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## EFFECT OF FOREIGN DIRECT INVESTMENT ON THE UNEMPLOYMENT RATE IN IRAQ AFTER 2003

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### Abstract

Foreign direct investment is an important means of activating all economic sectors and thus increasing employment opportunities. The research aims to determine the degree of influence exerted by the flow of foreign direct investment on unemployment rates after 2003, specifically for the period 2003–2020, and to study the costs and benefits of foreign direct investment, identifying the strengths and weaknesses that affect attracting foreign investments, and evaluating foreign participation and its impact on employment by highlighting the relationship between foreign direct investment and unemployment rates. The research adopted a descriptive analytical approach using standard methods based on the longitudinal time series model panel data and according to the EViews 10 statistical program, verifying the extent of the effect between the independent variable and the dependent variable (unemployment). The research hypotheses about the positive effect of attracting investments on reducing unemployment rates have been tested, and it has been proven that there are many obstacles facing foreign investments in Iraq. The most important finding of the research is that the independent variable (foreign investment) is of increasing positive importance in terms of providing services and generating job opportunities.

**Keywords:** foreign direct investment flow, unemployment rates, investment environment, attracting investors, investment climate, local labor force.

### Introduction

Many developing countries have used foreign direct investment as one of the economic tools and options offered to advance the declining economic reality towards development. Several countries have achieved an economic boom as a result of exploiting their available resources and directing them towards investment by creating a suitable investment environment to entice foreign companies and persuade them to work within the borders of the state, so they exploited their resources. Making the best use of it helped it move away from the path of developing countries towards advanced industrial countries, as is the case with China and Malaysia. Therefore, foreign direct investment is an extremely important economic tool, as it plays a major role in the economic development process because it contributes to increasing

the country's productive capacity and exploiting available resources, especially in developing countries that do not have huge financial resources, in order to improve their economic situation and reduce the budget deficit. the public.

Iraq is one of the developing countries that did not exploit its resources properly, despite the abundance and multiplicity of those resources. The reason for this is due to many political and economic factors that have accumulated over decades. After the change of the political regime in 2003 following the American occupation, there became a necessity imposed by reality for Iraq to transform. From the central economy, in which the state and the public sector control all aspects of the national economy, and the trend towards strengthening the role of the private sector by opening the door to foreign direct investment, especially with the high rates of unemployment as a result of the destruction of most economic institutions and Iraqi production companies during the war, there was a trend from the government to work towards attracting foreign companies by creating political, security, and administrative conditions for the work of foreign companies investing in Iraqi lands. However, these efforts collided with a bitter reality imposed by confused political factors on the part of those controlling the decisions in the Iraqi state and the turmoil in the security situation during the previous years. All of this prevented the entry of foreign companies to invest and work inside Iraq exacerbated the unemployment crisis until it reached significant levels at the present time due to a lack of real solutions.

### **Research Problem**

The problem of the research is that the phenomenon of unemployment is a problem that most countries suffer from, especially developing ones, which requires state intervention to formulate a wise economic policy to reduce this phenomenon, including moving towards foreign direct investment in a thoughtful manner and exploiting resources in the optimal way, but this requires creating an investment environment. It has a number of attractive factors for investors, which Iraq was not able to provide fully after 2003. Therefore, the percentage of foreign investment inflow was very small during the previous period and did not match Iraq's need for those investments, in addition to the fact that most investments were limited to certain sectors and not others. These are non-productive sectors.

### **Research Aims**

The researcher aims in this study to analyze the reality of foreign direct investment in Iraq, the extent of its contribution to reducing the unemployment rate during the period after 2003, and to attempt to explain the phenomenon of unemployment from an economic perspective by addressing the most important economic theories that dealt with the interpretation of this phenomenon in the past and present and the extent of its impact. On the country's overall economy.

### **Research Hypotheses**

1. There is a significant correlation between the flow of investments and the unemployment rate.

2. There is a significant effect of the flow of investments on the unemployment rate
3. Iraq after 2003 did not create a suitable environment to attract foreign investments and encourage them to work in Iraq.
4. The increase in the flow of foreign direct investment in Iraq positively affects unemployment by attracting the labor force and thus reducing the unemployment rate.
5. One of the most important reasons that made Iraq an environment repulsive to foreign investment is the unwise financial and economic policies pursued by the Iraqi governments after 2003.

### **Research Methodology**

Since this was an analytical study of the reality of foreign direct investment in Iraq, the researcher used more than one method in it, as she used the descriptive analytical method by relying on some literary sources from the writings of scholars and previous studies that dealt with the subject of the research and benefiting from them. She also relied on the official data and statistics provided by the agency. The Central Bureau of Statistics in the Iraqi Ministry of Planning analyzed it using the SPSS application, and the researcher also relied on the statistical application (EViews 10).

### **Research Model**



## **CHAPTER ONE: DIRECT FOREIGN INVESTMENT**

Foreign direct investment has become one of the most important and vital issues on which the economic development projects of governments and countries are based, especially in developing countries. This phenomenon has emerged, and interest in it has increased from a scientific and practical standpoint since the mid-eighties and the beginning of the nineties of the twentieth century as a result of some new changes in the global economy and the shift towards a more economical economy. The market and opening markets to the entry of foreign companies, and we will discuss that in this chapter.

### **1.The concept of foreign direct investment:**

Foreign direct investment has several definitions, with many different sources discussing this subject. The World Trade Organization defined it as all investment activities that take place in a country in which the investor holds or owns foreign assets in another country for the

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purpose of managing them. This is the definition agreed upon by the organization. Economic cooperation and development. (Khudair, 2005, 6).

There are those who define foreign direct investment as the process of employing foreign funds in fixed, long-term projects in a particular country to achieve a permanent interest through which the foreign investor controls the project established in the economy of another country, which is the country that hosts the investor entirely, or it may be through the foreign investor's contribution with a certain percentage of national capital that guarantees it control over the project's management. (Al-Samarrai, 2006, 19).

Others defined it as the investment made by some companies in a project located outside their home country, and that investment takes one of two forms. The first is the establishment of an entire iron project and its management by the investor, or it is in the form of owning the largest percentage of the assets of one of the existing projects, which makes the investor in it the decision-maker. (Hamid, 2005, 30).

Based on the above, the researcher believes that foreign direct investment is represented by some people or companies investing in other foreign countries through ownership of the entire project or a relative participation in the project shares in a way that allows the investor to fully manage the project.

## **2.forms of foreign direct investment:**

Foreign direct investment in a country takes several forms, and adopting one form of investment is linked to many factors, including what is political related to the system followed in the country hosting the project, what is economic related to the economic conditions and the extent of the fears surrounding the project owner, and others that are legal related to the laws and legislation prevailing in the country hosting the project. Which often determines the general framework for foreign investments within the country, and therefore foreign direct investment must be in one of the following forms:

1. Licensing agreement with companies operating in the host countries: In this case, a group of multinational companies has the right to transfer technology to local companies so that they can manage production and marketing for the local market, while the role of local companies is limited to paying the money to the foreign company. This form of investment provides multinational companies with a way to enter foreign markets with low risk. (CIPE:2014))
2. Owning the majority of the shares of host country companies: This is done through purchasing in several ways, such as buying shares directly, through privatization, or settling the company's debts in exchange for ownership, and other ways. In this form of foreign direct investment, the obligations imposed on the foreign investor increase. The time period for investment is longer, and the risk rate increases depending on the period during which the investor intends to risk his capital.
3. The investor owns the project entirely. This is done through foreign companies of multiple nationalities establishing branches for production and marketing in the host country that are completely subject to it in terms of management, production, and marketing. This type of foreign investment in developing countries usually decreases due to their fear of dependency.

economics and the dominance of some international companies over the local economy through monopolies in the local market (Awan et al. 2010:154).

4. Free zones: They are specific places in one or more countries where trade obstacles are reduced and the process of commercial and industrial exchange is facilitated. They are an external extension of the state that is isolated from the state in terms of customs while remaining subject to the state's sovereignty politically, and projects are established within this zone. It is limited to foreign and local capital or multinational projects, and customs duties for commodity exchange are not paid except in the event that the goods cross the borders of the free zone towards the state. (Faeth. 2009: 184)

### **3. Advantages of foreign direct investment:**

1. Foreign direct investment contributes to the development of the local workforce as a result of working in branches of foreign-invested companies, which gives them many scientific and technical skills and expertise.

2. Foreign-invested companies contribute to providing the modern devices and equipment needed by local companies and projects in accordance with advanced international specifications.

3. It supports the balance of payments in the country hosting the project as a result of the increased inflow of foreign currency into the country.

4. Foreign direct investment and the entry of foreign companies into the market stimulate local companies to raise the quality of production for the purpose of continuing to compete with foreign companies and maintaining their presence in the market. Thus, local companies will strive to use the best means and modern systems to increase their competitiveness. (Al-Qadi, 2015: 31)

### **4. Disadvantages of foreign direct investment:**

Despite the many advantages we mentioned previously of foreign direct investment at the economic level of the host country, it is not without some drawbacks, including:

1. The entry of multinational investment companies may sometimes lead to some local companies losing their position in the market and leaving the circle of competition because they are unable to adapt to the developments that accompany the entry of foreign companies into competition and the experience and tools, they possess are far superior to their local counterparts.

2. Some foreign companies investing in a country, especially in developing countries, often focus on certain aspects, monopolizing modern technology and modern means, which leads to weakening the capabilities of the host country in terms of technological expertise or leaving it without development.

3. Foreign investing companies usually bring consumption patterns that do not fit with the development requirements of the host country due to the skills and marketing activities that foreign companies use in the process of creating new ideas to increase consumption.

4. Most foreign multinational companies pay high salaries to their employees, which are higher than the prevailing wage level in local companies, especially in developing countries,



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and this would lead to increasing differences between social classes in addition to other social and economic harms. (Abdel Aziz, 2005: 101).

## **CHAPTER TWO: UNEMPLOYMENT, CONCEPT AND EFFECTS**

### **1. Definition of unemployment:**

Unemployment has many different definitions mentioned by scholars and researchers in this field. The reason for the difference is due to the aspect in which each of the scholars views it with regard to unemployment and its effects. Unemployment is a multidimensional concept. Some of them focused on the social aspect and others on the economic aspect, and some of them explained the phenomenon of unemployment in terms of legal and so on.

Accordingly, unemployment has been defined in practice as the lack of full use of the labor force available in society. Therefore, unemployment, according to this approach, is based on two pillars. The first is the failure to fully exploit the available labor force, which includes partial unemployment in addition to blatant unemployment. The other pillar is the incorrect use of the available labor force, which leads to a decrease in the natural level of the natural individual productivity rate, as in the phenomenon of disguised unemployment. (Zuhair, 2014: 216).

As for the International Labor Organization, it used the term unemployed to express unemployment. It considered the unemployed to be every person who can and desires to work and seeks to find a suitable job opportunity at the normal wage prevailing in a given region to no avail. (Al-Quraishi, 2007, 182).

The researcher can define unemployment as a state of unavailability of labor opportunities that attracts the labor force available in a given society and makes them ready to work in exchange for the natural wages prevailing in that society.

### **2. Economic theories to explain unemployment:**

Unemployment is an economic and social phenomenon that most societies have suffered from since ancient times. Many researchers and thinkers, past and present, have addressed it in an attempt to find an appropriate explanation for this phenomenon to explain its causes, effects, and ways to reduce the risks resulting from it. Among the most prominent theories that have dealt with explaining this phenomenon are:

#### **A. The classical interpretation:**

Followers of the classical school believe that the general economic balance lies in the process of full employment of the available labor force in the optimal way and that any such balance will be unstable. As a result, the classical school rejects the issue of the existence of unemployment on a large scale, and if this happens, the best way to correct this is the path and solution to the problem are to reduce labor wages. The state cannot interfere in the process of setting prices and wages. (Zaki, 1998, 167).

Although the classical approach was the idea of widespread overproduction and thus the impossibility of widespread economic depression and unemployment, they did not deny the possibility of what they called (voluntary unemployment, which occurs due to the labor force's refusal to fill available jobs due to their low wages and their preference for high-paid

jobs. They did not rule out the possibility of partial unemployment occurring as a result of the errors that entrepreneurs make in their perceptions when estimating the volume of demand and production. However, they believe that this unemployment could eat away at itself and disappear as soon as flexibility in prices and wages becomes available. The classicists linked the phenomenon of unemployment to the demographic problem, capital accumulation, and the rate of unemployment. The country's gross domestic product. (Mazen, 2014: 32)

### **B. Keynesian interpretation of unemployment:**

The British scientist John Keynes was the first to explain the phenomenon of compulsory unemployment that occurs when the economy stagnates. He criticized the classical theory in its explanation of unemployment and its connection to wages. He saw that when wages fall, a kind of complete stagnation will occur in some markets, while other markets may experience a slowdown in other markets, which ultimately leads to the emergence of a type of forced cyclical unemployment in the economic system in general. (Gilbert.2005:269)

Keynes also criticized the classical approach to explaining unemployment. He considered that the tendency of wages toward stagnation is an indication that they have not reached the level that equates supply and demand in the labor market. In order to solve this problem, he believes that it is necessary for the government to intervene and take some necessary measures, such as adjusting the tax rates imposed. And increasing the rate of public spending, which leads to an increase in money circulation and the resulting expansion of the employment rate as a result of increased demand and higher rates of consumption, Thus, the analysis of the concept of unemployment according to Keynes is linked to the labor supply function, as he believes that workers do not mind reducing their real wages in the event of a rise in the level of unemployment. General prices while maintaining the value of cash wages, but they reject any reduction in their wages with the aim of raising the level of employment. (Mazen, 2014: 33).

### **C. Monetary theory to explain unemployment:**

The proponents of this theory and its supporters believe that there is a single measure to measure the unemployment rate, provided that it is compatible with the nature of monetary and price stability, and that all attempts that seek to reduce unemployment rates without this mechanism will lead to high inflation rates, which means that it is not possible to reduce the unemployment rate from its level. Natural except through the continuation of inflation, which is financed by increasing the money circulating in the market. Accordingly, this theory has linked the existence of cyclical unemployment to purely monetary causes and says that treating it can only be done through monetary policy. Therefore, this theory believes that the unemployment that exists in countries with industrial capitalism is voluntary unemployment, while in their view, there is no compulsory unemployment in the economies of these countries at all. (Zaki, 1998:356).

**D: Technological explanation:**

It is one of the relatively modern economic theories in explaining the phenomenon of unemployment, as the proponents of this theory believe that technology has begun to affect many jobs and professions, given that the use of modern technologies in various industries is a factor that saves time and effort in addition to costs, in addition to the high accuracy that characterizes technology and the lack of... Reducing the percentage of errors to a small percentage compared to the work performed by humans, which accepts errors to a large extent. Therefore, this structural change resulting from the nature of human development and the emergence of technology and modern technology and its widespread use in various industrial and commercial fields led to the advancement and prosperity of certain industries while causing their extinction. Many projects and other sectors, and unemployment rates, change up and down according to this theory as a result of technological development and its impact on some jobs. (Gegory. 2006:193)

**E: Human Capital Theory:**

Becker is considered one of the founders of this theory. He saw that the process of choosing the appropriate job by the workforce takes place in view of the benefits that the worker obtains in exchange for the work he will perform in an effort to improve his productive performance and obtain the highest possible income. Therefore, workers can make extra effort and waste time in order to raise their capabilities and qualifications through additional working hours to develop their technical skills, given that business organizations often search for qualified, experienced labor. (Al-Dabbagh, 2007: 32).

**3.Economic effects of unemployment:**

Unemployment is a negative economic phenomenon that affects different societies, whether advanced industrial or developing ones, but it varies from one country to another according to the different economic policies that each country follows to reduce this phenomenon. Therefore, there are a number of social, political, and economic effects that result from high unemployment rates, except that there is not enough space to talk about all of them, so we will limit the discussion to the most important effects of unemployment related to the macroeconomy (Daoud, 2005: 260).

1. Unemployment affects the increase in the rate of government social spending, as it increases the burden of social support for the government due to the high percentage of unemployed people whom governments are responsible for supporting.
2. Unemployment leads to a state of economic stagnation, as the imbalance between supply and demand due to the decrease in production and the increase in the number of consumers, including the unemployed, leads to a decrease in the standard of living, saving, and the ability to invest, and accordingly, the volume of gross domestic production decreases gradually as the unemployment situation increases.
3. Unemployment affects the decline in the general level of wages, and this occurs as a result of the mismatch between the percentage of jobs or jobs available and the volume of demand for work. Therefore, this matter will automatically lead to a decline in the wage rate due to



the presence of a surplus of labor willing to work for average wages. Therefore, this is reflected in a lower standard of living.

4. Unemployment causes a waste of human expertise and thus a failure to invest human capital in an optimal manner, as the skilled labor force and the professional and scientific expertise and skills it acquires may decline continuously with the continued unemployment situation and the failure to develop those skills and expertise for a period of time as a result of cessation of work.

5. Lack of optimal exploitation of the productive resources available to a country, as the human factor and workforce represent two of the most important resources that developed industrial countries depend on.

### **CHAPTER THREE: THE REALITY OF FOREIGN DIRECT INVESTMENT IN IRAQ AND ITS IMPACT ON UNEMPLOYMENT**

The Iraqi economy as a whole has suffered from long-term crises and major structural imbalances with regard to the financial or industrial sectors or the economic and financial policies followed by the state, which were characterized by imprudence and the lack of well-thought-out plans that are feasible in the long and medium term to extricate Iraq from this reality and begin a development process from By exploiting the available resources, whether human or natural, and directing them towards optimal use, the wars that Iraq fought with a number of neighboring countries during the previous decades cast a shadow on the deterioration of the economic level, which led to a decline in the gross domestic product and a continuing deficit in public budgets as a result of waste. With the start of the development process after 2003, the Iraqi governments tried to use foreign investment as a step to correct the course of the economic reality and what was destroyed by the war and to repair the dilapidated infrastructure, but these efforts collided with many obstacles on the ground, as The investment climate was not optimally prepared to attract investors and foreign multinational companies looking for politically safe and stable places, so businessmen cannot risk their money and put it into projects that are not guaranteed profit, and therefore they were the most important problems facing Iraq. In this field, it is necessary to create an investment climate to attract foreign investors and companies.

At the end of the second millennium and the beginning of the twenty-first century, the world has become an open arena for competition to attract foreign investments by legislating laws that facilitate the investor's work within the host country, creating the appropriate atmosphere for companies to operate, and providing customs and other facilities to encourage foreign companies to work and invest within the country. In light of this atmosphere of competition, each country's share of foreign investments remains dependent on the ideal conditions it provides to the investor in terms of banking facilities, a safe environment, and the guarantee of obtaining project returns.

The investment climate is generally defined as (the set of regulations, laws, financial and economic policies, and the size and type of economic institutions that affect the investor's conviction in moving towards investing in a specific region or country."(Al-Samarrai, 2017: 397).

Or it is all the circumstances and factors that would influence the direction of capital and its localization. It takes into account the general conditions of the country hosting the project in terms of administrative organization, geographical factors, the reality of political and economic institutions, the availability of infrastructure, currency rates, and the nature of the prevailing market in the country, as well as the mechanisms The legislative framework followed by the state with regard to investment, the movement of capital, and the rights and obligations it imposes on the investor. All of these factors and everything related to them fall within the scope of the investment environment. (Ahmed, 2011: 110).

Through the above, we find that foreign direct investment does not depend only on the state's desire to be an investment arena that attracts foreign companies, but rather depends on the multiple legislative, political, economic, and financial means it creates that can stimulate foreign capital to come and invest within the country. After the great change that Iraq witnessed in its economic orientation after 2003 and the subsequent drafting of the constitution in 2005, which paved the way towards moving towards a free economy and supporting investment, followed by the legislation of Investment Law No. 13 of 2006, governments began to turn towards the available external opportunities as a means. Economic growth in order to achieve growth by attracting direct foreign investments. However, most investment operations after 2003 have focused on solving certain aspects, perhaps the most prominent of which are energy sources, which received the largest share of foreign investments, especially with regard to crude oil production and export. This is due to the government's orientation. After 2003, it focused on almost total dependence on imports obtained from the sale of oil, ignoring many available resources that could be invested in and developed in an effort to diversify sources of income and get rid of the single-source rentier economy. Despite these efforts, there are many factors, such as political and security instability. And the fluctuation in exchange rates—all of this contributed to reducing the flow of foreign investments to Iraq in recent years.

**Table (1): Annual foreign direct investment inflow rate during this stage.**

Year	FDI inflows / USD
2004	300
2005	515.3
2006	383
2007	971.8
2008	1855.7
2009	1598.3
2010	1396.2
2011	1882.3
2012	3400.4
2013	2335.3
2014	10176.4
2015	7574.2
2016	6255.9
2017	5032.4
2018	4885.1

Source: Prepared by the researcher based on data from the Central Bureau of Statistics, Iraqi Ministry of Planning.

It is noted from the table above that the rate of investment flow after 2003 has varied between a decline and a rise as a result of the lack of well-thought-out plans by the state to attract investors and create a safe investment environment for foreign companies. It began fluctuating during the first years, but it achieved a boom in the years 2007–2008. The rate of foreign direct investment inflow increased to (971.8) million dollars in the year 2007 after it was at the level of (383) in 2006, meaning that it increased by two times within one year, and then witnessed another increase of double in the subsequent year 2008 until the rate of investment flow reached Direct foreign investment in Iraq is approximately 1855.7 million US dollars. The rate of foreign investment flow to Iraq witnessed its peak in 2014, reaching a record high of 10176.4 million US dollars. Many economic and political factors that Iraq witnessed contributed to this. During that period, as global oil prices began to decline in 2014, which prompted the government to search for another way to reduce the deficit in the general budget by creating a safe investment environment, Iraq witnessed during the end of 2013 and the beginning of 2014 a phase known as relative stability at the political and security levels, which contributed to increasing the flow of foreign investments to Iraq during this period.

Then the rate of foreign investment inflow began to decline at the beginning of 2015 and in the following years. The events that Iraq witnessed and the turmoil in the security situation had a great impact on this, as the entry of the terrorist organization ISIS and its occupation of some areas in Iraq caused turbulent conditions politically and security-wise, which made Iraq an investment-repelling environment during those years. The percentage of foreign investment inflows began to decrease gradually until it reached 4885.1 by the end of 2018. However, in 2019, flows increased slightly, reaching 5644.15, then decreased to 4458.75 at the end of 2020. That is, a decrease of less than half what it was. Value of investment inflow in 2014.

This decline in the flow of foreign investment to Iraq is still in a state of continuous decline due to the absence of any serious measures taken by the government to correct the economic path. This decline in the rates of foreign direct investment has exacerbated the problem of unemployment that it suffered from after 2003, and it has become an aggravating phenomenon, causing many effects. Social and economic, because there are no realistic solutions to address them, especially among the youth group, which constitutes the largest percentage of the unemployed workforce in Iraq during the past years. Foreign direct investment is one of the most prominent mechanisms that may contribute to addressing the problem of unemployment because of its direct impact on attracting workers. The workforce, as well as developing the technical and scientific skills and expertise of the workers, which enables them to introduce modern technology to the countries hosting the project. Thus, there is an inverse relationship between the rate of foreign investment flow to Iraq and the unemployment rate. The greater the flow of the former, the lower the rate of the latter.

**Table (2): The relationship between the flow of foreign direct investment and the unemployment rate in Iraq during selected years.**

Year	FDI inflows / USD	Unemployment rate
2004	300	26.8
2005	515.3	17.9
2006	383	17.5
2007	971.8	11.8
2008	1855.7	18.22
2009	1598.3	15.8
2010	1396.2	11.1
2011	1882.3	11
2012	3400.4	11.9
2013	2335.3	16.3
2014	10176.4	10.53
2015	7574.2	16.24
2016	6255.9	18.14
2017	5032.4	20.1
2018	4885.1	22.6
2019	5644,15	21.35
2020	4958,75	22.4

Source: Prepared by the researcher based on data from the Central Bureau of Statistics in the Iraqi Ministry of Planning for specific years.

It is noted from the previous table the extent of the connection and contribution of foreign direct investment in reducing the unemployment rate. In 2004, when the value of foreign direct investments in Iraq was estimated at about 300 million dollars, the unemployment rate this year reached about 26.8%, and this rate continued to decline as a result. The increase in the flow rates of foreign direct investments and their contribution to attracting the local labor force continued until the unemployment rate in 2014 in Iraq reached 10.53, when the value of direct foreign investments in Iraq was 10176.4, and the same was true when the investment rate decreased in recent years. It resulted in an increase in the unemployment rate in Iraq until it reached about 22.6 percent in 2008, according to reports issued by the Iraqi Ministry of Planning, while some international reports issued by the International Monetary Fund in 2018 indicate that the unemployment rate in Iraq is estimated at about 40 percent, according to studies. Unofficially conducted by some organizations.

The reason for the increase in unemployment rates in Iraq in recent years is due to many factors, including the absence of economic institutions and investment companies capable of absorbing the workforce in the labor market, in addition to the fact that there are significant numbers of employees who were laid off after 2003 and lost their jobs after the closure of many... It is one of the economic institutions that represented the most important pillars on which the Iraqi local economy was based and provided a significant portion of the individual's needs and requirements for goods and services, at the very least, at the internal level.

The dissolution of the Iraqi army, the demobilization of its personnel by the interim US administration of Iraq under the civilian governor (Paul Bremer), and the cessation of military industrialization, which was managed by the former Iraqi army, also contributed. These

factors combined, in addition to other factors, led to more than a million people being unemployed and losing their jobs.

The process of directing foreign direct investment by governments was not based on real development plans but rather was the result of confused policies that deviated from wisdom and study, as the bulk of foreign direct investment in Iraq was based on the oil sector and ignored the service and agricultural sectors. The percentage of these sectors' contribution to the gross domestic product is negligible compared to the oil sector, whose contribution to the gross domestic product ranged between 50 and 67%, although this sector is not included in the components of the employment of the Iraqi workforce except at a very low percentage in its best cases, which may reach 2%. Foreign companies investing in the oil sector often depend on foreign labor, and thus foreign direct investment in this sector does not provide job opportunities for the Iraqi labor force except to a small percentage.

Thus, the marginal role of the services sector, the manufacturing sector, and agriculture has received little attention in terms of investment in a way that is consistent with the role that these sectors play in developing the local economies of countries. Therefore, there are many workers in the service sector who work within the unemployment rate due to low wages in some sectors. These sectors and the low level of productivity in them, in addition to the increase in the population rate in Iraq during recent years, cast a shadow on the increase in unemployment rates due to the state abandoning its obligations to employ graduates and the lack of investment projects and companies that attract them, in addition to the flight of much local capital outside the country. To search for safe places to invest in, as a result of the turbulent circumstances that Iraq witnessed during the previous years. All of this caused the industrial and service sectors to collapse, which led to a major imbalance in the structure of the economic system in Iraq, as the percentage of the contribution of the various industrial sectors to the gross domestic product during the previous years remained within the limits of 1.5%, while the contribution of the agricultural sector did not exceed a percentage of 6.5% of GDP.

Therefore, Iraq did not exploit the various components and wealth that can be utilized, whether natural or human, in establishing a production base that contributes to diversifying sources of income and developing the services sector, the agricultural sector, and the manufacturing industries that could advance the Iraqi economy to high levels if investment is directed correctly. To exploit this wealth in the optimal way, which will contribute to creating great job opportunities for the Iraqi labor force and thus reducing the unemployment rate as much as possible.

For the purpose of testing the first research hypothesis, which assumes the existence of a significant correlation between the flow of investments and the unemployment rate, the relationship will be found by calculating the Pearson correlation coefficient for the correlation of ranks between the two research variables, and then testing that relationship by using the (T) test to show the significance of the correlation coefficient calculated using the statistical program (EVEIWS 10).



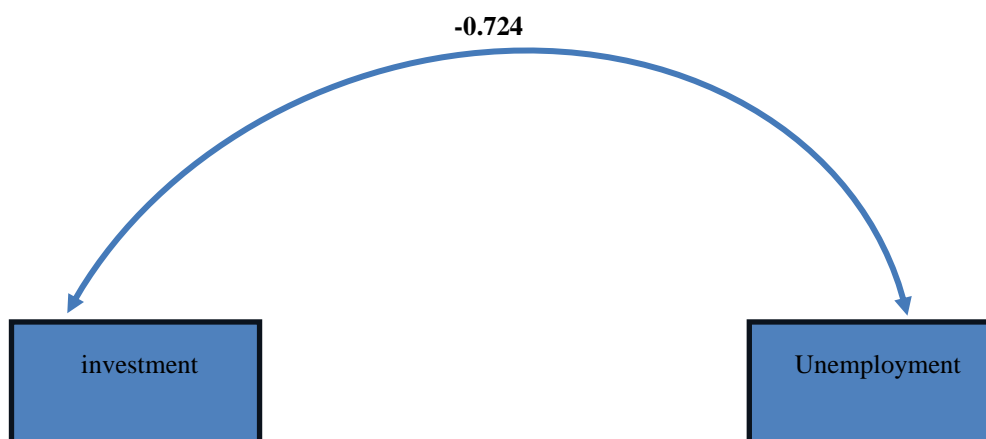
**Table (3): Spearman correlation coefficient**

Significance	Calculated T value	Spearman correlation coefficient (r)	X	Y
significant	3.784	*-0.724	Investment flow	Unemployment rate

Source: Prepared by the researcher based on research sources.

Significant effect at a significance level of 0.05.

With regard to testing the correlation relationship between the investment flow variable and the unemployment rate variable, it is clear from the results of Table (30) that the value of the Spearman correlation coefficient between them reached (-724.0), which is a negative value that reflects the existence of a relationship in the opposite direction with significant significance at a significance level of (05.0) due to the fact that the calculated (T) value of (3.784) is greater than its tabulated counterpart, which is equal to (2.160) at the same level of significance (05.0). The interpretation of this result indicates that interest in attracting investments and their flow would reduce the unemployment rate in the country, and thus the hypothesis is accepted. The first principle of the research states that there is a significant correlation between the flow of investments and the unemployment rate, and the following figure illustrates this relationship.



As for the second hypothesis, through which the researcher assumes the existence of a significant effect of the flow of investments on the unemployment rate, for the purpose of testing the validity of this hypothesis, the effect of the flow of investments on the unemployment rate was measured by calculating a simple linear regression equation, which is:

$$Y = a + \beta_i X_i \dots\dots\dots (1)$$

Then, the effect relationship is tested using the F test to show the significance of the calculated regression (effect) equation, in addition to using the coefficient of determination

(R<sup>2</sup>) to explain the amount of variation achieved by the flow of investments in the unemployment rate and using the statistical program (EVEIWS 10).

**Table 4: Values of the coefficients used to measure the effect between the investigated variables**

Statistical parameters					Variables	
Significance	R <sup>2</sup>	Calculated (F) value	Beta	A	X	Y
significant	0,57	8.13	0.48	1.85	Investment flow	Unemployment rate

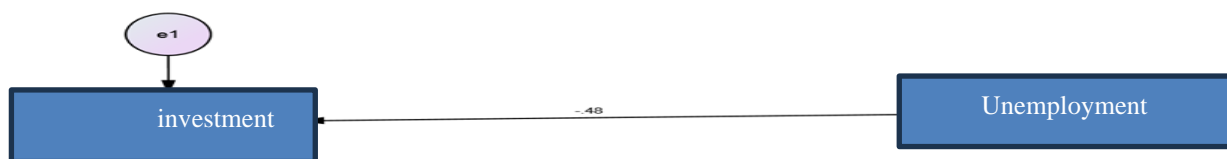
Source: Prepared by the researcher based on research sources.

Through the previous table (4), we find that the results of the statistical analysis indicate that there is a statistically significant effect for the variable (investment flow) at a significance level of 0.05 on the variable (unemployment rate), because the calculated F value of 8.13 is greater than its counterpart. The tabular value is equal to 6.41 at a significance level of 0.05. The independent variable (investment flow) also explained (57%) a little more than half of the total changes that occur in the values of the dependent variable (unemployment rate) in Iraq, which was reflected by the value of the coefficient of determination.

The percentage (43%) is due to the contribution of other variables not included in the model, and thus the estimated regression equation for the effect of investment flow on the unemployment rate variable is as follows:

$$\text{Unemployment rate} = 1.85 - (0.48) \text{ investment inflow} \dots\dots\dots (2)$$

The value of the regression coefficient in the above equation, amounting to (-0.48), indicates that any increase in the flow of investments by one unit will be accompanied by a decrease and decline in the recorded unemployment rates by 48%. Thus, we conclude acceptance of the second main hypothesis, which states that there is a significant effect on the flow of investments in unemployment rates.



**Figure (1): The nature of the effect between the flow of foreign direct investments in Iraq and the unemployment rate in Iraq**

## **CONCLUSIONS**

1. The Iraqi economy suffers from many problems as a result of the accumulated wrong policies of the post-2003 governments, which contributed to transforming the Iraqi economy into a rentier economy that relies entirely on a single source by relying on oil exports. Consequently, the Iraqi economy became dependent on international oil prices and was greatly affected by them. Live when you are rising and falling.

2. Despite the destroyed infrastructure as a result of the wars that Iraq fought in previous years, the last of which was in 2003, and the destruction it caused of economic and industrial institutions in Iraq and the disruption of more than 200 projects, these projects were in dire need of being reconstructed and returned to production to support the economy. However, the state has directed investment mainly towards the oil sector, while some other sectors received marginal and negligible investment, which exacerbated the unemployment crisis in Iraq due to investment companies' reliance on foreign labor and their preference over local ones.

3. The endeavor of successive Iraqi governments to advance the Iraqi economic reality towards openness, transition to a free market, support for investment, and what was done to this end in terms of legislating the investment law and providing some facilities to foreign companies—all of this was not sufficient to make Iraq an ideal investment environment that convinces capital to invest. There were many problems that prevented this, such as widespread corruption in state institutions, the absence of a wise financial policy, severe fluctuations in the exchange rate, and some of the security disturbances that Iraq witnessed during varying periods of previous years, all of which led to making the Iraqi climate repulsive to investment.

4. The political and security problems that Iraq witnessed after 2003 led to the flight of many local capitals, who preferred to invest them abroad in search of safety and certain profits. This contributed to the exacerbation of the unemployment problem in Iraq due to the workforce's almost total dependence on government jobs due to the lack of an alternative, which led to the mobilization of state public institutions with employees, increased government spending, and had a negative impact on the public budget deficit.

5. Foreign direct investment directly affects the reduction of the unemployment rate, as the greater the investment flow, the lower the unemployment rate as a result of attracting the labor force in those companies.

## **RECOMMENDATIONS**

1. There has become a necessity to move towards optimal exploitation of the resources available in Iraq, whether natural or human, especially with the continuous decline in oil prices, which Iraq depends entirely on to support the budget. Foreign direct investment in the agricultural and industrial aspects may bring great benefits to the Iraqi economy and contribute. By properly restructuring the economy by rationalizing public spending and effectively increasing the contribution of the economic, agricultural, and service sectors to the gross domestic product, these sectors can play an important role in supporting economic development.

2. Security must be extended in all Iraqi regions, and the risks that disturb the investment climate in Iraq must be reduced, making it a repulsive environment for investors and foreign multinational companies. Investment always searches for a safe environment in which the percentage of problems and risks is very low.
3. Developing a well-thought-out financial and economic policy in which we can benefit from the experiences of international organizations such as the International Monetary Fund, the World Bank, and other institutions that have long urged Iraq to move towards a market economy, support the private sector, and invest to reduce public spending and thus reduce the recurring deficit in public budgets and the absence of oversight of the process. Investment spending.
4. Immediate policies must be put in place to limit population growth in Iraq, as the large and rapid rise in growth rates directly affects the economic level of any country, and Iraq has witnessed a high population growth rate in recent years in light of a continuous decline in the economic level, which has led to an increase in unemployment rates. Especially among young people, who are the group most affected by this phenomenon.
5. Reconsidering the Iraqi Investment Law of 2006 to amend some of its provisions in order to provide the greatest possible facilities to foreign investors and supporting this law with executive procedures and instructions to apply the provisions of the law on the ground, as many Iraqi laws remain unimplemented for years, which makes them lose their importance from a practical standpoint.

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