

Globalization And Economic Growth Nexus: Evidence From Pakistan

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Abstract

The study highlights the impact of globalization on the economic growth of Pakistan. The study uses measures of globalization alongside other macroeconomic variables. It follows its effect on economic growth using advanced econometric techniques of (ARDL) cointegration approach using annual data from 1971 to 2021. The cointegration results indicated that GDP growth is cointegrated with Gross fixed capital formation, Education expenditure, Health expenditure, Development expenditure, and Trade openness which means there is a long-run relationship between GDP growth and trade openness along with other control variables. ARDL model results revealed a positive impact of gross fixed capital formation and education expenditure on economic growth in the long run. In contrast, health expenditure, development expenditure, and trade openness have a negative but significant impact on the economic growth of Pakistan.

Keywords: Globalization, Macroeconomic variables, ARDL Technique & Economic Growth.

1. Introduction

Globalization is a new phenomenon which carries many meanings and concepts. This word has a variety of social, political, and economic uses. This term was first coined in the 1980s and is used in political economy most of the time. Globalization is the process of international integration arising from exchanging world views, products, ideas and cultures (Ali, 2012). It refers to the expansion and intensification of global linkages, the organization of social life on a global consciousness leading to the consolidation of world society. It is increased interdependency. Interdependency is one aspect of it. Globalization is the process of going up and down. Globalization started when first people started to interact.

The economic aspect of globalization comprises long-distance flows of goods, services, capital, and information and perceptions that exchange within the global market. It also involves the organization of processes that are linked to these flows. Some economists argue that globalization is important to take poverty out of the system, and developments in poor regions are dependent on poverty reduction (Mandle, 2003). On the other hand, some economists argue that today's situation of the markets of the regions and poor governance can lead nations to war (Streeten, 1998). Between 1870 and 1914, the world was a single place dominated primarily by the British Empire. The government rules were given in a specific framework. Over time, more complex systems emerged. Economies grew bigger, and challenges were created simultaneously, like unemployment and inflation. According to Afzal (2007), using different tools like monetary policy was a step toward economic integration. Globalization can remove poverty, and it can help the developing countries to flourish their economies and social statuses directly or indirectly through economic integration Todaro and Smith (2003). It can improve the social, technological, scientific and cultural basis. India and China have taken full advantage of globalization. They boosted their economic position through globalization and removed their global inequalities. Dollar and Kraay (2004) have studied the impact of globalization on lower-income economies. They suggest that the economies are better off by globalization. The trading has increased, the processes have improved, and similarly, the tariffs are reduced due to globalization. Even though poverty is still persistent in numerous developing nations, especially in Sub-Saharan Africa and South Asian nations, other developed and developing, nations have accomplished a critical decrease in poverty. This has been made achievable by the globalization of the economies. The evidence and literature show that the share of the population in poverty has declined for developing nations in general from 28.3 percent in 1987 to 24 percent in 1998, taking into account \$1 per day and from 61 percent in 1987 to 56 percent in 1998 taking into account \$2 per day. Crowded nations like India and Indonesia have accomplished a critical decline in the rate of poverty. In India, it dropped from 57 percent in 1973 to around 35 percent in 1998 and from 60 percent to 20 percent somewhere around 1985 and 1998 in Indonesia [Pakistan (2004-05)]. An increase in financial development and a decrease in poverty and disparity are not commonly clashing outcomes. The literature demonstrates that development and poverty decrease are not inconsistent (Clarke, 1995, & World Bank Report, 1990).

There are negative aspects of this phenomenon too. Globalization might worsen the inequalities both crosswise and inside the economies. Streeten (1998) argues that financial liberalization, innovative changes, and rivalry in both work and item advertisements have added to the monetary decline. He further adds that globalization has been awful for Africa and numerous parts of the world for livelihood. International competition has constrained governments and firms to "cut back" and receive every fundamental pace to spare work costs. The effects are not from the across-the-board availability of electronic media; they are rather from the individuals who other economies' social values have influenced. Ethnic or social interests have isolated the social orders (Afzal, 2007). The main point is that today's globalization is just externally not quite the same as the old imperialism. Exchange liberalization is a key to globalization. The study's primary objective is to evaluate the impact of globalization on the economic growth of Pakistan. The other objective of the study is to find the impact of government expenditure,

health expenditure, education expenditure, and gross fixed capital formation on the economic growth of Pakistan. This will help the policymakers invest in the areas that positively impact the country's economic growth.

2. Literature review:

Attari and Javed (2013) have explored the impact of the inflation rate, economic growth and government expenditure. Government expenditure was split up into the government's current and development expenditures. Time series analysis was done from the period 1980-to 2010. Augmented Dickey-Fuller test, ARDL test, Johansen Co-integration and Granger causality tests were used to analyze the relationships among the variables. The results showed a long-term relationship between the rate of inflation, economic growth, and government expenditure. In the short run, the inflation rate does not affect economic growth; the granger tests show uni-directional causality present between economic growth and inflation and government spending and economic growth. Umer and Faiza (2014) investigated the impact of trade openness on the economic growth of Pakistan. Time series analysis was done from the period 1960-to 2011. The autoregressive distributed Lag approach was used to check the relationship between the variables. The results showed that trade volume, investment, and human capital positively and significantly impact economic growth. The trade restrictions have a negative yet significant impact on the economic growth of Pakistan. There is no short-term relation between growth and trade openness. The study also concluded that Pakistan should make liberal policies to enhance the economic growth in the region, which will result in poverty reduction. Akram, Padda, and Khan (2008) have studied the short run and long-term relationship between human health capital on the growth of Pakistan. To achieve the objective, different cointegration techniques have been used. The results show that age dependency, openness, population per bed, secondary school enrolment, life expectancy, and mortality rate have a relationship with per capita GDP, but health expenditure has no relationship with per capita GDP. The result shows that the health variable plays a significant role in the long-run economic growth, as all the health indicators significantly impact the long-run economic growth.

Afzal (2007) has analyzed the relationship between the economic growth of Pakistan and globalization. He argues that globalization is the "need of the hour", and Pakistan cannot survive without it. He further adds that globalization is necessary for the political and economic development of the region. The less developed countries have both gained and suffered from globalization. Those countries suffer the most and adopt policies that favour only them. Pakistan started the liberation of the economy in 1980. It adopted such policies that enhanced the trade openness of the region. The study conducted by Raheman (2012) analyzes the performance and value creation of the firms and how it helps in the growth of the economy. According to Rahman, working capital management and productivity play a significant role in economic development. This study has analyzed Karachi Stock Exchange data from 1998 to 2007. The estimated growth of different sectors was then checked for the value addition of the firm and its impact. Chen et al. (1998) used cross-sectional data for 29 provinces from 1978 to 1989. He examined the relationship between microeconomic variables with incorporate education, private venture and openness between the business units and economic growth in China. The results demonstrate that higher education, private business, and international trade

action positively impacted economic growth and inflation; private enterprise decreased economic growth. Zahid et al. (1998) collected data from 1959 to 1960 to check the impact of macroeconomic variables on economic growth in the case of Pakistan and used multiple regression techniques. The results indicated that education and physical capital increase economic growth, while openness to trade has a negative impact on economic growth. Mandle et al. (2003) study focused on the advantage and disadvantages of globalization. He assaults the anti-globalization movement and discredits the false ideas connected with the real feedback of globalization. His significant reason was that globalization is concerned with economic growth important to dealing with poverty; globalization is encouraged because it affects poverty reduction.

Smith et al. (2003) have explained that globalization can reduce global poverty and advantage developing nations through social, cultural and technological exchange and trade. Low-income nations like India and China have utilized globalization to further bolster their good fortune and have succeeded in accomplishing economic growth. Dollar and Kraay (2004) have contemplated the impacts of globalization on the poor developing nations, and the results revealed that over the half of the developing nations encountering globalization have increased extensive increments in trade and impressive decrease in tariffs which leads to economic growth and increase in income of the poor people. Afzal et al. (2011), to investigate the relationship between education and economic growth, gathered time-series data on GDP, education, labour force, and physical capital from 1970-1971 to 2008-2009. ARDL approach to cointegration and Granger causality tests were used to see the relationship of the variables. The result indicated cointegration between variables and economic growth and causality between education and economic growth.

3. Methodology

$$GDP = f (GLOB, TOP, ED, HE, PC, GE)$$

Theoretical relationship is based on the above equation from the literature review. GDP growth depends on globalization, trade openness, education expenditure, health expenditure, physical capital and government expenditure. According to different studies and literature reviews, signs of globalization are expected to be positive, which means there is a positive relationship between globalization and GDP growth. According to Dollar and Kraay (2004), globalization positively impacts economic growth. It increases the trade and income of the poor and decreases tariffs. Smith (2003) stated that globalization decreases poverty through social, cultural, and technological exchange and trade, increasing economic growth. Trade openness is expected to have a negative sign, negatively impacting economic growth. The negative impact is less competitiveness in the domestic industry. There are fewer exports and more imports which negatively affect the economy. In the study, Umar and Faiza (2014) stated that investment and human capital positively impact economic growth, while trade restrictions have a negative yet significant impact on economic growth. There is no short term relationship between economic growth and trade openness. The expected sign of the education expenditure is positive, which positively impacts economic growth. Government spending on education can boost the standard of living and increase growth. According to Mujahid, Amin, and Khattak

(2010), secondary and tertiary enrolment positively impacts economic growth. The expected sign of physical capital is positive, which means physical capital positively impacts economic growth. Ali, Chaudhry and Farooq (2012) examined that education enrollment, health, and physical capital are essential to increase economic growth. Gross fixed capital formation and the Gini coefficient have a positive and significant relationship with GDP.

The expected sign of government expenditure is negative, which negatively affects economic growth, supported by some other studies. In their study, Muhammad, Xu and Karim (2015) stated that growth and expenditure have no causal association, and the implication of the study indicated that government expenditure is not an essential instrument for growth in Pakistan.

Data Collection

The secondary data has been gathered from the period 1971 to 2021. It has been gathered from different institutional sources, including World Development Indicators (WDI), World Health Organization (WHO), and Economic Survey of Pakistan 2014-15.

Empirical Model

The Empirical model is as follows:

$$GDPG = \beta_0 + \beta_1 TOP + \beta_2 GGKF + \beta_3 HE + \beta_4 EDE + \beta_5 GE + \varepsilon_i$$

The above equation represents an empirical model in which GDP growth is the dependent variable and denoted by GDPG, whereas β_0 is the constant intercept, and β_1 , β_2 , β_3 , β_4 and β_5 are the parameters of the independent variables which calculate the change in GDP, and ε_i is error term of the equation. TOP, GGKF, HE, EDE, GE are independent variables. GDP and GGKF are taken as a percentage of GDP, and HE, EDE, and GE are in billions. TOP is the ratio of the sum of exports and imports to GDP.

Gross Fixed Capital Formation: average annual growth of gross fixed capital formation based on the constant local currency. Aggregates are based on constant 2005 U.S dollars. Gross fixed capital formation includes land improvements (fences, drains, ditches etc.); plant, machinery and equipment purchases; and the construction of roads, railways and the like, including schools, offices, hospitals, and private residential dwellings, and commercial and industrial buildings. According to 1993 SNA, net acquisitions of valuables are also considered capital formation.

Trade Openness: Trade openness measures economic policies that either restrict or invite trade between countries. It is the ratio of the sum of exports and imports to GDP.

Health Expenditure: It is the total expenditure on health as a percent of GDP.

Education Expenditure: General government expenditure on education (current, capital, and transfers) is expressed as a percentage of GDP. It includes expenditure funded by transfers from international sources to the government. General government usually refers to local, regional and central governments.

Government Expenditure: All the development expenditures that the government does come under the category.

Gross Domestic Product Growth: Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2005 U.S dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without deductions for depreciation of fabricated assets or depletion and degradation of natural resources.

Econometric Model and Estimation Technique

ARDL method to cointegration

$$\left(\begin{aligned} \text{GDPG}_t = & \alpha + \alpha_0 + \beta_1 \Delta \text{GDPG}_{t-1} + \beta_2 \Delta \text{GGKF}_{t-1} + \beta_3 \text{GE}_{t-1} + \beta_4 \text{EDE}_t + \beta_5 \text{HE}_{t-1} \\ & + \beta_6 \text{TOP}_{t-1} \dots + \sum_{i=1}^p \gamma_{1i} \Delta \text{GDPG}_{t-i} + \sum_{i=1}^p \gamma_{2i} \Delta \text{GGKF}_{t-i} + \sum_{i=1}^p \gamma_{3i} \Delta \text{GE}_{t-i} \\ & + \sum_{i=1}^p \gamma_{4i} \Delta \text{EDE}_{t-i} + \sum_{i=1}^p \gamma_{5i} \Delta \text{HE}_{t-i} + \sum_{i=1}^p \gamma_{6i} \Delta \text{TOP}_{t-i} \end{aligned} \right)$$

In this part of the study, the ARDL model is discussed. ARDL stands for Autoregressive Distributed Lag, which was introduced by Pesaran et al. (2001) and used to test a long-run relationship between variables. ARDL model is used to incorporate regressors, a mixture of both I(0) and I(1) variables. If all variables are integrated at the level I(0), then OLS is used, and if all variables are integrated at the first difference I(1), (VECM) Johanson approach is used. Variables shouldn't be I(2) in normal condition (ADF) test as well as a structural break (Zivot Andrews test). For the ARDL model, an optimum number of lags is selected; in STATA, the VARSOC table does it, and in EVIEWS, it should be done after VAR.

4. Empirical Results

The analysis starts from the testing the time series properties of the variables under study. Applying the ADF test or unit root to check the stationarity of the data: The result or given in table1.

Table 1 Unit Root Test Results

Variables	At level			1 st difference			Decision
	None	Intercept	Trend and Intercept	None	Intercept	Trend and Intercept	

GDP	-4.9167 (0.0002)	I(0)
GGKF	-4.1256 (0.0001)	I(0)
Ln_DE	-5.2446 (0.0001)	I(1)
Ln_EDE	-5.698467 (0.0000)	I(1)
Ln_HE	-5.7533 (0.0000)	I(1)
TOP	-4.9757 (0.0002)	I(0)

Note: () denotes P-values.

The Augmented Dickey-Fuller test has been used to check the order of integrating the variables or their stationarity. According to Schwarz Info Criterion, lag length is selected, which ranges from lag zero to lag nine. Suppose the p-value is greater than the 0.05 level of significance. In that case, it indicates the acceptance of the null hypothesis, which means the series is non-stationary at level I(0). Still, if P-value is less than 0.05 level of significance, we reject the null hypothesis, which shows that the series is stationary. Results from Table 4.1 show that some variables are integrated at level I(0), and some are integrated of order one I(1). Table 4.1 indicates that the P-value of GDPG is (0.0002) with (intercept), which is less than the 0.05 level of significance; it shows that GDPG is stationary at the level I(0). Similarly, GGKF and TOP are stationary at level, GGKF with (None) has a p-value of (0.0001), and TOP with (intercept) has a p-value of (0.0002). DE, EDE, and HE are not integrated at a level to make it stationary. First, we took their log and then the first difference. (ADF) unit root test results clarify that GDPG, GGKF, and TOP are stationary at level I(0), whereas DE, EDE, and HE are stationary at the first difference I(1). After checking stationarity, the study wants to check the long-run relationship between economic time series. As regressors are a mixture of both I(0) and I(1) variables, therefore the study is applying ARDL (Autoregressive Distributed Lag) model

Table 2 ARDL Model

Regression equation results		
Variables name	coefficient	P-value

D(GDPG(-1))	-0.425	0.347
D(GDPG(-2))	-0.986	0.037
D(GDPG(-3))	-0.865	0.023
D(GDPG(-4))	-0.642	0.051
D(GGKF(-1))	-0.946	0.224
D(GGKF(-2))	-0.786	0.221
D(GGKF(-3))	-0.548	0.226
D(GGKF(-4))	-0.160	0.384
D(DE(-1))	0.031	0.619
D(DE(-2))	-0.049	0.414
D(DE(-3))	-0.015	0.765
D(DE(-4))	0.094	0.136
D(EDE(-1))	-0.398	0.135
D(EDE(-2))	-0.463	0.132
D(EDE(-3))	-0.277	0.178
D(EDE(-4))	-0.235	0.283
D(HE(-1))	0.164	0.276
D(HE(-2))	-0.096	0.182
D(HE(-3))	0.034	0.728
D(HE(-4))	-0.271	0.086
D(TOP(-1))	125.610	0.016
D(TOP(-2))	99.632	0.032
D(TOP(-3))	82.102	0.056
D(TOP(-4))	26.970	0.373
GDPG(-1)	-1.412	0.029
GGKF(-1)	0.750	0.340
DE(-1)	-0.045	0.542
EDE(-1)	0.337	0.225
HE(-1)	-0.080	0.450
TOP(-1)	-90.192	0.049
R-square	0.93709	S.E of Regression 1.380
Durbin-Watson stat	2.895387	Prob(F-statistic) 0.046

Some variables are integrated at a level I(0) like GDPG, GGKF, TOP, and some are integrated at the first difference I(1) like HE, DE, and EDE. Therefore ARDL model is applied to estimate the long-run relationship between dependent and independent variables. To estimate the ARDL model, an equation is used based on AIC and SIC criteria in which the optimum number of lags were selected, which are four in the model. The coefficient of GDPG lag one is negative, which shows the significance and desirability of the model. R-square value is (0.9370), which shows that 93.70 percent change independent variable occurs due to independent variables and 6.30 percent change due to other factors. The probability value is (0.04632), which is less than

a 5% significance level. Both R-square and P-value show that the model is very significant and desirable. Here the estimated long-run coefficients of independent variables show that long-run coefficients of GGKF and EDE have a positive and significant impact on economic growth in the long run. In contrast, DE, HE, and TOP have negative but significant impacts on economic growth. Other studies also supported the negative impact of HE, DE, and TOP on economic growth.

According to Zon (2001), good health is an essential condition for individuals to have the ability to provide labour services, and the study finds that a rise in the demand for health services caused by the ageing population will adversely influence the economic growth. However, a study conducted by Mehrara and Musai (2011) examines the causal association between health expenditure and GDP. The results show that health spending does not significantly impact GDP in the short or long run. The relationship between government spending and economic growth has gained more importance in developing countries as these countries face rising fiscal deficits because of the great increase in government spending over time that has negatively influenced economic growth (Kneller, 1998). Regarding Pakistan GDP, Ramzan, Asif and Mustafa (2013) explain that the "exchange rate and FDI have a significant and positive impact on GDP growth, while trade openness has a negative impact on GDP growth of Pakistan". FDI, imports and exports positively impact economic growth, whereas inflation and trade openness have a negative relationship with economic growth (Bibi, Ahmad, & Rashid, 2014).

Table 3 Wald Test			
Equation: Untitled			
Test Statistic	Value	Df	Probability
F-statistic	4.345746	(6, 7)	0.0377
Chi-square	26.07448	6	0.0002

Suppose the F-statistics value is greater than Pesaran et al.'s (2001) upper bound value/critical value. In that case, we reject the null hypothesis, which means there is a long-run relationship or cointegration between variables. Still, if the F-statistic value is less than the upper bound value, we accept the null hypothesis, which means there is no long-run relationship or cointegration between variables. F-statistics is equal to 4.345746. Our model has an available intercept and has no trend, so this value should be compared with Pesaran et al. (2001) Critical value at a 5 percent significance level. In Pesaran et al. (2001), the lower and upper critical values are 2.45 and 3.61, which shows that F-statistics fall above the 5 percent upper bound. We can reject the null hypothesis when the F-statistics is more than the upper bound value. F-statistics value is greater than our upper critical value of $4.345 > 3.61$, so we can reject the null hypothesis, which means $C(26)=C(27)=C(28)=C(29)=C(30)=C(31)$ jointly are not equal to

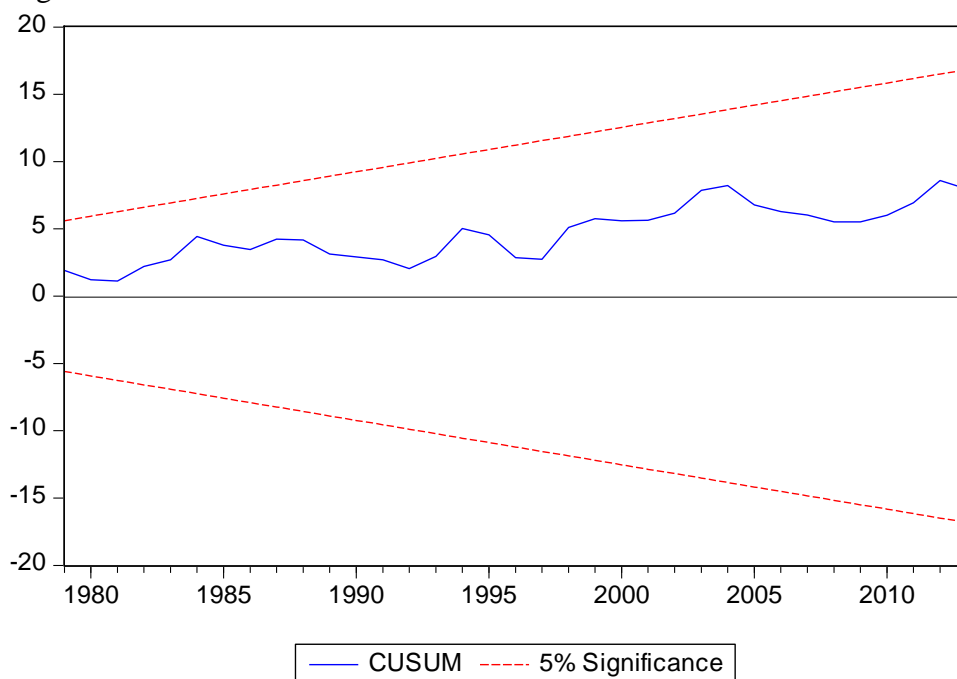
zero. All the variables have cointegration and long-run relationship and move together in the long run.

Table 4 Serial Correlation LM Test.

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.311964	Prob. F(2,33)	0.2830
Obs*R-squared	2.908259	Prob. Chi-Square(2)	0.2336

If the p-value is greater than 0.05, we accept the null hypothesis. Here the p-value is 0.2336, which is greater than 0.05, so we accept the null hypothesis, which shows no serial Autocorrelation problem in the model.

Figure 1 CUSUM Test.



To check whether the model is stable or not, the study applied the CUSUM test. The above plotted Fig 4.1 shows the cumulative sum of recursive residuals (CUSUM), which indicates that all the coefficients in the estimated ARDL model are stable overtime at a 5 percent level of significance, which means the model can be evaluated for effective policy analysis. The blue line is within the 2 red lines, which indicates the stability of the model over time.

Table 5 Normality Test

Normality test	
Jarque-Bera	0.546797
Probability	0.760790

Jarque-Bera test is based on a test of skewness and kurtosis of residuals and is used to check whether skewness and kurtosis of the sample data match normal distribution. If the p-value is greater than 0.05, we accept the null hypothesis; here, the P-value is (0.760790), which is greater than 0.05, so we accept the null hypothesis, which means sample data has a normal distribution.

Table 6 Heteroskedasticity Test

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	0.672451	Prob. F(30,7)	0.7904
Obs*R-squared	28.21106	Prob. Chi-Square(30)	0.5593
Scaled explained SS	1.007086	Prob. Chi-Square(30)	1.0000

When the P-value is greater than the 0.05 level of significance, we accept the null hypothesis, which means the model has Homoscedasticity. Still, if the P-value is less than 0.05 level of significance, we reject the null hypothesis, which shows that the model has a heteroskedasticity problem. Here the P-value is 0.5593, greater than the 0.05 level of significance. Therefore, we accept the null hypothesis, which indicates the model has Homoscedasticity.

5. CONCLUSION AND RECCOMENDATION

The paper analysed the effects of globalization on the economic growth of Pakistan based on yearly data from the period 1971 to 2021. Globalization has been defined in different ways and has varying impacts from country to country, contingent upon social, economic, and political improvements and macroeconomic policies. There are different views regarding the desirability of globalization, which suggests openness and integration of the local economy with the rest of the world. Less developed countries (LDCs) can get advantages and disadvantages from globalization. To avoid the negative impacts, they should implement policies that provide their real cause sufficiently. Liberalization was established in the 1980s in Pakistan. To integrate with the rest of the world, Pakistan went through some economic reforms, and as a result, Pakistan's current economy is more liberal than before. To check the impact of globalization, the study used the trade openness measure as an independent variable beside other related macroeconomic variables: health expenditure, education expenditure, development expenditure, gross fixed capital formation, and GDP growth. In the study, GDP growth is the dependent variable, while health expenditure, education expenditure, gross fixed capital formation, and development expenditure are independent variables. Several standard econometric techniques have been used to find the relationship between variables. The Augmented Dickey-Fuller test (unit root test) is applied to check stationarity. GDP growth, gross fixed capital formation, and trade openness are stationary at the level I(0), while development, education, and health expenditures are stationary at the first difference I(1). Wald test results show a cointegration and long-run relationship between variables, and ARDL model

results reveal that gross fixed capital formation and education expenditure have a positive impact on economic growth in the long run. In contrast, development expenditure, health expenditure, and trade openness have a negative and significant impact on the economic growth of Pakistan. As indicated by the study's empirical results, it is recommended that the government encourage spending and formulate appropriate policies and strategies for both human and physical capital as it has a positive and significant association with economic growth. Spending on education and physical capital sectors is less in Pakistan than in other developing countries. Still, suppose the government increases spending, especially long-term spending in those sectors. In that case, there is a significant scope of increase in economic growth as those sectors are significantly and positively related to economic growth and development in the long run. Education is a very important condition for the sustainable scientific and technical process. Investment in human capital does not increase economic growth but will improve society with quality social decisions. The enrolment ratio of all types of education levels should be increased because it contributes to the production of knowledge and skills, which further increases labour productivity. Efficiency and advanced technology are the most important factors to economic growth; therefore, we should consider technology, and there should be more training and skill development programs for labourers. The government should increase capital spending, which will increase the capacity of the goods' demand, which will help in investment in new capital.

Further, it will help sustain growth through an increase in aggregate supply. Results of the study show that trade openness has a negative impact on the economic growth of Pakistan, which is supported by other studies. According to Ramzan, Asif, and Mustafa (2013), "exchange rate and FDI positively impact economic growth, while trade openness has a negative impact on economic growth". The resulting study of Ahmad, Bibi, and Rashid (2014) also revealed that trade openness has a negative impact on economic growth in the case of Pakistan. There are many reasons behind the negative impact of trade openness; one of the reasons is that Pakistan's domestic industry does not have much competition to gain from trade. Imports are more than exports which is mainly due to consumer behaviour. Consumer prefers more imported goods, which negatively affect the economy. To overcome this problem, the government should consider an Export promotion policy and import substitution policy through which the country can benefit from the trade. A protracted openness policy is more desirable for the country to take advantage of trade openness. To boost the home industry, tariffs and excise duties should be decreased.

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