Impact of Exports Subsidies on Exports of Pakistan

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&
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Introduction/Objectives

- Exports Promotion
- Exports Subsidies
- EFS: 1974
- Rebate/Refunds
- Long run and Short run impact of both exports subsidies
Data

- Annual Data
- 1974 – 2005

Source:
- SBP Annual Report
- Handbook of Statistics on Pakistan’s Economy 2005
- CBR Annual Yearbook
- Economic Survey
Exports and Exports Financing

Exports as percentage of GDP

Exports Financing as percentage of GDP

Exports as percentage of GDP

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Exports as percentage of GDP
Exports and Rebate/Refunds

Exports as percentage of GDP

Rebates/Refunds as percentage of GDP
## Correlation of Exports as percentage of GDP with Exports Subsidies

<table>
<thead>
<tr>
<th>Level</th>
<th>Exports Financing % of GDP</th>
<th>Rebates/Refunds % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level</td>
<td>0.316</td>
<td>0.528</td>
</tr>
<tr>
<td>1</td>
<td>0.315</td>
<td>0.659</td>
</tr>
<tr>
<td>2</td>
<td>0.309</td>
<td>0.717</td>
</tr>
<tr>
<td>3</td>
<td>0.319</td>
<td>0.790</td>
</tr>
<tr>
<td>4</td>
<td>0.282</td>
<td>0.863</td>
</tr>
<tr>
<td>5</td>
<td>0.292</td>
<td>0.896</td>
</tr>
</tbody>
</table>
Methodology

- Stationarity Tests
  - ADF
  - PP
- Single equation ARDL Approach of Cointegration for long run analysis
- Vector Error Correction Model for short run dynamics
Results

- Variables are integrated of order one
- Linear combination is integrated of order zero
- Long run relationship exists among the variables
# Normalized Cointegrating Vectors

<table>
<thead>
<tr>
<th>Variables</th>
<th>t-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>LXY(-1)</td>
<td>1.00</td>
</tr>
<tr>
<td>LR(-1)</td>
<td>0.30</td>
</tr>
<tr>
<td>LYUSA(-1)</td>
<td>-1.74</td>
</tr>
<tr>
<td>LXFX(-1)</td>
<td>0.16</td>
</tr>
<tr>
<td>LDDDX(-1)</td>
<td>-0.10</td>
</tr>
</tbody>
</table>
## Vector Error Correction

<table>
<thead>
<tr>
<th>Variables</th>
<th>Coefficient</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.045</td>
<td>-1.22</td>
<td>0.24</td>
</tr>
<tr>
<td>Error Term$_{t-1}$</td>
<td>1.000</td>
<td>3.85*</td>
<td>0.00</td>
</tr>
<tr>
<td>D(LXY(-1))</td>
<td>0.103</td>
<td>0.76</td>
<td>0.46</td>
</tr>
<tr>
<td>D(LXY(-2))</td>
<td>-0.153</td>
<td>-1.33</td>
<td>0.20</td>
</tr>
<tr>
<td>D(LR(-1))</td>
<td>0.118</td>
<td>0.61</td>
<td>0.55</td>
</tr>
<tr>
<td>D(LR(-2))</td>
<td>-0.277</td>
<td>-1.46</td>
<td>0.16</td>
</tr>
<tr>
<td>D(LYUSA(-1))</td>
<td>-1.681</td>
<td>-2.24**</td>
<td>0.04</td>
</tr>
<tr>
<td>D(LYUSA(-2))</td>
<td>4.198</td>
<td>5.65*</td>
<td>0.00</td>
</tr>
<tr>
<td>D(LXY(-1))</td>
<td>-0.048</td>
<td>-0.88</td>
<td>0.39</td>
</tr>
<tr>
<td>D(LXY(-2))</td>
<td>-0.025</td>
<td>-0.60</td>
<td>0.56</td>
</tr>
<tr>
<td>D(LDDY(-1))</td>
<td>0.117</td>
<td>2.03***</td>
<td>0.06</td>
</tr>
<tr>
<td>D(LDDY(-2))</td>
<td>0.010</td>
<td>0.20</td>
<td>0.84</td>
</tr>
</tbody>
</table>
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</tr>
<tr>
<td>LR(-1)</td>
<td>0.25</td>
</tr>
<tr>
<td>LYUSA(-1)</td>
<td>-1.95</td>
</tr>
<tr>
<td>LXFX(-1)</td>
<td>0.04</td>
</tr>
<tr>
<td>LXFX(-1)*dummy</td>
<td>0.07</td>
</tr>
<tr>
<td>LDDX(-1)</td>
<td>-0.01</td>
</tr>
</tbody>
</table>
## Vector Error Correction

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<th>Variable</th>
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<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>-0.097</td>
<td>-1.76***</td>
<td>0.10</td>
</tr>
<tr>
<td>Error Term(_{t-1})</td>
<td>1.000</td>
<td>2.55**</td>
<td>0.02</td>
</tr>
<tr>
<td>D(LXY(-1))</td>
<td>0.026</td>
<td>0.16</td>
<td>0.88</td>
</tr>
<tr>
<td>D(LR(-1))</td>
<td>0.308</td>
<td>1.24</td>
<td>0.23</td>
</tr>
<tr>
<td>D(LYUSA(-1))</td>
<td>-1.410</td>
<td>-1.61</td>
<td>0.13</td>
</tr>
<tr>
<td>D(LXFY(-1))</td>
<td>-0.269</td>
<td>-1.80***</td>
<td>0.09</td>
</tr>
<tr>
<td>D(LXFY(-1))* dummy</td>
<td>0.259</td>
<td>1.60</td>
<td>0.13</td>
</tr>
<tr>
<td>D(LDDY(-1))</td>
<td>0.173</td>
<td>2.31**</td>
<td>0.04</td>
</tr>
<tr>
<td>D(LXY(-2))</td>
<td>-0.100</td>
<td>-0.74</td>
<td>0.47</td>
</tr>
<tr>
<td>D(LR(-2))</td>
<td>-0.169</td>
<td>-0.74</td>
<td>0.47</td>
</tr>
<tr>
<td>D(LYUSA(-2))</td>
<td>4.433</td>
<td>4.97*</td>
<td>0.00</td>
</tr>
<tr>
<td>D(LXFY(-2))</td>
<td>-0.171</td>
<td>-1.14</td>
<td>0.27</td>
</tr>
<tr>
<td>D(LXFY(-2))*dummy</td>
<td>0.177</td>
<td>1.05</td>
<td>0.31</td>
</tr>
<tr>
<td>D(LDDY(-2))</td>
<td>-0.006</td>
<td>-0.09</td>
<td>0.93</td>
</tr>
</tbody>
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Conclusions

- **EFS**
  - Negative in the long run
  - Insignificant in the short run

- **Rebate/Refunds**
  - Positively but insignificantly in the long run
  - Positive and significant in the short run

- **Exports financing** “at least” should be abolished and use that money in some productive manner
Conclusions

Our exchange rate is overvalued which is creating problems for the exporters. Moreover, it is one of the main reasons that we are having huge trade deficits this year. The exchange rate is allowed to move freely with the changes in exports and imports of the country so that there is no need to make such policies where government needs to subsidize from their own funds.