

Impact of Exports Subsidies on Exports of Pakistan

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Introduction/Objectives

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

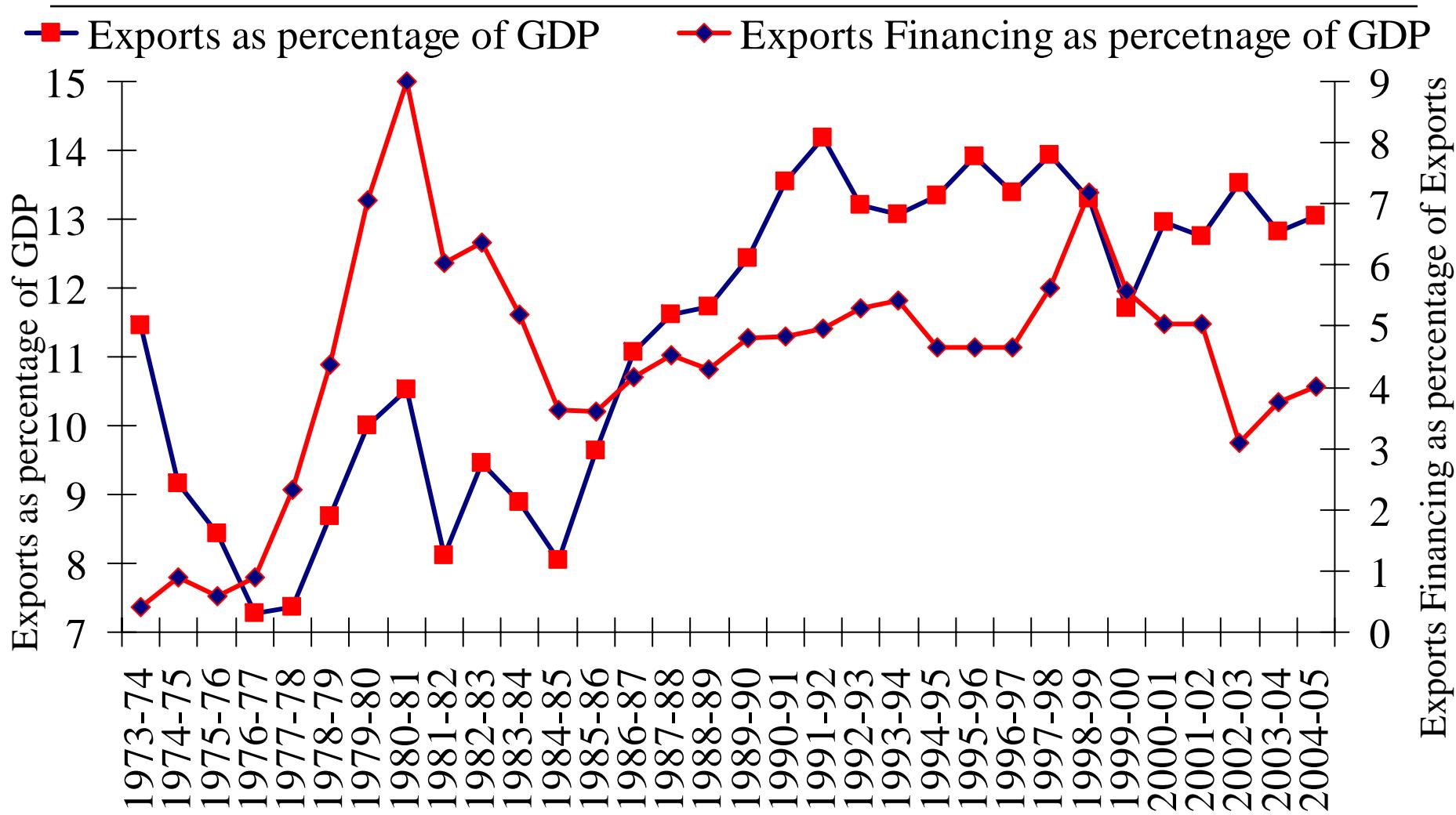


Data

- Annual Data
- 1974 – 2005
- Source:
 - SBP Annual Report
 - Handbook of Statistics on Pakistan's Economy
2005
 - CBR Annual Yearbook
 - Economic Survey

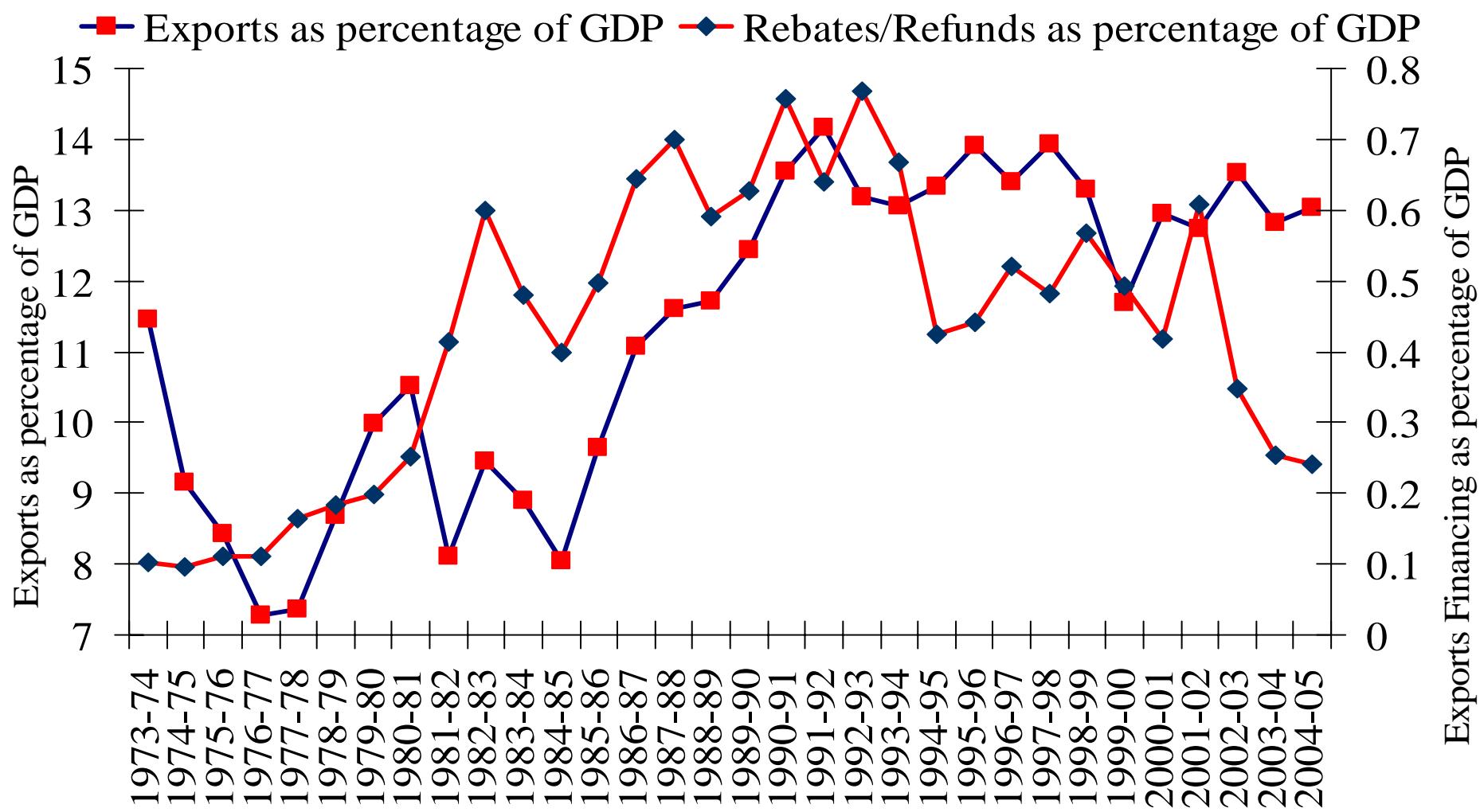


Exports and Exports Financing





Exports and Rebate/Refunds



Correlation of Exports as percentage of GDP with Exports Subsidies

	Exports Financing % of GDP	Rebates/Refunds % of GDP
Level	0.316	0.528
1	0.315	0.659
2	0.309	0.717
3	0.319	0.790
4	0.282	0.863
5	0.292	0.896

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

	Variables	t-values
LXY(-1)	1.00	
LR(-1)	0.30	0.95
LYUSA(-1)	-1.74	-1.31
LXFX(-1)	0.16	2.93
LDDX(-1)	-0.10	-0.70

Vector Error Correction

Variables	Coefficient	t-Statistic	Prob.
C	-0.045	-1.22	0.24
Error Term _{t-1}	1.000	3.85*	0.00
D(LXY(-1))	0.103	0.76	0.46
D(LXY(-2))	-0.153	-1.33	0.20
D(LR(-1))	0.118	0.61	0.55
D(LR(-2))	-0.277	-1.46	0.16
D(LYUSA(-1))	-1.681	-2.24**	0.04
D(LYUSA(-2))	4.198	5.65*	0.00
D(LXFY(-1))	-0.048	-0.88	0.39
D(LXFY(-2))	-0.025	-0.60	0.56
D(LDDY(-1))	0.117	2.03***	0.06
D(LDDY(-2))	0.010	0.20	0.84

Normalized Cointegrating Vectors

	Variables	t-values
LXY(-1)	1.00	
LR(-1)	0.25	1.17
LYUSA(-1)	-1.95	-2.09***
LXFX(-1)	0.04	0.75
LXFX(-1)*dummy	0.07	2.48**
LDDX(-1)	-0.01	0.09

Vector Error Correction

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



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