



Feasibility of Establishing and Re-operation of Industrial Projects in Iraq Through import-substitution strategy

Durgham Fadhel Kazem*

Department of Economics
College of Administration and Economics
University of Baghdad, Iraq.

dorgham.fadel1202a@coadec.uobaghdad.edu.iq

*Corresponding author

Thaer Mahmoud Rashid Alani

Department of Economics
College of Administration and Economics
University of Baghdad, Iraq.

dthaer2009@yahoo.com

Received: 1/9/2023

Accepted: 23/10/2023

Published Online First: 30 /6/ 2024



This work is licensed under a [Creative Commons Attribution-NonCommercial 4.0 International \(CC BY-NC 4.0\)](https://creativecommons.org/licenses/by-nc/4.0/)

Abstract:

The research idea originated from the significance of the industrial sector and its pivotal role in inducing structural and systemic changes at the national economic level. Given the numerous challenges the industrial sector faces in Iraq, many industrial projects have partially or entirely ceased operations. In contrast, state-owned industrial companies have become a burden on the government. Import substitution through manufacturing is considered one of the leading strategies and most vital industrial approaches that have historically catalyzed industrial growth and structural transformations in the economy. This has been evident in the development of countries that initially relied on primitive economic models centred around simple agriculture and the export of raw materials and transitioned into diversified economies with a significant industrial component, producing numerous high-quality and technologically advanced products. Based on this, the study aims to assess the compatibility of this strategy with the current Iraqi economic landscape. It seeks to shed light on inactive industrial projects and companies, exploring the feasibility of reactivating them or establishing new industrial ventures. Priority will be given to projects aligned with its objectives and goals. Additionally, the study aims to provide a forward-looking perspective on the state of the industry in Iraq's prospects, diagnose existing problems, and attempt to find solutions and remedies that can contribute to establishing a reliable industrial sector.

Paper: Research paper

Keywords: Manufacturing Strategy, Import Substitution, Industrial Development, The Industrial Sector, Industrial Project, Industrial Policy.

1.Introduction:

Industry is a vital economic sector that catalyses economic development, contributes to growth, and combats unemployment and poverty. Governments worldwide recognize industrial planning as pivotal for manufacturing success, fostering tangible industrial growth, and achieving developmental milestones. Developing nations, particularly in Southeast Asia and Latin America, have pursued import substitution manufacturing strategies to accelerate economic growth and meet diverse goals. This strategy focuses on reducing total imports, improving trade balance, establishing local industries, and adopting measures for consumable goods production. These industries are considered initial candidates due to their technological simplicity and local demand. This policy aims to encompass intermediate and capital goods industries eventually.

In the Iraqi economy, multiple stages have occurred, shifting from agriculture and handicrafts to oil discovery. Post-2003, neglecting industry led to challenges driven by a lack of planning, oil revenue utilization, trade liberalization, and limited industrial policies for state and private projects. Priority was not given to reactivating fully or partially stopped factories and introducing new industries to provide goods to replace imported goods in light of the growing, expanding and diversifying demand, whether through government or private industrial projects. This study underscores the need for strategic industrial revival, focusing on existing and potential sectors, to leverage oil revenue for economic resurgence and diversification while addressing industrial challenges and boosting local production alternatives.

1.1 Literature Review:

Many studies have dealt with the first variable, which is industrial projects, especially those that have been discontinued, including these studies:

Thaer and Inas (2012) concluded that Iraq's transition from a planned to a market economy post-2003 has significantly altered the market conditions under which the Iraqi industry operates. This shift, coupled with the suspension of the tariff law, flooded the Iraqi market with foreign goods, weakening the domestic industrial sector. Moreover, the private investment, both local and foreign, in the industrial sector has been feeble. The Iraqi market suffers from rampant commercial and industrial fraud due to inadequate regulatory bodies and quality control mechanisms within an irregular industrial and economic environment. Finally, the Iraqi economy grapples with structural and managerial distortions, primarily attributed to the state's dominant role in all industrial and economic activities, often leading to misallocation of resources. Consequently, the presence of feeble industries unable to compete regionally or globally prevails. Addressing these issues is essential for fostering a competitive industrial landscape.

Najy (2018) analyzed the study of Iraq's industrial sector and unveiled that the government's control over various industries conflicts with governance norms that separate ownership and management. State-owned companies heavily depend on government subsidies, burdening the budget with 40% of firms. The private sector's limited contribution and Iraq's reliance on extractive practices compound challenges stemming from instability. The extractive industry, notably crude oil extraction, drives Iraq's economy, hindering diversification; transformative industries contribute just 5% to GDP, while extractive sectors contribute 95%. A workforce surplus of 33% impacts the budget for salaries. Addressing these challenges requires strategic economic reform and diversification to strengthen Iraq's industrial landscape.

Al-Fahdawi (2019) delved into diagnosing key economic woes faced by Iraq's transformative industrial sector, analyzing causes, and proposing effective remedies. The study unveiled challenges, including sluggish industrial output growth, structural imbalances, diminished capital formation efficiency, and employment constraints. Moreover, heavy reliance on imported production requisites has negatively impacted its economic performance, exacerbating deep-rooted structural disparities within Iraq's economy. Ultimately, the study

underscores the need for government initiatives aligned with a self-reliance strategy, diverging from off-the-shelf economic reform prescriptions advocated by the IMF and World Bank to tackle these pressing issues effectively.

Noor (2021) revealed that Iraq's shift from a planned to a market economy post-2003 has weakened the industrial sector's role in shaping its production structure. The dominance of the oil sector and its minimal contribution hinder diversification. To rebalance, an imbalanced growth strategy must elevate the industrial sector, increasing its GDP share for transformative change. The sector's impact waned due to limited GDP input compared to the oil sector (over 50%), resulting in an uneven production structure. Constrained investment, low absorptive capacity, disjointed economic policies, and physical degradation of industrial facilities exacerbate this. These factors collectively undercut the sector's potential for reshaping Iraq's production landscape.

In addition, many studies addressed the second variable, which is the import substitution strategy, including:

W Baer (2000) studied how, throughout most of the 1950s and 1960s, many Latin American governments relied on Import Substitution Industrialization (ISI) as a primary means to achieve economic growth and social and economic modernization. However, by the early 1970s, significant doubts had arisen regarding the success of countries in addressing development challenges in the region. In many nations, the prospects for further import substitution dwindled. Industrial growth slowed, job opportunities in the industry for the rapidly increasing urban population in Latin America became scarce, and income distribution in many countries either remained the same or became more skewed than in the early post-World War II years. Most industrial goods were being produced domestically, and regional prices had soared so that export possibilities were severely limited.

E Silva (2007) clarified study that the standard characterization of Latin America's import-substitution model of development and its "failure" overlooks two critical issues:

Development models do not emerge with inherent virtues or flaws; they evolve in response to crises. Import-substitution industrialization initially enjoyed significant success.

International economic crises and post-World War II developments notably influenced the model's rise and fall. However, the extent and timing of this impact varied among countries like Chile, Argentina, Mexico, and Brazil. This variation can be attributed to domestic factors such as state formation and social coalitions.

The model's decline should be understood as its departure from industrial and inclusive social policies rather than intrinsic incapacity.

In this study, Aregbeshola (2012) highlighted that more economies in the developing world prospered through home-grown import substitution industrialization (ISI) strategies compared to those that suffered from adopting the Washington Consensus. The 2008/2009 economic crises prompted significant economies, including the United States and the European Union, to shift from neoliberalism to protectionist measures. This calls for reevaluating macroeconomic policies in less developed and developing economies. Using data from the World Bank's World Development Indicators (WDI), the study argued that ISI macroeconomic policies contributed to current economic developments in Brazil and South Africa. ISI policies are suitable for promoting industrialization in less industrialized economies and enhancing sustainable economic growth.

Nassyrova (2020) discussed his study on the import substitution strategy, a government approach to replace imports with local production to boost the economy. The strategy's objectives include job creation, reducing foreign currency demand, promoting innovation, and ensuring self-sufficiency in critical sectors. The study highlights that complementary measures like technology development and knowledge enhancement are necessary for this policy's impact on price competitiveness.

It also emphasizes the need for active import substitution linked to emerging markets, given its potential for economic expansion and sensitivity to currency fluctuations. This research problem revolves around the importance of the industrial sector in driving economic structural changes.

There are studies lined between the first and second variables, such as:

Jabour (2006) examined the ability of the food industry sector to substitute imports within local establishments. It aimed to identify the challenges this vital industrial sector faces, assess its development prospects, and determine its capability to replace imports with domestic products. The ultimate goal was to formulate a manufacturing strategy to enhance the industrial sector's efficiency, growth, and competitiveness.

Mustafa (2015) addressed the import substitution policy and its impact on economic development—the research aimed to investigate the import substitution policy and measure its effect on overall economic performance. The study yielded several key findings, notably that the composition of imports includes goods that can be produced locally, potentially reducing import values in the medium and long term, such as dairy products, furniture, and paper. The implementation of import substitution policies led to positive outcomes.

The study recommended several actions, including the continuation of this policy and the introduction of new goods. Additionally, it emphasized the importance of states supporting scientific research related to import substitution and expanding its production.

The research problem focused on assessing the industry's potential, investigating the policies and mechanisms enabling food industries to increase their production and operational capacity, and improving their ability to implement import substitution policies. Additionally, the study aimed to pinpoint the starting point in the import substitution process. The research objectives are as follows:

1. Elaborating on the factors that have led to the cessation of industrial projects and state-owned companies, and the impact of this halt on the industrial sector.
2. Formulating immediate and future solutions and policies aimed at revitalizing the Iraqi industry.
3. Assessing the compatibility of the import substitution strategy with the Iraqi economy.

2. Material and Methods:

2.1 Hypothesis of the Research:

Iraq's industrial sector faces many problems and obstacles, resulting in the cessation of numerous industrial projects. Adopting an import substitution strategy can revive these stalled projects and establish new ventures, ultimately restoring the industrial sector to its former strength.

2.2 Import Substitution Strategy (Conceptual Introduction):

A. Definition of import substitution:

The import substitution strategy is an economic and trade policy supporting replacing foreign imports with domestic products. It focuses on internal-oriented manufacturing and relies on tariff and non-tariff protection measures to prevent imports from competing with domestic production. This strategy aims to establish industrial projects to produce previously imported materials, reducing reliance on external sources for domestically needed products (John, 1992).

This strategy emerged and spread initially in Latin America due to its growing trade deficit caused by declining prices and quantities of exported goods. This deficit reduced imports of consumer goods, necessitating reliance on local industries for their production (Bakhari, 2015).

Import substitution strategy is based on meeting the local market's needs by providing the necessary protection, especially for emerging industries. This protection ensures fair profits for local producers and encourages continued market presence. This approach primarily focuses on producing light and durable consumer goods previously imported, imposing high customs protection on similar imports to discourage their entry. This model has been adopted by many non-oil Arab countries after gaining independence (Bryan, 2009).

B. The objectives of the import substitution strategy include:

1. It satisfied domestic needs for manufactured goods by developing the economy's industrial capacity according to its economic conditions and capabilities.
2. She was promoting the growth and expansion of the industrial sector, especially after the intermediate and capital goods production stages.
3. We are securing foreign currency.
4. They are creating a diversified industrial base, nurturing qualified technical personnel, and ensuring their availability for operating and maintaining various industrial projects.
5. We are increasing savings and investments by altering local exchange rates to favour the industrial sector (Al-Fatih, 2015).
6. It is addressing unemployment in its various forms.
7. Adapting to global developments in research and technological advancements, as progress in import substitution requires high-level techniques.
8. We are establishing an integrated industrial base, producing import substitutes and complementary industries.
9. I am meeting domestic market demands.
10. It safeguards local industries from unfair external competition that could negatively impact them.
11. Reducing trade deficits and minimizing commodity imports (Liang, 1997).
12. We are providing foreign currency reserves (Halbawi, 1998).

2.2.1 Economic Feasibility of the Industrial Project

A. Industrial Project:

The industrial project serves as the core of the industrial sector and its strategies. Any industrial strategy or policy revolves around the industrial project's consideration, importance, and determination of projects to be developed, expanded, or newly established based on the set strategy.

Concept of Industrial Project: Defining an encompassing and precise concept for a project is challenging. Generally, a project is described as an investment decision or unit with defined technical parameters (Shaqiri & Salam, 2013).

It aims to achieve specific objectives by creating a production flow over a specific timeframe. This is achieved by establishing or enhancing new production capacity (Al-Qurayshi, 2009).

B. Objectives of Industrial Project in Import Substitution Strategy:

For industrial projects aligned with import substitution strategy, several objectives are deep-rooted in their significance and effectiveness, including:

1. Diversifying the production and income structure, increasing the industrial sector's contribution to total industrial output.
2. Increasing local demand coverage by producing goods domestically, thus altering the industrial imports' structure.
3. Changing resource usage patterns, diversifying them, and innovating new methods and tools to reduce waste and optimize utilization (Michael, 1995).

4. Contributing to economic growth and development, with profits becoming the primary source for saving and investment.
5. Inducing structural changes across industrial branches and sectors, transitioning from traditional industries to technologically-oriented ones, such as electronics (Al-Ani, 2018).

2.2.2 Economic Feasibility:

An industrial project presents an attractive and economically viable investment opportunity. Its success hinges on a comprehensive study encompassing technical and economic aspects. The decision to accept, reject, or postpone a project hinges on this study, known as the economic feasibility study (Zardaq and Basyouni, 2011).

A. Concept of Economic Feasibility:

Economic feasibility refers to the anticipated benefit or return from the project. This return can be monetary, such as profit benefiting the project owner, or social, satisfying societal needs like employment, local market demands, or service provision (Diab, 2007).

B. Conducting Economic Feasibility Study:

An economic feasibility study examines all aspects of a proposed or existing project. It can be preliminary, encompassing legal, marketing, and financial aspects, or detailed, involving technical and comprehensive aspects. It aids in choosing the investment opportunity that aligns with desired goals, whether the creation of a new project or expansion of an existing one (Al-Rajabi, 1999).

2.2.3 Challenges of Establishing Import-Substituting Industrial Projects:

There are a number of challenges faced by industrial projects that could contribute to meeting local demand through domestic production. These challenges include:

1. Technological Challenges:

The technological disparity between advanced and developing countries poses a significant obstacle to establishing these projects. If these projects are established, their products might lack competitiveness in terms of quality, price, and cost compared to globally advanced technologies. These products might not keep up with international advancements, which limits their expansion, dissemination, and export to other countries. Economist Bosner first drew attention to this issue, highlighting the technology gap between the time new products are imported from more advanced foreign markets and the time local producers establish alternatives with the same efficiency, aligned with manufacturing strategies aimed at substituting imports.

2. Financial Challenges:

Funding projects in accordance with import-substituting strategies presents challenges for investors and countries alike. These projects require significant and precise financing to ensure their sustainability and achievement of goals, especially in initial stages marked by uncertainty and a lack of guarantees. Industrial projects developed under import-substitution strategies differ from other industrial projects due to their unique orientations and objectives.

3. Technical Challenges:

Transferring technology from abroad and adapting it to local conditions is not an easy task. This process faces various difficulties, including technology transfer challenges. Technology is a crucial factor determining project success, and projects might struggle to identify and select the necessary technologies for proper implementation. This could be due to a lack of technical expertise in project management and design complexities. Moreover, limited production capacities are often present in countries relying on local substitution, making it difficult to achieve sufficient quantities of high-quality products to meet both local and global demand.

4. Marketing Challenges:

Projects established under import-substituting strategies encounter various problems in marketing and selling their products domestically and internationally. This is largely due to fierce competition from imported products that are homogeneous and similar to domestically produced goods, often offered at lower prices. Additionally, international restrictions imposed by countries on imported goods further complicate the situation.

2.2.4 The State of Industrial Projects and Public Companies in Iraq

The industrial sector in Iraq has faced numerous obstacles and challenges that have hindered its developmental performance. These challenges are primarily attributed to abnormal circumstances, including sanctions, widespread protests, fluctuating oil prices, and economic downturn, resulting in the country's economic deterioration. Additionally, the continuous changes in governments, perspectives, and lack of coherent and well-thought-out strategies, as well as the implementation of patchwork measures, have contributed to the stagnation and decline of the industrial sector. Consequently, numerous production lines within companies have ceased operations, impacting around 2.5 million employees. The government is then obliged to cover their salaries and wages due to the heavy reliance of these companies on state support. Many state-owned enterprises suffer from outdated equipment and excessive employee numbers, struggling to adapt to market economy requirements and heavily depending on public funding. (National Development Plan: 2018-2020)

The latest reports from the Ministry of Industry and Minerals reveal that there are around 227 factories under state-owned companies in Iraq, employing only 140 workers. Approximately 18,167 industrial projects are suspended, and regarding the Federation of Industries, there are 54,000 registered projects. However, around 90% of the vital projects among them are halted. The reasons behind these suspensions and factory stoppages include the inability to compete, lack of a secure business environment, absence of ideal infrastructure such as industrial cities, reliance on government support, and prolonged working hours in the 1990s without proper maintenance, followed by the destruction caused by terrorist groups and military operations.

2.2.5 Reasons for the Halt of Industrial Projects in Iraq:

The country's unfavourable conditions (security, economic, and political) have significantly contributed to halting and obstructing industrial projects. This has resulted in various factors, including:

1. Destruction and sabotage of all industrial companies and factories due to looting (both state-owned and private).
2. Deterioration of production lines due to their age, with many originating from the 1950s.
3. The combination of high customs exemptions and the appreciation of the Iraqi Dinar against foreign currencies, coupled with the opening and liberalization of foreign trade, led to intense competition from foreign companies.
4. The banking sector's backwardness and delays, as banks have not yet embraced modern investment and development methods.
5. Government contracts with companies (both foreign and local) need more coordination to secure their needs through local products, leading them to rely on imports.
6. Non-enforcement or activation of the National Product Protection Law.
7. Insecurity contributes to the outflow of national capital.
8. Unsound trade policies.
9. There is a need for more research and scientific development, which is crucial for industrial growth.
10. The economic blockade imposed on Iraq in the 1990s had a detrimental impact on the delayed development of factories and facilities and the deterioration of production lines. This was due to the inability to establish new facilities, distribute resources, or import spare parts and maintenance equipment.

11. Weak investment role in the industrial sector, with a lack of real investment planning to revitalize this essential sector. (National Development Plan: 2018-2020)

2.2.6 Obstacles and Issues Facing Industrial Companies in Iraq:

Industrial companies in Iraq face various obstacles, including:

1.Lack of strategic vision and industrial policy planning, technological backwardness, weak restructuring of selected industrial companies, inefficient use of available workforce, talents, and resources, and inadequate input from other sectors.

2.They limited directed investments in Iraqi public companies and low state investment efficiency.

3.Government intervention in commercial matters and difficulties competing with foreign products due to the lack of enforcement of customs tariff laws and local product and consumer protection laws.

4.Worn-out machinery and lack of proper maintenance due to policy mistakes (Ministry of Planning and Development Cooperation, 2013).

5.Weak legislation and its non-alignment with the industrial business environment lead to consistency or gaps.

6.Centralized management of public companies and lack of willingness to adopt information transparency (Al-Ani, 2006).

Weak laws and unresponsiveness of decision-makers in public companies to consumer demands, slow adoption of technology and substantial improvements in product quality compared to the private sector, which operates under competition rather than monopolization.

2.2.7 Key Measures and Policies to Solve the Industrial Issue in Iraq and Future Prospects:

There are numerous measures and policies (economic, commercial, financial, political, social) that, if adopted, can address the issues of transformative industry in Iraq and build an advanced industrial sector. Some of these policies include:

1. Economic and Political Policy Among its most essential tools:

A. Public-Private Partnership:

One of the fundamental tools of economic policy for the industrial sector is the collaboration between the Public and private sectors. The International Bank defines partnership as cooperation between governmental entities such as local authorities, central governments, and private companies in healthcare, education, infrastructure services, and more. Partnerships take various forms and degrees of responsibility and authority. Therefore, partnership contracts are influenced by each country's economic, political, and social conditions (Moufak, 2018).

In Iraq, despite the government's efforts in 2010 to rehabilitate public companies, they remained unprofitable and began to burden the state budget. Consequently, the government may resort to saving these companies and those operating below their design capacity by adopting management and leasing contracts. This means that the state retains ownership of the public institution's capital. At the same time, private sector companies or specialized professional companies compete to manage and operate state-owned economic units through lease and management contracts. These contracts offer certain benefits, such as a share in production or profits, while allowing management freedom for restructuring and utilizing appropriate expertise to ensure these companies' success and competitive advantages in the short and long term (Al-Shammari, 2020).

This implies that the state's role takes various forms, including political roles like providing security and political stability or economic roles like providing suitable conditions and a favourable environment for private sector operations. In Iraq's case, this is crucial because the private sector efficiently drives the production process and because it constitutes a significant source of capital that cannot be dispensed with under the country's current circumstances (Faisal, 2015).

Creating industrial partnerships with shared capital between the public and private sectors through diverse participation methods is crucial. This involves focusing on activities that leverage the natural resource base, optimizing infrastructure, and efficiently utilizing mineral resources and renewable energies to diversify industries such as petrochemicals, nitrogen fertilizers, iron, bricks, and aluminium (Bahaa and others, 2020). These industries possess competitive and exportable goods, making them essential resources for local and foreign investors. Consequently, linking these industrial projects and companies with a range of local industries for primary and complementary materials will form the desired transformative industrial sector in the future (Ministry of Planning, National Development Plan 2018-2022).

B. Government Support:

Despite Iraq's shift from a centrally managed economy to a market economy directed by the private sector, the government's role is not eliminated. The government has various duties that contribute to creating an investment-friendly environment for the private sector in the industrial field:

1. Providing necessary financing, raw materials, and offering land for industrial projects, along with administrative incentives like grants, free or low-cost land, and facilities.
2. Continuing to protect and support domestic products against competition from imported foreign products. This assists local industries in gaining experience and establishing themselves in the domestic market. Supporting national products through marketing and promotion is essential to build confidence among local and foreign investors.
3. Carrying out campaigns against unregulated industrial activities to protect both the public and private industrial sectors.
4. Addressing market failures is a significant role for the government. Implementing appropriate industrial policies is vital to avoid the past failures of Iraq's industrial sector. The modern industrial policies that emphasize adopting both horizontal and vertical industrial policies are important to promote industrial development. The shift toward diversified industrial production is essential to ensure the sustainability of industrial growth in the Iraqi economy.

In conclusion, Iraq's industrial challenges can be overcome through strategic policies and partnerships that combine the efforts of the public and private sectors. Government support and suitable economic policies will help create a thriving and diverse industrial sector, leading to sustainable economic development.

C. Providing an Appropriate Investment Environment:

Creating a suitable investment environment for public-private partnerships or attracting local and foreign investors to industrial facilities requires establishing regulatory, legislative, political, legal, institutional, and security conditions that support and attract private investment. Additionally, banking policies, loans, provided facilities, tax system flexibility, overall and specific state economic policies, inflation, exchange rate, trade exchange policies, pricing policies, and marketing strategies all significantly influence the direction of local and foreign investment toward economic activities.

Therefore, implementing the following measures and policies will facilitate a conducive investment climate:

- **Ensuring Security and Political Stability:** Economic development cannot occur without security, and security cannot be sustained without development. This symbiotic relationship was highlighted by the World Bank, especially in developing countries like Iraq. Comprehensive economic development is unlikely to occur without political and security stability. The lack of

security and political stability was one of the reasons why the private sector and investors fled Iraq after 2003. Stability in security leads to economic stability. Attracting investments is directly linked to security stability, as investors consider political stability, security, and safety factors when making investment decisions. Stability in the legislative framework related to investment is also crucial. Therefore, in the upcoming phase, reforming the political and economic systems by moving away from nepotism and embracing principles of competence, expertise, and merit while ensuring professionalism and competence in security institutions is essential. Implementing comprehensive structural reforms (economic, social, cultural, and security) while prioritizing good governance will instil confidence and assurance in investors and underscore the government's seriousness in developmental processes (Saadi, 2008).

- **Transparency and Combating Corruption:** Just as security and political stability are foundational to providing a sound investment climate in Iraq, the other pillar of equal importance is solidifying transparency and combating corruption in its various forms and levels. One of the most significant challenges in transitioning from a centrally managed economy to a market economy is preventing influential individuals and entities from exploiting legal, legislative, and administrative loopholes for personal gain. Cumbersome and routine paperwork procedures that necessitate bribery for completion are among these loopholes. To mitigate this issue, unnecessary administrative steps must be eliminated, reducing administrative corruption in state institutions and minimizing the entities involved in the investment process. Implementing an electronic governance system as an alternative to the current administrative approach reduces corruption and enhances efficiency. Transparency in dealings with the private sector and equitable distribution of risks are crucial for ensuring the success of partnership contracts.

- **Supporting Small and Medium-Sized Industrial Projects:** Small and medium-sized industries play a pivotal role in diversifying the industrial structure. They can serve as complementary or supporting factors for larger industries. When demand for certain products is limited, or larger industries cannot cover their production due to demand limitations, producing these products on a smaller scale rather than importing them is necessary. Alternatively, small and medium-sized industries can produce partially or wholly manufactured products benefiting larger ones (Soad, 2020).

- **Restructuring Public Industrial Facilities:** Most industrial projects in the public and mixed sectors face production, administration, and technical deficiencies. These state-supported projects often lack economic returns and become an economic burden on the state budget, as their revenues usually do not cover their expenses. Consequently, the state is forced to cover these deficits, calling for an economic reform and a transition to a market economy where the size of government support is reduced. This reduction encourages productive and service units to operate according to a profit-cost standard. It is necessary to eliminate distortions from government intervention in pricing mechanisms and market dynamics. Restructuring these entities is achieved through economic reform, shifting away from supporting public and mixed companies, and adopting a profit-oriented approach while maintaining a competitive market structure.

In summary, enhancing the investment environment in Iraq requires ensuring security, political stability, transparency, combating corruption, supporting small and medium-sized industrial projects, and restructuring public industrial facilities. These measures collectively contribute to establishing a conducive economic climate, attracting local and foreign investment, and promoting sustainable economic growth.

2. Monetary Policy:

The financial system in any country consists of two sectors: the monetary sector, represented by the banking system, and the financial sector, represented by the capital market. Despite numerous attempts to modernize the financial system in Iraq after 2003 to align with global banking developments, it still grapples with outdated technologies, managerial methodologies, unresponsive administrative ownership, and a lack of suitable environment for customer communication. Amid government reforms and the pursuit of economic diversification, both the general and private banking sectors must be reformed. Additionally, the capital market should be developed to facilitate smoother financing and lending processes, expedited procedures, and the provision of enhanced services, especially in clearing bonds, import and export guarantee letters, and offering long-term loans with favorable interest rates. The industrial bank should also be supported as the financial interface for private and mixed industrial investments.

3. Trade Policy:

Countries follow reform programs in trade policies by liberalizing foreign trade from restrictions and reducing taxes to encourage investors to improve the quality and diversification of exported goods. However, in Iraq, governments have followed open-door policies that reduced import taxes to 5% from 2003 to 2013 (Jassem, 2014).

Which led to flooding the Iraqi market with low-quality foreign goods at low prices. This resulted in Iraq's exposure and economic subordination to external forces, particularly the dependency on oil revenues and the lack of flexibility in its production apparatus. To transition to a market economy, trade should be liberalized, the nation should open up to the international market, and meticulous industrial-trade policies should be implemented to reduce haphazard imports and stimulate intensive exports. This can be achieved by encouraging local and foreign industrial investors to produce high-quality goods that compete domestically and internationally. Reforms in trade policies require various measures, including continuous assessment of trade conditions, the establishment of free industrial zones, support for exported goods through tax reductions and increased tariffs on imports, provision of data and statistics on foreign and domestic trade, simplification of governmental procedures to allow industrialists to import raw materials, imposition of customs duties on imports comparable to domestic production, combating smuggling, upgrading the Iraqi customs, re-evaluating the open-door policy as a trade strategy, and prioritizing the domestic products by providing them with opportunities to prove their market presence (Haloub & Marwa, 2015).

4. Social Policy:

A central element in modern development policies is the enhancement of human capital, developing its skills and capabilities. Redirecting investments towards productive industrial activities necessitates providing technical and managerial skills that increase productivity and confer a competitive advantage. The absence of a skilled and specialized workforce in Iraq due to the emigration of professionals, the education system's failure to improve the skills needed for the modern knowledge economy, the shortage of training programs for industry workers, and insufficient funding for research and development centers, pose obstacles to successful industrial diversification. Thus, fostering human capital requires:

- Developing education and research programs in higher education institutions.
- Fostering partnerships between universities and industries, where universities provide scientific research and skilled workforce, and industries fund research through material and equipment purchases (Al-Faqi, 2020).
- Sending exceptional students in engineering and industrial fields abroad to transfer experiences and knowledge.
- Providing continuous training for workers and managers to keep up with global advancements.
- Investing in vocational and technical training centers and developing existing centers (International Monetary Fund, 2019).

In conclusion, Iraq's economic transformation requires comprehensive reforms across monetary, trade, and social policies. Modernized strategies will promote financial stability, enhance international trade dynamics, and cultivate a skilled workforce contributing to a diversified and competitive economy.

3. Discussion of Results

For the industrial sector to evolve, play its role, and overcome the aforementioned challenges while minimizing their impact, it is imperative that the state adopts a comprehensive policy for this sector. This policy should be built upon a clear industrial strategy, such as import substitution strategy, among other approaches:

- 1.** Adopting a strategy of import substitution to meet local demand and restrict or limit the quantity of imports from abroad. Meeting demand through domestic production and continuing the substitution process to transition towards manufacturing for export, ensuring foreign currency reserves, accelerating growth, and reducing dependence on foreign sources.
- 2.** Establishing a suitable industrial environment conducive to efficient operations by enhancing infrastructure, encouraging local and foreign investments, and striving for genuine partnerships between the public and private sectors.
- 3.** Providing direct and indirect financial support for private industrial projects by activating loan and grant initiatives, offering opportunities for success to the private sector.
- 4.** Prioritizing proposed industrial projects and selecting public industrial companies that meet essential criteria to support the competitiveness of the Iraqi industry, especially for partially or entirely dormant projects, either through state investment or partnerships with the private sector.
- 5.** Supporting the privatization and industrial partnerships by creating controls that protect private ownership from confiscation, establishing clear and appropriate laws that align with the economic, political, and labor landscape, and ensuring fair treatment of surplus labor.
- 6.** Utilizing tools and incentives to promote, guide, stimulate, and plan industrial investment, especially in manufacturing industries, aligns with the local manufacturing strategy. This includes state-funded projects carried out by mixed and private entities.
- 7.** The imperative need to rehabilitate projects according to investment priorities, which can compete through the development of production processes, workforce, product quality, and work systems, and providing a legal and financial environment for private industrial projects, supporting industrial partnerships while implementing industrial policies that ensure protection for domestic products.
- 8.** Relying on locally produced raw materials, an economic policy that aims to reduce dependence on foreign countries for consumer and investment goods, thus reducing political and economic dependency and achieving higher self-sufficiency.
- 9.** Protecting domestic industries from competition with similar foreign-imported products by implementing economic and administrative measures on competing imported goods until the domestic industry gains experience and can reduce its average costs, enabling it to compete with imported products

To harness the potential benefits of this strategy within the country by expediting the implementation of the aforementioned provisions and ensuring ongoing monitoring of compliance with the conditions, the outcomes of this strategy will be as follows:

- 1.** Creating a significant number of productive job opportunities.
- 2.** Actively contributing to the establishment of industrial projects.
- 3.** Increasing the annual growth rate of the industrial sector.
- 4.** Shifting the economic structure from dependent on crude oil revenues to a diversified industrial economy.
- 5.** Achieving global competitiveness indicators.

4. Conclusion:

- 1.**The success of this strategy relies heavily on the availability of the necessary tools, requirements, and conducive conditions. Failure to provide these resources of various kinds renders this strategy futile and incapable of achieving the desired success. It may even become a burden on the state and society.
- 2.**The industrial strategies outlined in developmental plans in Iraq have not been effectively implemented or continued due to a combination of economic, social, and political reasons. For instance, the global increase in oil prices and the subsequent rise in crude oil revenues led to complacency within the state, neglecting industrial strategies aimed at building or strengthening a robust industrial sector. Instead, there was an overreliance on oil revenues.
- 3.**The blockade imposed on Iraq in the 1990s had a significant impact on the deterioration of production equipment, machinery, and production lines due to the unavailability of spare parts and maintenance materials. This ultimately resulted in the question of whether the failure of these plans and strategies was due to issues within the strategies themselves, their unsuitability for the prevailing conditions at the time, or external circumstances that hindered their success.
- 4.**After 2003, consecutive authorities in Iraq did not adopt a specific economic doctrine or policy to manage and direct the economy in a manner suitable for the circumstances and capabilities. The shift toward a market economy without the necessary, correct measures and planning had negative repercussions on the economy as a whole and the industrial sector in particular. There was evident confusion in concepts between central planning and the forces of supply and demand.
- 5.**There is a prevalent belief that central planning can replace market economics and the forces of supply and demand. However, in reality, the role of the government and central planning complements a market economy. In many cases, government intervention is needed to address situations and provide solutions when legal and material resources are available but market forces fall short.
- 6.**The abolition of customs tariffs, the weakened private sector and the inability to produce goods locally flooded the Iraqi market with cheap products. This stripped domestic products of their relative advantage, stifling competition. Simultaneously, state-owned companies transitioned to self-financing without being able to market and sell their products, leading to significant losses. This burdened the government as it provided direct financial allocations in the general budget or granted loans and advances through government banks to cover their financial needs.
- 7.**The Iraqi industrial sector regressed significantly due to trade openness, the lack of protection for domestic products, and the absence of industrial policies and trade measures. Rising production costs and an inability to compete externally led to this sector's inability to manufacture raw materials locally for industries with a comparative advantage. Consequently, there was a substantial decline and deterioration.
- 8.**Despite investment allocations and government capital spending on transformational industrial activities as part of rehabilitation programs, this did not contribute significantly to industrial growth or a leap toward developing the public industrial sector in Iraq.
- 9.**Despite loan initiatives, there has been a lack of an influential role in supporting private industrial activity. These initiatives have been limited to small and medium-sized industrial activities without prioritizing private sector investment in targeted government industrial sectors.

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.

References:

1. John (1992). Policies of International Economic Relations, Jordanian Book Center, Jordan.
2. Bakari and A.A. (2015). Economics of Industry: Manufacturing Strategies, King Abdu Alaziz University, Riyadh.
3. Bryan, N. (2009). Manufacturing for Import Substitution, in Comprehensive Economics Dictionary.
4. Al-Fatih and M.A.M. (2015). International Trade: A Contemporary Perspective, Khawarizmi Scientific Publishing, Jeddah.
5. Liang (2002). A Thesis on The Rationales of Import Substitution Industrialization Strategy, University of Denver.
6. Halbawi (1998). Arab Manufacturing Approaches: Between External Economic Populism and Arab Economic Integration, Center for Arab Unity Studies, Beirut.
7. Shaqiri and Salam (2013). Economic Feasibility Studies and Investment Project Evaluation, Amman.
8. Al-Qurayshi (2009). Economic Feasibility Studies and Industrial Project Evaluation, Jordan.
9. Michael (1995). Foreign Trade Policies, Journal of Finance and Development, Vol. 32, No. 3, P.P. 32-48.
10. Al-Ani (2018). Preparation and Planning for Feasibility Studies and Investment Project Evaluation, Dhad for Publishing and Distribution, Baghdad.
11. Ahmed and Mohamed, (2011). Principles of Economic Feasibility Study, University House, Alexandria.
12. Mohamed (2007). Economic and Social Feasibility Studies for Projects, Dar Al-Manhal. Lebanon.
13. Al-Rajabi (1999). Managerial Accounting, Amman Private University, Jordan.
14. Republic of Iraq, Ministry of Planning (2013). Development Cooperation Report.
15. Al-Ani (2006). Developing the Public Sector within Specialization Framework, Journal of College of Administration and Economics, University of Baghdad, Vol. 12, No. 42, P.P 62-81.
16. Moufak and Mohamed (2018). Activating the Public-Private Partnership Strategy as an Option to Stimulate Economic Diversification: Insights from International Experiences, Journal of Alternative Economics, Vol. 5, No. 1, P.P. 116-133.
17. Al-Shammari, and Ali (2020). Sustainability within the Framework of Development: A Future Vision for Sustainable Development in Iraq.
18. Faisal (2015). A Proposed Future Vision for Activating the Partnership between Universities and Industry for the Development of Scientific Research," Journal of Future for Social Sciences, Vol. 12, No. 3, P.P. 178-204
19. International Monetary Fund, Selected Issues Report on the Kingdom of Saudi Arabia (2019), Washington, D.C.

20. Republic of Iraq, Ministry of Planning (2018). National Development Plan (2018-2020).
21. Saadi (2018). Post-2003 Political Instability in Iraq, ANKASAM, Regional Research Journal, Vol. 2, No. 1. P.P. 92-123.
22. Saad (2020). The Role of Small and Medium-Sized Industries in Achieving Economic Development: A Case Study of Iraq," Journal of Al-Muthanna for Economic and Administrative Sciences, University of Al-Muthanna, Vol. 10, No. 1, P.P. 118-135.
23. Jassem (2014). Analysis of Trade Partnerships for Iraq, 2003-2013, Journal of Political Sciences, University of Baghdad, Vol 50. No 48, P.P. 225-247.
24. Haloub and Marwa (2016). Foreign Trade for Iraq: Between the Necessities of Economic Diversification and Challenges of WTO Membership," Journal of Economic and Administrative Sciences, University of Baghdad, Vol. 22, No. 88, P.P. 327-347.
25. Al-Faqi (2020). A Proposed Future Vision for Activating the Partnership between Universities and Industry for the Development of Scientific Research," Journal of Future for Social Sciences, Vol. 3. No 1, P.P. 57-106.
26. International Monetary Fund, Report on Selected Issues about the Kingdom of Saudi Arabia (2019). Washington, D.C.

جدوى تأسيس وإعادة تشغيل المشاريع الصناعية وفق استراتيجية إحلال الواردات في العراق

ثائر محمود رشيد العاني
جامعة بغداد/ كلية الإدارة والاقتصاد
قسم الاقتصاد
dthaer2009@yahoo.com

ضرغام فاضل كاظم
جامعة بغداد/ كلية الإدارة والاقتصاد
قسم الاقتصاد
dorgham.fadel1202a@coadec.uobaghdad.edu.iq

Received: 1/9/2023 Accepted: 23/10/2023 Published Online First: 30 /6/ 2024

هذا العمل مرخص تحت اتفاقية المشاع الإبداعي نسبة المصنّف - غير تجاري - الترخيص العمومي الدولي 4.0

[Attribution-NonCommercial 4.0 International \(CC BY-NC 4.0\)](https://creativecommons.org/licenses/by-nc-sa/4.0/)



المستخلص

نبعت فكرة البحث من أهمية القطاع الصناعي وما له من أهمية في أحداث تغييرات هيكلية وبنوية على مستوى الاقتصاد الوطني. وكون القطاع الصناعي في العراق يعاني من مشاكل كثيرة وعميقة ومعقدة، نتج عنها توقف العديد من المشاريع الصناعية عن العمل جزئياً أو كلياً وكذلك الشركات الصناعية العامة قد أصبحت عبئاً على الدولة. وبما ان استراتيجية التصنيع من اجل إحلال الواردات تعتبر من الاستراتيجيات الرائدة ومن اهم الاستراتيجيات الصناعية التي أحدثت تنمية صناعية وتغييرات هيكلية على مستوى الاقتصاد، وهذا ما اثبت تاريخياً من خلال الدول التي اتبعت هذه الاستراتيجية في بداية نهضتها وتحولها من دول نامية ذات توجه اقتصادي بدائي يعتمد على القطاع الزراعي البسيط وإنتاج وتصدير المواد الأولية ومواد الخام، الى اقتصاد متنوع ذات مكون صناعي كبير من منتجات كثيرة ومتنوعة ذات جودة عالية ومحتوى تكنولوجي عالي. وعلى أساس ذلك اخذت الدراسة الاهتمام بمدى ملائمة هذه الاستراتيجية مع واقع الاقتصاد العراقي، وتسليط الضوء على المشاريع والشركات الصناعية المتوقفة، والجدوى من إعادة تشغيلها أو إقامة مشاريع صناعية جديدة، وإعطاء الأولوية للمشاريع المناسبة التي تخدم اهداف وغاياتها، ومن ثم الوصول الى نظرة مستقبلية حول واقع الصناعة في العراق وافاق مستقبلية وتشخيص المشاكل ومحاولة إيجاد حلول وعلاجات من شأنها بناء قطاع صناعي يمكن الاعتماد عليه.

نوع البحث: ورقة بحثية¹

الكلمات الرئيسية: استراتيجية التصنيع، إحلال الواردات، التنمية الصناعية، القطاع الصناعي، المشروع الصناعي، السياسة الصناعية.

¹ البحث مستل من رسالة ماجستير