

ABSTRACT

For decades, Iraq's identity has been intimately connected to its oil and gas sector. Since 2012, oil has accounted for more than 99% of exports, 85% of the government budget, and 42% of GDP. Thus, Iraq's public sector revenue is closely tied to its operations and production of energy resources; however, the country's oil and gas sector depends heavily on the involvement of foreign powers and multinational energy companies. This paper investigates the nature of Chinese engagement in Iraq's oil and gas sector. This research has implications for other studies examining foreign influence on resource-curse nations like Iraq.

2009: This year marked China's entrance into Iraq's energy landscape. In the first round of bidding in 2009, CNPC (China National Petroleum Corporation) partnered with BP, winning a service contract to develop Iraq's Rumaila field.

2019: Former Iraq Prime Minister Adel Abdul Al-Mahdi paid a visit to Beijing, which he described as a "Quantum Leap" in the two nations' bilateral relationship. The visit resulted in the signing of eight wide-ranging memoranda of understanding as part of the Belt Road Initiative. This was a framework credit agreement that would begin with a \$10.5 billion investment in the financing of major oil infrastructure projects. The framework also covered and funded many other projects, including education and culture.

How has Chinese engagement in Iraq's oil sector impacted Iraq's economic development?

The research findings demonstrate that Iraq and China's trade relationship is energy dominated. To avoid political risks and poor infrastructure risks, China's oil trade and investment approach are resource-centered. Therefore, China-Iraq relations have exacerbated the issues of resource dependency. The concentration of crude petroleum poses harm to the short and long-term future of Iraq. These harms stem from the climate impact of the rising investments going to the oil sector, and consequently, it enhances the resource dependency already plaguing Iraq's economic diversification.

Oil price volatility is a major implication of an intensifying crude oil trading partnership with China. The effect of oil price volatility disproportionately affects oil importing and exporting countries. Using the spillover index of Diebold and Yilmaz (2009) which examines the spillover of price volatility, this paper proves that spillovers from oil volatility are relatively high for oil exporters compared to oil importers.

METHODS

Energy Complementarity

Iraq has become relatively more dependent on China as an energy partner than China is dependent upon Iraq. This represents an indirect competitive (-) effect.

The data from the 2020 OEC states that China accounts for 37.5% of Iraqi exports; total exports value \$58.3 billion. Iraq, on the other hand, is the origin of only 11.3% of China's imports, which value at an outstanding \$2.65 trillion. In a broader view, China exports a net total of \$10.9 billion to Iraq; Iraq exports \$17 billion to China.

Export Diversification

Iraq's trade with China promotes specialization as opposed to a motivation to reallocate capital to other sectors.

China has continued to take the forefront as the main export destination. This has a competitive (-) effect on Iraq's regional and international market competitiveness as Chinese domination and ownership of oil stakes decrease international demand for Iraqi crude oil and undermine Iraqi NOCs presence in the crude oil network.

Development Over Democracy

The Chinese economic engagement favors development over democracy.

Iraq's low-skilled labor force and low growth prospects framed Chinese FDI as resource-oriented and non-capital intensive. The increasing investments into a non-labor-intensive gas and oil sector will not benefit the unemployment rate and will continue to push more Iraqis into the informal sector.

As opposed to employing measures to help improve issues within Iraq's oil sector, China deploys risk-averse measures. There have been reports about how the Chinese only employ their workers and generally do not train the Iraqi employees on how to use specific Chinese equipment and capital.

The success of Chinese trading partnerships involves general social agreeableness with the presence of Chinese investments.

Social perceptions of Chinese firms are generally positive amongst the Iraqi population. A survey done by the Arabometer in 2021 confirms a positive perception of Chinese companies. According to the survey, in the list of "Favorability of Foreign Powers," China takes first place at 56%. In addition to that, "Favorability of Foreign Leaders" lists in second place Chinese President Xi Jinping, with favorability being 49%. Finally, the prompt of "Positive assessment of Chinese president's foreign policy towards MENA region," results in Iraq taking first place at 49%.

Table 2: Percentage value of Iraq exports over 10 years

Year	China	India	Western Nations
2010	12.6%	14.7%	39.9%
2014	24.5%	19%	31.22%
2018	24.3%	25.2%	29.01%
2020	37.5%	29.3%	19.8%

Source: OEC

RESULTS

There is currently a decentralized economic development in Iraq, driven by ethno-religious conflicts between Kurds, Shias, and Sunnis. This forces Chinese FDI to be directed toward a certain number of governates. These governates are Diyala, Baghdad, Erbil, Al-Anbar, Karbala, Sulyamniyah, and Dhi Qar. There is a mutually reinforcing relationship between FDI flows and decentralized fund allocation: the fragmented structure of governance laid the foundation for dividing the incoming capital from China. This economic favorability is apparent in that certain areas have a strong adherence to Chinese presence, as the survey suggests, while other areas have expressed deep discontent.



The overall crude oil network offers a dynamic framework of how developments of a certain trading partnership ripple through the overall network. The substantial interest of Chinese IOCs in Iraq's oil has caused a Chinese-dominated landscape. China's engagements in Iraq's oil sector are steering it towards a non-independent economic structure— whether this is harmful or beneficial is not determined yet. The positive social perception of China's foreign policy towards the MENA also adds additional favorability, which improves the long-term presence of Chinese IOCs. The oil and gas sector of Iraq is therefore moving to a more eastern dominance, with its oil majorly exported to China and its gas mostly imported from Iran. This western exodus will cause a potential decrease in diversified exports and imports.



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