Determinants of Economic Growth Trends in Pakistan

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Abstract

Purpose: The paper focuses on the determinants of economic growth in Pakistan.

Methodology: For this purpose the composition of GDP is considered, and the analysis on three major variables is done on the basis of the data of last five years. The independent variables were exports, imports and government expenditure while dependent variable was GDP.

Findings: There was a high significance result was found between government expenditure and GDP while the effect of exports and imports was less significant. This might be in contrast with the past researches due to the availability and analysis of limited span of time.

Keywords: Economic growth, GDP, Imports, Exports, Government Expenditure, Pakistan.

1. Introduction

The quantity of natural resources in the developing countries is relatively higher than other areas of the world. Pakistan is among these countries that have all kind natural resources but still backward and its economic growth is relatively low. These factors effect directly and indirectly to the socio-economic condition of the countries and therefore the growth rates of developed and developing countries are different as the utilization of the resources is different.

Hence in this study we have identified the impact of exports, imports and government expenditure on the economic growth of Pakistan. The core purpose of this research is to confirm the significance of exports in the development of economy of a country and to examine empirically the effect of imports on GDP. For this purpose data of 5 years (from 2008 to 2012) obtained from the national bureau of statistics Pakistan. Past researchers have found the impact of exports very significant on the economic growth and prosperity. The other independent variables are government, expenditure and imports.

2. Literature Review

A huge variety of research examined the Export-Led-Growth (ELG) speculation with the help of different econometric and statistical techniques but past scientific research have created combined and inconsistent results about the characteristics and route of the causal connection between export growth and outcome growth. Hillman &Grossman in 1991 suggest that open trade routines helps in importing better technological innovation and also outcome in an enhanced financial commitment environment. Similarly Jing and Marshal in 1983 present the second speculation that in a growing economic system, a procedure of technical change and learning occurs, which is not related to any particular government trade marketing actions. This can be caused by human financial commitment build up, collective effective procedure, transfer of technology via direct financial commitment or physical financial commitment build up. This enhanced development may take position despite any government particular trade marketing actions. Due to the enhanced development, the household market may not serve the enhanced production of goods, and exporters have to look external to sell their

products. The intended speculation here is that enhanced development leads to trade development. This causal relationship may not actually be positive; it may be negative as enhanced outcome development may outcome in a loss of trade development. Giles and Williams (2000a, 2000b) offered an outstanding literary works evaluation of the ELG speculation until the delayed 90's. Moreover to this comprehensive research, it can be mentioned that the literary works on the ELG speculation had been regularly growing with more latest reports (Darrat et al. 2000). Moreover, Mamun and Nath (2005) analyzed time sequence proof to examine the relationship between growth and exports increase Bangladesh. Using every quarter information for interval from 1976 to 2003, the content discovered that commercial manufacturing and exports are co incorporated. The outcomes of a mistake modification design (ECM) recommended that there is a long-run unidirectional causality from exports to increase Bangladesh. Really like and Chandra (2005) used yearly information on GDP, export and transfer in a multivariate structure to examine export-led growth speculation for Bangladesh and determine in assistance of brief and long-run unidirectional causality from earnings to exports. Clarke and Ralhan (2005) discovered assistance in assistance of causal nexus between export and growth for Bangladesh using yearly information from 1960 to 2003. They recommended that when causality is regarded over a moment skyline, additional factors recommend causal nexus between export and GDP.

As far as the government expenditure is concerned the effect of various categories of public expenses, Landau (1983), using data for creating nations over 1960-80, analyzed the relationship between the amount of development of real per household GDP and the share of government expenses in GDP. He discovered that government consumption expenses have side results on the development of per household outcome, while the other types of government expenses have little effect on outcome development. Baum and Lin (1993) also analyzed the effect of three different types of government expenses, i.e., protection, well being, and knowledge, on the amount of development of per household GDP using cross-section data from developed and creating nations over 1975-85. They discovered that the amount of development to train and learning and protection expenses has beneficial results on amount of development, while the development of well being expenses has an insignificant negative effect on financial development. Deverajan et al. (1993), using a sample of 14 OECD nations, discovered that government expenses on health care, transportation, and communication has beneficial results on financial development,while expenses on knowledge and protection fail to produce such a beneficial effect. Albala, Bertrand, and Mamatzakis (2001) tested the effects of facilities investment on long-run financial development rates in South Africa and Chile and discovered beneficial development effects of "productive" government expenses on facilities. Using a similar methodology, M'Amanja and Morrissey (2005) analyzed the Kenyan case for 1964-2002, reaching the same conclusion.

3. Data Definition

The GDP is the quantity of commodities and service that are being produced in one year within a country. It is measured in terms of the market value of all products and services. GDP can be measured by different approaches. In this research we have focused on the

expenditure approach of calculating the GDP. And its formula is

$$Y = C + I + G + (X - M)$$

C (consumption): this is the biggest elementof GDP in the economy.

I (investment): it includes the investment in the equipment, e.g construction of new bridge, buying new machinery for factory.

G (government expenditure):it is the entire quantity of government. expenditure on final services and goods. It includes the salaries, purchase of military weapons and any expenditure made by the government. It does not include any transfer payments, e.g. unemployment benefits or social security.

X (exports) it means all the exports all the gross exports. GDP calculate the amount that is produced so exports are produced in the country therefore are added up.

M (imports) shows gross imports.

4. Variables

According to above discussion six variables effect GDP, here we have taken three of them to determine their impact on GDP. There is one dependent variable, GDP; and three independent variables, imports, exports and Government Expenditure. GDP is Gross Domestic Product and we measure economic growth through GDP. The research model is as follows:
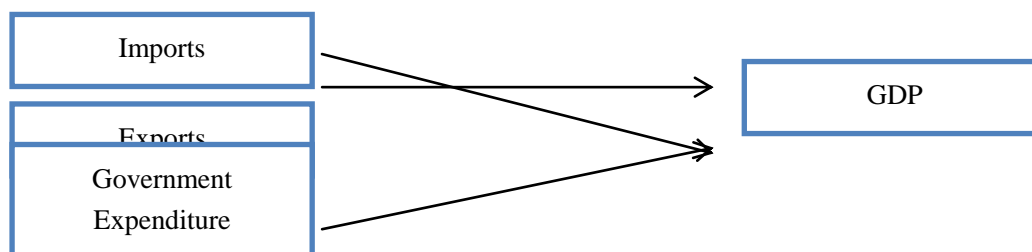
5. Quality of Data

The data used for this study is a secondary data and the quality is up to the mark. No value or element is missing and the data source as mentioned above is Pakistan Bureau of Statistics.

Years	Exports	Imports	Government. Expenditure	GDP
2008	1,196,638	2,512,072	8,911,894	8,759,778
2009	1,383,718	2,723,570	9,209,410	9,007,825
2010	1,617,458	2,910,975	9,463,047	9,152,553

| 2011 | 2,120,847 | 3,455,286 | 9,780,265 | 9,407,537 |
| 2012 | 2,110,605 | 4,009,093 | 10,171,894 | 9,785,335 |

Source: Pakistan Bureau of Statistics

6. Methodology

The paper explores the relationship between imports, exports and Government Expenditure on GDP. We have collected a five year data of Pakistan economy from 2008 to 2012 and performed its regression and correlation analysis.

7. Results & Analysis

The following simple linear regression is as follows:

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1633.071	357.631		4.566	.020
	Expenditure	.798	.038	.997	21.243	.000
a. Dependent Variable: GDP						

Excluded Variables[b]						
Model		Beta In	t	Sig.	Partial Correlation	Collinearity Statistics
						Tolerance
1	Exports	-.188[a]	-1.355	.308	-.692	.090
	Imports	.038[a]	.741	.536	.464	.998
a. Predictors in the Model: (Constant), Expenditure						
b. Dependent Variable: GDP						

Correlations		Exports	Imports	Expenditure
Exports	Pearson Correlation	1	-.129	.954*
	Sig. (2-tailed)		.837	.012
	N	5	5	5
Imports	Pearson Correlation	-.129	1	-.046
	Sig. (2-tailed)	.837		.942
	N	5	5	5
Expenditure	Pearson Correlation	.954*	-.046	1
	Sig. (2-tailed)	.012	.942	
	N	5	5	5
*. Correlation is significant at the 0.05 level (2-tailed).				

The impact of Government expenditure is highly significant with GDP according to our data. The result shows that the Government. Expenditure has positive effect on GDP (p=.000) and (β=.997). This means that a little change in expenditure also affects the GDP significantly.

Meanwhile imports (p=0.536) and exports (p=0.308) show a low significant impact on GDP. The export is comparatively better significance level than import. The correlation between these variables (exports, imports, expenditure) shows that import and export has negatively correlated and expenditure with export is positive correlated but negative with imports.

8. Conclusion

This research has examined the factors of economic growth from 2008-2012 in the case of Pakistan. The amount of development of GDP has been used as reliant varying as the associate of economic development. The impact of imports and exports were less on GDP as compared to the government expenditure. This reveals that on regular Pakistan should take some measures to make expenditures on the development of the economy and in those sectors that have potential for the future growth. Although this research has involved many important factors in the research on the reasons for theoretical narrations, yet later on research it would be useful to consist of some other factors in the research as well e.g. technological change and human resource development, FDI, consumption patterns, etc.

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