

The Impact of Oil Price Fluctuations on Development of Iraqi Economy

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Abstract

Since the discovery of oil and the use of technology in industries, oil has become the main source of energy for the major industrialized countries, meaning that it has become the source of the effective power of the producing countries. Oil in Iraq is the source of economic strength. However, this source requires intervention to exploit and use it, and to a legal and legislative framework that regulates the process of investing this resource. It is managed by an international market, one of the largest markets that is characterized by high export and import volume because it is produced in specific countries and is widely used in other countries. This market is distinguished from other markets by its volatile and variable prices due to factors related to market fundamentals in terms of demand and supply and the rate of economic growth. The Iraqi economy relies heavily on the oil sector to finance its revenues. Therefore, rentier economies will be affected in the case of lower prices because the rates of economic growth and government spending depend on the production and export of crude oil. Therefore, a strategy must be devised to develop this resource and make good use of its proceeds

Keywords: Oil Price, Iraqi Economy, Energy Market, Rentier Economies

1. Introduction

Oil is one of the most important strategic commodities related to demand and supply factors. Oil is an unstable commodity, so oil prices are an essential place in the economies of world countries, because of their impact on the economies of producing and consuming countries. That the fluctuation of prices is reflected in the reality of economic growth of consuming and producing countries, because oil revenue increases according to the price increase, which positively affects the budget preparation of producing countries unlike consuming countries (Ali, Hameedi, & Almagtome, 2019). The higher prices will increase its costs, which affects the preparation of its budget. Many countries depend on its revenues to cover its expenses, and Iraq is one of these countries. The Iraqi economy depends on oil revenues for the largest proportion of the rest of the other resources, meaning that the Iraqi economy has become a rentier economy and lack of interest in developing other economic sectors (Ali, Almagtome, & Hameedi, 2019). Because the increase in gross domestic product in Iraq depends on the production and export of oil, the increase in oil production is determined by the size of oil wells, the size of the proven reserves and the policy followed by organizations. Moreover, the world oil prices, in order for oil revenue to be used as a factor for economic development (Almagtome & Abbas, 2020). The importance of this paper comes through research in the fluctuation of crude oil prices, the implications of which are in the economic activity of the economies of the crude oil producing countries. Then work to find solutions to the crisis to address this through diversification of income sources. Most of the economies of the oil-producing countries, especially Iraq, are exposed to external shocks represented by fluctuations in oil prices in world markets. Especially when prices fall, which greatly affects the preparation of the state's general budget, which depends in its revenues on oil export revenues, which constitute more than 90%, which increases the weakness in the structure of the economies of these countries, which are described as rentier economies. The research aims to identify world oil prices and their impact on the economies of rentier countries. As well as identifying the size of the oil sector's contribution to financing the general budget, as well as the effectiveness of other sectors during the period of low oil revenues resulting from fluctuating oil prices globally (Almagtome, Shaker, Al-

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Fatlawi, & Bekheet, 2019). The repercussions of the fluctuations in oil prices appear significantly in the rates of economic activity in the economies of oil producing countries, including Iraq, through low rates of GDP growth that depends on the oil sector.

2. Factors Affecting Oil Prices

That the use of the term or the word oil is not uniform in all scientific circles in general or university ones, as we find that Western countries use the term petroleum and are of Latin origin. As for the eastern countries, they use the term oil instead of petroleum. In the Arab regions, from its surroundings to its bay, they are divided in the use of these two terms. Note that the Babylonians in ancient Iraq have called the natural substance that they used for building and agricultural purposes (the designation of oil) as the two words (oil or oil) symbolize or refer to the same material, but the word petroleum is more clear and embodiment of this material (AL-Musawi, Ali, Alyasiri, Bekheet, & Hasan, 2020),(Almusawi, Almagtome, & Shaker, 2019). Petroleum can be known as (petroleum), which is a word that consists of two syllables (Petra), which means rock and (ileum) means oil. In Arabic, it means shale oil or crude oil. The term petroleum is generally called all hydrocarbons that are naturally formed. The narrow commercial meaning is called the term crude oil on liquid materials, the term gaseous materials on natural gas and the term solid materials on asphalt (Parsons & Espinasa, 2010). Moreover, crude oil can be defined as a flammable oil, a dark brown or greenish liquid, which is found naturally in sediments, usually below the surface of the earth. It is meant by shale oil and is the name inherited from its discovery from sedimentary rocks. It is used in many chemical industries as a basic material, including solvents, fertilizers, pesticides, and plastics. In addition, the high demand for it in our daily life is also called the black gold (Agustina, del Granado, Bulman, Fengler, & Ikhsan, 2008).

2.1. The Origin and Components of Crude Oil

Scientists differ in determining the origin of oil, as it emerged in the interpretation of this. The first two theories indicate that the origin of oil is mineral, that is, it consists of the reactions of alkali metals and mineral carbonates with water, or from structural reactions that produce different hydrocarbons. Crude oil is a complex mixture of solid, gaseous and liquid hydrocarbons, as its name indicates that, of hydrogen and carbon, in very different proportions (Melbye et al., 2009). The second theory indicates that the origin of oil is organic (animal and vegetable), that is, plants and animals buried in the ground and as a result of the destructive distillation of these plants and animals over millions of years. As a result of interactions, natural and geological factors, these organic substances were transformed into liquid fatty substances (Sutton, Lewis, & Rowland, 2005). Most geologists affirm that crude oil, coal, and natural gas are the result of pressures and heating of ancient vegetation on geological time standards. According to this theory, it is formed from the decomposing residues from wild animals and plants, and the high levels of heat and pressure lead to the transformation of the residues into a waxy substance known as kerogen, then into liquid and gaseous hydrocarbons (Martinez-Jeronimo, Villasenor, Rios, & Espinosa-Chavez, 2005). The oil is formed in the lower depths when the temperature rises to a depth of more than (550) meters or less than (200) meters and its temperature in this period is between (65) degrees Celsius and (150) degrees Celsius made up what is called the oil window (Sutton et al., 2005). Accordingly, the oil is a component of hydrocarbons that take different forms in their partial composition and therefore in this case an oil product with certain properties that differ from other products is produced and there are many different impurities in it such as mixed or separated gas or water and salts, sulfur, wax and sand so that is done Separation and purification of oil from suspended matter in order to be usable (Baek et al., 2004). The following are the most important constituent elements of crude oil in percentages:

Table 1. Crude oil components

Element	% the weight
Carbon	76-84
Hydrogen	14-11
Sulfur	4-0.05
Nitrogen	2-0.1
Oxygen	1-0.1

Other impurities	3-4.03
	100

Some of these elements mixed or mixed with oil, such as gases or water, have great benefits in economic and technical terms because they facilitate the process of extracting oil easily and at minimal costs (Kbelah, Almusawi, & Almagtome, 2019). In the absence of suspended water or gases, each or both of them must be pumped to the depths of the earth to facilitate the process of extracting the oil. Therefore, it is necessary to maintain the levels of their presence in the depths and their movement with the oil because they prolong the process of extracting the oil, not as long as possible with the lowest costs to extract it (Al-Yasiri, Ali, Ali, & Bekheet, 2020).

2.2. Types of Crude Oil

To classify different types of oil and to facilitate the pricing of some standard oil raw materials as follows:

1_ **Brent Crude** _ Brent mixture contains (15) types of oil from Brent and Benin fields in the East Shetland Basin (Zavadska, Morales, & Coughlan, 2020). This type is characterized by being of the light type, and this crude is sold on world markets at a higher price than OPEC basket oil and at a lower price than WTI crude (Nademi & Nademi, 2018).

2_ **West Texas Crude** _ is one of the measurement materials used in pricing other materials, especially North America. As indicated by its name, most of it is produced in West Texas, and it is characterized by this type of sweet, light oil. It is sold at a higher price than the OPEC basket, and higher than Brent crude, and is the primary source of gasoline in the United States.

3- **OPEC Basket Crude** _ is an average arithmetic of the Organization's oil prices. It depends on the production policy to determine its mean. It consists of twelve types, ten types of which are produced by OPEC members. The prices of these materials vary according to their specific weight and sulfur content. It is lower than Brent and West Texas, as it includes light and heavy oil (Ghazani & Ebrahimi, 2019).

2.3. The Concept of Oil Prices

The basic principles of microeconomic theory on the basis that the price of any commodity is determined by the interaction of the forces of demand and supply. This price is affected by other economic factors and this price, in turn, reflects the rates of exchange of goods and services between them. The difference in prices results from changes in supply and demand, and the price is a key factor in the criterion for estimating economic efficiency. Therefore, the price of any good or service should reflect its economic cost. Economic cost is the cost of equipment, capital, and labor required to provide and maintain it. The oil price is the one that expresses the monetary value or the monetary picture according to the American measure of a 42-gallon barrel of crude oil, expressed in the American monetary unit through the periods of development of the oil industry (Khaghaany, Kbelah, & Almagtome, 2019). There have been attempts and measures to find an alternative monetary union through the designations of the oil dollar, and a basket of currencies. It is estimated that the barrel is tied to the US dollar (Al-Yasiri, Ali, Ali, Hasan Latif, & Bekheet, 2020). Moreover, it can be known the oil price is the value of the oil commodity expressed in monetary union at a known time and place. This relationship between price and value is not equal or constant, but is for the most part unequal. Therefore, it is found a distinct price for oil commodities in terms of their level, amount, and rules for determining them (Gao, Fang, An, & Wang, 2017). The main factors affecting crude oil prices are due to the following reasons:

1_ **Economic Growth Rate:** The economic growth rate of any country can be measured by measuring the national product, which is one of the factors affecting price changes because it affects changes in demand for crude oil. The percentage of national product varies from one country to another and according to the degree of economic and technical progress of that country that is linked to the global consumption of crude oil (Gumus & Kiran, 2017).

2- **The Size of The Oil Reserve:** The size of the oil reserve is one of the factors that influence the course of the oil price. It is possible to determine the scarcity of crude oil. Moreover, the duration of oil depletion cannot be determined by determining the size of proven reserves. Geologists have added proven oil reserves to the traditional oil reserve, because the scarcity of the oil resource will decrease, which drives the producers that the depleted resource reserves

are constantly declining and there are no new discoveries, they will raise oil prices when the traditional oil reserve is raised 0.

3_ USD Exchange Rate Change: The buying and selling of crude oil on the international market is in US dollars. Any change in the exchange rate will be reflected in the price of crude oil. When the US dollar exchange rate increases, it leads to higher oil prices (Fan, Pan, Li, & Li, 2016).

4_ Artificial Crude Oil: Synthetic crude oil is the group of oils resulting from distillation of shale stone, coal and tar sands. These sources are considered to be an important source of alternative energy sources and also have an impact on the price of conventional crude oil (Liu, Ding, Lv, Wu, & Qiang, 2019).

5- Political Factors: It is considered one of the main characteristics of the oil production process. Its production is concentrated, especially in the Gulf region, and it is considered one of the hottest regions in political terms. It is also subject to severe fluctuations from one position to another in this aspect, as any change in political conditions as a result of this is directly reflected in the International Prices of Crude Oil (Gumus & Kiran, 2017).

6- Economic Factors: The stability in the global oil market depends on the balance between supply and demand as well as the global oil reserve. This is because oil is a strategic commodity that is important for economic growth, as there are factors that influence the global supply and demand for oil (Liu et al., 2019).

3. The Iraqi Economy Under the Fluctuations of Oil Prices

The Iraqi economy is closely related to the performance of the energy sector. Over the course of three decades, the country witnessed many crises represented by intermittent wars and international sanctions that have deteriorated the Iraqi economy in general. Although the country has one of the largest reserves of energy resources (oil and gas) in the world, it is suffering today from the deterioration of the infrastructure necessary to benefit from its own sources. This source made the Iraqi economy hostage to international changes linked to fluctuations in oil prices. The energy sector in Iraq has a major role in the future of the country and its prosperity (Al-Wattar, Almagtome, & AL-Shafeay, 2019). It contributes greatly to the security and stability of global energy markets and can succeed in developing hydrocarbon capabilities and effective management of low revenues to support the economic and social development process in the country. Moreover, it is the cornerstone of its economy and the key to its future as Iraq has enormous potential reserves and also has plenty of room for further exploration. These resources can be developed to support the reconstruction and development of Iraq economically and socially (Al-Yasiri, Ali, Ali, & Bekheet, 2020).

3.1. The Relative Importance of Oil To GDP

Oil is considered since its discovery of a national sovereign wealth and it is the main nerve in the structure of the Iraqi economy because of the financial revenues it provides. The process of extracting oil is the process of converting it into a foreign currency used to finance the government's import process and its other external payments. Financing external payments to the private sector (Fløysand, Njøs, Nilsen, & Nygaard, 2017). During the years of the economic blockade, Iraqi economic activity was affected, especially sectors that depend on financing production materials externally, including the industrial sector. Therefore, attention is focused on the agricultural sector, which enables it to meet the shortage of consumer needs of food commodities, as it depends on local production factors. The gross domestic product took its contribution from the agricultural sector due to the interruption of financial resources that the oil sector was achieving, i.e. oil exports (Santillán-Salgado & Venegas-Martínez, 2016). However, after the lifting of the embargo, the recovery of the Iraqi economy, and the development that took place in the field of economic extraction and openness to external countries, it led to an increase in oil production, an increase in exports, and hence an increase in GDP. For the purpose of measuring the economic growth rate of any country, it is necessary to know the rate of GDP. The increase in the rate is an indication of the economic development of that country. In the case of a decrease in the rate, it is an indication of the decline in the process of economic development. The following table shows the oil sector's contribution to the gross domestic product.

Table 2. The contribution of oil to the gross domestic product

years	The gross domestic product at current prices is one million dinars	The output of the oil sector at current prices is one million dinars	Oil sector contribution rate%
2003	29585789	20349772	69%

2004	53923546	30808542	58%
2005	73000053	42379785	58%
2006	95587955	52851811	55%
2007	1.11E+08	59018095	53%
2008	1.57E+08	86564722	55%
2009	1.31E+08	55998048	43%
2010	1.62E+08	72905000	45%
2011	2.17E+08	1.15E+08	53%
2012	2.54E+08	1.26E+08	64%
2013	2.71E+08	1.26E+08	66%
2014	2.61E+08	1.17E+08	51%
2015	2.09E+08	61626901	59%
2016	2.04E+08	7.19E+08	60%
2017	2.26E+08	2.58E+08	61%
2018	2.51E+08	2.58E+08	63%

We note from the table that there is a direct relationship between the ratio of the contribution of the oil sector to the local product and oil production. It is clear from the table that the share of the oil sector is constantly increasing, due to the increase in the volume of oil production and the increase in investment within the oil sector, especially after the end of the foreign embargo on Iraq and the high level of oil prices in global markets. The oil output in (2005) achieved a contribution rate of about (42379784.7) million dinars, despite the large increase in the volume of output, but the contribution rate is less than expected. This is due to the contribution of the other sectors that constitute the GDP as a result of the stability of the security situation. However, after these years, we find that the contribution rate decreased due to the drop in oil prices in the global markets to less than (60) dollars per barrel, and then the percentage increased because of the increase in oil production and the rise in oil prices. This indicates an inverse relationship between the oil price and the volume of production.

3.2. The Relative importance of Oil Revenues from General Revenues

Public revenue is represented as the second pillar after the public expenditures of the state and it is the second party to the public budget as it is a basic determinant of the features of the budget structure, but rather is the path of the government economic program and its goals directly, as it has monetary effects according to its nature as it consists of three categories according to its sources are tax revenues and oil revenues and others (Caldara, Cavallo, & Iacoviello, 2019). Iraq is one of the countries that rely entirely on oil revenues to finance its annual budget, as it controls the rest of the other revenue items. This is because the diminishing importance of other tax, tourism and service revenues. However, the risks resulting from fluctuating oil prices in the international market and the instability of oil financial returns, which led in many countries to the search for other sources of financing to avoid the problem of relying on oil as the main source of budget financing (Al-Yasiri, Ali, Ali, Hasan Latif, et al., 2020). Public revenues in Iraq depend mainly on the contribution of crude oil to its formation, as it constitutes a high percentage compared to other revenue items. Moreover, the percentage of the oil sector's contribution to creating budget revenues is on the rise (Mikosch & Solanko, 2017). The following table shows the contribution of oil revenues to the annual general budget for the period (2003-2018).

Table 3. The relative importance of oil revenues (2013-2018)

the year	General revenue million dollars (1)	Oil revenue million dollars (2)	The ratio of oil revenues to public revenue% (3)
2003	2146346	1841458	85.7
2004	32982739	32627203	98.9
2005	40502890	39480069	97.4

2006	49055545	46534310	94.8
2007	54599451	51701300	94.6
2008	80252182	75358291	93.9
2009	55209353	48871708	88.5
2010	70178223	66819670	95.2
2011	108807392	98090214	90.15
2012	119817224	116597076	97.3
2013	113767395	110677542	97.2
2014	105386623	97072410	92.1
2015	66470252	51312621	77.1
2016	54409270	44267060	81.3
2017	77335955	65071929	84.1
2018	106569	95.619	89.7

We note from the above table that the oil revenue increases periodically after the decrease that occurred in 2003 due to the sabotage and looting suffered by Iraq, especially the oil sector, due to the American occupation of Iraq and the stopping of exports. The oil revenues in 2003 reached (1841458) million dollars and continued to rise until it reached its highest level in 2004 and 2005 after the lifting of the economic embargo on Iraq, opening up to the outside world, raising sanctions and increasing export rates. The oil revenue contribution to general revenues reached (9.98%) in 2004 and after that it fluctuated and increased. That oil production is linked to the price of oil and thus affects exports and revenues, but after that, the revenue is taken up to (95.619) million dollars in 2018) and with a contribution rate (89.7) of the general revenue for the recovery of the economic situation, high prices and high oil production.

3.3. Impact of Oil Price Volatility on The Iraqi Economy

The study of the impact of oil on the public budget and its impact on revenues, given that oil is one of the important strategic commodities, but rather the most important of these commodities that relate to a number of factors and not just demand and supply. It is an unstable commodity, which affects oil demand and supply and, consequently, the high and low revenues obtained as a component of the budget.

3.3.1. The Impact of Fluctuations of Oil Prices on The Public Budget.

There are a set of factors that affect oil prices, production may increase without affecting the price, or the price may increase, or demand may remain constant, depending on a number of factors affecting oil prices. These factors affect the fluctuations and paths of oil prices, including political, economic, and conflict-related factors and security turmoil, as well as financial factors. Given the importance of international oil, oil was considered a commodity, causing weakness in economic activity due to fluctuations and dependence on oil, and influencing political decisions that change the attitudes of many countries towards higher prices, as it affects the exporting and importing countries (Trang & Hong, 2017). As for the impact of oil price fluctuations internally, it may affect the general budget, especially for countries that rely on oil revenues to prepare their budget. Therefore, the state must adopt a deliberate pattern to change the budget pattern that depends on the price of a barrel of oil, which is extremely sensitive to changes in oil markets. When oil prices rise, we find that the budget has achieved a surplus in the event that the price of a barrel of oil is less than expected (Kashcool, Buheet, & Mohammad, 2019). The following table shows the impact of oil price fluctuations on the general budget.

Table 4. Iraqi oil exports and prices and the general budget (2013-2018)

the years	Oil exports million dollars (1)	Oil price in dollars / barrel (2)	Public deficit and surplus of one million dollars (3)
2003	7.519	26.9	163798
2004	17.703	33.6	865248
2005	21.480	46.3	14,127715
2006	30.465	54.6	10,986566
2007	39.433	60.5	15,568219
2008	61.111	81.1	20,848807
2009	41.668	52.0	2,642328
2010	51.147	65.5	44,022
2011	83.006	89.7	30,049726
2012	94.103	90.2	14,677648
2013	89.402	86.2	-5,287480
2014	84.303	77.2	-10,573461
2015	51.323	39.2	-10,267266
2016	41.292	32.0	-12,658164
2017	57.489	40.5	1,932058
2018	86.259	53.0	15,188283

We note from the above table that oil exports are linked to oil prices, as there is a direct relationship between oil prices and oil exports, as exports increase with every rise in prices and decrease with lower prices, thus affecting the public budget with a deficit or surplus according to public expenditures and revenues. We note that during the period (2003-2008) when the prices reached 26.9 dollars per barrel, we find that the exports amounted to 7.519 million dollars, and therefore a surplus in the general budget of 163798 million dinars. However, in 2008, when the prices reached 81.1 dollars a barrel, exports increased to (61.111) million dollars and the budget surplus rose to (20848807) million dinars, but during the period from 2009-2018)) we notice fluctuations in exports rising and falling as a result of fluctuating crude oil prices.

3.3.2. The Impact of Price Fluctuations on Oil Revenues

Oil revenue is the main source of the Iraqi economy, and it is the source of financing the general budget for the Iraqi economy and the main engine through which the economy can be directed towards diversifying the sources that generate GDP, as it is a major source for the rest of the industrial and agricultural sectors involved in generating public revenues. Since oil revenue is characterized by fluctuations and is closely related to oil prices and the proportion of oil exports because Iraq depends on its revenues on the amount of oil exports and the price of oil. The increase and decrease in the price of oil on the percentage of the contribution of oil revenue contribute to financing the budget (Marza, Shaaibith, & Daly, 2018). As a result of the Iraqi economy's dependence mainly on oil revenues, which in turn is the main resource for the state's general budget, which depends on oil prices, where oil revenue is calculated in light of prevailing prices. The oil revenue is the resource for foreign exchange entry and therefore the high rate of economic growth due to the increase in oil revenues (Hussein & Ismail, 2019). The following table shows the impact of oil prices on oil revenues.

Table 5. Oil exports, oil prices and oil revenues (2013-2018)

the year	Oil Exports Million Dollars (1)	The price of oil per barrel per barrel (2)	Oil revenue million dollars (3)
2003	7.519	26.9	18.41
2004	17.703	33.6	32.627
2005	21.480	46.3	39.480
2006	30.465	54.6	46.534
2007	39.433	60.5	51.701
2008	61.111	81.1	75.358
2009	41.668	52.0	48.871
2010	51.147	65.5	66.819
2011	83.006	89.7	98.902
2012	94.103	90.2	116.597
2013	89.402	86.2	110.677
2014	84.303	77.2	97.072
2015	51.323	39.2	51.312
2016	41.292	32.0	44.267
2017	57.489	40.5	65.071
2018	86.259	53.0	95.619

We note from the table that oil exports and oil revenues rise with the rise in crude oil prices, that is, there is a direct relationship between oil revenue and oil prices. Moreover, there is a direct relationship between oil exports and oil revenues, with each increase in oil exports increasing oil revenues. In 2003, oil exports reached (7.519) million dollars when oil prices were 26.9 dollars per barrel. In 2008, oil exports amounted to (61.111) when oil prices rose to (81.1), thus bringing oil revenues to 75.358 () million dollars after they were (18.41) million dollars in 2003. When the oil prices decreased to 52.0) in 2009, oil exports and oil revenues decreased. Oil exports amounted to (41.668) million dollars, and oil revenues amounted to 48.871 (million dollars). Then we notice the fluctuation of oil prices, followed by the fluctuation of exports and revenues, according to the rise or fall of oil prices. After the increase in oil prices in 2018 to 53.0, oil exports increased to (86.259) million dollars and oil revenues increased to 95.619) million dollars.

3.4. The Ways to Confront Oil Price Fluctuations

The price of oil is the most crucial variable in determining the economic and financial situation. This importance stems from the Iraqi oil price, as it is not one of the oil surplus countries that can compensate for the shortfall of

revenues in the event of low oil prices from their sovereign wealth because fluctuations in oil prices affect the revenue generated. Iraq relies on oil revenues to finance the country's public expenditures, due to the decline in non-oil revenues. This characteristic is one of the most important criteria upon which the description of the Iraqi economy depends on rentier economy (Ahmed, 2018). To face these fluctuations, we must address several things, including:

3.4.1. Diversifying of the Iraqi Economy

Iraq is one of the largest countries in the world that possesses reserves of crude oil and the oil sector is the largest contributor to gross domestic product. Therefore, it is the dominant sector in the Iraqi economy, as well as the key to obtain the necessary funding for the rest of the other sectors to achieve the highest rates of growth in the Iraqi economy and build a diversified economy in which natural resources (oil and gas) are included. Likewise, converting human energies into productive energies based on the principle of a market economy depends on efficiency, competition, and profit and loss accounts (Economou & Agnolucci, 2016).

1- Reforming the agricultural sector

The agricultural sector is the dominant factor in the Iraqi economy since ancient times, but it was receding when the industry began to extract and export crude oil and it became the main source that contributed to the growth of other sectors such as extractive and manufacturing industries, construction and the distribution and service sectors. However, the agricultural sector lagged behind this contribution and was growing weakly compared to the extractive sectors (Shu, 2018).

2- Reforming the industrial sector

The industrial sector is no less important than the agricultural sector, due to its great role in the process of economic development. It is the contributor to financing development programs. However, the industrial sector is not far from the underdevelopment of the Iraqi economy during the previous decades, as it continued to suffer from losses, administrative corruption, erosion of the productive work of machines and equipment, and the quality of these devices. Wars have crippled this sector and its strategic characteristics and productive goals for the economy and society have lost it (Ahmed, 2018).

3- Development of the tourism sector

Tourism is an inexhaustible resource, and it is also an essential resource for some countries, and it contributes to improving balance of payments and providing new job opportunities. It also solves unemployment problems because it is considered investment opportunities for the unemployed. The tourism sector in Iraq represents the sector that finances the process of promoting economic and social development and increasing public revenues and contributing to Providing a sector that can exert a positive impact on the joints of the Iraqi economy (Degiannakis, Filis, & Panagiotakopoulou, 2018).

3.4.2. The Establishment of Sovereign Funds

The Iraqi economy depends on oil revenues, while moving away from other sectors, which leads the economy to danger and backwardness in the production structures of the rest of the other economic sectors. However, in the event of oil prices booming, these returns can be leveraged by creating sovereign wealth funds. The fund contributes to investing part of the oil revenues and works automatically to mitigate the negative effects in the event of low oil prices and contribute to the diversification of sources of wealth and income in the national economy (Clark et al., 2017). Sovereign funds are investment funds owned by the state in the event of financial surpluses realized in the balance of payments, the state budget, or from other sources that use investment strategies intended to achieve economic goals. The main objective of these funds is to protect the state's general budget from fluctuations in the prices of strategic commodities and basic commodities, such as oil and contribute to achieving macroeconomic stability by programming the flow of operating revenues and the stability of public spending (Cummine, 2016). The phenomenon of establishing sovereign wealth funds has spread in developing and emerging countries, which possess financial surpluses resulting from the sale of raw materials and other natural resources, foremost of which is fossil fuels. These funds have turned to foreign investment, especially among Western countries. These funds are a solution to crises because they extend their investments across the various developing and backward countries of the world. After wars and occupations, Iraq has passed through a period of oppression and tyranny and a poor society dictating the use of oil revenues to extract it from the dire situation it is. Therefore, oil revenues should not contribute to addressing this situation in order to rise, so a system of social development funds has been established in addition to sovereign funds

funded by oil revenues such as the unemployment benefit funds and the fund for the benefit of victims and persons with disabilities of political violence and others. Therefore, oil revenues contribute to the establishment of these funds in rentier countries, as well as contribute to facing instances of declining demand for the natural resource and contribute to the diversification of the Iraqi economy that depends on the size of the reserve and production (Naama & Jasim, 2020).

4. Conclusions

The results of the study show the dependence of most of the world countries on crude oil as the main source of energy. The use of technical development and the entry of technology into the process of producing crude oil has led to an increase in oil production. Moreover, the existence of a direct relationship between the prices of crude oil and the gross domestic product, that is, when the prices of crude oil increase, domestic production increases and the gross domestic product decreases when oil prices decrease due to the dependence of Iraqi economic activity on oil revenue, which is linked to oil prices and the quantities of oil exported. Therefore, the structural imbalances of the Iraqi economy should be addressed by changing the map of the economic sectors' contribution to the formation of the gross domestic product, the contribution of the industrial, agricultural and tourism sectors, and reducing the dominance of the oil sector. Since economic growth is linked to oil prices, the state of low oil prices should be avoided by establishing industries of all kinds to absorb the unemployed labor force and raise the rate of economic growth. Finally, it is important to take advantage of the high oil prices by creating oil surpluses after reimbursement of expenditures, i.e. benefiting from the surplus by establishing sovereign funds.

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