

The Iraqi Economy between the Waste of Resources and the Rights of Subsequent Generations After 2003

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Abstract

The oil wealth has a large and effective role in the development of oil economies, and it is assumed that this wealth has a distinctive role in achieving economic development. The Iraqi economy is dependent on oil revenues to finance government spending, it is a renter economy, while other revenues have little contribution compared to oil revenues, and the reason for this is the inefficiency and ability of other sectors to finance.

Keywords: Iraqi Economy, Waste of Resources, Imbalance of Export Structure, Licensing Rounds, Sovereign Wealth Funds

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Introduction

The performance of Iraqi economic activity has been based for many years on the extraction and export of crude oil, as oil revenues are still the main source in the state's general budget and an effective engine of economic activity.

The dependence of the Iraqi economy on oil (unilateral economy), especially after the seventies of the last century, led to its infection with the Dutch disease (Dutch disease) through economic imbalance (imbalance of the productive structure, imbalance of export structure) and imbalance of the balance of payments and imbalance of the general budget of the Iraqi economy, which led to the waste of economic resources available or available in Iraq, especially after 2003 through the waste of financial, natural and human resources, as well as the waste of the rights of subsequent generations in natural resources and environmental assets and at the end of the loss of the economic development contract and the deterioration of trade exchange rates in Iraq.

The problem of the study is the lack of optimal and efficient exploitation of the renter income of the Iraqi economy, which led to the imbalance of the productive structure and the imbalance of the structure of exports, especially after 2003. The importance of study lies in identifying the most important reasons that led to the waste of economic resources and the need to submit objective proposals to treat the Iraqi economy.

The hypothesis of study

The Iraqi economy suffers from rents, i.e. its dependence on the oil sector only to finance the gross domestic product, which has led to imbalances and distortions in the economic structure.

Conceptual framework

The Iraqi economy and the imbalances of the economic structure

Iraq is one of the countries that possess a strategic commodity, which is oil, and it has an important and decisive role in influencing the state's economy, as it is the main financier of the general budget, so the contribution of oil revenues reached more than 98% of public revenues

(Abdul Hussein and Al-Tohme: 2016). The Iraqi economy is heavily dependent on crude oil export revenues as a source of financing economic and social development, while agricultural crops are wheat, barley, dates, rice and cotton. and other agricultural crops are very small (Zaini, 2009).

The Iraqi economy depends on oil revenues to finance government spending, it is a rentier economy, while other revenues have little contribution compared to oil revenues, and the reason for this is the inefficiency and ability of other sectors to finance, and to achieve self-sufficiency, which makes it dependent on oil revenues and the import of more goods from abroad, which led to depletion and waste of the state's financial resources. Oil is also subject to fluctuations in global oil prices, which leads to the exposure of the Iraqi economy to oil price shocks, and then the volatility of oil revenues and the transfer of the impact to public revenues and then destabilize the economic stability in the state (Akkawi & Kazem, 2017).

The rentier economy also directly affects the overall economic activity and we see its dimensions clear and evident in economic life, its impact through the imbalance of the productive structure, exports, the general budget and the depletion of economic resources, and we will try in this aspect to study the exclusion of the rentier economy on the economic variables, which are as follows:

Imbalance of the productive structure

The sectoral structure of GDP reflects a holistic appearance of economic activity, so it is necessary to know the sectors that make up GDP and their contribution to the formation of this GDP as follows (Ali, Hamid, 2012). Commodity sectors, including agriculture, fisheries, forestry, extractive industries, manufacturing, electricity, water and gas, and construction. Distribution sectors, including the trade sector, the transportation sector, the financial institutions sector and insurance. Service sectors, including the housing sector and the government services sector such as defense, health and educational services.

Imbalance in the export structure

Foreign trade plays an effective role in the economies of developing countries like the economies of developed countries, but the structure of exports of developed countries depends on diversification in goods, while underdeveloped countries depend on only one commodity and are often raw materials (Ibrahim, 2011) This is due to the imbalance of the productive structure, which consequently leads to the imbalance of the structure of exports, and this will certainly lead to a deficit in the trade balance, which leads to a chronic imbalance in the balance of payments due to the high imports compared to exports, which leads to an imbalance in their current accounts, and the export revenues of these countries cover only a small part of the value of their commodity and service imports and their external obligations, so these countries are forced to use sources External financing (aid, loans). Ajamia (2007) due to the deterioration of the domestic saving rate, and the increased need for various forms of foreign financing, which is reflected in the existence of the domestic resource gap.

Waste of economic and natural resources and lack of sustainability

The term waste of resources has taken a large part of attention in modern studies, and has become one of the important topics in the study and analysis to know the extravagance and non-optimal exploitation of those resources, and the importance of preserving them to ensure the rights of subsequent generations, and increase state revenues for the purpose of achieving economic growth and sustainable development, the waste of natural and economic resources was the result of excessive exploitation and neglect of energy sources. When the benefits of

individuals in society increase in relation to the resources available and used in the economy, economic efficiency will decrease, resulting in a decrease in improving the well-being of members of society. Economic efficiency is related to the value of all inputs used in a given production, and the production of a particular product is economically effective, There were no other ways to produce the same output using smaller aggregate input values (Anderton, 2004).

In this aspect, we can address the waste of human and natural resources as follows; (1) Waste of human resources: Human resources are one of the most important pillars of society, and one of the basics of the economic process, the human element is the most valuable resource that cannot be ignored or marginalized, as organizations and companies seek to highlight its role in management and the production process, and human resources management in short represents the optimal use of the available and expected human element on the efficiency, capabilities and expertise of this human element; (2) Waste of natural resources: The problem of depletion and misuse of natural resources is one of the most important problems facing the human being of this era, as man has begun to use these resources exaggerated and in a way that does not take into account the needs of future generations on the one hand, and the limited environmental resources on the other. (Magdoff, 2011) Natural resources are the unused natural stock from which humanity benefits, It is represented by God's gift to us in terms of air, sun, soil, natural plants, wild animals, etc., in other words, it includes the lithosphere, the hydrosphere and the atmosphere; (3) Waste of financial resources: The management and use of financial resources is a focus that requires a high degree of research, development and innovation by identifying the available capabilities and formulating priorities to employ them effectively in light of the decline in financial resources. If we assume the argument that financial resources are sufficient but do not find the optimal management and use of those resources, the results will be close to the results of the scarcity of financial resources, but the impact will be worse through the emergence of class disparity due to the concentration of wealth among the few at the expense of the majority (Ali, 2000).

Disruption of the structure of exports and licensing rounds in Iraq

Imbalance of export structure in the Iraqi economy for the period from (2003-2022)

Exports are important indicators to measure the volume or level of foreign trade of the country, the higher the proportion of exports, the more positively reflected on the trade balance and vice versa, and when we talk about the exports of the Iraqi economy, the prominent feature of them is that they are unilateral exports depend mainly on one side, which is the side of the extractive sector (oil) and the lack of diversification of exports on other sectors, which negatively affected Iraqi exports and this led to the imbalance of the structure of exports in the Iraqi economy. (Buraihi, 2017), which resulted in the neglect of other sectors and thus their weakness in terms of competitiveness and the quality of their production and their inability to compete with foreign products in other markets, which is an inevitable result of what the Iraqi rentier economy suffers from, which is characterized by weak flexibility of the production apparatus and its inadequacy to meet the needs of domestic demand, which makes the structure of exports suffer from an imbalance represented by the presence of a commodity that occupies a very large percentage of the total exports.

In other words, other exported commodities are of low relative importance compared to the main commodity of greater importance in exports, and this reinforces the statement that the Iraqi economy is witnessing unquestionably the effects and consequences of the rentier economy, and the imbalance in the structure of exports can be diagnosed through the data of Table (1), which shows the great relative importance of extractive oil exports from the total exports for the period from 2003_2022, where the percentage of oil exports for 2003 was

(83.90%) Which is considered one of the least declining years compared to subsequent years, and the reason for this is due to the military operations witnessed by Iraq and the great damage that hit most of the oil sectors throughout Iraq, so that the years following this year witnessed a very large jump in the ratio of oil exports to total other exports, as it maintained (99%) until 2016 This large and widespread acquisition of oil exports at the expense of other exports shows beyond doubt that Iraq exports only one commodity, oil, as it is noted from the data of the table below that merchandise exports did not reach their rates until 2022 (1%) except for 2003, which amounted to (16%), so that the acquisition of oil exports continues until 2019, as the percentage of the contribution of oil exports reached (99.8%), while the percentage of merchandise exports reached (0.21%) We also note the decrease in the proportions of oil exports in the years. The last three due to the Corona pandemic, where the acquisition of oil exports continued until 2022, as the contribution of oil exports reached (95.2%) and the percentage of merchandise exports reached (4.2%) as shown in the table below:

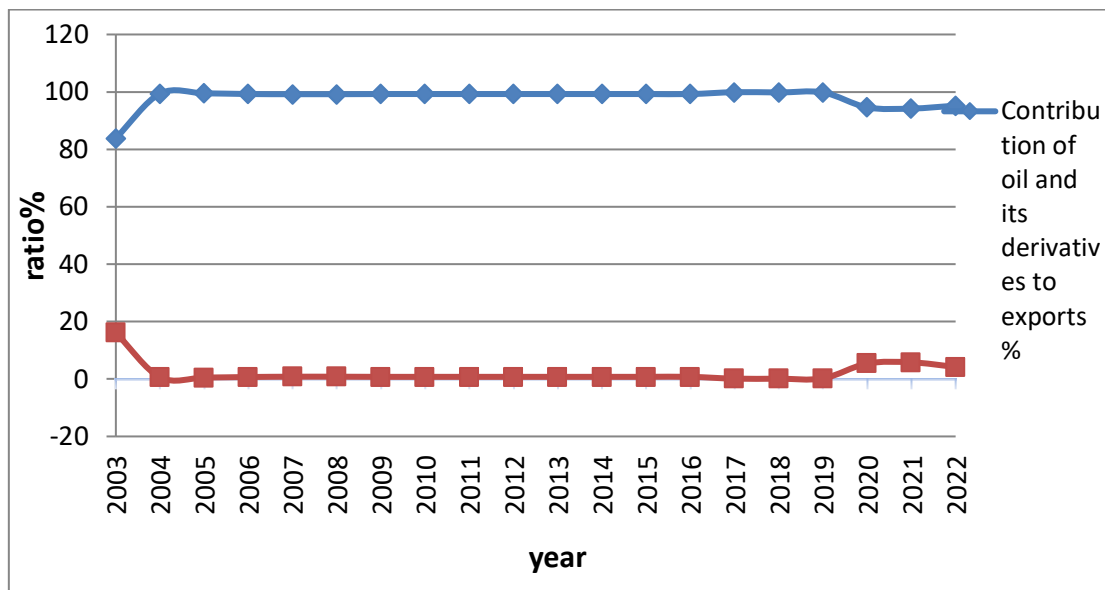
Table 1. Iraqi export structure for the period 2003-2022 (million dollars)

Contribution of goods and services exports to exports %	Exports of goods and services	Contribution of oil and its derivatives to exports%	Extractive exports (petroleum and its derivatives)	Total Exports	Year
16.10	1623	83.90	8459	10082	2003
0.60	107	99.40	17703	17810	2004
0.50	119	99.50	23578	23697	2005
0.75	230	99.25	30298	30528	2006
0.80	317	99.20	39270	39587	2007
0.80	510	99.20	63216	63726	2008
0.75	296	99.25	39131	39427	2009
0.75	388	99.25	51376	51764	2010
0.75	598	99.25	79083	79681	2011
0.75	706	99.25	93503	94209	2012
0.75	673	99.25	89095	89768	2013
0.75	630	99.25	83351	83981	2014
0.75	385	99.25	50943	51328	2015
0.75	306	99.25	40453	40759	2016
0.12	70	99.9	57489	57559	2017
0.11	101	99.8	86259	86360	2018
0.21	173	99.8	81412	81585	2019
5.4	2558	94.6	44305	46863	2020
5.8	4280	94.2	68804	73084	2021
4.2	4947	95.2	113097	118044	2022

Source: Prepared by the researcher based on the data of the Central Bank of Iraq, quarterly bulletins for different years

Table (1) shows the percentage of the contribution of the oil sector and other exports to the total exports

Thus, the Iraqi economy remains dependent on the depleted resource, which is subject to fluctuations in supply and demand, high and low prices, and the large acquisition of oil exports over the rest of the other exports, as shown in the following figure:

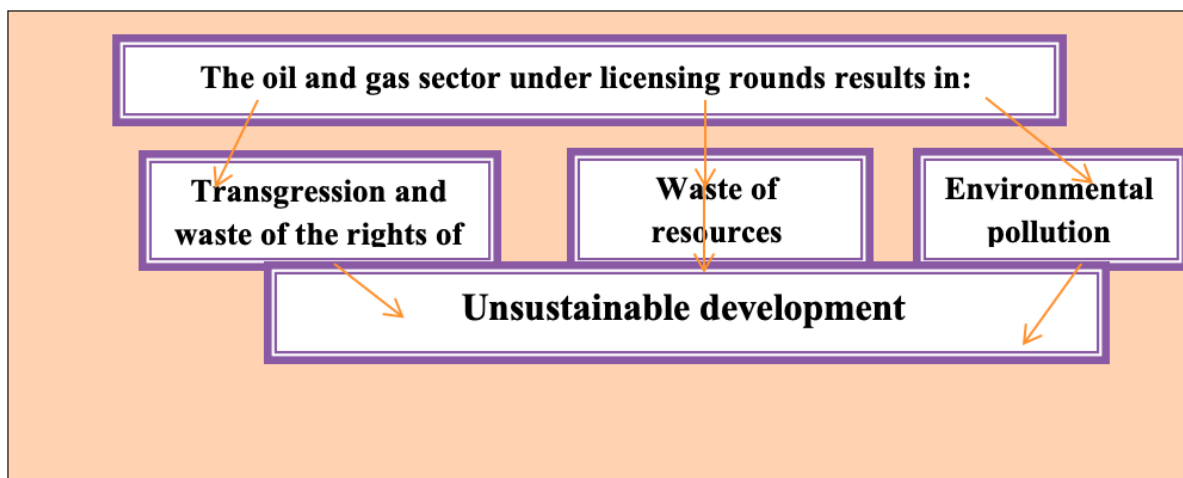


Prepared by the researcher based on Table (1)

Chart (1) shows the contribution of the oil sector and other exports to total exports

Licensing rounds in Iraq

Plan 2. Iraq's oil sector achieves unsustainable development



Source: (Saleh, Muhammad: 2016).

After a recession of more than two and a half decades, the federal government took it upon itself to offer multiple oil and gas areas starting from 2009 to 2012, resulting in four licensing rounds aimed at achieving the following; (1) Rehabilitation of oil fields or development of their production in accordance with the events of administrative, financial and technical methods; (2) Transferring the expertise of international oil companies and their modern technologies to the country; (3) Training and developing Iraqi cadres in various fields and promoting methods and contexts of work in various state institutions in accordance with the national development strategy; (4) Increasing Iraq's oil capacity from (2.43) million barrels to (10) million barrels. (Athafa, 2017).

The oil sector in Iraq is the main sector in financing and the management of this sector is unsustainable as it wastes depleted resources and pollutes the components of the environment

and then negatively affects the economy and human beings as well as exceeding the rights of subsequent generations in the non-renewable oil and gas resource and bypassing them by bearing great environmental and ecological burdens due to the unsustainable method of exploiting this resource and can clarify the unsustainable development resulting from the oil sector through the following scheme.

Strategic proposals to address the reality of the Iraqi economy

Providing the appropriate economic environment

The state's possession of the above advantages will make it able to manage oil revenues efficiently and optimally as a major advantage, and this is what makes the development of other economic sectors as a comparative advantage fully prepared to advance the low reality from which it suffers, as well as the need to provide an updated environment that attracts investments of all forms. Most importantly, the state must strongly invest in human capital by promoting education and training as well as attracting and localizing technological knowledge for the purpose of producing it as a strategic goal, and all these government activities supporting the private sector must take into account the creation of a capacity of the national private sector to open foreign markets (Saleh and Janani: 2018: 194). A very pivotal point in the framework of the strategic vision of the role of the state is the necessity of ending the state's hegemony over the economy that accompanied economic life in Iraq, especially after the stage of oil rents and the coupling of political tyranny, whose consequences on the Iraqi economy are still to this day. Here, we must move from the rentier political economy pattern towards development based on justice, dignity and achieving economic development, as the existence of the state must serve as a lever force for the private sector in order to take over the leadership of economic activity as a first step to produce a promising market for our economy by stating the strategy for the development of these sectors as follows:

Agricultural sector

The sector is one of the most important natural resources that Iraq enjoys in terms of climate, water and soil, and for the purpose of developing a strategic plan for the advancement of the agricultural sector, it is necessary to work on the following; (1) Allocate the necessary financial resources to prepare agricultural inputs using modern technologies; (2) Initiating the granting of agricultural loans of various types, while tightening procedures for the use of these loans for the purposes for which they are intended; (3) Imposing a strict customs policy within the framework of protecting the local agricultural product from external competition to encourage and develop the local product and make it competitive in international markets.

Industrial Sector

There is no doubt that the industrial sector is today the main cause of growth and development in many countries, but what distinguishes the industrial sector in Iraq is the availability of many key factors for the success of this sector, especially raw materials and cheap labor and to develop a strategy for the advancement of this sector the need to work on the following; (1) Develop decisive solutions for existing (idle) companies by privatizing, offering them for investment or restructuring them to operate; (2) Work to invest in the field of leading basic industries with high added value and backward and forward linkages, which today represent an inevitable priority in their exploitation, such as the chemical fertilizer industry, the glass industry, the petrochemical industries based on natural gas and liquid petroleum derivatives, sulfur-based industries and the food industry (Alwan, 2002); (3) Work on the use of modern

technology in the industrial field to develop production methods based on external experience and the development of local cadres; (4) Redistributing investments geographically with a focus on less developed areas in order to reduce the size of spatial disparity, and starting industrial and productive localization processes in a scientific manner in order to preserve the environment from pollution and resources from depletion (Ahmed, 2014).

Trade Sector

Iraq's geographical location, ports and borders and its high production potential make this sector another comparative advantage added to the country's economic balance.

Develop an integrated and flexible legal framework that regulates the movement of trade and is better able to achieve the strategic objective of a free economy based on market mechanisms, free competition and efficiency. Activating consumer protection laws and the Trademarks, Data and Trade Secrets Act and protection against unfair competition, especially since Iraq is witnessing the entry of goods and merchandise far from measurement and quality control, and the neighbouring countries deliberately flood the Iraqi market with their goods and the loss of local products and their inability to compete. Work on the development of the infrastructure on which the commercial activity is based.

Sovereign Wealth Funds

According to the International Monetary Fund (IMF), they can be defined: "Special purpose government investment funds or arrangements, which hold, employ or manage assets for financial purposes using strategies that include investing in foreign financial assets (Curzio & Micheli, 2011).

The history of its emergence dates back to the decade of the fifties of the last century, and can be described as an ancient and modern phenomenon at the same time, as the first fund was established in the State of Kuwait in 1953 and is called the Future Generations Reserve Fund, and managed by an independent body from the Central Bank and the Ministry of Finance represented by the Kuwait Investment Authority (currently the Kuwait Investment Authority), in order to invest oil revenues and then reduce the Reduce dependence on it. In order to achieve stability in government revenues and confront instability in prices of natural resources, sovereign wealth funds are established, which means taking a certain percentage of revenues from local commodities, represented by oil, and investing them in a diversified portfolio of financial assets to obtain greater returns in the future to mitigate the risk of fluctuation in the prices of these assets. Commodities on the Future Macroeconomy (KAPSARC, 2017).

The International Monetary Fund divided the types of sovereign wealth funds as follows:

Savings funds for future generations

“It is the transfer of capital from places of abundance, which are the creditors, to places of scarcity, which are the debtors. It is one of the types of sovereign wealth funds, and the main goal of its establishment is to allocate resource revenues for future spending” (Al-Rawi, 2017).

Foreign reserves investment funds

The foreign reserve is a cover for the local currency, collected as a result of trade exchange between countries through import and export. This balance forms and represents part of the assets of the central bank. Part of it is spent on meeting its needs, and the other part of the remaining funds is directed to foreign savings, and then it is one of the Components of sovereign wealth funds (Saleh, 2012).

Stabilization funds

They are funds established by countries rich in natural resources to get rid of concerns about fluctuations in the prices of these resources. Many exporting countries have established these funds to protect their economies from fluctuations in the prices of natural resources such as oil. Such funds work to compensate for emergency and unexpected deficits that may occur in planned revenues. In the state's general budget (Ter-Minassian, 2007).

Development funds

The Fund's resources are used to carry out development projects to achieve economic and social development, specifically infrastructure and service projects (Weiss, Clara, 2016).

Retirement reserve funds

It invests state revenues in retirement reserve funds in order to maintain the salaries and pensions of the retirees, as these funds are used to meet contingent and unexpected liabilities in the state's general budget (Saleh, 2008).

There is an urgent need to establish a sovereign fund that is financed by specifying a certain percentage of oil revenues that can be increased while achieving an abundance of oil revenues as a result of rising oil prices. It helps policy makers absorb or mitigate the negative effects of oil shocks and use its resources in emergency situations for the sake of the safety of the economic system and isolating it from... Oil price movements and shocks.

Conclusion

(1) The Iraqi economy's dependence on the oil resource as a primary source for providing financial resources to run the country clearly indicates that Iraq has fallen under the influence of the Dutch disease and the emergence of a rentier state with a one-sided economy; (2) The failure of the state administration to exploit oil revenues to address many economic problems, perhaps the most prominent of which are unemployment, poverty, poor education and health, the spread of crime, and a large waste of public money; (3) The focus of those responsible for managing oil revenues on relying on a one-sided economy has increased economic problems, including unemployment, poverty, poor education and health, the spread of crime, and the spread of financial and administrative corruption, which leads to an obstacle to achieving economic development; (4) Waste of public money and waste of natural resources through the policies followed in the Iraqi economy, where from 2003 until 2022 approximately (\$700 million), seven hundred million dollars, is the amount of waste in the budget of the Iraqi economy.

Recommendations

(1) The need to seriously think about reducing dependence on depleting oil revenues and not taking away the rights of subsequent generations by diversifying sources of income; (2) Work to establish specialized sovereign funds to target specific economic sectors or specific social groups; (3) Benefiting from oil revenues by investing part of this revenue in developing the most important sectors because they represent a comparative advantage, such as agriculture, industry, and tourism; (4) Working to increase the proportion of investment spending at the expense of current spending in the state's general budget through establishing projects and reducing unemployment and poverty rates.

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