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Invest in Iraq?

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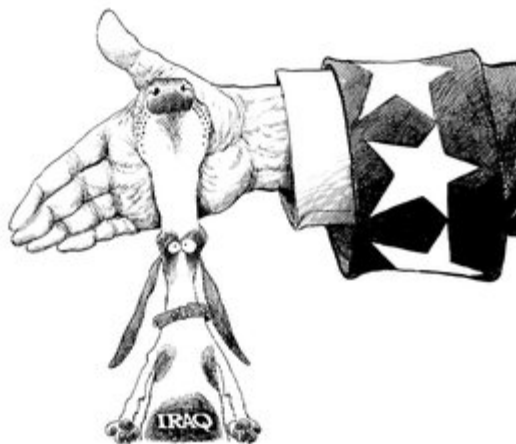
BAGHDAD, Iraq

Would you invest in Iraq? Many people think it is crazy to even ask the question. But strange as it may seem, there may already be some good investment opportunities in Iraq, and chances are there will be many high-yielding investments in the country in the next few years.

When you arrive at the international airport in Baghdad and are greeted by a security company that puts an armored vest on you, and then loads you into a highly armored vehicle manned by tough guys with automatic weapons, just to get you to a hotel, you are thinking, "This is the last place where I would ever invest."

The hotel experience is also not particularly pleasant, because rebuilding is going on all around you. Bombs and rockets can do a lot of damage to a modern hotel, which has the unfortunate side effect of driving away customers. And a largely empty hotel with holes in it deteriorates rapidly.

Illustration by [unreadable]



The major international hotels are in security compounds, which means they are surrounded by concrete walls and barbed wire with guards who determine who may enter.

The hotel is an odd prison - you can legally walk out without guards, armor, and armored vehicles, but Americans and other foreigners are advised not to because they are likely to become kidnapping victims - which is a strong deterrent to one's urge to roam free. A hotel having "captive guests" behaves like any monopoly and doesn't go to any great length to provide food that one looks forward to eating.

A "captive guest" is one whose life is in danger if he leaves the hotel without security, and if he leaves with security, the cost can be mighty high, i.e., the gear, the armored vehicles and the many guards, just to have dinner somewhere else.

The good news is that much of Iraq, other than Baghdad (outside the Green Zone and other high-security compounds) and a few other places, is returning to normal and is safe, and parts of it, such as the Kurdish region, are actually booming. This means there are increasing potentially profitable private investment opportunities, on a risk-adjusted rate of return basis.

Iraq in many ways resembles the former Yugoslavia of 15 years ago. Ethnic and religious warfare was endemic, and the pessimists said peaceful, free market democracy could never take hold - yet it has, and many people are prospering as never before.

Yugoslavia did break into pieces, but it did not have the glue of oil revenues. Iraq can probably evolve into a federal republic with people moving to provinces that best meet their particular religious preferences. History is replete with examples of seemingly endless civil war and religious strife that ended through victory of one side or, more often, sheer exhaustion of the participants. Thirty years ago, who would have predicted that Vietnam would have a booming, partially free, market economy today?

This past week, the Washington-based Center for International Private Enterprise (CIPE) hosted a conference in Baghdad where about 100 representatives of 15 of the 18 Provincial Investment Commissions (PICs) came to discuss how they more effectively attract foreign investment. If the Iraqis didn't think things were getting more peaceful and normal, it is unlikely they would waste time traveling some distance to Baghdad by automobile to learn how they might obtain more private foreign investment in their provinces.

Iraq suffers many of the same economic ills that plagued the Central and Eastern European countries two decades ago when communism collapsed. Saddam had nationalized most of the large businesses, and these socialist enterprises are no more efficient than their Eastern European counterparts were.

Private property is not sufficiently protected, and bureaucratic regulation and interference still smother much productive economic activity. Some of the mistakes the Bush administration made in Iraq were not being far more aggressive in privatizing state-owned enterprises (including the oil companies), deregulating the economy, and de-bureaucratizing the government before it was returned to Iraqi civilian rule. This is now slowly being done, but it is a longer and much more difficult slog than was necessary.

Increasing numbers of Iraqis understand their future prosperity lies in developing a vibrant market economy, and they also understand the conditions for such an economy include the rule of law, protection of private property, abolition of price controls, stabilization of money, low tax rates and basing regulations on sound cost-benefit analysis.

The all-too-numerous and unproductive government bureaucrats who feed at the trough of the state oil revenues are selfishly resistant (as they are in other countries) to the needed freeing of the economy.

Ironically, the drop in oil prices maybe a blessing to Iraq, because it will help convince the people they cannot just rely on oil revenues, and, in turn, must create a healthy, broad-based market economy. Given the recent histories of other war-torn countries in Europe and Asia, my bet is that a decade from now Iraq is most likely to have a reasonably successful market economy within a democratic framework.

Finally, if my prediction is right and if Iraq does evolve into a "normal" country, much of the credit will be not only to the sacrifices of the men and women of the U.S. military but also the civilians working for the U.S. government and nongovernmental organizations, all living under very unpleasant and dangerous conditions while doing their best to make Iraq a better place.

Eleven days ago, a young Iraqi working on the reconstruction of the hotel volunteered to me he was thankful that Americans had got rid of Saddam and he appreciated what Americans were trying to do for his country. I expect his expressed feelings may be shared more widely in Iraq than many would want to admit.

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