

-RESEARCH ARTICLE-

THE EFFECTS OF THE TRADE POLICIES ON THE ECONOMIC GROWTH: EMPIRICAL EVIDENCE FROM THE ECONOMY OF IRAQ

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—Abstract—

Effective trade policies are the critical component of economic development (EG), and policymakers and new studies need to place more emphasis on this area. As a result, the current research explores the effects of trade policy on the EG of Iraqis, including those pertaining to goods trade, trade, and taxes on global trade. The study also included two control factors, such as industrialization and inflation. The World Development Indicators (WDI) was used in the article to extract the pertinent data from 1986 to 2020. The report also tested the relationships between the constructs of the understudies using the Dynamic Auto-regressive Distributed Lags (DARDL) model. The research showed a favorable relationship between the EG of Iraq and the trade in goods, taxes on foreign

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commerce, inflation, and industrialization. By concentrating on efficient trade-related policies, the results helped the policymakers create innovative EG-related policies.

Keywords: Trade policies, merchandise trade, trade, taxes on international trade, inflation, industrialization, economic growth

1. INTRODUCTION

The past ten years have seen a challenging financial environment around the globe. Even though there may be other factors, these make it harder for the countries to experience growth. Both developed and developing nations face the same issues. Every nation's economy depends on a primary sector to some extent. Typically, the Middle East's economy is based on the oil industry. Therefore, the objective of the current investigation was to look into the Iraqi EG. The economy is recovering from the 2020 oil and Covid shocks. Real GDP is expected to barely increase by 1.3% in 2021 after suffering a severe decline of 11.3% in 2020. Both oil and non-oil growths are on track to reach their pre-pandemic levels due to rising oil output and the relaxation of Covid 19 restrictions reviving domestic economic activity.

The non-oil economy grew by more than 6% in the first nine months of 2021 thanks to a strong performance in the service sectors as Covid containment restrictions were eased. In the year when the oil industry's recovery outpaced its decline, Iraq adapted to its OPEC membership. Government revenue increased 73% yearly due to the 78% rise in oil prices. Due to higher oil receipts in 2021, ongoing expenses, such as the labor bill, were high at 29% of GDP, but the overall fiscal balance was in surplus by 5.3%. The change from a deficit to a surplus in the current account increased the central bank's official reserves. High unemployment, problems with international trade due to restrictions, high energy consumption, little industrialization outside of the oil industry, and low production capacity are the main problems facing the Iraqi economy. [Figure 1](#) shows the GDP of Iraq in billions. The past ten years have seen a challenging financial environment around the globe. Even though there may be other factors, these make it harder for the countries to experience growth. Both developed and developing nations face the same issues. Every nation's economy depends on a primary sector to some extent. Typically, the Middle East's economy is based on the oil industry. Therefore, the objective of the current investigation was to look into the Iraqi EG.

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Figure 1. GDP of Iraq (in billions \$)

Source: Economic Trading

Although the EG is extensively studied from various angles, a number of its features still need to be explored; 2) The EG is extensively studied from multiple angles. However, there are still a number of its aspects that need to be investigated, and 3) 2) [Lee \(2018\)](#) focused on the prospects and problems of the merchandise trade; however, the current study will also examine the merchandise trade in addition to EG, notably in Iraq, using new data. 3) Although several equations relating to EG have been investigated, the model incorporating economic growth, merchandise trade, trade, taxes on international trade, inflation, and industrialization has never been tested, especially in Iraq recently. 4) [Anderson et al. \(2019\)](#) studied the relationship between trade and the global economy; the current study will examine both of these issues, as well as the addition of merchandise trade, international trade taxes, inflation, and industrialization using new data. 5) [Musah et al. \(2019\)](#) studied how inflation affects EG.

However, the current study will examine this connection while focusing on merchandise trade, trade, tax on international commerce, inflation, and industrialization, notably in Iraq. 6) [Kalaš et al. \(2018\)](#) studied the relationship between taxes and EG; the current study, however, will also examine this association in addition to trade in goods, trade, inflation, and industrialization using a new data sample. 1) Every country strives to attain sustainable EG to raise the level of living of its citizens; as a result, the present inquiry will stress the relevance of economic development and the elements that play a crucial role in this respect, 2) The current inquiry will also help professionals who work in the economy to comprehend and review their policies to put their economies on the right

track, and 3) The current investigation will also help following researchers investigate more facets of economic development.

2. LITERATURE REVIEW

The economy of any nation depends on a variety of things, but the most important is its trade balance. The mix of imported and exported commodities from any country is referred to as merchandise trade. This inflow or outflow of goods can be routed via any mode of transportation, including by road, sea, or air, any disparity between imports and exports results in a trade deficit. Therefore, a direct relationship exists between merchandise trade and EG, as a high trade deficit ratio causes economic instability. [Ganguli \(2018\)](#) explored the relationship between merchandise trade and EG in this environment. The investigation was conducted in GCC nations. As a sample, the analysis utilized the 20-year data set from 1995 to 2015. The collected sample was examined with the assistance of AMOS. While Bahrain's export structure differs from that of the other GCC countries between 1995 and 2015, its imports appear comparable to those of the other nations.

Regarding exports and imports of merchandise, the other five GCC nations are more equivalent to Bahrain. The expansion of merchandise commerce would result in economic growth. [Hrechyshkina et al. \(2019\)](#) worked on developing the merchandise trade in this setting. In EAEU, the investigation was conducted. As a sample, the analysis utilized the four-year data set from 2014 to 2018. The collected sample was analyzed with the assistance of SPSS. The study indicated that improving industrial demand, expanding exports of high-tech items and diversifying exports, and enhancing cooperation within the EAEU as well as with other nations and integration organizations are all efficient means of expansion. Trade is one of the keys to improving the economy's ills. Economic growth occurs in nations with a robust trading sector. In this context, [Caldara, Iacoviello, Molligo, Prestipino, and Raffo \(2020\)](#) examined the impact of trade uncertainty on the economy. In the United States, the investigation was conducted. According to the investigation's findings, trade policy uncertainty impacted US exports by 1.5%. The decline in trade negatively impacts the United States' economic growth, which manifests itself as a trade imbalance.

Additionally, [Gries et al. \(2020\)](#) explored the association between commerce and EG. 167 economies were the subject of the analysis. As a representative sample, the study utilized a 41-year data set from 1970 to 2011. DOLS was used to evaluate the collected material. The investigation's findings demonstrated a statistically significant correlation between international trade and income. However, when the panel is broken into groups based on income and trade openness, only high-income countries and countries with a relatively high trade openness exhibit a long-term association. Furthermore, [Van Tran et al. \(2019\)](#) explored the association between commerce, energy, and EG. In 90 economies, the investigation was conducted. The sample for the inquiry was the 24-year

data set from 1990 to 2014. Using the SGMM technique, the collected material was examined. The analysis indicated a direct relationship between trade and the economic development of the selected nations. [Alhassan et al. \(2020\)](#) also focused on the triangle of trade, environmental performance, and EG. Seventy-nine economies were examined for this study. The ten-year data set from 2008 to 2018 was used as a sample for the inquiry. OLS was utilized to investigate the collected sample. According to the analysis findings, there is a considerable correlation between trade and economic development in the selected economies.

Countries often generate income from various resources, such as taxes and exports, to cover their expenses. The application of tax is one of the most prevalent methods. There is a clear relationship between commerce and economic development, as the government frequently avoids excessive taxation to stimulate trade. In this regard, [Garšvienė et al. \(2022\)](#) evaluated the impact of the country's tax load on its EG. The investigation covered 28 EU member states. The sample for the inquiry was a 24-year data set spanning the years 1995 to 2019. A multivariate regression model was employed to examine the collected sample. The results substantiated the various impacts of the analyzed nation groups; the group of less developed nations has a more significant effect on EG than the group of the 28 EU member states. Likewise, [Etim et al. \(2020\)](#) worked on the tax function for EG. Nigeria was where the investigation took place. As a representative sample, the analysis used the 33-year data set from 1985 to 2018. Inferential statistics were employed to analyze the collected sample. The investigation revealed that if the tax base was expanded, the tax administration system's loopholes that caused tax revenue to bleed out were closed. The taxation framework was strengthened to make Nigeria's economy a tax base economy instead of an oil base economy; taxation could contribute to Nigeria's positive economic development.

Similarly, [Egbunike et al. \(2018\)](#) examined the connection between tax income and EG. Nigeria was where the investigation took place. GC test was utilized to evaluate the collected material. The analysis indicated that tax collection had a substantial positive impact on Ghana's and Nigeria's GDP. The study recommended that appropriate steps be taken to ensure tax revenue is utilized judiciously to grow and build the economy. Any administration's economic policies and decisions determine the economy's future. Frequently, the government makes decisions without regard for the long-term consequences or effects on society—similarly, inflation-related decision-making. There is a direct relationship between the economy and inflation, as a result of the fact that printing new money without any form of backing would result in a rise in inflation that would affect every aspect of life. In this regard, [Roncaglia de Carvalho et al. \(2018\)](#) investigated the connection between inflation and EG. Using the panel data of 65 economies, the investigation was conducted. The sample for the inquiry was a 10-year data set spanning the years 2001 to 2011. A GLS estimator was used to evaluate the collected sample. The analysis indicated an inverse and weak relationship between

inflation and EG, indicating that the development-sensitive elements included in the model can only partially explain the differences in inflation at various levels of economic development.

Similarly, [Yang et al. \(2020\)](#) investigated the relationship between inflation and EG. Asian economies were the subject of the study. The eleven-year data set from 2011 to 2018 was used as a sample for the inquiry. Inflation has a negative association with the EG, as shown by the data. Furthermore, Chamdani and Meirinaldi investigated the relationship between inflation and EG. Indonesia was where the investigation took place. As a sample, the analysis utilized the 21-year data set from 2010 to 2021. With the assistance of a GC test, the collected material was evaluated. The results demonstrated a substantial inverse relationship between inflation and EG in Indonesia.

Countries favor business expansion, especially international business, over any other factor. Greater commerce leads to the establishment of more industry, which has several benefits, including job creation, currency inflow, and economic stability. Various alternatives can be utilized to minimize the adverse environmental effects caused by the expansion of the industry. Therefore, there is a positive association between industrialization and EG, as evidenced by the increasing proportion of industry. In this context, [Opoku et al. \(2019\)](#) investigated the connection between industrialization and EG. The investigation was conducted in 37 African nations. As a representative sample, the analysis utilized the 34-year data set spanning 1980 to 2014. With the use of the AMOS test, the collected material was evaluated. According to the study, industrialization plays a big impact in enhancing EG. Second, trade openness reinforces the effects of industrialization on EG.

Similarly, [Wang et al. \(2018\)](#) investigated the association between industrialization and EG. In China and India, the investigation was conducted. As a representative sample, the analysis utilized the 34-year data set spanning 1980 to 2014. With the use of the TD model, the collected material was analyzed. The results demonstrated a significant positive relationship between industrialization and the EG of the Chinese and Indian economies.

Additionally, [Wang et al. \(2019\)](#) examined the association between inflation and EG. China was where the investigation took place. The sample for the inquiry was the 25-year data set spanning the years 1990 to 2015. With the assistance of a GC test, the collected material was evaluated. Results suggested that countries with a high value of industrialization generate more business, increasing revenue collection and the economy's gross growth (EG).

3. RESEARCH METHODS

The study examines the effects of merchandise trade, international trade, taxes on international trade, inflation, and industrialization on the Iraqi Governing Council. The

article extracted pertinent data from 1986 to 2020 using the WDI. Consequently, the variables under investigation were used to generate the following equation:

$$EG_t = \alpha_0 + \beta_1 MT_t + \beta_2 TR_t + \beta_3 TIT_{it} + \beta_4 INF_t + \beta_5 IND_t + e_t \quad (1)$$

Where;

- EG = Economic Growth
- t = Time Period
- MT = Merchandise Trade
- TR = Trades
- TIT = Taxes on International Trade
- INF = Inflation
- IND = Industrialization

The article used GDP growth (annual percentage) to proxy for EG. In addition, the study used trade policies as the independent variable and proxies for merchandise trade (% of GDP), trades (% of GDP), and international trade taxes (% of revenue). Inflation used consumer prices (Annual percentage) as a proxy, and industrialization used industry value added (% of GDP) as a proxy as control variables. Table 1 presents the dimensions of the investigated constructs.

Table 1. Variables with Measurements

S#	Variables	Measurement	Sources
01	Economic Growth	GDP growth (annual percentage)	WDI
02	Trade Policies	Merchandise trade (% of GDP)	WDI
		Trades (% of GDP)	WDI
		Taxes on international trade (% of revenue)	WDI
03	Inflation	Consumer prices (Annual percentage)	WDI
04	Industrialization	Industry value added (% of GDP)	WDI

Using descriptive statistics, this study investigates the specifics of the understudy structures. The essay also evaluates the correlation between the understudy constructs using the correlation matrix. In addition, the unit root between the constructs is examined using the Phillips–Perron (PP) and augmented Dickey-Fuller (ADF) tests. The following equation describes unit root estimate techniques:

$$d(Y_t) = \alpha_0 + \beta t + \gamma Y_{t-1} + d(Y_t(-1)) + \epsilon_t \quad (2)$$

Moreover, the article also investigates the co-integration using the (Westerlund et al., 2008) approach. The equations for this approach are mentioned below:

$$LM_\varphi(i) = T\hat{\varphi}_i (\hat{r}_i/\hat{\sigma}_i) \quad (3)$$

$$LM_t(i) = \hat{\varphi}_i / SE(\hat{\varphi}_i) \tag{4}$$

In these equations, $\hat{\varphi}_i$ represented the standard error, and r^2_i represented the long-run measured variance.

In addition, the study applies the ARDL model that shows the connection between the variables. The primary condition of this approach is that some variables must be stationary at I(0), and others must be stationary at I(1) (Nazir et al., 2018). The equation for this approach is mentioned below:

$$\Delta EG_t = \alpha_0 + \sum \delta_1 \Delta EG_{t-1} + \sum \delta_2 \Delta MT_{t-1} + \sum \delta_3 \Delta TR_{t-1} + \sum \delta_4 \Delta TIT_{t-1} + \sum \delta_5 \Delta INF_{t-1} + \sum \delta_6 \Delta IND_{t-1} + \varphi_1 EG_{t-1} + \varphi_2 MT_{t-1} + \varphi_3 TR_{t-1} + \varphi_4 TIT_{t-1} + \varphi_5 INF_{t-1} + \varphi_6 IND_{t-1} + \varepsilon_t \tag{5}$$

Finally, the article also utilized the DARDL model to test the association among understudy constructs. This is a newly developed approach introduced by Jordan et al. (2018). This approach controls all the shortcomings situated in the ordinary ARDL approach. The equation for the DARDL approach is mentioned below:

$$\Delta EG_t = \alpha_0 + \sum \delta_1 \Delta EG_{t-1} + \sum \delta_2 \Delta MT_t + \sum \delta_3 \Delta MT_{t-1} + \sum \delta_4 \Delta TR_t + \sum \delta_5 \Delta TR_{t-1} + \sum \delta_6 \Delta TIT_t + \sum \delta_7 \Delta TIT_{t-1} + \sum \delta_8 \Delta INF_t + \sum \delta_9 \Delta INF_{t-1} + \sum \delta_{10} \Delta IND_t + \sum \delta_{11} \Delta IND_{t-1} + \varepsilon_t \tag{6}$$

4. RESEARCH FINDINGS

Using descriptive statistics, this study investigates the specifics of the understudy structures. The results indicated that the mean value for EG was 7.297 percent, while the mean value for MT was 67.445 percent and the mean value for TR was 68.416 percent. In addition, the results revealed that the average TIT value was 0.590%, the average INF value was 69.859%, and the average IND value was 58.623%. Table 2 displays these results.

Table 2. Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
EG	35	7.297	21.140	-64.047	57.818
MT	35	67.445	39.924	9.004	202.466
TR	35	68.416	43.890	0.021	154.235
TIT	35	0.590	0.337	0.351	1.525
INF	35	69.859	112.054	-16.117	448.5
IND	35	58.623	11.884	37.749	84.796

The essay also evaluates the correlation between the understudy constructs using the correlation matrix. The findings indicated that merchandise trade, trade, international trade taxes, inflation, and industrialization have a positive relationship with the Iraqi

government. [Table 3](#) displays these results.

Table 3. Matrix of Correlations

Variables	EG	MT	TR	TIT	INF	IND
EG	1.000					
MT	0.234	1.000				
TR	0.013	0.007	1.000			
TIT	0.135	-0.072	0.012	1.000		
INF	0.057	-0.214	-0.601	-0.367	1.000	
IND	0.239	0.018	0.557	-0.328	-0.206	1.000

In addition, the unit root between the constructions is examined using the PP and ADF tests. The output revealed that EG, MT, INF, and IND are stationary at I(0), whereas TR and TIT are stationary at I(1) (1). [Table 4](#) displays these results.

Table 4. Unit Root Test

Series	ADF		PP	
	Level	First difference	Level	First difference
EG	-2.901***	-----	-2.291***	-----
MT	-3.873***	-----	-2.827***	-----
TR	-----	-4.382***	-----	-5.743***
TIT	-----	-4.387***	-----	-5.387***
INF	-3.287***	-----	-3.744***	-----
IND	-3.639***	-----	-3.875***	-----

In addition, the co-integration is investigated using the ([Westerlund et al., 2008](#)) method. The results indicated that the p-values are less than 0.05, and the t-statistics are more significant than 1.96. These outputs marked exits from co-integration. [Table 5](#) displays these results.

Table 5. Co-integration Test

Model	No Shift		Mean Shift		Regime Shift	
	Test Stat	p-value	Test Stat	p-value	Test Stat	p-value
LM _τ	-4.301	0.000	-3.755	0.000	-4.231	0.000
LM _φ	-4.309	0.000	-3.649	0.000	-4.093	0.000

The article also employed the DARDL model to examine the relationship between the understudy constructs. The findings indicated that the merchandise trade, trade,

international trade taxes, inflation, and industrialization have a good relationship with the Iraqi government. Table 6 displays these results.

Table 6. Dynamic ARDL Model

Variable	Coefficient	t-Statistic	Prob.
ECT	-3.453***	4.092	0.000
MT_{t-1}	0.984***	3.957	0.000
MT	0.382**	2.443	0.008
TR_{t-1}	1.091*	1.984	0.034
TR	1.983***	4.213	0.000
TIT_{t-1}	0.473***	5.143	0.000
TIT	0.675**	2.102	0.009
INF_{t-1}	0.752***	4.065	0.000
INF	1.432***	4.387	0.000
IND_{t-1}	0.704***	4.321	0.000
IND	1.302***	4.362	0.000
Cons	2.773**	2.837	0.001

R square = 57.538

Stimulation = 5000

5. DISCUSSIONS

The results indicated that merchandise trade influences EG positively. These findings are backed by Thomas (2019), who explains that merchandise exports increase the country's foreign exchange and financial resources, which are utilized to launch firms and so promote economic growth. Thus, merchandise trade results in a high EG. These results are also consistent with Goldar et al. (2020)'s assertion that if a country engages in international commerce trade, it can acquire foreign currency to replenish capital in the economy and goods to maintain economic productivity. Therefore, EG is viable.

The results demonstrated that trades have a favorable effect on EG. These findings are corroborated by Alola et al. (2019), which indicate that goods and services are exchanged between economic sectors in trade. This voluntary exchange allows companies in these industries to expeditiously implement their objectives. The sustainable development of the economy is attained as a result of the enterprises' improved efficiency. These outcomes are also consistent with Osei-Assibey et al. (2020)'s assertion that enterprises utilize raw materials and numerous other auxiliary resources. These raw materials and support resources are sourced from different industries or companies within the same industry. In this aspect, trades are advantageous and ensure a higher EG.

The research demonstrated that foreign trade taxes positively impact EG. These findings are corroborated by Cui et al. (2022), who show that taxes are a significant source of

government revenue and play an essential role in economic growth strategies. When taxes on the international exchange are increased, the government generates more tax money and can initiate domestic development initiatives. As a result of levies on overseas trade, development plans speed EG. These results are also consistent with [Khatun et al. \(2019\)](#)'s assertion that when a government imposes substantial taxes on international trade, it can maintain the balance of payments and balance of trade, hence safeguarding the country's position against financial crises and sustaining EG.

The results demonstrated that inflation had a favorable effect on EG. These conclusions are corroborated by [Yemba et al. \(2020\)](#), which indicate that higher prices and profits are anticipated when inflation dominates in a country. Producers are incentivized to focus on company expansion that contributes to EG. These results are also consistent with [Ahmmmed et al. \(2020\)](#)'s findings, which indicate that during an inflationary time, the government is also active in expanding the nation and forging new routes to achieve EG. The results demonstrated that industrialization favorably affects EG. These findings are corroborated by [Phiri \(2018\)](#), who argues that industrialization expands manufacturing activities in rural areas. This expansion, along with economic innovation, increases EG. These outcomes are also consistent with [Opoku et al. \(2019\)](#)'s assertion that industrialization enables the economy to achieve sustainable development.

6. IMPLICATION

It instructs researchers on how to conduct themselves in future literature on EG, as it makes a substantial contribution to the field. It illuminates the role of trade policies such as merchandise trade, trade, and tax on international trade about control factors such as inflation and industrialization in the European Union. The authors begin to investigate the effects of trade policies on Iraq's EG. The present study is also of great empirical importance to nations, as it explains how to attain higher and sustainable EG. This paper presents trade policy as a strategy for enhancing EG. The study suggests that policies should encourage merchandise trade to increase the EG rate. It suggests that policymakers should promote trade within the economy to increase EG. To increase taxes on international trade and thereby improve EG, it is also recommended that the government adopt favorable fiscal policies. While government and economists manage economic policies, the study suggests that they must favor an inflationary period to maintain or increase EG. The study guided policymakers in developing new EG-related policies by focusing on effective trade-related policies. In addition, it implies that economists permit industrialization to expand with proper regulations. As a result, EG would accelerate.

7. CONCLUSION

The study aimed to investigate the effects of trade policies such as merchandise trade, trade, and tax on international trade in EG in relation to inflation and industrialization.

The authors gathered information about the Iraqi economy. Data analysis revealed a positive relationship between EG and merchandise trade, trade, international trade taxes, inflation, and industrialization. The results demonstrated that merchandise exports increase foreign exchange and ensure the availability of raw materials and other economic resources. Consequently, as businesses expand, they give rise to EG. In the event of an increase in trade, raw materials and supporting resources could be acquired as needed, resulting in a higher EG. According to the study's findings, when a government imposes heavy taxes on international trade, many progressive and developmental activities are undertaken within the country, thereby accelerating EG. During an inflationary period, the government and businesses have increased financial resources and are more active in operations. Therefore, they improve EG. In addition, the results revealed that industrialization is accompanied by an expansion of manufacturing, innovation, and creativity, leading to a dramatic increase in EG.

8. LIMITATIONS

Nonetheless, this discovery contains some limitations, which researchers are expected to address and eliminate. To determine EG, authors evaluate a restricted number of parameters, including merchandise trade, trades, tax on foreign trade, inflation, and industrialization. Numerous other elements must be examined in this regard, and their absence renders the study less exhaustive. It is suggested that the number of components must be expanded for future research to be thorough. The relationship between merchandise trade, trades, international trade tax, inflation, industrialization, and EG was inferred using Iraqi statistics. A statistical survey must be done in developing and developed states for general results.

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