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Efficient performance in economic diversification policy in Iraq (Benefiting from the lessons of sample countries)

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Abstract

Economic diversification is a challenge for most developing countries, especially for low-income countries and small or commodity-dominated economies. Economic diversification is closely related to the structural transformation of its economies and the achievement of a higher level of productivity resulting from the introduction of knowledge and skills within the economic sectors, so the research seeks to benefit the Iraqi economy from the lessons of sample countries through industrial and knowledge transformation, and not relying on a specific economic resource, as innovation in economic diversification is of great importance in increasing the added value of the sectors used because of its significant effects in reducing production costs and increasing exports, which contribute to achieving economic development. It requires an effective economic policy to support development in Iraq, and fix the failures in policies aimed at financing the diversification process and reducing costs.

Keywords: economic diversification, studies from sample countries, the Iraqi economy.

1. Introduction

Economic diversification represents a challenge for most low-income developing countries as well as for countries with poor economies. It also creates a greater challenge for countries whose economies depend on oil and mineral resources. Most of the sample countries were able to diversify their economies by using skills in their economic performance, developing infrastructure in their local industry, as well as increasing the added value of their economic products and thus reducing production costs. The Iraqi economy is one of the most dependent countries on oil to finance its financial revenues, ignoring what the rest of its economic sectors can offer it, whether agricultural, industrial and tourism. As he did not take advantage of the opportunity that was and still is available in front of him to develop these sectors, as the Iraqi economy has lost the most basic elements of self-reliance or self-sustainability. And Iraq has become more vulnerable to external shocks resulting from the instability of export earnings due to the fluctuations in global oil prices. Therefore, diversifying the Iraqi economy has become the best solution for Iraq to get out of its financial and economic crisis and to use oil revenues to support and develop other non-oil sectors by taking advantage of the lessons of the sample countries in the research. The aim of the research: To extract insights from the lessons of sample countries about the economic diversification policy that led to industrial transformation and job creation, and which was able to stimulate economic development. The research problem: The problem lies in the absence of effective participation of the economic sectors, and the continuous dependence on a specific single resource despite the fact that the concerned countries possess large economic resources, which is the necessary condition for diversifying its economic base. However, some countries are heading towards economic diversification due to the absence of mental skills and innovation within industries It remained dependent on a single resource, and its primary goal remained poverty reduction, not economic development. The importance of research: that economic diversification has significant effects on global economies, especially those that depend on a particular single resource. Innovation in economic diversification is of great importance in increasing the added value of the sectors used because of its significant effects in reducing costs, which contribute to increasing economic development.

1.1 Research hypothesis:

Some countries with a strong resource base have been able to diversify their economic exports, but many of them have not been able to diversify their economies, even though they have diverse resources that can lead to achieving better performance in the long run, due to the presence of political and economic factors that limit the continuation of the economic diversification process.

The first axis: economic diversification: (concept and content)

First: The concept of economic diversification

Economic diversification is an essential component of economic development as the country moves to a more diversified productive and trade structure. The lack of economic diversification is often associated with increased exposure to external shocks that can undermine long-term economic growth prospects. Some poor countries that rely heavily on primary agriculture or minerals, that is, focus on a specific economic sector. This creates challenges from where exposure to sector-specific shocks, such as weather-related events in agriculture or sudden shocks in mineral prices (World Bank, 2019, p136). Maintaining long-term economic growth is a challenge due to fluctuations in basic commodity prices and specialized inefficiencies, and productivity growth in these sectors is slower than others and this is more evident in countries that depend on resources, which tend to underperform partly because their economies depend heavily on the extractive industries sector to generate foreign exchange and budget revenues. Among the most important conditions for the plan and strategy of successful economic diversification (Esanov, p3).

1-Designing the economic diversification strategy taking into consideration the available human capital and the potential for skills development in addition to specific non-oil potentials.

2-Investing in human capital that meets the needs of priority economic sector

3-Creating an enabling business environment that would provide the appropriate conditions for the growth of the private sector away from oil and gas-based activities.

4- Developing high-quality government institutions to assist in the diversification process, as well as building adequate physical and social infrastructure to support diversification efforts.

It can be said that the level of economic and export diversification is much lower in resource-rich countries compared to developed economies and emerging markets. It should be noted that the countries' natural resources resource-dependent helps economic diversification, but hinders export diversification efforts. Moreover, infrastructure and institutional quality have a strong influence on the scale of diversification. Governments should develop policies geared towards reducing corruption and improving government effectiveness to promote economic diversification (Esanov, p3). Economic diversification can be defined as the expansion of the range and diversity of products. As a means to increase the level of employment and economic growth, reduce poverty, and improve the economic well-being of citizens in general, and in the process of spreading risks related to various types of shocks to the economy (p182016 Sumbye, p182016).

Second: Dimensions of economic diversification (p182016Sumbye,):

1- The local dimension: It is a condition that provides appropriate conditions in the local economy to facilitate the diversification process, which in this case includes increasing the number of sectors in which income is generated.

2- The external dimension: which is international trade. Success in this dimension requires that the economy be globally competitive due to the fact that all countries of the world are fighting for the same market.

The second axis: the efficiency and economic diversification system in sample countries

1- Chile and Zambia the Efficiency of Economic Diversification

Chile is the world's leading producer and exporter of copper, it has 38% of global reserves, and in 2012 it accounted for 33% of global production. It is also a major supplier of molybdenum, rhenium, silver, gold, iron and natural nitrates. The mining industry in Chile was the mainstay during the previous period. More recently, it has tried to increase investments in the mining industry (LINKAGES, p5). Although since copper is still the main element, which accounts for 47% of total exports, amounting to 12% of GDP and an important source of revenue in Chile, non-copper exports have expanded significantly, especially in renewable natural resources such as agriculture, forestry and fish (ieg.worldbankgroup.org). Arguably, Chile has pursued a multi-track diversification strategy (World Bank, 2019, p141):

(1) Diversification "within" the industry, that is, increasing the added value in the copper industry by improving the quality of copper extraction and exporting processed products, and complementing this by developing local additional services.

(2) Diversification "across" industries, ie (developing fisheries and alcohol industries and developing agricultural production. In addition, mechanisms were established that allowed them to provide wages from extraction and investment in critical growth expenditures, for example, a surplus fund that works to sterilize spending levels, and this ensures that Macroeconomic stability also generates an accumulation of wealth when copper prices are high, and sovereign funds to manage saved wages, as Chile has invested a large amount of savings in advanced skills training that includes scholarships to enroll Chileans in the world's best universities) and financing high-growth startups.

(3) Use of technological development: During the 1970s, the Chilean Foundation for Technology Dissemination worked. Find venture capitalists to invest in innovative projects promoting technology transfer and new business models that can benefit the country. In 2005, the National Council was established to implement a new 15-year National Innovation Strategy for Competitiveness that would establish a set of horizontal and vertical policies in pre-defined industry clusters. It has also tried to use the mining sector revenues to create an environment that fosters innovation across the economy, and to diversify into sectors that have been identified through studies as a competitive advantage for Chile (ieg.worldbankgroup.org).

Zambia: Zambia relies heavily on copper for its exports, as is the case in Chile. It seeks to diversify exports (from cotton, corn and sugar) and not to over-dependence in copper production, not to focus on increasing domestic production of raw materials through diversification of production using diversification. Technology, which seeks to use labor-intensive technology rather than single capital-intensive technology. Because labor is highly employment, and on this basis Zambia has followed several paths in the process of economic diversification (Sumbye, 2016, p21).

1. Diversifying the scope of production by reducing the dominance of production based on large enterprises and promoting production based on small and medium enterprises.

2. Structural diversification: which seeks to strengthen the structure of production by encouraging activities with high degrees of backward and forward linkages.

3.Regional diversification: which seeks to benefit from the comparative advantages of the different regions of the country to maximize efficiency in the process of economic development

Following these measures in economic diversification was not very successful as the contribution of all sectors was very weak (Sumbye, 2016, p21) as it failed to realize the opportunities inherent in those sectors that were hindering the specified industrial growth for several reasons (Ngao, 2019, p5).

1- Lack of viable strategies as well as lack of institutional capacity and political will

2- Although Zambia has development structures, it failed to take care of development roles, which made it difficult for Zambia to develop a dynamic industry. Consequently, the policy faltered with traditional import substitution activities for the growth process.

3- Zambia is a landlocked country that has been facing difficulties in using ports for a long time, unlike Chile.

4- Manpower and technology have not been trained at the level of competency. The aim was to retain the workers rather than continue their training to be more effective.

5-Ease of obtaining revenues from copper has made the government make an effort to put in place other ways to generate revenues by designing effective institutions. As a result, no better methods are designed to generate revenue from the copper industry.

We notice from the following table (1) that there is a big difference in copper production between Chile and Zambia until 2008, when Chile produced nearly 10 times the copper production in Zambia, as the period of increases in copper production ranges due to the transition to the democratic system, political stability and increased investor confidence, As Chile became the largest producer of copper in the world in 2008, responsible for 39.1% of global production. Whereas, Zambia's share of world copper production fell sharply in the early eighties to less than 2% in 2000 and reached nearly 4% in 2008 of its share in global exports. Copper also played a large and important role in the export basket, by about 70%, but this decreased to 35% by 2002 of total exports. This decline is an indication of the success in economic diversification in Chile. That is, the Chilean economy is less dependent on copper now than it was in the 1990s. Zambia has failed to achieve tangible results due to a general lack of commitment to policy reforms due to state control over a large portion of the economy through ownership of key strategic institutions that often enjoy the support of concessional budgets from the central government. The government's failure to get rid of dependence on copper has hindered the economy from undertaking a structural sectoral shift that has led to a reduction in the volume of copper exports in the economy. Its share has shrunk dramatically over the years of the recession. As for financial revenues from copper revenues in Chile, they are more beneficial than copper revenues in Zambia, although the copper tax in Chile is greater than the tax imposed in Zambia, as the copper tax represents more than 20% of financial revenues in Chile, while in Zambia it amounted to 10% To 13% of public financial revenues.

Table (1) composition of total financial revenues and their share of global exports in Chile and Zambia

Zambia				**Chile**				**Year**
The share of global copper exports	copper exports	Copper revenue / GDP	Copper's share of financial revenue	The share of global copper exports	copper exports	Copper revenue / GDP	Copper's share of financial revenue	
-	85.0	0.5	1.1	-	38	1.6	8.3	1994
-	81.2	0.6	3.0	-	39	2.5	12.2	1995

-	75.9	0.5	2.8	-	38	1.4	7.9	1996
-	76.8	0.4	3.0	-	41	1.4	5.8	1997
-	66.3	0.3	1.5	-	35	0.5	2.9	1998
1.9	62.1	2.1	11.8	39.3	38	0.4	3.1	1999
1.9	66.6	2.8	12.9	38.8	38	0.9	5.8	2000
2.5	66.6	0.1	11.4	37.8	36	0.5	3.4	2001
2.9	61.0	0.0	0.1	38.2	34	0.5	3.5	2002
3.1	63.0	0.0	0.3	39.6	35	10.0	6.4	2003
3.2	74.8	0.0	0.1	44.3	45	3.1	18.6	2004
3.2	75.8	0.1	0.7	39.9	45	3.8	20.7	2005
3.5	81.6	0.1	0.7	38.7	56	5.7	31.1	2006
3.5	82.4	0.2	1.0	40.4	56	4.8	25.7	2007
4.2	82.0	0.6	3.4	39.1	52	4.0	24.6	2008

Second: Strategies based on economic diversification in oil-producing countries (Gulf Cooperation Council countries)

The GCC countries have not taken the necessary steps from sound policies in times of booms to transform economies from rentier economies that depend on extraction. Economies that depend on work and production, diversification of activities and exports, and the transfer of depleted natural resources into assets that generate sustainable growth in the long run, the most important of which is capital. Human. The growth model prevailing in the GCC states depends on oil revenues that are redistributed in the economy through the mechanism of government spending, and part of the spending Consumption and another part of it related to capital spending, which is represented by contracts with the private sector and its profits that seek to achieve rapid profits from the oil booms and the associated public spending savings, as well as the employment of low-skilled and low-wage foreign workers, while most citizens are employed by the state in the sector. A flabby year, low in efficiency and productivity, and they receive salaries that are spent on consumer demand from the output of the private sector. So the private sector benefits from government spending, either directly from capital spending or indirectly from the current spending of the public sector, which constitutes a consumption demand on the private sector (Al-Khater, 2015, p.23).

Kuwait is considered the most dependent on the oil sector among the countries of the Gulf Cooperation Council, which constitutes 91% of the general budget, 90% of exports and 45% of the gross domestic product. The failure of economic diversification in the State of Kuwait is due to the ongoing disagreement between government interests and the state's economic interests (Al-Khater, 2015, p.20).

The issue of economic diversification is of great importance in all of the Gulf Cooperation Council countries in general and in the United Arab Emirates in particular, as several local and international reports confirmed that the UAE has moved from an oil economy to a more diversified economy in several areas. The contribution of non-oil sectors has reached more than two-thirds of the gross domestic product, and this percentage is expected to increase in the years.

The few are according to a tight strategy within the UAE Vision 2021, whereby dependence on oil does not exceed only 20% of the output (Hussein, 2016, p.19). On the other hand, Bahrain is the least dependent on the oil sector, which in turn represents 86% of the general budget revenues and about a quarter of the gross domestic product. Because of the limited oil resources, Bahrain has resorted to the option of economic diversification since the seventies by investing in the industrial sector, such as building an aluminum factory. The services sector constitutes 24% of the gross domestic product, and the Bahraini economy is characterized by the development of the financial services sector, including insurance, taking advantage of the strengths in society, especially human wealth. The Bahraini economy may have lost some of its distinction due to the slowdown in addressing the causes and repercussions of the protests that erupted in early 2011, which allowed competing regional economies to benefit from the situation (Fatima, 2017, p.19). Bahrain Development Bank launched the first risk capital fund, worth $ 100 million, to assist companies based on financial technology, which are the latest stage of development for the financial services sector, resulting in the provision of financial services with a new technological face that is characterized by flexibility, speed and cost (Abdul Rahim, 2019, p. 38). In 2017, the rate of growth was very high in Bahrain, reaching 3.8%, driven by the good growth of the non-oil sector at rates ranging around 5%, especially with regard to the tourism and social services sector, which achieved a growth of 9.5% and 9.4% in a row, to record the fastest growth rate among the economies of countries. Gulf Cooperation Council (Al-Arabi, 2018, p.19). Oman comes after Bahrain in terms of economic diversification as a result of its focus on establishing industrial zones that take advantage of the geographical factor of the Sultanate. There are also other sectors that have been relied upon for diversification, such as agriculture, fishing and tourism (Hussein, 2016, p.20). It also works to stimulate private sector investments, improve the business environment and increase its levels of competitiveness through several measures, including activating partnership programs with private sector institutions by establishing value-added projects in various economic zones and free zones (Al-Arabi, 2018, p. 17). It turns out that most of the Gulf countries, led by the United Arab Emirates, Saudi Arabia and Bahrain, enjoy a great technological development close to their counterparts in developed countries, and also enjoy a popular base to receive financial services through technological technologies. These countries are developed in the field of electronic payment via mobile devices and the practice of electronic commerce is similar to the rest The Arab countries, and this is what greatly contributed to their keeping pace with global technological developments and their tracking of economic conditions, especially in light of the oil crisis, which made them take rapid steps towards economic diversification, and their speed was to absorb financial technology, as they concluded agreements with foreign countries to follow developments in this new sector to be The same level of development that will affect the financial technology sector in developed countries.

The third axis: economic diversification in Iraq (political and economic challenges)

Iraq's dependence on oil has had a great impact on settling policies and economic outcomes in the country over the past years, and despite fluctuations in oil prices, the oil and gas sector in Iraq has acquired the entire value of the country's exports, 90% of government revenues and more than 57% of GDP. Iraq's oil wealth has undermined the country's competitiveness by fueling the gradual rise in its real exchange rate. The dependence on oil wealth reduced Iraq's incentives to generate other forms of government revenue, such as tax revenues, and this in turn reduced the need for negotiation between the state and society that lies in the design of successful state-building processes. As a result, the administrative capacity of Iraq declined, and its institutions were unable to respond (World Bank, 2020, p. 12). In Iraq, as the contribution of the economic sectors to the GDP was affected by the political and economic events that occurred in the country in 2003, as the contribution of the crude oil and mining sector increased from 59.9% in 2003 to 85.8% in 2007, which indicates the increasing dominance of the oil sector in the gross domestic product. This indicates the increasing dominance of the oil sector in the gross domestic product and the decline in the role of the agricultural and industrial sectors, so that their contribution did not exceed 9.2% and 2.3%, respectively, in 2007 (Yasser, 2013, p.9). The crude oil sector continued to dominate the Iraqi economy until 2018 in terms of its contribution to the gross domestic product, at a rate of (46.3%), according to the data. Quarterly, on the other hand, the decrease in the relative importance of the manufacturing sector in the gross domestic product, which means a significant decline in the national production of material goods, which opens the way for imported goods to meet the local demand, and that the main reason that constitutes the main obstacle to the failure to achieve the goals is the weakness of the physical implementation of projects, especially projects. Basic sectors despite the provision of the necessary allocations (Ministry of Planning, 2020, p. 12).

Table (2) Expansion of operating expenses at the expense of investment expenditures

total expenses	investment expenses	operating expenses	The share of the oil sector in the GDP	Years
9	2	7	68.9	3003
20	1	19	58	2004
36	8	28	57.8	2005
52	9	42	55.5	2006
52	13	39	53.2	2007
60	16	44	55.7	2008
69	15	54	40.7	2009
84	24	60	42	2010
96	39	66	54.7	2011
117	37	80	52.4	2012
138	55	83	41.8	2013
-	-	-	43.7	2014*
119	41	78	60	2015
105	25	80	62.5	2016

Through the table, it is noticed that the period following 2003 witnessed a significant decline in the economic sectors, and most importantly, politicians due to the increase in oil revenues from high oil prices and the obtaining of very large oil revenues exploited this matter in imposing their influence and control over the state's wealth for the purposes of private interest. Government employment increased until salaries made up the largest part of the operating budget, which constitutes (70-80%) of the state's general budget. These surpluses have not been used in developing the developmental sectors. On the other hand, the change in oil prices and their sharp decline to low levels contributed to a significant decrease in the state's general budget revenues and strengthened the economic problems that resulted in an increase in Iraq's ability to borrow abroad and internally. Security and political stability. The general budget distributes its financial allocations in an irrational manner, as the share of operating expenditures acquires a large area of these allocations at a time when it is required to dispose of oil revenues in investment areas that enhance the requirements of development. He linked the fate of the economy to the changes that occur to it, as this was evident when the global oil prices fell in 2014 and their impact on the state budget (Saleh, website, p. 38).

Source: Prepared by the researcher based on the data of Table No. (2)

The previous figure indicates a comparison between operating expenses and investment expenditures, which shows the expansion of operating expenses at the expense of investment expenditures, which means that there is a waste of financial resources.

The fourth axis: benefiting from the experiences of the sample countries and applying them to the Iraqi economy as the successful application of the policy of diversification, according to what was clarified in the framework of the research, is the policy in which the Chilean economy worked and developed into a development country that is better in its application, as it was the basis for its transformation into an industrial country that can be used in the Iraqi economy, as the policy that supports innovation and entrepreneurship Reallocation of resources is important in supporting the transition to a wider range of high-quality goods and services. Investing in innovation can also increase the company's capabilities, and facilitate the adoption of new technologies that improve productivity and product quality. Both product and process innovation can help companies diversify by reducing production costs and freeing up resources that can be redistributed in innovative activities.

Conclusions

1- The research shows that each country follows a different path of diversification, as a number of common features emerge from successful cases of sustainable, trade-led structural change.

2- It has been shown through experiences in the sample countries that economic diversification is still a challenge for those countries, especially for low-income countries such as the Iraqi economy, as well as for countries with small and landlocked economies such as the Zambian economy.

3- Countries with concentrated economies such as the Iraqi economy and the Zambian economy have found it difficult to design and implement public investment and policy reforms that provide a framework for diversification.

4- Obstructing the development of sectors due to the lack of diversification in the economy, such as manufacturing and services.

5- Iraq suffers a critical situation greatly. Its budget has fallen sharply, and the existing authority suffers from large debts and expenditures, but it does not admit that.

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