

The Developmental Crises in the Iraqi Economy and the Arguments over the Economic Openness

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Abstract

The Iraqi economy has suffered and continues to suffer the burden of inheritance from the previous phase of more than half a century. The study aims at illustrating the economic openness in Iraq and searching its destructive results and impacts on the society. The importance of the research lies in discussing a significant and contemporary issue that has social and political impact represented by the economic openness and its reflection on the Iraqi economy and its role in disabling the process of development. Results showed that Economic openness is a major obstacle to economic development because of the direct and negative impact of investment, as well as the country's distortion of spending and the reduction of state revenues, as well as the delay of approved projects, The state has not yet established serious mechanisms to solve the problems facing it, but all that happening is attempts to deal with problems temporarily without going to the causes of the problem to deal with them and develop solutions to them and The decline in the contribution of the economic sectors such as the agricultural and industrial sectors to the gross domestic product, as well as the clear deterioration of all services (municipal, health, education, electricity, water, etc.).

Keywords: Crises; Iraq; Economy; Economic openness.



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1. Introduction

The Iraqi economy has suffered and continues to suffer the burden of inheritance from the previous phase of more than half a century. It was in a politico-economic confusion what resulted in the waste of a lot of resources, potentials and efforts, as well as time loss. Despite the political emphasize and guidance in rebuilding the Iraqi economy on the basis of economic freedom and market openness and that they are most convenient for the interaction with global changes. However, it is clear to us the lack of clarity about their interaction with the internal conditions what caused Iraq to lose the clear economic politics to dealing, which means a great risk surrounding this experience. This confusion and loss generated an undeveloped economic system with Iraq's closest neighbors.

1.1. Research Objective

The study aims at illustrating the economic openness in Iraq and searching its destructive results and impacts on the society and which constitute a serious challenge now in Iraq in the area of development that stands as an obstacle in the face of the economic growth in the country, thus, suggesting suitable mechanisms to address this phenomenon.

1.2. Research Significance

The importance of the research lies in discussing a significant and contemporary issue that has social and political impact represented by the economic openness and its reflection on the Iraqi economy and its role in disabling the process of development, then it's followed by the inherited results and problems and then suggesting treatment methods.

1.3. Research Problem

The economic openness realizes many benefits, but the other area represents a great challenge especially that the country is undergoing exceptional conditions like power corruption in the economic performance, as well as debate of access and the institutions legitimacy weakness, besides the weakness in public policies, in addition to that the weakness of infrastructure and investment insufficiency, what lead to disabling the process of development in Iraq. Hence, the problem of the research is represented by:

The existence of problems in both the choices, accordingly the right solutions must be approached.

2. Chapter One: Development Crises and Economic Openness

2.1. First: Conceptual and Theoretical Frameworks Between the Concept and the Mechanisms

The economic openness has taken a political approach more than the economic concept in the past years when the so-called globalization emerged, which was one of its results. Any economic policy means that the government or state undertakes a specific policy in order to revive its economy. The policy of economic openness means the method of managing the national economy on the basis of achieving the right interaction between this economy that desires the openness and the global economy to achieve best exploitation of available resources in according to a national comprehensive long-term plan.

This policy can be taken from a commercial aspect, as it represented by removing all customs barriers or reducing them, and leaving the trade practicing the transmission of goods and services freely, what results in weakening the powers of the developing countries to become unable to represent themselves.

2.2. Second: The Developmental Crises

The theoretical basis reflections, along a century of Iraq's life the state have always been monopolizing the responsibility of social insurance, eradication of poverty and unemployment, and other policies that express the parental role of the state's concept. But the poor performance of these systems, neglecting economic, social and cultural aspects, taking care of other areas like army, security forces and superficial media that reflects the state's viewpoint. All of this occurring on the expense of human, social and investment allocations, what lead to the failure of the developmental role of the public sector and the marginalized groups increased in these communities. In the light of development failure, continuous disorder and sensitivity towards the external sudden changes and the economic, commercial and financial problems caused the economy to be more exposed, less able to continuing growth and more vulnerable for external and internal strikes, hence, economy will face more instability and factors that threaten the economic and social structure and will suffer developmental relapse characterized by low growth levels with increased waste of development achievements realized in the past decades. And that's how the economic openness started to overcome these crises by the ideology of being free from financial, commercial and administrative obstacles and limiting the state's role in the economic activity through privatization projects and market opening.

Arguably, the economic openness constitutes a burden on the development in Iraq due to taxes and customs fees waive, hence, depriving the treasury from revenues that it desperately needs. In addition, the asymmetric equivalent competition on the economy of the country and the negative impacts resulted. All of this lead to the weakness in the economy of the country.

2.3. Third: The Theoretical Connection Between the Two Variables

The relations between the openness and the economic development have raised a major argument in the manner of international trade through all decades. Some studies suggest that there's a positive connection between openness and economic development in the long run, on the contrary, the short run indicates negative connection, thus, leading to painful impacts for the economy. The same goes to Iraq as it inherited a lot of economic problems and due to economic openness and not taking proper measure the country collapsed. Adopting this free policy like lowering the strict limitations imposed on the commercial exchange or maybe removing them completely will lead to harmful impacts on the economy such as falling into dumping policy and indebtedness, thus commercial openness policy may have negative impacts on the economic sectors.

3. Chapter Two: Results of Developmental Crises in the Context of Economic Openness in Iraq

Iraq fights the inability to bridge the gap of the growing local demand due to the continuous decrease in production. This can be attributed to the deterioration of all productive sectors, weak infrastructures, failure in institutional structures and the financial deficit what led the external sector to import all foreign products what resulted in:

3.1. The Downturn in Gross Domestic Product (GDP)

Gross domestic product is one of the most significant economic indicators used in the economic analysis that express the level of state's economic performance, for analyzing product growth and its structure of its sector is one of the main points to identify the problem. Since economic reality of Iraq is characterized by low GDP due to previous and current wrong economic policies which led to relying on oil sector and low contributions of other productive sectors like the agricultural and industrial sectors. Data in table 1 clearly indicate independence on oil products in producing and exporting crude oil and low proportional importance of other sectors especially main commodity sectors, agriculture and industry. In 2004 we see the decrease in other sectors contributions as it reached %2.06, %82.01 and % 9.5 respectively. This case didn't change until 2010 as the rate reached %2.71, %51.62 and %5.95 respectively. This fluctuation in GDP is attributed to the fact that the Iraqi economy is one-sided rent-seeking economy; it relies on oil resources as a major funder for GDP, what causes prices volatility as happened in 2015-2016 that had led to many problems and developmental crises hence that resulted in low economic situation in the country.

Table-1. of economic sectors contributions in constituting GDP with the current prices in Iraq for the period 1994-2010 (million dollars)

Indexes / year	Agriculture sector	Extractive industries sector	Manufacturing sector	Productive and social services sector	GDP in current prices	GDP in constant prices	Population	Contribution rate of agriculture sector in GDP	Contribution rate of extractive industries in GDP	Contribution rate of manufacturing sector in GDP	Contribution rate of productive services sector in GDP
2004	2,347	20,257	511	8,371	24,700	10,7	27,138	9.5	82.01	2.06	33.89
2005	2,940	25,900	597	11,600	31,719	10,06	27,963	9.26	81.65	1.88	34.8
2006	3,911	32,189	824	14,047	41992	8,69	28,810	9.31	76.6	1.96	33.45
2007	4,346	49,535	1,449	29,714	69,556	11,00	29,682	6.2	71.21	2.08	42.7
2008	4,740	72,029	1,933	44,599	109,100	16,8	31,895	4.34	66.02	1.77	40.8
2009	5,219	48,216	2,868	54,827	97,302	15,42	32,105	5.36	49.55	2.94	56.34
2010	7,224	62,643	3,300	64,900	121,335	18,77	33,408	5.95	51.62	2.71	53.84

Source: Contribution rates of the economic sectors were calculated from GDP (for agriculture, extractive industry, manufacturing industry and services) by the researcher by relying on: The General Secretariat of the League of Arab States and others, the Unified Arab Economic Report for different years 1996-2011. The deterioration in other sectors is attributed to many problems; the agricultural sector suffers from complex problems like low production, increased desertification, decreased manpower and declining government support to product supplies. Iraqi markets complete openness against the competence of similar agricultural imported commodities led to removing a lot of domestic products from the area it was occupying in the Iraqi market, thus, this sector has been bearing too much of the transmission phase burden which reflected negatively in the contribution of the sector to the GDP. Industry sector does not differ from the agricultural sector, it remains suffering from huge administrative and financial corruption since early 1980s. Currently, the country has about 192 projects with 500,000 workers but most of them are weak in performance for different reasons such like eroded buildings and poor maintenance. The constant gross capital formation was negative because it's too low to compensate extinction on the one hand, and the factories have been exposed to looting and destruction on the other hand.

From the above we conclude that the poor contribution of the productive sectors in forming GDP and relying on oil sector for revenues in term Iraq has become importer for all goods and services which made a supply shock that reflected the increased domestic demands through import to enhance the Iraqi economy dependency, widening the external gap between import and export, decreasing the quality of life and increased deprived and poor groups on the one hand, and the economic openness has the key role in these results because of the dependency of the Iraqi economic and its poor productive performance on the other hand.

3.2. Infrastructure Collapse

Economic performance weakness in Iraq reflected on governmental public services of individuals and led to poor quality of life, what caused deterioration in service and vital structures since mid of 1980s due to wars, maintenance deficiency, not expanding to keep pace with the increased population and directing finance towards luxurious consumption and not to create new productive powers able to operate what led the domestic economy performance to decline on the one hand, and vandalism, administrative corruption and negligence after 2003 led to decline in investments and projects capacities in providing main services on the other hand. In addition, the decline in oil production in the last years and blocking a great percentage of its revenues to build security services and fight terrorism, also Iraqi and foreign investors' reluctance on investing in Iraq due to lack of security and stability what caused the environment of investment not being reformed such as qualified banking system, qualified insurance companies, qualified securities market qualified airlines, airports and modes of transport, resorts and comfortable hotels and travel and residence facilitations. Hence, absence of technological development results in a destroyed economic structure.

3.3. Financial Deficit

Large and continuous financial deficit leads to increased burden of external borrowing (installments and interests), especially in the light of the increased size of debt on the one hand and the raise of the prices of interest on the other hand. This causes severe financial weakness to the government that reaches the dangerous degree to the Iraqi economy. What helped in the accumulation of the deficit weak productive expense in investment and or economic plans. Usually most of the expense goes for consumption and services reasons. Once Iraq has followed the policy of economy openness which used a liberal policy like decreasing the strict limits imposed on exchange and maybe removing them completely and falling in dumping and indebtedness policy what resulted in weak domestic product and then continuous decreasing levels of saving and local investment under the desired levels, what is attributed to weak product growth, inflation and higher prices. Thus, financial deficit in Iraq was created by inconsistency between the economic foundation in Iraq and the nature of the economic openness.

4. Chapter Three: Inherited Problems of Previous Phases and Accumulated Collapses in the Economic Openness

The developmental failure in Iraq has not happened in a specific phase but it's a sequence of failures and the loss of effecting powers to dealing with all these political and economic consequences along the past years. In addition, the disturbed openness on market economy which is considered the approach of the current economic policy imposed on Iraq by the financial institutions (International Monetary and World Bank and the Global Commerce). Poor private sector and limited necessary resources of manpower led to obstruct the developmental process in Iraq.

4.1. High Rates of Unemployment

Unemployment is one of the most dangerous problems that the Iraqi economy face for the economic, social and political impacts it holds, add to that it is considered a waste of human beings and it expects a problem in the social and political order because it indicates that the state is unable to perform its tasks with its fragile foundation and its threatened sovereignty, and unemployment with such conditions forms a convenient environment for terrorism. This causes dangerous economic and social losses especially among young people because it prepares a fertile environment to grow crime, extremism, violence and unemployment which means inability to obtain revenues what results in low quality of life. The Central Organization of Statistics in cooperation with the United Nations Development Program had conducted survey on unemployment after 2003 as shown in table 2 where the rate of unemployment reached 28,1% of economically active population, as well as in 2004 it reached 26,80%. This increase was due to the discontinuation of most projects and factories, after deterioration in security and the unavailability of electricity power, and after taking the decision to dissolve the previous army and lay off hundreds of thousands of volunteers and officials in army, police and internal security forces, in addition, the continuous natural increase in manpower especially institutes and colleges graduates who don't find new work opportunities that can accommodate them, with the observation of the continuous case of keeping the employees in the institutions despite them being above the legal age. All of this has contributed to keeping unemployment in high level. In the period between 2008 – 2011 the rate amounted 15,34%, 14,8% respectively, of total working power. Despite this low rate of unemployment of the working power, it is considered higher than population growth rate 3,2%, and simply, this will lead to make the problem worse along with the economic recession that Iraq undergoes, increased violence and conflicts, discontinuation in state's facilities and deterioration in the facilities of private sector. In addition, boarders openness policy in the face of foreign commodities which help in the continuation of unemployment problem in Iraq.

Table-2. Unemployment rates in the Iraqi economy for different years

Years	2003	2004	2005	2006	2008	2011
Unemployment rate	28,1	26,80	17,97	17,50	15,34	14,8

Source: Ministry of Planning, National Development Plan 2010-2014, part1 the document of the plan, Baghdad, 2009, p.6.

The Ministry of Planning, annual statistic group: 201-2011, p.53.

4.2. Poverty and Poor Revenues Distribution

Poverty has become an economic problem and a case that was reflected on the life of the society through poor growth level of economy and decline of different of development social indicators, because of weak government instruments, policies and programs in creating balance between spending on essential needs, health, education, activating economic activity and increasing growth and directing spending for maintaining the system especially what concerns army and security. In addition, the constraints imposed by the IMF and World Bank that increased poverty such like forcing the government to decrease public spending especially in areas of subsidies and support. That leads to increased poverty and the emerge of social and economic issues which will be a cause for crimes like begging and disintegration and that contribute to providing the necessary ground to forming armed groups. As was mentioned in the report of the Ministry of Planning about the line of poverty in Iraq in March 2009, that the individuals living under the poverty line are 23%, means those can't provide their basic food and non-food needs. This is reflected on the standard of living of the Iraqi individual and degree of poverty he lives such as the absence of so many of life requirements and basic services that directly affect his modern life. Economic openness policy, not taking studied steps and lacking of work opportunities caused development failure, widespread poverty and high rates of unemployment.

4.3. Increased Indebtedness

Development programs need large capitals; hence, countries seek leverage to fund their developmental programs. But Iraq seeks leverage to pay the costs of wars. Thus, Iraq's enigma is considered the most dangerous one that stands and obstacle in the face of development process. Although Iraq being the second country with oil reserves, it is still heavily indebted, and what helped in this is the political and economic conditions and the unstudied actions taken in the Iraqi economy.

The government resorting to external borrowing to fund the deficit has led to the accumulation of debts which left negative impacts on the economic development through the raise of cost interests on the external borrowing to practice its effects on the currency and thus on the exchange.

World Bank described Iraq as being among those States with high debts. Some of its debts are declared according to Iraqi sources are about 65 billion dollars. But the World Bank and Bank of international Settlements are estimating them by 127 billion dollars that Iraq deals with, including 40 billion dollars to European countries and 35 billion dollars of debts to Gulf and there's no accurate information about the remaining. They are, no doubt, large debts that lower the political and economic significance of the country, limit its international potentials and indicate to the burdens in payments budget and well-being levels of the individuals as it constitute share of the Iraqi individual of the GDP which is about 15-20 times. What, certainly, in case of not paying those debts will cause significant obstacle in the process of the development.

5. Chapter Four

5.1. Developmental Crises and Economic Openness in Iraq

5.1.1. First: The Economic Openness and its Role in the Developmental Crises in Iraq

- 1- The developmental failure in Iraq has not occur in a specific phase but it's a series of failures and the loss of effecting powers to dealing with all these political and economic consequences and the unplanned openness on market economy which is the approach of the current economic policy imposed on Iraq by international financial institutions (International Monetary and World Bank and the Global Commerce).
- 2- Iraqi economy is characterized by being fragile that lacks basic and strong foundations thus, it fell victim to the economic openness. The huge gap between poor domestic savings and ambitious developmental programs had left it again compelled to go for external borrowing.
- 3- The complete liberation of trade had the role in letting large percentages of domestic saving flow abroad through foreign trade channels what reflected negatively on the domestic product, because of what the economy faces from dumping markets with all kinds of industrial and agricultural items without any controls even the healthy ones and with a low price. That was reflected on the national local industry (private and public sectors), and these sectors became weak and fragile what led to filtering the productive capacities against the imported products.
- 4- Transformation actions in market economy in Iraq have contributed to enhancing the economic openness because they do not have the complete support and they lack good planning, which encouraged corruptors on playing with the public spending and form wealth in the hands of minorities. That led to increased inherited problems, increased unemployment and spread of poverty.
- 5- The absence of clear vision and strategy between the economic openness and economic and social developmental process. Most of projects were exchanged which are irrelevant to achieving economic and social development. In addition, the express weakness in the financial legislation performance, developing tax system and financial institutions, banks on the top of them and the instability of national currency value.

5.2. Second: Visions and Treatments

- 1- The economic openness is necessary for the economic development and boundaries and controls must be set to advance the Iraqi economy and move away from all negatives that face it.
- 2- Economic openness is a double-edged sword. Its negative and positive effects depend on how to benefit from the development of a comprehensive civilizational strategy aimed at supporting the internal capabilities of the economy, as some developed countries have been able to build a strong economy due to economic openness.
- 3 – Today, these conditions make the Iraqi economy the most economies of the world need to plan for coordination between its sectors to take the course of development and the restoration of the process of economic balance.
- 4- Improving the efficiency of government agencies, enhancing the efficiency of the private sector and carrying out structural reforms to regulate the public administration and reconsider salaries and wages of all employees and linking them to production, ensuring the minimum living for all segments of society.
- 5- Any attempt to think about proposed mechanisms of action to promote the developmental reality of this economy requires understanding and comprehension of variables and harnessing them towards the development of future scenarios for development in Iraq.

6. Conclusions and Recommendations

6.1. First: Conclusions

1. Economic openness is a major obstacle to economic development because of the direct and negative impact of investment, as well as the country's distortion of spending and the reduction of state revenues, as well as the delay of approved projects.
- 2 - The state has not yet established serious mechanisms to solve the problems facing it, but all that happening is attempts to deal with problems temporarily without going to the causes of the problem to deal with them and develop solutions to them.

3. The decline in the contribution of the economic sectors such as the agricultural and industrial sectors to the gross domestic product, as well as the clear deterioration of all services (municipal, health, education, electricity, water, etc.).

Recommendations

- 1- Developing a comprehensive national development strategy for the Iraqi national economy, including attention to the work of sober institutions that would enhance the productive capacities, quality and competitiveness of all productive, constructive and service sectors and increase their participation in GDP.
- 2- Oil is a great resource, but it is vulnerable to depletion. Hence, this important wealth must be considered.
- 3- With the economy inability to generate new jobs in the public and private sectors, the government should increase its interest in promoting local production, job creation and skills enhancement for workers.

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