# TRADE OPENNESS AND ITS IMPACT ON THE INDUSTRIAL SECTOR OF THE IRAQI ECONOMY

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## ABSTRACT

After the year 2003, the trade openness in Iraq led to negative results on the development of industrial sector and on achieving the development goals of the national economy. This policy of openness has deepened the harmful structural imbalances in the Iraqi economy under the current circumstances, which requires taking serious economic measures to reduce those harmful effects of trade openness.

**Keywords:** Trade Openness in Iraq, Iraqi Economy, Industrial Sector

## INTRODUCTION

As a form of economic life prevailing at the present time in the world, the Iraqi economy has taken a liberal direction towards foreign trade. Although this direction represents one of the measures required to join the world trade organization, the removal of customs barriers on imported goods allowed the emergence of trade competition harmful to the local economy and the emergence of the problem of commodity dumping and unfair competition.

The industrial sector in particular, along with other sectors, has begun to decline as a result of increased trade openness, neglecting stimulus of industrial production, mismanagement, poor local product and high prices compared to the important product.

On the other hand, the continued dependence on oil to finance economic activities without working to diversify domestic production has led to the dominance of trading partners on the local market, deterioration of the contribution of industrial sector in the economy, increasing the rate of unemployment, and exacerbation of structural imbalances. Accordingly, these problems and imbalances in the economy of Iraq require seeking to change some economic policies, the most important of which is the trade policy pursued by the state.

## RESEARCH

### Research Problem

The trade openness led to almost total dependence on imports, collapse of basic economic sectors and the industrial sector in particular, making the country an open market for the products of other countries, low real GDP, and exposure to economic and financial crises.

### Research Thesis

The trade openness has led to the dominance of the commodities of trading partners on the local market in Iraq, collapse of the national industry due to the weak competitiveness of local production, and the decline in economic activity in general and the industrial sector in particular. Therefore, economic exposure negatively affects industrial production, local product, and non-oil exports. As a result, there is direct relationship with unemployment rates in the local economy.

**Research objective**

Explain the danger of opening up to global markets today without establishing basic economic foundations and bases to build a developed economy that can compete and integrate with the rest of the world.

**Research importance**

Highlighting the role of foreign trade (import and export) in the economy, clarifying the deficiencies in the management of trade policy, the impact of trade openness on the role of the industrial sector in achieving economic development, and the need to take realistic measures to save this vital sector from deterioration.

**Research structure**

The research has been divided into five main sections. First, the concept and forms of trade openness. Second, trade policy in Iraq after 2003.Third, the most important indicators of trade openness in Iraq. Fourth, the impact of openness in the industrial sector. Fifth, analyzing the statistical models of the research topic. Finally, the conclusion and recommendations.

## LITERATURE REVIEW

Trade openness and its impact on economic growth (a study on an applied to a group of Arab countries, /Researcher: Tahtan Mawred/ included a study of the impact of the openness of Arab countries abroad on their economic growth using Panel models for the period 1980-2006.The research found weak correlations between indicators Trade openness and economic growth. Website: www.enssea.net. Study and analysis of the relationship between trade openness and economic growth and its contribution to attracting foreign direct investments to Iraq (1997-2012) /(Odeh, 2016)/ Al-Ghari Journal of Economic and Administrative Sciences / Issue 37/2016. The research includes identifying the effects of economic openness in achieving growth rates and attracting foreign direct investment. The impact of trade openness on economic growth: the case study of Algeria (1980-2013), (Dalila-Taleb, 2016),The Jordanian Journal of Economic Sciences / Issue (2), (2016), the research dealt with the use of three indicators of trade openness in measuring the impact of openness on economic growth in Algeria The results showed that the trade openness index has a negative and moral impact on economic growth in Algeria, and that trade openness does not define economic growth. Trade openness and the total balances of the economies of North Africa, a study on the balance of payments (Algeria, Tunisia and Morocco) during the period (2000-2013) // by the researcher: (Malala-Sharaf, 2017) // Journal of the History of Science Issue (7), 2017. The study dealt with the impact of openness The study found that the effect of trade openness on the balance of payments balance varies from one country to another according to the economic development of each country, but its impact is significant and important, as the greater the trade openness, the greater its impact on the balance of payments, with The difference in the type of relationship between positive and inverse for each country.

Measuring the effect of commercial openness on employment in the sector of small and medium enterprises in Algeria (2000-2014), (Targou et at., 2017), Journal of Economy and Finance / Algeria / No. 1-2017 / The study included measuring the impact of commercial openness on employment in the sector of small and medium enterprises in Algeria during the period Above..as the study concluded that there is a positive and moral impact of the trade openness index on the level of employment in the small and medium enterprises sector in Algeria. Measuring and analyzing the impact of trade openness on economic growth for the period 2004-2014 / (Nada & Mahmoud, 2019). Research in the Journal of Kirkuk University for Administrative and Economic Sciences / Volume 8/2019. The research includes measuring the relationship between trade openness and economic growth, and the research found an inverse relationship between trade openness and per capita GDP, as well as an inverse relationship between trade openness and between domestic product and national income. PhD thesis (The policy of trade openness and its role in raising the competitiveness of countries, a case study of Algeria), University of Abu Bakr Belkaid / Algeria 2010, the thesis dealt with an analytical study of the impact of the policy of trade openness on international competitiveness in Algeria, as the researcher concluded through the study that there is a degree High trade openness in Algeria, which in turn led to raising the international competitiveness in the country. An econometric study of the impact of economic openness on the trade balance - the case of Algeria - for the period (1989-2013) / Jaafari Nabila / Master's thesis, Larbi Ben M'hidi University / Algeria (2015). ,, A standard analytical study dealt with the impact of economic openness on the balance of payments for the period 1989-2013, and the study concluded that the independent variables represented in the rate of openness and the price of oil have a significant and direct effect on the trade balance (the dependent variable), and they explain it at a high rate. The impact of trade openness on external indebtedness in the Arab Republic of Egypt / Shorouk Ali Al-Shehri, and Nashwa Mustafa Mohammed / King Saud University/. (Study on the website fac.ksu.edu.sa). Measuring the effect of trade openness on economic growth in Iraq for the period (2003-2016) using the ARDL model / Prof. Dr. Saad Saleh Issa and researcher: Ismail, A.M. (2018) / Tikrit Journal of Administrative and Economic Sciences / Issue 3 (2018), the research included measuring the impact of trade openness on economic growth in Iraq using the ARDL model. *And as far as our research is tagged (trade openness and its impact on the industrial sector in Iraq), the research dealt with a standard study on the impact of trade openness (as an independent variable) on industrial production and non-oil exports as well as unemployment (as dependent variables) for the period (2003-2017) and the study of the relationship between these variables using a simple regression model through the extended Dickey-Fuller test ADF and Philip-Perron PP test that is based on the hypothesis of unit homogeneity for all samples*.

## The Concept and Forms of Trade Openness

It must be pointed out first that trade openness is part of economic openness. In general, openness refers to two groups of ideas that relate to economic and trade freedom and the removal of restrictions on foreign investment. The openness is one of the factors that affect improving the distribution of production factors efficiently, which leads to increased production and the emergence of economies of scale that expand the size of the market and reduce costs and this will have an important impact on increasing rates of economic growth and prosperity.

Also, there is a comprehensive concept of openness embodied in the liberalization of the external sector through the trade balance and the capital account represented in the liberalization of flows of goods, services and capital from all restrictions and obstacles (customs duties and quantitative, administrative, and technical restrictions).(Hassen, 2016)

The trade openness means freeing trade from restrictions, exchange rates and set of measures to transform the foreign trade system towards non-interference in exports and imports.

When the state pursues a neutral policy between export and import and gradually reduces customs duties until they are abandoned, then it is considered a commercially open country that is, removing the restrictions on trade and exchange rates according to several measures that have been put in place by the world trade organization. (Jamila, 2016-2017)

There are multiple forms of trade openness in accordance with the objectives to be achieved for the purpose of achieving a single international market through the liberalization of the movement of goods and capital, the shift towards the market economy system, the reducing of state role in economic activity, and among these forms: (Al-din, 2017)

**Trade Openness within the Regional Framework**

It is the trade agreements that are called international economic integration in all its forms, which are the free trade zones, customs union, common market, and the last of which is economic integration. These trade agreements are based on agreed rules by multiple parties to regulate. International trade in all areas including anti-dumping and support measures and an integrated system for settling trade disputes between member countries.

**Voluntary and Compulsory Trade Openness**

Most countries seek to liberalize their trade to achieve a higher level of integration into the global economy and to achieve their development goals.
This form of openness is usually related or linked to developed and industrialized countries, while compulsory trade openness is usually carried out under conditions of international institutions such as the world trade organization and the international monetary fund.

**Progressive and Transitional Trade Openness**

The progressive openness is in the form of stages according to a systematic plan that is implemented at a specific time, such as the transition from the use of quotas to the tariff as a method of protection and then removed completely in a gradual manner, while the transitional Is through the liberalization of some products while keeping restrictions on others of agricultural products.

**Surface and Deep Trade Openness**

Surface openness focuses on removing traditional barriers, such as tariffs, but it is not sufficient to enjoy the advantage of commercial openness, while deep openness allows for the freedom of movement of people, removal of traditional barriers, unification and reducing the difference in laws related to trade, especially those related to customs procedures.

On the other hand, any country that pursues a policy of trade openness seeks to achieve one of the following gains: (Rawaba, 2010-2011)

**Production Specialization**

Facilitating trade between countries necessarily means that every country specializes in producing goods in which it has a comparative advantage; this specialization leads to an increase in the total volume of goods produced worldwide and utilizing resources more efficiently.

**Market Expansion**

Freedom of trade means that the market becomes more diversified and contains goods and services from different countries. This leads to the availability of a variety of products to the consumer, high demand elasticity, and thus lower prices.

**Lower Prices for Goods and Services**

The openness to the outside world and the consequent division of labour and international specialization lead to a decrease in the prices of imported goods, which can only be produced locally at high costs. Therefore, the consumer can obtain cheaper goods of appropriate quality while the producer can expand in other production fields in which he has comparative advantages which lead to higher efficiency in the exploitation of resources worldwide.

**Technological Development and Competition**

Trade openness leads countries to compete with each other to introduce advanced technological methods to increase and improve production. For example, when a producer uses a new invention that increases productivity and reduces costs and thus he can sell his production at a lower price than competitors who, if they want to continue in the market, must use that invention or develop a new invention.

**Reducing monopolies**

When the consumer is able to choose between multiple, options of homogeneous commodities, as a result of trade openness, he can thus prevent the creation of monopolies, on the other hand, the country that adopts the protectionist policy entails monopolistic.
Control by local producers as a result of not being afraid of homogeneous foreign products sold at a lower price.

**Achieving Economics of Scale**

Trade openness helps economic entities increase production and reach optimum volume. Many economic entities in developing countries are unable to reach the optimal size due to weak domestic demand for their production and therefore cannot reduce costs to a minimum. Restricting entry of similar foreign products by a particular country can harm the local economy as a result of continued local projects producing below the optimum size level and at high costs compared to efficient projects.

**Economic Development**

There are different opinions about the effectiveness of trade openness in achieving economic development goals, supporters of the policy of trade openness (Adam smith, Ricardo, and Mill) see openness as a catalyst for economic growth, while maxis thought adopted a different view because the international market falls under the monopolistic control of developed countries, which means that developing countries remain subject to them because of the ability of developed countries to obtain cheap raw materials in exchange for high prices for manufactured goods in developed countries. Also, openness will make developing countries focus in specific production models that hinder the development process because trade and investment lead to the necessity of borrowing from various international financial institutions and thus developing Countries fall into the trap of debt and west of export earnings and as a result increased dependency on developed countries.

## Foreign Trade Policy in Iraq After 2003

After 2003, Iraq adopted a policy of Commercial liberalization to import and export goods to and from Iraq. However, this policy was not based on Specific regulations and procedures to regulate import and export in a manner consistent with the reality of the Iraqi economy and its negative impact on the local industry due to the dumping policy Practiced by Some countries. The import policy did not include the imposition of taxes, fees or control, which led to the entry of goods from various origins, with poor qualities and low prices. The absence of customs and tax duties made it difficult for local industries to continue due to the high Costs of production and the migration of capital and technical Personnel. (Salim, 2014)

## Indicator of Trade Openness in the Economy of Iraq

The indicator of trade openness or exposure is the ratio of total imports and export to GDP. This indicator measures the state's contribution to foreign trade regardless of the restrictions imposed and shows how important the level of exports and imports is relative to GDP. The value of this indicator shows the extent to which the national economy is linked to the outside world, where economic analysts see that the economy of any country is exposed to the outside if the value of the indicator exceeds (20%)of the gross domestic product. (Al-Ridha, 2016)

As for Iraq, as shown in table 1, the volume of foreign trade has fluctuated between the years 2007, 2014 and 2015 due to the low oil prices and the financial crisis. Foreign trade in Iraq is mainly related to the outside world through oil exports to finance development projects and through imports to meet domestic demand and provide the necessary machinery and equipment for various economic projects. As for the geographical concentration, the Asian countries are considered the main markets for Iraqi exports by (61.4%) of the total exports for the year 2016 and followed by the countries of Western Europe with (24.3%) of total exports. (Central Bank, 2016)

**Table 1**
**TRADE OPENNESS INDICATORS FOR IRAQ ECONOMY (2004-2017)**
**(BILLION DOLLAR/PERCENT)**

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Imports(M) Billion dollar** | 19.95 | 23.52 | 22.01 | 19.56 | 35.5 | 35.38 | 37.33 | 40.63 | 50.16 | 58.80 | 53.18 | 51.58 | 53.43 | 54.25 |
| **Exports (X) Billion Dolar** | 17.7 | 19 | 27.2 | 37.9 | 62 | 46.4 | 51.4 | 79.6 | 94.1 | 101.1 | 109.1 | 118.1 | 127.6 | 139.9 |
| **GDP Billion Dollar** | 37 | 50 | 65 | 89 | 131 | 111 | 135 | 180 | 212.0 | 232.0 | 223.0 | 172.4 | 172.2 | 207.0 |
| **%*Trade Exposure Indicator** | 1.02 | 0.85 | 0.76 | 0.65 | 0.74 | 0.74 | 0.66 | 0.67 | 0.68 | 0.69 | 0.73 | 0.98 | 1.05 | 0.94 |
| **Imports(M) Billion dollar** | 53.92 | 47.04 | 33.86 | 21.98 | 27.10 | 31.87 | 27.65 | 22.57 | 23.6 | 25.3 | 23.8 | 29.9 | 31.0 | 26.2 |
| **Exports (X) Billion Dolar** | 47.84 | 38 | 41.85 | 42.58 | 47.33 | 41.8 | 38.07 | 44.22 | 44.39 | 43.5 | 48.9 | 68.5 | 74.09 | 67.5 |
| **GDP Billion Dollar** | 1.76 | 1.32 | 1.54 | 1.63 | 1.68 | 2.61 | 2.22 | 2.14 | 1.78 | 1.35 | 1.91 | 2.11 | 2.15 | 1.74 |
| **%*Trade Exposure Indicator** | 1.08 | 1.20 | 0.92 | 0.79 | 0.69 | 0.72 | 0.15 | 0.11 | 0.38 | 0.22 | 0.22 | 0.35 | 0.35 | 0.34 |

The source:IMF,2013,2015,2016 -Central bank reports for different year, *the work of researcher ,trade exposure indicator=(x+m/GDP)

The ratio of exports to GDP for the years (2004-2017) compared to imports illustrates the large role that exports play in the volume of foreign trade. However, the ratio of oil exports to GDP formed between 36.8% to 67.25%for the period 2005 -2017, while the ratio of industrial production to GDP reached 2.6%. in the best years of the Same period and the ratio of non-oil exports was only 1.2% in the best years of the same Period, and this indicates a large dependence on oil exports and its contribution to the GDP and the low Percentage of the contribution of non-oil industries, As for imports, as shown in Table-1-, the Percentage of imports in GDP reached its highest level (31%) in 2009 and 2016, and this reflects the extent of dependence on the outside to meet domestic demand because any country is considered open towards the outside when that percentage Exceeds (20%) of GDP.

An examination of the export structure Shows that crude oil and petroleum Products constitute (99.2%) in the Years 2015 and 2016, and food stuffs, non-food raw materials, chemicals, manufactured goods, machinery and equipment are only (0.8%). AS for the structure of imports, machinery and transportation equipment made up the highest Percentage (38.5 %) of total imports in 2016, various manufactures (15.8 %.), manufactured goods (11.4%), foodstuffs (5.4 %), and other imports at lower rates. (8) The Percentages shown above reflect the extent of the imbalances in the relationship of the Iraqi economy to the global economy, the lack of support for the development of the industrial and agricultural sector, and the lack of an import policy that Protects local industries for the Purpose of meeting 1ocal demand.

## The Impact of Trade openness on The Industrial sector

The deterioration of industrial sector in the Iraqi economy is due to mismanagement and excessive dependence on oil in financing the public budget and in meeting the country‘s needs of foreign goods and services.

**Table 2**
**THE VALUE ADDED FOR INDUSTRIAL SECTORS AND IT CONTRIBUTION PERCENTAGE IN GDP FOR IRAQ 2016**

| Manufacturing industry | Extractive industry | |
|---|---|---|
| 3.64 | 51.67 | The value Added (Million Dollar) |
| 2.3 | 32.7 | Contribution in GDP (%) |

The source: Arab monetary fund, the unified Arab economic report2016, p.319

AS shown in Table (2), most efforts to develop the industrial Sector Were focused on the extractive industry and neglecting the manufacturing sector. This is indicated by the sharp decline in the Proportion of contribution of the manufacturing sector to the GDP (2.3%) Compared to the proportion of contribution of the extractive industry sector (32.7%). On the other hand, the increased dependence on import to meet most of the basic needs of citizens has resulted in the Problem of commodity dumping and Competition for local Commodities of higher cost and price compared to imported goods leading to low industrial production, whether directed to the local market or for export.

The intense and unequal competition with imported goods led to a decrease in the number of industrial establishments due to the exit of some of them from the local market .Table (3) shows the number and percentage of decrease in establishments and their employee for the period (2014-2017).Also, in 2017,unemployment rates in the industrial and agricultural sectors

have respectively reached (19.7%) and (18.7%),while the number of exported goods decreased from 112 in 2014 to 96 in 2015 due to poor quality and high prices and thus made them unable to reach to global markets.

**Table (3)**
**INDUSTRIAL PROJECTS STATISTICS (2014-2017)**

| Percentage % (2017-2016) | 2017 | 2016 | 2015 | 2014 | The indicator |
|---|---|---|---|---|---|
| 2- | 574 | 586 | 621 | 609 | The number of industrial projects |
| 2.2- | 114497 | 117020 | 129224 | 130487 | Number of employees |

The source: Central statistical organization, Ministry of planning, statistics of large industrial for the year (2017), April 2018, p.4.

Iraq`s commitment to the terms of the trade liberalization agreements has opened its markets to foreign goods, reduce customs duties, and eliminated all forms of support and protection for domestic production. consequently, the collapse of the local industries was a result of policies of liberalization and openness of the trade, the low burden of taxes on high-income people as a result of the low customs duties imposed on imported cars and durable goods, and their inability to complete with imported goods due to the lack of activation of support and protection policies.

The adoption of a policy of commercial openness led to excessive consumption, a move away from productive activities and an increase in the rentier character of the Iraqi economy ,a change in the lifestyle and the emergence of new consumer needs, a migration of labour and competences due to the collapse of most productive activities that drive the wheel of development and growth, and the spread of some social phenomena such as drug addiction, corruption and bribery , which in turn led to the deterioration of the behavior of the Iraqi citizen and hinder economic development efforts. Accordingly ,it is necessary to impose customs and quantitative restrictions on imported goods according to the type and importance of the commodity ,impose non-customs restrictions that include prohibiting the import of some commodities and using licensing procedures to limit their import ,imposing health standards on imports through certain specifications and standards ,in addition to interest in investing oil revenues in creating on industrial environment capable of meeting the diverse needs of citizens for goods and services and reducing the need for imports.

## Analysis of the Statistical Models of the Study

### 1-Unit Root Test

The unit root test of data is necessary to know the stability of the series in question and to determine the degree of integration of these series. This test is distinguished from the unit root test for individual time series by including cross -sectional information content which means more accurate results. The null hypothesis test is intended to find out whether the series contains the unit root or not. The test of the alternative hypothesis is intended to arrive at finding out whether the series is stable or not and does not contain the unit root. The original series, if it is stationary at the level, is considered integral from degree (0), and if requires taking differences (1, 2) to make it stationary, it is considered integral of degree1 (d). In this context, the augmented Dicky-Fuller (ADF) test and the Philip Peron (pp) test based on the unit root homogeneity hypothesis are used for all samples. The table (4) shows the result of the above tests. In order to

measure the effect of economic exposure on each of the variables (industrial production, non-oil exports, unemployment rate, GDP), EViews ver.9 was used, and the results were as follows:

**Table (4)**
**UNIT ROOT TEST FOR STABILITY TO DATA UNDER STUDY**

| P-P test | | | ADF test | | The variables |
|---|---|---|---|---|---|
| The differences | The level | | The differences | The level | |
| **-3.679754 | -2.16814 | | **-3.16301 | -2.1788 | (X) Economic exposure |
| *-4.564899 | -0.9835 | | *-4.575230 | -0.9541 | ($Y_1$) Industrial production |
| *-6.562245 | -5.09411 | | *-4.360084 | -4.004 | ($Y_2$) Non-oil exports |
| *-4.103528 | -4.10352 | | *-4.252986 | -3.01281 | Unemployment ($Y_3$) rate |
| **-4.385158 | -1.56697 | | **-3.63269 | -1.52623 | ($Y_4$) GDP |

-*indicates that the first difference was taken to stabilize the time series.
-**indicates that the second difference was taken to stabilize the time series.

**The first model: Economic exposure……. Industrial production**

Y1(-1)=Bo+B1X(-2)+ei
Y1(-1): Industrial production with a time lag of one period and represents a dependent variable.
X(-2):Economic exposure with a time lag of two periods and represents an explanatory variable

According to appendix (1), the value of $R^2$ is (40%) and represents the percentage of the effect of economic exposure on industrial production, the calculated value of (F) has reached (7.4639) at the level of significance (0.05), and the value of the level of significance of the test F has reached (0.09) and it is below the significance level and therefore the model is considered appropriate.

As for the explanatory variable X, which stabilized after taking the second difference, the value of its estimated coefficient reached (-5.04666). This indicates that one-unit increase in economic exposure leads to a decrease in industrial production by (5.04666), which is a significant value according to (t-test), (see appendix 1).

**The second model: economic exposure……non-oil exports**

Y2(-1)=B0+B1 X(-2)+ei
Y2(-1): non-oil exports with a time lag of one period and represent a dependent variable.
X(-2):economic exposure with a time lag of two periods and represents an explanatory variable.

According to appendix (2), the value of $R^2$ is (2%) and represents the percentage of the effect of economic exposure on non-oil exports (law percentage), the calculated value of F has reached (0.23014) at the level of significance (0.05), and the value of the level of significance of the test F has reached (0.64082) and it is higher than the significance level and therefore the model is considered insignificant.

As for the explanatory variable (x), which stabilized after taking the second difference, the value of its estimated coefficient reached (-0.187533). This indicates that one-unit increase in economic exposure leads to a decrease in non-oil exports by (0.187533), which is an insignificant value according to (t-test) (see appendix 2).

**The third model: economic exposure……. unemployment rate**

Y3(-1)=B0+B1 X(-2)+ei

Y3(-1): unemployment rate with a time lag of one period and represents a dependent variable.

X(-2):economic exposure with a time lag of two period and represents an explanatory variable.

According to appendix (3), the value of $R^2$ is (50%) and represents the percentage of the effect of economic exposure on unemployment rate, the calculated value of F has reached (14.09126) at the level of significance (0.05), and the value of the level of significance of the test F has reached (0.003189) and it is below the significance level and therefore the model is considered significant. As for the explanatory variable (x), which stabilized after taking the second difference, the value of its estimated coefficient reached (20.5996). This indicates that one unit increase in economic exposure leads to an increase in unemployment rate by (20.5996), which is significant value according to (t-test).(see appendix 3).

**The fourth model: economic exposure……Gross domestic product (GDP)**

Y4 (-2) =B0+B1(-2)+ei

Y4: GDP with time lag of two periods and represents a dependent variable.

X (-2): Economic exposure with a time lag of two periods and represents an explanatory variable.

According to appendix (4), the value of $R^2$ is (35%) and represents the percentage of the effect of economic exposure on GDP, the calculated value of F has reached (5.821717) at the level of significance (0.05), and the value of the level of significance of the test F has reached (0.03442) and it is below the significance level and therefore the model is considered significant. As for the explanatory variable (x), which stabilized after taking the second difference, the value of its estimated coefficient reached (-264.4329). This indicates that one-unit increase in economic exposure leads to a decrease in GDP by (264.4329), which is a significant value according to (t-test). (See appendix 4).

## CONCLUSIONS

1-There is a negative impact of economic exposure on industrial production, non-oil exports, and GDP. The high economic exposure will lead to a decrease in industrial production by (5.04) million dollars, a decrease in non-oil exports by (0.18) million dollars, and a decrease in the GDP by (264.4) million dollars. These figures clearly reflect the extent of negative impact of economic exposure on the industrial activity of the Iraqi economy.

2-These is a positive relationship between economic exposure and unemployment. The increase in economic exposure will lead to an increase in the unemployment rate by (20.5996) and the resultant negative effects in many different aspects.

3-The fact that Iraq relies heavily on production and export of oil, fluctuations in oil prices, and not directing oil revenues towards the development of industrial production are considered the most important influencing factors which consequently lead to the likelihood the Iraq will be exposed to the risks of external shocks.

4-The dependence of Iraq on imports from some of the neighboring countries prompted these countries to follow the dumping policy that negatively affected local production, industry, and agriculture.

5-The trade openness has contributed to the exit of many large industrial establishments due to the competition of imported goods and their low prices.

6-The deterioration of the industrial system due to the increased dependence on oil, crises and wars, mismanagement, the weak use of modern technologies in production, and the high costs of production compared to imported goods. This, in turn, was reflected in the weak competitiveness of local products in global markets and the emergence of marketing problems, which led to a decrease in the contribution of industrial production (manufacturing in particular) to generating domestic product.

7-The exposure rate in the Iraqi economy has reached (80%)and this necessitates a review of trade policy in a manner that achieves the highest benefits from foreign trade and reducing levels of economic openness for the purpose of being able to face external shocks in the future.

## RECOMMENDATIONS

1-Investing the factors of production (labour, capital, etc.) in an efficient manner in order to deepen the reciprocal effect between economic growth and export growth, which in the future generates direct effects through replacing imported goods with local goods, replacing imports of intermediate goods with final goods, and replacing service exports with commodity exports.

2-Directing oil revenues towards investment in the productive sectors to ensure less dependence on oil exports and expanding the private sector to ensure absorption of labour in the local market.

3-Enhancing the competitiveness of local commodities in export markets by lowering the prices of services (water, electricity, etc.), providing specific facilities for importers of intermediate goods used to meet domestic demand and for export, and providing certain incentives to facilitate the access of local goods to international markets.

4-Providing the necessary infrastructure to encourage investment and the development of the industrial sectors, and granting investment loans towards developing industry.

5-Paying attention to the quality of industrial products, obtaining ISO certificates.

6-Customs protection in order to protect local production and provide the necessary revenues to finance the general budget.

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