



Research Article



The Effectiveness of Government Investment in Promoting Economic Diversification in Iraq

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Abstract: This research aims to analyze the role of government investment in enhancing output growth rates of non-oil productive sectors (such as agriculture and manufacturing) in Iraq. The study stems from a core problem represented by the Iraqi economy's excessive reliance on oil revenues as almost the sole source for financing the general budget. This reliance renders the economy vulnerable to external shocks and results in a weak contribution of real sectors to the Gross Domestic Product (GDP). Accordingly, the research sheds light on government investment—its concept and components—while examining its role in stimulating non-oil sectors. The study concludes that the effectiveness of investment expenditure in developing non-oil sectors remains weak.

Keywords: Government Investment, Economic Diversification



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INTRODUCTION

Government investment has assumed a position of particular significance, as its scale reveals the extent of the state's involvement in the economic system and the weight of the public sector therein. Governments of developed and developing countries alike seek to regulate levels of investment spending in ways that serve to enhance national productive capacity and propel the development process. It also reflects economic, social, and financial choices that translate the government's orientations and priorities in budget formulation. Within this framework, government investment spending plays a pivotal role in advancing development, stimulating economic activity, and developing various sectors, while also serving as a strategic instrument for safeguarding economic security and reinforcing its foundations. From this standpoint, this study sheds light on the role of investment spending in non-oil economic sectors.

Research Problem

" The research problem springs from the following question: To what extent did government investment in Iraq actually and positively stimulate the growth rates of GDP for the non-oil economic sectors?

Research Significance

" The significance of this research lies in the fact that government investment has an impact on a number of macroeconomic indicators. Government investment is a key mechanism for correcting the imbalances and structural distortions affecting the Iraqi economy. Moreover, due to these distortions, the performance of the Iraqi economy has declined historically."

Research Objectives

The research seeks to assess the reality of GDP diversification and the contribution of public investment to diversifying the national economy.

Research Hypothesis

- "The research proceeds from the hypothesis that: The Limited Efficacy of Public Investment in Diversifying the Gross Output Structure"

Research Methodology

"The research adopts an analytical methodology to frame the theoretical concepts and analyze economic tables and data."

Research Structure

The research comprises two main sections:

- **Section One:** The theoretical framework of public Investment.
- **Section Two:** The Nexus between Public Investment Trends and the Pathways of GDP Diversification in Iraq
Spatial and Temporal Boundaries

"The spatial boundary of the research is Iraq, over the period 2004–2024."

Section One: The Theoretical Framework of Public Investment

First Subsection: Definition of Investment Expenditure

When people use the term investment expenditure, they mean spending on things like machinery, equipment and building of new plants. According to investors, the term "investment expenditure" refers to the initial outlay of cash on a particular project before it can be executed and finished. Investment, which includes gross fixed capital formation as well as changes in inventory, is considered as one of the important macroeconomic constituents that make up GDP (Al-Taher, 2012, p. 92).

Public investment expenditure refers to the amount of money the Government spends in establishing economic and social projects in order to attain holistic development (Rashid Muhammad, 1983, p. 118). It also works as a governmental tool to further economic growth through long-term investments in infrastructure, research and development to create new jobs (OECD, 2015, p. 78). Hence, we can easily say that public expenditure is the total expenditure incurred by the Government on purchasing capital goods and services as well as the construction of new productive projects.

Second Subsection: Forms of General Investment

General investment takes multiple forms, which can be categorized into two main types:

1. **Direct Investment:** Refers to productive spending directed toward two types of commodity-based activities, namely: agricultural and industrial productive projects, and service-productive activities such as commercial and tourism sectors. In general, this type of expenditure yields goods and services that contribute to increasing Gross Domestic Product (Zaini, 2002, p. 216).
2. **Indirect Investment:** Denotes spending allocated for the establishment of

infrastructure, such as roads, bridges, service projects, and the like, the effects of which persist on the macroeconomy over the long term. It is noteworthy that such projects require high expenditure levels due to their heavy costs and long execution periods compared to other types of investment (Inacio & Silva, 2010, pp. 4-5).

Third Subsection: Components of General Investment

Investment General consists of three main components, summarized as follows:

1. **Gross Fixed Capital Formation:** Refers to tangible net additions to physical assets, such as building new projects and acquiring new machinery and equipment, which play a role in generating a direct or indirect increase in productive capacity. The establishment or expansion of new productive projects inevitably leads to a direct increase in productive capacity, whereas the construction or rehabilitation of infrastructure—such as roads, bridges, and sanitation systems—creates an indirect increase in productive capacity (Al-Shabib, 2009, p. 47).
2. **Inventory:** Constitutes a vital part of investment as it generates income for Gross Domestic Product. It comprises raw materials, semi-finished goods, and finished goods, serving as a commodity reserve that supports various productive sectors and economic activities (Dawoud, 2013, p. 129).
3. **Expenditure for Creating a Trade Surplus:** Refers to net foreign expenditure on goods and services after deducting domestic expenditure on imports. The existence of such a surplus indicates an increase in investment, and vice versa in the case of a negative net export balance, which implies a decline in government investment (Al-Shabib, p. 48).

Fourth Subsection: Financing Public Investment

The degree of impact of the aforementioned investment on the process of growth and development depends on its financing method. There are two main types of financing:

First: Domestic Financing

These are the financial resources that the government obtains from traditional internal sources on a regular, periodic basis (such as annually), including tax and fee revenues. Alternatively, the government may resort to borrowing from the banking system, issuing bonds, or expanding the money supply (monetary issuance), which leads to an increase in liquidity and consequently may trigger higher inflation rates. It is worth noting that channeling these loans or new monetary issuance toward investment projects will generate positive impacts on the national economy. (Ayeb, pp. 131-132)

Second: Foreign Financing

These are the sources to which the government resorts when domestic financing falls short of covering public expenditure. In such cases, the government turns to borrowing from international institutions, banks, or organizations, or from foreign governments to finance the increase in its expenditure, which consequently results in negative impacts on the national economy. (Al-Khatib & Shamiya, 2007, pp. 259-260)

Fifth Requirement: Public Investment Spillovers

Investment has several impacts on a country's economy. These impacts may be direct or indirect. The latter can be spelt out as follows:

I. Direct Effects on the National Economy

These can be summarized as follows:

1. **Impact on National Output:** Changes in the volume of government investment expenditure inevitably reflect on the volume of fixed capital formation, which is a crucial component of Gross Domestic Product. Furthermore, this expenditure affects the volume of economic resources determining productive capacities, as well as the level of exports, which output cannot omit. On this basis, government investment expenditure exerts a prominent impact on national output, though the degree of

this impact depends on the efficiency of utilizing such spending, which translates into output through an increase in productive capacity. In other words, an increase in general investment expenditure results in an expanded aggregate demand—since investment expenditure is an essential component of demand—leading in turn to a higher volume of production. Accordingly, the impact of investment expenditure on national output can be clarified through the following:

- **A.** An increase in general investment expenditure may lead to a rise in public projects undertaken by the state. This means an increase in capital assets that directly benefit national output on the one hand, and an elevation of productive capacity, total production, and consequently national output on the other hand.
 - **B.** The state's increased investment expenditure will be reflected in the expansion, diversification, and upgrading of capital, or in the addition and development of infrastructure. All of this will enhance the productive capacity and efficiency of the labor force, thereby creating a positive impact on national output.
- 2. Impact on Consumption:** General investment expenditure has a great impact on consumption. The reason for this is the creation of new jobs. New jobs help the masses to earn and thus spend for their requirements. As consumer spending increases, demand rises. In response, production must increase, leading us to employ more workers. Eventually, higher incomes will cause demand to rise (Edgeman, 1999, p. 117).
 - 3. Impact on Employment:** The level of employment and the utilization of available economic resources make state investment expenditure significant. An increase in the above expenditure will boost production and employment. Private investment will also be stimulated, i.e., the number and scale of private projects and employment volumes will expand (Laopodis, 2001, p. 157).
 - 4. Impact on Savings:** Government investment expenditure has a beneficial impact on savings, as already discussed. An increase in income means an increase in savings. This assumption is made when the marginal propensity to consume does not increase. Moreover, it influences national savings as individuals lower their earmarked expenditures due to the Government's provision of public services free of charge or at low nominal rates (for example, free education, subsidized or free health services and similar services), which in turn raises the saving capacity of individuals (Ayed, 2010, pp. 131–132).

II. Indirect Effects on the National Economy

General investment has, in addition to the above, indirect impacts on the national economy. This can be summarized as follows:

- 1. Multiplier Effect:** The multiplier is a numerical coefficient indicating the increase in national income resulting from an increase in investment. When investment expenditure increases, the income generated will rise along with it. Meanwhile, consumption also rises, which means the demand for the goods and services produced will also rise. As a result, producers will start producing more. Further, this will lead to an increase in national output. An increase in investment expenditure will trigger this chain of effects (Ayed, 2010, p. 15).
- 2. Accelerator Effect:** As previously indicated, investment affects consumption, where the former drives the latter upward through income growth. Sustained growth in consumer demand is followed by increases in investment; in other words, continuous demand for consumer goods creates a demand for investment goods. To put it differently, the impact exerted on income by investment leads to a secondary change in investment expenditure via the accelerator (Al-Wadi, 2014, p. 140).

Section Two: The Nexus between Public Investment Trends and the Pathways of GDP Diversification in Iraq

First Subsection: Evolution of Government Expenditure

Trends in investment spending in Iraq can be analyzed by examining the contents of Table (1), which reflect the absence of a clear general trend. A fluctuation is observed in the ratios allocated from total spending to government investment spending; the rates of change in government investment spending alternate between increases and decreases. Specifically, government investment spending doubled in 2005 compared to 2004, rising from 3.8 to 7.6 trillion Iraqi Dinars, before declining during 2006 and 2007 to approximately 6 trillion. It subsequently rebounded to 14.9 trillion in 2008, followed by a decline in 2009. Following that, there was an increase in the values from 2010 to 2013, which reached 40.4 trillion Iraqi Dinars.

After this peak, it began to decline until 2019 when government investment spending reached 24.4 trillion. In the year 2020, the expenditure under examination fell to a remarkable low of just 3.2 trillion as a result of the COVID-19 epidemic. In the following years, government investment spending showed some signs of recovery, indicating that this investment spending was not based on a strategic investment plan but rather on the fiscal surplus remaining from current government spending. This is heavily dependent on oil revenue, which depends entirely on fluctuations in the external market. The varying rates of growth in government investment spending further highlight this point, with growth rates taking various positive and negative values. Figure (1) shows the amount of volatility in the values of government investment expenditure.

Table 1. Relative Importance and Annual Growth Rate of Government Investment Spending for the Period (2004–2024) (in Trillion Iraqi Dinars)

Year	(1) Total Government Expenditure	Government Investment Expenditure (2)	Relative Importance of Government Investment Expenditure (2/1 %)	Annual Growth Rate of Government Investment Expenditure
2004	31.5	3.8	12.06	-
2005	30.8	7.6	24.7	%100.00+
2006	38.8	6.02	15.5	%20.79-
2007	39.3	6.6	16.8	%9.63+
2008	67.2	14.9	22.2	%125.76+
2009	55.5	9.6	17.3	%35.57-
2010	70.1	15.5	22.1	%61.46+
2011	78.8	17.8	22.6	%14.84+
2012	105.1	29.3	27.9	%64.61+
2013	119.1	40.4	34.0	%37.88+
2014	82.8	35.4	42.7	%12.38-
2015	84.7	27.8	32.8	%21.47-
2016	73.5	18.4	25.0	%33.81-
2017	75.4	16.5	21.9	%10.33-
2018	80.9	13.8	17.1	%16.36-
2019	111.7	24.4	21.8	%76.81+
2020	76.1	3.2	4.2	%86.89-
2021	102.8	13.3	13.0	%315.63+
2022	116.9	12.0	10.3	%9.77-
2023	142.4	20.7	14.5	%72.50+
2024	150.0	25.0	16.7	%20.77+

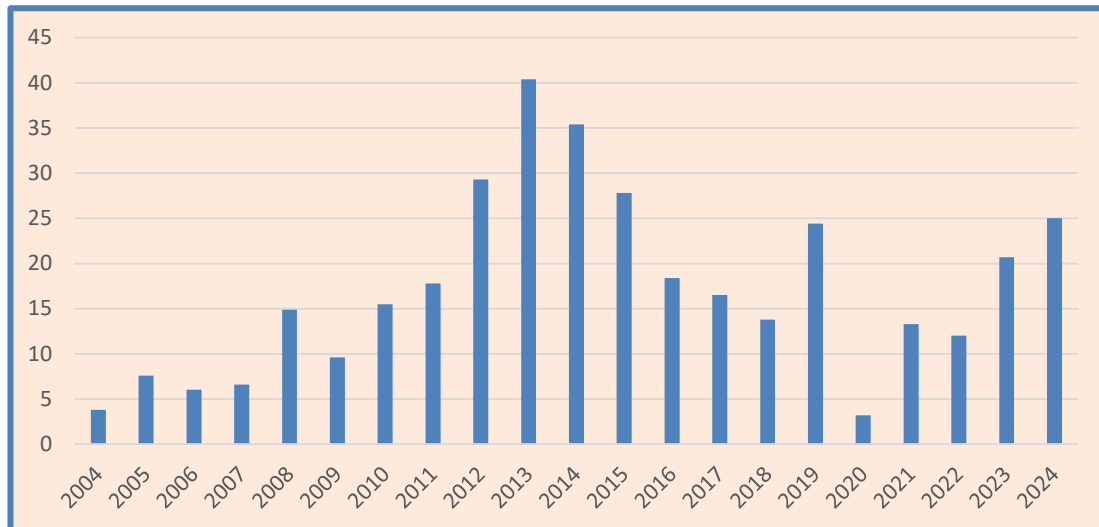


Figure 1. Trends of Government Investment Expenditure for the Period 2004-2024
Source: Prepared by the researcher based on the data in Table (1).

Regarding the annual growth rates of investment spending, they do not differ significantly from their relative importance, as both were characterized by fluctuation, alongside a severe degree of decline and surge in growth rates. At times, the rate rose to exceed 315% (as in 2021), while at other times it dropped to reach -86.89% (as in 2020). This can be illustrated in Figure (2).

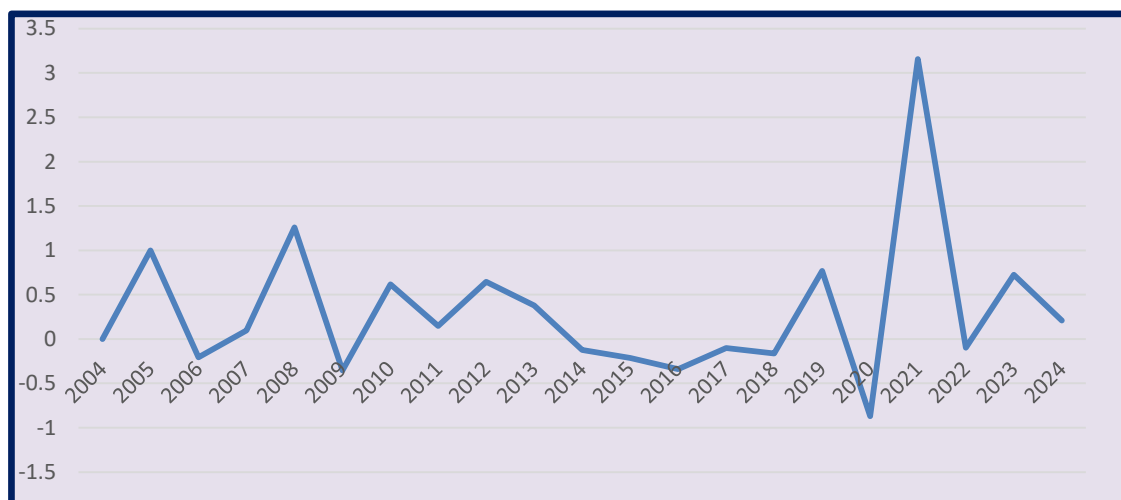


Figure 2. The trajectory of government investment spending growth in Iraq for the period 2004–2024

Source: Prepared by the researcher based on the data in Table (1).

Second Requirement: Components and Growth Rates of GDP

First: Trends in the Growth of Output by Component

The Iraqi economy is a rentier economy driven primarily by crude oil exports. Oil revenues are the main engine of economic growth, increasing whenever oil prices rise. Due to this structural dynamic, the economy is very vulnerable to shocks arising from fluctuations in global oil prices (Kazem & Shaker, 2016, p. 17).

As indicated in Table 2, oil's share of gross domestic product (GDP) is very high. In 2006, oil's share of total output was 62 per cent while in 2004 and 2005, respectively, it was 58 per cent. Up to 2008, oil remained the biggest contributor to total output, with a decline only in 2009 on account of the 2008 global economic crisis. Subsequent declines

continued through 2024, with the exceptions of 2011 and 2019, which saw the highest shares of oil GDP at 70.7%. In addition, the contribution of the oil sector to GDP did not fall below 23% throughout the period of study, with this level recorded in 2021 due to COVID-19.

In contrast, the non-oil GDP, which is defined as the “value of all final goods and services, except oil”, was at its highest contribution, i.e. 76.9%, in 2021. This was due to an increase in the value of non-oil goods and services and a decrease in the value of oil exports. In other words, the non-oil sector did not manage to attain high and sustained contribution rates, as it reached two-thirds of total output in only a few years, namely four years over the whole study period (see Table 2).

Table 2. The Relative Importance of Oil and Non-Oil GDP for the Period 2004–2024 (at Current Prices, in Trillion Iraqi Dinars)

Year	Gross Domestic Product (GDP)	Oil GDP	Non-Oil GDP	Percentage of Oil GDP to Total GDP %	Percentage of Non-Oil GDP to Total GDP %
2004	53.3	30.81	22.49	58	42
2005	67.8	42.38	25.42	58	42
2006	84.8	52.85	31.95	62	38
2007	97.5	59.02	38.48	53	47
2008	156.8	87.17	69.63	56	44
2009	130.6	56.00	74.60	43	57
2010	162.0	72.91	89.09	45	55
2011	217.3	115.26	102.04	53	47
2012	254.2	126.44	127.76	49.7	50.3
2013	273.6	134.6	139.00	49.2	50.8
2014	272.9	116.94	155.96	43	57
2015	219.9	62.08	157.82	28.2	71.8
2016	231.8	67.40	164.40	29.1	70.9
2017	235.5	88.66	146.84	37.7	62.3
2018	270.3	117.86	152.44	43.6	52.4
2019	273.6	193.44	80.16	70.7	29.3
2020	215.7	61.23	154.47	28.4	71.6
2021	304.1	70.14	233.96	23.1	76.9
2022	415.6	172.14	243.46	41.4	58.6
2023	330	126.83	203.37	38.4	61.6
2024	363.5	165	198.50	45.4	54.6

Source: Ministry of Planning, Central Statistical Organization, Annual Statistical Abstract, various years. The oil output consists of crude oil.

Second: The Key Components of Non-Oil Gross Domestic Product

According to Salih (2019), structural imbalance is a condition where the output structure of different sectors is out of equilibrium (p. 45). Through the relative contributions of each sector to total output as shown in Table (3), this can be detected. This shows the relative importance of major sectors in GDP for the years 2004–2024. This also shows that the contribution rates of individual non-oil sectors to domestic product are marginal.

Table 3. The Relative Importance of Major Productive Sectors in Gross Domestic Product for the Period 2004–2024

Year	Oil Sector	Industrial Sector	Agricultural Sector	Service Sector
2004	58	1.8	6.9	18.4
2005	58	1.3	6.9	15.2
2006	62	1.5	5.8	19.3
2007	53	1.6	4.9	17.4
2008	56	1.7	3.8	12.6
2009	43	2.6	5.2	13.3
2010	45	2.3	5.2	12.1
2011	53	2.8	4.6	10.1
2012	33	2.7	4.1	13.2
2013	41	2.3	4.8	14.6
2014	43	1.9	4.9	23.6
2015	33.2	2.2	4.2	28.0
2016	34	2.2	3.9	27.9
2017	39.5	2.1	2.8	25.0
2018	44.2	2.0	2.7	23.5
2019	41	2.1	3.6	25.1
2020	29.1	2.6	5.9	33.2
2021	52.2	2.3	3.5	26.2
2022	57.3	2.2	2.0	19.2
2023	42	3.0	2.9	24.5
2024	45.4	4.09	3.4	41.3

Source: Ministry of Planning, Central Statistical Organization, Annual Statistical Abstract, various years.

Economic Structure and Structural Imbalances in Non-Oil Sectors

The Iraqi economy's structural weakness is mainly due to the permanent marginalization of the non-oil sectors, especially agriculture and manufacturing. During the period reviewed, the contribution of both the agricultural and manufacturing sectors to total gross domestic product (GDP) has remained extremely low.

The share of the manufacturing sector in GDP was put at almost (1.3%) in 2005. Strikingly, this share peaked at (4.09%) in 2024. In spite of this low rise, the share still seems out of proportion to the sector's economic importance. The cumulative structural imbalances in some key manufacturing segments have hindered its developmental role, thus placing Iraq among the least developed countries in the world (Al-Najjar & Kadhim, 2017, p. 23).

The agricultural sector did no better; its share in total output reached a maximum of (6.9%) in 2004–2005, but it dropped to a negative minimum of (-2%) in the year 2022. This contractionary decline is caused by exceptional conditions and military conflicts that destroyed the infrastructure of this important sector, along with persistent neglect of irrigation and drainage projects. Consequently, these challenges significantly threaten food security and the future of agricultural development in Iraq (Al-Rawi, 2009, p. 37).

On the other hand, the service sector performed relatively better, with over (40%) share of total output in 2024, and ranked first amongst the non-oil sectors. Yet this sector is also affected by imbalances. The continuing deterioration of core infrastructure, such as electricity, transport networks, and telecommunications, has made its growth fragile and susceptible to collapse at the time of any economic crisis (Al-Zubaidi, 2021, p. 106). Together, these factors have caused a gradual decline in the

non-oil sector's contribution to total output.

Oil Dominance and Ineffective Investment Policies. Drawing from the analysis above, crude oil is not only the primary driver of GDP growth, but an active one as well. This means that any fluctuation, regardless of size, in global oil markets dictates the value and growth rate of overall GDP. The minimal contribution of other productive sectors illustrates the absence of economic diversification.

The low share of productive sectors in gross domestic product (GDP) highlights the failure of the government to create and apply effective investment policies that can revitalize these vital economic activities. These sectors can otherwise help in reducing structural crises in the Iraqi economy, such as unemployment, inflation, and depreciation of the national currency. Moreover, this fact points to the limited effectiveness of investment planning by the government, the sluggishness of productive and investment activities, the stagnation of growth in industrial, agricultural, commercial, and service sectors, and the distortion of the economic and productive structure (Ahmad, 2011, p. 7). Because of this, policymakers must reshape their investment strategies to better align with the realities of the national economy.

Section III :The Effectiveness of Public Investment in Output Diversification Across Economic Sectors

Capital expenditure (investment spending) is considered one of the most important factors affecting economic growth and the structural transformation of an economy. As the most complex economic mechanism, the foundation for resource allocation, and the key to sustainable development, it presents policymakers with opportunities to initiate and steer the national economy toward growth and progress.

Theoretically, an increase in capital expenditure increases the capacity of capital assets, which increases the productive and competitive potential of the national economy. As per the actual observations presented in Table (4), the relative share of government capital expenditure within this fragile economic framework appears to be quite small and inadequate. Figure (3) evidently affirms the marginal share of public investment expenditure relative to GDP.

Table 4. The relative importance of government investment spending to Gross Domestic Product for the Period 2004–2024

Year	Gross Domestic Product (GDP) (Trillion Dinars)	Government Investment Expenditure (Trillion Dinars)	Share of Government Investment Expenditure in GDP (%)
2004	53.3	3.8	7.13
2005	67.8	7.6	11.21
2006	84.8	6.02	7.10
2007	97.5	6.6	6.77
2008	156.8	14.9	9.50
2009	130.6	9.6	7.35
2010	162.0	15.5	9.57
2011	217.3	17.8	8.19
2012	254.2	29.3	11.53
2013	273.6	40.4	14.77
2014	272.9	35.4	12.97
2015	219.9	27.8	12.64
2016	231.8	18.4	7.94
2017	235.5	16.5	7.01
2018	270.3	13.8	5.11

2019	273.6	24.4	8.92
2020	215.7	3.2	1.48
2021	304.1	13.3	4.37
2022	415.6	12.0	2.89
2023	330	20.7	6.27
2024	363.5	25.0	6.88

Source: Ministry of Planning, Central Statistical Organization, Annual Statistical Abstract, various years.

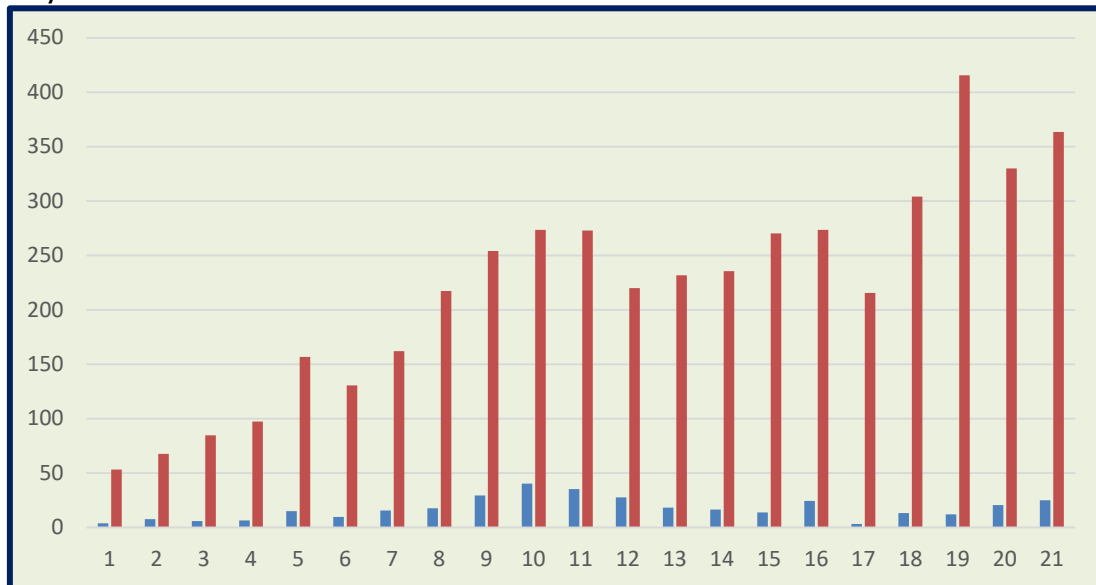


Figure 3. The ratio of government capital expenditure to Gross Domestic Product
Source: Prepared by the researcher based on the data in Table (4).

It is worth noting, based on the data in Table (4) and Figure (3), that there were qualitative leaps in investment expenditure, reaching (40.4 trillion dinars) in 2013, with a contribution rate of (14.77%) of the gross domestic product, which is the highest rate recorded during the study period. These periods are attributed to the rise in global oil prices, which provided governments with financial solvency to expand investment budgets (Al-Ziyara, 2014, p. 19).

However, the years (2015–2017 and 2020) showed a sharp decline in investment expenditure as a result of the crises during those years. In 2020, investment expenditure plummeted to a mere (3.2 trillion dinars) due to the COVID-19 pandemic and the collapse of oil prices, dropping to a contribution rate that did not exceed (1.48%). This sharp fluctuation confirms a direct and sole correlation between government investment and oil revenues, rather than the intrinsic capacities of the economy (Al-Husseini, 2024, p. 49).

The inability of this expenditure to translate into sustainable growth in non-oil sectors, such as agriculture and manufacturing, is due to the low actual implementation rates of investment projects and widespread bureaucracy and administrative corruption. This has resulted in a large portion of spending being directed toward consumer or security infrastructure rather than productive projects that create jobs (Ouda & Farhan, 2024, pp. 92–93). Also, it is indicated that the GDP increase in certain years, for instance, 415.6 trillion Iraqi Dinars in 2022, was due to high global oil prices, while the non-oil sectors' contribution remained modest. This reflects a persistent structural imbalance, as government investment spending failed to achieve genuine economic diversification that reduces reliance on oil.

The failure of such spending to yield sustained growth in non-oil activities such as

agriculture and manufacturing has been attributed to low actual implementation rates of investment projects, rampant bureaucracy and administrative corruption, leading to a large share of spending being diverted to consumer or security infrastructure rather than productive projects generating employment opportunities (Ouda & Farhan, 2024, pp. 92–93). Accordingly, Table (5) depicts significant fluctuations in growth rates of the outputs of the non-oil sectors, particularly agriculture and manufacturing, confirming that these sectors are impacted by the erratic path of public investment spending.

Table 5. Growth Rates of Gross Domestic Product (GDP) and Productive Sectors in Iraq for the Period 2004–2024

Year	Gross Domestic Product (GDP) Growth Rate (%)	Oil Sector Production Growth Rate %	Industrial Sector Annual Growth Rate (%)	Agricultural Sector Annual Growth Rate%	Services Sector Annual Growth Rate%
2004	-	-	-	-	-
2005	38	37.6	3.55	37.09	14.26
2006	30	24.7	51.72	9.97	65.01
2007	16.6	11.7	23.4	(1.35)	4.44
2008	41	47.7	45.43	9.97	2.47
2009	(16.8)	(35.8)	29.02	13.1	(12.07)
2010	24	30.2	7.85	22.44	12.52
2011	34	58.1	66.7	18.55	11.28
2012	17	9.7	12.83	5.72	53.72
2013	7.6	6.5	(9.16)	24.42	19.17
2014	(2.7)	(13.1)	(20.47)	0.64	58.59
2015	(27)	(47)	(15.28)	(37.84)	(13.12)
2016	1.2	8.6	4.75	(4.03)	0.62
2017	12.6	31.5	8.66	(18.95)	1.27
2018	21.3	33.0	13.36	13.75	13.97
2019	2.7	64.1	8.03	38.72	10.08
2020	(27.7)	(68.3)	(5.44)	27.67	2.53
2021	53	14.6	23.58	(16.69)	10.6
2022	36.7	145.4	35.69	(23.12)	0.89
2023	(20.6)	(26.3)	14.0	27.88	8.29
2024	10.2	30.1	39.27	18.37	72.12

Source: Ministry of Planning, Central Statistical Organization, Annual Statistical Abstract, various years.

CONCLUSIONS

Despite a positive causal relationship between government capital expenditure and non-oil output in Iraq, this spending has not resulted in structural transformation or diversification of non-oil output. This is because government investment allocated to the non-oil sector is insufficient. Moreover, most government expenditure is current expenditure. Moreover, the capital spending of the government is not based on a strategic investment plan but is based on the leftover surplus from current government spending, which in turn relies on oil revenues that depend completely on external market fluctuations. The alternating positive and negative growth rates of government investment spending show its volatility. The Iraqi economy is a rentier economy that is activated by oil or, more explicitly, the export of crude oil. As export revenues become larger, so does output; thus, export revenues are the engine of growth. Export of raw

materials, in other words, drives the growth process. From the viewpoint of economic theory, this approach is not viable, as a high dependence on primary exports exposes the economy to crises arising from price fluctuations in world markets. The agricultural sector worsened due to the repercussions of the conditions Iraq experienced plus the military operations that destroyed the infrastructure of this vital sector, along with serious neglect of irrigation and drainage projects. Iraq's future agricultural activities are increasingly threatened by these challenges, as the contribution of the non-oil sector to total output falls. Likewise, the contribution of the manufacturing sector to GDP is less than what its significance would suggest. Distortions in the structure impinging on the main pillars of manufacturing have led it to be a weak contributor to the economy during the years under discussion. Our Recommendations stated that the government and competent authorities need to look into the ratio of government capital expenditure to total public spending and improve it by increasing and prioritizing the allocation for non-oil sectors, especially productive sectors, due to their significant role in supplying the goods and services that make up GDP, enhancing output diversification, and reducing dependency on the oil sector. Initiative should be taken for the development and expansion of the agriculture and industry sectors due to their great importance in fostering and developing the national economy and shielding it from external crises. To rejuvenate service sectors, it is paramount to enhance investment volume, upgrade infrastructure, and create an enabling investment climate. This will generate a vital revenue stream to help fund government expenditure in general.

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