

## The Role of the Oil Sector in Providing the Requirements for Economic Diversification in Iraq



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Researcher Nour Ali Shaaban

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## About Al-Rafidain Center for Dialogue

Al-Rafidain Center for Dialogue is one of the qualitative centers in Iraq, which brings together political, economic and academic elites which are active in guiding visions and influences in decision-making and public opinion.

It is an independent think tank, which promotes dialogues in political, cultural and economic affairs among Iraqi elites, with the aim of promoting democratic experience and achieving community peace, and helping state institutions develop themselves, by providing strategic expertise and insights, the center is a salon for dialogue that is objective and neutral which employs its outputs to pressure decision makers and direct public opinion towards building a state of institutions, within the framework of democratic system, the rule of law, and respect for human rights.

The center was established on February 1, 2014 in Najaf city in the form of a virtual group in cyberspace comprising a limited number of politicians, academics and intellectuals, and the idea developed later, to be legalized by registering the center in the NGO department of General Secretariat of the Iraqi Council of Ministers.



Today, the Rafidain Center for Dialogue brings together more than 700 Iraqi members from all political orientations, academic disciplines and religious denominations, as it can be likened to a "mini-Iraq" in which everyone agreed to adopt dialogue as a key pillar for addressing problems and producing strategic solutions, in harmony with the center's vision of building a prosperous nation. The administrative center also has 30 employees from different disciplines.

In a short time, the Center has been able to achieve a range of achievements by harnessing different energies and employing its outputs for the benefit of the Iraqi cause, taking advantage of modern technologies in electronic communication with the elites at the decision-making center and overcoming the barriers of geography, time and security imperatives, which may hinder direct dialogue.

The Centre not only engaged in electronic communication, but also set up a range of activities on the ground, including a number of seminars, conferences, workshops and specialized interactive sessions, including, but not limited to: The development of the banking sector and the

stock market, the ripening of national reconciliation projects, the mediation between the Government of the Centre and the government of the region during crises, the improvement of the service sectors, the elimination of administrative bureaucracy and routine, the achievement of water and food security, as well as the extrapolation of many thorny problems, such as the Constitution, petroleum, foreign relations, popular mobilization, border crossing points, investment, social welfare and others.

The Forum for Dialogue is a milestone in the Centre's activities, which is the first of its kind in Iraq, and the most extensive and structured, aimed at enriching dialogue among decision makers on issues of concern to the country, promoting discussions on them and exchanging experiences, experts and academics.

The vision of the center:

The center is the station at which the views of elites and decision makers converge in its entire political, religious and national spectrum, providing a positive interactive environment that improves the creation of common spaces and contributes to the building of a thriving country.

The message of the center:

Promoting and developing substantive and serious dialogues between ethnic elites and decision makers that enhance democratic experience, and achieve community peace and sustainable development in Iraq.

Objectives of the Centre:

The Center seeks to achieve a number of objectives, including:

- Achieving and sustaining social peace by promoting constructive dialogue and intellectual exchange among Iraqi elites within comprehensive national rules and frameworks.
- To promote a sense of national responsibility in society by making a public view towards sustaining democratic experience and maintaining a balanced relationship and mutual trust between elites on one hand and state organs and institutions on the other.
- Assist State institutions and bodies develop solutions to the problems facing their work by providing strategic studies, consultations and insights by specialized researchers.

- Expanding the base of commons between political and social entities by providing a neutral and objective dialogue environment that guides dialogue in the public interest of the nation and the citizen.

Means:

In order to achieve its objectives, the Centre uses the following methods:

- Holding conferences, seminars and specialized meetings in the political, social, economic and cultural fields, providing appropriate media coverage and following up on its outcomes.
- producing composed and translated books, magazines, newspapers, publications and research in Arabic or other languages, and publishing them in paper or electronically.
- Conclusion of agreements and partnerships for cooperation and the signing of memorandums of understanding with local and international institutions, organizations and centers with orientations and objectives similar to the center's.

- Concluding agreements with high-level universities and colleges in Iraq and abroad to hold joint scientific events that contribute to achieving the center's objectives.
- The establishment of scientific, intellectual and cultural research and studies departments, and the formation of specialized permanent or temporary committees, which strengthen the scientific research movement to contribute to achieving the center's objectives in issues concerning Iraq and the Middle East region.
- Holding dialogue and understanding sessions between different people whether they engage in ethnic, racial or political differences, to develop mechanisms for understanding the other as a prelude to discovering national commons and making them the starting point for a creative constructive dialogue for social integration.

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## **Introduction**

Economic diversification is one of the main pillars of economic development because it leads to an increase in investment and enhances the accumulation of fixed capital and the stability of export earnings. It is one of the factors of sustainability and in seeking ways to reduce dependence on a single resource in the development process. It is necessary to know the role and importance of diversification in the Iraqi economy and its effects in light of the continuous volatility in oil prices. Relying on a single resource such as oil in Iraq leads to the occurrence of multiple risks and challenges, especially in light of the current situation that are witnessing a drop in oil prices. What Iraq witnessed is similar to what happened in Netherlands after the discovery of oil and the emergence of the Dutch disease phenomenon. Therefore, the adoption of a strategy to diversify sources of income has become a necessity, especially in light of the fluctuations and instability of oil prices. In cases of low oil prices, even in the absence of a decrease in prices, it is necessary to prepare and take the necessary precautions, especially in light of a purely rentier economy.



The economic diversification in Iraq has been weak over the previous period, as the mining sector was in control of the gross domestic product, outperforming the rest of the sectors. The agricultural sector also deteriorated and had a modest contribution to the gross domestic product, as well as a weakness in its production structure, both animal and vegetal. Thus, there was a lag in the productive sectors (agriculture and industry), as well as a decline in the non-oil service sectors and their weak contribution to the gross domestic product despite the presence and availability of potentials. This weakness and decline in these sectors is due to the wars and crises that Iraq has suffered over the past years, as well as financial and administrative corruption.

The weakness of the non-oil productive sectors and the service sectors had negative effects on the Iraqi economy, which led to the weakness of the local productive sectors and their failure to meet local demand. Therefore, there was an increased dependence on imported goods to enhance the disruption and dependency of the Iraqi economy and increase its exposure to the outside world. On the one hand, the general budget's dependence on crude oil, which is

linked to the international market, makes revenues vulnerable to instability caused by fluctuations in international oil prices. On the other hand, the increase in public expenditures in Iraq led to the emergence of a deficit in the public budget. In light of the previous negative repercussions, a new strategy must be adopted aimed at diversifying the sources of public revenue and not relying on the oil sector mainly to finance the public budget. This is known as economic diversification policies, which require the development and investment of other economic sectors. The sector that possesses the components of the driving and leader sector of the economic development process in Iraq is the oil sector. The oil sector plays an important role at the level of the economies of the countries of the world in general and at the level of the economy of Iraq in particular because of the advantages that the oil sector possesses that can become as one of the important sectors to bring about economic development. Especially if these advantages are exploited by developing economic plans to achieve the desired economic diversification.

Accordingly, it is necessary to implement a policy of economic diversification by taking advantage of the

means and capabilities available to confront the decline in oil financial resources. The rentier financial resources obtained by Iraq after 2003 did not achieve positive results and new transformations in the structure of the domestic product, as they were spent in the absence of strategic planning and lack of optimal investment. In addition, a large proportion of these resources were placed in semi-failed projects and operational budgets for dysfunctional departments, and a large proportion of them were wasted due to financial and administrative corruption.

The lack of diversification of the Iraqi economy has exhausted the entire Iraqi economy for decades, represented by the backwardness of its non-oil production sectors and their weak contribution to the gross domestic product, which led to the instability of the Iraqi economy. Hence, the focus on the nature of the rentier Iraqi economy and the failure to exploit the financial returns derived from the export of crude oil to global markets in an economic manner, as well as the dependence of all its various economic sectors on these fluctuating revenues and the negative effects of this dependence on the Iraqi economy.

## **Chapter one**

### **Economic Diversification Concept and Policies**

In this chapter, we discuss the theoretical framework of economic diversification, its concept, justifications and criteria through which it is possible to know whether the economies of countries are economically diversified or unilateral.

#### **First: the Concept of Economic Diversification**

Economic diversification is defined as income diversification by increasing the contribution rate of the productive sectors in order to establish an economic base to achieve the possible utilization of the available material and human resources whose sustainability depends on internal indicators rather than external ones. As well as reducing the main dependence on the production and export of a single commodity (Al Ali, 2016: 37).

Economic diversification is a development process that depends on structural transformation aimed at increasing and diversifying the productive capacity of the economy, resulting in an increase in production and

export capabilities in the commodity or service sectors. In other words, there are three areas on which diversification of the state economy is focused: Diversification of the commodity and service production base, which leads to diversification of exports and, consequently, diversification of the state's financial returns. Diversification of the production base constitutes the cornerstone for achieving levels of economic diversification in countries and a necessary condition for diversifying exports. As well as for the sources of income of the general budget through orienting domestic industrial and agricultural production policies towards international markets, developing tax policy, enhancing the contribution of the private sector to economic activity, and reducing the contribution of oil to GDP. (Arab Development Report, 2018: 65).

It is also known as diversification of the production structure, which in turn leads to the creation of new sectors that open many areas for more job opportunities, and thus reduce the main dependence on the oil sector, which leads to higher growth rates (Al-Shabibi, 2010: 108).

It is defined as income diversification and not over-reliance on oil by adopting a balanced approach to economic development that guarantees a high income to the economy in the event of the end of the age of oil, accompanied by changes in the social and economic structure and production structure (Ghilan, 2007: 33-34).

Economic diversification means an increased participation of the productive sectors in GDP composition through building an industrial and agricultural economic base in which investment is made in order to reduce over-reliance on the depleted natural raw resource that is exploited for export purposes. Then, raise its production capacity without being highly distinguished to be a substitute for the only depleted and non-renewable resource, indicating that economic diversification is a diversity of sources of GDP or diversification of markets or exports. There are two types of economic diversification; the first type is called horizontal diversification, as the search is for the production of new goods in the same sector. The other type is vertical diversification, as inputs are added to the stages of the import process to add forward and

backward linkages without raising the value-added (Marzouk, 2013: 7-8).

### **Second: Justification for economic diversification**

The justifications for heading towards economic diversification lay in its great importance in achieving development gains and positive results on the one hand, and avoiding immediate and future risks on the other hand. As diversification works to achieve economic development by providing stable revenues and exports, as well as exploiting most of the factors of production, and then increasing investment. It also reduces the occurrence of exogenous shocks because of continuous price fluctuations and the rise and fall of supply and demand for internationally traded commodities, which may reflect negatively on the local economy. Economic diversification has many justifications, as follows:

1. Funding the general budget in the rentier States economies is directly dependent on oil revenues. Since oil is characterized by the instability of its prices because it depends on external and political factors, the budget will be highly sensitive as a result of its dependence on oil

prices, impeding the implementation of future plans. Therefore, it is necessary to diversify the economy, which leads to the creation of a production base in which the rest of the sectors contribute at a rate at least equal to the oil export revenues (Al-Jubouri, 2016: 1).

2. Oil is a depleted resource and its extraction is a drain of its reservoir. Therefore, the diversification of the economic base leads to the creation of constantly renewable resources. Since the extracted oil cannot be replaced, the reliance on alternative sources of oil leads to achieving economic stability, which secures for the future generation its needs of resources.
3. Economic diversification leads to getting rid of the Dutch disease phenomenon that most oil-producing countries suffer from because of the boom in the oil resource and the rise in its exports, which leads to an increase in the value of the local currency compared to the foreign one. , 2016: 4).



4. Economic diversification reduces the risk of economic exposure. Since the economy is not capable of diversified production, the percentage of imports will be high and the economic exposure rate will increase (Salem, 2012: 65).
  
5. Economic diversification grow and develop the various economic sectors, as it is necessary to bring about economic changes and a transform in the production structure in countries that depend on a single resource. Although the oil states witnessed huge fiscal revenue, they did not use them to build an industrial and agricultural base and could not get out of the impasse of a single resource, and they did not achieve remarkable economic diversification experiments, except for some countries such as the UAE and Saudi Arabia. This encouraged countries to diversify the economy, develop other sectors such as transportation, industry, and agriculture, and increase their contribution to the GDP (Maaleh and Ahmed, 2015: 46).

6. Economic diversification can lead to a hedge against economic fluctuations outside the country, as unilateral countries are more vulnerable to fluctuation depending on the fluctuation of this sector, unlike countries with diversified economies as they are characterized by a diversified structure of exports (Paulo, 2013: 5). Therefore, economic diversification protects the country's economy from external shocks, because its dependence on a single resource, will make its economy surrounded by unstable conditions and be subject to fluctuations (Steven, 2003: 3).
7. Economic diversification works on labour absorption and increase their productivity, in contrast to the continued dependence on the oil extraction sector, which is characterized by technological progress and lack of employment (Bertheelemy, 2001: 55).
8. Economic diversification contributes to enhancing economic integration and improving domestic savings by strengthening linkages between

economic sectors, as the idea of integration means that an economic sector depends for its growth on another sector. For example, industry depends on agriculture to meet raw materials and agriculture depends on industry to provide it with fertilizers and other. As for the domestic savings, it means that each source sector supplies the other sector with the products it needs (Herzer and Nowak, 2006: 2).

9. Economic diversification leads to an increase in economic growth rates by increasing the number of export sectors and diversifying exports (Herzer and Nowak, 2006: 2).

### **Third: Criteria for economic diversification:**

It can be determined whether the economies of countries are economically diversified or unilateral by many criteria. These criteria include:

#### **1. Evolution of the percentage of export diversification:**

This indicator is one of the important criteria in economic diversification, as it states that the higher the

share of oil exports of total exports, the less economic diversification. On the contrary, the less the share of oil exports of total exports, the increase in diversity. This ratio can be obtained by applying the following equation (Khidir, 2004: 10):

$$(1-1) \quad \text{RXO} = \frac{\sqrt{\sum_{i=1}^I \left(\frac{x_i}{X}\right)^2}}{dx}$$

Where (Rxo) stands for Herfindhal-Hirschmann Index, ( $I$ ) is number of goods that can be exported, ( $X$ ) is total exports, ( $x_i$ ) is the value of oil exports.

## 2. Indicator of the degree of importance of imports to GDP:

This indicator shows the degree of imports, i.e. knowledge of the increasing dependence on the outside world. This is known by the following formula (Rasan and Husayn, 2107:121):

$$(2-1) \quad \text{Dm} = \frac{mi}{GDP} \times 100$$

Where:

(Dm) represents the degree of importance of imports, (mi) represents, (GDP) represents gross domestic product.

### **3. Percentage of the economic sectors' contribution to the GDP:**

This indicator shows the percentage of the contribution of the various oil and non-oil economic sectors to the gross domestic product. If the contribution rate of a particular sector, such as oil, is high compared to the rest of the sectors, this indicates that the economy is unilateral and not characterized by diversity. The efficiency of the economy depends on several factors, including the annual growth rate, the volume of production, the sector's contribution, provided that it is not accompanied by a decrease in the sector's contribution to the gross domestic product. The contribution ratio for any sector can be calculated using the following formula (Rasan and Thamer, 2017: 120):

$$(3 - 1) \quad Ri = \sqrt{\left(\frac{Pi}{GDP}\right)^2} \times 100$$

Where (R<sub>i</sub>) stands for contribution ratio for the sector, (I) in GDP, (p<sub>i</sub>) is the output in the sector, GDP is the gross domestic product in a year (t).

#### **4. Economic vulnerability index**

This index can be calculated by the following formula (Salem, 2012: 65):

$$(4 - 1) \quad DE = \frac{E+I}{GDP} \times 100$$

Where (DE) is Economic vulnerability, (E) is exports, (I) is imports, (GDP) is the gross domestic product. This index shows the total exports sold outside the country in addition to what the country imports from abroad divided by the gross domestic product. If the percentage is high, this indicates the country's dependence on the outside.

#### **5. Distribution of the total workforce over the sectors:**

It is one of the important metrics as it shows the extent of the distribution of the workforce over the various oil and non-oil economic sectors. If the distribution of employment in an appropriate proportion to the various

sectors, this indicates economic diversification. Conversely, if their percentage is concentrated towards one sector, this indicates the lack of economic diversification. The agricultural sector is generally characterized as a sector that attracts labor to a large extent compared to the oil sector, in which labor rates are low, due to the technological progress that characterizes the oil industry (Ma'ala and Ahmed, 2015: 50). The contribution of each sector to the employment of labor can be calculated according to the following formula (Rasan and Thamer, 2017: 121):

$$(5 - 1) \quad R_i = \frac{L_i}{L_t} \times 100$$

Where (R) is Sector contribution rate (I) to the workforce, (Li) represents labour in the sector (I), (Lt) represents labour in all sectors.

#### **Fourth: Economic diversification policies**

Economic diversification policies are among the important policies that play a major role in putting the economy on its right development path, as it suffers

from many imbalances that oil revenues have not been able to address and solve its problems. Therefore, appropriate methods and policies must be found to achieve economic stability and provide job opportunities, as well as improve the standard of living by diversifying sources of income. The most important of these policies are:

1. **Reforming production structure:** The process of diversifying the production structure aims to find new sectors that attract labor and lead to economic stability. This process requires the development of investment programs and plans to diversify sources of income and reduce the risks of dependence on oil. It is possible to benefit from the experiences of some countries in the field of economic diversification, as those countries took advantage of the features available in them for economic diversification. For example, Saudi Arabia has focused its diversification efforts on industries that have a clear competitive advantage and that rely on oil in particular, such as petrochemical industries. The Emirates took advantage of its geographical location and



employed it in economic diversification, as it spent a lot of money to invest in revitalizing free trade and revived tourism, as well as providing an environment and appropriate climate for the development of industry and trade (Al-Ibrahim, 2010: 1).

2. **Privatization policy:** It is one of the important policies that spread and the demand for its application increased by developing and developed countries in the seventies of the last century, due to economic recession and increasing inflation rates, by encouraging the privatization policy in transferring the ownership of projects from the public sector to the private sector and working with market mechanisms. Privatization has been active in the United Kingdom with the beginning of the Conservative rule headed by Margaret Thatcher in the late seventies of the twentieth century. It was applied in various sectors such as electricity, telecommunications, transport and housing with the aim of improving the quality of services (Al-Assaf, 2009: 140). The process of shifting from the public to the private

sector takes place in several ways, the most important of which are:

**A- Selling public sector units:** This process takes several forms, including:

- IPO in the stock market.
- Direct selling of the public sector.
- Converting the company's employees into shareholders.
- The system of instruments or coupons that are distributed to citizens at specific rates.

**B- Contracting or privatization of administration:** In this method, the ownership of the capital remains for the state. The private sector units compete to obtain contracts authorize them to the administration in return for advantages such as a share in profit or production.

**C- Allow the private sector to engage in activities monopolized by the public sector:** This method leads to a broaden participation of the private sector with the public sector. Laws are

issued and restrictions that prevent the private sector from entering and practicing some activities monopolized by the public sector are removed. After a period of time, this will lead to broaden participation of private sector and this is known as automatic privatization (Karim, 2010: 159).

**D- Build-Operate-Transfer method:** This method allows the private sector to build a specific project and exploit it free of charge, after which it is handed over to the government.

**E- Build - Operate - Own – Transfer method:** It differs from the previous two methods in that the investor, after owning the project, uses it for a specific period, not forever, and then returns it to the state (Abu Omariya, 2008: 12).

The main objective of adopting the privatization policy is to achieve a set of goals, the most important of which are:

**A- Cut government spending:** Most of the developing countries suffer from trade and payment deficits,

which led to the aggravation of the external indebtedness. Therefore, in such a case, the privatization policy became necessary and beneficial to reduce government spending in areas where the government's presence is not necessary (Al-Rubaie, 2004: 122).

**B- Greater economic efficiency:** Economic efficiency includes production efficiency and depends on producing the same quantity at the lowest possible cost or producing the largest quantity at the same costs. Some proponents of privatization believe that public institutions are characterized by low economic efficiency, and the reason for this is that these institutions are supported in terms of capital and are protected from competition, unlike the case in private institutions that try to compete with each other. They also exert maximum efforts to obtain capital, and thus their economic efficiency is better than that of public institutions (Karim, 2010: 160).

**C- Reducing state interference:** The increasing interference of the state in economic and social

life, especially in socialist and developing countries, has led to the emergence of many problems, the most important of which are (Al-Wahhab, 2015: 4-6):

- Increased unemployment, especially underemployment.
  - Wasting individual incentives and initiatives.
  - Raising the cost of goods and services produced by the state because of weak competition, which led to an increase in prices.
  - A state increases its revenues by imposing new taxes or raising the price of general taxation in order to meet the increase in the cost of goods and services, which leads the consumer to bear the burden of the increased cost.
- D- **Reduce corruption:** Replacing the private sector with the public sector along with the state's regulation of the market often leads to a reduction in the phenomenon of corruption and the control of certain groups or parties over economic aspects. In addition, the control of the

ruling parties leads to directing the state's control over economic and social life and its issuance of interventionist economic policies in their favor, excluding the rest of the members of the society's classes (Al-Wahhab, 2015: 4-6).

However, there are negative effects in the privatization process, as it faces many difficulties, the most important of which are (Karim, 2010: 160-161):

- A- **Economic impact:** The control of certain groups on the most important sectors of the economy, such as gas, electricity, health, education, etc., as well as advanced factories, as in Russia, as well as leading to an increase in the prices of goods and services, and thus a decrease in the average per capita income.
  
- B- **Social impact:** It may lead to the demobilization of a large number of labour and a decline in the provision of job opportunities as well as exacerbate the poverty crisis due to the spread of the phenomenon of unemployment as well as social instability.

C- **Political impact:** It is represented in selling the shares of profitable projects to major companies friendly to government institutions if privatization was carried out in some countries based on wrong economic criteria and inappropriate political considerations, and then privatization here became a form of political and economic corruption.

3. **Foreign Direct Investment (FDI) Policy:** The phenomenon of foreign investments increased and expanded, especially after the Second World War, as the war left several economic and social problems. The affected countries adopted these investments in order to advance their economies and solve their problems, especially after the war led to the destruction of most of their economies.

Foreign direct investment has several definitions due to its multiple sources and forms. It means that an investor owns an asset or a right in the independent country, and the investor is present and settled in the home country (Al-Ziyara, 2009: 73). Some also define it as an investor or company investing in projects outside the borders of

the home country, and the aim is to increase the influence on those projects (Khidir, 2004: p). Some researchers believe that foreign investment is the use of financial resources abroad in order to establish various projects in the host country, by sharing them with the national capital and subscription of shares and loans (Yahya, 2007: singled out).

### **A- Forms of FDI:**

FDI takes many forms in terms of type and goal, depending on the investor or the host country. Therefore, there is a discrepancy between these types and goals, and foreign direct investment can be classified according to their impact, as per the objective it aims at:

- **Resource-seeking investment:** This type of investment aims to exploit the advantage of countries rich in primary resources such as oil, gas and agricultural products, as well as benefit from the presence of skilled labor or the low cost of their wages (Al-Subaihi, 2016: 12).
- **An investment looking for efficiency and quality performance:** The foreign investor takes



advantage of the availability of labor in addition to the cheap wages and their high skills. The company manufactures parts of the product or its final assembly in the receiving State due to the high wages of labor in the home country (Jassim, 2017: 416).

- **Market Seeker Investment:** The establishment of this type of investment has several reasons, including the high transport costs in the host country, as well as the restrictions imposed on imports. Therefore, the company is investing because it is more feasible than exporting to it, i.e. it replaces export.
- **Strategic Asset-Seeking Investment:** The Company investing in this type invests in research and development in order to maximize its profits. These investments are usually made in the later stages of the activity of multinational companies. This type of investment has a significant impact on the expansion of trade on both sides of production and consumption. It is also considered as an

export of migrant labor by developing countries (Quediri, 2011: 22).

### **B- benefits of FDI:**

Developing countries that encourage foreign investment aim to benefit from the technological, technical and administrative capabilities that these companies possess. Some developing countries have the money needed to establish projects, but the lack of technical expertise prevents the implementation of these projects. The most important advantages of foreign direct investment can be summarized as follows (Al-Asraj, 2006: 1):

- Training local labour by employing them in branches of foreign companies and acquiring high skills, then they transfer those acquired experiences and capabilities to national companies.
- Establishing scientific relations between foreign companies and local research and development centers, and this leads to these centers acquiring the latest techniques and technology owned by those foreign companies.

- For multinational companies to provide the necessary needs for national companies of machinery, equipment and technical assistance on favourable terms, allowing national companies the opportunity to produce goods with international standards and consequently, the ability to export their products to foreign markets.
- The occurrence of competition between the branches of the multinational company and the national companies, thus driving the national companies to develop their capabilities and seek the latest systems while developing their technical and human capabilities.
- Foreign investment motivates the cadres of national companies not to migrate outside the country, as these companies provide the same working conditions that are available abroad, which leads not to alienate national expertise and benefit from them.
- Foreign investment leads to capital formation as well as it contributes to building and developing

new levels of productivity and raising labor productivity.

### C- **FDI determinants:**

Foreign direct investment depends mainly on several factors that make up the investment climate that affects the process of attracting foreign investors to the host country. The most important of these factors are:

- **Political determinants:** Political stability in the host country has a major role in attracting foreign investments. The foreign investor does not only consider market forces and the returns derived from the project to be invested, but also takes the factor of political stability. It prefers the democratic political system, which is characterized by stability, unlike the rest of the systems that are subject to fluctuation and change (Al-Thalabi and Al-Thalabi, 2015: 8).
- **Economic determinants:** They are related to the economic factors that provide an appropriate climate for investment. These include the economic policies followed in the host country,

the nature of monetary policy, the efficiency of the banking system, as well as the stability and moderation of customs tariffs in light of reasonable inflation rates. All of these factors affect the attraction of foreign investments to the host country (Jabari and Al-hadad, 2013:153-154).

- **Legal determinants and Legislation:** They are represented in the laws and legislation that guarantee the investor incentives and tax and customs exemptions, as well as the possibility of transferring profits to any country. That is why countries compete with each other to issue laws and legislation that stimulate investment that outweigh the incentives offered by other countries, provided that these laws and legislation do not affect national resources and the sovereignty and prestige of the host country (Al-Thalabi and Al-Thalabi, 2015: 9).
- **Administrative determinants:** An important determinant of foreign direct investment is the prevailing administrative system in the host country. If the foreign investor wishes to obtain an

investment license in the shortest possible time to obtain a license to establish an investment project, this requires the presence of government agencies working on the system of administrative processes as well as being free from financial and administrative corruption (Al-Rubaie, 2011: 1).

## **Chapter Two:**

### **Economic Theory of Economic Diversification**

It is necessary to address the most important economic diversification policies that have a major role in setting the economy on its correct development path, as it suffers from many imbalances that oil revenues have not been able to address, as well as clarifying the rule that can be followed by adopting these policies and methods to achieve them.

Relying on economic theory is necessary to develop practical solutions and take decisions based on scientific foundations to solve problems related to economic diversification, activate the economic variables affecting the overall economy, explain the behavior of those variables, and then predict and control them, as well as develop the appropriate policy to address the weakness of economic diversification.

Developing an economic policy for economic diversification requires access to a large number of economic theories to achieve the desired goal with appropriate time, effort and costs. However, this process

is surrounded by many difficulties and risks, requiring expertise and high efficiency and an appropriate economic, political, social, administrative and financial environment.

The main objective of studying economic diversification theories is to determine the main economic sector in the country and how to support and revitalize it. Then support other economic sectors, as well as set the basic assumptions for the success of the theory, and identify the variables and phenomena that can be studied in a logical and scientific manner to reach a strategy that addresses this phenomenon in actual reality.

First, the Economic Theories

Upgrading the levels of diversification will push the rates of economic growth upwards, and thus allow diversification of the public revenue structure. Economic growth is the result of economic diversification. The greater the economic diversification, the greater the economic growth in the long term, as the presence of developed productive sectors represents the most important foundations for the development of the infrastructure and the achievement of economic growth.



If the production base and foreign trade are based on a small and limited number of sectors and products, this leads to the possibility of a decrease in the value of public revenues, especially if the economy is exposed to internal or external shocks (Arab Development Report, 2018: 66). The most important economic theories that dealt with economic diversification can be reviewed as follows:

#### 1- Adan Smith Model

Adam Smith is considered a pioneer of classical economic thought, and he presented his ideas in his book *The Wealth of Nations*. This theory of economic development was based on the following foundations (Al-Najafi, Al-Quraishi: 1988, 58-59):

- A- The state's limited intervention in economic life and the release of the "invisible hand" as Adam Smith called it, which controls the free economy, and the state's role is to provide a safe and stable environment for economic activity.

- B- Encouraging Capital accumulation by promoting savings, which in turn will lead to increased savings, and then increased investment in projects.
- C- Relying on economies of scale by achieving division of labor, increasing production and encouraging internal and external marketing, which in turn leads to increased production and the expansion of internal and external savings that can be obtained from that process.
- D- Expansion of domestic and international trade, because any restriction of trade would limit the size of the market and impede the allocation of work.

Adam Smith believed that these factors are the appropriate policy that can be followed in order to create the conditions for rapid economic growth.

## 2- Malthus Model

This theory relied on the most important factors (Al-Najafi, Al-Quraishi, 1988, 58, 63):

A- Encouraging savings, being a key factor in financing investment, and working to reduce consumer spending. He suggested the marginal propensity to save.

B- Encouraging the increase in the population as it will lead to an increase in the labor supply and then a decrease in wages.

### 3- Ricardian Model

This theory relied on the most important factors:

A- Encouraging the agricultural sector as it represents the main sector in economy.

B- Encouraging the capitalists to play the main role in economic growth and to search for large markets and increase profits.

### 4- Keynesian Model

This theory relied on the most important factors:

A- Encouraging effective demand (aggregate demand or total spending in a society that consists of consumer demand and investment demand),

which is the linchpin of economic development, as it is the portion of national income that is spent on consumption. He considered lack of demand a fundamental problem in the economy more than the supply and demand gap.

- B- Encouraging markets because market failure is a problem in the national economy.
- C- Taking care of the national economy, and not being satisfied with the individual enterprise (microeconomic).
- D- Increasing investments that lead to the growth of national income through the multiplier (Al-Najafi, Al-Quraishi, 1988: 70(>
- E- Encouraging loans and reducing the interest rate to stimulate investments.
- F- The necessity of state intervention to direct economic activity or in the event of an economic problem through monetary and fiscal policy.
- G- Keynes focused on Economic Stability more than on economic growth.

H- Keynes dealt with income in the short term (Al-Najafi, Al-Quraishi, 1988: 77)>

#### 5- Harrod-Domar Model

Harrod and Domard have answered a straightforward question: When will a national economy be able to achieve continuous growth at a flat rate? This theory depends on the most important factors (Solo, 2003: 14):

- A- Work on reducing production costs by relying on two aspects: the change in technology that enters production processes, and reliance on economies of scale, as the greater the volume of production, the lower the cost of production.
- B- To achieve economic growth, the savings rate (a ratio of savings of income) must be equal to the multiplication of product of the capital/output coefficient by the growth rate of the labor force. Only in this case can the economy maintain a balance and continue to grow without showing a shortage or surplus of work.

- C- It is assumed that savings are converted into investments, and these investments lead to an increase in income in the subsequent period.
  - D- The production of any economic unit (whether it is a company, an industry, or a macro-economy) depends on the amount of capital invested in the unit.
- 6- The new classical macroeconomics Model (the marginal school).

One of the most famous theorists of this school is the British economist (Alfred Marshall) and to achieve growth, this theory relied on the model based on (Al-Najafi, Al-Quraishi, 1988: 84-85):

- A- Paying attention to the micro-economic aspect of the establishment, and they are among the first in framing the micro-economic theory.
- B- It is possible for labor and capital to replace one another in the production process to give the same level of production, and not as others believed that labor and capital one complement the other. Thus, the total

(systemic) production function can be from a different set of capital-to-labor ratio rates, and different ratios of (capital coefficient = capital / production). There are capital-intensive industries and labor-intensive industries).

- C- It assumed the existence of full competition, full employment and the flexibility of full substitution among the factors of production.
- D- Marginal productivity decreases if the factors of production (capital) remain constant in the production of a particular commodity, with the exception of one variable element (labour). Adding units of that variable element leads to a decreasing marginal production from those added units.
- E- Using the prices of the relatively variable factors of production that lead to the substitution of these factors in the place of others, for example, the relatively low prices of labor lead to the substitution of labor in the place of capital.

## 7- Sustainable Human Development Model

This theory dates back to the economist Amartya Sen. It relied on the ethical dimension in development and focused on the issue of income distribution, social differences and inequality in distribution, as the human being is a target for development and not a means to it, as in the previous theories. The previous theories were aimed at providing material needs such as raising the level of income and improving consumption and achieving individual benefit and the highest profit.

Human development is of a social nature, concerned with the quality of people's lives and their well-being in the first place, and the provision of services and needs that cannot be realized by the Quantum logic of economic growth, such as security, stability, protection against crime and violence, a secure life, and the need for political and cultural freedom. In other words, this theory was based on the idea that development is not a matter of an increase in GDP growth, but rather an expansion of human capabilities to achieve a better life. This allows the expansion of basic freedoms and rights for the citizen, especially the freedom to choose the life



that is most appropriate for each individual, and then it considers the achievement of (choices, opportunities, freedoms) is the basis for achieving fair development (Belmadani, 2013: 32-33). The real development in this model is the elimination of sources of deprivation such as poverty, lack of economic opportunities, educational disadvantage, health care, political and human rights such as the right to work and live a decent life. The state has the responsibility to provide the right to work without discrimination in a way that guarantees equal opportunities as well as freedom of choice and decision-making in society. Freedom is the basic rule for eliminating differences, discrimination and injustice. This model is based on the so-called Human Development Index (HDI), which is a composite index that includes quantitative criteria and the most important of them (Belmadani, 2013: 34):

- 1- Income, a good standard of living and access to employment opportunities.
- 2- A good percentage of education and apprenticeship.
- 3- Enjoying rights and freedoms.

4- Participation in social and economic life.

5- Longevity and good health.

Indicators of human development provide an effective means for evaluating government policies and their success in achieving development and the welfare of its citizens.

8- Endogenous Growth theory

Studies related to economic growth theories have evolved since the mid-1980s from what they were in the past. The two economists Paul Romer and Robert Lucas introduced technical progress not as a variable given from the outside. In the new model, which is called Endogenous Growth Model, it appears that the output in the new model does not depend on traditional factors of production such as land, labor and capital, but also on the mass of knowledge that increases over time as companies increase the accumulation of knowledge. Growth theories have developed in economic diversification, as they have become more sophisticated at the level of application of those theories. Knowledge is not subject to the law of diminishing returns, and in

order for economies to grow, they must gradually reduce their dependence on material resources and move towards expanding the knowledge base of their citizens. Here the concept of human capital emerges, i.e. the role of workers with a high level of knowledge, education and training in increasing the rates of technological progress. In this regard, this theory attaches great importance to the need for governments to play an active role in encouraging technological growth, supporting research and development activities carried out by the private sector, and encouraging institutions that contribute to the dissemination of knowledge, such as research centers and universities. The model can be summarized in focusing on increasing the accumulation of human capital through investing in education and technology and developing knowledge that increases worker productivity, as it is subject to the law of increasing returns, unlike other economic resources that are subject to diminishing returns. As well as reducing bureaucracy and removal of subsidies that are of great importance to keep the economy open to the forces of change (Growth Theories: 2018).

Early economic theories focused on work as a source of growth and then moved to capital in the middle of the last century. Finally, the talk about human capital has become not only in the number of years of study, but also in the body of knowledge it enjoys. There is an undisputed economic fact, which is that any society that suffers from economic backwardness (which is the scientific equivalent of the concept of poverty) will necessarily be socially, scientifically, culturally, civil, and even athlete, artistically and morally underdeveloped.

Lucas' model has proposed its idea of the accumulation of human capital as an external effect that increases the output not only directly, but also through external savings (Solo, 2003: 218), as the output must be distributed between consumption and investment, the distribution of time between work and leisure and the accumulation of human capital.

Second: Iraq's economic policy according to economic theory.

At first, it is necessary to distinguish between the term economic theories and economic policies. Economic policies are considered as an applied scenario for

economic theories. If economic theories raise questions (what? what is it? why?), economic policies deal with (what to do? What is the solution? How to do? For whom and with what?), and they are implemented in accordance with a targeted strategy and plans with a specific time frame. The reasons for the failure of economic theory aimed at achieving development lie in the method of applying economic policy and neglecting of human and social aspects. It has been proven over time that there is no specific economic model or recipe that can be applied to all countries, especially developing countries, but rather relying on a mixture of different policies and procedures. The capitalist system does not have a problem with production because it produced large quantities. Rather, it has a problem in marketing, supply, foreign trade, recession, unemployment, and most if not all of these theories stem from the capitalist system.

Whereas the problem of Iraq and developing countries in general is to obtain consumer and investment goods at reasonable prices, to obtain income, and how to market their primary resources at an appropriate price and to obtain various commodities (Belmadani, 2013: 41).

Before the seventies of the last century, the Iraqi people lived in a very difficult economic situation, from the spread of poverty, unemployment, underdevelopment, the living, health and educational situation, and the backwardness of infrastructure, but the situation improved for a while after the nationalization of oil and the rise in oil prices in 1973. An economic recovery took place for a short period, but successive wars, economic blockade and occupation changed the situation to a tragic situation, as it produced thousands of widows, orphans and refugees. Before 2003, Iraq relied on a socialist-oriented development policy, where the state dominated the means of production, controlling foreign trade and the ownership of institutions, banks, agricultural lands, the industrial sector and services. However, after the change of the political system, it became clear that the policies of heading towards liberalism prompted by the prescriptions of the International Monetary Fund and the economic crises due to the drop in oil prices. Despite the financial improvement for some segments of the people as a result of their work in the private sector or trade or obtaining high government salaries, most of the

population had been living below the poverty line and suffered from a lack of health and educational services and housing shortage. This situation has generated a feeling of marginalization, injustice and exclusion, especially among the youth, particularly in light of the high wealth derived from oil revenues and the unfair distribution of wealth.

In general, the Iraqi economy can benefit from the previous theories, and focus on some of the variables of those theories by benefiting from oil revenues. Most of the policies emphasized the levels of technological growth, industrial development, providing economic materials, encouraging local manufacturing as an alternative to imports. As well as giving priority to heavy industries (such as iron and steel, petrochemicals, gas, fertilizers, refineries, and cement), modernizing agriculture, relying on scientific techniques, setting an appropriate fiscal and monetary policy for the country, reducing poverty and ensuring Education, provision of health services and satisfying the basic needs of individuals.

As well as paying attention to the qualitative aspects of the human being. Development is not considered real unless it has economic, cultural and political dimensions that aim to achieve continuous improvement of the welfare of the entire population, human rights and fundamental freedoms, and the rights of future generations due to the increased depletion of exhaustible resources. Besides, the adoption of what is known as the idea of (sustainable development) since 1987 as the development that meets the needs of the current generation without compromising the ability of future generations to meet their own needs (Belmadani, 2013: 47).

The process of economic diversification is extremely important to the Iraqi economy and an urgent necessity as it achieves a set of goals. The most important of these goals are: Through economic diversification, the material standard of living can be raised, that is, to ensure access to more goods and services, and that their quality is better, as well as to guarantee and increase opportunities the work, and it contributes to reducing unemployment among the workforce. Economic diversification is necessary to meet the needs of the



government in order to carry out its duties, and it is necessary to achieve better social goals. As well as reducing dependence on oil revenues to reduce the effects of negative fluctuations on economic conditions, activating non-traditional sources of growth, maximizing the advantages enjoyed by the promising sectors in the economy. Also, strengthening partnership with neighboring countries, donor and prosperous economies in the world to ensure the flow of capital to finance public and private investment for the advancement of with economic activity. Economic diversification has many advantages as it contributes to reducing the risks to which the production structure is exposed due to reduce dependency on oil resources in financing the state's public expenditures, as well as reducing the economic exposure index that occurs due to dependency on a single export commodity instead of relying on various resources in export. Economic diversification also contributes to providing different types of economic activities and making use of the backward and forward linkages of these activities.

And by studying the possibility of employing the revenues of the oil sector in the development of other

economic sectors and achieving comprehensive development of the economy and then achieving economic diversification, as the events of 2003 and earlier led to the destruction of the infrastructure of the Iraqi economy in general and the industrial sector in particular because of the exposure of the majority of the industrial facility to major damage due to acts of sabotage and theft. The development process also requires the availability of people with leadership qualities, as the extent of development in a country depends on what that country possesses of empowered men with organizational capabilities. In addition, the spread of what is known as hot spots has weakened the ability to develop and restore factories to work again.

Economic diversification leads to creating an economic base that can expand economic activities, generate job opportunities and provide the basic needs of the population. Economic diversification is the biggest challenge for the oil-producing countries. Although these countries made several previous attempts to get rid of the rentier resources, they were unable to direct the development path in the right way, so it became

necessary to make more efforts to get rid of the curse of resources and their negative effects.

It is even more dangerous to put forward the scenario of a collapse in oil prices or a halt in exports for any reason. Therefore, it is necessary to resort to a policy of economic diversification by investing in various related fields such as ports, airports, railways and other, and invoke the private sector. In addition, the process of diversification is not easy, but rather requires more efforts and awareness, that is, it must be seen as a long-term goal and not to be achieved overnight.

Due to the availability of the elements to achieve the satisfaction of the basic needs of all members of Iraqi society, it has become a basic duty to achieve this goal. In addition to the need to address economic issues because they were not fully included in the Iraqi constitution and the lack of clarity of special development plans for the development of economic sectors and the delay of many implemented plans. As well as the failure of the fiscal policy and the weakness of monetary policy. In addition to the weakness in the integration of the appropriate legislative structure to

qualify the private sector to work and contribute to the economic sectors, and the lack of clarity regarding foreign direct investment. Despite the emphasis of the 2010-2012 development plan on the issue of diversification, but this has not been realized in practice.

## **Chapter Three**

### **The reality of the non-oil economic sectors and their contribution.**

The Iraqi economy has underdeveloped non-oil economic sectors in addition to its dependence on oil revenues, being one of the unilateral rentier economies that depend mainly on the oil sector and the revenues derived from it. Accordingly, this unilateralism must be disposed of and a trend towards diversifying sources of income through the important role played by the oil sector in the development of the Iraqi economy.

#### **First: Non-oil productive sectors:**

A disparity in the contribution of the economic sectors to the gross domestic product can be noticed in the Iraqi economy. There is a prosperous sector with a high contribution to the GDP, and another underdeveloped sector with a low contribution to the GDP. The activities and contribution of the various economic sectors in Iraq can be described and analyzed as follows:

1. **Agricultural Sector:** It is one of the main important sectors driving the economy, because it provides the food requirements of individuals. The agricultural sector is diversified in terms of food production such as grain crops, vegetables, fruits and others that can be used directly or as primary inputs to other industries. As well as it plays a role in securing cash revenues and using them to achieve economic stability through the export of agricultural crops (Al-Shammari, 2015: 5). The Iraqi economy has witnessed a significant deterioration at the level of the agricultural sector, after being one of the agricultural countries that enjoyed self-sufficiency in the fifties and sixties of the last century, and even in the nineties, which witnessed a rise in the contribution of the agricultural sector to half of the gross domestic product. It met the necessary needs for Iraqis of food during the period of economic sanctions as a result of the state's interest in this sector and the availability of potentials for the success of it, such as arable land, water resources and manpower.

Iraq did not direct its investment plans to the agricultural sector during a period after the change of the political system after the year 2003. It focused its attention on the oil sector and thus underestimated the development of agriculture. This, in turn, led to a decrease in the agricultural sector's contribution to GDP. It can be noted the data of Table (1), which shows the percentage of agriculture at (3.3)% in 2017, and this percentage is low compared to the year 2006, which constituted (5.8)%. The contribution of the agricultural sector did not exceed 6% during the period 2006-2017. The decline in the contribution of the agricultural sector to the GDP is due to the effects of previous wars, the underdevelopment of its infrastructure, the lack of energy sources and the decrease in government support for the agricultural sector. In addition to the small percentage of agricultural loans, and the policy of unrestricted import of foodstuffs from abroad, the inability of the local product to compete with the imported one and the low level of arable water, as a result of Turkey building a group of dams (CAP projects) on the headwaters of the Tigris and Euphrates rivers and the high salinity in central and southern regions, and the backwardness of the

agricultural technology aspect by reliance on traditional methods of agriculture (especially in the field of improved seed, irrigation and chemical fertilizers). As well as the absence of exports to this sector and dependence on oil revenues to finance the import of foodstuffs and the failure to increase the value of the agricultural sector significantly, which led to the neglect of the agricultural sector. As for the values of agricultural production, they began to fluctuate for the period 2006-2017, as they began to rise for the period 2006-2013, and the lowest value of agricultural production reached 5.4 billion dinars in 2007, then continued to rise until it reached 13 billion dinars in 2013. The high values of agricultural production is due to the increase in the cultivated area and the increase in the average dunum yield of the main crops (wheat and barley), and the relative improvement in the climate and rainfall plays a role in improving the quantity and value of agricultural production in all its branches. Then they declined again to reach 7.4 billion dinars in 2017.



Table (1)

**The contribution of the agricultural sector to the GDP at current prices in Iraq for the period (2006-2017) (billion dinars)**

Years	Agriculture Sector	GDP	Agriculture Contribution to GDP %
2006	5.5	95.5	5.8
2007	5.4	111.4	4.9
2008	6.0	157.0	3.8
2009	6.8	130.6	5.2
2010	8.1	162.0	5.0
2011	9.6	217.3	4.4
2012	10.4	251.6	4.1
2013	13.0	273.5	4.8
2014	12.8	266.4	4.8
2015	8.0	199.7	3.9
2016	7.6	203.8	3.7
2017	7.4	225.9	3.3

**Source: Ministry of Planning and Development Cooperation in Iraq,**

## **National accounts, Baghdad, different years, separate pages**

The development of the agricultural sector in Iraq should be of great importance, as it supplies the country with food needs and the sectors with raw materials. Agriculture is also one of the first strong development activities that lead to achieving economic stability in most development experiences, and this imposes on the state to give priority to agricultural development and to the industries associated with it, which leads to the achievement of both industrial and agricultural development (Ali & KhademK 2016: 14-15(>

### **2. Industrial Sector:**

The manufacturing industry is one of the most important drivers of economic and social development by satisfying the industrial goods necessary for other sectors and the population, and the employment of the workforce. As well as it works to increase technological progress, protect the national industry, and obtain financial revenues by increasing exports and reducing imports. In addition, there is a close link between industry and development.

This sector has had a great importance and place in the Iraqi economy. Since the seventies of the last century, the state has established many strategic industries, such as petrochemicals, iron and steel, cement, fertilizers, and others.

To know it, it is necessary to know the relative importance in the gross domestic product and the relative importance of the number of employees. It can be seen from the data of Table (2) that the number of small industrial establishments increased from 16620 establishments in 2006 to 27856 establishments in 2017. This is due to the economic recovery after the year 2010 and the increase in profits for small projects and the facilities provided to those projects by the state.

Despite this increase, there are many facilities at a standstill. The number of major industrial establishments reached 574 in 2017, where the percentage of suspended establishments amounted to 47.4% of the total general framework of industrial establishments, distributed over 27 government sector establishments, 52 public sector establishments, 7 mixed sector establishments, and 430 private sector establishments

and one foreign sector establishment (Ministry of Planning and Development Cooperation, 2017: 3). This suspend is due to the lack of a political decision to operate the stalled industrial facilities, and the destruction of the industry through unrestricted imports by the Coalition Authority, which led to the suspension of many factories as a result of the high production costs in them. In addition to the unprecedented imports of various goods as a result of the Iraqi Coalition Authority's decision to freeze the customs tariff system and replace it with a 5% reconstruction of Iraq tax on imports, which led to the entry of many products that led to the suspension of factories.

Table (2)

**Number of industrial establishments in Iraq for the period  
(2006-2017)**

Years	Small Establishments	Medium Establishments	Large Establishments
2006	11620	52	411
2007	13406	57	423
2008	-	-	487
2009	10289	51	495
2010	11131	56	500
2011	47281	159	556
2012	43669	218	657
2013	27694	226	657
2014	21809	120	616
2015	22480	92	621
2016	25966	179	586
2017	27856	182	574

Source: Ministry of Planning, Central Statistical Organization, Directorate of Industrial Statistics for Industrial Establishments, different years, separate pages.

It is also noted from the data of Table (3) that there was no positive change in the contribution of the manufacturing sector to the GDP for the period (2006-2017) as a result of the absence of correct plans for the development of the industrial sector despite the existence of the five-year plan (2013-2017). A low percentage is noted, ranging from 1.54% in 2006 to a high of 2.81% in 2011. It is a low percentage when compared to neighboring countries such as Iran, where the manufacturing industry rate was 44.9% for the year 2014 (Rasan & Thamer, 2017: 125).

**Table (3)**

**The relative importance of the industrial, oil and service sectors to GDP for the period (2006-2017) (%)**

<b>Year</b>	<b>The ratio of the manufacturing sector to the GDP</b>	<b>The ratio of the Mining &amp; Extraction sector to the GDP</b>	<b>The ratio of the Service sector to the GDP</b>
2006	1.54	55.47	37.17
2007	1.63	53.18	40.27
2008	1.68	55.73	38.75
2009	2.6	43.2	49
2010	2.25	45.39	2.25
2011	2.81	53.37	39.59
2012	2.26	50.04	43.59
2013	2.3	46.2	46.9
2014	1.87	43.93	49.4
2015	2.1	31.05	62.87
2016	2.0	29.83	64.46
2017	2.33	37.8	56.57

**Source: Ministry of Planning and Development Cooperation in Iraq,**

**National accounts, Baghdad, different years, separate pages**

The manufacturing industry in Iraq suffers from several problems and obstacles, including the obsolescence of the used technology, the disappearance of production equipment, the suspension of most production lines and the destruction of the infrastructure of this industry as a result of wars and economic sanctions. There are other problems related to poor financing due to the lack of confidence required by the banks, the absence of a stable political environment, as well as the obstacles related to laws and legislation (Al-Najjar and Kadem, 2017: 3), and the significant shortage in the provision of electric power. The state did not adopt practical measures to deal with this sector and operate partially or completely stalled establishments. On the contrary, unrestrained openness prevailed to import various manufactured goods, which led to the collapse of the national industry.

### **3. Service Economic Sector:**

It is noted from the data of Table (3) that the service sector has contributed to the GDP by a rate of 56.5% in 2017, and thus ranks first in terms of the relative contribution to GDP. The reason for this is the expansion



of social services by the state as a result of the increase in oil resources and the implementation of some educational and health services programs. Thus, the Iraqi economy has become not only a one-sided rentier economy, but a low-production service economy (Hassan, 2017: 4). With reference to previous years, it is noted that the lowest contribution rate of the service sector to the GDP was 37.17% in 2006. After that, it went back to rise up to 49% in 2009, but it went back down to reach 46.9% in 2013, and it is known that the causes of instability are due to fluctuations of oil prices recently as well as the unstable security situation.

### **Second: Economic Diversification Criteria Analysis:**

The Iraqi economy suffers from a major structural imbalance due to the weakness of economic diversification and the increase in the degree of economic exposure of the state because of the control of one major commodity, which is crude oil, over Iraq's foreign trade. Crude oil, as a raw material, controls more than 95% of the country's exports, which means the absence of commodity diversification for exports. In addition to the contribution of this commodity

significantly to the GDP, while imports represent many consumer and investment goods (Maaleh and Salman, 2016: 327-328). In order to shed more light on the degree of diversification in the Iraqi economy, the most important criteria used in economic diversification, which were mentioned in the first chapter, will be analyzed as follows:

**1. The development of the ratio of the export value diversification:**

Through the data of Table No. (4), it is clear that the total value of exports amounted to 30.529 billion dollars in 2006, while oil exports amounted to 30.465 billion dollars for the same year. In 2007, the value of oil exports increased to \$39.433 billion, an increase of 29.43% compared to the year 2006. This percentage continued to increase in the year 2008 and reached 61.111 billion dollars, but it declined significantly in the year 2009. The reason for this was the exacerbation of the economic effects of the global financial crisis that began in 2008, as this matter led to a decrease in prices and the industrial country reducing its oil imports as a result of the suspension of some factories and

production companies that depend on oil for their operation or production. This was reflected in the drop in the value of oil exports to reach \$41.668 billion, a decrease of 46.66%. In the following years, after signs of overcoming the effects of the global crisis began and the production sectors gradually returned, oil exports witnessed a rise in the following years, reaching \$59.730 billion in 2017. Table (4) reflects the dominance of oil exports over total exports, and this is evident in the index of the ratio of exports diversification (Commodity Focus), which was obtained through formula (1-1) in the second topic of the first chapter. It reached 94.3% in the year 2107 and was more than 99% in most of the period since (2006-2107). This index suggests the extent to which one commodity controls the volume of total exports.

**Table (4)**

**Structure of foreign trade at current prices for the period (2006-2017)  
(Billion Dollars)**

<b>Year</b>	<b>GDP</b>	<b>Exports</b>	<b>Oil Exports</b>	<b>Imports</b>	<b>Commodity Focus (%)</b>	<b>Economic Exposure</b>	<b>Ratio of imports to GDP (%)</b>
2006	64.805	30.529	30.465	22.009	99.79	81.07	33.96
2007	86.125	39.516	39.433	19.556	99.78	68.58	25.55
2008	129.339	63.726	61.111	35.496	95.89	76.71	27.44
2009	118.579	44.275	41.668	38.437	94.11	69.75	32.41
2010	125.90	52.08	51.15	44.20	98.21	76.47	35.10
2011	189.15	85.64	83.01	50.58	96.92	77.01	26.74
2012	219.56	94.31	94.03	52.08	99.70	66.67	23.72
2013	229.327	89.765	89.402	56.675	99.59	63.85	24.71
2014	223.508	85.298	84.303	61.736	98.83	65.75	27.62
2015	169.460	54.667	54.394	51.581	99.50	62.85	30.59
2016	166.274	43.890	43.753	38.713	99.68	49.67	23.28
2017	191.216	63.314	59.730	51.325	94.33	59.95	26.84

**Source: OPEC Annual statically bulletin, Vienna, different years, different pages.**

## **2. The degree of importance of imports to GDP:**

The index of the degree of importance of imports expresses the relative importance of imports to the GDP, as it was reached in the previous sections through the formula (2-1). It was noted in the data of Table (4) during the study period (2006-2017) that the value of imports decreased from 22.009 billion dollars in 2006 to 19.556 billion dollars in 2007. However, it witnessed a continuous increase for several years until it reached its maximum value in 2014 of 61.736 billion dollars, while the ratio of imports to GDP was about 33.96%, then the value of imports fluctuated for subsequent years, reaching \$51.325 billion in 2017, as the ratio of imports of GDP constituted 26.84%. The reason for this decline is not due to the decline in imports, but rather to the increase in GDP due to the export of one substance, which is crude oil.

## **3. Economic Vulnerability Index:**

This index can be calculated according to the formula (4-1) that was reached in the second topic of the first chapter. It is noted from the data of Table (4) that the degree of vulnerability has fluctuated during the study

period, reaching about 60% in the year 2017. The reason for this is due to the change in oil policy trends in terms of production and export on the one hand, and the fluctuations in oil prices and the repercussions on enhancing the rentier status of the Iraqi economy on the other hand (Dawi and Akkawi, 2015: 9).

#### **4. Distribution of the workforce over the economic sectors:**

This index shows the extent to which the labor force is distributed over the various economic sectors. Table (5), according to formula (4-1), which was reached in the previous sections, shows the contribution of the agricultural, industrial and service sectors to absorbing the workforce. It is noted that the agricultural sector's contribution to the employment of workforce increased from (8.4%) in 2006 to 14.0% in 2009, and then decreased to the lowest ratio to reach (4.2%) in 2016. This decline in the agricultural sector's contribution to the absorption of the workforce is the result of the accumulation of a number of reasons mentioned earlier, in addition to the dominance of the oil sector. As for the industrial sector's contribution to the employment of the

workforce, it is noted that the ratio decreased from (19.8%) in 2006 to (14.8%) in 2008, to rise thereafter to reach (15.6%) in 2016. As for the workforce working in the service sector, it is noted that it has a degree of flexibility in absorbing the workforce in the Iraqi economy. The contribution ratio increased from 71.8% in 2006 to the highest ratio to reach (80.4%) in 2013. Then it reached 80.2% in 2016.

**Table (5)**  
**Percentage of the workforce by economic activity**  
**for period (2006-2017) (%)**

Year	Agricultural Sector	Industry Sector	Service Sector
2006	8.4	19.8	71.8
2007	13.6	15.6	70.8
2008	13.6	14.8	71.7
2009	14.0	14.9	71.1
2010	5.5	15.1	79.4
2011	5.2	15.2	79.6
2012	4.9	15.2	79.9
2013	4.6	15.0	80.4
2014	4.5	15.6	79.9
2015	4.4	15.6	79.9
2016	4.2	15.6	80.2
2017	-	-	-

Source: Unified Arab Economic Report, Arab Monetary Fund, different years, different pages, appendix (2/17), appendix (2/10), appendix (2/15)



## **Chapter Four:**

### **Indicators of the development of the oil sector and its contribution to the economy.**

The oil sector is the leading sector in the Iraqi economy, especially after the collapse of other sectors, both in terms of their infrastructure and other facilities, and this sector continues to provide the Iraqi economy with the components for its survival without other sectors. The current statistics indicate that the performance of both the industrial and agricultural sectors is weak and low and does not rise to the required level in terms of production, as well as the case with other sectors. This led to making the oil sector the main financier of the state budget, despite the severe damage to its vital facilities and transportation pipelines, and the sabotage it sustained (Assaf and Awad, 2014: 471). All this was reflected in a number of economic variables of its own, the most important of which are:

#### **First: Oil production and export:**

With reference to the production and export of Iraqi oil, we can suggest the data in Table (6), which shows that

the oil sector has achieved a remarkable increase in production, which amounted to 49.9% for the year 2017 compared to the year 2013. The daily production rate increased from 2.980 million barrels per day in 2013 to 4.468 million barrels per day in 2017, and the quantities of oil exports increased from 1.51 million barrels per day in 2006 to 3.80 million barrels per day in 2017. The daily rate of exports recorded an increase of 50% for the year 2017 compared to the year 2013. This is due to the development of the producing fields because of oil investment in licensing rounds in the southern and central fields, as well as investment in the northern fields in the form of production sharing.

**Table (6)**

**Iraqi oil production and exports for the period (2006-2017) (Million barrels per day)**

<b>Year</b>	<b>Daily Production Rate</b>	<b>Daily Export Rate</b>
<b>2006</b>	<b>1.955</b>	<b>1.510</b>
<b>2007</b>	<b>2.035</b>	<b>1.643</b>
<b>2008</b>	<b>2.281</b>	<b>1.849</b>
<b>2009</b>	<b>2.336</b>	<b>1.906</b>
<b>2010</b>	<b>2.358</b>	<b>1.890</b>
<b>2011</b>	<b>2.653</b>	<b>2.166</b>
<b>2012</b>	<b>2.942</b>	<b>2.423</b>
<b>2013</b>	<b>2.980</b>	<b>2.390</b>
<b>2014</b>	<b>3.110</b>	<b>2.520</b>
<b>2015</b>	<b>3.482</b>	<b>3.000</b>
<b>2016</b>	<b>4.647</b>	<b>3.803</b>
<b>2017</b>	<b>4.468</b>	<b>3.802</b>

Source: 1- Ministry of Planning, Central Statistical Organization, Statistical Compendium (2014-2016), Table (18/1)

2- OPEC Annual statically bulletin 2018: P60:P32

**Second: The relative importance of oil revenues to revenues in the state's general budget:**

Oil revenues are the main and most important source of financing the state's general budget in Iraq. It is the main source, if not the only one, in financing, as it constitutes 95% of the sources of budget financing, and this reflects the danger of the Iraqi economy's dependence on the oil sector as it is the only source of income (Al-Waeli and Abdul-Ali, 2017: 3). Table (7) shows the relative importance of oil and non-oil revenues to total revenues and the amount of public expenditures.

Table (7)

**The relative importance of oil and non-oil revenues to total revenues/ and the amount of public expenditures and amount of deficit or surplus for the period (2006/2017) (Trillion Dinars)**

Year	Oil Revenues (1)	Non-oil revenues (2)	Public revenue 2+1 (4)	Public expenditures(5)	deficit or surplus	Percentage of 1 to 4	Percentage of 2 to 4
2006	46.9	2.2	49.1	38	10.3	95.51	4.48
2007	52	3	55	39.1	15.6	94.54	5.54
2008	70.2	0.9	71.1	59.5	11.7	98.73	1.62
2009	43.4	3.8	47.2	65.7	(5.5)	91.94	8.05
2010	57.2	2.3	59.5	83.9	5.2	96.13	3.86
2011	88.2	20.6	108.8	78.8	30	81.06	18.93
2012	109.8	9.7	119.5	90.4	29.1	91.88	8.11
2013	110.7	3.1	113.8	106.9	(5.3)	97.27	2.72
2014	97.1	8.5	105.6	113.5	(7.9)	91.95	8.04
2015	51.3	15.2	66.5	70.4	(3.9)	77.14	22.85
2016	44.3	10.1	54.4	67.1	(12.7)	81.43	18.56
2017	65.1	12.1	77.3	75.4	(21.6)	84.21	15.65

Source: Central Bank of Iraq, annual statistical report, different years, different pages

- Brackets mean negative sign.

The table shows:

- A- The general budget of Iraq is still largely dependent on oil revenues as a main source of financing, this importance was significantly evident in 2008, when oil revenues constituted 98.73%, and the reason for this was the global financial crisis, which led to a rise in oil prices during that year. In 2009, the percentage decreased to 91.94%, due to the drop in oil prices, but it rose again in 2013 to reach 97.27%, and the reason for this is the increase in oil prices, and then decreased to 84.21% in 2017. Based on the foregoing, it is clear that oil revenues are unstable as they depend on several factors, including directly oil prices, which are characterized by fluctuation and instability, as is known.
- B- Non-oil revenues fluctuated during the study period and reached low and below the required levels, reflecting the inefficiency of the tax system and tax administration. The percentage of non-oil revenues reached 12%, and this percentage shows the extent to which the contribution of non-oil

revenues to the general budget has decreased, and the lack of development and dependence on them as is the case in most other countries, which contradicts the state's policy of diversification. The increase in the gap between oil and non-oil revenues is the result of the wrong policy of successive governments (Al-Waeli and Abdul-Aali, 2017: 5).

- C- Public expenditures are unstable and have not taken a clear trend in terms of their growth or decline. They have failed in structural reforms to ensure diversification of the economy and reduce the dominance of the oil sector, as well as they have not succeeded in providing the requirements of economic reform for the various sectors (banking, tax and private). In addition, they failed to protect the poor strata of society, as 23% of the Iraqi population is below the poverty line (Saleh and Muhammad, 2013: 235). It is clear from the foregoing that government spending, which is the main engine of the economy, depends on world oil prices and on the volume of global demand for oil. This makes the destiny of Iraq dependent on

international revenues, in which the largest space is for the political decision that expresses the interests of the major Powers.

D- The budget suffers from a continuous deficit from 2013 to 2017, as it recorded the highest amount of the deficit equal to -21.6 in 2017, and the reason for this is the drop in oil prices and the significant increase in state expenditures. In 2008, the budget recorded a surplus of 11.7. The reason for this was not due to the activity of non-oil economic sectors, but rather because of the rise in oil prices, which led to an increase in revenues derived from oil, as well as because budgets are prepared with a planned deficit that ends in a surplus as a result of poor preparation. Thus, it is noted that the rapid and successive collapses in oil prices negatively affected the state's revenues, as it led to a significant decline in them, and this is an indication of the unilateral Iraqi economy (Saleh and Muhammad, 2013: 235).



**Third: The contribution of the oil sector to the GDP:**

The contribution of the oil sector to the GDP is evident in the previous table (3), as it is noted that the oil sector constituted a contribution rate of 55.47% to the GDP in 2006, then this percentage decreased to 53.18% in 2007, but it witnessed a rise after that in 2008 to reach 55.73%. The reason for this is the increase in the price and quantity of exported crude oil during the year 2008, as the daily average for export reached 1.85 million barrels, while the average price of a barrel of oil for that year was 88.8 dollar per barrel. In 2009, the percentage decreased to 43.2% compared to 45.11% in 2010. Then, it decreased to reach a level of 29.83% in 2016, which is the lowest level in the period. This is supposed to be a positive sign of the trend towards diversification, but the truth is that the industrial and agricultural sectors continued at the same level of contribution throughout the period (Central Bank of Iraq, different years, different pages).

## **Chapter Five**

### **The role of the oil sector in providing the requirements for economic diversification.**

The role played by any economic sector must depend primarily on the available capabilities in it. In Iraq, the oil sector is one of the most important economic sectors, as it provides the Iraqi economy with the components for survival, as well as the main source of financing the general budget. Due to the advantages that the oil sector possesses, it can become one of the important sectors for economic development, represented by the large volume of oil and gas reserves, the diversity of types of fields, the geographical distribution and the large number of fields. As well as many other economic and geological advantages, especially if these advantages are exploited by developing integrated economic plans to achieve the desired economic diversification. The most important potentials enjoyed by the oil sector in Iraq can be reviewed as follows:

**First: Oil Reserves:**

Iraq enjoys proven oil reserves, amounting to 147.2 billion barrels in 2017, distributed over 73 fields spread over the most important governorates (Basra, Missan, Dhi Qar, Kirkuk, Mosul, Dahuk, Sulaymaniyah, and Erbil). It can be seen from the data of Table (8) that the reserve witnessed an increase because of the excavations and research operations, as it rose in the year 2010 to reach 143 billion barrels. This is due to the increase in geological explorations carried out by the expedition teams of the Iraqi Ministry of Oil, and because of the companies contracted with in the licensing rounds conducting a comprehensive survey of the fields in which they work to determine their oil reserves. Oil reserves increased to reach 148 billion barrels in 2016, the highest level in the study period. Thus, Iraq has become the second Arab country in terms of proven oil reserves after the Kingdom of Saudi Arabia and the fifth in the world after Venezuela, Saudi Arabia, Canada, and Iran, according to the latest statistics (BP statically, 2018: 12).

**Table (8)**  
**Proven reserves of Iraqi crude oil for the period**  
**(2006-2017) (Billion Barrels)**

Year	The Reserve
2006	115.0
2007	115.0
2008	115.0
2009	115.0
2010	143.1
2011	141.3
2012	140.0
2013	144.2
2014	143.0
2015	142.5
2016	148.7
2017	147.2

Source: OPEC Annual statically bulletin, Vienna, different years, different pages.

**Second: Natural Gas Reserves:** Iraq has confirmed reserves of about 7.3 trillion cubic meters at the end of 2017, according to the latest OPEC statistics (OPEC, 2018: 112). As for the potential reserve, it amounts to about 9.3 trillion cubic meters, 4.6 trillion of which is believed to be free gas, while the remaining amount of about 4.7 trillion cubic meters is associated or dissolved gas in the potential oil reserves estimated at about 330 billion. As for the fields, there are ten free gas fields in Iraq, five of which are located in the east and north-east of Iraq, which are the fields (Kour, Mor, Chamchamal, Khashem Al-Ahmar, Jeriya Beka, and Al-Mansuriya) and they contain about 11 trillion cubic feet (about 300 billion cubic meter), as a proven reserve. The Subba field (30 km) south of Basra and the Akkas field (in the Western Desert) near the Syrian border each contains just over two trillion cubic feet (about 100 billion) cubic meters of proven reserves each. After explaining the capabilities of the oil sector, it is necessary to review the most prominent problems and obstacles facing this sector. The most important of these obstacles are:

1. The inadequacy of meeting the local need for refined products.
2. The continuing decline in the refining capacities of Iraqi refineries and the depletion of Iraq's resources in importing gasoline and gas oil. According to reports from the Ministry of Oil, importing petroleum products costs Iraq about 22 million dollars per month, or 2.4 billion annually, which is equivalent to 10% of annual oil income.
3. Wasting large quantities of associated gas due to the sabotage of gas networks and the need to repair and develop them (Assaf and Awad, 2014: 486).
4. Infrastructures are obsolete and the reason for this is that they require huge investments and do not give direct results, although Iraq has spent billions of dollars to establish oil infrastructure, but many of them have been destroyed by the wars that Iraq fought with Iran and the coalition forces in Kuwait and the subsequent economic sanctions.

5. Corruption in the oil sector, as it is in light of the growing volume of revenues, there was a direct impact on opening multiple doors to corruption. Recently, corruption has taken many forms, including smuggling crude oil or its derivatives (Saleh and Muhammad, 2013: 240).

### **Third: The importance of the oil sector.**

The oil sector represents the total operations of the petroleum industry, which includes research, exploration, extraction, transportation, marketing and manufacturing. It is a group of activities, events or production processes related to the exploitation of oil wealth, whether by finding it in the depths of the earth and extracting it as raw or transforming it into valid commodity products that are ready for use and consumption, directly or indirectly. In addition, it is a later industrial transformation process. The importance of the oil sector comes from being a strategic material that achieves its financial revenues, as well as forward and backward linkages it achieves with projects for exploration and development of oil fields, pipelines and oil refineries, and the formation of fleets to transport oil

and its products, and petrochemical and refining industry projects (Musalam, 2012: 214). Accordingly, the economic activities of the oil industry can be classified into the following:

1. **Extractive Activity:** It aims to search for the reservoirs of crude oil, extract it from the ground and prepare it for the purpose of export or local marketing, and it is called the upstream sector.
2. **Transformative Activity:** It aims to transform crude oil into products for final use or manufacturing purposes to meet production needs, and it is called the downstream sector.

The interaction between them is affected by two factors (Jacob, 2014: 20):

1. The time lapse between initial investments looking for crude oil and the actual development of new fields.
2. It is determined by the demand for crude oil on the part of refineries that is very sensitive to the relationship between economic growth and demand for petroleum products.



Oil is of great importance at the level of most economies of the world, as it is a strategic commodity of economic importance related to the process of development and economic progress. The economic importance of oil is reflected in several aspects, the most important of which are:

**1. Main source of energy:**

Energy is an important component of the production process and oil is the most important source of energy in the modern economy. Then it becomes clear the great role that oil plays in the productive sectors. The importance of oil as the most important source of energy is due to the advantages that it enjoys, namely:

- A- The calorific value generated by oil is higher than any other energy source so far.
- B- The cost of producing oil is much lower than the cost of producing all other alternatives.
- C- Oil is a source for many other products (petroleum derivatives).

**2. An essential raw material in industry:**

What distinguishes oil as a raw material is that it can only be used after performing several operations on it. The oil industry in itself, whether extractive or transformative, is a broad industrial activity, which occupies an effective place in the industrial sector as a whole, as well as industrial activities that depend on oil products such as petrochemical industries (fertilizers industry, synthetic rubber industry, industrial fabric industry, pharmaceutical industry...etc). Therefore, oil becomes a source for many necessary industrial processes, which contribute to raising the proportion of industrial output in the gross domestic product and providing employment opportunities. This is an important step in changing the structural composition of the national economy as one of the development goals (Makhlafi, 2013: 31).

### **3. A Source of Financial Revenue:**

This importance is more evident in the economies of the oil-producing and exporting countries, whose economy depends mainly on oil in the formation of national income and capital accumulation and in financing economic development programs. Oil revenues are also collected by consumer States in the form of taxes on

consumption, and oil contributes to generating financial revenues in a very high amount, especially when it is in the form of oil derivatives and not as a raw material (OAPEC, 2009: 46-47).

#### **4. Commodity Importance in Trade:**

Oil and its derivatives constitute an international commercial commodity that has a significant impact on stimulating international trade and expanding the movement of exchange. It is known that the foreign trade sector is an important tributary of economic growth. Oil and its derivatives are traded in all countries of the world and of a high percentage of the total internationally exchanged commodities, and the importance of oil in international trade is increasing, especially for the producing countries whose crude oil exports are the main source in their balance of payments. Moreover, in these countries, there are who completely dependent on oil for their trade exchange (Makhlafi, 2014: 10).

## **Chapter Six**

### **Reform of the production structure**

The importance of economic diversification to the Iraqi economy is considered a need to modify the production structure and develop the various economic sectors, as well as identifying the most important policies needed for economic diversification as mechanisms for reforming the Iraqi economy.

#### **First: Developing the oil sector to develop other sectors:**

The oil sector, as indicated in the previous section, is the backbone of the Iraqi economy, as it constitutes 84.21% of public revenues and 37.8% of the gross domestic product for 2017. Therefore, this sector must be developed with a set of proposals, the most important of which are:

1. The establishment of sovereign wealth funds to deposit part of the oil revenues in it, managed by an entity independent of the Ministry of Finance and the Monetary Authority and used for achieving macroeconomic goals, and the independent entity invests the largest part of its

assets. For example, an independent entity can invest in investment projects such as buying factories, real estate, and others. Since oil is a depleted resource, Sovereign Wealth Funds guarantee a fair distribution between generations of this resource. Then it is possible to benefit from the investment and oil returns to finance state budgets, as well as directing the funds allocated to these funds towards internal and external investment projects if internal investment in the state is not possible due to the current circumstances (Al-Shammari, 2016: 10).

2. Investing the gas associated with oil, especially from the southern fields, instead of burning it in vain without any benefit, and then it is possible to benefit from it in providing the financial resource as well as reducing the negative economic and environmental effects resulting from burning and not exploiting this natural resource. In view of the elements that Iraq possesses that qualify it to play an important role in the field of investing in gas wealth, such as the large gas reserve estimated at 3.7 billion cubic meters, which is second only to

oil in terms of importance and reserves, and the latter constitutes 1.8% of the total known global reserves, placing Iraq in 12th in the list of countries that have the largest reserves of gas in the world, so it has become necessary to exploit this important resource, which will bring great benefit to Iraq. It is possible to benefit from it to promote the petrochemical and energy-intensive manufacturing industries, such as the iron, steel and aluminum industries, and make them economically successful industries by providing job opportunities and improving the level of income and public spending (Saleh, 2016: 22-25). In addition, work to discover new oil and gas reserves to compensate for the oil and gas produced, as Iraq's proven reserves of natural gas did not witness a remarkable development during the period (2006-2017). This is illustrated by Table (9), as Iraq's proven reserves of natural gas amounted to 3.744 billion cubic meters in 2017. The importance of exploiting natural gas as a fossil source of energy has increased due to its economic characteristics, as it enters as a raw

material in the petrochemical and fertilizer industries, as well as the technological development of its industry by establishing various projects, or using it to generate electric power with high efficiency. This was reinforced by the development of the technology of its industry in various economic sectors. LPG technology is a primary technology for the natural gas industry, and later developed into the possibility of its liquefaction LNG for facilitating its export to distant markets, to which it is difficult to extend a network of pipelines, as well as the technology of converting natural gas GTL into hydrocarbon derivatives similar in their uses to oil derivatives, and thus increased global interest in natural gas as it is a successful alternative to other energy sources (oil, coal and nuclear energy) (Abdul Reda and Abdul Aali, 2015: 9).

**Table (9)**  
**Natural gas reserves in Iraq for the period (2006-2017)**  
**(billion cubic meters)**

<b>Year</b>	<b>Natural gas reserves</b>
2006	3.170
2007	3.170
2008	3.170
2009	3.170
2010	3.158
2011	3.158
2012	3.158
2013	3.158
2014	3.158
2015	3.158
2016	3.820
2017	3.744

Sources: 1-OPEC Annual Statically bulletin 2018, Vienna,

3 -OPEC Annual Statically bulletin 2013, Vienna, P23

2 -OPEC Annual Statically bulletin 2008, Vienna, P23



3. Orientation towards foreign direct investment in the oil sector and petrochemical projects as a first step in building long-term strategic development projects aimed at maximizing the industrial interactions between production elements and their outputs. Then the possibility of applying economic reform, which paves the way for the formation of economic development aimed at diversifying revenues to meet consumption and import cases as a result of dependence on foreign trade, as the reality of the new Iraqi economy (Al-Shabibi, 2010: 119).
4. Rehabilitation of the oil sector's production and export facilities in proportion to the level of proven oil reserves owned by Iraq, amounting to 147.2 billion barrels, with the aim of increasing oil revenues in light of the current marketing capabilities. Taking into account the return of the aging pipelines and their facilities to increase the storage capacity for export to five million barrels and the export capacity to more than seven million barrels per day. As well as increasing marketing capabilities if production is increased in

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proportion to the required quantity to be exported. In addition, reformulation of the integrated energy strategy for the years 2010-2013, which was launched in June 2013, and whose goal was to develop oil fields according to three scenarios for the production of crude oil. The first is to raise production to about 12 million barrels per day in 2017, then reduce this number to 9.5 million barrels per day until 2030, and the reducing this number to 6 million barrels per day (Lilo, 2015: 4). Hence, raising production according to these scenarios is a very difficult matter due to the presence of many production obstacles represented by the challenges of aging infrastructure (saleh & Kazem, 2016: 240). In addition, the production of such quantities of oil is a waste of this depleted resource and a violation of the rights of subsequent generations of this resource. As in Table (10), which shows the end of the life span of oil according to the three scenarios, in the first scenario, the production rate of 4 million barrels per day will end the oil by the year 2017. The life span of the oil was

calculated using the following equation (AlBo Ali, 2010: 23):

$$\text{Life span} = \frac{\textit{proven reserves}}{\textit{annual production}} \dots\dots\dots (3 - 1)$$

**Table (10)**

**Depletion of Iraqi crude oil in light of proven reserves based on current production and expected production according to the three scenarios of the energy strategy starting from 2017 (year)**

Years	Current production 4.4 Million Barrel per day	Production 6 Million Barrel per day	Production 9.5 Million Barrel per day	Production 12 Million Barrel per day
Annual Production	15.840 Million barrel	21.600 Million barrel	34.200 Million barrel	43.200 Million barrel
2017	147.200	147.200	147.200	147.200
2027	131.630	125.600	113.000	104.000
2037	115.790	104.000	78.800	60.800
2047	99.950	82.400	44.600	17.600
2057	84.110	60.800	10.400	(25.600)
2067	68.270	39.200	(23.800)	
2077	52.430	17.600		
2087	36.590	(4.000)		
2097	20.750			
2107	4.910			
2117	(10.930)			
Life span	92.8 years	67.1 years	42.9 years	34 years

Sources:1- OPEC Annual Statically bulletin

P8, Vienna, 2018

- The annual output was calculated through (daily production rate \* 360 days \* 10 years). Then the output was subtracted from the mentioned oil reserves for every 10 years.
  - The brackets mean a negative sign, meaning the years of Iraqi oil depletion.
5. Developing the activities of the oil sector, which include refining, transportation, and distribution of petroleum products. In order to avoid the problem of the lack of sufficient government income for investment, government facilities are developed and some of them are privatized partially or completely on the one hand. On the other hand, encouraging the private sector through a joint stock company with Iraqi or foreign capital and management, after providing the legal environment and re-studying and development of Law No. 6 of 2007, and instructions for implementing the provisions of the Private Investment Law in the Refining of Crude Oil for that law in the form and direction that created a situation that guarantees the rights

of investors and pushes them to invest in the establishment of oil refineries and transport companies for oil products. This will contribute to liberalizing the prices of petroleum products and making them linked to international oil prices, refining costs and other costs (Moussa, 2010: 312-313).

### **Second: Development of the agricultural sector.**

The entrance to the development of the agricultural sector is to increase the rates of agricultural production and raise its contribution to the gross domestic product, and then diversify the sources of national income. In order to achieve this goal, there are several agricultural policies that must be followed, the most important of which are:

#### **1. Pricing and Marketing Policies:**

These policies support agricultural products and crops and make their prices close to international prices to the extent that these products are rewarding and conducive to the agricultural producer to encourage agricultural

investment in order to achieve an increase in production. It is also necessary to follow policies to support agricultural production requirements to encourage agricultural producers to use advanced production inputs such as improved seed varieties, pesticides, chemical fertilizers and modern technologies in the field of production. As for marketing policies, they require the presence of technical expertise with extensive knowledge of market needs, as well as the presence of the necessary marketing structures such as refrigerated storage capacities, sorting and packaging stations, refrigerated transport means, and others. In addition to the presence of specialized marketing companies that contribute to increasing the competitiveness of Iraqi agricultural products in the Arab and international markets (Al-Shammari, 2015: 10).

## **2. Water Policies:**

Emphasis must be put on achieving Iraqi water security because of its significant impact on achieving sustainable agricultural development, and this requires cooperation between the Ministry of Agriculture and the Ministry of Water Resources by developing an effective strategy to

manage this important resource and rationalize its consumption and not waste it. It also requires solving the outstanding problems between Iraq and neighboring countries about water and preserving Iraq's acquired rights of water in accordance with international laws and agreements (Ghilan, 2007: 37).

### **3. Trade Policies:**

Iraq has become highly dependent on imports from abroad to meet most of the local needs of food and agricultural products as a result of commodity dumping policies by imports, and the significantly backwardness of agricultural sector, which did not constitute any percentage of non-oil exports. Therefore, the Iraqi government must adopt a commercial policy to protect the local agricultural product from competing with imported agricultural products and crops, and allow specific import rates to cover the deficit in local production only, as is the case in most neighboring countries. It should adhere to standards of quality control and observation of imported products and crops, as well as imposing duties on agricultural imports for



protecting the local agricultural product (Al-Shammari, 2015: 10).

#### **4. Financing Policies:**

This policy aims to grant loans to farmers by specialized agricultural banks to set up various agricultural projects and to monitor the implementation of these projects to prevent corruption and waste of money.

#### **5. Agricultural Research and Extension Policy:**

This policy aims to train farmers to use the latest agricultural technologies and implement agricultural research aimed at increasing agricultural production and improving product quality as well as reducing agricultural costs (Ghilan, 2007: 37).

#### **Third: Industrial sector development:**

In order to advance the industrial sector, the legislative and executive authority and the Ministry of Industry must adopt a set of solutions for advancing the deteriorating reality of the industrial sector in Iraq, and to take its real role in supplying the Iraqi economy and national income with large revenues and transforming it

from a consumer sector into a productive one that contributes to reviving the Iraqi economy. The most important of these solutions are:

1. Working on restructuring companies and factories according to the market economy and trying to identify projects that can be allocated.
2. Promoting the establishment of new industries through local and foreign investors, providing new job opportunities, developing the national industry, and the necessity of defining the investment map and in coordination with the governorate councils in light of its nature, and availability of natural resources and its competitive advantage.
3. Working on preparing drafting laws that contribute to creating a suitable environment for investment, whether local or foreign, as well as consumer protection, competition and producer protection laws.
4. Developing short, medium and long-term development plans on a scientific basis for the

advancement of the industrial sector, taking into account the principle of interdependence between these plans upon implementation, where one is complementary to the other.

5. The necessity of selecting the scientific competencies who have long experience in the industrial field and placing them in administrative positions to manage this vital sector away from the narrow partisan and sectarian interests.
6. Working to legislate and enact new laws and amend repealed laws relating to the organization of all industrial sector workshops in the country.
7. It is necessary to work quickly to rehabilitate government facilities, factories and laboratories and reintegrate the qualified expertise of the labor force (currently disabled) in this process. They can also follow scientific courses outside the country to keep pace with the latest global developments in the fields of industry (Al-Shammari, 2016: 6-7).
8. Business incubators are a successful international experience for most countries of the world that

have applied them as a means to support small and medium enterprises, especially those emerging from facing the costs of transitioning to a market economy. One of the priorities of business incubators is to sponsor and support industrial projects in the stage of initiation and growth, such as providing a base for technical, commercial and marketing information and providing financial support for the project, as well as developing and modernizing industrial production processes faster and at low cost in accordance with international quality standards.

9. Directing industrial policy towards strengthening the technical capabilities of the national industry and increasing interest in gaining competitive experience stemming from the development of productive efficiency (Al-Janabi, 2015: 151).
10. Building a solid industrial base in light of the availability of many natural, human and financial resources, provided that this is combined with the adoption of a deliberate financial policy aimed at reducing uncontrolled import by exploiting

financial surpluses in the development of extractive, manufacturing and construction industries (Al-Baaj, 2017: 1).

#### **Fourth: Development of the tourism sector:**

It is required to work to promote Iraq as a tourism front by government and local agencies in light of the capabilities and components that it possesses. The procedure for enhancing tourist attractions requires restructuring the institutions responsible for tourism activity and heritage monuments, such as the establishment of a Supreme Council for Tourism so that it alone secures decision-making and a single tourism thought. It will also require a relentless pursuit of reviving and rehabilitating archaeological and cultural sites that were subjected to destruction, looting and vandalism, and the return of antiquities that were stolen and smuggled abroad after the year 2003. Government agencies should also increase the financial resources directed to the tourism sector in order to advance its deteriorating situation and encourage the local and foreign private sector to invest in this sector. This is reflected in the development of this sector to take its

role in diversifying the economic base and developing the sources of income for the Iraqi economy (Neema, 2016: 466). These agencies should also activate the role of religious tourism to be an important return for the Iraqi economy and exploiting the resources of this activity to activate the local demand in the religious governorates, particularly the holy governorates of Najaf and Karbala. In addition to providing services and infrastructure and basic areas to serve visitors to these governorates, especially on various religious occasions. To promote the tourism sector, it is necessary to support the tourism industries and professions that are dominant in the tourism sector, such as hotels, restaurants, tourist transport and traditional industries (Kareem, 2016: 551).

#### **Fifth: Free Zone Development:**

Free economic zones have taken on a great and widespread importance. They have even become one of the leaders in the methods of attracting and localization investments in many countries of the world. This because the increase in production, export and foreign exchange resources achieved by these zones through the establishment of various investment projects, and the

activation of movement and trade exchange and development the country's foreign exchange resources and the absorption of unemployment. This is done through providing job opportunities for the local workforce, acquiring knowledge, settling advanced technology, developing human resources through access and training on this technology, pushing the wheel of economic and social development forward, attracting local, Arab and foreign capital, and employing them within the country in activities various investment. This is added to its contribution to diversifying sources of income (General Authority for Free Zones, 2013: 1). The free zones have grown significantly to exceed more than 500 free economic zones in the world, contributing to about 15% of the world trade volume. In Iraq, in order to keep pace with the scientific, technical and economic developments that the world is witnessing, it was keen to adopt policies that support the private sector and various investments, through the issuance of Law No. 13 in 1998. This law aims to regulate exchanges and operations in the Iraqi free zones. It allowed the exercise of all economic, commercial, industrial and service activities except for prohibited activities. Accordingly, the

free zones became an outlet to attract foreign investments. Iraq possesses the elements of establishing free zones from its geographical location, availability of economic resources, workforce, wide market and tourism environment. Since the issuance of the above law, Iraq has witnessed the opening of three economic free zones as part of its development plans to practice all commercial, industrial and economic activities as well as other related processes. Owing to the Iraqi economy's need for more construction and investment, the free zones will play a major role in activating and revitalizing this economy, as an outlet to the outside world and their contribution to attracting Arab and foreign capital and employing it inside the country for various Arab and foreign investments. Attention must be paid to the free zones and it must be developed to take their real role in the reconstruction and reform processes of the Iraqi economy (Braihi, 2011: 25-26) by taking a number of measures in the following areas:

1. Working on activating the regulations and legislations related to investment in the free zones. Work went into a project to reconsider the Authority's Law No. 3 of 1998 and the preparation



of complementary systems to the Authority's law. In addition, it's been working on the preparation of instructions that facilitate the work of investors with amendments to the instructions currently in force in a way that consistent with the economic developments that occurred in the Iraqi reality, and the international economic situation in the field of freedom of trade and investment and the movement of capital in the world.

2. Paying attention to the infrastructure projects of the free zones and working on rehabilitation of the free zones in Al-Qaim and Khor Al-Zubair.
3. Working to activate industrial investment for all operating free zones, as it constitutes a basic and important pillar in the field of investment, and it comes first ahead of other activities.
4. Breaking new ground in dealing with the National Investment Authority, in order to ensure the activation of the investment movement in the service of the public interest, and coordination with the Relations and Information Department of the aforementioned authority, in order to

avoid conflict between the procedures of the National Investment Authority and the Free Zones Authority. Both authorities are working to attract investors in the absence of coordination between them, and each of them has its own regulations and instructions.

5. Working on activating the transit trade, given that Iraq in general and the free zones in particular enjoy a privileged position to make Iraq the most important port, which will support Iraqi ports, the transport sector, in addition to other sectors (Ali and Sobeih, 2014: 204).
6. Paying great attention to the media angle of the free zones, by adopting global promotion and marketing campaigns that rely on various media, and Iraq's embassies, consulates and institutions participate in that effort in various parts of Iraq. Citizens are also encouraged, by various means, to invest in these zones, urging them to expand dealing and interaction with them, and to increase the forward and backward linkages

between these zones and other zones of Iraq (Al-Shammari and Al-Husseini, 2015: 75).

7. Unification of the party responsible for investment decisions in the free zones, due to the multiplicity of agencies responsible for investment in Iraq, and this led to the foreign investor's lack of knowledge of the party responsible for investment (Ali and Sobeeh, 2014: 204).

#### **Sixth: Developing and reforming the banking system:**

The banking system has become a distinct financial, intellectual and philosophical force at the level of economic backgrounds and approaches. This is evidenced by its presence in the international financial transactions market and the increasing number of banks in various parts of the world. It has succeeded in attracting clients to invest money, and provide the necessary ground for comprehensive development in the societies of the world and solve its economic problems. The banking sector plays an important role in economic reform, through its primary mission as a mediator between savers and investors. Through financial

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deposits, the banking sector mobilizes savings and then transfers them, or provides financial resources to investors to set up new commodity or service production projects or expand existing projects. The increase in investment spending entails expanding the production base and creating the appropriate conditions to absorb an increasing number of citizens in the labor market. The banking sector works to achieve the economic and social development of the state through its contribution to achieving the objectives of monetary policies approved by the Central Bank, on top of which is maintaining monetary stability and increasing the level of employment by strengthening the trends that serve these policies. In the current and future stage, the banking system in Iraq faces difficulties and challenges represented in the fact that the global banking and financial industry is characterized by continuous development at the level of the institutional framework, in terms of finding new financial institutions, or merging to create huge banking units, or developing new banking standards for banking work on an ongoing basis. In light of the political and economic changes that Iraq witnessed after 2003, the monetary authority took a

number of advanced measures and steps to strengthen and develop the banking sector in Iraq due to its importance in financing economic activities. The banking sector in Iraq consists of (54) banks, which included two governmental banks, Al-Rasheed and Al-Rafidain, five specialized governmental banks, and (47) (private) banks. The private banks are divided into (23) local commercial banks, (8) Iraqi Islamic banks, and (15) branches of foreign banks, including one Islamic banking branch. Iraqi governmental and private banks operate a network of (1030) branches. Governmental banks manage (48%) of the branch network, while private banks manage (52%), noting also that Al-Rasheed Bank manages the largest network of branches in Iraq, numbering (201) branch, followed by Al-Rafidain bank with about (173) branches (Khamat and Kazem, 2015: 173). The banking system in Iraq suffers from major distortions in the policy as a result of the absence of strategic directions that made it regress in the provision of services. In order to promote the banking sector in Iraq, a package of reforms should be done, that can be summarized as follows:

1. Providing security and economic stability because the banking sector is closely linked to them. The banking sector cannot function in a normal environment unless there is security stability, in addition to the presence of economic stability, which is an important factor in the development of banking work.
2. Working on using the latest technologies in the field of the banking system by developing a strategic plan according to the available capabilities and linking banks to the Central Bank of Iraq, through an electronic communication network and professional stations. In addition to carry out an efficient and solid update of the financial infrastructure, including the ability to make payments electronically inside and outside Iraq.
3. Adherence to approved international standards such as capital adequacy and financial disclosure of banks' financial statements, which reflects greater transparency in the Iraqi banking business.

4. Finding new types of banking services provided by international banks and financial institutions, using innovative financial and banking tools. In addition, the necessity of adopting a policy of diversifying banking services, adopting total quality management, rehabilitating the human framework and improving its performance to achieve the desired goals.
5. Supporting private banks by allowing them to carry out all banking operations and tools for the projects and activities carried out by the ministries and their affiliated departments, and not limiting them to government banks.
6. The government, the Ministry of Planning and the Ministry of Finance should take into consideration the viewpoint of banks and the Central Bank of Iraq in order to influence the direction of economic activity on the one hand and maintain monetary balance and price stability on the other hand.
7. Using the means of Fiduciary oversight to direct investments in an economically desirable manner.

Through these means, it is possible to influence the level of total expenditure in society on the one hand, and investments on the other hand. Then, stable economic growth will be achieved, because both the level and direction of economic activity are subject to the government and the Central Bank, because the latter two aim to do so (Al-Hijami, 2014: 16).

8. Restructuring the banking sector by encouraging merger between banks, especially small ones. As well as merge with foreign banks to establish large banks that are able to expand to provide new services, to become a basic and effective pillar for economic growth, provided that they move away from monopolizing some banking operations from private banks and adopt banking marketing to face competition (Khammat) and Kazem, 2015: 178).
9. The necessity of working to quickly rehabilitate the banking sector in Iraq to keep pace with global developments and reduce risks as well as maximize the gains of integration into the global



economy and work to adapt to the reality imposed by global developments.

Seventh: Developing the transport and communication sector:

The transport sector constitutes the backbone of economic life. Through it, communication is achieved between the various branches of the economic process and production within the city and within the region in line with the civilized development of society because of the increase in the population and the expansion of markets. Countries have paid attention to the transport sector and worked to establish a good transport network that achieves social and economic communication between their regions, due to the importance of this sector. It aims to use work force, raw materials and production with high efficiency. It also aims to achieve economic growth for the different regions in the country, as well as ensure easy movement of people and raw materials between production and marketing centers at the lowest cost and highest benefit. The development of economic production is measured by the high degree of transport network owned by that country, and the

degree of progress in the transport sector is a function of the economic growth of any country and its level of civilization due to the dialectical relationship among the elements of development. The transportation and communications sector is one of the important sectors in economic development, and its importance is reflected in the high expenditures allocated to the development of this sector, which in Iraq amount to 20% of the annual investment plans allocations (Fleih, 2011: 2). Therefore, a number of measures are required that contribute to increasing the activity of this sector to achieve an increase in sources of income within the framework of economic diversification, and among these measures are the following (Ministry of Planning, different years, different pages):

1. Working to raise the capacity of the current ports, which amount to 16 million tons annually, and their shipping lanes, to reach 23 million tons annually. This is done by providing the required financing as well as developing the work of ports and providing them with marine services for the export of oil and gas. It is possible to benefit from international experiences to raise competitive

capabilities, improve the quality of operations of the company operating in this activity, and develop the skill and efficiency of staff working in ports. As well as continuing to dredge the depths of the navigation paths that lead to the ports, completing the implementation of the projects included in the investment plan, and working on establishing new projects using partnership and investment methods.

2. Working on the establishment of Al-Faw Grand Port and transfer it to private investment in stages and support primary infrastructure projects, as well as support the private sector in implementing water projects through managing, operating and improving the performance of the ports of Al-Maqal and Abu Flus. As well as the establishment, operation and provision of other water services such as drainage and fees.
3. Strengthening the role of the national maritime carrier in securing Iraq's trade. This is done by securing the necessary investments to increase

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the number of operating ships, especially for transporting goods and passengers.

4. Improving the efficiency and performance of the national air carrier through global partnership with economic efficiency to comply with international standards by building alliances with solid international companies working in this field. As well as upgrading national training institutions to meet international standards, and working on establishing new airports and rehabilitating and developing existing airports by adopting the method of partnership with foreign companies specialized in this field.
5. Improving the state of the current road network, increasing its capacity, raising the degree of safety and security for its users and protecting it from damage, as well as developing and securing public transport within and between cities to make it fast and environmentally friendly.
6. Modernizing and developing the railway system, raising its operational capacity, reducing travel time, ensuring safety, and enhancing Iraq's

geographical position as a link between East and West.

7. Equipping the railway network with modern trains, new wagons and trucks to transport passengers and goods to meet the needs of the market and the national economy, and rehabilitating the existing ones.
8. Updating the communication system in the current railway network, including the satellite organization, which allows tracking the train at any time and at any place to avoid accidents and train malfunctions.

## **Chapter Seven:**

### **The most important international experiences in the development of non-oil sectors.**

#### **First: South Korea Experience.**

The Korean economy, before its exit from World War II, was one of the backward economies and economic activity was concentrated in the agricultural sector on which the majority of the population depended for their livelihood. The Korean peninsula emerged from the World War divided into two sections (North, and South), and Japan withdrew from it in 1945 after an occupation that lasted nearly 40 years. This division made the two Koreas in conflict between them and ended with each of them becoming a de facto matter with which the Koreans deal. There was an agreement between South Korea and the United States of America to rebuild it after it was destroyed by wars. A set of external and internal factors intervened in the success of the Korean experience in development, to be a model for the development of other countries (Al-Ta'i, 2015: 50)). This success can be attributed to the following points:

### **1. Macroeconomic performance:**

The Korean economy has maintained high growth rates over the past years, despite the economic fluctuations, as the gross domestic product increased by between (8 and 9%) from 1960 to 2000 and the level of income increased from \$ 1915 in 1960 to \$ 26613 in 2012.

### **2. Industrial performance:**

Korea worked with the help of civil society organizations to establish a group of industrial institutions called (chaebols). It means a conglomerate of companies, which is a basic base for industrialization to achieve development, which made the government's work a catalyst for these conglomerates by providing financing facilities at a low-cost interest rate in return for following a strategy prepared by the government for industrial development based on export-oriented manufacturing (Al-Ta'1, 2015: 51). Manufacturing developed through a radical change in industrial structures, where the manufacturing sector such as textiles, clothing, food and beverages dominated until the seventies. In the eighties, chemical and heavy industries exceeded (50%) of the manufacturing sector, and continued until 2008.

Electronic products, chemicals and automobiles constituted most of the manufacturing industries in recent years, while the share of agriculture decreased to (5.3%) after it was (48.4%) in 1953. Services occupied the largest share, with a percentage of 65.3% percent in 2000, instead of (42.6) in 1953 (The Korean Experience in Export Development, 2013: 1).

### **3. Export Policies**

Korea has benefited greatly from access to foreign markets due to the expansion of global trade in GATT and access to the US market. Moreover, export stimulus policies, such as the exchange rate and the economy's imports, have allowed the country to take advantage of these international opportunities. The Korean government has introduced a series of export incentives, the most important of which are (The Korean Experience in Export Development, 2013: 1):

- A- **Fiscal incentives:** The most important of these are exemptions from consumption tax, exemptions from commercial taxes, a 50% reduction in corporate income tax and tax on export earnings, among others.



- B- **Customs incentives:** The most important of which are customs exemptions on capital goods for production for export, settlement of tariff premiums for goods used in production and export, discount on losses and other incentives.
- C- **Financial incentives:** Includes financing for all goods that are exported, financing for the transfer of exported goods, financing exports on credit, and the Exporting Companies Development Fund.
- D- **Other mechanisms:** They are a foreign currency deposit system, export subsidy, monopoly rights to export some products to certain destinations, limit electricity prices, and export insurance.

#### **4. Financial market:**

Korea followed the policies of regulating the financial market and directing commercial banks to provide loans and financial facilities at low interest rates to the private sector. This is achieved through the presence of efficient financial institutions that reduce costs for investors, as well as their ability to grant preferential loans and selective support, especially to industries intended for

export, in which they have a comparative advantage in production. One of the important things that helped development in Korea is the community's confidence in the government, which prompted them to actively participate in revitalizing the work of financial institutions by directing part of their revenues to saving by opening their own accounts that give banks an opportunity to provide a greater credit service. These savings affect the volume of demand in the market, which is part of the effective demand to move the economy.

### **Second: Malaysian Experience**

Malaysia gained independence in 1957, and after the secession of Singapore from it in 1969, civil wars occurred between the indigenous people (Malays), who made up (67.4%) of the total population, and the Chinese, who constituted (24.6%), settled Malaysia in 1963 and controlled the economic decision. However, politicians were alert to these events and emphasized the lack of economic development for the state unless there were a set of available factors, the most important of which are political stability, bringing the State out of

Poverty and the rule of justice among ethnic groups. Malaysia started its development plan with two very important steps, the first is to stop financial and administrative corruption, and the second is to pay attention to the educational process as a centrepiece of progress (Al-Ta'i, 2015: 51-53). In order to clarify the role of the government in achieving these goals, we can show the Malaysian experience from several directions, as follows:

1. **Attention to small industries:** Recent studies have shown that 91% of all registered companies in Malaysia are small and medium-sized companies, most of which are directed to the areas of production and manufacturing. These areas represent the backbone of the Malaysian economy and the first employer of workers there. In order to support and develop this sector, the government has developed two long-term plans (the Malaysian experience, 2010: 1).
- A- **The first national plan:** The so-called 1996-2000 plan focused on revitalizing and developing small industries. It is directed to meet the needs of the

local Malaysian markets, as several support programs have been developed and implemented specifically directed at small companies with a high growth rate, which quickly expanded and increased their business volume. The government also encouraged export-oriented small projects through export-specific support and financing mechanisms.

**B- The second national plan:** Plan of 1996-2005. The policy of industrial clusters was adopted as business incubators, which in turn focused on activating and developing specialized production and manufacturing projects in some productive sectors that are primarily export sectors. Among these sectors are specialized service companies, specialized research and development companies, equipment manufacturers, advanced packaging companies, and companies specializing in e-commerce.

**2- Use of Incentives to Target FDI:** The government has established a special team for investment missions, acquainted with the great facilities for foreign investors.

It worked to integrate the private sector with the government sector in a real partnership by stimulating the private sector through the assistance provided to it when it is exposed to periods of economic recession (Al-Ta'i 2015: 55). The incentives granted include tax exemptions for a period of 2-5 years for investment in import-substitution industries such as food, beverages and chemicals. During the 1970s promotion focused on labor-intensive and export-oriented industries. This included the establishment of 10 free zones to attract foreign direct investment in the electronics and textile sector. The government also allowed foreigners to acquire 100% of the ownership rights in their companies when they export 80% or more of the products of those companies. Under the Promotion Investment Act, companies can also enjoy some tax exemptions if those companies produce some of the products stipulated in that Act. This Act also allows to drop part of the taxes owed on income for companies operating in limited industrial areas, such as those destined for export. Financial incentives are also provided to all investors to carry out research and development operations, as well as training local workers (Abdul Azim, 2010: 1).

**3. Interest in Education:** The Malaysian government has prepared a plan to reform education at all levels, from basic education to universities, pay attention to educational missions to all countries of the world and improve relations with all countries of the world to transfer science and technology and develop cooperation. There is also great interest in technical education to produce highly qualified workers who work according to a scientific methodology and not randomly (Al-Ta’l, 2015: 56). It is clear from the above that it is possible to benefit from these two experiences for the role of the oil sector in the policy of economic diversification because of their success as a result of political management first in supporting change and developing countries, not oil and development policy, but rather the supervisory ability to organize development plans.

It is possible to benefit from the Malaysian experience, according to the interest in small projects, encouraging and attracting foreign direct investment, as well as interest in education. It is possible to benefit from the experience of South Korea by establishing a group of industrial institutions, which is a base for

industrialization to achieve development. As well as introducing the most important export incentives, including fiscal, customs and financial incentives, and other mechanisms related to the foreign currency deposit system, in addition to regulating the financial market and directing commercial banks to provide loans and financial facilities.

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## **Chapter Eight**

### **Develop and encourage economic diversification policies.**

#### **First: Developing the private sector in light of the privatization policy:**

The desire to develop the private sector, which is the engine of economic growth, emerged due to the inefficiency of the public sector in the optimal exploitation of economic resources, as well as the emergence of financial and administrative corruption in most administrative circles and the emptying of the economic development process of its actual content. The development of the contribution of the private sector to the gross domestic product will maximize the ability of the national economy to meet the needs of various productive activities, face the high volume of domestic consumption, act as an effective element and supplement the state's general budget in achieving economic development. In Iraq, the private sector did not receive much importance due to the circumstances it was exposed to, that led to the weakness of its participation in economic activities and its ability to keep



pace with the process of economic development. The private sector remains a sector that overlaps once and departs again with the rest of the economic sectors according to the benefit of society and the state's policy and economic philosophy as a developing country. In sum, the developing countries, including Iraq, act with the public sector in terms of sovereignty and achieve public benefit, while they act with the private sector in terms of economic considerations and its development strategy. So, it can be said that the Iraqi private sector is that part of the economy that is run by Iraqi businessmen with capital, including industrialists, traders, farmers, and owners of service facilities, and in coordination with the government side, in service of the development strategy in the state and in support of this sector (Al-Zarkoush et al., 2017: 12-19). In order for the private sector to take a distinguished role that contributes to achieving economic diversification, it is necessary to work on achieving a package of reforms, the most important of which are:

1. Develop a clear plan for the private sector for the Iraqi economy to take a role in the reform implications. This plan includes a clear vision of

the role of the private sector and its encouragement to enter into long-term projects to provide safety in attracting investments and to move away from marginal projects of short-term and quick returns and to encourage the settlement of funds and experiences to enter into these investments (Al-Ta'an and Abd, 201: 67).

2. Supporting the private sector in order to generate legitimate competition between it and the public sector. It is also required from the private sector to absorb the national labor force, grant tax exemptions to institutions that employ large numbers of Iraqis, and prevent the import of foreign labor unless it has ascertained the actual need for it or the absence of national labor that can be replaced by foreign labor and with technical specializations. The employer must prove that it has exhausted all methods of employing national employment (Najem, 2017: 342).
3. Raising the level of production and improving its quality due to the incentive competition factor

resulting from options that evaluate production inputs in the case of privatization, and their role in improving the efficiency and production of workers and increasing their marketing capabilities, unlike what is done in the public sector, which depends on salaries, wages and incentives. Thus, the private sector will have a distinct role in correcting the negative trends that accompanied the public sector establishments.

4. Guiding the private sector in order to move towards economic diversification and work to amend the current laws and regulations in the interest of the private sector. Working to reform the general framework of policies and legislation through the implementation of a government program that responds to the priority needs of the private sector within the framework of an effective dialogue between the government and the private sector.
5. Work to modernize and better integrate public companies with the private sector in order to increase their productivity and competitiveness to

take advantage of new business opportunities that are achieved by strengthening their links with regional and global markets. In addition, the restructuring of public companies will provide greater opportunities for the private sector.

6. Improving the competitiveness of small and medium enterprises and establishing partnerships between small and medium enterprises and public companies by providing a friendly environment for business and financial resources by the state.
7. Spreading cultural awareness at the level of organizations and establishments in particular and society in general in order to change the firm convictions about privatization as an exploitation and an attempt to concentrate wealth in the hands of a minority of society. In addition to create public awareness that it is the only option to raise the productive efficiency of these organizations.
8. The need for a developed stock market, as one of the most important obstacles facing privatization

in Iraq is the lack of a developed financial market (Jassim, 2015: 8).

**Second: Providing an appropriate climate for investments under the foreign direct investment policy:**

Many countries of the world have attached great importance to the role of foreign direct investment. It is one of the important foundations in economic structures and as a cornerstone for the development of the national economy, as well as one of the pillars of economic growth because of its support for local savings and an increase in the country's production capacity. In addition, it is a source of modern technology and organizational and administrative skills. Based on the foregoing, Iraq is in dire need of such investments to build infrastructure and rebuild what was destroyed by wars in various production and export institutions. As well as the challenges faced by the country, both internal and external, represented by the waste of public money resulting from corruption cases practiced by many decision-makers that have led and are still leading to depriving Iraq of allocating these funds in building development projects that contribute to raising the rate

of growth in the economic sectors. In addition, the political influences exercised by neighboring countries, which affect the internal situation of the state, which is often reflected at all local levels. As long as foreign investment can contribute to raising economic growth rates, in addition to its other effectiveness with economic development services and easing its burdens and its contribution to stimulating saving, as well as expanding foreign trade, providing jobs and integrating into global markets, so Iraq strives to attract and encourage it to engage in activity, through working to provide the appropriate environment to attract these investments, such as lifting restrictions, granting incentives, legal protection, etc. (Jassim, 2017: 413-417). Iraq has issued laws related to investment (Law No. 13 of 2006), formed the Investment Commission, hold conferences, organized promotional exhibitions, and established free zones. However, foreign investment is still weak and unstable in Iraq, even after the aforementioned law was issued (Al-Hayani, 2013: 49). This is a result of several reasons, including the loss of security and political stability, administrative and financial corruption, and the inadequacy of

infrastructure, as security challenges stand in the way of foreign direct investment (Jassim, 2017: 417). In order for foreign investment to achieve its objectives aimed at correcting the economic situation and increasing sources of income for achieving the process of economic diversification, the following must be achieved:

1. Working to increase investment spending by the state to repair infrastructure that suffers from weakness and destruction, to reflect this on a solid base that is prepared to attract local or foreign investments. Improving the performance of fiscal policy in order to be able to attract more foreign direct investment by providing an appropriate environment to attract investment because of its significant impact on raising the level of economic activity.
2. Developing a macroeconomic policy that facilitates the flow of foreign investments by reducing the costs borne by the state budget through a stable fiscal and monetary policy.
3. The state must adopt the flow of specific foreign investments by limiting them to a specific

investment policy in order to avoid the depletion of resources, external dependency and international financial crises.

4. Activating the functions of the Iraqi Investment Commission and giving it a space of freedom and independence. This may be referred to in the Foreign Investment Law in Iraq. The work of the commission is considered pivotal through consultation and discussion of issues that fall within the scope of the work of the investment commission in the governorates, especially in the field of land allocation for investment projects, mapping investments for the governorates.
5. Establishing sufficient guarantees for the foreign investor, especially in the field of increasing facilities, transferring funds, and the entry and exit of production requirements and workers from abroad to Iraq and vice versa, in order to achieve efficiency in the completion of projects and to help create a state of optimism in the economic, political and security aspects.



6. Studying the obstacles that limit the flow of foreign investments, whether in terms of economic, legal, administrative or procedural terms, and expedite their solution, especially with regard to reducing taxes on foreign companies.
7. Encouraging foreign investment in various sectors, especially sectors that have interconnected relationships with other sectors, in order to maximize the returns from these investments, as well as in activities with a high export capacity to reduce dependence on oil revenues.
8. Assessing the extent of benefiting from foreign investments through studying some indicators such as increasing and diversifying exports, employment of labor, technology transfer and research and development.
9. Working on holding international seminars and conferences and establishing subsidiary offices of the General Authority for Investment in countries with major international companies in order to clarify the areas and investment opportunities available in the country (Khattab, 2016: 369).

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