



Trade openness Impact on Manufacturing Sector: An ARDL Approach in Case of Pakistan

Ghulam Rasool Lakhani

Federal Urdu University of Arts Science and Technology Karachi, PAKISTAN

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Abstract

Auto Regressive Distributed Lag Model (ARDL), Johansen Co-Integration Test (JCT) and Error Correction Model (ECM) are used to examine long and short run connection among the taken variables, in other words, Output of Manufacturing Sector, Investment, Trade Liberalization and inflation, to assess effect of Neo-liberalism on the Output of Manufacturing Sector in this study. The data of the said variables is picked from 1973-2013. It is found that investment and Trade Liberalization have a significant (at 5% level) and positive impact on Output of Manufacturing Sector, but inflation has a significant (at 5% level) and negative impact on Output of Manufacturing Sector. Additional these outcomes depict the information if Pakistan wants to make trade liberalization effectively then reform process to be made strengthen with appropriate institutional support.

Keywords: Trade openness, manufacturing sector, ARDL approach, Johansen co-integration, neo-liberalism.

Introduction

Liberalism is a hypothesis which can reply the consequent inquiry from the social beliefs, for example, practicality, disparity, freedom independence; really Liberalism empowers savings with the assistance of social protection programs. The dialog over neo- Liberalism is portion of an extensive discourse that deals through the effect about the economic development of free capital, labor, capital, goods and services movement, over the countries. Lots of argument to encourage that there are deprecation and in addition appreciation of the capital sort out over advancement and economic development. It is moreover believe that additional liberalization in the market of labor at the same time developing and developed nations would greater gain the economic growth and development of developing nations than other trade liberalization techniques. Nevertheless the core of this study is to examine the liberalization of trade and also its relationship to the growth of manufacturing sector.

In present circumstance, the fundamental idea of neo-liberals is an answer of organized commerce with base government mediation. Essentially the conclusion over the methods on neo-liberalization of worldwide trade differentiated among administrations of the created and creating countries, the effect of liberalization of trade on development of for every capita GDP is dubious in light of the fact that liberalization of trade additionally give premise to increment in import more than fare bringing about trade shortage which prompts low future monetary development. Financial and fabricating segment developments were emphatically interconnected with higher proportions of trade volumes and trade approach openness as per numerous investigators. The verbal confrontations end up

being considerably quicker. Substitute utilized for trade liberalization does not separate between nations becoming quicker and slower rate.

There are two fundamental variables include in the assembling development on the premise of neo-progressivism: The privatization (inner liberalization) and the free trade (outside liberalization).

Privatization (inner liberalization) is the procedure to change over responsibility for from an open to non-open area. Primary explanation for privatization is improving proficiency that can accomplish from private proprietorship. Private segment is thought to be productive on the grounds that private division works revenue driven expansion as contrast with open part, which center social welfare rather than benefit which is the clash of investment. Interior liberalization are essentially committed own self to privatization of the economy. We are legitimizing the answer why privatization are called fundamental mainstay of assembling development.

Unhindered commerce (outside liberalization) Free trade can be communicated; trade left to its common way without standards, levies, obligations or different hindrances.

Trade liberalization is useful since it permit countries to focus on their center aggressive advantage(s), along these lines boosting monetary yield and quickly wage development for their residents.

There is little vagueness that, ever; trade is a standout amongst the most vital motors of improvement Growth for nations at diverse periods of assembling development and advancement,

not as a result of helping a more productive distribution of assets inside country, additionally by transmitting development starting with one corner of the world then onto the next. Here Question be created can be assembling development conceivable without trade liberalization?

Above talked about two principle parts got to be crucial for assembling development is inward and outer liberalization, our dialog is presume that facilitated commerce upgrade the opposition in the business, build interest of residential products and administrations, improve work and work interest, make opportunities for outside and nearby financial specialists which cause capital creation and last yet not the slightest acquiring remote trade save and enhance equalization of installments circumstance.

The target of this study is to assess hypothetical and exact relationship among private speculation and assembling segment advancement and development and to check the relationship between organized commerce on assembling division development if there should arise an occurrence of Pakistan.

In this study, we will attempt to focus the effect of neo-progressivism on assembling division of Pakistan and the time period looked into reaches from 1973-2012, for this reason Johansen co-joining is utilized.

Review of Literature: Liberalization of trade is one of the urgent variable for improving development and advancement particularly in mechanical part, in light of the fact that trade liberalization is an aftereffect of lessening and evacuation of Tariff Barrier (TB) and Non Tariff Trade Barrier (NTB), the point of reference decades have been seen to a tremendous measure of exploration composed at clarifying the effect of neo-radicalism on improvement and financial development. Its take numerous profits for the creating and created countries, in the same way as high yield proficiency, work and gainfulness.

Dijkstra examine that why we are concern such a great amount with the facilitated commerce on assembling division yield? The firstly scientist assess the hypothetical foundation of organized commerce on genuine yield and other area characterizes the suitable marker for effectiveness. The results demonstrate that facilitated commerce impacts contrastingly on profit in long haul and in the fleeting and long haul impacts is much more critical than the transient impacts. The results likewise show that assembling part's fares are fundamental to raise effectiveness impact¹.

Most economists accepted that free global trade have positive relationship with benefit level furthermore organized commerce created high development rate, especially in creating nations. Iscan explores the extra elements through which unhindered commerce raises the level of gainfulness and development rates. Utilizing Gross yield Function Approach the result of this study brings up that unhindered commerce is sure relationship with

benefit development rate. The results likewise recommend that relationship in the middle of fare and gainfulness development is sure, however measurably they are not continually critical. It is also settled that the relationship between imports of inputs and benefit level of firms is sure².

Das, Free Trade is most vital means for enhance mechanical development; on the grounds that it serves to import substantial settled resources, for example, hardware, modest immediate or indirect-material, low wage payroll and so forth which cause to enhance send out. He additionally demonstrates that the relationship between unhindered commerce and mechanical benefit is sure³.

Topalova study the effects of liberalization of trade India. (1989-2001) is the time compass utilized as a part of this study. Information set of firm level is utilized, which has the information about asset report and pay explanation. Liberalization of trade expand proficiency of Indian firms is the aftereffect of the study. Liberalization of trade does not upgrade the productivity of open area firms is likewise finding out by Topalova in this study⁴.

Muhammad and Abdul, this study said, the liberalization of trade is a key that help monetary improvement and development. Over the long haul, true GDP generally more influence from liberalization of monetary part than the liberalization of trade. There is little uncertainty about the effect of genuine investment rate on financial development so just premium rates are indeterminate to influence advancement and monetary development⁷.

This paper is additionally thought about the effect of trade liberalization and liberalization of monetary area on financial development of Pakistan over the compass 1961-2005. It clarifies the effect of unhindered commerce, budgetary procedure and genuine rate of enthusiasm on true GDP. This study likewise depicts a positive connection between liberalization of trade the short and in addition over the long haul on monetary advancement.

Dutta and Ahmed look at the relationship between liberalization of trade and financial development and advancement. Can Developing nations like Pakistan get profit of liberalization of trade to upgrade the monetary development and advancement is the focal inquiry of this study. Information compass from 1973 to 1995 is utilized to give answer to this inquiry. Endogenous development model is utilized by Authors. Investigating the relationship between modern development and liberalization of trade, Authors discovered long-run relationship between mechanical development and liberalization of trade. The estimation ECM of development capacity of mechanical quality included is secure. Monetary development and advancement upgrade by liberalization of trade creating nations is the aftereffects of study⁶.

As per Musibau Adetunji Babatunde liberalization of trade it can't enhance the parity of trade (BOT) specifically yet at whatever point its works through the expanded access to transported in crude material. On the other hand the other hand liberalization of trade must be back with the administration of compelling conversion scale⁷.

Paul and Yoichi, when one nation tries for trade liberalization, yield climbs if the business is sufficiently extensive. On the off chance that the business is little, so yield diminishes. With the reference of result characterize by the Paul and Yoichi (2012) that trade liberalization enhances modern yield through inside industry reallocation of asset, the experimental writing and the hypothetical writing has taken diverse methodologies⁸.

Muhammad et al used Error Correction Model and Johansen Co-Integration Technique to explore short-run and long-run association among the Manufacturing Sector Output, GFCF, Trade Liberalization and inflation, to estimate effect of Neo-liberalism on economic growth in this study. The data of the variables is taken from 1973-2012. They found that GFCF and Trade Liberalization have a significant and positive effect on Manufacturing Sector Output, but inflation has a significant and negative effect on Manufacturing Sector Output⁹.

Audit of writing reveals that countless scrutinizes supports that the relationship between assembling division development and liberalization of trade is fundamentally positive furthermore between assembling area development and Privatization, however the legislature approaches about trade liberalization and privatization likewise in charge of achievement of above characterize forms.

Methodology

Time arrangement information of picked variables (MANUF, GFCF, GDPDEF and RETIB) is utilized compass from 1973 to 2012. This optional information gathered from HBS (hand book of facts) and the distinctive issues of monetary overviews of Pakistan.

Construction of variables: $MNF_t = \beta_0 + \beta_1 GFCF_t + \beta_2 RTLIB_t + \beta_3 DEF_t + \mu_t$
 MANUF_t = Manufacturing Sector Output.
 RETIB_t = Real Trade Liberalization.
 GDPDEF_t = Inflation.
 GFCF_t = Gross Fixed Capital Formation.

The creation of merchandise for uses or trade utilizing, mechanical, and organic and concoction GDPDEF or preparing with capital and work is called assembling. Fabricating part comprise of distinctive mechanical units, plants or factories that include in assembling. Then again, foundations with the proposition of change assets or matters into new products or items physically or in the homes of specialists and those take part in offering to the basic open items prepared on the same

place as of which they are traded should be incorporated in this area. The new result of an assembling foundation may be finished in the rationale in order to it is readied for utilization or using, or it might be part of the way finished to end up being an information utilized for a foundation captivated as a part of extra assembling.

GFCF is comprise of the value of belonging of new or existing settled resources by the legislatures, business division and families less devaluation of altered resources. On the off chance that GFCF builds capital is accessible to upgrade the yield of assembling part.

The generally upward development of costs of normal products and administrations in an economy, normally as measured by the diverse measure, for example, Consumer Price Index (CPI), GDP (Gross Domestic Product) GDPDEF, and Whole Sale Price Index (WPI). With time, as the costs of products and administrations raise, the value of a coin is going down since an individual won't have the capacity to purchase same measure of merchandise and administrations with that cash as he/she previously could as an aftereffect of that welfare of the individual is going down.

Trade liberalization is a method through which a nation does not recognize against imports or hamper with fares by offering subsidies (to fares) or obligations (to imports) or quantities. Exchanging accomplices acquire common additions from trade liberalization.

Empirical Approaches: The Empirical Approaches of this study Defines below:

Unit root test (URT): In the past a few years a test of stationarity that has end up being broadly acknowledged, is the URT. We at first clear up it then represent it and then esteem a few restrictions of this test. There are various tests of stationarity, however we consider just Augmented Dickey-Fuller (ADF).

The starting point is unit root method
 $Y_t = \rho Y_{t-1} + u_t \quad -1 \leq \rho \leq 1$ (1)

Where is a background noise term as we distinguish, particularly, there is a unit root, (an) end up being an arbitrary walk display excluding draft. Which we recognize is a non stationary stochastic methodology. Thus, why not only relapse on its (one age) slacked quality and finds if the normal is factually up to 1? In the event that yes, is non stationary. This is the regular thought on the once again of the URT.

For theoretical reasons, we move (an) as follow: deduct for the both sides of (a) to get:
 $Y_t - Y_{t-1} = \rho Y_{t-1} - Y_{t-1} + u_t$
 $= (\rho - 1)Y_{t-1} + u_t$ (2)

This can be written as:

$$\Delta Y_{t-1} = \delta Y_{t-1} + u_t \quad (3)$$

Where $\delta = (\rho-1)$ and Δ is the first difference operator.

In practice, therefore, as opposed to approximating (a), we compute (c) and test H0 (invalid theory) with the plan of. In the event that than, we have a unit root issue, significance the time arrangement variable in the perception is non-stationary.

Sooner than we keep on estimating (c), it may be noted that if (c) will end up being

$$\Delta Y = (Y_t - Y_{t-1}) = u_t \quad (4)$$

Since u_t is a white noise disturbance term, it is stationary, which means that the first differences of a random walk time series are stationary.

Dickey-Fuller (DF) test: Fuller and Dickey have that in the H0 that, the approximated value of the coefficient of first lagged Y in (c) pursues the (tau) statistic. They computed the critical values of statistic on the base of Monte Carlo imitation. In the text the statistic is identified as the (DF) test. If the H0 that is not accepted (I.e., the time series data is stationary), we use usually test.

The Augmented Dickey-Fuller (ADF) Test: It was assumed that there is no autocorrelation, but if are correlated, Fuller and Dickey have prepared a test, identified as the augmented Dickey-Fuller (ADF) test. ADF is carrying out by “augmenting” the previous three equations by adding up the lagged values of the dependent variable. The ADF test here consists of approximation the subsequent regression:

$$\Delta Y_{t-1} = \beta_1 + \beta_2 t + \delta Y_t - 1 + \alpha \sum_{i=1}^m \Delta Y_{t-i} + \varepsilon_t \quad (5)$$

Where an unadulterated background is noise term and where and so forth the amount of slacked distinctive terms to include sufficient terms with the goal that blunder term in (e) is serially uncorrelated. DF take after asymptotic appropriation that

whether and the ADF additionally takes after the same, so the some basic qualities can be utilized.

The Error Correction Modal (ECM): When long-run association among assembling segment yield (MANUF), Real trade liberalization (RETIB), expansion (GDPDEF) and Gross Fixed Capital Formation (GFCF) is perceived then it is crucial to discover short-run effect of Real trade liberalization, swelling, Gross Fixed Capital Formation on assembling part yield if there should be an occurrence of Pakistan. In doing thus, we apply ECM. The mathematical statement of ECM is reproduction as takes after:

Where, Ecmt-1 is slacked lapse term α 5 is estimated of slacked unsettling influence term limits the rate of rectification from short-run towards long-run harmony way. Here, we say that differenced of ladies work energy cooperation is clarified by differenced of direct (non-straight) term of (Real) GDP for every capita in addition to slacked blunder term and unsettling influence term.

Estimation and Results: The results of URT are discussed in this section. Selected variables are used in LOG form. The preferred variables must be stationary at level to use OLS. For this intention we used ADF (augmented Dickey-Fuller) test because DF test is support by Autoregressive (1) procedure, while ADF test deems extra lagged terms of the dependent variable in order to get rid of autocorrelation.

The table-1 Defines the result of the ADF URT (with the assumptions of trend and intercept) and all the preferred variables are non-stationary at level; finally the variables become stationery at first difference. Lag length of difference variables show in bracket values, somewhere all the variables except RETIB are integrated at level i.e. is I (0) and RETIB is stationary at first difference or integrated at order one i.e. is I (1), at the very Next phase we used JCT to discover the long-run nexus among the preferred variables. The results of the above mentioned JCTs are reported in table-2:

Table-1
URT (ADF Test)

Variables	Computed value	Critical value 1%	Critical value 5%	Prob
LOG(MANUF) (0)	-5.10	-4.21	-3.52	0.0009*
Δ LOG(MANUF))(1)	-6.02	-4.22	-3.53	0.0001*
LOG(GFCF)(1)	-4.54	-4.21	-3.53	0.0043*
Δ (LOG(GFCF))(0)	-4.14	-4.21	-3.53	0.0120**
LOG(RETIB)(0)	-2.66	-4.21	-3.52	0.2556
Δ (LOG(RETIB))(0)	-5.88	-4.21	-3.53	0.0001*
LOG(GDPDEF)(0)	-3.39	-4.21	-3.52	0.0665**
Δ (LOG(GDPDEF))(1)	-6.63	-4.22	-3.53	0.0000*

Source: Calculated by Authors Note: * = 1% significance level, ** = 5% significance level and *** = 10% significance level.

Table-2
JCT (TS)

Prob	TS	Critical Value 5%	Co-integration Equation(s)
0.0001	70.61	47.85	None *
0.0020	40.52	29.79	At most 1 *
0.1191	12.88	15.47	At most 2
0.2252	1.471	3.84	At most 3

Source: Summarized and Tabulated by Authors * = 5% significance level

Illustration of table-2: JCT: TS shows that all preferred variables are co-integrated and significant at the 5% level and the H_0 is rejected.

Illustration of table-3: JCT: MESV also shows that all preferred variables are co-integrated and significant at the 5% level and the H_0 is rejected.

Table-3
JCT (MESV)

Prob	MESV	Critical Value 5%	Co-integration Equation(s)
0.0233	30.09025	27.58434	None *
0.0053	27.64309	21.13162	At most 1 *
0.1346	11.41389	14.26460	At most 2
0.2252	1.471189	3.841466	At most 3

Source: Summarized and Tabulated by Authors * = 5% significance level.

Outline of table-4: This comparison demonstrates that the MANUF is very influenced with GFCF, RETIB and GDPDEF. There is a positive relationship among GFCF, RETIB and MANUF, these affiliations is solid and critical, then again MANUF react adversely to the GDPDEF, this affiliation is additionally noteworthy at the 5% level and solid.

The outcome of ECM is talked about underneath:

Table-4
Autoregressive Distributed Lag Estimates
ARDL (1,2,0,2) selected based on Akaike Information Criterion

Regressor	Coefficient	Standard Error	T-Ratio	[Prob]
LOGMANUF(-1)	0.72894	0.13036	5.5918	[0.000]
LOGGFCF	0.29694	0.078233	3.7956	[0.001]
LOGGFCF(-1)	-0.50033	0.11001	-4.5481	[0.000]
LOGGFCF(-2)	0.18748	0.068537	2.7354	[0.011]
LOGRETIB	0.05749	0.014846	3.8724	[0.009]
LOGGDPDEF	0.043515	0.013799	3.1536	[0.004]
LOGGDPDEF(-1)	-0.048645	0.013717	-3.5463	[0.001]
LOGGDPDEF(-2)	0.046459	0.01375	3.3788	[0.002]
C	2.7529	1.2611	2.1829	[0.037]
TREND	0.041115	0.018935	2.1714	[0.038]
DW-statistic 2.5679 F-stat F(9, 29) 11097 [0.000]				
R-Squared 0.99971 R-Bar-Squared 0.99962				

Source: Summarized and Tabulated by Authors

Table-5
Error Correction Model

Regressor	Coefficient	Standard Error	T-Ratio	[Prob]
dGFCF	0.29694	0.078233	3.7956	[0.001]
dGFCF1	-0.18748	0.068537	-2.7354	[0.010]
dRETIB	0.05749	0.014846	3.87242	[0.009]
dGDPDEF	0.043515	0.013799	3.1536	[0.004]
dGDPDEF1	-0.046459	0.01375	-3.3788	[0.002]
dCONS	2.7529	1.2611	2.1829	[0.037]
dTREND	0.041115	0.018935	2.1714	[0.038]
ecm(-1)	-0.27106	0.13036	-2.0793	[0.046]
DW-statistic 2.5679 F-stat. F(7, 31) 8.7248 [0.000]				
R-Squared 0.67804 R-Bar-Squared 0.57812				

Source: Summarized and Tabulated by Authors

Outline of Table No 5: Short-run motion clarify that the ECM-1 is zero on the premise of t-quality and likelihood, advising that MANUF modified to modification in free variables in the comparative time period.

Conclusion

The proposition of this study is to look at the impacts of Neo-liberalization over assembling area yield of Pakistan. To achieve this target, econometric models of MANUF, GFCF, RETIB and GDPDEF are assessed utilizing co-reconciliation strategy for examination. The result of this study represents to there is noteworthy and positive relationship among MANUF, GFCF and RETIB, and there is critical and negative relationship in the middle of MANUF and GDPDEF. These discoveries propose that increment in liberalization of trade prompts increment in assembling part yield, in Pakistan.

In Pakistan, the methodology of liberalization of trade should be more progressive to get the favorable circumstances of trade liberalization as increment in livelihood, yield and proficiency in assembling segment. The liberalization must run with supply side help especially to enlarge the local private area. Likewise, in executing liberalization of trade, there is requirement for government to acknowledge and precede cautious security encompassed by the WTO Agreements.

Further arrangement suggestions are given beneath:

Policy Recommendation: i. The evacuations of TB and NTB will prompt raise fare of household fabricated merchandise. Liberalization of trade is one of the essential component for upgrading monetary advancement and development. ii. •both creating and created countries can accomplish high yield gainfulness, proficiency and work, because of liberalization of trade we can take numerous profits from importing new engineering and hardware, which heads nation to improvement and development, the opposition among countries in global market because of liberalization of trade which useful for the shoppers. iii. liberalization of trade additionally supports private segment venture in light of the fact that because of low levy rates created nations will craving to put resources into non-created nations, which brought about in high livelihood and yield in those non-created nations. iv. There is high security rate that appreciated by industry in Pakistan is most essential obstacle in the method for trade liberalization. v. Privatization is a huge monetary change arrangement device for upgrading development and to lessen inefficiencies in organization by

uprooting TB, NTB and open economy for rivalry. vi. It is demonstrated that the private segment firms are much more productive, powerful and gainful than nationalized firms. Private division venture has bigger impacts on the grounds that it lessens unemployment, advances financial development, improvement and enhances standard of livings. vii. Liberalization of trade expand request in outside nations markets for locally created items and makes opportunity for human assets by creating new higher pay

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