MEASURING THE EFFECT OF LIBERATING FOREIGN TRADE ON FOREIGN CASH RESERVES AND EXCHANGE RATE IN IRAQ FOR THE PERIOD 2004-2019

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ABSTRACT

The economies of developing countries at the beginning of the twenty-first century witnessed fundamental changes. The most important change is adoption of the freedom trade policy and the liberalization of foreign trade. This is one of the most important aspects of liberating economy. This has a clear impact in accelerating the process of economic development for each of these countries. This can be done by reducing the restrictions imposed on the process and providing the necessary support to encourage producers. This can be true by increasing the amount of exports and reducing the amount of imports. Also, this can be true by diversifying exports by adding additional investments. Liberation has a down side also. This is because of the lack of supervision and optimum use of resources. These downsides can lead to a lot of problems such as lowering the value of current currency through increasing the demand on foreign currency leading to inflation. This paper aims know Iraqi economy in general. This is done through numbers and indicators regarding trade balance. This trade balance is not diverse and productivity recorded low. This is because the dependency on oil, which reached 99% of total imports between 2004 and 2019.

The paper reached some conclusions, such as there is a positive relationship between imports and cash reserve. In other words, if imports increased by one unit, cash reserve is going to increase by %355.87. Recommendations can contribute in drawing economic policy. This policy should have a clear intellectual approach on one hand and provides a national policy for implementing the programs of this policy on the other.

Keywords: Liberating Foreign, Foreign Cash Reserves, Exchange Rate.

INTRODUCTION

The economy of developing countries has witnessed many economic and political changes at the internal and external levels. To study the economy of any country, the most important aspect in the formation of its total output and the necessary ways to provide the welfare must be clarified. We can demonstrate this by studying the country's foreign trade and the impact of foreign trade in the aspect of exports and imports on the other components of the economy. This can be done by showing its impact on the trade balance, structure of the country's foreign trade, comparative advantage of each country in terms of having the comparative advantage in producing a specific product within this country without other countries at the lowest possible cost and with the best quality as possible through a study foreign trade is defined in terms of whether this country is a producer or a consumer as well. Through the study, we can show the extent to which foreign trade contributes to the provision of foreign currency to the

country by increasing exports and decreasing imports. Therefore, when focusing on the issue of liberalizing foreign trade and showing the importance of this sector's contribution to providing many One of the means that contribute to the economic growth process of the country and thus achieve prosperity Some of the governments of these countries seek to reduce the phenomenon of restricting foreign trade by reducing customs duties, supporting local exports, encouraging local production through government support, reducing import policy and taking many measures, including imposing high taxes on Imports and encourage the local product because the increase in the value of the imports of any country over the value of its exports will cause a deficit in its trade balance, which is one of the most important accounts of the balance of payments. The exchange rate of the country will lead to a decrease in the value of its local currency, which in turn will lead to the occurrence of the phenomenon of inflation for this country on the one hand, and on the other hand, the increase in imports of any country leads to a shortage of the international monetary reserve, which in turn leads to a clear imbalance in the economic system of the country and that all of these problems that it is exposed to The economy of any country as a whole is mainly because it is an importing country rather than an exporting country.

Significant of Study

The importance of the study lies in the nature of the Iraqi economy, which is characterized by its dependence mainly on foreign trade, whether through obtaining foreign currencies or providing goods needed by the consumer, as well as the requirements that enter into the development process alike, in addition to the nature of the policies adopted in trade liberalization, which constitute the relative importance in the Iraqi economy.

Problem of Study

The research problem is:

The imbalance in the structure of foreign trade in the Iraqi economy, as rentier, represents an incubator for financial shocks, the effect of which increases in the decline in oil prices and causes instability and economic growth.

Study Hypothesis

The study starts from the hypothesis that:

The increase in exports will lead to raising Iraq's international reserves, which constitutes a positive factor in its economic growth and stability of its currency.

Goal of the Study

The main objective of the study is to identify the Iraqi economy in general and the reality of the external sector in particular and its impact on some economic variables.

PART ONE

RELATIONSHIP BETWEEN TRADE LIBERALIZATION AND THE BALANCE OF PAYMENTS

"Liberalization of foreign trade" means the general abandonment of trade restrictions and exchange rates, but this interpretation is not commensurate with other concepts, including international institutions, which show that it is abandoning export-biased policies, adopting export-import-neutral policies, reducing the value of high customs duties and reducing their dispersion, This is through the conversion of quantitative restrictions into compound charges to move towards a uniform system of such charges (Ihsan, 2005:13-14). The balance of payments is defined as a summary between the various transactions between domestic and foreign nationals of a given country within a given period of time and an accounting system for international State transactions for a specified period of time, which may normally be quarterly or annual, and that it contains accounts for transactions made by both enterprise individuals and the Government (Adnan, 2012:54).

The trade balance for trade in goods means the value of exports and imports of goods during the account period. It is part of the current account. Its indicators are influenced by the evolution of commodity exports that provide globally accepted hard currencies so that they can finance the import of capital and intermediate goods required by the country's economic and social development plans and programmes, as well as the payment of external debt and other needs of the country abroad (Ali, 2010:338).

Showing the impact of trade liberalization on the trade balance, we will review the reality of Iraq's trade balance for the period 2003-2019. (73%), rising in 2005 to (99%) and continuing into 2012, recorded a surplus of $39,792.9 million in 2013. In 2014, the trade balance surplus decreased by -1.4% compared to 2013. $38780.8 million and a further decrease of -73.6 in 2015 ($10253.3 million) But it went back up in 2016, where it recorded a surplus value. ($11621.3 million) and continued to rise until 2017, when it recorded a surplus value of. $24608.3 million in 2018 ($47484.2 million) and finally declining in 2019 to a surplus of $32167.6 million (Central Bank of Iraq).

To demonstrate the impact of foreign trade liberalization, we will clarify what could affect investment trends and what results are expected by:

Impact of trade liberalization on investment trends

Through the mechanism of liberalization of foreign trade, globalization can affect domestic investment and the performance of existing enterprises through export and import flows. Globalization (and trade liberalization) tends to eliminate non-capital forms of production and *"reduce"* their conditions in favour of controlling the forms and conditions of capital production Small enterprises exit the market because of their lack of competitiveness (Sadiq,38), if they do not merge to form more competitive production projects and generate external savings, especially since external orientation (through trade and investment liberalization) encourages effective enterprises and hampers others. It provides a more competitive environment for each public sector. Private, and thus increasing productivity, it should be noted that the inability of public enterprises to compete with the private sector is one of the main reasons for privatization.

Empirical evidence has been made clear that stabilization of macroeconomic variables and subsequent liberalization of external trade are positively linked to a higher rate of investment through what was put forward by Levine and Reinelt in 1992. The first two strong relationships are a close and positive correlation between growth and GDP per capita. The second is a positive correlation between the share of investment and open trade after the latter, such as GDP.

At the import level, the elimination of quantitative restrictions leads to the entry of new goods and services that were not already available on the domestic market, and an increase in the

flow of imports, which increases with the reduction of customs taxes. The effect of this type of import on domestic investment depends on the quality of these goods and services. If inputs to production are machinery and equipment, their entry into the domestic market reduces the cost of investment and creates new investment opportunities, but if these goods and services are luxury goods, their income or savings increase, thereby increasing the propensity for them. Reducing customs taxes on imports of finished products increases the flow of these imports and reduces relative domestic prices, thereby increasing real income and increasing savings, since the latter is a major source of investment finance, the investment rate may tend to increase. However, the increase in the flow of imports of final goods (as well as intermediate) lead to competition with domestic products and the exit of incompetent producers from the market, which enhances the presence of more competitive producers and the impact on existing capital in the first case in the short term, unless these producers are able to rebuild their productive capacities more efficiently, which can only be achieved in the long term, especially since the low cost of intermediate inputs can help them stay in the market. On the other hand (Jonath Ostry, 1991:460).

In the context of the effects of trade liberalization on human capital, some studies have shown that trade liberalization is positively linked to relatively low wages for unskilled labour in advanced economies and higher wages for skilled labour, which means that trade liberalization can increase investment in human capital, both public and private, especially as it is necessary to increase the competitiveness of domestic products internally and externally. In fact, this result may apply even to some developing countries (Matthew, 1997:78-90).

PART TWO
STANDARD TESTS IN THE STUDY (THEORETICAL)

First: Ratings Program Methods

Scale test time series

The stability of time series is an important theme for many statistical applications based on time series economic and financial data with a specific time frame. It is an important subject for standard analysis. The inference of unstable variables gives misleading results, i.e. the results between variables are unstable and not real. There are many statistical methods used to test stability, and we will adopt one of them. One of the most widespread methods is unit root testing, The unit root test is designed to examine the properties of the time series of each study variable within a period of time for observations, to ascertain the extent to which they are specific and to determine the level of integration of each variable separately. If the time series is stabilized after the first difference is taken, the original series will be integrated from the first grade. If the series is settled in the second difference, the time series will be integrated from the second grade (Marius Katsiolodios, 2019:15).

In order to test the stability of time series and determine their integration, we will use the extended Dickey Fuller test.

Dickey fuller extended test

After criticism of the simple Dickie-Fuller test, researchers Dickie & Fuller in 1981 developed this test and called it a test. (Dicky-Fuller Extended) These tests have proven to be efficient through recent applied economic studies used in time series analysis, as it is more

efficient than the methods used in the unit root data processor, since the link error between the two sets does not remain as the model can be described.

The Dyke Voller Extended Selection (ADF) is one of the unit root tests and relies on three elements to ascertain whether the time series are static or not. This is the format of the model used, the size of the sample and the level of morale (Abdul,2001:658).

First version: No fixed limit and no time direction

$$\Delta Y_t = \lambda \boldsymbol{Y_{t-1}} + \sum_{j=1}^{k} Pj\Delta Y_{t-1} + \boldsymbol{u_t} \dots\dots\dots\dots\dots\dots (\mathbf{1})$$

In this formulation, it is noted that it contains no fixed limit or time direction. In this case, the conditions are as follows: -

$\lambda = 0$ or $p = 1$ ..... H_0
$\lambda > 0$ or $p < 1$ ..... H_1

A number of time-gap differences are included in equation (1) so that the sequential correlation problem disappears with D.W.

We note that the problem has disappeared after, for example, three difference limits have been included, and that these differences are as follows:

$\Delta y_{t-1} = y_{t-1} - y_{t-2}$ .....)1,1(
$\Delta y_{t-2} = y_{t-2} - y_{t-3}$ .....)1,2(
$\Delta y_{t-3} = y_{t-3} - y_{t-4}$ .....)1,3(

The formula is then estimated and the expanded Tau Diki Voller is calculated according to the following formula:

$$I^* = \frac{\hat{\lambda}}{S\lambda} \text{.....) 1-4(}$$

And then get the critical value (ADFλ (i, n, e) for the model and sample size n and morale level e.

Second version: With only a fixed limit

This version differs from the first version because it contains a fixed limit.

$$\Delta Yt = a + \lambda y_{t-1} + \sum_{i=1}^{k} pj\Delta\, y_{t-j} + \boldsymbol{\imath t} \quad \text{.....)2(}$$

The propositions to be tested in this formula are:

λ=0 or p=1 .....Ho
a=0
λ > 0 or p< 1..... H1
a ≠0

After estimating the test formula, the extended Dickey-Fuller tau $\tau^*\lambda$ is calculated using the previous formula or tau for the vector parameter $\tau^* a$ a using the following formula:

$$\tau^{*}a = \frac{\hat{a}}{Sa} \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (2.1)$$

Then the critical values of (λ,a)are searched as follows:

The critical value of (λ) is: ADFλ (II,n,e)
The critical value of (a) is: ADFa(II,n,e)
Then the computed value is compared with the tabular values

The third formula: There is a fixed term with a time trend. This formula contains a fixed term and a time trend

$$\Delta y_t = a + B_t + \lambda y_{t-1} + \sum_{j=1}^{n} pj\Delta y_{t-j} + 4 + \cdots \ldots \ldots \quad)3($$

And the assumptions to be chosen in this formula are:-

λ=o or p=1..... H0
a=o
λ<0 or p<1… H1
a≠0
B≠0

The estimation of the test formula is the extended Dickey-Fuller tau $\tau^{*}\lambda$ is calculated using the previous formula, and the tau for the vector parameter $\tau^{*}a$ a using the following formula:

$$\tau^{*}\lambda = \frac{\hat{\lambda}}{\hat{S}_{\lambda}} \quad (3\text{-}1)$$

$$\tau^{*}a = \frac{\hat{a}}{\hat{S}_{a}} \quad (3\text{-}2)$$

$$\tau^{*}B = \frac{\hat{B}}{\hat{S}_{B}} \quad (3\text{-}3)$$

Then the boundary values of (a, B, λ) are searched as follows:

The critical value ⊣ (λ) is:- (e,a,III) A D Fλ
The critical value ⊣ (A) is:- (e,a,III) A,D,Fa
The critical value ⊣ (B) is:- (e,a,III) A,D,Fb

The test result can be judged, if the value of the P-Value is less than 5%, it means that the parameter is significant and the series is static, but if the value of the P-Value is greater than 5%, it means that the parameter is not significant and the series is unstable.

Or we compare the calculated value of (F) with the table value (F). If the calculated value of (F) is greater than the tabular value, then we reject the null hypothesis Ho and accept the alternative hypothesis H1 that is, the series is stable, but if it is the opposite and this means that

the series is unstable and requires taking the first difference and from Then take the second difference test Ha and so on until a stable time series is obtained.

Longitudinal data models

These models have gained in the current decade great interest, especially in economic and medical studies, because they take into account the effect of the change in time as well as the effect of the change in cross-sectional observations, and longitudinal data are defined as cross-sectional observations measured in certain time periods (Zakaria,2012:268). The use of longitudinal data models compared to using cross-sectional data models alone or time series data models alone has many advantages, including:

1. Control of particular variance heterogeneity that may appear in the case of cross-sectional data or the case of temporal data
2. Longitudinal data gives better efficiency and an increase in degrees of freedom, as well as less linear multiplicity between variables, and more informational content if cross-sectional or temporal data are used (Zakaria, 2012:269). There are three models for longitudinal data (Blatagi, 2005:154):

Aggregate Regression Model

This model is considered one of the simplest longitudinal data models, in which all coefficients are constant for all time periods (ignoring any effect of time). Ordinary least squares method is used to estimate the parameters of the model (Abdel, 1993:18).

Constant Variable Model

The fixed effect model is defined as the model that allows studying the effect of the behavior of the units under study or the effect of change over time for the collected data. time, or both, based on the assumption that each of these units has its own characteristics that are incomparable within the independent variables in the model, and until the differences of the sections are taken into account and then using the dummy variables with what is known as the least squares of the dummy variables, one of the advantages of the fixed effect is that it allows a correlation between The special effect of the units, and the independent variables, but the main negative of its use lies in the loss of degrees of freedom with the number of cross-sectional data, due to the use of dummy variables with the number of cross-sectional data, or the number of years or both, and therefore the fixed effect is preferred to be used in the relatively small sample size (Shugairi, 2012:75-76).

Random Effect Model

An alternative to using a fixed-effect model is a random-effect model where the cross-section of the cross-sectional, temporal, or both data is assumed to vary randomly within an arithmetic mean constant. The fixed effects are true and unbiased. It is usually assumed that the variance of the error is constant (homogeneous) for all cross-sectional observations and there is no autocorrelation during time between each group of cross-sectional observations in a specific time period. The random effects model is a suitable model in the event that there is a defect in one of the above-mentioned assumptions in the fixed effects model (Beauty, 272).

Choosing between the fixed effect and random effect models

The difference between the fixed and random effect models lies in the way of looking at the special effect of individual units. In the fixed effect model, this effect is considered as part of the clip, while in the random effect model, it is considered as part of the random error section. In general, the choice between the two effects It is, based on the nature of the correlation between the special effect of the units, and the independent variables. If it is assumed that there is no correlation between them, then the use of the random effect is preferable because it does not lead to a loss of degrees of freedom. But in the case of assuming a correlation between the special effect of the units and the independent variables, the use of the fixed effect is preferable; Because the random effect in this case is confusing and inefficient (Blatagi, 2005:47).

MEASURING AND ANALYZING THE RELATIONSHIP BETWEEN STUDY VARIABLES IN IRAQ

Model Framework

The use of cross sectional data over time (longitudinal data (panel data), both annual data, and cross sectional data) is one of the best time series data as it is characterized by the study of repeated observations over time, and therefore the increase in the sample size, and cross sectional data can Through time more complex models are studied than those in time series.

Panel data is characterized by both dimensions of time and space at the same time. Instead of testing cross sectional data for all countries at one point in time, or testing (time series) for one country using time series data, the cross sectional data is tested Cross-sectional data over time (Panel Data) for all countries over time.

This type of cross-sectional data over time (Panel Data) suffers from several problems in estimating models, represented in the problems of instability of variance, and autocorrelation, and several estimation methods can be used, most notably the fixed effect models (Fixed Effect) and the random effect (Random Effect).

Model Specification

The cross-sectional data model was used to study the impact of the liberalization of foreign trade on the balance of payments for a sample of the selected countries, namely (Algeria, Egypt, and Iraq), where quarterly data were used for all the countries under study, and two standard models were used for the study, the first model related to international reserves (Intr), and the second model is related to the exchange rate (Exg) and each of them has been studied separately.

The first model relates to international reserves Intr

$$\mathbf{Intr} = \beta_0 + \beta_1 \mathbf{Ex}_{it} + \beta_2 \mathbf{Im}_{it} + \varepsilon_{it}$$

The second model is related to the exchange rate Exg

$$\mathbf{Exg} = \alpha_0 + \alpha_1 \mathbf{Ex}_{it} + \alpha_2 \mathbf{Im}_{it} + \mathbf{U}_{it}$$

Intr: international exchange reserve

Ex: exports

IM: imports
Exg: exchange rate
$Ɛ_{it:}$ error term for int
Uit : error term for exch
$\beta_o + \beta_{1+} \beta_2$: Model parameters
i = (1= Iraq
t=(2004, ……, 2019)

Third: Model Estimation

This study depends on the use of quantitative analysis, using cross-sectional data over time (Panel Data), which includes three countries (Iraq, Algeria, and Egypt) during the period (2004-2019) using (Eviews 12) Table 1.

Unity root test

1. The dependent variables are (Exg), which represents the exchange rate, and (Intr) which is the international reserves, which are static at the level with a fixed limit, because the probabilistic value is less than 5%.
2. It is noticed that the independent variable imports (IM) is stable in the level at a fixed limit because the probabilistic value is less than 5%.
3. As for the variable (EX), which represents exports, the results were static at the level and at a fixed limit because the probabilistic value is less than 5%.

Table 1
LEVIN-LIN-CHU UNIT-ROOT TEST

variables	test	intercept	intercept+ general trend	without	Stationary status
Ex	ADF	-2.15532	-1.14861	0.29379	Stationary
	probability	0.0156	0.1254	0.6155	
im	ADF	-2.3547	-0.47797	1.04459	Stationary
	probability	0.0093	0.3163	0.8519	
intr	ADF	-1.81644	-1.43956	-1.01695	Stationary
	probability	0.0347	0.0750	0.1546	
exg	ADF	-27.4623	-30.3683	-0.49179	Stationary
	probability	0.0000	0.0000	0.3114	

Source: made by the author using Eviews 12

First Model: Model related to the effect of liberating foreign trade on international monetary reserve

First: Iraq

We will apply the following models that were previously explained in the practical side of Iraq and the selected countries, which are Tables 2 to 4:

Pooled Regression Model (PM)

Table 2 POOLED REGRESSION MODEL (PM)				
Variable	**Coefficient**	**Std. Error**	**t- Statistic**	**Prob**
EX-01	382.8482	33.18541	11.53664	0.0000
IM-01	669.7109	49.27754	13.59059	0.0000
R-squared	0.924423	Mean dependent var		48867658
Adjusted R- squared	0.924006	S.D dependent var		19515667
S.A of Regression	5379903	Akaike info criterion		33.84511
Sum squared resid	5.24E+15	Schwarz criterion		33.88018
Log likelihood	-3094.827	Hannan-Quinn crlter		33.85933

Source: made by the author using Eviews 12

Fixed Effect Model

Table 3 FIXED EFFECT MODEL				
Variable	**Coefficient**	**Std. Error**	**t- Statistic**	**Prob**
C	-5969228	1261611.	-4.731432	0.0000
EX-01	355.8770	32.05030	11.10369	0.0000
IM-01	842.9619	59.44879	14.17963	0.0000
Fixed Effects (Cross)				
01--C	-1.06E-08			
02—C	-1.06E-08			
03—C	-1.06E-08			
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.932866	Mean dependent var		48867658
Adjusted R- squared	0.931358	S.D dependent var		49515667
S.E of regression	5113044.	Akaike info criterion		33.75943
Sum squared resid	4.65E+15	Schwarz criterion		33.84712
Log llkellhood	-3083.988	Hannan-Quinn criter		33.79498
F-statistic	618.3558	Durbin-Watson stat		2.077140
Prob (F-statistic)	0.000000			

Source: made by the author using Eviews 12

Random effect model

Table 4 RANDOM EFFECT MODEL				
Variable	**Coefficient**	**Std. Error**	**t- Statistic**	**Prob**
C	-5969228	1261611.	-4.731432	0.0000
EX-01	355.8770	32.05032	11.10369	0.0000
IM-01	842.9619	59.44879	14.17963	0.0000
Random Effects (Cross)				
01--C	0.000000			
02—C	0.000000			
03—C	0.000000			
Effects Specification				
			S.D	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			5113044	1.0000
Weighted Statistics				
R-squared	0.932866	Mean dependent var		48867658

Adjusted R- squared	0.932120	S.D dependent var	19515667
S.E of regression	5084559	Sum squared resid	4.65E+15
F-statistic	1250.607	Durbin-Watson stat	2.077140
Prob (F-statistic)	0.000000		

Source: made by the author using Eviews 12

Choosing Random vs Fixed Effect model

It is noted from the table below that the P.V value amounted to (0.942), which is greater than 5%, so the Random Effect model will be chosen Table 5.

Table 5
FIXED VS RANDOM EFFECT

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob
Cross-section	0.965	2	0.942

Source: made by the author using Eviews 12.

Statistical Analysis

Intr= -5969228+355.87Ex +842.96 IM

It is noted from the random effect model (Random Effect) that there is a direct relationship between (EX), which represents exports to the State of Iraq, and (INTR), which represents the international reserves of Iraq, that is, increasing Iraqi exports by one unit will increase cash reserves by (355.87). As for (IM), which represents, Iraq's imports, we note the existence of a positive and moral relationship because P.V amounted to (0.000), which is less than 5%. That is, increasing Iraqi imports by one unit will increase cash reserves by (842.96).

As for the value of (R2), it reached (93%), i.e. the changes that occur in the dependent variable are a result of the changes that occur in the independent variables in the model, and the remaining (7%) is due to variables outside the model.

As for the value of (Durbin-Watson) it reached (2.07) which is greater than the value of (R2), which amounted to (93%), and this explains the absence of autocorrelation.

And the calculated (F) value amounted to (1250.54), while the P.V value of F amounted to (0.000), and this explains the significance of the model as a whole.

Economic Analysis

The direct relationship between Iraqi exports and the volume of international reserves is consistent with the logic of economic theory because the increase in exports to the outside world generates an increase in the volume of foreign currency reserves as well as an increase in gold reserves.

As for the direct relationship between Iraqi imports and international reserves, it is compatible with the situation of the Iraqi economy. Through Table (14) and (21) it is noted that the relationship between Iraqi imports and international reserves at the beginning of the period is that imports rose with the rise in international reserves. As for the period (2014-2016) It is noted that imports and reserves decreased, but at the end of the period (2017-2019), both imports and reserves increased Tables 6 to 8.

Second Model: Model studying the effect of foreign trade on exchange price

First: Iraq

Pooled regression model

Table 6 POOLED REGRESSION MODEL				
Variable	Coefficient	Std. Error	t- Statistic	Prob
EX-01	-0.007813	0.002668	-2.928694	0.0038
IM-01	0.038283	0.003961	9.663856	0.0000
R-squared	0.1845818	Mean dependent var		1219.618
Adjusted R- squared	0.1805795	S.D dependent var		98.93533
S.A of Regression	432.4909	Akaike info criterion		14.98787
Sum squared resid	33855758	Schwarz criterion		15.02294
Log likelihood	-1369.390	Hannan-Quinn crlter		15.00209
Durbin-Watson stst	2.0251087			

Source: made by the author using Eviews 12.

Fixed Effect Model

Table 7 FIXED EFFECT MODEL				
Variable	**Coefficient**	**Std. Error**	**t- Statistic**	**Prob**
C	1415.684	17.90412	79.07032	0.0000
EX-01	-0.001417	0.000455	-3.114302	0.0021
IM-01	-0.002806	0.000844	-3.326193	0.0011
Fixed Effects (Cross)				
01--C	-2.25E-13			
02—C	-2.25E-13			
03—C	-2.25E-13			
Effects Specification				
Cross-section fixed (dummy variables)				
R-squared	0.473911	Mean dependent var		1219.618
Adjusted R- squared	0.462088	S.D dependent var		98.93533
S.E of regression	72.56161	Akaike info criterion		11.43369
Sum squared resid	937203.3	Schwarz criterion		11.52138
Log llkellhood	-1041.183	Hannan-Quinn criter		11.46924
F-statistic	40.08638	Durbin-Watson stat		2.05109
Prob (F-statistic)	0.000000			

Source: made by the author using Eviews 12.

Random Effect Model

Table 8 RANDOM EFFECT MODEL				
Variable	**Coefficient**	**Std. Error**	**t- Statistic**	**Prob**
C	1415.684	17.90412	79.07032	0.0000
EX-01	-0.001417	0.000455	-3.114302	0.0021
IM-01	-0.002806	0.000844	-3.326193	0.0011
Random Effects (Cross)				
01--C	0.000000			

02—C	0.000000			
03—C	0.000000			
Effects Specification				
			S.D	Rho
Cross-section random			0.000000	0.0000
Idiosyncratic random			72.56161	1.0000
Weighted Statistics				
R-squared	0.473911	Mean dependent var		1219.618
Adjusted R- squared	0..468065	S.D dependent var		98.93533
S.E of regression	72.15736	Sum squared resid		937203.3
F-statistic	81.07357	Durbin-Watson stat		2.051091
Prob (F-statistic)	0.000000			

Source: made by the author using Eviews 12

Choosing Between Fixed and Random Effect

It is noted from the table below that the P.V value was (0.9800), which is greater than 5%, so the Random Effect model will be chosen Table 9.

Table 9
FIXED VS RANDOM EFFECT

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob
Cross-section	0.000000	2	0.998

Source: made by the author using Eviews 12.

Statistical Analysis

Exg=1415.684 – 0.001417Ex – 0.002806 Im

It is noted from the Random Effect that there is an inverse relationship between Iraqi exports and the exchange rate as well as being significant because P.V amounted to (0.0021), which is less than 5%.

As for Iraqi imports and their relationship to the exchange rate, it is noted that there is an inverse and moral relationship because P.V amounted to (0.0011), which is less than 5%.

As for the value of (R2), it reached (47%), i.e. the changes that occur in the dependent variable are a result of the changes that occur in the independent variables in the model, and the remaining (53%) are due to variables outside the model.

As for the value of (Durbin-Watson) it reached (2.05), which is greater than the value of (R2), which amounted to (47%), and this explains the absence of autocorrelation.

And the calculated (F) value amounted to (81.07), while the P.V value of F reached (0.000000), and this explains the significance of the model as a whole.

Economic Analysis

There is a close relationship between the exports and imports of a particular country on the approved exchange rate, as the exchange rate plays an important role in achieving balance in the balance of payments. An increase in the exchange rate on the country's exports and imports.

The inverse relationship between Iraqi exports and the exchange rate is compatible with the logic of economic theory, because the increase in domestic exports to other countries will increase the state's foreign currency balances, and this will lead to a decrease in the foreign exchange rate.

As for the effect of the inverse relationship between imports and the balance of payments through its effect on the trade balance

Through the elasticity of domestic demand for imported goods and services, because a decrease in the exchange rate in a particular country will lead to an increase in the demand for those goods in that country.

CONCLUSIONS

1. There is a direct relationship between (EX), which represents exports to the State of Iraq, and (INTR), which represents Iraq's international reserves, meaning that an increase in Iraqi exports by one unit will increase cash reserves by (355.87).
2. There is (IM), which represents, Iraq's imports. We note the existence of a direct and significant relationship, that is, an increase in Iraqi imports by one unit will increase the cash reserves by (842.96).
3. There is an inverse relationship between Iraqi exports and imports and the exchange rate as well as being significant.

RECOMMENDATIONS

1. Work to raise production efficiency in the various Arab productive sectors, develop products in terms of quality and specifications, and reduce production and marketing costs to face competition at home, and to gain more space from global exports, especially in activities that enjoy comparative competitive advantages.
2. The necessity of diversifying the production base in Iraq and improving its contribution to the gross domestic product through a development strategy with a clear vision and objectives.
3. To carry out real economic transfers, there must be a real national will that works for the sake of Iraq away from all that is factional, partisan and sectarian and works only for the interest of Iraq and its people.
4. The necessity of working on the existence of an Arab economic bloc, initially represented in the establishment of free trade zones, such as those called for by the League of Arab States, to later develop into a customs union, as this bloc has become a necessity necessitated by the current international economic changes.

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