IEN Economic Debate

A rejoinder to World Bank's response to my article Re: 'World Bank assessment is flawed…manufacturing is viable in Iraq.'

By Dr Amer K. Hirmis *

To the editors of the 'Iraqi Economists Network' (IEN)

At the outset, my thanks go to the editors of the IEN and also to the World Bank's 'Country Economic Memorandum Team' (WB-Team) for their interest in my article posted at the IEN website in early March (http://iraqieconomists.net/en/2021/03/08/world-banks-assessment-is-flawed-manufacturing-is-viable-in-iraq-preliminary-brief-comments-by-dr-amer-k-hirmis/). My article provides a critique of the late September 2020 World Bank report entitled '*Breaking out of fragility: a country economic memorandum for diversification and growth in Iraq*' (henceforth WB-2020). I am also grateful to WB-Team for making their response (henceforth 'WB Response') to my article available to IEN (http://iraqieconomists.net/en/2021/03/23/world-bank-country-economic-memorandum-team-response-to-ien-published-paper-by-dr-hirmis/).

Here, I shall touch on common ground, points of difference, a few research issues and, finally, conclude with a view on both my published article and WB-Team's response.

Common ground - a few examples
Like many Iraqi economists and those interested in Iraq's economy (me included), the World Bank has for a long time now:

1. Expressed deep concerns about the rentier character of the Iraqi economy, the way oil revenues have been used by the Iraqi state (or those who control it) and the deep structural changes required to drive the economy away from its damaging over-dependence on the crude oil exports, to the extent that this sector has become almost an exogenous sector.
2. In my March 2018 book (*The economics of Iraq: ancient past to distant future*) and subsequent articles based on the analysis of historical evidence, I have proposed that the private sector should lead the diversification of the economy, with emphasis on the productive sectors, specifically manufacturing and agriculture, together with physical and social infrastructure. This is analogous to what the World Bank has advocated in recent years, though it has not yet (specifically) given due

emphasis to the role of manufacturing sector (see e.g.: http://www.iraq-businessnews.com/2019/12/13/private-sector-investment-what-strategy-for-the-next-pm/).

3. In my critique of the World Bank's 'Doing Business in Iraq 2020', where the report is acknowledged to be a commendable one detailing the lack of a conducive investment environment in Iraq (see http://www.iraq-businessnews.com/2019/11/25/doing-business-2020-iraq-report-a-critique/).
4. Finally, the causes for the state of the Iraqi economy, as identified in many of post-2003 WB's reports, are similar to those identified by many Iraqi scholars. These include widespread corruption, lack of sufficient capital investment, the nature of polity, and the way oil revenues are used.

Points of difference

A key difference between WB-2020 report and my article relates to characterising the Iraqi economy. Contrary to WB's assertion that Iraq suffers from "the Dutch disease" (DD), my own analysis provides statistical, and policy, evidence demonstrating that Iraq does not show symptoms of DD. Here I add the following remarks in light of 'WB Response':

Notwithstanding the wealth of data the World Bank holds, the WB-2020 report does not provide hard statistical evidence of a (positive or negative) association between changes in Iraqi Dinar's exchange rate and non-oil exports, for a reasonably long period of time, as my article does. WB Response asserts that it has ("actually") done some computations to prove their case, citing Figure 2.15 in WB-2020. WB Response also states that "the largest real appreciation (of Iraqi Dinar –IQD which) started in 2015 and while nominal exchange rate was fixed, the movement meant that domestic prices were gradually becoming more expensive than international peers and hence disadvantaging all sectors with export potential in agriculture, manufacturing and services."

Well, in terms of ascertaining whether the notion of DD applies in Iraq (as defined by The Economist), one would assume that attention should be paid to Iraq's exports and how these might be affected as a result of IQD appreciation. Export data from COSIT (www.cosit.gov.iq) show that between 2014 and 2019 the *major Iraqi trade partners* (to whom Iraq exports non-oil 'other commodities') are: United Arab Emirates (UAE) and Singapore. An oil-exporting economy itself, the UAE's imports from Iraq increased from US$90.4 million (or 47.6 percent of total Iraqi 'other commodities' exports) in 2015 to US$282.8 million in 2017 (or 96.9 percent of total Iraqi 'other commodities' exports), despite WB's *alleged 2015* *surge in in IQD's appreciation*. Singapore's non-oil imports from Iraq totalled US$86.2 million, or 44.9 percent of the total in 2015 and US$79.3 million, or 88 percent in 2016.

Neither of these two economies is depicted in Figure 2.15 of the WB-2020 report, used to assert that Iraq suffers from "the Dutch disease."

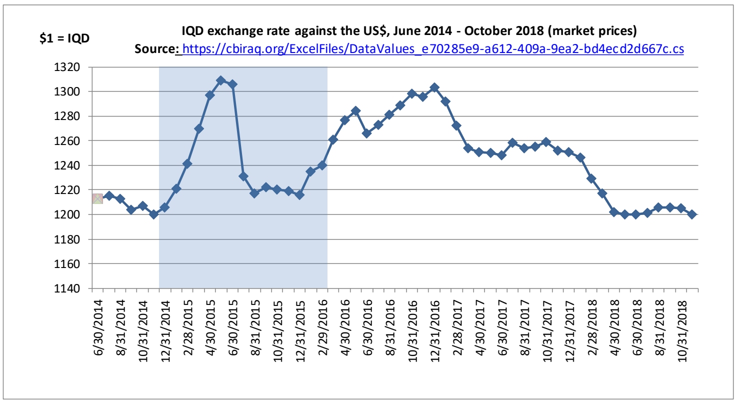
Instead, the selected Iraq's "trade partners" depicted in Figure 2.15 are Algeria, Azerbaijan, Colombia, Malaysia and Turkey. Whilst these countries might export more goods to Iraq when IQD appreciates, none of these countries' imports from Iraq was considerably affected by IQD's appreciation. In fact these countries do not feature in the Central Statistical Organisation – COSIT non-oil export data as main Iraq's export partners. Put another way, there is no evidence (from COSIT) to suggest that Iraq's non-oil exports to these countries were affected by an appreciation in the IQD.

The above can only point to the suspicion that the WB-Team has considered only countries that export to Iraq, rather than countries that Iraq exports to? If that is the case, the efficacy of the WB assertion re: DD would be in severe doubt, to say the least.

It would have been instructive if the WB-Team had provided factual data relating to the measure by which non-oil tradeable Iraqi exports declined as a result of the amplified claim that "the largest real appreciation (of IQD which) started in 2015 …" affecting the cost competitiveness of Iraq's non-oil tradeable commodities! Figure 3.6 (WB-2020: 100) suggests that such data is available to WB-Team, at least so far as the following sectors are concerned: food and live animals; beverages and tobacco; crude materials…; miscellaneous manufactured goods; machinery and transport equipment. This is surely an occasion where quantitative analysis might serve WB developing a case for "the Dutch disease" in Iraq?

As for the claim that "the largest real appreciation (of IQD) started in 2015 …" such a claim is, simply, not born by the facts.

Iraq's Central Bank's data (Figure below) suggest that the order of depreciation in IQD in the first half of 2015 was 6.96 percent; this was followed by an appreciation in the second half of 2015 by 6.89 percent. These opposing changes thus cancelled each other within the year 2015 itself. As the DD takes effect during the medium- to long-term timeframe, this sudden, extremely modest change in the value of IQD has hardly had a marked impact on the price competitiveness of the Iraqi tradeable exports, as my article demonstrates.



As my article has also shown, the largest appreciation of the IQD since 2003 took place as remarked in my article, during 2006-2008 when IQD appreciated by 20 percent against the US$. Even then, the DD notion *did not materialise*; the IQD exchange rate and non-oil exports moved in the same direction and no inverse relationship was depicted in the data.

Research issues

Here, I would like to welcome the clarification made in WB Response that "Financial sector, tourism, services, manufacturing, ICT among many others are all important that can be developed if both the price and non-price barriers for competitiveness are addressed." It would have been useful if WB-2020 report had been more explicit about this and its "selective exercise." The WB-Team could have elaborated further on the "most promising industries…are manufacturing goods, chemicals…" (*ibid*: 100). The references to individual industries in the manufacturing sector on pages 91, 105, 112 and 114 in WB-2020 report do not amount to a clear and explicit recognition of the sector's importance, as was the case in the 2006 Louis Berger Group report for USAID, referred to in my article.

One of the most important socio-economic/human capital challenges Iraq faces today is the inability of the economy to absorb the ca. 500,000 new entrants to the labour market each year! For this to happen, any economic diversification strategy worth its name should give due emphasis to the productive sectors (*manufacturing* and *agriculture* in particular) and the supportive infrastructure and supply chain (*linkages*) they engender.

Conclusions

My article in early March posted at IEN website has *factually* demonstrated that Iraq does not suffer from "the Dutch disease." The WB-Team has failed to counter the analysis with factual evidence; instead they asserted both in the WB-2020 report and in the WB Response to my article that Iraq suffers from symptoms of "the Dutch disease." In neither instance does the WB-Team provide a robust statistical association between the appreciation in the IQD, throughout the period 2004-2019 (or part of), and a marked decline in non-oil Iraqi exports.

On this basis, the WB-team's assertion that Iraq suffers from symptoms of "the Dutch disease" (WB-2020: 79) remains within the realm of perceptions at best, not reality.

I see the 'WB Response' as an improvement on WB-2020 report, in the sense that the WB-Team has acknowledged the role and importance of the *manufacturing sector* in the economy more explicitly than in the original report. This is a welcome recognition of the role of this sector in any credible *structural diversification* strategy for the Iraqi economy, going forward.

Finally, I thank the WB-Team for taking the time to comment on my article and to participate constructively in this important debate on the dynamics of the Iraqi economy.

* **Amer K. Hirmis,** March 27, 2021
Dr Amer K. Hirmis is *Principal* at UK-based consultancy CBS Ltd. (2008-present). In October 2009, Amer began a 20-months assignment as *Senior Development Planning Advisor* to the Ministry of Planning in Iraq (funded under the DANIDA programme for 'peace and reconstruction' in Iraq). The posts Amer has assumed include *Chief Economist and Head of Policy* at the London Chamber of Commerce and Industry (1992-5), *Economic Advisor* to UK South West Regional Development Agency (1996-8) and *Associate Director and then Head of Consulting and Research* (Middle East) at the global firm DTZ (1998 to 2007).

Amer K Hirmis is the author of **'The Economics of Iraq – ancient past to distant future'**
[https://www.amazon.com/Economics-Iraq-Ancient-distant-future/dp/1999824105]

END.