THE IMPACT OF INVESTMENT LAW NO.(4) 2006 ON THE FOREIGN DIRECT INVESTMENT AND THE ANTECEDENT EFFECT ON THE LABOUR MARKET IN KURDISTAN REGIONAL GOVERNMENT

BY

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ABSTRACT

The aim of this thesis is to analyze the impacts of Investment Law no. (4) 2006 on the foreign direct investment and the antecedent effect on the labor market in Kurdistan. The main objective of this research is to analyze the impact of FDI on labour market .This study uses qualitative approaches. Primary data were generated from officials and companies interviews and secondary data was collected from various sources of government publications. The objective of this research is to identify the roles of FDI on Kurdistan's Labour market and economic growth; also it intends to emphasize the roles of investment laws in KRG in enticing FDI and its influence on the KRG's labour market. This study founds positive relationship between FDI and labour market. The study also discovered that labour market was developed through FDI and hundreds of job opportunities created by foreign labour. This stressed that Investment Law No (4) was effective in bringing foreign investors in Kurdistan, which impacted different sectors economy and labour market. However, if the law was effective in a period of time, for now, it needs to be amended and several acts in this law should be changed in order to maximize the advantages of FDI and targeting country development vision. The law was resulted the misuse of public lands as well as the lack of diversification of investment on sectors. The law should also be amended in the way to diversify investment sectors. Generally, FDI and investment law resulted in creating a positive environment for local workers as well as overall economic growth of the country.

ABSTARK

Karya ini adalah bertujuan untuk menganalisa kesan Undang-undang Pelaburan No (4) 2006 (Investment Law no. (4) 2006) ke atas Pelaburan Langsung Asing (FDI) dan kesannya ke atas pasaran buruh di Kurdistan. Objektif utama kajian ialah menganalisa impak FDI dalam pasaran buruh. Kajian ini menggunakan pendekatan kualitatif. Data primer telah dijana daripada hasil temubual yang dijalankan dengan pegawai dan temubual bersama pihak syarikat dan data sekunder telah dikumpulkan dari pelbagai sumber penerbitan kerajaan. Kajian ini bertujuan untuk mengenalpasti peranan FDI dalam pasaran buruh dan pertumbuhan ekonomi Kurdistan dan mencadangkan penekanan peranan undang-undang pelaburan di KRG dalam menarik FDI dan pengaruhnya ke atas pasaran buruh KRG ini. Penemuan kajian mendapati wujudnya hubungan positif antara FDI dan pasaran buruh. Kajian ini juga turut meliputi kajian pasaran buruh yang membangun melalui FDI dan ratusan peluang pekerjaan yang dicipta oleh buruh asing. Ini menegaskan bahawa Undang-undang Pelaburan No (4) adalah berkesan dalam membawa pelabur asing di Kurdistan yang memberi impak kepada sektor ekonomi dan pasaran buruh yang berbeza. Walau bagaimanapun , jika undang-undang yang berkuat kuasa dalam tempoh masa , buat masa ini, ianya perlu dipinda dan beberapa akta dalam undang-undang ini perlu dipinda sewajarnya untuk memaksimumkan kelebihan FDI dan mensasarkan wawasan pembangunan Negara. Undang-undang ini telah mengakibatkan penyalahgunaan tanah awam dan juga kekurangan kepelbagaian sektor pelaburan. Undang-undang juga perlu dipinda sewajarnya untuk mempelbagaikan sektor pelaburan . Secara umumnya, FDI dan undang-undang pelaburan mewujudkan persekitaran positif untuk pekerja tempatan serta pertumbuhan ekonomi secara menyeluruh di Negara ini .

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LIST OF ABBREVIATION

ADB:	Asian Development Bank
BOI:	Board of Investment
FDI:	Foreign Direct Investment
GDP:	Gross Domestic Product
IMF:	International Monetary Fund
KR:	Kurdistan Region
KRG:	Kurdistan Regional Government
KDP:	Kurdistan Democratic Party
MENA:	Middle East and North Africa
MNCs:	Multi-national Corporations
MOP:	Ministry of Planning
OECD:	The Organization for Economic Co-operation and Development
OLI:	Ownership, Location, and Internalization
PUK:	Patriotic Union of Kurdistan
TNCs:	Transnational Corporations
UAE:	United Arab Emirates
USA:	United States American
US:	United States

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This thesis focuses on the impact of investment law no. (4) 2006 on the foreign direct investment and the antecedent effect on the labour market in Kurdistan Regional Government. Kurdistan Region's investment law no. (4) 2006 provide significant benefits for investors especial foreign direct investment (FDI) in all sectors and qualified projects, principally tax and customs fees and duty exemptions.

Foreign direct investment has become necessarily important determinant of economic development in the developing countries attracting inward investment is a key component in its economic development initiatives, for the potential knowledge transfer and cross fertilization to domestic operators which it can provide and FDI is one of the successful way around the world which is crucial to develop infrastructure and offering prosperity services and for having an opportunity to help people to find a jobs in all the sectors (Al-Khalfa, 2007).

Kurdistan has lately emerged as a new destination for FDI in the Region and experienced remarkable improvement in major economic sectors. After decades of economic destruction, the invasion of Iraq has given a new opportunity for economic growth and labour market in the region. The government started to rebuild and reconstruct the country and open up to the world. So, the government has implemented many programs to achieve the strategic goals to enhance the economic, social and political environment of the region. Due to the security and stabilization of the region, foreign investors soon found their interest there and then highly encouraged by Kurdistan Regional Government to invest in different economic sectors (Abdullah, 2013). The Kurdistan Investment Law no.(4) 2006 provides an exemption for licensed projects from non-customs taxes and duties for the period of 10 years. Foreign investors and their capital are to be treated in the same way as national investors, and certain legal guarantees are provided to them. Also, this law introduces the concept of 'strategic investment projects' that are eligible for licensing - generally, projects for which land is provided, covering all sectors except oil and gas extraction and production.

Also allowing foreign ownership of land for residential purposes (provided that there is a reciprocity in the country of origin); allowing for the sale of projects once completed; the benefits for investors prescribed by the Kurdistan Region investment laws are very similar. The following statutory benefits and protections are obtained when a license is granted guarantee of 'non-seizure or nationalization guarantee of repatriation of capital and profits in exchangeable currency authority to obtain insurance with foreign companies authority to open foreign currency bank accounts residency for non-Kurdistan and facilitation of entry into and exit from Kurdistan rights to transfer salaries out of KRG; and exemption from fees for assets required for expansion or modernization and for spare parts, in addition to imported assets (Lockhart 2011).

The relationship between Foreign Direct Investment (FDI), economic growth and labour Market has become a controversial issue for several decades. Policymakers around the world engaged in creating all kinds of incentives to attract FDI, because it is assumed to positively affect local economic development.

1.2 Background of the Study

Kurdistan Region is located in the North and Northeast of Iraq, bordering Turkey to the north, Iran to the east and Syria to the west. It's also known as Southern Kurdistan by many Kurds. The region is governed by the KRG. However, it's officially and constitutionally, still, a part of Iraq.

The KRG emerged after the Kurdish uprising against the Iraqi regime in 1991. The two major Kurdish political parties, Kurdistan Democratic Party (KDP) led by Massoud Barzani and Patriotic Union of Kurdistan (PUK) led by Jalal Talabani, controlled the majority of Kurdish areas except all the disputed areas including the Kirkuk province. The international community's actions were supportive for the emergence of KRG as an autonomous region as they imposed safe haven zone in Kurds north of 36 parallel lines. Consequently, Kurds have achieved their autonomy even though it was not recognized by the central government.

After the establishment of the safe haven, and as a result of Iraq's withdrawal of security apparatus and administration, the Kurds attempted to fill the vacuum. For the first time in their history the Kurds run a free election, to an extent, in the region in May 1992 establishing the Kurdistan Parliament which in turn led to the establishment of the KRG. Out of 100 seats the KDP won fifty-one parliamentary seats and the PUK won forty-nine (Gunter, 1999). Since then the KDP and PUK are governing the affairs of the Region. Ironically, the 2003 United States and its ally's invasion of Iraq created a positive condition to Iraqi Kurds to achieve their constitutional right.

In the first phase, the region constitutionally recognized as a federal region within Iraq. Despite that the KRG is acting like an independent state. Accordingly, the

Kurdistan Region accomplished a high-level of autonomy administering the Region solely. The Kurds have not proclaimed independent yet, however, as acknowledged by some scholars "in every sense that matters Iraq's Kurdistan region is de facto independent", and the KRG "is the governing body of a sovereign state" (Carpenter, 2009).

The KRG has a semi-presidential system and the power is divided between the parliament, the government and the president. The constitution which was approved by the parliament on June 26, 2009 is yet to be voted by the people living in the region. On the economic front, since the United States (US) invasion in 2003, the 4 region receives a share of 17% of the Iraqi total revenue. This has led to positive development (Phillips, D., 2009).

In the age of globalization, trends of the FDI or capital inflow are among the main characteristics of the economic development especially in developing countries that does not have capital and experience. It's considered as the source of capital for developing countries economy. The FDI encompasses of the integration between global and domestic market. It can be achieved through the openness of the local economic sectors and establishing business by the foreign investors within the country's economy. Today FDI inflow is faster and easier than ever before because the capital movement between several countries created possible environment for the investors in the international market and contribute in other countries economy. These flows generally take two forms. The first form is foreign direct investments (FDI) that multinational corporations (MNCs) bring in to establish production units or conduct specific projects in the recipient country independently or in collaboration with domestic investors. MNCs defined by as the enterprises that control the operation of the company in more than one country and also it controls the income generating assets of enterprises. The FDI on the other hands used to measure the direction of multinational companies (Jones 1996, p.4). The investor aims at securing a lasting interest and an active role in the company of the host country (IMF, 1993).

1.3 Problem Statement

The first problems are waste, agricultural lands According to the Kurdistan law for investment all the foreign companies can buy and sell properties in the KRG. The only thing they cannot do is buying and selling lands that contain oil, gas, and mineral ("Kurdistan Investment Law"), that transferring properties ownerships usually takes less time when a foreign company is included. Actually, there are more important for next generation and future the government prevents some selling when there are national and public benefits of not selling those properties. Also necessary the ministry of agriculture prevented the selling or buying any agricultural lands close to the cities and towns.

The second problem of this study is imbalanced distribution of investment projects according to the sectors and governorates on KRG. Some sectors like agriculture and education is not well defined by the government investment policy, while most of the investment projects are in the housing and energy sector. Therefore, agriculture directly relates to the daily lives of the people and education creates human capital in which contributes to the economic development of any country and labeled as one of the characteristics of development in any country. Up to now, the KRG couldn't diversify investment based on the needs of the people and current condition of Kurdistan. So, The more investment needed in other sectors in order to achieve sustainability and development goals in particular to the sectors that have direct links to the social needs and social well-beings.

1.4 Definition of FDI

First of all, the study gives general definitions to the following: definition for foreign direct investment which is known as the benchmark definition of FDI and defines the term as a direct investment in which investors have at least 10 percent of the shares and voting power in the firm or the corporation but this 10 percent should not violate the right of investor in the management (Kiggundu 2002,P.152) defines FDI as 'long-term capital investments made by the private sector across national borders'. According to the International Monetary Fund's definition, FDI refers to an investment made to acquire lasting interest in corporations operating outside of the economy of the investor to gain an effective voice in the management of the corporation (IMF: 1993) (Al-Khalifa, 2010, p. 16). According to Kiggundu (Year)FDI in general term is a "long term capital investment made by the private sector across national borders." Even the most developed nations cannot deny the role of FDI in employment, gross domestic product GDP and other economic sectors. For instance, in the country like the USA, you may find hundreds of Chinese firms are investing in different sectors of the US economy. For that reason, the Kurdistan region sought the FDI as the keystone of the economic development. So, the name of Kurdistan attracted many world entrepreneurs to find out more about the region and start their business in a favorable environment in which security protected and the interest much higher than other regions.

1.5 Research Questions

This study will attempt to answer the following questions:

1. What are the roles and the impact of FDI in Kurdistan's Labour market?.
2. What are the roles of investment laws to attract FDI into KRG?.
3. What are the key strategies to synergise FDI in KRG to bolster it's labour market and economic growth?.
4. What have been the retarding barriers to FDI in Kurdistan Regional Government?
5. What are the key strategies to accentuate FDI into KRG?

1.6 Research Objectives

The main objectives of this study are:

1. To identify the roles of FDI on Kurdistan's Labour market and economic growth.
2. To identify the roles of investment laws in KRG in enticing FDI and its influence on the KRG's labour market.
3. To determine the allocative distributions of investment within the areas in the KRG.
4. To recommend key strategies for the betterment of the investment laws to entice FDI into KRG.
5. To recommend key strategies to accentuate FDI as catalyse for labour market and economic growth in the KRG.

1.7 Significance of the Study

This research is very important to be conducted for several reasons. The most significant objective to conduct this study is to find out whether the government has been successful in using FDI to promote economic development and rapid growth. Besides, it would be an important literature for the economists and the KRG to conduct further research on this topic since the main focus of the government for now is investment in order to build strong infrastructure and economic base for the future social, political and economic development.

The other significance of this study could be evaluated in terms of the recommendations and findings of this research. Investment project should have long term benefits for the host country; therefore there are many critics on the quality and the mechanism of implementing the projects. Some sectors are much more important than other sectors, but the government concentrated mainly on some other sectors. So, this study will come up with some suggestions and recommendation that KRG could use it to maintain its efficiency and effectiveness. Since Kurdistan is newly economic powerhouse in the Middle East, few researches and studies conducted about its development and many people does not have a hint about the rapid development that happens in Kurdistan. So, this study could be a fundamental tool for those who wants to know about the integration of investment and economic growth in Kurdistan and attracts academics to give more attention in the KRG policies that aims to develop its economy.

1.8 Scope and Limitations of the Study

The study was conducted in the Southern Part of Kurdistan, which achieved autonomy after the collapse of Saddam Hussein in 2003 and its emergence as an economic powerhouse in the region. Besides, the study does not include any information about detached areas of Kurdistan, such as Kirkuk and Khanaqin which administered by both Kurdistan and Iraqi government, but it mainly focuses on the three cities that are fully under the control of the KRG. On the other hands, the time limit of this research is the aftermath of the American Intervention to Iraq. Although, between the periods of 2003 to 2006 there were activities and projects implemented by foreign companies, but this period is considered as transition period and the government was not fully ready to welcome foreign investors. For that reason, the study focuses on the period of 2006 to 2013 in which more investments were flows to the region and more developments came to the existent. Besides, after 2006, Kurdistan Investment Law was enacted by the parliament and this achievement influenced the flow of capital and government provided adequate data and information in this regard. So, it could be argued that during the period of 2006 to 2013 projects were implemented based on the law enacted by the KRG Parliament and this is the main reason in which the study covers this period of time.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The purpose of the literature in a report is to make clear the theoretical of the problem studied by the researcher and how it has been studied by others. The literature review should justify the current research through what's already been written or not written about the topic (Yaqin, 2007).

The Literature review is a very crucial part of the research that helps you to understand and become familiar with the work of other scholars. It also attempts to engage some of the scholarly articles and writings about the role of laws for attracting foreign direct investment. In other word, so the literature mainly focuses on the side effects of investment over the economic growth and labor market in different parts of the world ,which somehow relates to Kurdistan. Thus, developing countries are trying to attract foreign direct investment true legal facilities actually it's obvious in investment law no. (4) of 2006 in Kurdistan Region Government (KRG) (not clear enough) (one could find it clear that Kurdistan attracting foreign direct investment through legal facilities provided by investment act No.4 of 2006) according to Article (5):

1. A Project shall be exempted from all non-custom taxes and duties for 10 years, starting from the date of providing services by the Project, or the date of actual production.
2. Equipment and machinery that are imported for the project shall be exempted from taxes, duties and the condition to obtain an import license, provided that they cross the Region's borders within two years from the approval of their lists by the

chairman of the board, and that they are used exclusively for the purposes of the Project, failing which the exemptions will not be applied to them and the investor will be compelled to pay tax and will be penalized with a fine which is twice as much as the amount of tax due.

3. Spare parts that are imported for the project shall be exempted from taxes and duties, provided that their value does not exceed 15% of the price of equipment and machinery, and with the prior approval of their lists and quantities by the chairman of the board.
4. Equipment, machines and tools needed to expand, develop or upgrade/modernize the project shall be exempted from taxes and duties.
5. Raw materials imported for production shall be exempted from customs duties for 5 years, provided that the types and quantities of such materials are specified by the board, with the priority given to use the locally available raw materials which are suitable in quality and quantity for the investment Project.
6. An investor may, under the provisions of this law import all his project's needs, including the equipment and machinery. Such imports shall be exempted from all customs duties as they cross the region's borders, provided that they are used exclusively for the project's purposes.

In fact, foreign direct investments become a major determination of the labour market in Kurdistan. A large number of empirical studies on the role of laws for attracting FDI in host countries suggest that FDI is an important source of labour market. It's usually associated with new job opportunities, enhancement of technology transfer, boosting overall economic growth in host countries, improvement in the quality of life, the economic well-being of the nation, low employment rate, infrastructure development and many other factors. So, the objective of the literature is to highlight the linkage between the legal system and FDI.

2.2 Legal System and Facilities for Attracting FDI

Several papers have argued that the legal system can play a key role in attracting foreign investments or encouraging financial and economic development (LaPorta et. al., 1998a, 1998b; Globerman and Shapiro, 2003; Chan-Lee and Ahn, 2001). Generally, the legal system around the world can be classified according to whether its origins are primarily in pure common law based on the English system, or pure civil law based on the Roman system - with specific categories in French, Spanish, German, Scandinavian, or Socialist. Other classifications include countries with customary or religious laws (Muslim, Talmudic) or a mixture of two or more systems (LaPorta et.al, 1998b; Globerman and Shapiro, 2003; Chan-Lee and Ahn, 2001).

A legal environment that protects investors can be significant in investors' decision making (LaPorta, et. al, 1999). For example, in Common Law countries managers have less flexibility in exercising discretion over reported earnings. Hence, the relation between reported earnings in financial statements and the "economic value" of the firm is expected to be stronger. Such factors might persuade joint venture investors to favour Common Law countries, as they can feel more secured about their investments. This is not true in Code Law (another classification based on an all-inclusive system of written rules) in countries where the law allows more latitude in accounting practices to smooth earning. More latitude implies that the financial figures in Code Law countries are to be perceived as less of a reflection of economic reality (Guenther & Young, 2000).

Countries whose commercial legal systems are rooted in English Common Law have less market regulations and are better at protecting shareholders and creditors, and at preserving property rights (LaPorta, et al., 1998a, 1999, 2001; Djankov et al., 2002). They also have a low cost of contracting because the legal system interprets the spirit rather than the letter of the contract (Lang and So, 2002). Common Law facilitates the development of capital markets and investment opportunities and as a result attracts more foreign investment (Globerman and Shapiro, 2003, Reese and Weisbach, 2002). An analysis of the relationship between foreign direct investment and legal systems has clearly indicated that countries whose legal systems are rooted in English Common Law are more likely to be recipients of US. FDI flows (Globerman and Shapiro, 2003). According to the authors, Civil law regimes are expected to attract less foreign investment because they are likely to be associated with higher durations of judicial proceedings, more corruption, less honesty and fairness and inferior access to justice.

Within the Middle East and North Africa MENA region, the legal system is rooted in various origins. If we are to spread the countries across a spectrum, at one end would be situated those countries that observe the Sharia, and at the other end, would be those whose legal systems have developed far from it (Shaaban, 1999). When it comes to commercial transactions, it is possible to group MENA countries into three insteated of numbers categories. First are those that followed the Western system such as Lebanon, Syria and Egypt. The second are those that have codified their laws, but drew mostly from sharia such as Saudi Arabia, Oman and Yemen. Third are countries that went both ways. They westernised their commercial laws, but still draw from Islamic law in such areas as contracts. These countries include Iraq, Jordan and Libya (Shaaban, 1999). To date there has been no academic research examining the impact of the legal system on foreign investment in the MENA region, however, Globerman and Shapiro (2003) suggested that countries that adopt a legal system that mixes common law with customary or religious law are less likely to receive FDI.

Nair-Reichert and Weinhold (2001) apply mixed fixed and random estimation to examine the relationship between legal system and FDI in developing countries and find that there is a causal link between FDI and labour market.

(Liu et al 2008) tested the existence of a long-run relationship among legal system, foreign direct investment and labour market in United Arab Emirates UAE. Using a cointegration framework with quarterly data for exports, imports, FDI and growth from 1987 to 2007, the research found the existence of a bi-directional causal relationship among laws, FDI, and growth economic, the United Arab Emirates (UAE) are still a very attractive market for trade and industrial production. The number of foreign companies regularly participating in international trade and industrial fairs in the UAE as well as the increasing number of foreign companies establishing their regional headquarters in the UAE is proof of the significant economic development of this region. Within the UAE, the Emirate of Dubai has developed into an international trading. Heshmati (2007) “Today, Dubai offers international companies an ideal gateway for developing their business throughout the Far and Middle East as well as the North-African countries”.

Foreign companies setting up in the UAE can secure, cost advantages that are not generally available internationally. Among these advantages are no corporate taxes, no income taxes, no foreign exchange controls, no trade barriers, double taxation treaties, modern infrastructure, competitive import duties and competitive labour costs. All the facility available in the Laws in UAE for the purpose of attracting FDI

Some of the laws :Companies Law 2004,Contract Law 2006, Markets Law 2012, Law Regulating Islamic Financial Business 2004, Collective Investment Law 2010, Investment Trust Law, Heshmati (2007)

Duasa (2007), examined the causality among legal system, FDI and growth econmices in Malaysia, the study found no strong evidence of a causal relationship between laws, FDI and economic growth. In Malaysia legal system can play a key role in attracting foreign investment, but this indicates that, in the case of Malaysia FDI does not cause economic growth, vice versa, but FDI does contribute to stability of growth as growth contributes to the stability of FDI.

Chowdhury and Mavrotas (2005) examined the causal relationship between FDI and legal system for three developing countries, namely Chile, Malaysia and Thailand. They found that it is investment laws that causes for attracting FDI, there is a strong evidence of causality between legal system and FDI. Chile has two laws that are fundamental in regulating foreign investment:The Foreign Investment Statute, or Decree Law 600. “Foreign investors in Chile can own up to 100 % of a Chilean-based company, and there is no time limit on property rights. They also have access to all productive activities and sectors of the economy” (Joel 2000). Under Chile’s Constitution and its legal system, foreign investors are guaranteed non-discrimination. Whichever investment mechanism they use, foreign investors enjoy the same rights and guarantees as local investors and are assured of non-discretionary treatment by the State.

However, investors may, at any time, request the amendment of the contract to increase the amount of the investment, change its purpose or assign its rights to another foreign investor. DL 600 guarantees investors the right to repatriate capital one year after its entry and to remit profits at any time. To access to freely convertible foreign currency without any limits on the amount, for both capital and profit remittances. In addition, they are guaranteed the right of access to the formal exchange market Chowdhury and Mavrotas (2005).

Kurdistan the part of Iraq and same legal system,all in all some facilities inside investment law no.(4) 2006 in the Kurdistan Regional Government it has a significant role for attracting FDI. The Investment Law has sufficient coverage of different aspects of inward FDI. Here we refer to a number of factors positively attributed to the law. The first important issue is the selection of areas of investment which cover the main economic and priority sectors including agriculture, manufacturing, services and various utilities and infrastructures (Hishmati, 2007, p. 40). A second factor of strength is the non-discriminative treatment of capital by its source. Allocation of plots of land is the third and most important factor. The fourth key incentive factor is the tax and customs duty exemptions. The 10 years duration of exemption and its broad coverage together with additional facilities and incentives provides sufficient confidence in business profitability. The fifth strength factor is the provision of the legal guarantees which account for insurance, employment, repatriation of profits, money transfers, and issues of security.

Clarification of the investor's obligations and legal procedures in the case of contravention are to be considered as a sixth positive factor attributed to the investment law. The organizational structure and tasks of Investment Board and the Supreme Council for Investment and the members' ability indicators are to be seen as a seventh positive factor. The outlined procedures for licensing and risk of arbitration and the final provision of the transfer of duplicated investment laws to a unified one are among the eighth and ninth positive factors, respectively (Hishmati, 2007, p.43).

2.3 Factors Influencing the Inward FDI

Te Velde (2001) listed several factors and policies that largely effects on the flow of foreign direct investment. The factors are classified into industrial policies, macroeconomic policies and other policies and factors. The main factor that effects on the intensity of FDI is "financial and fiscal incentives and bargaining, efficient administrative procedure and rules ownership, promotion, targeting and image building, developing key sectors, develop an export platform, availability of infrastructure and a skilled workforce and good labor relations, sound macro-economic performance and prospects". Apart from that, there are other factors that influence inward foreign direct investment such as the country's regional and global integration and the availability of cheap transportation since the costly transportation of raw materials may restrain the activity of the foreign companies. Additionally, the international treaties and agreements largely effects on the flow of capital and investment to other countries. The availability of natural resource, labour market, political stability, transparency and financial policies are among the main factors that impacts on the level of FDI.

Kaufmann et al. (2004) collected six indicators that influences FDI inflow includes "voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, control of corruption". Checchi et al. (2007) analyze some of the above indicators and their analyzes indicates that countries with political stability, can attract more FDI, while they found a negative relationship between economic stability and FDI because that would fosters inflation and fluctuation of the market economy.

Then, they come to the infrastructure and the services which they found out minor relationship between the two variables. Khan (2007, p.22) clarified this point more accurately and claimed to attract foreign investment countries should have infrastructure facilities such as road, ports, telecommunication and empowers its economic sectors through competitive markets. Back to the Checchi indicators, population seems to be significant determinants of FDI inflow to any country. In the other words, countries with large population attract larger FDI plus the level of the development host country reached.

Controversy, Romer (1990) achieving sustainable economic growth has nothing to do with population size, but it’s more likely relates to amount of human capital people in recipient country possess (Khan, 2007, p. 5). Finally, the authors analyze the differences between developed and developing countries and they seems to conclude that developed countries have better security and stabilization in terms of politics and economy, the government is more effective, the law enforcement is largely practiced, the country is more transparent and the level of corruption is lower, the quality of regulation is more valuable, and the GDP per capita is higher (Checchi et al 2007, p.7-15). All these factors created a better environment for investors to outflow their capital and happily invest in developed countries.

As Checchi et al. (2007), Romer (1990), and Loot (2000) corruption could be one of the top factors that effects on foreign companies to invest in certain countries. For instance, Eroding corruption in Singapore was the main characteristic of developing Singapore to the level that we see now and must be taken into the consideration for any government which desires to move up (Greenwood, n.d. p. 90-91). The existence of corruption is admitted by some governments and they promised to endorse serious anti-corruption actions For example, in the International Conference in 2001 hold by East Asia regarded corruption as (OECD) as “the most serious obstacle to democracy and sustainable development of societies” and they estimated the rate of corruption takes 17 percent of the GDP in East Asian countries includes China, Indonesia, and Malaysia (Greenwood, n.d. p. 91). So, based on that argument, the government role in eroding corruption would be a key factor of the development and the rule of law must be implemented for everybody so nobody dare to play with national revenue or disrupt commerce and investment. This can be considered as the main way for Asian Tigers economic booming which serves the entire population and everybody get the share of the benefits which they earn through trading export, technological advancement and investment project both inside and abroad.

Certainly, literatures on Chines economic development emphasizes on the role of transparency and institutionalization in which created a favorable environment for FDI. So, it does not come randomly or as a miracle without any changes or reform, but the government started to emerge with a new shape and unique economic model that attracted world later and greatly achieved its objectives. Peter Perdeu from Massachusetts Institute of Technology discusses that Chinese economic development is the consequences of the economic reform of 1979 that “response to profit incentives, encouragement of FDI, promotion of infrastructural investment, alleviation of poverty, and sustainability; by endorsing these policies, the leadership promotes China’s active presence in international institutions” (Perdue, 2003, p.1).

Yasmin et al. (2003) stated that improving infrastructure, financial resources in terms of revenue and foreign exchange, entrepreneurship and technical skills expands FDI opportunities. Furthermore, Loot (2000) believes that friendly tax policies and subsidies, lower level of corruption, political stabilization, friendly business environment, and better institution and administrative policy encourages FDI. Therefore, in the Macro level, skilled labor force, openness, market fluctuation, population and market size significantly influence world countries to attract FDI (Yasmin, 2003, p.60). It's also been suggested by Yasmin and her Co-workers that countries wish to continually attract more FDI flow should improve political environment, reduce internal imbalances and external debts, provides more incentives to investors and implement openness program and integrate to the global market and finally promote local investment.

Dunning listed different types of FDI in the world includes resource seeking, market seeking, efficiency seeking, and strategic asset seeking investment in which attracted by different policies and different factors. The first two kinds are mainly related to the initial foreign direct investment while the last two types relates to the sequential FDI. The first two kinds of investment is more common in developing countries.For example, the foreign companies interested in investment in Kurdistan region some due to reasons such as natural resources that the country possess which may have substantial advantages to the foreign corporation and its market since its newly open toward the global market and easy to find consumers to purchase foreign goods and services. Other reasons Iraq has been subject to years of embargo, sanctions, war and destruction. The Kurdistan region has enjoyed relative peace in recent years. The shared oil revenues after 2003 have allowed the region to start its reconstruction and development programmes much earlier than other regions. The KRG should take advantage of the existing peaceful conditions in the region to build up capacity.

KRG rich place for all the sources, especially, in the oill and gas has proven reserves of around 45 billion barrels of crude oil, or about a third of Iraq's total reserves, and one to three trillion cubic meters of gas (Decamme, 2013; Bryza, 2012, p. 56). The relatively stable KRG has attracted foreign companies and entrepreneurs such as Exxon Mobil, Chevron and Total which have signed deals during the past years directly with the KRG. The Region is currently enjoying economic growth of 12%, faster than Iraq's economy as a whole which is expanding by 9%. Almost 800 foreign firms, the majority of them from Turkey, have so far entered the Kurdish market, apparently encouraged by the 2006 investment law that exempts them from taxes on imports and profits for their first 10 years in the Region (Decamme, 2013). KRG's investment in energy sector seems to be more productive compared to Iraq as the KR export surplus power to Iraqi provinces. The natural population growth in Kurdistan Region is 3% and those between ages of 15-34 constitute 34% of the Kurdistan Region population (Ministry of Planning, 2012).

2.4 The Effects of Government Policies in Attracting and Sustaining the Intensity FDI

In fact, FDI has both costs and benefits that should be analyzed carefully in order the benefit exceeds the coasts. In this case the role of the government is so important and there should be policies to deal with investment. Bjorvatn, Kind & Nordas (2012) claims that “investment involves a long-term exposure to the economic and political conditions in the host country, and firms therefore look for some commitment from the government”. So, the government should guarantee their safety and assure that profits are transferable, and abide by the contracts with multinational firms to resolve any dispute that may rises during the investment process, provides better political and social stability. (Bjorvatn, Kind & Nordas, 2012, p.112). The authors maintain their argument and argue that public sector should play its role in order to strengthen the country location advantages by taking some important steps like educating labor force, minimizing taxes, supplying public goods. Hence, such activities as they stated "may increase the profitability of an investment project, whether domestic or foreign.in contrary, "inefficient public policies may discourage investments" (Bjorvatn, Kind & Nordas, 2012, p. 112). This can obviously be seen in case of Iraq and Kurdistan, in which investors more likely to invest in Kurdistan rather than Iraq since the security of the region is much better than the rest of Iraq.

Furthermore, the United Nations Conference on Trade and Development suggests that to obtain growth, the policy makers more carefully act and considered the trade-offs to maximize the benefits of the FDI, Otherwise the costs exceed the benefits (United Nations, 2012, p. 64). Organization for Economic Cooperation and Development emphasizes that FDI has a major impacts on human capital development which is the tire of the development. So, it's suggested that government to "attract FDI via enhanced human capital" (OECD, p. 17-18). Obviously, when firms employ local employers, through job training and learning soon enrich their human capital and capable of running business without the need to the foreign expertise. Therefore, its required that FDI helps to obtain human capital and skills

Some scholars like Shaari et al (2012) highlighted the balance of FDI, the stands of domestic firms and the role of government in this respect. He has demonstrated that fluctuation in exchange rate, inflation and political instability may probably hinder Direct Inward Investment, so the government should overcome these problems and restrain massive FDI in order to avoid uncertainty and monopoly of the foreign companies (Shaari et al 2012, p. 4905). Massive employment will stimulate many other economic and social problem includes unequal distribution of income disequilibrium between economic sectors in which government should be cautious for the massive FDI inward to avoid the problems that emerged from 1993-2000 in Chile because of massive FDI in which created inequality in wages and sectors.

The government policies should be formulated in the way that consider all the side effects of FDI and encourages further development. It also has to create a positive condition in which maintains long term foreign direct investment on different sectors. For this reason, John Dunning asserts that the government should apply the smart macroeconomic strategies to well affect the foreign investor decisions since the government is accountable to encourage and cultivate more investment (Dunning 1994, p.37-45). To do this the government should have to upgrade their values added activities, privatization, liberalizing its macroeconomic strategies, removing state imposed market imperfection, raising the dynamic comparative advantages of domestic resources. Dunning (1994) also maintains his analysis by discussing the quality or the type of the government policies and the level of the government intervention in the market economy. The Author argues that nowadays, it’s not an issue if the government intervene to the market economy or not, but the issue is for what purpose the government intervenes and to what extent? Minor government intervention into the market economy and investment projects is sometimes positive if it’s to maximize the efficiency of the project and its impacts on the wider society. Therefore, if the government and state owned companies require more government insights over the foreign firms and control economic activities, it would discourage the investment and interpreted as negative intervention of the state. Simultaneously, the authors suggests that the policy makers should not be a slave of their economic strategies toward inbound FDI, policies could be successes or fail, but the government should be autonomous in possessing its solitary policy and change the policy when required to persuade social and economic goals of FDI (Dunning, 1994, p.30).

Velde (2001) believes that governments want to attract more investment because FDI close them to their objectives and help them to target them. In the other words, the governments need FDI to justify their intervention to the market economy and use it as an instrument of growth to alleviate poverty, upgrade skills and human capital with regard to the human capital development and technological transformation. These tools could be used by the government to justify its market failure (DW the Velde 2001, p. 3). This might be addressed by the government in order to attract further foreign investment to gear economic growth and solve the issue of market failure which could be solved through human skills and technologies. Hence, it will increase the demand of the domestic market to the Transnational Companies to expand different economic sector in order to achieve policy objectives. Te Velde (2001) insists that the government should conduct those policies effectively and build institutions and provide adequate information in order to address market failure relates to FDI and growth.

In Malaysia, which has a better economy compared to the other South East Asian countries except Singapore, the government introduced some economic strategy to reach national economic policy and vision 2020. The policies are "liberal equity policy, employment of expatriates, and attractive tax incentives" (Mun 2007, p. 7). In the first policy, foreign investors are highly encouraged to invest their money in diverse sectors to manufacture good and production. The aim of the policy is to rebuild, renovate the sectors that render sustainable development. Besides, the investors hold 100 percent of the project, which they conduct. It’s a good policy to attract foreign investment. The second policy which is the employment of expatriates allows the foreign investment companies to bring the workers and expertise that cannot be found in Malaysia.

Again, this program is supportive because many companies challenge the lack of expertise in the sector where they manufacture in the countries abroad, or maybe they could work more efficiently with their professionals and workers. So, by doing this, the foreign companies more attracted to work in Malaysia. The last policy that mentioned was an attractive tax incentive which lowers tax on local and foreign companies equally. Despite the policies illustrated above, the government has some agencies such as Malaysian Industrial Development Authority, Ministry of International Trade and industry, Malaysian External Trade Development Cooperation and so on. The functions of these agencies are so crucial if they follow their procedures to direct, coordinate, regulate, implement, and evaluate industrial and trade policies.

So, the role of government in Malaysia is so strong and directly effects on any development that occurs within its boarder (Mun 2007, p. 7-12). The Market economy is not liberalized and it’s quite the same in other South East Asian countries regardless their effectiveness. So, based on the above policies formulated, the government should guarantee the safety of the foreign enterprises and insures that profits are transferable, and abide by the contracts with multinational firms to resolve any dispute that may arise during the investment process, provides better political and social stability. (Bjorvatn, Kind & Nordas, 2012, p.112)

2.5 Foreign Direct Investment and Employment

The analyses and scholarly arguments demonstrate the influence inward FDI inflow and its interdependency to the labor market. Moran, Graham and Blmstrom in the answer of the question of on the impacts of FDI on Development response that foreign direct investment is significant for the lives of millions if not billions of families, communities and workers in developing countries (Dutta & Osei-Yeboah, 2007, p. 1). There are several more studied conducting to analyze the influence of FDI on labour market. Most of these studies indicated a positive relationship between the patterns of FDI and employment relationships. Nacu (2011) and Mpanju (2012) conducted two separate studies in this regard from Tanzania and Malaysia in which they have indicated that FDI increased employment rate in Tanzania from 1990-2008 and created thousands of job opportunities in poor Tanzania. On the other hands, Nacu researches found out positive relationship between the two variables and stated the inflow of FDI creates new job opportunities and facilitate the use of modern technology through the transfer if knowledge and technologies plus its likely impacts on the balance of payment.

Similarly, Driffield and Tailor (2000), Lin and Wang (2004), Joshi (2009), and Schemerer (2012) present serious findings concerning the influence of FDI on employment. They believe that FDI could provide new job opportunities and that would increase employment rate. They explain that higher employment rate will raise the highest productivity level and higher production would cause higher GDP growth. Driffield and Taylor (2000) believe that inward FDI results in reducing structural unemployment as it occurred in the case of the United Kingdom in which benefited the country in several ways.

Further, the friendly investment environment and openness toward the global market and maximize opportunities, undermine unemployment and finally results in a high level of living standards. To prove this point, scholars like Bjorvatn, Kind & Nordas (2012) admit that local investment poses greater impacts on the nation's economy especially when the rate of unemployment is high. Therefore, this is more likely relates to the integration with foreign firms. They believe that the establishment of the foreign companies has direct effects on the labor market in the host country in which creates many job opportunities for the local citizens. More importantly, foreign companies could have indirect effects on the local economy as they indicated it through "demanding intermediate goods and producer services from local suppliers and this also adds to labor demand, and should lead to reduced unemployment or increased wages or a combination of the two" (Bjorvatn, Kind & Nordas, 2012, p.113)

Palat (2011) approves the positive correlation between employment and FDI, but he is concerned that in some cases the firms bring a large number of the input abroad including the workforce. Moreover, he claims that the large corporations destroy local industries and concern local investors since the infant industry cannot complete such, large multinational corporations, many of them stop investing (Palat, 2011, pp. 262). Besides, the government and the people willing to accept multinational companies since they have better services and better experience, so local companies cannot continue their industry and that would increase the rate of unemployment and local firm deals with less opportunity. In such cases, unemployment become an issue for development.

However, some other commentators argue that FDI inward may terminate the rate of employment in the host country for some reasons. Shaari et al (2012) argues that the monopoly of the foreign companies may dramatically increase the rate of unemployment since the local firms cannot compete the foreign enterprises (Shaari et al, 2012, pp. 4900). In such unfavorable situation, the domestic companies may shut down their business and that would directly leave many people out of business.

Ismail and Latif (2009) and Hisarciklilar et al (2010) examined the interrelationship between inward FDI and unemployment for the period of 2000 to 2010. The finding illustrates a negative relationship between the two variables and indicated that FDI was unable to alleviate decrease unemployment and trends of economic development in Turkey could not solve employment issue in this country. The mentioned authors used different models to explain this relationship in order to explain the impacts of FDI inflow on the Turkey labor market, but all shows the failure of FDI inflow in minimizing unemployment level.

In contrast to his previous argument, Shaari et al (2012) examined the impact of FDI on the employment rate and the economic growth in Malaysia by using some empirical analyses. Their study found out a 1% increase in foreign direct investment leads to 0.009% decline in unemployment rate and 1.219% increase in real GDP (Shaari et al, 2012, pp. 4905). So, it’s more likely for the author to emphasize the effects of FDI is situational and location some factors can shift the direction of their operations. Another study on the significance and role of FDI on developing Vietnam economy conducted by Anh et al (2006) and he found, more than 730,000 labors were employed in FDI projects during 2006 which is accounted to 1.5% of the total labors in Vietnam. Besides, he found out that workers in the foreign enterprises receives more salary that the wages paid by domestic firms and they can access to the latest technology and methods of working, positive environment and working disciplines. That also makes workers to manage their work more efficiently when they transfer to domestic companies.

Silvio Contessi and Hoda El-Ghazaly (2010) on the other hands observed the substantial influence of capital inflow on the labor market and rebut the arguments that highlight negative consequences of foreign direct investment over employment. They believe the foreign firms enlarge their production and opening up a new plan to expand their business in the host country and that will positively effect on the employment situation. Their prove for that is an analysis of the Chinese Haier company that it's headquarter is in China, but it also invests in the US. The claims, the large majority of the workers and staffs who works with this company in the US are American by origin. However, they do not hide their concern, especially in case of national security, defense and the key resources for the foreign firms may pose threats, but they recommend the government formulate a framework and regulations to balance and protect national interests (Contessi & El-Ghazaly, 2010, p.16).

2.6 FDI and Human Capital Formation

Human capital could be formulated through foreign direct investment which is the key criteria to measure economic development in any country. Thus, the level of contribution depends on the government policies toward the transnational corporation TNCs. Moreover, the overseas firms can formulate human capital in terms of education, on work preparation and the alteration of information and experience to the host country. Glass and Saggi (1999); Feenstra and Hanson (1997) realized that FDI has its significant impacts on human capital and economic growth. According to them

TNCs greatly impacts on the developing and underdeveloped countries by altering manufacture capacity and their advanced technologies with human skills. Therefore, FDI widely peaks information, experience and skills of foreign countries labor force. Consequently, the collaboration is two-sided and each of them impacts the other. Thus, there is a correlation between Human capital and FDI, which is both effects each other while the human capital is a key cause of FDI inflow, as well as FDI is a key requirement to invest in human capital and to use the latest technologies.

On the other hand, Human capital and educated workforce also impacted on the decision of stockholders to pick their places of investment. It's believed the huge flow of capital and direct investment in South East Asia is because of the huge investment in human capital development and capacity building as the major cause of development (Khan, 2007, p.11). For instance, Singapore which used education as significant tools to grow human resource development and sustain foreign direct investment change the low value added FDI to high value added FDI. Thus, Singapore has quickly encouraged education and paid large amount of money professional training course to empower human skills in the workplace. According to Khan (1960) through the use of knowledge and the human capital buildup were capable to attract foreign companies to assimilate new technology in a very consistent and efficient way. So, as he declared high level of human capital is a condition to the economic development and sustainability.

Lall (1980) highlights that human capital creation HC involves indirect relations between overseas and local companies and the government policies should urge direct spill over to ensure information and skills owned by TNCs are transferable and general. Lall (1980) provides several types of backward linkages which is categorized into eight types include “informational, technical, financial, procurement locational, managerial, pricing and other” (Te Velde, 2001, p.7). Such policies cause more productivity by the home companies even after the processes of foreign companies and also raises work mobility. Kekko (1992) describes the term of spill over as the situation in which technologies and knowledge production gives more chances to the local companies to improve through the actions of the Foreign Multinational Corporation. He also defines the potential of technology spill over to create affiliates in overseas markets and it’s the chief tool for the receiver country to get benefit from foreign investment. On the other hand, Te Velde (2001) believed that through the sending of technology and knowledge, home companies would become more effective and they may become a global exporter. He also shows that overseas companies may possibly contribute in encouraging formal education and opening up education and training centers as part of their corporate social responsibility. For example, in 2000 ExxonMobil as the global giant company spent $60 million on education and vocational training (Te Velde, 2011, p.13).

According to scholars who have contributed in this field, they realized that,states with favorable human capital attract more FDI due to the contract costs of their processes to host countries. Also, the costs of training for using newest technologies are fewer and that would benefit TNCs to flow their capital. Consequently, Lucas (1990) and Esterline (1981) consider unskilled employment force and inadequate training downturns the return of FDI which continually deters capital flows. On the other hand, other literature indicating that FDI may not straightly impacts on growth, but the interaction is probably indirect. Moreover, Li and Liu (2005) consider that Foreign Direct Investment may not continuously effect on economic growth, but though its interaction to human capital; it may indirectly impact on development.

There are arguments between the scholars regarding the relation between human capital and FDI. Some studies disproved the arguments in which supports the thoughts that human capital drive FDI. For example, in Oman, the literacy was raised from 36% to 74% from 1980 to 2003 while FDI inflow dropped from 1.64 to 0.12 as a ration of GDP. Literatures relate this contradiction to the government organizations and human capital investment. However, they relate FDI and capital flows to the political environment and democracy in the recipient country. Moreover, they argue that healthy political condition and democracy raise FDI inflow more professionally and vice versa not the value of human capital in which people of the host country possess or the skills they hold (Data & Osei-Yeboah, 2010).

Some scholars got surprised when realized the impacts of human capital on FDI, for instance, Dutta & Osei-Yeboah (2010) argue that unexperienced human capital is required to attract FDI and therefore could be higher if the civil rights and political environment is stable. They also claim that experienced human capital may have a positive or negative association with FDI inflows and that's chiefly depending on the level of democracy in the host country.

However, they are sure that in any case FDI could improve human capital accumulation and skills. On the other hand, Blomström & Kokko (2003) discuss the strength of foreign investment in some respects; they highlight the point that FDI introduces know-how, on-job training and technology skills in which gives better chances to domestic employers to take advantage. Also FDI supports the alteration of techniques of quality control, standardization and innovation. Additional, Khan (2007) supposes new technology could be presented by the companies who request to investment in developing and under developing which may be better than the current one and that would lead to better production and more human capital intensives. According to Checchi, De Simon and Faini (2007, p.7) emphasize on the positive effect of human capital on FDI and vice versa. Furthermore, they presents literature on the likely balancing impacts of FDI on human capital and highlight that human capital buildup could be vary according to the incentives provided by FDI to capitalize in education because each kinds of investment needs differentkinds of skills.

The significant of FDI vary it is not only develops human capital but it contribute in forming several types of skills that could be used in different type production and innovation. To conclude, according to Te Velde (2001) government should be helpful and increase innovation structure to promote skills within overseas companies. Also, the government should provide training programs by the foreign stockholders and use the domestic inputs and staffs in order to have knowledge and capable of developing their jobs and also the TNCs should be connected to the research organizations.

Moran (1998) differentiates between external firms he realized that the FDI contribution in human capital creation is more probable to be high in companies that are occurred in the global competitive market (Te Velde, 2001, p.6). Thus, to continue their competitiveness they offer better motivations to invest in education and training programs in order to get the attraction of the states in one hand and employ more skilled labors and present modern technologies and skills to sustain their business. So, it’s believed that external investors with larger capital can better serve human capital development in host countries.

2.7 The Impact of FDI on Employment Conditions and Industrial Relations

Policy-makers have tended to emphasize the potential benefits that FDI can bring to the host economy, including by improving pay and working conditions. These benefits may be direct or indirect. The former refer to benefits for employees in foreign-owned firms, whereas the latter refer to benefits for workers in domestic firms Te Velde (2003).

Foreign companies are able to provide higher wages and, possibly, working conditions because of their higher productivity, which, in turn, is explained by greater technological know-how and modern management practices that allows them to compete effectively in foreign markets and to offset the cost of coordinating activities across different countries. This transfer of technological and managerial know-how across affiliates of MNEs may give rise to direct benefits. But, it may also lead to indirect benefits by increasing the productivity of domestic firms when the productivity advantage spills over from foreign affiliates to domestic firms. Productivity spill overs represent positive externalities to the host country and may explain why policy-makers have sometimes treated foreign investment more favourably than investment by domestic firms.

Although not automatic, increased productivity in domestic or foreign-owned firms may lead to higher incomes, better working conditions and more employment Aitken et al. (1996). Despite being more productive, there is no reason to expect, in general, that MNEs would offer better pay or working conditions for identical workers than their local counterparts. In competitive labour markets, MNEs may pay higher average wages only to the extent that they employ a more skilled workforce or must compensate workers for undesirable differences in the characteristics of jobs such as lower job security.

The presence of certain market failures, however, could provide MNEs with an incentive to offer better pay and working conditions than domestic firms to individuals with similar characteristics doing similar jobs. First, MNEs may be more likely to pay, so-called, efficiency wages. For example, MNEs may be willing to pay higher wages than their local competitors in an attempt to reduce worker turnover and thereby minimize the risk of their productivity advantage spilling over to competing firms Lipsey and Sjöholm (2004).

The MNEs may also be willing to pay higher wages to motivate the workforce as they may face higher monitoring costs related to informational problems. Second, in the context of search frictions, the productivity advantage of MNEs may give rise to rents. To the extent that employers share these rents with their employees, better firms promote better jobs. Finally, there may be institutional factors that provide incentives for MNEs to go beyond local labour practices. For example, in developing countries where the rule of law is weak, MNEs may be more likely to comply with national labour laws, because of reputational concerns and consumer pressure in their home markets ETI (2006).

The impact of FDI on employment conditions and industrial relations in KRG. FDI can create more opportunities in the labour market and industrial projects now unemployment rate decreased from 20-25% before 2006 to 12% in 2011. According to some data received from KRG Ministry of Planning the investment projects played vital role in creating new job opportunities for domestic labor (MOP/KRG/2012). From 2006 to 2010 more than 80,000 local workers employed in the investment projects. Following the growth in industrial and investment projects, employment rate was dramatically declined. The analysis depicts workers employed by factories and industrial projects in 2006 were 9,233 but it nearly doubled to 17,841 by 2010 (Heshmati 2010).

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter describes and explains the procedures and methods used by the researcher. In addition, it attempts to determine the parameter of the research methodology through describing the procedures used in collecting the data, and explaining the technique of data analysis, and where the data were collected through interviews. The researcher would explain the following: Who were the respondents (participants)? How many people were interviewed? What was the basis of selection for the persons to be interviewed? (Yaqin, 2007). This chapter also highlights the methods used for the research outlines, the research design, population, data collection, research sampling and sources (Sekaran, 2000). The chapter, then, discusses the mechanism used to collect data, analysis, explanations, and the strategies to conduct the research.

3.2 Research Design

In this research the mixed approach method was used. The qualitative as well as the quantitative approach were employed in the research. Danzin and Lincoln (1994) defined quantitative research as:

> *"Multi method in focus, involving an interpretive, naturalistic approach to its subject matter. This means that qualitative researchers study things in their natural settings, attempting to make sense of or interpreted phenomena in terms of the meanings people bring to them. Qualitative research involves the studied use*

and collection of a variety of empirical martials-case study, personal experience, introspective, life story, interview, observational, historical, interactional, and visual texts- that desc" (Neergaard & Ulhøi, 1994, p. 5)

Quantitative research explains a phenomenon of collecting numerical data that are analyzed using mathematically based methods (Aliaga, M. & Gunderson, B., 2000, p. 55). For the quantitative research approach, primary data are obtained through an organized survey questionnaire. John Stuart, the president and founder of this theory which could be traced back as early as the nineteen century had explained this in his treatise Philosophy of the Scientific Method. While the use of the scientific method is dis-similar from one area to another, the common principles of the scientific method to let the scholars learn more about the world and observable phenomenon. By using the scientific method, scholars improve research questions or hypotheses and collect data on events, objects, or people that are measurable, observable, and replicable.

For the qualitative methodology, structured interviews had been used. Also, the secondary Data has been collected from different sources. Some of them are from the original sources because data were already published by those government agencies, but it still considered as the secondary data. An instance with regard to this research Kurdistan Board of Investment's data and information in relation to foreign companies could be gleaned and analyzed through its reports and publications. "Besides, the Kurdistan Regional Government (KRG) in formats are ministries as reliable sources which could be used to explain the inflow of capital and development progress in Kurdistan. The data and statistics by the Ministry of Planning and Ministry of Trade were two main sources that were used to answer the research questions and enlightenment with regard to FDI inflows into Kurdistan. Furthermore, another part of the data were collected from officials' interviews and press conferences, during the previous years serving the KRG officials and foreign companies raised the issue and the importance of FDI in economic development in Kurdistan" (Abdullah, 2013).

So, their interviews and news articles could be a valuable source to accomplish the objectives of this research. However, not all data collected are secondary data, as for this study some data were collected from KRG departments and interviews made with key persons. Both the primary and secondary data could provide a wholesome interview and by analyzing in chapter four.

A significant bulk of research uses qualitative approach rather than quantitative approach. This research relied on two kinds of methods to analyze the data. Firstly, a comparison has been made between both the opinion of personal interviews and primary data and secondary data with regard to the role of investment law NO. (4) 2006 in attracting FDI. Secondly, a descriptive analysis, research methodology was used for this study to describe and analyze some realities of foreign investment in KRG. The expression "Personal Interview" is commonly applied to a research methodology designed to collect data from a specific population or an organization" (Yaqin, 2007).

3.3 Population and Sampling

"Sampling refers to any systematic method of selection of a small number of the people or groups out of a larger grouping of the persons, called population or universe" (Sekaran 2000). It is the procedure of selecting a limited number of cases (samples) according to certain defined principles and applying the information from the samples to the whole population.

"The logic behind sampling is that information based on a few samples (individuals or groups) is as useful and reliable as composed to the information gathered by studying the whole population. Interviews with a few hundred or thousand individuals can be the basis of estimating the opinion of millions of people" (Yaqin, 2007).

One basic reason for using samples is that the population may often be so large that it may not possible to collect information from all the individuals or groups who compose it. "Sampling enables the researcher to study a manageable number of the persons and draw conclusion that may be applied to the whole group" (Sannder et al. 2000). Population sampling is the process in which a group of people is selected to represent the wider population in the statistical analysis. It is so essential to select the right individuals to represent population and errors. It depredates the reliability of the research. The importance of population sampling is to study and learn about a large number of population without studding or asking every single individual. The targeted population in this study is government officials, member of parliaments, lawyers, economists, university lecturers who are knowledgeable about the impact of investment laws on the FDI and the antecedent effect on the labor market and economic growth in Kurdistan Regional Government.

The study also shortlisted two employees who are currently working or who had worked in the international companies operating in Kurdistan. This will explain all sides of the wins of FDI in Kurdistan and to give more reliability to the research. The sample population could be a systematic sampling, consecutive sampling, and quota sampling. This study used systematic sampling in which a certain group has been targeted. This method could be an accurate representative of the population.

3.4 Data Collection Procedures

The qualitative research method has been used to find the influences of foreign direct investment on the economic growth and labor market in Kurdistan. By using primary data, secondary data and interviews with expertise and economists, the research will find out the outcome or the role of FDI and its effects. The information obtained in this method would be accurate and reliable.

3.4.1 Primary Data

The Data used in research are an original through the direct efforts of the researcher through surveys, interviews and direct observation. Primary data are more costly to obtain than secondary data, which is obtained through published sources, but it is also more current and more relevant to the research project. Primary data is information that you collect specifically for the purpose of your research project. An advantage of primary data is that it is specifically tailored to your research needs, and its disadvantage is that it is expensive to obtain. The primary data in this research were collected from Kurdistan Regional Government Board of Investment in the capital city of Erbil, and Ministry of Planning through interviews. Also, in this research publication, annual reports of organizations have been used to collect the necessary data.

3.4.2 Secondary Data

Secondary data include both raw data and published summaries. Most organizations collects and stores a variety of data to support their operations; for example types of investment, the amount of money invested sectors of investment unemployment rate and some other data that relate to FDI in KRG. Secondary data is easier and so quick to obtain compare to the primary data that need to be obtained through the original source and it requires time and money. Despite the availability of secondary data on other sources, but it's normal to use them to expand new research and find new analysis and new results. So through the use of secondary data, this study intended to accomplish its objectives and solve major research questions.

3.4.3 Interviews

The Interview is defined as the systematic way of talking to collect data and get knowledge and information from people. (Kvale,1996) defined interview as " interchange of views between two or more people on topics of mutual interest, sees the centrality of human interaction for knowledge production, and emphasizes the social status of research data".

"Interview as a technique of information collection is frequently used in research, whether the subject matter of research is of a general theoretical nature or it involves some social problem, issue or question. Interviews you may also interview people from your sample either in person or by telephone. You may start from a schedule of carefully designed questions, like in a survey, but you will have the flexibility to adapt the questions to fit the situation. Of course, a problem with this method is that the adaptability can lead to inconsistent results and interviewer bias" (Sannder et al. 2000).

Kvale (1996) classification interview as “Interview depend upon the type of interview which classified into four type structured interviews, semi-structured interviews, unstructured interviews, non-directive interview”. Moreover, Interview can be conducted by telephone, and questions can be open-ended questions with no restrictions on the respondent’s answer or closed ended with the respondent having a limited range of responds. This method’s used face to face interview. Face to face or personal interviewing is the oldest and most widely used method of survey research. Then the sample of this project are government officials, Member of Parliaments, lawyers, economists, university lecturers who are knowledgeable about the impact of Investment law on the FDI and the antecedent effect on the labor market and in the Kurdistan Regional Government .

3.5 Data Analysis

When the raw data (such as responses based on interviews or questionnaires) are collected edited, code and entered into the computer, they are ready for analysis and the process of examining, summarizing, and drawing conclusions from the information contained in the raw data (Sekaran 2000).

The data obtained in this study were analyzed through the use of thematic, tables, figures and Charts were used to demonstrate the fluctuation of FDI during the period of 2006 to 2012. Basically, the tables also determine the distribution of FDI based on sectors. It also includes GDP growth in Kurdistan during that period.

CHAPTER FOUR

FINDINGS AND ANALYSIS

4.1 Introduction

This chapter discusses and analyzes primary data that has been collected through interviews. The analysis of this study also depends upon figures and the facts available in some secondary sources, especially the Kurdistan Board of Investment. The findings of the study reflect the responses provided by the interviewees.

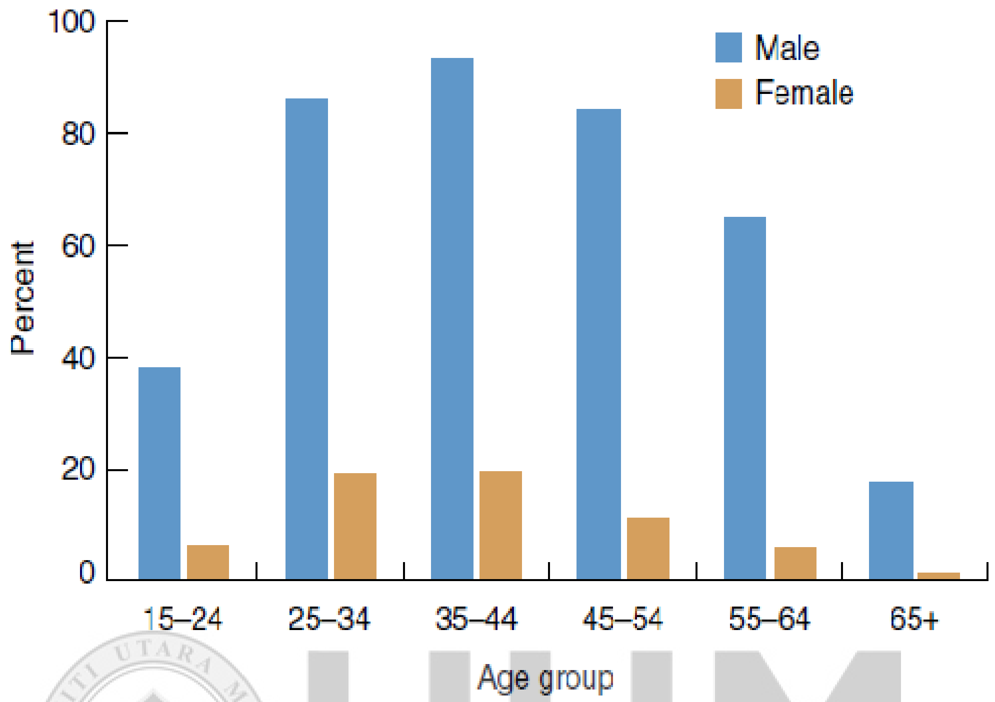
4.2 The Influence of FDI in Kurdistan's Labor Market.

Foreign direct investment in Kurdistan has by far improved the labor market. Foreign firms and investors have created big numbers of opportunities for local communities and have employed hundreds of people. In other words, foreign companies have created well-paid jobs for the local people. Sarbast Mustafa, head of the Statistics Department in Kurdistan Board of Investment (BOI), concerning the impacts of FDI on labor market, stated that inward FDI has greatly helped local workers in Kurdistan to find decent jobs, just as it has helped economic growth and the development of labor market.

In addition, Arif Chato, General Director in the Ministry of Labor and Social Affairs, asserts that foreign companies working in the investment sector have potentially plummeted unemployment rates. Comparing the current situation of labor market to the last 15 years, said Chato, is helpful in this regard; unemployment rates were extremely high, poverty was a serious issue, and job opportunities, particularly at foreign companies, were hard to find as a result of the economic sanctions over Iraq.

Following the American intervention into Iraq in 2003, however, there has been a dramatic decline in unemployment rates; several reasons have contributed to this, among which the enacting of the Investment Law of Kurdistan No. (4), 2006. He further stated that, while 35% in 2006, unemployment rate has steadily declined ever since, down to 14%, and only 6.7% in 2012, as the region has witnessed an unprecedented opening towards foreign countries. Also, a research by Nabaz N. Abdullah on the impacts of FDI on Kurdistan region's labor market shows figures which indicate that, unemployment rate in Kurdistan has dramatically declined to 7%, whereas in other parts of the country it is above 12%. Abdulla also highlighted that before 2006 unemployment rate was 20-25%, but the number decreased to 12% and 5.2%, in 2011 and 2013 respectively. To him, this fall is due to the active participation of foreign as well as local investment companies which have encouraged the growth of the labuor market. He states that "From 2006 to 2010 more than 80,000 local workers employed in the investment projects. Following the growth in industrial and investment projects, employment rate was dramatically declined." He also maintains that "workers employed by factories and industrial projects in 2006 were 9,233 but it nearly doubled to 17,841 by 2010." To get a better picture of the labuor force in Kurdistan refer to Figure 1.4 that illustrates labor force participation in Kurdistan in 2012, showing how gender and age groups have been in place.

Figure 4.1 Labour Force Participation in Kurdistan for 2012.



Adopted from KRG Ministry of Labour and Social Work

The KRG law of investment has attracted so many companies from all over the world to establish businesses and do investment in Kurdistan. Among the 736 companies registered by the Kurdistan Board of Investment (KBI) 44 are foreign, with 27 joint venture companies, the rest being local. The total capital invested by the foreign companies shown in figure 1.7 is 3,115,958 US dollar and 3,795,839,256 billion Iraqi Dinar by the joint ventures and 27,681,683,130 billion by national companies. Table 4.1 gives a more detailed picture.

Table: 4.1 Investment by investment type Capital by dollar from 1/8/2006 to 12/1/2014

licensing authority	Investors' Nationality	Erbil	Sulaimaniya	Duhok	Total	%
DGIS	Foreign		23,230,000		23,230,000	0.07%
DGIE	Foreign	679,303,784			679,303,784	1.96%
DGID	Foreign			45,368,430	45,368,430	0.13%
BOI	Foreign	1,899,371,843		508,683,975	2,408,055,818	6.95%
Total by:	Foreign	2,578,675,627	23,230,000	554,052,405	3,155,958,032	9.11%
DGIS	Joint Venture		2,075,000,000		2,075,000,000	5.99%
DGIE	Joint Venture	539,566,056			539,566,056	1.56%
DGID	Joint Venture			428,460,000	428,460,000	1.24%
BOI	Joint Venture	294,539,037	342,699,104	115,575,059	752,813,200	2.17%
Total by:	Joint Venture	834,105,093	2,417,699,104	544,035,059	3,795,839,256	10.96%
DGIS	National		4,256,319,896		4,256,319,896	12.29%
DGIE	National	6,833,113,671			6,833,113,671	19.73%
DGID	National			2,444,394,834	2,444,394,834	7.06%
BOI	National	8,402,276,263	4,729,598,460	1,015,980,006	14,147,854,729	40.85%
Total by:	National	15,235,389,934	8,985,918,356	3,460,374,840	27,681,683,130	79.93%
Grand Total by Investment type		18,648,170,654	11,426,847,460	4,558,462,304	34,633,480,418	100.00%

Source: KRG Board of Investment

The board has provided information about some of the companies, but it is still not clear how many local employees are working with the foreign companies; the number of the employees working with 12 joint ventured companies is 1779, with 904 more already employed in the foreign companies. Therefore, an accurate data is not available regarding the exact number of local employees working for all the 71 companies. Ziad Hassan, manager of the Erbil branch of the Lebanese bank known as (BBAC), avers that during 4 years their company has recruited 25 locals and 16 foreigners.

Hazha Tofiq, who is currently the legal representative of Abu Dhabi and Biblos bank as well as legal representative of Rotana Hotel which has its branches in some 20 countries around the world, sees investment companies as the gateway to economic development, including labor market. She contends that foreign companies have played a major role in developing the labor market through their investment. For instance, Rotana Hotel, a five-star hotel, has employed more than 250 employees alone, said she. She furthered that foreign companies have also introduced competition among national companies; that they pay higher wages means national companies have to raise their salaries too, to satisfy the labor force. In fact, each company that invests in Kurdistan has an impact on economic growth and the labor market.

Nabaz Abdullah confirms what Haja says by explaining the investment process in Kurdistan and its effects on labour force. His figures from the KRG board of tourism show that the number of the hotels, motels and tourist villages has increased largely. For example, in 2011 the number of hotels increased by 11%, motels by 18% and tourist villages by 13%. Thus, now there are 405 hotels, 214 motels and 50 tourist villages. There are for the first time five-star hotels in Kurdistan, which have attracted tourists across the world and have helped tourism sector to grow. The number of tourists in Kurdistan was 1.7 million in 2011, reaching 2.5 millions by 2012. Hence, hundreds of job opportunities have been created and so many people have been able to start their own businesses.

People who are working with foreign investment companies are also informed of how FDI changed the labour market in terms of employment, wages as well as human capital. In terms of wages, foreign companies are known to pay higher wages, compared to the local firms. Umar Mamand who is an employee in a foreign company confirmed this; he said that he receives a monthly salary of 1700 USD with a Bachelor degree, which is triple to what he would have got in the public sector or in local companies. Nonetheless, this salary does not make him happy for it does not grant him assurance about his future. The company he is working for, said he, employed 1000 local people, but they halved the number in the next step- so job security remains an issue for the likes of him. He believed that he is liable to be fired at any time and his position is not sustainable. This remains a downside of FDI; foreign companies leave the country upon completing their due projects, or fire their employees when not needed. Similar to Mamand, Umer Ibrahim, another employee working with a foreign company said: “I am very much content that I found a job in a foreign company to afford daily expenses for my family, but I am also afraid of being left jobless because foreign investors are usually working for a short time and as they complete their projects, employees become jobless again.”

Investment does not only create job opportunities in the labuor market, but it also helps workers to learn more from foreign firms in order to maintain their work even after the company leaves Kurdistan. Coordination and correlation between local workers and foreign experts and technicians allows the former to learn how to use advanced technology- which benefits them should they wish to start their own business. This helps local employment to be entrepreneurial and enter into the market economy.

Ayub Anwar Smaqayi, Assistant Lecturer in Sallahadin University and Member of the Kurdistan Economics Syndicate, agrees that foreign inward investment possibly enriches local employment with knowledge and expertise. He also maintained that local employees can be trained and equipped with latest technology by the foreign companies which have already brought professional workers from outside Kurdistan. There is yet another problem with this kind of investment; some foreign companies operating in the region, Smaqayi said, do not recruit local people but rather import labour force from the outside. This has troubled the KR labour market, for many people are left out of work. If foreign investors relied more on the local workforce, FDI could have more effects on the labor market and economic growth.

4.3 The Retarding Barriers to FDI in Kurdistan Regional Government

There are a number of obstacles which have swayed the activity of the foreign companies in Kurdistan and have limited foreign investment in the region. Obviously, foreign investors normally prioritize the safety of their capital and their lives in deciding where to invest. The apparent differences between Kurdistan and the rest of Iraq notwithstanding, Kurdistan is still part of Iraq; not all investors realize the safe environment in Kurdistan, but literally all of them know that Kurdistan is still part of Iraq, with the connotations about its deteriorating security. Therefore, they do not wish to risk their capital, or their lives, where things look unstable and unsecure. Sarbast Mustafa, head of Statistic department in the BOI, admitted this fact, but he was also positive that media coverage and the current world attention on the region would enable investors to make the distinction.

Another obstacle which disturbs foreign investors is that the way governmental institutions run bring about frequent work delays. Thar Alhashimi, head of Erbil branch of Malia CTI, said that “the investment law has proved very helpful in attracting investors to the region, but our work has been hindered by routines and corruption in government institutions." He specifically referred to the Ministry of Municipality which he believes is not well-organized and does not assist investors the way they want. For instance, should the ministry be needed in case of a problem or some difficulty with which they could help they are not in easy reach, complained he.

Thar Alhashimi maintained that investment in the region is also made difficult by the lack of raw materials and the necessary equipment to implement the projects. The fact is that investors have to bring with themselves all the materials and required equipment and instruments from abroad, which is further troublesome because of the geopolitics of the region; there are no ports and, thus, importing has to be done either through neighboring Turkey, Iraq and Iran or via planes which proves costly, claimed Ismael and Alhashmiri.

Though, according to Article (5), Section Six, of the Investment Law “the investor has a right in accordance with the provision of this law, to import all the equipment of his projects such as vehicles, devices, apparatus, equipment, instruments, and supplies. These imported materials are exempted from all types of customs tariffs provided that they are imported from abroad through border entry passages of the region and are only used for the project purposes.” Accordingly, the law seems to have solved this issue, but some investors still have worries; they claim that sometimes those countries can create issues for them, supposedly for political or security reasons. Although the KRG Law of Investment theoretically allows investors to import necessary goods from around the world, there always remain difficulties in practice. Soran Umer, member of the Finance Committee in the Parliament of Kurdistan, supports Al-Hashimi's argument and claims that companies are obliged to bring their workers, expertise and raw materials from overseas, which costs them a lot.

Another major obstacle in the FDI as pointed out by Soran Umer is the deficiency of the banking system. Until now the KRG has not established a proper banking system, and investors do not trust local banks. As such, many investors have faced difficulty transforming their money from Kurdistan to their home countries or vice versa.

Obstacles to FDI do not end with problems in banking; Hamadamin Hawrami, advisor in the Ministry of Electricity, explained several issues related to the inward FDI in Kurdistan, though proffering his points as a personal view, not words of his ministry. According to him, “FDI faces some obstacles such as weakness of legislation, the monopoly of some sectors of investment by the Iranian and Turkish companies, deficiency in banking system and unbalanced competition process.” He further argued that a Japanese companies, for instance, are unable to compete with Iranian and Turkish companies; the latter can implement projects with lower prices, for they are not original companies, neither do they use advanced technology, whereas the former which use more up to-date equipment cannot make it with the same prices.

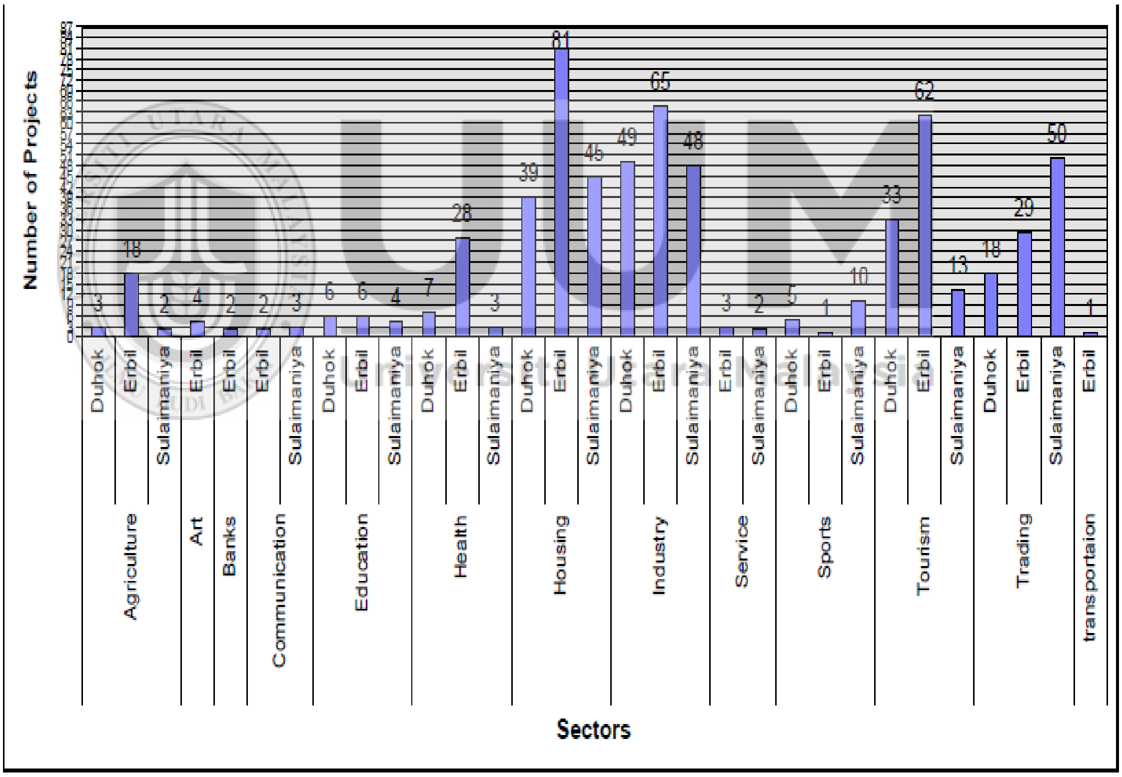
Lastly, Dr. Anwar Umer, General Director of Planning in the Ministry of Agriculture and Water Resources, discussed the retarding barriers to FDI in Kurdistan and stated that “when foreign investors, those investing in the agriculture sector in particular, intend to invest in Kurdistan, they collect thorough information about the environment of Kurdistan so that they would have a clear idea of the prospect of their success, for viruses are easily spread in the region, much to their fear." So, Umer suggests, the KRG should provide them with a proper environment in order for them to work without fears.

The government should initiate solutions to procure building materials, machines, technologies, professionals, engineers, and skilled workers by encouraging companies to build factories. This is because that investment projects require back-up factors to be sustainable, and any shortage of the aforementioned elements increases costs. In such cases the companies may have two choices. The investors have to sacrifice some of their interest to get the project, otherwise implement the project with low quality materials. However, investors may not always wish to continue, especially when chances in other countries are more promising.

4.4 The Roles of Investment Law in Attracting FDI into the KRG

The investment law in Kurdistan was an incentive to bring FDI to Kurdistan; while prior to the investment law rates in Kurdistan were low, the enactment of the law brought a great number of foreign companies to the region, now around 47 operating in different sectors.

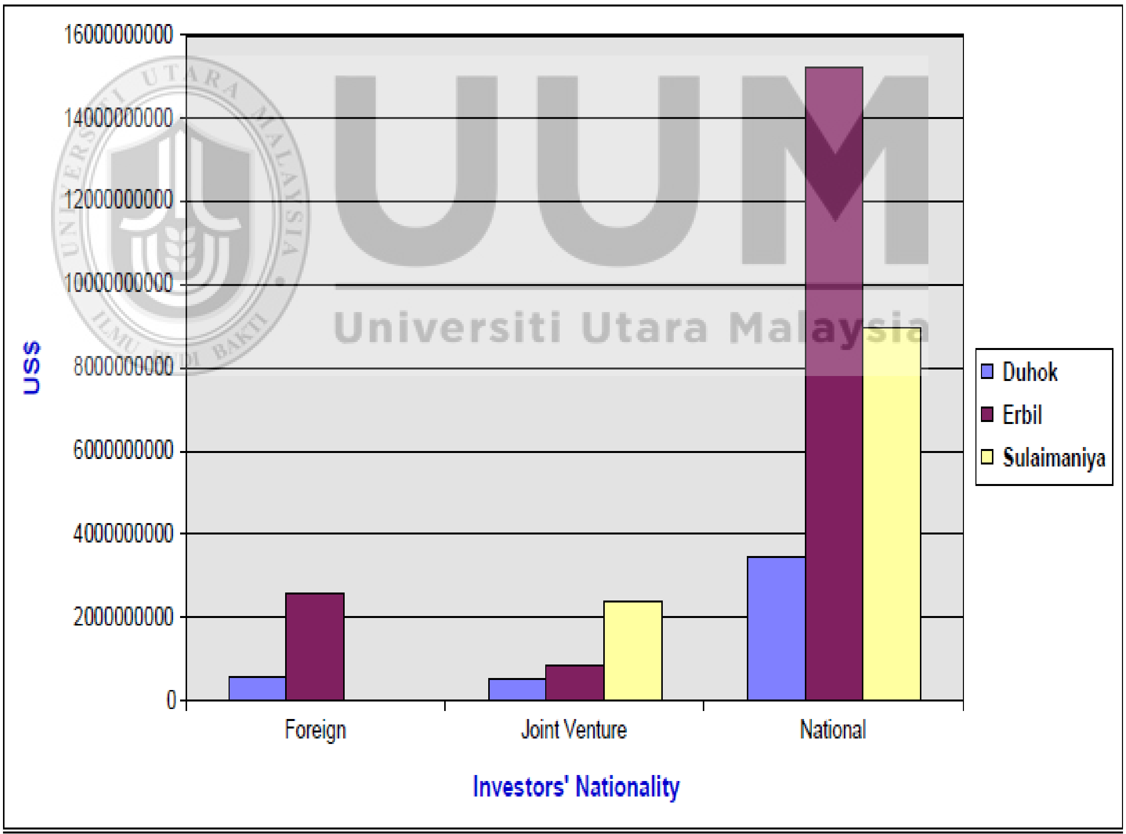
Figure 4.2 Numbers of the Licensed Projects by Sectors



Source: KRG Board of Investment

Figure 4.2 illustrates the number of projects licensed by the BOI from the enactment of the Investment law in 2014. Even though, sectors such as housing take the line share of the investment projects, but projects have been licensed in all other sectors regardless of their numbers. Nevertheless, figure 1.1 shows both local and foreign investments. In the other word, the number of licensed projects by foreign firms is less than that of local companies. The following figure shows the capital of licensed projects based on investor nationality. By analyzing the figure it could be said that national investment dominated investment projects while foreign direct investment and joint venture are both comprises about 20% of the projects, while local investment is 79.93%. Therefore, its normal that in most countries local investment is higher than foreign direct investment as they are given better opportunity and capable of competing foreign companies.

Figure 4.3: Project capital by investor nationality (Millions) 1/8/2006 to 26/1/2014)



Source: KRG Board of Investment

Soran Umar enlightened the Investment Law (No. 4 of 2006) in the positive way. He believes that the law has effectively contributed in attracting significant foreign investment to the Kurdistan Region, in various sectors, including housing and related sector, services and other sectors. For example, the allocation of land to investors was a positive side of the law in the first stage.

Moreover, Hazha Tofiq who is also a lawyer and legal representative of 2 foreign companies maintained that the Investment Law has facilitated the process of bringing foreign companies to Kurdistan as the law does not impose any tax on those companies for a period of 10 years. According to the aforementioned law in Article 1, Section Seven, in the project part, "any economic business or investment projects established by the natural or corporate person on the land allocated for it and with a national or foreign capital that conforms to the provisions." Successively, this act ensures that foreign companies directly become the owner of the land as they complete the projects. These incentives have persuaded foreign investors to invest their capital in the region. Sarbast Mustafa, on the other hand, asserted that the main factor for coming the great numbers of foreign investors and companies to Kurdistan is due to Investment Law No (4) in 2006 that facilitates their operation. In fact, he maintained that the investment law does not impose any kinds of tax on the investor for ten years of working after the completion of their projects. Also, the investor is able to send back the income of the project to his own country.

In addition to that, the KRG gives the land to the investor for a very cheap price and all the services of the project is provided by the KRG for instance, electricity, water, roads, schools etc. In Kurdistan Law of Investment, Article (Three) specifies that:

> *" The foreign investor and capital shall be treated as the national investor and capital. The foreign investor shall have the right to own the entire capital of any project that he establishes in the region under this law."*

This law ensured the right of foreign investors as they are treated similarly to the local investors. Also, they can own the entire capital while, maybe these facilities are not guaranteed in the investment laws of other countries. Besides, the law has given the right to the foreign firms to bring their expertise, workers from other countries. Article Seven, Section two denoted that "the investor may employ the necessary local and foreign manpower for the project, while giving priority to local manpower in accordance with the existing laws in the region."

Samal Sardar, the Minister of Industry and Trade and the former head of BOI asserted that the Investment Law in Kurdistan has encouraged a great number of foreign companies to invest in the region. This is due to the facilities and incentives given in the law in relation to tax, land ownership, and waving tax for ten years. Article Five), Section One of the investment Law, No (4) for 2006 highlights that "the project shall be exempted of all non-customs taxes and duties for a period of 10 years as of the date on which the project begins offering its services or as of the day of actual production." Thus, it will lower the cost of the investment projects and attract them to bring in their capital as they can make more profit. Similar to section one, Article Five, Section No. Two portrays that:

> *"The vehicles, machinery, equipment and imported machines for the project shall be exempted of taxes and duties and the condition to obtain the import license, provided they are imported through the border crossings of the region within two years from the date of the approval of their lists by the chairman of the board and are used exclusively for the purposes of the project. Otherwise, it will not be included in these exemptions and the investor will be compelled to pay the tax and will be penalized by paying double the sum of the due tax."*

Article Five, Section n Five, provides a solution to the issue of raw materials, which some investors see this issue as an obstacle on their investment. The law has been written in the way where the country situation has been taken into account as many investors, afraid to invest in a country in which lack of technologies, skilled workers as well as a means of production as it increases the cost of the projects and minimizes their profit. Nonetheless, the Law supported foreign companies to import their raw materials without paying customs for the period of five years. According to section No.5:

> *"the raw materials needed for production shall be exempted from customs duties for a period of five years, provided the types and quantities of these materials are determined by the board, while giving priority to the use of locally available raw materials that are suitable for the investment project in quantity and quality."*

Accordingly, investors can import any necessary material that does not increase the cost of their projects.

Ziad Hassan, who is a Lebanese investor in Erbil asserted that investment law in Kurdistan paved the way to bring a branch of our of bank. Hebelieves that KRG law is very helpful that allows them to purchase and register land in their name as well as transfer their capital to their home country without any obstacles. Article Seven, Section Three promulgates that "the foreign investor shall be allowed to transfer the profits of and the interest on his capital abroad in accordance with the provisions of this law." Section Five ratifies that "The foreign investor may return his capital abroad upon the liquidation or disposal of the project as long as this does not contradict with the provisions of existing customs and tax laws and procedures."

Obviously, so many countries have limited investors to take out their capital, but the KRG Investment Law allows them to do so. Therefore, maybe this facilitation is because of the political situation as well as the security environment of the region that was capable of attracting more investors to the region. Even though, the Kurdistan Region is lack of banking system, and investors somehow can not trust the political situation of the country, but the provision has become an alternative to ensure their capital protection.

Despite the fact that the Law was capable of attracting FDI into Kurdistan, but there are also some problems with the law as highlighted by the respondents. For instance, the former head of Kurdistan BOI and the current minister of industry concluded that the investment law in Kurdistan was a great breakthrough in the field of investment in 2006, but as he said "after some years of implementing the law, the KRG came to the point that the law lacks some deficiencies; therefore it needs to be amended." For that reason, he pointed out that the board is going to amend the law in cooperation with the parliament and the KRG ministries. Soran Umar has no doubt that the law assisted foreign investors, but he has some suggestion to further improve the investment process in Kurdistan. He stated that the law needs to be amended in order to improve labor market, supply job openings and developing the infrastructure in all sorts of sectors, such as, agriculture, natural resources and industry. Surprisingly, investors in some countries are criticizing the system or the law that may not treat them equally with local investors or maybe exclude them from certain rights and incentives, but Mr. Umar quoted that "providing all the facilities to domestic and foreign companies is not fair to the public budget and local companies."

The Kurdish MP, Ali Hamasalih who is also a popular figure in the country concerns about the law because he thinks that the law has led to monopolizing investment by some local investors that are related to the two main parties in the region which have made a great amount of money and the foreign companies do not have a good reputation internationally. He further explained his point and argued that among the foreign companies, there is no internationally recognized company that invested in Kurdistan, but most are the company that does not have a good reputation in terms of investment. He argues that companies with international reputation do not accept bribes and corruption with local officials to do business in the country. So, for him, despite the fact that the law worked effectively for the period, but it has to be changed and focuses should be on all sectors not housing sector alone. He said most of the projects were in the housing sector, while other sectors are ignored and housing projects are not sustainable projects and the quality of the projects is not good enough to be labeled as an investment project. For that, he believes that amendment should be done in the law to improve the investment process in Kurdistan.

4.5 The Key Strategies to Accentuate FDI into KRG

There are so many strategies suggested by respondents to improve and accentuate FDI into Kurdistan. The KRG has to make reforms in several areas that were seen as an obstacle to inward direct investment. The Economist, Shamal Nuri argues that Kurdistan does not have the economic status locally and international. So, the first thinking that the government should think of is rebuilding its economic status. In the absence of proper economic status, government cannot effectively accentuate FDI.

Moreover, the other key strategy, as Soran Umar and Ali Hamasalih suggested, is a banking system. The KRG should rethink on this issue and consider their concerns.

Kurdistan is lack of a proper banking system, and investors cannot bank in their capital, but they mainly use catch capital which is risky. For instance, if there is a good banking system, investors do not have to use cash money, but they can make all their transactions through banks. Also, transferring cash money from one country to another is risky and also costly. So, it has become an obstacle for attracting FDI to Kurdistan. If the government works in this respect, more investors may bring their capital into the region.

Security is another issue that investors always afraid to invest in Kurdistan. One of the key strategies for improving FDI in any country is to provide security in all ways. The government should be helpful to attract foreign investors by showing the real situation on the ground. Hazha Tofiq also concerns that investors in the first place afraid of the country's security, but when they come to Kurdistan, they see Kurdistan is a very safe place for investment.

Likewise, Sarbast Mustafa sees security as the most important element to accentuate FDI into Kurdistan. He cited that "we have also tried to bring foreign companies and investors in the fields of tourism, industry, and agriculture in order to invest in Kurdistan". The greatest factor behind coming these companies and investors, as he underscored, is the security and political stability compared to the other areas of Iraq. He also concerns that some investors see Kurdistan as the part of Iraq and when they make this point, they make parallel interpretation to Iraq, but due to the media coverage; this has been changed so far.

Hence, in order to attract more investors, media and advertisement should become a key instrument. Nabaz N. Abdullah suggested that KRG should uses popular media to tell the world that Kurdistan is a safe place to make business and investment. Also, he believes that if the KRG doing that, Kurdistan will have a better reputation in the international arena and that directly influence the rate of investment.

Usually, transparency and good governance help foreign investors to invest their capital. However, as Nabaz N. Abdullah argued, in the absence of transparency and good governance, investors do not wish to risk their capital. So, for him, the KRG should promote transparency as well as the rule of law to eradicate corruption and misusing power by officials. Companies with international reputation may not wish to invest in the country which is listed in the top of the world most corrupted country by Transparency International.

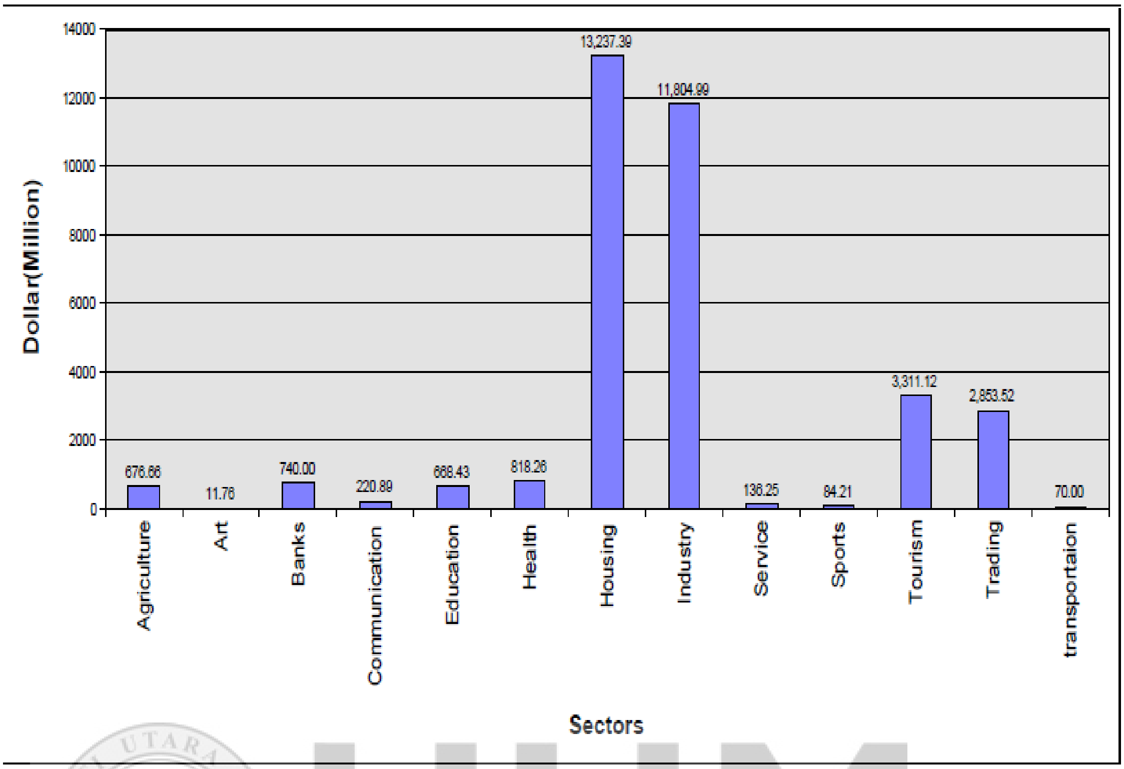
Isamel Hussein is another who recommended external openness and access to information as a way to accentuate FDI. Hussein also advised that KRG representatives should participate in the international economic forums in an attempt to be able to persuade investors to bring their capital into the Kurdistan labor market. In addition to that, Hussein counseled policy makers in Kurdistan to provide adequate legal safeguards for investors to feel legal safety.

Finally, some respondents, including Soran, Ali, Nabaz and Ismael suggested that infrastructure should be improved because it’s also a pre-condition for investment. Investment usually concentrates on the areas that are more developed than the remote areas. So, infrastructures such as roads, hospital, water, electricity, and others are important factors that can effectively change the standpoints of the investors.

4.6 The Key Strategies to Synergies FDI in KRG to Bolster its Labor Market and Economic Growth

Economic growth and labor market are interrelated and both of them can influence on each other. The economic growth can create more opportunities in the labor market, as well as the growth of the labor market may increase the economic growth. Therefore, the question here is how to synergies FDI to accelerate economic growth and labor market? Diversifying investment in all sectors and giving priority to economic services could be among the most important strategy for the government to consider. Most of the participants of this study highlighted this point. In fact, the KRG investment projects, especially those implemented by the foreign companies are in housing and construction sectors, while economic sectors like industry, agriculture and even educational sectors ignored. The MP, Ali Hamasalih criticizes the investment process in Kurdistan because he thinks that it does not contribute too much in the economic as well as labor market development as most projects concentrates on the housing sector. Figure 4.4 shows the capital used in each sector.

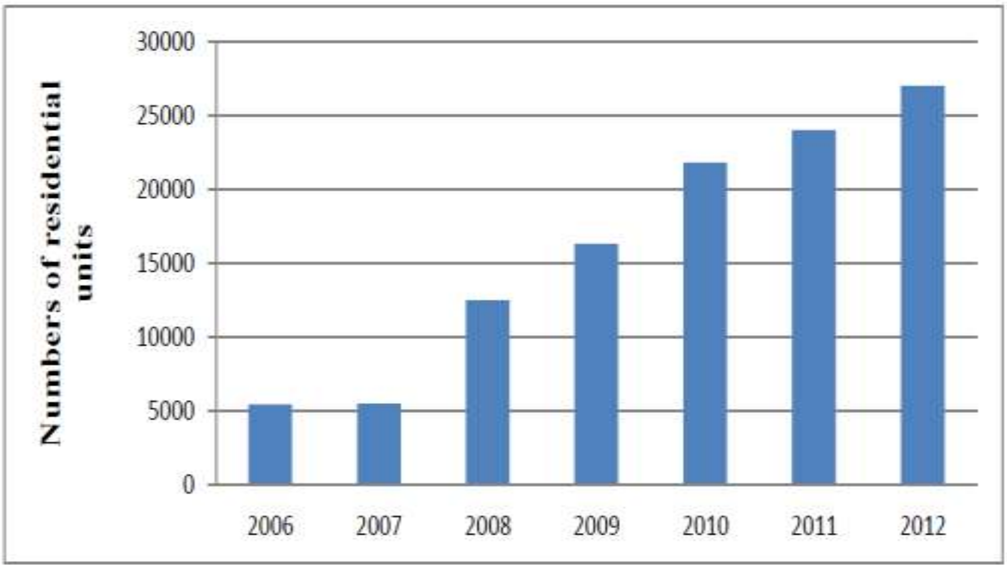
Figure 4.4 Capital used in all sectors (millions) from 1/8/2006 to 26/1/2014



Source: KRG Board of Investment

The Figure demonstrates that US$13, 237.39 invested in the housing sector, while only US$676.66 million dollars invested in agriculture sectors, 668.43 million in education, and US$ 3.311.12 million in tourism. The housing sector is dominant sector of investment in Kurdistan after oil and gas. Before 2006, housing issue was one of the major government hitches and KRG couldn't overcome housing issues. So, the priority has been given to the housing sector in order to overcome the housing shortage. FDI highly contributed in constructing and building a new house and residential units.

Figure 4.5 Increasing Numbers of Residential Units



Source: Adopted from MOP/KRG (2012)

Figure 4.5 shows the increase of residential units from 2006 to 2012. According to the figure in 2006 the number of residential units built was 5450, but this number surged to 12500 in 2008, 21800 in 2010 and 2700 residential units in 2012. The total capital invested in housing projects estimated to 9.5USD with 48.2% of the all sectors. Obviously, FDI constructed thousands of residential Unites, but does it positively influenced on economic growth? According to the observations of this study, developing this sector of economic directly relates to the life of people not only in Kurdistan but in any part of the world since nobody can feel safety and happiness without having a shelter. In Kurdistan housing problem was among the top problems that government couldn't solve for several years and couldn't build that number of residential unites until private investment come across.

This research could analyze the FDI activities in both positive and negative way based on data, observations and figures. First, the data clearly indicated the increase of the residential units, but there are no available data on the people who has benefited from housing projects. Housing is still a problem and 27000 residential units through investment projects and hundred thousand through private ownerships could not solve this issue and there are still hundreds of people suffering. At the same time renting a house is so expensive and not everybody could afford since the range of renting a house in Erbil ranges from 400$ to 2000$. Ali Hamasalih indicates that the number of the licensed projects in this sector is 104 projects and 15,957 acres of land provided for these projects which comprises almost 45.54% of the whole given lands to the investment projects in Kurdistan.

Ali Hamasalih believes that the gaps between housing sectors and others is because investors can make more profits in the housing sector in a very short period, while in agriculture, tourism and education sectors, investors cannot make that profit and have to wait for a year to get back their capital. He critically discussed that investment does not mean building houses only, but as he said it is rather a sustainable process that can continue for years. For example, those companies that invest in the field of industry and agriculture could be labeled as a real investment since they have a great impact on the economy growth and labuor market.

The key strategy diversifies investment sectors are also suggested by Anwar Umer. He specified that to synergize FDI into the labour market and economic growth, agriculture and industrial sector should be developed because right now, the KRG imports everything from abroad. So, to improve local products, agriculture projects should be expanded and more priority should be given to this sector in accordance to industry sector. Agriculture can improve local products that directly increase the rate of economic growth, and opening factories will employees hundreds and thousands of workers that can effectively improve the economy and labor market. The government in the past was unable to diversify investment projects and even provided agricultural land to a housing project, which negatively affected on agriculture in Kurdistan as they should not be used for any other projects. However, as he mentioned, the government without any consideration gave the lands to investors including foreigners. So, for him its necessary that investment law restricts investors to use agricultural land for other projects. He also claimed that the minister of agriculture is a member of the investment board and this law is going to be amended soon in a way that preferences is given to the agricultural and industrial sector because a small number of projects have been carried out in these sectors.

Investment project as he explained should be sustainable and stimulus market economy. However, during the construction stage, investors may hire hundreds of workers, but as they complete the project, hundreds will become jobless. This problem also exists in other sectors, especially when dealing with foreign direct investment as they leave hundreds jobless after they complete the projects. Mr. Rsul, a translator with a foreign investment company concerns that the company will fire him as he experienced so many cases and already left jobless after his company completed the project. He stated that "I am afraid to be jobless again as it happened to me before." The companies should be obliged legally to train local workers in order to be able to continue working on the projects even after they leave the country. Therefore, as Nabaz argued foreign investors should not only make a profit, but they have a greater responsibility which is their contribution especially in terms human capital development. He also indicated that this should become a law; if not FDI cannot effectively meets government objectives of regional development vision 2020. In the investment law No (4) for 2006, there is no article or sections that oblige foreign companies toward corporate social responsibility, job security, and labor rights.

Foreign direct investment usually brings so many advantages to the economic development and labor market but this could be ineffective if it goes aimlessly. The government should specify the percentage of the workers in the investment law so as local people get advantages from investment projects implements by the foreign investors. This strategy also suggested by Abdullah Sedan, a legal representative in the IK Development Holding. He argues that foreign companies hire a large number of employees and workers, but mostly are not locals. So, he suggested that tat priority be given to local workers than outsiders.

In fact, the KRG law of investment emphasized this point in the article (Seven), Section Three that "investors have the right to use the local or foreign manpower needed for his project. Priority has to be given to the local manpower as per the valid law in the region." So, accordingly, priority should be given to local manpower, but there is no obligation in this section as it does not define the percentage. In the other word, the law looks more for advice or suggestion to the foreign firms, and it does not oblige them to abide by, and it does not warn them of the consequence of not following this act. This law does not pose any impact on the company to assign local workers. Bring in money can positively impact on the economic development and bring out the money will have negative impacts on the economic development. In order FDI does not have the reverse impact on the labor market and economic growth. Certain rules and regulation should be applied and specifically define the responsibility of the foreign firms.

Furthermore, the Kurdish economist Shamal Nuri listed four key strategies to synergize FDI to booster labor market economy growth. Firstly, he said Economic growth and labor market could be different because economic growth not always eliminates unemployment or changes labor market, but to synergize FDI to influence both, the government should reorganize and restructure the market economy and regulations should be issued by the KRG to safeguard their operations. Secondly, the government should regulate the investment law in the way that it enforces difficult conditions on foreign labor as well as enforcing them to pay taxes. The second point is to develop Kurdistan labor market. Three, foreign investors should only be allowed to bring the skilled workers and professionals overseas when needed. Finally, similar to what the other respondents aforementioned that FDI can only stimulate economic development when it focuses on agriculture, industry and tourism sectors, not building houses or landscape.

The other key strategies to bolster labor market and economic growth in Kurdistan are to overcome monopoly. Ismael Hussein discussed that market economy in Kurdistan monopolized by some firms and groups. To better design investment policy, especially FDI, certain rules and regulation should be issued to encourage more competition than monopoly. This could also be applied on the investor nationality as argued by Soran Umer, not only specific countries should be given priority but companies should be given an equal chance. Moreover, the KRG representatives should attend in the international seminars, conferences, forums, and workshop and invite world best companies to invest their money into Kurdistan. For now, Turkish, UAE, and Iranian companies monopolized FDI in Kurdistan. Therefore, Asian and Latin American companies are neglected by the KRG even though hundreds of them may wish to bring in their capital into Kurdistan if they understand market economy and incentives they get in Kurdistan.

Finally, Muzafar Hamza inclines a strategy to maximize the impacts of FDI on economic growth and FDI. He explains his suggestion mostly in relation to the KRG investment law No. (4) For 2006. He has no doubt that investment law was effective at its time and so many objectives has been targeted, but for now this law needs to be amended in order to enhance economic growth and labor market. Also, the situation now is so different, if Kurdistan needed some housing projects in the past, or if Kurdistan had to provide land and some other incentives; now, the government does not need that anymore. This point is also supported by Ali Hamasalih, who believes that because the government provided land to the companies, they made a lot of money from their projects, while people got least benefits. So, as they argued, Kurdistan at the first stage had to do something to attract FDI, but as it reached to this stage, the KRG should look for quality projects, quality company, and concentrates projects in the sectors that needed to invest in, not sectors that only benefit investors. Muzafar Hamza also asserts that some articles and sections in the law are not clear and complicated, and some others need to be added, so it needs to be revised and amended.

Moreover, according to the First Article any company, whether it’s local or foreign, can get a project if the company has the capital of 250.000 dinars which is equivalent to US$215147.5. Such small projects may not have effects on the labor market or economic growth as he mentioned compare to the cost of the project because the government provides land to the entire investment project. He suggested that the licenses given to the investors must consider the side effects and the quality of the project; otherwise the government should not misuse the land that belongs to citizens. Also, he suggested the amendment of Article Five, Section One that exempted investors from paying taxes and custom tariffs for the period of 10 years. He believes that taxation is the key strategy to enhance economic growth. Therefore, the KRG does not apply any taxes. So, as he suggested instead of 10 years, the companies should be exempted from paying taxes and custom tariffs for a period of 5 years of the date when the project starts forwarding its service or factual production date."

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

Foreign direct investment in Kurdistan has profoundly contributed in the country's economic growth and labor market, especially in terms of employment and wages. Therefore, there are still some deficiencies and problems which somehow relate to the Investment Law No. (4) including the lack of job security, human capital investment, lack of training by the foreign firms, relying on foreign workers and some others. Moreover, foreign investors also had some administrative issues with the KRG.

Additionally, there are some obstacles on FDI. Mainly the lack of a banking system which makes investors feels uneasy as they worry about the safety of their capital and transactions. Other obstacles of investment in Kurdistan are the lack of transparency and information in public sector organizations of Kurdistan. Also, there are routines in public organizations and sometimes administrators are not supportive and causing the delay of the investment projects.

The security of the region is also a matter for FDI since investors; mostly invest in countries that have a stable environment political stabilization, security, transparency and democratization. Maybe Kurdistan possesses some of these elements, including security, democratic institutions, but it is still seen as part of Iraq by outsiders and sometimes investors do not understand the real situation on the ground. So, they are afraid to invest in the region especially after the emergence of ISIS where entire Middle East to somehow felt some security issues. However, the Investment Law convinced so many investors to make investment in Kurdistan despite aforementioned burdens.

The law had several positive sides, particularly in attracting foreign companies to invest their capital in Kurdistan despite political instability in the whole region. The Investment Law No. (4) In 2006 was a starting point for the brighter future of Kurdistan investment process and reconstructing countries in all aspects. It became a gateway to a welcome tenth of foreign firms to invest millions in different sectors of economy.

The KRG through Investment Law used so many tricky ways to attract inward FDI into the country which wouldn't be found in the investment law of other countries, including forgiving foreign investors from paying taxes and tariffs, providing lands and preserving the right of ownership to investors, providing good security for investors and allowing them to move their capital wherever they want. The law also does not prevent or limits foreign companies from bringing their experts, technologies, raw materials and workers from the parent country even though that had negative impacts on Kurdistan labor market, but it was also advantaged the country in attracting those companies.

The law at its time was successful and was able to target KRG investment policy. However, for now the law should be changed because what was good yesterday does not mean good for today. By analyzing investment projects, it could be discovered that the focus of foreign investment was mostly on housing sector, while other economic sectors were neglected. Maybe in the period of time, Kurdistan was in need of housing projects and some developments in terms of landscapes, apartments and tourist villages, but for now, KRG needs to invest in economic sectors,especially in the fields of agriculture, industry, and tourism. So, the key strategy for the KRG should be around the diversification of the source of investment in all sectors as well as promoting good governance system as well as proper banking system and obliging foreign companies to give more priority to local workforce and train locals on advanced technologies and machines in order to be able to achieve sustainable growth in all respects and synergizing labor market to economic growth through FDI.

5.2 Recommendations

This research has come out with several recommendations to be done by Kurdistan Regional Government in order to increase the rate of FDI as well as the side effects of investment in the region. The recommendations are as the following:

1. The government should amend the KRG Law of Investment No. (6) in 2006, especially the articles that exempt foreign investors from paying taxes and tariffs for 10 years, instead the law is better to exempt foreign investors for the period of 5 years.
2. In the investment law, it should be highlighted that investors to bring a percentage of foreign workers, the rest should be local. It's only cited that priority to be given to local workers, but government should oblige them to hire more local employees.
3. Foreign investors should be obliged to train local workers on machines and modern technology in order to be able to utilize them after they complete their projects.
4. The lands should not be provided to any foreign or local investors unless they implement projects on economic sectors. To improve local industry and

agriculture, government should provide land for those investors who wish to open factories or agricultural projects.

5. The government should not consider the small sized projects as investment, and housing projects should concentrate on five star hotels and other mega projects.
6. Sustainability growth should be considered in licensing investment projects because some projects only have short term benefits and do not have sustainability.
7. The government should diversify investment projects. It should be well explained in the investment law and, percentages for each sector should be given.
8. The government should pursue transparency and open government data in order investors know more about Kurdistan business and investment environment.
9. The government should remove red taps, corruption and routines in public organizations.
10. The government should encourage international banks to open their branches in Kurdistan in order to facilitate foreign transactions.
11. The government should launch investment advertisement to further attract foreign direct investment through global media.
12. Low quality projects should not be licensed, but KRG is better off to pursue investors to implement mega projects.
13. The Capital city of Erbil should be given priority, but it does not mean that government should neglect other cities. Projects should be diverse and should be distributed based on the needs. Developing remote areas should also become a strategy for KRG investment Policy.

5.3 Suggestion for Further Research

There are many research gaps in Kurdistan Investment Law to be studied. Researchers who want to conduct further study on Kurdistan Investment Law or foreign direct investment, there are some areas that need to be studied. For instance, it would be a good idea to conduct research on the quality of projects implemented by foreign investors. It's also important to study how investment law could be modified in order to perform human capital accumulation.

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