

Foreign Trade Shocks and the Possibilities of Reducing their Repercussions on the Iraqi Economy for the Period (2005-2020)¹

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Date of Receiving: 12 June 2023;

Date of Acceptance: 08 August 2023;

Date of Publication: 14 August 2023

ABSTRACT

The research focuses on the issue of foreign trade shocks to which the Iraqi economy is exposed as a result of the dependence of its export structure on one sector and one commodity, and the negative aspects that this leads to related to maintaining its economic stability and achieving acceptable growth rates in it. The reality of foreign trade and the nature of trade shocks affecting the Iraqi economy have been analyzed. A set of strategies and policies have been developed that can mitigate the severity of trade shocks by diversifying the structure of exports, enhancing national production capabilities, and adopting successful and coordinated trade policies. Based on that, a research hypothesis was developed that was compatible with the research problem, and results and recommendations were made that were consistent with the goal of the research and to prove its hypothesis.

Keywords: *trade shocks; foreign trade; the Iraqi economy; mono exports.*

INTRODUCTION

Foreign trade is a major and essential joint in achieving economic growth at the global and local levels for all countries of the world. There are some problems associated with this matter, which is unilateral exports to some countries and the resulting violent trade shocks, causing suffocating economic crises for the economies concerned. These trade shocks find their image in the fluctuation of the prices of exported commodities in the international market, which leads to a fluctuation in the financial revenues derived from them, and the fluctuation in export quantities is a result of different circumstances, when there were problems in the production and shipping platforms. In addition to the unilateralism and concentration of exports to one country or a limited number of countries, and the attendant possibility of a lack of political understanding with this importing country or those of other countries, which thus also affects the volume of exports. The Iraqi economy is at the forefront of countries suffering from the phenomenon of foreign trade shocks because of its dependence on exports of one commodity, which is crude oil. These trade shocks affected the gross domestic product in the Iraqi economy between frequent periods of time that were characterized by continuity along the graph when world oil prices fell. Of course, this matter affected the revenues of the state's general budget and on investment and operational spending within the country. Economic diversification policies to expand the structure of exports, increase the number of exporting countries, and strengthen the industrial and agricultural private sector, are important tools to improve the rates of trade exchange in Iraq and reduce the degree of diversification and trade concentration based on their standards, in order to achieve the goal of mitigating external trade shocks.

RESEARCH PROBLEM

The Iraqi economy suffers, between frequent periods of time, from external trade shocks, due to the almost complete dependence of its exports on crude oil, and the attendant problems related to the fluctuation of the international oil market in terms of prices and quantities required and offered, and this negatively affected the growth rates of the national economy. It hinders the development trends of its economic sectors.

¹*How to cite the article:* Hameed A.M., Mohammad I.A. (August 2023); Foreign Trade Shocks and the Possibilities of Reducing their Repercussions on the Iraqi Economy for the Period (2005-2020), *International Journal of Law, Management and Social Science*, Vol 7, Issue 3, 9-23

Research goal:

The research aims to shed light on the concept of foreign trade shocks and analyze their reality in the Iraqi economy for the period 2005-2020, and then find a set of solutions and mechanisms that would mitigate these shocks in the future.

Research Hypothesis:

The research is based on the hypothesis that (good management of oil export resources and activation of appropriate trade policies through diversifying the export base, rationalizing imports, supporting market economy mechanisms and the industrial and agricultural private sector, as well as the issue of encouraging foreign investment and achieving regional integration contributes to mitigating the impact of foreign trade shocks on the Iraqi economy).

THE FIRST TOPIC / THE CONCEPTUAL FRAMEWORK OF TRADE SHOCKS

The economies of countries are linked to a complex network of mutual economic relations and through multiple means that have promoted trade integration between them, perhaps the most important of which is the quantities of goods and services that are produced in a country and sold to residents in other countries, or through financial assets issued by one country and purchased by residents in other countries, as well. That multinational companies build their production units outside the borders of their mother countries (Hatem, 1993: 55), with the deepening international division of labor and unequal development between developed and developing countries and the increase in the movement of capital and its contribution to the growth of foreign trade between them (Al-Hajar, 2003: 242) The volume of trade shocks that countries are exposed to has increased, although this differs from one country to another according to the type of export specialization for each of them. Demand (UNCTAD, 2013: 8), this reality has made the economies of developing countries more sensitive to the movement of international markets and to periodic economic changes that translate into shocks as long as their exports It is based on a single substance or a limited number of raw materials that do not allow it to resort to alternatives in the event of an unfavorable situation in the international market, in addition to its need for imports that exceed its purchasing power, so that its economic structure in the commodity model of foreign trade has become distorted (Abdullah and Ibrahim, 1998: 80), and through foreign trade* the economies of countries have become increasingly interconnected and interconnected with the latter becoming a conduit for the transmission of trade shocks (FAO, 2021: 28).

Although discussions and research on economic shocks have a long history, there has been no attempt in the literature to give an accurate definition of this term. An economic shock is loosely defined as an unexpected external disturbance that has a significant impact on the economic system, although there may be Some shocks that have a positive effect (eg technological booms), the term is largely used for phenomena that have a negative effect on the economy. Shock analysis became popular after a series of supply shocks hit the global economy during the 1970s. Since then, different types of shocks have been historically recorded and the current literature distinguishes between domestic and exogenous shocks, country-specific and international shocks, nominal (monetary) shocks, real and supply and demand shocks (3 Bhattacharya & Kar, 2005:).

In general, shocks are referred to as “an unexpected change either because the models fail or because the models fail to anticipate it because there are often external complications and changes, and they occur because of a completely different outcome than what was generally expected” (Al-Wakeel, 2014: 95), so that It is outside the control of a country’s economy. It is a sudden event outside the control of the authorities in the country. The shocks take different forms, including:

- 1- Wars and natural disasters. Wars are among the factors affecting the performance of the economy in a country, whether it is a party to it or affected by it, and its reflection on its production structure or its exports, as well as natural disasters whose impact varies according to the severity and severity of the disaster.
- 2- The shocks that the developed countries are exposed to and whose impact is transmitted to the developing countries, such as the sudden rise in the prices of raw materials known as the shocks of the international commodity markets, or the shocks caused by the international financial crises, which are the most prevalent due to economic globalization, and the ease of transfer of capital between countries. This is known as capital market shocks.
- 3- Shocks resulting from the exposure of the international economy to states of general stagnation or depression, especially in developed countries that are highly exposed to economic cycles that represent changes that occur in the level of general economic activity of those countries in a successive and regular manner, which is often associated with a decline in the growth rate of foreign trade, which is the subject of Study here. Table 1 shows a detailed statement of the most important shocks, including foreign trade shocks.

Table-1

A detailed statement of the most important shocks, including foreign trade shocks

No.	Statement	type	Commentary
1	shocks affecting the balance of payments	Accidental (temporary) shocks	This type of shock is temporary in that it disappears with the demise of the causes that lead to it, such as conditions associated with natural disasters or those associated with wars and earthquakes.
		seasonal shocks	It is characterized by short-term fluctuations experienced by countries that depend on the export of commodities in a particular season, as they suffer from commodity concentration in the export of these commodities.
		periodic shocks	It is linked to the cyclical fluctuations experienced by countries with open economies in which foreign trade constitutes the greatest relative importance in (GDP)
		structural trauma	This type of shock is related to a change in the structure of demand, whether external or internal, and its transformation into some commodities at the expense of others.
2	shocks directly related to foreign trade	Shocks caused by a change in export earnings	Where the state in question depends on a commodity or a few commodities as a main source of revenue.
		Shocks caused by changes in the price of the most important imports	Where a significant increase in the price of a particular commodity entails a decrease in the real income of the importing countries for that commodity.
		Shocks caused by changing borrowing costs abroad	As the country in question depends on borrowing from abroad, the cost of borrowing is higher than the rise in interest rates in the international capital markets.

Reference: Al-Qalawi, Osama Rubin. (1994). The impact of economic and trade shocks on the Jordanian economy in light of globalization. Unpublished Master's Thesis, Faculty of Economics and Administrative Sciences, Yarmouk University.

It is noted from Table-1 that economic shocks in general and trade in particular take different forms, which are reflected in their entirety by significant economic effects, especially those related to foreign trade. For example, but not limited to, the oil price shock affects both producing and consuming countries alike, especially developing ones. The shock may be negative on the economies of the oil-exporting countries when oil prices drop as a result of changes in supply or demand levels, resulting in a decrease in oil revenues, or even at the level of oil-consuming countries in which oil demand is considered inelastic. A significant decrease in the demand for it, which is reflected in the values of imports and thus on the trade balance (Al-Qalawi, 1994: 78).

Historically, the world has not witnessed a shock like the one that occurred with the Great Depression, which can be included in the idea of shocks before the international regulation of foreign trade, and prior to the Second World War, the international economy witnessed several problems, most notably the presence of trade barriers that impeded the regulation of international trade and pushed towards the adoption of trade policies characterized by protectionism, the era of the thirties and forties of the Great Depression and World War II reflected the state of protectionism that was followed during that period that preceded 1947 to the point of stopping international trade through the adoption of the United States of America of the tariff law that took place known as (Smoot-Hawley), which made some researchers believe that it has deepened the crisis of the Great Depression, so the initial solution to this problem, which some considered political, is the bilateral tariff negotiations (Krugman & Others, 2012: 236), which were based mainly on liberating foreign trade from all customs barriers that obstruct the free movement of goods through limits for:

1- Achieving a competitive trading environment to ensure the optimal distribution of economic resources in a way that achieves the goal of economic well-being for the parties to the international trade exchange (Al-Jubouri, 2006: 173).

2- Allowing international specialization that enables mutual countries to achieve economic savings that exceed what can be obtained in the case of self-sufficiency. There is no meaning for specialization and division of labor if there is no freedom for international trade (Abdul Redha, 2015: 118).

Accordingly, the liberalization of foreign trade resulted in the integration of advanced and developing economies into a single international market open to all economic powers in the world, subject to the principle of free competition, as the Bretton Woods Conference paved the way for the establishment of an international economic system in which the International Monetary Fund was established and the World Bank, as well as the General Agreement on Tariffs and Trade (Abu Harb, 2011: 75), whose results continued until the seventies, when fundamental changes occurred in the foreign trade climate, with turmoil in international markets and the resulting imbalance in international economic and trade performance due to a number of The most important factors are the intensification of competition on international markets, as the decade of the seventies and eighties witnessed the increasing relative importance of the Asian economic powers, especially Japan and East Asian countries. And trying to protect its industry from foreign competition, from here the call began to gradually ease restrictions and remove them with time (Al-Isawy, 1995: 45), and the General Agreement on Tariffs and Trade (GATT) in 1947 and through rounds of negotiations was The most recent of which was the Uruguay Round in 1994, a major impetus for managing the multilateral international trading system, in accordance with the principles that these countries have committed to under the GATT, the most important of which is the liberalization of the International trade and the development of mechanisms for settling disputes and regulating international trade on the basis of economic liberalization, from which the World Trade Organization (WTO) emerged, bearing in mind that the world has witnessed international agreements within the framework of joint integration in order to achieve the advantages of the principle of freedom of foreign trade, especially since economic progress in modern and contemporary society depends On the division of international work on an efficient basis, which is what various countries resorted to to overcome various economic dilemmas (Abdullah and Ibrahim, 1998: 154). Figure 1 shows the number of international agreements within the scope of international economic integration for the period (1948-2019).

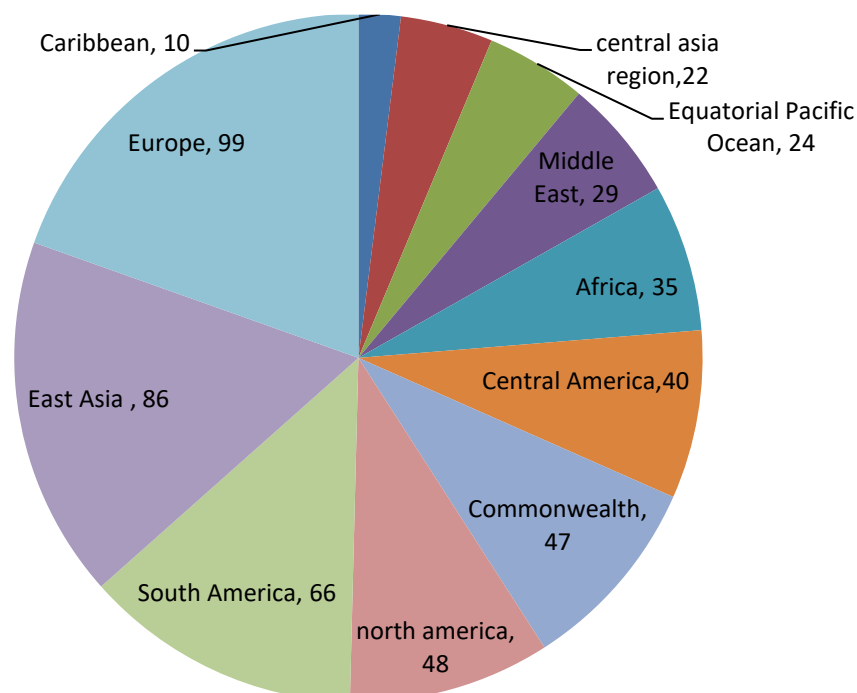


Figure-1 Number of international agreements within the scope of international economic integration by regions for the period (1948-2019)

Reference: Abdel Qader, Hossam El Din Mohamed. (2021). Global economic disintegration and the future of foreign trade in Egypt, Ain Al-Shams University, The Scientific Journal of Economics and Management, Volume (51), No. (2).

Although the increase in trade openness has helped promote economic growth in several countries, it has increasingly become a main channel for the transmission of external shocks, the impact of which varies from one country to another

depending on the pattern of specialization of its exports, as periods of economic stagnation in developed countries cause cases of deflation. The sharp international demand, which reduces export opportunities for developing countries, which is reflected in the form (UNCTAD, 2013: 53):

a- The decline in the volumes of exports of the developing countries in which they depend, to a large extent, to finance their economic development.

b- Changes in their trade exchange rates, i.e. the change in the average price of a country's exports relative to the price of its imports.

And since the foreign trade of any country is a form of its relationship with the outside world, the quest of developing countries towards trade openness makes these countries vulnerable to external shocks, especially in light of the deterioration of the terms of trade exchange to their detriment, the rise in the value of their imports and the decrease in their share of global exports, the effect of this The shocks vary from one country to another, according to their economic progress and their ability to adapt to the mechanisms of trade liberalization. The economic literature refers to many indicators related to this aspect, the most important of which are:

(1) Indicators of commodity concentration and diversity: These indicators express the manifestations of dependency that historically linked the economies of developing countries to the economies of developed countries through the dependence of developing countries on primary products to generate the bulk of their national income. These indicators can be inferred through:

Concentration Index: It is also known as the (Hervendel-Hirschmann) index, as it measures the level of market concentration of the country's share of exports to world imports in a specific commodity or group of commodities or its diversification between more than one commodity and commodity group, and the value of the concentration index ranges between zero and one. The lower values of the index indicate lower levels of concentration for both exports and imports, while higher values indicate greater degrees of concentration.

Diversification Index: which measures the deviation of the share of exports of the main commodities of a particular country in its total exports, from the share of the national exports of these main commodities in the world exports. The value of this indicator ranges between zero and one, so that the closer the indicator is to zero, the higher the degree of diversification of exports, and when the indicator reaches zero, the structure of national exports matches the structure of global exports.

(2) Indicators of the dominance of foreign trade: Conceptually, it can be said that there are three main indicators that can be inferred on the dominance of foreign trade, which are:

- Trade exposure rate: It is one of the important indicators that gives a clear picture of the economic situation in the concerned country, through which it is inferred to the extent of the contribution of foreign trade, both exports and imports, to the formation of the gross domestic product (GDP), and it shows the extent to which the economic activity of any country depends on the conditions The prevailing in the export and import markets, and the higher this indicator indicates the dependence of the state on the outside world, which makes its economy more vulnerable to international economic and trade shocks (Sulaiman and Al-Hafni, 2021: 2324). Trading - External, due to the decrease in external demand and the consequent decrease in the prices of goods and services that it exports, which leads to a prolonged period of economic stagnation that is longer than its counterparts in developed countries due to dependence mainly on the external market (Al-Ashmawi, 2017: 168).

- Dependency of output and exports on crude oil: This indicator indicates the weakness of the production structure as it relies on a single commodity for export, especially in light of the entry of developing countries as part of the international capital market, and the consequent pattern of specialization and international division of labor according to which developing countries were specialized in the production of materials The primary and the specialization of developed countries in the production of manufactured goods, as the structure of exports in developing countries suffers from the dominance of one commodity, which is usually a primary commodity, over the relative importance in total exports, which reflects the low degree of diversification of the local economy and exports as a result of the backwardness of production forces (Abdul Reda, 2013: 10).

- Trade exchange rate: This indicator indicates the extent to which a country's exports control its imports, and international economic relations usually take the form of the exchange of material goods that move across borders, and these goods either enter the country and are called imports, or leave it and are called exports, as trade exchange takes The form of services and even more than capital, bearing in mind that the increase in the level of economic welfare is linked to the improvement in the rate of trade exchange for a country, and this rate improves in the event

that the unit price of exports of this country increases while the unit price of imports remains the same, Conversely, the level of economic welfare decreases if the price of one unit of the state's exports decreases, while the price of the unit of its imports remains the same, which means a deterioration in its trade exchange rate (Abdullah and Ibrahim, 1998: 66).

THE SECOND TOPIC / ANALYSIS OF FOREIGN TRADE INDICATORS IN IRAQ

The structural structure of the economy of any country is usually identified through the indicators of foreign trade and its main structure, those indicators that express the levels of development in that economy as well as the trade policies followed, and then this is reflected on the negotiating position of the country under study with different countries, and in Iraq We will note through foreign trade indicators that the period (2005-2020) was characterized by the uncontrolled expansion of the volume of imports at a time when the growth of non-oil national exports was unable to match its counterpart in imports, which can be clarified through the following indicators:

1- Commodity concentration and diversity index in Iraq:

The table below indicates the concentration and diversity of commodities in Iraq for the period (2005-2020), where this indicator stems from the necessity of diversifying the exported commodities, especially since diversity is one of the indicators of the state's strength.

Table 2 shows the indicators of commodity concentration and diversity in Iraq for the period (2005-2020).

Year	Concentration Index	Diversification Index
2005	0.947	0.815
2006	0.956	0.815
2007	0.966	0.815
2008	0.970	0.823
2009	0.971	0.699
2010	0.972	0.876
2011	0.976	0.878
2012	0.981	0.881
2013	0.976	0.878
2014	0.972	0.875
2015	0.972	0.914
2016	0.937	0.909
2017	0.941	0.898
2018	0.948	0.890
*2019	0.949	0.902
*2020	0.943	0.899

Reference: Arab Monetary Fund, Unified Arab Economic Report, separate annual numbers.

*Estimated data calculated by the researcher based on the vector equation formula.

From Table-2, we note that the values of commodity concentration of Iraqi exports are very close to one during the period 2005-2020, when it was around 0.95. This means that Iraq is highly concentrated in its export markets and that it relies in the export of its commodities on specific markets mainly in Asia, the European Union and the Americas, The source of concern is that any economic or political problem affecting one of these markets, Iraqi exports will be in danger, and this constitutes a negative aspect with regard to obtaining foreign currencies and supporting the economy and development. In addition, we find from Table-2 that the values of the diversity index are also high and close to one, which is an actual reflection of the heavy dependence on one export commodity, which is crude oil, and this matter is dangerous in the fluctuating international markets in the quantities of demand, supply and prices for this commodity. Which leads to the correlation of the crises that occur in these aspects and their reflection on the national economy, and Figure 2 shows the indicators of commodity concentration and diversity in Iraq for the period (2005-2020).

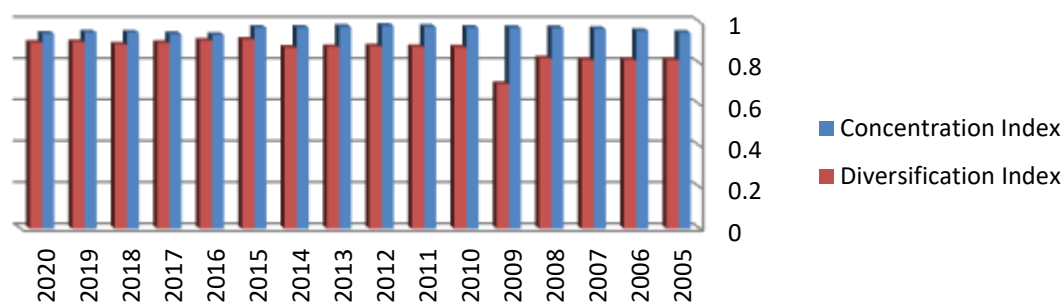


Figure-2. Indicators of commodity concentration and diversity in Iraq for the period (2005-2020).

Reference: Figure prepared by the researcher based on table-2 data.

1- Trade exposure index in Iraq:

We previously stated that the economic exposure index reflects economic relations with the outside world, as the degree of Iraq's dependence on foreign trade as a percentage of GDP, which reflects high rates due to wide open borders without quantitative or customs controls as a result of trade liberalization on the private sector in Iraq in light of The decline in industrial and agricultural production, which prompted many farms and factories to close their doors or reduce their production (Abdul Redha, 2008: 84). As shown in Table 3, which shows the rate of commercial exposure in Iraq for the period (2005-2020).

Table-3

The commercial exposure rate in Iraq for the period (2005-2020)

Year	Gross domestic product (Million dollars)	total exports (Million dollars)	total imports (Million dollars)	Trade exposure index (%)*
2005	54584	29343	22002	94.0
2006	74911	29938	18708	64.9
2007	88038	38024	21516	67.6
2008	130204	62191	35495	75.0
2009	111300	39008	41511	72.3
2010	117138	51764	43915	81.6
2011	185749	79628	47802	68.6
2012	218032	94051	56233	68.9
2013	234637	89565	58795	63.2
2014	222041	83721	53176	61.6
2015	157015	51338	47467	62.9
2016	157839	41298	34208	47.8
2017	175683	57559	37866	54.3
2018	199134	86360	45736	66.3
2019	216722	81585	58138	64.4
2020	154592	46829	48150	61.4

Reference: 1- Arab Monetary Fund, Unified Arab Economic Report, separate annual numbers.

-2Central Bank of Iraq, Annual Statistical Bulletin, miscellaneous annual numbers.

*Calculated by the researcher according to the equation: Trade exposure rate = (exports + imports ÷ gross domestic product) x 100.

The analysis of the development of the rate of commercial exposure of the Iraqi economy in Table 2 shows that there is a large degree of commercial exposure to the outside, as the exposure ranged between (94% - 54%) during the period (2005-2020), except in 2016 the rate of exposure was (47.8). % due to circumstances related to a significant decrease in the volume of the largest exported commodity. These large rates of trade exposure would lead to negative effects and repercussions on the general economic situation and on economic activity and its developments, which makes the Iraqi economy more sensitive to international economic fluctuations and is vulnerable to them and loses the ability to mitigate the damages resulting from that, in addition to that the rate of exposure The higher made the

Iraqi economy easy prey for the economic policies imposed by the advanced industrial countries. In general, this great exposure of the Iraqi economy makes it dependent on the activities of the economies of other countries and is vulnerable to the shocks that affect these countries.

Accordingly, the Iraqi economy is in a state of great exposure, which has negative effects on the national economy. Trade exposure leads to an increase in the exposure of the country’s economy to global economic crises, as well as increases the severity of its vulnerability to fluctuations that occur in global markets. In fact, there are two main reasons that have enhanced the degree The exposure of the Iraqi economy to the outside world is the low degree of diversity of Iraqi exports, and its great dependence on one commodity in the export of oil, as oil exports constitute a high percentage of total exports, which prompted its dependence on the financial returns derived from the export of oil in the conduct of its economic affairs, as well as It is clear from the data of Table 3 the extent of the great correlation of the Iraqi economy with the global economy due to the nature of the economic structure and the degree of its growth. This indicator also gives a clearer picture of the degree of weakness of the internal interdependence of the sectors contributing to the formation of the gross domestic product in Iraq, which calls for work to strengthen the Iraqi economy under the current circumstances through diversifying sources of income and working to enhance the competitiveness of the economy in foreign markets, and figure - 3 shows the rate of commercial exposure in Iraq for the period (2005-2020).

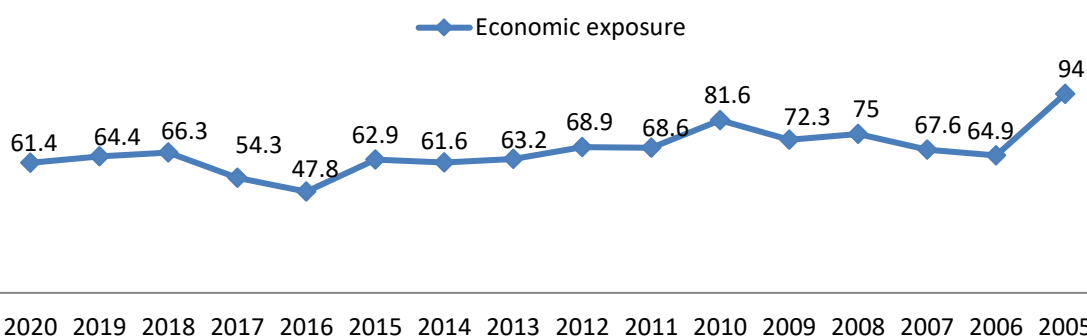


Figure-3 The commercial exposure rate in Iraq for the period (2005-2020) (%)

Reference: Figure prepared by the researchers based on table-3 data.

1- The indicator of the reliability of the Iraqi economy and exports on the commodity of crude oil:

The Iraqi economy is characterized as a rentier economy that depends on oil, which made it vulnerable to the fluctuations that occur in the global oil markets. The commodity of crude oil, which can be clarified through Table-4, which shows the indicator of the reliability of the Iraqi economy and exports on the commodity of crude oil for the period (2005-2020).

Table-4

The indicator of the reliability of the Iraqi economy and exports on the commodity of crude oil for the period (2005-2020) (million dollars)

year	Gross domestic product	total exports (fob)	oil exports	Ratio of total exports to GDP*	Ratio of oil exports to total exports*	total public revenue	Ratio of oil exports to total public revenues*
2005	54584	29343	24058	0.53	0.81	27002	0.89
2006	74911	29938	29708	0.39	0.99	32709	0.90
2007	88038	38024	37771	0.34	0.99	41486	0.91
2008	130204	62191	61883	0.47	0.99	63748	0.97
2009	111300	39008	38964	0.35	0.99	47035	0.82
2010	117138	51764	54248	0.45	1.04	59675	0.90
2011	185749	79628	79407	0.42	0.99	85212	0.93
2012	218032	94051	93778	0.43	0.99	93220	1.00
2013	234637	89565	89349	0.38	0.99	97633	0.91
2014	222041	83721	83538	0.37	0.99	90383	0.92
2015	157015	51338	43047	0.33	0.83	59766	0.72

2016	157839	41298	28095	0.27	0.68	46395	0.60
2017	175683	57559	46513	0.33	0.80	65390	0.71
2018	199134	86360	72924	0.43	0.84	90084	0.80
2019	216727	81585	78527	0.40	0.96	91004	0.86
2020	154592	46829	41756	0.30	0.89	52448	0.79

Source: 1- Arab Monetary Fund, Unified Arab Economic Report, Statistical Supplements, separate annual numbers.
2- Central Bank of Iraq, Annual Statistical Bulletin, miscellaneous annual numbers.

*Calculated by the researcher.

From Table 4, we note the extent to which the gross domestic product in Iraq, as well as exports, depend on a single commodity, which is crude oil. Where the ratio of total exports to GDP is high, except in some years synonymous with crises that reduced exports. As we find that total exports to GDP ranged between (0.53) and (0.30), except in 2016 it was at (0.27) during the period (2005-2020). These percentages constitute a high rate of dependence on oil to generate GDP. While oil exports also constitute the largest proportion of the total Iraqi exports, which indicates a clear indication of Iraq's dependence in obtaining hard currency on oil exports. The ratio of oil exports to total exports ranged from the lowest in 2016 with a rate of (0.68) and the highest in 2019 at a rate of (0.96). The same applies to the contribution of oil to total public revenues, which ranged from the lowest (0.60) in 2016 to the highest by (0.90) in 2010, while it was in 2020 (0.79). In this way, oil exports constitute a large part of public revenues, which comes in The same context reflects the economy's dependence on the oil commodity, which can expose these commodities to fluctuations in its international market, and consequently this is reflected in the occurrence of a trade shock and a suffocating economic crisis.

1- The rate of trade exchange in Iraq:

Through this indicator, it is possible to know the relationship between the changes taking place between the quantity or volume of exports and imports in Iraq during the period (2005-2020), and therefore it is an indicator to know as well as determine the amount of change in the import capacity during the aforementioned period, as shown in Table-5, which shows The rate of trade exchange in Iraq for the period (2005-2020).

Table-5

The rate of trade exchange in Iraq for the period (2005-2020)

Year	total exports (Million dollars)	total imports (Million dollars)	Trade exchange rate (%)*
2005	29343	22002	133.3
2006	29938	18708	160.0
2007	38024	21516	176.7
2008	62191	35495	175.2
2009	39008	41511	93.9
2010	51764	43915	117.8
2011	79628	47802	166.5
2012	94051	56233	167.2
2013	89565	58795	152.3
2014	83721	53176	157.4
2015	51338	47467	108.1
2016	41298	34208	120.7
2017	57559	37866	152.0
2018	86360	45736	188.8
2019	81585	58138	140.3
2020	46829	48150	97.2

Source: 1- Arab Monetary Fund, Unified Arab Economic Report, Statistical Supplements, Miscellaneous Annual Issues.

2- Central Bank of Iraq, Annual Statistical Bulletin, miscellaneous annual numbers.

* Calculated by the researcher based on the following equation: The rate of trade exchange = (total exports ÷ total imports) x 100.

Table 5 shows the development of the rates of trade exchange in Iraq, which measures the ratio of the values of exports to the values of imports, and it is noticeable from the development of these rates that we always find them greater than

(100%) during the period (2005-2020), except for the year 2020, when Iraqi exports fell due to a decline Global economic growth rates resulting from the repercussions of the Corona pandemic. Here, these rates give us an indication that Iraq's exports are often higher than its imports, and in this matter it achieves a permanent surplus in its balance of payments. However, the negative thing in this is the unilateralism of its exports represented in its export commodity, which is almost the only one, which is crude oil, and the accompanying risks resulting from fluctuation in the forces of supply and demand in its global market. Thus, Iraqi imports and the goods and services needed by the national economy remain dependent on currencies. The difficulty obtained from exporting crude oil in the first place, and the possibility of a collapse in oil prices, which leads to the exposure of the national economy to violent trade shocks accompanied by violent economic stagnation, and Figure 4 shows the rate of trade exchange in Iraq for the period (2005-2020).

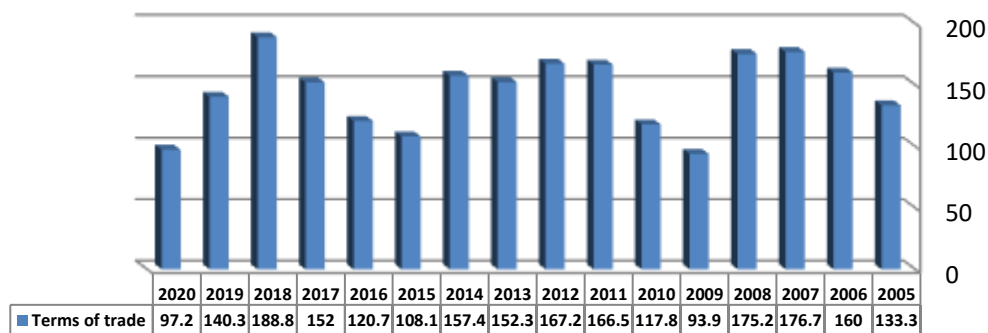


Figure-4. The rate of trade exchange in Iraq for the period (2005-2020)

Reference: Figure prepared by the researcher based on table-5 data.

THE THIRD TOPIC / THE POSSIBILITIES OF REDUCING THE EFFECTS OF TRADE SHOCKS IN IRAQ:

In light of the aforementioned foreign trade indicators, the effects of the trade shocks that Iraq faces are characterized by their depth and difficulty, especially since Iraq is not in a better position that allows it to bear these effects and in the presence of economic problems rooted in it, which requires the implementation of effective policies that protect it from those shocks, perhaps the most prominent of which is :

1- Economic diversification: Economic diversification contributes to creating new productive sectors and/or developing existing production sectors in a way that ensures the reduction of excessive dependence on one economic sector in the formation of the Gross Domestic Product (GDP), through the development and development of the various economic sectors, and most importantly Providing protection for the economy from emergency conditions (Assaf and Awad, 2014: 467), especially since economic diversification includes making changes in the economic structure in order to reduce the volume of economic risks, which represent one of the most important forms of trade shocks in order to obtain continuous revenues, and Iraq is like other developing countries Diversification for him means diversifying sources of income to reduce the heavy dependence on the export of crude oil through the development of the non-oil economy and non-oil exports and revenues. The exacerbation of the phenomenon of economic dualism in the economy, figure-5 shows the relative importance of economic activities in Iraq for the year 2020.

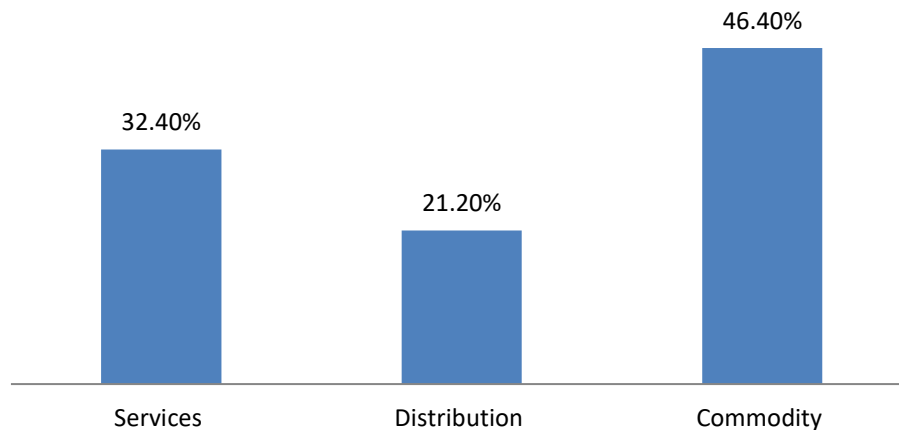


Figure 5. The relative importance of economic activities in Iraq for the year 2020

Reference: Directorate of National Accounts, Iraqi Ministry of Planning. Preliminary quarterly and total estimates of GDP for the year 2021.

It is noted from the figure that the commodity activities constituted (46.4%) of the total (GDP) for the year 2020, noting that the oil sector has acquired the largest percentage in this type of activities as it contributed by (65.1%) compared to (12.5%) for the sector Agriculture (6.4%) for the industrial sector, while the importance of other distributive and service economic activities decreased (Directorate of National Accounts, 2021: 10). This indicates the weakness of economic diversification in Iraq, which requires the need to move towards the non-oil productive sectors through making fundamental changes. To reform the production base and to ensure alleviation of the shocks imposed by the current economic environment.

1- Economic and legislative programs and policies that support foreign investments: The relationship between foreign investments and foreign trade is characterized by being an intertwined relationship, whether at the microeconomic level of strategies and companies' operations or at the macroeconomic level of local economies, and as a result, each of them affects the development process jointly and indirectly from Through the links that link them to each other (Al-Samarrai, 2002: 152), especially since foreign investments leave important effects on the macroeconomic variables in the country such as local investment, economic growth and work skills, and this reflects greatly on the country's foreign trade, but there are great challenges that stand in the way Attracting foreign investments, such as the economic challenges represented by the decline in non-oil GDP, the collapse of infrastructure, the high unemployment rates and the deterioration of the standard of living, or the security and political challenges that impede the process of attracting such investments. Here, it is necessary to pay attention to foreign investment, as it is one of the sources of external financing and one of the channels through which technology and expertise can be obtained, as well as what it provides in terms of providing new production capacities and/or improving existing production capacities, in a way that contributes to improving the quality of production and reducing its costs in a manner that ensures reaching levels of production. High competition in the local and international markets (Assaf and Awad, 2014: 479), which calls for the need to adopt an appropriate strategy to attract foreign investments that takes into account the following aspects (Ebadi and Habib, 2015: 168):

- Facilitating the work of foreign investments by revising, developing and completing investment-related legislation.
- Creating the appropriate climate to attract foreign investments, especially with regard to the development and modernization of infrastructure in the areas of transportation, communications, electricity, water and others.
- Promote the investment advantages that the Iraqi economy enjoys, as the majority of economic sectors represent investment opportunities as a result of the structural imbalances they suffer from.

2- Encouraging the private sector: The private sector represents one of the mainstays of the sustainable development process in the various systems of the developed and developing world countries alike, given the advantages and capabilities of this sector that qualify it to play a leading role in various economic and social fields, which made it a foundation Economic reform programs adopted by international institutions (the International Monetary Fund and the World Bank), and this increases its importance and its role in economic activity in a way that prompts economic policy makers to focus on the mechanisms of its development and provide the appropriate climate for it, and by reading the

indicators related to the impact of the private sector in the overall activities. It appears that the plans and strategies set for the advancement of this sector have not been effective in general (Jarrah and others, 2020: 77), which can be illustrated by Figure-6, which shows the relative importance of the private sector in the GDP for the period (2005-2017).

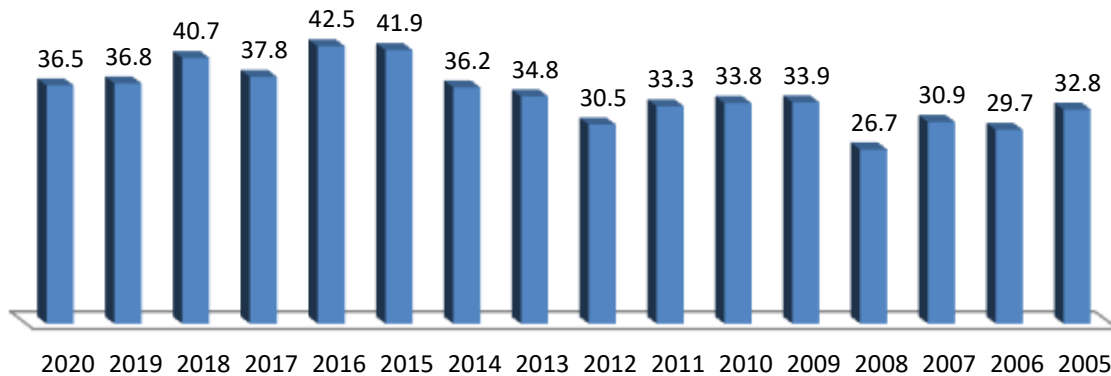


Figure-6. The relative importance of the private sector in the GDP for the period (2005-2020) (%)

Reference: Republic of Iraq, Ministry of Planning and Development Cooperation, unpublished data.

1- Regional integration and its economic repercussions: The growing role of economic blocs or unions, which has become a variable and a manifestation of the new international economic system, necessarily reflects an important economic dimension, especially since the reality has proven that regional integration leads to increased economic growth through specialization, increasing market size and increasing investment opportunities, especially in light of the preferential treatment enjoyed by the countries participating in the bloc or the union, such as an increase in the volume of exports to the countries of the bloc and a decrease to countries outside the bloc, which means a decrease in the opportunity cost, as its share of the bloc's market will increase, in addition to that, the regional trade agreements. It is usually seen as a strategy to deepen and expand local, regional and even international markets (Hached, 2001: 57), as well as improving the balance of payments, which may lead to the provision of foreign currencies that are used in the development process and the expansion of exports or compensation for imports as well as its importance in building support structures. It leads to accelerating the process of economic growth and increasing its pace (Al-Ta'i, 1999: 341).

Here, Iraq can benefit from its geographical location, being a major trade corridor between Europe and Asia in light of the dominance of international trade in goods on the Iraqi economy. Of raw materials such as phosphates and some foods that have major importers, in 2010 the United States imported approximately (24%) of the exports of Iraq, India (17%), China (12%), South Korea (8%), and Italy (17%), as these countries represented a destination for Iraqi exports (Kanter, 2015: 366), and here it is possible to take advantage of the advantages that can be provided by joining (WTO) that recognizes the legitimacy of regional unions, whether in the form of free trade areas or customs unions (Blain, 2005: 55).

The foregoing represents measures that must be adopted to confront the shocks of foreign trade, especially since Iraq operates in an international economic and commercial environment in which instability is a feature of that environment with its adoption of an export specialization pattern based on crude oil, which requires the development of effective policies aimed at reducing from continuous exposure to those shocks and/or adaptation to them under those policies that ensure this. This confirms the need to adhere to firm policies to encourage national production and substitute imports within the economic and trade policies that are being drawn up in the country.

CONCLUSIONS AND RECOMMENDATIONS:

A- Conclusions:

1- The Iraqi economy suffers from trade shocks between time periods linked to fluctuations in the prices of its almost only export commodity, which is crude oil in its global markets.

2- Iraq's GDP and its growth rates are affected by crude oil exports, their growth rates and their volatility, and therefore all of its sectors, employment rates, inflation and the level of economic performance are closely related to the level of shocks that occur in the crude oil trade.

3- The indicators of trade shocks, through measures of geographical concentration of exports and commodity diversity of exports, and indicators of the dominance of foreign trade represented by the rate of trade exposure and the reliability of domestic product and exports on oil, showed that Iraq's foreign trade has a high concentration of exports and commodity diversity that is almost non-existent, and the country is exposed to The outside world is very large, and that output and exports depend on one commodity represented by crude oil and its fluctuations in the international market.

4- Iraq can overcome the foreign trade shocks it suffers from by diversifying its production and export base, and by creating an appropriate national investment environment that works in the same direction by enhancing the role of foreign investments, especially direct ones, to bring technology and expertise, raise export capabilities, and encourage the enterprising private sector in the fields of industry and agriculture.

5- The expansion of the role of regional trade and economic integration in light of the environment of economic globalization and the resulting pioneering role based on the integration of preferential transactions, which provides a better environment in foreign transactions and distances and reduces the risk of foreign trade shocks.

B- Recommendations:

In light of the conclusions reached, a set of recommendations can be formulated that reduce and mitigate trade shocks, as follows:

1- The trend towards reducing dependence on the export of a single commodity in its raw form and shifting to diversifying the production base led by industrialization and adopting a trade and macroeconomic policy appropriate to this goal.

2- Using oil export resources during periods of recovery in oil prices towards enabling diversification programs, encouraging investments and the private sector, and establishing investment funds that act as buffers in periods of crises that generate trade shocks.

3- The trend towards activating regional trade agreements and creating an economic and legislative environment compatible with the multilateral global trading system in order to benefit from exceptions and allowances and the arbitration system and international recognition.

4- Formulating policies that help advance the national industrial sectors and agricultural production projects, urging the private sector to invest in them and providing opportunities to bridge the local market and export surpluses from them.

5- Making the most of crude oil manufacturing to mitigate the shocks of the crude oil trade, to refined products and petrochemical products and export them, which creates a higher added value in exports.

6- Establishing a higher council to formulate economic policies and strategies and keep it away from competing partisan rivalries to ensure that short-term goals are limited to the narrowest limits, and give long-term goals an effective role in shaping the features of national economic policy.

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* Within the framework of the terminology of foreign trade, a distinction can be made between the term foreign trade in its narrow sense, and the term foreign trade in its broad sense, as the latter covers both visible (commodity) and invisible service exports and imports, as well as international migration and international movements of capital, while the term trade is limited to External in the narrow sense on exports and imports, visible and invisible.

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