

The impact of the Turkish economic crisis on the Iraqi economy

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Abstract

Iraqi-Turkish relations are witnessing a qualitative leap at the level of political and economic relations, due to the economic intertwining between the two countries, as Iraq for years occupies advanced ranks in the volume of imports from Turkey and thus it represents an indicator that is distinguished from other indicators as it reflects the impact of the economic crisis facing Turkey must be transmitted to the Iraqi economy and as a result of this intertwining of economic relations, it was necessary to study these relations to find out the extent to which Iraq was affected by the Turkish economic crisis, and accordingly the research started from the hypothesis that the Turkish crisis will affect some of the Iraqi macroeconomic variables, and the research concluded: The crisis affects the Iraqi Central Bank's policy and this is clear through the effect on the window of selling foreign currency, as the standard results showed that the decrease in the Turkish lira exchange rate led to an increase in Iraq's imports from Turkey and then increased the demand for foreign currency, and then included in a number of recommendations, the most important of which is, Iraq must adopt commercial policies, which reduces its exposure to its trading partners, especially Turkey, and improves its trade balance towards them by taking advantage of lower prices of their currencies to enhance its imports of investment goods that would enhance its national production, thereby reducing its imports.

Keywords: economic crisis, Foreign Currency, Commercial Policies, Exports, Imports.



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Introduction:

The economic relations between Iraq and Turkey constitute a basic and important pillar of the existing relations between the two countries in many aspects and sectors, given that the two countries are neighbors with strategic characteristics that come from their strategic geographic location, as well as their cultural commonalities.

The economic factors play an important multi-dimensional role in the Iraqi-Turkish relations, where the mutual need between the two countries. With regard to Iraq, Turkey is a vital entry point for its commercial imports and the entry of various types of goods and commodities to these markets on the one hand. On the other hand, it is an important outlet for the export of its oil through Turkish territory by pipelines that pass through it to the Turkish ports.

As for Turkey, it realizes the necessity of its presence in the Iraqi arena, which requires more companies to work in the field of reconstruction and investment, especially when the security crisis ends. In addition to the fact that Turkey views Iraq as an important tributary of the policy of diversifying Turkish energy imports, given that it has the fifth largest proven reserves of oil in the world.

Despite this, Turkish-Iraqi relations did not witness permanent stability for several reasons, including the water issue between the two countries and Iraq's rejection of Turkey's water policy with regard to its construction of dams at the source of the Tigris and Euphrates, but the economic relations between the two countries were not affected by what happened on the political level in Turkey. However, the impact of the economic crisis that Turkey is exposed to must be transmitted to the Iraqi economy due to the economic intertwining between the two countries, as Iraq for years ranked second in the volume of imports from Turkey, as well as Turkey's investments in Iraq in addition to the increase in the number of Iraqi tourists coming to Turkey. On the other hand, Turkey considers an important outlet for the export of Iraqi oil through its ports. As a result of this intertwining of economic relations, it was necessary to study these relations to know the extent to which Iraq was affected by the Turkish economic crisis.

Importance of the research

The Iraqi-Turkish economic, political and security relations allow Iraq to evaluate the relations between them and start to face the crises to which it is exposed.

Problem Statement

The impact of the economic crisis that Turkey was exposed to, must be transmitted to the Iraqi economy, as a result of the intertwining of economic relations. Therefore, it was necessary to study these relations to know that Iraq was affected by the Turkish economic crisis.

Goals of the Research

The research aims to study the Iraqi-Turkish economic relations and the extent to which Iraq has been affected by the Turkish economic crisis, as well as to study a standard model for the impact of the Turkish economic crisis on the Iraqi economy.

Hypothesis of the Research

Iraq is linked to economic relations with neighboring countries, which makes it affected by the economic crises that these countries are exposed to, in particular, the low exchange rates of their currencies that will affect the foreign

currency window of the Iraqi Central Bank, which will increase the demand for foreign currency, and then increase the sales of the Central Bank from Foreign currency.

In order to verify the above hypothesis, the research was divided into three sections. The first section dealt with the reality of Iraqi-Turkish economic relations after 2003, while the second section dealt with the size of the Turkish crisis and its implications, while the third section dealt with the impact of the decline in the Turkish lira exchange rate on the Iraqi economy.

The first section **Theoretical Side**

The economic crisis

The concept of economic crisis

An economic crisis is defined as a situation in which a country's economy suffers from a sudden slowdown resulting from a financial crisis, and an economy facing a crisis will suffer from low GDP, lack of liquidity, price change due to inflation and economic shrinking, and the economic crisis can also take the form of recession or an economic depression¹.

Factors leading to economic crises

1-High unemployment rates

Unemployment rates can rise as a result of the economic crisis, or it can be one of the reasons leading to this, so that an economic crisis can occur when interest rates rise, lending conditions are inflexible, consumption decreases, which leads companies to lay off employees in order to overcome the crisis².

2-Natural disasters

Environmental disasters can cause economic crises, as hurricanes, floods, the spread of insects, and the spread of diseases can affect the rise in food prices and then the consumption habits of the public, thus reducing income, and exacerbating unemployment levels³.

3-Currency rates change

Changing currency rates creates major economic problems; The currency of a country is often compared to the currencies of other countries, as its value is based on the current economic and monetary policies. sometimes leads to the currency losing its value, and individuals have to spend huge sums of money to buy basic commodities⁴.

Famous economic crises

1 -Jacques pavoine, les trois crises du xx^e siecle, Edition Ellipses, 1994, p 08.

2 -Ahmed Farid Mustafa and others, The Development of Thought and Economic Facts, University Youth Foundation, Alexandria, 2000, p. 41.

3 -Daniel Arnold, translated by Abd al-Amir Shams al-Din, Analysis of Yesterday and Today's Economic Crises, University Foundation for Studies, Publishing and Distribution, Lebanon, 1992, p. 12.

4 -Jacques Gravereau et Jacques Trauman, crises financières, Edition Economica, 2001 p 35-36.

The world has passed economic crises that have led to disaster results for long periods, that are the following¹:

The credit crises (1772): The crisis arose in London and spread to all parts of the European continent.

The Great Depression (1929-1932): it was the worst economic crisis in the twentieth century, and many believe that it resulted from the collapse of the American stock market (Wall Street).

Oil price crisis (1973): it began when (OPEC) members decided to boycott the United States of America because its send weapons to the Zionist entity.

The repercussions of the economic crises

Economic crises often share the same repercussions, as the scope of the economic crisis is a wide range that touches the real sector of the economy, such as the decline in production, the contraction of international trade, except for the energy crisis, that was accompanied by stag inflation, in addition to unemployment, which is considered a social effect, collapse of markets. Financial. that are follows²:

Stag inflation

Energy importing countries general, developed countries particular, have suffered from violent and imported Stag inflation, and that inflation was caused increased international oil prices.

Unemployment rates

The economic crises were accompanied by high unemployment rates and unfair distribution of income.

Trade pattern

The crises have also accompanied fundamental changes in the pattern of international trade and payments.

Disruption of the monetary system

Monetary imbalances and devaluation of currencies

External indebtedness

Significantly high debt volume. And the value of debt service is large.

Investment and economic growth

Decline in economic growth due to reduced investment.

The second section

The reality of the Iraqi-Turkish economic relations after 2003

The economic relations between Iraq and Turkey constitute a basic and important pillar of the existing relations between the two countries, as both countries depend on it in many aspects and sectors, as these relations generate billions of dollars annually to Turkey, and in return Iraq benefits from Turkish commercial goods, and these relations have experienced a marked decline as a result of wars and economic sanctions, which made it an unstable country in

1 -Peter Bondarenko, "5 of the World's Most Devastating Financial Crises" , www.britannica.com, Retrieved 2-10-2018. Edited.

2 -John Kenneth Galbraith, translated by Ahmed Fouad Balbaa, History of Past Economic Thought, Image of the Present, The World of Knowledge, a series of cultural books issued by the National Council for Culture, Arts and Literature, Kuwait, Issue 261, September 2000, p. 286.

all areas of life. To begin a new phase of relations with Turkey that was marked by an increase year after year. That is after the Security Council adopted Resolution No. (1483) on May 22, 2003, which calls for lifting the blockade and all commercial boycotts imposed on Iraq and ending the oil-for-food program, which led to the growth of trade exchange between the two countries ¹, and these relations expanded after 2003 in various economic fields, which can be shown through the following: ²

First: Iraqi-Turkish relations in the political field

Turkey is now witnessing a trend towards more openness towards neighboring countries, the Arab region, and Iraq, in the forefront, after its relentless efforts to join the European Union, to be the link between Europe and the countries of the region, especially the Gulf countries.

The improvement in Turkish-Iraqi political relations came as a result of Turkey's relentless pursuit of turning it into a corridor and distributor of energy in the world by extending pipelines from the Caucasus, the Caspian, Russia, Iran and Iraq to Europe, and looks forward to Iraqi oil being one of the main sources for operating these lines. ³ The importance of Turkish interests in Iraq is evidenced by Turkey's keenness to play an active role in the Supreme Council for Iraqi-Turkish Strategic Cooperation, which was established in 2008, and which it sought to preserve. ⁴ Diplomatic visits also indicate the presence of political momentum on both sides, as it held three meetings from its establishment until 2018, ⁵ and since the meeting is supposed to be annual, but Table (1) is evidence of the instability of relations between the two countries.

Table (1)

: Meetings of the Supreme Council for Strategic Cooperation between Turkey and Iraq

Meetings	Venue	Date
first meeting	Baghdad	October 2009
Second meeting	Baghdad	December 2014
Third meeting	Ankara	January 2017

Second: Iraqi-Turkish relations in the field of energy

¹ Mustafa. Aydin and, Damla Aras, Political Conditionality of Economic Relation Between Rationalist States, Turkey's Legation with Iraq, Iran, And Syria, ASQ, Vol, 27, No. 1-2, 2005, p. 30.

² Mustafa Ayyash Al-Kubaisi, Iraqi-Turkish Relations after the Elections, Seminar on the Future, Iraqi-Turkish Relations in Light of the Turkish Justice and Development Party's Winning, Iraqi Center for Strategic Studies, July, 2011.

³ Muhammad Nur al-Din, Arab-Turkish Relations, Arab National Conference, Center for Strategic Studies and Research, Beirut, September 2009, p. 3.

⁴ Carol Migdolaritz, Turkey: Selected Foreign Policy Issues And U.S. Views, Congressional Research Service, Nov. 2010, P8.

⁵ President Erdogan due to visit Iraq toward end of year, AA, 28-4-2019. (A: 27-5-2019).

For Iraq, Turkey is an important outlet for the export of its oil through its territory through the pipelines that pass through it to the Turkish ports. While Turkey views Iraq as an important tributary of the policy of diversifying Turkish energy imports, considering that it has the fifth largest proven reserves of oil in the world.

Therefore, Turkey sought to conclude agreements with Iraq in this field, including the strategic economic cooperation and integration agreement signed in 2008 between Iraq and Turkey, which stipulated the importance of cooperation between Iraqi and Turkish companies specialized in the field of energy, oil and electricity, and the transfer of Iraqi oil to global markets through the most reliable export paths, expanding the current capacity of the oil pipeline (Kirkuk - Yumurtalik) and building a network of pipelines to transport natural gas from Iraq to international markets via Turkey. As well as securing Turkey's oil needs and organizing training programs for Iraqi staff working in the electricity sector. ¹ Total oil exports through Turkish Airlines increased during 2018 to (134,662) thousand barrels/year compared to (60,824) thousand barrels/year in 2003, with a compound growth rate (5.4%) for the same period, then increased significantly in 2019 to reach (194,084) thousand barrels / Year with an annual growth rate of (44.13%) for the year 2018, Table (2), and these flows represent a good percentage of the Iraqi oil production, despite the presence of obstacles, including poor security stability, which makes the Iraqi-Turkish pipeline not operating at full capacity. ²

Table (2)

¹ Mustafa Aydin and Damla Aras, Opcit, P.30.

² Carol Migdolaritz , Opcit, P.8.

: Quantities of crude oil exported from Iraq via Turkey for the period (2003-2018)
(Thousand barrels / year) *

Year	Quantity	Total exports of crude oil **	Ratio of oil exported through Turkey to total oil exports%
2003	60.824	199545.2	0.030
2004	37.685	562900	0.007
2005	13.166	514305.2	0.003
2006	12.930	550905.2	0.002
2007	39.833	601242.7	0.007
2008	132.941	679003.2	0.02
2009	167.467	717360	0.023
2010	144.590	691740	0.021
2011	163.276	792756	0.021
2012	134.506	916024.8	0.015
2013	91.883	894028.2	0.010
2014	55.984	943804.2	0.006
2015	192.426	1138113.6	0.017
2016	189.439	1212338.4	0.016
2017	184.927	1244400	0.015
2018	134.662	1277561.3 ***	0.011
2019	194.084	1287196.3 ***	0.015

Source: www.botas.gov.tr

* A thousand barrels / day, which was converted into a year

** Annual Statistical Report 2017, and previous publications, Organization of Arab Petroleum Exporting Countries (OAPEC).

*** The official website of the Iraqi Oil Ministry.

Third: Iraqi-Turkish relations in the field of water

The water problem between Iraq and Turkey persisted until after 2003 due to the different visions for both sides. Iraq considers that the Tigris and Euphrates are international rivers and that the Tigris basin is independent from the Euphrates basin, while Turkey considers them two Turkish rivers crossing the borders and they are one basin. This prompted Iraq to emphasize the importance of setting a time limit to resolve the issue of sharing the common water and focusing on the issue of water quality, not just quantity, and within the framework of addressing the crisis, the relevant ministers met in the three countries (Iraq, Turkey and Syria) in September 2009 to sign a memorandum of understanding between them to establish a common measure of water on both rivers and its relationship with them. As a result, Turkey then temporarily increased the flow of water to Iraq in light of the strategic cooperation agreement concluded between Iraq and Turkey that pushed Turkey to respond to Iraq's water requirements temporarily in a way that suits its overall interests.¹

Fourth: Iraqi-Turkish relations in the field of agriculture

After 2003, Iraq became a major importer of agricultural commodities to meet the local demand, which made it an importer of agricultural commodities in relation to its trade with Turkey as it was achieving an agricultural trade surplus from its trade with Iraq during the period (2003-2018) and what preceded it,

¹ Carol Migdolaritz, Opcit, P.9.

which is indicated by the trade balance of Iraqi agricultural commodities. The reason for the deficit in the agricultural trade balance in general and with neighboring Turkey in particular is due to the low local production in general and agricultural production in particular, due to the presence of a large local demand for goods, services and food and agricultural products offset by a backwardness in the agricultural sector with low productivity, which led to the existence of a large deficit between demand and local production, and on this basis this deficit is covered by imports of goods and services, including agricultural.¹

After that, Iraqi agricultural imports from Turkey began to rise from year to year, registering varying growth rates during the period (2003-2018). The highest growth rate was (95%) in 2005 and the lowest growth rate was (-37%) in 2017 compared to the previous year. As for the absolute value of those imports, it was heading towards an increase, starting in 2003 by \$ 234 million, to its highest value. In 2016, with a value of (3765.3) million dollars, as shown in Table (3).

While the Iraqi agricultural exports to Turkey for the period (2003-2018) did not exceed thirteen million dollars, as the highest value in 2008 and the lowest in 2016, at only (1.7) million dollars.

With regard to the Iraqi agricultural trade balance, it has achieved a deficit throughout the search period, and this deficit reflects the extent to which the Iraqi market needs Turkish goods and commodities from other countries on the one hand, and the underdevelopment of the economic sector, including the agricultural sector, and its inability to meet the domestic demand in Iraq, which made it dependent on its consumption on neighboring countries, including Turkey on the other hand.

Table (3)

¹ Sarmad Ali Hussein: An Economic Analysis of Foreign Trade of Agricultural and Food Products in Iraq for the Period (1990-2004), Journal of Management and Economics, Al-Mustansiriya University, Issue 75, Baghdad, 2009, p. 5.

: Trade exchange of agricultural commodities between Iraq and Turkey for the period (2003-2018) (Million dollars)

Years	Iraqi agricultural exports to Turkey	growth rate (%)	Iraq's agricultural imports	growth rate (%)	agricultural trade balance of Iraq
2003	7	-	234	-	- 227
2004	9.5	35	305	30	-295.5
2005	7.2	-24	586	95	-578.8
2006	3	-58	590	0.6	-587
2007	3.2	7	680	15	-686.8
2008	13	306	1182	74	-1169
2009	9	-30	1335	13	-1326
2010	3	-66	1512	13	-1509
2011	3.5	17	2681	77	-2677.5
2012	3.3	-6	3064	14	-3059.7
2013	3.8	15	2865.9	-6.5	-2862.1
2014	3.5	-7.9	3165.7	10.5	-3162.2
2015	2.1	-40	3465.5	9.5	-3463.4
2016	1.7	-19	3765.3	8.7	-3763.6
2017	3.7	117.6	2372.1	-37	-2368.4
2018	9.3	151.4	2775.4	17	-2766.1

Source: Prepared by the two researchers based on:

- Republic Of Turkey, Turkish Statistical institute, Foreign Trade Statistics, Ankara, Data Base.

Fifth: Iraqi-Turkish relations in the field of investment

Global experiences have proven the importance of the role that foreign direct investment plays in accelerating economic growth rates, and that the key to economic growth in any country is technological and technical progress secured from the accumulation of capital (saving) through which more technology can be brought. It is not important to have natural resources. The most important thing is the optimal and rational use of available resources and the benefit from economies of scale, and this can only be achieved with good investments.¹

In two countries such as Iraq and Turkey differ in terms of the abundance of foreign investments in them, the two countries pushed for cooperation in this field, especially after 2003 and the start of the process of rebuilding Iraq, which has become a good land for foreign and Turkish investments in particular.

Turkish investments began to flow into Iraq after the issuance of the Iraqi Investment Law No. (13) for the year 2006 because it contains great incentives for foreign investment in Iraq, as Turkey's investments in Iraq in 2007 amounted to \$ 9 million, then stopped due to internal security incidents. At the end of 2007 and the beginning of 2008, to rise again to its highest level in 2014, to reach a value of (181) million dollars, achieving (3.5%) of the total Turkish investments

¹ Sami Hamid Abbas, The Importance of Foreign Direct Investment in Activating the Iraqi Economy, Anbar University Volume, College of Administration and Economics, Volume Two, Issue (4), 2010, p. 334.

abroad, to return and decline in 2015 after the entry of "ISIS" to Iraq And the security threat that came with it, which led to direct losses in Turkish investments in Iraq, as shown in Table (4).

Table (4)

: Turkish foreign direct investment in Iraq for the period (2005-2018)
(Million dollars)

Year	Turkey's investments in Iraq	as a percentage of the total Turkish foreign investments (%)
2005	0	0
2006	0	0
2007	9	0.4
2008	0	0
2009	35	1.7
2010	11	0.6
2011	28	1.1
2012	20	0.5
2013	17	0.5
2014	181	3.5
2015	27	0.5
2016	40	1.3
2017	65	2.1
2018	8	0.3

Source: Prepared by the two researchers based on:

- Central Bank of the Republic Of Turkey, Balance Of Payments Statistics
WWW, TCMB, GOV,

Sixth: Iraqi-Turkish relations in the field of trade

Trade relations between Iraq and Turkey have witnessed a remarkable development, especially in the period before 2003, but they retreated due to the deterioration of the security situation, which negatively affected the trade rates, which reached (3) billion dollars before the 2003 war and decreased to (870) million dollars after that. Nevertheless, the two sides expressed their willingness to develop their relations in the commercial fields and to open a second border crossing with Turkey to revive bilateral trade. ¹

In March 2008, the two parties signed a free trade agreement stipulating the reduction of customs duties between them in order to strengthen bilateral relations, as well as clarifications regarding the mechanisms of joint work and the possibilities of establishing joint industrial and commercial zones on the borders of the two countries. This agreement resulted in an increase in the volume of trade exchange to reach (10) Billion dollars in 2009. ² In 2011, Iraq became the second largest importer of Turkish goods after Germany and one of its important trading partners, as its imports constitute 6.3% of the total

¹ Hanna Izzo Bhan, Iraqi-Turkish Relations (2005-2010), a political and economic study, University of Mosul, Journal of Regional Studies, Volume VIII, Issue (25), 2012, p.73.

² Saad Al-Mashhadani, The Kirkuk issue in Turkey's foreign policy towards Iraq, Seminar (The future of Iraqi-Turkish relations in light of the Turkish Justice and Development Party's victory over the Iraqi Center for Strategic Studies, July 2011.

Turkish exports.¹ However, it declined in 2016 to make Iraq the third largest importer from Turkey after both the European Union and the United Arab Emirates, with a rate of 5.8% in 2018-2019, while crude oil and gold were the first among Turkish imports from Iraq, while the oils and jewelry are the first place of Turkey's exports to Iraq.

The bilateral trade between the two countries had clear economic impacts on Turkey through the recovery of its facilities, factories and factories that attracted labor in southeastern Turkey, which helped reduce the unemployment rate and alleviate social pressures on the Turkish government.² In addition to the commercial relations, there is humanitarian aid provided by Turkey to Iraq, which reached more than (50) million dollars from 2003 to 2009 with the contribution of Turkish non-governmental organizations in the aid amounting to (140) million dollars in the educational and cultural fields and the exchange of experiences, and the number of students reached Iraqis who study in Turkish universities and schools to (665) students in 2009,³ (1584) students in 2016 and (2,662) students in 2018, according to the reports of the Higher Education Authority in Turkey. With regard to trade exchange between Iraq and Turkey for the period (2003-2018), in 2003 the volume of trade exchange between Iraq and Turkey reached a value of (871) million dollars distributed over (829) million dollars as Turkish exports to Iraq and (41.6) million dollars as imports from it, so the value of the trade balance (787.4) million dollars in favor of Turkey, and Turkish exports to Iraq represented (1.7%) of the total Turkish exports to the world in that year. After that, Turkish exports rose in 2004 to a value of (1821) million dollars, constituting (2.8%) of total Turkish exports, with an increase of (1.4%) over the previous year. On the other hand, its imports from Iraq rose to a value of (145) million dollars in 2004, with an increase of (25%), and a total trade volume of (1966) million dollars, so that the increase in trade exchange between Iraq and Turkey continued in the same manner in 2005. As in the previous year, as it is clear in Table (7).

Table (7):
Iraqi-Turkish trade exchanges for the period (2003-2018)
(Million dollars)

Year	Imports	Exports	Deficit or surplus	Trade volume	Degree of economic exposure
2003	829	41.6	-787.4	871	
2004	1821	145	-1676	1966	5.4
2005	2750	67	-2683	2817	5.6
2006	2589	121	-2468	2710	4.15
2007	2845	118	-2727	2963	3.3
2008	3916	133	-3783	4049	3.07

¹ Turkish Statistical Institute, Turkey In Statistics 2011. The Summary of Year Book, Ankara, Oct 2012, P.65.

² David L. Phillips, Confidence Building Between Turks And Iraqi Kurds, The Atlantic Council Of U.S.A , Washington, 2009,P9.

³ Büsra. Süpüürge And I.Eralp Semerci, Turkey And Iraq: Soft Power Hard Power, Bilkeut Unv, Ankara, Vol. 5, No:12, Nov 2011,P,3-4.

2009	10822	120	-10702	10942	9.79
2010	6036	153	-5883	6189	4.46
2011	8310	86	-8224	8396	4.52
2012	10822	149	-10673	10971	5.03
2013	11948	146	-11802	12094	51.54
2014	10887	268	-10619	11155	48.75
2015	8549	224	-8325	8773	5.12
2016	7637	836	-6801	8473	4.91
2017	9057	1527	-7530	10584	7.73
2018	9633	1709	-7924	11342	9.31

Source: International Trade Center.

As for the year 2006, the trade exchange decreased to reach a value of (2710) million dollars after its value was (2817) million dollars in 2005 despite the increase in Iraqi exports to Turkey and for the same year, with an increase of 83% compared to the previous year, perhaps this decrease in the volume of trade came as a result of the internal events of Iraq in that year and the decrease in its imports from Turkey by (5%) from the previous year. The increase in the volume of trade exchange continued in the following years. However, the rates of increase in Turkish exports to Iraq varied in terms of their rate, and the reason for this was due to the bilateral agreements signed between Iraq and Turkey and the formation of the Supreme Council for Strategic Cooperation between them in several areas, including trade and economic in general ¹, then the volume of trade increased for the period 2012-2018, with the exception of 2015 and 2016, due to the decline in global oil prices, which affected the volume of Iraqi imports from Turkey, on the one hand, and, the decrease in Turkey's imports from Iraq as a result of ISIS's control of some of Iraq's provinces, on the other hand.

As for the trade balance, it was in a surplus state in favor of the Turkish side during the period (2003-2018), as it recorded its highest surplus in 2013 amounting to (11,802) million dollars with the growth momentum and increased trade openness.

The Third section: the size of the Turkish crisis and its repercussions **Second: the magnitude of the Turkish lira crisis**

During the past few years, the Turkish lira witnessed a decline in its value against the US dollar despite the fact that growth rates witnessed a remarkable improvement in the same period. It witnessed severe declines, as the dollar was equal to (1,303) pounds in 2007, which is the highest level the Turkish currency reached against the dollar, and the currency fell to (1,904) pounds per dollar for the first time in September 2013, then it continued its decline to break the barrier of (3.35) Lira in the first quarter of 2017, and in the second quarter (3.40) pounds per dollar, and in the third and fourth quarters (3.42) lira ², and

¹ Hanna Ezzo Behnan, Iraqi-Turkish Relations, (2005-2010), Economic and Political Study, a previously mentioned source, p. 74.

² Turkish Statist Ute Economic Confidence, key Indicators.

this decrease in the exchange rate of the pound is due to several reasons, including: ¹

- a. The size of the debt owed by the state, which is close to (480) billion dollars, including short-term debts that are due to be paid within a short period, which amount to (180) billion dollars, equivalent to (37.5%) of the total value of the debts, which amounts to (50%) to the total Turkish GDP.
- b. The creditor countries or their banks are no longer encouraged to show sufficient flexibility for lending conditions or periods of tolerance or other due to the current global economic conditions, such as Spain's debts to Turkey, which amounted to more than (83) billion dollars, France (38) billion dollars, Italy (17) billion Dollars, Japan (14) billion dollars, Britain (19) billion dollars, and finally America (18) billion dollars.
- c. The growth rate of the monetary mass exceeded the rate of economic growth due to the high rate of inflation in Turkey by (16%), equivalent to (3) times the general rate of the European Union countries, which led to the decrease in the value of the Turkish lira.
- d. The OPEC agreement on reducing production levels, which pushed oil prices to high levels above \$ 54 a barrel, which increases pressure and raises the cost on the Turkish government's oil imports. Turkey imports (90%) of its oil consumption, and therefore the price of oil negatively affects the value of the Turkish lira.
- e. The reluctance of Turkish banks to lend compared to previous rates, and this affects the wheel of the economy and growth levels, which affect the value of the Turkish lira.
- f. Capital inflows abroad lead to pressure on the state's foreign exchange resources, at a time when the Turkish Central Bank needs these flows to finance the deficit in the balance of payments and for the purposes of intervention in the foreign exchange market to defend the Turkish lira.
- g. The increase in Turkish government spending on social and health aspects has contributed to overburdening the public budget and increasing its deficit.
- h. Continued instability of exchange rates during previous periods increased the Turkish government's challenges related to attracting foreign investments and the financial situation of current foreign investments, as the instability of the lira affects the decisions to distribute profits in foreign companies, which leads to a decrease in the flow of foreign investments to Turkey. It is worth noting that the impact of the decline in the Turkish lira, or in other words its instability, on the value of purchasing power and local investments negatively affects foreign investment, and therefore foreign investors prefer to invest in more stable economies that reflect a low level of uncertainty.
- i. Trump's decisions to raise tariffs on Turkish steel by (50%) and aluminum by (20%).

¹ Studies and Information Unit, Future Horizon Consulting Center, the Turkish lira crisis, backgrounds, causes and potential risks, Information Report August 15, 2018, Kuwait.

Third: The Turkish crisis and its repercussions

1- The exchange rate

The deterioration and decline of the Turkish lira's exchange rate has had impacts inside and outside Turkey, especially on the European economy. As the acceleration of the fluctuations of the Turkish currency recently reached the point that it began to affect the global markets, and European banks and financial institutions were the first and most important victims of the collapse of the Turkish currency, given that their assets (denominated in Turkish lira) were exposed to a decline, especially after the value of the Turkish lira decreased. Against the US dollar to the lowest level the currency has known since the beginning of 2005, the rate of the Turkish lira exchange rate was recorded on 10/8/2018 (6.397) pounds/dollar compared to (5.271) pounds/dollar on 6/8/2018 and (6.712) pounds/dollar. On 12/31/2018, when tracking the path or fluctuations of the exchange rate of the lira since its six zeros were canceled at the beginning of 2005, we notice that the exchange rate of the pound fell to (1.428) pounds / dollar in 2006 compared to (1.344) pounds/dollar in 2005, and the pound continued to decline To reach (1.904) pounds/dollar in 2013 with the beginning of (Gezi Park events), ¹ and to close in 2014 at (2,189) pounds/dollar and almost maintain the level of this price, with a slight decline until 2016 and 2017, whose exchange rate reached about (2.557) pounds/dollar, to lose the pound during the years 2016 and 2017 (11%) and (20.8%) of its value, respectively, ² the Turkish lira's depreciation continued in 2018 and 2019, respectively, until the exchange rate of the lira reached (4.824) lira/dollar and (5.682) lira/dollar, respectively, and from It is expected to decline further in 2020 to reach (7.89) pounds/dollar, as shown in Table (8).

Table (8)

: The exchange rate of the Turkish lira against the US dollar for the period (2005-2020)

Duration	Turkish Lira/ Dollar	Duration	Turkish Lira/ Dollar
2005	1,344	2013	1,904
2006	1,428	2014	2,189
2007	1,303	2015	2,720
2008	1,302	2016	3,020
2009	1,550	2017	3,648
2010	1,503	2018	4,824
2011	1,675	2019	5,682
2012	1,796	2020 *	789

Source: <https://data.oecd.org/conversion/exchange-rates.htm>

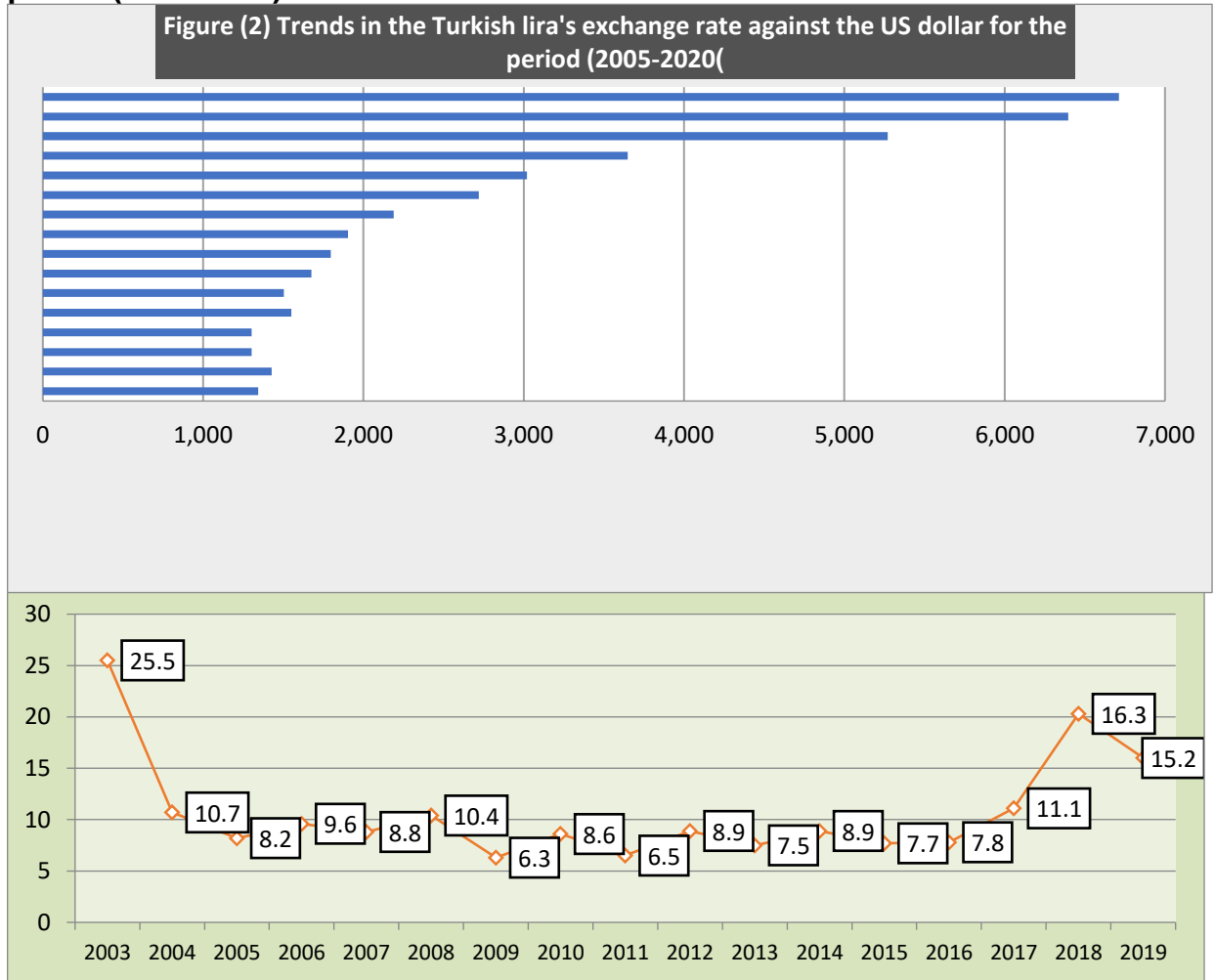
* Predictions for 2020.

¹ It is a wave of demonstrations and civil unrest in Turkey on May 28, 2013, initially to compete for the urban development plan for the Medan Gezi complex in Istanbul. The protests sparked anger at the violent evacuation of the sit-in in the park in protest against the plan, and according to various analysts, the protests are the most challenging event for a decade of Erdogan's life and the most important nationwide concern in decades.

² <https://www.alaraby.co.uk/econom>

Figure (2)

Trends in the Turkish Lira's exchange rate against the US dollar for the period (2005-2020)



Source: www.focus-economics.com/...indicator/turkey/inflation

3- Financial markets

Financial markets responded negatively with a decrease on August 10, 2018, amid concerns about the continued decline of the Turkish lira and fears of the spread of the economic and political crisis in Turkey to Europe and other places. The Dow Jones Industrial Average decreased by (0.81%), while the (Standard & Poor's 500) index decreased by (0.70%), and the (Nasdaq Composite) index fell by (0.46%). European stocks also fell, while concerns about the decline of the Turkish lira negatively affected the market, with creditor banks to Ankara falling among the list of the largest losers, and the European banking sector index declined by (1.3%), leading the losses of all sectors, as bank shares fell French, Italian and Spanish by about (3%), and the European (STOXX 600) index fell by (0.5%), while in Turkey the Turkish stock markets fell by (17%). The decline in confidence in the Turkish economy may lead to the bursting of a

¹ www.focus-economics.com/...indicator/turkey/inflation

bubble that may be the size Greater than the markets expect, which in turn will lead to : ¹

1. Creditors, especially foreigners, refrain from lending for fear of non-payment.
2. Development and construction projects are suspended.
3. Many banks have gone bankrupt.
4. Inability of companies to repay loans.
5. Consumers sank in debt and their jobs stopped.
6. Low credit rating of government and companies.
7. The collapse of the lira and the stock exchange and the rise in borrowing costs.

The continued deterioration of the Turkish economic conditions, and the shrinking of investor confidence in the market as a result of the devaluation of the Turkish currency against the background of Washington doubling the customs duties on its imports of Turkish steel and aluminum to (50%) and (20%), respectively, was evident through the reduction of major international agencies and institutions the classification. Credit to Turkey in August 2018, as the credit rating agency Fitch Ratings downgraded its rating to four Turkish banks against the backdrop of increasing risks of a sharp decline in the economy after the collapse of the lira. The agency confirmed that the decline in the rating included banks (Anadolu Bank, FIBA Bank, Thank Bank and Odia Bank), so this decision came after Moody's reduced its rating to 20 Turkish financial institutions due to the increasing risks of declining financing. The rating of (Anadolu Bank) and (FIBA Bank) decreased to the category BB-) from (B +), and (Shukur Bank) to (B) from (+ B), and Odia Bank's rating was downgraded to (BB) from (B) Fitch explained that the credit rating cut reflects the increased risk to the performance of banks, the quality of their properties, their liquidity and their financing during the recent period of market volatility, in addition to the risk of a sharp downturn in the economy and a deterioration in investor confidence. This decision came in conjunction with the devaluation of the Turkish currency at the end of 2018 to its lowest level since the financial crisis in 2001, which negatively affected Turkey's public finances and the depletion of corporate balance sheets, in addition to putting pressure on local banks. The downgrade means that Turkey has to pay more than usual interest when requesting any new loan, as a result of the lender bearing greater risks than usual, as well as the reluctance of foreign investors and foreign companies operating in Turkey to invest in the short term, as Fitch is classified as other major credit rating agencies, Turkey's sovereign debt is at a (high risk) level, which is a non-investment grade, and if this effect extends to the medium term, it will put the Turkish economy in a problem that needs structural reforms. ²

The Fourth section

Measuring the impact of the Turkish economic crisis on the Iraqi economy

Iraq is linked to economic relations with Turkey since the twenties of the last century, but these relations were limited, especially during the first half of the twentieth century, but they have been clearly active since the seventies of the

¹ The Central Bank of Iraq, a previous source.

² The Ministry of Foreign Affairs / Economic Department in Ankara, on 9/18/2018.

last century, which results in Iraq being affected by the economic crises that Turkey is exposed to, as it moves through these relationships to the Iraqi economy, and the extent of the impact of the economic crisis that Turkey is exposed to on the Iraqi economy can be measured through the construction of two standard models in which the ratio of Iraqi imports from Turkey to its total imports is the dependent variable, and both the Turkish lira exchange rate and the average per capita share in Iraq are the independent variables through which the impact of the Turkish economic crisis will be transmitted to the Iraqi economy, while in the second model the Central Bank of Iraq's sales index of foreign currency is the dependent variable, and each of the ratio of imports from Turkey to the total Iraqi imports, and the exchange rate of the Turkish lira are the independent variables. The following is a description of the set of variables included in the standard models:

First: Description of the model variables

This aspect of the study deals with measuring and analyzing the impact of the Turkish crisis on the Iraqi economy for the period (2005-2019) by adopting some modern standard tests and models related to time series analysis. Before entering into standard analysis, we must give an introduction to the symbols used in standard analysis, as shown in Table (9).

Table (9):

Symbols used in econometric analysis

Symbol	Variable
St	Central bank sales of foreign currency in the current year
Et	The exchange rate of the Turkish lira in the current year
PM	The ratio of Iraq's imports from Turkey to its total imports in the current year

Source: Prepared by the two researchers.

Second: Presenting and analyzing the results of the standard model

1- Measuring the effect of the Turkish lira exchange rate and Iraqi imports from Turkey on the Central Bank's foreign currency sales for the period 2005-2019:

-

The form takes the following description:

$$St = f (PMt, ET) \dots\dots\dots (3)$$

The model examines the impact of the Turkish economic crisis, expressed in the decrease in the Turkish lira (Et), and the Iraqi demand for foreign currency, expressed by the ratio of Iraq's imports from Turkey to its total imports (PMt), and its impact on the Central Bank's sales of foreign currency. Before estimating the relationship, several tests will be conducted as follows:

The unit root test was performed to find out the stability of the time series, and the results of the tests indicate through the application of the Augmented Dicke Fuller Test (ADF), that the time series of all economic variables were stable at the first difference with intercept and at a significant level (5%).

Table (10) shows the Granger causality test under the Autoregressive Model (VAR).

Table (10)

results of the granger - causality test and the Autoregressive model

Dependent variable: St			
Prob.	Df	Chi-sq	Excluded
0.26	1	1.22	Mt
0.39	1	0.04	Et
Dependent variable: Mt			
Prob	Df	Chi-sq	Excluded
0.0000	1	19.07	St
0.49	1	0.81	Et
Dependent variable: Et			
Prob	Df	Chi-sq	Excluded
0.69	1	1.93	St
0.54	1	1.32	Mt

Source: Prepared by researchers based on Eviews 10.

$$\text{Logst} = 1.04 + 0.002 \text{ logSt-1} - 0.26 \text{ pmt-1} + 0.009 \text{ Et-1} \dots\dots\dots (4)$$

$$t = (2.68) (4.21) (1.81) (1.83)$$

$$R^2 = 0.91, \text{ adj } R^2 = 0.88, F^{*} = 30.58$$

It is clear from the above model that increasing imports from Turkey, which is backward in time (pmt-1), by one unit, leads to a decrease in foreign currency sales in the current year by (0.26), since imports from Turkey are a percentage of total imports, and therefore, increasing them may lead to a decrease in Iraq's imports. From other sources to cover it, this means there is (Trade-off, meaning that the total import volume has not changed and that only changes the composition of imports, and therefore the central bank's sale of this currency will not increase, while the Turkish lira's retarded exchange rate (Et-1) increased by one unit. One that leads to an increase in foreign currency sales by (0.009), as the higher the Turkish lira exchange rate, the prices in Turkey will be higher in relation to Iraq, which leads to an increase in the prices of tourism or investments and other economic activities and vice versa. That each of the time-lagging foreign currency sales, the imports from Turkey that is backward in time, and the time-lagging exchange rate of the Turkish lira affect the foreign currency sales in the current year by (91%) means that the independent variable (logSt-1, pMt-1, Et-1) affect the dependent variable foreign currency sales by (91%) and the remainder (9%) due to a number of other factors that did not enter the estimated model. As for the value of the modified coefficient of determination R^2 , it is also statistically acceptable and confirms that the aforementioned variables also explain foreign currency sales in the current year by (88%) and the rest (12%) is due to the influence of other factors outside the model. The model passed the overall significance test because the calculated value of (F) of (30.58) is greater than its tabular value (3.89) at $V_2 = 12$, $V_1 = 2$ and the level of significance (5%), and the (t-test) indicated the significance of the LogSt-1 parameter. It is estimated that the calculated value of (t) of (4.21) is greater than the tabular value (1.78) at the degree of freedom (12) and the level of significance (5%), while each of the two parameters pmt-1, Et-1) were statistically significant as well. The calculated value of (t) of (1.81) and (1.83) is greater than the previously mentioned tabular value at the same degree of freedom and the level of significance.

With regard to testing the efficiency of the results of the (VAR) model, i.e. the overall stability of the model, the model was found to be stable, which means that all the roots are located within the unit circle.

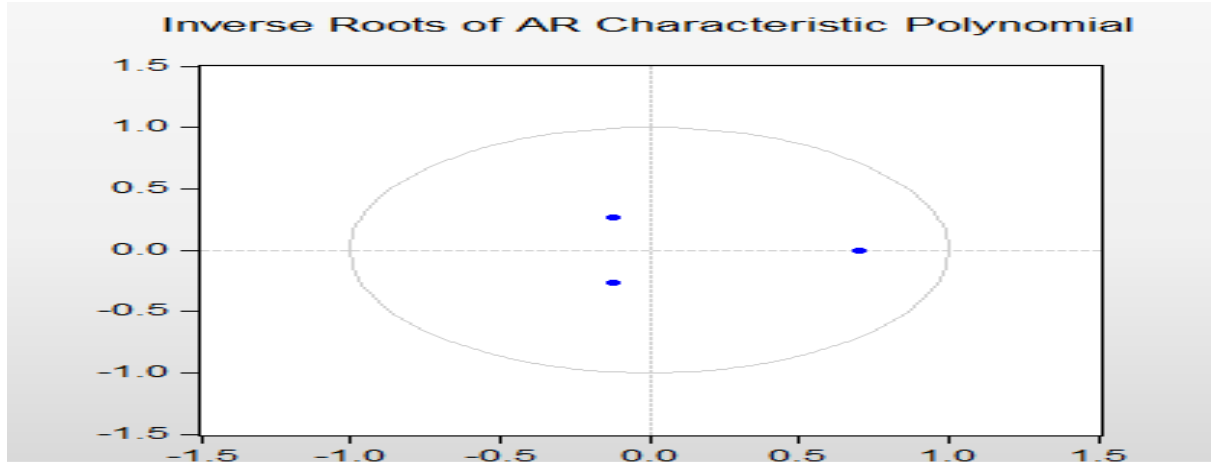


Table (11) shows the Cranger causality test within the framework of the autoregressive model (VAR), as it is noticed that there is no causation of currency sales from the Central Bank in imports from Turkey, since the value of (P-value) (0.27%) is greater than the significance level of 5%, but there is a causation of imports from Turkey in sales, currency from the central bank, in sales, currency from the central bank, because the value of (P-value) (0.000%) is less than the level of significance (5%), and accordingly there is no mutual influence relationship between currency sales from the central bank and imports from Turkey.

There is no causation for the sales of the Central Bank of Iraq in the exchange rate of the Turkish lira, since the value of (P-value) (0.39%) is greater than a significant level (5%), and there is no reason for the exchange rate of the Turkish lira in the sales of the Central Bank of Iraq, because (P-value) (0.16%) is greater than the level of significance (5%), and therefore there is no reciprocal influence relationship between the sales of the Central Bank of Iraq and the Turkish lira exchange rate.

Table (10)

: Results of the granger - causality test and the self-regression model

Dependent variable: St			
Prob.	Df	Chi-sq	Excluded
0.26	1	1.22	Mt
0.39	1	0.04	Et
Dependent variable: Mt			
Prob	Df	Chi-sq	Excluded
0.0000	1	19.07	St
0.49	1	0.81	Et
Dependent variable: Et			
Prob	Df	Chi-sq	Excluded
0.69	1	1.93	St
0.54	1	1.32	Mt

Source: Prepared by researchers based on EvIEWS 10 program output
Conclusions

1- Iraq is linked to intertwined economic relations with Turkey, which caused the effects of the Turkish crisis to be easily transmitted to Iraq, especially since Iraq is Turkey's third economic partner for Turkey's exports, as well as Turkey's reliance on providing the energy resources it needs from Iraq.

2- The normal economic and trade relations between two neighboring countries are supposed to flourish and return through a positive mutual effect, with an increase in the rates of trade exchange and economic exposure to them. However, the deterioration of the political situation in Iraq and the economic instability lead to inequality in the mutual advantages of the two sides.

3- It is noted that there is a fluctuation in the rates of economic exposure during the research period, due to the change in oil policy trends in production and export on the one hand, and to the fluctuations in international oil prices and their implications for strengthening the rentier character of the Iraqi economy on the other hand.

4- Investments were in the interest of Turkey as well, but they decreased as a result of the deterioration of the security situation in Iraq, after ISIS occupied large areas of northwestern Iraq, but it was active in Iraqi Kurdistan, and Turkey still has a desire to increase its direct investments in Iraq, at a time that needs Where Iraq is to such investments to rebuild the affected areas.

5- The low exchange rate of the Turkish lira is due to a number of economic factors that have historical roots and were not treated in the correct ways, which negatively affected the Turkish economy.

6- The impact of the crisis on the policy of the Central Bank of Iraq, as the record results indicate that the decrease in the exchange rate of the Turkish lira led to an increase in the demand for foreign currency, which led to an increase in the sales of the Central Bank, in order to maintain the exchange rate of the Iraqi dinar, to achieve the bank's goal of price stability, The higher the exchange rate of the Turkish lira, the higher the demand for the dollar, to meet the movement of economic activity between the two countries, the more the Turkish lira exchange rate in one unit, the sales of the Central Bank of Iraq will increase by (0.009). While increasing imports from time-lagging Turkey (pmt-1) by one unit, it leads to a decrease in foreign currency sales in the current year by (0.26), because imports from Turkey are a proportion of the total imports, and accordingly, increasing them may lead to a decrease in Iraq's imports from other sources to be covered, and thus will not lead to an increase in the CBI's sales of dollars.

Recommendations

1. Iraq must be hedged against the economic crises that its trading partners are exposed to, by studying the degree of linkage between it and its partners and building economic policies facing the crises.

2. Iraq should adopt trade policies that reduce its exposure to its trading partners and improve its trade balance towards them by taking advantage of their lower exchange rates to enhance its imports of investment goods that would enhance its national production, thus reducing its imports. At the same time, it must impose customs duties on his consumer imports to protect the national product.

3. Work by various means towards economic cooperation with Turkey, establishing joint economic projects, and encouraging the Turkish private sector to invest in Iraq, because cooperation between countries often removes many obstacles and problems that fall between countries with common interests, and it can benefit from the crisis between Turkey and the United States in attracting Turkish direct investment to Iraq as it is a good investment environment.
4. On the political level, the two countries must adhere to the meetings of the Supreme Council for Strategic Cooperation between them and the need to effectively implement the agreements in force, while recognizing the necessity to reach new agreements in the field of military cooperation, security, defense industries, etc.
5. In the agricultural field, Iraq could benefit from removing restrictions on its agricultural exports by Turkey and the member states in the event that Iraq reduces its customs tariff on its agricultural exports to it.

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