

State and Economic Reform in Iraq Dialectical Intervention and Neutrality

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Abstract

Iraq economy had witnessed many changes and transitions which effected upon its economic performance. After 2003, the Iraqi economy entered into new stage represented by shifting from closed to a free market. However, during fifteen years this experience did not succeed, and the economy yet suffers structural imbalance and unclear role of state in the economic activities. That led to failed state which was not able to face challenges imposed by development based on the oil industry. Concurrently, the oil rental had negative effect on implementation of economic policies which aimed to achieve welfare economy. Finally, the resource seems to create strategical interest by economic reform through exit from resource cursing and create solution of problems.

keywords: Role of the State, Market Economy, Economic Reform, Economic Diversification

Introduction

Over the past three decades, the global economy has been characterised by the advantage of openness, liberalisation, elimination restriction, and adoption of market mechanisms as a cornerstone of economic reform.

The many countries that adopted competitive appearance had increased foreign investment (Latin American countries, Southeast Asia, and some African countries).

So under this circumstance these countries could achieve the goal of this reform as well as economic development. Iraq is one of the countries that have tried to switch toward an open market economy particular under the recent condition of the country. But, it did not succeed till 2018. Till now, Iraq does not have a clear strategy for the transition towards an open market economy. The Iraqi economy has faced great internal or external challenges; such as unstable securities and political situation that reflected on economic, imbalance infrastructure, a rising amount of debits, lags of banking sector, and inaccuracy of the taxation system.

While the external challenges darlings represented by the inability of the Iraqi economy to compete in the world, and still depend on imports, that generates great challenges, because of the amount of funds that spent during the past 15 years ago, but the waited do not tantamount to achieving development and evaluation.

The hypothesis of the research: The role of the state is increasing in economic activity, that is against the reformist after 2003.

Research problem: inclinations towards a market economy after 2003, reformist which adopted by the state did not equivalent the need of the Iraqi economy, as well as increasing her intervention in economic activity, that stand against toward economic market.

Objective of the research: The research looking for explaining the efforts of economic reform which should depend on following economic policies short, medium, and long-run chime with the nature of Iraq economy.

Overlooking on Iraq economy: Dialectic of the state role in economy.

Iraq economy witnessed many transitions and changes which was result of uncertain political systems and the associated events such as changes in economic structure as a result of change national income resources and main public revenues, after depending on became on elicitation and metallization (oil) sector after discover oil in Iraq then considered constitutes the main resource of income and revenues.

Since 1921 Iraq witnessed great devolvement in both of public and private sector in economic activities, Then it faced the political problem of achieving from ottoman and British occupation. During 1921-1958 that is called Royal era, the thinking was ginning great role to the private sector in economic activities, the state interested in it and took great space in economy. It has used about 30507 labour and this sector shared by 85.39% of national income in 1953 and by 82.2% in 1956, whereas its share in national domestic production (without oil) was 80% and 76.9% for the same period. The private sector also dominated on added value in main economic activities particularly transformative industries where its share was 88% (with oil liquidates) and by 97% (without oil liquidates) between 1953 and 1956⁽¹⁾.

And during the period 1958-1980, kynizan thoughts were spread, which appeared as a result of the global financial crisis. During 1928-1933; the state was invited to intervene in economic activates against uncertainty development, as well as confidence arising by governmental role in economic activity. Iraq started giving great role to the state in economic activism after that control planning became the distinguishing characteristic of Iraq economy, also nationalised oil sector, bankers sector and foreign companies. That role of state was regulative during that period.

The new government continued after events 17/30 July 1968, by depending on central planning as an approach in the development process. According to that, the role of government had expanded in the space of economic through 1970s and became dominator for many reasons most of it was pure ideological under socialism philosophy. It targeted to divert Iraq economy towards comprehensive socialism for overall economic activates industrialised, commercial and transport. At the end of 1970s, the socialist sector dominated on more than 60% of GDP, where the role of state had maximised as a result of increased oil exports which raised from 378.1 million dinars to 6288 million dinars ⁽²⁾.

During that stage, the role of the state was developmentally repaired in establishing the oil prices and created great financial surpluses that were demanded then adopted three five- year plans at the end of 1958⁽³⁾.

After the 1970s, when Iraq economy witnessed prosperity, the country entered into a long war with Iran. During that time, the government had tried to shift towards private sector to stimulate Iraq economy and saving living standards. In 1982, the government switched some of public sector properties to private then the government activated a private sector by a socialist system through selling some factories or plants. But it was rejected from some subrange activates that private sector could adopt it and giving opportunity to this sector for being active in the space of internal and external trade and agriculture, in the same time the state wants to improve the sector of military industries⁽⁴⁾.

The state proceeded implementation privatisation in agriculture, industry, trade services, besides permitting to the private sector to continue in his activities as competitor for socialistic sector. The government gave private companies premature motivations and tax exemptions as well as allowed great credit facilities to commercial banks for productive projects and agriculture. Which completely picked up by the private sector and the investments reached about billion Iraqi dinars during 1989⁽⁵⁾.

When the war with Iran had ended; the Iraq economy exhausted because it damaged infrastructures. Thus the country again faced a new problem which stands by embargo economy when Kuwait was occupied. The government tried to find a group of proceeding to avoid the effect of embargo at the beginning of 1990s, from another side the state tried to motivate private sector to compensate the loss of public sector, support basic good and services through en some laws and acts.

The important point was that the government wanted to join the private sector. At the end of 1980s authority permitted private sector to grow more than before but did not allow this sector to create any they independent of authority at that time. According to another researcher, it made private sector under its control, until 1990s the state could face some classes which had high level of economic capacity and subjecting them to it is authority this counteracting represented by execution crating class of person kinsmen symbols of authority⁽⁶⁾.

This phase discriminated by great financial hardness and depended on local revenues, where the government interference was reformative, and begun mimic international institutions (IMF, BI) without any direct interference, that case performed by government voluntarily because economic back down as a result of wars that is why the public institutions had privatized⁽⁷⁾.

After 2003 Iraq enters into a new era characterized by openness and liberation, then the state announced to adopt a free market system meaning that abandonments about socialist planning, through an act or group of laws which serves that, but in spite of public stayed controlled on great field of economy and the government had expanded in employing labours that are happed during 2003-2015 this period characterized by changes in institutions that make the state play developmentally and reformative role in order to advancement Iraq economy.

The economic role of state after 2003: alternative role between the market economy and government.

It is not easy to speak about the state's role in economic. This topic became one of the most studied topics by researchers, particularly. The global economy had witnessed, through the four decades ago, the coincided prevalence, conceits of freedom, globalisation acceleration, socialism collapse and Berlin breakdown. These circumstances imposed on Iraq after 2003 and diverted the philosophy of open economy which is controlled by the market mechanism, as alternative system of state domination. It was considered essential economic reform but the real referred ambiguity of vision the intervening of government had increased in economic activities throughout of expansionism fiscal policy, meaning that the state had wanted a way of it is reformative role that should do it⁽⁸⁾.

The speech about state's role under market system means to give up authority in productive process to subject it to the rules of market and competitive it does not relate to changing in-laws rules or form of economic system⁽⁹⁾.

According to the constitution in 2005 and adopting market mechanism in the Iraq economy, but the central policy of state goes on. It causes a complex procedure for obtaining resources that is why country has lost billions of dollars. Although many of the researchers verified withdrawing the role of the state against support and forcing private's role, but public budget refers to enormous it is value that does not proportionate with implementing ability, that creating administrative and financial corruption which reached to danger levels, under this problems the bad conditions deplored to constitute great disincentive in front of reconstructing process therefore the country induct in The vicious circle represented by terrorism, reconstructing and security⁽¹⁰⁾.

Since 2004, the state interference in economic had increased due to the bad condition of security. Most of the amount was spent to overcome terrorism. Most of the international subsidies recoded as government expenditures under limited GDP, which stayed restricted by oil revenues and also affected by results of⁽¹¹⁾.

The diversion towards market economy does not mean of totally non-interference of government in economic activity. The economists and specialists agree to this economic reality that states have a necessary contribution through reshaping motivation policy for the market to apathetic productivity and increasing efficiency. There are some activities which do not achieve by any sector except interfere on by state such as security, public support, goods and creating appropriate environment for developing and improving businesses⁽¹²⁾.

According to the previous studies, it existed noticed that Iraq does not create a clear transitional economy from centre state to free-market⁽¹³⁾.

Economic reformation for a transition to the market economy.

After 2003 economic reform in Iraq has coincided with the transformation of the economy into a market economy to ensure participation of the private sector in economic activity. The role of government is entrepreneur of

economic activism with making-out by some actions and projects which private sector could not run it apart from it is basis duty such as equip essential goods, for society. The target was to create diversification economy and growth in all economic sector, completely depending on oil sector. Iraq economy requires to develop the sectors which suffer from non-productivity in GDP.

Market economy supposes excluding government, and it is bureaucratic in economic activity. The state helps in shaping laws, legalisation, facilitate the development process and provident funds to help the project for economic benefit. As a result, it leads to improving the living standards, reducing unemployment and promoting the infrastructure in Iraq cities⁽¹⁴⁾.

In the process of democratisation, the main concern is transformation towards a market economy. The provisional authority in Iraq has initiated liability through quick proceedings that lead to this approach by adopting quick reformations in infrastructures believed facilitate for transformation free market⁽¹⁵⁾.

The following important reformations that were adopted by Iraqi government for transformation from centrality to the market economy.

1- Monetary policy reform.

After 2003, Iraq monetary policy faced great challenges. The central bank of Iraq inherited degradation characterised by government accumulated debts, discontinued financial assets. Most of its assets had adjusted by foreign banks. Foreign receivables have accumulated as liabilities of the central banks which form more than 50% of Iraqi foreign receivables⁽¹⁶⁾.

Besides that, the central bank of Iraq had inherited inflation that came from external sector across transitional elements because of desolateness country of money then exchange rate deteriorated. Since 1980 to far levels or unsurpassed after economic embargo in 1990 to the war which led to change the political regime, all of these was expressive of the effect international Erica crossover to the local economy accrues transitionally elements than to available strictures particularly monopolistic entities in economy⁽¹⁷⁾.

In the context of enabling monetary policy to practice its role, the state legalised law of the central bank of Iraq. Thus, it gives independence to the bank in its operations. According to the section 26 of law, which prohibits the central bank from landing government or institution leavened to state if its direct or indirect exception securities within open market operations, and do not consider financial leverage to finance budget deficit as what was occurring before 2003⁽¹⁸⁾.

The central bank of Iraq contributed by its strategies in keeping up involvement towards the market mechanism which targeted to achieving financial stability and economy, as well as protects of currency stability for creating competitive economic environment depending on the mechanism of demand and supply for creating goals⁽¹⁹⁾.

To enable the Iraqi banking sector, have its role according to solid financial environment, the state arranged methodology for improving monetary policy and banking within the discrete infrastructure. It can devolve signs of monetary

policy to the real sector under stability and macroeconomic growth. Thus, the base monetary authority did the following steps⁽²⁰⁾.

- Substitution of old currency by the new one at the end of 2003 that was occurred first time since 1990. This new currency has high quality contributed to supporting confidence in dinar as well as led to stabilising monetary demand.
- Liberalise financial sector particularly interest rate and remove features of financial curbing which was represented by previous credit plans imposed by the central bank, such as, freedom of allocation of resources among economic sectors and dispersing saving. Therefore, the mechanisms of demand and supply had high efficiency.
- Giving opportunity to the foreign bank for working in Iraq if through sharing with private bank or as an independent firm according to the law of Iraqi investment.
- Switching from banking microcontroller banking censorship founded on the rule by which the central bank through could command process of practical base via regulative laws, to help banks in working according to an elastic system and efficient.
- Competing rescheduling internal debt to the criminal central bank on the ministry of finance which resulted from overdraft account and treasury bills of which accumulated during the 1990s because of inflationary finance phenomenon where the total debt reached 5.4 trillion dinars.
- Working according to debt management and financial analysis related to UN for identically external receivable schedules of Iraq with lenders and extraction the reports of receivable then harmonising with the office of public debt, as well as working of the bank by contribution in negotiation with Paris club to reach reduction about 80% of total debt.
- Updating payment system which was primitive before 2003 by using the RTGS system.
- Issuing regulations to facilitate banks in a process outside the public budget for achieving competitive abilities and reducing risks.

At the beginning of 2015 Iraqi central bank entered a new era to become institution with multi-program and targets. Moreover, responsive to the challenges and improvements witnessed by central banks in the rest of the world. The target was to achieve, financial stability, economic growth, focus on macroeconomic payments system and the smoothness of financial system⁽²¹⁾.

2- Financial policy reform

During the three decades, the fiscal policy of Iraq characterised by a tool controlled by the government to rise economy. It considers a reflective mirror for state interference in economic activity before regime change fascial policy of Iraq. It had devoted to serving wars and crisis and also the public fiscal characterised by hardness during 1990s and high levels of inflation because of monetary issuing.

Before 2003 Beside that, the distribution of budget revenues defined according to the origin of its reward or payback. Thee distribution of revenues preferred geographical regions on base of ethnic linkages with leadership of

authority. Therefore, created great gaps in providing services, so that effected on economic and social indexes between south and north part of country, also between cities and countryside⁽²²⁾. However, after political events of 2003, Iraq followed to diverts towards economic free and had reflection on performance of Iraqi economic. There were changes in bases production, although still depending on oil as the main resource for budget.

The disturbance which has fallen Iraqi economy is the military process which led to change regime in 9th April 2003, and the heavy economical inheriting forced the state to perform development and corrective role to resurgence Iraqi economy. Hence facial policy adopted after 2003 differs from earlier. This policy was based on expansionism and distributed the revenues between provinces impartially. Therefore there is improvement in living levels, but the security problem and political destabilising represented obstruction against function of fiscal policy. There is also structural deficit in police budget as a part of total deficit in Iraq economy. It is well known that Iraq is an oil-producing country and the budget still depended on oil revenues which constitutes more than 90% of budget. Financial resources, as well as the budget, do not prepare according to legal time tables because of political variations. On the other side, new tax policy was drawn up.

A mechanism has been put in place to manage the public debt at both the internal and external levels. The Central Bank will act as the financial agent for the Ministry of Finance in the management of short-term treasury transfer auctions instead of spending borrowing as before⁽²³⁾. On the other hand, the government agreed with the Paris Club to settle the external debt, representing a deduction (80%) of the debt in three stages under certain conditions.

The legal framework of the securities market has been established to facilitate the transition to a market economy. The aim of the market is to organise and train its members and listed companies, protect and enhance confidence through a transparent and efficient free market, organise dealing in securities, educate investors, disseminate the necessary statistics and information, and develop the capital market. Iraq to serve the national economy and help companies in building capital for investment and the quality of Iraqi and foreign investors on investment opportunities in the market, as well as communication with the Union of Securities Markets to develop the market. The reform of fiscal policy in Iraq has worked towards activating the role and revenues of taxes and fees in order to reduce dependence on oil revenues, but there are several obstacles that prevented the possibility of stimulating the role of these revenues and expand the proportion of its contribution to the public budget and perhaps the most prominent of these obstacles⁽²⁴⁾.

- The passage of the Iraqi economy into recession weakens the possibility of the government to obtain more revenue from taxes and fees.
- The method of economic loss that has been employed by public institutions for many years the magnitude of the possibility of attracting new revenues through which to increase the proceeds of public revenues.
- The spread of tax and customs evasion, along with financial and administrative corruption, which limited the possibility of expanding revenues.

3- Trade policy reform.

To complete the steps towards the rapid transformation of the Iraqi economy towards a market mechanism, trade policy had to be reconsidered. The Coalition Authority issued Order No. (12) for the year (2003) the policy of trade liberalisation, which suspended all customs duties and restrictions on trade⁽²⁵⁾. To move Iraq from the policy of trade protectionism to the policy of open door, it was the basis behind the overall liberalisation of the flow of capital and international goods to allow the Iraqi society to consume a range of goods and services that are better than its productive potential. Thus, it will contribute to raising the living standards of the Iraqi people⁽²⁶⁾.

However, the policy of open door has significant losses in the Iraqi economy, as well as the entry of goods that do not meet the qualitative specifications. Thus Iraq has become a market for the disposal of bad goods. Besides, this policy has led to the exit of large quantities of foreign currency to import consumer goods and services. This policy has led to the deterioration and contraction of domestic production of all industrial products. The contribution of the industrial sector to the GDP is less than 2%, which is lower than the rate that guarantees sectoral distribution. Exports have relied mainly on crude oil. Despite an increase in exports in the period since 2003, this has not led to a reform of the balance of payments deficit and attracted foreign investment. It led to an increase in consumption after 2003, and as a result of rising incomes, which negatively affected savings⁽²⁷⁾. In February 2004, Coalition Provisional Authority Order No.54 was issued, repealing Order No.12, which eliminated all customs duties and import taxes except the Iraq Reconstruction Tax imposed under Order 38 To give the policy of trade liberalization a wider scope and devote the tax with a single tax rate (5%) without taking any of the rules of the tax and came into force on 1/4/2004.

4- Improving the investment climate Investment from inclusiveness to freedom.

Investment is one of the most important macro variables affecting economic activity and pushing the economy forward, not to mention transferring technology from home countries to the host country, developing skills, and improving the competitiveness of the country. The investment climate does not stop with economic factors but goes beyond the prevailing political and social conditions. Security and political stability affect the investment decision. This has a decisive impact on investment decisions and in creating a favourable climate for attracting investments, along with incentives for tax exemptions and other concessions⁽²⁸⁾.

In the context of the transition to a market economy, after 2003, Iraq announced a new policy to regulate foreign direct investment that makes Iraq one of the most open countries in the world. The law allows foreigners full ownership of foreign companies in all sectors (except natural resources). It allows foreign companies to the intervention of Iraqi to own branches of companies or intervene as a partner in projects. The law allows to deal with foreign companies as national companies and allow them to recover immediately and full profits⁽²⁹⁾.

The main objective of this law is to open the door to investment flows, both direct and indirect, and in all economic sectors. Foreigner owning any of the country's economic facilities from which raw materials are extracted or facilities in which the primary processing of such materials takes place, directly or indirectly. The reasons for this are to improve the living conditions, technical skills and opportunities of all Iraqis. As a result, investment inflows into Iraq increased according to the International Investment Report of 2005 (UNCTAD). Foreign direct investment to Iraq increased from 5.0 million dollars in 2003 to 300 million dollars in 2004. Major investment was in the private banking sector, which was subject to the Central Bank of Iraq Law No. (54) for the year 2004⁽³⁰⁾. In 2006, a law was issued (13) on investment which aims to:

- Encourage investments and transfer of modern technologies to contribute to the process of development and development of Iraq and expand its production and service base and diversification.
- Encouraging the Iraqi and foreign private sector to invest in Iraq by providing the necessary facilities to establish investment projects and enhance the competitiveness of the projects covered by the provisions of this law in the local and foreign markets.
- Developing human resources according to market requirements and providing job opportunities for Iraqis.
- Protecting the rights and property of investors.
- Expanding exports and strengthening Iraq's balance of payments and trade balance

This law also regulated the formation of the National Investment Commission, and gave many advantages to investors, including exempting projects with investment licenses from taxes and fees for (10) years from the date of commencement of commercial operation.

Table (1) Inward FDI Inflows, 2003-2014 “US \$ Million.”

Year	Incoming flows	Outflows	Incoming balances	Outgoing balances
2003	--	0.0	945.0	0.0
2004	300.0	0.0	1245.0	0.0
2005	515.3	88.7	1760.3	88.7
2006	383.0	305.0	2143.3	393.7
2007	971.8	7.9	3115.1	401.6
2008	1855.7	33.6	4970.8	435.2
2009	1598.3	71.9	6569.1	507.1
2010	1396.2	124.9	7965.3	632.0
2011	1882.3	366.0	9847.6	998.0
2012	3400.4	489.5	13248.0	1487.5
2013	5131.2	227.1	18379.2	1714.6
2014	4781.8	241.5	23161.0	1956.1

Source: World Investment Report 2015 (UNCTAD)

It is clear from Table (2) that the largest share of foreign investment was for the extractive sector, followed by the real estate sector, chemicals and other sectors, which constitute only a small percentage of the total investment in Iraq.

Table (2) Investments received in Iraq by sectoral distribution for the period 2003-2015

Sector Type	Number of Companies	Number of Projects	Number of Jobs	Cost (US \$ million)	%of Total
Coal, Oil and Natural Gas	33	43	9.941	34.612	43
	17	18	25.094	31.899	39
Chemicals	3	3	3.017	6.009	7
Construction and Building Materials	4	8	2.216	2.035	3
Communications	20	23	1.244	1.523	2
Metals	6	6	4.847	1.101	1
Hotels and Tourism	9	12	1.512	1.101	1
Financial Services	30	52	858	816	1
Business Services	46	51	656	445	1
Storage	4	4	636	321	0.4
Other	60	76	6.256	1376	2
Total	232	296	56.277	81.226	

Source: Arab Institution for Guaranteeing Investment and Export Credit, Foreign Direct Investment to and from Arab Countries, Year 33, Second Quarterly Issue, Kuwait, (April-June 2015), p21.

However, these efforts have not been able to provide a favourable climate for investment. The security turmoil has prevented investment, weak investor-friendly infrastructure, and increased bureaucracy has led to an increase in administrative corruption that has complicated matters for investors. Negatively on investment projects in various stages and all sectors.

Despite the efforts exerted by the government in attracting foreign investment to Iraq, the investment process in Iraq is still stalled, and this is due to the legislative and substantive obstacles such as routine and multiple decision-making centers and ownership laws, as well as political instability and disruption of the security situation, and the need to modernize the banking system. The lack of a clear policy for the state to support the Iraqi private sector and development, as there are no important data in the budget to achieve this goal, as the bulk of the state budgets after 2003 focus on allocations. Night at large, and the continuation of the manufacturing expenses of government support with the decline in investment allocations⁽³¹⁾.

5- Institutional Reform

The redefinition and formulation of the role of the state in the framework of the market economy requires the establishment of institutions commensurate with the role of the state in both political and economic tasks, the role of institutions, especially public sector institutions, is very important in the process of reform and in the implementation of government tasks and the stability of regulatory and judicial systems, and therefore Improving public sector institutions is an important pillar of reform⁽³²⁾.

The restructuring and reform of various state institutions should reflect the change in roles and shared responsibility with the private sector and civil society. Restructuring in the public sector involves accelerating privatisation and commercialisation of public sector companies, as well as reforming the role of the state requires giving way to market forces and the private sector. This can be accomplished in a manner that allows civil society to play an active

role in the development and to build and develop its governance systems and institutional capacities⁽³³⁾. The private sector can play a reforming role when governments are unable to plan for reform. Its application itself ⁽³⁴⁾.

As a general framework for the restructuring of public companies in Iraq, privatisation should not be feared or resisted based on common prejudices around them. Privatization is carried out by comparative criteria that make the performance of companies outside the state more economical than staying within the state, as well as there are many One of the ways and methods of privatization, privatization necessarily sell the ownership of the assets of the entire enterprise to the private sector, because the entry of the private sector in any proportion, whether in the administration or the management and ownership of the public company is in itself a privatization "to varying degrees", and public companies can privatize some of its activities without others And According to several different contracts from company to company⁽³⁵⁾.

Towards economic diversification as a mechanism for reform in the Iraqi economy:

After the entry of Iraq in a new phase after 2003 at all levels, the survival of the Iraqi economy is suffering from a complete cessation of the overall economic activity in the country, and the collapse of institutions and economic sectors (industrial, agricultural and service) and slowing the rate of growth, if not lack of it, and therefore the decline in GDP The total economic sectors, in general, was due to the destruction of many infrastructure and industrial facilities to the lack of raw materials and energy and the shrinking of investment operations, as well as the deterioration of the security situation and the intensification of violence in the country, and the spread of economic mafias that took control of the total All this contributed to the slowing down of the economic growth process in Iraq over the years following 2003⁽³⁶⁾.

The double crisis in Iraq (low oil prices and the confrontation of the Islamic State terrorist organisation) and its serious repercussions revealed the existence of deep structural deficiencies and imbalances in the Iraqi economy.

It has been proven that the growth model, which depends on oil revenues in Iraq failed, this model was not able to build a strong economy and rival the economies of emerging and developed countries, but on the contrary, the Iraqi economy is suffering from serious setbacks in the high unemployment rates, and low contribution of sectors This is in addition to the increase in poverty (especially in light of the low oil prices 2015 - mid-2018), not to mention the political, security and social setbacks (poor income distribution, class division, wealth concentration by politicians, etc.).

To meet these challenges and address the shortcomings and imbalances, plans and strategies must be developed to build a strong, diversified and sustainable economy that can catch up with the developed countries or at least catch up with the developing countries. Accordingly, economic diversification is the best option for the Iraqi economy to get rid of the curse of oil rent and its disadvantages and build an economy based on strong and strong foundations. Economic diversification is a development policy aimed at reducing economic

risks, raising value-added and improving the level of income by directing the economy towards different or new sectors or markets instead of adopting only one sector or commodity.

Economic diversification is a development policy aimed at reducing economic risks, raising value-added and improving the level of income by directing the economy towards different or new sectors or markets instead of adopting only one sector or commodity⁽³⁷⁾.

Economic diversification is the process of expanding economic activities, both in the production and distribution of goods and services, thereby enhancing the stability of economies by diversifying their economic base. Economic diversification should be viewed from a sustainable development perspective to ensure long-term stability. It essentially strengthens the resilience of the economy and protects its long-term prospects in the face of the depletion of basic natural resources and economic fluctuations and shocks under the pressure of competition in a time of globalisation. The core of sustainable development, such as the provision of employment, food, health, clothing and shelter opportunities by opening up various areas of economic activity, which accommodates a wide range of people⁽³⁸⁾.

Broad-based economic diversification is crucial for economic development and building a sustainable economy, particularly in rentier developing countries, because high export concentration on a single commodity makes the country's economy vulnerable to price fluctuations of this commodity or resource, generating a sudden contraction in the country's financial resources. (Perhaps what the Iraqi economy went through during the period 2015-2018 after the decline in oil prices is a good proof of this), Moreover, extractive sectors are characterized by high capital density but weak links with other sectors, and therefore the size of these investments have little impact On Growth The productivity of other sectors, and to achieve progress and development, and the outcome is to increase the focus of the general budget of the country on oil revenues.

To achieve diversification in the Iraqi economy should develop a long-term strategy aimed at bringing about great structural changes and based on a broad and broad base of economic sectors, the most important axes of this strategy are the following axes:

1- Setting up a sovereign fund or a group of funds such as (Fiscal Stabilization Funds to protect the general budget of the country and the economy from fluctuations in oil prices, a savings fund transferred to the development of other sectors to alleviate the symptoms of the Dutch disease, the Economic and Social Development Fund, etc.) These funds are of great importance in the face of short-term fluctuations and financial imbalances in the economy as a result of relying on only one commodity for export, as well as allowing for greater diversification, thus being an important factor in achieving economic stability.

2-The need to mobilise domestic resources through access to a variety of financial services and products that support private investment in new economic activities. There must be a diversified, well-regulated and inclusive financial system that promotes savings and directs them to productive

investments. Financial inclusion broadens the base of financial services and products. On the revenue side, policies should focus on broadening the tax base.

3- Public-Private Partnership (PPP), the subject of public-private partnership (service contracts, management contracts, leases, concession contracts, BOTs) is of great importance in contemporary economies. Historical evidence indicates that economic development and growth depends not only on the public sector or on the private sector, but is a process that involves mobilising all the capabilities, resources and expertise of the community (public and private sector) to achieve the desired goals. Alleviate the financial burden It also provides the private sector capital and its expertise and knowledge in project management, in addition to the distribution of risks arising from the establishment of projects, and the partnership supports competition and innovation, and in this light should work to adopt this new pattern in the Iraqi economy in order to Achieve competitiveness and promote economic stability.

4- Infrastructure investments, infrastructure represents one of the most important pillars and requirements to achieve sustainable development, and the availability of this infrastructure would contribute to creating a stimulating investment environment for all economic sectors, and the Iraqi economy has suffered since the nineties of the last century and a significant weakness in infrastructure, and therefore It needs a wide variety of infrastructure investments. To achieve this goal, the private sector should be given a greater role in the development of the country's infrastructure to build a strong and diversified economy.

5- Support to SMEs: In recent years, countries and international financial institutions have become increasingly convinced of the importance of SMEs' contribution to employment, as well as their potential contribution to increasing value-added, supporting large national industries, improving efficiency, innovation and productivity through enhanced competition and contributing to diversification efforts. Economic. The advancement of small and medium-sized enterprises should occupy the utmost importance in the Iraqi economy, and be a pivotal goal to activate its development role in Iraq, and thus contribute to alleviating the great pressures faced by the Iraqi economy as a result of dependence on the oil industry and achieve economic diversification.

Improving Doing Business: Iraq ranks very low on the World Bank's ease of doing business index (168 out of 190 countries in 2018), and many countries have changed the regulatory environment for business because they play a prominent role in developing the business sector. The improvement of the business environment in Iraq through the issuance of regulations will lead to the development of the trade sector in Iraq significantly, which reflects on the achievement of economic diversification.

Conclusions and recommendations

First: Conclusions

1. The CPA used the shock method in the transformation of the Iraqi economy into a market economy, which led to a lack of clarity of economic vision and confusion in policies, which led to adverse effects on the economy.

2 - The deterioration of security led to the cessation of construction and reconstruction after 2003, as it affected the investments and reluctance of investors, and the Iraqi capital fled abroad, and under such deteriorating security conditions it is difficult to build the pillars of a private sector capable of taking the leading role in development and economic activity in general.

3 - For economic reform, successive governments worked after 2003 to push the Iraqi economy to shift towards a market economy after decades of control of a central system based on the dominance of the state, and worked on the development of legal frameworks and legislation that facilitate this, but the reality of the situation after more than a decade Odd refers to the increase of state intervention in economic life through the expansionary fiscal policy significantly, to move away from what was supposed to be a corrective role only, despite the Constitution to ensure that the Iraqi economy free economy led by the private sector, but it did not happen until Now adding new problems To the Iraqi economy.

Second: Recommendations

1 - giving a greater role for the private sector in the reform of the Iraqi economy, by making reconstruction contracts and infrastructure and the establishment of projects with long-term investment for the local private sector in the first place.

2 - Work to provide a safer situation to attract investments to enter into long-term projects in Iraq, as well as encourage the local private sector to enter into such projects and move away from marginal short-term quick-return projects, and encourage the settlement of funds and expertise to engage in these investments.

3. The required economic reform in Iraq must be within the framework of a well-thought-out plan and be an integral part of a comprehensive reform that extends to the social and political side in an integrated process and be a conscious process that requires the removal of constraints and obstacles to the transformation of nature. The economic system and its philosophy, starting from the reformulation of the role of the state to a package of economic policies that lead to the control of macroeconomic variables to reach an acceptable situation of internal and external balance.

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