UNDERSTANDING IRAQI ECONOMY THROUGH SOME PERFORMANCE INDICATORS FROM 1990-2019

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ABSTRACT

Oil sector has a big contribution in the national income comparing to the Agricultural sector. The most important findings of this paper is that there is a positive relation between growth rates in the industrial sector and those rates in GDP. This relation is consistent with economic theory, which assumes that any change in the industrial sector can lead to a change in National Income. The study also found that, through the study period, there is volatility in the contribution rate of oil sector due to the economic and security concerns. The rest of the sectors recorded a decent amount of contribution in GDP. However, reasons behind drawback in the contributions of these sectors in some years addressed thoroughly in the paper.

Keywords: Funded Economics, Financial Surpluses, Diverse Strategy, Economics

INTRODUCTION

Economies with multiple source of income have a better economic performance rather than those economics with unilateral source of income. This was crystal clear after the sequence volatility that is consistent with oil prices. This price volatility has some spill overs on oil-dependent economies. Performance of the later economies will be suffering from distortions comparing with countries with multiple source of funding. These distortions are not really connected to the availability of resources. Performance between many competing countries is varying. Yet, in many cases, availability of resources is considered as the main source of failure in these countries.

With the significance of a multiple source funded economics, we would find that most countries are trying to make this dream come true. It is well known that income stability is well connected with the volatility in oil prices. Countries with this “volatility” must follow policies and strategies to get to the point of diversifying its economy. Example of these polices would be targeting restructuring the economy, raising the contribution of other sectors in GDP, and managing the financial surpluses. Reaching a diverse economy can be achieved by activating the tools of economic and tax policy. The goal of the latter policy is making a balance between different economic sectors. This balance would be consistent with the general economic policy of the nation. Iraqi economy, like the similar economies, is suffering from distortion in its structure. This results from the sovereignty of the oil sector in its contribution in forming National Income.

PROBLEM STATEMENT OF THE STUDY

This study is trying to answer the following question:

To what extent do the economic sectors contribute to the national income?

To answer this question, we suggested that we break down the latter question to a subsequent question as follows:

1. What is the meaning of the national income? How can we measure it?

2. What are the polices that Iraq follows in order to diverse its economy?
3. What are the Iraqi economic policies that need to be used to drive investments toward non-oil sectors?

Significance of the Study

This raise from many considerations. Most importantly, the role the diverse economy plays in choosing best alternative to mitigate the negative effect of volatility in the price of oil globally. So, getting a diverse economy is a necessity to get rid of the dependency on oil. Also, in order to get to the point of diverse economy, we need to find the most suitable polices to reach diversity.

Goals of the Study

1. Assessing the former Iraqi economic policies.
2. Characterizing the different economic policies related to applying a diverse strategy in the Iraqi economy.
3. Knowing the aims of the current economic policies in Iraq and its contribution in the Iraqi National income.

METHODOLOGY OF THE STUDY

1. Descriptive approach when discussing the descriptive issues of the studied subject.
2. Analysing approach when listing the current diversity in the Iraqi economy and when analyzing economic policies in Iraq.

Analyzing Some Indicators in the Iraqi Economy from 1990 to 2019

From 1991 until 2003, Iraqi suffers from an exhausting embargo. This embargo was acting like a constraint for the Iraqi financial capabilities. In order to lower the pressure of this embargo, decision makers were trying to lower the dependence on oil (Ali, 2013). This embargo put Iraq on shock due to the high prices and low production. In addition, inflation gap was getting bigger due to the wars that Iraq practiced in the past years. All of these were affecting the Macroeconomic function. Another consequence of this embargo was stopping the oil exports and oil revenue and making Iraq an import dependent country, which distorted the trade balance (Al-Jabri, 1995). This last consequence, exhausted the stock of dollars that Iraq has (Al-Mamouri, 2007). Also, some Iraqi accounts overseas were frozen making it so hard to face the governmental expenditure. When the governmental expenditure effected, the government was not able even to import medicine and food. The government made a very danger step which is typing more Iraqi currency leading prices to increase and lower the exchange rate of the Dinar comparing to the US dollar.

The amount of production in the economy and its growth rate is one of the important indicators in knowing how healthy our economy is. Based on that, we can understand the economic growth in Iraq from 1990 to 2017 through the following indicators:

National Income and Per Capita Share

National Income (NI) is one of the most important indicators used in the economic analysis. NI can measure the efficiency of the economic performance and the growth in the level of income, where income is a measure of leisure for the population in the economy. NI is divided between services and oil extraction activity. Also, NI can give an indication of the status quo and its evolution, if any. Finally, per-capita share of NI representing an informative indicator on economic growth.

National Income and Per Capita Share from 1990 to 2003

Analyzing growth indicators in table 1 refer to the changes that occur on NI and per capita share of that income. Lowered indicators were due to the political and security situation in Iraq back then. After the invasion of Kuwait by Iraq in August 1990, a sanction was imposed on Iraq though a decision made by the Security Council (No. 661) which imposed an economic sanction on Iraq. This leads to destroying both the infrastructure of the country and the oil facilities by the air strikes of the coalition forces (Alwaeily, 2009).

Skimming over table 1, we would realize that values of NI in 1990 and 1991 are close (19140.8 ID and 29777.1 ID respectively) with 0.6% as an annual growth rate. Same consistency in numbers when we talk about the per capita NI. After 1991, NI started to heal to reach 539,297 ID in 1994. Per capita NI increased also.

Table 1
NATIONAL INCOME (NI) AND AVERAGE SHARE PER CAPITA OF NI IN IRAQ BASED ON FIXED PRICES (1990-2003) MILLION ID (1988=100)

Change Rate	Per Capita Share of NI (Thousand ID)	Change Rate	Gross NI	Years
--	1660.8	--	19025	1990
65.1-	579.9	0.6	19140.8	1991
28.9	747.5	110.8	40357	1992
26.7	947.4	170.7	109252	1993
1.1	957.9	393.62	539297	1994
0.5-	953	217.2	1710658	1995
7.9	1028.6	22.96	2103581	1996
16.2	1194.9	25.73	2644671	1997
31	1564.8	21.4	3211167	1998
14.2	1786.5	21.1	3888852	1999
1.6-	1758.6	0.11	4318186	2000
0.7-	1746.5	9.4	4727790	2001
9.6-	1578.1	10.9	5247290	2002
11.8-	1526.9	390.3	25728749	2003

In 1996, the UN allowed Iraq to sell its oil to import necessary goods by bill number (986) which was about Oil in response to food and medicine. Based on that bill. Iraq was allowed to import oil and gather the revenue for 6 months (about 2 million US dollars) to buy the necessary goods. In 1999, the UN stopped this bill with some restrictions on expenditure that discussed with the Iraqi side (Basem, 2013).

Going back to Table 1, a stable pattern of NI can be seen from 1996 to 1999 while the per capita share of NI increased slightly. Based on that, we can realize that the “oil for food and medicine program” came with positive effect.

In the period from 2000 to 2003, the country was suffering from almost a “destroyed” economy. By destroyed, we mean a zero trade activity except oil exporting. This may be due to the effect of the second Gulf war. This war inherits a poor economy due to the stoppage of oil imports since 1995. The war also made Iraq pay compensations to Kuwait estimated to reach 17 billion dollars. The loss in infrastructure due to the war reached 204 billion dollars. Talking of war, the first Gulf war cost Iraq another 452.6 billion dollars (Ikram, n.d).

National Income and Per Capita Share from 2004 to 2019

After Saddam regime, the Security Council came up with a bill numbered (1483) in 2003. Based on this bill, the sanction was removed from Iraq. Then, the government was then turned to the temporary council that faced many challenges. These challenges can be summarized in transitioning the economy from government dependency to the market based economy. Also, this council was trying to push the private sector toward investment. After a lot of hurtles, NI increased from 2004 to 2007 to reach (100,100,817) million ID by 2007. Same situation happened to per capita share of NI. This was due to the relief that happened to the security situation, oil revenue, and spikes in oil prices (from $55.6 in 2006 to $62.7 in 2007) (Oner, 2006).

Between 2008 and 2012, NI was increasing in an increasing rate from (147,641,254 ID) to (227,221,851 ID) in 2012. Per capita share of NI increased also from 2008-2012. These increments was mainly and solely due to the increasing in oil prices in 2012.

Table 2
NATIONAL INCOME (NI) AND AVERAGE SHARE PER CAPITA OF NI IN IRAQ BASED ON FIXED PRICES (2004-2019) MILLION ID (1988=100)

Change Rate	Per Capita Share of NI (Thousand ID)	Change Rate	Gross NI	Years
49.6	1533.1	62.4	41800135	2004
1.3	1553.4	57.14	65798567	2005
5.5	1639.1	29.8	85431539	2006
0.3-	1634.3	17.1	100100817	2007
3.5	1691.3	47.4	147641254	2008
2.2	1728.1	18.4-	120429277	2009
4.2	1800.4	21.6	146453469	2010
6.9	1924.5	31.2	192237070	2011
6.4	2047.2	18	227221851	2012
3	2109.4	7.1	243518659	2013
2.8-	2050	11.2	270836298.7	2014
2.6-	1995	31-	185550655	2015
5.5	2105	0.45	186397679	2016
0.9	2125	105-	183436678	2017
0.7	2140	18.7	217753766	2018
1.1	2165	3.1	224577435	2019

The period between 2013 and 2019 witnessed three challenges. The first one happened in 2014 when ISIS occupied three provinces. The second one took place when the oil barrel price felt below $50. The last one happened when Iraq parliament failed to approve the general budget. The year of 2014 was the worst year in the Iraqi Economic history. In this year, NI felt miserably from (243,518,658 ID) in 2013 to (185,550,654 ID) in 2015. Same fall happened to per capita share of NI from 2013 to 2015.

After this period and even with this hardship, NI increased again between 2017 and 2019 by 0.9%. Per capita share of NI increased also by 0.8%. These increments were due to increasing the production of oil by (19.2%) as stated in figure 4. Increasing the price of oil barrel is also recorded in this period. It was $49.3 in 2017 comparing to $36 in 2016 (Central Bank of Iraq, 2008).

Second: Indicator of Economic Sector Development and its Contribution in Forming Income

Structural changes in the economies of developing countries consider an indicator of deterioration in the economic performance for these countries. This is due to lack of efficiency on both political and economic level. National income structure considers one of the significant indicators representing a structural change in the national economy. This indicator depends mainly on producing row materials (*i.e.*, oil) which has a price stated globally. This indicator led to another changes representing not only dependency on foreign investments but also changes in the framework of the financial resources of the government. We can check the existence in the productive sector in the Iraqi economy through data in table 3 and 4. The industrial extraction sector represented by the oil sector occupying the biggest share forming NI. This contribution differs based production, prices, and imports.

Contribution of Economic Sectors in Forming Income from 1990 to 2003

Oil sector is one of the important economic sectors. This sector has big role in forming NI though the study period. This affected the Iraqi economy negatively. Between 1990 and 1994, the contribution of the oil sector in NI decreased drastically. It decreased from (55.1%) in 1991 to reach (23%) in 1994. This is due to the sanction imposed on Iraq. In 1997, the contribution of the oil sector increased due to the program of oil for food program. The contribution increased to reach (61%) in 1999.

Between 2000 and 2003, the contribution of oil sector decreased to (51%). This is due to shrinking production from (952 million barrel) in 2000 to (813 million barrel in 2002) (9). Agricultural sector plays a vital role due to the availability of natural resources. This might lead to achieve an economic development. This sector is suffering if we compare data starting from 1990 to 2003. As we can see in table 3, this sector was doing well between 1991 to 1994. This is due to the governmental role in changing ownership of agricultural facilities to private sector due to the low productivity (Central Bank of Iraq, 2009). This results in increasing the productivity of this sector to obey the incremental demand. The contribution of this sector during this period was (20.6%) on average.

Table 3
CONTRIBUTION OF SOME ECONOMIC SECTORS IN FORMING NI IN IRAQ FROM 1990 TO 2003

Services sector	Oil sector	Industrial sector	Agricultural sector	Years
27.9	55.1	5	12	1990
41	27	5	27	1991
40	31	4	25	1992
55	19	7	19	1993
50	23	7	20	1994
46	25	8	21	1995
46	25	8	21	1996
30	48	6	16	1997
22	60	5	13	1998
23	61	4	12	1999
24	61	4	11	2000
26	59	4	11	2001
27	55	4	14	2002
30	51	5	14	2003

Between 1995 to 1999, the contribution of this sector decreased to reach (16.6%) on average. This was due to the continuity of the sanction, lack of technology in agriculture, using old means in planting and irrigation, and lack of water. In the period between 2000 and 2003, the contribution of this sector was (12.5%) duo to the circumstances that the country faced. Examples of these circumstances are shrinking in the infrastructure, and lacking of power source (fuel and electricity).

Industrial sector in Iraq is suffering many problems caused a significant decreasing in the economic performance. These problems can be summarized by closing major factories, aging of the current technology, lacking of supply channels, following a dumping strategy of imports, lowering income of the majority of consumers, financial problem related to the banking sector, insecure environment, legislation problems, and lacking of strategic vision. All of the previous problems are more related to the industrial development and more compatible with the Iraqi current situation.

Going back to table 3, data related to the industrial sector showing a small and decreasing share in contribution to the NI. During the second Gulf War, the contribution of this sector was (5.6%) between 1990 to 1994. After that and due to the sanction imposed on Iraq, the contribution of this sector reached (4.2%) between 2000 to 2003 (Central Bank of Iraq, 2010).

Contribution of other sectors (*i.e.*, water, electricity, construction, transportation, real state) was (42.8%) between 1990 and 1994 to reach (33.4%) between 1995 and 1999 due to the sanction imposed on Iraq during this period. Between 200 and 2003, this share decreased again to reach (26.8%) due to the unstable security circumstances during this period.

Contribution of Economic Sectors in Forming Income from 2004 to 2019

The contribution of this sector continues to decrease. Data in table 4 showing that the contribution of the oil sector in NI reached (43.5%) between 2004 and 2007. This share decreased slightly again between 2008 and 2012 due to the national financial crises in 2008. During this crises, oil prices decreased by (33%) in 2009 comparing to 2008 (Central Bank of Iraq, 2013). Between 2013 and 2017, the share of this sector reached (37.4%). This is due to low production level and prices in 2013, ISIS invasion in 2014, low oil price worldwide.

Table 4
CONTRIBUTION OF SOME ECONOMIC SECTORS IN FORMING NI IN IRAQ FROM 2004 TO 2019 (%)

Services sector	Oil sector	Industrial sector	Agricultural sector	Years
39	48	2	11	2004
42	42	2	14	2005
44	41	2	13	2006
46	43	2	9	2007
45	45	2	8	2008
46	44	3	7	2009
48	42	3	7	2010
47	43	3	7	2011
47	43	3	7	2012
48	42	3	7	2013
46	44	3	7	2014
59	33	3	5	2015
62.3	30.4	2.2	5.1	2016
56.7	37.8	2.3	3	2017
50	42	3	5	2018
54.7	37.5	3	7	2019

Agricultural sector share continue to deteriorate after 2003 due to the lack of financial support, low governmental support, lack of water, low rainfalls, sever dust storms, high salinity level, dumping the market imports, and bad environmental factors especially in 2008 (Central Bank of Iraq, 2014). Between 2004 and 2007, the contribution of this sector decreased from (11.8%) to reach (5.4%) between 2013 and 2017 due to the same previously mentioned circumstances. The contribution of the industrial sector in NI decreased also to reach (2%) from 2004 to 2007 due to the semi stop on the biggest production projects. However, between 2008 and 2012, this share increased slightly to reach (2.8%). This increment was due to increasing productivity of some industries belongs to the government. These industries faced many challenges such as lack of electricity, high production cost. Sectors that overcome these challenges are some electrical, cement, and bricks industries (Central Bank of Iraq, 2017).

Between 2013 and 2017, contribution of this sector decreased to reach (2.7%). This decreasing was due to the lack of security the country witnessed during this period. Other sectors witnessed an improvement. Their share in NI increased from (42.8%) from 2004 to 2007 to reach (46.6%) between 2008-2012. This is duo to the relief that security situation experienced after 2008 especially in real estate sector. For the electricity sector, new generator units were added. Based on that, their overall share in NI increased to reach (54.4%) between 2013 and 2017 (Central Bank of Iraq, 2004).

CONCLUSIONS

1. National Income (NI) depends in a large extent on oil. Since the oil revenue in the coming years will decrease in the coming years, the NI will decrease also.
2. Revenue of the agricultural, industrial, and services sectors before 2003 was contributing significantly in NI. After 2003, oil sector occupied the biggest share that reached (90%) comparing to the other sectors.
3. Data gathered showed that revenues of the agricultural, industrial, and services sectors contribute only (15%) comparing to the oil sector.

RECOMMENDATIONS

1. Decreasing oil revenue in the coming years obligates the government to pay more attention to find new sources to fund the budget.
2. It is very important to put a new strategy to develop the agricultural, industrial, and services sectors.
3. It is very important to follow a long run strategy for the economy taking into account the diverse strategy.

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