National Investment Commission [NIC], 2013a, para. 2). The law also created a regional or governorate investment commissions.

Article 29 of Law 13/2006 limited the provisions of the law to all areas of investment in Iraqi economy except investment in oil and gas extraction and production as well as investment in banks and insurance companies sectors (NIC, 2013b). Hence, the charter of NIC covered private sector investments in all of Iraq's economic sectors except that of oil and gas extraction and production, banking, and insurance business. Iraq's Investment Regulation 2/2009 limited the investment projects that fell under the responsibility of the National Investment Commission to those considered as strategic in nature. All other investment projects fell under the responsibility of the local governorate boards of investment. The Investment Regulation 2/2009 defined strategic projects as (Iraqi Local Governance Law Library, 2009):

1. Infrastructure projects with a minimum capital of $50 million

2. Joint ventures between more than one region or more than one province not associated with a region
3. Natural resources projects (with exceptions as noted by Article 29 of Investment Law 13/2006)
4. Projects resulting from a treaty of which the Republic of Iraq is a party to
5. Engineering, metallurgical, petrochemical, and pharmaceutical projects with a minimum capital of $50 million
6. Investment projects in archeological and historical sites
7. Transportation projects such as roads, ports, airports, and railways with an investment capital no less than $30 million
8. Electricity projects with power production no less than 30 MW
9. Reservoirs, dams, and irrigation projects with irrigated area no less than 20,000 acres
10. Communications projects
11. Other projects with investment capital no less than $1 billion
12. Any other project considered as strategic in nature by Council of Ministers

Iraqi parliament has been debating the Hydrocarbon Law that regulates FDI in the oil and gas sector since 2007 and had yet to approve it (Participant P1, Chair of an Iraqi Parliament Committee). A draft law covering private investment in the banking and insurance business had yet to be debated (Participant P1, Chair of an Iraqi Parliament Committee). Licenses for foreign or local investors in the electricity sector were issued by NIC, however, as in all other FDI activities, it's the respective ministry (e.g., electricity, housing, industry, etc.) that had the final authority to approve or disapprove any foreign or local private investment activity (Participant P5, Manager at NIC). NIC issued the investment license only after receiving the approval notice from the concerned ministry (Participant P6, Employee of NIC).

The semi-autonomous region of Kurdistan in northern Iraq has been known for its strong regional government that is in continuous conflicts with the central government in Baghdad (Participant P11, Manager at a foreign oil company investing in Kurdistan). The region has been characterized by its relative insulation from other conflict-infected parts of Iraq (Participant P17, Manager - Manager Kurdistan Board of Investment). 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 (Participant P18, Manager - Kurdistan Board of Investment).

Kurdistan Board of Investment (KBI) has been a regional investment commission created by Investment Law 4/2006 of Kurdistan. Law 4 was enacted in July 4, 2006, three months before the national one was enacted in October 10, 2006. The two laws contain almost similar articles governing the investment process with the exceptions shown in Table 9. Further, the Kurdistan Regional Government declared its Law 4/2006 as holding precedence in the region over that of the national Law 13/2006 (Kurdistan Board of Investment, 2013). After failing to secure a national hydrocarbon law, the Kurdistan Regional Government decided in June 2007 to enact its own Petroleum Law of Kurdistan Region to govern contracts and regulations. The fact Kurdistan region is unable (until completion of independent export oil pipeline planned for 2015) to sell oil and receive its proceeds independently from Baghdad renders this law limited in its impact.

Table 9

Comparison between Iraqi National Law 13/2006 and Kurdistan Regional Law 4/2006

Item	Iraqi National Law 13/2006	Kurdistan regional Law 4/2006
Responsible authority	National Investment Commission	Kurdistan Board of Investment supervised by the Higher Council for Investment
Tax incentives	Exemption from paying taxes for 10 years from date of "commencing commercial operations"	Exemption from paying taxes for 10 years from date of "providing services" or "actual production"
Land ownership	Investor is not allowed to own land, but lease it for 50 years, renewable if agreed to by government (in 2009 the law was amended to allow land ownership for housing projects only)	Investor allowed to own land except that "containing oil, gas or mineral resources"
Sectors of investment	All economic sectors except - oil and gas extraction and production - banks and insurance companies	All economic sectors except what the Higher Council for Investment does not approve
Legal guarantees	Investment project cannot be confiscated nor nationalized –except those "on which a final judicial judgment was issued"	Neither confiscation nor nationalization. However, investment land could be taken back if investor violates contract
Spare parts	Exempt from import fees "up to 20% of fixed assets value"	Exempt from import fees up to 15% of "price of equipment and machinery"

Similar to the role played by NIC, the Kurdistan Board of Investment only issues the investment license after the complete investment proposal was studied and approved by the respective KRG regional ministry (Participant P17, Manager - Kurdistan Board of Investment). Kurdistan Board of Investment prided itself as having an active and real support from the local government of the semi-autonomous region of Kurdistan.

According to research participant P17, Manager – Kurdistan Board of Investment:

> Kurdistan Board of Investment is spoiled by the Kurdistan Regional Government (KRG), which support its mission actively. The political leadership in Kurdistan considers private sector as an important and integral part of the economic development in the region. That is why since its inception in 2006 until 2012, KBI has processed licenses for 500 projects totaling $22 billion in investment. Eighteen percent of that was FDI and the remaining 82% was investment by local Iraqi entrepreneurs. (Participant P17, Manager – Kurdistan Board of Investment)

Foreign direct investment in Kurdistan region is not an entirely independent activity taking place outside the control of the central government of Iraq. Participant P12 (Manager, foreign oil company investing in Iraq) stated that payments are made to his company in cash and only after KRG received its financial allocations from the Iraqi federal government. That created extra cost paid to banks in order to transfer the money abroad. Participant P14 (Vice President at oil company investing in Kurdistan) stated that despite investing in Kurdistan, his company had to go to the central government in Baghdad in order to get sovereign guarantees for capital invested in Kurdistan region. According to Ms. Hamdiyah al-Jaff, president of Trade Bank of Iraq, the government-owned Trade Bank of Iraq provided financing and letters of credit to two FDI projects in Kurdistan region, the Erbil power plant and the Erbil refinery (The Oil & Gas Year publication, 2012). The bank also supported other FDI projects in other sectors of the local economy of Kurdistan region.

Most Iraqi regimes post 1958 (the fall of the monarchy) treated foreign investment with suspicion and distrust (Participant P3, Member of Advisory Commission

– Iraqi Prime Minister's Office). The previous regime of Saddam Hussein was no different in its views and treatment of foreign investment. In its last year of rule, the regime introduced Arab Investment Law 62/2002 which aimed to encourage Arab investment in Iraq (Abdul-Rada, 2012a). It was a late recognition by the regime of the importance of private investment in the economy and as such lacked seriousness and hurdles were quickly introduced during implementation of the law. Incentives to Arab investors remained modest and limited compared to those introduced in Law 13/2006 that opened Iraq's economy to all investors irrespective of their nationality (Participant P15, Economist). Still, Law 62/2002 allowed private investment in the banking sector, which the current Law 13/2006 excluded. Under the new law, foreign insurance companies were allowed to function in Iraq, but not invest in its insurance sector.

While Law 62/2002 excluded foreign investment in Iraq's oil sector, Law 13/2006 excluded it from its provisions since oil investment would be covered separately in the much awaited Hydrocarbon Law. Actually, Law 13/2006 excludes *only and specifically* oil and gas 'extraction and production'. All other operations such as oil refineries to produce gasoline and other oil products, gas processing for domestic usage, and any other processes done *after* extraction and production were covered by the provisions of Law 13/2006 (Participants P6 and P7 – Members of NIC, P15 - Economist and P16 - Academic).

Kurdistan Law 4/2006 prohibits in clear terms nationalization or confiscation of investment projects, which Law 62/2002 had provisions allowing them under certain conditions (Kurdistan Board of Investment, 2013). Iraq's national Law 13/2006 had been ambiguous on this specific point. Its Paragraph 3 of Article 12 while stating non-seizure or nationalization of the investment project introduces a sentence that gives the Iraqi judiciary the right to decide the terms of expropriation and nationalization. With absence of guarantees for international arbitration on disputes originating in Iraq, the National Investment Commission and its branches in Iraqi provinces have been hard pressed to convince foreign investor of the security of their investment (Participant P14, Vice President – foreign oil company investing in Iraq). This has also raised concerns as to the seriousness of promoting the local private sector as an important partner to the public sector in Iraq's economic development.

Law 13/2006 provided the investor with generous incentives and privileges; however, the exception to international arbitration raised the concerns about the guarantees provided to investment. There was a real fear of investment projects falling under the influences of Iraq's political parties, and their abilities to direct the judiciary their way. With absence of neutral international arbitration, the current guarantees in Law 13/2006 to investment projects remain incomplete.

Law 13/2006 has not provided for land ownership by foreign investors but rather has allowed its rental for 50 years that could be renewed. On October 13, 2009 Iraq's Council of Representatives approved an amendment to Law 13/2006 permitting foreign investors to own land exclusively for housing projects (hotels excluded). Ownership of land continues to be excluded in all other sectors opened for foreign investors under Law 13/2006. For non-residential projects including commercial, industrial, agricultural, and tourism, Law 13/2006 offers 50 years land lease but not ownership.

Discussions with all 22 SMEs (100%) participating in the in-depth interviews concluded that local authorities were still in the process of interpreting this amendment, and housing projects with land ownership to foreign investors continue to be debated. According to Participant P16, an academic researcher and ex-employee of NIC, out of 15 provincial boards of investments, only that of Anbar Provincial Board of Investment has implemented the 2009 amendment to Law 13/2006 and considered offering housing land ownership to foreign investors. This exclusion of land ownership, would explain the disparity between the high investments in the housing sector in Kurdistan region (its Law 4/2006 permits land ownership) versus that in other parts of Iraq. Actually, FDI in the Kurdistan region was able to provide 200,000 housing units by end of 2012, a success that has the Kurdistan Regional Government instruct its Board of Investment to limit the number of licenses issued for the housing sector. Instead, efforts were underway to introduce incentives and encourage investment in the region's agricultural, industrial and tourism sectors.

Abundance of oil. On the question of the importance of abundance of oil in attracting foreign investor, one interviewee (Participant P11, Manager at an oil company) remarked:

> For oil companies, the existence of oil resources comes before that of security and stability. Once an assessment has been made of presence of profitable quantities of oil, no activity would start without making sure that a secure and stable environment is provided. (Participant P11, Manager at an oil company)

Similar views were expressed by other oil companies' employees that were interviewed. "In Kurdistan region where the company invested, several billion barrels oil fields were discovered contributing greatly to the success of the company. (Participant P13, Manager at an oil company). Participants P11 and P13 agreed that Iraq has an abundance of oil reserves that are in need of foreign investment to develop and a secure environment that encourages such investment. According to April 2013 statement by Iraqi Ministry of Oil, Iraq oil reserves stood at 150 billion barrels, a 5% increase from its 2010 estimate of 143 billion barrels (Arab News, 2013) making it the world's third largest oil reserves after Saudi Arabia and Canada. This latest assessment figure did not include the 45 billion barrels of oil reserves claimed by the Kurdistan Regional Government. Iraq had the 10^{th} largest reserves in the world of natural gas with a total of 3.6 trillion cubic meters as of end of 2011 (BP, 2012).

Iraqi constitution and oil. On the question of the legality of Kurdistan's oil contracts, both Participants P1, Chairman of Iraqi parliamentary committee, and P2, Member of Iraqi parliament, agreed that the dispute between Iraq' federal government and Kurdistan's regional government over foreign investment in Kurdistan's oil reserves had political as well as constitutional dimensions to it. A multi-national enterprise interested in investing in the oil sector in Kurdistan region of Iraq (or any other governorate) had to consider the challenges resulting from different interpretation of the Iraqi constitution (Participant P4, Member of Advisory Commission – Iraqi Prime Minister's Office). Iraqi constitution was approved by a national referendum in 2005, and according to Participant P4, it gave the right exclusively to the federal government to manage oil and gas deals with foreign companies, and hence the basis for the federal government argument of considering KRG Profit Sharing Contracts (PSCs) as illegal and void.

To defend the KRG position, Participant P21, Manager at the regional Ministry of Oil of KRG, provided the researcher with a copy of a 2008 study sponsored by KRG and conducted by a British legal expert, James Crawford, and entitled "The Authority of the Kurdistan Regional Government over Oil and Gas under the Constitution of Iraq". The study supported KRG's position of not breaching its constitutional obligations as well as its claims that Iraqi constitution gave the exclusive rights to federal government to manage only "existing" oil and gas fields at the time the constitution was approved in 2005, and hence, management of all "future" fields would fall under the autonomy provisions allocated to KRG by the constitution. In Kurdistan, an MNE has to weigh in the options of investing in oil fields there and facing the eerie of the federal government or investing in the south and foregoing the great opportunities of the north (Participant P14, Executive employee of oil foreign company investing in Kurdistan). While a contract might be signed with Iraqi Ministry of Oil, however, provincial councils represent another stakeholder that IOCs have to cater to whenever MOO decides to go it alone (Participant P16, Academic Researcher).

Corruption. When asked about corruption in Iraq and its impact on business operations, one view of the subject by Participant P1 went as:

> Administrative and financial corruption is rampant in government ministries. Actually, some officials discourage private sector investment so they could offer their ministries' contracts to corrupt individuals and corrupt companies that engage in money laundering. Then when news of the scandal breakouts, the minister would get replaced and things are forgotten. Unfortunately, the legislative body is unable to stop those corrupt practices of government officials. (Participant P1, Chairman of an influential Iraqi parliamentary committee)

Interestingly, Participant P8, a manager at Ministry of Oil, said "I have not seen corruption, only heard of it". A manager at Kurdistan Board of Investment (KBOI), Participant P17, remarked "Corruption is a characteristic of developing nations. Corruption exists in Kurdistan, however, the government is taking steps to eradicate it." An investment consultant for KBOI, Participant P20, commented on the issue of corruption in Kurdistan as "Corruption is not seen, but we don't know. We have not experienced it ourselves. If it's widespread we would have noticed it, hence, our perception is it's very limited. Along the same line, Participant P14, an executive with an oil company stated "Kurdistan Regional Government and its ministries treat oil companies engaged in oil exploration and production differently than those involved in oil services. Corruption has not been a problem for us, but service companies face it."

Participant P15, an economist and previous deputy minister, and Participant P16, an academic researcher and until recently an employee of Iraq's National Investment Commission, stated that Iraq's cabinet ministers use their positions to advance their political groups financial interests. Appointments and promotions have been given to members and supporters of the political parties of the presiding minister. Ministries' contracts are given to party members or to fake companies ran by their protégés. Financial scandals at the ministries of trade and that of electricity were billions of dollars were siphoned off by the ministers in charge, received wide and notorious publicity in Iraqi media. Participant P15 stated "An executive of Siemens (a major manufacturer of power generators) told me he had to put aside 7% commission to Iraqi officials of total value of the electricity contracts Siemens had to sign off with Ministry of Electricity". Corruption in Iraq is real and widespread. The government has publicly claimed that efforts are underway to eradicate it, but has stopped short of convicting any high ranking official (Participant P2, Member of Iraqi Parliament).

Human capital and availability of skilled work force. When asked about Iraq's pool of skilled workers, one interesting remark by Participant P1 went as:

> Iraq currently lacks adequate skilled labor. There are enough engineering graduates, but not enough quality people with the right caliber to work in the oil industry. Iraq had sufficient technical people, but those either are old now or have left the country because of wars and occupation. In the electricity sector there are 115,000 employees working for the Ministry of Electricity (MOE). Majority are hidden unemployment. MOE does not have enough electrical engineers to do the required job. For political reasons, ministries are hiring graduates of Islamic religious schools and putting them in managerial positions. We need experts and if we can't find them locally, we could bring them from abroad. There are many Bengali, Indian, or Malaysian engineers who'll be happy to work in Iraq. They're cheaper than Iraqis and work harder. Iraqi engineers in the public sector hardly work more than few hours a day. Some even collect salaries without showing up to work. (Participant P1, Chairman of a relevant committee in the Iraqi parliament)

Those remarks by the chairman of a relevant committee in the Iraqi parliament drew a telling picture of Iraq's need for sufficient number of skilled workers to replace those who left the country or to meet the needs of Iraq's current plans to increase oil production substantially. The remarks also raised the question of workers' productivity problem plaguing the government run public sector and needs to address it and find the adequate solutions to it.

"We have no problem in finding and hiring Iraqi engineers and labor. We provide training where needed" remarked Participant P13, a manager at an oil company investing in Iraq when asked about problems faced when hiring local labor. Participant P3, a senior member of Advisory Commission - Prime Minister Office, stated that Iraq requires all international oil companies to put aside $5 million per contract for training purposes.

Participant P12, another manager of an oil company working in Kurdistan region went on to state that more than 90% of employees, including managers, in the oil company he works for are local Iraqis. The comment by Participants P12 and P13 highlighted the ability of foreign companies to find their needs from the available pool of Iraqi skilled force; majority of which were employees of Iraq's mammoth public sector that employs approximately 3 million people in a country of 30 million people (Gorran, 2012). Several participants (P12, manager at foreign oil company, and P10, manager at Economic Section, Council of Ministers) stated that higher earnings drove many skilled workers to leave Iraq's public sector and seek employment either in the higher paying private sector or working directly for foreign companies doing business in Iraq.

In order to meet its needs of skilled work force, Iraq's Ministry of Oil has conducted regularly training courses to its employees as well as to university students aspiring to work in the oil sector. Table 10 shows the number of graduates of Institute of Oil Training, Ministry of Oil for the period 2006 – 2012. The statistics were provided by Ministry of Oil (MOO) to the researcher. Table 10 shows a healthy increase in Year 2011 and 2012 in the number of MOI employees that went through the training.

Table 10

*Graduates of Institute of Oil Training - Ministry of Oil**

Year	University Students	Employees of Ministry of Oil
2006	33	1537
2007	6	1135
2008	33	1052
2009	49	1635
2010	43	1801
2011	82	2627
2012	55	3577
Total number of graduates	301	13364

Note. *As provided by Baghdad Oil Training Institute – Ministry of Oil per unpublished document dated February 10, 2013 (in Arabic)

Table 11

*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 Ministry of Higher Education and Scientific Research per unpublished document dated February 13, 2013 (in Arabic)

Table 11 shows the number of oil and electrical engineers that graduated from all of Iraq's universities for the period of 2006 - 2012. It also shows the total number of graduates of technical institutions (2-year diploma) and electrical and petrochemical technicians. Statistics were provided by Iraq's Ministry of Higher Education. As could be seen from Table 11, the number of electrical and oil engineering graduates over the period of 2006 to 2012 were 4548 and 1046 engineers respectively.

Unlike the functional and organizational structures of United States governmental agencies that are strictly concerned with regulatory function, Iraq's ministries go beyond the monitoring and control functions to that of a full-fledged corporation performing production and/or service roles. To illustrate that, Table 12 shows the corporate structure of Ministry of Oil. The ministry consists of 26 organizations, 18 of which are structured as corporations performing different tasks related to oil and gas extraction, production or processing. Information in Table 12 was provided by Iraq's Ministry of Oil to the researcher. Table 12 shows the total number of people working at MOI as 120,669 employees. Ministry of Electricity has similar large structure to that of MOO and in turn employs approximately 115,000 workers according to Participant P1, chairman of Parliamentary committee and Participant P4, member of the Advisory Commission. Iraqi Ministry of Electricity (2013) consists of the following 18 directorates:

1. Six Directorate-General for the Production of Electrical Energy - (Central, Euphrates, Northern, Salah al-Din, Nasiriyah, and Basra)
2. Five Directorate-General for Power Transmission - (Central, Higher Euphrates, Middle Euphrates, Northern, and Southern)

Table 12

*Ministry of Oil Corporate Structure**

No.	Name of Organization	Number of Employees
1	Ministry Headquarters	1068
2	Northern Oil Company	12861
3	Central Oil Company	1523
4	Maysan Oil Company	3608
5	Southern Oil Company	24478
6	Oil Exploration Company	1637
7	Iraqi Oil Tanker Company	413
8	Iraqi Drilling Company	6797
9	Northern Refineries Company	9462
10	Central Refineries Company	6778
11	Southern Refineries Company	5416
12	Northern Gas Company	2591
13	Gas Filling Company	5880
14	Southern Gas Company	4698
15	Oil Products Distribution Company	20763
16	Oil Projects Company	3349
17	Oil Pipelines Company	5060
18	Oil Marketing Company	265
19	General Company for Heavy Engineering Equipment	2440

Table 12

*Ministry of Oil Structure** (cont.)

No.	Name of Organization	Number of Employees
20	Oil Research Development Institute	295
21	Oil Training Institute - Baghdad	559
22	Oil Training Institute - Bayji	255
23	Oil Training Institute - Basrah	283
24	Oil Training Institute - Kirkuk	169
25	Hospitality House	19
26	Oil Cultural Center	2
Total Number of Employees		120669

Note. *As provided by Ministry of Oil per unpublished document dated March 20, 2013 (in Arabic).

3. Seven Directorate-General for Electricity Distribution - (Karkh, Rusafa, Sader City, Middle Euphrates (Najaf, Karbala, Babil, Diwaniyah), Central (Kut, Anbar, Diyala), Northern (Nineveh, Kirkuk, Salah al-Din), and Southern (Basra, Nasiriyah, Maysan, Muthana)).

Banking system and financial institutions. When asked about their views on Iraq's financial institutions and ease of using Banking's services to conduct business, participants' views agreed on the need to improve those services. Some of those views were:

> Banking services are basic and don't meet business needs. They're organized to cater for Iraq's cash-based economy. The transfer fees are high. We get charged

> 1% on money we transfer outside Iraq. When talking about millions of dollars, that fee becomes an important factor of costs of doing business in Iraq. (Participant P12, manager at an oil company doing business in Kurdistan region)

Participant P16 had the following to say:

> Banking system is not up to date and does not meet business needs. It's in need of new legislation to revamp it and diversify its services. Most Iraqis don't use banks for their transactions because banks don't offer money guarantees to depositors and that's why people use cash for their transactions. If a bank is attacked by criminal elements and money stolen, depositors will lose their savings. (Participant P16, Academic Researcher)

Participant P3 added:

> Iraq's banking system suffers from many problems due to close to 30 years of wars and international sanctions that effectively cut off Iraq from technological development in that sector. Iraq lacks skilled people that understand the latest operations in the banking system. Privately owned banks lack enough accumulated capital to be effective in the investment process, and most of their loans are to family and friends. There's a capital flight because of the security situation especially to Jordan and United Arab Emirates. (Participant P3, Member of Advisory Commission – Iraqi Prime Minister Office)

Three participants (P1, P3, and P4) criticized the newly established private banks in Iraq for limiting their financial operations to that of monetary foreign exchange (some for limiting loans to family members and friends). Providing assets and contractors' insurance coverage for projects in Iraq have been a challenge for foreign investors.

Insurance services are limited and Iraq lacks insurance companies capable of providing the financial coverage for multi-million dollars projects. Participant P12, manager at an oil company doing business in Kurdistan region of Iraq, complained about contractors dropping out of projects without possibility of recovering costs of delays. Contractors in Iraq provide neither liability nor performance insurance coverage since neither is offered by local insurance companies. In reference to insurance coverage, his employer has, Participant P12, Manager at a foreign oil company remarked:

> Our vehicles and small assets are insured by a British insurance company, however, our oil drilling and other heavy equipment are not insured. I heard of an Iraqi insurance company in the making, but don't know much about what they will insure or won't. (Participant P12, Manager at foreign oil company)

Despite its shortcomings, Iraq's banking system (including insurance) has grown in 2011 by 27.9% from its level in 2010 (Report on Iraqi Economy 2011 – Iraqi Ministry of Planning – unpublished document provided to researcher). Unfortunately, the Report does not specify the contributions of the private banking sector to that increase. However, the Iraqi Ministry of Planning's document indicates the total contributions of the banking system (including insurance) to Iraq's GDP for year 2011 increased to $3.315 billion (or 1.6% of GDP) from its 2007 - 2010 stagnate level of $2.608 billion. Iraq's banking system grew at a rate of 6.2% annually for years 2007 – 2011.

Iraq's banking system consisted of 54 banks in addition to Central Bank of Iraq. There are seven government run banks, 23 privately owned banks, nine Islamic banks, and 15 foreign owned banks (Central Bank of Iraq, 2013b). Iraq's Investment Law 6/2006 provisions do not apply to the banking system. Foreign and local investments in the banking system follow Central Bank of Iraq Law 56/2004 and Banking Law 94/2004 (National Investment Commission, 2013). Iraq's government owned banks perform 90% of Iraq's financial transactions and three of those banks (Rafidain, Rasheed, and Trade Bank of Iraq) account for 85% of banking sector assets in terms of book value (National Investment Commission, 2013).

More than half of the capital in government-owned banks was governmental deposits used to cover financial transactions of the public sector. Only 8% of the deposits were provided as loans, and 60% of those loans went to cover operations of the public sector, and the rest to cover mortgages with only small amount of loans provided to the private sector (Abdul-Rada, 2012b). Loaning in Iraq requires equal value collateral (usually a real estate property) to be provided by the borrower, a requirement that has effectively put 95% of the population outside the borrowing process (Abdul-Rada, 2012b). This requirement had a delimiting effect on the growth of the private sector and especially on Iraq's small businesses. It has a discouraging effect on foreign firms with ownership (technology or management) advantages who might be interested in raising foreign as well as Iraqi domestic capital to implement their investment plans.

Banks in Iraq tend to avoid giving out long term loans and prefer to recover their assets quickly. Nevertheless, some banks (e.g., North Bank for Finance and Investment) have ventured into issuing guarantees, loans, and letters of credit (LOCs) for oil refinery and power generation projects. The value of those guarantees is usually small due to the limited market capitalization of Iraq's private banks. To illustrate the point further, North Bank of Finance and Investment (NBFI) (considered one of Iraq's largest private banks), has a total market capitalization of $151 million, while the total cost of the Erbil power station (which NBFI participated in issuing LOCs for) was $242 million; a value more than 1.6 times NBFI total market capitalization. Oil and power generation projects are capital intensive and investors need large banks to support their operations. Most of those financial transactions are limited to the Kurdistan region of Iraq, where Iraq's only privately held oil and power generation projects are located.

Research Question 2: How determinants fit into the OLI paradigm? In order to answer the second research question, data were collected on the numbers, types and locations of FDI projects existing in Iraq's oil and electricity sectors at the time of this study. Those projects are the results of how MNEs reacted to FDI determinants, and their types reflected the motivations for the extension of activities of MNEs beyond the borders of their countries of origin. They're how MNEs advantages as discussed in the eclectic or OLI paradigm (Ownership, Location, and Internalization advantages), were utilized to realize the expansion of operations of these companies. That is while foreign enterprises' ownership advantages (e.g., technological know-how, marketing knowledge, superior management capabilities) in the oil and electricity sectors over their Iraqi counterparts were an acknowledged fact by all interview participants (Iraq being a third world country with devastated economy), what was left to collect were data on the locations of projects (i.e., location advantages of a specific country or a region) and how foreign firms preferred to utilize their internalization advantages (e.g., wholly-owned, joint venture, acquisition). The determinants of FDI impacted the choice of location (i.e., Kurdistan region is less risky or has investment advantages over other parts of Iraq) and how the internalization advantages were realized (i.e., how FDI determinants impacted MNE choice of making its investment as a wholly-owned asset or as a joint-venture) in

Iraq's oil and electricity sectors. Once this data were ascertained, discussions could be made as to how those foreign assets (reflections of FDI determinants) fit in the theoretical framework of the OLI paradigm. The next two sections present data collected on foreign assets in Iraq's oil and electricity sectors.

Foreign direct investment in Iraq's electricity sector. In order to answer the second research question data were collected on the numbers, types and locations of FDI projects existing in Iraq's electricity sector at the time of this study. The followings were quotes from participants when asked about FDI in the electricity sector:

> Investment Law 13/2006 has covered foreign investment in the electricity sector, but its provisions are not utilized. The Ministry of Electricity has refused to approve any project suggested by foreign and local private investors to build power plants in Iraq. (Participant P6, Employee of Iraq's National Investment Commission)

Participant P9 had the following to say:

> There's neither FDI nor local private sector investment in Iraq's electricity sector. The Ministry of Electricity (MOE) is building the power plants itself using its own resources and staff. Profit in the electricity sector is very small due to the cheap pricing of unit of electricity that the government charges the consumers. The Ministry of Electricity cannot buy that unit of generated electricity from foreign or local private investors higher than that it sells it back to the citizens. That higher pricing goes mainly to service the profits of the investors. (Participant P9, manager – Iraq's Ministry of Electricity)

Participant P4 had the following to say:

> Ministry of Electricity with all its 115,000 employees and the support it gets from the government can't provide more than four hours of electricity to the people, while the private sector, despite its limited resources provides 20 hours of electricity. Practically, it's the private sector that runs the electricity sector as far as providing the citizenry with electricity. We developed a working model for the government to deal with local and foreign investors whereby the government buys the generated electricity from the investors to guarantee their payments, since distribution to citizens and collection of payments are still in the hands of the government. We were turned down by Ministry of Electricity (MOE). There's a problem with the ruling political mindset. They create needless problems that sometimes I get the feeling there is a conspiracy against the development of Iraq's electricity sector and through it against Iraq developing economically. (Participant P4, Member of the Advisory Commission for Prime Minister Office)

Remarks by the research participants about FDI, or lack of, in the electricity sector (outside Kurdistan) was revealing, since the researcher approached the topic based on Iraqi government public media that emphasized the existence of FDI in the electricity sector. Iraq's National Investment Commission website (2013c) addresses the subject of foreign investment in the electricity sector as:

> The Ministry of Electricity (MoE) is embracing the importance of actively inviting private sector investment into traditionally state run activities… The Government of Iraq anticipates that about $7B USD in additional investment is needed, and is looking to the private sector to actively participate in the long term investment in the sector….

> The MoE has considered several different models for international investors to enter Iraq's electricity sector and is actively exploring these options. The MoE recently executed a contract with an international consulting firm to develop a model solicitation for development of a privately-owned power station that would sell its output to the MoE. This demonstrates an unprecedented and formal commitment to attracting private investment in the sector. (National Investment Commission, 2013c)

When Participant P1, chairman of relevant committee of Iraqi parliament was asked about the position of MoE towards private investment in the electricity sector, he remarked:

> The leaders of the National Investment Commission (NIC) tried everything possible to bring willing investors to help resolve the electricity problem in Iraq. They brought them and introduced them to MOE, unfortunately, they were kicked out by the Minister. There's an outright animosity to the investor by MOE. They want to build power plants themselves when they have continuously failed in doing so. Iraqi government should not spend billions of dollars of people's money on building power plants. They should bring people like X.X and have him build power plants in the rest of Iraq. MOE was hostile (example was given but will not be quoted – GH) to investors, even when a cheaper deal was offered than that of power station plants built in Kurdistan. There's too much corruption in contracts given out by MOE. There's a pro-public sector political mentality that is hostile to the private sector. MOE has 115,000 employees, when X.X runs the Erbil Power plant with 90 people only. MOE should be dismantled and in its

place we should have a regulatory agency, while its production, distribution and collection's operations sold to private sector as three separate companies. We at the legislative branch cannot force the government and its ministries to follow the legislations we enact. The government has the money from selling oil. It could afford to ignore us. (Participant P1, Chairman of Parliamentary Committee)

In the "Accomplishments of National Investment Commission - 2011" report (in Arabic) provided to the researcher, NIC stated that 300 investment licenses were issued in 2011. Among those issued were three investment licenses to 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. Table 13 shows a list of those companies and the investment projects they were issued licenses for. When the researcher questioned the discrepancy between views expressed by SMEs about lack of FDI projects in the electricity sector and the data

Table 13

Electricity Investment Licenses issued by NIC- 2011

Project	Investing company	Nationality of Investor	Amount of Investment	Workers Employed	Province
Providing 150 MW of electricity	Dao al-Jameeh Company	United Arab Emirates	$125,482,500	90	Basra
Providing 50 MW of electricity	US Industrial Services	U.S.A.	$59,590,600	49	Basra
Building power station	Rotam Group	Turkish	28,196,252	30	Najaf

published by NIC, a manager at the National Investment Commission (not a participant in the research), investigated the information and reported to the researcher that licenses were issued but no work was actually done due to problems with Ministry of Electricity.

In contrast to what foreign investors face in parts of Iraq under the control of MOE, 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 problem in Kurdistan. According to views expressed by five research participants (P1, P3, P4, P17, and P18), the success of MGH in building power plants 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 14

*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 owned and operated by Mass Group Holding

Table 14 shows the power plants built in Kurdistan as a result of FDI. According to Participant P3, senior member of Advisory Commission - Prime Minster Office, the Kurdistan Regional Government provided lucrative incentives to MGS including free oil to operate the plants. Currently, electricity is provided 20-hours per day for residents of Kurdistan by the cheaply-priced and government owned national grid (Participant P18, Manager – Kurdistan Investment Board). Iraqis outside the region receive only four hours per day from the national grid with the remainder provided by the more expensive electricity supplied by hundreds of privately owned generators.

Plans were underway by KRG to build three more power plants in Erbil, Sulaymaniyah, and Dohuk with electrical generation capacity of 1.5 GW, 2.0 GW, and 1.5 GW respectively (The Oil & Gas Year in Kurdistan, 2012 – a publication provided to researcher by Participant P21, Manager – Ministry of Oil, KRG). Foreign and local investors will again be asked to participate. Participants P12 and P13, managers at investing oil companies as well as Participant P22, member of Kurdistan Parliament, observed that Kurdistan Regional Government has been an active proponent and supporter of the private sector and foreign investment.

Foreign direct investment in Iraq's oil and gas sector. In order to answer the second research question, data were collected on the numbers and types of FDI projects existing in Iraq's oil sector at the time of this study. The in depth interviews with participants provided similar investment picture in the oil sector to that in the electricity sector. When asked about FDI in Iraq's oil and gas sector, Participant P8 remarked:

> FDI in Iraq is not real since investors are not allowed to own land and oil companies are not allowed to share production. Oil companies earn fees on oil they produce and for a specific contractual period. When lease ends oil companies leave, and equipment they own and buildings erected will be handed over to the government. The oil investment takes the shape of service contracts not any ownership projects like joint ventures. Actually, there's only one joint venture allowed in Iraq, that of Basra Gas Company. It's different in Kurdistan where all oil contracts are production sharing which is a joint venture investment. (Participant P8, Manager - Iraq's Ministry of Oil)

On another note, Participant P3 had the following to say when asked about production sharing opportunities in Kurdistan:

> Federal government and Ministry of Oil were tough on international oil companies (IOC). The rationale behind technical service contracts (TSC) was to increase production on already discovered oil fields. In Kurdistan, the production sharing contracts (PSC) were on oil exploration operations where risks are much higher. The Iraqi government is planning on opening the oil refinery business to foreign investors. (Participant P3, Member of Advisory Commission – Prime Minister Office)

There are three refineries wholly owned by foreign investors (Participant P21 Outside Kurdistan, 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 and Mitsubishi corporations. As Participant P3 stated, Iraq is planning to allow foreign and private investment in oil refineries.

Iraqi government investment in oil and electricity sectors. In order to understand the position of some elements within the Iraqi government that believe they could do without foreign investors, this brief review would shed some light on the investment activities of the Iraqi government compared to that of FDI in the oil and electricity sectors. Iraq's public sector has dominated its economy and its oil proceeds make up 99% of its exports (Report on Iraqi Economy 2011 – Iraqi Ministry of Planning – unpublished document provided to researcher by Participant P10 – Manager, Economic Section – Council of Ministers). The Iraqi government has consistently allocated substantial percentage of its budget to investment in its oil and electricity sectors. For the five years plan (2010 - 2014), the Iraqi government planned to allocate 15% and 10% of annual budget to investment in its oil and electricity sectors respectively (Report on Iraqi economy 2011 – Iraqi Ministry of Planning – unpublished document provided to researcher by Participant P10 – Manager, Economic Section – Council of Ministers).

Table 15 shows total financial allocations (operational and capital investment) for ministries of oil and electricity for years 2012 and 2013. The Ministry of Oil was planning to allocate $15.44 billion of its Year 2013 total budget of $18.44 billion to investment in oil projects (Analysis of Federal Budget for Year 2013- Research Center-Iraqi Parliament. Unpublished document provided to researcher by Participant P2, Member of Iraqi Parliament). This is an increase of $6.31 billion over 2012 allocations of $9.13 billion.

Table 15
*Ministry of Oil and Ministry of Electricity Budgets for Years 2012 - 2013**

Ministry Name	Year 2012 Total Budget (billion)	% of Year 2012 Government Budget	Year 2012 Capital Investment Budget (billion)	Year 2013 Total Budget (billion)	% of Year 2013 Government Budget	Year 2013 Capital Investment Budget (billion)
Ministry of Oil	$11.97	11.9%	$9.13	$18.44	15.54%	$15.44
Ministry of Electricity	$5.58	5.5%	$4.08	$6.81	5.74%	$5.23

Note. *Analysis of Federal Budget for Year 2013. Research Center – Iraqi Parliament. Unpublished document provided to researcher

The report, *Analysis of Federal Budget for Year 2013, Research Center – Iraqi Parliament* was an unpublished document provided to researcher by Participant P2, Member of Iraqi Parliament). The report indicated the Ministry of Electricity was planning to allocate $5.23 billion of its Year 2013 total budget of $6.81 billion to investment in electricity projects; an increase of $1.15 billion from its 2012 allocations of $4.08 billion. Iraq's total government budget was $100.42 billion for 2012 and it's estimated to be $118.72 billion for 2013. Oil proceeds will be making 93.11% of the total 2013 budget (Analysis of Federal Budget for Year 2013. Research Center – Iraqi Parliament. Unpublished document provided to researcher by Participant P2, Member of Iraqi Parliament).

The data collected to answer the second research question included all projects that met the FDI definition set by the Organization for Economic Co-Operation and Development. Based on data in The Oil & Gas Year publication (2012) (provided to researcher by Participant P21, Manager – Ministry of Oil in Kurdistan region), foreign direct investment in the electricity sector was limited to three wholly-privately-owned power plants located in Kurdistan region. According to Participants P1, P3, P6, and P7 no projects meeting FDI definition exist in Iraq's electricity sector outside the Kurdistan region.

Participant P8 (Manager, Iraq's Ministry of Oil) and Participant P4 (Member of Advisory Commission – Iraqi Prime Minister Office) stated that foreign direct investment in Iraq's oil sector was limited to a gas company located in southern Iraq (at the outskirts of the city of Basra) and jointly owned between the Iraqi government on one side and a joint collaboration between Mitsubishi and Shell Oil on the other side. The Oil & Gas Year publication (2012) showed that Kurdistan region had a combination of three wholly-privately-owned refineries as well as 50 production sharing contracts (PSCs) (i.e., joint-ventures) offered by Kurdistan Regional Government to IOCs interested in exploring new oil opportunities in the region. No other projects were found by this study that meets the FDI definition.

In summary, the answer to the second question with respect to the theory of foreign direct investment and how MNEs utilized their OLI advantages to expand their operations in a post conflict country, such as Iraq, could be found by evaluating the type and final destination of their FDI investment. The collected data of 51 oil production sharing contracts (PSCs) signed in Iraq show natural resources being the main motivational factor behind MNEs investment activities. FDI activities did not stop with oil and MNEs found another investment opportunity in Iraq's electricity sector. MNEs investment was made in three power projects as wholly-owned businesses.

Further, MNEs firms' specific advantages (Ownership advantages in the OLI paradigm) such as technologies, know how, managerial and marketing abilities were internalized (Internalization advantages in the OLI paradigm) as either joint-venture (e.g., oil PSCs) or wholly-owned firms (e.g., power plants). While the presence of abundance of oil was what made the post conflict country of Iraq attractive for MNEs FDI inflow (i.e., Locational advantages of Iraq), it should be noted most of that foreign investment went to MNEs' regional favorite, Kurdistan region, within Iraq.

The data collected in this study also showed the post-conflict state of Iraq, using the proceeds from sale of its oil (originally explored and produced with MNEs own investment) to reinvest in both its oil and electricity sectors. The data collected showed the Iraqi state inviting MNEs to invest in its oil sector only to grow in financial power and become the future competitor of those same MNEs in both the oil and electricity sectors. This "competitor" role of the state in the post conflict country with abundance of natural resources of Iraq could also be seen in the case studies of the post conflict countries of Kuwait and Nigeria that were discussed earlier in Chapter 2. Further discussions of the theoretical framework of how MNEs utilized FDI to expand their businesses in Iraq while navigating the factors/determinants impacting their operations there, would be made in the "The OLI paradigm and FDI in Iraq" section of this Chapter 4 of this study as well as in the implications section of Chapter 5.

Evaluation of Findings

The research questions this study intended to answer were:

1. What are the determinants of foreign direct investment in Iraq's oil and electricity sectors as perceived by subject matter experts?
2. How do these determinants fit into FDI theoretical framework of OLI paradigm?

This investigation used Iraq as a case study to understand FDI activities in post conflict countries with abundance of natural resources, even though the findings apply to a broader scope to include similar countries to that of Iraq. 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. Reports from Iraq's National Investment Commission and Iraqi government ministries (e.g., oil, electricity, higher education, planning, and finance) along with media articles (e.g., internet and newspapers' articles addressing FDI, corruption, political violence in Iraq, electricity shortages, oil production) were used to have further insights into the conditions facing FDI in Iraq. Several of the subject matter experts interviewed are either in the FDI decision making process or very close to it. Their views of the determinants of

FDI in Iraq's oil and electricity sector are results of first-hand knowledge of the issues and problems facing the investment process in Iraq. 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 discussed in Chapter 2. They were used for comparison purposes to improve the applicability of findings to the larger population of post conflict countries.

The theoretical framework of the OLI paradigm treated MNEs expansions of their business activities 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. This research was a study of the factors that make up the locational advantages of a country. More so, it was a study of the locational advantages of the theoretical framework of the OLI paradigm in the context of post conflict countries.

Security and political instability, as the case in other post-conflict countries, were paramount in the minds of majority of the participants and were rated the most dominant factors impacting the investment environment in Iraq. 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. Several participants noted the problems facing some oil workers in southern Iraq reaching their job sites. In 2012 and in order to minimize dangers facing foreign workers, the Iraqi government authorized oil companies to build their own on-site airports to ferry their workers directly from Iraq's national airports to the IOC's own jobsite. It's worth noting that while security and political instability might impact investment activities in post conflict countries, however that did not halt FDI activities. 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 $1.4 billion in 2010. Kuwait, after liberation from the Iraqi occupation, showed far lower security problems and political instability than either Iraq or Nigeria, however, FDI activities with $398 million in 2011 was far lower than either country.

Abundance of oil was the third most important FDI factor mentioned by SMEs. As Participant P12, an oil company manager remarked, "First there has to be oil for us to come to Iraq. To drill it and produce it, we need security." As was mentioned in this study, Iraq's Ministry of Planning had updated Iraq's oil reserves to that of 150 billion barrels from its previous 143 billion barrels. Iraq has the third largest oil reserves after Saudi Arabia and Canada and world 10^{th} gas reserves at 121 trillion cubic feet. 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 (i.e., new opportunities to generate more profit). This could explain the reasons for the relatively higher FDI amounts in Iraq and Nigeria, where new oil exploration and production increase operations are active, compared to that of Kuwait where oil exploration and production increases have either reached saturation or simply deemed unattractive at this stage.

Corruption in Iraq's electricity projects resulted in the arrest of one minister and the firing of another. Iraq's government spending of so far $60 billion in its electricity sector is phenomenal; however, most of it is on fake contracts and corrupt dealings. Electricity outages is a daily occurrence with ordinary citizens receiving less than 6 hours per day from the national grid with the rest supplemented by private entrepreneurs running their own generators. Discussions with participants about corruption levels in Iraq confirmed reports by international groups such as Transparency International which placed Iraq in its 2011 report tied with Haiti as the 8th most corrupt country in the world.

Due to weaknesses of the 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 case studies of Kuwait and Nigeria showed Kuwaiti parliament locked in a struggle with the government over accusations of corruption. Same conclusion could be made about the accusations by the insurgency towards the Nigerian government. Worse, in Nigeria - just as in Iraq- the vast proceeds from oil generated envy and anger towards the state that resulted in attacks against oil installations by disgruntled groups demanding a redistribution of wealth (the insurgency in the oil-rich Niger Delta in Nigeria is a good example of that). Those oil installations are not looked at by opposition groups as "belonging to the people" but rather as "belonging to the rentier state". Hence, attacking them is justified by them. They're the assets the government uses to buy weapons to subjugate them. Hence, by attacking them the rebels would argue, they're depriving *their* *enemy* from its resources. The state in this scenario does not represent the people nor do its assets, the oil installations.

The interviewees overwhelmingly agreed that investment environment in the semi-autonomous Kurdistan region of Iraq differs substantially than that in other parts of Iraq. The 'other Iraq' region presents a peaceful environment and a more stable and pro-FDI regime than the federal government residing in Baghdad. The contrast between the two parts of Iraq extends to that of differing investment legal framework, investment opportunities, and a clearly differing political and economic mindset that commits the Kurdistan region to empowerment of the private sector and encouragement of foreign investment. FDI susceptibility to regional differences within a country were discussed in Chapter 2 of this study, and while Kurdistan represented a favorable region for FDI investment in Iraq, Nigeria's northern part (where the Boko Haram extremists roam) hardly received any FDI inflows.

Iraq's Investment Law 6/2006 while praised by majority of the participants as a new era in Iraq's opening up to FDI was also criticized for stopping short of allowing land ownership. While this law applies to most of Iraq, however, the Kurdistan region has its own Investment Law 4/2006 that supersedes that of the federal Law 6/2006. The issue of a regional legislation superseding that of a federal law as well as the competing political and economic views between the federal government and those of regional and provincial authorities are indicative of the weakness of Iraq's state institutions and in line with existing literature on post-conflict fragile states such as Iraq (Brahimi, 2007; del Castillo, 2010). It should be noted that while the FDI phenomena is as old as the hundred-plus years of MNEs existence (FDI being one of the means by which MNEs expanded their operations beyond their home countries), however, the post conflict countries with abundance of oil of Iraq and Kuwait are just recently introducing their own FDI legislations. Kuwait as stated earlier introduced its first FDI law in June 2013 and won't be effective until December 2013. In contrast Nigeria had a much earlier start to that of Iraq and Kuwait when it enacted its FDI regulatory law in 1995.

Foreign direct investment in the post conflict country of Iraq is a new phenomenon. The researcher is not aware of any English-language literature that addresses the subject of FDI in Iraq's oil and electricity sectors. Existing English-language reports on FDI activity in Iraq consist of media newsreel and reports by Iraqi and US governments that do not address the issue adequately. In visiting Iraq and meeting face-to-face with SMEs, the researcher was made aware of several Arabic-language articles that addressed FDI activity in Iraq. There were also two academic studies on impact of Iraq's legal framework on FDI activity. None of those studies or articles addressed the subject of this investigation, namely FDI determinants in Iraq's oil and electricity sectors. Almost all of SMEs that participated in this study expressed support for the subject of FDI in Iraq being investigated by an academic researcher. No SME conveyed the knowledge of similar study (only one participant expressed knowledge of the two Arabic-language academic studies on the narrow topic of Iraq's legal framework and FDI).

The most important finding of this study is the discrepancy between what government agencies advertise and claim about FDI in Iraq's electricity sector and the fact that no such foreign or local private investment is allowed in that sector. Iraq's Ministry of Electricity actions are clearly hostile to such investment. On the other hand, Kurdistan is a host to three electric power plants built and financed by a multi-national investment corporation. The Kurdistan Regional Government has been successful in resolving the electricity supply problem mainly by encouraging foreign investment. Its citizens now enjoy 20-hours daily of continuous electricity supply from the national grid. Iraq's federal government has spent for the period of 2003 to 2012 over $60 billion in mostly corrupt dealings in what was originally estimated by US government to be a $5 billion reconstruction effort of Iraq's national electricity grid. In 10-years period (2003 – 2013), the Ministry of Electricity has been managed by 4 successive ministers each promising to resolve the chronic electricity problem 'next year'. Two of those ministers have been removed from their positions as a result of corruption charges. None of the ministers opened up to the idea of utilizing the services of foreign or local private investors to resolve the problem. The anti-private investment political mindset as represented by the 'old guard' of the public sector will be addressed in more details in Chapter 5.

Iraqi media reports, including official releases by National Investment Commission about FDI activity in Iraq's electricity sectors have not been found to match on the ground reality. Several official reports were presented in this study claiming licenses issued or public statements suggesting strong support for FDI in Iraq' electricity sectors. Table 13 showed three controversial licenses as being issued by provincial investment boards. Iraq's NIC reported those investment licenses in its own 2011 Annual Accomplishments Report despite their violation of the 2009 amendment to Law 13/2006. According to that amendment electricity projects with production capacity greater than or equal to 30 MW fall under the responsibility of NIC to authorize rather than that of provincial boards of investments. Those licenses were illegal and issued in direct violation of the law.

Further investigation by the researcher showed those licenses as unused due to the refusal of Ministry of Electricity to allow local or foreign private investments in the electricity sector. The issuance of those licenses raises concerns over power grab attempts by provincial investment boards to side step the national NIC. The issuance of those licenses could also reflect attempts by the appointed leaders of the provincial investment boards to advance personal agenda. The reporting of licenses issued in violation of the law as an achievement by NIC itself (whose own authority was trumped) seemed to be an oversight. This conclusion is based on the fact it was the researcher who raised the issue with two NIC employees both of whom were surprised to learn of the existence of such licenses. That triggered an investigation and the resulting knowledge that none of the three licenses were acted upon.

Another finding of this study is FDI in Iraq's oil sector is limited in scope and in its early stages and most of it is in the semi-autonomous region of Kurdistan. There are 50 PSCs (joint ventures between KRG –share limited to 20-25% - and IOCs) for oil exploration and production, three oil refineries in Kurdistan region (al wholly privately-owned ventures). The oil refinery in Erbil is operated by KAR Group, in Bazian by WZA Petroleum, while the one in Tawke by DNO International. In other parts of Iraq there's only the Basra Gas Company (joined venture between the Iraqi government (51% ownership), and an IOC consortium that include Shell and Mitsubishi). Those are the only projects in Iraq's oil sector meeting the definition of FDI and consequently the theoretical framework of the OLI paradigm.

In the electricity sector, there are only three power plants located in Kurdistan region which also meet the definition of foreign direct investment. They are wholly-owned by Mass Global Corporation and located in Erbil, Sulaymaniyah, and Dohuk. There are three planned power plants (developed and owned by Mass Global) and one planned oil refinery (owned by Genel Energy) to be completed by 2015. All located in Kurdistan region of Iraq.

Majority of current FDI activity in Iraq is in the real estate business, related construction activities (such as cement factories), and telecommunications. FDI in Iraq's oil and electricity sectors consists of seven ventures; six wholly-owned private sector projects in Kurdistan region and one joint-venture (government and IOCs) in southern Iraq as well as all PSC oil contracts in Kurdistan region of Iraq. No other projects in Iraq's energy sector meeting the theoretical definition of FDI (and hence the framework of OLI paradigm) were found in this study.

Foreign commercial activity in Iraq's oil sector takes the forms of Technical Service Contracts (TSCs) and that of Production Sharing Contracts (PSCs). Under a TSC contract, the international oil company (IOC) receives monetary fees or their equivalent in oil for each barrel of oil it produces beyond that agreed on in the contract and for a specified number of years. The contracts make provisions for oil companies to recover their investments' costs early in the process. TSCs while consisting of foreign funds inflows into Iraq do not meet the definition of FDI as established by the Organization for Economic Co-operation and Development (OECD). According to OECD (2008), a foreign direct investment is:

> … a category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor. … The "lasting interest" is evidenced when the direct investor owns at least 10% of the voting power of the direct investment enterprise. (OECD, 2008, p. 16)

Since TSCs offer no "lasting interest" to the investing IOC, such investment do not constitute a foreign direct investment. This distinction is important since there exist in current literature (media reports, articles or US and Iraqi government reports) a tendency to use the term "foreign investment" when referring to all foreign commercial activity in Iraq. Trading or performing contracts on behalf of the Iraqi government is not "foreign direct investment". Technical service contracts provide a fee per barrel of oil produced by the contractor as remunerations for work done, while production sharing contract provide returns based on the value of oil or gas produced. Technical service contracts were offered on already producing or discovered large oil fields which mean investor see little technical, price or exploration risks. An important parameter of TSC is the initial production target that is agreed on with the government. Reaching that target triggers the reimbursement of costs and the payment of fees phase, which incentivize the IOC to reach that level as quickly as possible.

Production sharing contracts are those offered by Kurdistan Regional Government (KRG) in the region of Kurdistan. No other part of Iraq offers such FDI contracts. PSCs provide for a joint venture between IOCs and KRG (oil being a strategic asset discourages governments, including KRG, from offering it as a wholly-owned venture

(Kretzschmar, Kirchner, & Sharifzyanova, 2010). Foreign investors are allowed to own a percentage of the oil field reserves (a figure agreed on in the contract) as well as a quick recovery of investment costs once oil field is put in service. Unlike TSCs contracts that are usually offered on producing or already discovered oil fields, PSCs involves a degree of risk of losing the investment if oil exploratory and drilling activities fail to discover a commercially producing oil field.

According to International Energy Agency (2012), between 2008 and 2012 Iraq federal government organized four bids rounds through which it awarded 19 oil and gas technical service contracts to international oil companies. They included 15 oil and 4 gas contracts. The Kurdistan Regional Government (KRG) awarded 50 contracts for oil and gas exploration and development, mostly to medium size IOCs. Most of those contracts were production sharing in exploration blocks (Kurdistan area is divided into 57 blocks for oil exploration, 50 of those blocks were awarded to IOCs as of 2012). The contracts' terms outline the possibility that no oil or gas would be found in commercial quantities and the contractor would have to accept all costs with no remuneration. Just like the federal government did, the KRG also awarded two technical service contracts on already producing oil fields.

Technical service contracts provisions provide for the Iraqi government to tax income earned by oil companies (KRG does the same with its PSC oil contracts). According to Iraqi budget for Year 2013 submitted for approval to the Iraqi parliament, the Iraqi government in 2012 collected 300 million Iraqi Dinar (ID) (equivalent to $257.29 million at current exchange rate of 1,166 ID = $1.0 US) in income taxes on international oil companies (IOCs) working in Iraq. The government estimated to collect similar amount of $257.29 in income taxes from IOCs for Year 2013 (Analysis of Federal Budget for Year 2013, Research Center – Iraqi Parliament. Unpublished document provided to researcher).

The Kurdistan Regional Government privatized Erbil Refinery that was originally erected in 2005 as a joined Iraqi Ministry of Oil and Iraqi Ministry of Industry & Minerals venture to be completed in 18 months. After much delays and budget difficulties, KRG intervened and sold the plant in late 2008 to Kar Group, a privately owned Iraqi and foreign capital. The oil refinery is Iraq's sole producer of unleaded-gasoline and the largest privately-owned refinery in country. In addition to Erbil refinery there is Bazian (operated by WZA Petroleum) and Tawke (operated by DNO). All the three refineries are privately owned and operated ventures. There is only one joint venture in the oil sector in other parts of Iraq, that of Basra Gas Company.

Location is an important factor of Ownership, Location, and Internalization (OLI) paradigm and the pro-FDI environment the Kurdistan region offered over other parts of Iraq were the main reasons for its selection by foreign investors. However, the findings of this study indicated that FDI activity in Kurdistan region in the oil and electricity sectors is not entirely independent operations but rather relies (to a certain extend) on support and services provided by the federal government of Iraq. The same government the findings of this study showed as having ministerial bodies engaged in anti-FDI policies in the oil and electricity sectors in other parts of Iraq outside Kurdistan. Iraq with its almost two separate locations/parts 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 case of Kurdistan region inside the state of Iraq.

The ownership advantages represent the technological and managerial skill sets owned by multi-national corporations. The findings of this study showed 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.

The findings of this study indicated that market entry mode chosen by MNEs to internalize their ownership advantages was varied from that of wholly-owned enterprises (the three oil refineries and three power plants) to that of joint ventures (all oil PSCs) in Kurdistan region. In other parts of Iraq, the findings of this study indicated the existence of only one joint-venture (that of the gas company). No other types of market entry mode by MNEs were found in Iraq's oil and electricity sectors.

In summary, the findings of this study show the determinants of FDI Iraq to be similar to those of other post conflict countries such as Kuwait and Nigeria that were used as comparison case studies. Lack of security, political instability, corruption and inadequate investment laws were all important factors affecting FDI inflows, but as data showed neither particular factor nor the combination of them had the effect of halting foreign investment in any of those countries. Investment operations continued albeit not to the full capacity of what every country could absorb. Ideological differences over the extent foreign investors are allowed to own assets in the country played an important role in delaying the introduction of FDI regulations. Protection of investment requires transparency and rule of law which translates into more democratic system and a government accountable to its people. However, abundance of oil tends to create rentier states; governments that raise their budgetary revenues from the rent they get from oil rather than from taxing their citizens. When citizens are not taxed, they become lax in making the government accountable, hence, the reason for the rampant corruption in all the three countries studied – Iraq, Kuwait and Nigeria.

The findings showed the state as both a regulator of foreign investment as well as a competitor to foreign enterprises. The Iraqi state (as well as that of Kuwait and Nigeria) making its own investment in the oil and electricity sector. The findings showed the structure of the states in post conflict countries to be substantially different than those in more developed nations where their roles are restricted to that of regulators. The state in post conflict countries functions as a powerful corporation with its own interests and competitive advantage over local as well as foreign enterprises.

Additional background information. Data collection in this study utilized both semi-structured interviewing as well as secondary data provided by Iraqi and non-Iraqi sources. The data presented here serves as background information for better understanding of some of the themes discussed in Chapter 5. It explains some of the implications of the study discussed in Chapter 5.

In order to attract large sums of FDI and despite the relative security of northern and southern parts of Iraq, however, the data collected showed it was imperative that all of Iraq (or any other post-conflict country) be turned into a safe country. Foreign direct investment decisions are made for long term commitment in a country (OECD, 2008), hence, the importance of creating political stability and security in the country as a whole not just part of it. Table 6 showed FDI investment in the resource-rich post conflict countries of Iraq, Kuwait and Nigeria as positively increasing over the period of 2007 thru 2012, however, it should be noted that FDI in those countries pales compared to more stable oil rich countries such as Saudi Arabia and United Arab Emirates. In 2012, FDI in Saudi Arabia totaled $12.182 billion (United Nations, 2013), more than the combined total of FDI in all the three post conflict countries of Iraq, Kuwait and Nigeria for the same year 2012 (refer to Table 6). Also, with FDI total of $9.602 billion in 2012 (United Nations, 2013), the oil rich nation of United Arab Emirates garnered more foreign investment than the combined total of both Iraq and Nigeria. Politically stable and more secure country does matter to FDI inflows.

Several participants in the study (Participants P1, P2, and P4) agreed with the notion that domestic private and foreign investment tends to gravitate towards politically stable environments while avoiding countries that fall prey to political or military coups. In fragile post-conflict countries, political posturing, nature of relationships between political groups, and the role played by the opposition could lead to abrupt changes in regime type or the ruler. With new regimes come changes to economic policies including those impacting foreign investment, changes which could discourage investors (Bartels & de Crombrugghe, 2009). Government policies as the findings of this study indicated were the fourth most important factor (out of 14 considered) impacting FDI in Iraq.

The political and security conditions in Iraq from 1980 until today have been characterized by a chronic instability. The Iran – Iraq war lasted from 1980 – 1988 followed in 1990 by the Iraq invasion and occupation of Kuwait, then by the First Gulf War of 1991 to liberate Kuwait and the Second Gulf War of 2003 that toppled the

Saddam Hussein regime. From 2003 to date, Iraq had an active and violent insurgency fed by feuding internal political groups and supported by foreign regional powers with agendas of destabilization of Iraq.

The period of 1990 to 2003 was characterized by devastating international sanctions that boycotted Iraq politically as well as economically (Tripp, 2007). In response, the Iraqi government then adopted new economic policies that were not successful in alleviating the impact of those crippling sanctions. In an attempt to improve economic conditions, the Iraqi government decided to ease its anti-private sector policies and encourage its participation in economic development. Iraq also introduced its first legislation in 2002 encouraging foreign investment, albeit limited to citizens of Arab countries only (United States Department of Commerce, 2011). Participants P16 (an academician and ex-employee of National Investment Commission) and P15 (economist and ex-deputy minister) stated that foreign direct investment legislation in Iraq pre-dated the investment Law 13/2006.

The Arab Investment Law 62 of 2002 was intended to entice Arab investors into investing in Iraq. Local private investors were also allowed to share in the profits of government run companies by either investing in their production lines or acting as distributors of their final products. There were also attempts by Saddam Hussein's regime to sell limited number of government companies to the public. Both Participant P1- Chairman of a relevant committee in Iraqi Parliament, and Participant P4, Member of Advisory Commission – Iraqi Prime Minister's Office, agreed that those acts proved ineffective in improving the economic conditions of Iraq in part due to the ideological position of the government and its support of a socialist and centrally-controlled economy that saw at best a limited role for the private sector.

Participants P6 and P7, Employees of Iraq National Investment Commission – Council of Ministers, stated that Law 62/2002 did not succeed in attracting Arab investors due to the limited incentives and guarantees provided by the law compared to those found in current Law 13/2006. Interestingly, Law 62/2002 allowed investment in the banking system, an area excluded by Law 13/2006. Both laws excluded the oil and gas sector from being covered by their provisions. Participant P3- senior member of Advisory Commission – Iraqi Prime Minister's Office, stated that the exclusion in Law 13/2006 was intentional due to government plan to enact a hydrocarbons law that would address exclusively the investment in Iraq's oil and gas sector. According to Participant P1 - Chairman of a relevant committee in Iraqi Parliament, the Iraqi Parliament and despite the existence of a draft of that law since 2007 is yet to approve it.

All states, regardless of the type (democratic or dictatorial) of its regime, need to fulfill three core governance functions: maintaining security, managing accountability and political participation of different groups in the country, and providing basic public goods and services (Brinkerhoff, 2007). In the case of Iraq, where a large scale country-wide conflict and foreign invasion resulted in the replacement of the previous regime, the successful performance in these three core functions was necessary to the post-US invasion's Iraqi state in order to achieve legitimacy in the eyes of its citizens. Fragile post-conflict states have governments that are incapable of providing basic security and basic services to their citizens (Brinkerhoff & Johnson 2009). They have citizens who are ethnically and/or religiously polarized with histories of distrust, grievance and/or violent conflict (Brahimi, 2007).

The collapse of the former Iraqi regime in 2003 resulted in a rampant increase in corruption levels in state establishments. Several contracts awarded by the Coalition Provisional Authority were criticized as being negotiated behind closed doors without following the standard bidding procedures. The Special Inspector General for Iraq Reconstruction (SIGIR) reported that over $8 billion of the $60 billion spent in Iraq by the US government could not be accounted for (SIGIR, 2013). Several participants (P1, P2, P3, and P4) criticized the 9-years US occupation (April 2003 through December 2011) as beset by huge misspending and waste, and as having encouraged corruption and widespread money-laundering (Smith, 2013). Corruption manifested itself in the manner of the execution of the reconstruction of Iraq contracts. US officials tolerated the subcontracting of a winning bid by the primary contractor to a secondary contractor, whom in turn subcontracts it again to a third contractor who will actually perform the job cheaply (most of the times by straying away from the original specifications). The difference between the original contract value and the final executed figure represented the amount of waste of public money. The Special Inspector General Iraq Reconstruction investigations resulted in the successful convictions of 82 US citizens (SIGIR, 2013). The Iraqi government agency, Board of Supreme Audit, noted in 2012 that an average of $800 million in profits from illicit activities get transferred out of Iraq each week, effectively removing $40 billion annually from the economy (Smith, 2013).

The researcher found that while Kurdistan provided favorable conditions for FDI and had expanded powers in running its own internal affairs, however, it's a region within the sovereign state of Iraq and not an independent state by itself. Hence, it was the government of the state of Iraq that provided sovereign guarantees to foreign capital investing in Kurdistan, and not the Kurdistan Regional Government (KRG). While several participants (P3, P8, and P16) commented on the expanded powers of KRG, the findings of this study showed certain institutions of the Iraqi government as tending to support FDI activity in Kurdistan region. Those same institutions were unable to provide similar services in other parts of Iraq, due to the restrictive (e.g., Ministry of Oil) or openly anti-FDI policies (e.g., Ministry of Electricity) that resulted in a lone FDI activity in southern Iraq (that of Basra Gas Company).

While one institution of the Iraqi government (Ministry of Electricity) rejected FDI in its electricity sector, another body (Iraqi Central Bank) engaged in pro-FDI activities and provided sovereign guarantees to foreign investors in Kurdistan, including those building power plants there (see interview of Ms. Hamdiyah al-Jaff, President of Trade Bank of Iraq with The Oil & Gas Year, 2012). Another example was the case of the oil production sharing contracts (joint-ventures FDI) which were rejected by the federal Ministry of Oil but favored by the Kurdistan Regional Government. Payments to those international oil companies (IOCs) engaged in PSC contracts in Kurdistan came actually from the Iraqi federal government through the Kurdistan Regional Government since the later could not receive proceeds of oil sales directly (Participants P11 and P13, Managers at foreign oil companies working in Kurdistan). All proceeds of Iraqi oil sales (whether for oil produced in Kurdistan region or other parts of Iraq) got deposited into the Iraqi government bank account. However, local and international media continuously report accusations by Iraqi central government that Kurdistan region engages in oil smuggling and pocketing its proceeds (Gulf News, 2012, April 3; al-Shaher, 2013, April 4).

Article 111 and Article 112 of the constitution addressed Iraq's oil wealth. Article 111 declared that oil and gas wealth belong to all the Iraqi people in all of its regions and governorates. Article 112 of Iraqi constitution states (Iraqi Council of Representatives, 2005):

> First: The federal government, with the producing governorates and regional governments, shall undertake the management of oil and gas extracted from present fields, provided that it distributes its revenues in a fair manner in proportion to the population distribution in all parts of the country, specifying an allotment for a specified period for the damaged regions which were unjustly deprived of them by the former regime, and the regions that were damaged afterwards in a way that ensures balanced development in different areas of the country, and this shall be regulated by a law.
>
> Second: The federal government, with the producing regional and governorate governments, shall together formulate the necessary strategic policies to develop the oil and gas wealth in a way that achieves the highest benefit to the Iraqi people using the most advanced techniques of the market principles and encouraging investment. (p. 68)

While Article 112 clearly states that the federal government in association with local authorities in the governorates and regions should be responsible jointly for drawing up the oil and gas policies, however, this cooperation failed to materialize in practice. The regional government of Kurdistan has drafted its own oil and gas policies even without the knowledge or approval of the federal government (Participant P3, Member of Advisory Commission – Iraqi Prime Minister's Office; Participant P8, Manager, Iraqi Ministry of Oil). In evaluating existing media reports and through interviews with participants, this study confirms the existence of potential problems impacting the implementations of Article 112 of the constitution and consequently negatively affecting FDI activity in Iraq. Examples are:

1. The continuous conflict between the federal government and Kurdistan Regional Government (KRG) over oil contracts by KRG which is a major reason behind the lack of progress in approving the much awaited Hydrocarbon Law. Iraqi Ministry of Oil has continuously threatened international oil companies with penalties if they invest in Kurdistan oil field without its approval. In response, the Kurdistan Regional Government sponsored a legal study entitled '*The authority of the Kurdistan Regional Government over oil and gas under the constitution of Iraq*' (Crawford, 2008) to support its actions and justifies its do-it-alone approach.
2. Iraqi Ministry of Oil (MOO) has signed contracts with international oil companies (IOCs) without the participation and involvement of the provincial councils earning MOO their anger and protest. Examples of those are the objections of Anbar Provincial Council to the development of Akkas gas field (Wing, 2010, November 25). Another reaction is that of the chairman of the provincial council of Basra governorate, Mr. Sabah al-Bazoni, who declared in 2011 that the council will oppose the agreement signed by Iraq's Ministry of Oil with Shell Oil Company because "the council didn't know about it" (Iraq Green Network, 2013).

3. Quarrelling between IOCs and state-owned oil companies (See Table 10 for a list) as well as with Ministry of Agriculture over interpretations of contracts signed between IOCs and MOO whereby each or all threatened legal action against each other or against the Ministry of Oil (Participant P1, Chairman of relevant committee of Iraqi Parliament).

In visiting Kurdistan, one could see bustling construction activities that are changing the face of the region. FDI has had positive impact in the economic development of Kurdistan. In contrast, the other Iraq under the control of the federal government suffers from conflicting views towards FDI that impact foreign investment activities in the country. There have been the public pro-FDI manifestations of the Iraqi government versus an entrenched view in some government institutions that distrusts foreign investment and foreign presence in general (Participant P1, Chairman of committee of Iraqi Parliament, Participant P3, Member of Advisory Commission, Iraqi Prime Minister's Office).

Despite being impressed by the technological advancement of the West, there exists a culture in Iraq that looks with suspicion and mistrust to foreign activities, especially by western entities, in the country (Participant P3, Member of Advisory Commission – Iraqi Prime Minister's Office; Participant P8, Manager – Iraq's Ministry of Oil). Iraq's history is marred by contrasting cycles, those of centuries of being the dominant power in the region and those of centuries of being an occupied nation (United States Department of Defense, 2010). Iraqi culture reflects this schizophrenic history. Iraq's most recent history has been that of an occupied nation by the British (direct control from 1915-1921 and indirectly from 1921-1958) and the Americans (direct control 2003-2004 and indirectly 2004-2011). The post-1958 revolution that toppled the pro-British monarchy in Iraq had a rocky start with western oil companies. That turbulent relationship with IOCs continued throughout the Saddam Hussein regime's years of 1968 thru 2003.

Iraqis, and only since the US-invasion of 2003, have been learning to live by and work for foreign companies; a relationship that could have attracted the disturbing attention of Saddam's security agencies (Participants P11 and P12, Managers at foreign oil companies in Iraq). The current government in Iraq has reflected in its make up the societal schism lobbed to the surface by the US-invasion between those supporting a free-market economy where the private sector and foreign investment play dominant roles and those opposing it and preferring the centrally planned economy as reflected by the existing and dominant public sector (Participant P1, Chairman of relevant committee of Iraqi Parliament).

Each resource-rich post conflict country will have its own unique problems and distinctive history of the dynamics between its rival groups; however, they'll all share in Iraq's challenges to resolve them and improve their economic development. This background section shed light on Iraqi cultural factors and attitudes towards foreign investors resulting from the country's experience with colonial rule, a common memory for all developing countries, including those post-conflict of them. While distrust of foreign investors in Iraq might be strong, Nigerians on the other hand might not internalize their colonial experience same manner as Iraqis did, and hence are more welcoming of foreign investors. The section showed examples of Iraqi state fragility and weak central government where different branches of the government functions, applies sometimes regulatory procedures and rule in a manner that contradicts each other. State institutions weakness is a problem shared by all post-conflict countries; however, the level of weakness will vary among those countries depending on severity of the conflict and the post conflict dynamics among the rival groups. It should be noted that post conflict countries share the features of mixed economy (having both public and private sectors). As such, the role of the state in the economic development of post conflict countries is far more crucial than that in developing countries. The state is usually the dominant (sometimes monopolistic) corporation in those countries and its health is of paramount importance for the initial successes of the reconstruction efforts of post conflict countries.

The OLI paradigm and FDI in Iraq. According to Dunning (1980), multinational enterprises (MNEs) would acquire assets outside their home country if they are not available to local enterprises in the host country. The FDI theory studying MNEs' foreign based activity, found it to be typically designed into one of four types: market, resource, efficiency or strategic asset seeking foreign direct investment activities (Dunning, 2000). MNEs investments overseas are driven by firms' recognition of their holding certain advantages over their local competitors. Those advantages exist in the context of what is called the eclectic or OLI paradigm: ownership (O) specific advantages, location (L) endowment and internalization (I) advantages (Dunning, 2000).

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 (or more accurately the locational variables) that could impact FDI inflow positively or negatively. This research was a study of the locational advantages of the theoretical framework of the OLI paradigm in the context of post conflict countries.

Post conflict countries with abundance of natural resources, as the data of this Iraq case study showed, attracted primarily investment from resource seeking MNEs. With their economies devastated, governments of post conflict countries, such as Iraq, Kuwait and Nigeria seek quick generations of wealth thru rents of their oil. The locational advantages (due to presence of abundance of oil) of those resource-rich countries, such as Iraq, attracted those MNEs with the specific expertise (ownership advantages) in the oil exploration, production and marketing.

The war induced devastation to the economic infrastructure of post conflict countries present lucrative opportunities to market seeking foreign investors. FDI is much needed in the reconstruction and rebuilding of such major infrastructure projects as electricity generation, transportation, communications (e.g., land and mobile phones, internet), and real estate construction projects. The introduction of cellular phone network to Iraq, the building of three power stations and heavy investment in real estate market in Iraqi region of Kurdistan were examples of market-seeking activities MNEs as this case study of Iraq showed. Similar market-seeking activities were noticed in the case of post conflict countries of Kuwait and Nigeria. The reconstruction costs to Kuwait to rebuild the damages resulting from Iraqi occupation (1990) and first Gulf War (1991) were estimated at $20 to $25 billion (Metz, 1993), while those incurred on Iraq were put at $100 billion (CIA, 2010). Bray (2005) suggested that MNEs should invest in post conflict countries and add to their existing portfolio of extractive industries, three other sectors: mobile phones, construction and engineering projects, and commercial banks.

Examples of such FDI investment were cited in Afghanistan, Bosnia-Herzegovina, Liberia, Timor-Leste, Sierra Leone, and Iraq (Bray, 2005).

The results from this case study of Iraq showed MNEs investment activities in post conflict countries with abundance of natural resources are unlike those in other countries. No efficiency-seeking activities (those designed to promote efficient utilization of MNEs labor force or specialization of foreign and domestic assets to better utilize the resources) nor strategic-asset-seeking activities (designed to protect or augment existing ownership advantages of MNEs and/or to reduce those of their competitors) were found undertaken by MNEs in post-conflict countries with abundance of natural resources such as Iraq. The reasons could be attributed to the usually under-developed economic conditions of post conflict countries. Strategic-asset seeking FDI usually aim to access and utilize technological assets in foreign countries and as such would focus on availability of skilled labor, research institute, and foreign firms with specific technology that could augment MNE's own. Those resources are usually found in developed economies or partially-developed such as India, Brazil, and east European countries.

The ownership advantages of MNEs specializing in the oil and electricity sectors over Iraqi firms (as the case is with all developing post-conflict countries) is an agreed upon conclusion by all SMEs participating in the research. All SMEs in this study agreed that Iraq lacked the necessary technology and skilled labor to rebuild its devastated infrastructure, including that of oil and electricity sectors. Foreign companies with needed expertise could enter the Iraqi market, if determinants of FDI are conducive to such activities. The literature has shown this to be the case in other post-conflict countries (Bray, 2005; Hoeffler, 2012).

The findings of this study showed an important feature of FDI investment in Iraq is the role played by Iraqi expatriates. This construct of the ownership advantage of the OLI paradigm has not been addressed adequately in current literature. The practice by multinational enterprises of employing expatriate executives in their foreign subsidiaries to utilize them as facilitators of knowledge transfer and enhancers of FDI performance was addressed previously (Dobrai, Farkas, Karoliny, & Poor, 2012; Wang, Tong, Chen, Kim, & Hyondong, 2009). Iraqi expatriates, as shown by the findings of this case study, played a key role as FDI promoters and sponsors. This strategic role by expatriates of a post-conflict country has not been addressed adequately. As an important construct of the MNEs' ownership advantages of the OLI paradigm, Iraqi expatriates played an important role in the decision making process of their respective multinational enterprises to invest in Iraq. Rather than being employed by MNEs after decision to invest was made, Iraqi expatriates played the role of FDI underwriters into Iraq.

In the context of the high risks associated with FDI investment in a post-conflict country, Iraqi expatriates were able to mitigate those risks to their MNEs to a manageable level. They were able to utilize their knowledge of the system, mastery of the local language and culture, and most importantly their personal contacts, both with government officials and private businessmen. Personal contacts play important role in business transactions around the world, and in a developing society like Iraq, where communal rather than individualistic culture dominates, those contacts play a more critical role in facilitating those business transactions and resolving problems along the way.

Mass Global, the owner of all three privately-owned power plants in Kurdistan has its capital funded by a group of Iraqi and foreign investors. Its president is an Iraqi investor, Mr. Ahmed Ismail Saleh. Same could be said about the KAR Group the owner of an oil refinery in Erbil and a holder of a major PSC oil contract in Kirkuk area. Its president, Mr. Baz Karim, is an Iraqi national. The two Iraqi expatriates (of Kurdish ethnicity) own four out of the six wholly-owned projects in Iraq. This finding is important for the expansion of the FDI theoretical framework in post-conflict countries. This shows that in the case of Iraq, at least, expatriate nationals were more willing to waive the political risks and uncertainties in their country of birth and invest there. Their extensive knowledge of their original country (culture, language, how the system works, etc.) have provided them with the necessary tools to make the right business contacts, work and navigate easily within the system. This study's finding agree with Nachum and Rolle (1998) who examined and found the impact of MNEs home countries to be critical and affect the nature of the ownership advantages of firms.

Post conflict countries such as Iraq tend to have weak private sectors that lack the necessary financial assets to invest in capital-intensive projects as those in the oil and electricity sectors. Iraq's government-owned public sector while possessing the necessary capital to undertake such projects lacks the technology and human expertise to execute complex and technology intensive operations such as those required in building electrical power plants and oil exploration and processing (Participants P1, P2, and P3).

The abundance of oil and the massive task of rebuilding Iraq's infrastructure and economy render Iraq and other post conflict countries with abundance of natural resources as attractive locations to invest in. As Dunning (2000) stated, when locational attractiveness such as natural (or created) endowments needed by firms could be used jointly with their ownership advantages, then MNEs will engage in FDI activities. Due to the presence of two different investment laws and environments in Iraq, that of Kurdistan region versus the rest of Iraq, MNEs had a choice to compare the locational advantages of each of the two parts of Iraq. As shown in this study, most (six out of seven) of FDI projects in oil and electricity sectors were located in Kurdistan region. Kurdistan Regional Government pro-FDI policies and its deliberate efforts to creating the necessary environment conducive to foreign investment seem to be the main driver behind MNEs decisions to invest in Kurdistan region over other parts of Iraq.

Regional variations within a country, and more so within a post conflict country is recognized as an important consideration for MNEs decision makers when deciding the location of FDI investment. As this study of Iraq showed (similar argument could be made to Nigeria insurgency prune northern part), more stable regions within a country tend to attract more investment. Further, the institutional policies of local governments, as this case study confirmed, tend to play a prominent role in MNEs' decision making as to location of FDI investment within the post conflict country.

The internalization advantages of the OLI paradigm offer a framework in which firms organize their ownership competencies (Dunning, 2000). The market entry method chosen by MNEs in Iraq varied between wholly-owned enterprises (the three oil refineries and three power plants) and those of joint ventures (all oil PSCs) in Kurdistan region. In other parts of Iraq, the findings of this study indicated the existence of only one joint-venture (that of the gas company). While joint ventures might fall outside the classical definition of internalization advantages as set by Dunning (1980), however, the

Kurdistan Regional Government as well as the federal government of Iraq are partners only as far as supplying additional capital and limited logistical support operations (e.g., building roads to jobsite.. etc.). The technological ownership advantages of MNEs were the driving force behind those projects. The findings of this study showed no merger and acquisition operations of local Iraqi firms or licensing of patents were conducted by MNEs in Iraq's oil and electricity sectors.

The oil production sharing contracts in Kurdistan region and the joint-venture of Basra Gas Company in southern Iraq fall into what is termed resource seeking FDI activities (Dunning, 2000). While those of constructing refineries and power plants fall under market seeking FDI operations since Iraq is in need of such services (i.e., responding to a market demand). No other types of foreign based (in Iraq) activities by MNEs were found in this study. No efficiency seeking or strategic asset seeking FDI operations by MNEs were found in this study of Iraq's oil and electricity sectors.

The semi-autonomous region of Kurdistan as this study showed had its own investment laws that differ from those of the federal government. The special status of Kurdistan, as a federal region, is protected by Iraqi constitution that allowed federal regions special powers to handle their own internal affairs (Iraqi Council of Representatives, 2005). In the case of Kurdistan, those powers were so overbearing that one participant to this study thought of them as creating an almost state within a state (Participant P4, Member of the Advisory Commission for Iraqi Prime Minister Office).

The FDI theory of the OLI paradigm that study MNEs how's and why foreign activities addressed the locational advantages of a foreign country for MNEs to invest in. The case of Iraq and its semi-autonomous region of Kurdistan, presented MNEs with the situation of investing in one country but with two divergent parts, each with its own separate investment laws and conditions, but not completely separate. While Kurdistan provided favorable conditions for FDI, however, it lacked the underpinnings of a sovereign state. Hence, when it came to providing sovereign guarantees to foreign capital in Kurdistan, MNEs had to seek them from the Iraqi government.

The findings of this study indicated that while one institution of the Iraqi government (Ministry of Electricity) rejected FDI in its electricity sector, another body (Iraqi Central Bank) engaged in pro-FDI activities and provided sovereign guarantees to foreign investors in Kurdistan, including those building power plants there. Another example is the oil PSCs (joint-ventures FDI) which were rejected by the federal Ministry of Oil but favored by the regional Kurdistan Ministry of Oil. Payments to those international oil companies (IOCs) engaged in PSC contracts in Kurdistan came from the Iraqi federal government through the Kurdistan Regional Government since the later could not receive proceeds of oil sales directly. All proceeds of Iraqi oil sales (whether for oil produced in Kurdistan region or other parts of Iraq) got deposited into the Iraqi government bank account.

The role and importance of institutions (whether economic, political or social) in a host country in attracting FDI cannot be overemphasized. As the above example (Ministry of Electricity vs. Iraqi Central Bank) showed, the weakness of the central government in post conflict countries could express itself in its differing institutions engaging in their own self- serving policies that sometimes contradict each other. Such conflicting policies add further challenges for MNEs investing in post conflict countries such as Iraq.

Contrasting findings with existing literature. This study of the factors impacting foreign direct investment in Iraq's oil and electricity sector is believed to be the first (whether in English or Arabic languages) investigating in details foreign direct investment in Iraq's energy sector through the usage of academic standards of research. The findings of this study agree with the work of Abdul-Rada (2012a) (in Arabic language) on the importance of political stability, security, and corruption on the inflow of FDI in Iraq. In contrast to Abdul-Rada (2012a), this study did not find *inflation* as being a major factor impacting FDI.

The findings of this study agree with the existing empirical literature on fragile and post-conflict states as a situation limiting (but not hindering) the inflow of foreign capital (Bray, 2010; Moloo & Khachaturian, 2009; Turner, Aginam, & Popovski, 2008). The findings also agree with UNCTAD (2009) that Iraq being a state-in-transition (from a dictatorial pro-central planning regime to that of a democratic pro-free market economy) provides both opportunities and challenges for foreign direct investment in the country. While UNCTAD (2009) argued for the importance of FDI in building peace and stability, however, investment in the oil and electricity sectors while capital intensive is not known to create large number of jobs, an important ingredient to creating peace and stability (McGuigan, 2007). Interviews with participants (P1, P11, P12, and P17) suggested creation of few thousands new jobs in the oil and electricity sectors in Kurdistan region. Participant P1, Chairman of a committee in Iraq's Parliament, argued that power plants built in Kurdistan region used smaller albeit more efficient number of employees, unlike the Ministry of Electricity that, according to Participant P1, should reorganize and rid itself of large numbers of its 115,000 under-utilized employees.

Participant P1 argument implies that in the case of Iraq, FDI in its electricity sector could lead to increased unemployment rather than creating new jobs, contrasting the argument of UNCTAD (2009) and existing literature (Contessi & Weinberger, 2009; Moloo & Khachaturian, 2009; te Velde, 2006).

Dunia Frontier Consultants studies emerging markets and its reports on foreign commercial activity in Iraq have been widely quoted by interested parties (both private and public) in investment opportunities in Iraq. In its "2011 Year in Review Foreign Commercial Activity in Iraq" (Dunia Frontier Consultants, 2012), the firm estimated foreign commercial activity in Iraq's oil and electricity sectors at $12.769 billion and $11.196 billion respectively. Those figures should be understood as values of contracts awarded by Iraqi ministries of oil and electricity to foreign companies for equipment purchased or for projects completed on behalf of the Iraqi government rather than as figures reflecting foreign investment in Iraq's oil and electricity sectors. Dunia Frontier Consultants do not make the necessary distinction between foreign investment and that of commercial activity and its reports have not been consistent. Dunia Frontier Consultants (2009) report "Private Foreign Investments in Iraq: Update November 2009", referred to all commercial activity in Iraq as FDI. The foreign commercial activity, including that in the oil and electricity sectors, was tabulated as "Table 2. Sector Breakdown of FDI" (Dunia Frontier Consultants, 2009, p. 9). Cheema (2013) and Michaels (2011), following Dunia Frontier Consultants reporting, referred to all foreign commercial activity in Iraq as foreign investment. As was shown in this study, foreign investment in Iraq's oil and electricity sectors were limited to the seven projects (three refineries, three power plants, and one natural gas processing) discussed previously as well as to all PSC oil contracts in Kurdistan region.

Summary

In post conflict countries, there are usually two unique areas that attract investors, natural resources and infrastructure projects required to rebuild their economies. Foreign investors are usually attracted to countries with abundance of natural resources. Inviting foreign investors to extract natural resources is a quick way for a host country to improve its financial situation. Iraq's oil and electricity sectors suffered from extensive damages due to wars and internal strife.

Foreign direct investment has been considered an important venue for the creation of new means of production and/or improving the existing ones. It plays an important role in the rebuilding of post-conflict countries' economies. FDI could create new job opportunities essential for the consolidation of peace in post conflict countries. Unlike investment in the oil industry which tends to be capital intensive but creates few jobs, investment in manufacturing and agricultural sectors tends to use large number of workers, a good number of which could be ex-combatants. This would remove the unemployed from the recruiting grounds of worrying factions creating in the process the necessary conditions for peaceful settlement to the conflict. FDI could introduce new technological and management methods of importance to the host country to improve the productivity of its economy. FDI has been generally recognized as a positive contributor to the economic development of the host country; if correct steps are taken to integrate it in that process (e.g., incentives in particular sector to address specific country needs – electricity shortages as the case in Iraq, setting up acceptable rules and regulations for investment that are followed and not changed abruptly – laying out the game rules and expectations and sticking to them). It brings a much sought out added value to the economy as well as creates new employment opportunities for the local citizenry.

In order to assess the determinants of foreign direct investment in Iraq's oil and electricity sectors, in-depth interviews with 22 SMEs were conducted and Iraqi government documents as well as Arabic-language literature were utilized. Important factors that impact FDI investment in Iraq were addressed in detail. Security and political stability were found to be among the most important determinants of Iraq's oil and electricity sectors. Abundance of oil, government policies and state and economic institutions were the third and fourth FDI determinants. Corruption was seen as a major determent to foreign investment in Iraq, with participants agreeing that Kurdistan region exhibiting less of it. Table 8 shows a list of all determinants of FDI in Iraq's oil and electricity sectors.

The data collected indicated FDI activity in Iraq has been widely divergent between that in Kurdistan region and the rest of Iraq. Iraq's Investment Law 13/2006 permits foreign investment in Iraq's electricity sector. The data did not indicate any FDI activity in that sector due to resistance by Ministry of Electricity. In contrast, in Kurdistan region which has its own Investment Law 4/2006 and where regional government policies encourages actively FDI activities, foreign investment in the region's electricity sector was illustrated by three power plants wholly-owned by private investors.

Foreign investment in Iraq's oil sector was limited to a gas company jointly owned between the Iraqi government and IOCs, while Kurdistan region had a combination of a three wholly-privately-owned refineries as well as 50 PSCs contracts offered by Kurdistan Regional Government to IOCs interested in exploring new oil opportunities in the region. Those ventures were the only investment activities that meet FDI definition and that of the theoretical framework of OLI paradigm. The three FDI oil refineries and 50 PSC contracts has made Kurdistan an important player in Iraq's overall oil production and processing plan.

Iraq's security situation has been problematic to investors. Apart of public statements made by government officials guaranteeing safety and security of projects, the findings of this study indicated that Law 13/2006 did not provide clear security guarantees. No provisions have been made for the establishment of security formations entrusted with the responsibility of providing security protection for investment projects in Iraq.

The OLI paradigm represents the theoretical framework for FDI operations by multi-national corporations. It addresses the ownership, locational, and internalizations advantages that MNEs possess and which prompt them to invest outside their own home country. This study investigated the requirements of the second research question and examined the theoretical framework of FDI determinants in Iraq's oil and electricity sectors.

An important feature of ownership advantages is the impact of home country on the MNE competitive position in international markets (Nachum & Rolle, 1998). 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. Four of the six privately owned FDI projects (not counting joint ventures with government body) were made by multi-national enterprises chaired by Iraqi expatriates. This showed that in the case of Iraq, at least, expatriate nationals were more willing to waive the political risks and uncertainties in their country of birth and invest there.

Iraq, as an investment location, has been divided into two different regions with their own different investment laws and investment environments, that of Kurdistan region versus the rest of Iraq. This has provided MNEs with a choice to compare the locational advantages of each of the two parts of Iraq. The data showed that MNEs preferred investing in Kurdistan region over other parts of Iraq.

Internalization advantages are those arising when firms believe their ownership advantages are best served internally (i.e., through wholly owned ventures) rather than sold directly to the highest bidder or offered to other firms through contractual arrangement such as licensing, joint ventures or management contracting (Dunning, 2001). The findings of this study indicated that market entry methods used by MNEs in Kurdistan region of Iraq were wholly-owned enterprises (the three oil refineries and three power plants) and that of joint ventures (all oil PSCs). In other parts of Iraq, the findings of this study indicated only one joint-venture (that of the gas company).

The findings of this study agreed with existing literature on the importance of political stability, security, and corruptions as factors impacting negatively FDI inflows. The findings showed Ministry of Electricity employing 115,000 employees while Ministry of Oil employing 120,000 employees. According to Participants P1, P3, and P9, foreign investors in Kurdistan, while adding jobs to the local economy, employ far more efficient methods in production with far less employees than public sector organizations.

Foreign direct investment in Iraq is a new phenomenon and while most government officials support it publicly, the data indicated an entrenched group of officials whose agenda was that of a continuation of Iraq's central planning system in determent to that of market economy. According to the research participants current foreign investment legislations need improvements, and FDI in Iraq's oil and electricity sectors still faces serious challenges. 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 would vary from one post-conflict country to another. This is further explained in Chapter 5.

Chapter 5: Implications, Recommendations, and Conclusions

Of the 45 OECD listed fragile post-conflict states in 2011, 80% contained high-value natural resources of global economic significance (Waleij, Liljedahl, & Simonson, 2012). Post-conflict countries face unique reconstruction and peace building challenges due to conflict-induced economic devastation and state institutional weakness. FDI can play an important role, along other internally generated revenue, in achieving economic development, peace consolidation and political stability. Foreign direct investment could spur growth and with it the much needed new job opportunities that are critical to achieving long term economic stability. FDI could induce the transfer of technology and know-how to improve the productive capacity of the host country.

Post-conflict countries provide attractive opportunities for investors and the potential for high returns (Turner, Aginam, & Igbokwe, 2010). However, lack of or inadequate legal and regulatory rules, government policy changes that may breach contractual obligations and the fear of resumption of conflict are some of the high risks facing investors. This results in the volume and composition of FDI in post-conflict countries differing considerably from that in other more stable states (Turner, Aginam, & Igbokwe, 2010).

Iraq, a post conflict country with abundance of natural resources, was in a state of active warfare or international sanctions for 21 out of 25 years that made up the period of 1980 to 2003. Three major wars cost the country untold human sufferings and had tremendous toll on its economy and infrastructure. Since the US invasion of Iraq in 2003 to date, the country has been attempting to pacify an active insurgency that has added its own ravages to an already devastated economy. Iraq was in need of foreign investment on multiple levels; to reconstruct its economy and specifically its most important sectors, oil and electricity, and to rebuild the capacity of its state institutions in their transition from centrally planned economy to that based on market dynamics. Foreign direct investment is a new phenomenon in Iraq.

The post-2003 regime in Iraq has embraced the principles of market economy; however, transitioning to it from decades of centrally planned policies is a major challenge. A societal culture, entrenched government officials and a workforce that got accustomed to the state providing for jobs, guidance, and welfare need to be reeducated and a new pro-private sector culture need to be created. To achieve this, Iraq needs first to tap into its oil wealth which could generate the necessary capital to rebuild the country. In order to do that, Iraq needs foreign investment and technological assistance of international oil companies to increase its oil production and rebuild its oil industry. It needs the expertise and efficiency of the foreign and local investors to rebuild its devastated power plants to generate the much needed electricity without which no economic progress could be achieved.

This qualitative case study was designed to assess the determinants of foreign direct investment in Iraq's oil and electricity sectors consisted of an in depth interviews with 22 SMEs and review of Iraqi government publications. All the SMEs interviewed resided in Iraq and were comprised of Iraqi government officials, members of parliament, employees of foreign companies investing in Iraq, and professionals. The assessed determinants of FDI in Iraq were based on the opinions of the SMEs interviewed.

For this case study, data integrity was met by insuring congruence among reviewed literature, questions asked, and strategies for data collections and analysis.

Long quotations of the views expressed by SMEs were reported in Chapter 4 to provide the reader a better understanding of the views of the participants without any rephrasing by the researcher. The reported participants' views were clearly distinguishable from those of the researcher. The quoted views of each participant was verified by those of others and checked by reviewing relevant literature. The long quotations allowed the reader to reach his/her own conclusions of potential personal biases and predispositions, if any, of the participant. The reported results (i.e., FDI determinants) are after all, those of the 22 SMEs and as such they included their own personal biases and choices as to how they rate the importance of each factor.

Foreign investment in Iraq's oil and electricity sectors was evaluated and projects meeting the FDI definition were identified and assessed according to the theoretical framework of the OLI paradigm. The ownership, locational, and internalization (OLI) advantages considered by foreign investors in Iraq's oil and electricity sectors were evaluated and important findings made. Foreign commercial activity that did not meet the FDI criteria for investment was discussed. Literature that confused foreign commercial activity with that of foreign direct investment was also addressed. It is recommended that future quantitative studies validate the results of this investigation and demonstrate the relationship between FDI and each of the assessed factors impacting its inflows.

This chapter covers the implications of this qualitative case study and how the results fit with the purpose, significance and existing literature in Chapter 2. Recommendations for practical applications of the study are presented. The chapter concludes by summarizing all key points presented. It should be noted that results of determinants of FDI in this case study of Iraq, while applicable to other post-conflict countries with abundance of natural resources, the rankings of those determinants will differ among countries according to their own history of the conflict, local culture, economic development, severity of state fragility, and governmental policies. It's suggested that a future quantitative study would investigate a group of post-conflict countries with abundance of natural resources to validate the results of this case study of Iraq.

Implications

The intent of this study was to answer the following research questions:

1. What are the determinants of foreign direct investment in Iraq's oil and electricity sectors as perceived by subject matter experts?
2. How do these determinants fit into FDI theoretical framework of OLI paradigm?

Iraq is a post-conflict state with abundance of natural resources, specifically oil and gas. Foreign direct investment is a new phenomenon in Iraq that has been embraced by post US-invasion of 2003 governments. Most post conflict countries share Iraq's newly acquired experience with foreign investment. Kuwait, a case study introduced in Chapter 2, is yet to have its FDI legislation take effect next December 2013. Rebuilding Iraq's (and other post conflict countries) state institutions and governance would be a key step towards stability, reconstructing its economy and the transition to recovery and growth (Brinkerhoff & Johnson, 2009).

The theoretical framework of the OLI paradigm identified three factors that governed MNEs international business activities. These were the ownership (O), internalization (I), and locational (L) advantages. 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 (or variables) that could impact FDI inflow positively or negatively. This research was a study of the locational advantages of the theoretical framework of the OLI paradigm in the context of post conflict countries.

This study identified several locational advantages that made up Iraq's country specific factors similar to those impacting FDI inflows in other post conflict countries. There were ten implications generated from the findings of this case study of the post conflict country of Iraq. The implications could be summarized as:

First implication. The majority of the SMEs that participated in this study pointed to lack of security and political instability as the most important factors impacting foreign investment in Iraq. The findings of this study confirmed existing empirical literature on political stability and security as a country's locational advantages. When favorable, would attract increased FDI inflows, and lack of which could lead to local capital flight and the discouragement of foreign capital from flowing in (Busse & Hefeker, 2007; Khoury & Wagner, 2010; Li, 2006). Interviews with participants 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. This lack of security resulted in increased costs of transportation of goods, dividing the market into 'secure' and 'insecure' areas, and exacerbating inflation (Gordon, Moore, Richardson, & Pan, 2006). The findings of this study indicated that security situation (as the case is with post-conflict countries) was the most important factor impacting FDI activities in 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. The findings of this study confirmed the continuous presence of FDI activities in Iraq. Table 6 shows amount of this FDI in Iraq, Kuwait, and Nigeria for the years 2007 thru 2012 as compiled by the United Nations (2013) which also compiled FDI data for other post conflict countries. With better security and more stable government comes an increased capital inflow which could contribute to the economic development of post conflict countries.

The findings of this study showed limited, but nevertheless continuous, MNEs activities in Iraq, Nigeria and Kuwait. This indicated that FDI inflows in post conflict countries are partially impacted by the host countries situations of conflict and instability. The presence of abundant natural resources plays an important role in the attractiveness of a country (its locational advantages) to foreign investors. Their presence outweighed the environmental risk of violence present in post conflict countries. This leads to the second implication resulting from this type of FDI investment.

Second implication. Foreign direct investment in Iraq's oil and electricity sectors, as this study confirmed, was small and limited despite the country's strong potential for attracting foreign capital. Most 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 OLI paradigm could only be considered for projects meeting the FDI definition. There are three electricity projects in Kurdistan region (and none in other parts of Iraq) that fit the theoretical framework of the OLI paradigm. In the oil and gas sector, there has been one joint venture in southern Iraq that processes natural gas, while in Kurdistan there are three refineries (wholly privately owned FDIs) plus a total of 50 PSCs offered as joint ventures by the Kurdistan Regional Government (usually owning 20-25% of the venture) with 34 oil companies active in the region (The Oil & Gas Year, 2012).

The concentration of FDI in Iraq's oil sector, as the case is in other post conflict countries with abundance of oil (or other natural resources), has both negative and positive implications for those developing nations. Foreign investment in the extracting sectors of post conflict countries could bring quick revenue for the local governments, a much needed capital for rebuilding their damaged economies. Rentier states, as this study showed (same could be said about the case studies of Nigeria and Kuwait) suffer from the excesses of corruption. If bad policies coupled with corruption (a common theme in Iraq, Nigeria and Kuwait among others) lead to waste of finances and a delayed economic recovery, post conflict countries could develop (and possibly be locked in) an oil-based economic structure for many years to come. Iraq, Nigeria, and Kuwait governmental budgets are highly depended (over 90%) on proceeds from oil. This oil dependency results in a distorted economy (what's termed the oil curse) and unfavorable economic relationship with the outside world. In today's global market, oil-based economies are more of importers of goods than manufacturer of them. Without diversification of the economy, FDI will continue to flow more prominently in the oil sector (more so in Iraq than Kuwait for example due to the largely untapped Iraqi oil reserves) and the much anticipated benefits of FDI will fade away. The oil sector (the extracting industry in general) while capital intensive has limited interactions with other sectors of the economy. FDI benefits are more profound in the manufacturing sector where host countries could benefit from foreign technology and the more advanced marketing and managerial skills that MNEs could bring in.

Iraq suffered from oil, or resource, curse (addressed in more details in Chapter 2), a condition seen in many oil producing counties, including post conflict such as Kuwait and Nigeria. The massive amount of money that comes into the country, coupled with wide spread corruption, had the perverse effect of delaying reconstruction projects and taking serious steps towards encouraging FDI. There is a strong correlation between rentier state and authoritarian regimes. The oil rent is used by authoritarian regimes to foster the formation of stabilizing patronage networks that help prolong their rule. Oil curse, a result of the oil rentier state, is a problem in many oil producing developing countries. The findings of this case study of Iraq and the case studies of Kuwait and Nigeria demonstrated it's worse in post-conflict countries with abundance of oil.

Resource seeking FDI was the earliest form of foreign investment and capital inflows in that type of FDI are in decline due to either replacement of natural by synthetic materials, improved recycling techniques, development of new alloys, or miniaturization of components that requires less material (Dunning, 2001). FDI inflows in oil producing countries, including post conflict, should see further decline in this decade as the United States continues to increase its production of shale oil towards joining the oil exporting nations sometime around 2020 (Nysveen, 2013). This will have dramatic implications on world oil markets, as well as reshaping current global political and economic alignments. Western Europe would be relying heavily on American oil leaving OPEC members (i.e., Iraq, Nigeria, Kuwait) to turn to the east to satisfy China, India, Japan's and other east Asians markets. Oil prices should see a possible downward adjustment impacting the budgetary revenues of rentier states such as Iraq, Kuwait and Nigeria prolonging in the process the economic recovery of Iraq and other post conflict countries. This downward adjustment of oil prices will not reflect itself in the consumers' gas pumps of developed nations due to the monopolistic nature of the oil markets in these countries.

Third implication. 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. The role of the host country institutions, as important factor of its locational advantages, has been receiving increasing attention recently by scholars (Ali, Fiess, & MacDonald, 2008; Benassy-Quere, Coupet, & Mayer, 2007; Kohler, 2010) interested in the differing constructs of FDI theory and the how's and why MNEs engage in foreign investment. FDI inflows are dependent, among other factors, on the presence of adequate and transparent institutions in the host country. The adequacy of host country institutions is a locational advantage, a determinant affecting FDI inflows, because it affects the profitability of establishing a foreign business there.

Institutions impact economic activities through transaction and production cost (Ali, Fiess, & MacDonald, 2008). Inadequate institutions, as the case in post conflict countries, increase cost of doing business and hence lower profitability and economic activity. Adequate host country institutions capable of enforcing contracts, protecting the property rights of the foreign investor and resolving all arising dispute in fair manner, is important to mitigate the risks associated with investment in a foreign country. The risk associated with unstable government changing the agreed upon arrangement once investment is made is what usually deters foreign investors from politically unstable countries, such as Iraq, and other post conflict countries.

The results of this investigation showed the post-conflict Iraqi state engaged in the process of rebuilding its institutions and gaining the trust of its citizens. 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 as was stated by Participant P4, Member of Advisory Commission, Iraqi Prime Minister's Office. The findings of this study showed Iraq as having pro-FDI legislations supported by government policies, however, Ministry of Electricity, a supposedly part of the government, ignored them. Cabinet ministers followed their own political parties' lines rather than those of the prime minister, as stated by Participant P1, Chairman of a relevant committee in Iraqi Parliament. The researcher found provincial investment boards issuing licenses that were not of their authority but those of National Investment Commission as prescribed in Regulation 2/2009.

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. Iraqi state was weak with a Shiite-led sectarian government catering to part of its population more than others. This statement is based on numerous accusations by Sunni Iraqi opposition groups and local as well as world media reports. Participants P10, Manager, Economic Section, Iraq's Council of Ministers, and P2, Member of Iraqi Parliament, agreed with that assessment. Iraq continues to be a multi-religion, multi-ethnicity country with strong sectarian and nationalistic feelings among its different components. However, the Iraqi state has yet to gain the trust of all of its citizens regardless of their religion, sect or ethnicity. The findings of this case study supported the existing empirical literature on post-conflict states as a situation limiting, but not hindering, the inflow of foreign capital (Bray, 2010; Moloo & Khachaturian, 2009; Turner, Aginam, & Popovski, 2008). The findings also confirmed Iraq being a state-in-transition, from a dictatorial pro-central planning regime to that of a democratic pro-free market economy; a condition that provides both opportunities and challenges for foreign direct investment in the country (UNCTAD, 2009).

The data collected and analyzed confirmed difficulties found in post conflict states such as Iraq were political infighting and an active insurgency have direct influence on the state's institutional policies and the country's investment environment. Iraq had two investment laws, that of Law 4/2006 which applies only to the region of Kurdistan and Law 13/2006 which the rest of the country follows. A 2009 amendment to Law 13/2006 allowing land ownership to foreign investors engaged in housing projects saw resistance by local provincial authorities. Iraqi government stated policies have not always reached the implementation stage. The fragility of the state institutions has rendered the federal government incapable of implementing all its policies, a common problem in other post conflict countries, such as Nigeria, where the relationship between local and that of the federal government is characterized by tensions.

Fourth implication. In this study an investigation was carried out of the locational variables of the OLI paradigm that impacted MNEs decision to expand operations thru FDI in post conflict countries such as Iraq. The findings showed that MNEs choice of location has been Kurdistan region of Iraq due to its relative security and more liberal pro-FDI policies. Kurdistan Investment Law 4/2006 has allowed MNEs land ownership and KRG offers oil production sharing contracts. Other parts of Iraq have not provided these two important incentives. This finding is similar to that seen in the choice of the Niger Delta region, where oil reserves are the largest, in Nigeria receiving larger amounts of FDI than other parts of the country.

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 in Iraq. The modes of market entry or how MNEs internalize their ownership advantages or what is termed internalization advantages of OLI paradigm, 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 implications of the attractiveness of the Kurdistan region were seen in the reactions of major IOCs such as ExxonMobil that were willing to take on the wrath of Iraqi government and engaged in oil exploration and production in Kurdistan region despite threats of retaliation if such activity was undertaken (UPI, 2013). The fact ExxonMobil was willing to accept such risk demonstrates that foreign investors in the oil sector preferred the more lucrative PSCs over TSCs. Multi-national enterprises preferred projects that provided ownership equity over those offering only collection of fees (e.g., PSC vs. TSC contracts). Both types of contracts involved initial capital investment by MNEs, the reason for the confusion behind reporting by Dunia Consultants and others of foreign activities in Iraq as FDI. However, only investments thru PSCs qualify as FDI. They had the element of ownership that set them apart from the fee based TSCs.

MNEs market entry in Iraq's oil and electricity sectors have taken two shapes; wholly-owned projects and joint-ventures with Iraqi or KRG governments. All the wholly-owned projects were located in Kurdistan (e.g., three power plants and three refineries). Of the existing 51 joint venture projects in Iraq's oil and gas sector, 50 were located in Kurdistan region and only one joint venture was located in southern Iraq.

Fifth implication. The findings showed Iraqi expatriates influencing the decision making of the MNEs they worked for towards investing in those expatriates country of origin. This role highlighted a variable of the ownership advantages that has not been addressed adequately by scholars investigating the OLI paradigm. Iraqi expatriates were influential in channeling the foreign capital of their respective MNEs towards investing in the electricity and oil sectors in Kurdistan region. The implications of this finding are very significant to other post conflict countries. Violence and instability results in local capital flight and unless this capital is harnessed by the expatriates to reinvest it back in their respective post conflict countries, it will be lost and with it the expertise and entrepreneurial skills of those expatriates. Owners tend to stick closer to where their money is invested. Governments of post conflict countries should provide incentives to encourage their expatriates return to their original home countries.

Sixth implication. 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 (i.e., on level of fragility as indicator of a high risk of new conflict or recurring violence (The World Bank, 2011)), 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.

Seventh implication. The implications of this study pointed 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. Policies set to encourage FDI inflows should take into account that fact. On another note, FDI, like any other business transaction is undertaken to create profits to the foreign investors first and foremost, and if left unchecked could have negative impact on the local economy. 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.

Eighth implication. The findings of this study confirmed that the hurdles in the face of FDI were created by certain government officials. This resistance to changing the existing dominant position of the public sector in Iraq's economy was by individuals wary of empowerment of the private sector and the market economy policies that comes with it. Change brings uncertainties, and resistance to change should be addressed wisely by government officials, especially those in post-conflict countries. Changing the mindset of warring groups, in post-conflict fragile states, to choose peaceful methods to resolving their differences is the first step towards rebuilding their shattered economy and their states' institutions.

The findings of this study, and based on secondary data and interviews with several participants (P1, P2, and P4), attribute the existence and persistence of pro-public sector supporters within the Iraqi government to the huge sums of money Iraq receives from selling its oil. Iraq is an example of post-conflict countries suffering from resource curse because of abundance of oil. Iraq's total government budget is estimated to be $118.72 billion for 2013 and was $100.42 billion for 2012. Oil proceeds are expected to make 93.11% of the total 2013 budget (Analysis of Federal Budget for Year 2013, Research Center of Iraqi Parliament. Unpublished document provided to the researcher by Participant P2, Member of Iraqi Parliament).

As Table 15 showed, the total investment capital allocated by the Iraqi government for its oil and electricity sectors amounted to 17.4% ($13.21 billion) of its total budget for Year 2012 and is allotted to be 21.28% ($20.67 billion) of Year 2013 budget. These huge sums of money provided the Iraqi government with substantial capital to undertake its own reconstruction projects and hence, a reason for pro-public sector supporters to argue against foreign investment or to simply push for lessening the incentives provided to attract foreign investors. Regardless of its huge oil proceeds, the findings of this study confirmed that due to the massive damage to its infrastructure and the widespread corruption, Iraq is in need of substantial foreign investment to rebuild its economy, and in particular, its oil and electricity sectors. The high level of corruption confirmed by the findings of this study rendered most of the claims of new reconstruction projects by the Iraqi government as unachievable plans.

Ninth implication. One important implication of FDI inflows in the oil sector of post conflict countries such as Iraq is the resulting quick generation of wealth to the state. In countries such as Iraq, same could be said about Iran among others, where distrust of foreign investors runs deep, the tendency noticed in this study is of the state increasing its involvement in the oil sector through the enlargement of state-owned oil production organizations (e.g., state oil companies). Put differently, MNEs investing in post-conflict countries with governments supportive of pro-public sector policies tend to create their own powerful future competitors; the occurrence of this depends to a large extent on the political will and ideology of the ruling elite. State oil companies exist in most oil producing countries and their presence serve national interests, however, improving their resources to challenge the perceived hegemony of the international oil companies changes their relationship with MNEs from that of partners to that of competitors. The successful history of China's state supported oil companies is a case to consider. While that of Iraq nationalizing all foreign oil assets during the 1970s, left much to be desired when the ideologically driven actions of the government did not match its own local technical resources leaving most of Iraq's oil wealth untapped until recently.

To protect their interests, international oil companies, as other MNEs, treat their ownership advantages, or technical know-hows, as closely guarded secrets. The findings of this study showed that oil contracts in Iraq requiring training provided to personnel of host countries tend to be geared towards mainly routine maintenance operations. When more difficult tasks break down, MNEs usually fly in their own foreign crew to fix them. Similar argument could be made about other post conflict countries.

Tenth implication. While the most prevailing argument for welcoming foreign capital inflows is that of FDI as a job creator, foreign investment in Iraq's oil and electricity sectors might actually lead to increased unemployment due to the highly inflated public sector organizations in charge of these two sectors. The oil and electricity sectors, requiring massive capital investment, in post conflict countries are usually government owned due to the weakness of the private sector in those countries. On another note, the private sector as well as foreign investors across the globe, tends to employ more efficient methods of operations than those of the public sector. The findings of this study confirmed that power plants wholly-owned by foreign investors in Kurdistan, which were able to resolve most of Kurdistan electricity problems, employed few hundred employees only. Compare that to the 115,000 employees of Iraqi Ministry of Electricity, while acknowledging not all in electricity production, still the number of employees is very high as stated by several participants P1, P3, and P4. According to an Iraqi Member of Parliament, not a participant in the interviews and in remarks made to the researcher, the Ministry of Electricity was created in 2003 with an estimated number of 35,000 employees. Since then, and while Iraq continued to suffer from acute electricity shortages, its ranks had swollen to 115,000 employees by 2013.

This finding, possibility of job losses due to the more efficient FDI, goes against plans of rebuilding the economy of post-conflict fragile states by creating new jobs. Since the oil sector is not known to employ as many people as manufacturing or agriculture, post-conflict fragile state government officials need to develop policies which encourage other types of FDI. The market seeking, that build local manufacturing plants, FDI should be welcomed along with that of resource seeking FDI

The findings of this qualitative research method and explorative case-study design were a result of in-depth research of literature on the topic of FDI, Iraq's economic and political structure, foreign commercial activities in Iraq, as well as interviewing 22 subject matter experts on Iraq's foreign investment activities in oil and electricity sectors. The views expressed by the participants were detailed and presented expert analyses and expansions of Iraqi and foreign media reports about political and economic conditions in Iraq, foreign commercial activity, and opportunities and problems facing foreign investors in Iraq. Some SMEs expressed stronger and more critical opinion of Iraqi government performance towards foreign investment, while others played down corruption levels in Kurdistan region.

In hotly debated topics of security and political instability, strong participants' feelings were expressed as expected. Those views were checked and verified by multiple sources; media news, journal articles, and peer literature. Researcher personal biases, while present, were not allowed to influence participants' expressed opinion because of the use of an interview protocol and script. Good care and efforts were taken not to engage the participants in a debate but rather in a question and answer format where the intention was seeking participant's own personal views rather than reflections of the interviewers own.

This study has addressed the factors impacting foreign direct investment in Iraq's oil and electricity sectors. Other sectors, such as real estate and associated construction activities see stronger FDI activity in Iraq than those in oil and electricity. This study also addressed how the determinants of FDI fit in the theoretical framework of the OLI paradigm.

Recommendations

The success of the Iraqi economy and that of similar post conflict countries depend on the correct utilization of three of its important features: its vast oil revenue, its relatively large market, and the presence of a large, young, and relatively educated population. Iraq has the world's third largest oil reserves and its 10th largest gas reserves in addition to other minerals (International Energy Agency, 2012). Combined they make up an important and vast wealth for the country. With a population of over 30 million people, Iraq has a large market that attracts goods and services from other parts of the world, especially those from neighboring countries. Iraq's cross-border trade saw an incremental increase since 2003; a clear indication of economic openness to imported goods and an important factor to attracting foreign investment.

This FDI study findings had implications not only for Iraq but other post conflict countries with abundance of natural resources. Some of those implications discussed earlier (e.g., lack of security, political instability), had negative impact on capital inflows, others (e.g., investment by expatriates) had encouraging effects on the rebuilding of post-conflict economies. What follow are recommendations that address the list of findings' implications discussed previously. The recommendations are discussed in a chronological listing that corresponds directly to the implications' numbering sequence (e.g., the first recommendation is in response to the first implication and so forth).

First recommendation. The process of improving the investment climate in Iraq, and other post conflict countries, requires a committed political will to create the appropriate conditions to encourage and attract domestic and foreign investment. By improving its political and security conditions, Iraq and other post conflict countries could be assured of a progressive improvement in private capital inflows into their economies. Towards that goal, Iraq and other post conflict countries could start initially, and until the situation is more secure across the country, by creating 'protected areas' that could act as a magnet for private investment. It could create 'free trade zones' that would allow exchange of goods free of taxes and fees. Those zones could have multiple purposes, beyond simple exchange of goods. They could be utilized for storage, assembly, packaging, and production of goods for export purposes beyond those zones. Those protected zones should not preclude serious efforts to improve the security conditions in the whole country.

Second recommendation. The oil curse, the curse of sudden state wealth, is a byproduct of the rentier state that many oil producing countries, including post conflict countries such as Iraq and Nigeria, suffer from, need to be addressed adequately. A government that get rich quickly while its citizens lingers in poverty invites aggravate popular grievance that could lead to violent reaction or simply allow the continuation of an existing violent conflict. The implications of a rentier state (i.e., the dependence on economic rents) are economic inefficiency and as a consequence poor socioeconomic development. Oil rents are what sustain authoritarian regimes in power.

In order to address the oil curse, post conflict governments such as that of Iraq should pursue a more balanced and diverse investment and economic development. Oil revenues should be used to rebuild the country's infrastructure and invest in developing the manufacturing and agricultural sectors into an alternative wealth creating avenues.

Unfortunately, this depends on the political will and transparency of the post conflict government. This raises the issue of the importance of United Nations and other international organizations in impacting the policies of the new post conflict governments.

Third recommendation. Developing the quality of a post conflict country's institutions, whether political, economic and social, is a long and ongoing process that could take many years to accomplish. The implications of weak institutions, as this study showed, could be seen in the pervasiveness of corruption and the challenge of enforcing the contracts without bribes. This would lead to the high marginal cost of production within the host country.

The inadequacy of state institutions could be a consequence of lack of regulations or confusion due to differing interpretations or opposition by groups uneasy about foreign investment or simply due to widespread corruption. With the right vision and commitment, difficulties facing foreign investment resulting from the inadequacy of state institutions could be addressed by transparent procedures and enforcement regulation that could minimize effects of corruption. Another approach could be that advocated by Kohler (2010) "centralization of corruption" where an unwritten agreement is made between MNEs and the bureaucratic hierarchy to improve the effectiveness of the host country institutions. Similar argument could be made to explain the ability of corrupt but centralized regimes to sustain economic growth.

Post-conflict countries such as Iraq that went through the effects of colonial rule reacted through an overzealous religious and nationalistic agenda. This in turn developed certain sensitivities towards foreign investors that continue to shadow their relationships with the outside world. In order to improve the societal institutions of the host countries, this old and current negative cultures that look at foreign investors as 'saboteurs' of national wealth, must be discouraged and replaced. A new societal culture that supports and appreciates the needs for foreign investment as a partner in the economic development of Iraq must be encouraged and sustained.

Fourth recommendation. The findings showed Kurdistan region playing the role of a magnet for FDI inflows in Iraq. This was attributed to more secure environment and a clear commitment by Kurdistan Regional Government to supporting MNEs investment activities in the region. The success of those policies has transformed Kurdistan from a previously backward part of Iraq to that of its most prosperous region. Iraqi central government and those of other post conflict countries should take note of the factors attributing to FDI playing a positive role in the economic development of the Kurdistan region and attempt to duplicate those policies. The most important of which are; clear commitment to FDI as an integral part of national economic development, resolving the political infighting between competing groups that expresses itself in violent acts, and addressing and resolving the widespread corruption with its negative impact on cost of doing business in their respective countries. A national will and conscience must be presented to foreign investors as being that of supporter and facilitator of FDI. This national will should show itself through appropriate pro-business legislations and an executive body willingness to facilitate their implementations.

Fifth recommendation. The phenomenon of expatriates playing the role of advocates for FDI should be encouraged by all governments of post conflict countries. The case of Kurdistan shows that in order to harness the technical expertise and financial power of expatriates, it is important to create the necessary conditions to encourage their return. Expatriates could bring a much needed talent that could help in the economic reconstruction and development of post conflict countries. Creating a peaceful environment, clear commitment to economic development and transparent policies that address corruption, as well as providing a legal framework that could adequately resolve disputes are but few of those policies that would go long ways to meet the needs of returning expatriates.

Sixth recommendation. The implications of the study of FDI in Iraq's oil and electricity sector to other post conflict countries should take into consideration the locational variables specific to each country. Policies should be drawn that reflect the local history of the conflict; each country's local culture, even that of a particular region; the level of economic devastation due to war and what part of the infrastructure should be repaired first; and finally the post-conflict dynamics between the warring groups. The case of Nigeria being the top recipient of FDI in Africa for the two years of 2011 and 2012 should be considered in the context of FDI benefit to the local economy rather than in the shear dollar amount of it only.

Seventh recommendation. It's important to note that drawing pro-FDI policies should be done in the context of the importance of one's own country in the global movement of capital and that of political dynamics between competing interests of developed countries. Developing too aggressive policies to attract FDI might backfire. Note that MNEs engagement in FDI activities are done to improve their 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.

Eighth recommendation. The private sector in post conflict countries is weak due to varieties of reasons chief among them is the uneven economic development among different nations of the world. The industrial revolution that occurred in Europe during the 18^{th} century spread from there to other parts of the world, resulted in a distorted economic relationship between developed countries and developing. This resulted in private sector in the developing countries having to play the role of catch up with that of more developed countries. This resulted in the states playing active roles in the rebuilding of their countries' backward economies; a role that added to the weakness of the private sector. This led to states through the public sector to become the largest employer in developed countries, including post conflict with abundance of natural resources.

The case of Iraq showed entrenched groups that continued supporting policies that enhances the state run economy while resisting all attempts to move the country into market economy. The collapse of the Soviet Block in 1989 was a powerful indication that centralized economies that were run by state bureaucracy have difficulty in sustaining an inefficient system that did not meet their people's expectations. The collapse of the socialist system is no reason for celebration for the proponents of the capitalist system as seen in Europe and the United States which has its own ills (e.g.,, 2008 financial meltdown) to resolve. Post conflict countries with abundance of natural resources should move in the direction of market economy. This should be done by balancing the much needed role of the state, as the recipient of oil proceeds, in economic development towards that of the private sector. Steps should be taken to support and encourage the local private sector to be an active partner in the economic development of the country

Ninth recommendation. As stated in the implications section the state could play the role of a competitor to international oil companies. As shown in this study the state in post conflict countries plays the role of the largest employer in the country. This fact presents the private business owner with the dilemma of competing unfairly against an entity that have unlimited access to capital and worse control the means to enforcing its position thru the usage of violent power, if it so desired. The role of the state in developing countries such as Iraq as a corporation with its own interests is an important factor impacting foreign investment. Policy makers interested in encouraging FDI inflows should develop policies that discourage bureaucracy hierarchy from using the power of the state to run private businesses down. National oil companies should be used as partners of the international oil companies interested in investment in the oil sector and not as their competitors.

The 1970s act of the Iraqi government in driving MNEs out of Iraq's oil sector proved disastrous when it became clear that Iraqi national oil companies lacked finances as well as access to the latest technical advancement in oil exploration and production. This left most of Iraq's oil wealth untapped until recently, an act that deprived the country of much needed income for its economic development. It also proved to be a politically short sighted policy that benefited the coffins of Iraq's regional competitors such as Saudi Arabia and Iran's Shah that saw major improvements to their oil production facilities, courtesy of MNEs kicked out of Iraq.

Tenth recommendation. The possibility of FDI inflows in Iraq's oil and electricity sectors resulting in increased unemployment due to the highly inflated state organizations should be a welcomed result. Post conflict governments and in order to dry out violent groups' recruiting grounds, attempt to absorb the unemployed by inflating their state organization. The gradual movement towards market economy should address the hidden employment that's characteristic of public sector organizations. FDI efficient method of running businesses and improved managerial skills should be welcomed.

Iraq's mammoth public sector which employs 3 million workers, many of whom are underutilized, must be addressed and serious steps should be taken to privatize all non-profit making enterprises. This should also help in leveling the competition grounds between the state-owned enterprises and those owned by the private sector. Private investment in the electricity sector will result in job loss from the highly inflated and inefficient state organizations. Retraining laid-off staff and reassignment in emerging agricultural and manufacturing industries should be some of the policies to address effects of introduction of more efficient methods to conduct business. Plans should be implemented to improve workers' technical and management skills. This should include better utilization of academic institutions and improved coordination efforts to support economic needs for skilled workers.

Based on data collected and analyzed in this study, below is a list of additional general recommendations that could benefit post conflict countries. Some of these recommendations are more specific to the case of Iraq since Iraq was the research setting. It's recommended that post-conflict countries develop an investment strategy that is based on the following outlines:

1. In order to benefit fully from foreign investment, Iraq must complete its other legislations beyond the investment Law 13/2006 to include the following:
    a. Hydrocarbon law
    b. Protection of intellectual property
    c. International dispute resolution, whereby the foreign investor is allowed to seek international arbitration to resolve specific disputes in Iraq
    d. New updated regulation to address investment activities in Free-Trade Zones (specific areas exempt of taxation and import fees)
    e. Consumer protection law
    f. Protection of national industry from illegal "dumping" practices by foreign companies
    g. New regulations that address requirements for commercial and industrial areas
    h. Introduction of new regulation that addresses unfair competition practices
    i. The voiding and replacement of Trade Law 30/1984 with a new one that encourages private sector and foreign investment activities as well as addresses customs and import fees and taxation practices
2. Development of accounting standards that are in line with those adopted in the United States and other developed nations.
3. Implementation of the principles of corporate governance that take into account sound business practices that prevent corruption, and work towards a balanced

relationship between boards of directors of those businesses and their shareholders, between corporations and their financial institutions, and finally between those businesses and all their other stakeholders.

4. Legislation must be enacted to provide the investor the right to ownership of land on which the project is built on, and in accordance to the importance of the project to economic and societal wealth.
5. One of the vital elements of progress and social well-being is the existence of a young and educated class that engages in the building and expansion of the social base required for the development of Iraq's economic conditions. By developing relevant programs to improve the working and technical skills of its young population, Iraq and other post conflict countries could utilize their young working people in different segments of their economies. This should yield its own dynamics to expand the economic movement of trade and productivity with what it entails of increasing employment opportunities. Several participants (P1, P3, P17, and P22) spoke of the need for FDI in the context of creating local jobs.

It's further believed that a future quantitative study will validate the results of this investigation and demonstrate the relationship between FDI and each of the assessed factors impacting its inflows. Developing an econometric mathematical equation that models the relationship between FDI and the assessed factors, as shown in Table 8, impacting its inflows should help towards that end.

Conclusions

Economic development, including foreign direct investment (FDI), has played an important role in creating peace and the rebuilding of a post-conflict county. FDI has the potential to bring financial resources, technical expertise, and organizational and managerial know-hows to the host country. For a post conflict country, FDI could boost employment opportunities necessary to remove the unemployed from the recruiting grounds of warring parties. However, while conflict rages, few foreign or domestic investors have been willing to invest significant sums of money. Post conflict countries represent high risk environments due to concerns over physical safety, investment security, and unstable post-conflict governments that tend to change rules and regulations frequently. This has caused FDI into post-conflict countries to differ in both its volume and composition from that in more stable countries.

A qualitative research methodology with an explorative case study design using semi-structured interviewing method, was utilized to assess the determinants of foreign direct investment in Iraq's oil and electricity sectors. Post conflict countries are an interesting case study since they're anew in drafting investment laws (Moloo & Khachaturian, 2009). Based on the data analyzed, the researcher has concluded Iraq, and other post conflict countries, need foreign investment for several reasons, among them is the urgent and growing need for foreign and local private investment to undertake the reconstruction of its infrastructure that was devastated as a result of three major wars the previous regime of Saddam Hussein put the country through. Additionally, Iraq is in need of foreign investment to build new industrial, agricultural, and services projects that meet the growing needs of its population.

Post conflict countries are in need of cutting edge technology due to years of international isolation and sanctions. Their backward economy requires modernization in all its sectors; oil, industrial, agricultural and services. Opening the post conflict country's economy to FDI should bring in MNEs with required technology and modern management skill set.

Post conflict countries such as Iraq are in need for FDI due to the weak capital accumulation of its private sector exacerbated by years of unfriendly policies by socialist-leaning regimes. Those hostile policies contributed to capital flight to neighboring and foreign countries, an ongoing process that has its origin in the 1958 revolution that toppled Iraq's monarchy. Despite its large oil revenues, Iraq's and other post conflict countries financial institutions are incapable of providing the necessary capital to undertake the massive requirement of rebuilding Iraq's shattered economy.

The process of improving the investment climate in Iraq and other post conflict countries requires a committed political will to create the appropriate conditions to encourage and attract domestic and foreign investment. By improving its political and security conditions, Iraq and other post conflict countries could be assured of a progressive improvement in private capital inflows into their economies

The concentration of FDI in Iraq's oil sector, as the case is in other post conflict countries with abundance of oil, or other natural resources, has both negative and positive implications for those developing nations. Foreign investment in the extracting sectors of post conflict countries could bring quick revenue for the local governments, a much needed capital for rebuilding their damaged economies. Rentier states, as this study showed (same could be said about the case studies of Nigeria and Kuwait) suffer from the excesses of corruption. If bad policies coupled with corruption, a common theme in Iraq, Nigeria and Kuwait among others, lead to waste of finances and a delayed economic recovery, post conflict countries could develop (and possibly be locked into) an oil-based economic structure for many years to come.

Post-conflict fragile states are characterized by weak governments attempting to rebuild the states' authority in the face of local regional powers that could take advantage of that weakness and develop a tendency for independent decision making (Brahimi, 2007; Wolff, 2011). Developing the quality of a post conflict country's institutions (political, economic and social) is a long and ongoing process that could take many years to accomplish. In the process of developing its state institutions, Iraq adopted a new constitution in 2005 which, while being an improvement over previous one, is still a work in progress. Sunni Arabs complained that they were left out of drafting committee. Critics also point out that the constitution is both ambiguous and internally inconsistent in defining the powers and authorities of Iraq's governorates and that of the federal government (McGarry & O'Leary, 2007).

The implications of weak institutions, as this study showed, could be seen in the pervasiveness of corruption and the challenge of enforcing the contracts without bribes leading to the high marginal cost of production within the host country. With the right vision and commitment, difficulties facing foreign investment resulting from the inadequacy of state institutions could be addressed by transparent procedures and enforcement regulation that could minimize effects of corruption. This may be true whether the inadequacy is a consequence of lack of regulations or confusion due to differing interpretations, opposition by groups uneasy about foreign investment or simply due to widespread corruption.

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 modes of market entry (how MNEs internalize their ownership advantages or what is termed internalization advantages of OLI paradigm) were divergent between the two parts of Iraq.

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, or more accurately the locational variables that could impact FDI inflow positively or negatively. This research was a study of the locational advantages of the theoretical framework of the OLI paradigm in the context of post conflict countries.

Iraqi central government and governments of other post conflict countries should take note of the factors attributing to FDI playing a positive role in the economic development of the Kurdistan region and attempt to duplicate those policies. The most important of which are; clear commitment to FDI as an integral part of national economic development, resolving the political infighting between competing groups that expresses itself in violent acts, and addressing and resolving the widespread corruption with its negative impact on cost of doing business in their respective countries. A national will and conscience must be presented to foreign investors as being that of supporter and facilitator of FDI. This national will should show itself through appropriate pro-business legislations and an executive body willingness to facilitate their implementations.

The role played by Iraqi expatriates in influencing their employers' decision to invest in their country of origin highlighted a variable of the ownership advantages that has not been addressed adequately by scholars investigating the OLI paradigm. As shown in this study, Iraqi expatriates were influential in channeling the foreign capital of their respective MNEs towards investing in the electricity and oil sectors in Kurdistan region. The implications of this finding are very significant to other post conflict countries. Violence and instability results in local capital flight and unless this capital is harnessed by the expatriates to reinvest it back in their respective post conflict countries, it will be lost and with it the expertise and entrepreneurial skills of those expatriates. Owners tend to stick closer to where their money is invested. Governments of post conflict countries should provide incentives to encourage their expatriates return to their original home countries.

The implications of the study of FDI in Iraq's oil and electricity sector for other post conflict countries should take into consideration the locational variables specific to each country. Policies should be drawn that reflect the local history of the conflict, each country's local culture (even that of a particular region), the level of economic devastation due to war and what part of the infrastructure should be repaired first, and finally the post-conflict dynamics between the warring groups. The case of Nigeria being the top recipient of FDI in Africa for the two years of 2011 and 2012 should be considered in the context of FDI benefit to the local economy rather than in the shear dollar amount of it only.

It's important to note that drawing pro-FDI policies should be done in the context of the importance of one's own country in the global movement of capital and that of political dynamics between competing interests of developed countries. Developing too aggressive policies to attract FDI might backfire. It should be noted that MNEs engagement in FDI activities are done to improve their 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.

The private sector in post conflict countries is weak due to varieties of reasons chief among them is the uneven economic development among different nations of the world. The industrial revolution that occurred in Europe and spread from there to other parts of the world resulted in a distorted economic relationship between developed countries and developing. This resulted in private sector in the developing countries having to play the role of catch up with that of more developed countries. This resulted in states playing active roles in the rebuilding of their backward economies; a role that added to the weakness of the private sector. This led to states (thru the public sector) becoming the largest employer in developed countries, including post conflict with abundance of natural resources.

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.

In countries such as Iraq (same could be said about Iran, among others) where distrust of foreign investors runs deep, the tendency noticed by this study is of the state increasing its involvement in the oil sector through the enlargement of state-owned oil production organizations (e.g.,, state oil companies). This study's findings showed the state in post conflict countries (all developing countries) plays the role of the largest employer in the country. This fact presented the private business owner with the dilemma of competing unfairly against an entity that have unlimited access to capital and worse control the means to enforcing its position thru the usage of violent power (if it so desired). The role of the state in developing countries such as Iraq as a corporation with its own interests is an important factor impacting foreign investment. Policy makers interested in encouraging FDI inflows should develop policies that discourage bureaucracy hierarchy from using the power of the state to run private businesses down. National oil companies should be used as partners of the international oil companies interested in investment in the oil sector and not as their competitors.

The possibility of FDI inflows in Iraq's oil and electricity sectors resulting in reduced employment due to the highly inflated employment numbers of state organizations should be a welcomed result. Post conflict governments and in order to dry out violent groups' recruiting grounds, attempt to absorb the unemployed by inflating their state organization. Similar to population growth in other post conflict countries, and according to United Nations (2013) statistics, Iraq's population tripled from 1970 to 2007, growing from 10 to 30 million, 71% of which live in urban areas. This number was updated in April, 2013 by Iraq's Ministry of Planning to 35 million people (al-Zubaidi, 2013). Iraq is also considered one of the most youthful countries in the world with nearly half of its population less than 19 years old.

Most developing countries, including those with large oil reserves are young nations which suffer from a backward infrastructure, lack of electricity, and poor services across its economy. Foreign investment, technology and expertise would provide Iraq's youth with the means to build their nation on new foundations and rebuild their lives after decades of wars and turbulences. Similar argument could be made for other post conflict countries. The gradual movement towards market economy should address the hidden employment that's characteristic of public sector organizations. FDI efficient method of running businesses and improved managerial skills should be welcomed.

According to Iraqi Ministry of Planning, the unemployment rate in Iraq is 16% (Alsumaria, 2012), a figure disputed by a member of the Parliamentary Economic Committee who put it at 25% (Alfayhaa, 2012). Regardless of the actual figure, Iraq is in need of new investment projects that contribute to creating new jobs. Less people unemployed could well mean smaller recruitment field for the insurgency and associated terrorist groups who use financial incentives to lure the unemployed into carrying out their ill-conceived biddings.

The subsequent paragraphs about corruption in Iraq are a result of the in depth interviews with the participants. The subject was revisited to achieve a better understanding of the corruption problem in Iraq, as well as that in other post conflict countries since corruption is a wide spread problem in most of them. Arabic-language material that was not available previously was utilized and referenced.

The roots of corruption in the modern state of Iraq go back to the sixties of the previous century during the military regimes of 1963 – 1968. In order to pacify other military officers, the new rulers offered them special import licenses that contained generous import tax exemptions. In turn some of those officers sold those licenses to the highest bidder among the civilian contractors (Abdul-Rada, 2012a). Corruption became a widespread phenomenon during the period of 1990-2003 when the Security Council imposed severe sanctions on Iraq after the Kuwait invasion.

During the oil-for-food program (1996-2003), corruption took an international character when United Nations officials, executives of MNEs and other organizations became involved in paybacks deals with the Iraqi regime of Saddam Hussein. Accusations of corrupt dealings reached the son, Koji, of the then United Nations Secretary General, Mr. Kofi Annan as well as the head of the oil-for-food program itself, Mr. Benon Sevan (McMahon, 2006). The corruption was so widespread that the highly respected *The Economist* magazine called it the "oil-for-fraud" program (The Economist, 2004). Oil became an important channel to supplement other large corruption operations during the nineties. Oil export operations became entangled in oil smuggled away from the control and eyes of the United Nations creating in the process large smuggling gangs that was cooperating and coordinating its operations with the Iraqi state. The smuggling of oil and the oil-for-food operations encouraged corruption in all facets of the Iraqi state.

Iraq ranks among the most corrupt countries in the world. Transparency International ranked Iraq bottom 169 out of 176 in its Corruption Perceptions Index for 2012 (in comparison Nigeria ranked 139 and Kuwait 66). Based on responses of participants (see Table 8), corruption was ranked 5 out of 14 factors assessed as impacting FDI activities in Iraq. This study's findings confirm that corruption is widespread in Iraq.

The cause of corruption in Iraq has been deeply rooted in the oil curse phenomenon that Iraq, and other post conflict countries with abundance of oil, suffers from. Large sums of oil proceeds that came with the phenomenal increase of world oil prices post-Iraq US invasion have led to widespread corruption in government ministries and institutions. Local industry has been devastated and Iraq has been turned into a net importer of goods, a consumption society. The same effects could be seen in Nigeria, for example. Iraq does not produce neither agricultural nor industrial goods that fully satisfy its local market according to discussions with several research participants (e.g., P1, P3, and P10). The findings of this case study of Iraq have demonstrated that in case of post conflict countries with natural resources, the oil curse is significantly worse than that in more stable oil producing countries.

Wars and sanctions contributed greatly to the weakening of the Iraqi state institutions and with it the strengthening of corruption. The hiring and promotion process in the public sector did not follow the standards of qualifications and/or competence but rather on the personal relations among ruling party members. This in turn cemented the culture of favoritism, nepotism and other negative practices which had the combined effects of weakening institutional control and monitoring practices.

As could be seen from Table 10, 4548 electrical engineers and 1046 oil engineers graduated from Iraqi universities for the period of 2006 to 2012. Brain drainage is a problem facing most post conflict countries. Assuming a continuous drain of engineers and professionals leaving Iraq because of the security situation and political instability, the number of engineers entering the work force in 7 years comes across as inadequate to satisfying the needs of a nation of 34 million people. The small numbers reflect Iraq's limited industrial base. Iraqi government central planning has a direct say and control over the number of engineering students that are admitted into Iraq's public universities. Those universities are publicly funded and as such no tuitions fees are charged allowing Iraqi students to study for free. Most of the students in Iraq study at those universities.

The financial sector in any country consists of banks, stock exchange, and insurance companies. Those three components play an important role in the investment process. Banks play the intermediate role between depositors and investors. The level of development and sophistication of the financial system plays an important role in attracting local and foreign depositors who ultimately provide the necessary capital needed by investors-entrepreneurs. The findings of the study confirmed the weakness of the Iraqi financial sector, a problem shared by other post conflict countries.

The limited number of FDI projects in Iraq, a situation shared by other post conflict countries, points to a failure by the government to provide the appropriate economic conditions to attract foreign investments. This could also be attributed to the problematic security situation. In such conditions, concerns about loss of capital due to attacks or bombings are real. Foreign investors increase expenses to address that situation, and with it expectations of high earnings are dampened.

The findings of this study confirmed the underdeveloped Iraqi, and other post conflict countries, economy as lacking the technological know-hows and necessary infrastructure to attract major foreign investment. The Iraqi banking system is characterized by weak performance and provided very limited services, same could be said about Nigeria for example. Modern legislation addressing the banking system is lacking. Another challenge facing FDI investment in Iraq is the red tape coupled with unnecessary large number of steps to apply for an investment license which tends to discourage foreign investors.

Foreign debt is a serious problem in post conflict countries. Iraq's economy suffers from a foreign debt close to $94 billion as of 2010 (Central Bank of Iraq, 2013a) in addition to Gulf war reparations that might even surpass the national debt. Iraq is also characterized as a rentier state where oil made up over 92% of its total revenues. A single-source economy is indicative of serious structural problems in other sectors of the economy.

Creating the appropriate investment environment is needed in order to attract foreign investors. Introducing the appropriate investment legislation is a first step in the creation of that environment. New legislations are also needed to address corporate law, social security, taxation, and environmental law. Foreign investors should be provided with a list of all local laws that could impact their investment. Those laws should have clear provisions, do not contradict each other nor leave them to different interpretations. Additionally efforts must be made to increase the amount of capital allocated for infrastructure projects in Iraq's federal budget. Modernizing and repairing Iraq's damaged infrastructure is a much needed task.

Foreign investment activity in Iraq is weak due to several factors discussed in this study. With environmental uncertainty high, many investors with low-risk appetite are either staying away or redirecting their investments to other countries. Foreign direct investment helps in creating the much needed jobs in Iraq. For Iraqi and other post conflict countries governments, improving the conditions that attract foreign investors is a much needed task in order to increase their oil revenue, create job growth opportunities, and utilize the financial and technological capabilities of the FDI partner in their economic development.

It should be noted that results of determinants of FDI in this case study of Iraq, while applicable to other post-conflict countries with abundance of natural resources; however, the rankings of those determinants will differ among countries according to their own history of the conflict, local culture, economic development, severity of state fragility, and governmental policies. It's suggested that a future quantitative study would investigate a group of post-conflict countries with abundance of natural resources to validate the results of this case study of Iraq.

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Appendixes

Appendix A:

List of Middle East and North Africa (MENA) countries

The Middle East and North Africa (MENA) countries included in the data set were:

Algeria , Bahrain , Kuwait , Egypt , Iran , Jordan , Kuwait , Lebanon, Morocco , Oman , Saudi Arabia , Syria , Tunisia , Yemen

List of Gulf Cooperation Council (GCC) countries in the MENA region (high income countries):

Bahrain, Kuwait, Oman, Saudi Arabia

List of Non-GCC countries in the MENA region (low and middle income countries):

Algeria, Egypt, Iran, Jordan, Morocco, Syria, Tunisia

Data was insufficient for inclusion of Iraq, Libya, West Bank and Gaza in non-GCC list, and Qatar and United Arab Emirates in the GCC countries list.

Appendix B:

Sample of Interview Script

A semi-structured and an in depth interviews will be conducted, and during interviewing sessions (30 - 60 minutes) questions will be asked to solicit answers to the research questions. Sample of those questions will include:

Section I. Introduction: This will include personal introduction and explanation of the purpose and scope of the research. Terms of confidentiality of information and anonymity of participants will also be addressed.

Section II. Factors Impacting Foreign Investment In Iraq

1. How do you assess foreign investment conditions in Iraq since 2003? Has there been a change and why?
2. What factors do you believe will attract or deter FDI in Iraq and why?
3. Which of the following factors do you believe has an impact on FDI in Iraq? Please, rank from most to least important [Note; Participants will be given a list of items (a-n) in a separate piece of paper in order to provide the researcher with their rank order.]
    a. Political stability and security
    b. Abundance of oil
    c. Corruption
    d. State and economic institutions (legal, judicial, and economic bodies)
    e. Market size
    f. Human capital (availability of skilled work force)
    g. Banking system and financial institutions

h. Bureaucracy and red tape

i. Openness of economy (trade and capital flows)

j. Infrastructure (roads, airports, seaports, phone, internet)

k. Government policies (anti or pro-trade practices and regulations)

l. Technology gap with other economies

m. Democracy

n. Others, please specify

4. How do you assess Iraq's absorptive capacity in attracting FDI and benefiting from it? Are there any spillovers noticed? If none noticed, do you still support increased government incentives to attract FDI?

5. Is there a difference between government stated policy vis-à-vis FDI and on-ground reality? Why the discrepancy?

6. What roles do state and economic institutions play in attracting or deterring FDI in Iraq?

7. How do you assess Iraq's state fragility on MNEs decision making to invest in its oil sector? electricity sector? (e.g., no risk, no investment, limited investment with more control on operations)?

8. Do you believe there is a consistent and structured process used by MNEs when making investment in resource rich and high political risk countries? Do you believe Iraqi government is aware of it and adjusting its policies accordingly in order to attract more FDI?

9. How attractive is Iraq's electricity sector to FDI? What factors are more important for FDI in electricity sector compared to those in oil sector?

Section III. Analysis Of Current FDI Investment.

10. What are the objectives of investing in Iraq (e.g., market seeking, resource seeking, strategic asset seeking, other)?
11. What is the current monetary size of the investment in Iraq's oil, electricity, and others sectors? What is the number of local and foreign employees at start of operations? What is it now?
12. Have investing companies investigated alternative locations in other parts of Iraq (e.g., Kurdistan)? Why?
13. How do you assess the absorptive capacity of Kurdistan versus other parts of Iraq?

Appendix C:

Document Review Form
(Alphabetical order)

Reviewed ?	Document Name	Date
	Abdul-Mottaleb, K. (2010). Determinants of foreign direct investment in developing countries: A comparative analysis. The Journal of Applied Economic Research, 4(4), 369-404.	
	Bertelsmann Stiftung. (2012). BTI 2012 – Iraq country report. Gutersloh: Bertelsmann Stiftung. Retrieved from http://www.bti-project.de/fileadmin/Inhalte/reports/2012/pdf/BTI%202012%20Iraq.pdf	
	Brahimi, L. (2007). State building in crisis and post conflict countries. Retrieved from http://unpan1.un.org/intradoc/groups/public/documents/un/unpan026305.pdf	
	Bressand, A. (2009). Foreign direct investment in the oil and gas sectors: recent trends and strategic drivers. Retrieved from http://energy.sipa.columbia.edu/publications/documents/Bressand-Ch04.pdf	
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	International Finance Corporation. (2012). Doing business 2012 report. Retrieved from http://www.doingbusiness.org/~/media/FPDKM/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf	
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