

The Role of Foreign Trade in the Economic Development of Iraq, 1864-1964: A Study in the Growth of a Dependent Economy

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I. INTRODUCTION

THE stages of economic growth, the position of external payments, and the roles of foreign trade, are still controversial subjects in the field of the recent economic history of the underdeveloped countries and of their economic development policies. Some light might be shed on this subject by examining the economic development of Iraq during the past hundred years.

The recent economic history of Iraq seems to fall into three distinct phases or states of development. In the first place, there was the state characterized by the failure of the immediate leap from a subsistence economy to a modern economy, during the 1817-68 period in general and during the governorship of Dāwūd Pasha, 1817-31, in particular. Dāwūd Pasha introduced the first modern munitions factory, textile plant, water-oil-pump, printing press and school to Iraq, which he attempted to govern independently of the Sublime Porte at Constantinople and of the British Residency at Baghdad. But this attempt proved to be abortive owing to the rising forces of foreign economic expansion and penetration in Iraq.

Secondly, there came the stage of transition from a subsistence economy to a foreign-trade oriented economy, during the 1869-1951 period, during which the backward economy of Iraq adjusted itself to the forces of the world market and became increasingly dependent upon it. It is, perhaps, necessary to point out that the 1939-51 sub-period might be considered as a prelude to the rise of the following phase of development.

Finally, the stage of the transformation of the Iraqi economy into an oil-export economy has reigned supreme from 1952 onwards, in spite of the development of the counter-forces of land reform and industrialization that have been introduced since the 1958 Revolution.

In the course of the past hundred years, the Iraqi economy found itself in three distinct phases with regard to its external trade and payments position. First, the export trade acted as an 'engine of growth' during the 1869-1914 period, as it generally increased faster than population, income

and imports. Secondly, there came the phase where import substitution set the pace during the 1918-51 period. Finally, unbalanced economic growth and structural inflation seem to characterize the oil-export economy especially since 1951.

Perhaps it is the central theme of this paper to examine the various roles of foreign trade in the development of the Iraqi economy. Theoretically, four specific roles and one general role of foreign trade between the advanced and the backward economies have been distinguished.

In the first place, the deficiencies of the home market, either in total demand or in the response of important sectors, explain why it usually falls to foreign trade to give an economy that upward twist which sets it on the development road. Thus the growth of the export trade is supposed not only to contribute to the extension of the market, but also to the expansion of total output through the utilization of surplus productive capacity of land and labour, to specialization in the production of the commodity in which the economy enjoys comparative cost advantages, to the consequent division of labour with its improved skill and productivity, and ultimately to a rise in the productivity of land and labour.

Secondly, the common result of the extension of the market and the increase in productivity, themselves the consequences of the growth of the export trade, is increase in output and income. Out of greater output, more should be saved and invested. Thus the growth of foreign trade stimulates capital accumulation, and ultimately accelerates the rate of economic growth.

Thirdly, the growth of the import trade creates new tastes and patterns of consumption which are thought to stimulate new energies for work, and a new willingness to make the best use of available resources and to bring forth new techniques and better knowledge, which direct domestic saving into productive investment, so that extra income may become available to buy the new goods.

Fourthly, the growth of foreign trade is said to have generated external economies. It also stimulates home industries, as the facilities created for the export industries, such as communications, training facilities and engineering services, are also available for the home industries, which are also induced, through the competitive market process, to introduce innovations designed to increase their productivity.

Finally, there is the question of whether these four specific roles of foreign trade in economic development have raised backward economies to the level of self-sustained economic growth or frozen their economic structure and pattern of production at a stage which makes them chronic export economies dependent upon the vicissitudes of the world market.

Section II of this paper will examine the growth of the 'export-propelled' sector; while Section III will deal with the 'import-propelled'

sector of the economy. The major changes in the structure of the economy as a whole are discussed in Section IV; while Section V is devoted to the study of the growth of economic dependence on the oil-export economy.

II. THE GROWTH OF THE EXPORT TRADE, THE EXPANSION OF AGRICULTURAL PRODUCTION AND THE DECLINE OF AGRICULTURAL PRODUCTIVITY

The basic characteristics of the growth of the Iraqi export trade, during the period 1864-1958, may be described as follows: first of all, its more rapid expansion in the early period up to the First World War than in the interwar period; it rose from £147,000 per annum in 1864-71 to £2,960,000 in 1912-13, a twenty-fold increase, whereas it rose more slowly to £3,629,000 per annum in 1933-9, or by one-quarter only. These export trends were consistent with and largely explicable by the nineteenth-century secular expansion in world income and trade and the Great Depression of the interwar period.

Secondly, the expansion in the Iraqi export trade up to the First World War was due much more to the growth of the quantity of exports than to any significant rise in their prices; while the later and slower growth of exports was due rather more to the decline in the export prices than to any fall in the quantity of exports.

As to the period 1940-58, the quantity of agricultural exports continued to rise absolutely, despite the fall in their prices relatively. On the other hand, pastoral exports suffered from a decline in their quantities, despite the relative improvement in their prices.

Thirdly, although pastoral exports (especially wool) and agricultural exports (especially dates) were of more or less the same importance in the total value of exports during the 1860's, the relative position of agricultural exports steadily improved, sometimes amounting to as much as four-fifths, but becoming responsible for three-fourths of the total value of exports from the 1930's to the 1950's.

Fourthly, the direction of the Iraqi export trade shifted increasingly away from Middle Eastern markets to Indian and European markets; so much so that the share of European markets rose from under one-third in the 1860's to the point at which the markets of Great Britain and its Empire only bought from one-half to two-thirds of Iraqi exports just before the First World War. The Middle Eastern markets, which accounted for as much as two-thirds during the 1860's, absorbed one-quarter of Iraqi exports on the eve of the First World War, and during the 1930's, and only one-fifth during the 1950's.

Fifthly, with the shift of the Iraqi export trade towards the world capitalist market, there developed many foreign and local trading firms

which handled the export of dates and grain. But the keen competition between them led to the development, especially in the interwar period, of the monopoly by the British Andrew Weir Co. of the dates and barley export trade later in the Second World War and in the postwar years. This tendency to concentration in the export trade was accompanied by rising rates of trading profits, from about 8 per cent on the eve of the First World War to around 50–60 per cent during the postwar years.

The nineteenth-century secular growth in world, and especially European, income and demand for foodstuffs and raw materials, facilitated by the development of modern transport (especially the opening of the Suez Canal in 1869 and the launching of steam navigation in the Tigris in 1861), widened the market for Iraqi produce. Producing for export did not have the same disadvantages as producing for the home market. It did not depend on demand growing appropriately in other sectors of the economy. Nor did it depend on effective demand at home. The deficiency of the latter was due to the low productivity of the relatively sparse population of Iraq.

The rising European demand for foodstuffs and raw materials provided outlets for surplus productive capacity in Iraq. Although the Iraqi population was sparse relative to resources, over one-third of the people consisted of largely 'unproductive' nomadic tribes. The gradual growth of modern means of transport rendered their dependence on the camel-caravan trade increasingly precarious. On the other hand, the slow development of law and order, through the slow but definite growth of governmental control, made plunder an unprofitable means of livelihood. The nomadic population of Iraq constituted, therefore, a large potential supply of labour for pastoral and agricultural production. This became available for productive employment, quite apart from the natural increase of population.

During the 1860's, only a limited proportion of the grazing and cultivable areas was actually used. The cultivated area was probably well under 150,000 *dūnams*. The surplus capacity of land was due to the relatively low level of productivity and demand of the urban population, lack of adequate means of transport, the absence of security of tenure, the high tax rates and the oppressive methods of collection and last, but not least, the great risk imposed by the hungry, plundering nomads. There were also the twin problems of flood control and irrigation.

Thus the expansion of European demand for Iraq's produce of wool, dates and grain was satisfied by the utilization of Iraq's surplus productive capacity of land and labour. The economic process whereby the surplus productive capacity was used for the satisfaction of the rising European demand took the form of a decline in subsistence agriculture and pasture, and an expansion of commercial production for exports. This transformation was made gradually possible and increasingly profitable essentially

by the change-over from tribal landownership to the *tapu* or private land system. Thus, the *miri* or state land fell from about four-fifths during the 1860's to about 60 per cent during 1933-58 period. But the arable proportion of the *miri* land was rather small, as it did not exceed five million *dūnuns*. *Tapu* land rose from about 20 per cent during the 1860's to about 30 per cent on the eve of the 1958 Revolution, while the remaining 10 per cent consisted of waste lands and religious endowments.

The rise of modern transport and the development of law and order pushed both tribesmen and *shaykhs* towards grazing or cultivation. The increasing foreign demand for pastoral and agricultural produce provided an alternative to nomadic life. Nomads who were no longer in a position to rely on the camel or plunder for their livelihood, but were still subject to the discipline of tribal organization regarding the relations between the followers and their leaders, had no alternative but to follow their *shaykhs* into settlement on the land.

Shaykhs, town notables and bureaucratic officials and officers found it in their interest to settle tribes on the land, which they gradually acquired at a nominal price over the head of the cultivators. In this way the tribal system was transformed into the system of private landownership. They became landlords, entitled to a substantial share in the crops which they sold to merchants; the latter marketed the surplus agricultural produce—the *tapu* crop share—in the towns and abroad. The share of landlords in agricultural produce increased in proportion to the expansion in production, the transformation of tribal into *tapu* landownership, and the decline of subsistence relative to commercial agriculture—but, above all, in proportion to the growth of exports and the development of law and order which made practicable the effective appropriation of the *tapu* crop share.

The expansion of foreign demand for Iraqi produce provided an alternative to nomadic life and made the extension of cultivation profitable. The interaction between foreign demand and the local surplus capacity of land and labour resulted in the growth of the rural population, the growth of agricultural output and exports and an increase in government revenues from agriculture and livestock.

This agricultural expansion followed a simple pattern. It rose rapidly from the 1860's till the 1920's, apart from the decline ensuing from the ravages of the First World War; but the high rate of growth tapered off as a result of the Great Depression. Despite the variation in the rate of growth, the absolute expansion in agricultural production is unmistakable. Throughout this period (from the 1860's to 1950's) grain production rose by about 1 per cent per annum and that of dates slightly more. The area under cultivation extended fairly rapidly, from probably less than 100,000 *dūnuns* in the 1860's to about 1,613,000 *dūnuns* in 1913, to 9,258,000

dūnūms during the Second World War, and then to about 16 million *dūnūms* during the 1950's. This means that the agricultural area increased ten times after the First World War, or doubled every five years. The over-all growth of exports was undoubtedly higher than the expansion of production or the extension of cultivation, increasing at around 2.7 per cent per annum.

The rapid growth of the Iraqi export trade was accompanied by an increase in the proportion of the cultivated area falling under the control and ownership of tribal *shaykhs*, who received a substantial share of the crop as rent. This surplus agricultural produce was channelled into exports on an increasing scale, because the absentee landlords developed urban consumption, without any saving habits and even with contempt for business or investment acumen. Apart from their relatively minor expenditure on housing and domestic servants, their bulk of the income was spent on consumption imports. Thus, up to the end of the Second World War, two-thirds of the value of imports almost invariably consisted of such consumer goods as food, drink, tobacco, textiles, clothing and household requirements. During the postwar period, the expenditure of *shaykhs* on ostentatious consumption imports fell as a proportion of total imports, but increased in absolute value. No significant change is to be observed in the pattern of expenditure of tribal landlords, except in the construction of urban buildings and the acquisition of real estate in the main towns, especially Baghdad, up to the Revolution of 14 July 1958.

The expenditure of the greater part of the proceeds of surplus agricultural produce on consumption meant that there was very little investment in maintaining, let alone improving, the fertility of the soil, flood control, and the quality of seed. Nor were the peasants induced to accumulate and invest in the land, even if they had been in a position to do so, as the fruits of such developments would have had to be shared with the absentee landlords. What there was of investment in opening new canals was largely undertaken by the peasantry or the government. It was only when there was a shortage of labour that the *shaykhs* made advances to tribal cultivators.

Nor did the government have adequate finances to control the floods and radically improve the system of irrigation and drainage, as the agricultural revenue was hardly sufficient for the requirements of the current expenditure of the government. Even when financial resources became available after 1952, the prevailing semi-feudal system militated against the formation and execution of a well-co-ordinated irrigation and drainage policy which would increase agricultural production in proportion to agricultural investment expenditure.

Thus flood control and irrigation projects put into operation by the government, partly during the interwar period but mainly during the

1958 Revolution, have had a necessarily limited impact on agriculture as a whole. Equally limited were the improvements in cultivation and irrigation introduced by urban landowners, especially the small and medium proprietors in the north and around Hilla and the small-holders of the date plantations of Basra. But the rise of various groups of merchant-tractorists, especially in Mosul, facilitated the increase in wheat production during the rainfall years of the postwar period.

The greater part of the agricultural area remained, therefore, to be cultivated with traditional instruments of production. Nor had agricultural methods undergone any significant change, despite the efforts of the Government Demonstration farms in Baghdad. Thus, up to the 1958 Revolution agriculture remained at the mercy of floods—the last and most devastating took place in 1954—droughts, and locusts, with the urbanized *shaykhs* uninterested in the improvement of the land and the government subject to their influence and therefore unable to undertake land reform, while the majority of the peasantry were illiterate, unhealthy and underfed and the productivity of the land was on the decline.

The growth of the Iraqi export trade stimulated the expansion of agricultural and pastoral production. This was not, however, accompanied by any significant improvement in the methods and instruments of production. Indeed, the introduction of pump-driven irrigation, the specialization in barley production for export and the limited extension of cotton and flax, fruits and vegetables, did not even off-set the effects of increasing salination of the soil. Thus, average grain yields actually declined from 225 kilos per *dūnum* during the 1920's, to 187 kilos in the 1930's, and further to 143 kilos in the 1950's.

The growth of foreign demand which spurred the expansion of commercial production in agriculture, as shown by the rising ratio of exports to production and correspondingly in the relative decline in subsistence economy, did not help to raise the productivity of the land, which was actually falling, as the system of irrigation, the method of production and the economic and cultural level of the peasantry had not undergone any radical change.

The declining productivity of the land and the growth of rural population more rapidly than production—the rate of growth of the former was twice as high as that of the latter—resulted in a fall in the output per head of the pastoral and agricultural population. Thus the annual output of grain fell from 1,000 kilos per head of the rural population in the 1880's, to 560 kilos during the 1930's and further to 505 kilos during the 1950's.

The increasing effective share of the landowners in a relatively declining agricultural production meant a fall in the standard of life of the Iraqi peasantry. This was reflected, among other things, in the increasing indebtedness of the peasantry and the rising rural exodus to the towns.

The declining agricultural productivity, and the falling income of the peasantry, are characteristics of the phenomenon of rural underdevelopment, which led, on the one hand, to the intensification of rural unemployment—and on the other hand to a large-scale rural exodus. The active population in the rural areas rose from about 1,399,000 in 1947 to about 1,814,000 in 1957, while the number of persons employed in agriculture increased from 748,000 to 852,000 respectively. This indicates that the increase of the active rural population was four times as great as the increase in the number of peasants actually employed in agriculture. Accordingly, the number of unemployed peasants rose from 651,000 in 1947 to about 962,000 in 1957, or by 311,000 during the decade between the two population censuses, or at the rate of 31,100 per annum. The figures for the rural exodus also increased from 300,000 persons during the period up to 1947 to about 450,000 during the decade up to 1957, or from 25,000 persons per annum before 1947 to about 45,000 persons annually up to the 1958 Revolution.

Thus, despite the growth of the Iraqi export trade, the extension of agricultural and pastoral land, the rise of agricultural and pastoral production, the transformation of subsistence into commodity production and exchange in the agricultural sector, it was the appropriation of agricultural land and its surplus produce, which amounted to about fifty million Iraqi dinars or 17 per cent of the National Income during the 1950's, by tribal *shaykhs*, town notables and bureaucratic officials and officers and their expenditure of it mainly on consumption imports, that hampered the growth of domestic saving and investment to the high levels required by the national economy to take off into self-sustained economic growth.

III. THE GROWTH OF THE IMPORT TRADE AND THE EXPANSION OF URBAN ECONOMIC ACTIVITY

Turning to the 'import-propelled' sector of the Iraqi economy, the basic characteristics of the growth of the import trade may be described as follows: in the first place, during the period 1864–1914, its rate of growth was about 5 per cent annually, rising absolutely from ID.290,000 in 1864–71 to ID.3.5 million in 1912–13, a twelve-fold increase. It also increased to ID.7.6 million in 1933–9. Its expansion was considerably enhanced during the postwar period, and it amounted to ID.92 million in 1952–8.

Secondly, the changes in the import values of tea and sugar were mainly due to changes in quantity. The early increase in the import values of textiles was also due to increase in quantity, while the fall in their values during the interwar period was due to the fall in their prices. The rise

in the import values of tea and sugar was entirely due to the rise in their prices, while both price and quantity increases contributed to the rise in their value during the postwar period. This also holds good for textiles during the Second World War and postwar periods.

Thirdly, the position of productive imports rose from about one-quarter of the total value of the import trade during the 1860's to about two-fifths during the 1930's; while the position of the consumption imports accounted for about two-thirds of the value of the import trade up to the Second World War, and then fell to about one-half of it during the postwar years.

Fourthly, the direction of the Iraqi import trade shifted very sharply from Middle Eastern to European markets. The share of the advanced economies rose from an insignificant proportion before the opening of the Suez Canal to as much as 70 per cent (of which 49 per cent was due to British suppliers) of the total value of the import trade on the eve of the First World War. While the share of the capitalist world in the Iraqi import trade continued to expand, rising to one-third in the case of Britain and from 9 per cent to 15 per cent in case of the U.S.A., that of the Middle East was below 10 per cent during the 1950's.

Fifthly, the shift of the Iraqi import trade towards Western and especially British markets transformed its organization. Iraqi commission agents became importers on their own account. Foreign firms, especially British, formerly engaged only in the Iraqi export trade, turned to the import trade. The tendency towards concentration in the import trade was enhanced. The number of tea and sugar importers fell from 50, including four large foreign firms during the 1930's, to 16, including three large foreign firms, during the 1950's. The number of textile importers fell from 167, including nine local firms and three foreign firms, to about 47 importers respectively. The import of medical drugs was confined to ten firms, the automobile trade to four firms, and the whole of the chemicals trade was concentrated in I.C.I. This concentration of the import trade, also observable in the capital-goods import market, manifested itself in the rising trading profits, absolutely and relatively. During the 1930's, the trading profits of foreign firms transferred abroad amounted to ID.450,000 annually, which accounts for the relatively high profit margins on their share in the Iraqi import trade. This rate of profit rose variously from 25 per cent to 50 per cent of the value of the import trade carried on by foreign firms, during the postwar years; and sometimes, as in the case of I.C.I., it rose to 500 per cent of the relevant import trade.

Both the rising demand of the *shaykhs* and of the mercantile sections of the urban population for consumption imports, and the declining productivity and income of the Iraqi peasantry, limited the size of the home market and hindered industrial development and led to the concentration of

urban economic activity on commerce and buildings, over most of the period of our study.

The rapid growth of consumption imports, which accounted for 13 per cent of the value of the import trade in 1864-5 rising to 66 per cent in 1933-39 and then falling off to 49 per cent in 1952-7, destroyed the handicraft industries, especially woollen textiles, by reason of unfair competition due to the prevailing 'open door' commercial policy. Thus, the number of handloom weavers in Baghdad declined from 3,500 in 1866 to about 120 in 1934.

On the other hand, the expansion of the export trade required the development of such processing industries as date-packing, wool-pressing, cotton ginning, etc. The rise of the processing industries compensated, to some extent, for the loss of income and employment previously generated by the handicraft industries whose annual value of production, estimated at T£350,000 in the 1880's, sharply declined under the pressure of manufactured imports. Alongside this went on the expansion in the processing industries; for example, the annual capacity of the wool pressing industry rose from 30,000 bales during the 1880's to 180,000 bales during the 1930's.

Moreover, the expansion of urban employment and the growth of investment in the towns tended to extend the size of the urban market for manufacturing industries. While the urban population of Iraq increased at a rate of about 2 per cent per annum during the period 1867-1939, then at about 4 per cent during 1947-57, the rate of increase in the value of productive imports rose from about 5 per cent prior to the Second World War to 9 per cent between 1946-51 and 1952-8. This means that the rate of growth of productive imports was two-and-a-half times as high as the rate of growth of the urban population. Thus productive imports per head of the urban population rose from one-quarter of a dinar in 1864-5, to one-and-a-half dinars per annum in 1933-9 and to about nine-and-a-half dinars in 1941-6 and further to about eighteen dinars in 1952-8.

The increasing rate of urban economic investment, as measured by the rise in productive imports per head of the urban population, indicates the improvement of urban productivity and income. One consequence of this was the expansion of demand for domestic agricultural and animal products; another was continuous increase in the demand for consumption imports, especially by feudal and mercantile classes in the towns. Accordingly, the value of consumption imports per head of the urban population rose from one-half of a dinar per annum in the 1860's, to three dinars during the decade preceding the First World War, to about four dinars during the 1930's, to twelve dinars in 1946-51, and further to seventeen-and-a-half dinars in 1952-8.

The growth of urban economic investment reflected the development of

urban economic activity, especially in the field of commerce, domestic and foreign, the field of real estate and buildings and land markets and their speculations. But it also reflected the delayed industrial development, which started with the establishment of some modern consumer goods industries during the 1930's, and the growth of some other import substituting industries, both of consumers' and producers' goods, during the 1950's.

The superiority of the growth of commercial and urban building activity over industrial growth was manifested in the distribution of employment and profits in the towns. A comparison of the occupational distribution returns of the 1947 and 1957 censuses shows that the number of persons engaged in trade and services rose from 471,000, or 35.7 per cent of the national labour force, to 674,000 or 37.5 per cent of it. By contrast, the number of persons employed in the industrial sector rose from 96,000 or about 7 per cent of the national labour force, to 264,000 or 15 per cent, during the same period. This means that the rate of increase of employment in the commercial sector was about 20,000 persons per annum, while its counterpart in the industrial sector amounted to 17,000 persons per annum during the decade preceding the 1958 Revolution. As to the distribution of gross profits accruing outside the agricultural and oil sectors, the share of commerce and real estate activities accounted for 75 per cent of the total, while that of the industrial sector did not exceed 12 per cent of it during the 1950's. Thus the industrial sector continued to occupy a secondary position in the national economy, as its contribution to the National Income did not exceed 8.3 per cent per annum during the 1953-8 period.

The growth of machine-made imports ushered in the decline of the local handicraft industries, especially those producing textile goods. The relatively lower costs and prices of imported goods also stood in the way of rapid industrial development, which requires, among other things, protection against unfair foreign competition. Thus the development of consumer goods industries lagged behind for thirty years, as the handicraft industries declined during the first decade of the present century, while the rise of the import substituting industries was held up until the 1930's. The development of other consumer goods industries, such as vegetable oil extraction, beer, etc., and of the producers' goods industries, mainly cement, was also held up for about twenty years, as the demand for products emerged and expanded during the 1930's, but this domestic production started only during the postwar years.

The concentration of commercial policy on the maximization of customs revenue during the 1861-1927 period made for the perpetuation of the phenomenon of industrial underdevelopment. The increasing foreign borrowing of the Ottoman Empire and the consequent financial burdens

resulted in the pursuit of a perverse commercial policy which encouraged imports and discouraged domestic production. Later, the increasing need for revenue naturally did not result in adequate emphasis being put on the protection of home production.

Apart from the role of foreign oil investment and the transfer of oil profits abroad, and the industrial policy of the Development Board, the fundamental explanation for the phenomenon of industrial under-development is that the main source of potential domestic saving, namely the proceeds from the surplus agricultural produce, accrued mainly to absentee landlords who were lacking in habits of saving and investment, and full of contempt for business acumen.

Further, the relatively small urban savings tended traditionally to be invested in trade, where profits were comparatively high, rather than in industry, where greater risks were involved. Borrowing for trading purposes was also less difficult and less costly than for financing new industrial projects.

But in the meantime, the expansion of the Iraqi import trade created new tastes, stimulated new energies for work and a new willingness to make the best use of available resources, so that extra income became available to buy the new goods. This was especially true of a large number among the mercantile community during the interwar period. However, mercantile profits constituted a relatively small proportion of the total value of trade and the agricultural surplus produce. This meant that, over the greater part of our period, the Iraqi mercantile community acquired the entrepreneurial skills, but lacked the necessary capital for industrial investment.

Since the late 1930's, the size of the national market has expanded steadily, by reason of the growth of urban population and the rise of urban income. After 1927, commercial policy acquired a new emphasis on the protection of national production, under the pressure of the national commercial and industrial bourgeoisie, which meant the reservation of certain parts of local markets to domestic industrial production. However slow the accumulation of mercantile profits and capital might have been, with the passage of time they increased slowly but sufficiently for the establishment of certain consumer goods industries which met a significant proportion of domestic demands for cheap textiles, cigarettes and soap during the 1930's. Later their production rose further; and new consumer goods industries were set up and their share of national consumption increased, so much so that they produced 90 per cent of cigarettes, 83 per cent of beer, 80 per cent of soap, and 75 per cent of vegetable oil on the eve of the 1958 Revolution. The production of building materials, especially of cement and bricks, expanded not only to meet rising domestic demand, but also for export to neighbouring countries.

From the 1930's to the 1950's industrial growth was enhanced by the emergence of new developmental elements in the field of commercial policy, such as the new imposition of low tariff rates on productive imports to the extent of exemption on an increasing scale, the imposition of high tariff rates on unnecessary consumption imports, the raising of tariff rates on imports which had substitutes in domestic production. But the real impact of these measures was limited by the fact that this tariff policy was not sufficiently backed up by quantitative controls.

Yet this industrial growth, which could not meet the whole requirements of the domestic market, was unable to employ the supply of labour becoming available, and to exploit fully the raw materials other than oil. This means that the phenomenon of industrial underdevelopment continued despite the expansion of urban economic activity. The expenditure of the bulk of the surplus agricultural produce on consumption imports made for the low proportion of investment in the national income. Even as late as 1950, total annual gross investment in fixed capital did not exceed ID.17 millions, and net investment amounted to eight million dinars. This means that gross investment was 10 per cent, and net investment only 5 per cent, of national income. It is almost certain that net investment was less than 5 per cent of national income up to the 1950's, when it rose with the expansion of oil production and revenues on an increasing scale. Consequently, the phenomenon of industrial underdevelopment reigned supreme, and the problem of urban unemployment remained acute. The active urban population increased by 484,000 persons between 1947 and 1957, or by 48,400 per annum, while urban employment increased by 370,000 persons, or by 37,000 per annum, during the same period. This implies that the rate of increase of active urban population was 22 per cent higher than the rate of increase in employment. Thus, the number of unemployed in the towns rose from about 291,000 persons in 1947 to 405,000 persons in 1957, or 11,400 persons per annum.

IV. THE TRANSFORMATION OF THE ECONOMIC STRUCTURE

Side by side with the role of foreign trade in the absolute growth of rural population, accompanied by the decline of the agricultural productivity of land and labour, and in the expansion of both the total and average economic activity of the urban population, there also occurred a significant transformation in the structure of the Iraqi economy. Throughout the period of the past hundred years, Iraq was adjusting her traditional economic structure to a world market made accessible by new and improved forms of transport and profitable by the expansion of world demand for primary products.

The essential features of economic structure are made up of the patterns of production and consumption, the composition of exports and imports and the pattern of employment and activity.

The study of changes in the pattern of production and exports reveals three discernible changes over the period of our study. On the one hand, there was the relative decline of pastoral and comparative rise of agricultural production and exports. On the other hand, there came the change-over from the export of agricultural and primitive industrial products to the export of primary products of foodstuffs and raw materials up to the 1950's. Owing to the decline of the handicraft industries and to the delayed growth of modern industry, Iraq was able to export only a small proportion of its production, prior to the 1958 Revolution. Finally, the development of both commercial agriculture and modern industry involved the decline of subsistence economy and the growth of money and exchange economy.

The decline in the importance of pastoral production and exports relative to agricultural production and exports calls for an explanation. During the 1860's, these two sectors occupied more or less the same position. At the outbreak of the Second World War, agricultural exports accounted for three-quarters of the total value of exports and pastoral exports accounted for the remainder. On the eve of the 1958 Revolution, the value of agricultural exports rose to 77 per cent of the total value of the export trade (except oil), while the value of pastoral exports rose to about 16 per cent and the remainder, which accounted for 7 per cent, represented industrial exports. One of the factors economists would look for is whether or not there were any long-term price differentials in favour of agricultural production. But our study of the differences in the trends of the 'average values' of agricultural and pastoral exports indicates that they were, on the whole, of no great consequence, and in any case these price differentials moved in favour of wool, hides and skins rather than of dates and grain.

However, the degree of profitability of a branch of economic activity does not depend only on relative prices, but also on relative costs. Neither price differences nor differences in the degree of precariousness of natural conditions of agricultural and pastoral production were significant factors in explaining the relative decline of pastoral and rise of agricultural activity. It was the pastoral and agricultural *shaykhs* (or their agents) rather than the shepherds and peasants who decided on the relative profitability of pasture and agriculture. Iraq supplied only a small proportion of world demand for pastoral and agricultural products, with the sole exception of dates, and thus had to take world prices as given. In general, it was the transformation of rent-free tribally-owned grazing lands into rent-paying *shaykh*-owned lands which made agriculture relatively more profitable than pasture for *shaykhs*. The large and increasing share of the

landowners in agricultural produce relative to their share in pastoral produce induced the *shaykhs* gradually to settle their tribes on the land. This tendency was also enhanced by government policy favouring the settlement of nomadic and pastoral tribes. Apart from supporting the government objective of controlling these tribes, this policy cannot be separated from the government's interest in the potential increase in its revenue from taxes on agriculture relative to pasture—as animals would be driven off more rapidly than agricultural produce—nor from the potential decrease in the cost of maintaining law and order among the otherwise ferocious tribes. Further, land policy, under the British occupation of the Mandatory Regime, depended on a new and basic factor, i.e., the development of a class of large landowners, both tribal and urban, which became the local social basis of foreign political and economic power.

So much for the relative decline of pastoral and rise of agricultural production and exports. It is sufficient to indicate briefly the changes in the pattern of production and exports; namely, the decline of handicraft industries and the disappearance of their export products, the emergence, however slowly, of consumer goods industrial production for import substitution, the growth of producers' goods industries, however delayed, for the satisfaction of the requirements of the building and construction industry, and the beginning of the export of manufactured goods, on the eve of the 1958 Revolution.

During the 1860's, Iraq exported to her neighbours such primitively manufactured products as silk piece-goods, boots and shoes, soap, etc. But the decline of the Iraqi handicraft industries, under the pressure of foreign competition at home and in neighbouring markets, made for the disappearance of these export products. Thus Iraqi exports were confined to primary products on the eve of the Second World War. The reason is obviously two-fold: first, the substitution of the cheaper European manufactures by domestic consumers and foreign importers of Iraqi products; secondly, the persistence of the phenomenon of industrial underdevelopment, with the consequence of small scale of activity and prices not yet competitive with those of modern industry, except during the 1950's when small-scale exports of some manufactures took place. Iraqi industrial exports accounted for 4-7 per cent of the export trade and consisted mainly of cement, which amounted to about half-a-million dinars and of cigarettes which amounted to quarter of a million dinars.

Both of these changes in the pattern of production and export—the rise of agricultural relative to pastoral production and exports, the disappearance of the handicraft industries and their exports and the ultimate emergence of industrial production and exports—reflect the other major transformation, namely, the decline of the natural economy depending on

production for direct consumption or barter and the expansion in the scope of money exchange depending on commodity production and money as means of exchange, with the development of division of labour, primitive capital accumulation, private ownership of the means of production, the growth of exchange between town and country, and the formation of a national market. The development of a money exchange economy is shown by the rising ratio of exports to rural production. Thus, the ratio of date exports to production rose from one-third in the 1860's to three-quarters prior to the First World War; to two-thirds, prior to the Second World War, and to 69 per cent during the 1950's. The ratio of grain exports to production also rose, though less rapidly, from 6-10 per cent in the 1890's, to 10-15 per cent in the 1930's. The increase was confined to the rising ratio of barley exports to production, as it rose to 44 per cent, while that of wheat fell off and that of rice remained stable during the postwar years. The growth of the money economy is also reflected in rise of money wages paid to workers in modern industry replacing the wages in kind received by the apprentices of the former handicraft industry. Under this economic system, communal landownership was largely transformed into private ownership by a class of landowners consisting mainly of tribal *shaykhs*, urban notables and bureaucratic officials and officers, up to the promulgation of the Land Reform Law No. 30 in September 1958. Capital—commercial, real estate and industrial—had also been accumulated, however slowly, by the rising middle class. The peasantry remained almost entirely landless, and the working class without capital.

The principal changes in the pattern of consumption and imports reflected, for the greater part of the period of our study, the conditions of the urban population. The food of the peasantry retained essentially its traditional character, with the exception of the introduction of tea and sugar during the interwar period, but their consumption became substantial only in the 1950's. The clothing produced by the handicraft industry was substituted by cheap calico from imports and from the local industry during the 1950's.

But the pattern of consumption of the urban population, especially in the principal cities of Baghdad, Basra and Mosul, became increasingly rich and diverse, mainly in proportion to the increasing share of tribal and urban landowners in the surplus agricultural produce, to the share of the commercial bourgeoisie in the profits of trade and real estate, and to the increase in the profits of the industrial bourgeoisie. Not only did the consumption of meat increase, but vegetables, fruit, sweets and liquor also became widespread, especially amongst the *shaykhs* and the mercantile sections of the population. Modern housing and furniture came very much into vogue from the 1930's. In addition, the use of luxurious motor cars by the upper income groups, and of ordinary motor cars by the middle

classes became widespread. On the other hand, the consumption by the other sections of the urban population of cheap textiles, tea and sugar also increased, especially during the 1950's and 1960's.

Moreover, imports of capital equipment, raw materials and semi-finished manufactured goods were also rising. This in turn reflected the expanding economic activity among the urban population. Thus, the value of productive imports per head of the urban population increased from a quarter of a dinar per annum during the 1860's to about ID.18 on the eve of the 1958 Revolution. This increase in the rate of growth of productive imports reflected the growth of urban investment, especially in commerce and real estate, at a rate insufficient for rapid industrialization and full employment.

All these long-term changes in the pattern of production, consumption and trade would no doubt be appropriately manifested in changes in the structure of employment and economic activity, were there adequate data on the occupational distribution of the Iraqi population. The long-term changes in Iraq's population may, however, broadly indicate the major shifts in the pattern of employment. Furthermore the occupational distribution of the population, as shown by the 1947 and 1957 censuses, indicates some important changes in the pattern of economic activity and level and structure of employment.

The long-term changes in the pattern of Iraq's population and employment may be seen in the absolute and relative decline of her nomadic population, the absolute and relative growth of her rural population up to 1930, the decline in the relative position of this part of the population afterwards, and, finally, the absolute growth but relative constancy of the urban population till 1930, with the later rise in the relative position of this component of the population.

The nomadic population declined from nearly half a million, accounting for as much as 35 per cent of Iraq's population in 1867, to under one-quarter of a million, accounting for only about 7 per cent in 1930, and to about 66,000 or 1 per cent of total population in 1957. The fall in the nomadic population provided part of the necessary labour for the expansion of rural production.

On the other hand, the rural population rose from just over half a million, accounting for about two-fifths of Iraq's population in 1867, to nearly two and a half millions, accounting for as much as 68 per cent of the total population in 1930, when its relative position began to decline. It rose absolutely to 3.7 millions, and fell off relatively to 58 per cent of the total population in 1957. This was partly due to the increasing rural exodus to the towns. The 'over-all' exodus, from the whole of the countryside to all towns, might be estimated at 45,000 persons per annum, while the 'partial' exodus, from some rural areas, such as 'Amāra, to the principal

commercial and industrial towns, might be estimated at about 16,000 persons per annum during the period 1947-57. On the other hand, the relative decline of rural population was due to the growth of urban population in Iraq.

Finally, the urban population expanded from the relatively high figure of nearly one-third of a million in 1867 to over three-quarters of a million in 1930, each accounting for one-quarter of Iraq's population in both years. After 1930, the urban population grew both absolutely and relatively. The relative constancy of the urban population before 1930 was, probably, due to the relative increase of town population consequent upon the growth of merchandise trade, and the processing industries, being more or less off-set by the comparative decrease in population owing to the decline of the extensive handicraft industries. After 1930, the urban population rose absolutely and relatively to 1.9 million or 38 per cent in 1947, and then to 2.6 millions or about 41 per cent in 1957. This later rise of the urban population was no doubt due to the emergence of consumer goods industries, the growth of building activity during the 1930's, the expansion of these activities and the establishment of new consumer and producers' goods industries, and the expansion of oil production during the 1950's.

The analysis of the changes in the occupational distribution of population during the decade preceding the 1958 Revolution shows that the proportion of the population occupied in the agricultural sector of the national labour force began to decline slightly. It rose absolutely from 748,000 in 1947 to 862,000 in 1957, and declined relatively from 57 per cent to 48 per cent. Socially, the agricultural sector consisted of two principal classes: the class of tribal and urban landowners, and the class of landless and poor peasants. The number of landowners did not exceed 168,000, 98 per cent of whom owned less than one-third of the area of agricultural holdings, while 2 per cent of them owned two-thirds of this area, according to the 1958-9 Census of Agriculture and Livestock.

It also seems that the population occupied in the industrial sector rose both absolutely and relatively, from 96,000 persons in 1947 to 263,000 in 1957, or from 7 per cent to 15 per cent respectively. Socially, the industrial sector also consisted of two main classes: the industrial class and the working class. The size of the young industrial capitalist class becomes partially clear from the number of industrial firms belonging to the Iraqi Federation of Industries, each of which possessed capital of not less than ID.10,000: they numbered 184 firms, and the total capital was valued at ID.46.5 millions on the eve of the 1958 Revolution. On the other hand, to arrive at the size of the working class, we have to add 90,000 workers employed in transport and communications in 1957, and 88,000 workers toiling in various private and public services and other activities

which would bring up the total number of workers to 442,000 persons on the eve of the 1958 Revolution.

Finally, the population occupied in the commercial and service sector rose absolutely and relatively, from 471,000 in 1947 to 774,000 in 1957, or from 35.7 per cent to 37.5 per cent respectively.

In 1957, the number of persons engaged in domestic and foreign trade was about 90,000 persons (of whom 8,600 were of the business class and 58,000 were working on their own account). The public service (excluding education) employed 150,000 persons (about 91,000 of them were workers) while the educational service alone employed 10,000 persons and the professional and technical services returned 39,000 persons. If the number of persons engaged in transport and communications and in the non-commercial services were excluded, the remainder of total employment in the territory sector would represent the real estate and commercial middle class. Both of these strata of the bourgeoisie expanded remarkably. In Baghdad alone, the number of real estate owners who entered into commercial transactions for the purpose of profit amounted to about 4,000 persons, who realized ID.6-9 millions per annum as profits on real estate transactions during the 1950's. The number of persons engaged in real estates services (such as real estate agents and others) amounted to 5,000 persons during the same period. As to the commercial strata, the number of registered members of the Baghdad Chamber of Commerce (founded about 1911) rose from about 288 persons in 1926-7 to 3,439 persons in 1957-8. With the establishment of chambers of commerce in most of the principal towns, especially in Basra (1928) and Mosul (1947) and in various other towns during the postwar period, the total membership of these chambers increased to 9,423 registered merchants on the eve of the 1958 Revolution.

The main characteristic of the structure of the Iraqi bourgeoisie—agricultural, real estate, commercial and industrial—is that it is mixed in the sense that its various strata are so intertwined that each stratum shares in the economic interests of the other strata, to a smaller or greater degree. Often, a bourgeois at one and the same time owns irrigation pumps and agricultural land and some urban real estate, undertakes transactions in one or more branches of commerce, and owns industrial stocks and shares if he is not the main founder of an industrial establishment. This mixed character of the Iraqi bourgeoisie may be illustrated by the development of the sources of finance of three prominent bourgeois families. The well-known family of Fattāḥ Pasha and Sons (Sulaymān and Nūrī) used to own some orchards and lands in Khālis, together with real estate in the form of shops, worked in the administration and army, and traded in textiles and grain. Despite the concentration of the wealth of this family in the woollen textile industry during the period 1926-64, it held substantial shares in the

capital of a cotton trading and ginning company, the National Knitting Company, the Iraq Cement Company, the Vegetable Oil Extraction Company, etc. The wealth of this family might be estimated, prior to the Nationalization Laws of 1964, at between four and six million dinars. The family of Muḥammad Ṭāhir al-Baghdādī and his son 'Abdu'l-'Azīz developed from commercial into industrial activity, especially in the cigarettes industry. M. T. al-Baghdādī engaged in trade before the First World War, and his wealth was then estimated at T£60,000. His son started his economic career in the tobacco trade with an annual income of 1,200–1,500 rupees. In 1934, this family established a joint company for the production of cigarettes which it completely controlled and owned within three years. It owns modern urban real estate which returns a relatively high proportion of its income, and participates especially in the tobacco and grain trade. Its wealth might be estimated at about two million dinars prior to 1964. Finally, the al-Jalabī family, especially 'Abdu'l-Hādī and Sons, developed from agriculture and land speculation, foreign trade, and industrial ownership of stocks and shares. The wealth of this family might be estimated at between three and four million dinars prior to 1964. Thus, while two-thirds of the income of the Fattāḥ Pasha family accrued from industry, the remainder originated in trade, urban real estate and agriculture. Three-fifths of the income of the Baghdādī family came from urban real estate, the remainder from industry and trade. Finally, three-quarters of the income of the al-Jalabī family originated in land speculation, and the remainder in trade and industry.

The development of the export-propelled and the import-propelled sectors, the changes in the pattern of production and exports and the pattern of consumption and imports, and the transformations in the structure of employment and economic activity, throughout the past hundred years, have not been independent of one another, but have interacted with one another, and with other sectors of the economy. Thus the growth of Iraqi foreign trade was accompanied by the development of new and improved forms of transport. Up to the First World War, the development of river and sea transport provided relatively quicker, cheaper and safer means of communication than the traditional ones. This not only helped to link Iraq with the expanding world economy, but also various parts of the country with one another. Then came the construction of railways, the length of track growing from 121 kilometres completed at the outbreak of the Great War to about 1,500 kilometres during the later 1930's and then to 1,648 kilometres during the early 1950's. The interwar period saw the development of road transport. Thus, by 1931, the length of such roads was officially estimated at 7,217 kilometres, of which only 273 were paved. The number of commercial vehicles also more than doubled, rising from about 700 lorries in the 1920's to over 1,500 lorries in the 1930's.

Both the length of roads and the number of lorries increased during the war and postwar years. The length of roads rose to 8,000 kilometres, of which 2,500 kilometres were levelled and paved and 500 levelled only, during the early 1950's. The number of lorries also increased to about 7,000 during the same period.

However inadequate these means of communication were relative to the size and productive capacity of Iraq, they promoted not only the expansion of foreign and domestic trade, but also the unification of the country, the implementation of law and the establishment of order. They also undermined the basis of nomadic life and enhanced its decline, offered an alternative in the rise of pastoral production and settled agriculture, and hence followed the increase in rural population; they promoted the growth of industry from the 1930's and hence gave impetus to the growth of the urban population. Thus the external economies generated mainly by the growth of transport and the development of law and order, both of which were the results of the expansion of Iraqi trade with the advanced economies of Europe and America, contributed to the transformation of the structure of Iraqi society. These benefits or the external economies emanating from these developments extended beyond the foreign trade sector, to the economy of Iraq as a whole.

V. THE RISE OF A DEPENDENT ECONOMY

The ratio of foreign trade to national income (or population) is usually low in a primitive economy, but it rises rapidly with development. At the outset of the period of our study, Iraq was largely self-sufficient because so great a part of its production was made available by more or less self-sufficient producers of food or clothing, who handled a comparatively small amount of money, and traded only a very small part of their output. One consequence of the growth of trade and the decline of self-sufficiency was that, throughout the period of our study, foreign trade developed more rapidly than income or population. Thus, agricultural production increased at approximately 1.2 per cent per annum, and population at approximately 1.9 per cent per annum, while the growth of the export trade was as fast as 2.7 per cent, throughout the whole of the period, from the 1860's to the 1950's.

Moreover, the importance of foreign trade in the early stages of Iraqi development is also shown by the fact that in this stage leadership, in communication or trade, was in the hands of foreign entrepreneurs. It was the developing European countries, whose consumption was growing, that sought new sources of supply. European entrepreneurs were better informed about techniques, whether of production, or marketing transportation, which gave them an advantage over the nascent entrepreneurs

of Iraq. In the course of a few decades, Iraqi entrepreneurs have both grown in number from a few hundreds before the First World War, to a few thousands during the interwar period, and then to many thousands during the postwar years, and acquired some of these techniques. With the advantage of operating more cheaply from one's home base, the Iraqi entrepreneurs have begun to compete with foreign entrepreneurs, during the interwar period, and to challenge them during the postwar years.

It is the deficiency of the home market which makes the role of foreign trade in economic development so important. These deficiencies arise, either in total demand in the response of key sectors of the economy, or in the attitude towards competitive struggle for markets. Accordingly, at low levels of economic activity, production for the foreign market is usually the turning point which sets a country on the road of economic growth. Merely to produce more for the home market is unprofitable, since extra receipts will not equal extra outgoings, unless some demand is captured from some other producers, and this requires innovation. Not only does the latter require new techniques, which at these levels usually come from abroad, but more important is the fact that the social atmosphere is not very conducive to innovation and competition for markets.

The general importance of international trade in the process of economic development is shown by the increasing ratio of foreign trade to the national income, the more rapid growth of foreign trade than income, and the entrepreneurial leadership of the mercantile community in the early stages of capitalist development.

In the absence of any national income calculations for Iraq up to the 1950's, it is only possible to calculate the value of exports and imports, reflecting production, consumption and investment, per head of the Iraqi population. It is probable that the changes in the ratio of foreign trade to national income move in the same direction as its ratio to population over long periods of time. During the 1860's, the value of foreign trade per head of the Iraqi population amounted to 650 *fil*s; it rapidly rose to ID.1/400 during the 1890's, and then to ID.1/800 on the eve of the First World War. During the mid 1930's, the value of foreign trade per head of the Iraqi population rose to ID.3/100.

In 1939, the *per capita* income of Iraq was put at \$48 or about ten dinars (at the current rate of exchange). As the population of Iraq was estimated then at about four millions, the national income would be about \$192 millions or about ID.40 millions. Thus, the ratio of foreign trade, valued at ID.11.9 millions (excluding oil exports), to the national income was about 34 per cent. This would rise to 53 per cent, if the value of oil exports, which amounted to ID.9.4 millions, were included. This means that the development of foreign trade, during the 1864-1939 period, was at a rate higher than the rate of growth of national income, as its ratio rose

from 6 per cent of the national income during the 1860's, to about 17 per cent on the eve of the First World War, and further up to 34 per cent in 1939. This also means that the foreign oil sector, especially its crude oil exports, began to play as important a part as foreign trade in the national income at the outbreak of the Second World War.

In addition, the ratio of the value of the export trade (excluding oil) to the national income amounted to 9 per cent in 1939; and if oil exports were included, it would rise to 32 per cent. This also reflects the importance that oil exports began to acquire in the national economy. As to the ratio of the value of the import trade to the national income, it amounted to 20 per cent at the outbreak of the Second World War.

The dependence of the Iraqi economy on foreign trade and oil increased gradually. In 1950, Iraq's national income amounted to ID.158 millions (at current prices), while the value of foreign trade (excluding oil) was about ID.57.6 millions, i.e. its ratio to national income rose to 37 per cent. If oil exports, amounting to ID.23.6 millions, were included, the ratio of the total value of foreign trade to national income would be 51 per cent.

But the ratio of the value of the export trade (excluding oil) to national income rose rather slightly to 12 per cent. This means that the rate of growth of domestic exports was about equal to that of the national income, and the rate of growth of oil exports was even lower than this. However, the ratio of the value of the import trade to national income continued to rise to about 24 per cent in 1950. This indicates that the rate of import growth was higher than that of the national income. This is consistent with the economic disequilibrium reflected in the increasing deficit on the balance of payments, the deterioration in the terms of trade, the decline of agricultural productivity, and ultimately the increasing economic dependence of the Iraqi economy on the foreign oil sector and the world market.

The dependence of the Iraqi economy on the foreign oil sector and its exports increased so much that the role of foreign trade (excluding oil exports) was reduced to a secondary place in the national economy. In 1957, Iraq's national income was estimated at ID.355.4 millions, while the ratio of her foreign trade (excluding oil exports), which amounted to ID.134.6 millions, to national income hardly increased, being only 38 per cent. If oil exports are included, the ratio of total foreign trade to national income rose remarkably to 70 per cent. The ratio of domestic exports to national income fell off significantly to 4 per cent, while the value of Iraqi exports, including oil which amounted to ID.114.1 millions, rose remarkably to 35 per cent of the national income. The ratio of imports to national income continued to rise significantly to 34 per cent on the eve of the 1958 Revolution.

This tendency towards the increasing dependence of the Iraqi economy

on the foreign oil sector does not seem to have been counter-balanced by the effects of the policies of land reform and industrialization that came in the wake of the 1958 Revolution. Thus in 1962 Iraq's net national product at factor cost rose to ID.526.4 millions, while the ratio of her foreign trade (excluding oil exports), which amounted to ID.148 millions, to the national income declined to 28 per cent. If oil exports, which amounted to ID.223.7 millions, are included, the ratio of total foreign trade to national income improved very slightly, rising only to 70.5 per cent. The ratio of domestic exports to national income continued to decline to 3.5 per cent. But the ratio of total imports to national income declined to about 24 per cent, owing to the rise in the production of import substituting industries, under the favourable conditions of a relatively protectionist commercial policy.

The transformation of Iraq's subsistence economy into an 'export economy', or the tendency towards her increasing economic dependence, has been accompanied by a deterioration in her external economic relations, especially the unfavourable movement in her terms of trade, and the deterioration in her balance of trade and payments, principally during the period since the end of the First World War. The movement of Iraq's terms of trade tended to be in her favour as it moved from 84 during 1889-95 to 139 during 1896-1903 and further to 260 in 1904-11, as compared with 100 in the base years 1912-13. This was accompanied by a favourable balance on Iraq's trading account, as the value of the export surplus was about 10 per cent of the value of the export trade during 1880-1905. However, commercial policy played a secondary role, as the principal objective was the realization of maximum customs revenues, rather than the support of domestic development policy, this being Iraq's share of the Ottoman burden of foreign loans and investment through her contribution to the Ottoman Budget and Privy Purse by means of a gold outflow from Baghdad to Constantinople, up to the First World War. It was the favourable movement in the terms of trade and the very limited extent of foreign investment in Iraq that made for the rise of an export surplus which financed this outflow of gold to Turkey.

However, the interwar and postwar periods saw a general unfavourable movement in Iraq's terms of trade and a deterioration in her balance of trade. The index numbers of the terms of trade (excluding oil exports) were unfavourable, with the exception of the years of economic recovery of 1933-7, and of the Second World War. Thus, the terms of trade (excluding oil) moved from 36 in 1922-6 to 84 in 1946-51, and then fell off to 71 in 1952-8, as compared with 100 in the base years 1938-9. If oil exports are included, the terms of trade index tended to fall off more markedly to 52 during 1952-8. These unfavourable terms of trade were accompanied by a tendency towards trade deficit, which amounted to 228 per cent of the

value of the domestic export trade in 1919-25, fell to 108 per cent during 1934-9, and rose again to 121 per cent during 1954-7.

Despite the changes that occurred in commercial policy with the emergence of some developmental elements during the 1927-58 period, as the imposition of low duties on productive imports such as to amount to virtual exemption on an increasing scale, and the imposition of relatively high duties on unnecessary consumption imports or on available import substitutes, it could not stem the unfavourable tendencies in the terms of trade and balance of payments. These two unfavourable tendencies have been accompanied by increasing foreign private investment, especially in the extractive oil industry. Thus the Turkish Petroleum Company started investing in Iraq in 1925, and by 1928 had raised its capital to £2 millions from £160,000 in 1914; by 1934, when Iraqi petroleum began to flow to world markets, total capital expenditure rose to \$62 millions. In 1951, foreign oil investment in Iraq was estimated at £90 millions. This rose even more rapidly to over \$600 millions in 1959.

The relationship between these three tendencies—the unfavourable movement in the terms of trade, the deterioration in the balance of trade and the increase in the inflow of foreign oil investment—may seem at first difficult to explain. But its economic analysis is simplified by assuming that the proportion of real national income (i.e. at constant prices) saved falls off with the fall in real national income itself. As the rise in import prices amounts to a fall in real national income, it would lead to an increase in the ratio of expenditure on consumption to the money national income and thence in its absolute total. As the value of domestic investment may also most probably rise, or at any rate, may not fall off with the rise in import prices, it is reasonable to conclude that the value of domestic expenditure varies with import prices, i.e., it rises with a rise in import prices and vice versa. On the assumption that the rising ratio falls off with the deterioration in the terms of trade, it follows that the value of foreign investment varies with import prices, i.e., it rises with a rise in import prices and vice versa.

The statistical analysis of Iraq's imports and exports in relation to her national income during the 1953-62 period has shown that, in the first place, there is a high correlation between imports and gross national income so that of each one million dinars increase in the latter, ID.237,000 or nearly one-quarter was spent on the former. Secondly, there was an even higher correlation between imports and oil revenues, so that of each one million increase in the latter, ID.858,000 or 86 per cent was spent on imports. Thirdly, the income elasticity of demand for imports, which is the ratio of the relative rate of change of imports to the relative rate of change of national income, was found to be as high as 1.054. Finally, the relation between exports and gross national income was, however, found

to be so weak as to associate an increase in exports of one million dinars with only 1.9 million dinars of gross national product at factor cost prices. This implies a negative correlation coefficient between merchandise exports and gross national product (non-oil sector) at current factor cost prices, which means that merchandise exports have not been the most important determinant of the Iraqi national income during the 1953-62 period.¹

This special relationship between imports and income on the one hand, and exports and income on the other, may also be illustrated in terms of the annual compound rates of growth of exports, imports and income during the last two decades and especially since 1952. While the rate of growth of total exports has been at about 19 per cent per annum during the 1949-64 period, the rate of growth of net national product at factor cost prices has been about 7.99 per cent per annum during the same period. This means that the rate of growth of exports has been higher than and in a sense inconsistent with the rate of growth of income, as the former has been mainly determined by the growth of world demand for oil exports which have, in turn, been determined by the increase in the production of the foreign oil sector, independently of the Iraqi domestic (non-oil) economy. It is the basic isolation of oil production and exports from the Iraqi domestic economy which explains the low or even negative correlation between Iraqi exports and national income, or the mutual inconsistency between their current rates of growth.

On the other hand, the rate of growth of imports has been about 10.4 per cent per annum during the 1949-64 period, while the rate of growth of net national product at factor cost prices has been about 7.99 per cent per annum during the 1953-62 period. This consistency between the rate of growth of imports and rate of growth of national income, or the high correlation between imports and national income, is tenable on the basis of the most important common factor as between imports and income, namely the rate of growth of oil revenues. It is the oil revenues which, at one and the same time, finance over 90 per cent of the total value of the import trade and provide between a quarter and a third of Iraq's national income.

The restriction of the role of the foreign oil sector mainly to the financial or monetary plane (as shown by the fact that the oil companies' expenditure on wages and local purchases never exceeded 5 per cent of the value of oil exports) means that the secondary stages consequent upon the process of expansion in oil production and trade occurred outside the

¹ M. A. Al-Atraghi, *Statistical Analysis of the Pattern of Merchandise Foreign Trade of Iraq, 1948-1962* (London University Ph.D. Thesis, 1965); and an unpublished paper on 'Iraq's Foreign Trade in Relation to Her National Income, 1953-1962', by the same author.

Iraqi economy. Through the consistency of the rate of growth of imports with oil revenues, there leaked out most of the multiplier effect (the ratio of income changes to investment changes) of the process of expansion, whereas, through the lack of consistency between rate of growth of oil exports and the rate of growth of domestic income, there leaked out most of the effects of the accelerator (the ratio of investment changes to income changes), with the consequent development of the oil refining and petrochemical industries outside the Iraqi economy.

It is this duality in the Iraqi economy, or its development into a mono-economy dependent almost entirely on oil production and exports, or the economically unbalanced relation between the foreign oil sector and the domestic economic sector, or finally the disequilibrium between Iraq's foreign trade and her home trade, which constitutes the end-result of the interaction between foreign trade and investment and the local backward economy of Iraq during the past hundred years. More recently, this lopsided development has been accentuated by structural inflation, as shown by the higher rate of increase in the supply of money (actual currency issues plus bank deposits) than in real output, as the former increased annually by 9.2 per cent, the latter by 5.3 per cent during the 1949-64 period. It has also been reflected in the low and decreasing rate of growth of gross domestic fixed capital formation, which increased at 2.5 per cent per annum during the 1957-62 period. At the same time, it is the removal of these basic manifestations of unbalanced economic growth, or the real organic integration of the oil industry and the domestic economy, which constitutes one of the most fundamental conditions for the future development of Iraq's national economy, as far ahead as we can foresee.

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