

The Role of Oil on Middle East Economies: Case Study of the Rise and fall of Iraqi Economy

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The Middle East was characterised by war, hardship and a high level of poverty until the discovery of oil. The oil era created a new platform for the economies in the middle east to be developed, thrive and grow to the point where other industries and different economies in the Middle East became better. More jobs for its citizens were created and the standard of living as well as lifestyle of its people was enhanced. Oil has played a significant role and has shaped economies such as the Iraqi economy to grow fast and transform the country into a world power that is relevant in every aspect of world trade. The paper examines the role of oil in Middle East economies with Iraq as the case study. It further examines how it has shaped the economy, the impact it has on the lives of its citizens, and how it will propel the economy into the next level of diversification.

Key words: *Crude Oil, Economy, Export, Diversification.*

Introduction

The Middle East and its individual economies have impacted world trade especially when it comes to oil exploration, production and exportation. The export revenue has been used to transform these countries into hot spots in terms of architectural excellence, tourist attraction as well as in world class infrastructure. Their mega structures could only be developed through wealth. Poverty ridden economies turned into top economies in the region and in the world, based on the discovery of oil.

Since the discovery of oil, global trade has spiked, new business innovations have been developed, new alliances have increased and millions of jobs worldwide have been created, especially in manufacturing, production, energy, automobiles, and the service industry. A case study of the role oil has played in the creation, development and growth of the economy is considered because of the fact that it accounts for more than 97% of country's total exports and

revenue, which makes up the country Gross Domestic Product (GDP). According to Ayad (2016) "*Iraq has a huge oil reserve estimated by 141.350 billion barrels in 2011.*"

Further explanations show that, "*while focusing at the potential of reserve oil, the experts find out that the potential reserve could be more than 220 billion barrels.*" The critical times that saw Iraqi engage in war with its neighbour, Iran and the popular war with the United State saw the economy destroyed to an extent. It has since recovered from the impact of the war, but emphasis is laid on the effect the war had on the economy, and how it was able to recover. In addition to that, the role oil played in building the economy and its impact on the economy as well as the future of the Iraqi Economy is also considered.

Discovery

Iraq has a rich history, especially when it comes to the issue of oil. As described by Ahmad (2008), "*In 1927, major oil explorations were undertaken and huge oil deposits were discovered in the Mosul province, which fuelled the rivalry among competing colonialist oil companies even further.*" This marked the beginning of what would become a turning point for the country. This is because Iraqi oil was later divided into 5 portions. Ahmad (2008) explains that "*Iraq oil was divided up into five portions, 23.75% for each of several companies from Britain, France, Holland and the United States.*" The effect of this was that the Iraqi people were left with nothing from their own wealth and this began to generate uncertainties especially for the future. In 1958, a military coup overthrew the Iraqi monarchy and this marked a new beginning in the country's history. Since then, the Iraqi people have enjoyed the dividends of being an oil producing state. Over the years, the export of oil has been used to build the country and develop infrastructure, creating thousands of jobs for people and developing other industries that make up a country's economy. Based on this, it is critical to examine the role it has played in building the economy of Iraq, its impact on the economy, as well as what the future holds for the Iraqi economy.

Role Oil Played in Economy Building

The role oil played in economy building and development in Iraq cannot be over emphasised. This is because Iraq contains vast deposits of oil. Wydzial (2016) explains that "*Iraq has a huge oil reserve estimated by 141.350 billion barrels in 2011.*" Further revelations show the amount of revenue Iraq generated. This is based on Ayad (2016), who stated that "*Iraq produced about 2.650 million barrels per day in 2011, when the oil price was on average 120 dollars per a barrel.*" This can only give an insight into the amount of revenue that can be generated over the years. This says a lot about the roles oil has played in the Iraqi Economy.

Huge Revenue

One of the main roles oil played in the economy of Iraq was to provide huge revenue for the government to be able to fund different projects across the nation. Oil accounts for almost 97% of total government revenue. "Iraq owns about 20.4% of OAPEC "Organization of Arab Petroleum Exporting Countries total reserves, which puts it on the second place after Saudi Arabia." It also represents "11.9% of the total reserves in OPEC "Organization of the Petroleum Exporting Countries" in 2011, placing it in the fourth place after Venezuela, Saudi Arabia and Iran." This is further confirmed and emphasised by Joseph (2018), who states that "Iraq is more dependent on oil than any other country in the Middle east and Africa; oil production account for two-thirds of the country's GDP almost 95% of government revenue, and a staggering 99% of total export." Statistics shows the amount of revenue generated over 11 years:

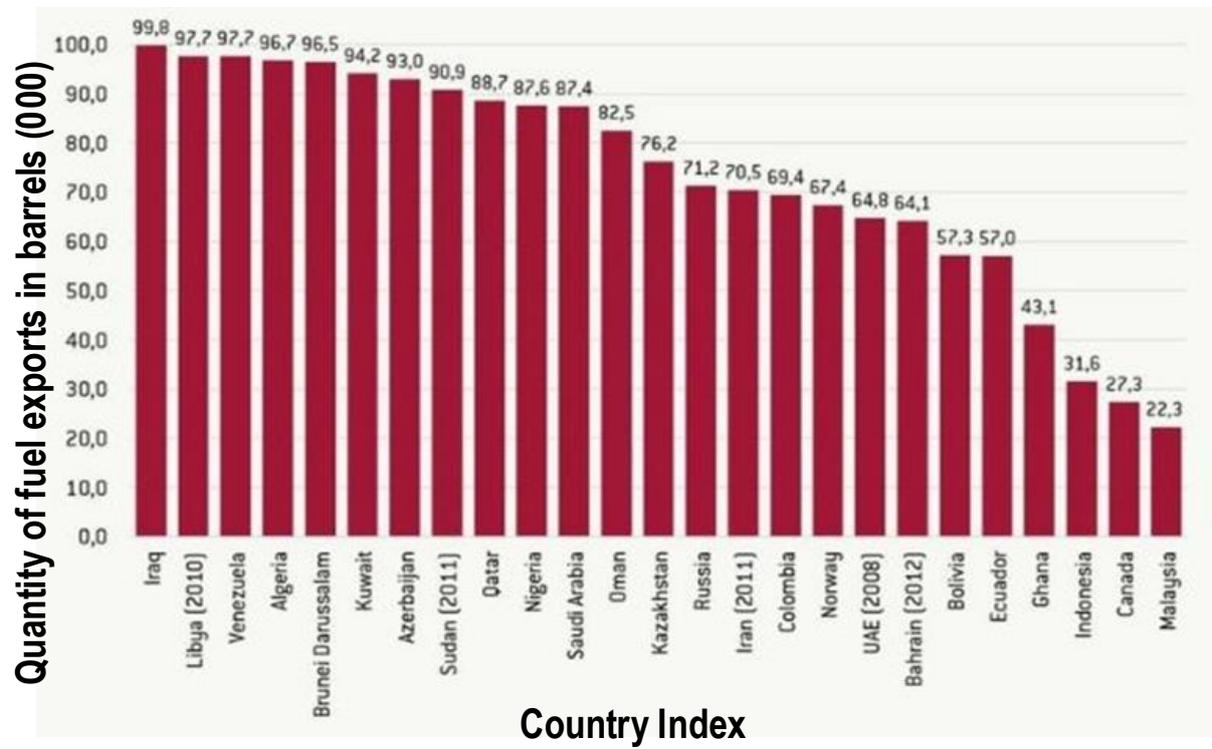
Table 1: Revenue generated over 11 years

Year	Total Iraq Export (\$)
2003	9.71 billion
2005	23.70 billion
2007	39.59 billion
2009	39.43 billion
2011	79.68 billion
2013	89.77 billion
2014	83.98 billion

Jobs

Apart from the fact that the oil sector provides thousands of jobs across Iraq, especially in the areas where exploration and production takes place, the revenue from oil export has also been used to develop other industries, which in turns creates more jobs for the citizens in the country. Sharon (2019) was able to identify top industries to be agriculture and the service industry. Others include Energy, Transportation, Communication and Automobile Manufacturing. These industries have been able to create hundreds and thousands of jobs across Iraq. However, the fact remains that the government was able to provide funds to help grow these industries from the revenue generated from oil export. Statistics shows that 99% of total export is from oil and 85% of total revenue is generated from crude oil export. The implication of this is that industry development depends on how much revenue could be generated from crude oil export. This is due to the fact that other industries were funded based on crude sales. In all, thousands of jobs were created across industries in various part of the country.

Figure 1 show countries and the quantity of exports in Barrels (Rosamond, 2018)



Standard of Living

The fact that the government is able to generate huge revenue from oil exports provides thousands of jobs across Iraq and also sets up other industries to become active. Providing jobs also brings a positive change into the daily life of the citizens and raised and improved the standard of living. This is felt more in communities where these different industries are situated, especially when it comes to industries such as agriculture and manufacturing. These industries have a direct impact on trade and income flow in the environment they are located.

Economic Development

This is a major role that is visible to the entire country. Industries across Iraq get huge funds from the government to develop them to their full capacity and in the process of this, thousands of jobs across Iraq are provided. Apart from this, a local market is created for trade which facilitates a small to medium to large scale of trade. This brings economic development gradually as this allows the local market to produce a competitive market, and for the different industries to match their international competitors. Aaron (2019) states that, "*economic development is usually the focus of federal, state, and local governments to improve our standard of living through the creation of jobs, the support of innovation and new ideas, the*



creation of higher wealth, and the creation of an overall better quality of life.” This was the most significant role crude oil sales and revenue created in the Iraqi economy.

Infrastructure Development

Oil and oil generated revenue has been able to play a significant role in infrastructure development across Iraq. Before the war, selected Iraqi cities had one of the best infrastructures in the Middle East, especially in the era of Saddam Hussein, during which there was good road connection, world class hospitals, schools and other social infrastructures that are beneficial to the people of Iraq. Most of these infrastructures have been financed through oil generated revenue. The role oil has played in building Iraq's economy cannot be over emphasised as it helps in creating a platform from which the country can actually grow. The war which saw Saddam Hussein ousted had a negative effect and impact on the growing economy as most of the industries with infrastructure were destroyed and damaged including Health, Education, Agriculture, Manufacturing, Production Transportation and Logistics and the oil industry itself. This is coupled with the fact that there were international sanctions placed on the sale of Iraqi Oil through the normal channels and allies. The effect of this was that oil was sold illegally and through unrecognised channels in order to keep the country afloat. Almost all revenue generated from this means was used to fund the war which had a serious negative impact on the country as a whole.

The War and its Impact

The war in Iraq did not only have a negative impact on the Iraqi economy but as well as oil price worldwide, commodities as well as other countries with special interest such as the United States. The impact is huge and should have taken a relatively short time to recover but because, it has been characterised by so many odds including factions and political selfish interest, the economy is yet to recover to its full potential. According to Anthony (2015) *“the CIA estimates that an extraordinary 36.7% of Iraq’s population is 0-14 years of age, and 19.6% is 15-24 years of age, and Iraq is nearly 70% urbanized.”* The impact of this is that *“its economy, politics, and social tensions will be under acute population pressure for at least another two decades.”* The impact includes the following:

Damaged Economy

Roads, hospitals, schools, banks, manufacturing plants, production units, agricultural farms and a lot more infrastructure, including human, lives were destroyed and lost through war. All these represent different forms of industries and different sizes that have in one way or the other helped grow the economy. Destruction of agricultural farms means farm produce will be limited. This causes starvation among the locals. The little available also comes at a very

expensive rate causing inflation. Destruction of hospitals would mean that the number of patients that the remaining hospitals could cater for is limited. This means medical care cannot reach everyone brought to the hospitals and because of that, treatment is given on the basis of severity. Many lives were lost in this process. As industries were destroyed and jobs were fading, the prices of commodities went up, the inflation rate began to rise, and people continued to starve. This really damaged the economy. Iraq is yet to recover.

Cumulative Economic Impact

Critically examining the economy of Iraq shows that it has been developed by war or war related crises. Anthony (2015) states, "*Iraq is also a country whose economy has been shaped in part by the fact that Iraq has been at war or in war-related crises ever since 1980.*" Because of the cumulative economic impact, the economy is bound to be affected as further explained by Anthony (2015): "*Its past conflicts have had a cumulative economic impact that has sharply restricted Iraq's development and divided the country's economy and income along sectarian and ethnic lines, as well as created broad areas where the impact of violence has created its own sub-economies and divisions.*" This further confirms sectarianism and ethnicity are part of the reason why there is violence in almost every part of the region.

Increased Price

Another impact the war had on the Iraqi economy is the fact that there was an increase in price of commodities, especially crude oil. The total number of barrels produced daily by the Organisation of the Petroleum Exporting Countries (OPEC) is not enough to match world demand. According to Joseph (2018) "*Iraq owns about 20.4% of OPEC 'Organization of Arab Petroleum Exporting Countries total reserves, which puts it on the second place after Saudi Arabia and it represents 11.9% of the total reserves in OPEC, Organization of the Petroleum Exporting Countries.*" This means total world daily production is reduced and the demand is still constant. This affected price because other member of OPEC had to meet the demand and as such, prices would naturally go up. When the supply is lower than the demand, prices would naturally go up but when the demand is lower than the supply, prices are meant to fall.

Increased National Debt

The war did not just affect only Iraq but also the United States. This is because both wars in Iraq that the United State was engaged in were financed by borrowing. Anonymous (2016) states, "*Both wars are financed almost entirely through borrowing, which has increased the national debt since the inception of the wars.*" Further explanations reveal that "*The Congressional Budget Office has estimated the direct cost of the war through 2017 to be more*

than \$1 trillion. Combined with an extra \$705 billion in interest payments on this spending, the total cost of the Iraq war could reach \$2.4 trillion.” The United States was already in debt of about \$13 trillion and adding another \$2.4 trillion added to the already bad situation. The initial values were given at \$138 billion. This could have done a lot for the country as explained by Anonymous (2016): “*The cost of funding the war is irresponsible: the Iraq budget for 2007 (\$138 billion) would have provided 45 million Americans with Medicaid, hired 30,000 school teachers and built 400 schools, or provided weatherization for 1.6 million homes.*”

The Future of the Economy

It is no doubt that Iraq is trying hard to rebuild and strengthen its economy. It has been ravaged by war, sectarianism as well as the Islamic State. According to Al-Jazeera (2019) “*It has achieved some progress in recent years thanks to its oil industry.*” This means that oil will still play a huge role in rebuilding its economy. This is further confirmed due to the fact that “*Iraq is the second-largest producer in the Organization of the Petroleum Exporting Countries (OPEC) and oil provides roughly 85 percent of the government's revenue.*” This is further bolstered, according to the Iraqi oil minister, by the fact that the country has been able to strike multiple deals and now has contracts with about 10 international companies. Although Iraq is hoping to expand its oil industry, it also hopes to rely less on oil. The government is making plans to diversify its economy and allow private sector investment. This will allow and attract more foreign investors to invest in other sectors such as agriculture, education, manufacturing and production. Even though the government is doing all it can to develop a less oil reliant economy, the reality is that oil will still play a huge role in rebuilding what is left of the economy before diversification can be integrated.

Another aspect of the economy that the Iraqi government is trying to develop is security. As explained by Farentti (2019), “*The reconstruction efforts should be accompanied by better security environment and continuous economic growth.*” Further explanations revealed that “*The Iraqi security apparatus still needs to be strengthened.*” In order to be able to achieve this, a lot needs to be done, including retraining the government security force, equipping them with the latest weapons and facilities, and also raising their monthly wage to encourage them to enforce security in the way it should be enforced. This requires huge financial commitment from the government which will come from the revenue from exports. Again, this comes down to the fact that oil will still play a significant role in achieving that. This is because 85% of government revenue is from oil exports. The government is planning to diversify its economy. As Farentti (2019) states, “*Iraq also wants to diversify its economy through encouraging private entrepreneurship and attracting FDI in different sectors along with the oil and gas sectors.*”



This will take time to achieve but in the long term it will help the economy to really grow. At the moment, high capital projects are mostly financed by revenue from oil exports and that is expected to continue while diversification develops to the point where other industries starts recording meaningful exports that can rival oil in the Iraqi economy

Conclusion

The Middle East and its individual economies have impacted world trade especially when it comes to oil exploration, production and exportation. The revenue from exports has been used in developing these nations. Poverty ridden economies have been totally turned into top economies in the region and in the world, based on the discovery of oil. Since the discovery of oil, global trade has been spiked, new business innovations have been developed, new alliances have increased and millions of jobs worldwide have been created, especially in the oil and gas industry, manufacturing, production, energy, automobiles, as well as service industry.

Oil has played a significant role in the development of the Iraqi economy. This is because Iraq has a huge oil reserve estimated at 141.350 billion barrels in 2011. Experts found that the potential reserve could be more than 220 billion barrels. The role oil has played in economy building in Iraq cannot be over emphasised as one of the roles oil has played in the economy of Iraq is in the provision of huge revenue for the government to be able to fund different projects across the nation. It also provided thousands of jobs across the nation especially in the areas where exploration and production takes place.

The average standard of living has been raised as well as economic development in every industry across Iraq. This has led to massive infrastructure development as well. Though the war had a negative effect on the economy, the revenue from oil still played an important role in rebuilding the economy of Iraq. Another significant innovation is that the Iraqi government is trying to diversify the economy in order to be less reliant on oil and allow other industries grow. With this initiative, oil will still be the dominant factor in economic building for Iraq until diversification has gained ground and other industries are established enough that the revenue generated can significantly match that of the oil and gas industry in Iraq.



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