Clothing Insustry

I have chosen the clothing industry to see the effects of industrial policy on production and economics status of it. The reson of this choice would be revealed further in this report.

Institutional Background

Relevance

The relevance of clothing industry to industrial policies and exchange rate fluctuations is somehow interesting. clothing industry in Iran is very sensitive to exchange rate. the reason is not beacuse of raw materials but is because of smuggling. the point in this industry is that when exchange rate is low, smugglers start to import clothing. and when the rate of exchange is high, smugglers loose their incentive to import the clothing.

Economic and Institutional Context

This industry include many low skill and woman workforce in comparison to other industries. its overall a labor intensive industry that provide job for many. effects on this industry can affect society specially urban densities in many ways. As we see further, it is one of the rare sectors in Iran that somehow the number of workers in this industry is equal between both genders.

Evidence

https://etkfz.com/newsPage?code=65OSy2XeDF

in this link you can read more about is the situation of this industry in response to fluctuations in exchange rate.

Data Analysis

Number of Workshops

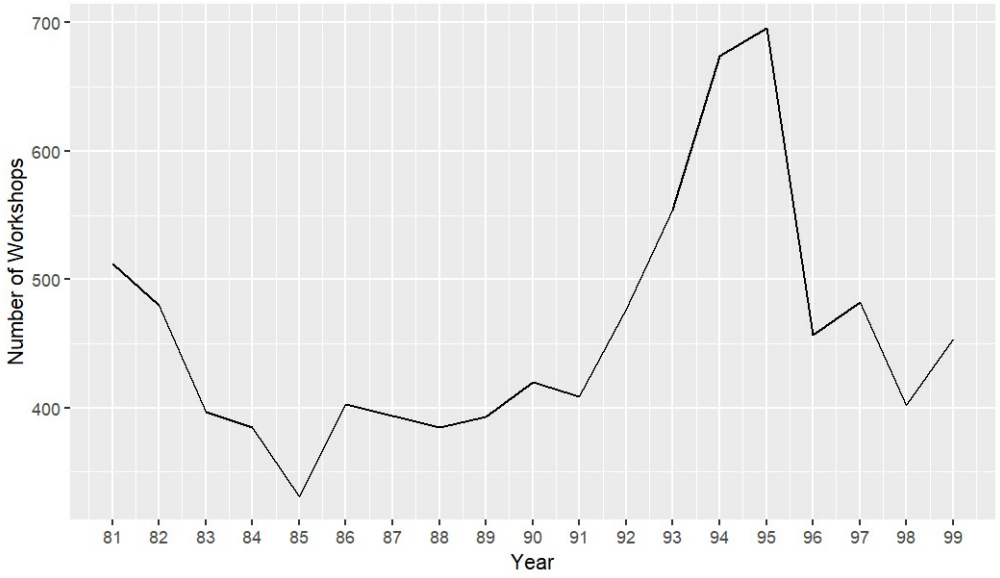

Figure 1: Number of Workshops

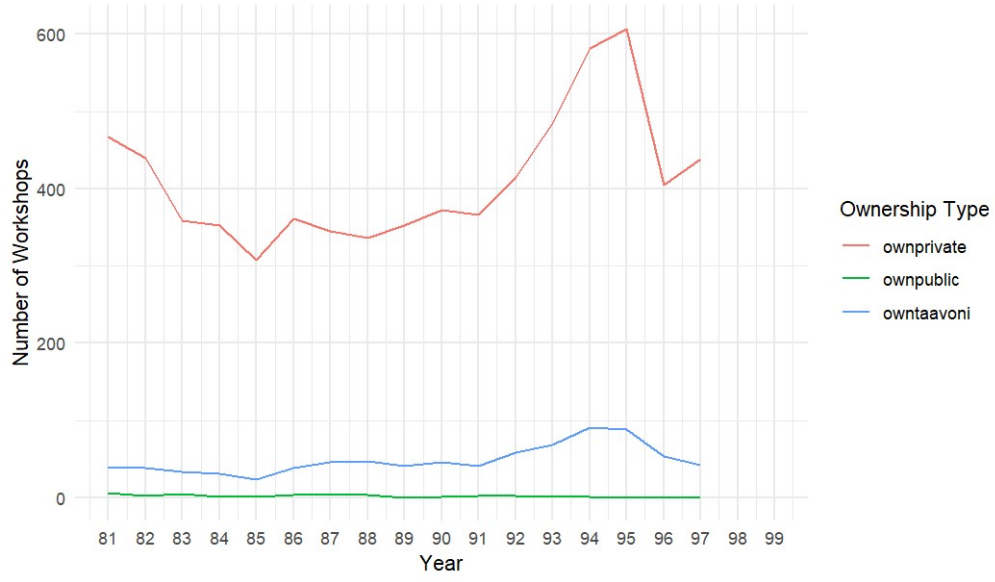

Figure 2: Number of Workshops By Ownership Type

Here are the number of workshops figures. From the second figure we can see that this industry is mostly owned by private sector.

Number of Workers

Figure 3: Total, Male and Female Workers of Clothing Industry

Figure 4: Number of Male and Female Workers with and wtiout Wage

As I mentioned before, It is clear that this sector is one of the rare sectors in Iran that has equal workers of both gender.

Main Values of Industry

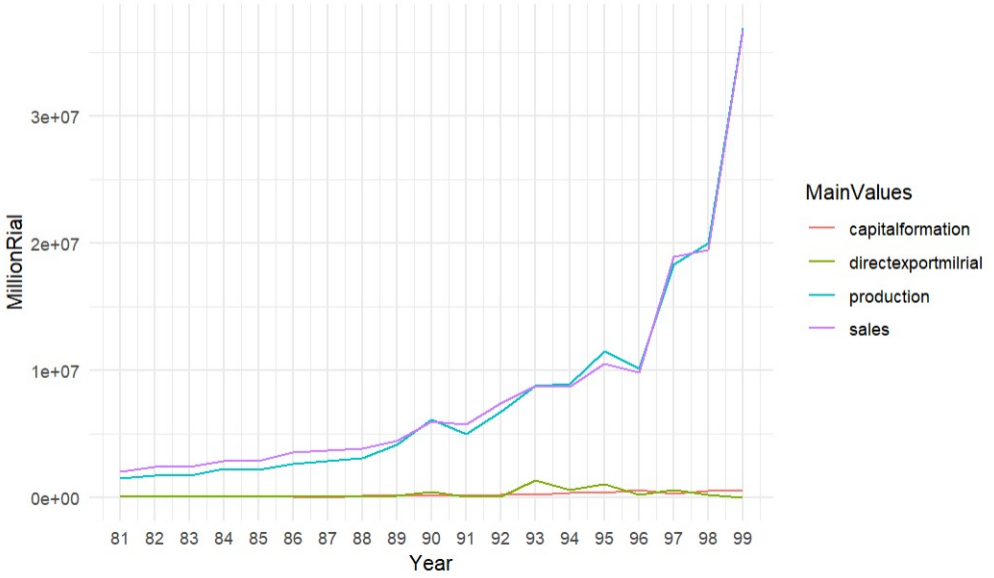

Figure 5: Main values of Clothing Industry

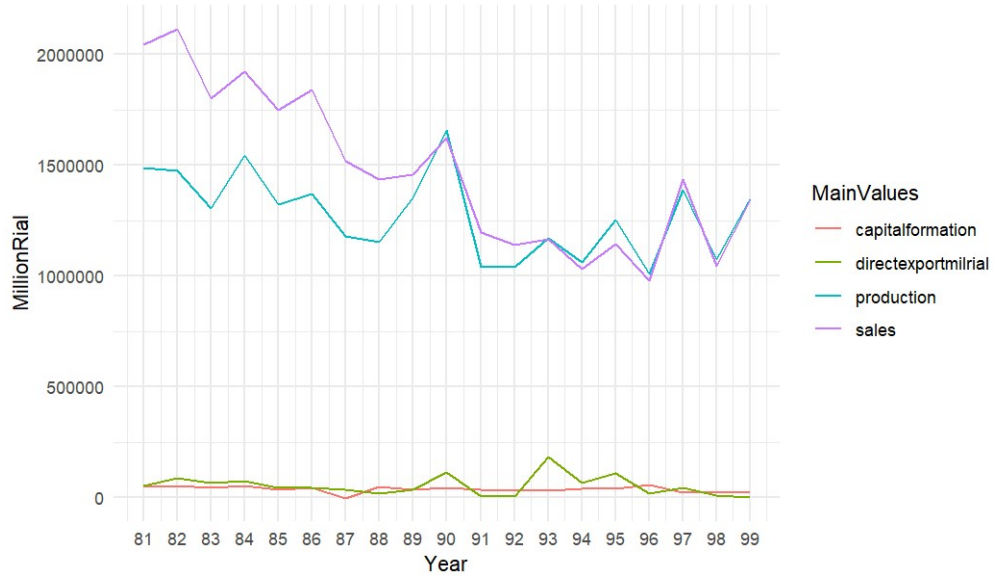

Figure 6: Main values of Clothing Industry Adjusted By Inflation to Year 81

Overall This industry experience reduction in production in real terms. If you compare the values of 81 with 99, you can see it has reduced. For adjusting to inflation, I have used a dataset of inflation rate from year 80 to 99 from central bank of Iran. I have attached the excel file of inflation to my package.

Impact Assessment

Exchange Rate Fluctuations

I want to measure the effects of exchange rate fluctuations as a tool that can be used by goverment to regulate the markets and industry, on total production of clothing industry. Below, you can see the fluctuations in real exchange rate during years. For this part I have used the data of exchange rate of Iran from 80 to 1400 from Daghighe site which is a data center for Iran.

Figure 7: Real Exchange Rate in Iran

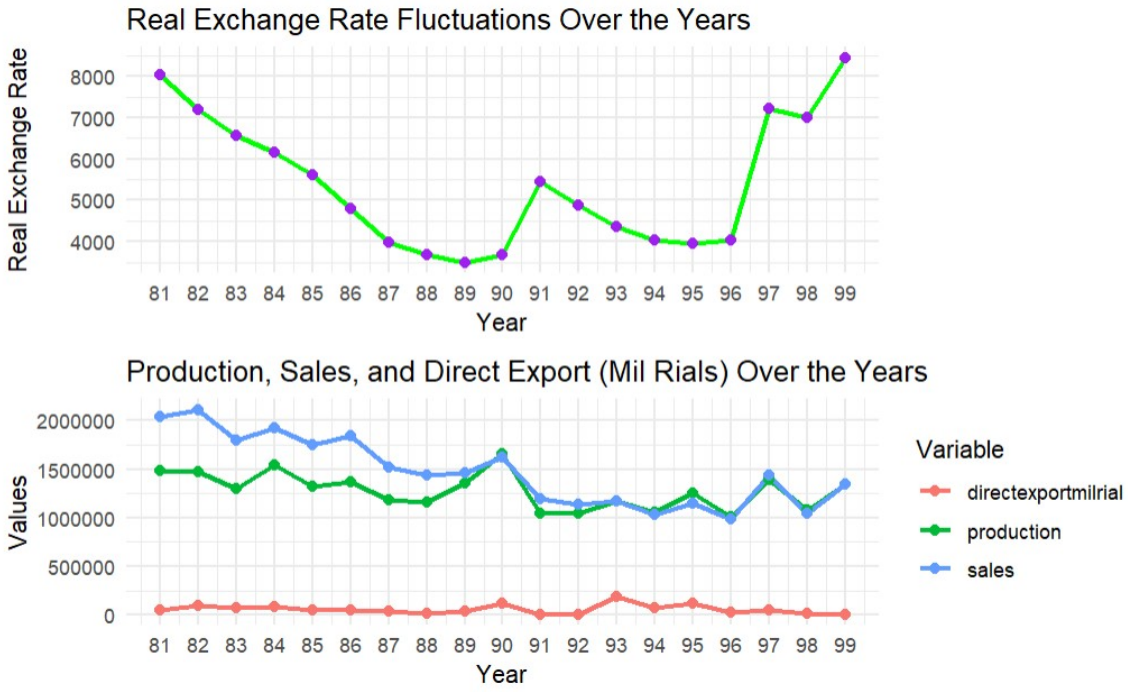

Figure 8: Comparison Of fluctuation with Main values of Clothing industry

As we see in this plot, the main fluctuations happened in 96-97. in second plot we see in this fluctuation, there is an upward in production and sales of clothing industry. The reason behind this happening is that when exchange rate increases, the smuggling stops and smugglers loose their incentives to smuggle clothing into country. Now in order to show the causality in this process, I need to use a control group and use a dif in dif methodology. The control group for my work I think can be food industry which is not exposed to smuggling and there is no smuggling for it from outside to inside of country.

Methodology and Results

I need a methodology to capture the causal effects of fluctuations in exchange rate on production of clothing industry. I choose dif in dif and for that, I need a control group which I can claim that that control group, is not affected by fluctuation in exchange rate. I know that this assuption is very big but I can say that at least, my control group is not affected by fluctuations, at least with the same mechanisms that clothing industry had been affected. My control group is Leather industry which is in order some how similar to clothing and is not far from it. Now I plot the Main values of Leather industry and compare it to fluctuations of exchange rate.

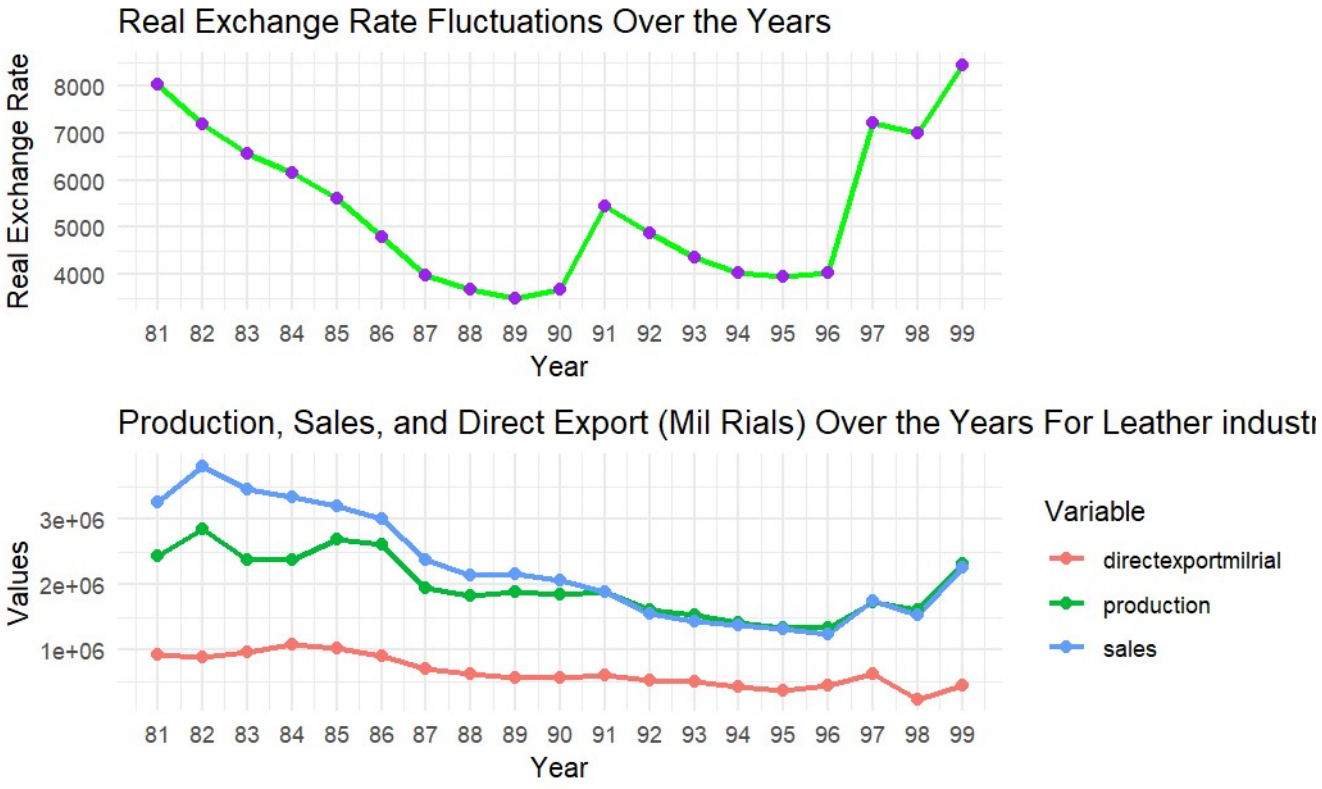

Figure 9: Parallel Trend and Treatment Year

Now lets see the parallel treand and impact of Treatment in next figure:

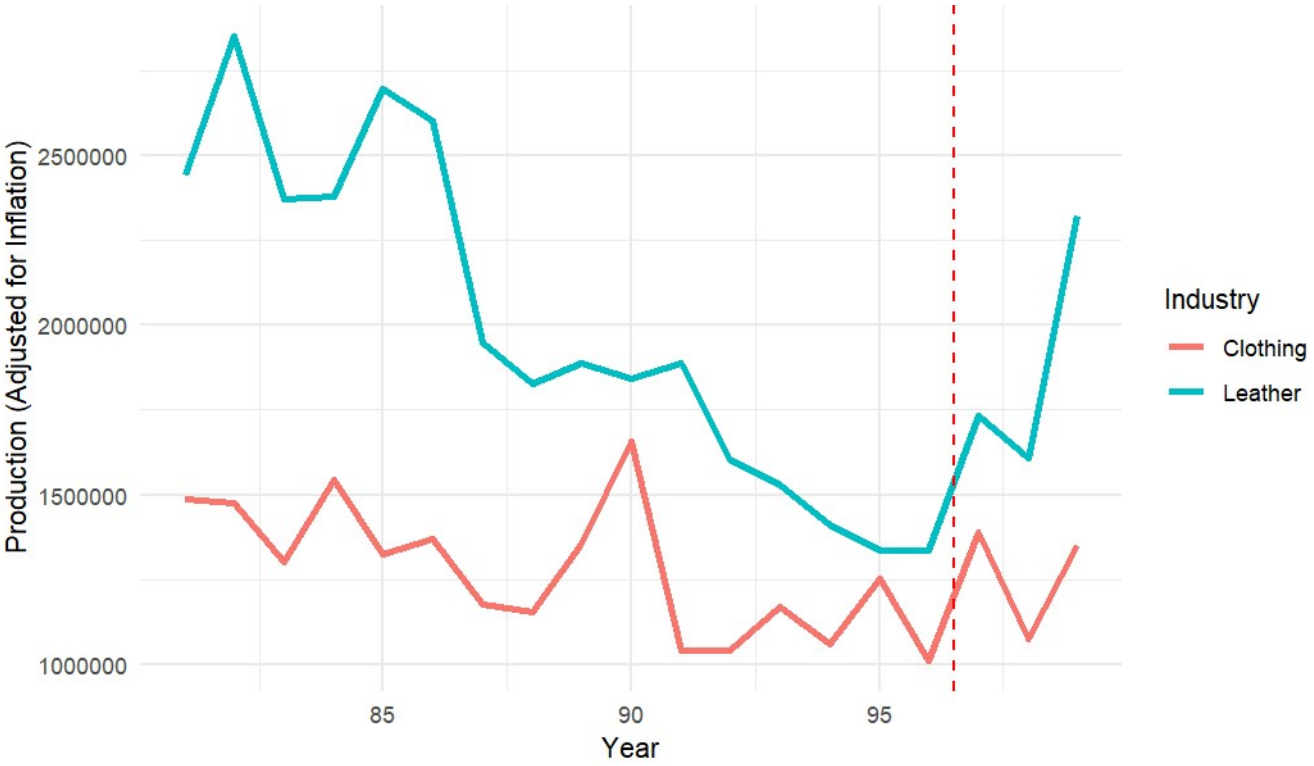

Figure 10: Parallel Trend and Treatment Year

Table 1: Difference-in-Differences Regression Results

	Dependent variable:
	Production
Post-Treatment * Treated	−289,938.700
	(202,657.800)
Post-Treatment	−747,160.000***
	(131,501.700)
Treated	202,398.200
	(286,601.400)
Constant	2,040,867.000***
	(92,985.760)
Observations	38
R^2	0.532
Adjusted R^2	0.490
Residual Std. Error	360,132.300 (df = 34)
F Statistic	12.864*** (df = 3; 34)
Note:	*p<0.1; **p<0.05; ***p<0.01

The interpretation is this: Intercept is 2040886 which is significant and its p value is very

small. post treatment is -289938 which is not significant and its p value is bigger than what it is happening. The treated which is the the difference between treatment and control before treatment is significant and its value is -747160. Post treatment:treated is not significant which shows that after happening treatment, both treatment and control groups are similar and their difference is not significant.

The results suggest that the treatment did not have a statistically significant impact on the production of the clothing industry relative to the leather industry during the analyzed period. Further analysis or alternative control groups may be needed to draw stronger conclusions.