

Exports LED Growth: A Case Study of Pakistan

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1.1 Introduction:

Impact of exports on economic development remain an interesting topic for the economist. International trade expresses the economic growth of any nation (Marshall, 1890). According to one more economist Nurkse world business is engine of growth (1961). Bhagwati in 1973 stated that efficiency in trade and its international expansion can be obtained through free trade of services as well as goods. Empirical studies have proven a positive and significant relationship between economic development and exports of any country. Therefore, economist pay more focus on expansion of exports in order to develop the economy of the country. In addition, for expansion of exports, it is not compulsory that country blessed with a large scale of natural resources can only obtain this. But countries with less resources may also enhance the exports through effective policy making. Bhagwati and Krueger are of the view that liberalization of exchange can be obtained by arrangement which declines the opposing force to fare inclination. Edwards in 1993 expressed that fare grants, import duties with addition of exchange bends as liberal exchange administration. An extensive variety of the studies gives confirmation that the openness of the exchange administration has a positive companionship with GDP development (Ahmed and Anoruo (2000), Edwards (1998), Edwards (1992), Harrison (1996), Iscan (1998), Wacziarg (2001), Yanikkaya (2003). In perspective of above conflicting discoveries, it is better to reevaluate this issue in the connection of Pakistan economy. Researchers are more interested in tentative relationship between investment enlargement and exchange plainness.

Over two centuries, relationship between trade and GDP growth remain focus of economist. But still consensus cannot be developed on its real effects. In the early years of nineteenth century, Adam Smith, a remarkable contribution (Ricardo, James Mill, Torrens, & Stuart Mill) described trade and their favorable arguments. This started the discussion on free trade, and impact of globalization on nation's economy. The productivity, growth, or development of economy has been discussed in economic literature widely. Literature is also enriched with promotion of exports, policies for imports to obtain the sustainable growth. Import substitution become trend in 1950s-1960s in developing countries to enhance the economic growth. This focused on developing countries to generate own style of growth for sustainable development. In this way these countries could make its destiny. (Todaro and Smith, 2003). Then in 1970s trend has changed from import substitute to promotion of exports. The supporters of this trend witnessed that this led to following benefits which ultimately help country in its economic development. These include effective and efficient allocation of resources, using developed technologies efficiency of production can also be obtained, reduction in unemployment, poverty reduction etc. According to the report of World Bank 1993, development of free market and international trade strategies of Tigers of East Asian strengthen the idea of economic growth through exports. Export-led economic development proposition widely and extensively acknowledged (Feder, 1982 & Krueger, 1990), also changed this to new predictable understanding (Tyler, 1981 & Balassa, 1985). It has witnessed of molded growth in numeral nations and also influenced World Bank to rethink about its strategies. (WBD Report, 1987). Asian Tigers were not aware of the reality of exports led growth. Their export success remained question for them. Government plays key role in planning for composition and production of the out oriented businesses, simply this cannot be left to market. According to Amsden, 1989 "idea of Asian Tiger was to build a powerful, dominant country, which has provided protection to tariff and subsidies, alter both interest and exchange rate, competent management as human resource, and industry regulated under strict rules of government by keeping both the options in hand of reward and punishment.

Businesses are considered the ambassador of economic growth and enlargement & expansion of exports are supposed the major factor for upsurge in production as well as revenues. This will create opportunities for local investors to strengthen their businesses by technological modification and enlargement of market as well. Also help these investors to expand their work locally due to increasing demand for production

that ultimately result in sustainable growth via exports. One more economist Emery, 1967 concluded that development of exports intimate to development of economy. Traditionally, any developing country had two options of trade for growth of their industrial sector, development of exports or import exchange.

1.2 Objective of the study

Idea behind this study is to examine the nature of relationship among out oriented trade and monetary development of Pakistan. Annually data in time series was taken to conduct this research. As literature has showed a positive and significant relationship among these variables.

1.3 Significance of the study:

The study will help policy makers in planning for development of the area. Expansion of exports will be the main focus, because East – Asian countries have proved the economic growth through expansion in growth. This will help the country in sustainable growth and reduction in hurdles linked with economic growth.

1.4 Scope of the study:

The data is gathered from economic indicators of Pakistan's economy. Yearly data is used for this study.

2.1 Literature Review:

This research has examined the factors of economic growth from 2008-2012 with reference to Pakistan. The amount of development of GDP has been used as reliant varying as the associate of economic development. The impact of imports and exports were less on GDP as compared to the government expenditure. This reveals that on regular Pakistan should take some measures to make expenditures on the development of the economy and in those sectors that have potential for the future growth. Research had involved vital factors for this study upon suggestion of literature, yet later on research it would be useful to consist of some other factors in the research as well e.g. technological change and human resource development, FDI, consumption patterns, etc. And its formula is $Y = C + I + G + (X - M)$ (Waseem Ahmed Khan, et.al., 2014)

The present research has been focused on determining the relationship of out oriented trade i.e. exports and FDI w.r.t development of economy in Pakistan. For this purpose data from 1971 to 2009, particularly to understand the importance of exports in the enhancement of economy of the nation. Results produced using least square method verifies the hypothesis assumption of this research. Exports and foreign direct investment impacts are proven significant statistically in the period under observation. Exports impact on GDP is significantly positive that describes for boosting economic growth that is ultimately sustainable development expansion of exports is very vital for any country. (Azam, 2007)

From the above dialog it is clear that both free variables are noteworthy in GDP development rate because 94 percent of variety is clarified by fares and imports so government should move towards the approach of exchange liberalization so that its yield development will build all the more over government should import those things which helps in the monetary improvement of a nation like hardware oil and so forth so GDP could be speeden up. (Rummana Zaheer et.al., 2014.)

Exports led growth has been debated over many decades. How exports are important for economic growth is still under interest of researchers. The economic growth policy in 1950s and 1960s was exchange of imports. In mid 1970s "East Asian Tigers" molded the growth oriented policy from imports exchange to promotion of exports as strategy. The shift in strategy gave better results in terms of allocation of resources, creating economies of scale, improved production via technological enhancement, capital formation, job opportunities, and sustainable growth for a nation. But in case of Pakistan and somewhere in other countries recent studies had found mixed outcome. (Rummana Zaheer et.al., 2014.)

Export led growth phenomena was studied in this paper. The relationship between these two variables was studied with reference to Pakistan to investigate why the earlier studies had mixed results. Data ranged from 1960 – 2003 for exports and real output has undertaken for above said investigation. IFS was used to gathered this time series data. Study found long term link between the variables. Output has also contributed by imports, found in the research. This study revealed that for economic growth exports were vital but imports also played its significant role in the economic growth. The interesting fact was there is no significant relationship between exports and imports of Pakistan. (Rummana Zaheer et.al., 2014.)

How imports increase the economic growth? The answers to this question is by importing raw material one can improve its production by adding values in the products that ultimately result in economic growth. One other aspect is importing technology that help in increasing capacity of production. This productivity is linked with development of any country's economy. However, excessive imports of finished goods may replace the domestic output and displace the workers. Exports boost the growth of economy through access to the wide world market and hence the economies of scale. It earns foreign exchange and also supports the employment in the export sectors of the economy. This paper concluded that Pakistan has to continue with importing raw

material and technology for its economic growth through value addition and expansion of productivity. But at the same time more energies may be consumed on boosting up the exports.
(Nasim Shah Shirazi et.al., 2004)

The purpose of this study was to test the applicability of the export led growth (ELG) hypothesis for Pakistan during the period from 1970-71 to 2003-04. The paper examined if export and GDP are cointegrated by the using Johanson approach; whether export Granger cause GDP growth; whether export Granger cause investment. A positive Granger Causal relationship running from export to economic growth is suggested by the test results for the long-run period. The study analysis rejected the hypothesis exports and GDP are not cointegrated and that export granger cause GDP growth. A positive Granger Consol relationship running from export to economic growth is proposed by the test results for the long run. (MUHAMMAD A. QUDDUS, IKRAM SAEED, 2005)

A quite reasonable results relation to relationship between exports and economic growth was achieved in this study. To gain the export led growth, the necessary steps include government must introduce exports promotional oriented policies. This will help any country in attaining sustainable growth. Exports promotional strategies are key to increase market share in exports internationally for economic development. The study findings has revealed that expansion of growth, labour force and businesses investment have significantly positive link with GDP development in Pakistan. (MUHAMMAD A. QUDDUS, IKRAM SAEED, 2005)

Researchers suggested that Pakistan must pay full attention on expansion of its exports by introducing the existing products to new market, creating economic stakes internationally, and likeminded governmental policies. According to numeral studies conducted in developing countries, exports paid very important role in boosting economies and sustainable growth. Almost every study concluded that there was a positive significant linkage between exports and GDP growth of that country, such as, (Balassa, 1978, 1985; Jung & Marshall, 1985, 1987; Chow, 1987; Shan & Sun, 1988, Bahmani-Oskoe, Mohtadi & Shabsigh, 1991; and Khalifa Al- Youssif, 1997). (MUHAMMAD A. QUDDUS, IKRAM SAEED, 2005)

This literature credited the effects of exports on economic growth where as exports promote threshold effects due to economies of scale, increased utilisation capacity and productivity gains. In 2005 Gunter, Taylor and Yeldan conclude that any gains from trade liberalisation are often associated with external effect that are dynamic in nature. Baldwin and Forslid (1996) and Feenstra (1990), provided a useful framework for analysing the relationship between exports and economic growth. (MUHAMMAD A. QUDDUS, IKRAM SAEED, 2005)

3.1 Methodology

Year wise growth rate of Gross Domestic Product (GDP) in local currency unit (LCU), exports (EXP), and inflation (INF) from 1972 to 2012 have been used in this study. Data was obtained from official website of Pakistan Bureau of Statistics and different other websites. Secondary data was used for this research. Linear regression is applied on the model. According (Gujrati, 1995) data transformed as logarithm may eliminate problems of autocorrelation. Study explained the impacts of EXP on GDP, which was analyzed with the help of SPSS. The model of the research work is as follows:

$$Y_t = \alpha + \beta_1 X_{1t} + \beta_2 X_{2t} + u_i \quad (t=1972, 1973, \dots, 2012)$$

$$GDP_t = \alpha + \beta_1 EXP_{1t} - \beta_2 INF_{2t} + u_i$$

Where

Y_t = GDP (LCU),

EXP = Exports,

INF = Inflation,

4.1 Findings

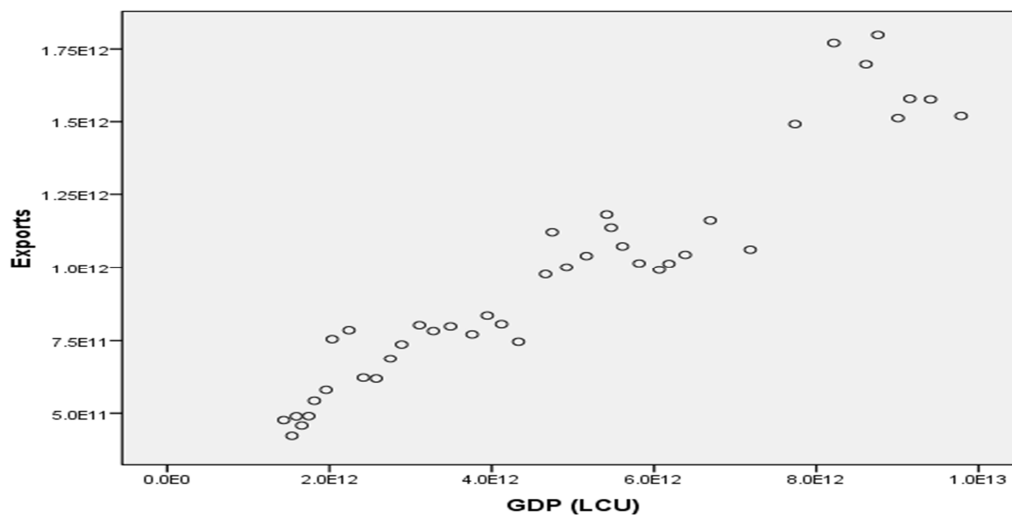
SPSS is used to generate the following results. The correlation table showed that exports are highly correlated and significant with GDP.

Correlations

		GDP (LCU)	Exports	Inflation
GDP (LCU)	Pearson Correlation	1	.951**	-.073
	Sig. (2-tailed)		.000	.649
	N	41	41	41
Exports	Pearson Correlation	.951**	1	-.027
	Sig. (2-tailed)	.000		.865
	N	41	41	41
Inflation	Pearson Correlation	-.073	-.027	1
	Sig. (2-tailed)	.649	.865	
	N	41	41	41

** . Correlation is significant at the 0.01 level (2-tailed).

The scatterplot is used to determine the nature of relationship between exports and GDP. The results stated that the relationship is linear. Based on this graph linear regression is used for further analysis.



GDP is considered as dependent variable and exports and inflation are considered as independent variables. Linear regression is applied on these variables.

Variables Entered/Removed

Model	Variables Entered	Variables Removed	Method
1	Inflation, Exports ^a		Enter

a. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.953 ^a	.908	.903	7.982E11

a. Predictors: (Constant), Inflation, Exports

The above results showed that explanatory power of the model is 91% approximately. It means variables are essential for this economic model.

ANOVA^b

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.375E26	2	1.188E26	186.410	.000 ^a
	Residual	2.421E25	38	6.371E23		
	Total	2.617E26	40			

a. Predictors: (Constant), Inflation, Exports

b. Dependent Variable: GDP (LCU)

The ANOVA test results revealed that overall model is highly significant where value of F-stat is 186.410, which is much greater than 4 (base value for significance of the test).

Descriptive Statistics

	Mean	Std. Deviation	N
GDP (LCU)	4.82E12	2.558E12	41
Exports	9.75E11	3.845E11	41
Inflation	9.57305470	5.368416319	41

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-1.123E12	4.154E11		-2.704	.010		
	Exports	6.321	.328	.950	19.251	.000	.999	1.001
	Inflation	-2.252E10	2.352E10	-.047	-.958	.344	.999	1.001

a. Dependent Variable: GDP (LCU)

The coefficient of regression tables showed that problem of collinearity not existed in it. Because the value of Variance Inflation Factor (VIF) is very low ($1.001 < 5.000$), elaborated that data is free of impacts of multicollinearity. The value of t-stat for exports [$19.251 > 2$] is highly significant. Standardized coefficient value for exports (.950) revealed that one unit change in exports will cause 95 % positive change in GDP.

5.1 Recommendations

5.1.1 Suggestions

Speeding up the development of goods and services businesses is the right way to growth for any country's prosperity. Improved creation of exports might convert leading agent of national development sequence into compactly tenanted state just like Pakistan, it will produce work openings that ultimately will create reserves & venture at consequential stream of capital. National aim of reduction in poverty will then be addressed in order to achieve the sustainable growth.

Pakistan's export sector is contained by the supremacy of a few commodities in a narrow arcade. For economic growth this dependency has to limit and area of operation for exports must be enlarged. Therefore, Pakistan must concentrate on expansion of exports in order to achieve the sustainable economic growth. Otherwise, in longer terms exports may become stationary.

5.1.2 Strategies

To achieve the export expansion and economic growth sustainability, following is recommended:

- Try to reduce hurdles in export sector by streamlining export processes and assist your local private investors. Role of facilitation by the Government will help improve the situation in this regard.
- Increase industrial power, its efficiency, and support to reduce the cost and try to obtain global acceptance level of exports goods and services both. Quality standard must be focused, in consideration the competitiveness of the market.
- To get cost effectiveness in exports locally produced raw material is to be used.

- Globally Involvement in events particularly related to businesses, focused carnivals, solitary national fairs overseas in addition directing business delegations, to support the vision to strengthen the present position in market and also looking forward to explore the new trade markets for expansion of exports.

5.2 Conclusion

Economic development and out oriented trades have positive significant relationship. This relationship is still under interest of researchers. East-Asian economies and theoretical consensus have proved the phenomena of economic growth led by exports in 1970s and 1980s. Numeral regions and states studies witnessed a favorable economic development in result of exports expansion or exports market enlargement. Estimated relationship between economic development and exports in Pakistan is discussed in this paper. This paper covers the statistical data for the period of 1972 onwards 2012. The effects of exports found significantly positive with economic development using production function framework.

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