

HISTORICAL TIES BETWEEN TURKEY AND IRAQ: PATTERNS OF EFFECTS OF RECENT GLOBAL CRISIS ON ECONOMIC RELATIONSHIP BETWEEN THEM

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ABSTRACT

The world economic last crisis affected almost all economies in the world. The impact of the 2008 crisis has been observed in the Turkish economy since the middle of the year. It is known that role of the government in economy is important and government uses some policies to cope with such kind of economic problems. We studied last crisis and its effects on relationship between Turkey and Iraq. First, we analyzed trade between them, second, causes and effects of recent global crisis, third, effects of recent crisis on economic relationship between Turkey and Iraq. Last one, the effects of the changes in Turkey's exports and imports with other countries especially Iraq by using regression model established. As a result we saw that recent global financial crisis affected the world at different levels. Although Iraq is not the center of financial crisis, Iraq was affected due to low oil prices. But trade between Turkey and Iraq was not affected negatively. Crisis has affected Turkish exports in a negative manner but this wasn't the situation for Iraq. Exports from Turkey to Iraq have increased at that period.

Introduction

Before The Gulf war, Iraq was one of first countries to obtain economic relations with Turkey, with a trading sum of 5.5 billion dollars. In 06.08.1980 however, due to The United Nations' Embargo where import from Iraq was prohibited and export to Iraq was limited to food and medicine, the relations between Iraq and Turkey was about to come to an end.

The embargo of The United Nations affected The Turkish economy not only in exports but building

services, transport, transit trade, energy and tourism sectors. During this time, Turkey's losses were calculated to over 120 billion dollars.

By considering also The Outside dynamics also prevented Turkish exports and Turkey has improved a system and by that model Turkey has taken raw petroleum from Iraq exporting construction, transportation, and such services. After this attempt, in 2000s, The Turkish economy has begun to once again improve its long-term relationship with Iraq. On May, 23, 2003 U.S.A. ended the embargo during which a new period started between Turkey and Iraq. After this time, Iraq began to move forward. In comparing the years 2009 and 2010, the economic relations and the strategic partnership (politic and economic) of Turkey with Iraq have greatly improved.

By the end of 2003, Turkey had 941 million dollars of trade in Iraq, but at the end of the year 2009, although there was economic and financial crisis, this acceleration went up to 6.1 billion dollars. However, this situation shows what a strong improvement occurred in trade size between Iraq and Turkey. Due to the effects of the global crisis, the general exports of Turkey decreased by % 23, but exports in Iraq increased by % 31. As a result of this performance, Iraq, which was at 10th place at exports of Turkey, became the 5th country at the end of 2009.

However, for the last years, a significant amount of Turkish export in Iraq has been building materials, such as machinery, cement etc. This was a result of Turkish entrepreneurs having housing businesses in Iraq and needing to bring their own equipment and materials from Turkey.

One other export in northern Iraq is electricity in the equivalent of getting fuel oil. However, Turkish firms are acting in Iraq with a very important and active role at reconstructing Iraq. Construction companies in Turkey have opened many businesses in Iraq—approximately 500 projects- valuing at 7.7 million dollars and these companies have already completed almost all of their projects. In accordance with The Turkish Prime Minister, to set high level strategic cooperation was set to begin during his visit in Bagdad in 10th July 2008. Due to this cooperation, the Prime Ministers of both countries set to meet three times a year thus increasing strategic business capacity between two countries. (Turkish Embassy Commercial Counselor, 2011)

Turkish President visited Iraq on 23rd March 2009, during which another agreement was made and the “Comprehensive Economic Partnership Pact” was made to improve relations.

We studied this paper as three person by living in Iraq and observing people, talking face to face, getting first hand sources also was taken advantage of the Turgut Ozal International Conference, Causes of recent global crisis and effects to Northern Iraq, April 2010, Malatya.

We studied relationship between Turkey and Iraq under four main part. First of all we analyzed trade between them, secondly; causes and effects of recent global crisis, as third; effects of recent crisis on economic relationship between Turkey and Iraq. Last part one; the effects of the changes in Turkey's exports and imports with other countries especially Iraq by using regression model established.

Commercial Ties Between Turkey and Iraq

It was estimated that, approximately %70 of exports in Turkey is with in Northern Iraq –Erbil, Duhok and Suleymaniye-. % 80 of construction businesses of Turkish businessmen in Iraq is also achieved in these regions. If considering only external trade and construction services, the relations between Turkey and Northern Iraq exceed 5 billion dollars. The Turkish capital is very important for economic development of Northern Iraq. In the region there are over 1.200 Turkish firms acting and 500 Turkish firms have made direct investments in Northern Iraq. This numbers shows that Turkish investors made 5 times more investments than aboriginal investors. The value of the construction of airports in Suleymaniye and Erbil is grossed at 680 million dollars, and this number shows the importance of Turkish investment in Iraq.

Due to the recent wars that took place, Iraq is in need of a reconstruction. Due to the fact that Turkey is one of the most important construction servicers in the world and close to Iraq, it is important for both Turkey and Iraq cooperate and make strategic agreements. From 1975 and on, more than 260 Turkish firms have completed more than 535 projects with a total value of over 8.1 billion dollars.

Below there is “table 1” which shows the projects that Turkish firms were accepted in Iraq from 2003 to 2010; (Turkish Embassy Commercial Councilor, 2011)

Table 1: Turkish firms were accepted in Iraq from 2003 to 2010

Year	Quantity of projects	Equivalent of projects (\$)
2010	42	547.656.584
2009	44	1.270.534.179
2008	69	1.409.666.668
2007	33	506.660.448
2006	60	386.423.419
2005	114	1.291.135.615
2004	101	1.104.390.745
2003	40	242.687.504
2002	9	14.670.763
2001 and before that	23	1.400.625.477
Total	535	8.174.451.402

Source: Turkish Embassy, Commercial Counselor Erbil/Northern Iraq.

According to Table 1 we can see that till 2001 year, economic relations between Turkey and Iraq were not such as they were before 1980 years. On the other hand, there is a jump after 2002 and 2003 in numbers of projects. This was due to the embargo made by The United Nations. We know that the embargo finished in 2003 and a new page has been opened between the two countries. Above we have mentioned about Turkey’s attempt to start economic current with Iraq in the year 2000 because Turkey couldn’t has missed this market easily. Since the year 2004, exports into Iraq

have grown rapidly. As we can see, in construction services Turkey had many opportunities and jobs in Iraq. Even in the financial crisis and even in the economic crisis of the world, Turkey increased exports in Iraq 35% till recent.

From 2003 to recent, projects which Turkish companies -including subcontractors- accepted are more than 250. Most of these mentioned projects have been got in Northern Iraq region. Now look at the table below at Table 2; (Turkish Embassy Commercial Councilor, 2011)

Table 2: projects have been got in Northern Iraq

Name of company	Name of project	Equivalent of project	Date of agreement
UNIVERSAL ACARSAN GROUP	5 HOSPITALS IN IRAQ (KERBELA, MISAN, BABIL, BASRA, NASIRIYE)	750.000.000	2008
ENKA CONSTRUCTION AND INDUSTRY	BEKHME BARRAGE	736.000.000	1986
KARKEY BLACK SEA ELECTRIC PRODUCTION	250 KW ELECTRIC PRODUCTION FACILITY	392.886.000	2009
MAK-YOL CONSTRUCTION	INTERNATIONAL AIRPORT CONSTRUCTION IN ERBIL	372.781.821	2004
TEPE CONSTRUCTION	CONSTRUCTION OF SULEYMANIYE UNIVERSITY	258.946.526	2005
TEKFEN CONSTRUCTION	RAW PETROLEUM PIPE LINE	238.480.000	1987
GURBAG CONSTRUCTION ENGINEERING	EURO CITY PROJECT	200.000.000	2007
YUKSEL CONSTRUCTION	KORA-SHAKLAVA- KANDIL HIGHWAY CONSTRUCTION	178.884.749	2009
VINSAN VEZIROGLU & STFA	DIWANIYA- NASIRIYA RIGHT SECTION HIGHWAY	161.300.619	2005

CONSTRUCTION	AND SAMAWA SIDELINE		
OHITAN CONSTRUCTION ENGINEERING	DOHUK WATER PROCUREMENT 2. STAGE	155.126.750	2009

Source: Turkish Embassy, commercial counselor Erbil/Northern Iraq.

As far as we can see from the table, for 24 years, most of the construction projects taken place in Iraq have been made by Turkey. Reconstruction projects are occurring in Erbil, Duhok, Kirkuk, and Suleymaniye. To reconstruct suleymaniye, regional government reserved 2 billion dollars for architecture and 5 billion dollars for infrastructure.

According to this information, we can estimate that Iraq is still a very nice bazaar for Turkish companies and I think it will continue for some more years. If stability is provided, then Turkish companies will take many projects in Bagdad, Mosul, Basra, etc. In Iraq among action fields; housing projects, health facility projects, infrastructure projects, social and cultural projects, energy projects and transmission projects are playing an important part in constructing a better Iraq.

Causes and Effects of Crisis on Turkey and Iraq

Causes of Recent Global Crisis

The current financial turmoil is attributed to the sub-prime mortgage sector in the USA. The crisis could be ascribed to the persistence of large global imbalances, which were the outcome of long periods of excessively loose monetary policy in the especially advanced economies during the last decade. Global imbalances have been manifested through a substantial increase in consumption in the US, it means current deficit. On the other hand, a substantial surplus in Asia, particularly in China, and in oil exporting countries in the Middle East and Russia cause global imbalance which were the major underlying cause of the crisis. (Mohan, Mohan, 2009) Let's continue our topic – causes of recent crises- under three titles below.

-The bursting of the housing bubble causing a reallocation of capital and a loss of household wealth and drop in consumption.

-A sharp rise in the equity risk premium (the risk premium of equities over bonds) causing the cost of capital to rise, private investment to fall and demand for durable goods to collapse.

- A reappraisal of risk by households causing them to discount their future labor income and increase savings and decrease consumption. (MCKIBBIN, et. Al., 2009)

Firstly: If the circumstance is proper, the household can choose investment in a capital good. The household capital stock combines housing, and other durable goods. When we look to the past we see that the Federal Reserve cut interest rates by a total of 550 basis points in a series of steps between

2001 and 2004. The housing bubble was the result of a long period of low interest rates by the US Federal Reserve. From 2000 to 2006, house prices in some areas doubled to subsequently collapse. While house prices were rising so strongly, credit was supplied liberally to meet the demand as perceptions of risk fell. The rising wealth boosted confidence and spending. These changes in some areas have generated dramatic news headlines but, overall the United States index of house prices have fallen by 6.2 percent in real terms from the 1st quarter in 2008 to the same quarter in 2009. Falling house prices has a major effect on household wealth, spending and defaults on loans held by financial institutions. Finally we saw that housing bubble bursting fuelled financial crisis. Here you can ask why the USA cut interest rates. The answer is that: Low interest rates were due to fears of deflation and led to a boom in US housing, and, US bond yields were also low because of low world interest rates (for example, Japanese bond yields at a little over 1 per cent and short term interest rates at zero). There was also an international aspect. Japan and Europe also affected the US to keep interest rates low. (MCKIBBIN, et. Al., 2009) Secondly, Due to the bankruptcy of Lehman Brothers in September 2008, current economic and financial environment of the world economy, the global financial system and for central banks have been faced with difficult times. (Mohan, Mohan, 2009)

Lehman has held large positions in the subprime and other lower rated mortgage markets. Brothers' failure was primarily due to the large losses they sustained on the US subprime mortgage market. Losses of \$2.8 billion have been reported by Lehman in the second fiscal quarter in 2008. It was forced to sell off \$6 billion in assets. The failure of Lehman Brothers affected equity risk premiums across markets. (MCKIBBIN, et. Al., 2009) Thirdly, Firms' reappraisal of risk has discounted households' labor income that fuelled increasing saving and decreasing consumption. That situation is also another cause of financial crisis.

Effects Of Recent Crisis On Turkey

The world economic crisis that affected almost all economies in the world in the second half of 2008 imposed additional constraints for growth, and the economy almost stopped its growth in 2008 (0.7% growth), and shrunk 4.7% in 2009. The *great recession* had adverse effects on the Turkish economy beginning October 2008 as well. Turkey had faced with crisis and recessions much time that follow and the recent 2008-09 crisis is the fifth in the last 30 years. (Ercan et. Al., 2010) Turkish economy had a serious blow from the global crisis of 2008-09. This is not surprising due to degree of Turkey's integration with the global economy and the severity of the recent global recession, which has already earned names such as "Depression" (Ercan, 2010)

We can enumerate mainly impact of recent global crisis on Turkish economy;

- 1- Unemployment increased sharply in the second half of 2008 and reached record rates of 16.1% and 15.8% in February and March 2009. In the recent crisis, employment rate also declined to as low as 38.5 % in February 2009. (Ercan, 2009) In 2008, the annual average of long term unemployed for six months and more duration was 1,112 thousand persons. In

2009 the share of long term unemployed to total increased to 1,560 persons and GDP contracted by 4.7 over 2009. (Ercan et. Al., 2010)

- 2- The Current Account deficit/GDP ratio exceeded 5% between 2006 and 2008 and that this ratio fell steeply after the crisis of 2008-09 hit Turkey. Foreign trade flows have been an important channel through which the recent global crisis affected the Turkish economy since mid-2008. There was a sharp fall in the value of Turkish exports starting in October 2008. But, The fall in the value of imports was sharper. The sharp decline in the value of Turkish exports resulted from falling volumes as well as falling prices. Exports and production of different industries unevenly were affected by the recent global crisis. The most notable declines were observed in the exports of passenger cars, other vehicles, chemicals and machinery starting in October-November 2008. It was asserted that the main factor behind the contraction in Turkish exports was the sharp fall in EU demand. The share of Turkish exports to areas such as Africa and the Middle East increased significantly during the crisis of 2008-09.
- 3- Falling growth in private investment and consumption induced deceleration in growth of the Turkish economy started in mid-2007 before it was hit by the recent crisis.
- 4- The banking sector in Turkey was substantially restructured, with a set of regulations formulated together with the IMF, between 1999 and 2002. During this period, a state bank was dissolved and 18 troubled private banks were transferred to the Savings Deposit Insurance Fund (SDIF). During the recent global crisis, as of September 2009, there are as yet no banks transferred to the SDIF, no changes in ownership, no liquidation and thus there is not a fall in the number of banks. (Ercan, 2010)
- 5- The impact of the 2008 crisis has been observed in the Turkish economy since the middle of the year. The fall in output was limited in consumer goods industries, whereas capital goods industries experienced a substantial contraction. The decline in capital goods output reached 60% in the period January- March 2009. Especially the motor vehicles industry has been one of the worst affected sectors. Since consumers could delay their demand for automobiles, the motor vehicles industry faced with huge decline in demand, and, consequently, in production. (Ercan, 2010)

It is known that role of the government in economy is important and government uses some policies to cope with such kind of economic problems. So, the government has enacted a series of stimulus packages to combat aggravating unemployment and output losses spread over the last quarter of 2008 and the first half of 2009 in general. Turkish response to the global crisis mainly relied on tax reductions to increased public spending and subsidies to promote investment and employment.

Turkish government disbursed approximately US\$45 billion over 2008 – 2010 second quarter. As of June 2010, labor employment is estimated to rise by 2.324 million persons in comparison to January of the same year. (Ercan, 2010)

Effects Of Recent Crisis On Iraq

We want to introduce the recent crisis briefly then discuss its effects on Northern Iraq. When the economy faces recession, depression or a financial crisis, national output falls, profits and real incomes decline, unstable price of goods and services occur, and unemployment rates jump to uncomfortably high levels. Then economy reaches a bottom, and recovery begins. This situation can be named as Business Cycles which are economic fluctuations in total national output, income and employment, generally lasting for a period of two to ten years, marked by widespread expansion in most sectors. Upward and downward movements in national output, inflation level, interest rate, and unemployment rate form the business cycle that characterizes whole market economies. (Paul, et. Al., 2001) In order to give right political advice, economists should know the causes of boom and crisis. If a boom or crisis is the result of spending or price shock, GNP will be away from its potential. In this situation, the government should interfere with the economy to speed the return to its potential. So, the government uses monetary and fiscal policies to solve economic problem as demand shocks. (Hall, et al., 1991) The recent crisis erupted in August of 2007, and then the Fed began flooding financial markets with liquidity. The U.S. economy in the early 1930s was more heavily bank based than today, but, the current crisis has been a crisis not just for banks but for insurance companies, for hedge funds, and for the security markets themselves. (Barry, 2010) The Great Depression of 1929 is related to the current Financial Crisis in that they both originated in the U.S and have damaged the world economy at a frightful scale. For example; the financial crisis, which has taken a heavy toll on the US in just a few months was five trillion dollar. (Financial Forum, 2010) According to The Institute of International Finance's the report issued in January of 2009, forecast that net private capital flows to 28 Capital Flows to Emerging Market Economies would drop sharply to \$165 billion in 2009 from \$466 billion in 2008. (Erbilek, 2009)

Recent global financial crisis affected the world at different levels. Although Iraq is not the center of financial crisis, Iraq was affected due to low oil prices. In fact, to have rich oil reserve is a good opportunity for countries. But now that the collapse in the world's economy has caused oil prices to drop, what does the future hold for Iraq? It is known that Iraq's economy depends on oil revenues on a large scale; we can say oil clearly lies at the heart of the country's economy. Indeed, median estimates hold that oil accounts for more than 80 percent of its revenues. Iraq now faces several challenges spawned by the global recession. Iraqi deputy prime minister Barham Saleh said that the economic crisis "has had a serious impact" on Iraq's economy, with "plummeting oil prices" forcing the country "to constrain our government spending." Impact on Iraq's economy means that impact on Northern Iraq or Kurdistan region. Because of the oil boom economy had a surplus of \$35 billion from 2008 but Iraq's 2009 budget was slashed about 25 percent by government. It went down from 80 billion to about \$60 billion. However, these budgetary shortfalls will likely directly impact Iraq's

ability to maintain security and salaries. America has economic woes but, U.S. will provide additional aid to cover Iraq's budgetary shortfalls, but it is also unlikely that the U.S. will decrease substantially its current commitments to Iraq. (Ross, D., 2009) Iraqi Central Bank Consultant, Dr. Mazhar Mohammad Salih, said "Iraq received a grant from the IMF worth one point eight billion dollar to support liquidity, achieve development and come out of the recession caused by the global financial crisis. Dr. Salih appreciated this step, which he described as 'distinctive', and the grant to push the Iraqi economy forward and enable it to overcome the recession which may affect the Iraqi economy due to the global financial crisis." (Iraq Directory, 2010) Oil-producing countries got burned by the financial crisis, by investing in the West, and they're looking to use their capital in the region instead. Iraqi officials hope that foreign direct investment can make up for the revenue shortfalls caused by declining oil prices. The "Invest Iraq 2009" conference in London earlier this year reportedly attracted more than 200 companies, including heavy hitters like General Electric and Vodafone. Iraq has also opened its oil fields to bids from multinational firms for the first time since 1973, when its oil industry was nationalized. As one British Petroleum spokesman told the *Financial Times*, "we could see ourselves back in Iraq by the end of the year barring any unforeseen delays." (Ross, D., 2009) As Baghdad steps up oil production Kurds have been awarding contracts to overseas companies since 2002. Today, Canada's Addax Petroleum (acquired by China Petrochemical), Norway's DNO International, and Turkey's Genel Enerji International have contracts for the Taq Taq and Tawke fields in Kurdistan. According to the Kurds, these foreign investors could produce 200,000 barrels a day by the end of 2010—about ten percent of Iraq's current output—. It was 100,000 barrels daily in 2009. (Holland, 2010) Iraq's Prime Minister Nouri al-Maliki on third January said in a statement to the press; "The revenue will be part of the national revenue that is distributed equally to all Iraqis". The anticipated revenue that the Federal Government will receive from the oil production of the Kurdistan Region in the forthcoming five years from 2010 to 2014 will be: two point seventy five billion (2010), eight point twenty three billion (2011), 12.45 billion (2012), 18.27 billion (2013), and \$25.62 billion (2014). This shows that the Federal Government (Ministry of Finance) will receive in total about \$67 billion as net revenue from the oil produced by companies contracted in the Region in the coming five years. (Hawrami, 2010) This issue illustrates that oil revenue coming from the Kurdistan Region will expand economic development of Iraq in general, and it will increase the prosperity of all the Iraqi people. But if price of oil or demand of oil decreases in world market as a result of the crisis, that will affect Iraq as a whole especially Kurdistan region. Arab world would cope with rapidly rising food and raw material prices that threatened their economies and social stability by using high price of oil during the first half of 2008. However, the effects of the financial crisis and expectations of much lower global growth caused a collapse in oil prices. Arab oil exporters experienced deterioration in their terms of trade, and declining surpluses on their balance of payments. OPEC basket price of oil sharply fell by 70 percent from a peak of just over 130 per barrel to under \$40 per barrel. In September 2008, with the collapse of Lehman Brothers and the turmoil on Wall Street, stock markets all over the world were affected, including those in the Middle East. In April 2009, oil prices stabilized at about \$50 per barrel, despite falling demand for the international economy. The main reason for this was that oil had become a source of value for those who lost confidence in the

US dollar. According to the U.S. government's Energy Information Agency, oil income for Arab members of OPEC continued to fall from 678 billion in 2008 to \$268 billion in 2009. Iraq's export revenues are forecast to decline from 59 billion to \$23 billion. This is the clear direct impact on the economies of the larger oil producers. On the other hand, everyone experienced rise in food prices as well as the increases in other costs. This situation is not a manner of dying for these regions, because, according to IMF in 2009 economic growth in the Middle East will be two point five percent compared to six percent in 2008. As we mentioned before Iraq's and Regional Government's economy is dominated by the petroleum sector, which has traditionally provided about 95 percent of foreign exchange earnings. (Rivlin, 2009) They are not significant exporters of non-oil products, so they are less exposed to the contraction of world trade. Overall, they were affected as much as Iraq could not export amount of oil. When we pay attention to: Prime Minister Barham Salih told that "The Kurdistan Region has been a success, and can be an economic example for development throughout Iraq. We are therefore committed to sustained contact between our governorate officials and governorates throughout Iraq. I would also like to say that a strong Kurdistan Region translates into a stronger Iraq, a stronger Baghdad, a stronger Basra. I am Kurdish, but I am also Iraqi. And as part of Iraq, the KRG hopes you will benefit from our experience, especially in promoting investment." (International Republican Institute, 2010) This tells us that Kurdistan region (Awsat, 2008) has a positive economic situation and wants to share that with other parts of Iraq. In this situation FDI shows its importance as well as neighborliness of Turkey: About 1,200 foreign companies working in Kurdistan, the greatest number - some 620 - were from Turkey. (Kimball, Agrawi, 2010) In ongoing global financial crisis, according to data from the Turkish Statistics Institute, Turkey's exports to seven neighboring countries decreased except Iraq and Syria from 2008 to 2009. (Today's Zaman, 2010) Exports to Iraq saw a rise of 30.9 percent, increasing from three point ninety one billion in 2008 to five point twelve billion dollar in 2009. (Today's Zaman, 2010) According to the Board of Investors of the Kurdistan Regional Government non-oil investment in the Kurdistan Region of Iraq totaled more than \$12 billion over the last three years. Overall, about 70 percent of foreign investment in the Kurdistan Region comes from neighboring Turkey. (PRNewswire-USNewswir, 2010)

When I searched such kinds of firms in Iraq, it was seen that tradition people in Iraq is very suitable for family business as well. Although most of them are first and second generation family business owners there are businesses that are 100 years old. Number of family businesses is increasing after Saddam's time. Most of the businesses are on construction, computer network technology and telecommunication, engineering, health care, crude oil and energy, food and security. I have interview an Iraqi entrepreneur who runs business in Erbil and I included it at the end of this paper. According to interview entrepreneurs are hopeful for their and region's future. They have planned to enlarge and to step forward. If this security goes on at this level, number of such kind of local business will increase.

Effects Of Recent Crisis On Economic Relationship Between Turkey And Iraq

Crisis has affected Turkish exports in a negative manner by %23 all over the world. But this wasn't

the situation for Iraq. Exports from Turkey to Iraq have increased by 60% at that period. This may be because of a lack of industry in Iraq. On the other hand, Turkey is one of the first countries which Iraq imports from. Before the year 2008, Iraq was the 10th country that Turkey exported with, but trade performance in the year 2009 has shown that Iraq became the 5th country that Turkey exported to the most. When the effects of the recent global crisis started to get lower in 2010, trade size was over 6.5 billion dollars. (Turkish Embassy, Commercial Counselor, 2011)

Now let's take a look at table 4.1 below and see what happened to the trade size between Turkey and Iraq at the recent global crisis;

Table 4.1: Trade size of Turkey to Iraq at recent global crisis

YEARS	EXPORTS	CHANGE %	IMPORTS	CHANGE %	SIZE	BALANCE
2004	1,820	119,5	467	316,9	2,288	1,353
2005	2,750	51,1	458	-1,9	3,208	2,291
2006	2,589	-5,8	375	-18,1	2,965	2,213
2007	2,811	8,5	645	72	3,456	2,167
2008	3,912	39,1	1,320	104,6	5,233	2,591
2008/6	1,590	-	594	-	2,183	996
2009/6	2,540	59,7	347	-41,5	2,887	2,193

SOURCE: Turkish Embassy, Commercial Counselor Erbil/Northern Iraq.

Now let's analyze what happened during the crisis period with regards to the trade size and changes in trade from Turkey and Iraq. As we can see, 2004 was Turkish start year and the trade size for that year was 2.288 and this range has changed by 316.9% according to 2003 statistics. We can say that this increase was prolonged till the year 2008. We know that financial crisis started in 2007. If trade size between Turkey and Iraq increased till the middle of 2008, there should have been an explanation for that situation. Countries which don't have enough industry are generally affected by the crisis later than countries which have industry. The reason is; countries, which don't have enough industry, don't get its main income from export. Because of that, they are not affected by financial and economic crises directly. But still they need import because they don't have manufacturing. That is why economy is affected by the crisis later on. This explanation shows why the trade size between Turkey and Iraq has upgraded still the middle of 2008. But after that year, general prices in Turkey were higher than a year before and that may be a reason why the trade size (exports + imports) was lower. On the other hand, it has again started increasing the trade size. We can say that trade size in Turkey was lower by 23% in year 2009 in exports but, as we can see, numbers on table 4.1 for the year 2009, change in exports for 2009 by 60% and this number was not enough to compensate the trade size of one year before but still it was a good increase for such kinds of global crisis. (Turkish Embassy, Commercial Counselor, 2010)

We have explained that Turkish exports to Iraq generally are for construction services like iron,

steel, cement, furniture and so on. Let's see what happened with these exports. First of all, let's look at iron and steel exports... Exports of iron and steel in 2007 are numbered at 255.527.912 (two hundred fifty five million five hundred twenty seven thousand nine hundred twelve). It goes on to increase to 347.880.148 in 2008. We see a decrease for the exports of these materials in 2008/6 to 177.383.982. The reason is the same as we have explained above. After we explain results of exports of cement, furniture and so on, we will see that a construction service also has fallen down for this period. Export of cement and salt were 146.281.562 in 2007 and this number increased to 194.753.679 by 2008. It decreased in 2008/6 to 86.701.167. (Turkish Embassy, Commercial Counselor, 2010) Now we can see all exports about construction services below:

Table 4.2: construction services from Turkey to Iraq in a period

Name of good	2007	2008	2008/6	2009/6
Iron and Steel	255.527.912	347.880.148	177.383.982	287.402.642
Salt and Cement	146.281.562	194.753.679	86.701.167	167.195.412
Furniture and Prefabricate Constructions	140.869.953	171.987.047	80.823.501	76.764.950
Electricity Energy	97.577.634	65.124.267	26.685.490	46.745.481
Flooring	2.559.535	54.100.512	11.210.793	27.362.632
Underground Wire	51.525.218	52.942.313	22.978.830	29.115.393

4. SOURCE: Turkish Embassy, Commercial Counselor Erbil/Northern Iraq.

As a conclusion, we can say that Turkish-Iraqi trade was affected by the recent global crisis only in 2008/6. Still we can see that many investors are coming to Iraq to invest and are increasing day by day and it is about to reach a breakeven point which existed before the recent global crisis. (Turkish Embassy, Commercial Counselor, 2010)

Data And Application

The data used in this study was obtained from the Electronic Data Distribution System (EDDS) of the Central Bank of the Republic of Turkey (CBRT). The mentioned data was generated from the data which covers the period of 114 months from June 2003 to November 2012. Analysis of the data was performed using SPSS (Statistical Package for the Social Sciences) 21.0 package program. The effects of the changes in Turkey's exports and imports with other countries on the volume of exports and imports with Iraq were statistically analyzed using Univariate Regression Analysis Technique. Turkey's exports and imports with other countries and the relationship with Iraq were examined by Pearson correlation analysis. The level of significance were accepted as $p < 0.05$ during the analysis.

After having been established separate figures for the correlation and regression analysis for import and export, a regression and correlation analysis was done over the total import and export volume. The following conclusions were attained as a result of the analysis.

- 1- The regression model established when analyzed over the export figures to Iraq and the export figures to all countries was statistically significant ($p=0.000$). Although the regression model was significant, the coefficient of determination was low. Determination coefficient is the ratio for independent variable to clarify the dependent variable; namely, the ratio of export to other countries clarifies only 59% of the export to Iraq. The regression equation established as follows;

$$y = -201365191,8 + 0,067 * x$$

When the correlation between the two variables analyzed, it was seen that the correlation is a positive and a strong one. ($r=0,776$; $p=0,000$)

- 2- The regression model established during the analysis of the figures of import from Iraq and import from other countries wasn't significant statistically ($p=0,095$). Similarly, the correlation between the two variables was not significant ($r=0,157$; $p=0,095$).
- 3- The regression model established during the analysis of the figures of Turkey's total import and export with Iraq and other countries was significant statistically ($p=0,000$). Determination coefficient is 64% and the regression equation established as follows;

$$y = -173814155 + 0,025 * x$$

When the correlation between the two variables analyzed, it was seen that the correlation is a positive and a strong one ($r=0,779$; $p=0,000$).

- 4- The regression model established during the analysis of the data of Turkey's export with Iraq and other countries was significant statistically ($p=0,000$), but determination coefficient was low (54%). The regression equation established as follows;

$$y = -185606780,5 + 0,069 * x$$

When the correlation between the two variables analyzed, it was seen that the correlation is a positive and a strong one ($r=0,378$; $p=0,000$).

- 5- The regression analysis about import from Iraq and import from other countries wasn't significant ($p=0,097$).
- 6- The regression model established during the analysis of the data of Turkey's total import and export with Iraq and other countries was significant statistically ($p=0,000$). Determination coefficient was %58,3. The regression equation established as follows;

$$y = -168581271,4 + 0,025 * x$$

When the correlation between the two variables analyzed, it was seen that the correlation is a positive and a strong one ($r=0,766$; $p=0,000$).

Result: It has been detected that the trade volume of Turkey to both Iraq and other countries portrayed a positive correlation within the analyzed period. However, during the economic crisis of 2008, it has been detected that the export and import volume of Turkey to other countries was decreased, while the trade volume to Iraq was increased. The most important factor for this rise was the strong trade bonds between Turkey and Iraq based on the historical bonds.

1. Analysis of comparing Iraq's exports and other countries' exports

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,776 ^a	,602	,599	147997886,7

a. Predictors: (Constant), ihracat_X

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3,715E+18	1	3,715E+18	169,622	,000 ^b
	Residual	2,453E+18	112	2,190E+16		
	Total	6,168E+18	113			

a. Dependent Variable: ihracat_Y

b. Predictors: (Constant), ihracat_X

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-201365191,8	46646038,66		-4,317	,000
	ihracat_X	,067	,005	,776	13,024	,000

a. Dependent Variable: ihracat_Y

2. Analysis of comparing Iraq's imports and other countries' imports

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,157 ^a	,025	,016	5638615,093

a. Predictors: (Constant), ithalat_X

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	9,023E+13	1	9,023E+13	2,838	,095 ^b
	Residual	3,561E+15	112	3,179E+13		
	Total	3,651E+15	113			

a. Dependent Variable: ithalat_Y

b. Predictors: (Constant), ithalat_X

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7223502,972	1653880,976		4,368	,000
	ithalat_X	,000	,000	,157	1,685	,095

a. Dependent Variable: ithalat_Y

3. Analysis to Iraq's total trade and others countries total trade

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,779 ^a	,608	,604	147586335,3

a. Predictors: (Constant), toplam_X

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3,776E+18	1	3,776E+18	173,370	,000 ^b
	Residual	2,440E+18	112	2,178E+16		
	Total	6,216E+18	113			

a. Dependent Variable: toplam_Y

b. Predictors: (Constant), toplam_X

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-173814155,0	44892650,60		-3,872	,000
	toplam_X	,025	,002	,779	13,167	,000

a. Dependent Variable: toplam_Y

4- Analysis of comparing Iraq's exports and other countries' total trade

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,738 ^a	,544	,540	158415236,4

a. Predictors: (Constant), ihracat_X1

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3,358E+18	1	3,358E+18	133,801	,000 ^b
	Residual	2,811E+18	112	2,510E+16		
	Total	6,168E+18	113			

a. Dependent Variable: ihracat_Y

b. Predictors: (Constant), ihracat_X1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-185606780,5	50991668,72		-3,640	,000
	ihracat_X1	,069	,006	,738	11,567	,000

a. Dependent Variable: ihracat_Y

5- Analysis of comparing Ira's imports and other countries' total trade

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,156 ^a	,024	,016	5639703,165

a. Predictors: (Constant), ithalat_X1

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8,886E+13	1	8,886E+13	2,794	,097 ^b
	Residual	3,562E+15	112	3,181E+13		
	Total	3,651E+15	113			

a. Dependent Variable: ithalat_Y

b. Predictors: (Constant), ithalat_X1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	7245079,534	1653411,782		4,382	,000
	ithalat_X1	,000	,000	,156	1,671	,097

a. Dependent Variable: ithalat_Y

6-Analysis of comparing Iraq's total trade and other countries' trade without Iraq

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,766 ^a	,587	,583	151381571,7

a. Predictors: (Constant), toplam_X1

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3,649E+18	1	3,649E+18	159,241	,000 ^b
	Residual	2,567E+18	112	2,292E+16		
	Total	6,216E+18	113			

a. Dependent Variable: toplam_Y

b. Predictors: (Constant), toplam_X1

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-168581271,4	46372218,98		-3,635	,000
	toplam_X1	,025	,002	,766	12,619	,000

a. Dependent Variable: toplam_Y

Discussion And Suggestion

It was seen that economic crisis has been years in the making and is largely due to lack of regulation and enforcement within the financial system. It is also become severe in a lack of confidence in how the international financial institutions are governed. Turkey and Iraq, of course, are different in many ways, but each faces global financial crisis and each one wants to avoid from financial instability's destruction. World economy is more dependent and more interrelated due to phenomenon of Globalization. In response to the global financial crisis, central banks and governments have taken different measures to rectify the problems and put financial markets and the economies back into right path. Corrective measures have to be taken collectively to reduce the severe effects of global crisis.

Governments in Turkey and Iraq should focus on their fiscal spending and stimulus packages on infrastructure and construction activities which will be leading economic growth rather than bail-outs and subsidy programs.

- 1- Nations should implement economic regulatory and legal policy reforms instead of protectionist and nationalist policies.

- 2- Government can take over burden of new worker who becomes employed for first year. This can make burden lighter for business and can lessen high rate of unemployment.
- 3- Domestic demand for goods and services can't be enough so export should be encouraged to cope with this.
- 4- Each country can favor to attract foreign direct investment to country.
- 5- Government can ensure the loan guarantee between the banks of member states to establish the confidence.
- 6- Government can stimulate private sector under developed region by curbing tax or giving credit with no interest
- 7- Chambers of commerce in Iraq and Turkey can visit each other and organize meeting regularly
- 8- Port of entry of Habur can be reorganized to easy entry-exit or new ones can be opened
- 9- Number of fairs should be increased in both country and attendance can be increased.
- 10- Turkish bank should be opened to easy transfer of many.
- 11- Mersin port can be point of transit and link between Iraq and other countries.
- 12- Turkish government can ensure financial support to Turkish private sector which runs the business in Iraq.

Conclusion

It is known that there was/is turmoil in Iraq for a long time. In addition global crisis happened and affected countries especially developed countries all over the World. Iraq needs investment, capital, skillful labor force, goods and services etc. In war time Iraq itself can not ensure these and needs foreign direct investment. Turkey has advantages to transport and to transfer what Iraq needs.

It was seen that Turkish firms have completed lots of projects with a total value of over billions dollars. As we have seen that in construction services Turkey had many opportunities and jobs in Iraq. Even in the financial and economic crisis of the World, Turkey had trade that is value amount in Iraq. Generally, reconstruction projects were/are occurred in Erbil, Duhok, Kirkuk, and Suleymaniye that are all in northern Iraq. According to this information, we can say that Iraq especially northern Iraq was/is still a very nice bazaar for Turkish firms.

In short; we saw that crisis has affected Turkish trade negatively all over the World. But this was not the situation for Iraq. According to regression model established we analyzed that It has been

detected that the trade volume of Turkey to both Iraq and other countries portrayed a positive correlation within the analyzed period. However, during the economic crisis of 2008, it has been detected that the export and import volume of Turkey to other countries was decreased, while the trade volume to Iraq was increased.

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