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ISTANBUL GELISIM UNIVERSITY
INSTITUTE OF GRADUATE STUDIES

Department of Economics and Finance

THE IMPACT OF FOREIGN TRADE ON THE ECONOMIC GROWTH OF IRAQ (1980-2020)

Master Thesis

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Asst. Prof. Dr. Edmund Ntom UDEMBA

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DECLARATION

I hereby declare that this thesis has followed ethical standards, where reference has been made to the sources that have been used in accordance with scientific standards, and there is no falsification in the data that has been used, and no section of this thesis has been submitted to this university or any other university as another thesis.

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ABSTRACT

The issue of economic growth and its connection to foreign trade is one of the issues that has become of great importance to all countries, especially developing countries such as Iraq, as trade openness is of great importance in supporting the economy. In general, there are many studies that focused on the advantages of foreign trade and its positive impact on economy, as well as there are studies that conclude that foreign trade may also have a negative impact on GDP growth.

Iraq is considered one of the developing countries that seeks to increase its domestic product and achieve growth that is reflected in the standard of living of the Iraqi citizen through the development of its oil and non-oil exports and its good trade relations with other countries of the world, in addition to making better use of capital and work. This study seeks to explore the relationship between foreign trade and the growth of Iraq's GDP from 1980 to 2020 by taking the variables of trade openness, capital, and work as independent variables, and the GDP variable as a dependent variable. In this thesis, the researcher relied on the testing approach associated with the ARDL model, which was developed by Pesaran, Shin, and Smith (2001) to test the relationship between GDP and foreign trade.

It was found from the results that the openness, Capital and labor force have positive but not statistically significant effects on economic growth in Iraq in the long run.

The results also indicate that trade openness, has positive and significant effects on economic growth represented by the gross domestic product in the short term, i.e. the labor force and capital has a positive but not a significant effects on economic growth in the short term in Iraq between 1980 and 2020.

Key Words: Foreign Trade, Capital, Labor and Economic Growth.

ÖZET

Ekonomik büyüme konusu ve bunun dış ticaretle bağlantısı, ticarete açıklık ekonominin desteklenmesinde büyük önem taşıdığından Irak gibi gelişmekte olan ülkeler başta olmak üzere tüm ülkeler için büyük önem kazanan konulardan biridir. Genel olarak, dış ticaretin avantajlarına ve ekonomi üzerindeki olumlu etkisine odaklanan birçok çalışma olduğu gibi, dış ticaretin GSYİH büyümesi üzerinde olumsuz bir etkiye sahip olabileceği sonucuna varan araştırmalar da bulunmaktadır.

Irak, petrol ve petrol dışı ihracatını geliştirerek ve diğer ülkelerle iyi ticari ilişkilerini geliştirerek Irak vatandaşlarının yaşam standardına yansıyan bir büyüme elde etmek ve yerli üretimini artırmak isteyen gelişmekte olan ülkelerden biri olarak kabul edilmektedir. Sermaye ve emeğin daha iyi kullanılmasının yanı sıra dünya bu çalışma, dış ticaret ve Irak'ın 1980'den 2020'ye kadar olan GSYİH büyümesi arasındaki ilişkiyi, ticari açıklık, sermaye ve iş değişkenlerini bağımsız değişkenler ve GSYİH değişkenini bağımlı değişken olarak alarak keşfetmeyi amaçlamaktadır. Bu tezde araştırmacı, GSYİH ile dış ticaret arasındaki ilişkiyi test etmek için Pesaran, Shane ve Smith (2001) tarafından geliştirilen ARDL modeliyle ilişkili test yaklaşımına güvenmiştir.

Dışa ticari, sermaye ve işgücünün Irak'ta uzun dönemde ekonomik büyüme üzerinde pozitif ancak istatistiksel olarak anlamlı olmayan etkileri olduğu sonuçlardan bulunmuştur.

Sonuçlar ayrıca, ticarete açıklığın gayri safi yurtiçi hasıla ile temsil edilen ekonomik büyüme üzerinde kısa vadede pozitif ve anlamlı etkilere sahip olduğunu, yani Irak'ta kısa vadede işgücü ve sermayenin ekonomik büyüme üzerinde pozitif ancak anlamlı olmayan etkilere sahip olduğunu göstermektedir. 1980 ve 2020 arasında.

Anahtar Kelimeler: Dış Ticaret, Sermaye, Emek ve Ekonomik Büyüme.

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CHAPTER ONE

INTRODUCTION

1.1. Research Topic

Foreign trade is an important indicator of the country's economic status, whether in terms of import or export. Many theories have explained the relationship of foreign trade to economic growth. While the traditional theory considers the importance of trade in a particular country through factors related to production such as labor and capital, and its effects on the amount of factors available according to their domestic prices. With the impossibility of technical transfer, limited resources and the base of perfect competition, trade is viewed, from the point of view of modern theories, as operating under monopolistic competition, the possibility of technical transfer, the possibility of creating new resources through dynamism.

While the traditional theory believes in the importance of trade liberalization and thus the direct impact on and promotion of economic growth, modern foreign trade theories call for the importance of growth integration first to return to promoting exports, and here comes the role of the government in supporting export commodities of high quality in general, as it can be said that there is A (rational) role for the government in establishing a sound relationship between foreign trade and growth.

1.2. Research Problem

Foreign trade is one of the important factors that work to achieve economic growth. It also plays an important role in achieving economic development, especially in developing countries with economies that lack the elements of economic growth. Developing countries need many economic reforms that promote economic growth. Foreign trade is an important detail in enhancing the productivity of these countries with emerging economies, including Iraq. It also increases efficiency and experience in sectors that complement the process of economic construction that relies on multiple sectors, especially the export and import sector, as one of the main pillars in promoting economic growth.

Economic growth and its connection to foreign trade (export and import) are among the issues that have become of importance to all countries, as exports are of great importance in the process of balancing the Iraqi economy, as import plays a role in enhancing the fullness of the local economy. In general, there are negative or positive effects depending on the conditions and variables that the foreign system is subject to.

Iraq is considered one of the developing countries that seeks to increase its domestic product in order to increase the welfare and standard of living of its citizens through the development of its oil and non-oil exports and its good trade relations with the countries of the world. This study seeks to explore the relationship between trade and GDP growth in Iraq from 1980 to 2020 by taking into account the variables of capital, labor and trade openness.

1.3. Research Objectives

The research mainly aims to study the impact of foreign trade on economic growth in Iraq between 1980 and 2020 as it aims to:

1- Exploring the impact of trade openness on economic growth

2- Knowing the role of production factors such as capital and labor in achieving economic growth in Iraq between 1980 and 2020.

3- Shedding light on the theoretical concepts of foreign trade, economic growth, capital and labor

4- Presenting recommendations and proposals to researchers and decision makers in Iraq on foreign trade and economic growth.

1.4. Research Questions

Based on the research topic and previous studies, the researcher asked the following questions

1- What is the impact of foreign trade on economic growth in Iraq between 1980 and 2020?

2- What is the effect of trade openness on economic growth?

3- What is the role of production factors such as capital and labor in achieving economic growth in Iraq between 1980 and 2020?

4- How can economic growth be promoted in Iraq through foreign trade, based on the results of the research

5- What are the recommendations and suggestions that the researcher offers to other researchers and to decision makers in Iraq?

1.5. Research Importance

This research mainly deals with Iraq, where the Iraqi economy is considered an oil economy. The Iraqi economy in general from 1980 to 1991 was a sufficient economy, but after the Gulf heat and within twelve years from 1991 until the US invasion of Iraq in 2003, Iraq's industrial and agricultural capacity was destroyed, transportation and infrastructure systems deteriorated, and health levels declined public education and standard of living for the entire population of Iraq. An un-sponsored program in Iraq called Oil for Food was launched in 1995, albeit at a lower rate. However, Iraq's oil production capacity has deteriorated due to the embargo and Western sanctions. After 2003 and until 2020, the bad economic situation remained, as economic facilities were damaged due to chaos and the promise of security stability.

As a result, foreign trade in Iraq was affected and had a significant impact in supporting economic growth in the country, as 90 percent of Iraqi exports were limited to oil, while the country was forced to import food and all raw materials for the country, which led to the loss of the Iraqi trade balance and weak economic growth. In this study, the researcher will try to link foreign trade through import and export and understand its impact on the gross domestic product of Iraq.

International trade can be viewed through the concept of import and export, and its impact on the economy can be seen through its relationship to gross domestic product. This study is important because it deals with one of the most important countries in terms of geographical location and focuses on Iraq, as it is considered an oil economy in the first place at the present time, while in 1980 it was a diversified economy, so the researcher seeks through this study to understand how the GDP of Iraq was affected the change in trade and the structure of both export and import during the study period.

1.6. Research Sturcture

The structure of the study will consist of the introduction as the first chapter, which contains the reseach topic, problem, importance, and questions.

The second chapter contains the literature review of the study which includes foreign trade as a concept, its importance and reasons, in addition to the theories of foreign trade, import and export, and how to measure foreign trade. It is also contains the gross domestic product as a basis for economic growth, foreign trade and economic growth from 1980 to 2020 through the structure of the Iraqi economy and the change in the import and export structure, production factors and the growth rate of GDP. The third chapter includes the, data, methodoolgy and modelling where the impact of foreign trade on economic growth in Iraq will be studied, based on historical data taken from the World Bank. The four chapter contains the empirical results and discussionand. At the chapter five the researcher reviewes the findings of the research and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1. Overview of Foreign Trade

Foreign trade is one of the branches of economics that specializes in studying the interdependence between the countries of the world, and this interdependence has increased continuously with the increasing degree of globalization of the economy and markets. The interdependence between the countries of the world takes three forms, which is the exchange of material commodities such as: cotton and textiles. Machinery and cars, and the exchange of services such as: transportation, insurance, tourism and education services, and the exchange of financial and monetary transactions such as: foreign direct investments (Ata, & Eren, 2018, 330-344).

There are many definitions of foreign trade, and we will try to take the most important ones as follows:

Foreign trade is defined as "one of the branches of economics that specializes in the study of international economic transactions represented in the movement of goods, services, and capital between different countries, as well as trade policies applied by countries of the world to influence the movement of goods, services, and capital between different countries."

It is also defined as: "the process of commercial exchange in goods, services and other elements of production between several countries with the aim of achieving mutual benefits for the parties to the exchange (Gokmenğolu, Âmin, & Taspınar, 2015,487-490)."

Banking and related business trades, such as brokerage, commission agency, insurance, and others. Although trade, whether internal or external, is the result of the creation of specialization and division of labour, many economists who deal with the issue of foreign trade usually emphasize the differences between it and internal trade based on the following differences (İqbal, Hameed, & Devi, 2012,435-456):

1) Domestic trade takes place within the geographical borders of the state, while foreign trade takes place between different countries of the world.

2) Domestic trade takes place under one political economic system, while foreign trade takes place under different political economic systems.

3) Market conditions and factors affecting them differ in domestic trade from those in foreign trade.

4) There are opportunities for economic blocs in the case of foreign trade.

5) The ease of transferring factors of production within the geographical borders of one country and the difficulty of transferring them in the case of foreign trade.

6) The difference between the economic, political and social systems and laws regulating internal trade and those regulating foreign trade.

2.2. Dimensions of Foreign Trade

The origin of trade arose with the beginning of contact in prehistoric times. It is known that commercial transactions were carried out for the purpose of buying and selling goods and services between people before the advent of currency. In the first period, people made production to satisfy their needs and exchanged the products they could not produce. After World War II, countries applied to foreign trade in order to develop their economies. Thus, with changes in the field of economics, the scope of foreign trade has also expanded (Elbeudi, & Hamuda, & Gazda, 2010,69-76).

Foreign trade is known as the sale (export) of goods from one country to other countries or the purchase (import) of goods from other countries to that country. In other words, foreign trade is the sum of sales or purchases made from outside the borders of the country.

The main factors that make the implementation of foreign trade important are natural resources, economic growth and development. However, when looking at countries across the world, natural resources are not equally available in every country. While some countries have rich natural resources, some countries are poor in this natural wealth. Countries that are not rich in natural resources import these resources from rich countries to develop their economies. This mutual cooperation and specialization can be done through foreign trade. On the other hand, from an economic point of view, for various reasons, a country is able to survive economically in producing some goods and services. Countries can satisfy their needs by producing at a lower cost in the production they are superior to and importing products they are not superior at a low price from other countries that are superior. These transactions are also achieved thanks to foreign trade. Today, the independent states of the world, from the smallest to the largest, from the richest to the poorest, conduct trade activities among themselves and increase their economic well-being in this way. Economic relations between these countries sometimes arise from profitability, sometimes from necessity and sometimes from mutual dependence (Gujrati, 2015).

In the economic literature, the opinion prevails that foreign trade will generally influence economic growth and economic development. Economists such as Adam Smith, David Ricardo and JS Mill (Ozsoy, 2013, p. 212) also confirmed the prediction that foreign trade will positively affect economic growth and development.

After World War II, most countries arranged policies to facilitate foreign trade according to their economic and political situation. However, the idea of liberalizing foreign trade began to gain momentum. In addition, some countries have joined the WTO in order to do more trade. Factors affecting foreign trade are not only exports and imports. Social factors, levels of political and technological development, cultural life and natural resources of societies are also factors affecting foreign trade. Moreover, foreign trade influences all phenomena such as macroeconomic balances of countries, unemployment, inflation and market structures (Arvas, & Torusdağ, 2016,1-18).

The Balance of Payments, which consists of trade transactions, is known as an important trade indicator of a country. Therefore, the balance of payments shows that the country exports or imports more. In a broad sense, it can be seen whether foreign trade is in balance in the balance of payments. In a narrow sense, balance of payments can be defined as “the documents in which payments made between citizens of a country and foreigners are kept systematically within a year”. Thousands of different economic activities take place between individuals living in a country and foreigners. However, it is very difficult to show all these transactions one by one in the balance of payments and on the other hand, it is not very informative. For this reason, while preparing the balance of payments (or balance sheet) of a country, the economic activities to be included in the schedule are classified so that the same or similar activities are grouped together and separated into separate sections (Seyoum, 2009).

• Current transactions

• Unilateral transfers or transfers without charge

• Capital movements

• Reserve movements

2.2.1. Export

Exporting generally involves selling domestically produced goods and services to a foreign country for foreign currency. In other words, export is the sale of goods or services produced within the borders of a country outside the borders. Under this heading, the export types are given in the main lines.

Non-private Export: Exports made outside of goods whose export is prohibited or not subject to prior authorization or without registration are called non-specific exports. In this form of export, the application is submitted to the relevant customs department along with the customs declaration approved by the export associations (Bakarı, 2017).

Registered export: It is the export of goods included in the country's export list. With regard to the export of goods included in the scope of export, exporters apply to the relevant exporters' associations for registration in the customs declaration. After approval of the registrations of exporters' associations, this approval must be notified to the customs departments by the exporter. The notice period is thirty days. However, in exports to countries that impose quantity restrictions on exported products, this period can be determined as less or more than thirty days by reducing the legality of registration. More clearly, in order to export the goods on the export list abroad, the customs declaration is first registered and an application is submitted to the exporters' associations, and after its approval, the notification must be submitted to the customs administration. Therefore, after these two stages are completed, the export takes place. Export Subject to Initial Permission: The export of some products in export depends on prior permission from a certain authority in accordance with international agreements, laws, decisions and other relevant legislation. In the export of these goods, after obtaining preliminary permission from the competent authorities, it is the form of export that is dealt with within the framework of the provisions of the export legislation (Zahonogo, 2017,41-56).

Temporary export: is the export or removal of goods from the country's customs territory for a certain period of time. It is the export of freely circulating goods outside a country's customs territory over a certain period of time for further processing, repair or renewal. These processes sometimes involve sending a machine abroad for temporary repair if the local machine breaks down or if there is no good technology in the country.

Since Iraq is an economically backward country, they generally send the country's technological machinery abroad for repair if it fails. Because the repair is expensive in the country or there is no technical equipment to repair it, it creates problems. Therefore, exports are temporarily made in the country. Especially in underdeveloped countries, more temporary export transactions are carried out (Hussein, & Said, 2015,13-21).

Free Export: Free export is the sending of goods abroad without any payments from abroad.

Goods that may be subject to free export are listed below.

• Gifts sent or taken by real or legal units, samples suitable for commercial law, advertising and promotional goods, as well as imported packaging materials suitable for reuse,

Free shipment of goods that have been exported before, parts suitable for trade ethics and customs, deficiencies and parts that need to be renewed within the warranty period of goods exported under warranty, etc.,

• Legal entities residing abroad, for example, goods and vehicles sent, taken with or on behalf of foreign tourists and Afghan nationals living abroad,

In particular, students who study abroad send goods to their country and order goods,

• Finally, aid such as humanitarian aid items sent by public institutions, municipalities, universities, foundations, associations and other private institutions in case of war, flood, epidemic, famine, earthquake and similar disasters are examples of free exports. Therefore, these issues are the reasons for export freedom.

Exports to Free Zones: Free zones are geographical areas that are generally defined within the borders of a country. Free zones are separate places from other parts of the country in order to provide broader opportunities for industrial and commercial activities in general. In this context, the legal and administrative regulations on exports are not applied or are only partially applied. It is considered outside the customs line even though it is within the political borders of the country. The important benefits of free zones are as follows (Alakbarov, 2010):

• Companies and establishments operating in free zones do not pay any tax, ie they are exempt from customs taxes.

• Since workers in free zones do not pay income tax, their costs are low.

• Customs duties are not paid for goods brought into the country from abroad or from foreign countries.

• Income earned in the free zone can be transferred to the desired countries freely and without hindrance.

• There are very few bureaucratic procedures in the free zones.

• Establishing free zones on major ports, international airports and important road links provides great opportunities for exporting companies in terms of logistics services.

• Loans can be obtained from banks in free zones on more attractive terms because they are exempt from the rules set by the Central Bank.

Transit trade: It is the sale of a product purchased from a company or warehouse (warehouse) located in a free zone abroad, or by transit through any country, or directly to a company located in a free zone abroad.

Taxes, fees and funds are not collected for goods subject to transit trade. However, goods whose trade is prohibited by international agreements cannot be traded in transit with countries. Therefore, transit trade is carried out with goods and countries that are legal in the international agreement (Ekodo, & Ngomsi, 2017, 58-67).

Export on credit: According to the export regulations, export on credit should be excluded from bilateral and multilateral credit agreements and to protect the monetary value of the export price.

It is a type of export that allows it to be available for a longer period than the specified periods.

Export orders on credit are submitted to the relevant exporters' associations along with the sales agreement itself, which includes the type of goods, payment schedule, payment period and its translated version. After the approval of the foreign trade agent for the goods covering the export credit applications, it is concluded by the export associations according to the principles in the contract for the goods not covered by the scope. In this context, if export unions find export applications on credit appropriate, credit can be opened for a period of two years for consumer goods and for a period of five years for investment goods (Mahrowal, Sarmidi, & Md. Nor, 2014, 383-397).

Exports through Commercial Leasing: Commercial leasing is the export of goods for a certain period of time for a price. In this way, the company or organization in the country to be exported, such as the type of goods to be leased, technical characteristics, customs tariff statistical center number, unit quantity, unit price, value amount, rental period, rental price, payment method, payment time and place of delivery. Under an agreement covering information, a copy of the respective export application form is filled out to the Exporters Associations of which it is a member. The specified period for this export is one year. If this period is extended, it can be extended for up to another year if an application is submitted to the exporters' associations before the end of the specified period. If the goods exported abroad are sold by means of leasing, before the expiration of the specified period of leasing, it is necessary to apply to the relevant exporters' associations to grant permission. After the final sale of goods sent abroad, the sale price must be returned to the country within thirty days from the date of the final sales invoice (Vijayasri 2013, 2277- 3622).

Export by means of restricted or barter transaction: An export by barter is a type of export, also called reciprocal trade, in which exports are carried out with some goods, services and technology transfer rather than the export price, even in part. It is a method developed for countries that generally suffer from financial problems.

Relevant transactions must be carried out more than twice and it is necessary to submit an application to exporters' associations for the completion of these transactions. Type, standard, quality, delivery status, place of delivery, import and export prices per unit, value amounts, and

The agreement must cover the specified validity period. In this context, the duration of the dependent treatment permit does not exceed six months, as long as it is mentioned in the agreement concluded by the company. If an application is submitted to the authority issuing the permit before this period expires, it is possible to extend this permit for a maximum of two years (Chaudhary, Shirazi, & Choudhary, 2007, 1-26).

2.2.2. Import

Import is the temporary or final import of goods that are not produced locally or goods that are produced in the country at a higher price and cost, with or without the payment of taxes from abroad. If we define import in short, as opposed to export, it is the purchase of goods from abroad. Here, in brief, the types of free import, paid import, and temporary import are mentioned.

Free Import: In the case of free import, the goods are purchased from abroad and payment is made from abroad. In clearer terms, it is about importing goods bought from abroad without paying the price, i.e., importing goods bought from abroad by paying the foreign currency earned abroad instead of paying the price domestically. Generally, when free imports are made, there is no outflow of foreign exchange from the country. However, customs duties must be paid when free goods purchased from abroad are brought within the borders of the country.

Import by value: Import at cost is the import of goods or services from other countries in exchange for money, goods or services from abroad and bringing them into the country through its customs borders. Imported goods are freely circulated within the country. Obviously, it is the purchase of goods and services with money from a foreign country. It is the purchase of goods and services that are generally not produced locally or are produced at a higher price for money (Jaber, 2011).

Temporary import: Goods that enter the customs borders of the country, without entering the country for free circulation, partially or completely exempted from customs duties and not subject to foreign trade policies, remain at the customs borders for a certain period of time. However, the exact time varies according to each country's customs legislation. Temporarily imported goods are allowed to be re-exported without any changes.

2.3. Theories Of Establishing Foreign Trade

The concepts of foreign trade differed from one thinker to another and from time to time, and each of them had a special way of explaining its concept in accordance with the requirements of his time.

In this section, classical theories in foreign trade will be presented, where we limit ourselves to theories (Adam Smith, David Ricardo), as well as neoclassical theories (Heckscher-Olin theory) and the Leontiev enigma, and modern theories (technological gap and product life cycle).

2.3.1. Classical Theories of Foreign Trade

The Absolute Advantage Theory Adam Smith (1723_1790):

The first classical economist who tried to explain the reasons for the establishment of foreign trade between countries is the famous economist Adam Smith in his book (An Inquiry into the Nature and Causes of the Wealth of Nations) published in 1776 in New York, where Smith used. The concept of the absolute difference in production costs between countries, or what has become known as the advantage, is the absolute reason for the establishment of foreign trade.

Adam Smith showed in his book {that the wealth of a nation is not measured by its ability to collect precious metals, but rather by its ability to produce.} Therefore, any efforts to increase the wealth of a nation must focus on increasing its productive capacity. Accordingly, he concluded that all countries benefit from free foreign trade, through the specialization of each country in the production of the commodity or commodities in which it enjoys an absolute advantage, compared to the terms of production of this commodity or commodities in other countries (Mahrowal, et al, 2014).

But whatever they may be, Adam Smith's principles of free trade are taken from them because they do not show the way to specialization for those countries which have no absolute advantage in the production of a commodity, or for those who have the absolute advantage in the production of all commodities over other countries. (Smith) did not differentiate between internal trade and foreign trade, given that the rules governing foreign trade are the same as those governing internal trade, and (Ricardo) saw the opposite, given that the factors of production are not easily transferred abroad. Exchange is also transmitted within the state, and Ricardo was the first to explain this difference in what he called the law (relative expenditures) (Arvas, & Torusdağ, 2016).

John Stuart Mill {1806-1873} International Values Theory:

Mill completed the deficiency in Ricardo's theory, which contributed to answering the previous questions, as he wrote his book "Principles of Political Economy" in 1848, so he was interested in studying the subject of international values, or in other words, the ratio on the basis of which a commodity is exchanged with other commodities, so he had A key role in analyzing the law of relative expenditure in relation to the exchange rate in international trade, and in highlighting the importance of demand for each of the two. Countries in determining the point at which the international exchange rate or the international exchange rate settles, this method is the mutual demand by each country for the products of the other country that determines the international exchange rate, and according to it, the exchange rate that achieves balance in international trade is that rate that makes the value of exports and imports for each country is equal (Elbeudi, et al, 2010).

The international exchange rate is much larger than a country's domestic exchange rate, and its share of foreign trade gains is small, and vice versa. In this theory, Mill focused on the difference in the relative efficiency of labor in the two countries, rather than on the relative cost of labor in each, as Ricardo had done. Mile" quantifies workload to show the difference in production and profitability.

2.3.2. The neoclassical theory in the interpretation of foreign trade

The neoclassical theory came as an evolution of the contributions of the classical theory and includes the following:

Heckscher-Ohlin Theory

The formulation of this theory dates back to the contribution of the Swedish economist "Heckscher" in 1919, then his student "Olin" in 1933, and then it was developed by the economist "Paul Sam Wilson" in 1941. Hechro-Olin analyzed the hypotheses of the classical theory with the criticism leveled at them, and put forward the idea of the difference in the relative abundance of the factors of production. It creates a difference in the prices of factors of production, and therefore in the prices of products, due to the different needs of commodities from the factors of production, which justifies the establishment of trade between different countries. Heckscher-Olin theory is based on a set of simplifying assumptions of reality (Gokmenğolu, et al, 2015):

1) That the world consists only of two countries {A, B} that produce two commodities, {X, Y} and depend on two elements of production, which are labor and capital.

2) Commodity (X) needs more labor than it needs capital. Whereas commodity (Y), on the contrary, needs more capital than it needs the labor component. We can say that commodity (X) is characterized by a high ratio of labor to capital or a low ratio of capital to labor compared to commodity (r).

3) That the two commodities (X) and (Y) are produced under conditions of constant return, and what is meant by that is that an increase in the use of all elements of production (labor, capital) by a certain percentage lead to an increase. In the volume of production of the commodity in the same percentage.

4) Incomplete specialization in the two countries after trade, i.e. the dominance of the conditions for increasing the opportunity cost conditions that prevent the two countries from directing all production elements to produce one of the two commodities.

Leontief's Theory

In 1954, Leontief tested the validity of Huckster and Olin's theory of the American economy, and the results obtained were completely inconsistent with what the Swedish theory reached, so these results were called Leontief’s riddle. Where he relied on testing the modern theory of foreign trade to see if it agrees with the theory of abundance of factors of production on exports and imports of the United States of

America, on the basis that it enjoys an abundance of capital and scarcity. From the labor component, Leontief also used the product analysis method in this test. To calculate the capital and labor necessary for production in a number of American industries, and came to the conclusion that their foreign trade is based on their specialization in the most capital-intensive labor-intensive industries.

The results of the "Leontief" studies indicated many attempts to explain international trade by identifying other reasons for the difference between countries, other than those based on abundance or scarcity in factors of production. It is clear from the foregoing that the theories of classical and neoclassical thought lack dynamic elements, as these theories were unable to develop a model capable of providing an explanation for the reasons for the establishment of international trade in light of the changes that the world has undergone. (Hussein, & Saeed, 2015).

From the dominance of multinational companies in international trade, the growth of the phenomenon of regional integration and the increasing number of economic blocs, the emergence of the information and technological revolution, and keeping pace with these developments, new directions have emerged in the interpretation of international trade. Work on introducing dynamic elements into international exchange such as modern theories, including the technology gap theory. And product life cycle.

2.3.3. Modern Theory In Foreign Trade

The technology gap model was popularized and extended by the so-called product life cycle model developed by Vernon in 1966. According to this model, at the initial moment of producing a new product, the availability of skilled labor is often required to produce it and after the product has reached maturity and acceptance. On the part of the consumers, it will become dependent and able to produce it, with great production techniques, and it will become less in need of skilled labor, and then the comparative advantage in the product will transfer from the developed country that has a precedent in its production to a less developed country that is available in cheaper countries. This may be accompanied by foreign direct investment from the most developed countries to the least developed countries. Accordingly, the process of producing commodities, since its discovery, passes through several stages, depending on its production on various types of factors, which may require a country to import a commodity that was its source in earlier periods (Gujrati, 2015).

The life cycle of a new product or industry goes through three main stages:

New product stage: The product life cycle stage is characterized by the fact that research and development activity occupy a very important place in the emergence of the product.

Mature product stage: Soon after the appearance of the new product in the mother country that owns the invention, the scale of demand begins to appear increasingly in developed countries, which encourages parent companies to establish production units in these countries in order to meet the growing demand.

Standard product stage: The owners of technological methods in foreign trade believe that the third stage of the product cycle is characterized by important developments that eventually lead to matching the characteristics of the product cycle in its typical stage with the characteristics of a commodity with the characteristics of Heckscher-Olin commodity.

The product life cycle can also be expressed in three basic stages that it goes through in the country of origin, as shown in the following figure: Product life cycle

Foreign trade theories tried to explain the establishment of foreign trade by explaining the basis of exchange between countries and the factors that determine the specialization of any country in the production and export of a commodity and thus its import by other countries, given the importance of this. Foreign trade, and this is what we will discuss in the second section.

2.4. The Concept of Economic Growth

The definition of economic growth is "the increase obtained in the long term for the country's production." Economic growth is a quantitative notion that indicates the increase in production in the long run. The idea of economic expansion, which is the evident rise in output, is another term we might use. It serves as a staging area for the economy's continued expansion, and because growth reflects a rise in production, it accounts for the output per person. This is the rate of increase in personal income. Economic growth, according to Caleb, Mazzini, and Doro (2014), is demonstrated by an increase in the real national product between two periods and a rise in the income per person.

If the rate of national product growth is higher than the rate of growth in population, growth may also be coupled with economic progress; however, if the rate of national goods growth is equal to the rate of population growth, growth may not be accompanied by economic progress; instead, if the rate of growth in population is higher than the rate of national product growth, growth is accompanied by an economic downturn. To raise peoples' material standards of life, economic growth is a necessary but insufficient requirement. The second need is how the increase will be distributed to people, which is a complex matter related to the structure of each nation's political and economic institutions. (Dritsaki, & Stiakakis, 2014, 181 – 190).

2.5. Sources of Economic Growth

Economists are concerned with the roots of economic growth rather than just trends and theories. They focus so much on calculating growth that the factors that influenced growth patterns can be accurately calculated. Between 1930 and 1960, Japan and the Soviet Union participated. The economy has grown significantly over the years. Economists calculated economic growth and found that Japan's GDP increased by an average of 10% each year (surprising, but true) due to input development and rapid technological progress (much faster than other countries). When examining the growth of the Soviet Union throughout the aforementioned time period, it was found that increases in labor and capital inflows were the main cause of economic growth and that the main driver of economic growth was labor productivity which is the ratio of total output to the number of hours worked in an industry or throughout the entire economy It shows the following (Jayachandran, & Seilan, 2010):

1. Investment in businesses that promote worker health and safety and environmental preservation. This was especially true for the mining, building, and service industries.

2. Energy price increases, particularly after 1970 and 1990, when the business started substituting alternative energy inputs, capital, and labor. As a result, compared to earlier growth rates, labor and capital productivity are reduced.

3. After the 1970s, there was a generational shift of unskilled, undertrained employees who accepted low pay. This was especially true in non-industrial sectors like those involved in fast food preparation and similar jobs. It should be mentioned that decreased size allocations for civilian research and development, a decrease in investment in plant and equipment, an increase in the rate of inflation, and similar things were other factors that contributed to poorer productivity. These are only a few of the elements that have decreased productivity. In that regard, investigating the prospect of raising labor productivity is necessary (Blacker, 2009, 1-35).

2.6. Growth Theories In Economic

2.6.1. Economic growth according to the classics

The classical growth theory combines the ideas of Adam Smith and David Ricardo on growth with those of merchants regarding the origin of wealth from international trade, followed by the ideas of John Stuart Mill regarding markets and Robert Malthus regarding population (Anwar, & Sampath, 2000, 79).

The theory's components can be summed up as follows:

Individual liberty, unrestricted competition, and the avoidance of state intervention in the economy are all part of the economic freedom agenda.

Progress is facilitated by capitalism.

Investment is encouraged by profit, and as profit rates rise, so do rates of capital formation and investment.

Profits often decrease: This is because capitalists are competing more fiercely for capitalist accumulation.

The classics held that the process of capitalism accumulation would inevitably come to an end when a level of stability was reached. That is, once profits start to fall, it doesn't end until capital accumulation ceases, the population stabilizes, and wage rates are at or above the subsistence level. Adam Smith argued that a lack of natural resources causes the economy to stagnate and stop growing. Regarding Ricardo and Malthus, their theories were disproved by population expansion and the law of decreasing returns, which posed a barrier to progress. The restrictions on capital accumulation or the population's stability in dormant states (Kurt, & Terzi, 2007, 25-46).

2.6.2. The neoclassical theory of growth

Based on the idea that economic expansion could continue without experiencing a recession, as predicted by classical theory, neoclassical philosophy first emerged in the 1870s with the contributions of some of its most illustrious economists, including Alfred Marshall, Fiskel, and Clark. Possibly the most significant neoclassical concepts are those listed in (Owusu-Nantwi & Erickson, 2016, 116-126):

That economic growth is a cohesive, interconnected, and compatible process with positive spillover effects; that one sector's growth drives that of other sectors; that the expansion of the national product results in the rise of various income groups in terms of wages and profits, underscoring Marshall's theory of external savings.

The amount of resources available for production in society (labour, land, natural resources, capital, organization, and technology) determines how quickly the economy grows.

In terms of the labor component, we discover the theory that connects population changes and the size of the labor force, highlighting the significance of proportionate population growth or in the labor force with the size of accessible natural resources.

Neoclassicists believed that the growth process in terms of capital was the outcome of the relationship between capital accumulation and population expansion. With reference to the function of saving in steering investments, a rise in capital formation entails an increase in the supply of capital, which causes a fall in the interest rate, resulting in an increase in investments, output, and economic growth. Investment and growth processes are therefore automated.

Regarding the aspect of organization, the theory's proponents hold that the organizer occupies technical growth in a way that rejects the notion that the process of development has ever reached a standstill and is ever open to renewal and innovation.

The neoclassicists used the analysis method based on the idea of partial static equilibrium in this regard, as they saw that every small project is part of a whole that grows in a gradual, coherent, overlaid manner and with influence compatible with other projects. Marshall described economic growth, such as organic growth, as occurring gradually rather than suddenly. Emphasis on specialization, labor division, and trade flexibility are necessary for economic progress. (Jayachandran, & Seilan, 2010).

2.6.3. Keynesian theory

This theory was established by John Minder Keynes (1883-1946), who provided logical and realistic solutions to the financial crisis that occurred for the period (1929-1932), and according to this theory, the principles of the growth of the domestic national product are related to the investment multiplier; Where the national product increases by twice the increase in investment expenditures (Levchenko, & Zhang, 2011).

This theory considers that there are three growth rates, namely:

A. The actual growth rate, which represents the ratio of change in income to basic income in a base year.

B. The required growth rate, which represents the growth rate that the market reaches at the highest level of production.

C.The natural growth rate (GN), which is the upper limit of growth that occurs when technological progress increases, capital accumulation increases, and the skill of the labor force increases at full employment. Parity must be achieved between the actual growth rate and the desired growth rate, and the growth rate must also be equal (Dell'Anno, Villa 2013, 207-244).

2.6.4. Economic growth in Marxist theory

In his theory of economic growth, Karl Marx refuted the views of the capitalists, and his theory in this regard was based on a set of assumptions related to the nature of the job that production performs in society, as well as the prevailing type of innovation and invention, and the method of capital accumulation, along with assumptions related to wage rates. And prevailing profits.

The theory of surplus value is considered the actual basis for the Marxist theory of growth, and surplus value is defined as the increase in production over the need for consumption, that is, what is earmarked for investment. Marx also believes that the central management of the economy in order to achieve the public benefit will lead each institution to search for its own benefit, and thus exploitation. Optimal for its natural resources and labor force. Marx believes that the proper measure for the behavior of individuals is the prevailing method of production; That is, there is a specific organization of production in society that includes (Shihab, Soufan, & Abdul-Khaliq, 2014):

- Organizing work through cooperation and fruitful division between labor skills, and through the legal status of workers in terms of freedom and slavery.

-Geographical environment and knowledge of ways to use existing wealth resources.

- The scientific and technical means applied in production, and the state of science in general.

2.6.5. Economic growth in modern theory

Due to the continuing disparity in development between industrialized industrial countries and underdeveloped nations, this hypothesis concentrated on long-term economic growth. One aim. a qualitative self-transformation in the area of technical advancement. David Romer, David Weil, and Ravioli (1992). Based on the significance of technological advancement in economic growth through discoveries, inventions, and innovations, his research was based on a novel formulation of the production function connected to time series and growth statistics in emerging nations (Medina-Smith, 2001, 1-57).

However, this feature prevents human capital from increasing its contribution to the industrial process; These earlier theories are unusual in that they separate capital into physical capital and human capital because the total of the elasticity coefficients of the three elements equals the integer coefficient. This theory acknowledges the idea of required growth rates for the benefit of the underprivileged. A forum to talk on how to improve people's lives, especially those of the poor and those who live in poverty, which can only be done by raising the standard of health and education, providing more basic services, and contributing more of everything (Bitak, 2014, 45-60).

2.6.6. Joseph Schumpeter's theory of economic growth

Joseph Schumpeter (1883-1950) was an American economist and sociologist, born in Moravia, Czech Republic, and died in Taconic, Connecticut, USA.

He was famous for his theories about development and economic cycles, and rebelled against the prevailing economic schools of his time, and left his professors in the new traditional Vienna school, moving away from static analysis, trying to establish the theory of kinetic (dynamic) analysis, and his great interest in combining economic theory and statistics, in addition to to history and sociology, in addressing the economic issues of his time,

He would have turned his back again on the new traditional school, as well as on the Keynesian school, and later on the new Keynesian. Joseph Schumpeter was influenced by the neoclassical school in considering the capitalist system as the general framework for economic growth, and was also influenced by Malthus' ideas regarding the contradictions of the capitalist system. He abhors communism, despite that he does not call for the abolition of capitalism, nor does he take sides with it. Rather, he predicted the collapse of the capitalist system to inherit the socialist system, not the communist one. His ideas appeared in his book: The Theory of Economic Development in 1911, and he completed it in a book he wrote in 1939. His most important ideas are (Shirazi, & Manap, 2004, 563-581):

- That development under the capitalist system takes place in the form of intermittent leaps and inconsistent impulses, accompanied by successive short-term periods of stagnation and boom; This is due to the renewals and innovations that the organizers make, which would increase production and drive growth.

- Growth depends on two basic factors, the first is the regulator, and the second is bank credit, which provides the regulator with the possibilities of renewal and innovation.

- Giving the regulator special importance, describing it as the key to development, or the "dynamo" that drives development.

In his analysis of the process of economic growth, Schumpeter begins by assuming the dominance of competition and full employment for an economy in a state of static equilibrium that always repeats itself without net investment or overpopulation. Where the organizer finds profitable opportunities to finance new investments, so a wave of investments is generated as a result of renewal and innovation, so new factories are operated, and commodities find their way to the markets, a wave of prosperity begins, fueled by an increase in bank credit, an increase in production and income, and boom prevails, an increase in commodities works Prices fall, and the old establishment becomes unable to compete with the new establishments, so the latter closes its doors, and a state of pessimism prevails among the organizers, so the movement of renewal and innovation falters, and a state of recession prevails. Better production methods, investment and expansion of economic activity and so on (Olayiwola, & Okodua, 2013,1479-1496).

2.6.7. The theory of stages of development according to Walt Rostow

It is also known as: the theory of phases of economic growth, which Rostov outlined in his book "Stages of Economic Growth" and which has piqued the curiosity of many development and income specialists. "The whole world has come to read this book," writes Raymond Aron of him, "and whatever the conflict between systems of government, the distinction between phases of economic growth is natural."

Rostov's thesis was later employed as a distinct path in explaining underdevelopment, even though in this book his primary focus was not on evaluating the issue of underdevelopment in underdeveloped nations.

The industrialized nations must travel the route between 1850 and 1950, and the undeveloped nations must pass through these phases in order to reach the industrial and industrial stage, since it instantly opens the door to the following stage. According to Rostov, any civilization, even post-industrial societies, may be classified into one of five phases based on their degree of economic growth (Saeed & Hussein, 2015):

The traditional stage of society is characterized by an extremely backward economy, an agricultural character, and the use of primitive production methods by its inhabitants. Family or clan systems play a significant role in the social structure and organization of this stage of society. The "fatalism and opposition to change" that underpin the real estate-based value system.

Rostov provided instances of nations that have advanced past this point. Such as Middle Eastern nations, countries in the Mediterranean region, and several European nations in the Middle Ages. Typically, this period is quite sluggish and lengthy (Bleeker, 2009, 1-35).

Phase two is launch or departure preparation. In terms of social structure, values, and decentralized political institutions, this is the next stage.

The traditional society stage is not substantially different from this level.

The rise of motivations for radical change, the alteration of political and economic structures, and the enlarging of the frontiers of individual and group interests that motivate society's members to take constructive action are characteristics of the stage of society when action is poised to take place. And taking control of the situation (Blecker, 2009, 1-35).

The third stage is the launch phase, which is a necessary stage of growth. If the obstacles to progress are removed, society enters a stage called launching, when active forces direct it to advance in every facet of life, making growth and development a common occurrence. Society. In this case, the incentives differ. However, historical patterns have demonstrated the effectiveness of two key factors: technology and political revolution, that is, the change in political dominance to a group that views economic modernization as a serious problem and assigns it the top spot among political problems. (Suthan, 2018).

The fourth stage is maturity, which is the point at which developed nations are seen from an economic perspective. The technological capacity of the local economy will increase when the national economy completes its expansion and enhances the level of output, and many core industries and more ambitious industries will be developed. Industries that are driving the development compared to the past include those that manufacture industrial, agricultural, electrical, and chemical machinery. (Suthan, 2018, 168–183).

The following are the key changes that occur during this period, according to Rostov:

- The population movement from rural to urban, as well as the transformation of the countryside into a more developed form.

- A large proportion of highly skilled technicians and laborers.

Leadership is transferred from business owners and investors to the group of executive coaches.

Assuming that the state is in charge of providing residents with a rising level of social and economic security in light of the prevalence of a certain level of material and individual well-being.

The fifth stage is the stage of abundant consumption, which is when the nation makes significant progress. In this stage, production exceeds demand, the population enjoys comfortable lifestyles supported by high incomes, an abundance of consumption goods, and other factors that promote prosperity. This stage is characterized by:

- An increase in the average per capita consumption of expressive goods (cars, etc.).

- Increasing society's output of ideas and literature.

2.6.8. The Harold and Domar Model

It is considered one of the most consistent and popular models that were developed in the forties of the last century and is associated with the name of the British economic researcher "Roy Harold" and the American "Avery Dumas". Where the model stresses the importance of investment as a vital necessity for any economy, whether in developing or developed countries, and shows the importance of saving in the positive reflection in investment and the importance of that for growth. This is necessarily useful in linking the national capital with the country's gross product, to define this relationship and to define the problem of the ratio of capital to output with the coefficient of capital in the overall economy. Harold Domar's model shows that economic growth will increase saving, and thus the investment made by individuals, and the growth rate. As the capital resulting from investments in various sectors is the main determinant of growth and depends on the savings of individuals and companies. As for the ratio of capital to gross product, that is, the coefficient of capital, it is merely a measure of the degree of efficiency in the use and employment of capital (Tessema, 2016).

2.6.9. Arthur Lewis' Structural Transformation Theory

One of the most well-known theories of development to come out of the 1950s focuses on how the economies of developing nations changed from being heavily dependent on agriculture to being more dependent on industry and services, making them more robust and able to handle fluctuations and changes in demand. Arthur Lewis was the first to purposefully and rationally describe a development model based on the change from agricultural to industry or from rural to urban areas. Lewis studies an economy with two sectors: the industrial sector and the traditional agricultural sector, which he refers to as the subsistence sector and is characterized by a decline in labor productivity to zero or slightly higher; Cheap labor from the conventional industry steadily and methodically moved into this area as productivity rose., In describing his theory, Lewis made the following assumption: - The process of moving jobs from the traditional sector to the industrial sector and the growth of jobs in this sector are dependent on the increase of output in the industrial business as a result of the improve in capital accumulation.

The industrial sector maintains a stable pay level (assumed 30% higher) than the subsistence level already in place in the agricultural sector; the latter's production grows and, as a result, so does the demand for labor in it. This is an example of the capitalist class in society investing all of its earnings.

The ratio of investments and capital accumulation in the industrial sector determines the growth in output and the addition of new jobs in that industry.

The process by which underdeveloped economies can transition their economic systems at home from traditional agriculture-based structures at the subsistence level to a more developed, more civilized, and industrially diversified economy in this area is the foundation of the theory of structural changes. Both production and services. The structural changes that occur between parts and the whole as well as between parts during the growth process, i.e. the degree to which economic sectors contribute to both gross domestic product (total or labor absorption), are explained by this theory using the tools of neoclassical theory. It is the shift in its relative importance with regard to both international commerce and international trade. Successful short-term changes actually build on each other to produce long-term changes. (Demidenko, & Kuznetsov ,2012).

Structural theories emphasize the increase in consumer demand; It has tried to identify the characteristics of the economic structure of developing countries, especially the rigidity or limited flexibility in the possibilities of substitution or substitution in production and in the elements of production, those characteristics or characteristics that try to affect economic adaptations and the choice of development policy; Therefore, the structuralists focus on specific sectoral plans and specific economic policies, and such trends can be found in certain operations, such as the import substitution strategy in the national economy, and the rest of the changes in other economic sectors.

2.6.10. The theory of balanced and unbalanced growth

According to the economic researcher Rosenstein Rodan, who said that in order to lift the economy out of the circle of poverty and underdevelopment and retreat to growth and development, development programs must be huge and continuous, and investment programs must be strengthened with a "big push" so that stagnation and economic and productive paralysis can be overcome And push it towards higher levels of production and thus a higher national income, and the government must, in developing countries, prepare development projects in all fields and sectors, whether agriculture, industry or others in the light of benefiting from potential additional resources, such as the unemployed labor force, and at the same time must adopt Some special policies, through taxes, to raise the rate of saving from net income, and for the success of his model, Rodan stresses the need to secure income from internal and external sources (Saaed, & Hussain, 2015).

As for Ragnar R. Nurkse, he believes that balanced growth can only be achieved by carrying out a large wave of investments in a number of industries in order to expand the scope of the market and thus increase the demand for its products.

As for the idea of unbalanced growth, Hirschman crystallized its features after criticizing the poles of growth and balanced growth, and emphasized that the development plan that implements the intended unbalanced growth strategy is the best way to achieve progress. This is because the diversification of investment in the important sectors of the state leads to the recovery and growth of the economy and thus to new investments, as the development process needs to develop the basic strategic sectors in the state such as agriculture and industry. Where growth moves from the leading successful sectors in the country to the developing sectors, in order to create productive savings from which the rest of the sectors in the country benefit, and every new project, whether agricultural, industrial or service, will generate abundance and advantages, including corporate profits, including social profits (Pietak, 2014, 45-60).

As countries need to finance huge productive investment projects for some industries, but according to certain priorities, and this is what happened in major industrial countries such as France and Britain, and given that countries are incapable and have limited resources, they cannot provide stable, regular and sufficient funding for all sectors. Pioneering investment activities and successful production projects must be created so that they lead the returns achieved, including the national plan for production development, which also encourages private investment, and this will generate a motive for growth within the framework of two levels, either the imbalance between the social capital sector and the state's direct production sector, or the imbalance within the economic sector, whether agricultural, service or industrial itself, provided that it contains The leading sector has the greatest degree of forward or backward integration, for example, the establishment of the leading automotive industry necessarily leads to the establishment of factories for tires, glass and batteries, and it also leads to urging investors to establish intermediate industries for cars as well (Tapşın, 2016).

The theory is flawed in its assumption that the economic, social and political conditions are similar between all or some countries (especially between developing and industrialized countries), the latter inheriting a fragile economic system. Colonialism and the historical conditions associated with the emergence of economic activity played an important role in the underdevelopment that these countries suffer from, as It neglected planning errors in studying the interrelationships between sectors that could lead to a negative trend in the development of the sectors themselves or the rest of the sectors (Adel & AlAdlani, 2019).

2.7. Economic Growth And Foreign Trade

Foreign trade greatly affects economic growth, as import and export play a role in strengthening the exchange rate and affect inflation, interest rates, and individuals. The trade surplus contributes to the economic growth of the country. When exports increase in a country, the level of productivity of factories and factories increases, and more job opportunities will be available to operate factories and when a company exports a lot of products, the flow of money in the country increases, which leads to stimulating consumer spending and supporting economic growth.

• Effect of import and export on the individuals:

The state pays the currency abroad when it imports the goods, that is, the currency goes out and flows out of the country, as the local companies that import distribute the money outside the country. The high level of imports may be due to the strength of a country's currency, and this indicates a growing domestic demand and a recovering economy. On the other hand, the supply policy and the type of imports also play a role in enhancing the production process, especially if it is related to production tools that will enhance economic output in the long term.

In a successful economic system, both imports and exports are in continuous growth. In this case, the country's economy is considered strong with sustainable trade at the level of trade surplus or deficit. If the proportion of exports increases and the proportion of imports decreases sharply, this may mean that the economy of other countries is better than the domestic economy. On the other hand, if exports decrease and imports increase, this may mean that the local economy is progressing better than other countries. For example, the trade deficit in the United States of America worsens when economic growth is at its best and imports make up a larger proportion of exports. Despite everything, repeated trade deficits did not prevent the United States of America from continuing as one of the most productive economies in the world.

In general, the increase in imports and the trade deficit negatively affects one of the main economic variables, which is the country's exchange rates, as the level of the local currency is evaluated by comparison with other currencies.

• The effect on Exchange Rates:

Studying the relationship between import and export for a particular country and its association with exchange rate fluctuations between the import and export countries is very complicated, because of the existence of a continuous feedback loop between import and export and the evaluation of the currency of the import and export countries. Also, the trade surplus or deficit of a country can be affected by the exchange rate of the local currency, as the weakness of the currency of a particular country can stimulate exports due to the decrease in the value of exported goods and vice versa, as well as the currency if its value is high, making imports cheaper for the country. For example, if we take for example a piece of clothing that is priced at $10 in the USA and will be exported to Iraq. If we assume that the exchange rate is 1,500 dinars to one dollar, ignoring the cost of transportation and import duties, then the Iraqi importer will price this $10 piece at 15,000 Iraqi dinars. If the value of the dollar against the dinar increases to 2000 per dollar and if the American seller does not raise the price of the piece, then the new price on the Iraqi importer will be 20000 dinars (10 * 2000). This leads the Iraqi importer to look for a cheaper price elsewhere, because the increase in the value of the dollar has made it difficult for the American merchant to export to the Iraqi market.

At the same time, if we assume again that there is an exchange rate of 1,500 dinars per dollar, and that there is an exporter of clothing in Iraq whose main market is the United States, then the piece that the exporter sells for 10 US dollars. In the US market, of which he makes 15,000 Iraqi dinars upon receipt of export proceeds (neglecting shipping costs, etc.). If, as in the previous example, the value of the dollar increases to 2,000 dinars per dollar, then the exporter can now sell the same shirt at $9.09 to earn the same 2,000 dinars. This means that the increase in the value of the dollar against the Iraqi dinar was in the interest of the Iraqi exporter, which increased his ability to compete in the American market and offer cheaper prices. In conclusion, we conclude that as a result of the rise of the dollar against the Iraqi dinar, it weakened the competitive strength of the American piece of clothing in the Iraqi market, but it reduced the prices of the imported Iraqi piece of clothing in the American market. .

This was reflected by improving the competitiveness of Iraqi textile and ready-made garment exports, but this made imports of clothing more expensive for the Iraqi consumer. This means that the exchange rate has a fundamental relationship with determining the prices of products that are imported and exported from the country.

• The impact on Inflation and Interest Rates:

In the light of the market economy, the rise in commodity prices in the country, i.e. inflation and interest rate fluctuations, affects foreign trade with its import and export dimensions mainly by affecting the value of the currency and its exchange rate in the market. The rise in commodity prices in the country leads to a decrease in the value of the national currency and thus becomes There is an increase in the money supply which naturally leads to higher interest rates. There is one theory called the conventional currency theory that says that a currency that has a higher interest rate will have less value compared to currencies with low inflation and lower interest rates. Based on the open interest rate parity theory, it can be said that the difference in interest rates between the two countries, that is, which has a higher and lower interest rate, is equal to the expected change in exchange rates in both countries. If the interest rate differential between two different countries is 4% for example, it can be said that the currency of the country with the higher interest rate will appreciate by 4%, against the currency of the country with the lower interest rate.

Here it must be emphasized that investors must ensure that the depreciation of the currency will not compensate for the high profits, and this strategy is valid, i. As a result of strengthening the local currency, any increase in its value will negatively affect exports. The high rate of inflation can also negatively affect exports through a direct impact on production costs such as production wage costs, material purchases and labor value, and thus will affect, in one way or another, the country's ability to compete on the international stage.

Several studies (eg Medina-Smith, 2001; Mahrowal, Sarmidi, Md. Nor, 2014 and Nguyen, 2017). I concluded that exports have a positive effect on the growth of the gross domestic product, that is, by increasing exports, the economic growth of the country will be enhanced, and imports may have a positive or negative effect. Often the effect is positive if it aims to transfer technology and enhance production.

2.8. Economic Growth and Foreign Trade in Iraq between 1980 and 2020.

The Iraqi economy depends on oil. Iraq's economy, which has eight percent of the world's proven crude oil reserves, has been restructured after occupation and civil war. That is, the main source of income in the country is the production of oil and natural gas. The most important strength of the Iraqi economy is its oil resources, and therefore its economy depends on oil revenues (before the Gulf War, 95% of foreign exchange earnings for Iraq came from oil.

The oil potential prompted Iraq to lead its economic development based on oil, ignoring other resources. When we look at the Iraqi economy apart from oil, we see the importance of developing industry and then the agricultural sector, but we cannot currently think of developing any economic sector in isolation from oil and its monetary revenues.

Since its establishment in 1958, Iraq has attached importance to its relations in every field, whether in geography or on the international level. In this context, it has always pursued policies aimed at improving its trade relations, especially with neighboring countries. However, as mentioned a lot in the study, the political and military problems that he suffered also affected their economic relations at a high level and caused great problems in the development and development of Iraq. Within this framework, Iraq's exports and imports and its economic growth from 1980 to 2020 were highlighted. In 2020, Iraq had the 52nd largest country in the world in terms of GDP (current US dollars), the 44th largest exports, the 51st largest imports, and the 117th largest per capita GDP (current US dollars) and the 90th most complex according to the Economic Complexity Index (ECI).

• For Iraq's exports:

Iraq's top exports are crude oil ($45.2 billion), gold ($7.98 billion), refined petroleum ($4.25 billion), coking coal ($424 million), and coal tar ($102 million), with most exports to China ($17 billion). Dollar). India ($14.4 billion), Iraqi ($8.19 billion), South Korea ($3.78 billion), and the United States ($2.85 billion).

Figure 1. The development of exports in Iraq until 2020
Source: researcher work depending on World Bank data

Exports in Iraq increased to $31,098.50 million in the fourth quarter of 2020 from $18,155.80 million before 1990.

• For Iraqi imports:

Iraq's top imports are broadcast equipment ($3.33 billion), refined petroleum ($2.6 billion), automobiles ($1.86 billion), jewelry ($1.44 billion), and packaged medicines ($996 million), most of which are imported from the UAE ($13.1 billion). Billion dollar). China ($10.9 billion), Iraqi ($9.14 billion), India ($1.46 billion), and Germany ($1.04 billion).

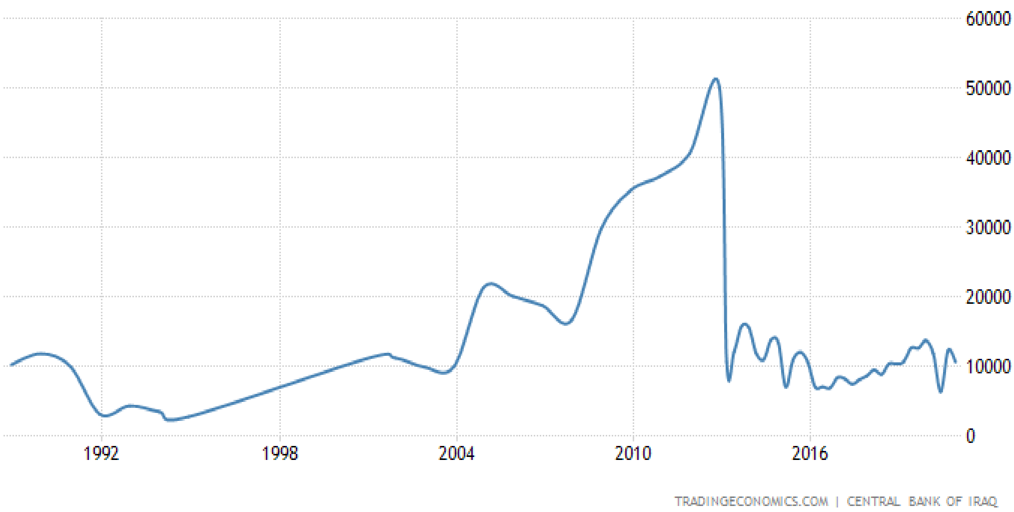


Figure 2. The development of imports in Iraq until 2020
Source: researcher work depending on World Bank data

Imports into Iraq increased to $12,000 million in the third quarter of 2020 from $10,200 million before 1990.

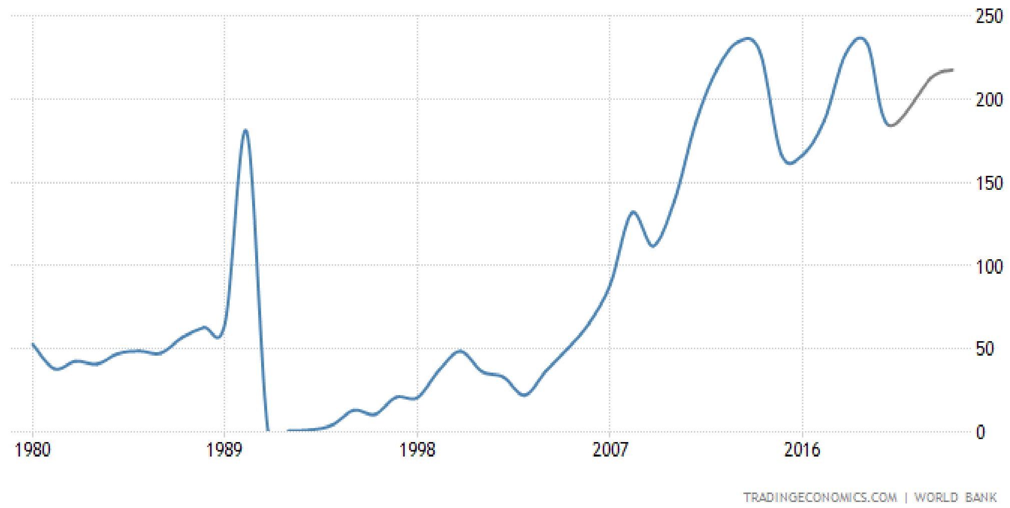


Figure 3. GDP annual growth of Iraq from 1980 to 2020
Source: researcher work depending on World Bank data

Iraq's gross domestic product reached about $204 billion in 2020, from about $50 billion in 1980, according to official data issued by the World Bank. The value of Iraq's GDP represents 0.09% of the global economy.

CHAPTER THREE

METHODOOLGY, MODELLING AND DATA

3.1. Methodology

This study is one of the quantitative studies that depend on time series studies and econometrics to study the impact of foreign trade on economic growth in Iraq

In this thesis, the researcher sought to study and explore the long- and short-term relationship between economic growth as a dependent variable through gross domestic product and foreign trade through trade openness, capital, and work as independent variables, as the researcher used the ARDL co-integration model. To study this relationship. Fixed in a time series during a certain period, and if the time series is short, it is a commonly used model in modern economic studies. The application of this ARDL model to study the relationship between time series was proposed by researchers such as Pesaran, Shin and Smith (2001) in order to reach a long and short term analysis of the relationship between variables in time series. The time series that is being studied in this thesis, whether with regard to foreign trade or economic growth, is relatively small and contains convergence in numbers during a specific period of time.

This thesis based its results on a set of analyzes, the first of which is the analysis of the stability of the series, then determining the degree of delay, and then analyzing the long-term and short-term relationship between the study variables.

3.2. Modelling

The core idea of this thesis is to examine the relationship between foregin and economic growth by taking the trade openness (TO), capital (CA) and labour (LA) as an independent variabels and the gross domestic product (GDP) as a dependent variable. The function of the relationship between variabels can be written as follows:

First equation: $\mathrm{GDPt} = \mathrm{f}\,(\mathrm{TO}, \mathrm{CA}, \mathrm{LA})$

The researcher converted the first equation into a regression equation in Equation No. 2, where (GDP) represents Gross Domestic Product, CA represents capital and LA represents labor in Iraq.

Second equation: $GDPt = b0 + b1\,TOt + b2\,CAt + b3\,LA + cti$

The researcher transformed Equation 2 into Equation 3 and Equation 4 according to the study of each of the researchers, the study of Jawed and Rida (2015) and the study of Khalil Gibran and his colleagues (2018). As Equation No. 3 represents the long-term relationship between capital, labor, trade openness and GDP, and Equation No. 4 represents the short-term relationship.

Third equation: $\Delta GDPt = \xi 0 + \xi 1TO\, t - i + \xi 2\, CA\, t - i + \xi 3\, LA\, t - i + \varepsilon t$

Fourth equation: $\Delta GDP = \Upsilon 0 + \Upsilon\, i \sum \Delta\, TO\, t{-}i + \Upsilon\, j \sum \Delta\, CA\, t{-}\, j + \Upsilon m \sum \Delta\, CA\, j{-} m + \phi ECt{-}i + \varepsilon t$

The parameters in equation three $\xi 1$, $\xi 1$ and $\xi 3$, is for long-run coefficients, while short-run coefficients are Represented in equation four as, Υi, and Υj, respectively, where φ represents the coefficient of error correction terms and εt is disturbance term.

3.3. Data And Variables

This study takes into account annual time series data for the analyses. The data covers the period from 1980 to 2020 in Iraq, taking into account the availability of data. The researcher collected the data used in this study from the World Bank and Iraqi economic statistics. GDP per capita data is taken in US dollars. The variables of trade openness, capital and labor force constitute the independent variables of the study, while the GDP variable constitutes the dependent variable in the study. Data for this study were taken from the World Bank in US dollars.

CHAPTER FOUR

EMPIRICAL RESULTS AND DISCUSSION

4.1. Unit Roots Analysis

In order to test the stability of the model, the following variables of the study (gross domestic product, trade openses, captial and labour) were tested, where the researcher performed the Dickey-Fuller unit root test. The results in Table 1 of the unit root analyses showed that the study variables became constant at the first difference.

The researcher interpreted the results of the ADF root test by looking at the probability value. Whereas, if the absolute value of the ADF is less than the critical value, hypothesis 0 is not rejected, and since a unit root is found in the string, it is said that the string is not invariant. The following two hypotheses were tested in ADF root tests. $H0.\ \delta\delta = 0$: has a unit root. $Ha.\ \delta\delta < 0$: does not have a unit root.

The results of each ADF stability test proved that all the variables under study are constant at the first difference except for the GDP variable which is constant at the level, which indicates that the null hypothesis of the series was rejected and the alternative hypothesis was accepted.

Table 1. Dickey-Fuller test for unit root

Variable	Level	First diff	Decision
GDP	-8.344***	-11.575	I (0)
LO	2.010	7.128**	I (1)
CA	1.696	6.220**	I (1)
LA	1.458	10.474**	I (1)

Notes: Critical values at 1, 5 and 10 per cent are –3.750, –3.000 and –2.630. ***, ** and* represent significance at 1, 5 and 10 per cent.
Source: researcher design

4.2. Lag Order Selection Analysis

The next step is to choose an appropriate delay value to investigate the long-run and short-run associations between the variables of trade openness, capital, and labor as independent variables and GDP variable as the dependent variable using the ARDL model. VAR statistics are used in order to set the appropriate delay value based on the

Schwartz criterion. The results of the VAR stats are shown in the table below. The Schwartz criteria reveal a minimum value where the optimal delay is 1. Thus, the lag of 1 is the best delay number for testing long- and short-run relationships in the ARDL model for this thesis.

Table 2. Lag Order Selection Criteria (1980-2020)

Lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-712.696				7.8e+06	38.2764	38.2434	38.3254
1	-636.001	153.189*	1	0.000	3.0e+06*	35.9044*	35.9307*	36.9835*
2	-607.876	56.0181	1	0.155	1.6e+06	34.8998	35.9455	36.0252
3	-599.977	15.186	1	0.666	2.7e+06	35.944	36.0049	37.1112
4	-597.019	46.0125	1	0.911	2.4e+06	34.9925	36.0686	37.2015

Source: Researcher work depending on the results of stata program

Table 3: Bounds test results

Null Hypothesis. No long-run relationships exist		
Test Statistic	Value	K
F-statistic	14.64	4
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	1.43	2.15
5%	1.87	2.77
1%	3.14	3.87

According to the above results, the following hypothesis is tested.

$H_0.\ \lambda = \lambda = \lambda = \lambda = \lambda = \lambda = 0$

The null hypothesis states that the coefficients of long-run parameters are all zero, which means no long-run association exists, against the alternative hypothesis that there is a cointegrating relationship.

$H_1.\ \lambda \neq \lambda \neq \lambda \neq \lambda \neq \lambda \neq \lambda \neq 0$

As the result shows, the Bounds test computed F-statistics has a value above all the upper critical limit values, which concludes that the null hypothesis of no long-run association is rejected. The alternative hypothesis states that the study variables are co-integrated and have a long-run connection is accepted. Once the existence of the co-integration is assured, the dynamics of the short-run model could be specified.

Table 3 shows that the calculated B value is greater than all critical values, which means that there is a cointegration relationship between the variables.

4.3. Long-run Equation Results

The optimal LAG was determined by 1 based on the results presented in Table 2. As a next step, the researcher will use the ARDL model to explore whether there is a relationship in the long period between trade openness, capital and labor force and economic growth within the framework of the GDP variable. Table 4 shows the estimated results of the ARDL equation over time in the long-run. The results of Table 4 for the long-term relationship between the variables show that openness, Capital and labor force have positive but not statistically significant effects on economic growth in Iraq in the long run. The results of this study are consistent with the findings of Caleb, Mazani, and Doro, (2014) and Ekuduand Ngomsi, (2017).

On the other hand, we find that trade openness is a major indicator of economic growth in Iraq in the long run, so the policy of trade openness and cooperation with different countries must be supported. The coefficient of labor force and capital is positive in the long term and has an impact on economic growth, in the sense that capital must be strengthened in various industries, especially agricultural and industrial products, production technology imported and labor force utilized and invested so that economic growth in Iraq is enhanced. According to the trade openness variable, an increase in trade openness by 1% leads to an increase in economic growth in Iraq by 0.007195%, and an increase in capital and labor by 1% leads to an increase in economic growth by approximately 0.061525% and 0.716157%. Therefore, the policies of the Iraqi government must be consistent with the approach of supporting trade openness. Previous research also found (Tahiret, al., 2015, Chen and Dong, 2012 and Esfahani, 1991) the utilization of human and material capital and the promotion and support of foreign trade leads to an increase in GDP growth in the long term.

Table 4. ARDL Long-run Equation Results (1, 1, 1,1)

Variable	coefficient	Standard error	t-statistics	Prob.
LO	-0.0007195	0.0021015	-0.34	0.735

CA	0.061525	0.108343	0.57	0.575
LA	0.0716157	0.060485	1.18	0.246
Cons	1.164042	20.57432	0.06	0.955

Notes: ***, **, and * refer to significance at 1%, 5%, and 10%, respectively.

4.4. Short-run Equation Results

The ARDL short-run equation results are presented in Table below.

Table 5. The ARDL short-run equation results

Variable	Coefficient	Standard error	t-statistics	Prob.
ΔGDP	0.1473731	0.881834	0.16	0.106
ΔLO	0.0269241	0.003782	7.11	0.000
ΔCA	-0.223432	0.1673119	-1.34	0.192
ΔLA	0.111105	0.1127959	0.99	0.333
ECT (-1) *	-0.0534512	0.0045674	-11.70	0.000
Dependent variable = ΔGDP Prob> f = 0000 R-square 0.9504 Adjusted R-square 0.8949 DW-stat 1.634 LM test 3.5347 Heteroscadasticity 1.0156				

Notes: ***, **, and * refer to significance at 1%, 5%, and 10%, respectively.

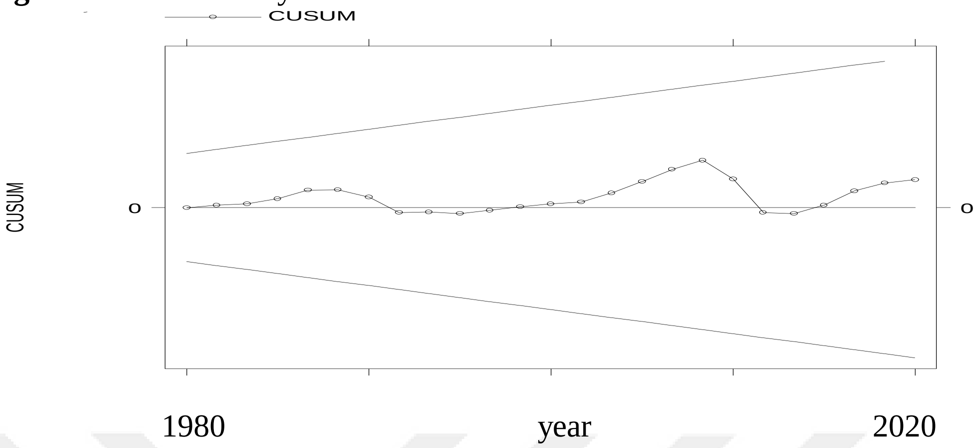
The results in the table above indicate that trade openness, has positive and significant effects on economic growth represented by the gross domestic product in the short term, i.e. the labor force and capital has a positive but not a significant effects on economic growth in the short term.

As shown by the results presented in Table 5, the model does not suffer from any serial correlation problem since the null hypothesis, which states that there is no serial correlation, cannot be rejected since the p-value of chi-square is greater than 5%. According to the results in Table 5 of the Breusch-Pagan-Godfrey test for covariance, the fitted model has no covariance problem as the P-values are above the specified 5% level.

The researcher conducted the cumulative sum tests using CUSUM and CUSUMQ tests to study the balance of the cointegration model. The results of the

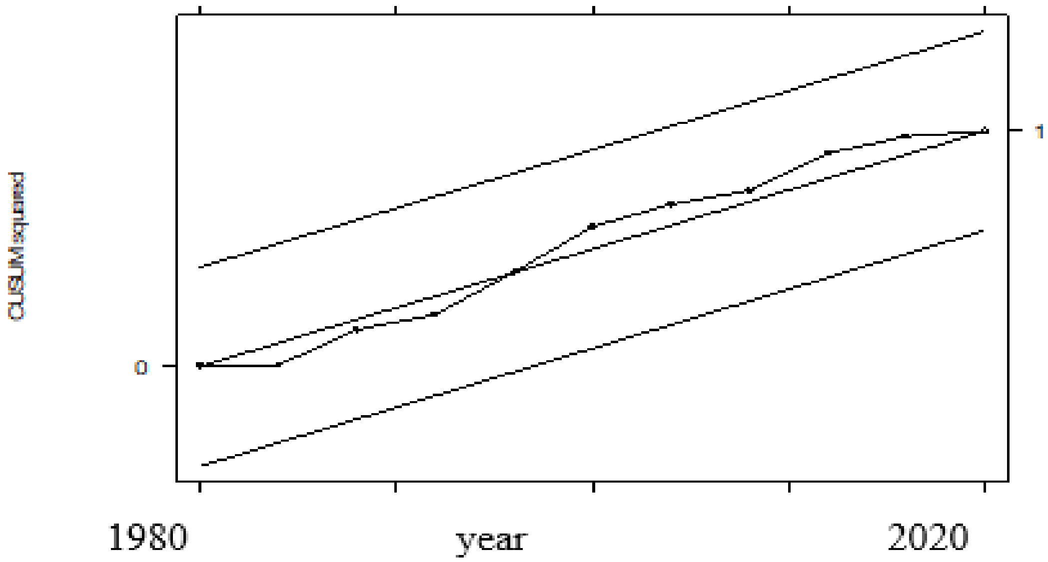
CUSUM tests in Figure 4 show that the model is balanced and suitable for the study within the 5% significance level.

Figure 4. Cusum Analyses



From Figure 4, the resercher conclude that the cumulative sum of square (CUSUMSQ) is located between the limits of the range at a significance level of 5%, which indicates that the ARDL model is balanced and suitable for the study.

Figure 5. Cusum Square Analyses



CHAPTER FIVE

CONCLUSION AND RECOMMENDATION

5.1. Conclusion

Foreign trade is the main driver of economic growth due to the import of capital goods and raw materials to increase production, and also due to the emergence of export of surplus goods.

In this thesis, we try to study the relationship between foreign trade and GDP growth over a period of 40 years (1980-2020), where the variables of trade openness, labor, and capital were taken as independent variables, and the GDP variable as a dependent variable. The results of this thesis indicate that there is a statistically significant positive effect of each of trade openness, capital and labor on the gross domestic product in Iraq.

Accordingly, the researcher relied in this study on the ARDL co-integration methodology, where appropriate analyzes were made to study the relationship of foreign trade with GDP as a variable representing economic growth. First, the researcher conducted an augmented Dickey-Fuller unit root test, to test the stability of the variables (GDP, trade openness, capital and labor). The results showed that the variables of the study are constant at the first difference, except for the variable of gross domestic product.

Secondly, the researcher conducted the lag test to choose an appropriate lag value with which to study the long- and short-run relationship between variables using the ARDL cointegration model, and the result showed that the recommended optimal lag is 1.

Third: The researcher conducted the long-term ARDL model test, and fourth, the researcher conducted the short-term test between the variables according to the approved model. It was found that the openness, Capital and labor force have positive but not statistically significant effects on economic growth in Iraq in the long run.

The results also indicate that trade openness, has positive and significant effects on economic growth represented by the gross domestic product in the short term, i.e.

the labor force and capital has a positive but not a significant effects on economic growth in the short term.

Finally, we performed CUSUM and CUSUMQ cumulative sum tests to test the stability of the model as the ARDL model was found to be adequate.

The results of this study are consistent with the findings of Tahereh (2015) and Isfahani (1991). It turns out that Iraq, as a developing country, Iraqi policy makers must be more careful when it comes to foreign trade decisions that affect GDP growth with regard to the forms and scope of trade openess. On the other hand, policy makers may encourage business owners to start new businesses and mass manufacture an imported domestic product to replace the imported one. This study only dealt with Iraq, which is a developing country, but it is difficult to determine whether its results are applicable in other developing countries, as this needs further studies.

5.2. Further Implications

The national and economic effects of the results of this study were classified according to the factors affecting economic growth, such as trade openness, capital and labor. Important economic recommendations were also made based on these results.

The fact that the implementation of trade openness policy is positive and meaningful, especially in the long run, has important implications for the country's economic growth. According to the results of this study, the policy of growth based on trade openness is very effective because it increases Iraq's access to foreign exchange and presence and competition in international markets. As a result, it is important for the Iraqi government to promote export-led economic growth policies such as “Made in Iraq” policies in order to achieve an advantage for the country in the field of international competition. In addition to traditional export products, the Iraqi government should support the marketing of Iraqi industrial and agricultural products that are in global demand.

To improve the quality of its exports and increase its income, the Iraqi government must improve the quality of products by carefully studying external needs. To boost food exports, the Iraqi government should provide support to export-oriented producers, especially small farmers and small and medium-sized enterprises operating in the context of international competition. In addition, the prices of the exporting producers should be moderately increased in order to achieve justice and profit. This support and high prices for small producers will encourage small farmers to continue producing exports and improve the quality of products as well, which will lead to an increase in Iraqi national export revenues in general. Iraq must invest in physical, regulatory and technical infrastructure and must import technologies that enhance export potential that can test, validate and approve its exports in accordance with the technical requirements of the international trading system.

The positive relationship of human and material capital and economic growth also confirms the need to raise production efficiency and use it to produce commodities that can be sold in the local and international markets, and to pay attention to attracting capital and employing it in an optimal manner so that it can employ the labor force and invest it in order to achieve economic growth.

The positive and statistically significant relationship between R and economic growth in Iraq indicates that the government should continue its economic growth strategy by stimulating foreign companies to invest directly in Iraq. In addition, when the government increases the GDP growth rate and achieves its long-term development goals, it must improve foreign direct investment and direct it to serve the development goals of Iraq.

It can also be said that the government should invest in infrastructure, especially in the transport and energy sectors (electricity and fuel), in order to promote internal and external trade and develop ways to transport products. In addition, the state must provide capital for export-oriented companies, by establishing private banks to support the marketing, export and re-export process.

5.3. Recommendations

International commerce has the capacity to drive the necessary macroeconomic goals and long-term growth of Iraqi’s economy as emerging countries.

Iraqi must implement a flexible exchange rate that promotes international commerce in order to achieve the necessary shift and macroeconomic transformation.

It is important for Iraq to plan and implement financial and monetary policies aimed at promoting business, especially within the framework of small and medium enterprises, to ensure the development of the Iraqi provinces.

The Iraqi state must grant soft loans to institutions, especially those operating in the agricultural and industrial productive sectors, because they are considered the main engine for economic development.

The Iraqi state must grant more facilities and support within the framework of implementing international trade policies, in a way that increases the incentive for companies to import technology that enhances production and thus economic growth. On the other hand, policy makers may encourage companies and their owners to launch new development projects and produce a home-grown product.

The researcher recommends conducting many researches on the subject of foreign trade, and its relationship to economic growth in Iraq and other developing countries, especially Arab countries, in different periods of time so that the results of the research can be generalized.

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