



Is Nation Building Possible Without Business Building? Exploring Baghdad's Fast Food Boom¹

Amid the scars of continued sectarian violence in Iraq there is a new player emerging in the streets of Baghdad: American-style fast food chains. 'Burger Friends,' 'Chili House,' and 'Florida Fried Chicken' are among the growing number of knock-off restaurants that are fundamentally changing the way Iraqis eat.

To many, the proliferation of western food is not surprising.

"It is not about the chicken. It is about an experience. You are selling them a link to the outside world. You are telling them that after decades of wars and sanctions, you are now part of outside world. And that is powerful," one speaker said, during a recent discussion on doing business in Iraq at the Fletcher School of Law and Diplomacy.

While this recent food boom has caught the attention of Western investors, it has failed to sway executives from food chains like Taco Bell and KFC to open their first stores in the country.

Security and corruption remain real concerns for Western executives, according to the speaker. But they are not in themselves what is preventing the opening of the first Taco Bell in Baghdad.

"Companies like Yum Brands [the parent company of Taco Bell, KFC and Pizza Hut] understand the opportunity," explained the speaker. "They'd like to be there, but the first thing they ask is, 'who can I work with?' Are there Iraqis that can help run my franchises? And it is not always clear businesses are receiving the support they need in Iraq, whether it be the Iraqi or US government."

A wide-ranging discussion on the environment for western investment in Iraq featured Mowak al Rubaie, the former Iraqi National Security Advisor and a Fletcher Statesmen in Residence, Ibrahim Warde, a professor of International Business at Fletcher, Gerry

¹ This event was held under Chatham House Rule. When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed. Thus, most names have been replaced with generic qualifiers, such as "speaker" or "student."

Brown, the Director of Industry Revitalization for the Task Force on Improving Business and Stability Operations in Iraq at the Department of Defense, and Bhaskar Chakravorti, Senior Associate Dean for International Business and Finance.

One speaker acknowledged the challenges of investing in Iraq, listing off a host of barriers: corruption, restrictive Saddam era laws that remain in place, the slow shift from a central economy, a shortage of skilled labor and, importantly, the current business culture.

“Business used to be driven by fear, by Baghdad and the one man [Saddam Hussein] directing the country,” he said. “Today we moving toward a decentralized economy driven by diffuse business interests. This is a huge paradigm shift that will take some time.”

Despite these challenges, Iraq remains an attractive place to invest according to one speaker.

“Iraq is the fastest growing frontier market in the world. [The country has] huge natural and intellectual capital just waiting to be tapped into,” he emphasized. “If you get stranded in an elevator with the CEO of Yum Brands, please advise him that this is a huge growth opportunity.”

The speaker pointed to rising tourism, the growth of the middle class, and a hunger for western brands and commodities as reasons for Yum Brands to consider investing in the country. He dismissed concerns over violence, citing that violence in Baghdad is lower than in Mexico City and Chicago.

“The focus is on high profile attacks. The sectarian violence is gone and what we are seeing now is a low-grade civil war. Groups are fighting for power, wealth and status, but this has been going on since the foundation of the country,” he explained. “I am optimistic that we can keep it under control.

“If the U.S. really wants to help in nation building, they should help stimulate the Iraqi economy and encourage business development,” he added.

Chakravorti, who moderated the discussion, then posed the question to the panel: “Can we really ignore the opportunity?”

According to one speaker, the risks are too high for most investors.

“The attitude of US bankers is that investing in Iraq is too much of a headache. The Foreign Corrupt Practices Act makes doing business in Iraq a headache for American businesses because, while we may in reality see declining rates of corruption, it is all about perception,” he said. “Investors see the possible opportunities but fear the risk.”

“It will take unlearning from the tried and true understandings of private equity before investors will see the risks as opportunities,” he concluded.

The panel then explored the option of local financing for potential franchise owners before concluding that local sources of capital have become too politicized by sectarian aims.

Wrapping up the conversation, Chakravorti asked the students to take the role of an adviser to the CEO of Yum Brands. Should the CEO invest in Iraq? Or are the challenges insurmountable?

Perhaps unsurprisingly the answers were mixed. Multiple students raised concerns over intellectual property, security, corruption and a complex business environment. For one student, however, the growing demand for American brand names like KFC was just too great of an opportunity to pass up.

“Brands matter,” said the student. And Iraqis want brands like KFC. It is worth the risk.”

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