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## The Impact of Trade Openness on the Reality Industry in Iraq for the Period (2004-2022)

Zinah Ismael Meteab\*

Department of Economics  
College of Administration and Economics,  
University Baghdad, Iraq  
[Zina.Ismail2102m@coadec.uobaghdad.edu.iq](mailto:Zina.Ismail2102m@coadec.uobaghdad.edu.iq)  
<https://orcid.org/0009-0004-1304-6101/print>

\*Corresponding author

Murad Faleh Murad

Department of Economics  
College of Administration and Economics,  
University Baghdad, Iraq  
[murad.f@coadec.uobaghdad.edu.iq](mailto:murad.f@coadec.uobaghdad.edu.iq)  
<https://orcid.org/0000-0002-2252-7589>

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### Abstract:

Iraq is one of the prominent countries that used to have important industries and enjoyed consumer acceptance, as well as competitiveness and presence in regional and global markets. However, after 2003 and due to trade liberalization, there was a general weakness in the structure of the Iraqi economy. This directly affected the reality of the Iraqi industrial sector, leading to the entry of goods and products from all over the world. With the increase in population and government expenditures, which relied on commodity imports to meet local needs, all aspects of industry in the country were eliminated. The importance of research lies in shedding light on the role of international trade (import and export) in global economies, highlighting the shortcomings in trade policy management, demonstrating the impact of trade openness on the industrial sector's contribution to economic development, and the need for realistic measures to rescue this vital sector from deterioration in Iraq. And the problem of the research is based on the direct negative impact of trade liberalization policy on the reality of the industrial sector in the country. Increased reliance on foreign sources to meet local economic needs is attributed to the deficiencies, backwardness, and stagnation of the production apparatus, rendering it unable to meet total domestic demand. The aim of the research is to shed light on the role of foreign trade in global economies and to clarify the shortcomings in trade policy management, as well as the extent of the impact of trade liberalization on the reality of the industrial sector in achieving economic development. The research found that the industrial sector in Iraq was negatively affected throughout the period (2004-2022) due to the compulsory trade liberalization policy, which led to the shutdown of factories and plants as a result of the low prices of imported goods.

**Paper type** Research paper.

**Keywords:** The Iraqi industrial sector, Trade openness policy, Industrial contribution to GDP, Imbalance in the structure of exports and imports .

## **1. Introduction:**

Trade, in general, is the process of buying and selling goods and services. It originated from individuals producing goods or providing services that others need. Over the past few decades of the 20th century, the world has witnessed various changes that have helped remove obstacles and restrictions that hindered the globalization of economic activity. As a result, there has been significant growth in international trade, with trade growth rates surpassing income growth rates, despite the numerous constraints that impeded foreign trade.

Consequently, the liberalization of foreign trade has greatly impacted the industrial sector, which serves as the cornerstone for economic development and social progress. In line with the prevailing economic practices worldwide, the Iraqi economy has adopted a liberal approach towards international trade. However, although this direction is a necessary measure to join the World Trade Organization, the removal of customs barriers on imported goods has led to detrimental competition to the local economy. This has caused problems such as the flooding of essential goods, unfair competition, and direct negative effects on productive sectors, particularly the industrial sector.

Specifically, the industrial sector, along with other sectors, has experienced a decline due to increased trade openness, neglecting industrial production stimulation, poor management, weak local products, high prices compared to important goods, and continuous reliance on oil for economic activities without diversifying local production. This has resulted in the dominance of trading partners over the local market, exacerbating the deterioration of the industrial sector's contribution to the economy, increasing unemployment rates, and aggravating structural imbalances.

Consequently, addressing these problems and imbalances in the Iraqi economy requires seeking policy changes, particularly in trade policies pursued by the government to ensure an increase in the contribution of productive sectors to the overall GDP, at least by meeting local demand and reducing imports of consumer goods.

### **1.1 Literature review:**

There are many studies discussing Impact of Trade Openness on the Reality of the Industry as follows :

Al-Mashhadani (2012) aimed to clarify the procedures and policies adopted by selected countries for restructuring the manufacturing sector within the framework of their accession to the World Trade Organization (WTO). It also examined Iraq's efforts to join the WTO and highlighted the expected economic and industrial gains, as well as the ability to make wide-ranging efforts to adapt and restructure its industrial sector to confront the challenges of trade liberalization and the application of WTO rules. The study concluded that any measure taken to enhance and rehabilitate the manufacturing industry should recognize the strong links between reforming local regulations, legislation, and policies and the laws of the World Trade Organization in line with the requirements of the organization's General Agreement .

Salman (2015) addressed the significant structural imbalances facing the Iraqi economy, which have had a negative impact on most of its economic indicators, leading to a decrease in economic diversification and distorting its foreign trade structure towards oil dependence. This has created numerous challenges for its accession to WTO. The study aimed to highlight the necessity of Iraq's accession to the World Trade Organization in light of its comparative advantage in foreign trade and its economic diversification indicators. It also emphasized the importance and means of addressing these imbalances within the framework of foreign trade. The researchers found a significant imbalance in Iraq's exports, with oil exports accounting for more than 95% on average during the study period. This indicates a quasi-absolute commodity concentration, which increases the risk of instability in these exports. As for imports, consumer goods dominate the majority, reflecting a weakness in domestic production. The country's trade balance also reflects a high level of economic exposure .

Al-Sharifi (2016) proved a fundamental problem in the Iraqi economy, which is the issue of foreign trade. It has witnessed a general weakness in non-oil exports as a result of three and a half decades of political and economic instability. The researchers sought to explore the problems of this policy and attempt to outline possibilities for activating the role of this policy in light of the requirements and commitments of the local economy and global economic trends. The study concluded that trade policy, within the framework of accession to WTO, becomes one of the tools for redefining overall policies, as long as the accession files include the existing overall policies that need to be adapted to fulfill the membership requirements and monitor those policies. This also extends to the fact that international trade includes trade in goods and services, and its underlying policies, including legislation such as intellectual property rights, are fundamentally interrelated.

Farhan (2016) studied the imbalance in Iraq's trade balance, which has negatively affected economic growth indicators. The study aimed to analyze the existing deficit in Iraq's trade balance and clarify the mechanisms and methods used to reduce the trade deficit and achieve a trade surplus that would help diversify the Iraqi economy. Iraq suffers from distortions and imbalances in its non-oil trade balance, with the deficit ranging between (467) million dollars during the years 1994-2013. The researchers also found a decrease in the contribution of other sectors to the gross domestic product (GDP), with the oil sector being the largest contributor to economic growth in Iraq due to the absence of other sectors. Thus, the oil sector has become the leading sector in the economic growth process. As for how to overcome the deficit in the trade balance, it requires continuous efforts, including serious efforts to increase the productivity of non-oil sectors. This can be achieved by providing support through providing concessional loans to small and medium-sized projects capable of boosting productive sectors, thus creating a state of economic diversification.

Barieh (2017) focused on analyzing the impact of deteriorating and weak exports, which are limited to the crude oil sector, without including other sectors. On the other hand, there has been a significant increase in consumer goods imports, leading to market saturation. The study aimed to highlight the reality of the commercial sector in Iraq and attempt to address the available opportunities for its development by identifying the obstacles that negatively affect the trade balance. The researchers found that the imported goods were consumer goods rather than productive goods, and therefore did not contribute to increasing the production capacity of the Iraqi economy. Instead, they contributed to increasing the inclination towards consumption. However, Iraq needs to work on developing plans to utilize oil revenues in a focused manner to invest in non-oil sectors (industrial and agricultural) and enhance their production capacity in terms of quality and competitiveness, producing what can be produced and preventing its importation.

AL-Munim and Abdulhameed (2021) studied industrial investment according to clean productive methods is an important element in the process of rational use of economic resources, and the Iraqi industrial sector relied on traditional production methods; the productive activities in this sector did not take into consideration the environmental dimension, which leads to achieving the optimal use of economic resources, so it was necessary to have new investment trends heading with clean production. therefore, the research is based on the hypothesis that "clean production contributes to improving the environment and rational use of natural resources." Based on the descriptive -inductive analysis methodology that study of Iraqi industries with clean production, and by seeking to collect the largest number of data and information related to these industries in order to obtain results and test the research hypothesis. The research concluded that despite the orientation of some industries in Iraq towards clean production, they do not seek to achieve sustainability in economic resources.

For this, the research concluded that it is necessary to work seriously in harnessing technology, applied and technical sciences to direct industrial investment in Iraq towards clean products, by finding industrial alternatives that involve cleaner production and compensate for the inputs with environmental damage.

Falah (2020) used commercial dumping is a significant challenge to enforcing the rules and principles of the multilateral international trading system in the face of members of WTO. Respect for the principle of internal specialization by enabling member states of the organization to enact specialized national laws and legislation to combat dumping and defend their economic and commercial rights, provided that they are consistent with the provisions of the international agreement. The problem came in the form of a direct question, which is (what is the concept of commercial dumping? and what are the legal mechanisms established by international rules and how to combat it?). The most prominent objective addressed by the research was to define the set of legal and economic measures included in the agreement in addition to the objective and procedural conditions that countries adhere to in addressing this behavior.

Al-Hayaly (2022) proved a vision of the future of industry in Iraq, so it is may be outside the ceiling of the capabilities of the Iraqi economy, and therefore it is exaggerated. Therefore, future plans must be applicable through the availability of capabilities. Everyone knows that the financial and administrative corruption and mismanagement of resources are the main cause of the inefficiency of the industrial sector, and the failure to exercise its real role in achieving economic development.; as well as the political situation and the dominance of parties and their insistence on addressing positions that have a strong relationship in managing the economic sector that has a significant impact on drawing the economic map in its current form. That is why it has become necessary to reform the political system as an important pillar for the success of this strategy. It presents the vision of the industrial system until 2030, which is summarized in the development of the industrial system in Iraq to support a diversified and sustainable national economy in terms of economic and environmental aspects.

The problem research was based on the direct and negative impact of trade openness policy on the reality of the industrial sector in the Iraq .

The objectives of the research were shedding light on the policy of liberalizing foreign trade and its implications on the industry in general and the industrial sector in Iraq in particular.

## **2. Material and Methods:**

### **2.1 Concept of Trade Openness:**

Trade openness is considered a policy adopted by countries to integrate with the new system. The concept of trade openness emerged as a result of economic development, the evolution of international relations, and economic interdependencies between countries. Despite its recent emergence, it has become an important topic in economics in general. However, there are different opinions on establishing a comprehensive understanding of trade openness. Misconceptions about the concept have also spread due to misunderstandings of associated terminology (Ghanem, 2006).

Trade openness is also expressed as a policy that involves abandoning biased export policies, adopting neutral policies between exports and imports, reducing high tariffs, transforming quantitative restrictions into tariffs, and moving towards a unified tariff system. Therefore, the content of trade liberalization programs includes various measures regarding import policies, export promotion policies, exchange rates, macroeconomic management policies, regulatory policies, and trade policies towards trading partners (Abir and others, 2021).

In terms of the International Monetary Fund's perspective, trade openness is defined as the liberalization of the external sector, which consists of the current account and capital account transactions. It entails openness to the flow of goods, services, and capital without any restrictions or barriers, such as taxes, quantitative, administrative, and technical restrictions (Al-Metwally and Abdulhadi, 2021).

Based on the above, the researcher sees trade openness as a policy adopted by the state to remove all obstacles to trade flows in order to achieve economic growth by stimulating productive sectors to produce goods and services at a low cost and high quality, competing with counterparts around the world.

### 2.1.1 Types of Trade Openness:

There are several types of trade openness based on the objectives that need to be achieved in order to establish a unified international market through the liberalization of goods and capital movement, and the transition towards a market economy system, which includes the following types (Al-din, 2017):

**A. Regional trade openness:** trade agreements aimed at creating international economic integration in all its forms, such as free trade areas, customs unions, common markets, and economic integration. These trade agreements are based on agreed rules and regulations by multiple parties for regulation. International trade in all sectors, including measures against dumping, subsidies, and an integrated system for settling trade disputes among member countries.

**B. Voluntary and compulsory trade openness:** most countries seek to liberalize their trade to achieve a higher level of integration in the global economy and achieve their development goals. This type of openness is usually associated with advanced and industrialized countries. Compulsory trade openness is typically enforced under the auspices of international institutions such as the World Trade Organization and the International Monetary Fund.

**C. Gradual and transitional trade openness:** gradual openness takes place in stages according to a planned approach implemented within a specific timeframe. For example, transitioning from quota-based protection to tariff-based protection and then gradually eliminating it. Transitioning occurs through the liberalization of some products while maintaining restrictions imposed on other agricultural products.

**D. Surface and deep trade openness:** Surface openness focuses on removing traditional barriers such as customs tariffs, but it is not sufficient to enjoy the benefits of trade openness. Deep openness allows for the free movement of individuals and capital, the removal of traditional barriers, harmonization, and the reduction of differences in trade-related laws, especially customs procedures (Hussein and Hamdan, 2020).

### 2.1.2 Trade Openness Indicators:

The trade openness indicator demonstrates the relative importance of foreign trade, which is calculated by dividing the sum of exports and imports by the gross domestic product (GDP). A higher value of this indicator indicates increased reliance of the national economy on foreign markets for product distribution and acquiring various goods and services. It signifies the interdependence of the national economy with the external world, making it closely linked to external changes such as fluctuations in global oil prices for oil-exporting countries and regulations issued by the World Trade Organization (WTO). Moreover, the degree of economic exposure is related to the extent to which economies are affected by external shocks and fluctuations in international trade, thereby impacting the performance of the national economy (Dadoosh, 2020).

Some examples of trade openness indicators include (Abdullah and Mansor, 2018):

**A. Import-to-GDP ratio:** it represents the total imports of goods and services divided by the GDP, multiplied by 100.

**B. Trade balance ratio:** it is the ratio of the standard price of exports to the standard price of imports, multiplied by 100.

**C. Trade-to-GDP ratio:** this indicator illustrates the significance of foreign trade to the gross national output. It is calculated by dividing the total exports and imports of goods and services by GDP, multiplied by 100.  $(Imports + Exports) / GDP \times 100$ .



Various researchers have proposed criteria for measuring trade openness; however, they have not determined specific percentage thresholds to define openness or closure. Some researchers consider an economy as open if imports account for more than 20% of the total GDP.

## **2.2 Industrial Strategies and their Economic Impacts in Light of Trade Openness:**

Import substitution policy is considered one of the strategies followed by many developing countries at the beginning of the industrialization process. These countries benefited from a set of local and international conditions that helped create a favorable environment for implementing this strategy. Supporters of this policy argue the following points (Al-Hassani, 2019):

**A.** Developing countries that achieved rapid progress through industrialization initially started by importing semi-manufactured materials, then assembling them locally. In the subsequent stage, there was a growth in domestic demand for final goods, which increased the demand for intermediate and imported capital goods. This justified domestic production and led to achieving industrial integration at the national level.

**B.** The domestic demand for imported goods grows at a faster rate than the demand for exports in developing countries. This justifies the manufacturing of goods that cannot be imported, especially given the slow growth of developing countries' exports and the scarcity of foreign currencies.

**C.** Local industries generate significant employment opportunities outside the agricultural sector through labor-intensive production, enabling the state to absorb the available workforce amid population growth.

The main objective of this strategy is to produce goods that were previously imported. This is done by creating a domestic market for industries that replace imported goods. This is achieved through providing adequate protection for these industries by prohibiting the importation of locally produced goods using various restrictions and measures.

This strategy goes through two main stages (Salem and Murad, 2018):

- Encouraging the establishment of industries that replace imports of non-durable consumer goods, such as clothing, food, and household items.

- Encouraging the establishment of industries that replace imports of durable and heavy goods.

It is noticeable that in each stage of these stages, the goal is to create a domestic industrial market that replaces imports, benefiting from the conditions, measures, and restrictions imposed by the government on the importation of foreign goods.

One of these measures is the use of various customs duties to protect domestic products and reduce the volume of foreign products entering the domestic markets. This enables local products and goods to thrive and compete in the medium and long term. Therefore, the government increases the rates of customs duties and taxes on imported goods (Shamkhi and others, 2022).

Moreover, countries that have followed this strategy have aimed to achieve self-sufficiency by establishing numerous industrial projects to produce goods, services, and consumer goods for the domestic market. These projects do not require large capital investments or highly skilled technical labor. They often rely on simple technology and the use of labor-intensive production techniques (Todaro, 2009).

## **2.3 The reality of the industrial sector in Iraq for the period (2004-2022):**

### **2.3.1 Contribution of the public and private sectors in industrial production:**

The industry in Iraq relies heavily on the manufacturing industry. The manufacturing sector is one of the leading activities in effectively utilizing human and material resources, as it offers benefits that have positive impacts on various economic and social activities. The classification of the industrial sector includes various industries, including consumer industries, investment goods industries, capital-intensive industries, labor-intensive industries, and small, medium, and large industries, both in the public and private sectors (Zaini, 2009).

### **2.3.2 Contribution of the public sector in the industry:**

Developing countries aim to build an industrial strategy to deal with large-scale industries, which negatively affects small and medium-sized industries. Therefore, the intervention of the state represents an area of industrial policy that can take into account the impact of such a policy on the mentioned industries within the framework of development goals. The government plays multiple roles in industrial policy as a direct producer, consumer (by securing marketing opportunities for strategic industries), regulator (by determining the level of production for certain activities), and as a financial agent and investor (by influencing the credit market and encouraging the distribution of financial resources) (Al-Quraishi, 2019). As for the governance system of the industry in Iraq, the central government controls the industrial system through ownership and management of its industrial entities, which contradicts the principles of governance that require the separation of ownership and management.

The role of local government in developing and implementing its own development strategies has not been effectively implemented despite being defined in the constitution. Moreover, there have been weak efforts to support the growth of the private sector to become a key partner in economic development through clear and highly efficient programs. There has been a significant deterioration in productivity and an increase in idle energy ratio in all production and service units in the public and mixed sectors. Approximately (70%) of public sector companies operate at only (30-50%) of their design capacities, and the quality of Iraqi industrial products is low, as public and mixed companies adhere to the minimum Iraqi standard specifications (derived from international standards).

Furthermore, about (40%) of public sector companies rely on government aid to pay employees' wages, and there is also a weak investment performance of public sector companies in establishing new companies. This is due to the focus of government financial allocations in the annual investment program on the operational works of existing government projects and addressing their failures (Ministry of Industry and Minerals, 2021).

### **2.3.3 Private sector contribution in the industry:**

It is evident that the private sector should take on the role of the public sector as a primary source of employment opportunities. However, expanding the private sector and diversifying sources of growth away from oil are two necessary factors to accommodate the growing workforce. Despite the relative improvement achieved after 2003 compared to the pre-change era, Iraq heavily relies on the hydrocarbon sector, which is capital-intensive and creates limited employment opportunities. The private sector heavily depends on government spending and should become self-sustainable by enhancing its competitiveness in other markets, including increasing non-oil exports. Additionally, incentives should be provided to citizens to transition to work in the private sector, elevate workers' skills, and make these skills more compatible with the needs of the private sector by improving the quality of education, as it is a vital factor in this regard (Al-Basri and Al-Sbahy, 2012).

Furthermore, production values and the number of employees in large, medium, and small industrial facilities according to the public and private sectors during the period (2010-2021) will be discussed. Table (1) illustrates the production values of large projects in both the public and private sectors during the period (2010-2022).

**Table 1: Value of industrial production for large industrial facilities by sector for important manufactured goods during the period 2010-2021 (in billion dinars).**

Year	Production values and numbers for large projects (public and private sectors)						
Sectors							
2010	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	110	---	16	32	8,3	227	32
Number of projects	4	---	1	2	7	13	3
Private	133	89	5	16	6	9	4.3
Number of projects	76	4	2	1	1	2	1
2011	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	643	---	28	211	5,2	468	48
Number of projects	8	---	2	4	6	17	5
Private	225	---	---	---	3,6	529	7
Number of projects	116	---	---	---	4	254	2
2012	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	338	119	253	135	402	1,199	54,2
Number of projects	5	6	7	2	4	24	8
Private	399	---	---	---	390	616	10
Number of projects	142	---	---	---	1	276	3
2013	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	1,011	34	48,9	79,8	1,3	884	219,4
Number of projects	7	2	4	1	7	19	11
Private	292	125	---	---	9,6	777	7
Number of projects	132	8	---	---	3	308	2
2014	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	829	19	56	44	1,1	756	170
Number of projects	5	1	5	1	6	15	8
Private	244	620	---	---	---	1,338	93
Number of projects	122	16	---	---	---	331	3
2015	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry



Government	712	15	51	36	1,1	694	153
Number of projects	5	1	5	1	7	13	7
Private	209	589	---	---	---	1,089	78
Number of projects	139	19	---	---	---	349	3
2016	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	744	16	42	53	945	609	148
Number of projects	6	1	6	1	7	9	6
Private	589	467	---	---	---	931	54
Number of projects	140	19	---	---	---	325	3
2017	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	904	22	30	62	170	574	123
Number of projects	5	1	7	1	8	7	6
Private	1,324	321	---	---	---	50	14
Number of projects	160	23	---	---	---	271	4
2018	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	894	28	36	77	1,3	637	141
Number of projects	5	1	6	5	7	11	5
Private	1,356	402	---	---	611	439	98
Number of projects	177	25	---	---	4	293	4
2019	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	932	33	47	94	1,9	703	176
Number of projects	7	1	7	4	6	11	4
Private	1,321	343	1.2	---	160	645	18
Number of projects	197	30	1	---	4	313	8
2020	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry
Government	843	31	42	88	1,1	645	146
Number of projects	6	1	7	5	5	11	5
Private	1,203	318	350	---	50	504	15
Number of projects	207	35	1	---	4	346	8
2021	Food and Beverage Industry	Soft drinks and alcoholic beverage	textiles	ready-made clothes	paper and printing products	non-metallic mineral products	chemical materials and products industry

Government	1,238	43	56	97	1,4	764	187
Number of projects	4	1	3	3	4	3	3
Private	491	354	1,4	---	755	682	17
Number of projects	225	40	2	---	4	402	9

**Source: Ministry of Planning, Industrial Statistics, Data on Industrial Projects during the period (2010-2021).**

The Table (1) from above demonstrates that the public sector contributes the largest share to the industrial sector. The value of production in the food industry reached approximately 110 billion Iraqi dinars in 2010 and increased to about 1.238 trillion Iraqi dinars in 2021. On the other hand, private sector production increased from 133 million dinars to about 141 billion dinars during the same period, which represents a slight increase compared to the public sector. This increase is attributed to the recovery of the Iraqi economy due to the rise in global oil prices. This led the government to focus on developing the industrial sector, especially the metal and chemical industries, in order to increase oil production and exports. Additionally, efforts were made to rehabilitate the destroyed industries and establish new industries to reduce dependence on imports and alleviate the burden on the oil sector in funding the state's general budget.

The non-metallic mineral products industry witnessed a significant increase, rising from 227 billion dinars in 2010 to around 764 billion dinars in 2021. However, the public sector dominated the large industrial projects due to its financial resources and allocations, especially in consumer goods industries. This was an attempt to reduce domestic consumption of imported goods, but it was hindered by the high production costs compared to the prices of imported goods. As a result, the private sector shifted towards imports, neglecting local manufacturing, particularly after 2016, due to weak customs taxes. This led to a rapid and net profit, avoiding real investment in the production of goods and high-risk services due to the weak investment environment, resulting in the weakness of manufacturing operations in the country.

Regarding the number of industrial projects according to the type of industry, the private sector played a major role. In 2021, it achieved an increase in the number of projects in the food industry, reaching about (225) compared to about 139 projects in 2010, while the government sector had only (5) projects. This aligns with the economic shift after 2003, where the private sector became the engine of the economy.

Similarly, in other industries, the private sector dominated most of them. For example, non-metallic mineral products witnessed an increase in the number of projects from (349) large projects in 2010 to about (402) industrial projects, while the public sector had only (3) projects in 2021.

The same applies to the beverage industry and to some extent, the chemicals industry. Major industrial projects did not witness significant developments until after 2014, following the economic sanctions that affected these projects. Additionally, the remaining projects faced difficulties after 2003 due to increased trade openness, leading to substantial losses and forcing them to lay off workers and exit the economic scene due to their inability to compete.

The industrial sector's contribution to Iraq's Gross Domestic Product (GDP) ratio was 2-2. After 2003, industrial projects suffered setbacks due to the halt of all functioning projects in Iraq, negatively affected by the events occurring at that time. This led to a shift in local demand to foreign imports to meet various needs, as imported goods were cheaper compared to local goods (Murad and Alani, 2008). However, the industrial sector began to recover after 2009 due to several positive indicators and initiatives that had a positive impact on the Iraqi economy. These included the attention of decision-makers and specialists, resulting in the issuance of the law on Small and Medium Enterprises in 2012, granting them lending priority and exemption from interest rates, leading to an increase in the number of industrial projects in the country (Hassan, 2018).

Despite numerous local and foreign lending institutions providing loans and grants to large social categories in various provinces of the country, they did not meet the increasing need for this type of loan, which aims to develop the Iraqi economy in general and the industrial sector specifically. It is worth noting that the main reasons for the weakness of industrial projects in Iraq are as follows (Jaleel and Mohammed, 2020):

1. The economic recession experienced by the country due to the circumstances it went through during the past and current decades, impacting this sector and other sectors due to terrorist attacks and the destruction of most vital facilities and infrastructure in the country.
2. Colliding with a lack of financing, including a small number of funding sources, a lack of required guarantees, and financial problems during the actual project implementation.
3. New orientations in economic policy based on adopting a market mechanism and opening up to the global economy, in addition to military operations and the emigration of capital owners abroad.
4. Financial, administrative, and bureaucratic corruption significantly weakened many industrial projects, leading investors and capital owners to resort to imports to meet local demand and achieve profits.

Despite the prosperity witnessed by the industrial sector during the period (1990-2002) in terms of meeting the majority of domestic demand through local production, the value of the industrial sector's contribution to GDP has experienced a significant decline. This is due to the shortage of raw materials, intermediates, semi-finished goods, and spare parts needed by production institutions to manage their production and increase their growth rates. Additionally, the volume of imports decreased due to the scarcity of foreign currency at that time (Rasheed, 2005).

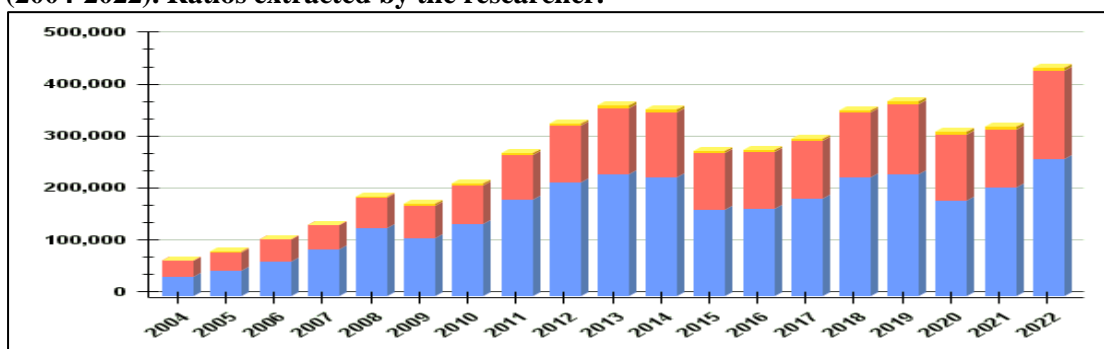
In general, the industrial sector faces various problems – which will be discussed in detail later – that have limited its contribution to the overall GDP, particularly the manufacturing sector, which has deteriorated due to internal and external factors, notably the political situation in Iraq, which affected the local industry.

After 2003, the Iraqi economy suffered from prolonged structural imbalances in its economic structure, especially after the aftermath of wars, economic sanctions, and the occupation of Iraq in 2003, followed by the expansion of ISIS into large areas of Iraq. This resulted in economic, political, and social chaos that weakened the capacity of productive sectors, especially the industrial sector, leading to intersectional interconnectedness. Additionally, the reinter nature of the Iraqi economy made it primarily dependent on the volume of oil exports in generating the country's financial revenues. Consequently, the imbalances in the industrial sector deepened. The following Table (2) reveals the observed weakness in the industrial sector through its contribution percentage to the GDP with and without oil, illustrating the true proportion of the industrial sector during the period (2004-2022).

**Table 2: The Contribution Percentage of the Industrial Sector to the Iraqi GDP for the period (2004-2022)**

Year	GDP with oil (1)	GDP non-oil (2)	Industrial Production Value(3)	Annual growth rate of industrial production value%	Percentage of industrial production to GDP%	Percentage of industrial production to non-oil GDP
2004	36,092	31,411	1,067	---	2.9	3.3
2005	49,217	34,626	1,063	(0.3)	2.1	3.0
2006	65,244	42,672	1,363	28.2	2.0	3.1
2007	88,408	47,174	1,448	6.2	1.6	3.0
2008	131,180	58,309	1,954	34.9	1.4	3.3
2009	111,228	62,956	2,879	47.3	2.5	4.6
2010	138,018	75,138	3,144	9.2	2.2	4.1
2011	185,698	86,396	3,316	5.4	1.7	3.8
2012	218,221	109,124	5,128	54.6	2.3	4.6
2013	234,659	126,941	5,391	5.1	2.2	4.2
2014	228,242	125,825	4,208	(21.9)	1.8	3.3
2015	166,014	108,812	3,558	(15.4)	2.1	3.2
2016	167,436	108,843	3,728	4.7	2.2	3.4
2017	187,219	111,765	4,050	8.6	2.1	3.6
2018	227,604	124,995	4,591	13.3	2.0	3.6
2019	233,371	135,942	4,960	8.0	2.1	3.6
2020	182,594	128,004	4,690	(5.4)	2.5	3.6
2021	207,694	112,797	4,630	(1.2)	2.2	4.1
2022	264,180	169,751	5,821	25.7	2.2	3.4

Source: Ministry of Planning, National Accounts, Gross Domestic Product for the period (2004-2022). Ratios extracted by the researcher.



**Figure 1:** The industrial sector to total GDP in Iraq.

From figure (1) the industrial sector is considered one of the important sectors in the country, as it includes various industries such as petrochemicals, textile and clothing, electronics, and others. However, after 2003, the contribution of this sector to the gross domestic product (GDP) decreased. It reached around (2.9%) in 2004 and decreased to (2.2%) in 2022. In some years, it even fell below (1%). These percentages reflect the structural imbalance of this important sector and the increased reliance on the oil sector, which negatively affected manufacturing activities.

Currently, in Iraq, as oil revenues increase, the dependence on manufacturing industries decreases. However, in reality, increasing oil revenues should lead to an increase in the contribution of manufacturing industries to the Iraqi economy to compensate for the future depletion of crude oil. Additionally, the percentage of workers in this sector has not exceeded (16%) due to the suspension of the majority of industrial establishments in the country as a result of wars, terrorism, and the opening of foreign trade, which led to the importation of various goods and commodities, causing most factories to close due to high local production costs.

Returning to Table (2), it is observed that the percentage of the industrial sector to total non-oil GDP was about (3.3%) in 2004, and it slightly increased to (3.4%) in 2022, which reinforces the state of weakness and imbalance in this sector. Thus, the weakness and imbalance in the Iraqi industrial sector after 2003 can be diagnosed with the following problems:

**A-** Aging of production equipment in factories and the disappearance of many of them, leading to technological obsolescence of the equipment used in this sector.

**B-** The impact of economic sanctions that lasted for more than thirteen years, limiting the ability to develop this sector and attract new investments, as well as the development of existing fixed capital, introducing more modern means of production, and enhancing the technical knowledge of workers.

**C-** Opening markets after 2003 and the influx of imported foreign goods, leading to severe marketing problems for industrial companies and a decline in government agencies' purchase of national industrial products.

**D-** The increase in industrial costs and the withdrawal of support provided to production inputs before 2003.

**E-** Weak electrical power, which disrupts the production process, causes losses, lowers productivity levels, and reduces the utilization of available production capacity in private, public, and mixed-sector factories and plants.

**F-** The impact of economic sanctions on the infrastructure of the industrial sector and the urgent need to develop and expand it after 2003 in line with population growth and economic and gross domestic product expansion.

**G-** Some public industrial companies being subjected to looting and theft, resulting in the loss of their production equipment. There has also been a significant increase in the number of employees in public industrial companies due to the legislation of the law of reinstating political dismissals, which affects industrial costs in general.

**H-** Increased maintenance costs due to the disappearance and deterioration of assets, machinery, and equipment, as well as the incompatibility of many industrial assets with emerging environmental standards.

**J-** Neglecting the level of product quality, performance quality, and obtaining ISO certification, as well as the low level of efficiency and experience in meeting consumer needs and market requirements.

**K-** A very high percentage of private sector factories stopping operation and closing after 2003 due to unfavourable security and economic conditions for these companies.

## **2.4 The Problem of Iraqi Industries in the Era of Trade Liberalization after 2003:**

### **2.4.1 The Role of Trade Liberalization in Distorting the Industrial Sector:**

The negative effects of trade liberalization on the industrial sector in Iraq are evident through a number of interrelated factors with the trade balance, as follows (Al-Marsomi, 2018):

**1. Export Structure:** It refers to the extent to which Iraq relies on a few specific products in its export mix. As oil constitutes a significant proportion of total exports, there is a need for Iraq to diversify its export structure to gain benefits from trade liberalization.

**2. Competitiveness of Manufactured Goods:** Iraqi products still suffer from low efficiency, high prices, and a lack of adherence to international quality management systems like ISO 9000. Therefore, Iraqi products should possess competitiveness and comply with international quality standards (ISO).

**3. Adopted Manufacturing Pattern:** Iraq has mainly relied on import substitution strategy behind high protectionism and state control over foreign trade.

Based on this, we will discuss the impact of trade liberalization on the industry, as the Iraqi industry is unable to compete internationally due to real difficulties. It still lags behind in achieving industrial development in its modern concept, and there are inherent flaws in our industrial facilities.



#### **2.4.2 Imbalance in the Commodity Structure of the Trade Balance:**

The Iraqi economy witnessed a significant openness to the external world after 2003, coinciding with an increase in cash incomes for individuals. This led to a hike in domestic demand for goods and services. However, due to the destruction that befell the productive sectors, especially factories and plants, there was no productive base. Therefore, meeting domestic demand was done through imports, which became a fundamental pillar in the local markets. Thus, Iraq has become a net importer of all goods and services.

#### **2.4.3 Imbalance in Iraq's exports structure:**

Iraqi exports have seen a clear imbalance after 2003, primarily due to the dominance of oil exports and the decline in other exports resulting from the low productivity of commodity sectors, especially the industrial sector. They couldn't compete with high-quality imported goods at lower prices. Hence, export activities require government support because boosting economic sectors requires significant financial capabilities and precise planning that non-governmental entities cannot secure. They must also comply with quality and price aspects to be competitive and acceptable in foreign markets. To provide more detailed information about the commodity distribution of exports.

Noticed from the provided that Iraq's export components during the studied period reflect a concentration and specialization in one commodity, which is crude oil (mineral fuels and lubricants). Therefore, the Iraqi economy is described as a mono-economic and non-diversified economy relying on a single export commodity, given that traditional exports (food, beverages, oils, etc.) were characterized by their limited supply and fluctuating growth, not exceeding (1%) of the total exports. The reason for the decrease in the aforementioned exports is due to their production dependency on climate fluctuations, and with the competitive position of these exports in foreign markets.

In light of this, the Iraqi economy in general, and the industrial sector, in particular, are considered weak and fragile, exposing it to significant losses due to international oil price fluctuations and high flexibility to counter external shocks. Thus, the need to diversify exports stands out, as the risks that the economy may face due to the decline in the benchmark prices of exports may be distributed among a large number of goods, reducing the losses resulting from the fluctuations of these prices in international trade.

the structural imbalance of imports in Iraq during the period (2004-2022), resulting from the trade openness policy, which led to an increase in the volume of imports due to the weakness of economic sectors, especially the industrial sector, in meeting the local demand for basic goods and services. This deepened the imbalance in the country's foreign trade balance, as the Iraqi economy relies on a single source, which is crude oil, to achieve financial returns to finance its public expenditures. The lack of diversification in Iraq's export volume makes the country economically exposed, and characterized by subordination to foreign markets. Based on this information, it is recommended to diversify Iraq's economic structure to include multiple sectors and exports, which would make the country less vulnerable to international economic fluctuations and more self-reliant.

that Iraq's export composition during the study period reflects a concentration and specialization in a single commodity: crude oil (mineral fuels and lubricants). This makes Iraq a mono-economic and undiversified economy, heavily reliant on a single export commodity.

Traditional exports such as food, beverages, oils, etc., have limited supply and fluctuating growth, accounting for less than (1%) of total exports. The decline in these exports is attributed to their dependence on climate fluctuations and the competitive position of these exports in foreign markets.

This situation makes the Iraqi economy, particularly the industrial sector, vulnerable to significant losses due to international oil price fluctuations and external shocks. Diversifying exports is crucial to mitigate the risks associated with a single export commodity, as it

distributes potential losses across multiple goods and reduces the impact of price fluctuations on international trade.

the structural imbalance of imports in Iraq during the period 2004-2022, resulting from the trade openness policy. The weakness of economic sectors, especially the industrial sector, in meeting local demand for basic goods and services has led to increased imports. This reliance on a single source of revenue, crude oil, to finance public expenditures has deepened the imbalance in the trade balance. The lack of export diversification makes Iraq economically vulnerable and dependent on foreign markets.

The composition of imports includes a diverse range of goods with varying weights. This is a natural outcome of trade openness after 2003 and the increasing demand met through imports due to the near-complete halt of domestic production. Capital goods (machinery and transport equipment) topped the list of imported goods during 2004-2022, with an average share of (39.2%). This was followed by various manufactured goods (15.8%), manufactured goods classified by material (10.9%), mineral fuels and lubricants (9.7%), and chemicals (6.7%). Among consumer goods, vegetable and animal oils and fats had the highest share (6.3%), followed by food and live animals (5%). Other items such as beverages, tobacco, non-food raw materials, etc., accounted for less than 3% on average.

It is evident that Iraq imports capital goods primarily for consumption purposes rather than for industrial production. This highlights the distortion and imbalance in the Iraqi economy due to the consumption pattern and increasing demand for various goods, which are met through imports from other countries, leading to the outflow of foreign currency.

### 2.5 Dependence of Imports to GDP:

The Iraqi market heavily relies on imports to meet its needs, resulting from a significant food gap caused by growing local demand and food consumption at rates exceeding the growth rate of domestic food production. This gap is filled by importing goods from other countries, especially neighboring ones. The growth in import activity is also attributed to shortcomings in economic policies, particularly trade policies, and the inability to enact and implement essential economic laws. This situation has negatively impacted local industries and the overall domestic economy. In the following Table (3), it shows the volume of commodity imports and its percentage to GDP, in addition to the value of industrial production and its percentage to GDP during the period (2004-2022):

**Table 3: presents the volume of commodity imports and their share in GDP during the period 2004-2022.**

Year	GDP with oil (1)	GDP non-oil (2)	Total important (3)	Annual rate important %	Rate % (1/3)	rate % (2/3)
2004	36,092	31,411	19,954	---	55.2	63.5
2005	49,217	34,626	23,748	19.0	48.2	68.5
2006	65,244	42,672	22,480	(5.3)	34.4	52.6
2007	88,408	47,174	19,332	(14.0)	21.8	40.9
2008	131,180	58,309	35,888	85.6	27.3	61.5
2009	111,228	62,956	41,858	16.6	37.6	66.5
2010	138,018	75,138	43,275	3.3	31.3	57.4
2011	185,698	86,396	47,581	9.9	25.6	55.0
2012	218,221	109,124	59,006	24.0	27.0	54.0
2013	234,659	126,941	63,349	7.3	26.9	49.9
2014	228,242	125,825	58,177	(8.1)	25.4	46.2
2015	166,014	108,812	47,045	(19.1)	28.3	43.2
2016	167,436	108,843	34,713	(26.2)	20.7	31.8
2017	187,219	111,765	37,569	8.2	20.0	33.6
2018	227,604	124,995	45,861	22.0	20.1	36.7
2019	233,371	135,942	58,126	26.7	24.9	42.8

2020	182,594	128,004	48,151	(17.1)	26.3	37.6
2021	207,694	112,797	40,736	(15.3)	19.6	36.1
2022	264,180	169,751	55,193	35.4	20.8	32.5

Source: Ministry of Planning, National Accounts, Gross Domestic Product for the period (2004-2022). Ratios extracted by the researcher.

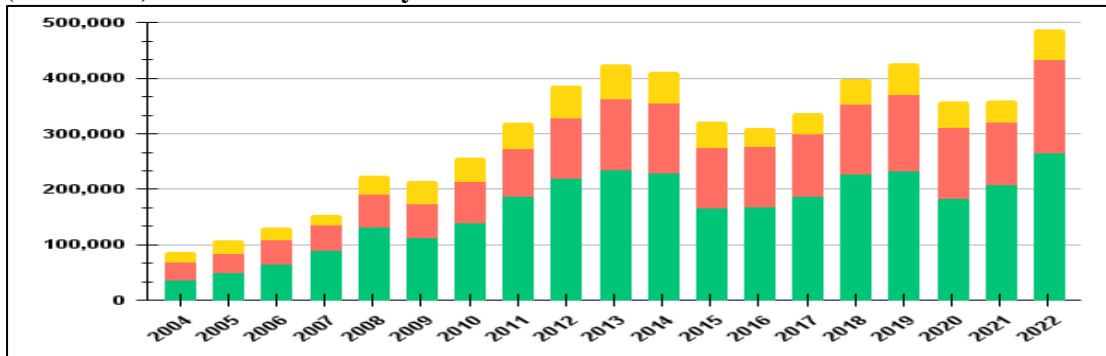


Figure 2: the value of imports to Gross Domestic Product in Iraq.

The table (3) and figure (2) it shows observe a continuous increase in the value of imports. Imports reached approximately (\$19,954) million in 2004 and increased to around (\$22,480) million in 2006. However, in 2007, they decreased by (14%) due to terrorist activities and unstable conditions in the country. These negative factors had a detrimental impact on economic and trade policies, leading traders to reduce their demand for imported goods. After the security situation relatively stabilized and oil exports resumed, the value of imports significantly increased to (\$35,888) million in 2008.

This increase can be attributed to reliance on foreign markets and the improved living standards of individuals. The upward trend continued until 2013, reaching approximately (\$63,349) million. The fluctuating increases in import levels can be attributed to the ongoing deficiency and inadequacy of the domestic production sector in meeting the growing local demand, both from the government and the private sector. Additionally, the overall situation of the country did not encourage domestic investment, despite the increase in local demand. Consequently, productive capacities remained stagnant, leading to a reliance on foreign markets to cover the deficit in supply.

During the period from 2014 to 2016, the terrorist activities of ISIS led to a decrease in the volume of commodity imports from (\$58,177) million in 2014 to approximately (\$34,713) million, a decrease of (26.2%). However, gradually, as the situation stabilized, imports increased during the period from 2017 to 2019 by (26.7%) due to the return of political and economic stability, which had a positive impact on trade conditions in the country.

In 2020 and 2021, imports decreased due to the COVID-19 pandemic, which resulted in the closure of international trade. However, imports rebounded and increased to around (\$55,193) million in 2022, representing a growth rate of (35.4%). This increase was driven by the high local demand (government and private) following a significant increase in oil revenues in the same year.

From Table (3), it is evident that imports constitute a significant proportion of GDP. By considering the openness ratio as a measure of Iraq's economic exposure, it is found that the achieved ratios have exceeded (20%) at high levels throughout the period of 2004-2022. In 2004, it reached around (55.2%), the highest ratio recorded during the study period, due to the significant trade openness that occurred in Iraq after the international isolation resulting from the economic blockade imposed on the previous regime in the country. The ratio of imports to GDP without oil reached about (68.5%) in 2005, which reinforces the aforementioned analysis. Furthermore, external imports pose a major competition for local products and hinder industrial, agricultural, and economic activities in the country. Additionally, they lead to outflows of

foreign currencies. The unregulated import direction reduces developmental opportunities for the industrial sector, hindering its future growth.

The import activity has also contributed to the closure of many factories, plants, craft workshops, and some local professions, leading to unemployment for their owners and workers. It has negatively affected the industrial sector as the production costs of local products have become higher than those of imported industrial products. Furthermore, health damages result from consuming imported products that often do not adhere to health and standard specifications. Consequently, no country can rely solely on imports and neglect its national industry and other productive sectors that contribute to its GDP. Due to this import activity, Iraq has lost approximately (200) billion dollars during the period from 2010 to 2022. It is worth noting that capital and production goods constitute only a very limited percentage of the total imports, as most of these imports are consumer goods and often of poor quality from non-distinguished sources globally (Dadoosh, 2023).

### **1. Discussion of Results :**

The policy of trade openness has directly and negatively impacted the reality of the industrial sector in the country. Increasing reliance on foreign sources to meet the local economic needs stems from the deficiencies, backwardness, and stagnation experienced by the production apparatus, rendering it incapable of meeting the overall local demand. This demand has been witnessing a significant increase due to rising individuals' income levels and population growth, along with increased allocations in the general budget, which have led to increased wages and salaries for state employees, albeit relatively.

Moreover, financial and administrative corruption, especially at border crossings, has had negative repercussions by allowing harmful goods and commodities to enter the economy, which compete with local industries in the Iraqi market. And it is noticed that there is a disturbance in the trade structure and the Iraqi exports are dominated by one commodity (crude oil), while importing everything, which has led to a significant weakness in the country's productive base.

### **3. Conclusion:**

1. The industrial sector in Iraq has been negatively affected throughout the period of 2004-2022 due to the policy of trade openness, which led to the shutdown of factories and plants as a result of cheaper prices of imported goods. Thus, the hypothesis upon which the research was built has been proven.

2. Trade openness may lead to an increase in Iraq's foreign trade volume, thereby increasing imports and exports in the industrial sector. Increased exports can enhance the diversity of the industrial sector and create more employment opportunities.

3. Trade openness contributes to the transfer of technology and knowledge in the industrial sector in Iraq, promoting technological improvement, in, creasing production efficiency and product quality.

4. Trade openness can impact the level of competition in the industrial sector, as local companies face competition from foreign products. The industrial sector in Iraq may need to adapt to increased international competition and improve its efficiency to remain in the market.

5. The policy of trade openness has resulted in increased employment opportunities in the industrial sector, especially in companies that thrive due to increased foreign trade volume and demand for domestic products.

### **Authors Declaration:**

Conflicts of Interest: None

-We Hereby Confirm That All The Figures and Tables In The Manuscript Are Mine and Ours. Besides, The Figures and Images, Which are Not Mine, Have Been Permitted Republication and Attached to The Manuscript.

- Ethical Clearance: The Research Was Approved By The Local Ethical Committee in The University.

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## انعكاسات الانفتاح التجاري على واقع الصناعة في العراق للمدة (2004-2022)

مراد فالح مراد<sup>(2)</sup>  
جامعة بغداد/ كلية الادارة والاقتصاد / قسم الاقتصاد  
بغداد ، العراق  
[murad.f@coadec.uobaghdad.edu.iq](mailto:murad.f@coadec.uobaghdad.edu.iq)  
<https://orcid.org/0000-0002-2252-7589>

زينة اسماعيل متعب<sup>(1)</sup>  
جامعة بغداد/ كلية الادارة والاقتصاد / قسم الاقتصاد  
بغداد ، العراق  
[Zina.Ismail2102m@coadec.uobaghdad.edu.iq](mailto:Zina.Ismail2102m@coadec.uobaghdad.edu.iq)  
<https://orcid.org/0009-0004-1304-6101/print>

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هذا العمل مرخص تحت اتفاقية المشاع الابداعي نُسب المُصنّف - غير تجاري - الترخيص العمومي الدولي 4.0

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### مستخلص البحث:

يعد العراق من ابرز الدول التي كانت تمتلك صناعات مهمة وتحظى بالمقبولية لدى المستهلك العراقي فضلا عن التنافسية ونفادها في الاسواق الاقليمية والعالمية ، لكن بعد عام 2003 وبسبب الانفتاح التجاري فقد حصل ضعف عام في هيكل الاقتصاد العراقي ، وهذا اثر بشكل مباشر على واقع القطاع الصناعي العراقي ، الامر الذي ادى لدخول سلع ومنتجات من كافة انحاء العالم ، ومع زيادة دخول الافراد والنفقات الحكومية التي لجأت الى الاستيرادات السلعية لسد الحاجة المحلية مما ادى الى القضاء على كل مظاهر الصناعة في البلاد . اذ تعنى اهمية البحث بتسليط الضوء على دور التجارة الخارجية (الاستيراد والتصدير) في الاقتصادات العالمية ، وتوضيح أوجه القصور في إدارة السياسة التجارية ، وتأثير الانفتاح التجاري على دور القطاع الصناعي في تحقيق التنمية الاقتصادية ، والحاجة إلى اتخاذ تدابير واقعية لإنقاذ هذا القطاع الحيوي من التدهور في العراق . وارتكزت مشكلة البحث على تأثير سياسة الانفتاح التجاري بشكل مباشر وسلبى على واقع القطاع الصناعي في البلاد ، اذ ان زيادة الاعتماد على الخارج لتوفير احتياجات الاقتصاد المحلي يعود الى ما يعانيه الجهاز الانتاجي من قصور وتخلف وجمود جعله عاجزا عن تلبية الطلب المحلي الكلي . فيما هدف البحث الى تسليط الضوء على دور التجارة الخارجية (الاستيراد والتصدير) في الاقتصادات العالمية ، وتوضيح أوجه القصور في إدارة السياسة التجارية ، فضلا عن مدى تأثير الانفتاح التجاري على واقع القطاع الصناعي في تحقيق التنمية الاقتصادية ، وقد توصل البحث الى اهم نتيجة هي ان القطاع الصناعي في العراق تأثر سلبا طوال المدة (2004-2022) بسبب سياسة الانفتاح التجاري القسري التي ادت الى توقف المعامل والمصانع نتيجة لرخص اسعار السلع المستوردة .

نوع البحث: بحث مسنل لرسالة ماجستير

المصطلحات الرئيسية للبحث: قطاع الصناعة التحويلية في العراق، سياسة الانفتاح التجاري ، مساهمة الصناعة في GDP ، اختلال هيكل الصادرات والاستيرادات .

(2)

(3)