

## **Political instability and its impact on economic development in Iraq after 2003**

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### **Abstract**

Political stability is one of the important indicators for the realization of economic development and prosperity in all governments. In the case of Iraq, it is concluded that political stability has a decisive role in forming the government's economic policies, and during the period of political instability, there were negative effects on Iraq's economic policy. This research, with a historical review method, aims to investigate the political effects and successive crises that came to the country of Iraq. One of the results of this research is that by making hasty and temporary decisions, the failure of Iraq's development plans continued and the development that was based on national political principles caused Iraq to enter into successive wars and destroy Iraqi infrastructure and disrupt. The production process and the increase in unemployment rate and the spread of poverty in all strata of

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the society, which made the deterioration of security in Iraq a problem; Therefore, after 2003, Iraq's economy followed a Venezuelan erosion process, which led to the paralysis of economic joints and disturbance in the general life process of different sections of the society. The important point was the weakness of the Iraqi economy, which did not respond to the ambitions of the governments that were elected through economic rationing, and this shows that political instability plays a role in shaking the foundations of macroeconomic policies.

**Keywords:** Iraq's political instability, Iraq's economic development, macroeconomic policies, economic rationing

### **Introduction**

At the beginning of the political changes that came to the political process in Iraq after 2003, the economic development followed a fateful process that was worse than the previous years. If the former regime relied on oil wealth for economic progress in order to solve the problem of its lack of legitimacy, in the shadow of the new regime, it seemed that the issue of legitimacy was obvious and they chose the political process as a tool to manage the government. As a result, the issue of development was summed up in the shadow of the general framework of services, and after other issues dominated this scenario, this issue was not prioritized in the new political environment<sup>1</sup>.

In another sense, the development was like a program designed based on a clear time frame, the purpose of which was to change the social and economic reality, which is considered one of the high policies of the central government, and the priority interests of security, which is a large part of the government's budget during In the past years, it was considered an erosion process; While the credits

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<sup>1</sup> Abdul Moneim, Wasan Ehsan. **Iraqi Economy (Reality and Problems and Solutions**, Baghdad, Journal of Political Affairs.2009, p.171

allocated for economic development in this budget were weak and were not able to meet the real needs of people<sup>2</sup>.

In this discussion, we will discuss the most obvious problems that stand in the way of economic development projects, and the factor of political instability has the greatest effect in stopping the development process and its stagnation process. In this discussion, we tried to prove that the factor of instability has a major effect on the disruption and delay of economic development projects and programs in all its fields and levels, through the first two topics, political effects on political instability. Security demand has become the most essential needs of the countrymen. The government has become dependent on its ability to create a more secure environment in order to prove its legitimacy, which in turn represents a delay in the development and implementation process. Based on this, the results of political instability, in turn, show new inputs for this phenomenon, based on the feedback formula.

*a) The phenomenon of political instability in Iraq*

After 2003, Iraq has seen instability in many fields; the most obvious of these fields is the political field. One of the most important reasons for the state of instability in Iraq is the political reasons that the primary responsibility for restoring Iraq's stability in all fields is the political currents involved and the role of the national society in question. The changes that took place in Iraq at the beginning of the 21st century caused happened that the situation in Iraq changed through democratic changes and through the plurality of political

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<sup>2</sup> Al-Azzawi, Saadi Karim. **The American occupation and the state-building crisis**, footprints of chaos: the legacy of the American occupation in Iraq, Hammurabi Center for Research and Strategic Studies, Baghdad. 2013.P 22.

parties and currents and the election of the parliament, which had a great impact on the political stability in Iraq until this change or faced many problems that caused the system government and some forces of human society<sup>3</sup>

*b) Lack of security stability*

Since the establishment of modern Iraq, in 1921 until 2003, Iraq has constantly used the central system in contemporary history and in later times relied on the sectarian quota system. The Governor General of the United States, Bill Bremer, established the Judicial Council in 2003 in order to expand the operation of the system to other regions.

The central system was applied in the history of contemporary Iraq from the establishment of the new Iraqi government in 1921 to 2003, and followed the functioning of the sectarian quota system with the formation of an arbitration council by the American governor, Ambassador (Paul Brymer) in 2003, who established this system. Expanded in other sectors. According to the opinion of Dr. Kamal Basri, an economic consultant, the application of sectarian quotas led to the lack of sovereignty over scientific and professional qualifications. In this way, the government became more dependent and dependent on foreign companies in the field of investment in the transformation of production operations, and this created a permanent conflict between the demands of dependent instruments and the requirements of fair practices; In this way, the dependence of

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<sup>3</sup> Heibati, R.; Shajari, H., & Samadi, S. **Measuring uncertainty in macroeconomics**, Journal of Monetary and Banking Research, 9(28),2016.pp 223-250. (in Persian)

rationing in strategic affairs was not in favor of increasing the performance necessary to celebrate imports, especially oil imports<sup>4</sup>.

Therefore, terror is a great challenge for the implementation of all economic sectors and the violation of many rights. The years after the change of the political system in 2003 were among the most violent years for violation of international law and human rights; especially the right to life is considered for many women, children, adults and disabled people. Therefore, the violence applied from the point of view of the terrorist groups is aimed at creating an Iraq that led to the corridors and behind the scenes of backwardness and darkness, which had a negative effect on the implementation of economic policies and, as a result, a negative effect on economic growth in Iraq.

*c) The influence of political and cultural factors on political instability*

The political factor plays a prominent role in determining the nature of decisions and its implementation on internal and external levels for the purpose of analyzing the role of the political factor in the structure of the macro-state policy and its justifications. This role depends on the role of the decision maker and the influence of his personality and ambitions in determining the nature of his decisions. Are these decisions rational or irrational? The level of stability of executive authorities reflects the level of people's loyalty to the political system. Negative or positive reflection on the nature of decisions made; In addition to the relationship between the three authorities (legislature, legislature and judiciary) and the degree of

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<sup>4</sup> Al-Nadawi, Khadir Abbas. **The challenges facing the draft of the new oil and gas law in Iraq**, Al-Qadisiya Journal of Administrative and Economic Sciences, Vol.2009.p13

separation between the three authorities and the nature of the stability of the legislative authorities during the completion of the legal term and the power to mobilize the resources needed by the society and the extent of the existence of political pluralism within the society. It gives the system more ability to establish its own system and this reflects the adoption and implementation of foreign political decisions and gives the government more ability to achieve its goals and support its interests.<sup>5</sup>

In 2003, the characteristics of the new stage in Iraq were revealed; especially in the political field, including the dangerous measures taken by the judicial governor "Bull Bremer" at that time, it was related to the dissolution of the army and security apparatuses and work organizations, and its effects are still standing. It can be said that the signs of the political system and its organs were defined during the Iraqi government management law for the transitional period that lasted until June 30, 2004 until the establishment of the elected Iraqi government based on the permanent constitution until 2005. One of the difficult tasks faced by the National Assembly, which led to the 2005 elections and was entrusted to the Constituents Association, was their attempt to write a draft constitution and sanction some election parties and deal with some unreasonable demands from It was the side of the Iraqi Kurds, which is defined as follows:

A: Iraq should be free and voluntary.

B-The Kurdish nation in Iraq has the right to determine its own destiny.

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<sup>5</sup> Salameh, Ghassan., **The State's Strength and Weaknesses, Debate in Arabic Political Culture**, Al-Mustaqbal Al-Arabi Magazine, Issue 99, Al-Wahda Al-Arabiya Studies Center, Beirut. 1997.P97

C- Relying on a federal union as a basis for the new Iraq.

D- Acknowledgment of the special status of Bishmarge and independence in the territories and non-submission to non-Kurdish authorities.

E- Non-intrusion of the Iraqi army into the territory of Kurdistan.

It seems that behind the organization that was represented in the Constituent Assembly, there is a sectarian, religious and ethnic background, and political and party interests, and an entity and climate that prevailed over the supreme national interests of Iraq, which had independent sovereignty; Why were they able to co-exist with the Iraqi government and align their views and focus on the homeland and the structure of the new Iraq? Especially since Iraq suffers from the fragility of its national unity; Perhaps, the initial foundation of dissociation was established.

Despite the continuous law of the Iraqi constitution in 2005, which was achieved by 78% of Iraqis' votes in the general referendum; But it led to problems and criticisms in this field, which provoked a number of constitutional law agents and political forces and approved its conditional call to amend some texts; But no reforms have been seen in this field so far.

One of the most important problems that characterizes the political performance in the political system is the political bodies in the country that do not rely on the hierarchy of the constitution. It is assumed that the Council of Ministers is subordinate to the implementation of government policy, in the event that real actions prove that the ministers are connected with party officials or groups, and the sectarian and military quotas ruling Iraq in 2003 brought them to power. The distribution of ministerial positions is possible only in the shadow of political agreements, and the prime minister does not

have the right to choose the ministers of his government or to dismiss them without the parliament.

This mainly led to the weak performance of the government and the lack of control of the government over its ministers in particular; Even in our foreign relations, we observe quotas in the selection of diplomatic representatives that appeared after 2003 when the diplomatic mission was approved. All these cases were through the dominance of the quota policy in the distribution of positions and power officials within the political system, which led to the weakening and disintegration of government bodies.

On the other hand, the occupation of Iraq by the Americans and the division of politics into several political approaches according to the organizations (Sunni, Shiite, Kurdish), with different goals and efforts, has caused contradictions in the points of view between the political forces in the leader of Iraq. Countries that did not want a powerful and influential Iraqi, turned to this deeply contradictory and divisive approach. These countries were probably not interested in the fall of the ruling system; Rather, they were satisfied with being fragile and weak, which is in harmony with their goals. The political change that Iraq witnessed was not in line with the American agenda of foreign military intervention. This revolution was created in many comparisons that were made between the Iraqi political system and its internal politics for several decades.

Political hoarding by a certain representative or a certain party did not disappear, the reorganization of political life was carried forward according to the legal framework of the constitution, as it reflected the political application of the liberal nature. Instead of consensual democracy as a product of sectarian and National, to solve the problems of the authorities and spread the waiver and protect the

peaceful coexistence, it leads to more differences between the political groups, which contributed to the expansion of stability in Iraq; As a result, it led to security deterioration; That is, one of the results of political instability was the inefficiency of the system. There is no doubt that these differences did not only lead to the problem of government performance; Rather, it paralyzed it to the point that many parliamentary laws were not carried out on the specified date; Perhaps the biggest result that came from the consensus formula was the paralysis of the power of the political system. The most important weaknesses that the political representatives or the ruler in Iraq suffer from include the following achievements:

- 1- Increasing and continuing political, sectarian and religious divisions between the elements of the ruling representatives, which reflected the confusion of the political and security situation and had a negative effect on the unity and confusion of the Iraqi government.
- 2- Weakness in the independence of internal and external political stability; Despite the American withdrawal, the influence of American stability on the approaches of the Iraqi government in political and economic fields is still visible, and the restriction of foreign movement is far from American interests.
- 3- The inability of the representatives of the Iraqi ruling elite to fill the strategic void in Iraq after 2003 and the inability to restore Iraq as a regional security center.
- 4- Confusion and lack of coordination between internal politics and foreign policy in Iraq, which was due to the distribution of political power between organizations that share power and the degree of total or partial communication on the commentators of the political stability of the region, which reflects the negative impact on the public policy of the government and is characteristic The instability

of the Iraqi political system is considered. In this way, the Iraqi arena has faced political challenges between political parties and organizations, which has had a great impact on the delay in economic development in Iraq.

## II. National security and macroeconomic political indicators

National security is considered one of the most valuable capitals of any country, and on this basis, the concept of national security for the nation-state has such high sanctity that it is necessary to mobilize all national goals and policies to achieve it. It is often thought that security within nations follows goals such as democracy and at the international level, goals such as peace. The current Republic of Iraq, with its ancient Sumerian name and civilizational background in the fifth millennium BC, can be considered one of the important countries of the West Asian regional security complex. After the American invasion of Iraq in March 2003 and its occupation, this country has witnessed extensive and deep changes in the political, economic, military and geopolitical dimensions. Among the developments that have taken place in the domestic arena is the formation of the official government in the form of federalism. In Primef's view, considering the diverse ethnic structure in Iraq, this type of government is the most ideal possible government in Iraq; But with a closer look, we will notice the complication of determining internal divisions as part of the challenge of this seemingly ideal type of governance<sup>6</sup>

What affects economic stability and political stability more is security stability. As security increases, political and economic life

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<sup>6</sup> Hamza, Karim Mohammad. **al-Harb al-Muhammadiyah and mechanisms of spread of chaos**, Al-Nahreen Magazine, No. 1, Al-Nahreen Center for Strategic Studies, Baghdad,2014. pp. 21-23.

flourishes. These triple factors are like an equation that shows the sides of a triangle that affect the other two sides. Meanwhile, if there is a disorder or weakness in one of them, the other two will face a disorder. With any accident or slippage in one of them, tremors occur in the remaining two (Haddad, 2012: 26). The International Fund pointed out the existence of security risks in 2013. What Iraq experienced in the fall of Mosul in the hands of terrorists in 2014 and the terrorist spread that covered a third of Iraq and 6 other capitals and removed them from the government's control, all these characteristics and criteria for the occurrence of risks that the fund He refers to it and describes it as high risk. And the most important effects of this fall in the financial field are as follows:

1- The collapse of the central bank branch in the northern region of Iraq by terrorists with all the cash, which was estimated to be around one billion dollars. Also, the collapse of 78 bank branches in the capital in provinces covered by terrorism; including the state bank, two banks, Rashid and Rafdin; Also, there were industrial and agricultural banks and real estate and many private banks, whose assets that were in the hands of terrorists were estimated at five billion dollars or more. Its importance was due to the fact that the residents of the capital were driven from it and migrated. From the helms that fell into the hands of terrorists, government employees in the public sector or in the private sector in particular became unemployed. Those who were displaced in small and large businesses; In addition to stopping agricultural, commercial, industrial and service work, they were dispersed and unemployed. Because people lost their savings in banks and all services and transactions were disrupted. An indicator of disruption in 1/3 of Iraq led to many problems in the society, which

affected the macroeconomic standards in the gross national product and the overall government budget.

2- The estimated financial costs on the economy in the communities in the areas under the control of the terrorists were different and the government cut the salaries of all employees and allowances of the residents in the occupied areas due to terrorist financing. The banking activities of individuals and companies in the occupied areas were suspended. It is clear here that all the financial cost estimates were not clear and accurate; especially the reports mentioned by the International Fund.

One-third of the population, one-third of the country's land area, and one-third of human production were disrupted, and most government infrastructures and offices, private and public factories and laboratories were destroyed; after that, the money was looted by the terrorists to support their activities. No report was mentioned in the 2014 International Conference on this matter; after that, the signs of this looting became clear in the fund's reports in 2015 and 2016. Its reports gradually changed; because a long time had passed since the crisis, and Sandaq ignored the weakness and failure of the Central Bank in applying its mandatory criteria and principles<sup>7</sup>.

3- The weakness and failure of the central bank in restructuring the state banking sectors; It was especially in emphasizing the type of ownership; Because state banks included most of the debts and assets of the banking sector.

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<sup>7</sup> Al-Zabidi, Abboud; Odeh, Mohammad). Strategic calendar of import permits for selected countries with special reference to Iraq during the period (1970-1990), unpublished master's thesis, College of Administration and Economics, Al-Mustansari University, 2015. p.174

There was no legal proof of return of ownership confirming the return of investment; Because they were not government companies or labor offices that needed to change their infrastructure to become government offices or companies; As a result, cash notes emphasized the transfer of property, so that banknotes emphasize the return of capital and banks can estimate the value of stolen funds. This made it easier for the company to revise its structure and benefit from the trust of the employees. The weakness and failure of the central bank in carrying out affairs and increasing private banking capital was resolved, and the problems that people faced and were suffering from related to the bank were resolved, and their trust was gained from family banks to the bank. Those who have the ability to recognize and separate ownership and management turned <sup>8</sup>

The central bank failed in creating an information system and transitioning to information technology and creating a set of techniques that would help in the transformation of the service reality, and after that, the performance of banks' communication with several networks in the field of receiving, payment, settlement and borrowing operations. And the admission discount through the internet network or through the mobile phone and other, was one of the modern innovations that facilitated people's work <sup>9</sup>

4- Private and government banks failed to win the trust of the society, including individuals, companies and economic institutions, and this was reflected in their national structure. They failed to create

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<sup>8</sup> Algebra, Dina Mohammad; Motlak, Dina Javad. Iraq and the regional environment between the matter of balance and the guarantee of the higher national interests, Journal of Political Science, Issue 47, Faculty of Political Science, University of Baghdad, 2022. p. 120

<sup>9</sup> Baker, S. R.; Bloom, N., & Davis, S. J. **Measuring economic policy uncertainty**. Chicago Booth Research 2016. pp, 13-20.

and implement the laws, and this led to an increase in exchange costs, and banks to the foreign exchange market; In particular, they became free markets, which used to sell currencies and structural networks through auctions; That is, banks turned from financial service intermediaries to currency sales markets and providing sufficient profit<sup>10</sup>

5- The Iraqi dinar rate management policies adopted by the central bank were able to stop the inflation and devaluation of the dinar and these policies were to protect some of the simple changes that occurred in the value of the currency; But with the emergence of markets, it became corrupt. At the beginning of these banks, there were some private banks that participated in the auction of currency increase in the central banks, and they were able to form channels to empty Iraq of foreign currencies, and when selling transactions in the local market, 10% profit. They applied a margin and were able to penetrate a relatively large volume of foreign currencies abroad under the pretext of covering import credits<sup>11</sup>.

6- The ratio of foreign currency sales to oil revenues was high; But on average it was more than 50%. That is, half of the currencies that enter Iraq were sold in public auctions. In the years 2014 to 2022, it reached a huge amount. As a result of the lack of liquidity of the Iraqi dinar, in the sense that these private banks are a channel for securing the liquidity of the Iraqi dinar and presenting it to the government, and in return, they took their dollars in the auction of the central bank<sup>12</sup>

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<sup>10</sup> the same,p24

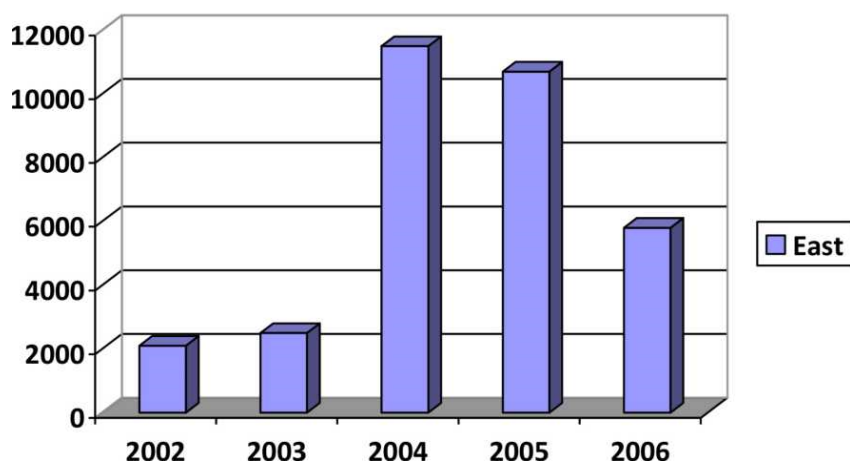
<sup>11</sup> Al-Dulaimi, Ahmad Sajar. **Iraq's Oil Policy (1963-1968), Al-Silsha al-Tarikhiya** 2), Dar al-Khaltura, Vol. 1, 2022. p. 207

<sup>12</sup> Ibid, p.24

### **III. The effective economic factors on the phenomenon of political instability**

#### ***a) Capital migration abroad***

Mainly, the unstable situation in the countries leads to the migration of national capitals to a safer place for investment and work. The neighboring countries, due to their close economic, cultural and social structure, are a close place for the two countries to invest. they go Iraqi capital spread to neighboring countries, especially Jordan, Syria, and Egypt, and due to the instability of the security and economic situation in Iraq, most companies used their funds in markets that were relatively safer, until an undeniable percentage of the total investment property was created in this country. It can be seen in chart number 2 the number of companies that had Iraqi capital in Jordan during the years (2003 to 2006).



**Chart No. 2: The number of companies that had Iraqi capital in Jordan from 2003 to 2006.**

Immigration has played a big role in enriching the Jordanian economy during 2005. Because with the migration of more than 50,000 Iraqi families in 2006, the percentage of Iraqi participation in companies decreased and this was due to the restrictions that were imposed upon Iraqi compatriots entering Jordan in order to intensify the security situation.<sup>13</sup>.

In this way, Iraqi funds to escape from violence had a clear effect on the economic cycle through the flow of funds in the Jordanian market, which was estimated to be worth two billion dollars. Iraqi refugees in Syria played a similar role at the same time; Because the International Monetary Fund emphasized that the influx of more than one million Iraqi refugees; Despite the pressure of democracy that entered the infrastructure and the reduction of oil production, they played a role in consolidating the economic recovery of Syria. The economic boom in Syria in 2004 gained a lot of motivation in benefiting from the Iraqi refugees and the abundance of liquidity in the Gulf region and the increase in the volume of private investments<sup>14</sup>.

***b) Weakness of national capital in development participation***

Perhaps the most obvious features of the Iraqi economy in the previous stage were the dominance of the government in the economic and financial sectors, the militarization of industry and trade, and the flow of large sums of money abroad for the continuation of wars and the astronomical increase in Iraqi debt. What happened to this

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<sup>13</sup> Amin, Sarmad Abdul Sattar. **A strategic vision in the reality of the Iraqi economy and its future**, Iraqi Studies Magazine, issue (6),2006. p. 129.

<sup>14</sup> Abdul Moneim, Wasan Ehsan. **Iraqi Economy (Reality and Problems and Solutions)**, Baghdad, Journal of Political Affairs,2009. p.171

economy since the attack on Kuwait was the all-out attack on Iraq and the blocking of foreign resources and the paralysis of the cycle of national industries, in addition to the destruction of Iraq's infrastructure.

After the fall of the previous regime in Iraq in Nissan 2003, the most horrific wave of looting and destruction of industrial, economic, financial, educational, cultural and military organs became common in Iraq. All forms of movable and fixed public capital; In addition to the chaotic security situation, the reduction of public services, the continuous increase in the prices of goods and services, the increase in the average inflation, the weakness of government administration, the spread of corruption, and the increase in unemployment spread <sup>15</sup>

They called for all these comprehensive and radical reforms and economic and administrative reform, which, at the top of them, is an attractive capitalist environment for capital and a gradual transformation towards a market economy and privatization of the public sector and activation of production and encouraging the private sector to participate effectively. It was in development and prosperity. The Privatization Commission is formed to implement economic reform programs for the purpose of national development technology by handing over the task of government management of the international economic system to the market economy <sup>16</sup>

The ease of commercial freedom and the law of importing oil derivatives from the private sector and increasing one degree for Iraqi

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<sup>15</sup> Al-Dara, Sabah. **Industrial Development in Iraq (Al-Quzat al-Khasa)**, Al-Nujum Press, Baghdad, 1968. p. 3.

<sup>16</sup>Salem, Emad Abdul Latif, (2001). **Al-Dawlah and the private sector in Iraq (Al-Adwar, al-Junqat, al-Siyasat 1921-1990)**, Bait al-Hikmah, Baghdad, Volume 1.2001.p36

contractors are considered as a step to support the participation in construction and reconstruction. Removing price restrictions and increasing the salaries of employees and retirees and implementing the social support system are among the effective steps of economic reform<sup>17</sup>. Market economy means the validity of the economic approach, which is reflected in the promotion of the role of the private sector in economic activity, and includes the ownership and management of economic facilities, and its management based on the market economy, with the aim of increasing economic efficiency and stimulating the private sector. It leads to the investment and encouragement of modern administrative and technical techniques of the country and the development of the national market.

The Iraqi economy is completely dependent on oil imports, and in the shadow of the ruined economy and broken infrastructure and complete backwardness in all life facilities and security situation, it never encourages private sector investments, and the investment law; Without serious performance in the stability of the country and the functioning of the law, it remains only in essence on paper<sup>18</sup>.

Reconstruction of the country requires massive financial flows and backward international assistance that covers a relatively poor percentage. The rest basically depends on the flow of private capital, which is considered a complex issue in the current situation. Just as the current situation in Iraq does not encourage many governments to make investment policies towards Iraq in order to select the most

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<sup>17</sup> Al-Dulaimi, Ahmad Sajar,p210

<sup>18</sup> Al-Nasrawi, Abbas, **the Iraqi economy between development and future expectations (1950-2010)** translated by Mohammad Saeed Abd al-Aziz, Dar al-Knouzaladabiyah, Beirut.2010. P. 98.

extensive conditions necessary for it. This means the stability of the political and security situation

The success of Iraq and the structure of political and economic stability and the encouragement of democracy and the existence of oil wealth are compatible with the existence of legal government; Even though the constitutional government has a clear strategic vision that only deals with the situation of Iraq and its economic and social potential and global developments, it is able to act in the form of a national strategy and effectively manage and regulate the national economy and create a space to attract investment. and to provide the financial assistance of the national private sector mainly in the gross national product and public capital, and to create a precise budget between the government's participation in oil interests and its elites on the growth operations and the provision of private sector facilities <sup>19</sup>

Based on this, one of the most obvious requirements of the structure of the Iraqi economy is to provide security and stability and complete the process of canceling Iraq's foreign debts and modernizing industrial and other commercial and tourist areas in most geographical areas according to scientific and practical ideas; In addition to customs barriers against the resources that are used in industrial and agricultural projects and facilitating the export of goods and domestically produced goods <sup>20</sup>

This means that the process of rebuilding the private sector to become a strategic participant in the Iraqi economy requires a lot of efforts in this field, first of all, the adoption of new laws and regulations that are compatible with the current Iraqi economic reality

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<sup>19</sup> Ibid. 95.

<sup>20</sup> Salem, Emad Abdul Latif. **Al-Dawlah and the private sector in Iraq (Al-Adwar, al-Junqat, al-Siyasat 1921-1990)**, Bait al-Hikmah, Baghdad, Volume 1.2001.p190

and in the holder of incentives for this sector; Especially in tax exemptions and removal of various restrictions on imports and domestic equipment in the production of goods and services.

*c) Absence of direct and indirect foreign investment*

After the major political changes that took place in 2003, which included the political changes in Iraq, attention was directed to the content of the economic changes that followed the political change in Iraq. The process of economic change in Iraq is summarized in the evolution of the free market system and obtaining economic plans and taking the necessary measures to join the World Trade Organization and the demands for the implementation of fundamental changes in the Iraqi economy.

This change calls for a review of many issues that are either undesirable or under severe limitations, which include the issue of privatization and the role of direct foreign investment in economic growth. In the past, like most advanced and Arab countries, Iraq mainly depended on the activities of the public sector as a stimulus for economic development and providing employment, and by giving a secondary role to the private sector, it limited its role in most cases and this led to It expanded the economic role of the government and included issues of production, distribution and pricing; While the private sector decreased to a great extent. Due to the ineffectiveness of the public sector on the one hand, weakness on the other hand, the exceptional economic situation that happened to the Iraqi economy during the 80's and 90's and the beginning of the new millennium, domestic and foreign debts accumulated and economic problems in a

different way. Negligible accumulated after the political transformation that Iraq witnessed<sup>21</sup>. Increasing production efficiency required new techniques and advanced production tools and conscious management. The need to change the perspective on the role that foreign direct investment plays in the economy, from the point of view of suspicion, depends on encouraging and imposing restrictions on the freedom of these activities so that the advanced policies of the government on increasing foreign direct investment can be realized with its desired goals .

It is necessary that a part of the government's general economic policy determines the necessary strategy for the financial sectors necessary to implement that strategy, which includes the role of the government's policy in foreign direct investment; Either in terms of the type or volume or the sectors that should be invested in, or the sectors that have priority in the flow of foreign direct investment. It is worth mentioning that opening up policies towards foreign direct capital is not considered a goal in itself; rather, it is considered a tool to achieve economic goals that local resources in terms of finance, technology and management are not able to realize.

Considering the policies to support the flow of foreign direct capital, which is costly for the national economy, it is necessary that the final positive result from the flow of direct foreign capital is greater than the loss that is imposed on the public treasury of the government and leads to tax or customs exemption. And be supported by the government (same source: 36). The Iraqi government policy in attracting foreign direct capital should be characterized by flexibility against the economic and financial conditions and technical

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<sup>21</sup> Al-Zabidi, Abboud; Odeh, Mohammad:p198

techniques available in that period; although this little or part of these conditions will change.

*d) Administrative and financial corruption*

The problem of corruption is one of the most important challenges to the basic assumption that the Iraqi economy suffers from security. This problem prevents economic progress in Iraq; Because of the weakness and collapse of government legal institutions and the disintegration and losses that prevailed in the country due to the occupation; also, the power of the parties led to the provision of a suitable environment for the spread of corruption in various fields. Corruption was not the specialty of rulers and ministers and high-ranking government employees; Rather, it included all the elements of administrative, judicial and educational institutions and production and service departments and institutions in the capital city of Baghdad and the rest of the provinces <sup>22</sup>

The state of the spread of parties goes back to the expansion of the influence of some high-ranking people. The phenomenon of administrative and financial corruption was much more serious and bigger than terrorist operations in negatively affecting the society. This is what put Iraq in the first place in the field of corruption in the international transparency report. The multiplicity of management corruption as well as financial corruption led to the absence of officials who did not have the ability to manage the economic crisis and manage economic institutions in a professional manner, and this had a negative impact on the economy in all its forms <sup>23</sup>

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<sup>22</sup> Haseeb, Khairuddin. **Contribution of workers in administration in the Arab world, a comparative study**, Dar al-Tali'a, Beirut, 1971. p. 144

<sup>23</sup> Algebra, Dina Mohammad; Motlak, Dina Javad,p125

Corruption in its simplest sense is holding a public office for personal gain and it was included in the list of corruption, bribery, embezzlement, taking advantage of party influence and assassination. Although the phenomenon of corruption in Iraq goes back to the previous regime, which spread after 2003; According to Stuart Boyne, the special inspector in the Iraqi reconstruction operation mentioned earlier, the interim authorities who ruled Iraq for more than a year were involved in corruption activities and these officials wasted 8.8 billion dollars of Iraq's oil capital. They said that they were spent in the form of revenues and legal and capital expenses and reconstruction projects during our period between 2003 and 2004. Corruption networks were associated with weak managerial concentration of power and the interference of different parties with government departments and weak financial and political supervision, which led to something like a political mafia.

Administrative and financial corruption in this way did not lead to the problem of economic development operations; rather, it helped to provide terrorist operations; because many activities and operations that were carried out under the leadership of armed groups relied on the continuous supply of sources of financial corruption. According to what was issued in the report of the American Embassy in Baghdad at the end of September 2007, "Stuart Bowen" emphasized in 2006 that the corruption that Iraq suffered annually worth 4 billion dollars, shows the size of the gross national product and the provision of armed operations. ; It especially included corruption in the oil sector; because the oil smuggling, which some Iraqi officials were involved in, supported the militias with about 100 million dollars annually.

The size of the annual government budget increased along with employment and investment; but by comparing the accounts and the

executive inspection of the program, it shows the non-implementation of these plans in reality, that with the implementation of the project, about 25% of it reached the implementation stage and the rest of the project was completely lost. Despite the budget deficit during these years, it was observed that the reason for the decrease in oil prices has led to a large financial surplus between 2004 and 2010, which could have been used in several areas away from corruption cases. These plagues are among the types and forms of corruption in the Iraqi economy as a rent-seeking economy<sup>24</sup>

*e) Structural defects in the Iraqi economy*

Since 2003, the economy in Iraq has been suffering from many recessions. In addition to that, inflation was facing many problems at that time, the basic structural problems after the battle with ISIS caused a lot of damage to Iraq's infrastructure and caused a lot of damage to the production structure, doubling these problems. And unfortunately, these problems continue until now. Disruptions in Iraq's structure are due to the country's reliance on oil imports. And these imports depend on the two movements of focusing on the foreign and domestic budgets and are caused by the control of the crude oil sector on the basic contribution to the gross national income and the impact on other economic developments, all of which are related to the reduction in the rest of the production sectors, especially It relies on the agricultural, industrial and commercial sectors<sup>25</sup>

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<sup>24</sup> Al-Nadawi, Hamid Nafal, . **The American strategy in Iraq**, Al-Majl al-Saliyah al-Dawliyya, No. 6, Al-Mustansiriyah University,2006. p. 90

<sup>25</sup> Hassan, Muhammad Salman, **How to distribute Iraqi oil**, Dar al-Tali'a, Beirut, 2019.p. 20.

These challenges increased widely after the significant increase in oil revenues and surplus revenues in oil production, and these revenues were used in some illegal transactions, suspicious weapons plans; In addition to security transactions or suspicious services were used; Without making real efforts to use these revenues to increase production in non-oil sectors and increase investment in this matter, it will create many opportunities in production and imbalance in the phenomenon of structural disorders.

***f) Disturbance in the relationship between investment costs and the conditions of the government's general budget***

Iraqi governments considered the process of relating investment costs to the increase of oil revenues, without taking into account the ability of economic capacity or the amount of energy available to humans and specific technology.

What justified the investment plans in all economic activities was a variable thing according to the conditions of the government's general budget; Because the government budget had a variable role and followed the oil revenues; For example, when there was a deficit in the government budget, as a result, the yield of oil, whose priority was to respond to the requirements of the current part and cover its costs, led to the cost of sacrificing the investment part. It seemed in most cases, this was a normal stage of progress in Iraq and to achieve the highest possible amount of oil income, without a practical and clear logical and economic strategy, and the result was that they failed to achieve the goals of optimal exploitation of the existing oil income.

*g) The failure of economic and strategic plans*

Research and analysis indicate that the Iraqi economic policy has played an extraordinary role in the imbalance in Iraq, in the industrial, agricultural, commercial, financial and monetary aspects, and this is due to the misuse of oil revenues and the results of the reduction of the level Production is in all its aspects; In this way, the diversity in the Iraqi economy decreased and the appearance of imbalance and economic deviation in Iraq increased. The biggest example for the resulting imbalance in the economic structure is the control of the oil sector, which follows the decline of other sectors such as the water and electricity sectors, and the industrial, agricultural and commercial sectors

In addition to that, the decrease in the rate of dinar increased in an increasing way and the massive disruption it brought to the tax system had a negative effect on the prices and increased the price of the currency in a wide way and the disruption in the organization and brought coordination between different political policies. All these factors resulted in the maldistribution of national income and national wealth. This leads us to the fact that most of these policies failed in all production sectors and this failure manifests obvious signs:

A- The failure of agricultural development programs reflected a large decrease in the participation of agricultural production in the gross national product. The decrease in plant or animal crop production caused Iraq to import more of its needs. This meant that after Iraq was an exporting country, it became a consuming and importing country.

B- The failure of the industrial development program: after the major deterioration that the industrial sector witnessed and the major destruction that occurred in the industrial facilities and the

governments' inability to create a strong and healthy economic structure, all these cases contributed. It reduced the industry in the total national income and had a negative impact on the state of the economy.

C- The significant decrease in the national exchange rate and the failure of the free market increased prices and taxes and reduced service levels. Here, it is necessary to mention the economic impact of Iraq's attack on Iraq and its consequences on the Iraqi economy.

#### **IV. The economic impact of the American occupation**

Wars leave major effects in the countries where the war takes place. One of these cases was the war that occurred in Iraq, which led to a complete stop of development in this country and had negative consequences on the Iraqi economy. As Iraq relies on oil revenues to meet the financial needs of manufacturing industrial companies; But in the second part in 2003, the fight against terrorists in Iraq had negative results on the economy. Among these factors, we can mention the change in the agricultural situation after 2003, which resulted in the destruction of research centers and genetic banks and their production materials. Therefore, a quota was considered for qualified and experienced people in the field of agriculture, and all the above-mentioned cases led to the transformation of Iraq into a country that relies on food imports to meet food needs. The important point in this process was the planned policies that the United States of America followed in destroying the basic reactors and stealing its facilities to weaken and maintain American control. The most obvious actions of the United States in this regard are as follows:

A: The approval of Law No. 81, which prohibited farmers in Iraq from using local seeds produced in Iraq, because they were forced to

plant seeds of American origin; Despite the fact that farmers in Iraq planted 97% of domestically produced seeds. Because since the 80s of the last century, Iraq had a lot of seeds produced with premium quality that were obtained by the efforts of Iraqis and were lost due to the American occupation. As a result, the Iraqis lost a huge treasure that had taken a long time to collect (Al-Sayed Ali: 56).

According to the above explanations, it can be said that despite the fact that Iraq is in an almost suitable state of political, economic and social stability after 2010. This was clearly reflected in the increase in the volume of economic growth and the volume of foreign investments, the increase in job opportunities, the lack of unemployment, the increase in the public budget, and the increase in national income. In addition, the government paid a lot of attention to education, health and services in general; but it still suffers from some problems of the government policy which in turn affects the economic policy of the country. The security risks that this is related to the International Monetary Fund, which fell into the hands of terrorists with the fall of Mosul, which caused the collapse of the central bank in the northern region of Iraq, whose total liquidity was estimated at one billion dollars.

B- The second case is related to the central bank's inability to control inflation - after studying the executive measures of the central bank, we find that the central bank has been relatively successful in controlling the increase in inflation. If the political conditions were not an obstacle, the central bank's success in controlling the growth of this inflation would have been successful, and this was done between 2012-2015.

C- The third case was the lack of a system for the control of social benefits, which returned to the presidency, the Council of Ministers,

and the House of Representatives, by which social benefits for the presidency, the Council of Ministers, and the House of Representatives were canceled; However, a set of measures was given to count the credits given to the three directorates and its value recognition. It is explained here that the ratio of four to five percent of the public budget costs approximately in 2011 and 2012. 2013 is equivalent to the value of 5 billion dollars that is allocated to the three presidents.

On the one hand, there is a precise point of view to know the value of these credits and how to distribute them, the beneficiary institutions and the number of people who receive these assistances. This is one of the most dangerous issues in Iraq, because it leads to an imbalance in the distribution of national income to fellow Iraqis. Because the beneficiaries are a few who receive a high proportion of the income at the expense of other groups<sup>26</sup>

D- The government's inattention to investment projects in 2010 to 2022 proves that government officials were more important to operational aspects than investment aspects. Regarding operating expenses, it should be said that they are expenses that are spent on people and workers and include salaries and allowances. Operational costs and service equipment and maintenance requirements are placed in the first paragraph of the budget, and this equipment constitute about 600 billion dollars of the value of costs. These funds are allocated for obtaining services by workers and employees in Iraqi institutions, which at the same time is considered as the main driver of demand in Iraqi markets (Al-Bayati, 2022: 36). It can be said that a large part of these properties are transferred outside Iraq in the form of

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<sup>26</sup> Al-Azzawi, Saadi Karim.p24

foreign remittances. After that, it is taken out of Iraqi banks to be stored in institutions and banks outside Iraq. As a result of the deprivation of the Iraqi economy from these financial sums that go out through secret channels<sup>27</sup>.

E- The mismanagement of oil revenues led to the surprise of the compatriots with financial crises, and no change towards better public services and a decrease in the gross national product is felt for people and their living standards, and the level of poverty increased and the difference increased. It arose between people until they reached the distinction between the lifestyles between the governorates in the country. One of the most important difficulties and challenges that the Iraqi economy faced during these years was the complete reliance on oil, which is difficult to emphasize and continue in providing the income that Iraq has witnessed in the past years. And the reality of oil in the future is vague and ambiguous, and many economic studies show that oil as an important source of energy has decreased, and especially that alternative energies in the field of transportation have begun to increase and become electric forces. Until the modernized sources, they clearly increased. The price of oil decreased in the coming years and this led to accidents in the economic system in Iraq

Since the economy in Iraq, in general, is dependent on oil in terms of budget; why 50% of the national gross product was affected by oil; the drop in oil prices led to major incidents in Iraq, which in turn affected people's incomes. Among the risks and challenges that the economy in Iraq suffers from; The Iraqi rentier economy and the foreign world's view of the Iraqi economy and the reduction of the contribution of goods in the gross national product, which has reached

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<sup>27</sup> Algebra, Dina Mohammad; Motlak, Dina Javad,125

low levels. This is what explains Iraq's need to increase the level of imports to spread the increase in national demand after the increase in the amount of expenses in the public budget; An example is the increase in the level of imported content for the supply of goods in Iraqi markets; Although not close to the level of local content.

### **Conclusion**

Political influences and successive crises played a role in the ineffectiveness of all developmental programs that the Iraqi nation needed. The government continues to repeat these failures and increased the process of failure by taking urgent and temporary decisions. Development became a kind of fantasy in this country where the government did not focus on national political principles, but led to Iraq entering more than one war, so that the political and administrative stage led by the occupying forces and Iraqi governments after that, to ended

From its results, the semi-complete destruction of the infrastructure and disruption of production, high unemployment rate and the spread of poverty among the people of the society. Also, the deterioration of security that we witnessed in Iraq led to the paralysis of economic joints and disruption of public life in different regions of Iraq. The Iraqi economy was so weak that it could not meet the ambitions of Iraqi governments and organizations. By this means, we proved the hypothesis of the research that political instability, in addition to the weakening of macroeconomic policies, has a great effect on the delay of developmental programs.

The main and fundamental objective of cash government policy is the broad investigation of ongoing political stability. This is achieved through the reconstruction of the national currency, the Iraqi dinar,

and the continuation of measures to maintain the stability of the exchange rate and face financial inflation and its challenges, and the use of active and diverse economic programs and mechanisms with a set It is based on monetary policy letters with the aim of achieving what is called economic balance and stability. And this first requires a strategic situation and long-term economic plans that have clear goals and signs that have a real connection with the national and ethnic goals of sustainable development, realizing the aspirations of the Iraqi nation..

The most obvious goal of the Iraqi governments financial and cash policy is managed by strengthening reliance on the Iraqi national currency and by stabilizing the currency of the Iraqi dinar in the long term.

Thanks to its monetary and financial policies, the government was able to be a strong cover and support for the Iraqi dinar through the creation of a strategic reserve of gold and silver and foreign international currencies. And this was as a guarantee for the forces of stability and economic development, and this happened in a situation where oil exports affected the Iraqi economy during disasters or natural disasters, and the income increased from two billion dollars to more than 7 billion dollars. Give

What was of interest to the Central Bank of Iraq was the structural trend of the dinar and the Iraqi currency during the removal of three zeros from the value of the currency. The performance of the central bank in issuing different currencies was issued by the central bank for the total values and smaller and larger values, and its purpose was to reduce the large amount of money in the transaction process and reduce the cost of large transactions. In addition, it was the expansion of interaction in the current related accounts in the economy and the

creation of a final solution in standing against any crisis and sudden or slow inflation and price increase

However, the intervention of a number of individuals, groups and parties led to the doubling of these opportunities and solutions, which lost their effectiveness (Merza, D. T: 126). The value of the national currency has a strong relationship with the international economic force. For example, the economic power and dominance of the United States of America and the Euro took an international position, which was the result of the economic power of the European Union. All these cases do not contribute to the stability of the currency in the rise and fall of its rate; Rather, these cases depend on economic progress or external and internal variables

The Iraqi economy basically relies on the production of oil and oil derivatives, which form a powerful branch of the Iraqi budget, especially the dollar. The major reduction and emergence of Iraqi industrial and agricultural production sectors and the reduction of a large number of economic development projects, with the exception of trade and secondary activities, transforms the Iraqi society from a producer to a consumer.

In addition to that, economic projects that have become accustomed to consumerism in the process of transformation and have transformed the society from producer to consumer. In addition to the decrease in people's income, they have caused a great disturbance in Iraqi international relations, especially with neighboring Iraqi states. Automatic orientation towards imports and turning to foreign companies and events with the implementation of government projects is the achievement of this <sup>28</sup>

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<sup>28</sup> Hamza, Karim Mohammad, pp24-26

This follows the absence of an effective monitoring mechanism and accurate calculation and the emergence of signs that indicate the economic chaos that the Iraqi economy was suffering from, which did not achieve its desired goal by placing impromptu propaganda channels. reach; Rather, it will lead to an increase in problems and their increase, and these effects and factors caused the Iraqi currency to be affected by inflation and devaluation; Ala, despite the efforts made by cashier politicians, was exposed to negative external and internal influences

Some of the negative things that contributed to the decline of the Iraqi economy are as follows: 1- Decrease in exports and increase in imports in the deterioration of the Iraqi economy 2- Privatization of some sectors and weak capital plans of certain sectors 3- Lack of policies A new economy whose purpose was the general development of economic production sectors.

4-Relying on old methods to manage balance in foreign and domestic markets.

All these cases led to the loss of national wealth and hindering progress and growth. This calls us to the importance of the existence of new economic strategies and suitable conditions in Iraq; also, in the basic government departments, the existence of a suitable environment in security, political and social aspects are involved in this matter. Iraq continuously relies on the import of oil and directing many resources to the import of consumer goods, and the inflation process in the country was exposed to the negative effects of external factors affecting the stability of resources and goods, and the Iraqi economy is subject to increase and decrease under pressure. Was placed and this led to a decrease or increase in oil imports in Iraq and

a decrease or increase in consumption, service and production resources .

The increase in international oil prices increased oil imports; But at the same time, it led to the emptying of a huge amount of money in the import of goods that followed the growing needs of Iraq. In general, the increase in the price of goods that had the characteristics of international consumers accelerated the increase in the price of petroleum products; But in this situation, the price of oil resources decreased. And this was done due to the lack of Iraq's facilities in implementing foreign and domestic financial obligations. Where this happens, the monetary policy will be forced to drain the political reserves, which will be required to maintain the coverage of the national currency in the way of covering government revenues and market demand from foreign currency.

The right ideals and appropriate plans should be adopted in this field to serve the economic strategy. The most important one is:

- 1- Encouraging and attracting domestic and foreign investments
- 2- Development of infrastructure according to reality
- 3- Activation of the role of departments in different fields
- 4- Relying on the diversification of the economy by encouraging the recreational, industrial and agricultural sectors to activate the economy by reducing the pressure on the oil sector as the main pillar of the state economy.
- 5- Increasing the movement of transit and land transfer through Iraq to activate trade as the main current in the economy.
- 6- The importance of human resources, which should be used in a favorable way in the service of new economic policies.

It is worth mentioning that Iraq clearly needs developmental programs that can be implemented and followed up with social and

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economic criteria, and the determination of the role of the trusted government and economic missions and the role of specific sectors and the provision of a suitable environment for its performance. And prosperity and progress are important here. To ensure social prosperity and create social and economic stability, it is necessary to provide programs and policies and the balance of the main methods of monetary and financial policies in this field.