

# Political Stability and Security Status: A Condition for Foreign Direct Investment Attraction in Kurdistan

## ABSTRACT

Political stability and security have become important factors of sustainable economic progress for the developing countries, especially states with the experience of war and instability. Kurdistan Region of Iraq (KRI) as a semi-autonomous region tried to improve the level of political stability and security status, to gain more foreign direct investment (FDI) and economic growth. Consequently, KRI has become the safest region in Iraq and enjoyed political stability and safety. Therefore, during the last decade, KRI has occurred as a new destination of FDI in the Middle East and has received notable progress in most of the economic sectors. The aim of this study is to evaluate the role of political stability and security status on the FDI attractions and their consequences on economic development. However, it will investigate the factors that make the KRI safer than the rest of Iraq.

**Keywords:** Economic Development, Foreign Direct Investment, Political Stability, Security Status, Stability of Kurdistan

## 1. INTRODUCTION

At the moment, the stability of a state is a significant issue for all investors. In developing states, the decision of investors depends on stability rather than democracy whereas democracy is also a significant issue. Apparently, stability issues are replacing democracy in significance for investment goals because investors prefer a powerful authority specifically, to: Secure their investment; find a solution for their problems, and conclusive action to support them. For instance, a non-democratic state like China has one of the highest investment rates in the world due to its high political stability and strength of its government (Heshmati et al., 2012).

Heshmati and Baban also found that some other states in the Persian Gulf such as Saudi Arabia, the UAE, Qatar, and Kuwait also attracted a huge number of foreign investors due to their political stability and strong governments. All given states have stable authorities that are well positioned to secure multinational companies and foreign investors. The emerging stability in these states attracts foreign investments

because they have powerful governments that can guarantee the safety of investors, as well as that everybody knows that these states have not a fully democratic system.

According to the report of World Bank, Iraq is one of the worst places in the world for doing business or to invest a big amount of capital. Iraq ranked 168<sup>th</sup> on ease of doing business in the world, due to its low rate of trust, human rights' records, political instability, a fragile banking system, weak communication, and transport networks. Furthermore, other internal issues such as social inequality, sexism, racism, corruption, nepotism, and historical issues ("doing Business 2018: Recent Reforms in Iraq Pave the Way for More Progress Going Forward," 2018).

The economy of Iraq has been dominated by the oil industry, which provides 90% of foreign exchange earnings of Iraq. Moreover, investors still do not feel good about Iraq to invest there due to its lack of security and political instability particularly in the South part of Iraq. At the same time, the situation in Kurdistan of Iraq is totally different due to political stability and Kurdistan's security and economy is progressing day by day since achieving its self-rule (Crocker and Younis, 2017).

After the collapse of Saddam Hussain's regime, Kurdistan has protected itself from the bloodshed that the rest of Iraq was involved. Obviously, this is due to the high level of collaboration between security forces and people of Kurdistan, plus the government officials (Akreyi, 2017).

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However, there is no doubt that KRG has been experiencing a lot of difficulties in several domestic issues, but still, it is demonstrating political stability and security such as an independent state, supporting the facts about people, government, and success (Rubin, 2016).

Rubin also described that the multinational firms and foreign investors are assured of domestic security in Kurdistan; more trade, business activities, and economic development of Kurdistan have enhanced. These operations all together will make a crucial impact of increased success, more scale of capital investment, and more stability.

Iraqi Kurdistan has more stability and better security than the rest of Iraq; peaceful security status in the region has had a good impact on the local society, also enhanced the economic development of Kurdistan. As already mentioned, stability is pivotal for foreign investors; they want to be sure that their capital is protected by the host government. In this regard, the feeling of security in Kurdistan absorbs the foreigners to invest their capital in the region and not to take a risk and invest in southern parts of Iraq (Ali et al., 2017).

Kurdistan's army known as "Peshmarga" is responsible for any foreign threats and affords a safe environment for local and foreigner tourists, investors, businessmen, and diplomats who ran away from unsafe parts of Iraq. However, the most significant agencies for safeguarding and security are Kurdistan Security Council Agency Parastin (which is part of the region's Presidency) and the Interior Ministry. These security forces have had a high level of interaction to enlarge security and stability to overcome all difficulties to provide a better life for the citizens and attract more foreign investors and tourists ("Kurdistan Board of Investment | Why Kurdistan | Region | stability," 2018).

In the previous decade, the Kurdish forces were cooperating with coalition forces in anti-terror missions, and also they have been working hard to face terrorism to protect security and stability in Kurdistan. The interaction between people of Kurdistan and these agencies is one of the most significant issues that lie behind this healthy security position (Sosonowski, 2016). As citizens love their motherland and also believe in security forces, they immediately report every suspicious case if they feel it as a security threat. The results of security in the region can only be consolidated by the current forces that have been working together to maintain order and security in the region. Cooperation between citizens and security agencies maintains the current status of stability in Kurdistan (Gönenç, 2016).

According to the findings of Ahmed (2012), security and stability are reasons for foreign diplomats to go to Kurdistan and enlarge their activities there, and also Kurdistan weather and hospitality of Kurdish people are attractive for foreigners to enjoy their stay in Kurdistan. The Kurdish authorities are doing hard work to advertise the potential of Kurdistan Region for development and foreign investment, particularly in infrastructure, tourism, and oil and gas industry. The Iranian and Turkish diplomatic with businessmen are competing to enlarge their political and economic influence into Kurdistan Region within Iraq.

The economic interaction and cooperation are a diplomatic tool between allies to improve their relationships and prevent any kind of aggression and war between themselves (Saliu, 1997), that is why the Kurdistan Regional Government tried a lot to have better collaboration and bilateral trade with Turkey to have more interaction in security issues and also because Turkey is a gate to Europe for Kurdistan.

Iraqi Kurdistan provides stable security position for foreigners. Even, one coalition soldier has not lost his life in the Kurdistan's territory, also no foreign person been kidnapped in the region. This security position of the Kurdistan is highly stronger than the other parts of Iraq, and this encouraged at least 40 UN member states to have their diplomatic mission in the Region such as the USA, Russia, France, Germany, United Kingdom, and so on ("Current Foreign Representations in the Kurdistan Region," 2018). Apart from Iran that has its consulate offices in both (Erbil and Sulaymaniyah), most of them have their offices in the capital city (Erbil). Due to the strong relations between KRG and the USA, the most important consulate in the Region is the US consulate. However, due to having of the US consulate in Erbil Kurdish people are not going to Baghdad anymore to apply for a US visa (Fawaz, 2016).

According to the World Bank (2015), if Kurdistan Region were counted as an independent state, according to the Economic Intelligence Unit, its rank on the Global Peace Index would be 115<sup>th</sup> out of the 163 states, while the rest of Iraq ranked 160<sup>th</sup>. In the case of Stability and Security Index, Kurdistan is ranked 83<sup>rd</sup> out of 181 states, at the same time other parts of Iraq ranked 177<sup>th</sup>. In Political Environment Index Iraq ranked 83<sup>rd</sup>, while Kurdistan ranked 55<sup>th</sup> out of 83<sup>rd</sup> states. Iraq in case of Business Environment Index is ranked 72<sup>nd</sup> out of 83 states, while Kurdistan ranked 57<sup>th</sup>. However, in the case of the Quality of Life Index Kurdistan ranked 55<sup>th</sup> and Iraq ranked 134<sup>th</sup> out of 159 states. Finally, Kurdistan in the case of Human Development Index ranked 76<sup>th</sup>.

Apart from the political stability and security of the Kurdistan Region, the business atmosphere of Kurdistan such as better performance in taxes, market opportunities, and foreign direct investment (FDI) policies caused to be a more preferred area within Iraq for foreign investors. The KRG devised friendly economic regulations and improved transparency of government to speed up the economic development, then quickly, the economy of Kurdistan developed and occurred as a new economic player in the Middle East. As a result, all of these economic developments are gained by the high level of political and security stability in one hand, and on the other hand, the formulation of friendly economic regulations by KRG (Natali, 2015).

## 2. CONCLUSION

This paper investigated how political stability with the security status affected the economic development and FDI attraction in the Kurdistan Region of Iraq (KRI). However, it is described that the decision of investors depends on stability rather than democracy whereas democracy is also a significant issue. The stable government is an important point to attract foreign investments because it has the authority to protect the capital of investors.

This study also found that the Iraqi Kurdistan has more stability and better security rather than the rest of Iraq. This peaceful security status in the region has had a good impact on local society, also enhanced the economic development of Kurdistan. However, the interaction between people of Kurdistan and these agencies is one of the most significant issues that lie behind this healthy security position of the KRI. The security and stability are reasons for foreign diplomats to go to Kurdistan and enlarge their activities there. Moreover, investors still do not feel good about Iraq to invest there due to its lack of security and political instability. This security position of Kurdistan is highly stronger than the other parts of Iraq, and this encouraged at least 40 UN member states to have their diplomatic mission in the region such as the USA, Russia, France, Germany, United Kingdom, and so on.

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