

Iraq Exports, imports and GDP: The Co-integration and causality for the period (1990-2020)

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ABSTRACT

The research aims to identify the causality of exports and imports in the GDP in Iraq, to know the structure of the economic system in Iraq, and the way it works. The importance of the research is that the Iraqi economy is a rentier economy that depends on crude oil, which makes economic relations in its economic system with specific characteristics, so attention must be paid to the revenues of crude oil in order to revive economic activities and promote economic development and overcome obstacles and economic problems resulting from the work of the economic system. Research methodology The time series data of exports, imports and output at fixed prices in local currency for the period (1990-2020) in Iraq were used, and co-integration and Granger causality were used in order to determine the causal relationship in the research variables. The research concluded that there is no causal relationship, the research recommended reorganizing production relations, by adopting efficiency and high productivity, in order to revitalize the branches of the national economy, promote economic development, and increase economic growth.

Keywords:

Exports, imports, GDP, rentier economy, Co-integration, causality test..

Introduction

The developing economies general, the rentier economies particular, are characterized by a weak production structure and weak efficient economic relations. The rentier economies have the opportunity to build a strong economy, capable of withstanding in global markets. The global economy is in a state of great competition in the production of knowledge and high technology, and requires high efficiency in production systems in order to withstand. Therefore, exports must be of a high quality of knowledge and technology that enhances the economic surplus, and that imports enhance industrial growth and compete with the supply of raw materials for production, so that imports should be supportive of economic growth and increase the interdependence of production activities, which leads in the result to an increase in GDP. *The problem of the research* is

that exports and imports do not support the increase in output, which leads to distortion of production relations and weak interdependence between the branches of the national economy. *The importance of the research* is that the Iraqi economy is a rentier economy that depends on crude oil, which makes economic relations in its economic system with specific characteristics, so attention must be paid to the revenues of crude oil in order to revive economic activities and promote economic development and overcome obstacles and economic problems resulting from the work of the economic system. *The hypothesis of the research* is exports and imports in rentier economies do not stimulate GDP. *Research methodology* The time series data of exports, imports and output at fixed prices in local currency for the period (1990-2020) in Iraq were used, and co-integration and Granger

causality were used in order to determine the causal relationship in the research variables. *The research aims* to identify the causality of exports and imports in the GDP in Iraq, to know the structure of the economic system in Iraq, and the way it works.

Theoretical Side

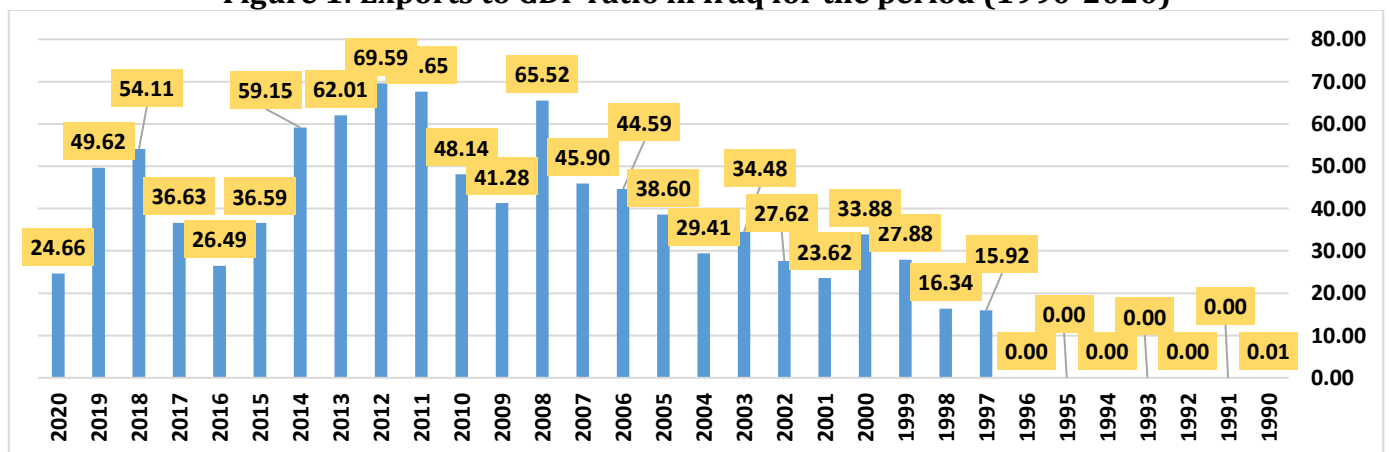
The openness of the world's economies has forced all countries to international trade, and competition in the allocation of available domestic economic resources in order to increase the efficiency of domestic production, which led to an increase in international trade returns. But high-income countries remain the highest earnings from international trade around the world, even though incomes may be high for reasons other than trade; (see Rodriguez and Rordik (2000)). Exports are considered to enhance the local economic surplus, and that the most exporting facilities in the country are the most profitable, and their employees are the most paid. These facilities also seek to increase local investment and finance the economy and economic activities with raw materials in order to support local industries; (Balassa (1978, 1985), Krueger (1980), Feder (1983), and Bhagwati and Shrinivasan (1978)). GDP increase leads to an increase in exports and purchasing power, and the growth of industries and the prosperity of economic activities, then to an increase in

imports, which means that GDP increase leads to an increase in exports and imports; (Leo Michelis, 2004,72). Great economic debate about the export-led growth (ELG) and growth-driven exports (GDE) hypotheses, with special regard to their implications on development policies and international trade; (Giles and Williams (2000a)). Several studies have emphasized the importance of capital imports in supporting the process of economic development, therefore, imported capital should be productively engaged in the production of goods and services; (Anoruo and Ahmad (2000), Esfahani (1991), Ram (1990)). Exports lead to an increase in GDP and then an increase in employment according to the Keynesian multiplier; (László Kónya and Jai Pal Singh, (2006),3).

Analysis And Interpretation

The sustainability of the structural imbalance of the output weakened the productive activities, and that the administrative and financial corruption misused the natural resources, which wasted the economic surplus and consequently the commodity and service exports with the exception of crude oil. According Figure 1, Exports to GDP ratio has reached its highest in 2012 (69.59%), and its minimum in (1990-1996) Because of the economic siege. ratio increase is due to oil exports and not exports of goods and services.

Figure 1: Exports to GDP ratio in Iraq for the period (1990-2020)



Source: The researchers' do it, based on: World Bank, Indicators, various years.

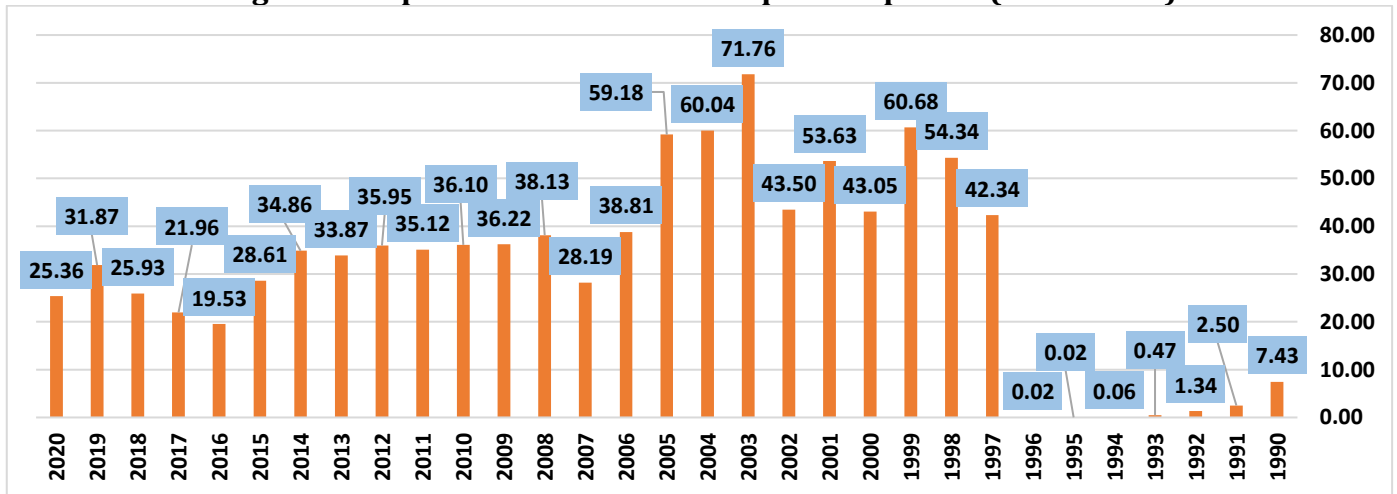
During the economic siege, Iraq was not allowed to conduct import operations with the world.

Weak domestic production caused a shortfall in the aggregate domestic supply, with the

increase in aggregate domestic demand due to the increase in government spending based in the rise in oil revenues after 2003, it led to the opening of imports while ignoring the controls and restrictions on import, which caused the flight of foreign currency, the increase in financial corruption and the rise in operations

Fraud of documents related to foreign trade transactions. As well as the bad quality of imported goods without controls. According Figure 2, Imports to GDP ratio has reached its highest in 2003 (71.76%), and its minimum in (1990-1996) Because of the economic siege

Figure 2: Imports to GDP ratio in Iraq for the period (1990-2020)



Source: The researchers' do it, based on: World Bank, Indicators, various years.

Granger Causality Test (table 1) indicates that there is no causal relationship between exports to GDP, and vice versa, GDP to exports. Nor between imports to GDP, and GDP to imports. There is also no causal relationship between exports to imports, and vice versa from imports to exports in Iraq.

This means that local production is not linked to exports, because exports are mostly crude oil, which is a raw material that is not manufactured locally. And that imports are mostly consumer, not investment. Hence, the output did not benefit either exports or imports, and vice versa, in most of the research period.

Table 1: Pairwise Granger Causality Tests

Sample: 1990 2020			
Lags: 2			
Prob.	F-Statistic	Obs	Null Hypothesis:
0.4443	0.83919	29	X1 does not Granger Cause Y
0.3272	1.17072		Y does not Granger Cause X1
0.5043	0.70442	29	X2 does not Granger Cause Y
0.8531	0.15993		Y does not Granger Cause X2
0.4405	0.84861	29	X2 does not Granger Cause X1
0.3060	1.24445		X1 does not Granger Cause X2

Source: EViews 10. Outputs.

Johansen Cointegration Test (Table 2) indicates no co-integration between the research variables, as the values in Trace test were less than tabular values, as well as in Maximum Eigenvalue test.

Table 2: Johansen Cointegration Test

Sample (adjusted): 1992 2020				
Included observations: 29 after adjustments				
Trend assumption: Linear deterministic trend				
Series: Y X1 X2				
Lags interval (in first differences): 1 to 1				
Unrestricted Cointegration Rank Test (Trace)				
	0.05	Trace		Hypothesized
Prob.*	Critical Value	Statistic	Eigenvalue	No. of CE(s)
0.5541	29.79707	18.16249	0.337419	None
0.6688	15.49471	6.225749	0.157182	At most 1
0.2604	3.841466	1.266620	0.042736	At most 2
Unrestricted Cointegration Rank Test (Maximum Eigenvalue)				
	0.05	Max-Eigen		Hypothesized
Prob.*	Critical Value	Statistic	Eigenvalue	No. of CE(s)
0.5539	21.13162	11.93674	0.337419	None
0.7470	14.26460	4.959129	0.157182	At most 1
0.2604	3.841466	1.266620	0.042736	At most 2

Source: EViews 10. Outputs.

Conclusions

- 1- The economic siege, security chaos, and political instability have destroyed the economic environment and misused natural resources.
- 2- Iraqi exports are not supportive of GDP, because most of them are crude oil and not locally produced goods and services.
- 3- The imports did not support GDP, and the Iraqi economy did not benefit from them, because most of them are consumer materials below international standards with regard to the quality of products.
- 4- The weak application of the law caused the exodus of foreign currency through imports, with the weak application of control measures on imported products.

Recommendations

- 1- Adopting economic diversification in order to Exports to GDP ratio increase, and achieving an economic surplus.

- 2- Protecting natural resources, the most important of which are natural gas and fresh water, in order to support local production and economic recovery.
- 3- Determine the volume of consumer imports appropriate to the needs of the local market, and increase investment imports to support the local industry.
- 4- Making exports and imports serve the GDP, in order for the local economic activities prosperity.

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