An economic analysis of public government expenditure and its role in attracting foreign direct investment in Iraq during the Period 2004–2022

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Abstract
This research aims to analyze the economic contribution of public spending to attracting foreign direct investment in Iraq during the period 2003–2023. Government spending is considered a key tool of fiscal policy that can improve the investment climate and boost economic activity. Public spending, particularly investment spending on developing the country's infrastructure, contributes to creating a suitable economic environment for attracting foreign capital. The research employed a descriptive-analytical approach to analyze the relationship between public expenditures and foreign direct investment (FDI) inflows in Iraq during the study period, using annual data from official bodies and international organizations. The study concluded that a relationship exists between public expenditures and FDI, as increased government spending contributes to improving infrastructure and economic services in Iraq. This enhances foreign investor confidence and encourages investment flows into the Iraqi economy. The findings also demonstrated that weak political and economic stability, coupled with heavy reliance on the oil sector, are among the most significant challenges hindering Iraq's ability to attract further foreign investment. The study recommended redirecting public spending towards productive sectors and infrastructure, improving the investment climate, strengthening economic and legislative stability, and enhancing administrative procedures and modernizing investment laws to increase foreign direct investment inflows and support economic development in Iraq.

1. Introduction

Developing economies have increasingly emphasized the role of the state in directing economic activity through fiscal policy instruments, particularly public expenditure. Public expenditure represents one of the main tools available to governments for influencing macroeconomic variables, stimulating production, supporting employment, reducing economic fluctuations, and promoting economic development. In countries with rentier economic structures, such as Iraq, the role of public expenditure is especially significant because government spending is largely financed by oil revenues. This dependence makes fiscal policy highly sensitive to fluctuations in international oil prices and places public expenditure at the center of efforts to stimulate economic activity, improve infrastructure, and encourage foreign direct investment.

In Iraq, public expenditure has been used to finance government administration, public services, subsidies, security, infrastructure, and investment projects. Through investment expenditure, the government may improve transportation networks, energy facilities, telecommunications, hospitals, schools, and other forms of economic infrastructure that influence the attractiveness of the domestic investment environment. Such expenditure may also create direct and indirect employment opportunities, stimulate aggregate demand, support production, and facilitate the circulation of economic activity. However, the effectiveness of public expenditure in Iraq has been constrained by the structural weaknesses of the economy, including the limited development of non-oil sectors, weak economic diversification, institutional inefficiency, political instability, and the dominance of current expenditure over productive investment spending.

These structural limitations have increased the need for a deeper theoretical and analytical examination of public expenditure and its role in attracting foreign direct investment. Foreign direct investment has become an important option for developing countries seeking to strengthen their productive capacity, introduce technology, generate employment, and accelerate economic reform. Iraq has attempted to liberalize its economic policies and improve its investment environment by amending legislation, opening the economy to foreign capital, and strengthening trade and regional cooperation. These efforts are particularly important because successive wars and conflicts have damaged the country's productive capacity and infrastructure, increasing the need for external capital and international investment. The reconstruction of the Iraqi economy therefore requires not only an increase in domestic public spending but also greater openness to foreign investment and clearer communication of the investment opportunities available in the country.

Public expenditure plays a central role in the national economies of both developed and developing countries. It is a financial instrument through which governments perform their functions, provide public services, and pursue economic and social objectives. It may also be used to address inflation, recession, unemployment, inequality, and inadequate infrastructure through appropriate fiscal intervention (Al-Saadouni, 2020). Public expenditure can be understood as the total spending undertaken by the state and its institutions to provide services and satisfy public needs through the efficient use of available resources (Jarallah, 2024). It also includes government payments and purchases of goods and services that are necessary for public welfare and that may not be adequately supplied by the private sector, such as defense, infrastructure, education, health care, and social protection. Accordingly, public expenditure comprises the monetary payments made by public authorities to satisfy collective needs, including employee salaries, government purchases, contractor payments, subsidies, and financial assistance (Ali, 2016).

Public expenditure is generally characterized by several fundamental elements. First, it involves the use of monetary resources by the state to obtain goods and services, operate public institutions, or increase productive capital through investment projects (Abdulrahman & Abdul Majeed, 2020). Second, it is issued by a public authority, which distinguishes it from private expenditure and determines its legal and economic character (Datou, 2021). Third, it is directed toward satisfying public needs and delivering services that benefit society as a whole. These characteristics indicate that public expenditure is not merely an accounting item in the state budget but a mechanism through which governments influence economic and social development.

The objectives of public expenditure include achieving economic stability, redistributing income, promoting economic growth, increasing employment, improving the efficient use of resources, and supporting public services (Slimani, 2014). Economic stability can be pursued through government intervention during periods of recession or inflation, while redistribution can reduce inequalities in income and wealth. Public expenditure may also promote economic growth by financing productive projects, expanding national output, improving human capital, and supporting employment. Through these functions, public expenditure contributes to both economic efficiency and social welfare.

The importance of public expenditure is particularly evident in its role in allocating economic resources. Governments use expenditure to distribute material and human resources among competing needs and to support productive sectors through subsidies, financial assistance, and public investment (Younis, 2018). Public expenditure also contributes to social justice by providing assistance to vulnerable groups, reducing income disparities, and promoting equal access to public services and opportunities (Bassem & Nahed, 2024). In addition, it supports economic stability by addressing market imbalances, responding to recessionary or inflationary pressures, and helping the economy achieve a more balanced use of available resources.

Public expenditure can be classified into current expenditure and investment expenditure. Current expenditure includes the recurring costs required to maintain the daily operations of government institutions and public services. It covers wages, salaries, administrative expenses, government purchases, military expenditure, subsidies, and transfers to individuals or institutions (Al-Shami, 2014). Investment expenditure, by contrast, refers to spending on long-term projects that expand productive capacity and improve economic infrastructure. It includes expenditure on industrial and agricultural projects, roads, bridges, hospitals, schools, electricity networks, and other development projects. These expenditures may be financed through government revenues, current-account surpluses, credit facilities, domestic borrowing, or foreign loans (Abdullah & Hadi, 2017). The distinction between these categories is important because investment expenditure is generally more directly connected to productivity, infrastructure development, and the creation of an attractive environment for foreign investors.

The structure of government spending reflects the scope of state intervention in political, economic, social, and cultural life. Public expenditure programs are designed according to the responsibilities and priorities of the government and its legal institutions (Arab Institute for Planning and Development in Kuwait, 2017). In the Iraqi context, however, a large proportion of public expenditure has historically been directed toward salaries, subsidies, administration, security, and other current needs. Although such expenditure is necessary, its dominance may limit the resources available for productive infrastructure and long-term development. Therefore, the ability of public spending to attract foreign direct investment depends not only on its total volume but also on its composition, efficiency, and allocation.

Foreign direct investment is another important component of economic development. It generally refers to a long-term investment made by an individual, company, or institution from one country in an enterprise or productive activity located in another country. From the perspective of the World Trade Organization, foreign direct investment occurs when an investor residing in one country acquires an asset in another country with the intention of ownership, control, or participation in management (Arooj, 2024). The International Monetary Fund commonly associates foreign direct investment with the acquisition of at least 10 percent of the ordinary shares or voting power of an enterprise, together with a lasting interest in its management (El-Desouky, 2019). Foreign direct investment therefore differs from short-term capital flows because it involves a durable relationship, managerial influence, and long-term economic commitment.

Foreign direct investment may contribute to economic growth by introducing capital, technology, management expertise, production techniques, and access to international markets. Inward foreign direct investment refers to capital entering a domestic economy through mergers, acquisitions, the establishment of new enterprises, or the expansion of existing companies. Such investment may support infrastructure, create employment, improve productivity, and increase competition in local markets (Awsreer et al., 2005). Outward foreign direct investment occurs when domestic firms establish subsidiaries, acquire enterprises, or expand their activities in foreign markets (Saadi, 2017). Foreign direct investment stock refers to the accumulated value of direct investment over a particular period, while mergers and acquisitions represent transactions through which companies consolidate ownership, assets, and managerial control (Zaidi et al., 2018; International Monetary Fund, 2009).

Several theories have been developed to explain foreign direct investment. The market imperfection or monopolistic advantage theory argues that firms invest abroad when they possess specific advantages that allow them to compete in foreign markets despite additional costs and uncertainty. These advantages may include technology, organizational expertise, brand reputation, access to capital, or control over production methods. Hymer emphasized that foreign investment is encouraged by limited competition in domestic markets and by firm-specific advantages, while Kindleberger connected foreign direct investment to imperfections in product markets, production factors, economies of scale, and government policies (Qadir, 2022).

The product life cycle theory also explains how innovation and production may gradually move from developed countries to foreign markets. As products mature and become standardized, firms may relocate production to countries offering lower costs, growing demand, or strategic market access. The protection theory, meanwhile, emphasizes the desire of multinational companies to preserve technical knowledge, commercial secrets, and organizational advantages by maintaining direct control over foreign operations rather than transferring them through licensing agreements. Foreign direct investment therefore becomes a mechanism for protecting firm-specific assets and maximizing long-term returns (Mohamed, 2017).

The forms of foreign investment include portfolio investment, inward foreign direct investment, outward foreign direct investment, foreign direct investment stock, mergers and acquisitions, and parent-subsidiary relationships (Bamhamed, 2016). Portfolio investment generally involves cross-border holdings of equity or debt securities without direct managerial control. Inward investment brings foreign capital into the domestic economy, whereas outward investment represents the expansion of domestic firms abroad. Mergers and acquisitions consolidate companies or assets through legal and financial transactions, while parent companies exercise control over subsidiaries through majority ownership or other forms of managerial authority (Arab Monetary Fund, n.d.).

The relationship between public expenditure and foreign direct investment is therefore both theoretical and practical. Government spending may improve the investment environment by expanding infrastructure, increasing the quality of public services, strengthening human capital, and reducing production costs. Investment expenditure on transport, electricity, communications, and industrial facilities may directly increase the attractiveness of a country to foreign firms. At the same time, ineffective expenditure, excessive current spending, corruption, institutional weakness, and political instability may reduce the positive effect of government spending on foreign investment. Thus, an increase in public expenditure does not automatically produce higher foreign direct investment unless spending is efficiently allocated and supported by stable economic, legal, and institutional conditions.

In Iraq, this relationship is especially important because the economy depends heavily on oil revenues and remains vulnerable to external shocks. Oil-price fluctuations influence government revenues and, consequently, the volume and structure of public expenditure. Changes in public spending may then affect infrastructure development, economic activity, investor confidence, and the flow of foreign capital. Previous studies have highlighted the importance of analyzing public expenditure and its relationship with broader economic indicators in Iraq (Nouri et al., 2025). Nevertheless, further analysis is required to determine whether public expenditure has effectively contributed to attracting foreign direct investment and whether the composition of government spending has supported the development of a more competitive investment environment.

This study therefore examines the development of public expenditure and foreign direct investment in Iraq during the period 2004–2022. It investigates the reality and trends of government expenditure, the size and development of foreign direct investment, and the extent to which public expenditure has contributed to improving the investment environment. The study is based on the assumption that government investment spending can strengthen the attractiveness of Iraq to foreign investors by improving infrastructure and public services. At the same time, it recognizes that this relationship may be weakened by political instability, security challenges, institutional inefficiency, dependence on oil revenues, and the dominance of current expenditure.

The significance of this study lies in its contribution to understanding the role of fiscal policy in strengthening the Iraqi investment environment. It seeks to clarify the extent to which public expenditure supports or constrains foreign direct investment and to identify the importance of foreign capital in the development of the Iraqi economy. More specifically, the study analyzes the concept and development of public expenditure, examines the concept and trends of foreign direct investment, and evaluates the relationship between these variables during the study period. Through this analysis, the study aims to provide evidence that may support the restructuring of public expenditure, improve the efficiency of government spending, strengthen investment legislation, and enhance Iraq's capacity to attract sustainable foreign direct investment.

2. Method

The research relies on the use of the descriptive-analytical method to study the theoretical concepts related to public expenditure and foreign direct investment by analyzing the development of data through the duration of the study and extrapolating the economic reality in Iraq for both public expenditure and foreign direct investment.

The conclusions and recommendations were derived from the results of the analysis. In addition, a standard model was employed to measure the relationship between public expenditure and foreign direct investment (Aziz, n.d.). The study was spatially limited to the Iraqi economy and temporally covered the period from 2004 to 2022.

3. Results and Discussion

Public expenditure is one of the items of the general budget that adopted its objectives from the government policy, national development plans and the anti-poverty strategy, where the fiscal policy focused on intensifying the government's efforts to diversify the proceeds of non-oil revenues and rationalize public spending, taking into account the increase in spending on basic social services such as education and health to improve the human element, and at the same time seeking to achieve a balance between revenues and expenditures and increasing investment expenditures for the purpose of expanding the reconstruction processes The need to emphasize the policy of economic reform, achieve social welfare, fight poverty, increase the income of the individual in order to secure a better standard of living, represented in the legislation of the unified national pension law, give importance to the security aspect of the country, develop the self-capabilities of ministries, bodies and companies, reduce the burden of public debt, in addition to paying attention to the private sector to improve its performance in achieving economic (Central Bank of Iraq, 2013). Table 1 indicates the developments of public expenditures in Iraq for the period of 2004-2022.

Table 1. The Volume of Public Government Expenditure in Iraq for the Period of 2004-2022 (US$ Million)

Years	Public Consumption Expenditure ($1 million)	General Investment Expenditure ($1 million)	Total public government expenditure ($1 million)
2004	21208.3	203.4	21411.7
2005	15266.0	2651.9	17917.9
2006	22220.6	4232.5	226453.1
2007	23851.6	7273.8	31125.4
2008	32763.9	17029.3	49793.2
2009	39265.9	8246.7	47512.6
2010	46650.3	13293.5	59943.8
2011	52073.1	15241.1	67314.2
2012	64998.9	25172.3	90171.2
2013	67535.8	34631.9	102167.7
2014	65816.2	30403.5	96219.7
2015	44415.4	15925.2	60340.6
2016	46669.0	15573.8	62242.8
2017	49852.7	13905.8	63758.5
2018	53306.4	15114.2	68420.6
2019	73858.6	20662.1	94520.7
2020	63627.0	2601.9	66228.9
2021	60985.3	6760.8	67746.1
2022	68883.4	10504.7	79388.1

Source: The table is prepared by the researcher based on Iraqi Ministry of Planning (Central Bureau of Statistics, Directorate of National Accounts) Central Bank of Iraq, Department of Statistics and Research, Annual Report 2004-2022

It is clear from Table 1 that public expenditures recorded an increase in (2004) by (21411.7) million dollars compared to the volume of public expenditures in (2005) (17917.9) million dollars, as a result of the changes in the political and economic conditions that Iraq has witnessed, the expansion of public expenditures adopted by the state during this period, Iraq's openness to international markets, the resumption of crude oil exports, and the acquisition of revenues that enabled the increase in public expenditures, which enabled Iraq to rebuild state and structural institutions. The infrastructure that was damaged in the years preceding (2004), while the period after (2005) witnessed an increase in the volume of public expenditures, especially in the years (2006-2014), and the reason for this increase in public expenditure was due to the security stability witnessed during that period, which was represented by the imposition of security control over the whole country, and the decline of sabotage acts targeting crude oil, as well as the rise in global oil prices, which led to the increase in consumer spending in the country. During that period, which was represented by an increase in the salaries of employees in the public sector, the expansion of appointments in government jobs, and an increase in spending on fuel and electricity subsidies, while the increase in investment spending was represented in the increase in spending on the implementation of electricity projects and the improvement of roads, schools and hospitals, while the years (2015-2018) witnessed a decrease and fluctuation to reach (60340.6/62242.8/63758.5/ 68420.6. The reason for this decline in public expenditure is due to the decline in oil prices in the global markets and the increase in financial flows to expenditures on the military and security side in the country due to the war against the criminal gangs of ISIS and the exposure of most of the country's areas to security threats, which led to a decline in revenues to be followed by a decline in the volume of public expenditures and in the consumption and investment aspects, while in the following year (2019), the volume of public expenditures witnessed an increase to reach (94520.7)) million dollars and in both parts consumer expenditure as it reached (73858.6) million dollars and investment expenditure amounted to (20662.1) million dollars, and the reason for this increase is due to the return of the rise in global oil prices, as well as the increase in the allocations of the industrial and service sectors, the education sector, the transport sector, and the increase in the allocations of employees, and with regard to the end of the research period, it has witnessed a significant decrease compared to the year (2019), as the volume of general expenditure for the years (2020-2022) and respectively reached (66228.9) 67746.1/79388.1 million dollars due to the repercussions of the Corona pandemic that swept all countries of the world, as this pandemic imposed on the Government of Iraq to give the utmost importance by directing a large percentage of financial allocations to health support and subsidies as an emergency measure to face the rises in the global prices of various commodities, mitigate their impact on the vulnerable groups of society, and close the food gap on imports by more than half of Iraq's food needs.

Foreign direct investment in Iraq has gone through multiple stages and varies according to the economic and political situation that Iraq has gone through according to the period of research, and the effects of these conditions have extended to the present time and these circumstances have contributed to determining the size and type of these investments. Table 2 shows the inflows of foreign direct investment (FDI) incoming and outgoing in Iraq for the period (2004-2022) million dollars.

Table 2. Foreign Direct Investment (FDI) Inflows and Outflows in Iraq, 2004–2022 (US$ Million)

Years	Foreign Direct Investment (Incoming)	Annual Growth Rate (%)	Foreign Direct Investment (Outbound)	Annual Growth Rate (%)
2004	300	———	———	———
2005	515.30	71.77	88.70	———
2006	383	(25.67)	305	243.86
2007	971.80	153.73	7.90	(97041)
2008	1855.70	90.95	33.60	325.32
2009	1598.30	(13.87)	71.90	113.99
2010	1396.20	(12.64)	124.90	73.71
2011	1882.30	34.82	366	193.03
2012	3400.30	80.65	489.50	33.74
2013	(2335.30)	(168.68)	227.10	(53.61)
2014	(10176.40)	335.76	241.50	6.34
2015	(7574.20)	(25.57)	147.70	(38.84)
2016	(6255.90)	(17.41)	304.30	106.03
2017	(5032.40)	19.56	77.80	(74.43)
2018	(10870.40)	645.46	481.50	2.45
2019	(7894.20)	(34.57)	334.70	(89.84)
2020	715.80	74.75	86.77	———
2021	(7892.40)	87.56	87.80	(56.43)
2022	(10786.40)	335.76	671.50	76.34

Source: Prepared by the researcher based on Arab Investment and Export Credit Guarantee Corporation, Investment Climate Report for Years (Multiple Years).
Note the numbers in parentheses mean negative.

It is clear from Table 2 that the inflow of foreign direct investment to Iraq for the year (2004) amounted to (300) million dollars, while in 2005, the inflow of foreign direct investment to Iraq amounted to (515.30) million dollars with an annual growth rate of (71.77%) and the flow of foreign investment from Iraq amounted to (88.70) This increase is due to the improvement of the security and political conditions in Iraq during that period, as well as the opening of the Iraqi economy to the world and the end of the economic sanctions imposed on it during that period, and this increase is due to the issuance of the Investment Law in 2006, while the flow of foreign investment to Iraq in 2006 decreased by (383) million dollars, with an annual growth rate of (25.67) due to the deterioration of the security conditions. The reality of foreign investment flows in Iraq is closely linked to global oil consumption and global economic growth. Prior to 2008, the value of foreign investment flows to Iraq was increasing to reach $971.80 million, with an annual growth rate of

(153.73) in 2007 compared to the previous year, due to the legislation of the Iraqi Investment Law and its entry into force, despite the activation of the most attractive policies and procedures for this type of investment, which affects foreign direct investment flows from 2004 to 2008.It reached (1855.70) million dollars, after which there was a decline in global economic growth, a decline in the demand for oil, and the occurrence of the (global mortgage crisis), so the percentage of foreign investment flow to Iraq began to decline gradually until (2010) and the decline in oil prices, during which the value witnessed a decrease of (1396.20) million dollars, while the highest investment flow was in (2014), with a growth rate of (335.76), and in the years (In 2015 and 2017, the flow of foreign direct investment to Iraq decreased by (7574.20) and (5032.40) million dollars, with an annual growth rate of (38.84) and (74.43%), due to the fluctuation of oil prices in the international markets and the deterioration of the security situation in Iraq. As for the outgoing foreign direct investment inflow, it reached (334.70) and respectively in (2019), the inward foreign direct investment in Iraq amounted to (7894.20) million dollars, but it still suffers from decline. Iraq witnessed low foreign direct investment inflows with a total of (715.80) million dollars for incoming investment and (86.77) million dollars for investment issued in 2020, following the two double shocks, the first health of the Coronavirus pandemic and the second economic one, represented by the broad decline in oil prices, so that prices lost about half of their value in March (2020).), which led to a decline in the flow of foreign direct investment to Iraq, as this flow suffered from immediate effects due to the economic closure process for the whole year, and the slowdown in the movement of people and goods, which led to an immediate delay in the implementation of investment projects and the disruption of many of them, in addition to the pandemic caused the delay in announcing many new projects, and this was reflected in the years after (2020), which are the years (20212022), when the volume of foreign investment reached The reason is due to the decline in international oil prices as a result of the decline in global oil demand due to the Corona virus, which affected China, the second largest economy in the world after the United States of America, and moved to more than one country, and the loss of a large number of investors, which causes the frustration of investment projects in the future, and then this was reflected negatively on production and operation, which caused a great loss to the Iraqi economy as a result of its loss represented in its inability to attract In this regard, it is noted that FDI inflows in Iraq are largely linked to global developments in the oil and natural gas markets. It is clear from the above that the flow of foreign direct investment into Iraq has been steadily increasing since 2004. Although it appears to be very weak, especially the foreign direct investment (FDI) inflows during the period (2013-2022), this is due to the deteriorating security situation, which at the time was known as instability in the form of an investment repellent.

3.1. Development of Foreign Direct Investment in Iraq for the Period of (2004-2024)

The issue of foreign direct investment is one of the important topics that most developing countries are seeking, especially Iraq, which seeks to strengthen its financial resources in order to achieve comprehensive economic development. This is of particular importance, especially since Iraq relies heavily on oil revenues to finance its public spending, making fiscal policies a key tool in influencing the investment environment and its attractiveness to foreign capital. Table 3 shows the development of foreign direct investment in Iraq for the period of 2004-2022 (million dollars).

Table 3 presents an integrated overview of foreign direct investment in Iraq during the period 2004–2022, including the volume of FDI, annual rates of change, the number of companies, projects, and employment opportunities. During this period, FDI experienced significant structural transformations and was strongly affected by fluctuations in global oil prices, changes in public expenditure, and political and security conditions. Foreign investment increased substantially from relatively low levels in 2004 and reached a high level in 2008, with investment values amounting to 435,900, 756,535, 561,861, 1,219,860, and 2,214,208 million dollars, respectively. This period was also characterized by a gradual increase in the number of foreign companies, investment projects, and job opportunities. The improvement can be attributed to the relative stabilization of the investment environment after 2003, the opening of the Iraqi economy to international markets, and rising oil prices, which enhanced investor confidence and encouraged new foreign companies to enter Iraq. However, FDI became more volatile in 2009 and 2010, reaching 1,874,454 and 1,633,320 million dollars, with negative growth rates of 15.3% and 12.8%, respectively. This decline resulted from administrative bureaucracy, financial and administrative corruption, unstable economic policies, and a limited legal and institutional environment for attracting investment. In contrast, the period 2011–2013 witnessed a clear recovery, as FDI increased to 2,201,940, 3,964,400, and 5,982,746 million dollars, with growth rates of 34.8%, 79.7%, and 50.9%, respectively. This improvement was supported by the recovery of global oil prices, the expansion of oil licensing projects, the participation of major international companies, increased public revenues, improved security conditions, and investment legislation that encouraged foreign companies to operate in Iraq.

Table 3. Development of Foreign Direct Investment in Iraq, 2004–2022 (US$ Million)

Years	Foreign Direct Investment	Annual rate of change	Number of Companies	Number of Projects	Number of Jobs
2004	435900	——	5	5	172
2005	756535	73.5	8	9	364
2006	561861	(25.6)	5	5	1654
2007	1219860	117.1	3	3	593
2008	2214208	81.5	17	19	6379
2009	1874454	(15.3)	22	24	10678
2010	1633320	(12.8)	38	48	5970
2011	2201940	34.8	30	35	6025
2012	3964400	79.7	27	34	1696
2013	5982746	50.9	45	53	9561
2014	5575812	(6.8)	24	26	1676
2015	4128110	25.9	13	15	938
2016	7034090	70.3	5	13	830
2017	5988080	(14.8)	9	8	760
2018	3392690	(43.3)	8	11	1673
2019	3891300	14.6	9	11	1205
2020	3934521	1.1	11	11	1260
2021	(2637)	8.6	6	7	317
2022	(2088)	20.8	10	7	2960

Source: The table is prepared by the researcher based on
1. The annual reports of the Arab Investment Guarantee Corporation for the 2004-2022 years.
2. Noting the numbers in parentheses means negative.

Despite this improvement, the growth rate of FDI declined to 6.8% in 2014 due to the security crisis and the war against terrorism. The years 2015–2016 subsequently witnessed a noticeable recovery in the volume of foreign investment as security conditions gradually improved. Nevertheless, FDI growth declined sharply again during 2017–2018, with the rates reaching 14.8% and 43.3%, respectively. This deterioration was linked to the renewed decline in global oil prices, lower public revenues, reduced government expenditure—particularly investment spending—and the uncertainty associated with the 2018 parliamentary elections and the delay in forming a new government. These conditions weakened investors' confidence and created uncertainty regarding future economic policies. The decline continued during the following years, particularly in 2021–2022, when FDI fell to approximately 2,637 and 2,088 million dollars, respectively. This decline was intensified by the global COVID-19 pandemic, which disrupted economic activities and investment flows worldwide. Overall, the analysis indicates that the weakness of foreign direct investment in Iraq during much of the study period resulted from the absence of comprehensive economic stability, delays in economic reforms, institutional weaknesses, and continuing political and security challenges. These factors collectively limited Iraq's ability to attract and retain foreign investment between 2004 and 2022.

Public spending is one of the most important tools of fiscal policy on which governments rely to stimulate economic activity and achieve economic development, as it contributes to the development of infrastructure and the improvement of the level of public services, as it contributes to creating a suitable investment environment to attract foreign direct investments. This is especially important in the Iraqi economy, which is heavily dependent on oil revenues, where a large part of these revenues are directed to government spending, which in turn affects various economic sectors and plays an important role in attracting foreign direct investment. Table 4 represents the percentage of the contribution of total public expenditure on foreign direct investment in Iraq for the period of (20042022) million dollars.

Table 4. Percentage Contribution of Total Public Expenditure to Foreign Direct Investment in Iraq, 2004–2022 (US$ Million)

Years	Total public expenditure	Foreign Direct Investment	Percentage of Contribution of Gross Public Expenditure/FDI
2004	21411.7	435900	2.035
2005	17917.9	756535	4.22
2006	226453.1	561861	248.11
2007	31125.4	1219860	3.91
2008	49793.2	2214208	4.44
2009	47512.6	1874454	3.94
2010	59943.8	1633320	2.72
2011	67314.2	2201940	3.26
2012	90171.2	3964400	4.39
2013	102167.7	5982746	5.85
2014	96219.7	5575812	5.79
2015	60340.6	4128110	6.51
2016	62242.8	7034090	11.30
2017	63758.5	5988080	9.39
2018	68420.6	3392690	4.96
2019	94520.7	3891300	4.11
2020	66228.9	3934521	6.32
2021	67746.1	(2637)	(3.4)
2022	79388.1	(2088)	(2.6)

Source: Prepared by the researcher based on data
1. The Central Bank of Iraq (various annual statistical bulletins).
2. Numbers in parentheses mean the reference in negative.

It can be noted through the data of the table for the period (2004-2022) that there is a discrepancy in the relationship between total public expenditure and foreign direct investment flows, as this period witnessed different stages that were affected by the economic, political, and security conditions that Iraq went through. In the first years after 2003, specifically during the period (2004-2007), the ratio of public expenditure to foreign direct investment (FDI) reached (2,035 / 4.22 / 248.11 / 3.91 / 4.44) because the Iraqi government began to expand the volume of public expenditure with the aim of rebuilding infrastructure damaged by wars and conflicts, as well as improving public services in the fields of transport and telecommunications and electricity. These efforts have contributed to encouraging foreign companies to enter the Iraqi market, which has led to a gradual increase in the volume of foreign direct investment during the study period.

During the period (2010-2013), the Iraqi economy witnessed a period of relative improvement as a result of the rise in oil prices globally, as the volume of public expenditure for the year (2010) amounted to (59943.8) million dollars, with a contribution rate of (2.72) from the volume of foreign direct investment, and continuously increasing until the volume of public expenditure for the year (2013) reached (102167.7) million dollars with a contribution rate of (5.85)This has led to an increase in the oil revenues of the Iraqi government and thus an increase in the volume of public expenditure. This increase in government spending was reflected in the implementation of several investment projects in the infrastructure, energy, and housing sectors, which helped to improve the investment environment and attract more foreign investments. The table data indicate that this period recorded a significant increase in FDI flows compared to previous years, reflecting a relatively positive correlation between the increase in public expenditure and the increase in FDI inflows in Iraq.

However, this relationship did not continue with the same strength during the period (2014-2017), as the volume of public expenditure appeared to decrease due to the exposure of the Iraqi economy to a set of economic and security challenges, the most important of which is the decline in oil prices globally and the increase in military expenditures as a result of the war against (terrorist organizations) ISIS, which led to a decline in the financial allocations available to the government and a reduction in the volume of investment spending. This has negatively impacted the Iraqi economy's ability to attract foreign investments, as this period has witnessed a kind of fluctuation in the volume of FDI flows. This suggests that the impact of public spending in attracting foreign investment depends not only on its overall size, but also on the nature of the distribution of this expenditure over current and investment expenditures.

In the period (2018-2019), the Iraqi economy began to witness a relative improvement due to the improvement in global oil prices and the stability of the security situation to some extent, which led to a relative increase in public expenditure and an improvement in the business environment, as the volume of public expenditure for the aforementioned years reached (68420.6 and 94520.7) million dollars, which was reflected in a relative increase in foreign direct investment flows. However, these flows have remained below the potential of the Iraqi economy, due to the persistence of some structural challenges such as the country's weak institutional structure, administrative bureaucracy, and the instability of the investment legislative environment.

In 2020, the Iraqi economy was significantly affected by the repercussions of the (Corona pandemic) crisis, which led to a decline in economic activity globally and a decline in international oil prices, which directly affected the decline in the volume of government revenues and thus the volume of public spending. This situation was reflected in the volume of foreign direct investment flows, which witnessed a significant decline, reaching $3934521 million as a result of the economic instability that prevailed in the world during that period.

In the last years of the study period, specifically during (2021-2022), the data indicate a clear decrease in the volume of FDI flows, amounting to (2637 and 2088) million dollars in negative value, which indicates the exit of some foreign direct investments from the Iraqi economy. This is due to a number of factors, most notably the continued economic and financial challenges, in addition to the instability of the investment environment, in addition to the impact of the global economic crises. This situation explains that increased public spending alone is not enough to attract FDI if it is not accompanied by comprehensive economic and institutional reforms aimed at improving the investment environment and boosting confidence among foreign investors.

4. Conclusion

The study concludes that the role of public expenditure in attracting foreign direct investment in Iraq fluctuated throughout the study period due to internal and external factors, including oil price volatility, political and security instability, and changes in global economic conditions. Although increases in public expenditure during certain years contributed positively to foreign direct investment by supporting infrastructure, energy, and public service projects, higher government spending did not automatically generate greater FDI inflows when most of the expenditure was directed toward salaries, subsidies, and other current expenses that did not directly enhance the productive capacity of the economy. The occurrence of negative FDI values in several years also indicates the withdrawal of foreign capital from Iraq as a result of the weak investment environment and high economic and political risks. Therefore, attracting foreign direct investment requires not only effective fiscal policy but also economic and security stability, clear and consistent investment legislation, efficient institutions, transparent public financial management, and an improved business environment. In this regard, public expenditure should be restructured by increasing the proportion allocated to productive investment and infrastructure, particularly transportation, energy, and communication networks, while improving the efficiency of public resource management, simplifying administrative procedures, reducing bureaucratic and legal barriers, strengthening supervisory institutions, and enhancing transparency to increase foreign investor confidence and encourage sustainable investment across various sectors of the Iraqi economy.

Data Availability

The datasets generated during and/or analysed during the current study are available from the corresponding author on reasonable request.

Conflicts of Interest

Author in this publication declare no conflict of interest regarding the title, data, location, and results of the research.

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Supplementary Materials

This study does not include any supplementary materials.

Declaration on AI Use

The author declare that no artificial intelligence (AI) or AI-assisted tools were used in the preparation of this manuscript. AI were used only to improve readability and language under strict human oversight; no content, ideas, analyses, or conclusions were generated by AI.

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