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World Bank's assessment is flawed: Manufacturing is viable in Iraq Preliminary brief comments! By Dr Amer K. Hirmis *

Abstract

In late September 2020, the World Bank published a report entitled '*Breaking out of fragility: a country economic memorandum for diversification and growth in Iraq*' (henceforth WB 2020).¹ In October 2020, the Iraqi government published its 'White Paper for Economic Reforms: Vision and Key Objectives.' This was followed in January 2021 by a draft 'White Paper for Economic Reforms: Reform Implementation Plan'² - a "plan" covering 'governance' and 64 'projects' (if tasks). The latter requires 3-5 years to implement, and is said it "enjoys the support of the international community."³ The two White Papers (henceforth WP-I&II) quote and borrow extensively from WB 2020 report. In drawing a specific direction of travel for Iraq's economy, analogies abound in all these documents.

This note argues that the WB's analysis on which its 'diversification and growth' proposals for Iraq are based is flawed. This is particularly the case in the way Iraq's economy is characterised as one suffering from "the Dutch disease." There is also a glaring omission of the manufacturing sector, and its role in diversifying the economy. Rather, emphasis is placed on 'agrifood'; a strategy reminiscent of IBRD/WB's economic reform proposals for Iraq back in the early 1950s.

Despite their flaws, however, **if** the objectives of the WP-I&II are realised even at 70-80 percent rate within 3-5 years, the results will be commendable. They would make a significant contribution to urgently needed institutional reforms that would in turn build foundations for economic reforms in Iraq.

Both WP-I&II suffer from similar flaws apparent in the WB's report. A glaring omission in the WP-I&II is the absence of the 'The Ministry of Industry and Minerals' (MoI&M) in spite of the fact that many of the tasks set out in WP-II require the ministry's attention, especially when many of the state owned enterprises (SEOs) it manages suffer from multiple problems. It remains unclear whether this omission means that the authors of WP-I&II

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agree with some international institutions that manufacturing perhaps is not viable in Iraq. Or, whether there might be other possible explanations.

This note argues that the manufacturing sector forms a critical part of any attempt to diversify the Iraqi economy away from its damaging over-dependence on crude oil revenue. For decades now, Iraq's economy has been transformed into a distribution/consumption, not an investment-driven, economy, due to excessive overdependence on oil, and the way oil revenues have been abused by successive Iraqi governments. In devising and implementing economic diversification policies and institutional reforms, the Iraqi government should, arguably, look forward, not backwards.

Key terms: the Dutch disease, manufacturing sector, diversification, institutions, reform, economy.

Structure

1. First, we address the question: does Iraq suffer from what is called “the Dutch disease”?
2. Then another question is addressed: is manufacturing viable in Iraq?
3. A brief, broad-brush, outline of industrial policy history in Iraq is provided, exploring why the country has witnessed the atrophy of the manufacturing sector over the past 70 years.
4. Conclusions.

1. Does Iraq suffer from “the Dutch Disease”?

Subject to be convinced otherwise, the short answer is NO. Let us see why?

The notion of “the Dutch disease” as coined by The Economist (Nov. 26, 1977: 82-3) is easy to fathom. To quote from the original article, unemployment in Holland rose “from 1.1 percent of the workforce in 1970 to 5.1 percent now (1977)”. “Employment in manufacturing industry has fallen 16% since 1970.” Yet externally, “Holland appears strong. The Dutch guilder...having risen in trade-weighted terms by 16.4% since December, 1971” led to current account surplus right through the shock of higher oil prices “averaging nearly \$2 billion a year between 1972 (and) 1976... This contrast - between external health and internal ailments - is a symptom of ‘the Dutch disease’ since it is widely believed to derive from Holland’s gas reserves, its spectre is beginning to haunt Britain - especially after sterling’s recent strength.”

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This is the point. Using the Dutch experience, The Economist's '*Business Brief*' aimed to caution the British government of the possible consequences of rising sterling engendered by the North Sea oil/gas windfall lest this is abused, leaving Britain desolate "when the flow of North Sea oil and gas begins to diminish, about the turn of the century." Of course, neither the economy of Holland nor Britain's went desolate. The Dutch government spent, not invested the bulk of the proceeds from gas revenue (*ibid*). The Dutch manufacturing recovered, and today it comprises export-oriented, competitive 'state-of-the-art' components.⁴ As for Britain, the 1980s deindustrialisation was significantly caused by the neo-liberal (deregulation) policies of Mrs M. Thatcher.

In short, once an inverse correlation between *currency appreciations* caused by higher external demand for a natural resource (oil/gas) is followed by a *decline in the export of export-oriented sector (manufacturing)* and rise in unemployment, this situation is normally diagnosed as "the Dutch disease."⁵ But correlation does not necessarily mean causation.

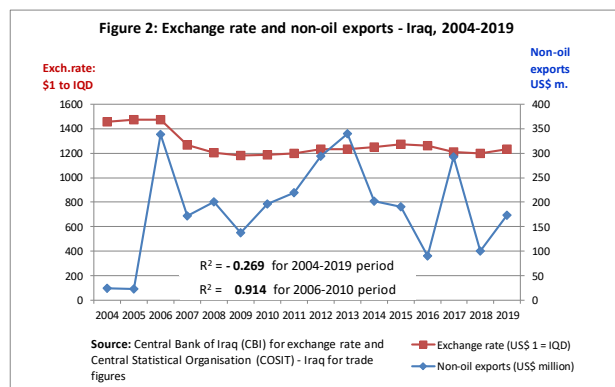
The Dutch manufacturing industry, it should be noted, was in the 1960s a complex and a sophisticated, internationally *competitive* industry producing aircraft and cars, building ships and, *inter alia*, it comprised thriving textile firms. When the Dutch guilder appreciated by a sixth, tradeable exports declined, as their international (price) competitiveness suffered.

Unlike Holland, Iraq has never had an internationally competitive manufacturing or agriculture sectors, exporting high-value commodities in high-volumes. The Overall, non-oil Iraqi exports form a scant proportion of the total. In 2019, they formed 3.9 percent of total exports (www.cosit.gov.iq), including scant manufacturing exports. Iraq suffers from decades of chronic balance of trade deficit. Though it remains to be seen, the December 2020 devaluation of the IQD is unlikely to lead to a marked increase in Iraq's non-oil manufacturing or agriculture exports.

To form a view on whether the appreciation of the Iraq Dinar (IQD) has had an inverse effect on Iraq's non-oil exports, however, the only recent period one may apply is 2006-2008 when the IQD appreciated by 20 percent.⁶ For completion, we have also covered the years 2006-2019, but not the preceding period, as the IQD had been fixed at 0.31-0.36 to the US\$ from 1953 to 1989. During 1980-2003 Iraq's economy was blighted by wars and economic sanctions; this period, therefore, is unlikely to provide a good basis for

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ascertaining the application of “the Dutch disease” notion to Iraq. The results are shown in Figure 2 below.



Deploying IQD exchange rate, *per se*, as a proxy for trade-weighted, and real exchange rate, the short-term effect on non-oil exports (variable 1) of the appreciation of the IQD (variable 2) during 2006-2008 does not seem to show an *inverse correlation* between the two variables. R^2 (statistical correlation coefficient) is positive at a high 0.914 (‘perfect’ $R^2 = 1$); both variables moved (closely) in the same direction. However, for the 2006-2019 years, depicting longer-term impact of IQD’s appreciation, R^2 is (again) in the positive at 0.421, there is a low correlation between the two variables, but they are still moving in roughly the same, not an *inverse*, direction. This is an important conclusion because, if it holds true to reality, the claim that Iraq suffers from “the Dutch disease” is no longer valid.

That said, it must be stressed that empiricism here might be deceptive - it is generally difficult to rely on ‘*ceteris paribus*’ assumptions in macroeconomics. An appreciation in the IQD or change in non-oil exports can be caused by economic policy, changes in productivity, competitiveness, or other factors.

Still, many Iraqi economists and commentators have intimated that Iraq shows symptoms of “the Dutch disease.” For example, in 2011, Ahmed M. Jiyad⁷ argues that, “a huge influx of foreign exchange” resulting from expanding oil production in Iraq “is bound to face three interrelated and theoretically enforcing hurdles: absorptive capacity limitations, Dutch disease and resource curse attacks.” No historical evidence was provided to support the contention.



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More recently, the WB 2020 report (noted above) states that “Nonoil sectors have been very weak over the past four years, particularly the service sector...which reflects symptoms of Dutch disease (p. 69)...The oil sector’s dominance has considerably reduced the external competitiveness of the Iraqi economy by amplifying the Dutch disease phenomenon. Over recent years, Iraq’s real exchange rate has appreciated while its structural and aspirational peer’s exchange rates have appreciated...which means that Iraq’s tradeable and more productive sectors have become more expensive compared to those of other countries and have hence lost competitiveness. This effect forms yet another roadblock to diversifying Iraq’s export base away from oil (p. 71).” Finally, whilst the “the Dutch disease” is *essentially* triggered by currency appreciation, not a rise in the oil/gas prices, the apparent correlation drawn by WB between a rise in oil prices and the decline of manufacturing in Iraq over the recent decades (p. 79) is surprising!

Rather than providing hard evidence, akin to the original notion of “the Dutch disease” as set out in The Economist’s article noted above, the WB’s report deploys a familiar narrative of an association between currency appreciation and decline in export-oriented industries. To begin with, the WB’s report, surprisingly, applies the notion to the ‘service sector’, which is hardly known as an export-oriented sector in Iraq? Given its wealth of statistical data on Iraq, it would have been useful for the WB’s research team to provide supportive statistical data for the assertions made, including alleged loss of competitiveness in the tradeable sectors! In the absence of such analysis, the credibility of the assertions made by WB becomes in real doubt. And, there lies the flaw in characterising the Iraqi economy as one suffering from “the Dutch disease” - an assertion based on incidental evidence.

If our interpretation of WB’s report is correct, the implications are serious in the sense that the Iraqi government’s WP-I has relied heavily on it in drawing the diversification strategy for Iraq. In saying that the “uncompetitive exchange rate of the IQD rendered domestic products uncompetitive” (p. 20), there is a covert hint in WP-I that Iraq does suffer from “the Dutch disease.” Like the WB 2020 report, the WP-I too views diversification through the prism of agriculture, oil and gas sectors (pp. 60-2). The industrial sector finds no mention, except for providing infrastructure in ‘industrial cities’ (p. 84).

Whilst the WB is not responsible for others adopting its assertions, some of the serious implication of this might include discouraging large-scale, export-

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oriented, manufacturing by Iraqi policy makers; increasing the influx of imported goods which might be competitively produced domestically; and exonerating the policy makers from ineffective, indeed damaging, economic policies applied post-2003, leading to the atrophy of the manufacturing sector.

It is in this context that the glaring omission of MoI&M in the WP-II is concerning and may drive coach and horses through its objectives and render it much less effective. Indeed, of the 64 tasks set out in the draft WP-II at least tasks 20, 25, 26 and 64 all require the attention and involvement of MoI&M in economic, financial and institutional reform, especially when the ministry has responsibility for many SOEs, which in turn require multiple reforms.

On this basis, it appears reasonable to ask whether the Iraqi government's WPs-I&II aim to relegate the manufacturing sector in the rank of economic activities in the context of the said reform and economic diversification, looking back to the early 1950s economic policies in Iraq. Those policies concentrated on the agriculture sector, in support of the tribal sheiks, who in present-day Iraq have regained a significant social, economic and political base and power!

2. Is manufacturing not viable in Iraq?

In proposing an economic diversification strategy for Iraq through the prism of agrifood (WB 2020: Chapter 4: 135, 137-140; 151), the WB appears to be consistent with the 1952 IBRD/WB report, which believed (then) that Iraq should concentrate on agricultural development⁸ though Iraq had had (small-medium-sized) manufacturing firms for a long time, some of which might have grown if the right support had been given. The reality is that this sector has been gradually shrinking mainly due to lack of investment, competitive business environment and (except intermittently) a general lack of government policy interest in the sector.

In order to identify those sectors that merit support in the context of driving competitiveness, the USAID commissioned an admirable 2006 study - 'Iraq's Competitiveness Analysis'⁹ produced by Louis Berger Group (LBG/USAID 2006), of which the recommendations were never followed. Indeed, the Ministry of Planning (MoP) did not even acknowledge the study - it was not noted in any of its NDPs (National Development Plans), notably the 2018-22 NDP, where manufacturing was allocated a mere 2.2 percent of planned investment (Table 11, p. 58 English).

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The 2006 LBG/USAID study identifies industries “which possess intrinsic advantages (or relatively fewer disadvantages), and therefore *should be able to compete in an open market with as little assistance* from public sector as possible. It also seeks to identify sectors that benefit from physical proximity to large markets, in this case the domestic Iraqi market” (p. 2; *italics added*). The study notes that some of these industries are “currently active” some have “potential for job creation and human resource development, others have “a potential to contribute to the business environment - cross-cutting industries (*ibid*).

Applying the ‘Market Test’ and the ‘Development Test’¹, the 10 top-scoring industries and their rankings are shown in Table 1 below. The study also states that “Each of the ten sectors which merit support should be studied in greater detail by qualified experts (who) should be able to analyze sectors in detail and devise workable implementation plans in thirty to forty working days.” (LBG/USAID 2006: 3).

Industry	Rating
Poultry production	A
Agri-processing	A
Fisheries (petrochemicals)	A-
Plastics	A+
Pharmaceuticals	A
Petrochemicals	A-
Mobile telecommunications	A-
Financial services	A
Tourism	A+
Cement	A+

Source: USAID, 2006: 17

The results of the ranking for each of 30 industries (on ‘the intermediate list’) across the seven criteria (noted above) showed that the following industries were promising: automotive light assembly, agriculture equipment, automobile manufacturing, semiconductor manufacturing, scientific R&D services, HVAC equipment manufacturing, ceramics and glass, optic fibre, tire and rubber production and metallurgy.

And yet the WP-I&II hardly mention the sector. It is perhaps not too bold to suggest that the policy influence of international institutions post-2003 seems

¹ The ‘Market Test’ covers “firm strategy and structure, supply conditions, demand conditions, and support and related industries” (LBG/USAID 2006: 25). The ‘Development Test’ covers “likelihood of new jobs, contribution to regional growth and likelihood of human resource development” (*ibid*). The latter test considers an industry’s potential contribution to Iraq’s broader economic development goals.



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to be apparent on government pronouncement re: development planning and economic reform strategies.¹⁰ COSIT's (Central Statistical Organisation) figures for the contribution of manufacturing to GDP for the first three quarters of 2020 is an average 1.13 percent, at 2007 constant prices.¹¹

If the established post-2003 policy stance on industry - that is to diminish its size and contribution to Iraq's GDP - is followed in WP-II, as it seems to be, then this is consistent with historical policy since the 1950s, with the exception of 1958-1962 and 1974-9. Arguably, no institutional, or economic reform, could be conceived without giving a major role to MoI&M or manufacturing industry, especially (as noted above) when the ministry has responsibility for so many SOEs, which in themselves need multiple reforms.

3. The atrophy of the manufacturing sector in Iraq - why?

History matters, and the history of industrial policy in Iraq since early 19th-Century might (discursively) be summarised as follows:

1. Dawud Pasha (Ottoman governor of Iraq 1816–31) introduced relatively large-scale manufacturing in Iraq, and establishing small cotton and woollen textiles factories, serving the needs of his army, and Iraq's first printing press (Abdullah, T. J. 2011: 69).¹²
2. Midhat Pasha (Ottoman governor 1869–72) abolished certain taxes to encourage increased production, but the manufacturing sector received the least attention. With the opening of the Suez Canal in 1869, integrating Iraq further into the world economy "...the country remained woefully short of modern machine-operated industries. With very few exceptions, industrial production continued to take place as it had for centuries, through small workshops using man and animal power" (*ibid*: 82 - as in ref. **xii** above).
3. Britain's economic policy in Iraq is articulated through treaties (e.g. the 1930 Treaty of Alliance) or the 'British Middle East Office' based in Cairo and dissolved in 1949. A clear policy stance on manufacturing was articulated in July 1949 - a meeting in London of the British ambassadors in the Middle East felt it was time to push ahead vigorously in the field of development, and in the case of Iraq, they encouraged agricultural produce, which Britain needed; the industrialisation of Iraq attracted limited attention, lest any growth might have competed with imported British goods (Sassoon J. 1987: 37-8).¹³
4. Only 4.8 percent of the total 'budgetary allocations and expenditure on capital development work' during 1931-1950 went to 'grants to industry



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- and other development schemes’, which probably meant even less than that for manufacturing industries proper (*ibid*: 235 - as in ref. [xiii](#) above).
5. Government advisors ¹⁴ in the early 1950s, including IBRD (International Bank for Reconstruction and Development, or the World Bank - WB) argued that industrialising Iraq would be a policy of building up industries behind tariff walls.
 6. A subsequent 1963 IBRD report ¹⁵ traced the slow industrial growth to several factors, of which a key one was that “industry was accorded a low priority in government plans, which stressed infrastructure and agriculture.”
 7. This policy stance was reversed during 1961-69; around 30 percent of all planned (public) investment went to ‘industry’ ¹⁶. Production remained weak, missing its target by 49 percent. ¹⁷
 8. After 1968, policy drew a clearer distinction between the public and the private sectors, giving incentives (tax holidays, subsidised interest rates, etc.) to private entrepreneurs especially in less developed regions. A large number of projects were identified for the private sector, most of them small and quick-yielding in consumer goods industries and services. ¹⁸
 9. Hugely boosted by increased oil revenues in 1972 (following the nationalisation of Iraq Petroleum Company - IPC) and the spike in oil prices following the ‘1973 oil crises’, the *revised* 1970–74 NDP allocated 37 percent of the total (IQD 2,402 million) for industrial development, in anticipation that circa IQD 50 million would be generated by private sector investment. ¹⁹ Large-scale SOEs were constructed, including cement, vegetable oils, oil products, woollen textiles, plastics, fertilisers, petrochemical and, *inter alia*, engineering industries.
 10. Iraq’s decision to wage wars and invasions, coupled with economic sanctions followed by the 2003 invasion of Iraq by the US-led allied forces, brought unprecedented destruction of much of manufacturing and infrastructure.
 11. Driven by the intent to privatise SOEs in their quest to establish a liberalised ‘market economy’ swiftly, regardless of the history of the economic or social dynamics, the CPA (Coalition Provisional Authority) forged ahead. The recommendations of the 2006 LBG/USAID study (noted above) were never considered by Iraqi policy makers;
 12. The post-2003 period has witnessed an intriguing lack of interest (to put it mildly) in manufacturing and industry in general, as reflected in all the national development plans of the MoP, notably the 2018-22 NDP, where only 2.2 percent of total investment allocations is made for manufacturing. WP - I and II hardly mention the sector. It is perhaps not
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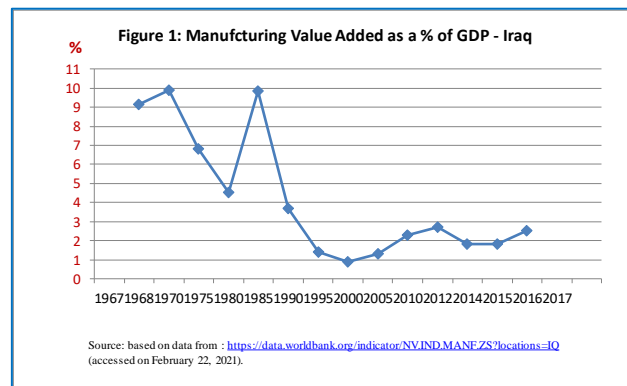
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too bold to suggest that during this period, the policy influence of both the IMF (International Monetary Fund) and the WB (on which more below) seem to be apparent on government pronouncement re: development planning and economic reform strategies.²⁰ So much so that the COSIT (Central Statistical Organisation) figures for the contribution of manufacturing to GDP the first three quarters of 2020 is a mere 1.13 percent, on average, at 2007 constant prices.²¹ Or, using COSIT's historical data, a decline from 14 in 1970 to 4 percent in 2020, at current basic prices. The direction of travel is clear, and likely to continue without policy reversal, which, alas, does not seem to be in sight.

The above account strongly suggests that the size of manufacturing industry in Iraq has been heavily influenced by government policy decisions. Furthermore, the post-2003 period has witnessed the atrophy of manufacturing; a view supported by WB's data (Figure 1 below). A poor investment environment in Iraq has also significantly discouraged *private sector* participation in manufacturing investment, posing major risks for economic diversification.²²



Questions: Are there any other reasons (or explanations) for the lack of government (policy) interest in manufacturing in Iraq?

Ideological explanatory factors

Salam Zaidan, an Iraqi economics journalist, has recently offered an insightful thought: “Rent extirpates any attempt to create productive classes, and activating (*taf’īl*) civil society that would confront, and correct, state policy.”²³ Speculating, perhaps this has been the covert aim of Iraq’s polity post-2003 in neglecting the manufacturing sector, and offering poor, if obstructive,

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environment for the private sector to invest in productive sectors of the economy.

Taking a longer view, perhaps Britain's economic policy in Iraq (noted above) had a similar aim by encouraging agricultural produce and infrastructure to support in part the government's social base - the semi-feudal tribal system and the sheiks. It had possibly nothing to do with jeopardising the perceived cost comparative advantage of British exports. Fast forwarding, the 'big push' to "industrialise Iraq" in the second half of the 1970s was driven, by the "interests of the Iraqi state...or even the 'Arab World'" as stipulated by the November 1971 Ba'thist 'National Action Charter' (NAC), which also stated that the NAC 'is a frame of reference' for Iraq's planners and 'not the limited aim of developing only Iraq.'²⁴ In the event, most 'new' large-scale industries suffered from multiple problems, including maladministration, underutilisation, monopolistic practices, imposition of administrative prices, and low productivity.²⁵

Fast forwarding, it is also perhaps pertinent to observe that the chief architect of the WP-I&II, the deputy PM and finance minister, Ali Allawi had in December 2017 co-authored and published 'The Manifesto' (www.Manifestgroup.org), together with Messrs Luay al-Khateeb (former minister of electricity) and Abbas Kadhim (currently heading the 'Iraq Initiative' at the Atlantic Council). Many of the key *ideas* in WP-I&II find their origin in 'The Manifesto', which is portrayed as a "declaration (and) a road map for tackling the pressing issues that we (Iraq) face(s)." Its commendable aspirations include achieving "peace, stability, security and prosperity." This 'vision' is to be achieved by rising to 20 challenges, including "degradation of the institutions and machinery of government" (the main subject of WP-II) and a set of strategies, which find a scant mention in WP-I&II, for example, "A strong push into value-added petrochemicals and energy intensive industries; encouragement of large scale agribusiness enterprises and ...Establishing a network of special enterprise zones, free zones and heavy, energy-intensive industrial zones in key regions." Interestingly, 'The Manifesto' also aims to forge a "strategic economic relationship with the dynamic economies of Asia", some of which (e.g. South Korea) revived their economies on the back of competitive export-oriented manufacturing industries.

Finally, 'The Manifesto' also aims to "revamp radically the 'Organisation of Islamic Cooperation', or create an entirely new grouping of Islamic states to

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replace the deficient institutions of the present time." Stated thus, it is perhaps legitimate to assume that the authors of 'The Manifesto' aimed to link their vision for Iraq and the strategies set out to realise the vision, including governance/institutional to teachings of Islam. By extension, given that there is quite an extensive overlap between 'The Manifesto' (not an official document) and the WP-I&II, the former might be taken to provide some context for the latter, bar the extensive data and graphs quoted from WB 2020 report.

Nonetheless, the manufacturing industry, finally, finds but a *casual home* in WP-I&II!

Based on the above account, it appears reasonable to suggest that the size and contribution of Iraq's manufacturing sector to GDP has been determined to a considerable degree by policy decisions as well as ideological factors, leading to its atrophy.

Are there grounds for optimism or pessimism?

Notwithstanding the long history, one could still depict potential reasons for optimism, including:

1. The security situation has relatively improved since May 2020, though dangerous signs of deterioration are also apparent at present, across the country given recent activities by the remnants of ISIS, various religious militias, and Hashd; and
2. The price of Basra light crude has jumped to over \$60 per barrel since February 5th ²⁶, securing more oil revenues than the (\$42 per barrel) assumed by the 2021 Draft Federal Budget. Hopefully, the severe fiscal challenges facing Iraq would be dealt with on rigorous socio-economic grounds.

But, there are also potential *risks* to be accounted for, going forward, including:

1. Given the near-collapse of Iraqi public/state *institutions*, and the prevalent corruption within, it is hard to anticipate a high rate of implementation of the WP-II programme, even if it is passed as law by parliament; this is perhaps one notable reason why historically the rate of implementation of economic programmes/strategies/plans has been poor, to put it mildly, hovering around 50-60 percent of targeted objectives, and much lower post-2003 ²⁷;

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2. The recent rise in oil prices, may lead government, yet again, to fritter public money in allegedly corruptive activities; a reminder of an Iraqi saying: “Ādat Halima ila ‘Ādatiha al-Qadima (roughly, ‘old habits die hard’)! The Abadi government allegedly did exactly this in 2017-2019 years, following an austerity programme engendered by the 2014 collapse of oil prices;
3. There is a real tension built into the WP-II document between trying to be accurate/concise in target setting and being bureaucratic in implementation. Both aspects are present in WP-II; as in the past, bureaucracy may dominate; efficiency will be given a rest!;
4. Given the precarious political situation in Iraq, especially as the ‘general elections’ approach, *political bargaining* will intensify and may force change of priorities, and distract the attention of government from enforcing the implementation of WP-II; and
5. MoI&M is *absent* in the WP-II document! The ministry’s 2013 ‘Industrial Strategy for Iraq - 2030’ (<http://industry.gov.iq/upload/upfile/ar/1326.pdf>) remains ink on paper to date. If the established stance of post-2003 policy on industry - that is to diminish its size and contribution to Iraq’s GDP - is followed in WP-I-II, as it seems to be, this does not bode well. The final version of WP-II should recognise this. If not, the absence of MOI&M may indeed render WP-I-II much less effective.

4. Conclusions

The scope of this note has been to point out that the conclusions reached in the WB 2020 report (so far as “the Dutch disease” notion is concerned) and those arrived at in WP-I-II in relation to diversifying the Iraqi economy away from overdependence on oil revenues, are not based on rigorous research. Instead, they are based on incidental, flawed, analysis.

In spite of the serious failures in supporting the manufacturing sector over the past 70 years by the government of Iraq, disregarding its role in the economic future of Iraq does not stand the test history. Time and time again the (foreign and domestic) private investors have been denied the opportunity to make a tangible contribution in this regard, as suggested by the author elsewhere.²⁸ Indeed, the WB’s work on ‘**doing business in Iraq**’ too clearly demonstrates that a conducive business environment for investment in Iraq is extremely challenging.

To assert that manufacturing is not viable in Iraq is a false hypothesis. Iraq’s weak manufacturing sector and scant non-oil exports have been the result of



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specific economic policies and ideology in the main, not a result of “the Dutch disease.” The Iraqi government will be well advised to review WP-I-II, and incorporate realistic policies to revive the manufacturing sector in Iraq.

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- ² White Paper I is available at: <https://gds.gov.iq/iraqs-white-paper-for-economic-reforms-vision-and-key-objectives/>. White Paper – II is available at the Government of Iraq (GoI) website on February 15 (<https://gds.gov.iq/iraqi-government-to-begin-implementation-phase-of-the-white-paper-for-economic-reform/>). A summary in English is provided on the same site.
- ³ “The White Paper for Economic reform enjoys the support of the international community as reflected by the establishment of the Iraq Economic Contact Group (IECG) whose mission is to provide the support needed for the economic reform process in Iraq within the framework of the White Paper. The IECG includes, in addition to Iraq, the G7 group of industrialised countries, the World Bank, the International Monetary Fund, and the European Union.” (see the website in [ii](#) above)
- ⁴ See for example: <https://investinholland.com/doing-business-here/business-operations/advanced-manufacturing/#:~:text=The%20advanced%20manufacturing%20sector%20in,operations%20in%20nearly%20every%20sector> (accessed on February 24, 2021). Key industries include aerospace, life science and health, agri-food, electrical machinery, optical, technical, medical apparatus, and vehicles.
- ⁵ Brinčíková, Z. (2016). *The Dutch Disease: An Overview*. *European Scientific Journal, ESJ*, 12(10). (available at: <https://doi.org/10.19044/esj.2016.v12n10p>, accessed on February 18, 2021)
- ⁶ It must be stressed that the appreciation of the IQD by 20 percent was a *policy decision*, not one engendered by an increased demand for oil exports. During 2006-8, the IQD appreciation to IQD 1,400 = US\$1 in 2006 then to IQD 1,230 = US\$ in 2008 from a base of IQD 2,050 = US\$1 in 2003 (See: <https://cbi.iq/news/view/1129>).
- ⁷ Jiyad, A. M. (2011) *Review of Recent Iraqi Literature* (MEES, Vol. 2:12, pp. 43-50).
- ⁸ The WB’s proposal is reminiscent of its proposals to the Iraqi government in 1952 (see IBRD - International Bank for Reconstruction and Development/WB (1952) *The Economic Development of Iraq* (Baltimore, John Hopkins Press: 40; 97).
- ⁹ USAID (2006) *Iraq Competitiveness Analysis* (Prepared by the joint venture partnership of The Louis Berger Group/The Services Group – IZDIHAR, as part of the Iraq Private Sector Growth and Employment Generation Series. Washington DC: USAID).
- ¹⁰ See NDP 2018-22: 60, Table 6 (posted at: <https://mop.gov.iq/> in Arabic). In forecasting the components of GDP to 2022, and setting out its key assumptions (NDP: 16) it has given regard to the Iraq-IMF 2017-20 SBA. It is also heavily influenced by the International Monetary Fund - IMF’s financial/economic projections for Iraq to 2022 (www.imf.org/en/~/media/News/Articles/2017/07/17/170717Iraq-2017-Article-IV...). The IMF required Iraq to adopt a stringent fiscal consolidation regime, where the emphasis of the NDP ended up. The NDP projected the contribution of manufacturing to GDP to be 1.12 percent in 2022 (consistent with IMF’s policy assumptions) own projections), up from 0.84percent in 2015 (the base year).
- ¹¹ See http://cosit.gov.iq/documents/national_accounts/national_income/reports/gdp (accessed on February 24, 2021).
- ¹² Abdullah, Thabit A. J. (2011) *A Short History of Iraq* (Longman – Pearson Education Ltd. – London, 2nd Edition).
- ¹³ See British FO371/75072/E9045/1058/65/G, *apud* Sassoon, Joseph (1987) *Economic Policy in Iraq, 1932–50* (Frank Cass and Co Ltd – London, pp.37-8).
- ¹⁴ See for example:
IBRD (1952) *The Economic Development of Iraq* (International Bank for Reconstruction and Development - Baltimore, John Hopkins Press)
Iversen, C. (1954) *A Report on Monetary Policy in Iraq* (a publication of the National Bank of Iraq)
Salter (Lord), Arthur (1955) *The Development of Iraq – A Plan of Action* (Caxton Press, Caldwell, USA)
Langley, Kathleen M. (1962) *The Industrialisation of Iraq* (Harvard UP).
- ¹⁵ IBRD (1963) *Current Economic Position and Prospects of Iraq* (Report No. AS – 100a, also posted on http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2000/04/19/000178830_9810190208185/Rend



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ered/PDF/multi_page.pdf).

¹⁶ See:

GoI - Government of Iraq (1961) Detailed Economic Plan 1961/1962-1965/1966 (Law No. 70 for 1961, published in the Iraqi Official Gazette, No. 592 - p. 58 - in Arabic).

MoP - Ministry of Planning - Iraq (1969) Detailed Framework of the Five-year Economic Plan 1965-1969 (Government Printing Press, Baghdad - p. 43 - in Arabic). This allocated 33 percent of the total to 'industry.'

¹⁷ MoP (1971) The National Development Plan, 1970-1974 (Government Press - Baghdad - p. 101 - Arabic).

¹⁸ Hirmis A. K (2018) *The Economics of Iraq: ancient past to distant future* (GHP, p.141)

¹⁹ See reference **xvii** above (pp. 150-10).

²⁰ See reference **x** above.

²¹ See reference **xii** above.

²² Hirmis, A. K. (Dec. 2019) *Private sector investment in Iraq – what strategy for the next prime minister* (posted at: <http://www.iraq-businessnews.com/2019/12/13/private-sector-investment-what-strategy-for-the-next-pm/>).

²³ Zaidan, Salam (2021) *Devaluation of the Iraqi Dinar: efficacy or prattle?* (in Arabic – Takhfieth quemat al-Dinar al-Iraqi: fā'iliya am hurra'?), posted at: <https://assafirabi.com/ar/36030/2021/02/12/%d8%ae%d9%81%d8%b6-%d9%82%d9%8a%d9%85%d8%a9-%d8%a7%d9%84%d8%af%d9%8a%d9%86%d8%a7%d8%b1-%d8%a7%d9%84%d8%b9%d8%b1%d8%a7%d9%82%d9%8a-%d9%81%d8%a7%d8%b9%d9%84%d9%8a%d8%a9-%d8%a3%d9%85-%d9%87%d8%b1%d8%a7/> (accessed on February 26, 2021).

²⁴ See Penrose, Edith and Penrose E. Francis (1978) *Iraq: International Relations and National Development* (Ernest Benn – London, Boulder Westview press, p. 475).

²⁵ *Ibid*: 470-488. Penrose and Penrose provide a detailed critique of the 1975-1980 'big-push' modelled in part on the industrial and labour policies in Egypt.

²⁶ See https://oilprice.com/freewidgets/get_oilprices_chart/4187 (accessed on Wed. 24.02.21).

²⁷ Hirmis, A. K. (*op cit*: 273-292)

²⁸ See reference **xxiii** above.

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