

The Role of Foreign Investment in the Development of Financial Markets (Iraq Stock Exchange for the period 2010 – 2017)

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Abstract

The research aims to show the role of financial markets in providing the necessary funds for the development of the national economy by attracting foreign investment. Financial markets have played a major role in the global economy. The importance of these markets in the role played by the financing of the local economy by working on the convergence between groups that suffer from the financial deficit, and those who have the financial surplus and seeks to employ this money.

The economic scene has witnessed many changes, including economic globalization, which has become a major challenge to the global economies, and the most important manifestations, the liberalization of financial markets and the increase of capital flows, so took many countries, including developing countries interested in attracting foreign investment and benefit from the movement of international capital, To the role of foreign capital in activating financial markets and their reflection in economic development.

The research was conducted in the Iraqi Stock Exchange for the period 2010-2017. The research reached a number of conclusions, the most prominent of which was that the decline in oil prices in 2014 affected the movement of foreign and domestic funds in the financial market. The research also reached a number of recommendations, the most important of which is to develop the legal environment that allows registered and new companies in the stock market to increase their capital in order to attract domestic and foreign investments.

Keywords : Foreign Investment, Development of Financial markets.

1. Introduction

Financial markets play an important role in providing the necessary financial resources to finance investment projects and to create effective employment opportunities for those with financial surpluses. This is a tool for mobilizing people's savings and directing them towards the financial deficit units to meet their financial resources needs for investment projects.

The financial markets have an effective role in the efficiency of economic performance through attracting domestic and foreign funds. Therefore, their revitalization and development lead to the acceleration of economic growth, especially in light of the financial globalization that led many countries to link their financial markets with global markets. Liberalization and increased capital flows to many countries, including developing countries.

Thus, financial markets have become a catalyst for most countries to attract foreign investors and increase their capital flows because of their active role in activating these markets, and thus their positive reflection on economic development, and Iraq among those countries that allowed foreign investors to trade in the Iraqi market for securities During the issuance of the investment law in the Iraqi market for securities No. (74) for the year 2004, which allowed non-Iraqis to invest in this market.

2. Methodology of Research

2.1 Research Problem

Despite the issuance of the law of the Iraqi market for securities in 2004, but it is noticeable not effective investments of foreign companies in Iraq in a manner that encourages the activation of the Iraqi market for securities.

2.2 Research Objective

The research aims at identifying the volume of foreign investments in the Iraqi market for securities and their effectiveness in activating and developing the national economy.

2.3 Research Importance

The research derives its importance from the role played by the Iraqi market for securities in attracting foreign capital to finance and develop the national economy.

2.4 Research Hypothesis:

The research is based on the hypothesis that: the absence of the role played by foreign investment in increasing the activity of the Iraqi market for securities as required.

2.5 Research Methodology

The research adopted the method of analytical approach based on the annual reports of the main trading indicators of the Iraqi market for securities for the period (2010 – 2017).

As well as the adoption of method descriptive approach in order to identify the status of foreign investment in the Iraqi market for securities to diagnose the points of weaknesses and the search for appropriate solutions. .

2.6 Structure of Research

The research is divided on three subjects, The first topic dealt with the theoretical framework of financial markets. The second topic was concerned with foreign investment. The third topic focused on analyzing the reality of foreign investment in the Iraqi market for securities.

3. Conceptual Framework of the Financial Markets

3.1 Concept of Financial Markets

Is the meeting place of the units of investment with financial deficit with savings units with surplus financial, to hold medium and long-term transactions through the initial subscription of the financial instrument, or through the trading instruments market, so the main characteristic of these markets is risk, and therefore the investor gives priority to the process of trade between return and risk, in the sense that the investor seeks a higher return on higher risk financial instruments (Khalaf, 2006: 7-9).

3.2 Importance of Financial Markets

Highlighting the importance of financial markets from the key role played by the economic activities of investment and savings in general and monetary policies in particular and can be summarized as follows:

- A. The importance of financial markets with the development of levels and activities of information and communication devices, and the availability of information, dominated the transparency in these markets, which is reflected on the role of financial markets to expand the scope of exchanges and the intensification of rates. (Al-Douri, 2010: 35-36).
- B. Play an active role by linking surplus economic units to economic units with deficits through subscription, which encourages individuals and institutions to save through the easy transfer of savings to investments in stocks and bonds to obtain the appropriate financial return while at the same time providing the producers with the cash needed in cash The inability of their financial resources or the development and expansion of their activities beyond the resources available to them. (Ramadan , Shamout 2010: 9-11).

3.3 Fundamentals of Establishing Financial Markets

There are several factors that enhance the efficiency of the markets, which can be arranged as follows: (Al-Tamimi, 2010: 26-28).

- A. The basic elements, which represent the environment of financial markets and the pillars of its establishment, and include a climate conducive to investment, laws and legislation, and a clear economic philosophy capable of attracting capital and wealth, and investment tools varied to expand the base of options, distribution and risk, Suitable for savings that are convertible into investments across diversified financial assets.
- B. The existence of an organized institutional structure governed by clear regulations and regulations integrated with the mechanism of trading in the market, supervised by a body of members of the market, aimed at protecting agents from fraud and manipulation, and the existence of information systems with high efficiency To ensure that the information arrives at the speed required to achieve transparency on the market reality and the conditions of listed companies.

3.4 Categories of Financial Markets

There is more than one method to classify financial markets, among them. (Maarouf, 2003: 58-67).

- A. The issuance of the issue is divided into short-term cash markets, high liquidity, low risk, long-term financial markets and higher risks than the previous one.

- B. the status of the issuance, and these markets are divided according to this standard to: (Al-Saadi, 2009: 196).
- 1) Primary markets: These are the markets in which the financial instruments issued for the first time from the company are subscribed, and are called the issue market, as they represent the real addition to investments.
 - 2) secondary markets: the markets in which the trading of securities issued in the primary market, so do not add any capital to the company, but simply transfer ownership of these securities from one side to another.

3.5 Financial Markets Indicators

Is a specialized record price of securities traded in those markets.

- A. **The concept of the stock market index** :Indices of financial markets What are the specialized records at the prices of securities traded in those markets and have different types of simple and non-simple (weighted).
- B. **Types of Financial Indicators**:There are two main types of indicators, weighted indicators, and non-weighted indicators, and we will explain their different types: (Ramadan and Shammout, 2010: 162-168).
- 1) Simple indicator (non-weighted), these indicators take two variables are the base period number, whether the base year or the base month and symbolizes it (x_1), and the number of comparison period, whether the comparison year or a comparison month and symbolize the x_2 , without weighting), the types of simple indicators are:
 - the simple relative index of prices, which is the average price level of a number of shares, as the price level is derived per share and then derive the arithmetic average.
 - weighted indices, which are likely to be weighted by a certain amount, and this amount may be either the number of shares or their value.
 - 2) The volume index, which complements the index of market value, is derived by dividing the value of securities on GDP (Gross Domestic Product). This indicator represents the value of stocks traded in the market over a given period of time.

4. Nature and Types of Foreign Investment

4.1 Definition of Investment

The term investment has more than one definition. In economics it refers to the purchase of a physical asset, with the aim of achieving a new capital accumulation, raising the productive capacity or renewing and compensating the old capital (Alwan, 2009: 29)

Investment is defined as the employment of funds in a particular asset or a number of assets held by an investor or an institution for a period of time in order to obtain future flows, which will yield a certain return, represented by the return required by the investor in order to compensate for the time. (Al-Shabib, 2009: 15).

By sacrificing the satisfaction of consumption at present for greater satisfaction in the future. (Matar, 2009: 19).

4.2 Types of Investment

There are many types of investment according to the objectives, purposes, means, return, and term. These types are:

- a. Financial investment and real investment, financial investment means trading securities (stocks and bonds) for sale and purchase, and this is characterized by investment is not real because it does not create new production capacity, but is the acquisition of energy already existing.

The real investment is investment in real assets, which aims to increase the country's productive capacity through the use of economic resources in a manner that adds new goods and services. (Musa and others, 2012: 26)
- b. Domestic investment and foreign investment. Domestic investment shall be financed from within the country, whether public sector or private sector, managed and reaped by investors who hold the nationality of the country sponsoring such investments.

Foreign investment is an investment whose source of funding is outside the borders of the country in order to generate profits from such investments. (Al-Saadi, 2003: 14)
- c. Short-term investments and long-term investments, long-term investments, called capital investments, which take the form of stocks and bonds. Short-term investments, called cash investments, which take the form of treasury bills, bank receipts, commercial papers and other notes. (Alwan, 2009: 31).

4.3 Determinants of Investment

There are many determinants or factors that depend on the decision of the foreign investor to prefer investment in a country than other countries, which represent the investment climate, including: (Alwan, 2009: 38).

- a. Economic determinants, such as the degree of openness to the outside world, ie, the lack of restrictions on the movement of foreign exchange, which ensures economic efficiency, and depends on the availability of markets and economic and human resources.
- b. The degree of risk to which the investment is exposed, whether systemic risks or irregular risks.
- c. The availability of political and economic stability, which contribute to the creation of the investment environment in the country.

5. Analysis of the Reality of Foreign Investment in the Iraqi Market for Securities

5.1 History of the Iraqi Market for Securities

The Iraqi Stock Exchange, an independent regulatory, administrative and financial institution, was established by Law No. 74 on April 18, 2004. It was officially launched on June 24, 2004. The Market is subject to the Securities Authority's supervision,

The market witnessed two periods of trading, the first was trading manually, from June 2004 until April 2009, while the second period began trading electronically after April 2009 and until now, moving from manual to electronic at the market headquarters, instead of the plastic painting in force as well as (47) of brokerage stations work outside the Iraqi Stock Exchange. (Iraq Stock Exchange Report, 2013: 1).

5.2 Indicators of the Iraqi Market for Securities:

Stock market indices are affected by macroeconomic and microeconomic indicators and by the ability of the shareholding companies to generate profits and continue economic activity compared to the potential risks of investment.

Therefore, the indicators of the Iraqi market for securities are part of the indicators of the Iraqi economy, the Iraqi economy affected by several factors adversely affected the performance of market indicators, including the destruction of infrastructure and capital components produced by terrorist operations, as well as the decline of indicators of the Iraqi economy after a significant drop in prices oil in 2014 and 2015, led to the transformation of the Iraqi economy from a surplus economy to a deficit economy (www.isx-iq.net).

The private sector's contribution to the composition of GDP(Gross Domestic Product) has not developed for structural reasons. The development of the legal environment that encourages the establishment of joint-stock companies, the attraction of national and foreign savings and the weakness of financial and banking institutions have not developed. The banking sector has been unable to finance development projects, , as well as other factors negatively affected the indicators and activity and development of the Iraqi market for securities, which will be mentioned later.

Before starting to analyze some indicators of the Iraqi market for securities, it is necessary to note the following:

- a. The research sample was chosen from 2010, because the beginning of electronic trading was in early April 2009.
- b. The word "non-Iraqis" was retained in place of the word "foreigners" in the analysis, as stated in the tables and statements of the Iraqi Stock Exchange reports.
- c. dealing in the Iraqi market for securities only shares, and did not deal with bonds, unlike the international and Arab markets.

Below are some of the indicators of the Iraqi market for securities:

5.2.1 Number of Non-Iraqi Companies Listed and Traded:

Table (1) indicates that the percentage of non-Iraqi companies in circulation to the number of non-Iraqi companies listed in the Iraqi market for securities was high for the period (2010-2014), ranging between 91% - 98%, but it decreased the ratio for years 2017, as the ratio was between 59% - 75%, which is low compared to previous years, because of the recourse of the Securities Market Commission to stop the circulation of shares of some companies in the market for not disclose their annual and quarterly financial statements, and the other part delayed from this disclosure, in order to protect shareholders and investors, which has applied this procedure since 2015, has adversely affected on market activity.

Table (1): Number of the Non-Iraqis Companies Listed and Traded in Iraq Stock Exchange and its relative importance for the period 2010 – 2017

years	Listed companies	Companies traded	Materiality %
2010	85	83	98
2011	87	83	95
2012	85	80	94
2013	73	70	96
2014	74	67	91
2015	76	57	75
2016	70	41	59
2017	74	49	66

Source: Prepared by the researchers based on the annual reports of the Iraqi market for securities for the period (2010 - 2017)

5.2.2 Value of Shares Traded for Non - Iraqis

Table (2) shows that the value of purchases of non-Iraqi shares for the period (2010-2017) in the telecommunications sector reached (1060305) million IQD (Iraq Dinar), or 60.8%, occupying the first rank of the total value of purchases amounting to (1744884) million IQD. The telecommunications sector entered in Iraq Stock Exchange at 2013.

The banking sector occupied the second place in the value of purchases of shares in the market for the same period to the total value of purchases of shares purchased by non-Iraqis at (445468) million IQD by 25.5%, and the industrial sector ranked third in terms of value of shares purchased by Non-Iraqis for the same period to the total value of purchases amounted to (150099) million IQD, or 8.6%.

The value of shares sold by non-Iraqis for the above period was ranked first by the banking sector, with a value of (348896) million IQD, or 61.9% of the total value of sales, as this sector was heavily affected by the oil price crisis and other factors that will be mentioned later.

The telecommunications sector ranked second in the value of sales of non-Iraqi shares with IQD (129885) million or 23%, and the industrial sector ranked third with (46550) million IQD, or 8.2%.

Table (2) :Value of shares traded sectoral for non-Iraqis and its relative importance for the period 2010 – 2017

Sectors	Purchase Value of Shares (IQD Million)	Materiality %	Value of Shares (Sold Million IQD)	Materiality %
Banks	445468	25.5	348896	61.9
Insurance	7622	0.4	1386	0.3
Investments	479	0.1	256	0.1
Services	44172	2.5	11119	2
Industry	150099	8.6	46550	8.2
Hotels and Tourism	23165	1.3	23984	4.3
Agriculture	13574	0.8	1557	0.2
Telecommunications	1060305	60.8	129885	23
Total	1744884	100	563633	100

Source: Prepared by the researchers based on the reports of the Iraqi market for securities.

5.2.3 Indicator of the Volume of Trading for Non-Iraqis

Table (3) shows the following:

- The number of shares purchased by non-Iraqis for 2010 reached 36 billion shares valued at (62888) million IQD. The number of shares purchased in 2011 increased to 83 billion shares at a value of IQD (176499) million, or 81% , but the number of shares purchased in 2012 decreased to (28) billion shares, the value of (54028) million IQD, and a negative growth rate (- 96%), and returned to rise in 2013, as the number of shares purchased from shares (103) billion shares at value of (1149809) million IQD with a growth rate of 928% achieving net investment (980154) million IQD, which is the largest net investment of the research sample, due to the large increase in purchases to enter Telecom sector to the Iraqi market for securities in 2013, and then decreased for the years 2014 - 2016.
- There is very important note that the research sample started in 2010 with a purchase value of 62888 million IQD. The research sample ended in 2017 with the same value of the purchases at approximately (62077) million IQD. This means that no real value is added to the net investment as shown in the table below.
- The value of sales of shares by non-Iraqis is fluctuating between the rise and fall, between positive and negative.
- The number and value of shares sold to non-Iraqis in 2015 is greater than the number and value of

shares purchased, as the number of shares sold (182) billion shares and the value of sales (113502) million IQD, while the number of shares purchased for the same year (56) billion shares worth (73200) million IQD, which was reflected on the net investment, which amounted to minus (40302) million IQD, and the value of purchases for the years (2016 and 2017), which affected the stock prices down due to increase the share of shares on demand, as well as its impact on net investment amounted to (15709) million IQD and (15509) million IQD for the years 2016 and 2017, respectively after the net investment (980154) million IQD in 2013, and the reasons for this collapse in circulation for the period (2014 - 2017) to the factors of economic comprehensive, and other self, some of which:

(1) Comprehensive Economic Factors

The decline in oil prices globally since 2014, the price ranged between \$ 30 - \$ 35, and continued decline for the years 2015 and 2016, impact on the indicators of the Iraqi economy, as one-sided in its dependence on the production and export of oil and achieve the largest proportion of resources of gross domestic product, this was accompanied by the lack of security stability in some governorates, especially the western ones and Mosul governorate, which led to a deficit in the budget and economic contraction, reflected on the indicators of the Iraqi market for securities.

(2) Subjective Factors

There are subjective factors related to the specificity of the performance of companies and their financial position, as some companies did not achieve a surplus distributable, as well as the cumulative deficit in a number of companies, which led to a decline in shareholders' rights, there are (21) companies out of (70) recorded Iraqi Stock Exchange, distributed the incomes in 2016, and the delay in the movement of funds intended for purchase by foreigners through the Iraqi and foreign banks, which negatively affected the volume of liquidity and polarization towards circulation, in addition to the weakness of some of the companies contributing to their relations with shareholders not to disclose their financial position, this led to a decline the confidence of these companies activity and then sold their shares in the financial market, and accordingly led to increased sales compared with purchases in some years, as shown in the table below.

Table (3): Volume of trading for non-Iraqis for the period 2010-2017 (million IQD)

years	Number of shares purchased (billion) shares	Value of shares purchased (million IQD) *	Growth rate of shares purchased %	Number of shares sold (billion shares)	Value of Shares Sold (Million IQD) *	The growth rate of the value of shares sold %	Net Investment (IQD Million) **
2010	36	62888	-	5	8319	-	54569
2011	83	176499	81	19	48848	387	127651
2012	28	54028	96-	36	56085	85-	(2057)
2013	103	1149809	928	40	169655	102	980154
2014	77	112548	90-	83	82529	151	30019
2015	56	73200	93-	182	113502	62-	(40302)
2016	75	53835	26-	62	38126	166-	15709
2017	80	62077	16	46	46569	77	15508

Source:

*Number of shares purchased and sold from the annual reports of the Iraqi market for securities.**Net investment from the work of the researchers.

6. Conclusions

There is a decline in indicators of the Iraqi economy after the significant decline in oil prices in 2014 and beyond, which reflected negatively on the indicators of the Iraqi market for securities.

It was noted that dealing in the Iraqi market for securities only shares, which led to the decline of trading and selling and buying on the category of investors who wish to deal with this tool.

One of the factors that affected the reduction in the number of traded companies compared with companies listed in the market, is the suspension of some companies from trading by the Securities Commission in the market, because of the disclosure of their annual and quarterly financial statements or delayed disclosure.

It was noted in some years that the value of sales of shares more than purchases by non-Iraqis, which reflected on the net investment negatively, because of the failure of some companies to distribute the dividends of profits achieved on the shareholders, and others companies have increased the accumulated deficit, as well as there is a weak relationship of some companies with the shareholders, which has led to the decline of confidence in activities of these companies.

The delay of the movement of the funds prepared for buying by foreigners through foreign and Iraqi banks,

which affected the volume of liquidity and attract them towards trading and influence in attracting new investors.

7. Recommendations

The legal environment must be developed, including the Companies Law by issuing the rules of public offering and developing its mechanisms when marketing the shares of new companies or existing companies when increasing their capital in order to attract national and foreign capital.

The need to diversify securities through the issuance of long-term bonds alongside the issuance of shares, to attract new traders wishing to invest security.

To oblige the shareholding companies to issue their own financial statements in accordance with international standards, as well as to develop disclosure and transparency procedures by paying attention to their relations with investors and taking care of the information required to be disclosed and published on the website of the joint stock companies.

Inviting the Iraqi media of all kinds to publish and broadcast the trading indicators in the Iraqi market for securities at a reduced price to serve the Iraqi economy.

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