

# Measuring and Analyzing the Impact of Customs Taxes on the Trade Balance in Iraq for the Period 2004-2019

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## ABSTRACT

The research aims to shed light on the analysis of the impact of customs taxes on the trade balance in Iraq for the period 2004-2019 using statistical and standard methods to obtain the most accurate results through estimating and analyzing the effect of the relationship between variables in the application side, in which the ARDL model was used, as there was a positive relationship. Between customs taxes and the trade balance in the short term and an inverse relationship between them in the long term, the researchers reached several conclusions, the most important of which was the major imbalance in the structure of Iraq's foreign trade, represented by the control of crude oil exports as a raw material by more than (95%) of the total public revenues of Iraq. While its imports constitute a wide spectrum of various consumer and investment goods, as this imbalance constitutes an obstacle to achieving the desired objectives of foreign trade, and thus will affect the state of balance in the trade balance.

## Keywords

custom taxes, balance of trade, ARDL model

## Introduction

The political circumstances that Iraq experienced after the events of 2003 changed the economic life of the country, which had an impact on the economic policy and structural structure of the Iraqi economy, after which the transition from the socialist economy to the market economy and the application of the policy of economic openness to the outside world, which allowed the entry of various poor goods with low prices, taking advantage of the weak systems and customs laws governing the entry of imported goods, making imported foreign goods the biggest beneficiary in the local markets. This led to the decline of the domestic product and the inability of the market to absorb the surplus labour force, the policy of random import and the decline of domestic exports has caused an imbalance in the economic balance and thus economic stability in the country in light of structural distortions in the structure of the national economy, the full rent-a-tax policy of the oil sector, neglecting the contribution of productive sectors and their weak role in the composition of output.

## Research Objectives:

The research aims to show the impact of the relationship between customs taxes and the trade

balance in Iraq, and to find out the extent to which customs taxes affect the trade balance in Iraq during the period 2004-2019 using the Eviews9 standard statistical program and to analyze the results of this relationship in question.

## Research Hypothesis:

The research is based on the premise that customs taxes have an impact on the trade balance in Iraq, as it represents one of the most important indirect fiscal policy instruments used by many countries in the world, whether developed or developing countries.

## Research Structure:

The research was based on the descriptive method and the quantitative analytical method of the data in question, and the research was divided into three axes, the first axis included a conceptual entrance to the customs tax, while the second axis dealt with the analysis of the reality of the trade balance in Iraq, while the third axis was specialized in measuring and analyzing the impact of customs taxes on the trade balance.

**The first axis: a conceptual entrance to the customs tax**

**First: The concept of customs taxes**

Customs taxes have been known for a very long time dating back to the Middle Ages for the development of the city, as its existence was accompanied by the emergence of social organization, which represents the summit of the state and the establishment of trade between nations and peoples, this tax developed by expanding the trade movement, as it took different forms, as this tax was imposed in the Greek era on agricultural crops and commercial goods, which have been for centuries, and is considered an act of sovereignty (Ali, 2009: 255) as this tax was known in the Islamic era as the "Ashur tax", i.e. what is taken on trade that passes through the borders of the Muslim state in or out, except passed by a Muslim or a da'i by the state (Abda, 2004: 240).

1- The linguistic concept: the word "commerico" belongs to the Italian language, which is called *commerico* and is intended to collect taxes and the other opinion is that the word "Commark" is Turkish of Greek origin and Latin, taken by Turks from Greek (*commercium*) The first use of it was in 1005, which corresponded to the year 1597, when it was mentioned in the treaty that was concluded between the Egyptian government under the Mamluks and the French Consul (Salhi), 2007: 3-4).

2-The conventional concept: the conventional meaning is called (customs taxes) which is one of the most important types of indirect taxes, and one of the instruments of fiscal policy (Fiscal Policy) also represents a tool for trade policy (Trade policy) imposed on trade between countries (Danute, 2013:48), its forms and objectives have evolved with the development and expansion of foreign trade movement, as its import is in regulating foreign trade and stimulating national production and stability, and limiting the import of certain goods (Ali 2002: 267), customs taxes are defined as: taxes levied on goods when they cross state borders, and import tax is one of the most famous of those taxes (burke,2019:p3), as customs taxes are defined as: taxes levied on goods and services traded across regional borders and can be imposed on exports and imports (Dennis, 2006: 25).

## **Second: Types of customs taxes: Types of customs taxes**

There are several types of customs taxes that can be divided according to the destination seen:

1- Divided in terms of nature (and its bowl) into:

Import Tax: (Import Tax)

These are taxes levied on imported foreign goods when they enter the country for the purpose of domestic consumption, and goods that are withdrawn from free zones for domestic consumption as if imported from abroad (Dominick,2010: P119) this type of tax is considered to have many benefits leading to the national economy: (Batat, Juma, 2016: 4)

A- The abundance of its outcome:

Supporting economic sectors and protecting them from foreign competition.

Addressing the difference in the balance of payments and improving the country's terms of trade.

Rationalizing consumption and increasing savings and investment in the national economy.

Reallocating resources to more productive areas.

B- Export Tax:

It is the tax that is levied on goods exported from the inside to the outside and what enters the free zones, and its dimension is goods that come out of the military range of the state and is unlike the import tax, since the origin is exemption, this type of tax is less important than import taxes (Wharton, 2015: 48), although its importance is low, it has some characteristics such as: ( Wharton, 2015: 49)

- Easy to manage.

It is more flexible in terms of the inclusion of tax rates that change depending on the change in world prices.

Achieving financial objectives, especially if the commodity has a monopolistic character.

It is imposed for political reasons when a state wishes to fight an industry in a country.

It aims to protect the local industry ( Jose,1998 :P 212).

3- Transit Tax:

This is the tax that is levied on goods when they cross state borders, without these goods being intended for local consumption or trading (Al-Ali, 2009:258).

B- Divided in terms of collection unit to:  
(Dennis,2006:250)

Value taxes:

These are taxes levied on goods by a percentage of (3%) And (75%) From the value of the goods or their price according to the quality and nature of the goods, and the value taxes have advantages such as: (Al-Ali, 2009: 258)

- Ease and clarity.

Flexibility: it automatically responds to price changes.

- You don't need high administrative costs.

- Fairer than others.

- Provides a consistent level of protection for domestic goods in times of inflation.

## 2. Specific taxes: Specific Taxes

These are taxes that are levied in a lump sum on each unit of measurement (e.g. weight, size or area) regardless of their value (Paul,2012:192), and the specific taxes have advantages such as (Al-Ali, 2009: 258):

- Easy management and calculation because checking the weight or number is easier than the value.

- Prevent fraud and manipulation.

- Contributes to the concentration of imports on good varieties.

- It is more protected in times of depression than in times of prosperity.

- Stability of its yield and its non-impact on external price fluctuations.

## 3-Compound Taxes:

This type of tax combines the two previous types (value taxes and qualitative taxes) in order to overcome the disadvantages of both value and quality taxes, so the tax is either value or quality and whichever is greater or lower depending on the case, for example, \$50 is collected for each imported car and collected (20%) Of its value (Charles,2009:144).

Divided in terms of its objectives to:

1- Financing taxes: these are the taxes that are meant to be imposed by the state to obtain as much revenue as possible (Al-Sharaa, 2008:58).

2- Protectionist taxes: taxes that are intended to protect the emerging domestic industry and agricultural production, especially in developing countries, from foreign competition.

Prohibited taxes: taxes levied with the intention of preventing the entry of imported foreign goods into the country or exceeding the customs borders (Al-Ali, 2009: 259).

Third: Customs tax objectives: Targets of imposing customs taxes

The countries are pursuing a number of objectives, including economic and social, which are as important as the financial objective:

Financial Goals: (Financial Objectives)

Customs taxes are an important source of public revenue for many countries of the world, both developed and developing, in order to obtain revenue to finance public expenditures (Dennis, 2006: p308).

Economic Objectives: (Economic Objectives)

It consists of (protecting emerging industries, protecting against dumping policy, increasing domestic production and raising the level of employment, improving the trade rate, achieving economic stability, and protecting national security).

## Social Objectives:

Customs taxes play a social role in redistributing income among groups of society (Shamia, Khatib, 1991: 139), other social goals are to limit the import of some harmful goods in society, such as alcoholic beverages, cigarettes and others... Etc. (Taqa, Azzawi, 2010: 105).

Fourth: Analysis of the revenues of the customs taxes in the Iraqi economy.

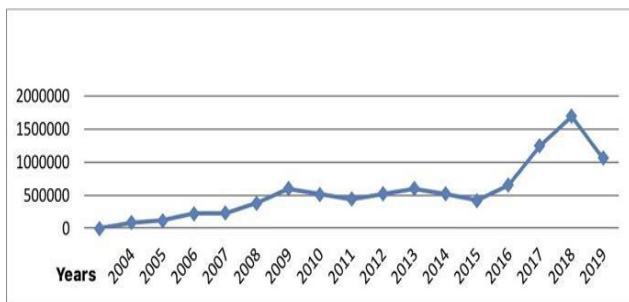
Revenues from the imposition of customs taxes represent a large sum that provides the state budget with the revenues needed to facilitate and finance public spending, and in Iraq after the events of 2003 all customs tax laws were repealed and replaced by the Iraq Reconstruction Tax Law by 5%. It is a very low tax which led to the flooding of the Iraqi market with poor imported goods, and with the decline in the performance of the productive sectors and the increase in unemployment rates reflected on the weakness of the financing role, note from the table (1) there is a remarkable development in the revenue of the revenue of the customs taxes during the period of the study, It reached 81,020 million dinars in 2004, and then increased to JD 1691,731 million

in 2018 at an annual growth rate of 36.83 percent. This is the largest revenue generated during the study period, and then decreased (customs tax revenues) to (1056994) in 2019 with a low growth rate of (-37.51%) As a result of the decrease in the volume of imports, the average duration only was (25.04%) This is a low percentage indicating a

decline in the revenue of customs taxes in total taxes and figure 1 shows the graphic representation of the development of customs tax revenues in Iraq for the period studied and at current prices.

<b>Table (1) customs tax revenues in Iraq for 2004-2019 at current prices (million dinars)</b>		
Annual growth rate (%)	Customs tax revenues	Years
—	81020	2004
45.86	118176	2005
85.34	219034	2006
4.58	229076	2007
64.37	376540	2008
56.87	590688	2009
-14.11	507341	2010
-13.92	436714	2011
18.58	517867	2012
15.21	596643	2013
-13.74	514636	2014
-19.09	416357	2015
55.51	647482	2016
90.94	1236357	2017
36.83	1691737	2018
-37.51	1056994	2019
Average duration 2004-2019		25.04%
The source of the work of the researchers based on: Column Data (1) Republic of Iraq, Ministry of Finance, General Authority for The Mark for 2004-2019 Column Data (2) from the researcher's work by the following equation: Annual growth rate = $100 \times \frac{\text{current year} - \text{previous year}}{\text{previous year}}$ (Melrin, 2011: 359)		

Form (1) The development of the revenue of the customs tax in Iraq for the period 2004-2019



\*Source: From the work of researchers based on table data (1)

The second axis: analysis of the reality of the trade balance in Iraq

First: Trade balance: Trade balance

The trade balance is the largest component of the balance of payments, as the trade balance is characterized by a clear imbalance due to the absence of commodity diversity in its export list, because crude oil is the leading issue of Iraq's total exports, while its list of imports includes a wide range of consumer goods, which made the balance of trade imbalance as a result of the changing economic and political conditions that the country has experienced, and from table data (2) the components of the trade balance in Iraq will be analyzed for the period 2019-2004 and as follows: :-

**Exports:**

The commodity structure of Iraqi exports is characterized by a high commodity concentration and lack of economic diversification, as well as the clear dominance of the oil sector by at least 99%. In total exports, non-oil exports account for only a very small percentage of total exports (Iraqi economy, 2020: 108), which means that the country is heavily dependent in its foreign trade on the export of one major commodity, crude oil, which generates a significant imbalance in the structure of the export structure and loses competitiveness in the world market due to the low supply and demand flexibility, in addition to the negative effects of the price changes of these oil exports. As for the export activity of goods and services in Iraq, it does not constitute any economic importance in terms of quantity and value.

**Imports:**

The Iraqi market depends in providing its needs for imports from outside the country by a very large percentage due to the high food gap resulting from the high domestic demand of different goods and services at rates higher than the growth rate of domestic production, which leads to a deficit in supply towards demand, forcing the government to fill this gap by importing from the countries of the world, especially the neighbouring countries of Iraq, as well as the rise of uncontrolled import activity due to poor economic and trade policies, the most important of which is the customs policy, which led to The industrial sector is hindered and its inability to compete with imported goods and therefore resulted in the closure of many factories and craft workshops and exposed their owners to unemployment.

**Table (2) The structure of the trade balance in Iraq for the period 2004-2019 (million dinars)**

Economic exposure % (7)	GDP (6)	Deficit or trade surplus (5)	Growth rate % (4)	Imports (3)	Growth rate % (2)	Exports (1)	Years
120.2	53235358.7	409449-	—	34050969	—	29956020	2004
115.7	73533598.6	518176-	36.6	45145710	33.4	39963945	2005
89.6	95587954.8	1186568	-18.2	36914707	22.1	48780390	2006
74.1	111455813	1973528	-14.8	31422753	4.9	51158039	2007
81.1	157026061	3077879	53.5	48249768	54.5	79028558	2008
78.7	130642187	147420	6.4	51326145	-34.9	51473565	2009
73.5	162064566	8648055	7.6	55232658	24.1	63880713	2010
72.2	217327107	3621477	9.2	60316542	51.1	96531318	2011
73.6	254225490	3917153	22.6	73980251	17.2	113151788	2012
67.4	273587529	3260357	2.6	75910914	-4.1	108514489	2013
68.9	266420384	3376572	-7.8	69948806	-4.4	103714534	2014
65.2	207876191	1356290	-23.3	53626567	-3.5	67192475	2015
55.8	196536350	3207357	-23.6	52145112	-17.6	55352469	2016
58.6	225995179	1784678	9.9	57333501	35.8	75180282	2017
67.7	251064480	3554096	17.3	67227432	36.7	102768400	2018
63.2	262917236	2790193	2.9	69184220	-5.5	97086150	2019
Average duration %		2.37%	6.94%		76.6		

-Source: From the work of researchers based on: Republic of Iraq, Central Bank of Iraq, annual statistical bulletin

- Republic of Iraq, Ministry of Planning, Central Bureau of Statistics, annual economic report.

- Column (2), (4) and (5) of the researcher's work based on column data (1), 3 and (6)

Column (7) The Economic -Exposure Index was obtained according to the following equation:  $GDP\ 100 / (X+M)$  (Amin, 2008: 23)



It is clear from the evidence of table (2) there is a clear rise in Iraqi exports of goods and services, which reached (29956020) million Iraqi dinars in 2004 due to the lifting of international sanctions on Iraqi oil exports, which generated a significant increase in exports for the following years, reaching 97086150) million) JD in 2019 with a low annual growth rate of -5.5% from 102768400 in 2018 and a growth rate of 36.7% due to the decline in world oil prices, which led to a decline in global demand for raw oil, on the other hand, Iraqi imports increased sharply, reaching 340,500,969 million dinars in 2004 due to the transformation of the Iraqi economy from a socialist economy to a market economy based on trade openness with various countries of the world, making Iraq a wide open market for imported goods. From abroad, which caused a deficit in the trade balance of (409,449-) million dinars, then the imports increased to (69184220) million dinars in 2019 and at an annual growth rate of (2.9%) This led to a decline in the trade balance of 2790193 million dinars due to the decline in world oil prices, which led to a decline in oil exports.

### Economic exposure:

The economic exposure index indicates the extent to which the country's economy is highly correlated with the outside world as a natural result of the low contribution of the commodity sectors (excluding oil) to the generation of GDP and the components of the Iraqi consumer basket imported with distinction and a ratio of (80-70%) The refore, the various external shocks will have negative returns, especially since Iraq lacks a broad and diversified production base (Monetary Policy Report, 2018:10), as the rise of this indicator indicates that the domestic economy depends on foreign markets to discharge its products and get goods and services to meet its necessary needs, and thus the high dependency abroad, which leads to a high degree of sensitivity of this economy to external variables such as world prices, and usually depends on In measuring the degree of economic exposure on the (Foreign Trade Ratio Index) to GDP (Amin, 2008:23).

From the data from table (2) the economic exposure index indicates a rise of (120.2%) It is the highest percentage of the index during the study period due to the rise of exports and therefore the high level of income, which resulted in increased expenditure on imports, and then the index began to fluctuate in decline and rise to (55.8%) This is the lowest rate recorded by the economic exposure index due to the decline in exports and imports, while the average duration of this index was 76.6%. This shows the country's dependence on foreign markets in providing its requirements for various goods and services as a result of declining GDP growth rates.

**Table (3) Description of model variables**

Duration	Centre	Icon	Variables
2004-2019	Independent	TAX	Customs taxes
	Dependent	IMP	Imports

There are three main indicators that are adopted to measure the degree of economic exposure of any country with the outside world:

- 1- The ratio of imports to GDP, and under this indicator the economy is considered to be exposed if it exceeds the ratio (20%).
- 2- The ratio of exports to GDP, if the ratio of this indicator (25%) Above all, this indicates economic exposure.
- 3- The ratio of foreign trade (exports + imports) to GDP, according to this indicator if it is 45%) It shows the country's exposure to the outside world..... For more considering it:

- Hollis Chenery & Moshe Syrquin  
Industrialization and Growth , parave study New York , oxford university press, 2008, p:23

\*Resource is researchers work.

First, the slope equation is estimated in order to obtain the initial form of the relationship between the variables, the customs taxes and the imports chosen as a variable that is more affected than exports when the customs taxes are imposed and as described in the equation below:

$$MP = B_0 + B_1TAX + U_t$$

Second: Results of the test of the stability of time series

There are several tests to detect the stability (stillness) of the series of variables under study, so the most prominent of these tests will be used to determine whether the series is stable (static) or non-static, the most prominent of these tests: the Test of Phelps Byron Phillips peyron (pp), and the experienced Test Of The Augmented Dickey

Fuller (ADF), as these tests give more accuracy in detecting the stability of the time series As well as knowing the order of time series integration, on this basis the data was converted into semi-annual in order to expand the sample size and reach the most accurate results using eviews9 as described in table (4) as follows:

**Table (4) Unit root test results for search variables at the original level**

Phillips - Peyron test (PP)									
	With Constant			With Constant &Trend			With Constant &Trend		
At Level	t-Statistic	Prob		t-Statistic	Prob		t-Statistic	Prob	
IMP	-2.1299	0.2349	n0	-1.9255	0.6173	n0	1.0774	0.9228	n0
TAX	-2.4758	0.1308	n0	-1.9301	0.6149	n0	1.5897	0.9698	n0
(ADF) Augmented Dickey Fuller									
	With Constant			With Constant &Trend			With Constant &Trend		
At Level	t-Statistic	Prob		t-Statistic	Prob		t-Statistic	Prob	
IMP	-1.7722	0.3864	n0	-2.2933	0.4214	n0	0.3033	0.7652	n0
TAX	-2.7988	0.0704	*	-3.4363	0.0654	*	0.8595	0.8901	No

\*Source: Prepared by the researcher based on the outputs of the statistical program (Eviews 9)

It is noted from table data (4) that the series of variables is unstable (non-static) at the original level at level and at a moral level (1%) ‘(5%) ‘ (10%) According to the Tests of Phelps-Byron

and Dickie Fuller, the calculated (t) value was greater than the value (t) of the tabular, which means rejecting the zero hypothesis and accepting the alternative hypothesis, which means the instability of the time series of variables to contain the root of the unit, so the first difference of variables will be taken, and then the stabilization (sleep) of the series variables in question and as shown in table (5) :

Phillips - Peyron test (PP)									
	With Constant			With Constant &Trend			With Constant &Trend		
At Level	t-Statistic	Prob		t-Statistic	Prob		t-Statistic	Prob	
IMP	-3.5181	0.0144	**	-3.3936	0.0712	*	-3.6006	0.0008	***
TAX	-1.8987	0.0035	**	-1.8213	0.0569	**	-1.9741	0.0477	**
(ADF) Augmented Dickey Fuller									

	With Constant			With Constant &Trend			With Constant &Trend		
At Level	t-Statistic	Prob		t-Statistic	Prob		t-Statistic	Prob	
IMP	-3.4816	0.0157	**	-1.3385	0.0552	**	-3.5719	0.0008	***
TAX	-3.3942	0.0202	**	-2.772	0.0218	**	-1.7386	0.0778	*

\*Source: Prepared by the researcher based on the outputs of the statistical program (Eviews 9)

It should be noted from table 5 that the series of variables when taking the first difference has become stable according to the unit root tests of (Phelps Byron and Dickie Volor extended) as it was found that the calculated (t) value is less than the value of (t) the table below the moral level (5%). This means that the variables are first-rate stable, which means that the Johansen test for joint integration can be applied to reveal the nature of the relationship between the variables.

Third: Testing the relationship between customs taxes and imports:

1- Initial estimate of the model (ARDL) for model variables:

Table (6) shows the results of the initial estimate of the ARDL model in order to determine the relationship between the dependent variable (imports) and the independent variable (customs taxes) under consideration and as follows:

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
IMP(-1)	1.563747	0.149668	10.4481	0.0000
IMP(-2)	-1.34136	0.248116	-5.40619	0.0001
IMP(-3)	1.27779	0.262377	4.870059	0.0003
TAX	0.333592	0.081303	4.103052	0.0012
TAX(-1)	-0.20273	0.066583	-3.04476	0.0094
C	1.092564	0.382019	2.859971	0.0134
R-squared	0.974315	Mean dependent var		7.781935
Adjusted R-squared	0.954557	S.D. dependent var		0.067741
S.E. of regression	0.014441	Akaike info criterion		-5.33399
Sum squared resid	0.002711	Schwarz criterion		-4.79405
Log likelihood	75.00789	Hannan-Quinn criter.		-5.19075
F-statistic	49.31331	Durbin-Watson stat		2.700088
Prob(F-statistic)	0.0000			

\*Source: Prepared by researchers based on the outputs of the statistical program (Eviews 9)

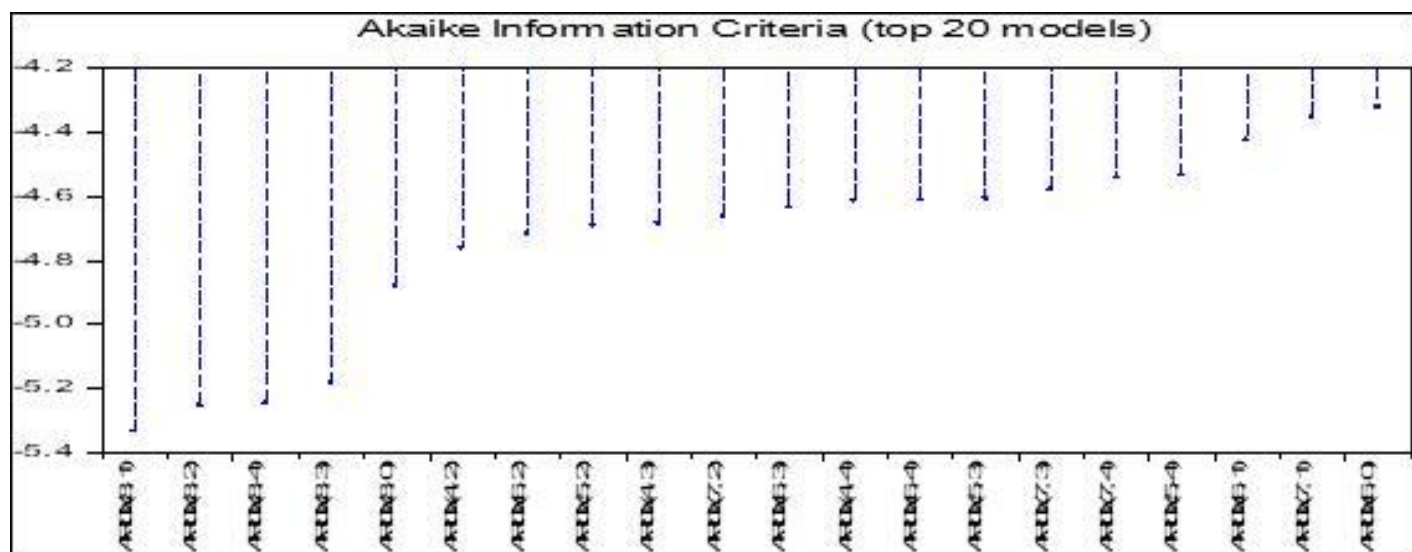
The results of the initial estimate of the ARDL model shown in the table above indicate the relationship between customs taxes and imports, as the identification factor (R-statistic) was (0.974315), which means the interpretive power of the model used, i.e. the independent variable (customs taxes) explains (79%) While (3%) The value of F-Statistic is 71.36772 (prob-F=0.0000), which is moral at a level of significance below

(1%) This indicates the morality of the model used to interpret the short-term and long-term relationship, as demonstrated by the statistical value of the Corrected Identification Coefficient (R-Squared (Adjusted (0.954557), as well as the model chosen by ardl testing is From the rank (6, 0) and according to the criteria of slow duration tests (AIC, BIC, HQ), the optimal duration of slowness, which gives the least value of these criteria, as described in Figure (23) and supplement (6) is shown by the Test (AIC) :



Form (2) The results of the optimal slowing period according to the (AIC) method of the Iraqi

economy for the period 2004-2019



\*Source: Prepared by researchers based on the outputs of the statistical program (Eviews 9)

Fourth: Co-integration test: Co-integration test

To find out how long-term balance is available between the independent variable (customs taxes) and the dependent variable (imports), therefore the statistical (F) is calculated as it is noted from the statistical results shown in table (7) that the calculated (F) value of (9.13866) is greater than the (F) tabial statistics at the (1%) level. This means rejecting the zero hypothesis (H0) and accepting the alternative hypothesis (H1), i.e.

there is a long-term balance between customs taxes and imports, and therefore the existence of a common complementary relationship between them during the duration of the research and table (7) shows the statistical results of the border test of the model (ARDL):

**Table (7) shows the results of the ARDL common integration test for the relationship between variables**

Test Statistic	Value	K
F-statistic	9.13866	1
Critical Value Bounds		
Significance	I0 Bound	I1 Bound
10%	3.02	3.51
5%	3.62	4.16
2.50%	4.18	4.79
1%	4.94	5.58

\*Source: Prepared by the researcher based on the outputs of the statistical program (Eviews 9)

Fifth: Estimate the parameters of the short and long term and the parameter of correcting the error

After ensuring that there is a long-term relationship between the independent variable and

the dependent variable, the long-term parameters, the short-term parameters, the error correction parameter, and the table (8) should now be assessed:

Table (8) shows the results of the estimate of short- and long-term parameters and the error correction parameter

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(IMP(-1))	0.803494	0.103788	7.741677	0.0000
D(IMP(-2))	-0.53787	0.134599	-3.99606	0.0015
D(IMP(-5))	0.570458	0.106673	5.347745	0.0001
D(TAX)	0.333592	0.063117	5.285324	0.0001
CointEq(-1)	-0.23975	0.042626	-5.6244	0.0001
<b>Cointeq = IMPORTS - (0.5458*TAX + 4.5571 )</b>				
<b>Long Run Coefficients</b>				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
TAX	0.545835	0.126283	4.322315	0.0008
C	4.557149	0.744561	6.120589	0.0000

\*Source: Prepared by researchers based on the outputs of the statistical program (Eviews 9)

The results of the above table indicate that there is a long-term common integration relationship between the independent variable customs and variable imports, and this is confirmed by the error correction parameter and the adult (-0.23975) at a level of significance less than (1%), i.e. it is negative and moral and this indicates that there is a common integration relationship, as well as that this parameter reflects the speed of adjustment between the long term and the short term which requires to be negative and moral in order to provide evidence of a long relationship between the variables studied and the value indicated by the parameter. Correcting the error to the point that the imbalance in the short term corrects during (0.23) of time.

In the short term, the results of the parameters indicate a direct relationship between the independent variable (customs taxes) and the dependent variable (imports), i.e. the increase in customs taxes by (1%) This is contrary to the logic of economic theory, and the reason is that the logical relationship between customs taxes and imports is supposed to be counterproductive and not exorcist, as the higher the imposition of customs taxes on imported goods and services, the less demand for them. Thus, the volume of imports decreased, while the results of the parameters in the short and long term showed a positive and moral relationship, meaning there is a positive and moral effect between the customs taxes and imports, and this is an inevitable and exceptional result due to the unstable political and economic conditions that the Iraqi economy is

going through. Currently, as well as the accumulation of wars and political conflict over power and the disruption of the customs tariff systems for many years and their replacement by the fee for the reconstruction of Iraq by not more than (5%), in addition to not encouraging the private sector as an important sector in the productive and development field in attracting surplus labour, all these reasons have made Iraq rely mainly on filling the total shortage of goods and services from imports from various countries (Arab and international), so when imposing heavy taxes on goods and services imported from abroad. It does not have a negative (reverse) effect as a result of the inefficiency of local production in meeting the needs of the Iraqi citizen of the necessary goods and services and therefore depends mainly on imported goods despite their compliance with the customs tax, so the effect is positive and not reversible when imposing the customs tax for the above reasons mentioned above.

#### Sixth: Model Accuracy Test (ARDL)

To detect the accuracy of the model (ARDL) and its absence from economic problems, it was based on three tests showing the accuracy of the estimated model: heteroskedasticity test (ARCH), breusch-Godfrey Serial Test Correlation (LM) self-link test (LM), Ramsey Reset Test diagnostic accuracy test, as described in table 9:

Table (8) shows model accuracy tests (ARDL)

Heteroskedasticity Test ( ARCH)			
<b>F-statistic</b>	82.51911	Prob. F(11,1)	0.0857
<b>Obs*R-squared</b>	12.98569	Prob. Chi-Square(11)	0.2943
(LM test Breusch-Godfrey Serial Correlation)			
<b>F-statistic</b>	2.932345	Prob. F(1,12)	0.1125
<b>Obs*R-squared</b>	4.713009	Prob. Chi-Square(1)	0.0299
Ramsey Reset Test			
	Value	Df	Probability
<b>F-statistic</b>	2.414173	(2, 11)	0.1351

\*Source: Prepared by researchers based on the outputs of the statistical program (Eviews 9)

It should be noted from table 9 that the estimated model does not have a problem of difference in the error limit, as the difference of errors is homogeneous, because the probability value of the Test (F) amounted to (0.1857) which is not moral and higher than the level of indication (5%). It is also noted that the probability value of the F test was (0.1125), which is non-moral and higher than the level of significance (5%). As for the Ramsey Reset test for ARDL, the results showed that it does not suffer from the standard problems according to the statistical value (F) of 0.1351 is not moral and greater than the level of indication (5%) According to the Ramsey Reset test.

### Conclusions:

1- There is a major imbalance in the balance of trade, which is the control of crude oil exports by more than (95%) Of Iraq's total general revenues, its imports include various consumer and investment goods, which affects the balance of trade balance.

2.The economic exposure index increased by 120.2%. This is the highest percentage of the index during the research period due to the high level of income resulting in increased import spending, which indicates the country's strong association with the outside world

3- The results of the research showed a decrease in the growth rate of customs revenues, as the average duration (25%), despite the increase in the volume of imported quantities of goods and services, due to the decrease of tax deductions by (5%) on most imported goods, but in recent years

the income of the customs taxes has increased as a result of the activation of the Customs Tariff Law No. (22) for 2010.

4- The results of the estimate of long-term and short-term parameters and the error correction parameter in the standard model used (ARDL) also showed that there is a positive effect (expulsion) from the variable (TAX) to the variable (IMP), i.e. the change in customs taxes by (1%) Leads to a change in imports by (0.54%)

5- The standard analysis showed that the estimated model (ARDL) is free of standard problems (ARCH self-linking, lm heterogeneity, and the accuracy of the diagnosis RR), because the probability value of the F test was non-moral and higher than the level of indication (5%).

### Recommendations:

1- The need to pay attention to customs taxes as an important financial resource for public revenues to cover the budget deficit and the balance of payments deficit.

2- Work on the rehabilitation of the national industry for all its productive branches, to support local exports and to eliminate the phenomenon of dumping goods from bad products in the Iraqi markets.

3- Continuing to grant tax exemptions, especially customs ones, for strategic productive projects (agricultural and industrial), which contributes to the economic diversification that is most needed at the moment.

4- Introducing progressive market taxes on consumer goods that are not necessary to reduce their import and to address the imbalance in the trade balance, which is an important focus of the balance of payments structure.

5- The need to hold training courses on a continuous basis for the employees of the al-Kamark bodies in order to increase their experience and knowledge in the audit of goods imported from the original or traditional origin.

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