The Impact of Legal Guarantees and Dispute Resolution Mechanisms on Foreign Investment Security in Iran and Iraq: Challenges and Solutions

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Abstract

Foreign investment security is one of the fundamental prerequisites for economic development and the attraction of international capital, and its realization depends on the existence of effective legal guarantees and efficient dispute resolution mechanisms. The present study aims to comparatively analyze the impact of legal guarantees and dispute resolution mechanisms on foreign investment security within the legal systems of Iran and Iraq and to identify the principal challenges and potential solutions for strengthening such security. In terms of purpose, the study is applied research, and methodologically, it adopts a descriptive-analytical and comparative approach. The required data were collected and analyzed through library-based sources, domestic laws and regulations, international instruments and treaties, and relevant legal studies. The findings indicate that both countries have established frameworks for protecting foreign investors by providing safeguards against expropriation, guaranteeing the transfer of capital and profits, and establishing judicial and arbitral dispute resolution mechanisms; however, the effectiveness of these guarantees differs between the two jurisdictions. In Iran, legal restrictions, economic and financial sanctions, banking and foreign-exchange difficulties, and limited access to certain international mechanisms pose significant challenges to the legal security of foreign investment. In Iraq, despite a more open approach toward international arbitration and ongoing legal reforms, institutional weaknesses, bureaucracy, corruption, and the multiplicity of decision-making authorities remain major obstacles. The study concludes that strengthening investment security requires the harmonization of laws, the development of specialized adjudicatory bodies, the enhancement of arbitration and mediation mechanisms, greater transparency, and effective enforcement of legal decisions.

Keywords: Foreign Investment, Investment Security, Legal Guarantees, Dispute Resolution, International Arbitration, Iran, Iraq.

Received: 07 July 2026
Revised: 22 October 2026
Accepted: 29 October 2026
Initial Publication: 01 November 2026
Final Publication: 01 August 2027

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Citation: Sadeghi, H., Khudr Al-Saeed, S. H., & Mohseni, H. (2027). The Impact of Legal Guarantees and Dispute Resolution Mechanisms on Foreign Investment Security in Iran and Iraq: Challenges and Solutions. *Legal Studies in Digital Age*, 6(8), 1-15.

1. Introduction

Foreign investment is regarded as one of the most important instruments for financing, technology transfer, infrastructure development, employment creation, and strengthening countries' economic growth. The significance of this type of investment, particularly for developing countries, has made the creation of a secure and predictable environment for foreign investors one of the major priorities of economic and legal policymaking. In deciding whether to enter a country, a foreign investor considers not only economic factors but also legal security, regulatory stability, guarantees of property rights, the possibility of transferring capital and profits, and the availability of effective dispute resolution mechanisms (Elsan & Negintaji, 2023). The expansion of economic relations among countries has increased the need to establish appropriate legal rules governing relations between investors and host states. International trade is founded on supply-and-demand relations among countries, and within this framework, international investment law seeks to strike a balance between protecting investors' rights and safeguarding the interests and sovereignty of host states (Shiravi, 2020). International investment law is rooted, on the one hand, in rules concerning the protection of aliens and their property and, on the other hand, in the international mobility of factors of production and capital (Carreau, 2010). The development of bilateral investment treaties and international arbitration mechanisms has also played an important role in strengthening the legal protection of investors (Iraqi, 2025). In this context, legal security constitutes one of the most important prerequisites for attracting and retaining foreign investment. Legal security requires clear, stable, predictable, and enforceable rules. Protection of property rights and safeguards against expropriation, the ability to transfer capital and profits, and access to independent and effective dispute resolution bodies are among the most important elements of such security. In the absence of these guarantees, the legal risks associated with investment increase, thereby reducing investors' incentives to enter the host country. Accordingly, dispute resolution mechanisms should be regarded as an integral component of the legal protection regime governing foreign investment. Investment disputes may arise from breach of contract, regulatory changes, administrative measures, expropriation, or restrictions on the transfer of funds. The existence of clear, expeditious, impartial, and predictable mechanisms for resolving such disputes can prevent their escalation and enhance investor confidence. For this reason, in addition to judicial proceedings, methods such as negotiation, conciliation, mediation, and arbitration are employed. Among these, mediation has acquired a significant position in international commercial relations because of its flexibility and its potential to reduce the cost and duration of dispute resolution, and mediated settlement agreements have also received recognition under the 2018 Singapore Convention (Abdulhamza, 2026). Likewise, the 1965 Washington Convention, the International Centre for Settlement of Investment Disputes (ICSID), and the 1958 New York Convention are among the principal instruments relating to arbitration and the enforcement of arbitral awards in the field of investment (Łągiewska, 2024). In Iran, although the first foreign investment law was enacted in 1955, deficiencies in the legal framework led to the adoption of the Foreign Investment Promotion and Protection Act in 2002. This Act represented an important step toward protecting foreign investors and establishing a more appropriate legal framework; nevertheless, challenges remain regarding the effectiveness and predictability of the investment legal regime (Elsan & Negintaji, 2023). The 1997 Law on International Commercial Arbitration and bilateral investment agreements have also created capacities for dispute settlement and investor protection. However, legal and implementation constraints, administrative complexities, difficulties concerning the recognition and enforcement of certain arbitral awards, and Iran's non-membership in the 1965 Washington Convention continue to constitute major challenges in this field (Karimi, 2023). Iraq likewise requires foreign investment because of political developments, wars, insecurity, infrastructure deficiencies, and its extensive reconstruction needs. Under such circumstances, establishing legal security for investors assumes particular importance. Investment Law No. 13 of 2006 and its subsequent amendments were designed to establish a protective framework and facilitate investors' activities. Despite these measures, political instability, administrative complexity, corruption, and weaknesses in the legal infrastructure continue to affect investment security in Iraq (McIlwrath et al., 2024). Moreover, risks such as expropriation, nationalization, political unrest, war, and restrictions on currency transfers make the existence of legal guarantees and effective dispute resolution mechanisms even more essential in that country (Shalash & Javid, 2026). Accordingly, the principal issue is not merely the existence of protective laws in Iran and Iraq, but rather the effectiveness and enforceability of these guarantees and dispute resolution mechanisms in creating genuine security for investors. Legal guarantees without

effective enforcement and an efficient dispute settlement mechanism cannot generate sustainable confidence; conversely, a dispute resolution mechanism without clear substantive rights and guarantees cannot adequately perform a protective function. From this perspective, the relationship between legal guarantees and dispute resolution is complementary and determinative in reducing the legal risks of investment (Najdawi & Raafat, 2025; Oecd, 2024). A comparative study of Iran and Iraq is particularly significant because both countries possess considerable economic, petroleum, and geoeconomic capacities, yet face different challenges concerning legal security and the attraction of foreign investment. Comparing the two legal systems can reveal their respective strengths and weaknesses in investor protection, dispute resolution, and enforcement of legal decisions and can provide a basis for proposing corrective measures. Accordingly, using a descriptive-analytical and comparative approach, the present study examines the impact of legal guarantees and dispute resolution mechanisms on foreign investment security in Iran and Iraq and, while identifying existing challenges, proposes measures to enhance the transparency, predictability, effectiveness, and enforceability of their legal frameworks. The fundamental hypothesis of the article is that the more credible the legal guarantees and the more effective, independent, and predictable the dispute resolution mechanisms, the lower the legal risk and the greater the security and confidence of foreign investors.

2. Theoretical Foundations of Foreign Investment Security

Foreign investment security is one of the most important prerequisites for establishing an appropriate environment for attracting and retaining foreign capital. Such security is achieved through transparent laws, guarantees of investors' rights, and the provision of effective mechanisms for resolving disputes. Accordingly, examining the concepts of legal security, legal guarantees, and the role of dispute resolution mechanisms forms the basis for analyzing the status of foreign investment.

2.1. Concept of Legal Security of Investment

Legal security of investment refers to the existence of a body of clear, stable, predictable, and enforceable laws and regulations that define the rights and obligations of foreign investors and host states. Investment laws generally regulate matters such as the conditions and procedures for licensing, investors' rights and obligations, tax incentives, restrictions on foreign ownership, and dispute resolution mechanisms. The primary purpose of these laws is to create a transparent and stable environment for investors' activities and to reduce legal and political risks (Firmansyah et al., 2022). Harmonizing domestic laws with international standards can also enhance the predictability of the legal system and increase investor confidence (Gallagher et al., 2021). From this perspective, an effective investment law should protect investors while also enabling the state to regulate sectors open to foreign investment, foreign ownership, and the protection of property rights (Genthner & Kis-Katos, 2022). Legal security is not limited to the enactment of protective legislation; rather, it also depends on the quality and manner of its implementation. Coordination between national and local laws, cooperation among governmental institutions, and the establishment of coherent administrative procedures are among the factors affecting the realization of legal security. At the same time, states must strike a balance between attracting foreign investment and safeguarding public interests, environmental standards, and employment (Hamid et al., 2021). Furthermore, investment laws should be updated in line with technological developments, global trade, and international political conditions. Participation by the business community and other stakeholders in the legislative process can also contribute to the development of more coherent and effective regulations (Erwin & Mat Noor, 2025). Therefore, investment-related legal security results from a balance between legal certainty and flexibility, investor protection, and the preservation of public interests.

2.2. Legal Guarantees of Foreign Investment

Legal guarantees of foreign investment comprise a set of statutory and contractual protections designed to reduce investment risk and provide reassurance to investors in the host country. A substantial portion of foreign investment regulation is contained in states' domestic laws, which in many instances regulate the rights of domestic and foreign investors within relatively similar frameworks. Accordingly, the domestic law of the host state constitutes an important source of foreign investment protection (Salari & Azadbakht, 2023). The importance of these guarantees stems from the fact that foreign investment is generally

long-term in nature and that investors encounter economic, political, and legal changes in the host state throughout the period of their activities. Statutory and contractual guarantees can therefore play an important role in reducing uncertainty and providing long-term protection for investors (Mandeel & Mohammed, 2025). The most important legal guarantees include protection against expropriation and discriminatory measures, guarantees of property rights, the ability to transfer invested capital and profits, fair and equitable treatment, and access to effective dispute resolution mechanisms. In this regard, the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the arbitration practices of institutions such as ICSID, the London Court of International Arbitration (LCIA), the International Chamber of Commerce (ICC), and the Stockholm Chamber of Commerce (SCC) are important in strengthening the legal protection of investors. The principle of "fair and equitable treatment" has likewise received particular attention as a means of establishing a fair, transparent, and impartial environment for foreign investment (Khidoyatov, 2022). Furthermore, the ability to transfer invested capital and profits out of the host state is an important guarantee recognized in many national laws, bilateral treaties, and international investment instruments (Fatouros, 1994). By reducing political and legal risks, these guarantees collectively play an important role in fostering confidence and enhancing foreign investment security.

2.3. Role of Dispute Resolution in Investment Security

The existence of an effective dispute resolution mechanism is one of the principal pillars of foreign investment security because, even where investors enjoy statutory rights and guarantees, disputes with the state or domestic persons and institutions may still arise. The origins of foreign investment protection in international law can be traced to concepts such as diplomatic protection and the treatment of aliens. For example, in the Diallo case, the International Court of Justice recognized Guinea's right to exercise diplomatic protection in relation to its national (Salari & Azadbakht, 2023). In the contemporary investment regime, judicial proceedings, arbitration, mediation, and conciliation enable investors to seek redress through a defined legal process where their rights or corresponding obligations have been violated. Accordingly, the effectiveness, independence, speed, and enforceability of dispute resolution decisions are important factors in reducing the legal risks of investment. Dispute resolution also affects an investor's decision to enter and continue economic activity in a host country by creating confidence that the host state's obligations will be enforced. In addition to providing financial resources, foreign investment contributes to technology transfer, upgrading workforce skills, and employment creation (Aksan & Gantyowati, 2020); hence, reliable dispute resolution mechanisms are important for preserving these benefits. Foreign direct investment is also generally undertaken with a view to obtaining long-term benefits and is accompanied by substantial control or influence over the target enterprise (Al-Fadhat, 2022; Al-Sadiq, 2021). Consequently, the more transparent, impartial, and predictable the dispute resolution system, the lower the investment risk and the greater the investor confidence. Conversely, weaknesses in contract enforcement, administrative interference, complexity of judicial processes, and difficulties in enforcing arbitral awards may undermine legal security and constitute obstacles to foreign investment. From this perspective, dispute resolution is not merely a remedial instrument employed after a dispute has arisen; rather, it is a preventive and fundamental component of foreign investment security.

3. Legal Guarantees of Foreign Investment in Iran

The Iranian legal system provides a set of constitutional rules, ordinary legislation, executive regulations, and international obligations for the protection of foreign investors. These guarantees are designed to reduce legal and economic risks and to provide assurance regarding property rights, economic activities, and the benefits derived from investment. The most significant guarantees can be examined in terms of statutory protection, guarantees of property rights and protection against expropriation, and the ability to transfer capital and profits.

3.1. Legal Protection of Foreign Investors in Iran

Protection of foreign investors in Iran is based on a body of constitutional principles, statutory provisions, and international agreements. The principal legislation in this field is the 2002 Foreign Investment Promotion and Protection Act and its

Implementing Regulations, which establish the primary framework for the entry and operation of foreign investors. With the objective of creating a more secure investment environment, the Act provides the necessary legal protections and, inter alia, emphasizes relatively equal treatment of domestic and foreign investors. Iran's bilateral investment treaties with various countries likewise provide, in certain circumstances, guarantees such as fair and equitable treatment, protection against expropriation, and access to dispute resolution mechanisms. From this perspective, domestic legislation and treaty obligations jointly constitute the framework for the legal protection of foreign investors (Salari & Azadbakht, 2023). Despite this framework, the actual degree of investor protection also depends on the manner in which laws are implemented and on the performance of executive and judicial institutions. Regulatory complexity, the multiplicity of decision-making authorities, administrative bureaucracy, and the need for coordination among different institutions may reduce the predictability of the legal system. Accordingly, moving toward simplified investment procedures, regulatory transparency, and electronic mechanisms can alleviate some of these problems. The existence of a specific dispute settlement mechanism is also a complementary element of legal protection because merely recognizing investors' rights, without an effective means of bringing claims and obtaining remedies, does not provide sufficient practical protection. In this regard, the global tendency in investment law toward international arbitration has increased the need to establish impartial and predictable mechanisms for resolving investment disputes (Pasban & Asghari, 2014; Sanjari & Shakhani, 2021). Foreign investment provides benefits to investors, and therefore it is necessary to create conditions that inspire their confidence (Ansari & Raeisi, 2018).

3.2. Guarantee of Property Rights and Protection against Expropriation in Iran

Protection of property rights is one of the most fundamental legal guarantees for foreign investors, because long-term investment without confidence in the security of assets and the ability to make use of them entails substantial risk. In the Iranian legal system, Article 22 of the Constitution emphasizes the inviolability of individuals' property and rights except as provided by law. The Foreign Investment Promotion and Protection Act also addresses protection against expropriation and nationalization within the framework of legally prescribed conditions. This protection assures investors that the state may not deprive them of their property or lawful interests without compliance with legal requirements and payment of compensation (Shamsaei, 2016). At the international level, protection against unlawful expropriation is likewise one of the most important principles of investment law and is recognized in numerous investment treaties (Khidoyatov, 2022). However, protection of foreign investors' property rights is not absolute and must be reconciled with the state's sovereign right to regulate public affairs and protect national interests. Alongside protecting property rights, the Iranian Constitution also recognizes considerations such as economic independence and the prevention of foreign domination. For example, Articles 44 and 81 of the Constitution establish limits regarding foreign participation in certain economic activities and the granting of concessions to foreigners. Consequently, property security in Iran is defined within a balance between protecting investors' rights and preserving public interests and national sovereignty. The importance of this balance becomes particularly apparent when disputes arise between the state and an investor concerning expropriation or equivalent measures; in such circumstances, the existence of an independent dispute resolution forum and the possibility of enforcing its decision constitute essential complements to the substantive guarantee of property rights (Bahmaei, 2005; Elsan & Negintaji, 2023).

3.3. Guarantee of the Transfer of Capital, Profits, and Returns in Iran

The ability to transfer invested capital, profits, and other investment returns is one of the most important factors affecting a foreign investor's decision to enter a host country. Investors can be confident in the economic security of their investments only where, after conducting economic activities, they are able to transfer their financial returns in accordance with the host state's regulations. For this reason, many international instruments, bilateral treaties, and domestic laws contain provisions guaranteeing the transfer abroad of invested capital and profits (Fatouros, 1994). In Iran's legal system, the Foreign Investment Promotion and Protection Act likewise protects the principle of transferring capital and investment returns subject to applicable legal requirements and thereby seeks to reduce one of the principal financial risks associated with foreign investment. Together with property protection and fair treatment, this guarantee constitutes an important component of investors' economic security (Kelishadi Najaf Abadi et al., 2024). Nevertheless, the practical implementation of capital and profit transfers may be affected

by foreign-exchange regulations, banking restrictions, economic sanctions, and administrative requirements. Accordingly, the existence of a statutory right alone is insufficient to provide adequate assurance; transparent and predictable implementation mechanisms are also required. This issue is particularly significant because foreign investment generally has a long-term character and, before entering a market, investors assess the prospects for recouping their capital and transferring their returns. From this perspective, the guarantee of capital and profit transfers, together with protection of property rights and effective dispute resolution mechanisms, should be regarded as one of the principal pillars of the legal security of foreign investment in Iran, because weakness in any of these areas may increase investment risk and reduce the attractiveness of the country's legal environment.

4. Legal Guarantees of Foreign Investment in Iraq

In the post-2003 period, Iraq's legal system has gradually shifted from a restrictive and state-centered approach toward the protection and facilitation of foreign investment. The 2005 Constitution, National Investment Law No. 13 of 2006 and its subsequent amendments, together with Iraq's participation in certain international treaties, constitute the main foundations of this transformation. Nevertheless, challenges including bureaucracy, institutional weakness, corruption, and ambiguity regarding certain economic competences continue to affect the legal security of investment.

4.1. Legal Protection of Foreign Investors in Iraq

The framework for protecting foreign investment in Iraq is primarily based on National Investment Law No. 13 of 2006 and its amendments. With the objective of creating a more favorable environment for foreign capital, this legislation recognizes the principle of equal treatment of domestic and foreign investors and provides a range of legal protections. The transformation of Iraq's legal system after 2003 was also accompanied by a reduction in previously restrictive approaches and movement toward greater acceptance of international investment. Articles 25 and 26 of the 2005 Constitution emphasize economic reform, private-sector development, and the encouragement of investment, thereby providing a constitutional basis for protective investment legislation (Al-Ali, 2014). Nevertheless, bureaucratic obstacles, weaknesses in the financial system, and administrative corruption continue to limit the security and efficiency of Iraq's investment environment (Yehia et al., 2023; Young, 2016). Steps have also been taken to strengthen the legal protection of investors from the perspective of dispute resolution. The 2006 Investment Law recognized the use of arbitration mechanisms, while the establishment of specialized commercial courts in 2010 sought to provide more specialized adjudication of commercial disputes involving a foreign element. Iraq's accession to the ICSID Convention and acceptance of international arbitration frameworks have also strengthened the possibility of using more impartial mechanisms for resolving investment disputes. Efforts to enact new arbitration legislation inspired by the UNCITRAL Model Law further demonstrate the Iraqi legal system's movement toward greater transparency, arbitrator independence, and efficiency in arbitral proceedings (McIlwrath et al., 2024). Accordingly, Iraq's legal protection of foreign investors should be understood as a combination of domestic statutory guarantees, specialized institutions, and international obligations.

4.2. Guarantee of Property Rights and Protection against Expropriation in Iraq

Protection of private property and compensation for expropriation are among the most important elements of investment-related legal security in Iraq. Article 23 of the 2005 Iraqi Constitution recognizes private property and permits expropriation only in cases provided by law, in pursuit of the public interest, and subject to payment of fair compensation. Together with the protections stipulated in investment legislation, this principle provides a basis for safeguarding the assets and interests of foreign investors. Iraqi investment laws likewise provide protection against nationalization and confiscation and recognize compensation as a fundamental investment guarantee. From this perspective, Iraq's legal transformation after 2003 may be regarded as an effort to move away from the previous structure characterized by extensive state control over property and economic activity (Alnasrawi, 2010). Nevertheless, property protection in Iraq is not absolute, and restrictions exist regarding ownership of immovable property by foreign nationals. Consequently, foreign investors in certain construction, industrial, and

residential projects may encounter specific conditions and requirements concerning land and real estate (Kadhim, 2015). Furthermore, jurisdictional disputes among the federal government, the Kurdistan Region, and the governorates regarding natural resources, particularly oil and gas, may create legal risks for investors. Accordingly, although guarantees of property rights and compensation for expropriation occupy an important position at both the constitutional and statutory levels, their practical realization depends on political stability, regulatory transparency, judicial independence, and reduced administrative interference. Strengthening international arbitration mechanisms can similarly reduce risks arising from state intervention or property-related disputes (McIlwrath et al., 2024).

4.3. Guarantee of the Transfer of Capital, Profits, and Returns in Iraq

The ability to transfer invested capital, profits, and returns constitutes one of the most important guarantees sought by foreign investors, because investors require assurance not only regarding the security of capital entry but also regarding the lawful repatriation of capital and the benefits derived from it. Under Iraq's legal regime, the National Investment Law permits the entry of both cash and non-cash capital, including equipment, technical know-how, trademarks, and other capital assets, and also protects the transfer of capital and investment profits. Within this framework, non-discriminatory treatment, protection against nationalization and expropriation, and the ability to repatriate capital and profits in foreign currency are among the principal guarantees provided to foreign investors (Dabidian & Stone, 2012). Given Iraq's oil, gas, and other natural-resource capacities and its need for capital, technology, and managerial expertise, these guarantees play an important role in enhancing the attractiveness of the Iraqi market (Gallacher & Shrestha, 2011). Nevertheless, the practical exercise of the right to transfer capital and profits depends on the functioning of Iraq's banking, foreign-exchange, and administrative systems, and weaknesses in its financial infrastructure may impede effective enjoyment of this guarantee. It is also essential to provide reliable mechanisms for resolving disputes concerning capital transfers alongside substantive guarantees, because investors can be confident in the right to transfer their capital only where they are able to resort to an independent and effective forum in the event of a violation. From this perspective, Iraq's international obligations and acceptance of international arbitration can reduce investors' legal risks (Yehia et al., 2023). Accordingly, security of capital transfers in Iraq results from the interaction between statutory guarantees, stability of the banking and foreign-exchange system, and the existence of an effective dispute resolution mechanism; otherwise, statutory guarantees alone cannot generate sustainable investor confidence.

5. Investment Dispute Resolution System in Iran

Iran's investment dispute resolution system is based on a combination of judicial, contractual, and domestic and international arbitration mechanisms intended to ensure investors' legal security while preserving the state's sovereign interests and considerations. The Foreign Investment Promotion and Protection Act and related regulations allow recourse to negotiation, judicial proceedings, and arbitration; nevertheless, legal and institutional constraints continue to affect the effectiveness of this system.

5.1. Domestic Dispute Resolution Mechanisms

Under Iranian law, foreign investment disputes may initially be resolved through negotiation and consensual mechanisms between the investor and the Iranian party. Article 19 of the Foreign Investment Promotion and Protection Act likewise provides that disputes between the state and a foreign investor should initially be addressed through negotiation and, if no agreement is reached, may be referred to arbitration. Alongside this mechanism, Iranian courts may adjudicate investment disputes where domestic jurisdiction exists. However, the length of certain judicial proceedings, regulatory complexity, and foreign investors' concerns regarding the impartiality or expertise of domestic courts are among the factors that reduce their willingness to pursue this avenue (Mohammadzadeh Vajari, 2022). From a theoretical perspective, dispute resolution is not limited to the application of procedural rules; observance of justice and equity throughout the adjudicative process is equally fundamental. Where a judge, in deciding a case, takes natural justice into account alongside legal justice, it can be said that the principles of justice and fairness have been observed (Mousazadeh, 2016). Therefore, the effectiveness of domestic dispute resolution

mechanisms in the field of foreign investment depends not only on the existence of a legal basis but also on the independence and expertise of adjudicatory bodies, the speed of proceedings, procedural transparency, and the predictability of decisions, all of which ultimately affect investor confidence and the investor's assessment of the host country's legal risk.

5.2. Arbitration and International Mechanisms

International arbitration is one of the most important instruments for resolving foreign investment disputes because investors generally prefer to resolve disputes with the host state before a specialized forum that is, to the greatest extent possible, independent of the host state's judicial system. Through bilateral investment agreements, Iran has in various cases accepted the use of negotiation, conciliation, and international arbitration, while certain major contracts also make use of the rules of institutions and frameworks such as the International Chamber of Commerce and UNCITRAL (Abdollahi, 2020; Zare, 2022). Article 19 of the Foreign Investment Promotion and Protection Act also permits referral of disputes to international arbitration subject to legal requirements and governmental consent. Nevertheless, Iran's current non-membership in the 1965 Washington Convention and restrictions concerning the acceptance of investment arbitration remain important features of the Iranian dispute resolution regime (Karimi Tari, 2021). At the international level, the International Centre for Settlement of Investment Disputes (ICSID) is one of the principal specialized mechanisms in this field and was established to provide a neutral framework for conciliation and arbitration of disputes between states and nationals of other states. An important feature of this system is its attempt to balance the interests of host states with the rights of foreign investors, enabling investors to obtain independent adjudication while allowing states to defend public interests within a legal framework (Delaume, 1986; Shihata, 1993). Consequently, international arbitration can reduce investors' concerns about exclusive dependence on domestic courts, increase legal predictability and confidence in the investment environment, and strengthen the relative equality of the parties throughout adjudication, the rendering of awards, and their enforcement (Mojtahedi, 2011).

5.3. Challenges of Dispute Resolution

One of the most significant challenges facing Iran's investment dispute resolution system is foreign investors' reluctance to refer disputes to the domestic institutions of the host state. The complexity and length of certain judicial proceedings, insufficient expertise in some forums concerning the complex nature of international investment disputes, and concerns regarding impartiality may increase legal risk. Investors therefore often seek access to independent international arbitration mechanisms (Akhlaqi, 2000). At the same time, the host state must strike a balance between protecting investors' rights and safeguarding public interests and national assets, because excessive acceptance of investors' claims without adequate regard for public interests may adversely affect the country's economic sovereignty (Alidousti, 2009). Another challenge concerns the structural and international limitations of Iran's investment arbitration system. Iran's non-membership in the Washington Convention, and consequently its restricted direct access to ICSID mechanisms, together with domestic legal requirements governing the referral of certain disputes to international arbitration, restrict the range of choices available to investors. Regulatory complexity, the multiplicity of decision-making authorities, and the need for coordination among executive and judicial bodies may also affect the speed and predictability of dispute settlement. From this perspective, strengthening mediation and arbitration mechanisms, developing specialized institutions, clarifying rules governing investment arbitration, and increasing compatibility with international standards can contribute to reducing legal risk and strengthening foreign investor confidence.

6. Investment Dispute Resolution System in Iraq

In recent years, Iraq's investment dispute resolution system has been influenced by legal reforms, the development of investment legislation, and the gradual acceptance of international arbitration mechanisms. The system is based, on the one hand, on judicial bodies and domestic mechanisms and, on the other, on arbitration and international obligations; nevertheless, institutional weakness, bureaucracy, and the underdevelopment of alternative dispute resolution mechanisms remain significant challenges.

6.1. Domestic Dispute Resolution Mechanisms

Under Iraqi law, investment disputes may initially be adjudicated by domestic courts and through mechanisms provided for in investment and commercial legislation. The enactment of Investment Law No. 13 of 2006 and its amendments established the legal basis for investor protection and the regulation of disputes arising from investment activities. The establishment of specialized commercial courts in 2010 to adjudicate commercial claims involving a foreign element also represented a step toward more specialized judicial proceedings and greater legal security for investors (McIlwrath et al., 2024). From this perspective, the development of specialized forums can increase the predictability of judicial decisions and reduce investment-related legal risk. Nevertheless, the effectiveness of domestic mechanisms depends not merely on the existence of legislation and judicial forums but also on the quality of law enforcement, the independence and expertise of adjudicatory bodies, the speed of proceedings, and administrative transparency. Assessments of Iraq's investment environment continue to identify bureaucracy, institutional weakness, administrative corruption, and insufficiently developed alternative dispute resolution mechanisms as obstacles to foreign investors' activities (Lloyds, 2022; Young, 2016). Thus, although Iraq's domestic dispute resolution structure is moving toward greater specialization, increasing investor confidence requires stronger judicial independence, expedited proceedings, and the further development of mediation and conciliation.

6.2. Arbitration and International Mechanisms

International arbitration is one of the principal instruments for protecting foreign investors in Iraq because it allows disputes between investors and the state or other contracting parties to be adjudicated within a framework that is more specialized and independent of domestic courts. The 2006 Investment Law explicitly created, for the first time, a legal basis for Iraqi persons and entities to accept international arbitration agreements. Iraq's accession to the Convention on the Settlement of Investment Disputes in 2015 further expanded its capacity to use international mechanisms for resolving investment disputes (Lloyds, 2022; McIlwrath et al., 2024). In addition, Iraq's accession to the 1958 New York Convention in 2021 strengthened the legal framework for the recognition and enforcement of foreign arbitral awards. These mechanisms are important because they reduce foreign investors' complete dependence on the host state's judicial system and provide access to a relatively neutral and predictable framework for dispute resolution. Nevertheless, mere participation in international conventions is not sufficient to guarantee effective arbitration; domestic legislation, judicial practice, and enforcement institutions must also be compatible with international arbitration requirements. In this regard, efforts to enact a new arbitration law drawing on the UNCITRAL Model Law demonstrate Iraq's movement toward a more coherent arbitration regime (McIlwrath et al., 2024). Accordingly, the development of international arbitration and effective enforcement of arbitral awards can constitute one of the most significant factors for strengthening foreign investors' legal confidence in Iraq.

6.3. Challenges of Dispute Resolution

The principal challenge facing Iraq's investment dispute resolution regime is the gap between the formal acceptance of legal mechanisms and their effective implementation. Although the Investment Law, specialized courts, ICSID membership, and accession to the New York Convention have created significant legal capacities, administrative weakness, bureaucracy, corruption, problems in the financial and banking systems, and the underdevelopment of alternative dispute resolution mechanisms may still increase the cost and duration of dispute resolution (Lloyds, 2022; Yehia et al., 2023; Young, 2016). These difficulties become particularly important where disputes involve foreign investors and the state or public institutions because, in such circumstances, investors attach particular importance to independence, impartiality, and the enforceability of final decisions. Another challenge arises from the fragmentation of competences and multiplicity of decision-making levels within Iraq's federal structure, which may lead to divergent interpretations of regulations and increased legal uncertainty. Disputes concerning the competences of the federal government and the Kurdistan Region, as well as matters involving natural resources and oil and gas contracts, are examples of legal and institutional risks confronting investors (McIlwrath et al., 2024). Accordingly, greater coordination between domestic legislation and international obligations, development of mediation and conciliation, creation of specialized and online dispute resolution mechanisms, enhancement of the independence and expertise

of judicial and arbitral bodies, and assurance of the prompt enforcement of arbitral awards are among the principal requirements for improving the effectiveness of Iraq's investment dispute resolution regime.

7. Comparative Analysis of the Impact of Guarantees and Dispute Resolution on Investment Security

Foreign investment security depends to a considerable extent on the existence of clear legal guarantees and effective dispute resolution mechanisms. A comparison of Iran and Iraq demonstrates that both countries have recognized protections such as prohibition of uncompensated expropriation, guarantees concerning the transfer of capital, and dispute resolution procedures; however, they differ in the degree of legal openness, institutional effectiveness, and integration with international mechanisms.

7.1. Impact of Legal Guarantees on Investor Confidence

Foreign investor confidence develops where property rights, the ability to transfer capital and profits, protection against expropriation, and regulatory stability are supported by adequate legal guarantees. In Iran and Iraq, energy resources, geographical location, and economic capacities provide a favorable foundation for attracting investment; nevertheless, regulatory inconsistency, weak institutional coordination, administrative corruption, and regional instability can increase transaction costs and investor uncertainty (Abbasi, 2020; Al-Hassan, 2019; Azizi, 2022; Momeni Rad & Rooholamini, 2025; Rezaei et al., 2019). In Iran, international sanctions and restricted access to global financial and insurance systems also affect the practical effectiveness of legal guarantees (Oecd, 2024). In Iraq, although legal reforms aimed at attracting foreign investment have expanded, legal uncertainty, weak regulatory enforcement, and administrative corruption may continue to constrain investor confidence (Al-Hassan, 2019; Hosseini, 2023). From a comparative perspective, both countries have adopted principles such as prohibition of uncompensated expropriation, transfer of capital and profits, and the establishment of a legal framework for investment activities. However, differences in the stability and enforceability of these guarantees are crucial. In Iran, the Foreign Investment Promotion and Protection Act provides fundamental protections, but sanctions and certain legal and implementation restrictions reduce their practical effectiveness. By contrast, through legal reforms and a more open approach toward foreign investment, Iraq has sought to establish a more attractive legal environment, although institutional weakness and the multiplicity of decision-making centers remain problematic (Pakdel Moghaddam, 2025). Transparency in government contracting and access to information, as procedural guarantees, can also prevent corruption and discriminatory treatment and thereby increase investor confidence (AlWassiti et al., 2025). Consequently, the mere existence of statutory guarantees is insufficient; investor confidence is strengthened when those guarantees are transparent, stable, predictable, and enforceable (Hamid, 2019; Marz Adli, 2025).

7.2. Impact of Effective Dispute Resolution on Reducing Investment Risk

The effectiveness of the dispute resolution system is a major factor in reducing the legal risks of investment because, before entering a market, investors consider not only the level of statutory protection but also whether their rights can be enforced rapidly, impartially, and predictably in the event of a dispute. International arbitration is particularly important in this respect and provides advantages such as greater speed, reduced costs, impartiality, and cross-border enforceability of awards (Keyvan et al., 2024). The independence and impartiality of arbitrators are likewise fundamental to the legitimacy of this mechanism, and arbitrators must not be subject to the direct or indirect influence of either party (Tavakoli, 2025). In this context, the International Centre for Settlement of Investment Disputes (ICSID) was established to provide a specialized framework for resolving investment disputes and to foster a more favorable environment for international investment (Sham Abadi, 2022). The ability to choose neutral governing law and to access international arbitration mechanisms can likewise reduce investors' concerns regarding dependence on the host state's judicial system (Keyvan et al., 2024). From a comparative perspective, Iran and Iraq have followed different paths in the field of dispute resolution. Although Iran possesses domestic and commercial arbitration capacities, it is not a member of ICSID, and referral of certain disputes involving public and state property to arbitration is subject to limitations under Article 139 of the Constitution. Strengthening and developing arbitration mechanisms

could therefore contribute to greater legal security for investors (Ghaleh Shakhani, 2021). By contrast, Iraq's broader acceptance of international arbitration and greater integration with international mechanisms have created greater capacity for reducing risks arising from investment disputes. More generally, evidence indicates that a transparent legal regime and effective protection of investors' rights create a more favorable environment for foreign capital flows by increasing predictability and confidence (Busse & Hefeker, 2007; Oecd, 2024). The impact of these factors nevertheless depends on the institutional and economic conditions of the host state, and the quality of governance, institutional stability, and administrative effectiveness can influence investment decisions alongside investment incentives (Buchanan et al., 2012; Khaland et al., 2026). Stabilization clauses in bilateral investment treaties and clear determination of the jurisdiction of dispute resolution bodies can also increase the predictability of investment relations (Jahankhani, 2014; Jokar & Afshari, 2022).

8. Challenges and Strategies for Strengthening Investment Security

Foreign investment security cannot be created solely through the adoption of protective legislation; rather, it depends on regulatory stability, the effectiveness of executive and judicial institutions, and the effective enforceability of investors' rights. Accordingly, identifying legal and institutional challenges and proposing corrective measures are essential for strengthening investor confidence and improving the effectiveness of dispute resolution systems in Iran and Iraq.

8.1. Legal and Institutional Challenges

One of the principal challenges to investment security is the existence of ambiguity, fragmentation, and inconsistency in regulations, together with weaknesses in some of the institutions responsible for their implementation. In Iran, restrictions on access to international dispute resolution mechanisms, ambiguity in certain specialized economic laws, concerns about the expertise of domestic forums, and complexities involved in enforcing foreign arbitral awards may reduce the predictability of the legal system. Iran's non-membership in ICSID, compared with countries that make this mechanism available to investors, also constitutes a limitation from the perspective of investor confidence (Mirmohammadi & Khamisizadeh, 2020; Rahimi, 2018). At a broader level, disruption of domestic and international legal order, impairment of the principle of good faith, and problems relating to the enforcement of decisions rendered by investment arbitration bodies may undermine the legal security of investment relations (Taghipour et al., 2019). Accordingly, the existence of supervisory legislation and mechanisms for monitoring the performance of executive bodies and preventing corruption is also necessary to strengthen confidence in the legal system (Sanjari & Shakhani, 2021). Another challenge is the gap between the existence of legal rules and their effective implementation. Even where arbitration, protection of property, and other statutory guarantees are recognized, institutional weakness, insufficient expertise in adjudicating complex investment disputes, delays in enforcing awards, and lack of coordination among executive bodies may reduce the effectiveness of these guarantees. In such circumstances, the dispute resolution regime must not only ensure impartiality and independence but also establish an appropriate balance between investors' rights and host-state interests, because excessive protection of either party may reduce the system's effectiveness (Mirmohammadi & Khamisizadeh, 2020). Furthermore, weak dispute resolution mechanisms may increase political risk, diminish investors' bargaining power, and transform contractual disputes into political controversies between states. Thus, the central challenge is not simply the absence of a particular institution, but rather the need to establish a coherent, specialized, transparent, and enforceable dispute resolution system capable of guaranteeing investment-related legal security in practice.

8.2. Strategies for Reforming and Strengthening the Legal System

Strengthening investment security requires simultaneous reform of substantive rules, dispute resolution mechanisms, and implementing institutions. One of the principal strategies is to harmonize investment regulations and clarify dispute resolution clauses in legislation and economic contracts. Developing institutionalized domestic arbitration, establishing specialized investment chambers or courts staffed by judges trained in international investment law, and expanding mediation and conciliation can also reduce the duration and cost of disputes. At the international level, reconsidering the approach toward the Washington Convention and assessing the possibility of making use of its capacities, together with strengthening cooperation

with specialized international arbitration institutions, could enhance the credibility of Iran's legal regime. The establishment of an appellate mechanism within bilateral investment treaties and the proposal to create a permanent international investment court have likewise been advanced as possible mechanisms for enhancing coherence and predictability in dispute settlement (Brownlie, 2017). Alongside these measures, reforming domestic legislation and establishing political and legal stability are fundamental factors in facilitating foreign investment flows (Jokar & Afshari, 2022). Another important strategy is to establish a balance between investor protection and the preservation of the host state's public interests. In this context, incorporating human rights norms into arbitration proceedings can enhance the legitimacy of arbitral decisions while contributing to respect for public order and the effective enforcement of international awards (Mulaee & Soleymani Nezhad, 2025). The use of conciliation and mediation mechanisms can also prevent the escalation of disputes while preserving commercial and investment relationships, because decisiveness combined with expertise and maintenance of amicable relations can satisfy a substantial portion of the parties' interests (Abdolrahimi & Rezaei, 2021). Accordingly, legal reform should move beyond a purely reactive approach toward a preventive, transparent, and confidence-building system that, on the one hand, guarantees investors' rights and, on the other, preserves the state's right to regulate the economy, protect public interests, and exercise sovereignty.

9. Conclusion

Foreign investment security is one of the most important prerequisites for attracting and retaining international capital, and its realization depends not merely on economic capacities and natural resources but also on the degree of investor confidence in the stability and predictability of the host state's legal system. In this context, legal investment guarantees and effective dispute resolution mechanisms constitute two fundamental elements for reducing legal and political risks and building investor confidence. The comparative examination of the legal systems of Iran and Iraq conducted in this study demonstrates that both countries have recognized protections in their domestic legislation such as prohibition of uncompensated expropriation, guarantees concerning the transfer of capital and profits, and dispute resolution mechanisms; nevertheless, the effectiveness and enforceability of these guarantees are not identical in the two legal systems. In Iran, the 2002 Foreign Investment Promotion and Protection Act established a relatively comprehensive framework for the protection of foreign investors and recognized principles such as protective treatment, compensation for losses resulting from expropriation, and the possibility of transferring invested capital and returns. Nevertheless, restrictions arising from certain constitutional provisions, economic and financial sanctions, banking and foreign-exchange difficulties, fragmentation of certain regulations, and limited access to some international dispute resolution mechanisms have created a gap between formal legal protection and investors' actual security. In other words, Iran's principal challenge is not necessarily the absence of protective rules, but rather ensuring their effective, transparent, and predictable implementation and providing confidence that disputes can be resolved independently and by specialized bodies. In Iraq, National Investment Law No. 13 of 2006 and its amendments, together with the 2005 Constitution, have provided a more favorable legal basis for accepting foreign investment. Protection of property, transfer of capital and profits, compensation for expropriation, and broader acceptance of international arbitration mechanisms constitute important capacities within this framework. Nevertheless, institutional weakness, bureaucracy, administrative corruption, the multiplicity of decision-making authorities, and challenges arising from Iraq's federal structure and the relationship between the central government and the Kurdistan Region may still limit the predictability and enforceability of statutory guarantees. Accordingly, the greater openness of Iraq's legal framework does not in itself signify the full realization of investment security, and the effectiveness of executive and judicial institutions remains decisive. The findings further indicate that effective dispute resolution plays a direct role in reducing investment risk. The availability of independent arbitration, mediation and conciliation, specialized courts, and effective enforcement of decisions provides investors with confidence that their rights can be vindicated if a dispute arises. International arbitration, because of its independence, impartiality, specialization, and the cross-border enforceability of awards, is among the most important mechanisms for reducing legal risk. From this perspective, the more transparent, expeditious, and independent the dispute resolution regime, the lower the costs and uncertainties of investment and the greater the incentive to introduce foreign capital. In this respect, Iran has considerable capacities in terms of institutional concentration and its history of investment legislation, but it faces limitations concerning integration with certain international mechanisms and the removal of practical obstacles to capital transfers and dispute settlement. Iraq, by contrast, has adopted a more open approach to international arbitration and the creation of new frameworks for attracting investment,

yet institutional and implementation weaknesses continue to impede full utilization of these capacities. Investment security therefore cannot be evaluated solely on the basis of the existence or absence of a particular statute or membership in a particular convention; rather, legal stability, institutional quality, transparency, independence of dispute resolution bodies, and enforceability of decisions must all be considered simultaneously. Ultimately, strengthening investment security in Iran and Iraq requires a transition from merely formal statutory protection toward "effective and enforceable legal protection." Reforming and harmonizing legislation, creating specialized investment forums, strengthening domestic and international arbitration, developing mediation and conciliation, enhancing administrative transparency, reducing bureaucracy, and guaranteeing the independence of dispute resolution bodies are among the most important measures required. At the same time, maintaining a balance between investors' rights and the state's right to regulate the economy and protect public interests should remain at the center of reform efforts. Overall, the more predictable and transparent a country's legal system and the more effective its dispute resolution mechanisms, the greater the investor confidence and the more favorable the conditions for attracting foreign capital, transferring technology, expanding economic activities, and achieving sustainable investment security.

Ethical Considerations

All procedures performed in this study were under the ethical standards.

Acknowledgments

Authors thank all who helped us through this study.

Conflict of Interest

The authors report no conflict of interest.

Funding/Financial Support

According to the authors, this article has no financial support.

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