



SOURCES OF INCOME DIVERSIFY IN RENTIERAL COUNTRIES: TAX INCOME AS A MODEL IN IRAQ FOR THE PERIOD 2004-2021, REALITY AND AMBITION

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Article history:	Abstract:
<p>Received: 1st August 2022 Accepted: 1st September 2022 Published: 4th October 2022</p>	<p>The development of public revenues and the diversification of domestic income sources are among the most important goals pursued by various countries, especially developing countries, which depend on the export of primary commodities and energy sources such as oil. The most important characteristic of rentieral countries is the structural imbalances, especially the imbalances in the production structure and imbalances in public revenues and their dependence on oil revenues and the lack of dependence on traditional revenues represented by taxes in financing public spending as well as the imbalance of the commodity structure of exports in favor of oil exports, which exposes the economies of these countries to crises and economic fluctuations. The sources of public revenue diversify is a challenge that rentieral economies are working to achieve, including Iraq.</p>

Keywords: Income diversify, rentieral countries, tax, reality, ambition

INTRODUCTION

Recently, the oil producing countries realized the importance of economic diversification in order to move away from relying on a single resource to finance public expenditures, which exposes them to many crises that impact the national economy. In light of the imbalances that, the Iraqi economy suffers from as a result of the wrong conditions and policies in the previous stage. It has become necessary to follow a strategy that would sources of income diversify by relying on the currently available resources, in the sense of using the depleted resource in order to get similar to many successful experiences at the regional and international levels.

The importance of study lies in addressing the necessity of the success of the policy of economic diversification, especially sources of income through taxes, as it provides long term of financial sustainability. The study aims were to reveal the structural imbalances that the Iraqi economy suffers from in order to address the problem of the sources diversity of public revenue, and to enable the success of a policy

aimed at economic diversification in light of the economic conditions and crises that the world is going through to reduce its effects on the Iraqi economy.

The research problem lies that oil revenues constituted the main obstacle to the success of following the policy of diversifying sources of income, declining economic performance and deepening the phenomenon of structural imbalances in the Iraqi economy. The research stems from the hypothesis that the crises experienced by the global economy and their reflection on the Iraqi economy in terms of public revenues can be a catalyst for the success of the policy of economic diversification, the multiplicity of sources of income and the creation of an appropriate economic environment that mitigates the impact of economic crises.

In order to achieve the objectives of this study, it was divided into four sections. The first included the theoretical framework for the concept of rentieral countries, while the second the rentierism of the Iraqi economy. The third topic included the tax reality in the Iraqi economy and



its reform, while the fourth topic included conclusions and recommendations.

The first topic

rentier countries and sources of income diversify

First: The rentier economy (concept, types and attributes)

1- Concept

A- Rentier concept

It is growth and increase. It is said that the proceeds of shields are: the length of their sleeves, and the shepherd of camels grew, and their children multiplied. The wheat herded: was purified, and the well's rent: what rose from around it. The source of everything is the best and first, and also known as the rent of the fertile land resulting from the advantage of the land over another on the fertile side, and the rent of the site arising from the surface of the earth.

b- Rentier idiomatically

There are many definitions that have multiplied with the multiplicity of the researchers' visions. The early economists dealt with rent as the income of real estate owners, but it extended to include other cases and broader economic practices such as the ownership of natural resources or the owners of special benefits, as in the transfers of workers from outside their countries and the returns on investments in stocks and bonds. It is the return on ownership of natural resources not related to man-made, or in other words it is the rent that comes from nature's gifts and represents the difference between the price of the commodity in the market (the current price) and the opportunity cost.

2- Types and forms of rent

The types of rent obtained by the government vary according to their causes. As for the most important types or sections of economic rent, it can be divided into three types:

A - Natural rent: This type is attributed to other natural resources as in, mines, salinas, oil wells, quarries, etc. All of these natural resources can give a differential or absolute rent, because they differ in their productivity either because they are better located, more fertile, or easier to exploit

than some. Even the poorest of them give absolute rent if the increase in demand in relation to supply leads to keeping the price above the greatest cost of production. The rent of natural resources, including extractive industries, is calculated on the basis of the difference arising between the market value of the resource and the cost of production, so that the rent is the remaining part after the production costs are recorded in full on the debit side.

B - Strategic rent: This source is also an extension and development of Ricardo's opinion on the differential rent, which appears as a result of geographic considerations and thus can be obtained if the site is distinguished from others by geographical features. The location of the land in terms of its proximity or distance from the important commercial areas and the densely populated areas is no less important in influencing the price than its fertility. The rent of the geographical location is not related to the location of the land only, but also to the location of the economic activity. Oil pipelines are for countries that enjoy this advantage. It may constitute one of the main sources of foreign financing receipts, as is the case for some Arab countries such as Egypt and Syria. If we exclude the aid provided to it, the total returns from the Suez Canal represent about one-fifth of the external transfer earned.

C- The rent of internal sources: - This concept was not the result of the ideas of modern-day economists, but rather it goes back to the pioneers of the classical school. As it was among the propositions of Malthus in which he differed with Ricardo in defining the concept of rent, when he pointed out that the rent of the monopoly is no less important than the differential rent that Ricardo identified. He believed that the land has a special characteristic as it yields more than what is spent on it, but this yield is less than the rate of population growth, which makes the land characterized by scarcity and monopoly. Thus, the income generated is a monopoly income directly proportional to the degree of monopoly. The proponents of this view, most notably Simondi and Saint Simon, believe that not everyone can obtain ownership of the land, which



creates in it the element of relative scarcity, which is the main reason for the emergence of rent. In this sense, the German writer Mongoldt defines rent as "the reward of scarcity", from which not all factors of production benefit, but only those that cannot be increased. Accordingly, rent becomes a phenomenon due to the inelasticity of the supply of an element of production in relation to its price. This lack of flexibility is due to the fact that some production elements are not renewed at all or are renewed within narrow limits.

(Third) - Characteristics of the rentieral country

The "rentieral state" appeared for the first time in a study by the Iranian writer Hussein Mahdawi that specialized in the Iranian model. It was intended to describe countries that dependent on oil revenues. In the fifties of the last century, Mohdawi's contribution came after the increase in Iranian government revenues as a result of the nationalization of oil. He defined the in the fifties of the last century state as any country that obtains a substantial part of its revenue from external sources in the form of rent. Another important aspect of the rentieral country is that which expresses a special case of the rentier economy when the external rent or a large proportion of it devolves to a small or limited group represented by the ruling class. This rentieral wealth is distributed or used to the majority of the population, and within this concept it is not considered A rentieral country is that in which rent is generated with the participation of the majority of its population, as in countries that depend on foreign tourism as a result of their geographical or climatic conditions. The different views on determining rentieral incomes, it seems that there is almost agreement on the rentieral nature of oil revenues. This comes by comparing the cost of producing a barrel of oil with its high price in global markets. Many economists believe that the formation of the rentieral country is due to two main reasons. The first is the emergence of a world system that is sharply divided into a rich and a poor economy, an industrial and an agricultural economies and advanced and backward populations. The second

is the decline of political, economic, and cultural due to the ever-growing factor of globalization. The most important features of the rentieral state can be summarized as follows:

A - Dependence on external rent as a main source of income

It is one of the most important features that characterize the rentieral country. The relationship of income to external sources and its high percentage of GDP are the two features that are inherent in these countries. This is the case in the Spanish economy, which has long been dependent on gold and silver in the Americas. Despite that, the crude oil market index remains the strongest in the matter of rent. Once rent is applied to a country, it comes to mind that it is oil rent.

B – The contribution decreased of the productive sectors of the produce

One of the main features of these countries is the imbalance of the sectorial structure that constitutes the GDP, as the rentieral economies are characterized by the dominance of the contribution of the extractive sector in the formation of the GDP, which ranges between 32% to 39%, while the percentage of manufacturing industries does not exceed 12% of the GDP of those countries in the best conditions. The importance of the oil sector can be demonstrated by clarifying the relative importance of oil exports in comparison with the total exports or as a percentage of domestic product, and despite the fact that rentieral economies possess great economic wealth represented in oil, However, it continued to suffer from the dominance of the extractive sector (oil) on the gross domestic product, and the wrong economic policies were a reason for not achieving the desired economic growth, because of what was characterized by the lack of comprehensiveness, and this lost the competitive efficiency between the productive sectors, and the focus was on the sector year as the main engine of economic growth and development, As for the private sector, its role was marginal, as it did not have the opportunity to implement large investments, and as a result of the low economic efficiency in most public sector administrations, it



led to the underdevelopment of the production sectors, as it was unable to achieve the growth required of them, and through this it becomes clear to us that the rentier country.

C- The increasing of public spending

The rentier countries directed the proceeds flowing into their coffers towards expanding public spending to try to build a solid base of services and infrastructure in order to build on them after that the extensive production process, which they hoped to achieve to include development in all sectors, including agriculture and industry, so that the economy of those rentier countries would be diversified. In order to achieve the development that was intended to be achieved. There are several reasons for the increase in public expenditures, including the significant increase in the population in these countries due to the improvement of the health and living conditions in them, which positively affected the increase in the population and subsequently the increase in public expenditures. These countries follow an employment policy that is not subject to the principle of economy in costs, which is reflected in the increase in employment rates in them.

D- Tax revenue

Oil revenues are determined by external forces linked to the global market and the demand for oil, as the revenues of countries with rentier economies, especially oil, come through crude exports such as oil. Public revenues in the budget, whether actual or planned, are limited. The results conclude that the economic performance in the rentier (oil) countries is characterized by being of a low level if compared to other productive countries that are characterized by the presence of real productive sectors (industry, agriculture, services) and which are characterized by the diversity of their contribution to the domestic and gross product, and it can be summarized Some of the reasons for the low level of economic performance in rentier countries, including the significant rise in agricultural and industrial production and the weak ability to compete, which leads to the reduction of the production sector in favor of imports, and the decrease in non-oil exports,

offset by a rise in imports of foreign goods and services, due to the decrease in the competitiveness of exports through the rise in the real exchange rate of the local currency,

In addition, the rentier (oil) economies are characterized by volatility and instability, and then the economy is exposed to major shocks coinciding with the increase in the marginal propensity to import and government spending depending on oil, the weakness of the tax and its limited contribution to the gross domestic product, and the society is accustomed to not contributing to financing public expenditure.

Second: Economic diversification and its justifications

1- The diversification concept

The concept of diversification is different according to the angle from which it is viewed. The other angle is seen through sources of income diversification to form a high percentage of public revenues in a way that ensures obtaining stable revenues on the one hand and increasing them on the other hand. The concept of diversification is linked to the sources of income diversity through the creation of multiple income generating productive activities that constitute financial tributaries to an economy. Diversification is defined as the process of making changes in the economic and productive relations that accompany quantitative growth in order to achieve prosperity and diversify sources of income by adopting an integrated and studied program for the relationship between different sectors and activities. The United Nations experts also defined it as reducing the high dependence on the oil by developing a diversified economy and creating and diversifying non-oil exports.

Diversification is also defined as the expansion of the economic base and the establishment of the pillars of a real economy consisting of a productive, financial and service base that contributes to finding other sources of income beside oil in order to reduce its contribution to public revenue and reduce the role of the government and increase the activity of the private sector in economic activity. From the above it is clear that diversification is economic diversity base in the production, distribution and



service sectors to ensure a developed economy that is not linked to dependence on a single commodity resource, especially in achieving revenues, tax revenues for both direct and indirect.

2- Economic diversification

Economic diversification has several reasons that differ in the direction of the conditions of countries seeking to follow economic programs that would achieve a sufficient amount of diversification to achieve the desired goals. The most important justifications can be highlighted as follows:

A- Absorbing the workers to address the unemployment problem that the rentier countries suffer from, since the oil sector is capital intensive and is characterized by weak intertwining with other sectors, so it is unable to absorb the workers. Therefore, diversification leads to the development of other economic sectors such as agriculture, industry and services. Thus, diversification of production sources will reduce the risks of dependence on a single economic resource.

B - Getting the economy represented by the external sector in financing the budget to cover public expenditures. It allows economic diversification to increase and diversify sources of income. Thus, it is not fall into the trap of (Dutch disease) and reduce the risks of economic exposure created by dependence on a single export commodity.

C - Economic diversification reduces the impact of shocks that occur in the global economy, whether financial or monetary shocks. The most shocks that occurred were due to oil prices and the reflection of their effects on rentier countries.

D- Economic diversification creates a stable external trade sector with regard to imports by giving sufficient flexibility in meeting local needs and when crises of all kinds occur.

The second topic

Rentier economy of Iraq

The Iraqi economy is a model for rentier economies because of the complete dependence on oil revenues, and this is due to a group of reasons, the most important of which are the conditions that the Iraqi economy has

experienced such as wars, economic sanctions and security and economic difficulties, which weakened the contribution of the rest of the sectors in the formation of the output, and here the rentier Iraqi economy will be analyzed by dependence On three indicators, including the structure of gross domestic product, the structure of public revenues and the structure of exports.

First: the local product

The economic sectors constituting the output are among the most important economic indicators that show the rentier economies and the extent of the diversity of their production structure in the Iraqi economy. The data of Table (1) showed that the contribution of the agricultural sector to the local product has been recorded (10%) for the period 2004-2009. Despite the disproportion between this percentages of the available resources in Iraq, but it is the highest percentage during the study period and the reason is due to the loans granted through the agricultural initiative. The period (2010-2015) recorded a decrease in the relative importance of the agricultural sector more than the previous period. It has been reached on average (6%), and for the period (2016-2021) was (4%).

This is due to the security conditions that occurred during this period. The most important of the terrorist organizations control over the agricultural areas in Nineweh, Tikrit, Anbar and some lands of Kirkuk. It is led to a decrease in agricultural land investment. For the industrial sector's contribution, especially the transformational sector, in the formation of the local product, it did not exceed (3%) as an average during the study periods. This is because of the problems that this sector suffers after 2003, the most important of the shift towards the private sector and the neglect of government owned companies that suffer from their extinction in the absence of real reform programs capable of promoting these vital projects with the aim of achieving economic diversification.

As for the rest of the activities, such as the construction sector, the electricity sector and other distributive activities, which are divided into trade, transport, financial intermediation and service activities, and by examining its data,



which achieved financial returns more than the rest of the sectors. The contribution of the oil in the formation of the output reached (44%) for the period (2004-2009), despite the decline in prices as a result of the global financial crisis and oil prices issue in 2009 compared to 2008, which ranged 33% in total. For the period (2010-2015), the contribution of the oil sector to the formation of the output decreased to (42%) as a result of the drop in international oil prices of less than 30 USD dollars per barrel in (2014-2015), and the expansion of oil countries in production, including Iraq and Saudi Arabia. As well as the United States of America for the production of shale oil, with approximately (4) million barrels per day. This is at the global level, in addition to the occupation of some Iraqi provinces by terrorist organizations in 2014, the fall of three provinces of Iraq and the collapse of the infrastructure of some refineries, including the Baiji refinery in Salah al-Din province. .

For the rest of the other sectors represented by the construction and building sector, water and electricity and distributive activities that are divided into trade, transport and financial intermediation as well as service activities that are represented by personal services and social and real estate services and by examining its data, we find that it recorded remarkable progress during the study periods, as it is noted in our results. The percentage of contribution to the total of these sectors increased from (44%) for the period (2004-2009) to (50%) for the period (2016-2021). The reason for this increase is not entirely due to the presence of diversity in the production structure, but rather to the effects of low oil prices and global crises, whether financial or health, during the study period. The other reason is the security stability after 2018 and the establishment of many recreational and commercial projects such as malls, residential complexes and other social services. Based on that, it can be say that the Iraqi economy is still suffering from economic imbalances as a result of completely on the oil sector. This is evidence that it is a unilateral rentier economy and in returns the weakness of other sectors, especially the agricultural, industrial and service.

Table (1) GDP in Iraq for the period (2004-2021)
(%)

Mea n tim e	Agricult ure	Manufactu ring	Extract ive	Othe rs	Tot al
200 4- 200 9	10	2	44	44	100
201 0- 201 5	6	3	42	49	100
201 6- 202 1	4	2	39	55	100
Mea n	7	2	41	50	100

These data collected based on the Iraqi Ministry of Planning, the annual statistical group, the Central Agency for Statistics and Information Technology for different years

Second: the public revenue

Table (2) shows that the public revenues in Iraq during the study period. We found that the dominance of oil revenues from the total public revenues until 2014, after which, despite the decrease in the contribution rate, it is still at high levels. It decreased from (60.9%) to (90.47%) for the period 2004-2009 to 2010-2015 and continued to decreased until it reached (86.6%) for the period 2016-2021. This decrease is not due to the success of reform policies in reducing dependence on oil as a source of revenue, but rather due to the drop in global oil prices, which clearly indicates the loose government financial policy and its lack of seriousness in searching for sources to finance the general budget. Despite the assurances and recommendations of the Fund and the World Bank on the multiplicity of public revenue sources, and the emphasis on the impact of non-oil revenues on financing the budget and covering the expenditures of the non-oil.



Table (2) oil revenues develop in Iraq for the period (2004-2021) (million Iraqi dinars)

Year	Oil revenues	Public revenues	Percentage of oil revenues from public revenues %
2004	32625109	32982739	98.91
2005	39453950	40502890	97.41
2006	46908043	49055545	95.62
2007	53154988	54599451	97.35
2008	77589443	80252182	96.68
2009	51752350	55209353	93.73
Mean	50247313.8	52100360	96.6
2010	63594168	70178223	91
2011	103061762	108807392	94
2012	111326166	119817224	92.91
2013	110677542	113840076	97.22
2014	97072410	105364301	92.13
2015	51312621	66470253	77.19
Mean	89507444.83	97412911.5	90.74
2016	44267063	54839219	80.72
2017	65071929	77422173	84.04
2018	95619820	10656834	89.72
2019	99216318	107566995	92.23
2020	54448514	63199689	86.15
2021	95270298	109081464	87.3
Mean	75648990.33	70461062.33	86.6

*Central Bank of Iraq, Statistics and Research, Annual Statistical Bulletin for different years

Third: the structure of exports

The oil and total exports in the Iraqi economy during the period (2004-2021) were affected by the global economic conditions, which went through financial and health crises. This is due to the high dependence on oil export. It is noted that oil exports constitute the largest part of the total export values during the study period (Table 3).

Table (3) oil and total exports develop in Iraq for the period (2004 - 2021) (million dollars)

Mean time	Oil export	Total export	Percentage of oil export (%)
-2004 2009	34843	35796	97
-2010	73431	73807	99

2015			
-2016 2021	63152	64282	97

*Central Bank of Iraq, Statistics and Research, Annual Statistical Bulletin for different years

It is noted that the average of total oil exports increased from (2004-2009) (34,843) million dollars to (73431) million dollars for the period 2010-2015. It is due to several factors, the most important including oil prices increase and the production quantities due to licensing rounds granted to foreign companies (Table 3). It is noted that the proportion of oil exports out of total exports is (99%). For the period 2016-2021, the value of the average oil exports decreased to (63152) million dollars due to the drop in oil prices to record levels and the Corona issues. The percentage of oil exports out of total exports also decreased to (97%) for the same period, which indicates the structural imbalance in the commodity structure of exports during the study period.

The third topic

The tax reality in the Iraqi economy

First: Tax revenues analysis in the Iraqi economy
 The data in Table (4) found that the actual tax revenues in Iraq rose from (1132522.8) million Iraqi dinars as an average for the period (2004-2009) to (2126063.5) million Iraqi dinars, representing (2.1%) of the total actual revenue achieved for the period (2010-2015). It continued to increase to reach (4852556.8) million Iraqi dinars for the period 2016-2021, with a contribution rate of (6%) on average.

Table (4) tax revenues analysis in Iraq during the period 2004-2019

Year	Tax revenue	General revenue %	Actual / Planned execution rate *100	Planned tax revenue, actual tax revenue
2004	159644	294900	54.1	0.4
2005	495282	622000	79.6	1.2



2006	591229	2417018	24.4	1.2
2007	1228336	9456260	12.9	2.3
2008	985837	5552870	17.7	1.2
2009	3334809	2837239	117.5	6
Mean	1132522.8	3530047	51.0	2.05
2010	1532438	1309719	117	2.1
2011	1783593	2372154	75.1	1.7
2012	2663357	2583254	101.9	2.1
2013	2876856	2743806	104.8	2.5
2014	1885127	-	-	1.7
2015	2015010	54216976	37.1	3
Mean	2126063.5	126451818.	87.18	2.1
2016	3861896	5693031	67.8	7.4
2017	6298272	5446362	115.6	8.1
2018	5686211	8524371	66.7	5.3
2019	4014531	6334159	63.3	3.7
2020	4718189	-	-	7.5
2021	4536242	8149029	55	4.1
Mean	4852556.8	6829390.4	73.68	6.0

*The Central Bank of Iraq, the Central Statistical Organization, Annual Statistical Bulletins, General Directorate of Research and Statistics, the period 2004-2021

It is clear that tax revenues are low and do not represent little compared to oil revenues in Iraq during the period 2004-2021, and this indicates the presence of the aforementioned imbalances in the Iraqi economy and the weak relative importance of tax revenues to the total revenues

despite the improvement in the percentage of their contribution in recent years .

Second: the role of taxes to sources diversify of income in Iraq

Programs to sources diversify of income through taxes differ from one country to another, as the government's attempts to cooperate with international organizations to increase non-oil revenues were met with many political obstacles and rampant financial corruption with poor management of non-oil facilities. Therefore, it quickly declined until the situation reached the increase in the internal and external indebtedness and the depletion of oil revenues to cover spending on the non-oil sector. The non-oil sector also continued to have a varying contribution to the GDP, including that its revenues were absolutely not proportional to its percentage in the GDP, whether it decreased or increased.

However, the oil domestic product remains dominant in an absolute proportion to the achievement of revenues, no matter how low its contribution to the gross domestic product is, as in a positive net balance for the length of the research or study period, and if oil revenue decreases for periods or increases in costs or spending on the oil sector, especially after oil licensing contracts that are marred by question marks and corruption and mismanagement. Despite the country's attempts to increase non-oil tax revenues, including and other ones, except for loans during the study period, despite their decrease, they are still greater than they were before 2015. Some measures that can be activated to correct the course of the tax policy because of its role in diversification of sources of income in the Iraqi economy.

As the process of activating the role of taxation in Iraq occupies the first task and takes precedence in diversifying non-oil sources of income to support the preparation of the general budget and diversify its sources of resources in light of the serious challenges witnessed by oil prices as follow:

1- The government needs to carry out real reforms in the tax system and to advance it. The objectives required of them, foremost of which is the financing objective of the general budget.



2- Activate the role of taxes as a non-oil source in financing the country's general budget.

3- Apply the radical and serious reforms in the tax system by reconsidering the tax laws.

4- Introducing new items into the tax form.

5- Raising the level of tax return and consolidating the fact that tax is an important financial, economic and social tool in the mind and culture of the people.

6- The experiences of the tax systems of developed and developing countries and benefiting from them in the possible fields of work.

7- Activate the collection of fees through:

A - Increasing the fee for the reconstruction of Iraq and not keeping it at 5%, as is currently applied.

b- Increasing the amount of fees collected from public sector revenues (electricity fees provided they are available, drinking water fees, health services fees, car registration fees, weapons possession fees, import licenses).

C - Activate the sales tax.

D- Activate the imposition of customs tariffs. Working on activating training programs for tax staff in order to develop the tax administration in Iraq, and keep it in line with global developments in this field.

THE FOURTH TOPIC

Conclusions

1- The increase in oil revenues due to the oil prices increase did not enhance the success of the policy of sources diversifying of income through taxes, but rather led to relaxation and dependence on these revenues to meet expenses and thus exposure to crises resulting from fluctuating oil prices.

2- The inability of the financial policy to diversify sources of income, the lack of agreement on the oil and gas law with the Kurdistan region, tax evasion and the exploitation of natural resources, is one of the most important reasons that made the financial policy go through continuous issues.

3- The failure of most fiscal policy reform measures and to sources diversify of income led to an economic collapse between 2019-2020 and prompted a new approach to international

organizations, which resulted in the launch of a paper called the white Paper.

Recommendations

1- The availability of a national and political will capable of promoting the country's economy and using the oil surpluses to sources diversify of income to achieve sustainability in public revenues.

2- Must be attention to the tax policy and supporting it in developing its work by all means in order to increase tax revenues.

3- The experiences of some countries have succeeded in the policy of sources diversify of income, such as the UAE.

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