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IMPACT OF TRADE RESTRICTIONS ON EXPORT OF TEXTILE INDUSTRY IN PAKISTAN

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ABSTRACT-The main objective of this research paper is to analyze the effect of textile industry on economic growth in Pakistan. This study explains relationship between textile industry and export by using time series data for period from 1973 to 2016 collected from Economic Survey of Pakistan, State Bank of Pakistan, IMF, World Bank and Asian Development Bank database. The short and long run result of this study are calculated through Autoregressive Distributed Lag model (ARDL) approach. In econometric model, we took textile exports (TE) as dependent variable and employment (EM), gross domestic product (GDP), investment (INV), import tariff (IT) and trade (T) as independent variables. Our findings show that the employment level and exports are very important for Pakistan's economy. All the major sectors of our economy are related with industrial sectors. Healthy textile industry and its exports make the economy strong. We also found that textile export positive and significant impact on economy.

Keywords: Textile Exports, Employment, Investment, Import Tariff, Trade.

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1. IINTRODUCTION:

1.1. Background of the Study

At the time of partition our industrial sector was nothing more than a scratch; it was hardly 4% of the total industrial network of the Sub-continent. The industrial set-up which came in the area of Pakistan mainly comprised of some jute units in East Pakistan and some Cotton Ginning Factories in West Pakistan. The sugar mills, flour mills and rice husking factories, in addition to cotton and jute factories, were the other producing units in the country. However, their quantity was very much limited and restricted to specific localities. Therefore, it was thought to develop industrial sector as rapidly as possible. Pakistan Industrial Development Corporation (PIDC) was established up in 1952 to provide technical and financial assistance and establish those industries in which private sector was reluctant to invest. After the completion of industrial units of Paper, Jute, Sugar, Cotton and Cement, the PIDC used to sell them to private sector. However, the role of PIDC was shrunk after the nationalization of industrial units in 1972.

During 50's and 60's the nation observed remarkable growth in the field of industrialization. More appropriately, the early 60s was regarded as golden period of industrial growth. But many experts are of the view that the economic and social unrest which emerged during the late 60s and in early 70s was attributed to the liberal financial incentives, protection to local industry through higher tariffs, export subsidies and maintenance of artificial exchange rate.The share of textile industry in large scale manufacturing in Pakistan is 46%, while share of textile in total exports is 68% with the value of US $7 billion. The share of textile industry in total employment is 38%, and its contribution to GDP is 8%. The production of textile sector consists of cotton ginning, cotton fabrics, fabric processing, home textiles, towels, hosiery, net wares and ready-made garments. Such all goods are produced at large scale in formal and informal textile sector.

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1.2 Objectives of the study

The objective of this research study are stated as under: -.

1. To examine the impact of trade restrictions on exports of textile industry of Pakistan.
2. To analyze the performance of textile sector.
3. To make suggestions to enhance the exports of textile from Pakistan.

1.3 Significance of the Study

Textile sector is the main sector of Pakistan economy. This sector plays vital role in development, generation of employment opportunities and foreign exchange earnings. Textile sector contributes 8.5% of gross domestic product (GDP). 40% people are directly or indirectly are working and earning this sector. The share of textile sector in total export is 68%. But this sector faces many problems such as wastage of resources, increase production cost, shortage of gas supply and electricity, lack of research and development, lack of loan facilities, high tariff rate, law and order situation and tax burden, etc. The purpose of the study was to evaluate empirically the impact of trade barriers on the export performance and productivity of textile Industry of Pakistan. This study is beneficial for the policy makers of the Government of Pakistan, textile firms operating in Pakistan, research scholars, research organizations, universities as well as foreign research organizations which want to enhance their understanding regarding effects of trade barriers on the textile industry of Pakistan.

2. LITERATURE REVIEW

Tariq, B. (1998) examined environmental impact of cotton production and trade. The purpose of this paper was to explore prospects and mechanisms for a transition sustainable development of Pakistan. For this purpose, primary data was used in this study and data collects through a structured questionnaire. Survey and

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direct interview methods were used to record the view of respondents. This study explained about cotton and export of cotton and textile items. The study concluded that textile industry is a major source of foreign exchange earning in Pakistan.

Siegmann (2004) measured potential effect of textile industry on gender equality in Pakistan. The study explained that textile industry is a major Pakistan's export engine. It also plays positive role in employment of female worker.

Hossain and Alauddin (2005) examined structure and exchange rate regime in Bangladesh under IMF Structural Adjustment Program (SAP) and its impact on trade development. They assessed the impact of import and exchange rate on trade development by applying ARDL technique. The study discovered positive effect of exchange rate stability.

Yoganadau et al. (2005) analyzed research carried out Sir Lank, Bangladesh, Pakistan and China. The study revealed that these countries dominate textile exports in international trade. The results show that labor, capital, FDI and Technology play a vital role in export growth.

Junko Watanabe (2008) conducted the international trade and industrial adjustment in the context of the textile industry. The main objective of this study was to examine the influence of 'international trade restrictions on industrial growth. The study showed, historical approach, differentiate the interest between the concerned were dealt with and how international trade rules modified to facilitate industrial adjustment in 1950-1980.He also explained the role of international organizations like as GATT, the OECD and their member in international trade.

Saini (2009) conducted study on Indian textile industry. For this purpose, he used survey method for Non-Tariff Measures (NTMs) and Cost of Compliance (COC). He used primary data in his analysis and data was collected through a

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structured questionnaire. This study observed that EU and USA are more restricted countries for covering nearly three-fourth of total NTMs.

Awan et all (2015) conducted research on the benefits of GSP+ offered by European Union to Pakistan. They concluded that Pakistani textile exporters could not take much benefit due to lack of preparation, poor quality products and competitiveness.

Awan and Saleem (2014) conducted research on the role of textile industry in export earnings. They analyzed policy initiatives taken by government in different periods to enhance textile exports from Pakistan. They concluded that Textile industry has tremendous potential but Pakistani industrialist could not have materialized due to lack of value addition and adoption of latest technology**.**

3. RESEARCH METHODOLOGY

In this study we describe the single representations of variables which provide the result of this study. These variables play an important role in the countryside of textile industries. Our financial system is based on the exports of textile and some factors shows positive effect and some factor shows negative effect on economy.

3.1 Types of Data

There are two types of data. 1st type is primary data. This type of data that is collected in different ways such as internet, questionnaires. Second type of data is secondary data. This study used secondary data. However, data is collected from different sources such as State bank of Pakistan (SBP), Economic Survey of Pakistan, IMF, World Bank and Asian Development Bank and world Development Indicators.

3.2 Sample of Study

Our study has taken the time period from 1973 to 2016. In this study, we used the augmented dicker fuller (ADF) test to check the stationary of data and also applied

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the different econometric technique such as auto regressive distributed lag (ARDL) and correlation. ARDL is applied for checking the long run and short run relationship.

3.3 Selected Variables

Dependent variable is textile export while Gross domestic product, trade, employment level, import tariff and investment are taken as independent variables.

3.4 Hypothesis of Study

H_0: There is no existence of textile export in the economy

H_1: There is existence of textile export in the economy

3.4 Econometric Model

Time series data used for analysis. To analyze the relationship among variables used data from 1973 to 2016. In this chapter discuss the theory of data and techniques where Textile exports (TE) are used as dependent variable and EM (Employment level), GDP (Gross Domestic Product), INV (Investment),IT (Import Tariff) and Trade (T) are used as independent variables.

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There are some variable and their impact on model explained as under:

$$TE = \beta_0 + \beta_1 EM + \beta_2 GDP + \beta_3 INV + \beta_4 IT + \beta_5 T + \varepsilon_t$$

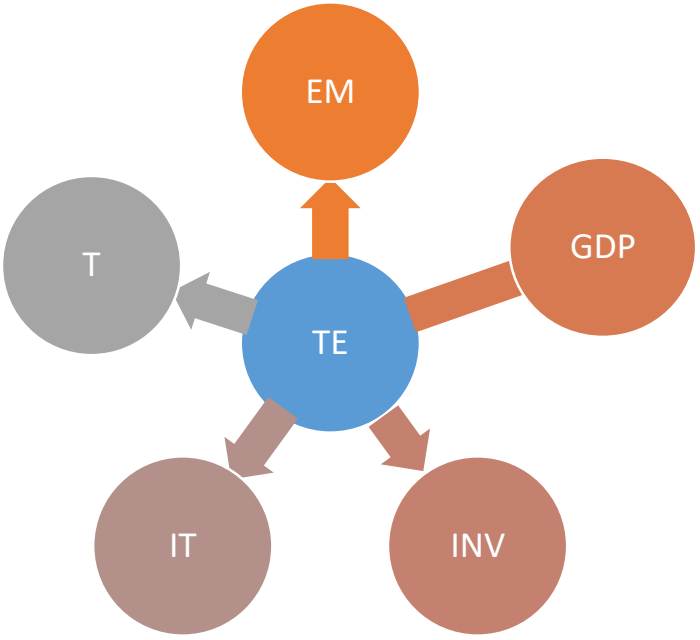

Figure 3.1: Proposed Research Model

Where,

TE = Textile Exports

EM = Employment Level

GDP = Gross Domestic Product

INV = Investment

IT = Import Tariff

T = Trade

Ɛ = Error Term

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3.5 Methodology

This research is based on time series data. First explains time series data and then unit root test and at end explain autoregressive distributed lag model.

3.5.1 Unit Root Test

A unit root test is tests whether a period arrangement variable is non-stationary and has a unit root. The invalid speculation is for the most part characterized as the nearness of a unit root and the option theory is stationarity, slant stationarity or touchy root contingent upon the test utilized. A period arrangement Yt (t=1,2...) is said to be stationary (in the feeble sense) if its factual properties don't differ with time (desire, fluctuation, autocorrelation). The repetitive sound a case of a stationary time arrangement, with for instance the situation where Yt takes after an ordinary conveyance N (mu, sigma^2) autonomous of t.

3.5.2 Auto Regressive Distributed Lag Model

Auto Regressive Distributed lag (ARDL) was presented by Pesaran et al (2001). This technique is used to check the long and short run relationship. Expanded Dickey and Fuller (ADF) test is used to test the request of integration. ADF test incorporates the additional slacked length of ward variable too Matthau to connection issue in demonstrate. The utilization of ARDL model ought to be defended on the premise of ADF test i.e. .on the off chance that all factors are coordinated in various requests, for example, I(0) and I(1) at exactly that point auto backward disseminated slacks model(ARDL)can be utilized. Generally if all factors are in focused on I (0) at that point typically straightforward normal slightest square strategy (OLS)is utilized. Whereas, Johansson co-combination procedure is utilized if factors are coordinated on I (1).This ARDL condition is unsurprising finds the long run affiliation.

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$$\Delta TE_t = \beta_0 + \beta_1 \sum_{j=i}^{k} \Delta \mathrm{TE}_{t-j} + \beta_2 \sum_{j=1}^{k} \Delta \mathrm{EM}_{t-j} + \beta_3 \sum_{j=1}^{k} \Delta \mathrm{GDP}_{t-j} + \beta_4 \sum_{j=1}^{k} \Delta \mathrm{INV}_{t-j} + \beta_5 \sum_{j=1}^{k} \Delta \mathrm{IT}_{t-j} + \beta_6 \sum_{j=1}^{k} \Delta \mathrm{T}_{t-j} + \delta_1 \mathrm{TE}_{t-1} + \delta_2 EM_{t-1} + \delta_3 \mathrm{GDP}_{t-1} + \delta_4 \mathrm{INV}_{t-1} + \delta_5 \mathrm{IT}_{t-1} + \delta_6 \mathrm{T}_{t-1} + \varepsilon_t \quad (1)$$

3.5.3 Estimation of Short and Long Run Relationship

Now we explain the estimation of long run and short run relationship between variables. The long run model has been explained in the following equation:

$$\mathrm{TE}_t = \beta_0 + \sum_{j=1}^{k} \partial_1 \mathrm{j}\, \mathrm{TE}_{t-j} + \sum_{j=1}^{k} \beta_1 \mathrm{jEM}_{t-j} + \sum_{j=1}^{k} \beta_2 \mathrm{j}\, \mathrm{GDP}_{t-j} + \sum_{j=1}^{k} \beta_3 \mathrm{j}\, \mathrm{INV}_{t-j} + \sum_{j=1}^{k} \beta_4 \mathrm{jIT}_{t-j} + \sum_{j=1}^{k} \beta_5\ \mathrm{j}\, \mathrm{T}_{t-j} + \in_t \quad (2)$$

The error correction representation of ARDL technique is:

$$\Delta \mathrm{TE}_t = \beta_0 + \sum_{j=1}^{k} \partial_1 \mathrm{j}\Delta \mathrm{TE}_{t-j} + \sum_{j=1}^{k} \beta_1 \mathrm{j}\Delta \mathrm{EM}_{t-j} + \sum_{j=1}^{k} \beta_2 \mathrm{j}\Delta \mathrm{GDP}_{t-j} + \sum_{j=1}^{k} \beta_3 \mathrm{j}\Delta \mathrm{INV}_{t-j} + \sum_{j=1}^{k} \beta_4 \mathrm{j}\Delta \mathrm{IT}_{t-j} + \sum_{j=1}^{k} \beta_5 \mathrm{j}\Delta \mathrm{T}_{t-j} + \pi \mathrm{ECM}_{t-1} + \mu_t \quad (3)$$

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4.DATA ANALYSIS

Descriptive analysis describes future trends and gives the quantities values. Table 1 show mean, median, standard deviation, skewness, and kurtosis and J. Bera estimations of the chose factors.

Table 1: Descriptive Statistics:

	TE	EM	GDP	INV	IT	T
Mean	71.8707	5.0105	4.2461	70175.3	54.3356	31.014
Median	74.0502	5.0200	3.8500	26070.0	54.5715	30.463
Maximum	85.9947	8.2700	7.7000	33481.0	62.3961	38.744
Minimum	48.1909	3.0710	1.0000	12771.0	45.5805	25.115
Std. Dev.	11.7217	1.6208	1.8208	93116.1	4.75928	3.3049
Skewness	-0.4517	0.5875	0.4133	1.47626	-0.1126	0.3161
Kurtosis	1.8595	2.1709	2.4908	3.96261	2.0894	2.5701
Jarque-Bera	3.5342	3.4466	1.0213	16.0733	1.4665	0.9739
Probability	0.1708	0.1785	0.6000	0.00032	0.4803	0.6145
Sum	2874.8	200.42	110.40	2807001	2173.4	1240.6
Sum sq. dev.	5358.6	102.46	82.884	3.38131	883.38	425.96
Observations	40	40	40	40	40	40

Source: Calculated by E-views 9.5

4.1 Augmented Dickey Fuller Test for Unit Root

Table 2 clarifies the outline measurements of ADF test. The after effects of the test show that some variables are stationary at level and others are stationary at first contrast. The results in the table 2 the support of ARDL Approach.

Table 2: Unit Root Test

	At Level			At 1st Difference			
	Intercept	T&I	None	Intercept	T&I	None	Result

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EM	-1.4815	-2.0692	0.0255	-6.0009	-6.0239	-6.1404	I(1)
GDP	-4.3496	-4.8649	-1.6476	-10.5337	-10.3952	-10.6711	I(0)
INV	-2.4771	-3.9644	8.1507	-6.1591	-6.2470	-1.1861	I(1)
IT	-2.2816	-2.4652	-0.4114	-6.8273	-6.7708	-6.9244	I(1)
TE	-0.4046	-4.9208	-2.0540	-1.9963	-0.8128	-0.0740	I(0)
T	-3.7848	-3.8985	-0.7696	-7.4925	-7.4526	-7.5617	I(0)

Critical Values for Intercept: at 1%: -3.6155, at 5%: -2.9411, at 10%: -2.6090 For Trend and Intercept: at 1%: -4.2191, at 5%: -3.5330, at 10%: -3.1983 For None: at 1%: -2.6272, at 5%: -1.9498, at 10%: -1.6114

The table 2 shows results of ADF test. The EM is integrated at first difference and the value of EM is -6.0009 at 1% with intercept while the EM is 5% with trend and intercept. The order of integration of INV and IT are also existing at first difference. So, we can say that INV and IT are stationary. Both variables come at 1 and 5 %. The integrated value of GDP, TE and T shows that these variables are significant at level I (0) with 1% and 5%. So these variables are stationary and we can apply different econometric techniques on these variables.

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Table 3: Estimate Equation:

R-Squared	0.9730	Mean dependent Var	1392846
Adjusted R-Squared	0.9930	S.D. dependent var	1097628
S.E. of Regression	91796.01	Akaike info criterion	25.9961
Sum Squared resid	1.1011	Schwarz criterion	26.5360
Log likelihood	-300.953	Hannan-Quinn criterion	26.1393
F-Statistic	327.5445	Durbin-Watson statistics	2.2091
Prob (F-Statistic)	0.0000		

Source: Calculated by E-views 9.5

In table 3, the value of R square lies between (0 and 1) or near 1 then this clarified the model is ideal. In the event that estimations of R Squared are not lies in that range then it implies some issue exist in the model. In the above table, R Square is 0.99, it means that 99% variation in textile export is due to variation in independent variables. The estimation of Durbin Watson is 2.2091, it means that no auto correlation exists between variables. The AIC value is 25.9961 and SIW is 26.5360.

Table 4: Results of Correlation Analysis

	TE	EM	GDP	INV	IT	T
TE	1	---	---	---	---	---
EM	0.8582	1	---	---	---	---
GDP	-0.1287	0.1401	1	---	---	---
INV	0.1096	-0.2709	-0.0687	1	---	---

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IT	-0.6519	-0.4815	0.3630	0.2889	1	---
T	0.3383	0.5044	0.5409	-0.0983	0.1687	1

Source: Calculated by E-views 9.5

The relationship between TE and EM is positive while relationship between TE and GDP is negative. Similarly, relationship between TE and INV is positive while relationship between TE and IT is negative, TE and T is certain. The link between EM and GDP is positive while relationship between EM and INV is negative, EM and IT is negative. Likewise, relationship between EM and T is positive. The connection amongst GDP and INV is negative, amongst GDP and IT is certain, GDP and T are sure. The association amongst INV and IT is sure, amongst INV and T is negative. The relationship between IT and T is positive.

Table 5: Results of Diagnostic Test:

Serial correlation test	0.9160
Heteroscedasticity test	0.5934
Normality test	0.4915
Ramsey Reset test	0.3358

Source: Calculated by E-views 9.5

These tests are diagnostic. These tests tell us that how our model is stable; have no auto correlation, normality of the model exists and there is no heteroscedasticity problem. These results show that our model is stable. J-B typicality test for leftover is directed to see remaining are ordinarily appropriated or not on the grounds that one of the suppositions of CLRM is lingering are regularly conveyed with zero mean and consistent fluctuation

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4.2 Bound Test

Bound text is the next step to checking the long run relationship between variables. In the initial step, the presence of the long run relationship among the variables is required.

Table 6: Results of Bound Test:

F-statistic		6.6486
Critical value bound	LB	UB
Significance10%	2.08	3
Significance5%	2.39	3.38
Significance2.5%	2.7	3.73
Significance1%	3.06	4.15

Source: Calculated by E-views 9.5

Table 6 shows the value of F- statistics which is higher than all upper and lower boundaries. It means that our model has existed long run relationship of co integration.

4.3 Long Run Relationship

The long-run appraisals of the model are accounted for in Table 7. The needy variable is monetary development which is intermediaries as genuine TE while EM, GDP, INV, IT and T are independent variables.

Table 7: Coefficient of Long Run Relationship

ARDL (1, 2, 0,0, 0, 0)				
Dependent Variable =	TE			
Variable	Coefficient	Std. Error	t-statistic	Probability
EM	-346924.7	29586.2	-11.7259	0.0000

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GDP	-988333	237373.3	-4.1636	0.0011
INV	104339.5	28385.9	3.6757	0.0028
IT	-28504.1	44672.2	-0.6380	0.5345
T	-4149.10	25037.5	-0.1657	0.8709
C	2607608	2884164.2	9.0411	0.0000

Source: Calculated by E-views 9.5

The long run showed that the coefficient value of EM -34694.7 is negative which is statistically significant. This value shows that one-unit increase in EM will decrease in TE by 346924.7%. The coefficient value of IT is -28504.1 which implies that one-unit increase in investment will lead to decrease TE by -28504.1 percent but it is not the statistically significant. Our results are consistent with Khan and Reinhart (1990), (Blomstrom et al, 2009).

4.4 Short Run Relationship

Table 8: Coefficient of Short Run Relationship:

Variable	Coefficients	Std. Error	t-Statistic	Probability
C	19.7469	10.2026	1.9354	0.0531
D(EM)	-84262.3	13020.9	-6.4713	0.0000
D(GDP)	-10488.7	80233.4	-1.3048	0.2146
D(INV)	35688.06	10405.7	3.4296	0.0045
D(IT)	-447.66	17440.9	-0.0256	0.9799
D(T)	-8185.59	5748.4	-1.4239	0.1780
ECM(-1)	-2.07209	0.20610	-10.0536	0.0000

Source: Calculated by E-views 9.5

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In short run, the variation between actual and estimated value is called the error correction model (ECM). The coefficient of ECM is -2.07209 and its probability is 0.0000. There are two conditions of ECM. First condition of ECM is that the value of ECM must be negative and second condition is that probability is statistically significant. The investigation concludes that material price is considered as pressuring element t-financial development in Pakistan. The reason might be that the constant setback of the speculation and expansion are the fundamental driver of development disintegrating. The estimation of exchange is utilized as focal variable in the development display. The investigation infers that the impact of exchange on monetary development is negative and factually inconsequential. Hypothetically, it is sound since rising costs since more benefits for financial specialists. New material exporters, capital development and industrialization happen both in the short run and, in addition, long-run and economy will develop.

4.5 Interpretation of Error Correction Model:

The coefficient of ecmt-1 for Model-1 is equivalent to (- 2.07) for the short-run display and suggests that deviation from the long run financial development is revised by 27 % in every year at 1% level of significance.

4.7 Stability Test

This test is used to check the stability of model. Therefore, we will develop the cumulative Sum of Recursive Residual (CUSUM) and Cumulative Sum of Recursive Residual Square (CUSUMS). Our model is stable because the blue graphic line lies between two red lines.

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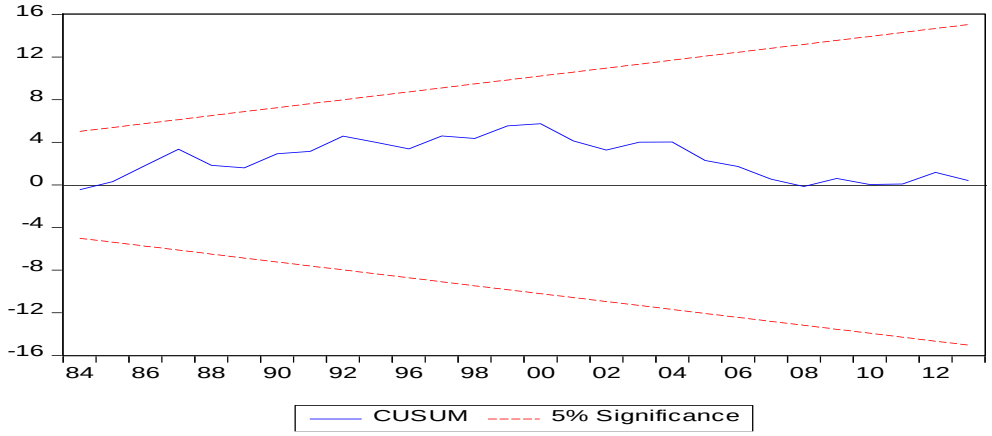

Figure 1: CUSUM Test

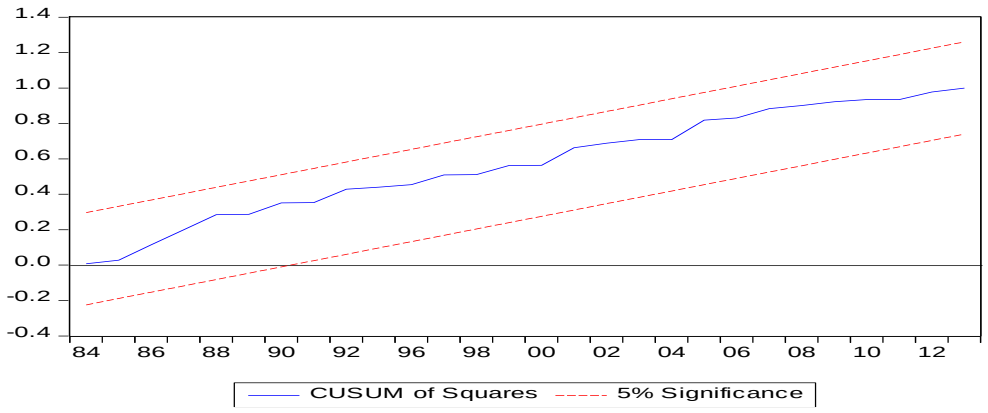

Figure 2: CUSUM Squared Test

Hence stability test was applied to examine the goodness of fit of autoregressive distributed lag model (ARDL). To check stability of model, we apply cumulative sum of recursive residuals (CUSUM) and cumulative sum of recursive square (CUSUMS). The above graphs present stability of long run model because test line is within the b values at 5% significance level.

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5.CONCLUSIONS

In this study, an attempt has been made to find the impact of trade restrictions on export of textile industry in Pakistan. Time series data for the period from 1973 to 2016 were used which are covering the 42 years. Dependent variable was textile export while Gross domestic product, trade, employment level, import tariff and investment were independent variables. Our results show that textile exports have significant impact on economy. Human resources development is important to increase the textile industries, though it plays a good part to gain the augmentation of industries in our country. The individual's augmentation produces the attentiveness to save the system of our country and develop the economy of Pakistan. The generation of employment shows badly effect on textile exports since that to congestion the preparation is very problematic and much people faced the problem of unemployment. By controlling the import tariff, trade and textile exports we develop the economic situation. When we improve the employment level, technology and industrial sector then economic condition shows positive effect.

6.Recommendations

We would like to make the following recommendations: -

1.Textile sector is the main sector of Pakistan economy, so government should take step to increase the export of this sector.

2.Government should provide subsidy or other financial incentives to make this industry competitive.

3.Government should strengthen research and development (R&D) department in textile industry.

4.Government should decrease export restriction so that more earn foreign exchange can be earned.

5.Inflation has negative impact on economy. So government should take step to

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control prices of raw materials.

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CONTRIBUTION OF AUTHORS AND CONFLICT OF INTEREST

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Both authors read the manuscript carefully and declared no conflict of interest with any person or institution.