Chinese Trade and Investment in Iraq: Risk or Opportunity?

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Authors

Mahmood Baban

Summary : China's trade with Iraq has consistently expanded year after year, with recent figures nearing $50 billion, representing over two-thirds of Iraq's exports to China. Moreover, China's investments in Iraq's energy and real estate sectors have surpassed those of neighboring countries over the last two decades.

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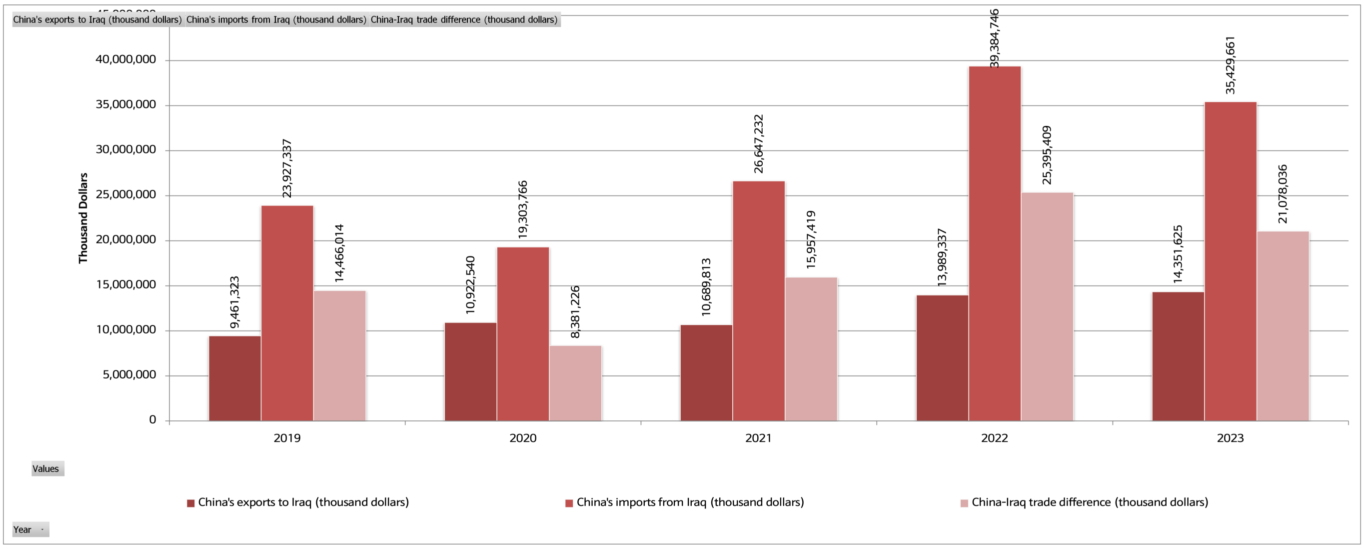
Iraq was once behind its Middle Eastern, North African, and Arab neighbors in trade, but in recent years, it has emerged as China's top importer and the third-largest exporter among countries in the region. In terms of investment in Iraq, China surpasses the Middle East, Arab countries, Turkey, and Iran. By 2023, China had invested over $34.2 billion in various projects and capital ventures in Iraq.

The surge in trade and heightened Chinese investment in Iraq's energy and real estate sectors led to significant developments. In 2019, the Iraqi government inked eight agreements and memorandum of understanding with China, notably focusing on trade relations and infrastructure construction. These agreements have recently commenced implementation. The current relationship presents both opportunities and significant economic risks for Iraq. Given its reliance on oil revenues, any shift in the global economy, particularly in China's, could have profound implications for Iraqi trade and Chinese investment.

China's Trade and Investment Relations with Iraq

According to the International Trade Center (ITC), bilateral trade between China and Iraq in 2023 amounted to $49.7 billion. This figure includes $14.3 billion in exports from China to Iraq and approximately $35.4 billion in exports from Iraq to China.

Chart 1: Trade Volume Trends between China and Iraq (2019-2023)



Source: China Customs Administration GCACS and ITC statistics

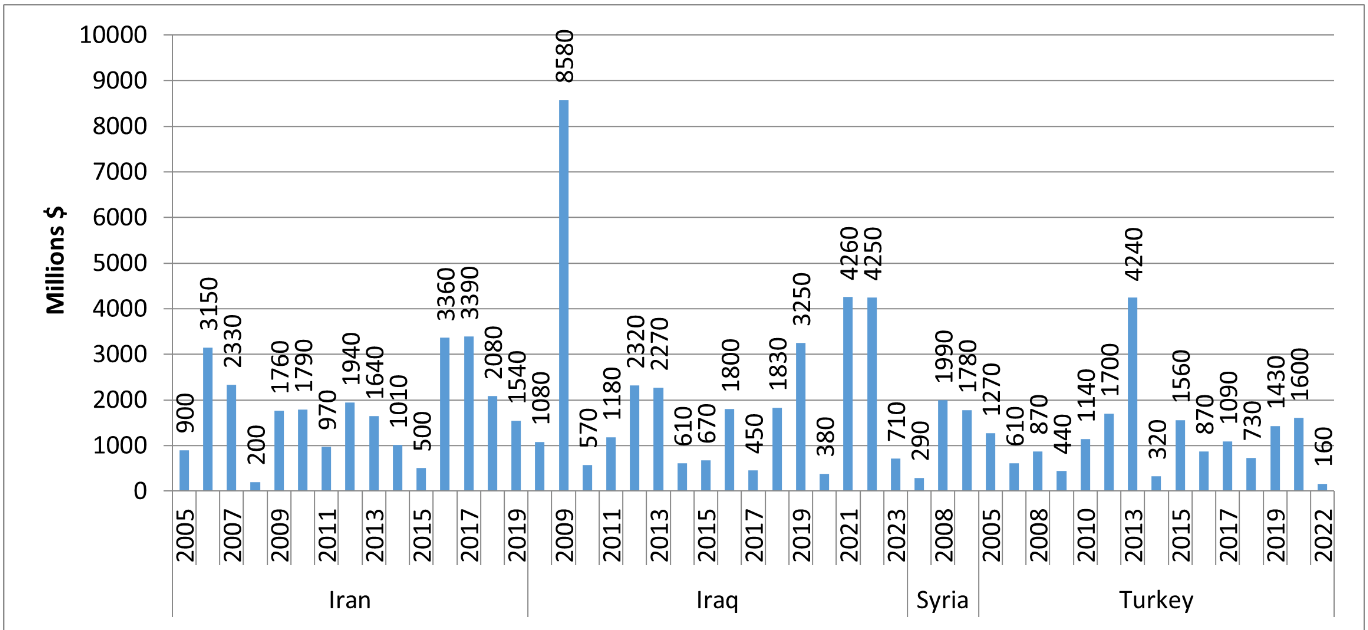
Investment in Iraq's energy and real estate sectors is witnessing a notable surge, largely driven by Chinese companies, many of which are state-owned entities. For instance, among China's ventures in Iraq, 41 projects are focused on the energy sector, with 31 specifically targeting oil. A recent prominent development is the takeover of Exxon Mobil's position in Iraq's significant oil field, West Qurna1.

China's burgeoning economic expansion and global investment over the last twenty years have soared to over $2.4 trillion, rivaling the size of Germany's economy, the fourth largest globally by 2023. Notably, China's foreign investment in the Middle East surged to $250.3 billion during this period, with $34.2 billion specifically directed towards Iraq.

Despite fluctuations in Iraq's domestic situation, Chinese investment has steadily risen over the past two decades, consistently surpassing half a billion dollars annually, sometimes reaching more than $8.5 billion.

Furthermore, when comparing Chinese investment in the region with that of Iraq's neighbors, it's evident that despite starting two years later, China has surpassed them all in terms of both the number of projects and capital invested, as illustrated in the second graph.

Graph 2: Chinese Investment Trends in Turkey, Syria, Iran, and Iraq from 2005 to 2023



Source: China Global Investment Tracker (CGIT), dated 10-02-2024

Conclusion

The surge in trade relations and Chinese investment in Iraq in recent years can be attributed largely to the five-day visit of Adil Abdul-Mahdi and his Iraqi delegation. During this visit, eight memorandum of understanding and agreements were signed with China, Iraq pledged to allocate $10 billion or provide China with 100,000 barrels of oil per day to facilitate the implementation of these agreements. Upon his return, the former Iraqi prime minister stated that the memoranda and agreements with China span various sectors including finance, trade, security, reconstruction, communications and technology, education, and foreign affairs.

Despite the challenges posed by the events of 2019 and subsequent years in Iraq, the Sudani's cabinet announced the initiation of construction for 100 schools by China as part of the agreement. This year, the first of 1,000 Chinese schools was officially opened in Nasiriyah, marking progress towards fulfilling the agreements.

The $80 billion economic relationship between China and Iraq, comprising $50 billion in trade and $30 billion in Chinese investments in Iraq, alongside various services provided by Chinese companies, particularly in the oil sector, it is expected to bring about two threats and three opportunities.

The primary risk lies in the vulnerability stemming from Iraq's heavy reliance on exporting crude oil to China. Should China discover alternative markets or more affordable oil sources, it may swiftly pivot its direction, as evidenced by a 9.4 percent decline in Iraqi crude oil exports to China last year. In contrast, China boasts a diverse array of exports to Iraq, continually expanding its product offerings.

The second risk involves trading with a major economy like China, which holds significant implications for the global economy. Any deceleration in economic growth would directly affect Iraq due to its reliance on imports. For instance, China's anticipated economic slowdown, with projections of 4.6 percent growth in 2024 and 3.5 percent in 2028, underscores the potential impact on Iraq.

The economic and trade relationship presents three notable opportunities:

- Diversification of Currency: By conducting a portion of its oil sales in Chinese yuan instead of solely relying on the dollar, Iraq can diminish US pressure regarding revenue returns, providing a new avenue for financial stability.
- Learning from China's Success: Iraq stands to gain insights from China's remarkable economic growth trajectory, including lessons on rapid GDP expansion and the enhancement of per capita income.
- Access to Resources and Expertise: Leveraging China's abundant reservoirs of affordable labor, equipment, technology, and electronics, Iraq can address critical infrastructure needs across various sectors. This includes bolstering transportation networks, constructing roads, buildings, hospitals, and schools, thus alleviating the country's pressing deficiencies in essential amenities.