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INVESTING IN THE IRAQI ECONOMY: OPPORTUNITIES AND CHALLENGES

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ABSTRACT

Investment is one of the topics that received great attention because of its great role in achieving economic development, and for the importance of this role, there should be an appropriate climate for investment in order to be able to advance the economy and achieve high rates of economic growth. From this standpoint, the need for investment in the Iraqi economy was highlighted, based on the nature of the monolithic economy and the dilapidated infrastructure in addition to high unemployment rates and poor performance of basic sectors such as industry, agriculture ... etc., as well as studying the components of the Iraqi economy represented by the huge oil resources, fertile lands and the vast Iraqi market.

INTRODUCTION

Most countries seek to increase productive capacities in national economies, increase the added value, and employ manpower. Countries use several tools to achieve this, including investment, which is one of the factors affecting the development and growth of countries and plays a vital role in advancing economic development. It is an indication of the openness of the economy and its ability to dealing and adapting to global developments.

Since the Iraqi economy suffers from many imbalances and structural problems, such as its dependence on oil to finance the general budget, poor infrastructure, poor performance of the basic sectors of the economy such as agriculture and industry, and high unemployment rates, this matter requires work to encourage and stimulate investment, both domestic and foreign, by creating an investment climate that does not stands at the economic factors, but rather the security and political conditions.

Research hypothesis

The research is based on the hypothesis that "the Iraqi economy suffers from several problems that can be solved by providing an appropriate investment environment capable of attracting and attracting local and foreign investments."

Research motivation

The importance of research lies in the role of investment as it is the most important source of the economic development process for all countries, whether developed or developing, including Iraq, which is one of the country's most in need of investment, because it suffers from structural imbalances as a result of many reasons, including the conditions of war and sanctions as well as administrative and financial corruption and others.

Research aims

The research aims to achieve several goals, including:

1. Shedding light on the structural imbalances in the Iraqi economy.
2. Diagnosing the most important features of the Iraqi environment, which are attractive factors for investment.
3. Standing on the obstacles that lead to the reluctance of investors to invest in Iraq.
4. Suggesting some ways that would encourage both domestic and foreign investment in the Iraqi economy.

Research Structure

In order for the research to achieve its desired goals, the research was divided into the following sections:

The first theme: The reality of the Iraqi economy and the need for reform.

The second theme: The investment environment in Iraq (opportunities and obstacles).

The third theme: a strategy to encourage investment in the Iraqi economy.

The first theme: The reality of the Iraqi economy and the need for reform

The Iraqi economy was exposed to many problems in the period before 2003 and after it due to the political conditions that it passed through, which resulted in the destruction of vital infrastructure and facilities, as well as the increase in foreign debt and the economy's dependence on crude oil as a main source in financing the general budget, in addition to that. A number of problems that contributed to the slowdown in economic activity in Iraq, perhaps the most prominent of which are:

High unemployment rates

Since the mid-eighties of the last century, the Iraqi economy has been suffering from an increase in unemployment rates in all its forms, as the unemployment rate in 2003 was estimated at (28.10%), after which it decreased, recording a value of (10.82%) in 2016 (Central Bureau of Statistics and Research, 2017).

In spite of the decline in unemployment rates, the presence of underemployment will be added to unemployment rates to rise and become this problem among the problems that require effective solutions in the short and long term.

There are several reasons for unemployment in the Iraqi economy, perhaps the most important of which are:

A. Continuing public and private universities to provide the community with thousands of graduates of all qualifications and specializations without being matched by any demand on them from the local labor market (Al-Idrisi, Khoshnaw: 2012).

B. The weakness of the private sector with the state's inability to provide additional job opportunities due to the glut of companies and public sector departments. Most of the state's departments suffer from disguised unemployment due to the appointment of graduates for partisan considerations, which led to the accumulation of employees in various administrative fields.

C. One of the main reasons for the aggravation of the unemployment problem in Iraq is the population growth rate, which is one of the highest rates in the region, as the population in 2018 reached (38,124,000) people, while the population in 2008 was (31,895,000) million, with a growth rate of (19,5) %, And that the increase in population will be accompanied by an increase in the size and supply of the workforce in exchange for the limited demand for it.

D. As has previously been recognized by many at the highest levels of government, financial and institutional corruption is one of Iraq's main problems. Most prime ministers in Iraq, including Mr al-Kadhimi, have discussed the issue. The fundamental challenge to define the real extent of corruption persists in the study of the issue. Based on certain findings and metrics certain forms of corruption can be explained (Hassan, Basim Abd Al – Hade:2020).

E. The political economy will allow Iraq to consider the political settlement. We consider particular industries and instruments that can promote structural changes that the political establishment would not actively oppose and undermine. Paradoxically, while long-term political adjustment is necessary for sound economic policy to be maintained, this can be accomplished by concentrating on changes that only impact the long-term political balance (Hamilton, Alexander: 2020).

Decline in investment spending and imbalance in the structure of public revenues

Due to the political conditions that Iraq went through in the previous period, the course of government spending has changed in favor of current expenditures, especially military spending at the expense of productive sectors projects and infrastructure projects, as government spending for the year 2018 reached (80873189) million dinars and current expenditures amounted to (67052856) million Dinars, i.e. 82.91% of public expenditures, while investment expenditures recorded a value of (13820333) million dinars, and a percentage of (17.08%) of public expenditures. And that the decrease in these expenditures will have a negative impact on the Iraqi economy, being a positive impact and a condition of achieving economic growth. As for public revenues, they amounted to (106569834) million dinars, and oil revenues constituted a value of (95619820) million dinars, at a rate of (89.72%) of public revenues, while non-oil revenues were recorded about (10950014) million dinars, a rate of (1027) % Of public revenues, and that Iraq's dependence on oil exports mainly in financing the general budget will entail many risks due to the impact of global

oil prices by political and economic factors in the world, and the sabotage and disruption of pipelines and facilities to which the oil sector is exposed in Iraq in addition to administrative corruption And smuggling operations ... etc. (Shehab, 2019), therefore, it is necessary to diversify sources of income by encouraging investments in all productive sectors and reducing dependence on oil exports.

Decline in the performance of the main economic sectors

Iraq suffers from the deterioration of the basic sectors of the economy, and in the following we will shed light on some of these sectors and the deterioration and decline they have reached:

A. Agriculture sector

The reality of the agricultural sector in Iraq has been characterized by retreat and deterioration for many reasons that can be summarized as follows:

1. The decrease in water levels in the Tigris and Euphrates rivers due to Turkey and Iran constructing dams on the main sources and controlling them with water quotas, which greatly affected large areas of agricultural lands and made them vulnerable to salinity and desertification (Ridha, 2016).
2. Flooding the Iraqi market with imported crops, and the low demand for local crops, which inflicted many farmers with losses, which prompted them to leave the agricultural profession and move to other professions.
3. The absence of technological development and the use of traditional methods in agricultural techniques and scientific research, and this was reflected in the decline of the agricultural sector and its failure to keep pace with developments in the agricultural sectors of the Arab region and the world. Table 1 shows the gross domestic product according to the economic sectors, as the contribution of agriculture to the representation of the gross domestic product decreased, reaching (4.91%) in 2014 and (4.16%) in 2015, while a rate of (3.84%) was recorded in 2016, to decrease thereafter in 2017 (2.78%) and (1.92%) in 2018.

B. Industry sector

In Iraq, this sector suffers from many problems, represented by the destruction of industrial facilities, the closure of many factories, the lack of infrastructure, unrestrained import, and the weakness of the private sector.

Table 1 shows that the percentage of the manufacturing sector's contribution to the formation of the gross domestic product decreased (1.87%) in 2014 and increased to (2.16%) in 2015 and then (2.23%) in 2016 and (2, 58%) in 2017, to decrease thereafter in 2018, achieving a rate of (1.77%).

C. Electricity and water sector

The Iraqi economy suffers from a clear backwardness in infrastructure such as electric power services and the water network due to its impact on the wars that Iraq has gone through and what came with them.

From destruction and looting, as the electricity sector suffers from a lack of raw materials and necessary spare parts.

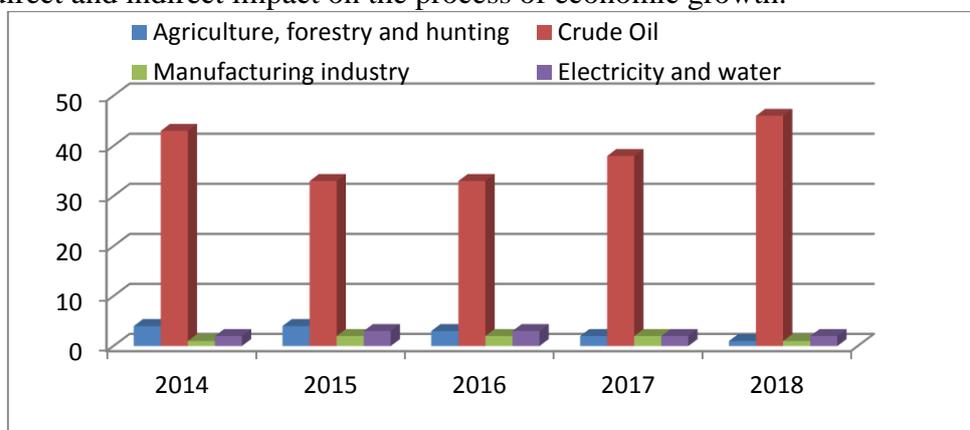
Table 1: The relative importance of economic activities to gross domestic product at current prices %.¹

Economic Activities	2014	2015	2016	2017	2018
Agriculture, forestry and hunting	4.91	4.16	3.84	2.78	1.92
Crude oil	43.72	33.23	33.91	38.77	46.33
Manufacturing	1.87	2.16	2.23	2.58	1.77
Electricity and water	2.19	3.02	3.25	2.84	2.89

For maintenance and services, in addition to the expansion of sabotage in electrical stations and towers and a slowdown in investment operations due to the spread of administrative corruption in the Ministry of Electricity, despite the increase in the amount of electricity produced, reaching (68688) kWh in 2015, rising in 2017 to (85508) kWh / Hour, but the percentage of household electrical energy consumption has increased from (44.7%) in 2015 until it reached (61.3%) in 2017 (www.cosit.gov.iq/ar/) and this increase was at a higher rate than energy productivity Electric power, which prompted individuals and productive projects to use electrical generators to obtain electrical energy, This means an increase in production costs for production projects, and with regard to the water network, its situation is not less bad than electric power, as the problem of water is not only in its quantity but in its quality, as we find that this water is characterized by high rates of pollution and salinity as a result of pouring sewage water into rivers without being completed Treatment, and that the water networks are old and not subject to maintenance or replacement, which increases their exposure to corrosion and water leakage(Al-Bayati, 2020).

As for the contribution of electric power and water network to the gross domestic product, it is noticed from the previous table that this percentage decreased, as it recorded a value of (3.25%) in 2016, which is the highest percentage in terms of the lowest percentage was (2.19%) in 2014.

These low rates indicate the government's inability to promote this vital facility, which requires encouraging local and foreign investments in this sector that has a direct and indirect impact on the process of economic growth.



¹ Source: Iraqi Ministry of Planning, Central Bureau of Statistics and Research, annual estimates of GDP and national income for different years.

Figure 1: The relative importance of economic activities to gross domestic product at current prices.

The second theme: The investment environment in Iraq (opportunities and obstacles)

This section includes two main points, the first is investment opportunities in the Iraqi economy, and the second is obstacles to investment in the Iraqi economy:

Investment opportunities in the Iraqi economy

Investment is attracted towards countries that give advantages that enable the investor to maximize his profits and reduce his costs. Perhaps Iraq has advantages that enable it to attract investments, the most prominent of which are:

Natural Resources

Iraq is characterized by the diversity of natural resources as it possesses many minerals such as sulfur, natural gas, phosphates, and oil, which ranks first in the list of Iraq's wealth, with proven reserves estimated at about (112) billion barrels, and Iraqi crude oil is characterized as the best types of oil in the world where production and refining costs are low. The lack of depth and the high productivity of the well compared to other countries, while arable lands constitute approximately one-third of the total area of Iraq, which is estimated at about (435052) km² (Central Bureau of Statistics and Research, 2019).

Manpower

The availability of the labor force is one of the most important determinants of attracting foreign investment, because investors are heading to countries that have a relatively abundant work element in order to reduce production costs (Al-Tamimi, 2017). (Approximately (43.15%) of the total population in 2016 (Central Statistical Organization, 2017: 74), and this employment is characterized by a decrease in the level of wages and in various specializations and levels (postgraduate, bachelor's, diploma, etc.) and this means A significant reduction in production costs.

Iraqi Market

One of the influencing and determining factors in the decision to localize and attract foreign investment is the size of the current or expected market. The larger the market, the greater the quantity of production and a greater proportion of the production costs, which increases the profitability of the project (Al-Fatlawi, El-Delphi, 2012).

The Iraqi market is one of the broad consumer markets, as it depends mainly on imports to meet its needs of productive and consumer goods, as it lacks the supply of locally produced goods and services in exchange for an increase in demand, and this market is characterized by a high marginal propensity to consume. All these factors constitute opportunities to attract investments to

satisfy the desires that arise among individuals, at the present time or in the future.

Legislative environment

The availability of the legislative environment is a necessary requirement to stimulate and encourage investment, because the investor will not submit to the investment if he does not have adequate legal protection.

There should be several components in the legislative environment, perhaps the most important of which are:

1. That there are guarantees provided to the investor, such as ensuring fair treatment, refraining from illegal confiscation, protecting intellectual property rights, and the freedom to transfer the profits of the investment project abroad.
2. The necessity of a judicial system to resolve disputes that may arise between the investor and the state.
3. It is imperative that legislation be concerned with regulating tax and banking activities, labor laws, commercial courts, import and export activity, and defining appropriate incentives for the investor.

In Iraq, the Foreign Investment Law No. (13) of 2006 is one of the pillars of the legislative environment, which aims to encourage and regulate foreign capital in a manner consistent with the priorities and objectives of the state in economic development, and the most prominent of what is stipulated in this law:

1. Establishing several institutions to handle the tasks of dealing with investment, including (the National Investment Commission). The authority of these institutions shall be to grant investment licenses for projects, provide advice and provide data and information to the investor, in addition to providing the lands needed for projects and leasing them for a fee determined by the Commission in coordination with the relevant authorities.
2. The project that obtained an investment license from the National Investment Commission is exempt from taxes and fees for a period of (10) years from the date of commencing commercial operation.
3. The law allows the foreign investor to lease the lands needed for the project for a period of no more than (40) years, provided that the project will exist during this period (Al-Tamimi, 2008: 213).

Obstacles to investment in the Iraqi economy

There are many challenges that the Iraqi economy faces, which represent major obstacles standing in the way of investment, the most important of which can be explained as follows:

1. The phenomenon of corruption: Financial and administrative corruption leaves negative effects on both domestic and foreign investment, as the investor moves away from the environment in which corruption is frequent because it will increase the project costs because of paying bribes to some employees or government officials, or the investing companies may be selected on the basis of political or family relations as well as contractors willing to pay bribes. Financial and administrative corruption is one of the biggest obstacles that threaten Iraq's investment environment and make it unsuitable for attracting investments (Abboud, 2014). Iraq was ranked (162) according to the

Transparency International report, which included (180) countries for the year 2019, and Iraq received a score (20) according to the Corruption Perceptions Index, which ranks corruption levels from zero to (100), where the country gets a score of (zero) Very corrupt and that gets (100) free of corruption (Transparency International, 2020).

2. Infrastructure: If the infrastructure, represented by roads, bridges, airports, electric power services, banking and insurance services, becomes available, the countries' attractiveness to foreign capital will increase.

On the contrary, countries whose infrastructure is weak, they will face difficulty in attracting foreign investment, and Iraq is one of these countries as it suffers from a clear backwardness in infrastructure because it has been greatly affected by the wars that Iraq has gone through, and the neglect of internal and external roads, bridges and municipal projects. , In addition to the financial and administrative corruption that was previously mentioned, as most infrastructure projects are characterized by low quality due to the use of less quality materials than the materials specified in contracts, and projects that are lagging or half completed and therefore we can say that the deterioration of the infrastructure and its low efficiency in the Iraqi economy is one of the basic factors In scaling the investment.

3. Lack of security and political stability: Political stability is a fundamental factor in making an investment decision for the investor. The investor will not risk transferring his capital and expertise to a country unless he is assured of the stability of the security and political conditions in it. Investment cannot take place in a country dominated by crises or political turmoil because This will lead to changing legislative systems, political problems and the spread of crime, as happens in Iraq, as the deterioration of the security and political situation after 2003 led to the reluctance of many investors to invest in the country and thus the loss of many necessary and necessary investment opportunities for the economic development process (Hassan, Faisal, 2015).

4. Technological retardation:

The deterioration of the technological level in Iraq is one of the obstacles facing investment, both domestic and foreign. The escape of researchers and the neglect of the government and private sector for scientific research and technological development contributed to a large extent in the decline of the technological level of the country, so that it became no less bad than the least developed countries in the world.

The simplest example of this is the reward system applied by the Ministry of Higher Education and Scientific Research as it grants a financial reward of one million dinars to the owner of the registered patent, and this amount is considered insignificant if compared to the efforts exerted by the researcher and the requirements of living, while the reward is supposed to be linked to the industrial exploitation of the invention. It is the case in industrialized countries. Table 2 shows the percentage of spending on research and development out of the gross domestic product compared to a group of countries for the year 2017 with the number of researchers.

Table 2: Expenditure on research and development and its ratio to gross domestic product. ²

Index	Iraq	Qatar	Sultanate of Oman	Egypt	Palestine
The ratio of spending to GDP	0.04	0.5	0.22	0.61	0.5
Number of researchers per million inhabitants	68	570	180	665	564

Table 2 shows the low technological level in Iraq, whether in terms of spending on research or numbers of researchers compared with other Arab countries, despite the fact that Iraq has huge financial budgets that exceed the budgets of these countries and the magnitude of its gross domestic product.

5. Internal and external indebtedness:

The internal and external debt is one of the most prominent problems facing the investment process, as the state's resorting to borrowing in order to finance its expenditures, whether investment or consumption expenditures, will necessitate the obligation of the state to pay the value of debts and the interest resulting from it and transfer financial resources abroad (in the case of external debts), and then Reducing the financial resources needed to finance economic projects and development plans (Salem, 2012).

The size of the internal debt, are displayed in Table 3.

Table 3: The size of the internal debt in Iraq for the period (2014-2018) Million dinars. ³

Year	Internal Public Debt	Percentage Change %
2014	9520019	-----
2015	32142805	237.6
2016	47362251	47.34
2017	47678796	0.66
2018	41822918	12.28

Table 3 shows that the internal debt has changed in varying proportions, sometimes we find it growing at positive rates and at other times it changing at negative rates, according to changes in global oil prices, as the debt rose in 2015 by about (237.6%) due to the sharp decline in global oil prices, which prompted the state To the offering of government bonds and treasury transfers after the Central Bank of Iraq refused to lend them from the cash reserves it possesses, but when global oil prices improved, the internal debt decreased until it reached (-12.28%) in 2018.

² Source: UNESCO website: www.uis.unesco.org/Index.aspx

³ Source: Central Bank of Iraq, General Directorate of Statistics and Research, annual bulletins for various issues.

With regard to external debts, the total external debt of Iraq reached (25) billion dollars, including (10) billion dollars to Paris Club creditors, and (6.4) billion dollars divided between the World Bank and the International Monetary Fund, and (3.1) billion dollars in compensation. Kuwait, and (2.7) billion dollars to America.

The third theme: A strategy to encourage investment in the Iraqi economy

After we reviewed the reality of the Iraqi economy and the most important components it possesses and the obstacles facing the process of economic development, it is necessary to devise some solutions for the advancement of the Iraqi economy for the better, and this is represented by focusing on providing an investment climate that would stimulate domestic and foreign investments, and this is achieved by adopting the following:

1. Achieving political and security stability:

The issue of improving the security and political situation is one of the first issues that solutions should be found and addressed. All attempts to attract foreign investment and stimulate local investment may become useless if security and political stability is not available.

This may be achieved by building security forces trained and equipped with the latest devices and equipment, securing external borders with neighboring countries, as well as creating harmony and harmony between the ruling political parties.

2. The necessity of establishing modern infrastructure that contributes to the survival of investments and not escaping them, such as building bridges, rehabilitating internal and external roads, maintaining and repairing water networks, re-treating wastewater and using it in all fields, as well as paying attention to electric power through the maintenance of generation stations, transfer stations and networks.

3. Addressing the manifestations of technological backwardness by increasing the allocation from the general budget for scientific research and technological development. This increase will lead to fundamental changes represented by increasing the number of researchers and improving the quality of research in a way that ensures changing the parameters of the Iraqi economy and transforming it from a consumer country to a productive country.

4. Combating administrative and financial corruption in state departments and institutions by promoting and spreading the culture of integrity among employees, taking strict and decisive measures to hold the corrupt accountable, and striving to shift to electronic government to reduce opportunities for confrontation and conspiracy between the employee and the investor (Afifi, 2004).

5. Carrying out a package of amendments to the investment law, which includes some drawbacks. It grants tax exemptions to investors and does not make a distinction between types and fields of investment. This may lead to the investors' reluctance from the basic and required areas, and this law did not indicate or detail the nature of the investment project. The investment may be the production of a small part of a particular commodity. This part may be a pollutant for the environment or an energy consumer, and it is better to refer to

the need to The project is an integrated one that includes the production of an integrated commodity (Abbadi, Habib, 2015).

6. Media and advertising promotion of the projects to be invested in: In light of the intense competition between most countries of the world over attracting and attracting foreign investment, this matter requires a great effort in the process of promoting the investment opportunities available in the country and providing a database and information for all economic projects and the extent to which the market needs them, as the Iraqi government should carry out major promotions of During international conferences and exhibitions to introduce the fields of investment in Iraq, international institutions that provide assistance in the field of investment promotion, such as the United Nations Industrial Development Organization (UNIDO), which specialize in conducting training courses aimed at raising the efficiency of employees working in the field of investment promotion in developing countries, and providing assistance to countries You want to establish investment promotion centers.

CONCLUSION AND FINDING

The Iraqi economy suffers from many imbalances represented in high unemployment rates, disruption of the structure of public expenditures, and the deterioration of the reality of basic sectors such as industry, agriculture and electricity. Therefore, it is necessary to resort to foreign investment for the purpose of rebuilding Iraq and improving the reality of the national economy. Since, Iraq enjoys an abundance of economic resources, whether natural or human, with its possession of a distinct geographical location as well as the expansion of the local market. These factors constitute attractive elements for foreign investment. The prevalence of administrative and financial corruption, sagging infrastructure, lack of political and security stability and technological backwardness have formed, as a whole, obstacles to foreign and domestic investment alike.

RECOMMENDATIONS

1. To stop importing foreign goods that can be produced or manufactured locally, to reduce competition with the local product, and to encourage private and public sector companies to work.
2. Increase investment allocations from the general budget and direct it towards projects that contribute to increasing the total output and raising the rates of economic development.
3. Staying away from the option of external borrowing from international institutions, which exhausts the local economy, because the state will be committed to paying the value of debts and the interest resulting from them, which requires reducing investment projects inside the country.

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