



The New Iraq Economy
and
Ministry of Trade Strategy
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Points for Discussion:

What are the trade and Foreign investment opportunities in Iraq?

Can Iraq economy recover quickly?

What are the signs for economy recovery?

What have been done for speed recovery?

What is the present strategy for ministry of Trade?



What are the trade and Foreign investment opportunities in Iraq?

- Large indigenous consumer market
- Rich natural resources
- Strong agricultural base

IRAQ HAS A STRONG BASE OF ASSETS FOR SUPPORTING A POWERFUL ECONOMY



- Hardworking and resourceful labor force
- Transport facilities
- 24.6 million people (97% population under 65, 41% under 14)



MARKET

Strong demand for products

Specially for forbidden or unavailable under the former regime

- Satellite dishes, electronic equipment, phones, internet services
- Foreign branded goods
- Automobiles
- Consumer financial services



NATURAL RESOURCE

- Iraq has large 'oil reserve' (the second country in World)
- Large natural gas reserves (11th in the world)
- Large phosphate and sulfur deposits
- Tigris and Euphrates rivers
- Approximately one-third of the land is cultivable (11-12 million hectares)



AGRICULTUR

Primary crops: Wheat, Barley, Rice, Dates

Rainfall supports rain-fed agriculture in the northern hills.
In central and southern Iraq, irrigated agriculture predominates in the valleys of the Tigris and Euphrates rivers.

- Approximately 7.5 million people

THE ONLY GULF
STATE OTHER THAN
IRAN WITH ANY
MEANINGFUL
AGRICULTURAL
RESOURCES



LABOR FORCE

It well know fact that Iraq has large educated labour force in the region



TRANSPORT FACILITIES

Rail System

- Traverses North and South with international transfer points in Syria and Turkey

Airports

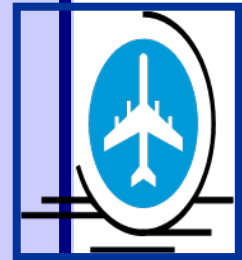
- 3 regional airports: North (Mosul), Central (Baghdad), South (Basra)
(All airports have the capacity for 747s)

Ports

There are three ports, but the main port is **Umm Qasr port** (Primary cargo port)

Roads

- Modern roadway infrastructure





**CAN IRAQ ECONOMY RECOVER QUICKLY
TO THE LEVELS BEFORE THE GULF WAR ?**



CAN IRAQ ECONOMY RECOVER QUICKLY TO THE LEVELS BEFORE THE GULF WAR ?

Iraq have all the elements that support recovery ...

The destruction in the economy is due:

Restricted economic policy

- Wars
- Sanctions
- Diversion of government revenues to non-value added activities



Economic recovery depends on:

1. Improving Iraq capacity for export oil
2. Encouraging of foreign Investment & Private Sector Development
3. Efficient use of the donations

It is expected that Iraq can reach level close to full employment by 3 years from now

(source: Private Sector Development-CPA)

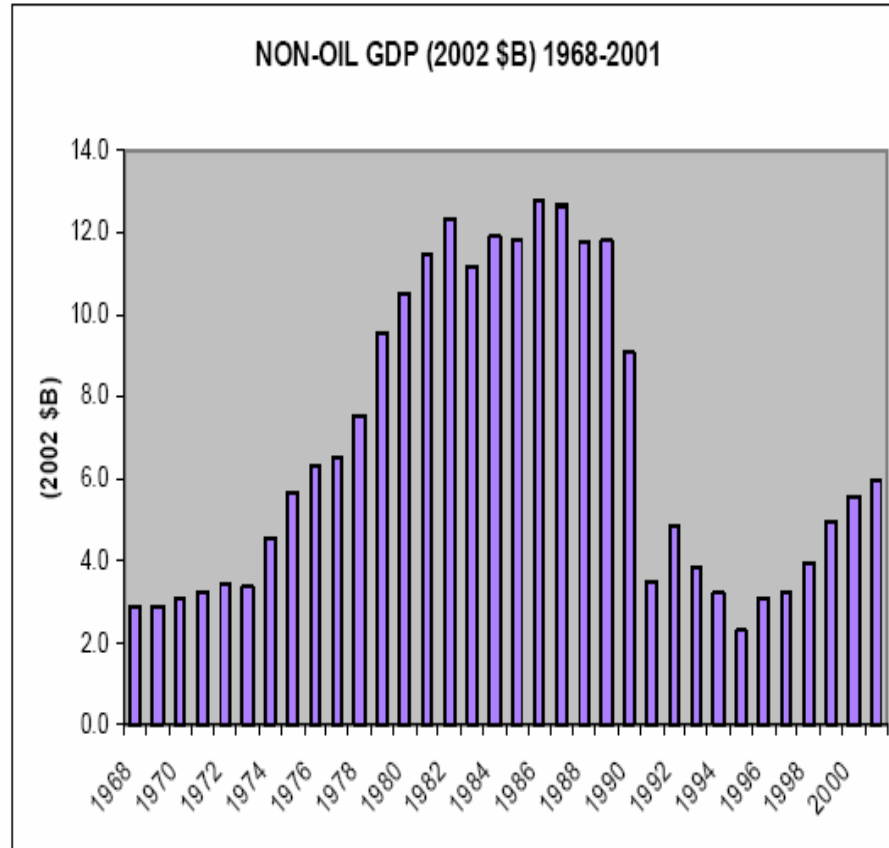


Iraq has capacity for other non-oil based economic activities which need to be stimulated

Capacity is there as non-oil GDP was much higher in the 80's than today

Reasons for deterioration:

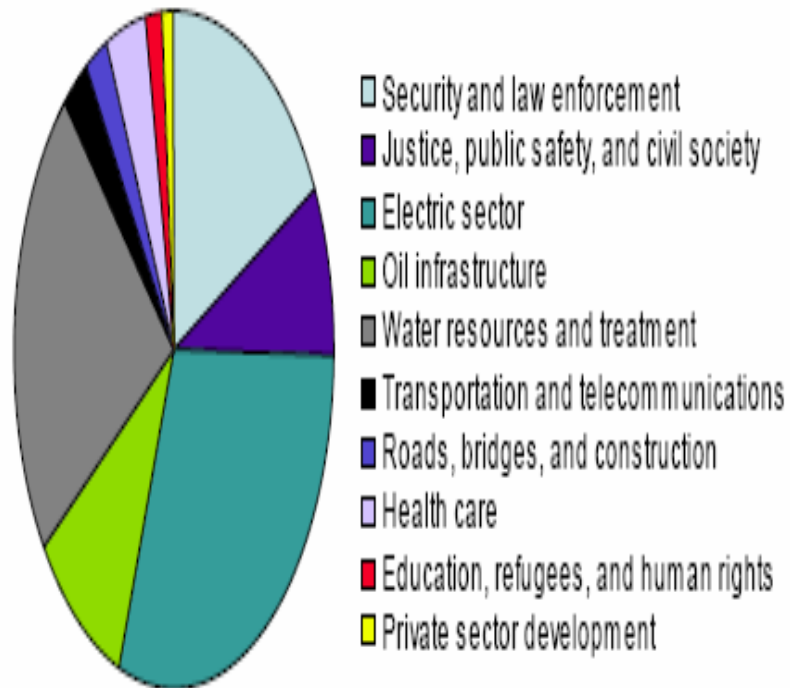
- Gulf War
- Sanctions
- Diversion of government revenues (over 70% of government revenues in the mid-90's went to Saddam's personal use)





The U.S. supplemental funds will focus on the following sectors:

Allocation of Supplemental Funds





WHAT ARE THE SIGNS FOR RECOVERY?



Declining unemployment rate

In the last year, the unemployment rate has declined to 22-28% from an estimated 50% last summer

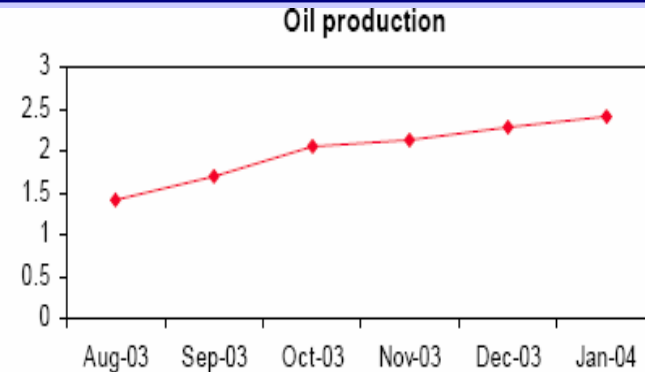
Oil production has nearly doubled in the last six months (currently 2.4 M barrels per day)

- **Electricity is being regained around the country via equitable distribution**

Most of the country now receiving at least 12 hours of electricity per day
Reached post-war record levels of over 93,000 MWh per day



- Oil production has nearly doubled in the last six months



- In the last year, the unemployment rate has declined to 22-28% from an estimated 50% last summer



Source: Ministry of Planning, World Bank, Ministry of Electricity, Ministry of Oil



WHAT HAVE BEEN DONE FOR SPEED RECOVERY?

- Markets opened to international trade and foreign investment
- Legal and judicial reforms instituted
- Improving Financial systems



WHAT ARE THE OTHER LONG-TERM INSTITUTIONAL REFORMS?

- Establish a stable, sovereign government
- Privatization
- Reduce non market policies (e.g. subsidies)
- Change attitudes toward fair business matters



NEW LAWS HAVE MADE IRAQ ONE OF THE MOST OPEN ECONOMIES IN THE REGION...

New Foreign Direct Investment Law (Order 39):
(Permits 100% foreign ownership of businesses in all areas except oil and mineral extraction)

- Permits unrestricted, tax-free remittance of profits



- Ensure land can be leased for up to 40 years
- Enforce the equality of foreigners and Iraqis on all terms of investment

Tariff Law (Order 38)

- Provides for a two-year (ending 1 January 2006) 5% tariff to help finance reconstruction.
(Exempts food, medicine, clothing, and books)



COMMERCIAL LAWS

- Copyright law
- Patent and Industrial Design Law
- Trademark Law





New company Law & Registration Procedures

Bankruptcy Law, Labor Law, and Secured Transactions Law

Judicial reforms

- Vetted 80% of all judges, removing nearly 25%
- Hired 130 additional judges
- Established the Commission on Public Integrity



FINANCIAL SECTOR INITIATIVES HAVE
BROUGHT EXPERTISE, LIQUIDITY, AND
CREDIT TO IRAQI BUSINESS...

Banking Law (Order 40)

- Permits six foreign banks over the next five years the right to enter the Iraqi market
- Permits an unlimited number of banks to enter by purchasing up to 50% of an Iraqi bank
- Allows foreign banks to enter Iraq as branches, subsidiaries, representative offices, and through partnerships with Iraqi banks



Foreign bank licenses awarded

- Three banks issued licenses so far: HSBC, Standard Charter, National Bank of Kuwait

Credit for large businesses

- Capital programs through private sector banks
- Credit training programs
- “CPA-Private Sector Development” direct lending initiative

Micro- and SME lending

- Over US\$17M available in micro and SME lending around the country
- US\$170M available for lending to medium enterprises through the IFC facility\





LONG-TERM INSTITUTIONAL REFORMS WILL ENSURE POLITICAL AND ECONOMIC STABILITY IN THE FUTURE...

Establish a stable, sovereign government

Shrink the public sector

- Eliminate market distortions created by state-owned enterprises (SOEs)
- Eliminate government's unnecessary restrictions on economic activities
- Reduce corruption



Reduce subsidies

- Eliminate market distortions and inefficiencies caused by ill-conceived subsidies

Change attitudes

- Re-establish trust, particularly toward foreigners
- Eliminate environment that rewards relationships instead of competitiveness
- Change expectation that positions of power are opportunities to make money
- Eliminate non-value added intermediaries



**Present Key Strategy for
Ministry of Trade**



Mission Statement

The purpose of the Ministry of Trade is to facilitate, encourage, enhance and promote commercial life and activity in Iraq by acting as a service and support structure for the domestic and international commercial and trading sector.

It will do so by the vigorous pursuit of policies that will develop and maintain a correct framework for a vibrant and productive enterprise sector within the broad guidelines of a market-oriented competitive economy that is open to the world.



Short-term objectives

Create a special department to promote the private sector,

Set-up new company registration procedures

Eliminate obstructive regulations blocking trade and investment

Eliminate import licensing rules

Establish forums with the private sector to promote commercial activity

Embark on wide-ranging missions to promote the new trading environment of Iraq



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- Launch an anti-corruption drive
- Launch a consumer welfare and protection unit
- Developing a master plan for “Baghadad International Fair Site, to include world class facilities
- Leasing the Iraq Shopping Centers to private developers



Food Subsidy Programe

Gear up the MOT and the concerned SOE's to assume direct responsibility for the management food distributions,

Examine and possibly launch trials for the gradual replacement of the in-kind subsidy to a cash grant,

Introduce a new list that would favour reputable suppliers and open the tendering process to neglected or boycotted countries and companies



SOE Reform

Start the process of reorganising the SOE's under MOT control into enterprises that are driven by market signals and that are oriented Towards profit-making

Begin the process of introducing SOE's of the MOT to private sector participants in the form of new joint ventures, lease proposals and joint developments of key projects



International

Negotiate and sign important trade MOU's with neighboring countries

Pursue trade liberalization agreements with the GCC countries

Launch the process of joining the WTO as an observer with a view to accession to the treaty

Launch an application to join the EU-Mediterranean initiative



***Selected Develop Project Priorities for foreign donors
under the Reconstruction Plan***

Develop a seed capital fund for support of new entrepreneurs
(\$30 million)

Develop a project for the rehabilitation and expansion of grain silos
(\$40 million)

Develop a project for improvement of grain discharging at Umm Qasr
Port (\$10)

Develop a project for the improvement of the milling industry in
Iraq (\$30 million)