

Identifying Weaknesses and Possible Development Solutions for The Iraqi Economy

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The paper aims to identify weaknesses in the Iraqi economy, which suffers from many problems. It also attempts to suggest appropriate development solutions for Iraqi economy. The paper adopts a descriptive analytical approach to review the ideas and proposals included in the research. The results show the absence of the institutional role and confusion in immature economic policies and programs, as well as a prominent deterioration in most economic and social indicators. Therefore, it is necessary to adopt alternative policies, including diversifying the economy and activating the role of other productive sectors, establishing a sovereign fund to invest surplus oil revenues and developing them in productive investments, revitalizing the private sector and enabling it increase economic activity.

Key words: *Iraqi economy, rentier economy, oil prices, oil returns, economic indicators.*

Introduction

A review of the history of the Iraqi economy shows that it did not constitute an interlinked chain, but rather that its history relates to and is separated according to its political conditions, in contrast to the coherence and harmony required by the economic and social nature of its parts. This reflects negatively on the economic behavior of each stage of the development of the Iraqi economy in all its sectors. In this context, it is important to point out that defining the features of the Iraqi economy requires an effort that is not limited to the economic side only, but rather should take into consideration other social and political aspects. The reason for this is due to the presence of an active and vital role for political and economic decision-makers in

directing the policies of economic development in Iraq. The historical facts indicate that Iraq has not gone through its history with practices that reflect a state of modern institutional work, and that radical economic decisions in state institutions are mainly derived from Iraq's economic heritage in its previous forms. This economic legacy has led to a series of chronic structural imbalances that threaten its economic and social stability. Moreover, the deteriorating reality that the country is going through, low international oil prices and the deteriorating political situation as a result of popular protests and the regional-international conflict over Iraqi lands and the war have had a negative role on the Iraqi economy. Besides, the continuous activity of combating terrorism and its impact were among the factors affecting the overall economic map of the country.

Many studies have shown that in the short term, the responses of both real non-oil GDP to negative shocks on real oil prices and gas revenues are higher than the impact of positive shocks (Hasanov, Bayramli, & Al-Musehel, 2018; Hou, Mountain, & Wu, 2016; Kozminski & Baek, 2017; Maji, Saari, Habibullah, & Utit, 2017; Mukhtarov, Mikayilov, Mammadov, & Mammadov, 2018). This means that the economic situation is affected by shocks of changes in oil prices on the short term, especially the negative shocks caused by the low oil prices (Charfeddine & Barkat, 2020). The most prominent results of the armed conflict in Iraq were to reduce the volume of government expenditures and adopt a policy of austerity as a result of chronic dependence on oil revenues, the large obligations and increasing corruption, as well as the inefficiency of development plans. All of these issues entail a series of specific reforms to determine the trajectory of the Iraqi economy and to lift it to a level that is commensurate with the various economic resources it possesses. Accordingly, the importance of research comes through revealing the endemic weaknesses in the Iraqi economy, which recently brought it to the brink of collapse, while seeking to find the best development avenues to confront this dangerous decline.

An Overview of the Iraqi Economy

Since the rise in Iraqi oil revenues, the Iraqi economy has become a central economy, dominated by the increasing oil sector, in tandem with state control of the agricultural and industrial sectors, with small private projects in agriculture, light manufacturing, and services (Tabaqchali, 2017). The Iraqi economy, which represents a rentier economy due to its dependence on oil as the only financial resource, and the state is the monopoly of mechanisms for formulating plans and practices of the economy in directions driven by political desires. Hence, economic transitions came from a centralised economy run by the state and subject to the decisions of the central authority to an economy that adopts market mechanisms and gives the private sector the lead role in economic activity. Nevertheless, this matter does not necessarily cancel out the role of the State in implementing any economic transition, and it is the State's responsibility to carry out these tasks and to lay the necessary groundwork for this

(Almagtome, Shaker, Al-Fatlawi, & Bekheet, 2019). The interruption or abandonment of the State's duties may therefore make this process vulnerable to failure. This is because the state is concerned with building the right structures and enforcing the conditions of economic reform in a way that meets national interests and helps to develop the economy according to market economy mechanisms. A specialist in the Iraqi economy usually notes that chaos is prevalent and the lack of transparency and clarity in taking unfulfilled decisions. Not only that, but also the lack of legislation necessary to create the appropriate environment for the application of free market trends and the needs of the private sector and foreign investor, as well as bureaucracy and administrative and financial corruption.

These obstacles hinder the initiation and completion of the process of economic transformation and increase its costs, as well as the negative effects on the economic and political stability of the country. Therefore, addressing these phenomena must be a goal, and at the same time a means to reach other goals in order to achieve success for the course of economic development in Iraq. The process of building a balanced economy that gradually moves away from dependence on oil resources and towards diversification of the production base to respond to the needs of internal and external demand can only be achieved through the transition to a market economy (Saleh, 2011). The successful economic policy in Iraq is that policy that raises the efficiency of using oil revenues to achieve sustainable economic growth, employment and economic development on the basis of market liberalisation and social justice. It helps to transform the Iraqi economy from a rentier economy to an agricultural industrial production economy. This can be achieved through a series of measures to diversify the production structure and raise the contribution of certain sectors, such as the manufacturing and agricultural sectors, to the formation of GDP, as well as the role of the tourism and foreign trade sectors in supporting the development process in Iraq. Moreover, the expansion of the role of the private sector, improving its competitiveness, and assuming leadership of economic activity in the medium and long term should be accompanied by the activation of the role of foreign direct investment (Al-Wattar, Almagtome, & AL-Shafeay, 2019; Khaghaany, Kbelah, & Almagtome, 2019). It is necessary to provide an appropriate economic and legal climate for this approach, as this will to reduce the burden of establishing many projects, in addition to benefiting from the expertise of the investing parties and the advanced technologies they possess.

It is necessary to urge commercial banks to facilitate the granting of credit to private sector companies, including long-term lending. In addition, it is necessary to urge commercial banks to facilitate the granting of credit to private sector companies, including long-term lending. These measures aim to encourage investment in productive projects that contribute to the development of non-oil exports, taking into account the prioritization of national industries and joint projects that achieve the goals of replacing imports, and the development of non-oil exports simultaneously (Muhammad, 2011). In this context, other sectors such as agriculture,

industry, trade and tourism should be given a role in generating economic growth, in order to decouple GDP growth with oil exports and reduce dependence on them as a source of income. The economy should also be restructured at the macro and sectorial levels to reach an economic structure that is compatible with the requirements of competitiveness and growth, and ensures flexibility in facing successive changes at the international level. The oil market, with its fluctuations as a result of changes in prices from time to time, is not eligible in the face of external shocks, and relying on this single source will expose the economy to the tremors experienced by the oil sector, meaning the national economy is dependent on the fluctuation of the global market - and this was confirmed when the global crisis occurred (2008), as world oil prices fell to about \$45 a barrel, less than half the average for the year 2008, which negatively affected public financial resources and the balance of payments (Pankaj & Ramyar, 2019). Likewise, Iraqi oil revenues decreased due to the drop in oil prices, and the contribution of oil sector activity to the gross domestic product for the year 2009 decreased by 35% compared to the previous year, which leads to a decrease in the gross domestic product at current prices by 10.5% compared to the previous year. The double shock in 2014 was also the shock of low oil prices and the shock of ISIS occupation of several Iraqi provinces, which made Iraq facing a difficult challenge. This shows the importance of generating sustainable financing for the purpose of supporting economic development, diversifying the national economic base and providing various incentives for economic growth by relying on maximizing the added value of oil and increasing its returns as an input to economic diversification (Grasten & Tzouvala, 2018).

The process of enabling the private sector to play its new role in light of the transition to market mechanisms is imposed by the requirements to change the distorted economic environment unilaterally in order to create a balanced economy. This requires providing a peaceful and strategic economic vision with clear dimensions and concrete programs through the real trend towards economic reform, which is supposed first to address the bilateral contradictions between the public and private sectors in a way that reduces the area of hegemony of the first sector. In addition, making room for the second sector by adopting the scientific economic standards to develop the necessary solutions to enhance the investment environment¹, developing the labor market and a serious approach towards solving the growing unemployment problem in all its aspects. In addition, the need to qualify the banking sector for its underdevelopment and weakness in financial capabilities, as this will in turn be reflected in the provision of financial support (loans) needed by private enterprises, as well as attracting the foreign investment (Chaichan & Kazem, 2018).

¹ The Iraqi situation is still a repulsive environment for investments, despite the signing of the International Compact Document by Iraq, as well as the issuance of the Investment Law No. (13) for the year (2006) and its amendments and the legal guarantee it represents for investors, but what is happening on the Iraqi scene has not lived up to the level of ambition.

As a result of the importance of the time factor in this matter, the gradual process of transformation imposes itself until its requirements and requirements are completed to fully crystallize this process. The partnership between the public and the private sectors must be achieved at the current stage, due to the inability of the private sector to assume its leadership role immediately for the mentioned reasons. The reason for this is that the private sector in Iraq is a young sector that does not possess sufficient capabilities of energy expertise to enable it to address this role on its own, as well as with limited foreign investment and its restriction to the oil sector. According to the National Development Plan (2010-2014), it is noted that it affirmed the following:

- Building this partnership between the two sectors, in various forms, methods, and concession contracts, in a manner that leads to raising the level of economic efficiency.
- Distributing resources optimally, and raising the levels of competitiveness in the local and external markets.
- Working to increase the ability of the Iraqi economy to adapt flexibly to global technical and economic changes.

In addition to the above, financial accumulation after the year 2003 has gone to the banking and speculation sector in its entirety and has not been invested in the real productive sectors of agriculture, industry, services and foreign trade, which need a huge amount of experience and material and human capabilities. Moreover, the productive sectors require a period of time to reap the benefits of investment. Therefore, this type of investment is not preferred by the owners of the capital because of the delay in their obtaining profits in the usual conditions, so how is the matter in light of the security instability and political tensions that Iraq suffers from (Muhammad, 2011)? The important lessons of economic development in various countries of the world came out with is to define the relationship between the state and the market, in a clearer sense between government and the private sector. This lesson indicates that the process of economic development will succeed when their relationship is mutually beneficial, complementary to achievement, and not conflicting (Ali, Hameedi, & Almagtome, 2019). Accordingly, the government's role should be complementary to the role of the private sector, by adopting a government-friendly approach that allows the market to operate freely when it succeeds and intervenes when it fails, with the necessity to move away from those policies that have proven failures for many times and replace them with successful policies. The literature indicates that if the market succeeds in the production activities, it fails miserably to build the infrastructure (material and human), protects the environment, provides public health, and in other areas that do not directly benefit from it. This motivates the government to take a supporting role for the private sector by focusing its efforts on providing the requirements for its success of data and information, building services and infrastructure, and caring for public health, spreading education, and encouraging and financing scientific research. The government should also avoid all investment activities that are from the work of the private

sector, which it improves and excels in a suitable climate, such as the production of electronic and electrical goods, agricultural products, and others. On the other hand, the government should play its role in the basic activities and in all the vital areas in which the private sector activity is ebbing, or its activity in it is contrary to what the public interest requires in order to reach the final goal of restructuring the Iraqi economy. This goal is to create a satisfactory state of sustainable economic growth with which the gross domestic product grows annually in real proportions that exceed the annual population growth rate in order to achieve continuous improvement in the income of individuals and their standard of living (Al-Haboby et al., 2016).

Economic Indicators of the Iraqi Economy

The Iraqi economy is categorized by characteristics and indicators that reflect the image of the devastation that it has suffered during the past three decades. The Iraqi economy suffers from structural problems that have necessitated it since the discovery and export of oil. It is characterized by the disruption of the economic structure due to the dominance of the oil sector over all other sectors, and the impact of this on the disruption in the production structure and the budget structure, as well as foreign trade. Moreover, the Iraqi economy suffers from growing unemployment and inflation rates, the collapse of the infrastructure structures in the economy, the scarcity of domestic investment sources, and the exacerbation of the problem of external debt and its magnitude, as well as the problem of widespread financial and administrative corruption (AL.musawi, Shebib, AL.musawy, & Bekheetd, 2019).

Table (1) shows a number of economic indicators for different years. It is noted from the Table 1 that the gross domestic product at current prices was in 2015 (199715.7) billion dinars, and in 2017 it decreased to (225995.2) billion dinars, i.e. a growth rate of 13% as a result of the improvement in global oil prices. The average per capita income of the product was in 2015 (5.408) thousand dinars and rose in 2017 to 6.085 thousand dinars for the same reason, which is the high oil prices. As a result of the Iraqi economy entering a period of economic stagnation, inflation rates recorded low levels that were in 2015 (1.7%). Although there are no accurate data available on unemployment rates, the available ones show that they exceed 10%, which indicates the negative effects that can result from wasting productivity of the workforce and the social problems related to it. The budget shows a deficit in 2015 and 2016 of (10267266) and (10267266) million dinars respectively. On the contrary, the trade balance shows a surplus in 2015 of \$ 7758.4 million, which turned into a deficit in 2017 to (4,820.0) million dollars, as shown in Table (1).

Table 1: Some economic indicators for selected years in Iraq

The details	1990	2000	2010	2015	2017
GDP at current prices (billion dinars)	23.3	50213.7	162046.6	199715.7	225995.2
Average per capita income of the product (thousand dinars)	1.258	2.003	4.995	5.408	6.085
Inflation rate%	117.43	5.0	2.4	1.7	-
Population (million people)	18.515	25.075	32.44	36.932	37.14
Unemployment rate%	5.5	22.4	12	10.59*	10.82*
Budget deficit or surplus (million dinars)	(5688)	(365666)	44022	(10267266)	(12658167)*
Trade balance (million dollars)	3788	9463	7849	7758.4	(4820.0)*

(*) Data for a previous year, Brackets are negative numbers

The information shown in Table 1 is prepared by researchers based on:

- Arab Monetary Fund, and others, the unified Arab economic report for years, 2002, 2018.
- Central Bank of Iraq, statistics, annual bulletin for various years
- Ministry of Planning, Central Statistical Organization, various bulletins

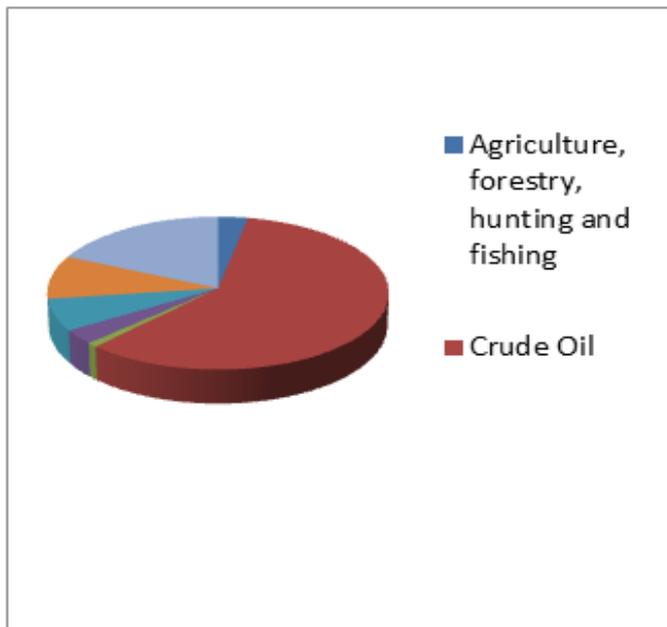
Regarding the relative importance of the GDP for the year 2015 according to economic activities, crude oil constitutes 59% of the output for the aforementioned year while the manufacturing sector did not constitute only 0.9% of the output, which reflects the minimal role of this industry in the formation of the output. On the other hand, the agricultural sector constituted only 3% of the output, as shown in Table (2).

Table 2: The materiality of GDP by economic activity in 2015

International classification code	Type of activity	Materiality
1	Agriculture, forestry, hunting and fishing	3
2-1	Crude Oil	59
3	Manufacturing industry	0.9
5	building and Construction	3.1
8	Money, insurance and real estate services	6.8
Column Spacing	5 mm	
The rest of the activities		18
Total		100

Source: Ministry of Planning, Central Statistical Organization, Annual Statistical Bulletin of 2015.

Figure 1. The materiality of GDP in 2015 by economic activity



In the context of the transformation process and what it requires to define the relationship between the state and the market, it must be sought to make it an integrative relationship in which the state plays a supporting role for economic reform. This can be achieved through the regulatory and regulatory direction, and in a manner that achieves greater harmony with the free market philosophy, efficient distribution of resources and improvement in competition opportunities leading to economic prosperity.

Iraq's Economy after 2003 at a Time of Falling Oil Prices

The process of moving towards a market economy after 2003 was imposed on those concerned in this regard the need to transform the Iraqi economy from a system of central decisions to a free market economy in order to take its role effectively in leading the national economy. One of the most important reasons for enabling this sector to play this new role is what is imposed by the requirements to change the distorted unilateral economic environment, with the aim of establishing a balanced economy that is free from tremors and crises that can occur as a result of external influences of the international market (Crocker, 2004). As a result, he must seek to achieve these goals through a macroeconomic policy, which includes a set of foundations and requirements for the process of economic transformation. These requirements can create a favourable climate for opening up to a market economy, developing the private sector, helping to integrate into the international economic community, and improving the performance of the economy as a whole (Rathmell, 2005).

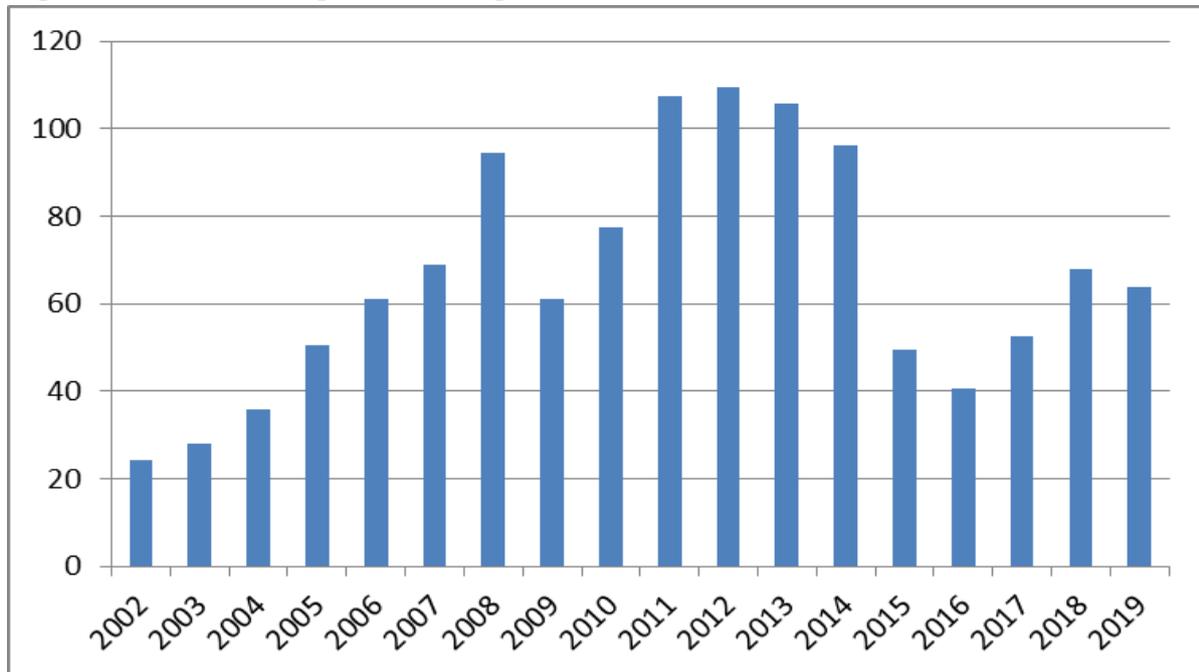
The follower of oil prices clearly sees its fluctuation between ups and downs as we have shown previously for various reasons related to multiple factors affecting both sides of the supply and global demand for oil to reflect on prices up or down. Table (3) shows that OPEC basket prices were less than \$ 30 a barrel before 2004, as this year it began to gradually increase as a result of the increase in oil demand, until it reached 94.45 dollars a barrel in 2008. Then, as a result of the mortgage crisis, it decreased in 2009 by 35.35% when it reached 61.06 dollars / barrel, and then it clearly increased after the global economy recovered from the crisis and increased demand rates, and in 2012 it reached its highest annual rate for the period when it reached \$ 109.45 a barrel, decreased in 2013 to \$ 105.87, and then to \$ 96.29 in 2014. In 2015 and 2016, prices decreased sharply due to the increase in the oil supply, especially shale oil and the decrease in global demand due to the shift towards renewable energy. The price decreased in 2015 to \$ 49.49 and then to \$ 40.67 in 2016. Consequently, the gradual improvement due to the agreement of OPEC countries and outside OPEC to reduce production, bringing the price in 2017 to 52.43 dollars a barrel and to 67.99 in 2018 before falling to 63.72 in 2019 due to the increase in unconventional oil production, especially American shale oil. At that time, US production of shale oil in March reached 8.291 million barrels, despite the decrease in the number of drilling rigs operating for the same month when it was 915 drilling machines (Longde et al., 2019).

Table 3: Basket prices of OPEC and rate of change for the period 2002-2019

Year	Price	Change rate
2002	24.36	-
2003	28.1	15.35
2004	36.05	28.29
2005	50.64	40.47
2006	61.08	20.62
2007	69.08	13.10
2008	94.45	36.73
2009	61.06	-35.35
2010	77.45	26.84
2011	107.46	38.75
2012	109.45	1.85
2013	105.87	-3.27
2014	96.29	-9.05
2015	49.49	-48.60
2016	40.67	17.64-
2017	52.43	28.63
2018	67.99	29.55
2019	63.72	-6.28

Source: OAPC, Annual statistical report, Kuwait, 2018.

Figure 2. OPEC basket prices for the period 2002-2019



The significant drop in crude oil prices has resulted in a significant drop in financial revenues for Iraq. It is noted that the oil revenues in 2013 amounted to 90,411 million dollars and decreased significantly in 2014 to 81,740 million dollars, despite the increase in export rates up to 136 thousand barrels per day compared to the previous year. It is also noted that Iraqi oil prices continued to decline on the basis of Basra Light Oil, as it decreased in 2015 to 47.91 dollars a barrel, and this decrease was not limited by the gradual improvement in Iraq's export capabilities, which rose by more than 500 thousand barrels from the previous year. It resulted in a significant decrease in oil revenues in the mentioned year (2015), and also decreased to 48,924 million dollars. Then, it rose again as a result of the increase in Iraq's export capacity, which increased during 2016 and 2017 to (58,023 and 71,890) million dollars, respectively, as shown in Table (4).

Table 4: Iraq's oil revenues and average daily oil exports for the period 2013-2017

The Details	2013	2014	2015	2016	2017
Oil revenue (million dollars)	90,411	81,740	48,924	58,023	71890
Daily export rate (thousand barrels)	2442.7	2578.7	3109.6	3370.2	3324.1
Average price of a light Basra barrel (in dollars)	96.2	94.4	47.9	39.4	51.9

Possible Policies to Prevent Economic Collapse

There is a set of policies and development means through which to reduce the economic effects of lower oil prices and then to move away from the economic collapse. It is very difficult to cover all these policies through this study, but it will be briefly mentioned. Policies such as economic diversification, the establishment of a sovereign fund, and encouraging the private sector are among the most important policies that will reduce the deterioration of the Iraqi economy.

Economic Diversification

Diversification of the economy is the most vital problem facing many countries around the world. Several countries believe that economic development can be achieved by diversifying the economy and changing the structure of the main revenue-raising sectors (Dixit & Ahmed, 2019). As shown in Table (2), the oil sector constitutes 59% of the gross domestic product for the year 2015. This is a large percentage that clearly reflects the country's need to expand other economic sectors and increase its contribution to the development of the gross domestic product. In particular, the manufacturing sector and the agricultural sector (which represents only 3% of the gross domestic product, reflecting its underdevelopment and its low level in a country where all means of success for this significant sector are available). It also indicates the revitalization of tourism with all its varieties available in Iraq, especially religious and archaeological ones. The prior studies show a positive relationship between oil revenues and general budget revenues. Consequently, any decrease in oil revenues will be negatively reflected in the general budget. The data for 2009, 2013, 2014, 2015 and 2016 also appear when oil revenues were affected by political instability and the deterioration of the security situation following the emergence of ISIS and the global drop in oil prices (Salmana, Majeedb, & Ameen, 2019).

The increased economic diversification will protect the Iraqi economy from the fluctuations of the global oil market, and these wide fluctuations in oil prices are a major source of macroeconomic volatility. Especially in the financial and external sectors, given the high dependence of public financial returns on the quantities of oil exported and its prices in the global market. The decline in oil prices is reflected in all joints of the Iraqi economy and most of its indicators are affected, leading to the decrease in the level of local consumption. This is because many jobs in Iraq are directly or indirectly related to the performance of the oil sector. Moreover, the chances of getting a job are declining, which means that income is declining and the opportunities to increase family income are small. For example, what happened in the countries of the Gulf Cooperation Council that witnessed a long decline in per capita consumption in the early eighties and did not rise again until late 2000. Moreover, low financial spending also affects economic activity in the short term and may reduce the rate of potential

growth in the medium term. Thus, reducing dependence on oil revenues by increasing economic diversification is an important means of promoting a more stable economy (Manama, 2016). As oil is a scarce resource and the world's trend towards renewable energy, oil revenues will gradually decline over time, reducing Iraq's resources and weakening the government's ability to support economic growth. Consequently, the process of sustaining economic growth and achieving sustainable development through the utilization of potential surpluses in current oil revenues involves the creation of new industries to provide alternative sources of oil revenues in the future. Increasing non-oil revenues, in particular through the expansion of the tax base, should be an important part of the government's future policy, and monitoring and reducing spending is a key issue. High-quality investment in infrastructure and human capital is also required to improve the productive capacity of the economy and to promote economic diversification.

Sovereign Wealth Fund (SWF)

Sovereign Funds or Sovereign Wealth Funds (SWFs) are an important pillar of global investment and one of the most important signs of financial strength for their respective countries and are one of the resources that reflect diversity in the development of the national capital structure in the context of interaction with the global financial system. Sovereign wealth funds are of particular importance in rentier countries, especially oil. Because these countries suffer structural imbalances as a result of their dependence on almost exclusively oil or gas resources. As a result, it is vulnerable to external shocks due to its inability to control oil and gas prices and to internal shocks due to internal political, security and social conditions (Scheda, 2017). There are several rankings of sovereign funds in the economy literature. It is usually classified on the basis of goals and is divided into: savings funds for future generations, stability funds, reserve investment funds, development funds, and pension reserve funds. In terms of operating the fund, it may be classified into: domestic sovereign funds, international sovereign funds, and mixed sovereign funds. It may be classified by funding sources to: funds financed by privatization revenues; funds financed by budget surplus. In term of the degree of transparency, it may be classified into: transparent sovereign funds, non-transparent sovereign funds (Aguilera, Capapé, & Santiso, 2016). Based on data for 2018, there are 109 sovereign funds around the world belonging to various countries of the world topped by the Norwegian Global Retirement Fund with assets of \$ 1.04 trillion. Followed by the fund of the China Investment Company with assets amounting to 940 billion dollars, despite its establishment dating back to 2007. Then, the fund of the Abu Dhabi Investment Authority with assets amounted to 828 billion dollars, as shown in table (5).

The creation of a sovereign fund for Iraq would be a stabilization fund for oil revenues. It has important implications for economic performance, because it will represent another resource that supplies the Iraqi budget, rather than relying on a single source of oil revenues. This fund,

no matter how big its financial assets were when it was set up, will grow over time and its assets will grow when operated effectively to serve as a safety valve that leads to the reduction of oil shocks similar to the experience of other oil countries. This fund is funded either by surpluses arising from an increase in the price of oil above a certain level, or by setting a percentage of the oil revenues to be deposited in the fund, or by setting out particular amounts of oil the revenues of which are deposited in the fund. Whereas, withdrawal from the Fund occurs when oil prices fall and budget deficits occur.

Table 5: The Top Ten Sovereign Wealth Funds of 2018

Ranking	Sovereign Wealth Fund	Assets under Management (\$bn)	Country	Established
1	Government Pension Fund Global	1,040.00	Norway	1990
2	China Investment Corporation	940.00	China	2007
3	Abu Dhabi Investment Authority	828.00	UAE	1976
4	Kuwait Investment Authority	595.00	Kuwait	1953
5	Hong Kong Monetary Authority - Exchange Fund	523.00	Hong Kong (China)	1993
6	Saudi Arabian Monetary Authority - Reserve Assets	506.00	Saudi Arabia	1952
7	State Administration of Foreign Exchange	441.00	China	1997
8	GIC	378.50	Singapore	1981
9	Public Investment Fund	350.00	Saudi Arabia	1971
10	National Social Security Fund	1,040.00	Norway	2000

Source: Aguilera, R. V., Capapé, J., & Santiso, J. (2016).

Encouraging the Private Sector

In most Arab oil-exporting countries, including Iraq, the private sector is still small in size and modest in activity. There are many companies in the oil-exporting Arab countries that are state-owned and operate in the public services sector. In many of these economies, the private sector remains small and tends to be largely informal or relatively underdeveloped (Reinhart & Trebesch, 2016). A competitive private sector is a more sustainable source of growth and employment for most of the world's economies. It leads services in the private sector to create job opportunities and thus to increase the contribution of the industry to the creation of GDP.

With the share of agriculture in the private sector declining, small and medium-sized enterprises are the main source of job creation. This enhances the increase in economic diversification and, as a result, the private sector plays an important role in moving economic activity and, as a result, increased job sustainability will have a positive impact on the economy as a whole. Despite the government's efforts, however, the private sector in Iraq is still unable to generate the growth of investment and projects needed to create employment and reduce dependence on oil revenues and public sector jobs. There are multiple restrictions that hinder investment and limit the growth of the private and non-oil sectors. The most important of these are the weak security and the aggravation of the matter, especially after the needs of October 2019, as well as dilapidated infrastructure, rampant corruption, a lack of skilled workers and old commercial laws. Moreover, there are many private companies that are small and informal that work mainly in retail trade, construction services and transportation and do not make any tangible contribution to gross national product (Cohesion, 2018). It is therefore necessary to put in place appropriate economic policies, to legislate on the required laws and to create an appropriate environment, as well as to eliminate all barriers that obstruct the growth of the private sector. This will help the private sector to play its part in leading economic activity and to reduce the burden on the public sector.

Conclusion

The goal of this paper is to identify vulnerabilities in the Iraqi economy, which suffers from many problems. It also seeks to recommend effective planning solutions in order to overcome these problems. The paper adopts a concise analytical approach to evaluating the ideas and recommendations included in the study, thus improving it with the relevant data and analysing it with a view to achieving the desired objectives. The results show the severity of the problems compounded by the economic reality in Iraq, which has been mirrored at other levels. Chronic structural imbalances are one of the most significant of these issues, which is the result of a pronounced decline in all non-oil sectors relative to the increasing contribution of the oil sector to the development of GDP. This leads to the development of a fragmented economy in which systemic and societal issues intensify and which have permanently contributed to the loss of economic and social stability. The results reflect the lack of institutional position and uncertainty in unstable economic policies and programs, as well as the marked deterioration of most economic and social indicators. Results also indicate that there is deterioration in the welfare and living conditions of people and a rise in unemployment and poverty levels, high pressures and responsibilities on the state. The explanation for this decline is due to a number of factors, including the high costs of the war against terrorism, large external debt and financial and administrative corruption. Moreover, the fluctuations in oil prices, the revenues of which represent the largest proportion of public revenues, are a decisive factor in the collapse of the economic situation in Iraq. It is therefore important to implement alternative and realistic policies to advance the structural reality of the Iraqi economy. The present study proposes three



solutions in this regard: (1) the diversification of the economy and the activation of the position of other productive sectors; (2) the establishment of a sovereign fund to invest surplus oil revenues and expand them in productive investments; and (3) the stimulation of the private sector and the ability to play its part in leading the economic activity. The results of this study show a number of theoretical implications due to its role in defining the vulnerabilities of the Iraqi economy and the most influential economic indicators. The practical implications for this are, however, the role that the proposed policies will play in improving the nature of the Iraqi economy and improving growth metrics, and then ensuring the economic and social well-being of all citizens. In addition, the findings of the current study will help to highlight the process of swapping roles for researchers between the oil rental sector dominant in the Iraqi economy and other development alternatives in order to achieve real economic growth in society in a stable and sustainable manner.

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