

EXPORT GROWTH OF TEXTILES AND ECONOMIC DEVELOPMENT IN PAKISTAN AND INDIA; A COMPARATIVE STUDY

1) ANUM AKMAL

Lahore Business School, University of Lahore, Pakistan

2) QASIM SALEEM

Lahore Business School, University of Lahore, Pakistan

ABSTRACT

This paper investigates the difference between export of textile of Pakistan and India. Export growth is a source of economic development, especially for third world countries. Data of export of textile of India and Pakistan is taken, (from FY2001 to FY2007). Paired t-test is applied to check the significant difference between exports of two countries. Result shows that export of India is greater than Pakistan which leads to increase in its economic development.

INTRODUCTION:

The textile and apparel sector continues to be the driving force for economic growth in both India and Pakistan. The textile and apparel sector in these countries accounts for a significant portion of traded goods, contributing 18.8 percent in India and 65.6 percent in Pakistan, of the total value of exports in FY04. Both these countries are highly dependent on the sector for creation of employment opportunities and export earnings. In both India and Pakistan, the textile and apparel sectors exhibit different degrees of specialization. While firms in Pakistan are specialized in cotton textile intermediate goods (yarn and grey fabric), as well as towels and bed linen, firms in India have developed a highly complex sector covering the entire value and production chain from fiber production to garment manufacture and packaging. Firms in these two countries generally are not vertically integrated, and are, for the most part, independent, privately owned small and medium sized firms. An important source of cost reduction and efficiency improvement in many countries is the use of imported intermediates that are of better quality than domestic substitutes, or at least better suited to the needs of the domestic industry. Pakistan's apparel sector has moved a long way from its traditional pattern of reliance on domestic inputs towards international sourcing of intermediate inputs. To participate in the fully-globalized market for textiles and clothing that will emerge after the abolition of the quotas, it seems likely that Pakistan would need a greater degree of international sourcing of textile inputs. Comparing the age of capital stock between the textile industries in both India and Pakistan, World Bank in a policy note published in April 2004 observed that the median age of the capital stock in the Indian textile sector was about the same as in Pakistan, at 11 years. An analysis of trade data reveals that India exported 1,702 textile products to the rest of the world during FY04 compared to only 633 products exported by Pakistan. The comparison of exports of both Pakistan and India identifies 176 common items which have comparable unit values. Out of these 176 items, India has a price advantage, i.e. lower realized export unit value in 48 textile products while Pakistan has price advantage in 128 textile products. Since other factors like quality, production and design of products, etc., are also important. Export-led growth is important for mainly two reasons. The first is that export-led growth can create profit, allowing a country to balance their finances, as well as surpass their debts as long as the facilities and materials for the export exist. The second, much more debatable reason is that increased export growth can trigger greater productivity.

OBJECTIVE:

Textile sector plays an important role in both Pakistan and India, as it is a source of increase in economic development with the increase in export. The main objective of this study is to know about the difference between contribution of textile export in economic development of Pakistan and India. As Pakistan and India both are labor intensive countries, increase in textile production can lead to increase in employment and GDP of the country. Textile products are one of the basic necessities; its production on large scale can be a blessing for the economy of developing country.

KEYWORDS: export growth, economic development

LITERATURE REVIEW:

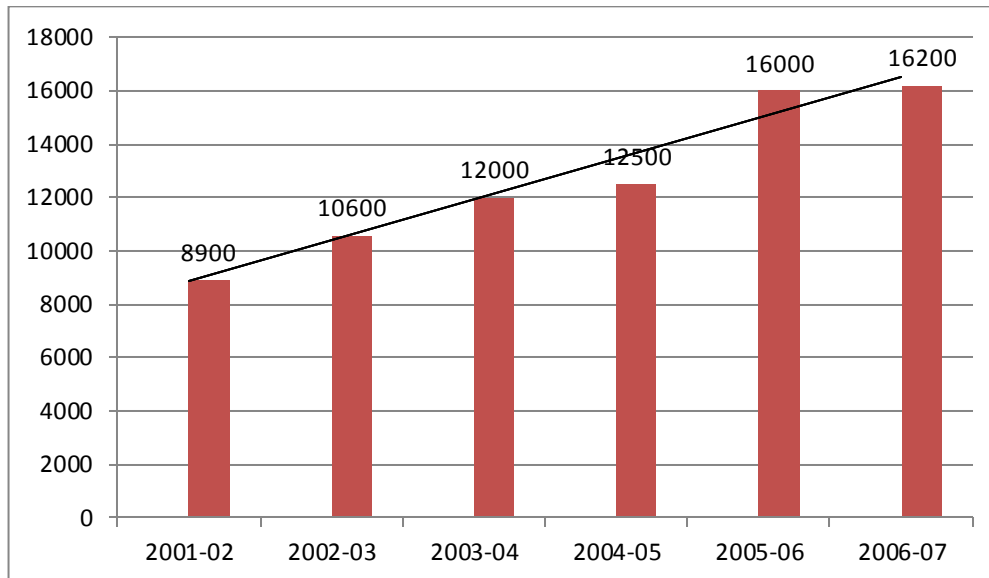
Roll and Tallbott (2001) found that “Once a developing country government establishes the rules to affair game and ensures their enforcement, it would be well advised to stand back and enjoy the self generating growth”. During the last 15 years it has become very important to govern strongly and bring innovations in every country. Michaely (1977), Balassa (1978) and Tyler (1981) among others, uses cross-section data of different countries for finding the relationship between export growth and economic development. Michaely (1977) uses the spearman’s rank correlation to detect the relationship between export growth and economic development based on a cross-section data of 41 less developed countries. According to this study, there is a positive relationship between export growth and economic development only when country is achieving some minimum level of economic development. Balassa (1978) argues that, in an inter-country context, the correlation between export growth and economic growth may also effects on increase in export with the changes in income and cost. The study develops several measures of exports and income to explore the relationship between export expansion and economic development in a sample of 11 developing countries having a substantial industrial base. The result shows positive relationship between export growth and economic growth. Nandi (1991) applies the Granger Causality Tests to examine the export-led growth hypothesis for India for the period 1960–1985, and finds evidence of unidirectional causality from export growth to economic growth. Based on a longer data set (1950–1993), Bhat (1995) re-examines the export economic growth nexus for India by utilizing the error-correction modeling approach, and finds evidence of bi-directional causality between export growth and economic growth. Using the same methodology, Ghatak and Price (1997) conclude that export growth is Granger-caused by output growth in India. It is noteworthy that these results are in sharp contrast to Xu (1996), who obtains rejection of the export-led growth hypothesis for India for the period 1960–1990. Khan, (1995) have found strong evidence of bi-directional causality between export growth and economic growth for Pakistan. Anwar and Sampath (2000) examine the export led growth hypothesis for 97 countries (including India, Pakistan and Sri Lanka) for the period 1960–1992 using co integration and Granger causality tests. They have found the evidence of unidirectional causality in the case of Pakistan and Sri Lanka, and no causality in the case of India. This is in contrast to Kemal,(2002), who has found a positive association between exports and economic growth for India as well as for other economies of South Asia. Evenson (1995) and Westphal (1981) examined that economic development depends upon innovations, successful adoption of foreign technology. Since technologies promote new ways of raw material control, introduce new production methods, which bring new changes in the production process, production scheduling, repairing and maintenance, and quality control.

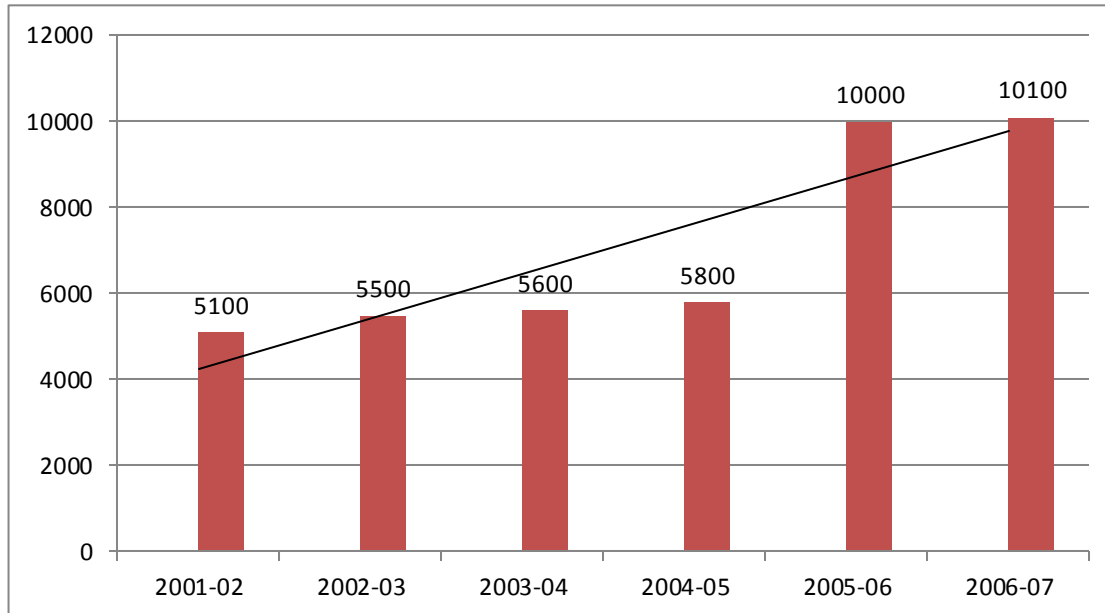
METHODOLOGY AND DATA:

The present study was conducted to know the difference between export of textile of Pakistan and India and. The data is collected from reserve bank of India and fiber2fashion.com. Paired t-test (assuming equal variance) is conducted to find out the difference between export of Pakistan and India.

Export of textile of India and Pakistan.

Financial year	India	Pakistan
2001-02	8900	5100
2002-03	10600	5500
2003-04	12000	5600
2004-05	12500	5800
2005-06	16000	10000
2006-07	16200	10100





Hypothesis:

H_0 : There is no significant difference between export of Pakistan and India.

Result:

By conducting paired t-test on excel it is clear that export of India is greater than Pakistan, because mean of textile export of India is 12700 and of Pakistan is 7016.67. T-critical= 2.23 and t stat = 3.71, which is greater than t-critical, conclude that we reject H_0 .

Reasons:

There are lots of reasons which results in declining export of Pakistan. Some are as follow:

- Pakistan has low quality of cotton because it is lack of R&D programs.
- Due to increase in inflation, interest rate and depreciation of Pakistani rupee the cost of production is increasing.
- Global recession is also a major reason.
- Electricity and gas crisis also increasing the cost of production.
- Tariff on electricity and removal subsidy causing major loss.
- As Pakistan has low quality machinery, there is a need of new investment to increase the production and export.
- Internal conditions of Pakistan are getting worse day by day due to which FDI is decreasing that affects a lot to textile sector.

All these reasons are decreasing the export of textile as well as employment level of Pakistan.

RECOMMENDATIONS:

There are some suggestions to bring improvement in textile sector of Pakistan.

- Need to introduce R&D programs.
- There should be awareness about new technologies.

- Remove the tariff on electricity and give subsidy.
- Inflation and interest rate should be decreased.
- Introduce the special training programs to increase the production.
- Immediate steps should be taken to attract FDI.

REFERENCES

- Balassa, B., 1978. "Exports and Economic Growth: Further Evidence", Journal of Development Economics, Vol. 5 (2).
- Bhat, Sham K., 1995. "Export and economic growth in India", Artha Vijana, Volume 37.
- Ibrahim, I., 2002. "On Exports and Economic Growth", Journal Pengurusan, Vol. 21.
- Michaely (1977); Balassa (1978) and Tyler (1981), among others, uses cross-section data of different countries to find out the relationship between export growth and economic development.
- Bhat (1995) examines the export economic growth nexus for India by utilizing the error-correction modeling approach.
- Khan, (1995) have found strong evidence of bi-directional causality between export growth and economic growth for Pakistan.
- Anwar and Sampath (2000) examine the export led growth
- Kemal, (2002), who has found a positive association between exports and economic growth.
- All Pakistan Textile Mills Association (APTMA).
- Jordaan, A. C. and J. H. Eita, 2007. "Export and Economic Growth in Namibia: A Granger Causality Analysis", South African Journal of Economics, Vol 75:3.
- Ibrahim, I., 2002. "On Exports and Economic Growth", Journal Pengurusan, Vol. 21.

t-Test: Two-Sample Assuming Equal Variances

	Variable 1	Variable 2
Mean	12700	7016.666667
Variance	8504000	5573666.667
Observations	6	6
Pooled Variance	7038833.333	
Hypothesized Mean Difference	0	
df	10	
t Stat	3.710337493	
P(T<=t) one-tail	0.002019533	
t Critical one-tail	1.812461102	
P(T<=t) two-tail	0.004039065	
t Critical two-tail	2.228138842	