

# Iraqi Ability for Economic Diversification and Methods of Avoiding the Rent Trap

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## Abstract

Economic diversification in developing countries in general and rentier countries in particular has received significant attention because of its role in bringing about radical changes in economic and social institutional structures and expanding the monetary base. In Iraq, particularly since 2003, succeeding governments have been unable to accomplish economic progress in line with the material potential that Iraq possessed; instead, gradual and failing development has resulted. Iraq's economic institutions, similar to those in unstable, low-income nations, have not undergone significant structural reforms. Oil earnings instead contributed to the underdevelopment of the structure of other economic sectors, especially the agricultural and industrial sectors, rather than the development of the most significant productive sectors of the economy as a result of several challenges that impeded its development and caused its decline and collapse. Most of the time, there was no clear plan for economic growth, which had a detrimental impact on the Iraqi economy by causing a decrease in many of its key indicators and leaving it subject to variations in the global market brought on by changes in oil prices. Due to this reality, the government must work to develop and diversify non-oil economic sectors in a way that increases the sources of revenue for the overall budget. To do this, the government must create an economic development strategy that encourages economic diversification, eliminates reliance on a single resource, and prevents the continuation of the rent trap. This calls on the government to undertake a series of development policies and methods to reduce the rentier issue before addressing it.

**Keywords:** Economic Diversification, Iraqi economy, Rent Trap, Economic Development

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## Introduction

After 2003, the Iraqi economy faced many economic problems as a result of the loss of its economic and social components and the collapse of infrastructure due to military operations, as well as the destruction of most of its industrial institutions. Despite the political change of power, the current government and previous governments did not work to advance the reality of the Iraqi economy and make its economic capabilities parallel to the economic capabilities of the neighboring countries, but the matter got worse and most of its economic indicators declined and its industrial establishments stopped, either because they were unable to produce due to the obsolescence of their equipment or their inability to compete with foreign products of high quality and cheap prices. These challenges have led to the failure of all of its economic sectors, with the exception of the oil sector, and the Iraqi economy has remained

rentier and unilateral and depends on oil revenues to finance the general budget, which made it vulnerable to economic shocks that occur as a result of fluctuations in international oil prices

### **Research problem**

Despite the enormous financial resources that Iraq amassed from oil income after 2003, the country's development remains, to put it mildly, sluggish and faltering, and it does not correspond to its material potential.

### **Research hypothesis:**

The research is predicated on the supposition that Iraq's economic development is slow, sputtering, and out of step with the nation's physical resources. Therefore, it's important to establish a successful development strategy that uses the nation's resources effectively and employs them for the benefit of its citizens, while also releasing societal energies, enhancing self-reliance, and fostering progression and progress.

## **1. The concept's boundaries and the scope of the term "rentier state" and "rentier economy"**

Before beginning to define the words connected with the rentier state and the notion of rent in general, it is necessary to define the concept of rent in the economy as a whole. Rent is a complicated concept that evolved over time, but it remained largely undefined. Maintaining its core despite the diversity of its form, which suggests that it is the consequence of money rather than exhaustion, and that its source is a gift from nature or the geographic location of a nation <sup>(1)</sup>. When a state or society is referred to as a rentier state, it means that it depends heavily on the incomes that come from the export of natural resources like oil, which contributes significantly to all governmental revenues <sup>(2)</sup>. This idea refers to a nation where a sizable portion of its income comes from rent paid by outside parties. The prevalence of the external rentier elements determines whether or not the state is deemed a rentier, despite disagreements regarding the sources of rent. Additionally, different economies are not particularly affected by the rentier phenomena in general. Rentier components exist in every economy, varying in strength from one nation to the next. The majority of the population receives or uses a significant share of the wealth generated by external rent, which is typically seen as a key characteristic of the rentier state. This means that the rentier state is not typically thought of as one in which rent is generated through participation. the majority of its people, like in nations that depend on international travel due to geographical or climatic factors <sup>(3)</sup>. Accordingly, a state that is a rentier oil state is one that primarily depends on exports, pays its general budget with oil exports, and owns or controls the majority of the oil income.

Rentier economy is defined as restricting economic activity to areas and sectors that produce high profits without mentioning the rentier's own productive or creative endeavors, regardless of whether the rentier is an individual businessperson, a legal entity from the public or private sectors, the central government, or corporations. either the public sector or municipal governments. Because it refers to transfers from the external economy without assuming the existence of significant domestic productive sectors, or in other words, because it depends on income that is not earned through production and work, external rent is therefore a crucial factor in determining whether or not a state is rentier. The fact that a significant percentage of the external rent flows to a small minority, represented by the ruling class, before being shared or used by the bulk of the people is another significant feature of the rentier state. In countries that rely on foreign tourism due to their geographic or climatic circumstances, rent is generated in the rentier economy with the participation of the majority of the population. Through this, it

is evident that both the rentier state and the rentier economy depend on an external source to generate income. However, the difference between them can be seen in the return on rentier income, as the rentier income returns produced in the rentier economy belong to the vast majority of people who take part in its collection while those produced in the rentier state belong to the government<sup>(4)</sup>.

The state may transition from rentier to semi-rentier or vice versa as a result of the political and economic circumstances that control its economy. The launch of the rentier state attribute does not have to be inherent to the state at all times, but rather in light of the amount that external rentier revenues contribute to the gross domestic product. The definition of that country would alter if any work was done to establish revenue sources independent of exhausted resources. In addition, oil exports reflect changes in oil reserves as a result of depletion or increases due to fresh exploration, which causes the state to move from one to another. Some. Accordingly, the countries that receive more than 30% of their gross domestic product from external rentier returns are considered rentier countries<sup>(5)</sup>.

Rentier nations view oil export revenues as a major source of income, making all development efforts susceptible to changes in oil prices and the total amount exported, which is largely determined by outside factors. As a result, a decline in oil prices lowers the export revenues, which then reduces the economy's ability to import the consumer, intermediate, and capital goods it requires. As a result, the degree of economic welfare declines and several investment initiatives that are crucial for achieving economic development are interrupted. Additionally, the state's official reserves <sup>(6)</sup> experience degradation. Oil earnings, which are a significant source of foreign currency and enable the rentier countries to make significant investments in infrastructure, services, and raising the standard of living for people, rise when oil prices rise<sup>(7)</sup>.

## **2. The reality of economic development in Iraq after 2003**

The study's objectives are to examine the reality of economic development in Iraq after 2003, to pinpoint the points where the economy and state rents intersect and the effects these have on the process of achieving economic development, and to talk about how oil impeded economic development and the detrimental effects its presence had even in the absence of events. enhance economic diversity and reliance on oil income.

Many researches and studies have revealed that Iraq's oil wealth did not reflect positively on the economy, but rather led to more poverty, a decrease in growth rates and a slowdown in development rates. Iraq has become at the bottom of the list of regional and international countries in most measures of economic development. Successive governments after 2003 achieved high levels in economic development indicators as a result of the wrong economic policies that were followed during that period, which was reflected in the emergence of major imbalances in the balance of payments, poor economic performance, low fixed capital formation, and imbalance in the formation of gross domestic product . In preparing this research, data were extracted from official sources, which are the reports of the International Monetary Fund and the World Bank and reports issued by official government institutions and issued by the Central Bank of Iraq, the Ministry of Planning, the Central Statistical Organization and the National Accounts Directorate. Among these indicators are:

### **1. Balance of Payments Index**

The balance of payments indicator expresses the structure of foreign trade by ,calculating the trade balance, which is the main component in the balance of payments because of its importance in determining the external position of the economy, whether it is in a state of surplus or deficit. The diversity of the production base so that it gives clear

,indications of the extent of the country's production capacity, its ability to export and import and its reflection on its foreign currency balance<sup>(8)</sup>.

The Iraqi economy is characterized by the limited relative diversity in its production pattern of the commodity supply, due to the absence of a strategy of economic diversification and the absence of both domestic and foreign investment . A quick look at the structure of non-oil commodity imports, we find that it contributes an average of 90% of total imports during the period 2014-2017. This rise in the percentage of imports is due to the weakness of the national economy and the production base in meeting the growing domestic demand, both governmental and private, which is caused by weak security stability and the reluctance of investors . The establishment of productive projects on the one hand, and the absence of government support for projects on the other hand, as well as the failure to activate the laws related to investment, which kept production capacities fixed and then relying on the foreign market to cover the commodity supply deficit. As for the commodity imports of petroleum products, they constituted an average of 10% of the total imports during the period 2014-2017 distributed between the import of liquid gas, gasoline and gas oil<sup>(9)</sup>.

Regarding the composition of Iraqi commodity exports, petroleum products, which account for 98% of the total exports and less than 2% of non-oil commodity exports, are the dominant feature of those exports' nature. The value of oil and non-oil exports is displayed in the following table.

**Table (1)**

**The value of Iraq's oil and non-oil exports during the period 2004-2018 (billion dollars)**

trade balance	imports	total exports	Oil commodity exports	Non-oil merchandise exports	the year
-3.6	21.3	17.7	17.3	0.4	2004
-1	20.0	19	18.4	0.6	2005
8.5	18.7	27.2	26.6	0.6	2006
21.3	16.6	37.9	37.2	0.7	2007
31.9	30.1	62	61.1	0.9	2008
13.8	32.6	46.4	45.6	0.8	2009
14.1	37.3	51.4	51.2	0.8	2010
39	40.6	79.6	79.4	0.2	2011
44	50.1	94.1	93.8	0.3	2012
39.4	50.4	89.8	89.4	0.4	2013
38.7	45.2	83.9	83.5	0.4	2014
-3.7	47.4	43.7	43.4	0.3	2015
3	34.2	37.4	37.1	0.3	2016
17.4	37.8	55.2	54.9	0.3	2017
36	45.7	81.7	81.3	0.4	2018

Source: The table is from the researcher's work based on: Central Bank of Iraq, Annual .Statistical Bulletin, different years

Table 1 shows that oil exports account for the majority of export activity, accounting for more than 98% of all exports, indicating that there is no economic diversification in the nation and utter reliance on oil. Standing on this fact demonstrates a very serious subject that is certain to be entirely dependent on oil revenues, that the increase in the gross domestic product reflects a growth in oil revenues, and that the growth Economic in Iraq He approves in

the form of Basic on me. Produce and send me raw oil By and large, the issue that qualifies Iraq's economy as "economic" The most significant of these deep implications is that the Iraqi economy has become a function of the international oil market, which is what is actually reflected during the global crises where oil prices fell in the international market, which led to a decline. This is clearly evident by noting the relative importance of oil exports in the total Iraqi exports. the amount of exports from Iraq.

## 2. Fixed Capital Formation Index

The fixed capital creation index is crucial because it measures the amount of productive capacity attained as a result of annual increases in fixed assets, which is an important aspect in the process of economic development. All public properties were looted and the infrastructure was exposed to acts of sabotage after 2003. Which resulted in the destruction of infrastructure and industrial facilities, as well as significant social losses, paralyzing the flow of national economic activity. This also caused the infrastructure of economic sectors, particularly the oil and industry sectors, to deteriorate as the majority of industrial projects owned by the state, totaling about 192 public companies, ceased operations. Additionally, there has been a sharp decline in oil production capacity as a result of the requirement to upgrade and maintain aging oil facilities. As a result, after 2003, it became necessary to emphasize the significance of capital formation because it is one of the most important economic variables. Despite the critical need for it, the Iraqi economy experienced a considerable decline in total fixed capital formation, according to data from the Central Bureau of Statistics. Total fixed capital formation in 2006 was 16,911 billion dollars, however the Iraqi economy, which is hampered by stalled projects and demolished infrastructure as a result of US occupation operations, does not require this amount of capital accumulation. The increase in oil prices during the first quarter of this year caused the capital formation to increase to 32940 billion dinars, but the fixed capital creation fell to 13471 billion dinars as a result of the financial crisis that hit the Iraqi economy in 2009. Also, these increases They are a significant portion of total fixed capital formation but do not actually represent real increases, i.e., the addition of new production capacities, as much as they serve as a form of compensation and insurance for the effects of material loss and technological extinction that befell the existing productive capacities.

In 2010, oil prices gradually increased until 2013, which led to an improvement in the total ,fixed capital formation, as it rose from 26,252 billion dinars to 55,036 billion dinars respectively <sup>(10)</sup>.

As for the private sector's contribution to fixed capital formation, it was characterized by a decline at this stage, as the percentages were low, reaching its highest percentage of 7.2% in 2009 as a result of the increase in the activity of the non-real production sectors (banks) and the housing sector ownership. It is still insignificant and almost non-existent <sup>(11)</sup>.

Compared to 2014, when it totaled 55,834 billion dinars, overall fixed capital formation fell to 50,650 billion dinars in 2015. This is because of the effects of the conflict with the terrorist group ISIS, which resulted in a sharp decline in investments over the three years following ISIS's entry into Iraq, particularly in the northern regions. With an increasing population, little investment spending prevents the creation and renovation of infrastructure for schools, hospitals, and health facilities. Even after 2018, when total fixed capital formation fell to 31,944 billion dinars, it did not recover as a result of a reduction in the percentage of spending that was designated for investments <sup>(12)</sup>. According to data on total fixed capital formation, the public sector continues to dominate capital additions in the Iraqi economy. This is because the public sector controls the oil industry, which is the main source of foreign exchange that is used to finance investments, which explains the crucial role that the public sector played in the economy. Contrarily, despite legislation and laws designed to make it

easier for the private sector to engage in economic activity, and in order to effectively contribute to diversifying the local economy in light of a competitive environment and global partnership, and it includes some goals, most notably increasing the sector's contribution to private investment in the formation of fixed capital, the role of the private sector in the formation of fixed capital has decreased. However, the reality of the situation suggests that there is hesitation in this sector's contribution to the creation of fixed capital, as evidenced by the fact that its average contribution during the period from 2006 to 2012 did not exceed 7%. This is because of a number of challenges, including a lack of funding available, a lack of investment in infrastructure, and the stagnation of the labor market. The establishment of a new state capable of accomplishing this and re-utilizing the material and human capabilities that the country possesses in the process of economic and human development came at a time when Iraqis were eager to advance the developmental reality, achieve development levels commensurate with its capabilities and the needs of its residents, and carry out reconstruction and reconstruction. In the years 2013 to 2018, it took The private sector's contribution to the gradual improvement reached 35%, but this improvement wasn't brought about by increased private sector activity because the private sector's policy lacked diversity and stability and stuck to its old patterns. Rather, it was brought about by the decline in investment spending on projects and infrastructure as a result of reduced public spending and investment expenditures. Although the private sector's contribution to fixed capital formation increased slightly between 2017 and 2018, this was primarily due to an increase in industry-related activity, housing sector activity, particularly in light of the presence of war-damaged cities and crumbling infrastructure, as well as service activities, leading to an increase in fixed capital formation. after the fight against ISIS is over and security has improved, the percentage of its contribution to the creation of fixed capital.

### 3. GDP index

The indicator of the composition of the gross domestic product witnessed a major imbalance in its composition after 2003 and is one of the basic features that characterize the Iraqi economy. The production structure in the Iraqi economy is characterized by the predominance of the extractive sector over the agricultural and industrial sectors, despite the fact that some commodity sectors achieve positive growth rates that contribute to The composition of the gross domestic product, however, it suffers from many distortions in its production structures, and that its contribution rates are very modest. The basis of the structural imbalance stems from the government's domination of the oil sector and then control over the most important sources of foreign exchange, as it has the greatest impact on the allocation of The following table shows the percentage of .resources between consumption and investment .economic activities' contribution to the gross domestic product

**Table (2)**

**Relative distribution of GDP at current prices by economic activities for the years 2003 - 2019 -**

2019	2018	2017	2016	2015	2014	2013	2010	2005	2003	economic activities
3.3	2.4	3.3	3.8	3.9	4.9	4.8	5.2	6.9	8.4	,Agriculture forestry and hunting
43.5	47.1	37.8	29.8	30.8	43.9	46.0	45.4	57.3	68	Mining and Quarrying

2.0	1.5	2.3	2.0	1.8	1.8	2.3	2.3	1.3	1.0	manufacturing industry
2.9	2.7	3.6	3.0	2.9	2.1	1.8	1.8	0.8	0.2	Electricity and water
4.1	4.1	6 .6	9.3	8.8	7.1	7.3	6.3	3.7	0.7	building and Construction
9.4	9.8	10.3	11.0	10.0	7.3	6.6	5.8	8.0	7.6	,Transportation transportation and storage
7.8	7.5	9.0	9.7	10.1	7.9	7.5	7.7	5.7	6.5	Wholesale and ,retail trade hotels and the like
2.0	1.9	7.7	7.9	11.3	7.8	7.7	9.5	7.4	1.3	,Money insurance and real estate services
25.0	23.0	19.40	23.5	20.4	17.2	16.0	16	8.9	6.3	Social and Personal Development Services
100	100	100	100	100	100	100	100	100	100	Gross domestic %product

Source :Republic of Iraq, Ministry of Planning, annual statistical group for different years

The extent of the imbalance in the production structure of those sectors can be seen by tracking the relative contributions of the economic activities of the sectors that make up the GDP in the above table, as the oil sector is distinguished by a high percentage of its contribution to the formation of the GDP, despite varying percentages over the years of study. The contribution of the industrial sector, electricity, and building and construction in the formation of the GDP reached 2.3%, 1.8%, and 6.3% in a row during 2010, and there was only a slight improvement during the subsequent years, which demonstrates the extent of the weakness of the economic structure and the structural plight. The situation did not significantly change during the second decade, as the majority of the commodity sectors' contributions to the GDP remained low. The only exception was the oil sector, though the percentage of its contribution decreased as a result of the double crisis Iraq was subjected to and the subsequent decline in oil prices. In contrast, the services sector's contribution to the formation of the output increased during this time. The local economy made up about 25% of the total. A lack of government backing, a lack of water, and the policy of open import have all had a considerable negative impact on the agricultural sector's contribution. The industrial sector's contribution has drastically dropped as a result of the scarcity of energy resources and the high costs of capital and raw materials.

Developmental determinants demonstrate that this inability to progress is solely the consequence of a buildup of political, economic, and social issues, while also acknowledging that the worsening in the indicators is a product of political shift and bad policies that were implemented. It is possible to identify the most fundamental factors that hinder the development of the Iraqi economy in order to pinpoint the key areas in assessing that development failure.

### 3. Determinants of economic development in Iraq

An enormous disparity between Iraq's economic development and that of the other countries in the region emerged as a result of the numerous difficulties that the country's economic development faced, many of which were accompanied by political changes. These obstacles include:

- a) In order to advance the reality of economic development, the government developed a set of detailed and comprehensive plans after 2003. These plans were published, and the government also received several proposals for national development from foreign organizations like the International Monetary Fund and the US Agency for International Development. The first plan, which covered the growth and restoration of the oil industry, was created in 2005–2007. emphasis on the structural changes to the economy brought about by the diversification of the economy. It also created a plan for the years 2010 to 2014 that included projects and divided them up among the different economic sectors. This plan was centered on the issue of the spatial dimension of development and how to fairly and equitably distribute the benefits of development across the entirety of Iraq in accordance with the degree of need and deprivation. Giving local governments more power to define priorities and make decisions in line with the gradual approach designed to establish and localize market economy processes, as well as giving the local and international private sector more power to finance development and create job opportunities<sup>(13)</sup>. Then came the 2013-2017 plan, which is the first link in a system of a strategic path for economic advancement and focused its economic objectives on building a diversified and prosperous economy led by the sectors of industry, energy, agriculture, and tourism as development poles, as well as increasing the percentage of its contribution to generating the gross domestic product. This plan will complete the development path of the plan. In the past, the public and private sectors worked together to create a variety of plans for economic advancement<sup>(14)</sup>. Although the plans of the Iraqi government list numerous initiatives in various areas of the Iraqi economy, the government's efforts to accomplish the goals set in reality are unbalanced because the government was unable to accomplish the primary goal, which is to diversify the Iraqi economy. A diversified economy has a wide base of production, especially in the industrial and agricultural sectors, as well as services, and it is free from dependence on oil and the attendant. Along with generalizations about the most effective ways to accomplish these objectives, to cope with these difficulties. The public does not refer to these plans, and this is because there is no clear tool for requiring budgets to implement investment allocations in them that correspond to the costs of a list of projects, if there were such a list. It appears that the main reason for not implementing these plans is because there is no connection between the general plans and budgets, the budget documents, and schedules. As a result, the budgeted projects are determined by recommendations made by the various ministries in response to pressing demands<sup>(15)</sup>.
- b) of The limited contribution of the private sector to the development process. The expansion state control over the means of production led to making Administration Economic Characteristic degree High From central Not From side Legal just but that The initiative in Prepare and take decisions Economic With the growth of oil revenues and the increase in it became the main monopoly in setting economic policies and defining ,production quantities private sector suffered from The .the roles played by the public sector and the private sector marginalization, and the failure to exercise its real role in economic activity and building the economy, and the private sector continued to be unable to play its role in development, so it resorted to projects with quick and short-term profit<sup>(16)</sup>. This stage also witnessed a new setback for the private sector as a result of acts of sabotage that targeted many private projects, and the suspension of private industrial projects, as more than 60,000 small projects belonging to this sector were disrupted, due to a lack of energy and requirements for the production process, in



addition to the openness to the outside world that led to Dumping the local market with many foreign goods and services at very low prices that it is difficult for the private sector to compete due to the primitiveness of the means used in production, in addition to the low levels of productivity and the shortage of raw materials <sup>(17)</sup>. As a result of these circumstances, the Iraqi economy was managed by the foreign administration, which allowed free trade without any tariff or quantitative restrictions, which made the supply of imported goods unlimited, as well as the deterioration of the security situation, which led to the inability of the private sector to compete with foreign products of quality. High and cheap price sector repressed and unable to create and grow small and medium <sup>(18)</sup>. enterprises are explained according to a study conducted by the World Bank on the business environment in the Middle East and North Africa . And the enforcement of contracts and building permits, and according to these indicators, Iraq was found to be the most hostile regulatory environment for business and facing the private sector, as Iraq ranked 156 out of 189 countries in the 2015 Doing Business report issued by the World Bank, compared to rank 151 in 2014 <sup>(19)</sup>. In 2020, Iraq ranked 172 out of 190 countries, with 44.7 points out of 100 points <sup>(20)</sup>. This business environment acts as a heavy tax on investors and discourages them from trying to start a new business.

- c) Accreditation on me Oil: has took root structure Economy Iraqi increasing reliance on me Prepare Iraq Country the most depending on me oil in region countries the East section oil raw middle and north In Africa, oil contributes more than two-thirds of the output, or about 76% of the economic sectors, which is much larger than Kuwait, its oil-dependent neighbor, in which oil constitutes less than 40% of the gross domestic product, and less than 45% in Saudi Arabia. The oil sector is the main source of public revenue in the Iraqi economy, as it is the source of almost all of its revenues, as it represents more than 90% of the central government's revenues and 98% of exports, in addition to the fact that this sector is the main factor in revitalizing the economy and financing government activity and the state budget, and it is the main tool in This financing is to the extent that the movement of economic development has Accordingly, the Iraqi economy has <sup>(21)</sup> become dependent on the movement of oil revenues become more vulnerable to external. .shocks resulting from changes in international oil prices The export nature of the oil sector will place a constraint on the success of economic policy in controlling and directing economic variables according to what is planned, as the increase in production in the oil sector, then export leads to an increase in foreign exchange earnings that contribute to an increase in the gross domestic product and an increase in the revenues of the general budget <sup>22</sup> The opposite happens in the event of a drop in oil prices. The financial crisis of 2009 led to negative effects on the Iraqi economy due to the drop in oil prices, as well as the case with the crisis of 2014 and the subsequent drop in oil prices in 2015, where the price of a barrel reached 45 dollars, while oil revenues amounted to By 51 trillion, after it was in it was 104 trillion, and this fluctuation in prices has continued until the present time, and ,2013 the general budget witnessed a decrease in its revenues due to the collapse in oil prices and the decrease in global demand for it due to the repercussions of the Corona pandemic, as the price the share of Iraq's exported oil according to the agreement of a barrel reached 23 dollars and and therefore the Iraqi government will face ,with OPEC is 2,700 thousand barrels per day many difficulties in managing those revenues, especially with the rise in its public expenditures <sup>(23)</sup>.

The pattern of economic development in Iraq continued to be captive of oil, as oil revenues are one of the most important components of economic development in Iraq, because the state's dependence on oil as a main source of revenue to finance development during forty ,years guarantees risks that its movement is linked to the abundance or scarcity of oil revenues which threatens The process of economic development and determining its extents, in addition ,to the restriction of Iraq's strategic options to many variables and policies, and consequently

the options for controlling resources at the macro level, and the distribution of its returns at the micro level, increased with it, which caused wide distortions in the structure of the Iraqi economy and its sectoral structure and impeded the implementation of the state's goals<sup>24</sup>. The following table shows the volume of oil exports and their contribution to revenues

**Table (3)**  
**The value of oil exports and the percentage of their contribution to public revenues**  
**(trillion dinars) (2018-2004)**

Oil's contribution to % ,total revenue	general revenue	oil exports	the year
79	33.0	25.1	2004
85	40.5	27.0	2005
91	49.1	39.0	2006
97	54.6	46.6	2007
86	80.3	72.8	2008
93	55.2	53.3	2009
91	69.5	59.5	2010
92	100.0	92.8	2011
92	119.5	109.3	2012
77	113.8	104.2	2013
82	105.4	97.3	2014
85	66.5	51.3	2015
90	54.3	44.7	2016
79	77.3	65.4	2017
85	106.6	96.1	2018

Source: The table was prepared by the researcher based on the data provided in: Republic of Iraq general budget

#### **4. Economic diversification and freeing from the oil dependency trap**

It is highly challenging to achieve economic diversification and escape the rentier trap since it is a conundrum for which it is challenging to find a suitable resolution. Therefore, the government needs to take a serious break by establishing a set of development policies and plans that will first ameliorate the rentier issue before addressing it. Among those measures is the development of the agricultural sector, one of the cornerstones of the Iraqi economy, which strives to expand production in a way that enables self-sufficiency and then provides food security for the nation by making vigorous and intense efforts for the purpose of rehabilitating this sector to remove the obstacles it faces. Work on expanding the industrial sector as well. As an important source of funding for development and the development of other economic sectors after the oil sector, through the adoption of an effective industrial policy aimed at developing other sectors, especially those with export potential, to gradually absorb the growing number of workers entering the labor market, and to grant financial and moral subsidies that effectively contribute to modernizing Production lines with cutting-edge technology, in addition The promotion of regional tourism is one strategy for reducing reliance on a single resource. Being an extra source of money for nations with other sources of funding

and helping to finance the overall budget Can this sector source be that? any source of income that aids in financing development Economic From two sides, the financial supplier for foreign coins and the sector that is preparing coins are entangled with the rest of the sectors. Economic progress is assisted by the other than.

### Conclusions and Discussion

The central government's persistent reliance on oil, and consequently the persistence of the rentier nature, was caused by the lack of a real strategy for economic diversification. In rentier nations in general, and Iraq in particular, there is a clear correlation between governmental spending and oil earnings. Additionally, the loss in oil revenues will be reflected in a decrease in public spending, which will consequently result in a decrease in investment spending. The inability of the government to achieve financial sustainability as a result of rising operating costs, which had a negative impact on the availability of funds to finance local development from both public and private sources, as well as the effects of crowding out brought on by increased public borrowing and escalating internal and external debt. The persistence of natural resource profits as a major source of income It is the foundation and the main source of funding for the state's general budget and accounts for more than half of the GDP. It is anticipated to maintain its dominance as a source of funding for economic development in the future.

Changing the structure of the general budget to prioritize investment spending in the expansion of production capabilities and base structures to ensure the ability to meet market demand for goods and services. Developing and diversifying the non-oil economic sectors to reduce reliance on volatile oil earnings. Helping out the little guys and gals. Large-scale company formation and promotion have not necessarily proven to be the most effective means of accelerating progress. Promoting the overwhelming majority's small and medium-sized enterprises is the most effective strategy to speed up growth. The need of diversifying the Iraqi economy away from its reliance on oil, since this commodity's future demand is predicted to fall, as it did during the Corona pandemic crisis and may fall again in the future as a result of technological progress.

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