

The Role of Economic Reform in the Development of the Iraqi Economy for the Period (2003-2020)

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Abstract

The issue of economic reform takes a prominent position in the ongoing debate and discussion at both the economic and political levels. As such, this research has discussed some aspects of the process of economic reform in Iraq. The Iraqi economy is suffering from structural economic and financial imbalances, primarily due to the high contribution of the oil sector and the decline in the contribution of other productive sectors, especially the industrial and agricultural sectors, both in gross domestic product and in general state revenues. After 2003, the economic philosophy shifted from a comprehensive economy to a market economy, which worked on taking important measures, including price liberalization and liberalization of foreign trade, in an attempt to prepare the Iraqi economy for the process of economic reform. Despite the achieved results, they cannot be relied upon, as they were not at the required level. Therefore, it is necessary to move forward in the process of economic reform to address the economic problems and structural imbalances that the economy faces, and then achieve the desired economic development.

Keywords: *methodology, economic reform, structural imbalances, evaluation of experience, future vision.*

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Introduction

The abundance of natural and human resources enabled Iraq to assume the status of a middle-income country in the seventies of the twentieth century. This made Iraq the best country in the region because of infrastructure development and adopting a broad industrial base that reduced unemployment and raised the average per capita income; in the early eighties it reached more than \$3600. Adding to that improving the health and education sector, which eventually led to an increase in the level of well-being of the Iraqi individual. The successive wars and imposing the total economic blockade between 1991-2003 led to slow growth and development, deterioration of basic infrastructure and social services, as well as the deterioration of economic development indicators eventually.

Economic reform is closely related to the problems of economic development, because it is not possible for economic reform to succeed unless economic development is compatible and collaborated with it. Iraq suffers from underdevelopment and collapse of its infrastructure, the most important manifestations of which were weak investment and savings, deterioration in productivity of its various sectors, and security and political instability. This made economic reform in Iraq a more urgent need than before to increase its productive capabilities by relying on its own capabilities according to a long-term strategy to address structural imbalances and shift towards a market economy.

Research Importance

Economic reform, as a theoretical concept, aims at addressing the internal and external structural imbalances, such as the deficit in the general budget, the deficit in the trade balance, the high rates of unemployment, the inflation, the exacerbation of indebtedness, the stabilization of exchange rates, and others in the Iraqi economy that affected it negatively.

Research Problem

For decades, Iraq has suffered from severe conditions on the various economic, political, social and security levels. The policies adopted throughout that period have not been able to achieve development. So, to address these problems, economic policies must be taken into account to reform the economic structure.

Research Objectives

Through testing the validity of its hypothesis, the research aims to achieve the following:

- 1- Reviewing the theoretical foundations of economic reform policies.
- 2- Analyzing the economic and social effects of economic reform policies in Iraq.
- 3- Shedding light on the reality of the Iraqi economy after 2003 and its ability to achieve economic reform in light of the transition from a comprehensive economy to a market economy.

Research Hypothesis

After 2003, the policy of economic reform in Iraq did not achieve favorable results, it also did not eliminate many economic difficulties and structural imbalances in various sectors, nor did it bring about fundamental changes in the structure of the Iraqi economy.

Research Methodology

The research relied on the inductive (applied) approach based on deducing the results by extrapolating the trends of the statistical data. The research also adopted the descriptive (analytical) approach based on a set of sources and data related to the subject of the research and issued by the authorities related to economic reform policies.

Research Structure

The research consists of four sections. The first section deals with the theoretical framework of economic reform and consists of: first, the concept of economic reform, second, the features and objectives of economic reform, third, the stages of economic reform, and fourth, the methods of measuring economic reform. The second section reviews the policies and programs of economic reform, and it consists of: first, the justifications for economic reform, second, the policies of economic reform, and third, the economic and social effects of economic reform. The third section deals with economic reform and economic development in Iraq, as it firstly reviews the conditions of the Iraqi economy before economic reform, and secondly deals with the reality of the Iraqi economy after 2003 and the justifications for reform. As for the fourth section, it reviews economic reform in Iraq as a future vision, and it consists of: first, the challenges of economic reform in Iraq after 2003, second, evaluating the experience of economic reform in Iraq, and third, the economic reform in Iraq and the future vision. Finally, the research includes some of the conclusions reached by the researcher with a number of recommendations, and then ended up with list of references on which the researcher relied in conducting this research.

First Section: The theoretical framework for economic reform

The need for economic reform appears when an economy is exposed to a suffocating crisis represented by internal or external imbalances that require solid changes in economic policies to reform the economic trend. The term "economic reform" has been used as an alternative to development as the World Bank and International Monetary Fund were the first to use the word "economic reform" in their reports.

First: The concept of economic reform

Before addressing the concept of economic reform, it is necessary to clarify the meaning of reform. Reform means modification in the desired direction, that is, making it appropriate and proportionate in order to fulfill its purposes for which the modification process was carried out where the change is for the better (Al-Sa'adoun, 2013: 3). Accordingly, it can be said that economic reform represents a set of measures taken by the state to mitigate or remove distortions in the performance and economic structure to achieve a steady increase in economic growth rates with the aim of achieving economic stability at the macro level of the country (Abdul Khaleq, 2005: 33).

The reform refers to the policies that make local expenditures in harmony with the available resources, by creating a combination of fiscal, monetary, and commercial policies, and the exchange rate to ensuring that there is an aggregate demand that matches the composition of the aggregate supply by adopting measures that stimulate the goods and services sectors. In addition, the adoption of microeconomic policies aimed at improving efficiency in the use of resources by eliminating price distortions. Here, it can be said that these policies contribute significantly to raising the flexibility of the economy and its ability to absorb external and internal crisis, represented internally by inflation and externally by deficiency in the balance of payments (IMF, 1994: 6).

As for economic reform from the point of view of the United Nations, it is the policies and processes that work to bring about fundamental changes in the methods of mobilizing resources and redistributing them in a way that guarantees the requirements of society in the short term - represented by stabilization policies, and in the long term - represented by structural adjustment policies in the economy of that country (Dayoub, 2006: 98).

According to the Iraqi federal economic reform law, economic reform is defined as the restructuring of the Iraqi economy in accordance with the principles of modern economy and the requirements of transition to a market economy and ensuring the expansion of the production base through the adoption of market mechanisms, the liberalization of foreign and internal trade, and the guarantee of fair competition (Draft Law, 2013). Accordingly, it can be said that economic reform, in accordance with the capitalist orientation, is directed towards leaving economic activity to market forces and reducing government intervention in a way that ensures improving the allocative efficiency of society's resources. Finally, it can be said that economic reform, from the researcher's point of view, refers to those policies and procedures related to restructuring the national economy in a way that leads to activating the market mechanism and reducing the role of the state in the economy in a way that enables the economy to increase real income and national output and achieve sustainable growth leading to economic and social well-being.

Therefore, economic reform is one of the vital issues that countries seek to achieve because it reflects the indicators of economic development, welfare, and prosperity of society. Accordingly, it is inconceivable that the process of economic development would be far from economic reform, and the reason for this is that economic reform is a complex process with economic, social and cultural dimensions, and it is part of comprehensive development ideas for all sectors and social groups.

Second: The characteristics and objectives of economic reform

The policy of economic reform, its contents and objectives depend on the historical and political circumstances of each country. A country may apply economic reform in all fields using all the elements, and another country may apply it in one field rather than another. Therefore, the policy of economic reform is a continuous process because of the continuous change in the political and economic systems as well as the economic and social challenges that are reinforced by temporal and spatial conditions. Reform policies in most countries that have implemented economic reforms tend towards pairing the public and private sectors in reform and reducing their problems, even if the percentage of each differs from the other. That is why reform policies take an integrated package of measures that include the micro and macroeconomies; this requires defining the scope and fields of reform in a precise and thoughtful manner. It is worth noting that hasty reform procedures may lead to many negative aspects that are difficult to control, and the results of reform are; therefore, disappointing. Accordingly, it can be said that the success or failure of the reform policy depends on: the efficiency and effectiveness of the political and administrative systems that supervises and implements this policy, and the extent of cooperation and response of civil society institutions with the reform process, which often means the transition to a market economy that is conditioned by the privatization cycle that some people advocate while others resist (Al-Nasser, 2001: 50).

Economic reform can be considered a means to achieve a number of goals as follows (Al-Azzawi, 2009, 19-20):

1. Optimum investment and proper distribution of economic resources and human energies.
2. Reducing the burden of external indebtedness.
3. Improving exports and enhancing the competitiveness of the country's products in foreign markets.
4. Reducing capital flows abroad and attracting foreign investments to the country by providing an appropriate investment environment.
5. Achieving the desired and required balances in the national economy between production and consumption on the one hand, and saving and investment on the other.
6. Control inflation.
7. Raising economic growth rates by localizing the data of the scientific and technological revolution.
8. Achieving the equitable distribution of national income in a way that contributes to improving citizens' standard of living.
9. Getting the country out of the economic recession level to the economic recovery level.
10. Improving the performance of the financial, monetary, and banking sectors.
11. Reducing the burden of external indebtedness and reducing debt pressure on the national economy.
12. Encouraging the private sector's participation in the national economy with the aim of increasing production and providing new job opportunities.
13. Dismantling and privatizing some public sector institutions, given the state's inability to manage them efficiently, for the benefit of the middle class in society.
14. Developing and expanding public services (education-pedagogy- health).

Despite the general goals of economic reform, the efforts and directions of the International Monetary Fund and the World Bank in economic reform are directed towards two essential goals:

1. Restoring the internal and external balance of the economy to enable it to contain inflation and improve the balance of payments situation to provide resources that enable the country to sustain the burden of its accumulated debt burden, thereby restoring its creditworthiness.
2. Improving the efficiency of allocating the resources available to the economy and striving to expand and develop the country's productive capacities in a way that leads to achieving self-economic growth, increasing productive employment opportunities, and improving the standard of living of the citizens.

Third: Stages of economic reform

In this section, three stages can be included as follows (Al-Nasser, 2005:232):

1- Preparation stage

At this stage, the project is put forward for the economic reform program and democratic dialogue, in which there will be wide participation of experts and specialists in the preparation stage to make arrangements and changes for economic reform in a way that is compatible with

the capabilities and resources of the country.

2- Trade-off stage

The goals of economic reform are defined and the mechanisms for their implementation are monitored according to a specific time set by the experts of the economic reform program.

3- The stage of evaluating the results

Based on this stage, a comparison is made between the pros and cons of implementing the economic reform program.

Fourth: Methods of measuring economic reform

The aim of developing economic reform programs is to address the imbalances and distortions that exist in an economy through setting specific goals suit that imbalance using specific means and tools, after which the results obtained are evaluated. Therefore, the methods for measuring economic reform programs can be summarized as follows (Kamel, 2021: 18-20):

1- Pre - post approach:

It is based on comparing the levels and indications of macroeconomic performance during or after the implementation of the program, with the pre-implementation period. The objectives of the programs are compared with the actual achievements, as this approach is characterized by ease of calculation through comparing a number of economic performance variables during the period before the application of the program with the period after its application.

2- With - without approach: It is based on the idea of comparing the economic performance of the developing country subject to the reform program with that achieved by the methods of other countries that do not apply these programs. Emphasis is also placed on analyzing the reality of similarities between economies, and then reflecting the differences that are obtained between countries that implement reform programs with those that do not.

3- Generalized evaluation approach: According to this approach, the performance of the countries that apply the programs is compared with a group of countries that do not implement the programs, with an adjustment for the differences in the initial conditions and the control of external influences. The complications and problems in the two previous approaches prompted the development of this approach by modifying the approach (with - without) in two directions. The first is to identify the differences between the two groups of countries, especially the differences in the initial conditions, and take them into account when comparing the two groups. The second is to contain the effects of the programs taking into account the differences in the absence of the application of the programs. In order to apply this methodology in practice, the initial conditions of the two groups must be known.

4- Simulation approach: It is based on comparing the economic performance of countries that have adopted the application of economic reform programs and countries that have adopted other policies. In other words, it relies on simulating models to derive a hypothetical performance of the modification policies applied by these countries and compare it with an alternative policy package. Hence, it provides better information about the work of policies. The most important problems in this approach are the complexities that accompany structuring a complete econometric model of the economy that links economic objectives and policy tools.

Second Section: Policies and programs for economic reform

Many countries around the world have adopted programs of economic reform to confront the imbalances they are familiar with, whether on the internal or external level. Such programs could be self or supported by international bodies like the International Monetary Fund and the World Bank, which aim to achieve economic well-being represented by economic growth, full employment, external balance of the trade balance, internal balance of the general budget, and control of inflation.

It could be noticed that the content of these subsidized programs is nothing but a mixture of the various ideas of economic schools. The monetary school, for instance, can be seen through what is known as the monetary interpretation of the balance of payments, and thus gives preference to monetary policy. The classical school, also, calls for economic freedom and limiting state intervention. The Keynesian school, as well, relies heavily on financial policies in its analysis. Economic reform is not a target in itself, but rather a means to raise the efficiency of economic performance.

Iraq is among the countries that have undertaken self- and supported reforms with the purpose of changing the economic situation from deterioration into a better and appropriate situation with the aim of improving the global level of the national economy.

First: Justifications for economic reform

Although economic liberalization was available to all countries around world, the economic administration in developing countries preferred not to follow it because of the high cost of liberalization and the problems of adopting it, as well as the fact that it eliminates all previous economic policies, whether positive or negative.

Also, economic reform falls between the conditions of the International Monetary Fund and the World Bank, as these conditions had many negative effects in countries that implemented economic reform programs. The adoption of the policy of economic reform has internal and external justifications, and accordingly, the internal justifications that constituted a strong incentive for economic reform can be summarized as follows (Al-Saadi, 2015: 73):

- Depression and fluctuation in economic growth rates, as well as the weakness of the production base; this was the reason for the economy's inability to sustain and grow.
- The decline in the growth rates of the major industrialized countries, which negatively affected the decline in demand for the developing-country exports.
- The increase in external debt and the rise in international interest rates, which increased debt-service burden.
- Large financial imbalances and expansion of the domestic liquidity growth rate, which led to higher inflation and increased pressure on the balance of payments.
- The deterioration of the terms of trade as a result of the decline in the global price of exported commodities that depend on most of the countries' exports, which led to a decline in foreign exchange resources.
- Distortion of structural incentives due to government restrictions on prices, such as the exchange rate.
- A deficit in the balance of trade and the balance of payments due to the growth of commodity

imports and the decline in exports.

- The increased intervention by the public authorities in all areas of economic and social life, which led to the dismantling and weakness of the internal markets and weak production efficiency.

There are also external justifications that entail economic reform, and they can be summed up in four phenomena, namely (Al-Khazraji, 2007: 9):

1- Globalization: It represents the process of dismantling and rearranging the world according to different perceptions and visions; this requires every society to recalculate its accounts in accordance with the process of disassembly and re-assembly, and this requires reform.

2- The signing of the GATT Agreement in 1994 and the establishment of the World Trade Organization where the north is affected by no less than (80%) of the benefits generated by the GATT agreement, and the south took the remaining (20%), i.e., there is a very large disparity, so specific measures should be taken.

3- The changes in Eastern Europe and the collapse of the former Soviet Union and the countries of the socialist bloc, which means the loss of markets that were secured and unified. The repercussions that resulted from this great development were greater than what could be imagined.

4- The growth of regional blocs that were viewed with great concerns as an attempt to protect internal markets, and therefore may result in more damage than benefits. These benefits are certainly achieved by the constituent parties of the new entities, but the damages are the share of those who remain out of the protection, and here it is necessary to take a positive action represented by economic reform.

Second: Policies of economic reform

The economic reform policies include, in the short term, a great deal of monetary reforms and a few structural reforms, but in the medium and long term, they include a great deal of structural reforms and a few monetary and financial reforms. This was reflected in the following stages of economic reform policies:

1- The national economic liberalization stage: This stage includes the country abandoning the central planning and management system, liberalizing the prices of final materials and commodities, raising price subsidies, reducing the burden on the state's general budget, liberalizing foreign trade, amending or canceling customs tariffs, expanding the role of the private sector in economic activity, and strengthening the market (United Nations, 1997).

2- The economic stabilization stage: The economic stabilization programs take care of the total demand side, both consumer and investment. They are considered short-term programs that do not exceed three years, aiming at achieving economic stability by contributing to addressing emergency imbalances that occur in the national economy, such as: the deficit in the state's general budget, the trade balance, and the deterioration of the value of the national currency.

Accordingly, the objectives of this stage include reducing inflation, limiting the growth of the money supply, developing the monetary and financial market, reducing the deficit in the state's general budget, liberalizing the exchange rate, raising monetary interest rates, and reducing the deficit in the balance of payments. It should be noted that economic stabilization programs are designed and implemented by the International Monetary Fund and adopt the neo-classical

economic theory of the balance of payments (Al-Jumaili, 2007: 6).

3- The stage of structural adjustment (correction): This stage is implemented in the long term through reforming regulations and laws related to the general economic policy frameworks. They represent organizational and institutional reforms that address the obstacles facing stabilization and economic liberalization policies which are one of the World Bank roles aiming at achieving overall, comprehensive and long-term stability.

The World Bank is addressing the imbalances for which the economic stabilization measures did not work, such as the existence of a deficit in the general budget, a large deficit in the balance of payments, and high rates of inflation.

In addition, it includes institutional reform leading to achieving efficiency in the use of resources, promoting trade, and encouraging foreign investment. The objectives of this stage can be summarized as follows (Al-Hamash, 1998:73):

- a- Privatizing the public sector and transferring it to the private sector.
- b - Encouraging foreign investment because it is the driver and supporter of economic activity.
- c- Encouraging export-oriented policies.
- d- Developing and encouraging the private sector.
- e- Trade liberalization and reliance on market forces and competition.
- f- Canceling government price support and reducing the budget deficit.
- g- Abandoning the tendency to protect local industries.
- h- Reducing government spending and increasing the prices of local services.

It should be noted that structural adjustment programs depend on economic theory in allocating and distributing resources. Therefore, the primary objective of economic reform programs is to raise economic efficiency, encourage economic growth, and achieve macroeconomic stability.

Third: The economic and social effects of economic reform

The economic reform policies that were applied in most developing countries relied mainly on structural adjustment policies because they suffer from a permanent deficit in the balance of payments caused by structural imbalances in the economies of these countries. The most important of these can be mentioned as:

A- The economic effects

As a result of the application of economic reform policies that have been implemented in most developing countries, economic effects are represented in the following (Shafir, 2001: 152):

- 1- Creating an economic recession, through contractionary policies within the framework of economic reform policies, such as reducing public expenditures and raising interest rates, which led to decreasing the domestic liquidity and the decline in purchasing power.
- 2- The increasing of inflation rates in most of the developing countries that applied economic reform policies because liberalizing the prices of products produced by the productive sectors and lifting subsidies on food and essential commodities fueled inflation despite reducing of local liquidity.

3- Increasing growth, the domestic saving rate, and investment contributions to the gross domestic product of a small number of developing countries that have applied economic reform policies.

4- Enhancing the growth of the gross domestic product, addressing the public budget deficit, and the trade balance of a small number of developing countries that implemented economic reform policies.

5- Increasing the external debt and the inability to pay it.

6- It is impossible to develop or build a national economy because of the weak role of the country.

B. The social effects

The implementation of economic reform policies in most developing countries have led to numerous negative social effects, including the following (Kamel, 2021:43-46):

1. Poverty: Economic reform policies have directly contributed to the increase in poverty resulting from contractionary policies, including:

- a. Reduction of wages and increase in fees and taxes as part of the financial policy pursued within the framework of economic reform.
- b. Reduction and elimination of support for some government goods and services as part of the price liberalization policy.
- c. Currency devaluation, resulting in an increase in the prices of imported goods.
- d. Increased emigration, as the negative impact of poverty on society is severe, leading to migration abroad, which results in the waste of human resources and skills, negatively affecting investment in human capital.

2. Crime spreading and child and female labor: These phenomena arise as a result of high prices and low income.

3. Income inequality: Income inequality is linked to an increase in poverty. Contractionary policies, as mentioned earlier, lead to an increase in poverty and, on the other hand, work to reinforce the position of other groups, such as the rich, in society by raising interest rates and pursuing allocation policies that reduce wages at the expense of achieving higher profits. Here, the negative impact of allocation on deepening income inequality between the rich, who earn high profits, and the poor, who receive low wages, becomes evident.

4. High unemployment rates: The IMF and World Bank insist that the increase in unemployment rates is temporary in the short term and that job opportunities will increase through market mechanisms after the economy achieves sustained growth. The impact of increasing unemployment rates resulting from economic reform policies can be seen in the following measures:

- a. Within the framework of financial policy- to reduce public spending two measures are adopted: halting hiring in the public sector or dismiss some of the existing workforce.
- b. Within the framework of allocation policy and the liquidation of the public sector- it contributes to the loss of a large number of workers' jobs.
- c. Within the framework of monetary policy- raising interest rates has a negative impact on

the public sector's ability to expand employment and the private sector's ability to provide jobs that contribute to reducing unemployment.

5. Decline in health and education levels: This results from reducing public expenditures and canceling government support for social services, including health and education, which leads to an increase in social gaps between individuals in the same society.

6. Increase in the cost of living: This results from decreasing support for goods and services, raising prices of public products, reducing exchange rates, leading to a decline in real wages.

Section Three: Economic Reform and Development in Iraq

Iraq is one of the countries that have abundant natural and human resources, but decision-makers face many challenges in adopting independent policies to build a stable economy with a comprehensive, diverse, and clear economic approach. Among the most important of these challenges are the widespread underdevelopment in all sectors of the economy, such as the oil, industrial, agricultural, service, tourist, health, and educational sectors, in addition to the imbalance in production, the rise in unemployment and poverty rates, the deterioration of the living conditions of the population, the unequal distribution of income, and the almost complete destruction of infrastructure. Many topics will be discussed below.

First: The Iraqi economy status before the economic reform

The Iraqi economy before the economic reform was characterized by certain features that can be identified as follows (Al-Anbaki, 2008: 27-29):

1. The Iraqi economy was marked by socialist concept that relied on centralized planning and the dominance of the public sector.
2. The Iraqi economy was rentier; leading to negative effects that were the main cause of the state's system inflation.
3. The percentage of employees in production sectors, excluding the oil sector, was high. These sectors contributed only a small percentage to the formation of the GDP, while the oil sector, which requires a small percentage of employees, dominates the total GDP formation since it dominates the total exports. This led to the distortion of the structure of exports, and the terms of trade were not in favor of Iraq, as shown in Table (1).

Table (1): The relative importance of Iraq's oil exports according to FOB for the period (2003-2020)

Year	Total Exports	Crude Oil Exports	Rate of Crude Oil Exports%
2003	9711	834	86.0
2004	17810	17455	98.0
2005	23697	23199	97.5
2006	30529	29708	97.3
2007	39578	37347	95.6
2008	63726	61883	97.1

2009	39430	38964	98.8
2010	51763	51453	99.4
2011	79680	79409	99.7
2012	94208	93778	99.5
2013	89768	89349	99.5
2014	83980	83538	99.4
2015	43441	43058	99.1
2016	40759	40493	99.3
2017	57559	57129	99.2
2018	86359	85797	99.3
2019	81585	78.364	96.0
2020	46829	44305	94.6

Sources: 1) Central Bank of Iraq, General Directorate of Statistics and Research, Annual Economic Reports of the Central Bank for the period (2003-2020). 2) The degree of export concentration was extracted by the researcher.

4. Distortion of relative prices among economic sectors is detrimental to international competitive productive sectors.
5. Existing production assets have been subject to erosion, destruction, and lack of maintenance due to direct destruction during war, resulting in a reduced investment absorption capacity.
6. The presence of a large money supply in circulation has caused a supply shock in the Iraqi economy, leading to the simultaneous occurrence of inflation and unemployment (stagflation).
7. A significant trade deficit has occurred due to exponential imports exceeding exports.
8. A continuous deficit in the general budget has resulted in financing problems that require the use of unconventional financing sources, such as deficit financing (new money issuance exceeding the volume of transactions in the Iraqi economy).
9. Accumulation of external debt from loans, interests, and compensations amounting to approximately 30 billion dollars.
10. Lack of security and inefficiency of laws have increased chaos in the country due to the absence of rule of law.
11. Contradictions exist between current development intervention trends and sustainable development requirements. Priority is still given to projects that heavily rely on labor and can be implemented quickly. Although these may be useful and acceptable in the short term, they are not sufficient to launch a sustainable development path in Iraq.

Therefore, achieving economic reform requires a set of measures, including:

- 1) Reducing public spending, increasing revenue, and reducing the general budget deficit, known as financial reform, i.e., moving toward financial sustainability.
- 2) Reforming the public sector, which is dominated by rent-seeking, by transforming its institutions into productive ones and ensuring financial discipline.
- 3) Reforming the private sector and making its institutions productive, away from the rent-seeking character of its limited activities in contracting, services, and commercial agencies for

foreign products (Al-Ibrahim, 2016)

4) Reducing the role of the state and focusing on its core tasks of improving the business environment, implementing supportive and incentivizing measures for the private sector, increasing the state's power in enforcing laws, legislation, and procedures, combating waste, adopting transparency and accountability.

5) Building trust between the state and private sector institutions through the principle of partnership, encouraging citizens to work in this sector and including them in social security and retirement benefits, providing greater opportunities for the private sector to manage the economy.

6) Redistributing income and wealth and increasing government support to reduce class disparities and improve the living standards of the poor, taking into account the social effects of economic reform programs.

7) Developing a clear strategic vision and objectives to support productive sectors (industry, agriculture, and tourism) and engaging the private sector under the principle of partnership to end the state's rent-seeking and low productivity in the national economy, leading to improved performance of the national economy's sectors and the creation of a solid and diversified industrial base, away from rent-seeking (Ibrahim, 2008:9).

Second: The reality of the Iraqi economy after 2003 and the justifications for reform

Iraq is considered rich in natural and human resources, but part of its population lives below the poverty line, and it faces major economic problems due to wars, severe blockade, central state control, underdeveloped private sector, poor performance and inefficiency of the executive apparatus, lack of professional level of elements in administration, administrative and financial corruption, and quotas that undermine professional and performance capabilities. The country depends entirely on oil exports, and revenues have declined due to the decline in oil export quantities and prices. The debts of Iraq amount to at least 130 billion dollars, and inflation rose to approximately 0.6% in 2020 (Central Bank, 2020). Before addressing the structural imbalances that the Iraqi economy suffers from, it is necessary to look at the most important economic sectors that can be summarized as follows:

1- The oil sector

The oil sector has faced extensive damages during the wars of 1991 and 2003, resulting in a decline in its production capacity. Some oil experts estimate that the cost of rebuilding the oil industry's infrastructure could reach up to \$75 billion. Oil revenues are the primary source of financing for investment projects in the state's general budget. Developing and optimizing this sector's resources effectively contributes to the development of the Iraqi economy. However, despite the importance of this sector in the economy, it has suffered from limited productivity due to the siege conditions and the traditional technology used, requiring significant investments to develop productive fields and transportation networks (Al-Rawi, 2006, p.38).

2- The industrial sector

This is considered one of the critical sectors that drive economic activity in any country due to its capabilities and potential to contribute significantly to achieving economic and social development. Iraq still relies on importing ready-made technology through so-called "turnkey projects," which has affected the transformational industry's inability to keep up with global

manufacturing trends. Various factors have hindered the industrial development in Iraq, such as wars, economic sanctions, quotas, the absence of qualified personnel to manage this sector, financial and administrative corruption, and routine practices that hinder industrial activity, inflation, and uncontrolled imports and loss of quality control. All these factors have led to a gradual decline in the industrial sector, as evidenced by its decreasing contribution to the total national income. Some estimates indicate that around 60% of large production projects are still entirely or partially halted. To maintain the role of the industrial sector and increase its contribution to achieving economic development, the state must adopt appropriate economic policies for the upcoming era (Darwish, 2007:53).

3- The agricultural and animal sectors

These sectors are characterized by a decline in production rates in Iraq, which has greatly suffered from crises, such as disease outbreaks, fuel and water shortages, and weak government support. It is worth noting that Iraq currently faces a critical and dangerous food challenge, which is its insufficient food production to meet its needs for major food commodities, especially grains. This poses a threat to its food and national security. As for the animal wealth, according to a report by the Iraqi Ministry of Agriculture, there has been a continuous decline in the reality of animal wealth, as the number of sheep has decreased by 30% over the past three decades, goats by 60%, and cows by 50%. This decline is mainly due to the scarcity of pastures and fodder in winter, in addition to the spread of diseases that have led to the death of a large number of animals. Therefore, the issue of developing and modernizing the agricultural sector is of exceptional importance, as it is directly responsible for meeting the country's food requirements, as well as meeting the needs of the industry for primary resources (Al-Naqeeb, 2009:78).

4- The service sector

It suffers, despite its great importance, from severe underdevelopment at all levels and fields. Technical and technological backwardness, low level and poor quality of services provided, the spread of bribery, the prevalence and clarity of administrative corruption and favoritism, have all formed a general phenomenon for this sector. The components of the service sector collapsed almost completely after the occupation, as infrastructure was a main target of the military objectives of the occupation, which directed most of its military efforts towards this sector, turning it into a nearly destroyed sector. Bridges were cut, land transportation routes were destroyed, ports were demolished, power generation stations and wired and wireless communication centers were destroyed, and even water desalination was not spared from destruction, in addition to the destruction of most government buildings belonging to various institutions and ministries (Al-Anbaky, 2008:218-222).

After discussing the sectors of the Iraqi economy, it is important to address the financial and monetary policies. Many may be confused between monetary and financial policies, each has its own scope, obligations, and means of influencing the economy. The financial policy of any country, regardless of its economic system, involves the role of the government in obtaining public revenues from various sources and available resources. These public revenues are spent on areas such as security, defense, justice, education, health, transportation, electricity, water, and productivity sectors, as well as on salaries and wages of employees and workers in state departments: These expenses are called governmental expenditure. It should be noted that every country aims to achieve a surplus resulting from an increase in public revenues over public expenditures, or to equalize its revenues with its expenditures, in order to avoid the deficit that

leads to public borrowing to cover the deficit in revenues and financing through external or internal loans (financing by deficit) or financing through unsecured currency issuance by printing banknotes (cheap money policy). The financial policy tools, on the other hand, used to achieve its objectives as they include taxes, which are the first tool used by the government to redistribute income, whether they are direct taxes (on income) or indirect taxes (on sales), or on imported goods and services. The second tool is the redistribution of government expenditures in the fields of services and goods, and the possibility of turning these amounts into aid for poor social strata. The third tool is the redistribution of public debt (loans) by selling them in bonds.

It is worth mentioning that the current situation is very difficult, as the state budget suffers from increased public spending and the expansion of the public sector, with weak performance, productivity, and waste through supporting essential goods in the ration card by distributing them at prices lower than their actual cost or providing goods and services for free or at nominal prices. The more dangerous problem is the balance of payments situation with the outside world in the absence of exports and the continuation of the dumping policy for goods and commodities, which represent imports, indicating weak economic performance and a decrease in public investment returns (Al-Jubouri, 2014: 258).

As for monetary policy, it generally means the effective control applied by the central bank over the monetary and banking system. The importance of monetary policy lies in combating inflation through controlling monetary and banking expansion aimed at reducing the purchasing power of consumers. It should be noted that there is consensus among economists that the main goal of monetary policy is to maintain price stability and the purchasing power of the local currency, meaning that inflation rates in practical terms should be low, ranging between (1% - 4%) in advanced countries and about (8% - 10%) in developing countries; the government should refrain from implementing deficit financing policies by increasing the money supply.

The objectives of monetary policy in Iraq include economic growth, reduction of unemployment, stability of commodity and service prices, stability of exchange rates (floating exchange rate), and improvement of the balance of payments, including direct monetary policies such as interest rates, credit limits for banks, and currency exchange rates. Indirect monetary policies include open market operations (buying and selling government bonds), changes in discount rates, and changes in legal reserve ratios (Al-Douri & Al-Samarrai, 2013: 193-198).

The success of monetary policy in Iraq depends on two factors: controlling the money supply and interest rates, and controlling inflation by ensuring that the growth rate of the money supply is equal to or less than the growth rate of national income. Monetary policy is one of the main elements of economic policies that affect aggregate demand, and therefore economic growth, by reducing inflationary pressures and achieving monetary stability.

The Central Bank of Iraq has taken measures to adopt a strict monetary policy aimed at reducing inflation, which stood at around 31.7%, improving the exchange rate of the Iraqi dinar, increasing its purchasing power, and combating the phenomenon of using the US dollar. The importance of rehabilitating the Iraqi economy and adopting economic reform policies (Al-Qatairi, 2009:33) is attributed to these situations. Finally, it can be said that the Iraqi economy has faced several shocks and crises over the past three decades. Despite its physical and human resources, the economy has not been able to cope with them due to its mono-economic concept, which has made it a rentier nature which heavily dependent on oil revenues to finance public expenditures, so that government expenditure has become the main determinant of development

paths, indicating the deep structural imbalances in many aspects of the Iraqi economy. Therefore, the trends of these imbalances can be analyzed and diagnosed as follows:

1- Imbalance in the structure of production

The Iraqi economy suffers from structural imbalances in various sectors, which resulted from unbalanced economic policies in managing and developing economic resources, leading to an acceleration of price rates, a decrease in GDP growth rates, and an increase in inflationary pressures, which has diminished the competitiveness of productive capacities. The public sector was the main engine of economic growth, while the private sector was crushed and did not have the opportunity to implement large investments, leading to the backwardness of production sectors and failure to achieve the desired growth. Due to the continued and exacerbated intensity of imbalances, corrective policies had to be adopted to ensure the economy moves towards balance and economic stability, and to address the congestion resulting from exceptional circumstances (Hashim, 2005: 47). It is worth mentioning that developing countries are characterized by the dominance of the primary production phenomenon, which is the tendency of production and labor towards focusing on primary activities and a decrease in the share of the industrial sector, both in terms of production and use (Al-Wadi & Al-Assaf, 2009:14).

The Iraqi economy faces an imbalanced production structure, as most of the total domestic production comes from the oil sector, and the gross domestic product reflects the level of development and growth of the national economy and is the most important indicator of the level of economic activity.

Table (2): Contributions of the productive sectors as a percentage of GDP at constant prices (1=2007) for the period (2003-2020)

Years	Agricultural Sector	Extractive Sector	Manufacturing Sector
2003	7.07	59.28	3.01
2004	5.42	55.13	1.53
2005	7.01	50.03	1.49
2006	6.92	50.18	1.56
2007	4.91	52.94	1.62
2008	3.89	54.76	1.59
2009	3.9	54.34	2.1
2010	4.5	51.6	2.1
2011	4.5	51.99	2
2012	3.68	51.99	1.79
2013	4.25	49.49	1.51
2014	4.16	51.47	1.17
2015	2.52	55.31	0.94
2016	2.29	60.51	0.83
2017	2.18	61.54	1.03
2018	1.4	63.8	0.9
2019	2.8	62.3	1
2020	4.3	61.5	1.2
<i>Average</i>	<i>4.24</i>	<i>52.39</i>	<i>1.52</i>

Source: Prepared by the researcher based on the Central Statistical Organization, Statistical

Total (2003-2020), Baghdad, Ministry of Planning.

Table (2) indicates that the contribution of the agricultural sector ranged from (1.4%) to (7.07%) through 2003 to 2020. It is observed that there were fluctuations in the contribution of this sector to the Gross Domestic Product (GDP) due to various factors. The increase was attributed to the Agricultural Initiative that was approved in 2008, which provides loans to farmers for land reclamation and agriculture. The decrease, on the other hand, was due to the shortage of water supplies from the Tigris and Euphrates rivers in Turkey, the construction of dams, the cutting-off of the river branches coming from Iran to the Tigris River in the north, the decrease in agricultural products due to the security situation in the country, the openness to import agricultural products from neighboring countries that competed with local products, high temperature and fluctuating rainfall were also reflected in the agricultural sector's low contribution to GDP (Ajlan, 2013: 75).

Regarding the manufacturing industry sector, its contribution to the GDP decreased from (3.01%) in 2003 to (1.2%) in 2020, with the lowest contribution of (0.83%) in 2016. The decline in the contribution of the industrial sector was due to the closure of most factories and the disappearance of their equipment as a result of economic policies applied after the political regime change in 2003. The government did not rehabilitate or operate them. In addition, small private industrial projects were exposed to intense competition from imported foreign products, leading to their exit from the market due to losses and high production costs. It can be said that the contributions of the agricultural and manufacturing industry sectors to the formation of the GDP suffered from imbalances due to the government's focus on the extractive sector, especially the oil sector. The average contribution of both sectors to the GDP was (4.24%) and (1.52%), respectively.

It is clear from the above that the Iraqi economy suffers from an imbalanced production structure, dominated by the extractive sector, namely the oil sector, which represents no less than (52%) of the GDP on average for the period of 2003-2020. On the other hand, the participation of other productive sectors was very low. The contribution of the extractive sector increased from (59.28%) in 2003 to (61.5%) in 2020, mainly due to the increase in the oil sector's contribution, which represents the highest percentage among the productive sectors - rising from (59.22%) in 2003 to (61.4%) in 2020. This is due to the fact that the oil sector is affected by production and exportation, as well as the world oil prices, and the direction of investments towards this sector through the contracts of the oil licensing rounds in 2009 which have entered into force. The lowest contribution was in 2013, which amounted to (49.20%) due to the security situation and the issue of terrorism and ISIS.

Finally, it can be said that the importance of the oil sector in real production in the Iraqi economy has not positively reflected on other economic and productive sectors, primarily agriculture and industry. Additionally, sustainable economic and social problems, such as poverty, unemployment, housing, and public services have not been addressed, as the size of oil revenues was unbalanced with sustainable investment spending. It is evident that the Iraqi economy still has a long way to go to correct this imbalance in the absence of a clear economic vision, inefficient management, and the lack of systematic, sustainable, and well-planned mechanisms.

2- Imbalance in the structure of the general budget.

The general budget witnessed a clear increase in public revenues compared to public expenditures, as public revenues increased after 2003, as shown in Table (3), due to the increase

in oil sector exports and the rise in its prices. As for public expenditures, they also witnessed an increase during the same period, particularly operational expenses over investment expenses.

Iraq is facing two contradictions: an increase in the financial surplus and a rapid deterioration in economic growth rates and living standards due to the domination of the oil sector over other sectors in the formation of the Gross Domestic Product (GDP) and the primary source of general revenues. Consequently, commodity production sectors have deteriorated. Reducing public spending, rationalizing expenditure items, and addressing waste aspects supported by an increase in the tax base contributes to revitalizing the budget and reforming its conditions by adopting policies to canceling governmental subsidies.

Table (3) shows the revenues and expenditures for the period (2003-2020) in the Iraqi budget and the size of the deficit or surplus. From the table, the value of public revenues was (2,146,346) million Iraqi dinars in 2003 as a percentage of the output amounted to (7.25%), while public revenues in 2009 reached (55,243,526) million Iraqi dinars, and they constituted (42.28%) of the GDP, compared to (51.1%) of the GDP in 2008. The reason for this decline is due to the global financial crisis and its consequences and low world oil prices. As for the years 2010-2012, public revenues increased due to the rise in oil prices, as the price of a barrel of oil increased during these years (107, 103, 76), respectively (Central Bank of Iraq report, 2012:25). Public revenues also continued to decline during the years 2013, 2014, 2015, 2016 due to the drop in oil prices in global markets. Since Iraq depends mainly on oil revenues, it has been greatly affected by this decline. Also, these years coincided with the ISIS war, which required an increase in public spending and with a deficiency in public revenues, leading to a deficit in the general budget for the years (2015-2016). Due to the coronavirus pandemic and its impact on the global economy, particularly the fall in global oil prices, revenues GDP dropped in 2019 to (40.4%).

In order to confront the crises represented by the decrease in oil prices and the COVID-19 pandemic, the financial authority has urged the adoption of certain measures to control the budget, resulting in a decrease in the revenue/output ratio to (25.76%) in 2020. As for the surplus and deficit in the general state budget, we note, as shown in Table 3, that there was a surplus from the period of 2014-2003, as the surplus ratio of the GDP increased from 2014 to (31.36%). This increase is attributed to the non-approval of the 2014 budget and the adherence to the spending ratios of 2013. During the years 2015 and 2016, the general budget recorded deficits, which were respectively (-1.88%) and (-6.44%) of the GDP due to the improvement in oil prices in 2017, the general budget achieved a surplus of (1,845,840) million dinars, with a ratio of (0.8%) of the GDP.

After the victory over ISIS and the cessation of military operations, the budget continued to achieve a surplus. In 2018, it reached (25,696,645) million dinars, with a contribution rate of (10.2%) to the GDP due to the increase in general revenue. However, the budget recorded a clear deficit in 2019 due to the COVID-19 pandemic that affected the world, reaching (-56%) of the GDP. This deficit continued into 2020, reaching a percentage of (-18.33%) of the GDP.

Table (3): Indicators of the general budget in Iraq for the period (2003-2020) (million dinars)

Years	GDP (1)	General Revenue (2)	Public Expenditure (3)	Surplus and Budget Deficit (4)	General Revenue/GDP (5%)	Surplus, deficit/GDP (6%)
2003	29585788.6	2146346	1982548	163798	7.25	0.55
2004	53235358.7	32982739	32117491	865248	61.95	1.62
2005	73.533.599	40502890	26375175	14127715	55.08	19.21
2006	95.587.955	49055545	33487877	15567668	51.31	16.28
2007	111.455.813	54599451	33545144	21054307	48.98	18.89
2008	157.026.062	80252182	59403375	20848807	51.1	13.27
2009	130.643.200	55243526	52567025	2676501	42.28	2.04
2010	162.064.566	70178223	64351984	5826239	43.3	3.59
2011	217.327.107	108807392	69639523	39167869	50.06	18.02
2012	254.225.491	119817224	90374783	29442441	47.13	11.58
2013	273.587.529	113767395	106873027	6894368	41.58	2.51
2014	266.332.655	105386623	83556226	83556226	39.55	31.36
2015	194.680.972	66470252	70397515	-3927263	31.97	-1.88
2016	196.924.142	54409270	67067437	-12658167	27.68	-6.44
2017	225.722.376	77335955	75490115	1845840	34.22	0.81
2018	251.064.480	106569834	80873189	25696645	42.44	10.2
2019	266.190.571	107566995	111723522	-4156527	40.40	-1.56
2020	198774325.4	51215307	87659140	-36443833	25.76	-18.33

Source: 1) Central Statistical Organization, *Annual Statistical Abstract for the years (2003-2018)*, Baghdad: Ministry of Planning and Development Cooperation. 2) Directorate General of Statistics and Research, *Annual Economic Report for the period (2019-2020)*, Baghdad: Central Bank of Iraq. 3) Columns (6, 5, 4) are the researcher's work based on the data of the first three columns.

3. Imbalance in the structure of foreign trade

The process of economic distribution requires the culmination of the foreign trade structure, which plays a significant role in creating a balance between supply and demand as well as bridging the gap between production and consumption in income. Iraq is characterized by the lack of vitality of its economic structure and its underdevelopment in its construction, making it inflexible to cope with the changing circumstances that may involve a shift in demand from the goods produced by Iraq, resulting in the inability to market these goods and subsequently leading to a trade deficit. The Iraqi trade balance is characterized by fluctuations in its data, sometimes in a surplus due to the global increase in oil prices and Iraq's increased exports of oil, and at other times in a deficit due to the decrease in global prices, in addition to the chaos of imports that flooded the local market with foreign goods. This indicates the unilateral dependence of Iraq's economy on the oil sector, which depends entirely on its returns in foreign markets in terms of demand and prices, as shown in Table (4).

It is observed that the degree of the Hirschman Index in the study years is approaching one,

indicating the country's focus on specific exports, namely crude oil, as the concentration index reached (0.71) after oil exports reached \$8.348 billion in 2003. It then increased in 2007 and 2008 to (0.85) and (0.90), respectively due to the decrease in the total volume of exports as a result of the global crisis (the mortgage crisis), which affected oil exports, reaching (37.8) and (61.8) billion dollars, respectively. The concentration index for 2007 and 2008, despite its increase, was low compared to the years 2011, 2012, 2013, and 2014, where the concentration index reached (0.98), which led to an increase in oil exports due to the invested licensed fields by foreign companies, reaching (79.4), (93.7), (89.3), and (83.5) billion dollars, respectively.

Due to the coronavirus pandemic, the Hirschman concentration index decreased in the years 2019 and 2020 to (0.86) and (0.81), respectively. Therefore, we can conclude from the increase in the Hirschman concentration index that Iraq is entirely dependent on primary commodity exports (crude oil), making its economy and exports vulnerable to the price fluctuations and the global oil market.

Table (4): Index value of export diversification for the period (2003-2020)

Years	Total Exports (1)	Oil Exports (2)	Non-Oil Exports (3)	Hirschman index (4)
2003	9711	8348	1363	0.71
2004	17810	17455	355	0.93
2005	23697	23199	480	0.92
2006	30529	29708	821	0.90
2007	39578	37847	1740	0.85
2008	63726	61883	1843	0.90
2009	39430	38964	466	0.95
2010	51763	51453	310	0.97
2011	79680	79409	273	0.98
2012	94208	93778	430	0.98
2013	89768	89349	418	0.98
2014	83980	83538	442	0.98
2015	43441	43058	383	0.96
2016	40759	40493	266	0.97
2017	57559	57129	340	0.97
2018	86359	85797	561	0.97
2019	81585	78364	3221	0.86
2020	46829	44305	2524	0.81

Source: 1) Central Bank of Iraq, General Directorate of Statistics and Research, Annual Economic Reports of the Central Bank For the period (2003-2020). 2) Column (4) prepared by the researcher based on the table data

The total imports of Iraq (consumption and capital) during the period of 2003-2020 also increased from 9.9 billion dollars in 2003 to 40.9 billion dollars in 2020. This can be attributed to the liberation from economic restrictions imposed on Iraq, weakened production base, lack of economic diversity more than ever before, and the increase in consumption trend in Iraq after the

noticeable improvement in individual income and the small size of local production of goods, especially food. This increase continued to record its highest value in 2013, amounting to 59.3 billion dollars. The relative importance index of imports ranged between (29.4%) to (54.5%) during this period (2003-2020). Other indicators witnessed fluctuations between rise and drop but remained high. This indicates that Iraq heavily relies on imports to cover the gap in local production in its foreign trade; this is evident in Table (5) and can be further elucidated through trade openness, which is one of the most important indicators that provides a clear vision of the economic situation. Trade openness measures the ratio of exports and imports to the gross domestic product. Through trade openness, imbalances in the contributions of production sectors in meeting local needs for produced goods and their role in providing commodity for export to generate the necessary foreign currency to cover the economy's needs for these currencies can be diagnosed via the trade imbalance index.

Table (5): The relative importance of Iraq's imports (CIF)¹ for the period (2003-2020)

(Million dollars, percentage %).

Year	Total Iraqi Imports (1)	Total Foreign Trade (2)	Imports Relative Importance Index $1 \div 2 = 3$	Total Consumer Imports (4)	Imports Commodity Concentration Index % $4 \div 1 = 5$	Total Capital Imports (6)	Capital Import Commodity Concentration Index % $1 \div 6 = 7$
2003	9934	19644	50.5	9854	99.2	80	0.8
2004	21302	39112	54.5	9840	46.2	11462	53.8
2005	23532	47229	49.8	10030	42.6	13502	57.4
2006	22008	52538	41.8	8639	39.3	13369	60.7
2007	19555	59142	33.1	7870	40.2	11685	59.8
2008	35011	98737	35.5	11717	33.5	23294	66.5
2009	41511	80941	51.2	17550	42.3	23961	57.7
2010	43915	95678	45.8	13862	31.6	30053	68.4
2011	47802	127483	37.4	11032	23.1	36770	76.9
2012	59005	153214	38.5	20389	34.6	38616	65.4
2013	59349	149117	39.8	21476	36.2	37873	63.8
2014	53176	137157	38.8	17848	33.6	35328	66.4
2015	39045	82486	47.3	12159	31.0	26886	69.0
2016	34279	88696	38.6	9220	27.0	25059	73.3
2017	38765	95425	40.6	11511	30.0	27254	70.0
2018	38875	132096	29.4	13125	33.7	25750	66.3
2019	49417	139723	35.3	13165	26.6	36252	73.4
2020	40927	94961	43.09	14435	35.2	26493	65.0

Sources: 1) Central Bank of Iraq, General Directorate of Statistics and Research, Annual Economic Reports of the Central Bank for the period (2003-2020). 2) The relative importance index and the degree of concentration index was the researcher's work based on the data of the

¹ CIF (Cost Insurance Freight) is an abbreviation that refers to the party responsible for shipping commodity, bearing all costs associated with the goods, including insurance and freight charges, until the goods are ready for delivery at the importing port.

above table.

From Table (6), it is evident that Iraq heavily relies on the outside world for its foreign trade. The degree of exposure index during the period of 2003-2020 ranged between (42.2%) and (128.5%). Despite being a year of economic sanctions, the year 2003 witnessed the highest degree of exposure at (128.5%). This period experienced fluctuations between highs and lows, with the lowest degree recorded in 2017 at (42.2%), attributed to the relative decline in oil prices, which negatively impacted global oil exports. Conversely, the highest degree of exposure was recorded in 2004 at (106.7%), due to the trade liberalization resulting from the political system change in 2003 and the adoption of market-driven policies. The average degree of exposure during the period of 2003-2020, which represents (70.16%), is the best indicator of Iraq's heavy reliance on foreign-produced goods. This implies that the domestic economy is susceptible to external shocks or crises.

Table (6): External exposure rate of Iraq's foreign trade for the period (2003-2020)
(Million dollars, percentage%)

Years	(GDP) at Current Prices	Exports (CIF) + Imports (FOB)	Degree of Trade Exposure %
2003	15281	19644	128.5
2004	36627	39112	106.7
2005	49954	47229	94.5
2006	65140	52538	80.6
2007	88840	59142	66.5
2008	131613	98737	75.0
2009	111660	80941	72.4
2010	138516	95678	69.1
2011	185749	127483	68.6
2012	218000	153214	70.3
2013	234648	149117	63.5
2014	228730	137157	60.0
2015	180068	82486	45.8
2016	196536	88696	45.1
2017	225722	95425	42.2
2018	254064	132096	51.9
2019	262917	139723	53.1
2020	137085	94961	69.2

Sources: 1) Central Bank of Iraq, General Directorate of Statistics and Research, Annual Economic Reports of the Central Bank for the period (2003-2020). 2) The degree of economic exposure was the researcher's work based on the data of the above table.

It appears that there is no existing effective and comprehensive trade policy aimed at developing the Iraqi economy through the growth of the export sector and the reduction of commodity dumping policies that undermine the economy, while protecting local products from similar foreign imports. It is worth noting that economic reforms have focused on addressing imbalances in the state budget and trade balance, and advocating for trade liberalization and structural changes (privatization and public sector reform). However, these reforms must be part of a

comprehensive development strategy, as no reform can be implemented without the rehabilitation and restructuring of the state's foundations. As a result, the emphasis on trading rather than production has led to the complete launch of trade and the exploitation of Iraq, not only economically in terms of imports, but also on a security level. This has resulted in the following (Al-Mamouri, 2005: 38):

1. Neglecting the role of the private sector, as it no longer has the capacity to lead the national economy as intended.
2. Neglecting national industries, which are no longer able to compete due to unfavorable growth conditions and the absence of national protection.
3. Rampant financial and administrative corruption. Transparency International data shows that Iraq has ranked very low among the countries in recent years. For example, in 2013, Iraq ranked 171 out of a total of 177 countries, in 2016 it ranked 166 out of 176 countries, and in 2020 it ranked 162 out of 180 countries, according to the annual corruption index released by Transparency International.
4. The collapse of the economic infrastructure. The relative inefficiency of the infrastructure in Iraq has been evident since 2003, and until today, many infrastructure projects are poor and not up to the required standard, and their implementation is plagued by corruption. It is also noticeable that many project tenders are sold from one contractor to another, so that the last contractor is unable to complete the project, leading to delays due to their weak financial capacity, in addition to the widespread corruption. This is due to the lack of financial auditing of the contractor's financial capacity and completed projects. In many provinces in Iraq, it is noticeable that they lack essential infrastructure. Basra is still unable to obtain safe drinking water, despite being one of the most oil-producing regions of Iraq and located on the shores of Shatt al-Arab (Sheib, 2020: 2).
5. The deterioration of the investment environment, as evidenced by some international indicators such as the ease of doing business index. Iraq maintained its low ranking in this indicator, falling its rank in the Business Performance Index in 2020 to 172 out of 190 countries, achieving 44.7 out of 100 points adopted by the report to measure the development of business performance. Iraq has not seen any improvement in the investment environment over the past five years, remaining at the bottom of the rankings, although it recorded some improvement in 2019, ranking 153 compared to 165 out of 190 countries in 2018 (Hassan, 2022: 77-76).

Chapter Four: Economic Reform in Iraq: A Future Vision

It is our belief that if the announced directives in the national development plans, particularly the 2013-2017 plan, are implemented in line with the new economic philosophy, then the private sector, especially with improved security conditions, will play an active role in correcting the course of the Iraqi economy and achieving economic development. While progress has been made in most economic indicators in Iraq, this progress alone cannot be relied upon to achieve economic development. However, it can be considered as the first step towards the desired economic reform. Despite the numerous challenges facing the economic reform program that the government has been working on since 2003, the main challenges can be summarized as follows (Ministry of Planning, 2013:53):

First: Challenges of Economic Reform in Iraq

The economic reform program implemented by the Government after 2003 faces many

challenges, most notably through the following (Mohammed et al., 2009:12), (Ministry of Planning, 2013:53):

1. Inequality in opportunities and conditions among economic actors in different sectors.
2. Lack of a market in Iraq that meets the conditions of competition and can operate efficiently in unifying economic resources.
3. Absence of security and depletion of public revenues in building military capacities for the army, security forces, and police to confront violence and terrorism, instead of reconstruction and development.
4. Aggravation of the social burden accompanying the transition to a market economy.
5. Lack of transparency, worsening administrative and financial corruption, and poor performance of government administrations.
6. Structural distortions in prices, production, expenditure, employment, investment, import, export, and most economic variables.
7. Delay and slowness in implementing reform programs for state-owned or privatized projects.
8. Weak legal frameworks and legislation that promote the market economy and regulate the private sector's mechanism of operation.
9. Absence of a business enabling environment, despite the presence of the National Investment Commission, represented by the complexity of government procedures, failure to implement the principle of a single window, and failure to allocate complexes for investment purposes, in addition to the difficulties facing the investor in obtaining project residence requirements, especially land.
10. Failure of the Iraqi stock market to cope with developments in managing trading operations, especially in the field of technology.
11. External indebtedness and its burdens on current and future generations, as the accumulation of debts and interests means transferring national financial resources abroad, which naturally leads to the inability of the country to finance economic development projects.
12. Persistent unemployment among capable workers in Iraq poses a challenge that the new Iraqi government will face in the coming period. Unemployment can be considered one of the pillars of violence in Iraq that generates poverty, which, in turn, leaves the Iraqi citizen with no option but to resort to illegal means to secure a living, including violence and terrorism.

Second: Evaluating the experience of economic reform in Iraq

The reforms that have been implemented were primarily aimed at maximizing revenues and reducing expenditures without addressing the persistent problems that the Iraqi economy is facing. The reforms did not achieve any increase in the economic growth rate, even though they relied on decisions made by the government without interference from the International Monetary Fund and the World Bank. The reforms did not also contribute to raising individual income levels or increasing economic welfare. Despite the 20 years that have passed since the

political system changed in Iraq, poor planning, poor management of financial resources, and the continued depletion of laws regulating the economic process in all sectors have led to Iraq's continued dependence on its oil resources, which account for 95% of the country's resources. The number of government employees has increased to about 6 million employees, while it was estimated at only 800,000 before 2003. Studies confirm that the productivity of employees does not exceed 10-20 minutes/day, while their salaries amount to 50-60% of Iraq's total budget.

Currently, despite ten years since the government's reform program (Federal Economic Reform Law of 2013), the Iraqi economy is still plagued by the following phenomena (Omran, 2019:500):

1. Continuous deficit in the state's general budgets.
2. Continuous deficit in the state's trade balance.
3. The government's need to borrow from the International Monetary Fund, the World Bank, and other international financial organizations. Sources estimate that the total outstanding debt reached about \$119 billion in 2017, 67% of which equals \$80 billion in external debts. Iraq's debt until 2018 reached \$132 billion.
4. The government's failure to maximize non-oil revenues, as oil still accounts for 95% of annual revenues in the general budget and 60% of the gross domestic product.
5. Mismanagement of public funds, financial and administrative corruption, and the marginalization of national cadres in managing effective economic institutions.

Third: The future vision of economic reform in Iraq

The requirements for economic reform are not limited to reforming price structures and providing conditions for competition in the markets only, but go beyond that in working to establish the necessary components for the success of the reform process, which lies in creating an institutional system capable of enhancing the efficiency of these markets first and foremost. The efficiency of this system is determined by three fundamental factors: the type of rules governing economic relations, the efficiency of those responsible for implementing them, and the safety and efficiency of the methods used to settle disputes arising from trade and economic activity (Al-Qadhi, 2006:275).

The cost of reform increases the longer it is delayed, and it is no longer possible to postpone this obligation to address the deteriorating economic and financial situation. Here, it is essential to emphasize the need for some conditions or prerequisites for the success of the economic reform process, without which starting to implement reform programs is futile. These prerequisites are as follows (Hussein, 2018:19):

1. Radical solutions and a clear vision: it is essential to have a comprehensive plan and radical solutions for economic reform, rather than short-term and possible policies that address partial issues or aim only at political alignment. The process should aim to achieve long-term and sustainable results, with a clear vision of the reform process among the relevant officials.
2. Institutional initiation of reform: the real crisis in Iraq is an institutional building crisis that has hindered the country's development path in the face of complex political and security conditions. Here, the laws, regulations, instructions, programs, and policies governing behavior within the power system and state administration are meant. Without these institutions, there will be non-compliant behavior by the elite of power, and any reform

attempt will fail.

3. Political will: It is necessary to have a resolute political will and the principle of goodwill from all active political forces, adopting reform as a concept and practice in their work, and translating the reform project into a tangible reality.
4. Fighting corruption: Financial and administrative corruption has become a significant problem, constantly increasing in most state institutions. It has contributed to the waste of public money and reduced the treasury's willingness to invest. Therefore, it hinders investment.
5. Management efficiency: It is essential to adopt a competence-based system in managing leadership positions, away from sectarian and party favoritism, and to strengthen the judicial system in holding corrupt individuals accountable.
6. Achieving financial stability after the monetary authority's success in achieving monetary stability.
7. Enhance economic growth.
8. Correcting and modifying structural imbalances.
9. Reducing unemployment and inflation rates.
10. Reforming the general budget, which requires reforming the deficit in the general budget and investigating the reasons for its continuation. The solution lies in rationalizing the structure of public expenses and reforming the tax situation and diversifying revenues.
11. Monetary policy must have a significant role in stabilizing the exchange rate, maintaining an acceptable inflation rate, and setting a stimulus interest rate for investment and establishing an advanced financial market to perform the role of a financial intermediary between cash liquidity and the necessary financing needs of investment projects, especially joint projects between local and foreign investors.
12. Trade policy should have a significant role in activating the necessary procedures to support the export activity to achieve economic stability and protect national products.
13. Diversifying the economic base: Economic reform should be a comprehensive reform that carries a clear vision for the future, taking into account Iraq's natural and human potential on the one hand and the requirements of economic globalization on the other. The process of diversifying the economic base seeks to create new income-generating sectors, reducing dependence on oil and turning towards a diversified economy.
14. Focus on local investments, especially the governmental ones, to ensure an effective role for the state in achieving social and economic goals. Iraq is a country rich in oil and has its material and human resources.
15. Foreign direct investment can be attracted to the Iraqi economy to contribute to the development process by ensuring the foreign investor's legal protection through developing agreements related to its protection.

Finally, it is imperative for the state to adopt effective policies to achieve planned growth rates within the framework of the overall economy, balancing supply and demand, employment and investment, while considering the independence of the central bank in determining monetary

policies. The desired dynamism of the private sector in the economic and social sectors must be achieved, and controls, restrictions, bureaucracy, and favoritism must be lifted, along with the removal of interventions by official entities. It is evident that economic reform has had little impact on the development of the Iraqi economy, as indicated by various indicators such as the backwardness prevalent in all economic sectors including the oil, industrial, agricultural, and service sectors, the near-total destruction of infrastructure, imbalances in production and the general budget and trade balances, high rates of unemployment, significant income and wealth disparities, the spread of poverty among members of society, and the deteriorating living conditions for the population, in addition to the security deterioration that has undermined the economy of certain areas of Iraq.

Conclusions

1. Iraq's dependence on a single source of development, namely oil, makes economy vulnerable to shocks and fluctuations in global oil markets. Therefore, any reform process must prioritize diversifying sources of growth (income), restructuring the economy, reducing reliance on oil, and developing other sectors.
2. The rentier nature of Iraq's economy has led to weak coordination and interconnectivity among various sectors, resulting in a low relative contribution of other sectors to the GDP. This has affected the economy's ability to meet the increasing demand for various goods and services.
3. The ongoing budget deficit and weakness in non-oil revenue contributions to financing the state budget indicate the underdeveloped production structure of the Iraqi economy.
4. Achieving a minimum level of economic growth and development requires providing a minimum level of internal security, which has led to increased spending on security during the study period.
5. The inflation rate in Iraq reached (0.6%) and the unemployment rate reached (31.7%) in 2020.
6. The trade deficit continues to worsen, with the Hirschman concentration Index increasing to (0.81%) in 2020, and the trade exposure rate reaching (70.16%) during the period 2003-2020.
7. The investment environment has deteriorated, as Iraq has maintained low rankings in the Ease of Doing Business Index, ranking 172 out of 190 countries with a score of (44.7) out of 100 points according to the UN report on measuring development of business performance.
8. The infrastructure and service sectors have significantly deteriorated, along with the deterioration of the wage and pension system in the face of the rising exchange rate of the dollar and the weak contribution of the private sector to the GDP.

Recommendations

1. Diversification of production in all economic sectors and creating new sectors that generate income, in order to reduce the near-total reliance on the oil sector. This requires significant changes in the structure of the Iraqi economy, towards diversifying production and income sources and reforming the production system to eliminate structural imbalances, leading to significant growth rates in the Iraqi economy.
2. The process of transitioning from an oil-based economy to other important sectors, such as

agriculture, industry, services, and tourism is essential in reforming and developing non-oil sectors capable of making the Iraqi economy more resilient and reducing reliance on a single source of revenue. Creating linkages between different sectors is also crucial.

3. Reducing public spending through rationalizing its items and addressing waste while increasing the volume of taxes in a way that contributes to reviving the general budget and reforming its situation. According to the International Monetary Fund's report for 2012, the deficit limit in the general budget to GDP is (3%) according to Maastricht Treaty.
4. Reducing security spending without harming the security and safety of the Iraqi state, while directing financial resources towards sectors that support productive activities, such as health, education, housing, etc.
5. Focusing on implementing monetary and financial policies to combat inflation and the rise in the exchange rate of the dollar, as well as improving the skills of the workforce and reducing unemployment rates.
6. Adopting a strong and effective trade policy that takes on the responsibility of developing the Iraqi economy and promoting the export sector while reducing the dumping of goods that the Iraqi economy is exposed to, and protecting domestic products from competition with similar imported foreign goods.
7. Creating an appropriate investment environment to encourage local and foreign investment.
8. Designing economic reform policies to encourage the private sector to increase production and investment in all sectors, creating an appropriate investment climate to stimulate private and foreign investment, also focusing on reforming the salary and pension system, providing public services, and social and recreational activities to alleviate the social and economic oppression and deprivation that the Iraqi people have endured for decades.

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