

# Immediate Economic History of Iraq: Effects of the Recent Global Crisis on the Oil Sector of Northern Iraq

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I have analyzed effects of the economic crisis, which began in the USA, on Northern Iraq under three main titles: First, I studied the economic history of Iraq. Second, I analyzed the effects of it in Northern Iraq. Finally, I interviewed entrepreneurs about the effects of crisis on private sectors in this region. I have been in northern Iraq for three years. I have tried to reach original sources, have interviewed people in the government and examined the impact of the crisis on the people and government. It was seen that the country's economy, is mostly based on the oil sectors, *so we especially highlighted oil production and revenue*, which have been affected indirectly from the global crisis.

*Key words:* economic history, crisis, effects, Iraq

## Introduction

Iraq ranks fourth in the world behind Saudi Arabia, Canada, and Iran in the amount of oil reserves. It contains 115 billion barrels of proved oil (Shafiq 2010). It is known that Iraq's economy is dominated by the oil sector, which has achieved about 95 percent of foreign exchange earnings (Bertelsmann Stiftung 2010). In the 1980s financial problems were caused by massive expenditures on the war with Iran that lasted on a span of eight years, where Iraq suffered economic losses of at least tens of billions. In previous years, Iraq was under Baath Party rule from 1968 to 2003; in 1979 Saddam Hussein took control and remained president until 2003 after which he was unseated by the us. Iraq which has a population of 31,234,000 people estimated in 2009, has a number of ethnic minority groups; Kurds, Assyrians, Mandeans, Iraqi Turkmen, and Shabaks. The Kurdistan Regional Government (KRG The name Kurdistan literally means *Land of the Kurds*.) borders Iran to the east, Turkey to the north, Syria to the west and the rest of Iraq to the south.

Its capital is the city of Arbil, which is officially governed by the Kurdistan Regional Government (KRG). The three governorates of Duhok, Arbil and Sulaymania accumulate a territory of around

40,000 square kilometres and a population between 4 and 6.5 million. As a major economic power in Iraq, Kurdistan has the lowest poverty rates and highest standard of living in Iraq, making it the most stable and secure region of Iraq (United Nations Development Programme 2009, 26).

This study mostly includes Kurds – the Kurds' language is Kurdish, that is spoken in Turkey, Iran, Iraq, Syria, and Armenia (Hekimoğlu 2009, 9) which have established their own autonomous region. In this study we analyze the causes of the recent global crisis and its effects on the world economy, especially Iraq and northern Iraq. I have been in Erbil for three years and have observed the effects of the crisis first hand. During the crisis, I had the opportunity to observe the community and private firms in Iraq. Owners of private firms whom I met personally confirmed that Iraq was not affected directly. I interviewed Ramzy, an Iraqi entrepreneur is running his own business, about the private firm's activity during the crisis.

We tried to analyze how Iraq, particularly Northern Iraq was affected under the control of America. I highlighted that the us government managed the American economy as well as the Iraqi economy. The ultimate reality was that the recent global crisis did not directly affect the Iraqi economy whose oil is a dominant sector. Because of the crisis the demand for oil and price of oil decreased in the world, which caused a low income from oil in Iraq. Finally, we can say that Iraq and the regional government were affected indirectly from the recent global crisis. We can also come to this conclusion by looking at table 1.

When I analyze the last three years, I see that the banks of Iraq are underdeveloped and the general focus is on the domestic market. Flowing foreign direct investments (FDI) to Iraq is not efficient enough. Due to the global recession caused by the crisis, the price of oil decreased by 25.8 percent (World Bank 2009, 7). The price of oil was not expected to recover in the immediate future; therefore, the government had to revise the budget during 2009. When we analyze the last thirty years – the war between Iran and Iraq in 1980, the invasion of Kuwait in 1990, and America's interference in Iraq in 2003 – we see that Iraq has been in an unstable economic condition. The international embargo added spice to this already unstable economic situation.

### History and Effects of the Crisis on Northern Iraq

Iraq, known as Mesopotamia, is home to some of the oldest civilizations in the world with a cultural history of over 5000 years. The

Ottoman rule ended with World War I, and Iraq came to be administered by the British Empire until the establishment of the Kingdom of Iraq between 1932 and 1958. The Republic of Iraq was established in 1958, and after a decade Iraq was led by the Baath (Arab Socialist Resurrection) party: then, it was controlled by Saddam Hussein from 1979 to 2003.

Currently, Kurdistan is the only legally defined region within Iraq, with its own government. (Iraqi Kurdistan: Duhok, Arbil, and Sulaymaniyah) The relative security and stability of the region has allowed the KRG to sign a number of investment contracts with foreign companies. The first new oil well was drilled in the Kurdistan region by the Norwegian energy company DNO, near Zakho, and had shown the presence of oil. This firm signed a deal in June 2004 with the Kurdistan regional government, a production-sharing agreement covering an area 250 miles north of Baghdad close to the Turkish border.

Followed by two other oil companies are Canada's Western Oil Sands in the Sulaimaniah area (Mortished 2006). The government goes on receiving a portion of the revenue from Iraq's oil exports, and aims to implement unified foreign investment law. The new legislation gave also foreign investors the same rights as Iraqi investors. Such as: Full ownership of the project and some incentives including tax exemptions, foreign companies could freely transfer their profits abroad without paying taxes or customs (Devanjan 2009, 13). The KRG has also planned to build a media city in Arbil and free trade zones near the borders of Turkey and Iran. Due to this the three Northern Governorates' economic situation has improved since March 2003. A foreigner-friendly investment law was also approved by the Kurdistan Assembly in July 2006, which aims at attracting foreign capital to the region. In particular bilateral trade with neighboring Turkey has boomed in recent years. When we analyze annual bilateral trading, there is an estimated income of around five billion dollars as of April, 2007 and a Turkish contractor reportedly secured contracts worth two billion dollars in northern Iraq. A total of 1,200 – mostly Turkish – companies were estimated to be operating, and employing around 14,000 Turkish employees. Many of investments that were made by Turkish companies included hospitals, airport, universities, and housing (United Nations High Commissioner for Refugees 2007, 20). The regional government can levy as well as collect taxes in the region, but export and import duties are the responsibility of the federal authority. The Kurdish regional government's share of natural resources – especially oil – and revenue from the sale of oil products in and outside the country, aid,

foreign loans made by Iraq are in a proportion based on the relation of the region's population to the total population of Iraq (Faleh and Hosham 2006).

There are said to be many causes for the recent global financial crisis. Such as: 'The bursting of the housing bubble – a sharp rise in the equity risk premium and a reappraisal of risk by households.' In my opinion, another reason is the imbalance between consumption and production in the world. In the west, consumption is vast, and in the east production is vast. These have caused the persistence of large global imbalances which was called the greatest financial crisis in the United States and spread to other countries. Developed countries were affected more than developing countries. In most countries' GDP dropped sharply, some huge corporations went into bankruptcy and the unemployment rate increased. It is assumed that the economy saw the lowest level. Here I am going to highlight the effects of crisis on northern Iraq through the history of the country.

### Economic History of Iraq

Professor Joseph Stiglitz says that the war is very expensive. He says that the true cost of the Iraq conflict is three trillion dollars (Stiglitz 2008). I agree with him because three has lots of zeroes. This was estimated as one point nine trillion dollars (Nordhaus 2002) in 2002 by William D. Nordhaus. As for the Iraqi side, the cost is also high. History is witness that Iraqi people and this territory have suffered so much. Iraq was with the Ottoman Empire until 1920. Then Iraq was under the control of UK in 1920. The British mandate ended and Iraq became an independent state in 1932. Then the regime was under King Faisal I and II. In 1958 there was a military revolution. Ten years later, the foundations of the regime in Iraq were laid by Baath party in 1968. Conflict broke out between the Kurds and government's military forces in 1974. There was war with Iran during 1980–8. Iraq invaded Kuwait in 1990. This turmoil is going on till today. In the past, Iraq's loss of oil revenues alone almost exceeded 12 billion dollars a year and 10 000 Iraqis died in the Gulf war and at least 200 000 Iraqis died in the 1980–8 war with Iran (Steven, Murphy and Topel 2010). These costs are a tiny part of the whole and costs are going on at an increasing level till today in Iraq.

Abunimah (1999) notes that 'Iraq's total GDP has fallen to just \$5.7 billion, or \$247 per capita, according to estimates by the well-respected Economist Intelligence Unit in The Economist's newly published annual supplement The World in 1999. With an estimated

per capita GDP of only \$247, Iraq, once one of the most developed countries in the Middle East, is now poorer than many countries in sub-saharan Africa.'

Foreign assistance has been an integral component of Iraq's reconstruction efforts since 2003. At a donor's conference in Madrid in October 2003, more than \$33 billion was pledged to assist in the reconstruction of Iraq. In February 2010, the IMF and World Bank approved \$3.6 billion and 250 million of support to Iraq, respectively. The Iraqi Government has worked closely with both institutions since 2003, including the December 2008 completion of an IMF stand-by arrangement, after which Iraq received the balance of the Paris Club's 80 percent debt reduction (US Department of State 2011) with optimistic predictions it could be seen that Iraq would quickly recover from the war by using the country's rich oil reserves reasonably.

Iraq's economy was based almost on agriculture until the 1950s, but after the 1958 revolution economic development became substantial. The new regime advanced a social and economic development program to increase the standard of living and improve living conditions throughout northern Iraq up to 1959, including the following: housing, electricity, water supply, health, town planning and textile industry (Wadie 2006, 287).

By 1980 Iraq had the second largest economy in the Arab world, after Saudi Arabia, and Iraq developed a planned economy which was characterized by heavy dependence on oil exports, and then suffered during the Iran-Iraq War in 1980. Iraq's economic prospects were bright. Oil production had reached a level of 3.5 million barrels per day, and oil revenues were \$21 billion in 1979 and \$27 billion in 1980. This war depleted foreign exchange reserve and devastated its economy with foreign debt of more than \$40 billion. In 1988, oil exports gradually began to increase, with the construction of new pipelines. But after Iraq's invasion of Kuwait the UN embargo began in 1990. Oil production and economic development both declined after the start of the Iraq War, and the economy has continued to experience serious problems, including a huge foreign debt. The country faced a high rate of inflation; continuing political violence; a shortage of replacement parts which hampered the oil sector, outmoded production methods, and outdated technology; a population that has moved away from agriculture; a high rate of unemployment; a seriously deteriorated infrastructure. The UN formed the Oil-for-Food (OFF) program in April 1995. The OFF authorized nations to allow the importation of petroleum from Iraq worth \$1 billion dollars (US) ev-



FIGURE 1 Iraq Crude Oil Exports (adapted from Energy Information Administration 2010)

ery 90 days (TravelDocs 2010). The growth rate of industrial production in major developed and emerging-market economies has been negative since the middle of 2001. World output decreased from 3.8% in 2000 to 1.3% in 2001 (United Nations 2002, 5). Although GDP fell in 2001–2 largely as a result of the global economic slowdown and lower oil prices, per capita food imports increased and medical supplies and health care services improved. Following the initial phase (2003) of the Iraq War, the oil-for-food program was ended, sanctions were lifted, and civil administrators were appointed by the United States.

But year by year international oil prices were increasing. It is possible that was a positive effect but also we should take care of the negative effects of the recent crisis. Iraq needed such kind of ways for export to avoid the effects of crisis. So, Turkey has become one of the convenient ways for oil export. Even today Turkey is the major import partner of Iraq. When you go shopping you can see goods and services from Turkey, there is great confidence in Turkish commodities and firms.

In 2009 the chief export markets were the United States, India, South Korea, Italy, China, Taiwan, Holland, Turkey. In 2009 the main sources of Iraq's imports were Turkey, China, Jordan, Germany, South Korea, Italy, France, India, and the United States (Turkish Embassy of Erbil 2010). The total exports of Iraq dropped to \$37.89 billion in 2009 from the previous year's \$58.81 billion. The total imports of Iraq in 2009 also decreased to \$35.77 billion, as compared to \$37.22 billion in year 2008 (Economywatch 2010). Iraq exported 1.8 million bbl/d of crude oil in 2009. About 1.5 million bbl/d of this came from Iraq's Persian Gulf ports, with the rest exported via the Iraq-Turkey pipeline in the north. The majority of Iraqi oil exports go to refineries in Asia, especially China, India, and South Korea (Energy Information Administration 2010, 5).

Figure 1 shows that most of the oil was exported to Asia, which maybe reduced the negative impact of the crisis, because especially China needed more energy and its economic growth continued as positive even in period of recent crisis.

TABLE 1 Recent economic indicators

Indicator	2006	2007	2008	2009
GDP (us\$bn) (current prices)	45.1	57.0	86.5	65.8
GDP PPP* (us\$bn)	90.5	94.6	105.9	111.3
GDP per capita (us\$)	1,568	1,926	2,845	2,108
GDP per capita PPP (us\$)	3,149	3,198	3,481	3,565
Real GDP growth (% change yoy)	6.2	1.5	9.5	4.2
Current account balance (us\$m)	8,547	7,119	11,049	-16,925
Current account balance (% GDP)	19.0	12.5	12.8	-25.7
Goods exports (% GDP)	66.4	66.5	62.9	51.0
Inflation (% change yoy)	53.2	30.8	2.7	-2.8
Oil export price (us\$ per barrel)	58.3	64.2	91.5	53.6
Oil Production (in mbpd)	1.8	2.1	2.42	2.48

Sources: [www.dfat.gov.au/geo/fs/iraq.pdf](http://www.dfat.gov.au/geo/fs/iraq.pdf), [www.ioga.com/Special/crudeoil\\_Hist.htm](http://www.ioga.com/Special/crudeoil_Hist.htm), Turkish Embassy of Erbil, Iraq (2010). Note: \* purchasing power parity.

According to the EIU country report we compare, the % change of GDP year on year between 2008 and 2009 and see that in 2008 Iraqi GDP was at third rank after Qatar and Kuwait, but in 2009 its rank became sixth after Qatar, Lebanon, Syria, Morocco, and Egypt. This can also prove that Iraq was affected by the global crisis more than some other countries.

It is seen that while the direct impact of the global financial crisis on the economy remains limited, the indirect impact through declining oil prices may be significant. Iraq's banking sector is underdeveloped and centered on the domestic market. The level of FDI in the 2008 survey is only 40 percent of that of companies reported being affected by the crisis, and slightly lower than in 2007. This 2009's picture, in the context of the worst global recession is dramatically different.

A large majority of TNCs now believe the global economic downturn and the financial crisis have had a negative impact on their investment plans (United Nations 2009). However, the financial crisis has set off a global recession. Crude oil prices fell 25.8 percent in November 2008. Oil prices are not expected to recover to early 2008 levels in the immediate future. Due to this recent fall in prices, the Government revised the initial 2009 spending budget twice with a lower oil export price (currently \$50). Table 1 demonstrates that, while oil production increased year by year, nominal GDP dropped sharply in 2009. It is clear that this was caused by the decreasing price, but the immediate future shows an optimistic table (World Bank 2009, 7).

## Effects of the Recent Financial Crisis on Northern Iraq, Especially Oil

I want to introduce the recent crisis briefly then discuss its affects on Northern Iraq. When the economy faces recession, depression or a financial crisis, national output falls, profits and real incomes decline, an unstable price of goods and services occurs, and unemployment rates jump to uncomfortably high levels. Then the economy reaches a bottom, and recovery begins. This situation can be named as Business Cycles, which are economic fluctuations in total national output, income and employment, generally lasting for a period of two to ten years, marked by widespread expansion in most sectors. Upward and downward movements in national output, inflation level, interest rate, and unemployment rate form the business cycle that characterizes whole market economies (Samuelson and Nordhaus 2001, 477). In order to give the right political advice, economists should know the causes of boom and crisis. If a boom or crisis is the result of spending or price shock, GNP will be away from its potential. In this situation, the government should interfere with the economy to speed the return to its potential. So, the government uses monetary and fiscal policies to solve the economic problem as demand shocks (Hall and Taylor 1991, 204–16). The recent crisis erupted in August of 2007, and then the Fed began flooding financial markets with liquidity. The us economy in the early 1930s was more heavily bank based than today, but the current crisis has been a crisis not just for banks but for insurance companies, for hedge funds, and for the security markets themselves (Eilchengreen 2008). The Great Depression of 1929 is related to the current Financial Crisis in that they both originated in the us and have damaged the world economy at a frightful scale. For example; the financial crisis, which has taken a heavy toll on the us in just a few months was five trillion dollars (FinancialCrisis2009.org 2009). According to The Institute of International Finance, the report issued in January of 2009, forecast that net private capital flows to 28 Capital Flows to Emerging Market Economies would drop sharply to \$165 billion in 2009 from \$466 billion in 2008 (Erdilek 2009).

The recent global financial crisis affected the world at different levels. Although Iraq is not the center of financial crisis, Iraq was affected due to low oil prices. In fact, to have rich oil reserves is a good opportunity for countries. But now that the collapse in the world's economy has caused oil prices to drop, what does the future hold for Iraq? It is known that Iraq's economy depends on oil rev-



venues on a large scale; we can say that oil clearly lies at the heart of the country's economy. Indeed, median estimates hold that oil accounts for more than 80 percent of its revenues. Iraq now faces several challenges spawned by the global recession. Iraqi deputy prime minister Barham Saleh said that the economic crisis 'has had a serious impact' on Iraq's economy, with 'plummeting oil prices' forcing the country 'to constrain our government spending.' The impact on Iraq's economy means that there will be an impact on Northern Iraq or the Kurdistan region. Because of the oil boom, the economy had a surplus of \$35 billion from 2008 but Iraq's 2009 budget was slashed about 25 percent by government. It went down from 80 billion to about \$60 billion. However, these budgetary shortfalls will likely directly impact Iraq's ability to maintain security and salaries. America has economic woes, but the us will provide additional aid to cover Iraq's budgetary shortfalls, though it is also unlikely that the us will decrease substantially its current commitments to Iraq. According to Daveed and Joshua (2009) 'The New York Times reported in February that wages ate up 35 percent of Iraq's budget. Many Iraqi lawmakers now fear that the government has gone too far in cutting critical spending. The electricity ministry, for example, has had its capital expenditure budget chopped by over 80 percent, from 6.4 billion down to \$1.1 billion.' Iraqi Central Bank Consultant, Dr. Mazhar Mohammad Salih, said (Iraq Directory 2009): 'Iraq received a grant from the IMF worth one point eight billion dollars to support liquidity, achieve development and come out of the recession caused by the global financial crisis. Dr. Salih appreciated this step, which he described as "distinctive," and the grant to push the Iraqi economy forward and enable it to overcome the recession which may affect the Iraqi economy due to the global financial crisis.' Oil-producing countries got burned by the financial crisis, by investing in the West, and they're looking to use their capital in the region instead. Iraqi officials hope that foreign direct investment can make up for the revenue shortfalls caused by declining oil prices. The 'Invest Iraq 2009' conference in London earlier this year reportedly attracted more than 200 companies, including heavy hitters like General Electric and Vodafone. Iraq has also opened its oil fields to bids from multinational firms for the first time since 1973, when its oil industry was nationalized. As one British Petroleum spokesman told the *Financial Times*, 'we could see ourselves back in Iraq by the end of the year barring any unforeseen delays' (Daveed and Joshua 2009). As Baghdad steps up oil production, Kurds have been awarding contracts to overseas companies since 2002. Today, Canada's Addax Petroleum

(acquired by China Petrochemical), Norway's DNO International, and Turkey's Genel Enerji International have contracts for the Taq Taq and Tawke fields in Kurdistan. According to the Kurds, these foreign investors could produce 200,000 barrels a day by the end of 2010 – about ten percent of Iraq's current output. It was 100,000 barrels daily in 2009 (Holland 2010). Iraq's Prime Minister Nouri al-Maliki on third January said in a statement to the press; 'The revenue will be part of the national revenue that is distributed equally to all Iraqis.'

The anticipated revenue that the Federal Government will receive from the oil production of the Kurdistan Region in the forthcoming five years from 2010 to 2014 will be: \$2.75 billion (2010), \$8.23 billion (2011), \$12.45 billion (2012), \$18.27 billion (2013), and \$25.62 billion (2014). This shows that the Federal Government (Ministry of Finance) will receive in total about \$67 billion as net revenue from the oil produced by companies contracted in the Region in the coming five years (Hawrami 2010). This issue illustrates that oil revenue coming from the Kurdistan Region will expand the economic development of Iraq in general, and it will increase the prosperity of all the Iraqi people. But if the price of oil or demand for oil decreases in the world market as a result of the crisis, that will affect Iraq as a whole especially the Kurdistan region. The Arab world would cope with rapidly rising food and raw material prices that threatened their economies and social stability by using a high price of oil during the first half of 2008. However, the effects of the financial crisis and expectations of much lower global growth caused a collapse in oil prices. Arab oil exporters experienced deterioration in their terms of trade, and declining surpluses on their balance of payments. The OPEC basket price of oil sharply fell by 70 percent from a peak of just over 130 per barrel to under \$40 per barrel. In September 2008, with the collapse of Lehman Brothers and the turmoil on Wall Street, stock markets all over the world were affected, including those in the Middle East. In April 2009, oil prices stabilized at about \$50 per barrel, despite falling demand for the international economy. The main reason for this was that oil had become a source of value for those who lost confidence in the us dollar. According to the us government's Energy Information Agency, oil income for Arab members of OPEC continued to fall from 678 billion in 2008 to \$268 billion in 2009. Iraq's export revenues are forecast to decline from 59 billion to 23 \$billion. This is the clear direct impact on the economies of the larger oil producers. On the other hand, everyone experienced a rise in food prices as well as increases in other costs.

This situation is not a manner of dying for these regions, because, according to IMF in 2009 economic growth in the Middle East will be two point five percent compared to six percent in 2008. As we mentioned before, Iraq's and the Regional Government's economy is dominated by the petroleum sector, which has traditionally provided about 95 percent of foreign exchange earnings (Rivlin 2009). They are not significant exporters of non-oil products, so they are less exposed to the contraction of world trade. If we pay attention to what Prime Minister Barham Salih said (Bahram 2010), that: 'The Kurdistan Region has been a success, and can be an economic example for development throughout Iraq. We are therefore committed to sustained contact between our governorate officials and governorates throughout Iraq. I would also like to say that a strong Kurdistan Region translates into a stronger Iraq, a stronger Baghdad, a stronger Basra. I am Kurdish, but I am also Iraqi. And as part of Iraq, the KRG hopes you will benefit from our experience, especially in promoting investment.' Than this tells us that the Kurdistan region (Fayad 2008) has a positive economic situation and wants to share that with other parts of Iraq. In this situation FDI shows its importance as well as the neighborliness of Turkey: of about 1,200 foreign companies working in Kurdistan, the greatest number – some 620 – were from Turkey (Kimbali and Shamal 2010). In the ongoing global financial crisis, according to data from the Turkish Statistics Institute, Turkey's exports to seven neighboring countries decreased, except for Iraq and Syria, from 2008 to 2009 (*Todays Zaman* 2010a). Exports to Iraq saw a rise of 30.9 percent, increasing from 3.91 billion in 2008 to 5.12 billion dollars in 2009 (*Todays Zaman* 2010b). According to the Board of Investors of the Kurdistan Regional Government non-oil investment in the Kurdistan Region of Iraq totaled more than \$12 billion over the last three years. Overall, about 70 percent of foreign investment in the Kurdistan Region comes from neighboring Turkey.

When I searched such kinds of firms in Iraq, it was seen that the tradition of the people in Iraq is very suitable for family business as well. Although most of them are first and second generation family business owners, there are businesses that are 100 years old. The number of family businesses is increasing after Saddam's time. Most of the businesses are in construction, computer network technology and telecommunication, engineering, health care, crude oil and energy, food and security. I have interviewed an Iraqi entrepreneur who runs a business in Erbil and I included it at the end of this paper. According to the interview entrepreneurs are hopeful for their and the

region's future. They have planned to enlarge and to step forward. If this security goes on at this level, the number of such kinds of local business will increase.

### Example Firm in Iraq

We observed that there are some crucial macroeconomic problems in Iraq except northern Iraq. Such as; high level inflation, violence, shortage of substitution goods, old fashion production methods, no attention to agriculture sector, high level of unemployment, insufficiency of infrastructure and, no experience of the private sector. People used to avoid staying and investing in Iraq due to the bad conditions. But this is changing slowly.

In this search I saw that density of the private sector has been generally in Selahaddin, Ramadi, Suleymaniye, Kut, Hilla, and Bakuba. However, it is less in Bagdat, Basra, Kerkuk, Nasariye. In my opinion, the reason for this was security. These companies' activities were constructions, informatics, telecommunication, trade, engineering, and health sector. They attracted us because most of them were family businesses. We contacted at least 20 companies in south and central Iraq by visiting or sending e-mail. What about northern Iraq? This region is entirely different from the other parts of Iraq. We talked face to face with maybe hundreds of entrepreneurs who were emphasizing 'security' as well. Maybe the infrastructure is not sufficient, but security was enough to invest or run the business. KRG also imposed some laws to attract the private sector and especially foreign direct investment. There are more than a thousand private firms in Northern Iraq, and most of them came from Turkey. Trade between Iraq and Turkey was about 7 billion dollars in 2010 and there are lots of new agreements between them. In addition, the Turkish government aims at 20 billion dollars of trade volume in 2013 according to the Turkish Embassy in Erbil in Iraq (2010). I have been in Erbil for three years and visited some cities, talked face to face about entrepreneurs' business activity. Most of them especially in Northern Iraq are optimistic about the future; they have plans to improve their business. I saw that most entrepreneurs' stories were almost identical. As an example, I present the story of Ramzy below to indicate common sense of others.

Ramzy Tajirian aged 31, is an Iraqi entrepreneur who studied business and management in the USA and wants to come back to run the family business. The whole family was compelled to close business and migrate to the USA in 1991. But now Ramzy

has come back and runs the business in Iraq (<http://homepage.mac.com/weblink/Iraq/P10-Economy.htm>). As we mentioned before there is security in Northern Iraq, whose economy is based mainly on income from oil, agriculture and tourism. Investment especially foreign direct investment has been attracted to this region due to the secure and good economic conditions. The Kurdistan Region is the commercial gateway to doing business in all of Iraq, due to the safety and prosperity of the region. According to law no. 21 of 1997 (Mudaris 2010, 4), which was amended in 2003, foreigners can own 100 percent of a business, can work in multiple sectors, and can employ foreign workers. These facilities are the part of the whole. As we compare per capita income from 2007 (\$2300) (Abdullah 2007, 19) to 2010 (\$4500) (Mudaris 2010, 1), we see the development rate in this region. According to the ministry of trade, 700 foreign companies were active in Kurdistan in 2007 (Abdullah 2007, 14). It is said that this figure reached 1200 foreign companies in 2010.

For this study I interviewed also Mr. Muhamed İsmail Seyan whose words I shall quote. Hawkary company started in 1992 but officially completed its foundation in 1997 in the Kurdistan region. When we listen to him we could see the hard conditions in Iraq as well as the changes in Northern Iraq from his point of view. Mr. Muhammed Ismail said that: 'I'm in trade life since when I was young boy. When I was at middle school I would wake up at five am and sell bread till eight am until going to school, after school, I would work at a restaurant. When I was at high school, I had a restaurant. At the end of 1980, I had three restaurants. During these years Erbil was under a bilateral embargo which was applied by the UN and Central government of Iraq. I was not satisfied with the performance of the restaurant because of the embargo. So I couldn't earn well enough. In 1991, I started as food wholesaler and rented a warehouse.'

As time passed, Muhammed had good luck and his company brand got popular. He was increasing his experience and envisaged running a pharmacy. I observed that he would follow technology properly and improve himself. Muhammed informed me that most of the commodities which were imported, were illegal due to the embargo. Most of the goods were imported from Turkey through Dohuk, but the prices of goods were not stable. Muhammed said that he was doing arbitrage as well. Furthermore, he was selling more expensive goods to his friends who

claimed he was not good at doing business. Now, Muhammed is a successful business man who runs a medicine distribution chain with a labor force of 230 employees and distributes medicine throughout Iraq. He plans his business and has already a five year plan. He has already set up a second new firm to educate and train young family members. The new firm is named as Mustawfy Co. that is a chain of markets. Now he has nine markets in different cities. And the turnover is over \$50 million.

## Conclusion

In fact, the reason why Iraq's economic condition has been so bad is that Iraq's economy was/is based on the oil sector. When we look carefully at table 1 year-by-year, production of oil increases between 2006 and 2009 years as we accept the crisis period, however, export of Iraq decreases at that time. Oil production increases but export decreases because of the low demand. This induces low revenue of oil export. In addition, the oil export price increased in 2008 but decreased sharply in 2009. At the start of the recent global crisis in 2007, the oil export price as well as oil production increased, but real GDP growth decreased sharply as compared to the previous year. This can be proof of the negative effect of the global crisis on the Iraqi economy. When we compare the Iraqi economy with other Middle East countries we see that Iraq was affected more than others. Therefore, the Kurdish regional Government was influenced by the crisis too, because of being part of Iraq (Kurdish regional government's income comes from Iraq in a proportion based on the relation of the region's population to the total population of Iraq). If Iraq's income decreases this induces low income to that region. However, Iraqi oil was exported mostly to Asian countries. Especially China needed energy in the period of crisis. So, this might have reduced the severity of the crisis on Iraq. Now I want to present my observations and my suggestions: (1) Regional government saw the importance of FDI, and then imposed some statute to attract FDI to that region. (2) Northern Iraq's people are optimistic about the future as compared to other parts of Iraq. It was concluded that the stability of the Kurdistan region has allowed it to achieve a higher level of development than other regions in Iraq. Most private sectors of countries such as Turkey, have companies that are doing lots of investment work in this region. The standard of living for people in the Kurdistan region is higher than in the other parts of Iraq. It was seen that Northern Iraq saw the benefit of FDI, so government gave the same rights to foreign investors. (3) If the government can cope with attracting

FDI to this region, this new legislation can ensure new international airports, shopping malls, governmental buildings. Therefore, the regional government won't be dependent on one source, which is oil. (4) The Iraqi government as well as KRG must produce a different kind of product. I mean they must pay attention to other sectors too. Such as: agriculture, industry, baby industry, manufacturing, raising livestock, etc. to avoid being dependent on one sector – oil. (5) The Iraqi government should export oil to different markets by using a new pipeline. I mean even in this crisis we face, some countries have not been affected and need energy like China. (6) If Iraq makes cooperation with the neighboring country Turkey, it can benefit from the experience of Turkey, which has no oil and gas but its economy is going forward.

We came to the conclusion that the crisis affected the demand for oil in the world, so the price of oil decreased which caused a low income from oil in Iraq. Finally we can say that Iraq and the regional government were affected indirectly by the recent global crisis.

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