

# Iraq's Economic Development Strategies: The Challenges and Requirements

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## To cite this article:

Husam Yaseen Mohsin, Kezhong Zhang. Iraq's Economic Development Strategies: The Challenges and Requirements. *International Journal of Economics, Finance and Management Sciences*. Vol. 3, No. 2, 2015, pp. 138-147. doi: 10.11648/j.ijefm.20150302.18

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**Abstract:** Sustainable development, with its economic, social, environmental aspects, is required for the advancement of human life in developing countries. This can be achieved after examining the challenges (economic and non-economic and internal and external) and the requirements for development, while acknowledging that the process of identifying the philosophy of the economic system and orientations and defining the role of the state in economic management and policies is extremely important and necessary in Iraq. The research found that the policy of economic reform implemented by the Iraqi government could not achieve high economic growth rates and stable guarantees for development but created economic improvement in some economic indicators in limited periods. The existence of a pre-2003 economic philosophy a clear guarantee of the achievement of economic development after 2003 resulted in policies and programmes of economic reform being instituted. These achieved some positive results by reducing inflation and stabilising the exchange rate of the Iraqi dinar and the high value and high volume of foreign exchange reserves, amounting to a 60 billion dollar reduction (80%) and scheduling of external debt. The country's GDP has witnessed improvements by increasing oil exports. However, the contribution of other economic sectors except oil continued to contribute to the formation of low-GDP ratios. This paper attempts to characterise the economic reforms which have been adopted by the Iraqi governments in recent years and to explain the strategy of the economic reform programmes for achieving economic development in Iraqi economic sectors. These suffer from underdevelopment and not keeping pace economically with the countries of the advanced capitalist world.

**Keywords:** Development Strategies, Challenges, Requirements, Industrial Development, Agricultural Development, Tertiary Development

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## 1. Introduction

The subject of economic reform is one of the crucial topics that has attracted the attention of researchers and writers of different intellectual affiliations, while the goal of asylum developing countries is to adopt economic reform programmes to address external debt and structural imbalances, promote economic growth and meet the requirements of development. Thus, research is required to plan economic reform. Iraq, like other countries, is required to keep up with the various political, economic, regional and international changes in order to achieve balanced economic development, which requires strategies to stimulate and encourage economic behaviour that fits with the reality of Iraq, in order to create optimal gains in the short term which are compatible with the values and social and institutions

required to ensure sustainable development that meet the needs of different generations.

## 2. Iraqi Economy: Problems and Challenges

The Iraqi economy has not been strong enough to cope with the various shocks and crises it has experienced. Despite its enormous economic potential, investment has not been carried out in a balanced manner to achieve the desired economic development due to certain problems and challenges, which can be summarised as follows:

### 2.1. The Political and Economic System

The Iraqi Constitution states that "The State guarantees the reform of the Iraqi economy in accordance with modern

economic principles to insure the full investment of its resources, diversification of its sources and the encouragement and the development of the private sector” (Article 25). It is clear from the text that the economic system and economic policy is not specified here, but this is stated according to the general formulation unspecific, despite the clarity of phrases. However, the reality did not include the application until now, that's the constitutional issues were incomplete.

Deteriorating security conditions and the lack of agreement of political forces inside or outside the political process on a unified programme led to disruption of development programmes in all fields. Because of the political problems caused process of sharing and consensus between the political forces to share the ministries according to party loyalties away from the efficiency and professionalism, this led to a lack of clarity about economic vision and the lack of strategic plans leaders to solve problems. As well as generate rampant case of financial and administrative corruption, resorting to improvised solutions led the Iraqi economy towards negative results (Iraqi constitution, 2011).

## 2.2. Unilateral Oil Sector and the Problem of the Oil Industry

In the Iraqi economy, the yield depends mainly on the extractive sector (oil). While all development plans that were adopted previously relied on funding from the public revenue derived from this sector, a crude oil export ratio of not less than (93%) of the value of Iraq's exports during the period (1970-2012) has been created. Iraq has the second largest oil reserves in the world, with estimates at the present time that the size of the reserves of Iraq's proven crude oil as being up to 110 billion barrels, which is equivalent to 11% of the world's reserves, as Iraq has a large amount of natural gas estimated at 115 trillion cubic feet. This was characterised by the Iraqi economy relying on the oil sector as a source of financing poor economic and social development and this has led to the economic development and progress in any field being linked to developments in the oil sector. Table 1 shows the quantities of production and export of oil and some other indicators related to oil (Al Rubaie 2006).

*Table 1. Production and export of Iraqi oil and some other indicators for the period (2000-2012).*

Years/Indicator	2000	2003	2007	2008	2009	2010	2011	2012
Amount of oil produced (million barrels)	2810	1500	1600	2787	2000	2160	5375	2870
Amount of oil source (million barrels)	2039	1000	1640	1855	18555	1980	2165	2600
Value of exported oil (million dollars)	-	-	40015	595390	41329	84000	88500	10200
Amount of oil to refineries equipped (million barrels)	-	-	121	1606	162	192	210	215
Amount of oil supplier to the electricity (million barrels)	-	-	18	16	25	23	32	36

Source: The Ministry of Planning - Central Statistical organization / Department of National Accounts.

## 2.3. Monetary and Financial (General Budget) Challenges

Monetary policy has played an important role in regulating the money supply, controlling liquidity and credit, so the monetary authority can represent by the central bank to achieve specific goals. According to the priorities determined by the economic situation and the suffering related to the problems and challenges, the monetary authorities are pursuing an economic policy which is determined by the general direction of the state.

The challenges faced by the monetary authority in Iraq after 2003 have included hyperinflation, which requires creating an independent monetary policy related to the political decision to control inflation, and to be the monetary authority's flexibility and freedom to use their tools different to control hyperinflation (Alsadiq 2006).

### 2.3.1. Inflation

Iraq has seen waves of inflation, the most prominent of which was in the 1990s because of the economic blockade and stop Iraqi exports and freezing of Iraqi funds. According to the indicators the central bank inflation rates then reached a rate of 500%. The most prominent challenges for the new monetary authority were anti-inflation policies and the creation of financial stability. In order to create financial stability, the central bank bears the burdens and costs, Through the sale of dollar in the local market for the purpose

of maintaining the exchange rate, which led to the reduction of the inflation rate to 20% per annum, added purchasing power estimated at 21 trillion dinars to the Iraqi economy, the cost of cash operations incurred by the Central Bank amounted to 2 trillion dinars. Therefore one dinar can achieve ten dinars as a benefit, because of multiple monetary policy operations (Saleh 2009).

### 2.3.2. Money Supply and Interest Rates

Since the 1980s the money supply has continued to increase due to the financing of the fiscal deficit of the state and military and civil spending. It reached a level of 7.24 billion dinars in 1991, but after the signing of a Memorandum of Understanding with the United Nations in 1996, the annual growth rate declined to 19.2%. However, the level of the money supply rose to three trillion dinars in (2003). It then became the goal of the monetary authority to stabilize the growth rate of the money supply and to reduce liquidity in order to achieve the goal of controlling inflation.

### 2.3.3. Exchange Rate

After the new central bank adopted the monetary authority in 2003, there was a focus on finding the exchange rate equilibrium of the Iraqi dinar against the dollar, in order to come closer to real prices, despite the relative increase in the exchange rate. However, the increase in oil revenues in recent years has meant that the exchange rate has come under

the control of the Central Bank (Ministry of Finance 2012).

It is thus clear that the policy followed by the Central Bank of Iraq via monetary instruments is a contractionary policy, while the Iraqi economy is in a state of stagflation, so that the high interest rates lead to increased savings rates. There has been an attempt to invest in all fields which require the following of an expansionary monetary policy, by means of lowering interest rates, encouraging domestic investment, and by increasing loans to the economic and service sectors in the Iraqi economy.

With regard to the problems and challenges of fiscal policy (budget), operating fiscal policy in Iraq according to the policy of government spending leads to an increased demand for goods and services produced, but because of the weakness of the productive base in the Iraqi economy and the

abnormality in the sectors of industry and agriculture as well as the deterioration of the infrastructure needed to support these sectors, there was an aggravation of demand, prompting an expansion in imports, which turned into a compressor of negative on domestic production, which was already deteriorating.

A fiscal policy on oil resources in Iraq was adopted after the 2003 to finance the budget and cover the expenses required only, not only to take practical measures to employ part of the oil revenues for the development of the productive sectors, but also following an expansionary policy (non-quality) for the bulk for operating expenses, and the lowest rate for investment expenditures in the annual budgets for the period 2003-2011, as shown in Table 2.

**Table 2.** Rate for investment expenditures in the annual budgets for the period (2003-2011).

Years	Billion dollars	operating expenditure rate %	Investment expenditure rate %	Annual Change rate %
2003	6.100	100	-	-
2004	13.000	100	-	2.13
2005	25.000	88	12	1.90
2006	34.000	79	21	1.36
2007	41.000	78	22	1.20
2008	80.000	72	28	1.95
2009	63.300	80	28	0.79-
2010	71.290	79	26	1.12
2011	78.000	80	28	1.09
2012	97.500	68	31	1.24

Source: The Ministry of Planning (2013)- Central Statistical organization / Department of National Accounts, years (2003-2012).  
- Iraqi The Ministry of Finance, Department of budgets - preliminary estimates for 2012.

#### 2.4. Problematic Foreign Debt

Iraq's debt since 2003, according to the United Nations Compensation Commission, is estimated at about 320 billion dollars. The country has been addressing each amount paid to individuals, institutions and governments through the Paris Club agreement whereby Iraq needs to reduce 80% of its total official debt. The amount of state debt of 38.9 billion dollars has been cut to become 7.8 billion, and is cut across three stages and has been deleted (by 30%, 30% and 20%

respectively), but the final phase, in accordance with the loan by the International Monetary Fund, is subject to the completion of arrangements for the cushions loan, which was extended to three years (Ibrahim 2014).

As shown in Table 3, the remaining debt owed by Iraq (24) as well as the state of the Arab Gulf states, has reached 30 billion dollars. To countries of the first rank, including Kuwait, Iraq owed \$17 billion.

**Table 3.** Iraq's debt to the countries of the world until the year (2004).

Countries	The amount	countries	The amount
Arab Gulf States	30 billion	Russia	12 billion
Japan	4.108 billion	USA	4.1 billion
France	2.993 billion	Germane	2.403 billion
Italy	1.726 billion	Yugoslavia	1 billion
United kingdom	930.800 million	Turkey	800 million
Egypt	740 million	Canada	564.200 million
Poland	500 million	Australia	499.300 million
Spain	321.200 million	Jordon	295 million
Brazil	192.200 million	Sweden	185.800 million
Finland	152.200 million	Swaziland	117.500 million
China	80 million	South Korea	54.700 million
Morocco	32 million	Denmark	30.800 million
Hungary	17 million		
Total debt	564.200 billion		
Outstanding contracts	57.2 million		
Benefits	47 million		

Source: Antony H. Cordesman - *An attack on Iraq: the military, political & economic consequences*- Centre for Strategic & International Studies (2004).

This debt has played a major role in hampering the economic development process in Iraq, because Iraq still needs to pay off this debt and provide compensation to the beneficiaries through the deduction of an amount from oil revenues, and at this time it was possible to convert these deductions to rebuild productive institutions, especially those related to oil, which are related to the development of economic sectors in Iraq.

### **2.5. The Problem of Unemployment and its Effects**

Many factors have led directly and indirectly to exacerbating the phenomenon of unemployment in Iraq, including wars fought by Iraq during the past three decades, and the subsequent economic blockade which led to the low level of production and development or ceasing of many projects, drawing the largest proportion of national income towards the requirements of the wars and military spending, as well as the destruction, arson and looting that has plagued state institutions after 2003, along with the demobilisation of a large number of workers, particularly in the security ministries, and the dismissal of workers for political reasons, as well as partisan and sectarian struggles which also led to an increase in the proportion of unemployed in total population. A report by the United Nations on human rights stated that the unemployment rate for 2006 was an estimated 60-70%. (Alrubaie 2006).

The emergence of a new type of unemployment in Iraq (forced unemployment) should be noted. Those affected were forced to leave work either because of violence or forced displacement, cancellation by operators, or exclusion for political reasons. This could be termed 'compulsory unemployment'. The challenges faced by the state to eliminate this problem are as complex as the causes of other types of unemployment, because the factors that led to the formation of this type of unemployment. The most important factors are violence and terrorism, the exclusion of political sectarianism and payoffs. This may require a big effort from the state and may require regional and international efforts to deal with these factors (Ministry of Planning 2011).

### **2.6. Privatization and International Economic Organizations**

In Iraq after 2003 and the change that has occurred because of the occupation led to a change in the philosophy of the state administration. Iraq carried out a number of political and economic reforms to prepare the Iraqi economy to open up to the world and change the economy of a centralised totalitarianism system to a market economy. The requirements to achieve this involve correcting the course of development, through the adoption of a strategy for development to ensure access to the maximum benefits from the oil revenues through the guidance of those revenues towards finance productive investment, as well as creating an appropriate investment climate to promote competition between public and private sectors on the basis of

considerations of production efficiency and yielding to market forces (Shalan 2005).

However, these implementation processes have not been realised until now, due to poor management of the economy, the occupation authority in that period, and the concomitant lack of security stability, and chaos in most areas of life, which is reflected in the development process, and the political quota system, and the monopolization of power and money, as well as the rampant financial and administrative corruption, and foreign intervention. This has led to the disabling of the process of transformation and the advancement of the Iraqi economy, as well as a failure to address the imbalances, to achieve economic and social development required. Therefore, I worked with the occupation authorities to try to open up the Iraqi economy to the outside world, by trying hard to achieve achieving Iraq's accession to the conventions of international institutions, such as the WTO Fund, the IMF and the International Bank for Reconstruction and Development. The government has embarked on these measures under pressure from the donor countries and international institutions and creditors so that Iraq harmonizes its legislation in line with these international institutions in order to help in the reconstruction of Iraq and the cancellation its debts. There was as clear need to restructure the economic system in accordance with the agreements, international organizations, and the most prominent structural reforms of the public sector, defining the role of the state in economic activities, supporting the private sector, following the free-market, deregulation and laws in policy support and subsidies and making the market mechanism are determined by the optimization of resources (Albustani 2009).

Iraq has tried hard to keep pace with these changes, but the reality of the Iraqi economy did not respond to these variables, so that the economy fell below a zero level. Iraq has not got rid of the effects of recent wars and still suffers from the threat of terrorism and a lack of security and stability.

## **3. Development Strategy Required for the Iraqi Economy**

For the advancement of the economic reality of Iraq we toned to consider a set of tasks and goals for the future economic policy. The most important of these goals and tasks involve setting priorities, which is very necessary for the success of any economic policy. Different priorities depend on different preferences for economic and social imperatives, while the infrastructure of the Iraqi economy is at the forefront of the economic policy, because the infrastructure in Iraq suffers from damage which still affects the evolution of economic and social fields. Thus the development strategies for the most important sectors of the economy need to be clearly defined, as do the importance of each of these strategies, as well as the obstacles towards the

implementation of these strategies.

### 3.1. Agricultural Development Strategy

#### 3.1.1. The Importance of the Elements of the Agricultural Sector

The agricultural sector in Iraq was privileged in the 1980s and 1990s, especially in the period of the economic embargo on Iraq. It was a positive contributor to providing a large part of the food for the Iraqi people until the occupation of Iraq in 2003. Then this sector began to deteriorate because of the destruction of the infrastructure and irrigation projects, as well as the lack of basic necessities for the process of productivity in the agricultural sector, in addition to the emergence of the problem of water shortage in terms of quantity and quality. Thus there has been a steady decline in agricultural production, which has been a burden for the Iraqi economy, and has increased the amount of agricultural crops which have to be imported to meet the needs of citizens (Salem 2012).

The most important elements of agricultural development

in Iraq are:

- Availability of arable land in all governorates of Iraq.
- The abundance of water resources of the Tigris and Euphrates rivers and rain and groundwater.
- The abundance of manpower in the agricultural sector.
- The existence of the broad market and the large population and hence aggregate demand on the broad agricultural products.
- Diversity of agricultural products and their spatial distribution.

The government is working on a plan for the development of the agricultural sector (2010-2014), which aims to raise the level of contributions of the economy's non-oil gross domestic product. This is part of the new direction in economic policy which follows the philosophy of a free economy. In the first year of this plan the proportion of the sector's contribution to agriculture in GDP increased to about 10.2%, and Table 4 shows the performance of the agricultural sector in Iraq for the period 2007-2010.

Table 4. Performance of the agricultural sector in Iraq for the period (2007-2010).

Years/Indicator	2007 (1)	2008 (2)	2009 (3)	2010 (4)	Change rate % (3:4)
Cultivated area (acres)	14246	14237	10517	12043	15.5
The total value of agricultural production (billion dinars)	8034	8467	9084	10785	18
Total plant production (billion dinars)	6221	6369	6598	7851	19
Total animal production (billion dinars)	1622	1919	2263.2	2653	17
The amount of wheat production (tons)	2202	1255	1700	2740	61
The amount of barley production (tons)	748	404	501	1137	126
The amount of rice production (tons)	392	248	173	190	10
The amount of the production of dates (thousand tons)	430	476	507	566	11
The output value of forestry (billion dinars)	7.7	7.3	10.8	12.3	13.9
Fish production value (billion dinars)	183	172	211	248	17
Average yields of wheat production acres (kg)	351	219	337	496	47
Average yields of barley production acres (kg)	171	75	178	282	58
Average yields of rice production acres (kg)	790	732	788	812	3
Agriculture, fishing and forestry (billion dinars) 1	4480	3889	4488	6231	38.8
GDP at constant prices (2)	48778	52292	56852	61039	9.9
Percentage contribution of the agricultural sector, fishing and forestry	8.2	7.4	7.8	10.2	
Agricultural imports	1.997	2.057	2.814	3.120	

Source: The Ministry of Planning - Central Statistical organization / Department of National Accounts, years (2003-2012).

#### 3.1.2. The Challenges for Agricultural Development in Iraq

- The Challenges to Land, Water and Environment

Iraq suffers from many problems and constraints in agricultural and environmental and terrestrial and aquatic resources, with reference to the following (Khlaf 2014):

Salinization of agricultural land as a result of wasteful use of water for irrigation by farmers of traditional irrigation methods, which begins to encourage farmland salinity to deteriorate. This lead to the existence of a deaf layer which impedes water flow, as well as a solid clay layer which limits drainage, as well as the movement of seeds and thus the soil become unfit for cultivation. The amount of land which is useless for production in Iraq is estimated at 2,934,507 thousand hectares, equivalent to 68.9% of the total area of Iraq.

- The problem of dropped water contained in Iraq amounts to 77 billion cubic meters per year during the 1980s to less than 30 billion cubic metres in recent

years because of Turkish policies and Iran with regard to a dam which led to water pollution and high salinity in the water from 250 parts ppm to 3000 ppm, as well as a high pollution rate of 1.3 ppm to 50 ppm, due to the upstream countries having remnants of industry and agriculture in the course of the river.

- Environmental pollution According to reports by the United Nations, Iraq is one of the countries that suffers from a very large amount of pollution of air, water and soil, which has led to a significant increase in agricultural production costs as a result of the use of many types of pesticides and their high price.

#### 3.1.3. Agricultural Investment Challenges (Salem: 2010)

The Iraqi environment is characterized by many features that include the determinants of agricultural investment, as follows:

- Agricultural infrastructure: The increased degradation

and destruction of infrastructure after the US occupation of 2003, paralyzed the Iraqi economy because the infrastructure is the backbone and lifeblood of all economic, social and political activities in civilized societies. Statistics show that Iraq needs 15 000 MW of electricity, but has only 10,000 MW available. Therefore the gap is estimated at 33%, as well as that for irrigation and drainage projects. Most of these projects have been destroyed almost completely due to military operations as well as poor maintenance and neglect as well as lowering the necessary amount of investment.

- **Weak legal environment:** There is an imbalance in the number of laws, which is one of the most important obstacles to the Iraqi or foreign investor in Iraq. These include competition and antitrust laws, the Product Protection Act, the Consumer Protection Act, the Customs Tariff law, the Export Subsidies law, the Trademark law, as well as laws about registration of companies and standardization and control of quality, as well as the protection of intellectual property laws. When activated these laws will give positive signals for investment in the agricultural sector.
- **Financial and administrative corruption.** The main reasons for the growing phenomenon of administrative and financial corruption in Iraq are the wars and

economic sanctions imposed on Iraq in the previous era, as well as the US occupation and the resulting sabotage of the system of values and ethics in Iraqi society. This includes the absence of the role of the state and all its institutions, as well as the absence of accountability, transparency and overlapping powers, weak organizational structures and a lack of clarity in financial accounts. According to the United Nations Organization and the reports of corruption from the Academy of Interpol, Iraq has been one of the most corrupt countries in recent years.

- **General challenges:** Certain challenges are being faced by the Iraqi economy, including the poor performance of financial, monetary and trade policies, and the limiting of economic development due to wars and economic sanctions as well as the US occupation of Iraq. These successive problems have hampered development plans, and halted the development of the performance of the sectors of the Iraqi economy.

The above challenges led to the food gap which threatens food security in Iraq, The Iraqi Ministry of Trade is the only institution that is markets grain from peasants annually, while Table 5 shows that grain production in the best case scenario fills 30% of the needs of the population for wheat and 15% for rice, especially in the last five years.

*Table 5. The amount of the food gap of wheat and rice (thousand tons) (2003-2011).*

Years	Annual need of wheat (thousand tons)	The amount of wheat production (thousand tons)	The amount of the gap (thousand tons)	The annual need for rice (thousand tons)	The amount of rice production (thousand tons)	The amount of the gap (thousand tons)
2003	3627	1077	2550	986	47	939
2004	3795	483	3312	1032	77	955
2005	3933	385	3575	1069	100	969
2006	4057	1030	3027	1103	97	1006
2007	4167	1218	2949	1133	164	969
2008	4289	629	3660	1166	181	985
2009	4383	1231	3152	1192	109	1083
2010	4514	1466	3048	1227	178	1049
2011	4649	1700	2949	1264	294	970

Source: Iraqi Ministry of trade (2012), the General Company for Grain Trade (2003-2011)

#### **3.1.4. The Most Important Requirements for Agricultural Development**

In situ detection of reclaimed farmland, determining the suitability for cultivation, rehabilitated to be valid in order to conform to the requirements of the new development.

- Planning for the development of agricultural projects and programmes that meet the needs of all arable land, taking into account the compatibility between these programmes and the possibility of their application on the ground. As well as re-working the programmes with the former Ministry of Agriculture, such as the development programs of strategic crops, and livestock development programmes in order to create find a timetable for implementation.
- Urging the executive and the legislature to accomplish

and amend the laws relating to investment authorities, as well as activating the laws in order to attract investment.

- The state is working on providing requirements for agricultural production, such as seeds, fertilisers, pesticides, veterinary medicines and feed and animal production requirements.
- National agricultural crop protection, through the development of controls to reduce the import of agricultural crops from outside Iraq, as well as the cooperation of the Ministry of Agriculture with the negotiating team for Iraq's accession to the World Trade Organization can create ceilings which protects the crops' value.
- Increasing the proportion of financial allocations in the state budget for investment in the agricultural sector for

the development of this sector as an active contributor to the state treasury in the coming years.

### 3.2. Industrial Development Strategy

#### 3.2.1. The Importance of Industrial Development in the Iraqi Economy

The decline that has plagued private industry and the public and the chaos witnessed by the Iraqi economy, after the occupation in 2003 can be seen in the contribution of manufacturing to GDP by 7.48% in 2003, which fell to 2.3% in 2010. This reflects the extent of decline that has plagued this sector, as well as cancelling customs restrictions and work in order to obtain the 5% as a fee for the reconstruction of Iraq on goods entering. This has led to increased imports and the flooding of the market with cheap Iraqi goods, which has led to the inability of the local industrial sector to compete and therefore most of the factories have stopped production (Alrubayai 2010).

We believe that the development plan for the period (2010-2014) would be good for development of prosthetic sectors, including the industrial sector. This would encourage the creation of a clear vision of its goal, the development of all sectors of the economy. Such a unilateral shift depends on achieving the shift from an oil-based to a multi-faceted economy. Table 6 shows the beginning of the development of this sector after the beginning of the five-year plan in 2010-2014.

Table 6. Industrial indicators in Iraq (2009-2011).

Years/Indicator	2009	2010	2011
Total Exports (\$ billion)	41.7	52.5	83.2
Crude Oil	41.3	52.2	83
Oil products	0.3	0.1	0
Commodity products	0.1	0.2	0.3
Total imports (\$ billion)	17.3	27.4	49.1
Oil products	1.6	1.9	3.4
Commodity products	15.7	25.5	45.7
Output value in industrial installations (Million I.D)	5148493	8296674	9919025

Source: The Ministry of Planning (2013) - Central Statistical organization / Department of National Accounts, years (2009-2012).

#### 3.2.2. The Most Important Requirements for Industrial Development

- Legislative requirements: Environment appropriate investments need to be created in order to attract investment into the industrial sector. One of the most important elements to attract investors is the legislation that honours the rights of the investor, despite the issuance of Investment Law No. 13 of 2006. There are now many obstacles in front of investors, as seen in some paragraphs of this law. Thus this law needs to be reconsidered, using data from current circumstances to facilitate the process of investment in the industrial sector.

- Requirements for the executive: put controls on imports and determine entry into Iraq in order to protect local industries, and establish workshops with representatives of the private sector (associations of Chambers of Commerce and Industry and the Federation of businessmen). The needs of this sector need to be taken into account and supported financially through soft loans, which can help in the use of the latest technological techniques when competing with foreign goods.
- Participation Requirements: Opening the door to the giant companies to enter as a partner in the large industrial plants, which cannot be the industrial sector of Iraq, for restructuring, and for the benefiting from the experience of these companies with regard to their financial capacity in the use of the latest types of technology to restructure large factories and increase the amount of output.
- Requirement Planning: Planning for the mechanism should shift towards privatisation of Iraqi industry. Until now there has been a lack of a real plan and a clear case for the transition from the public sector to the private sector which is required to serve industrial action and to provide support for the Iraqi economy. This can contribute to gradually reducing the number of unemployed people. It must be pointed out here that the process of transition must be gradual, so a thoughtful withdraw from the public sector and giving up roles to the private sector in the form of stages does not affect the status of the productive sector.
- Financial requirements: increasing investment allocations within the annual public budget in Iraq to the industrial sector and manufacturing industries in particular under the specific strategy and priorities in order of importance.

### 3.3. Tertiary (Services Industry) Development Strategy

#### 3.3.1. The Importance of Tertiary (Services Industry) Development in the Iraqi Economy

Tertiary industry is industry, which does not produce material products, such as services industries. Tertiary industry is also known as the third industry. In addition, from the other perspective, sometimes this means the segment of the economy that provides services to its consumers. For tertiary industry, priority will be given to the development of the service sector, in a bid to increase the aggregate amount, optimise the structure, enlarge the scope and enhance the level. With great potential for employment increment, tertiary industry should also provide a major job market to be tapped. In addition, the development of tertiary industry helps to promote economy structure adjustment, provide employment opportunity, better investment environment, stimulate the urban and rural economy, raise the overall efficiency of the national economy and improve people's lives. The Services Sector constitutes a small part of the Iraqi economy both in terms of employment potential and its contribution to national income. The following grouping of activities can be

considered to form the Services Sector in Iraq (Lawly Dasa, Rajesh Raut: 2014):

- Transport.
- Communication.
- Education, as well as entertainment and culture.
- Medical services.
- Tourism, including hotels and restaurants.
- Miscellaneous goods and services, including banking and insurance.

Iraqi Planning Ministry data shows that the rate of spending on the services sector in GDP has more than doubled in five years, from 21.7 in 2007 to 30.8 in 2012. Despite this increase in spending on the service sector, it still suffers from underdevelopment, because most of the increase in spending has been focused on the operational side, neglecting elements of the investment side such as restoring infrastructure building.

Table 7. Indicators of the service sectors in Iraq.

Field	1993	2007	2012
Transport	3.8	10.4	15.3
Communication	1.2	2.5	3
Education and culture	0.4	2.2	2.7
Medical services	1.1	2.1	4.1
Tourism, hotels and restaurants.	0.3	1.1	1.3
Miscellaneous goods & services	0.9	3.4	4.4
Total	7.7	21.7	30.8

Source: The Ministry of Planning (2013) - Central Statistical organization / Department of National Accounts.

### 3.3.2. The Challenges of Tertiary (Services Industry) Development in Iraq

Services industries, like other industries, are facing several challenges and have substantial gaps with negative implications. The main challenges faced by the service industries in Iraq is the collapse of infrastructure due to wars and the security situation deteriorating for a long time, which led to mismanagement and a lack of productivity and inefficiency.

In recent years, despite the huge financial resources, allocated in the state budget for this sector, it remains below the required level, due to the inability to re-build the infrastructure to accommodate the requirements in the fields of water, electricity, education, service, health. These problems have increased this year after the occupation of one third of Iraqi territory by terrorists. This has destroyed most of the tourist attractions and archaeological sites as well as several educational and health institutions and banks. It is necessary to identify the most important challenges facing the service industry in Iraq in the following ways:

- Blurred vision and lack of a clear strategy towards the service industry and the prospects for development that could lead to the desired national and local levels in economic, social, religious and cultural fields.
- Weak public policies and a lack of interest in the service industry in the development agenda of development plans, which have led to a lack of completed and

planned projects.

- Poor basic facilities in all the cities of Iraq, such as electricity, water, telecommunications, sanitation and others.
- A growing population, but without an increase in the health and educational institutions, hotels and financial institutions required to accommodate the increase, particularly in rural areas.
- The lack of security and political stability has played a role in the lack of development in the services sector, in addition to the destructive acts carried out by the American occupation forces in many important archaeological areas such as Babylon, Ur and Nimrod.

### 3.3.3. The Most Important Requirements for Tertiary (Services Industry) Development

Accumulated international experience in the service industry, especially in the field of tourism, has been present because Iraq possesses archaeological and religious sites in all cities, which has enhanced the return of Iraq to the World Tourism Organization. This should hopefully help to start the development of and support for the private sector, and benefit as experienced in this sector by approaching the 'market economy'. Opening the way for investments in the services sector, both for existing projects in hotels or religious and archaeological sites or building new service facilities containing the latest technological developments, in order to keep pace with technological advances and to meet the needs of individuals. The government should create facilities for investors in this sector because of its great importance in the development of the economy and the creation of new financial revenue from oil revenues.

- Creating a cultural norm of thought for those working in this sector through the development of human resources training and urging service organizations to take advantage of the graduates of these schools and colleges. For example, the number of workers in the tourism sector, the graduates of institutes and colleges of tourism (5%) of the total workers in this sector.
- Focusing on the media and promotion by documenting milestones enjoyed by Iraq through the audio-visual media in order to Provision a guide on Iraq and distribute this guide all over the world through Iraqi embassies and commercial and cultural attachés.
- Working on the dry canal project, which will change the map of the local and regional economy and create active trade and transit movement in Iraq, by limiting the distance travelled by goods by rail or truck. This road will link the ports in Turkey, Syria and Jordan with the states of eastern and northern Europe and Central Asian countries. It will shorten the thousands of miles needed to be travelled by sea or land. Around 20-25 percentage is taken by ship in Arabian waters, or by the Red Sea crossing into Europe, with expenses being estimated at tens of millions of dollars (Iraqi ports).

## 4. Conclusions

1. The basic problem of the Iraqi economy lies in its structural imbalances since it depends so much on the oil sector, as oil revenues constitute the proportion (85%) of the revenue budget. Oil exports account for 96% of the total value of exports, which creates a unilateral economy.
  2. Fiscal policy did not work with the diversification of alternative sources of the proceeds of oil. This is an indication of failure in the search for dynamic stabilisers of the general budget. This includes self-stabilization techniques while the general budget will still follow the external economic cycle (of changes in oil prices).
  3. The difficulty in measuring economic indicators because of the presence of indications of improvement in the economic environment through increases in the gross domestic product index is due to an increase in the production and export of oil without any development in the other sectors. These sectors need to be built up to create sustainable development.
  4. It turns out that the existence of a package of agricultural challenges in Iraq is represented by the problems of land, environmental pollution, water and desertification and low investment and technological problems and infrastructure and weak macro-economic policy effectiveness in financial, monetary and trade. Therefore, the Iraqi agricultural investment environment repels investment.
  5. Iraq suffers from a food gap which has been widened as a result of the deterioration of agricultural production on the one hand, and of increased demand due to population growth and changing consumption pattern and high purchasing power on the other, which revealed food security risks in Iraq.
  6. It is important to consider indebtedness and compensation for the biggest obstacles that stand in the path of sustainable development in the Iraqi economy.
  7. Corruption contributed to the decline in public investment efficiency and weakens the quality level of public infrastructure in the structure, while contributing to the lack resources allocated optimally because of increased costs as well as the low quality of processed materials for projects.
  8. Despite all the serious attempts by the government, it did not succeed in achieving comprehensive economic reform and the existence of a set of challenges that have hindered economic reform, including the exceptional circumstances on the economic, social, political and security level, especially after 2003.
- accumulation and technological progress and the most important structural changes in the Iraqi economy.
2. Creating a balance in diversifying the sources of national income to cope with domestic economic and financial cycles including external economic cycles and the self-stability of public budget techniques.
  3. Building economic policies to work to increase the annual growth of GDP and gross national per capita income and gross domestic product, these indicators are there to create an economic power, which will lead to reducing the poverty rate and lowering inflation.
  4. The need for the state to provide all forms of support for the research centres for the production of technological packages, considering that production and productivity dependent variables are independent of the variable factors of technology. It is also necessary to restore infrastructure such as electricity, irrigation and drainage projects and dams, reservoirs, roads, combating desertification and land reclamation to increase production and to bridge the food gap. In addition to the need for legislation several laws are needed to encourage and attract investment.
  5. There is a need to reach a formula to address the problem of indebtedness of Iraq to all creditor countries.
  6. There is a need for a single window to deal with investment, and this may include a solution to combat corruption, and shorten the routine procedures through which an investor works. While the activation of laws and regulations can punish corruption, the implementation of these laws means activating the role of the executive and the judiciary in the application of such legislation which means activating their institutional roles effectively.
  7. A lesson can be learned from the negative experiences that have occurred in attempts in previous periods to use mature strategies to fit with the challenges of the Iraqi sectors not intersecting with each other, in order to ensure that a unified strategy for sustainable economic development in Iraq is being created.

## 5. Recommendations

1. For the advancement of the Iraqi economy, productive capacity development in the agricultural, industrial and service sectors needs be conducted through three interrelated and ongoing operations, involving capital

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