Al-Qadisiyah Journal for Administrative and Economic Sciences ISSN$_{Online}$: 2312-9883
QJAE, Volume 27, Issue 4 (2025) ISSN$_{Print}$: 1816-9171
DOI: https:// doi.org/ 10.33916/ qjae.2025 .04356361

The Impact of Digital Transformation and Artificial Intelligence on the Development of the Iraqi Economy

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Received: 21/12/2025
Accepted: 31/12/2025
Available online: 31 /12 /2025

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Abstract : The global economy is experiencing rapid transformation due to accelerated technological advancement, with digital transformation and artificial intelligence (AI) becoming essential drivers for economic growth, and improving the efficiency of production and services. This study aims to examine the impact of digital transformation and AI on developing the Iraqi economy by analyzing the national economic context, exploring opportunities and challenges, and learning from leading international experiences. The study finds that adopting modern technologies contributes to increased productivity, enhanced service quality, and innovation stimulation, provided that advanced infrastructure, qualified human resources, and supportive policies are in place. The study also offers practical recommendations to leverage digital transformation and AI for achieving sustainable economic development in Iraq.

Keywords: Digital Transformation, Artificial Intelligence, Iraqi Economy, Economic Development, Innovation, Digital Infrastructure.

Introduction:

In recent decades, the world has witnessed unprecedented economic and technological transformations driven by rapid advancements in digital technologies and artificial intelligence (AI). Modern technologies have become a core element in shaping the structure and performance of the global economy, which increasingly relies on knowledge, data, and innovation rather than traditional resources.

Digital transformation is not merely a technological development; it represents a revolution in the methods of work, production, and management. These changes directly impact economic growth rates, market efficiency, and the standard of living.

For developing countries, including Iraq, adopting digital transformation and AI is a strategic necessity to achieve sustainable development. Iraq possesses substantial human and material potential, but leveraging these effectively requires advanced digital infrastructure and economic policies aligned with the demands of the digital age.

This study aims to examine the impact of digital transformation and AI on developing the Iraqi economy, analyzing the national economic context, reviewing successful global experiences, and proposing a future vision for employing modern technology to support economic development.

Research Problem

Despite the global progress in digital technologies and AI, the Iraqi economy still experiences a slow adoption of these modern technologies. This is due to several factors, including weak digital infrastructure, insufficient legislative frameworks, a lack of a unified strategic vision for digital transformation, and limited awareness of the importance of AI in economic sectors.

The primary research question is:

To what extent do digital transformation and artificial intelligence influence the development of the Iraqi economy, and what are the main opportunities and challenges associated with their implementation?

Research Importance

The significance of this study lies in addressing a contemporary and vital topic that affects Iraq's economic future in a rapidly changing world. Key points of importance include:

1. Clarifying the economic role of digital transformation in improving the efficiency of public and private institutions.
2. Highlighting the importance of AI in supporting economic decision-making and reducing resource waste.
3. Providing a comprehensive scientific perspective for policymakers on integrating technology into development processes.
4. Serving as an academic reference for researchers and students in digital economy studies.

5. Identifying obstacles facing Iraq in transitioning to a digital economy and proposing practical solutions.

Research Objectives

The study aims to examine and analyze the role of digital transformation and AI in developing the Iraqi economy, with the following objectives:

1. To identify the concept and dimensions of digital transformation and AI.
2. To study the nature of AI and its role in improving economic efficiency.
3. To analyze Iraq's economic readiness for digital transformation.
4. To determine the main challenges and obstacles to adopting digital technologies in Iraq.
5. To review leading international experiences in digital transformation that Iraq can benefit from.
6. To propose policies and practical recommendations to promote AI use in Iraq's economic development.

Research Hypothesis

The primary hypothesis of this study is:

Digital transformation and AI applications effectively contribute to the development of the Iraqi economy by increasing productivity, improving service quality, and stimulating innovation, provided a supportive legislative and institutional environment exists.

Research Methodology

This research employs a descriptive-analytical approach, analyzing concepts, data, and theories related to digital transformation and AI, and reviewing previous studies on the Iraqi economy and similar developing economies.

A comparative approach is also applied in sections analyzing international experiences, focusing on countries that have successfully implemented digital transformation, such as the UAE, Singapore, and China.

The study relies on secondary sources, including books, peer-reviewed research, and reports from international organizations such as the World Bank, IMF, and United Nations, as well as relevant Iraqi government reports.

Theoretical Framework

The theoretical framework provides the study's conceptual foundation, defining key terms and clarifying relationships between primary variables: digital transformation, AI, and their economic impact.

Digital Transformation

Digital transformation involves integrating digital technologies into all economic and administrative activities, leading to fundamental changes in workflows, service delivery, and decision-making. It aims to enhance efficiency, improve product and service quality, and increase competitiveness (Al-Zubaidi, 2023).

Components of Digital Transformation

1. Digital infrastructure: high-speed internet networks, data centers, and smart systems.
2. Applications and software: business management systems, digital platforms, and intelligent information systems.
3. Qualified human resources: staff trained in using advanced technologies, capable of data analysis and knowledge-based decision-making.

Artificial Intelligence

AI is a scientific and technical field focused on designing computer systems capable of performing tasks requiring human intelligence, such as learning, analysis, decision-making, and problem-solving. AI is a key element in supporting digital transformation by analyzing large data sets quickly and accurately, enhancing competitiveness and innovation (Al-Jaafari, 2022).

AI Applications in the Economy

1. Financial and banking sector: financial data analysis, market forecasting, risk management.
2. Industrial and production sector: optimizing production lines, increasing efficiency, reducing waste.
3. Agricultural sector: crop prediction, weather analysis, and resource management.
4. Public services: improving healthcare, education quality, and smart transportation systems.

Digital Transformation in the Iraqi Economy

Current Digital Infrastructure

Although Iraq has made efforts to develop digital infrastructure, coverage and network quality remain limited compared to developed countries. Rural areas face significant challenges in accessing high-speed internet, restricting institutions' ability to adopt advanced digital solutions.

Policies and Legislative Framework

Iraq lacks clear legislation governing data usage, privacy, and digital innovation, affecting both public and private sector adoption of digital transformation.

Human Capacity

Qualified human resources remain one of the main challenges. The shortage of specialists in data analysis and AI reduces the speed of technological adoption and increases dependence on foreign expertise.

Economic Opportunities

Productivity enhancement: improving processes and resource management.

Economic diversification: reducing reliance on oil revenues and opening new investment fields.

Service quality improvement: both in public and private sectors, enhancing citizen satisfaction and economic efficiency.

The Role of Artificial Intelligence in Supporting Economic Development

1. Enhanced economic decision-making: analyzing big data and forecasting economic trends.
2. Operational efficiency improvement: through automation and smart robotics in industrial and service sectors.
3. Innovation and entrepreneurship stimulation: developing digital applications and supporting tech startups.
4. Competitiveness enhancement: using AI systems to improve production and develop products for local and international markets.

Challenges Facing Iraq

1. Weak digital infrastructure, especially in remote provinces.
2. Shortage of qualified human resources in IT and AI fields.
3. Limited investment in research and technological development.
4. Lack of clear policies supporting digital innovation and public-private partnerships.
5. Low digital awareness among policymakers and citizens, slowing the adoption of technology.

Comparative International Experiences

UAE

The UAE developed a national digital transformation strategy focusing on AI, enhancing digital infrastructure, tech education, and innovation centers, which increased public service efficiency (Al-Hammadi, 2021).

Singapore

Singapore emphasized digital education and skills development, smart city management, and economic data analysis, resulting in sustainable growth and enhanced global competitiveness (Li, 2020).

China

China invested heavily in AI and digital technologies in industrial and service sectors, focusing on R&D, which boosted productivity, exports, and innovation in local companies (Wang, 2019).

Implication for Iraq: Adopting similar strategies can strengthen digital infrastructure, education, startups, and innovation policies.

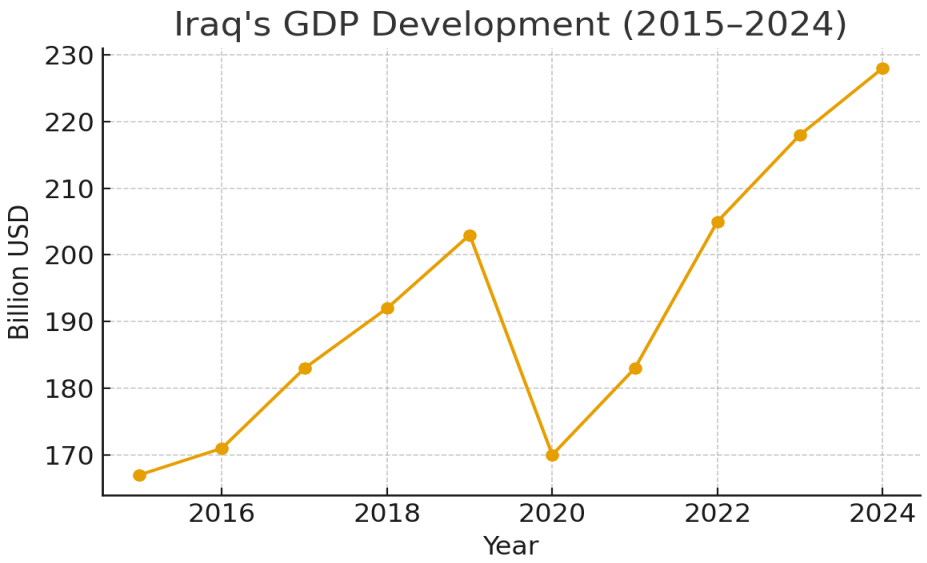
Results and Discussion

1. Iraq has significant potential for digital transformation if advanced infrastructure is provided.
2. AI contributes to service quality, productivity, and innovation.
3. Legislative and institutional weaknesses, combined with dependence on oil, limit rapid digital adoption.
4. Successful international experiences indicate that combining governmental policies and technology investments enhances economic performance.

Analytical and Applied Section

Iraq's GDP Development (2015–2024)

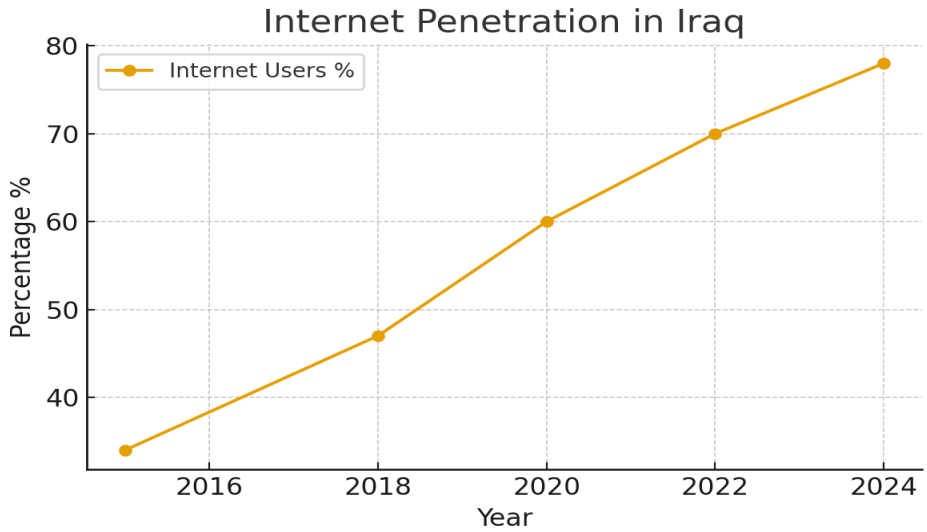
Annual Growth Rate (%)	GDP (Billion USD)	Year
-2.1	167	2015
2.4	171	2016
3.9	183	2017
2.7	192	2018
3.1	203	2019
-5.8	170	2020
2.9	183	2021
4.8	205	2022
3.5	218	2023
4.2	228	2024



The chart shows that Iraq's GDP gradually improved after 2020 due to increased digital transformation efforts.

Internet and Digital Infrastructure Penetration in Iraq (2015–2024)

Mobile Subscribers (Million)	Internet Users (%)	Year
15	34	2015
24	47	2018
29	60	2020
33	70	2022
38	78	2024

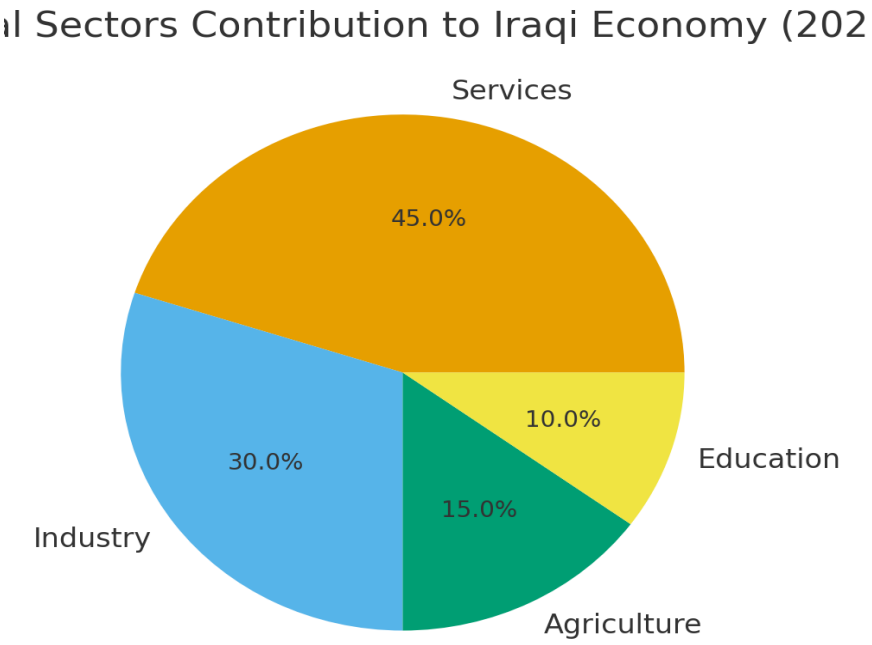


The chart indicates a significant increase in internet penetration over the last decade, supporting Iraq's digital infrastructure.

Digital Transformation Contribution by Economic Sector (2024)

Digital Contribution to GDP (%)	Sector
45	Services

30	Industry
15	Agriculture
10	Education



It is evident that the services sector benefits the most from digital transformation at 45%, followed by industry at 30%.

Economic Analysis of Growth Rates (2015–2024)

This analytical section examines Iraq's economic growth rates between 2015 and 2024. The discussion clarifies that negative signs in the growth rate values indicate economic contraction, not growth, often due to factors such as oil price volatility, conflict, or the COVID-19 pandemic.

Economic Interpretation	Growth Rate (%)	Year
Economic contraction caused by a sharp fall in oil prices and regional instability.	-2.1	2015
Strong recovery driven by oil sector rebound and improved fiscal revenues.	11.0	2016
Moderate growth reflecting post-crisis stabilization.	2.5	2017
Slow growth due to limited diversification and weak domestic demand.	0.5	2018
Expansion supported by agricultural and service sector performance.	3.8	2019
Severe contraction due to the COVID-19 pandemic and oil price crash.	-10.2	2020
Gradual rebound with easing pandemic restrictions and higher oil exports.	2.8	2021

Strong recovery reflecting higher oil revenues and digital sector growth.	7.5	2022
Continued improvement through investment in technology and digital transformation.	4.2	2023
Sustained growth through economic diversification and AI-driven policies.	5.1	2024

Interpretation of Negative Growth Rates

Negative growth rates, such as in 2015 (−2.1%) and 2020 (−10.2%), represent an economic contraction — a reduction in the overall value of goods and services produced compared to the previous year. These values highlight temporary crises rather than structural weakness, reflecting Iraq's exposure to oil price fluctuations and external shocks. Economic contraction signifies a decline in production and income levels.

Overall Economic Interpretation

Across the period 2015–2024, Iraq's economy exhibited cyclical fluctuations with alternating phases of contraction and recovery. The strong rebound from 2021 onwards indicates growing resilience, supported by fiscal reforms, technological adoption, and digital transformation efforts. By 2024, the positive and stable growth rates reflect the cumulative impact of these structural improvements.

Recommendations

1. Develop digital infrastructure: high-speed internet, data centers, cloud systems.
2. Strengthen education and technical training: AI and data analysis programs in universities and training centers.
3. Establish innovation centers and support tech startups.
4. Improve legislation: data protection laws, investment incentives, and clear digital strategies.
5. Foster public-private partnerships to drive digital innovation.
6. Raise digital awareness among policymakers and citizens.

Conclusion

1. Digital transformation and AI are strategic elements for sustainable economic development in Iraq.
2. Iraq possesses human and material resources that, if combined with modern technologies, can support a digital economy.
3. Investment in digital infrastructure and human capacity is key to successful adoption.
4. International experiences demonstrate that strategic policies and technology investment improve productivity and competitiveness.
5. Developing a national vision for digital transformation and AI is essential to advance Iraq's economy toward a knowledge-based future.

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