

The Role of Trade Openness to the Banking Sector and Financial Markets in the Iraqi Economy Environment for 2007-2021

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Abstract

The research aims to clarify the repercussions that befell the Iraqi economy after 2007 as a result of the use of some policies and their impact on trade openness, which is part of the economic openness of the country, and were these repercussions positive or negative by setting hypotheses for the research problem, which is that the development of any of the productive and service sectors is Total dependence on the development of the rest of the sectors, so it can be said that the financial and banking sector depends significantly on the development taking place in the rest of the productive sectors, so the commercial openness taking place in Iraq throughout the research period, should positively affect the financial and banking sector. The hypothesis that was set for these forms is That commercial openness, which is part of the economic openness in any country, will generate repercussions in favor of the banking sector and capital markets in a country that follows such policies, especially Iraq after 2007, and the most prominent finding of the research is that sometimes economic or commercial openness may have an adverse shock As a result of the deterioration of the economic conditions in the countries of origin, from which imports are made, so legislation must be put in place that will reduce the severity of adverse shocks, and work to develop the banking sector in line with the banking sectors in neighboring countries and the world in order to develop public confidence in the Iraqi banking sector, as that confidence is currently missing between the citizen and the Iraqi banking sector.

Keywords: Trade openness, banking sector, stock market, Iraqi economy.

Introduction

The role of the banking sector varies from country to country depending on the dominant political and economic systems in each one, and it is an essential component of any nation's economic activity as it helps to achieve economic and social development through financing economic activities. Due to the globalization of the banking industry, it has recently faced enormous challenges marked by fierce competition, technological advancement, and an increase in monetary and financial transactions. As a result, banking departments have been forced to look for new policies and activities and shift away from the primary activities represented by deposit and lending to implement activities that need to be revised. The core functions of banks, such as investing in securities, insurance, etc., as well as the shift towards so-called universal banks, which started to play a crucial role in financing international trade, made it necessary to reevaluate some aspects of banking operations in order to keep up with global development and openness.

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As for the stock market, the importance of any economic policy pursued by the state stems from the assumed role that this policy can play. Raising the efficiency of the financial and banking sector, as the removal of restrictions imposed on the financial and banking sector will allow it to expand investments more than it used to be, and this will open the way for a large number of projects as long as there is ease and ease in obtaining the financing necessary to start these projects.

Research problem:

The development of any of the production and service sectors is entirely dependent on the development of the rest of the sectors. Therefore, the financial and banking sector depends significantly on developing the rest of the productive sectors. Therefore, the commercial openness in Iraq throughout the research period should positively affect the sector. Money and banking but through research, we did not find this positive progress in the financial markets and the banking sector, unlike the countries that witnessed a remarkable renaissance in that sector as a result of following policies that would develop and advance in those critical sectors.

Research hypothesis:

The research starts with the hypothesis that trade openness, which is part of the economic openness in any country, will generate repercussions in favor of the banking sector and capital markets in a country that follows such policies, especially Iraq after 2007.

Research goal:

The research aims to clarify the setbacks and repercussions resulting from the policies that were followed after 2007 in the Iraqi environment of trade openness, which is part of the overall economic openness witnessed by the environment of the Iraqi economy. Moreover, ways to improve the living conditions of the Iraqi citizen, provide the best banking services, and improve capital markets in the environment of the Iraqi economy.

Research importance:

The banking and capital markets are of great importance in the development of the rest of the productive sectors, which is represented in financing these sectors for their growth. The mission and the services and opportunities it provides in the rest of the productive sectors, and an indication of the quality of those services and the relative importance of their participation in the progress of economic growth in Iraq after 2007, and whether the contributions of trade openness were reflected in the development of these sectors or not.

Theoretical framework

First: Definition of commercial openness

A fixed definition cannot define many ideas at the same time. The majority of ideas concerning openness in commerce can be understood by examining the procedures and justifications for turning to openness and the various forms openness can take. After operating as a closed economy dependent on self-sufficiency, it is now characterized as the process of opening up domestic trade within the country. It exports the portion of its output that is more than it needs. In addition to that, he brings in the things that he requires. Commercial openness extends beyond the boundaries of national markets and into the frontiers of international markets. According to the definition provided by Safwat Qabil, it is "the availability of access to goods, but also services, technology, foreign investment, and capital." An economy that is open to outside influences is more integrated and extensive. The removal of all barriers to entry into international markets and the free circulation of all factors of production is necessary to "liberate commercial exchanges." These barriers can either be removed entirely or significantly reduced (Qabil, 2008, p. 39).

Second: Indicators of trade openness

1. The ratio of imports to GDP:

This indicator is an indication of the extent to which the country relies on domestic demand for goods and services abroad, and this indicator can be calculated as follows (synquin, 2008:21):

$$\text{Imports ratio: GDP} = \frac{\text{The value of import}}{\text{The value of GDP}} * 100$$

The developing country relies mainly on abroad to cover the domestic demand for primary and growing developmental needs due to the underdevelopment of the production base in these countries, which made it unable to provide these needs locally. The different circumstances that once befell Iraq during the previous and current era, just as Iraq's productive weakness results from the wars that once took place in the country during the past period, the political circumstances and successive governments that did not take into account technological progress, development of production, and sufficiency in the extractive industry that relies on one source, which is crude oil. Leave the rest of the industries.

2. The ratio of exports to GDP:

Many countries derive a large proportion of their national income from the production of one export primary commodity or a minimal number of commodities, as the increase in the percentage of exports from the gross domestic product to (60%) or more is an indicator of economic openness, and it can be calculated according to the following equation: (Al-Sawaei, 2006, p. 59)

$$\text{Export ratio: GDP} = \frac{\text{The value of export}}{\text{The value of GDP}} * 100$$

Moreover, it is well known that Iraq considerably depends on its exports in crude oil production. It may be the only source of export for Iraq, evidenced by the annual budgets, which depend on their financing (95%) for the previous period, which came in most of the statements issued by the Iraqi government.

3. Economic Exposure Index:

This indicator is measured by finding the ratio of total exports and imports to the gross domestic product, representing the value of foreign trade from the gross domestic product. (siron, 2001: 3):

$$\text{Economic exposure} = \frac{\text{Export} + \text{Import}}{\text{GDP}} * 100$$

The economic exposure index shows the volume of imports and exports divided by that country's gross domestic product. This indicator may be affected by many internal and external factors, including the ability of the productive sectors to produce goods and services, including imported materials, and the country's needs for those imported goods and services. Also, this indicator depends on the country's ability To achieve a large or somewhat low domestic product and other external and internal matters.

4. Trade balance

The trade balance encompasses many ideas that all relate to the same situation. The difference between an economy's exports and imports is what is known as the trade balance. It is described as the portion of a nation's balance of payments related to goods or material items, whether imported or exported. The balance of commercial operations, or the buying and selling products and services, is known as merchandise. The trade balance might be positive or negative; this is its broad definition in today's jargon. When a country's balance of payments is positive, more goods and services are exported than are imported. It is specified if there is a "surplus in the balance" or a "trade surplus." Countries with a favorable trade balance include Canada, Germany, and Japan. Despite a

steady economy, a negative trade balance indicates that the country is exporting less products and services than it imports. Countries with expanding economies, like the United States of America, Hong Kong, and Australia, frequently experience trade deficits due to the economic cycle. However, these nations can meet the enormous domestic demand during an economic boom. Poor nations that rely on investment for economic growth and development find it more challenging to maintain a negative trade balance (Hijira & Abdel Jalil, 2012, p. 2) .

From the above, the trade balance can be defined as that account in which all transactions related to the transfer of goods and services from the country to abroad are recorded, and it can be in a state of surplus or deficit.

Third: The definition of banking industry

The definitions of the banking industry differ depending on the country-specific rules and regulations that regulate it, the activities that those banks engage in, and its legal structure. As a result, a thorough definition of their various sorts and forms, as well as the regulations that control their operations, takes time to come by. The definition of a bank that is most frequently used is an organization that specializes in money exchange. (Carl, 2010, p.27)

The banking industry can be characterized by banking activities that rely on resources and practices established by banks as they have grown since their founding and as a result of those activities. The right of the bank ((in this context, the intermediary attempting to mobilize savings from savers and lend them to investors)) to obtain the maximum profit is to maximize its earnings. (Maher , 2004, p.10)

Fourth: The significance of the banking industry

The developed and effective banking sector has emerged as the critical component in attaining stability in light of the openness and financial liberalization observed by the global economy and the frequency of crises. Therefore, sophisticated financial and banking institutions are necessary to implement monetary and fiscal policy measures and efficiently manage reserves and debts to affect the exchange rate and pricing. The following bullet points sum up interest rates, GDP, and the banking industry's significance in general (Fischer, 2003, p.2):

1. Achieving economic stability: The banking sector is essential for a country's economic policies to be successful because it draws in foreign investment, boosts productivity in recipient nations, and transfers technology. This results in an increase in the volume of financial flows, which in turn depends on the banking sector's level of development and its mediating role in directing financial flows. Foreign investment has a positive impact on economic growth. Therefore, the banking industry's lack of development restricts the economy's ability to gain from these effects and potential inflows.
2. Financial intermediary: The banking industry serves as a financial intermediary by transferring money from the economy's surplus unit to the deficit unit, represented by businesses and governments that require money to finance investments and outlays. The banking industry also strives to offer savings vehicles that align with savers' preferences.
3. Activating the financial market: The financial market's movement is significantly and stimulatingly influenced by the banking industry. At the banking industry and other financial institutions level, purchasing shares and bonds issued by economic entities or governmental institutions for the first time occurs, and banks enter the stock market.
4. Boosting economic expansion As surplus units look for alternative investment outlets to direct their funds, and as the banking sector is a source of long-term funds for all, the development of the banking sector's capabilities enhances the developmental role represented in transferring money from surplus units to deficit units or borrowers. From

the public and private sectors that rely on long-term financing for building infrastructure and growing businesses that play a part in making the economy more appealing to domestic or foreign investors, and then by meeting the financial needs that increase production projects or expand existing ones, which helps to create jobs, drive consumer spending and investment, and ultimately raise the gross domestic product and economic growth.

Fifth: The idea of stock markets

Financial markets have been defined in a variety of ways, some of which are included below:

According to the first definition, the financial market is "the meeting place of the money supply - savers - with the demand for it - investors - as it helps to convert part of the society's savings into useful investments and thus helps to complete the capitalist financing process, that is, the capital industry." (Godeh, 2000 , p. 20)

About the second description, he thinks that the financial market gathers savings in all their manifestations and conditions and reinvests them directly or subtly. (Awad Allah, 1994, p. 187)

The system that ensures savings accumulation and the provision of funds for economic activity through the financial institutions participating in the market is generally called the financial market. (Al-Hinawi & Al-Eid, 2002, p.23)

Sixth: Stock market divisions

1. The money market: According to some, it is "the mechanism by which short-term capital is issued and traded," which is a more thorough definition. The demand for it is on the part of all those wishing to obtain the benefits of others for a short period in exchange for paying some interest (Mubarak & Yunus, 1996, p. 31). Whoever wants to invest his savings - his surpluses - by giving up the benefits of his money for a short period in exchange for obtaining its return. The previous definitions lead us to the conclusion that the money market is the system in which short-term capital with terms of no more than a year is traded, whether they take the form of short-term loans, negotiable securities, or commercial papers. This market is not dependent on the existence of a particular location, unlike some other markets (Navette, 1992, p. 14).

2. The stock market The capital market is described as the place "where long-term securities, such stocks and bonds, and real estate loans, are traded. Due to its role in the growth process, this market's significance has grown recently (Al Nashif & Al Hindi, 2000, p. 31). It can also be described as the market where long-term financial assets are traded, whether they reflect contracts made by businesses, private firms, or governments or represent a title deed like stocks or a debt bond like bonds (Puras, 2002, p. 73).

Practical Framework

First: Foreign currency transactions in the money market

The availability of monetary dealings in foreign currency is evidence of the existence of economic openness on the one hand, and evidence of the existence of mutual monetary activity between the inside and outside, whether between institutions as settlement of daily payments or by attracting some of these capitals in local investment, and they were as follows:

Table (1) Assets, total foreign liabilities and assets of the banking system in Iraq for the period (2007-2021) (million Iraqi dinars)

Total foreign assets	Total foreign liabilities	Foreign assets	Year
47367983	3993099	43374860	2007
68084967	2043946	66041021	2008
67910770	5767829	62142941	2009
71946026	3806,679	68139347	2010
82980261	3934507	79045754	2011
97492510	3608750	93883760	2012
112787892	3679416	109108413	2013
105093012	3325590	101767422	2014
79122822	1325359	77590463	2015
65115948	912796	64203152	2016
70266993	62255	69330733	2017
92793285	1370407	91422878	2018
192883108	814211	102068897	2019
105553804	739420	104814384	2020
121993607	786414	121207193	2021

Source: Central Bank of Iraq - General Directorate of Statistics and Research - Annual reports, various years

Table (1) shows that foreign assets amounted to (43,374,860) million Iraqi dinars in 2007* , and foreign revenues, which are represented by foreign assets with local and foreign banks, began to increase during the first years of the research period due to the economic openness that the Iraqi economy faced, especially the period from 2008 To 2014, where it reached its highest during 2014 (101,767,422) million Iraqi dinars, then foreign assets began in 2015 and what followed to decline as a result of the decline in global oil prices and the internal crisis, which was represented by the unstable security situation, as it reached in 2015-2018, respectively (77,590,463, 64,203,152, 69,330,733, 91,422,878) million Iraqi dinars, and in 2019 a new crisis began to loom on the horizon, which is the Corona pandemic, but the need of foreign countries for Iraqi oil caused the balance of foreign assets in 2019 and what followed until 2021, when it reached a maximum of (121,207,193) million Iraqi dinars . The analysis of foreign assets applies to total foreign assets for the same reasons.

As for foreign liabilities, they were limited to a maximum in 2009, when it reached (5,767,829) million Iraqi dinars, and a minimum in 2017 when it amounted to (62,255) million Iraqi dinars. The value of foreign liabilities ranged at this rate during the years of research due to poor internal conditions at the economic, political, and security levels, which is One of the most important reasons for the weakness of foreign liabilities in the environment of the Iraqi economy.

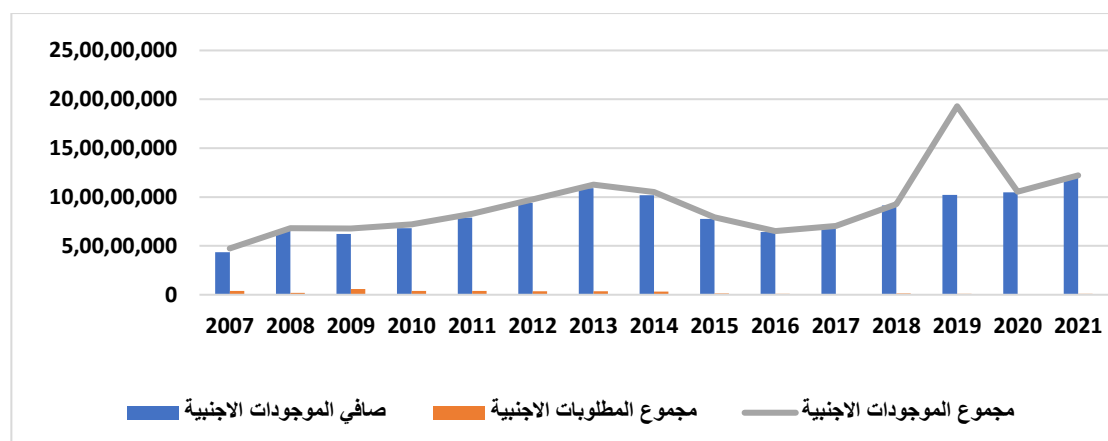


Figure (1) Assets, total liabilities, and total foreign assets for the period 2007-2021.

Source: The researcher's work based on the data of Table (1).

Second: Stock market

Capital markets are considered one of the critical frameworks in countries' economies, due to their role in attracting and directing investments, with the multiple benefits they achieve for countries, whether economic, social, or otherwise. These markets witnessed varied developments that led to many developments in their frameworks. Financial markets are institutions concerned with investment affairs, securities (issuance and trading), and their operations bear returns and risks.

Table (2): Total trading volume, foreign trading volume, relative importance, number of shares bought and sold, and their growth rate for the period (2007-2021) (million, percent)

their growth rate	Number of shares sold	their growth rate	Number of shares bought	Relative importance	foreign trading volume	Total trading volume	السنة
-----	2811	-----	4152	4.00	17121	427367.5	2007
117.7	6120	122.8	9251	8.20	24728	301350.3	2008
432.9	32619	398.4	46107	45.63	187972	411928.4	2009
79.3	58501	-20.4	36690	36.48	146081	400359.9	2010
-67.9	18723	125.4	82723	23.94	225347	941198.2	2011
92.7	36086	-65.5	28476	12.32	110133	893825.3	2012
12.3	40554	252.0	100249	4.64	131946	2840220.3	2013
1288.0	562912	-23.6	76575	21.71	195031	898316.0	2014
-67.6	182286	-5.7	72202	40.92	186702	456179.8	2015
-67.4	59413	3.7	74919	21.5	91961	426788.1	2016
-22.8	45832	-20.7	59406	22.75	88049	386879.1	2017
-15.9	38524	-55.3	26518	319.80	744116	232681.2	2018
-53.0	18077	-53.9	12200	20.54	33813	164592.4	2019
-9.0	16448	225.3	39687	21.75	51527	236818.4	2020
199.3	49244	25.1	49668	12.17	98913	812698.6	2021

Source: Iraq Stock Exchange, Statistical Research and Analysis Department, Securities Commission, annual reports.

Table (2) also shows the volume of total and foreign trades and the number of shares bought and sold available in the Iraqi market for securities; if compared to foreign financial markets, it does not represent anything but a small thing because of the intensity of investment in securities in countries that witness relative stability in economic conditions and the development of their markets Financial due to the volume of investments available in the economies of those countries, and the weakness of domestic and foreign investments in the productive sectors, which are usually available in the capital market in the form of securities, whether stocks or bonds, led to weak transactions in the Iraqi capital market and investors' unwillingness to invest In the Iraqi market for these combined reasons and many other reasons.

The economic openness that Iraq witnessed during the research period led to an increase in the percentage of transactions in the Iraqi market for securities and the inclusion of some profitable companies, especially in the banking sector, which led to a significant improvement in the level of transactions and trades and the number of shares, and this is shown in Table (2) in detail, as we note the gradual increases It is noted for the period 2007-2021, that the number of shares purchased and the number of shares sold in 2007 and the trading volume amounted to (4152), (2811) and (427367.5) million Iraqi dinars, respectively. Iraq Securities and investors' unwillingness to trade because of the poor security situation in Iraq during this period.

Moreover, an apparent fluctuation appeared in the period from 2008 to 2014, as the total and foreign trading volume reached (301350), (24728) million Iraqi dinars, respectively, and the relative importance amounted to (8.20) in 2008. The foreign trading volume and the number of shares bought and sold reached (195031) million Iraqi dinars (76575) (562912) million shares, respectively, in 2014, with a growth rate of (-23.6) (38.8) and relative importance of (21.7) resulting from intertwined economic conditions in addition to the poor security conditions and political problems, which did not attempt to correct the economic course in an environment Iraqi economy.

Table (2) also shows that the growth rate of the number of shares is negative during the period from 2015 to 2019 due to the poor internal security conditions in Iraq, which left significant reversals in the productive sectors in the environment of the Iraqi economy, as the total and foreign trading volume and the number of shares bought and sold in 2019 reached about (164592.4) and (33813) million Iraqi dinars (12200) (18077), with a negative growth rate of (-53.9) (-53.0) and a relative importance of (20.54), and the number of shares and trading volume began to rise in 2020 and 2021 due to the desire of the Iraqi government to improve Laws that allow easy trading, especially the introduction of electronic systems in daily trading and the inclusion of shares of some profitable companies in trading, as the total and foreign trading volume in 2020 reached (236818.4) (51527) million Iraqi dinars, with a relative importance of (21.75), while in 2021 the trading volume reached Total and foreign (812698.6) (98913) million Iraqi dinars, with a relative importance of (12.17).

Conclusions:

1. There are clear indicators to know the extent of commercial openness of any country. There is a group of those indicators through which it is possible to know the extent of economic openness in the economic environment, whether local or global. Among the most important indicators are the number of imports and exports and others ...
2. Most foreign transactions on the part of Iraq are Iraqi revenues, which are foreign currencies resulting from the sale of crude oil in the global market. Therefore, we find that foreign assets are constantly increasing due to the rise in global oil prices on the one hand and the increase in Iraq's export of crude oil on the one hand. Again, this led to increased foreign assets with local and foreign banks owned by Iraq.

Recommendations:

1. Sometimes, economic or trade openness may have an adverse shock resulting from the deterioration of economic conditions in the countries of origin from which imports are made. Therefore, legislation must be implemented to reduce the severity of adverse shocks.
2. Work on developing the banking sector in line with the banking sectors in neighboring countries and the world to develop public confidence in the Iraqi banking sector, as that trust is currently missing between the citizen and the Iraqi banking sector.

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