



## Impact of Trade Openness on Economic Growth: A Case Study of Pakistan

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### ABSTRACT

**Purpose:** This paper estimates the impact of trade openness and economic growth in Pakistan by using time series data from period of 1975-2014. Econometric method was applied to estimate the impact of trade openness on economic growth. Gross fixed capital formation (proxy of investment), Foreign direct investment, Imports, Exports & trade openness (proxy of trade openness to check the volume of trade of a country) is used as explanatory variables while gross domestic product is treated as dependent variable in this study. Johansson co. integration approach developed by Johannes & Jeslius (1988) is used to evaluate the long run relationship among variables in this study. The results suggest that trade openness, imports, exports and foreign direct investment cast have positive impact on economic growth while on the other hand; gross fixed capital formation & labor force has negative impact on economic growth.

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### 1. Introduction

Every country determined the sources of development in the light of recent literature. Trade is the most important and core source of development. The traditional approach regarding trade suggests that "Trade is the engine of growth". Since last three to four decades, the many countries of the world have used and apply instruments of protection (i.e Tariff, import & export Quota & Export tax) and in this way, they have restricted trade policies. The motive behind trade policies is to protect their infant and newly born industries and this trend is mostly common in developing nations.

Mercantilists were pioneer who gave the concept of international trade and their entire philosophy was based on accumulation of wealth through the surplus of gold and precious metals. Adam Smith (1776) gave the concept of absolute advantage for both nations who are specialized in the production of those goods which are cheaper to produce. David Ricardo gave the concept of comparative advantage. According to him, trade must be possible without comparative advantage.

Factor Endowment and Heckscher- Ohlin theory took one step more by investigating the international trade (Salvatore, 2011). Furthermore neo classical and endowment growth theories predict that trade openness

positively affect on GDP growth. For the protection of infant industries, the first time a Report on Manufactures is written by the first U.S Secretary of the Treasury, Alexander Hamilton”.

After this in 1860, the first free trade agreement was signed between United Kingdom and France which is known as “Cobden-Chevalier”. All the developing countries (Asia, Latin America & Africa) adopted trade openness policies for last four decades.

Pakistan has also adopted trade openness policies since mid-1980s under the series of SAP developed by international Monetary Fund & World Bank while on the other hand, in 1980s, the developed nations enjoy the boom of trade and in USA 25% trade growth is only due to the trade liberalization. As earlier discussed that tariff barriers (TB) and non-tariff barriers (NTB) plays a great and successful role in country's trade. So in 1980s tariff liberalization accounts for 45% and non-tariff liberalization accounts for 44% of extra growth & decline in transportation cost contributed only 11% of extra trade growth since 1980s (Hufbauer & Adler, 2009).

The World Bank started research on trade liberalization and market reform in 1987 and it was suggested that for trade openness, the countries must start de industrialization. After 1995, when Pakistan joined WTO trade agreement, the policies of its trade agreement compel Pakistan to decrease on international trade different subsidies and import duties (Siddique & Iqbal, 2005). Trade openness is not only exchange of goods but also it enhance productivity, efficiency, experiences, skill and knowledge among countries.

Therefore, the mostly literature on trade openness in recent decades concluded that trade openness has positive impact on economic growth. For this purpose the sufficient allocation of resources, policies according to the circumstances, privatizing foreign trade, removing exchange rate distortions, tariff barriers to imports, improved political stability & increased job opportunities in all developed and developing countries should be enhanced. [(Siddique et al. 2003), (Spanu, 2003), (Stribu & Parikh, 2004), (Siddique, 2005), (Chaudhary et al., 2006), (Gulzar, 2007), (Zakira, 2008), (Ahmed et al., 2009), (Zaman et al., 2012), (Ahmed & Arif, 2012), (Kausar et al., 2013)].

The objective of this research study is to examine the impact of other macro-economic variables which have a great impact on the size of trade such as imports, exports, gross fixed capital formation, gross domestic product and trade openness (imports + exports/GDP).

## 2. Literature Review

A number of researchers have already been conducted to generate the link between economic progress and Trade liberalization. Following is an immediate review of some recent studies about growth and Trade openness.

Siddique et al. (2001) examined the relationship between trade openness and economic growth. Real imports, real exports and real GDP were used as explanatory variables for the period of 1960-2001. The study suggested that exports had a positive and significant impact and import had negative impact on economic growth. The result explored that in the long run, there exist bidirectional causality and in the short run, there exist no causality and variations occur due to business cycle fluctuations with no casual's clear pattern between trade openness and economic growth

Spanue (2003) explored the impact of openness on trade & its relation to the economic growth with respect to the developed and developing nations. This study used GDP growth as dependent and capital, labour force, exports and imports were treated as explanatory variables and results of the study explored that the portion of absolute poverty was increased in the developing countries those who promoted the globalization & free trade. This study further suggested that trade liberalization promotes economic growth but wrong policies made them ineffective and on the other side, IMF also proved this situation

that low level of trade make countries more volatile to debt crisis. He believed that openness of markets could generate an additional Increase of 1.15% of growth per year.

Chaudhary et al. (2006) investigated the relationship between trade openness and economic development. For this purpose, this study was based on four major measure of economic development which are: per capita GDP, income inequality, poverty & unemployment over the period of 1960-2003. He suggested that trade liberalization only effect employment positively but other three remaining indicator had negative impact on economic development. The study suggested that trade openness focus on labour intensive product.

For the long time, in the light of international economics literature remain dark on service sector because they consider services non-tradable items but in recent literature they denied this fact that services had a great contributions on economic development because through services the movements of technology, skills and experience enhance and now a day's these indicator (technology, skills and experience) play a key role and these factor had proved a back bone for country. The related article through this topic is regressed below:

Gulzar (2007) investigated the impact of trade liberalization on service sector & this study was carried by using panel data (from UN online database) for the period of 1981 to 2010. Real exchange rate, foreign price, foreign per capita income was used as independent variables This study was carried by taking the panel data of 92 countries. OLS, pooled least square was used for Analysis.

The findings of the study revealed that services had positive impact on trade liberalization but they followed decreasing and increasing trend & service sector promotion depends on trade policy implications. It was more suggested that aim of the trade policy should be to promote domestic market, with maximum benefits in terms of per capita income and employment with following upwards trend.

Salman &Javaid (2011) studied the impact of trade openness on wage inequality. The study was conducted by using three explanatory variables i.e import penetration ratio, export penetration ratio & relative prices. The data was taken for the years 1996 to 2005. The econometric model predicted that wage inequality decreased when the exports with respect to the value added increases & on the other hand ,skilled labor had positive impact on wage equality.

Ahmad &Arif (2012) examined the long run relationship between output growth and trade openness. The study was carried by taking time series data from 1972 to 2010. Co-integration & error correction was used for econometric estimation to establish relationship between output growth and trade openness. Output growth & trade openness had positive relationship and the result indicated the long run relationship between two variables and there exist bi-directional significant causality between trade openness and output growth.

Kauser et al (2013) examined the impact of trade liberalization on economic growth in Pakistan. The study was carried by taking time series data from 1975to 2010. Real GDP was taken as dependent variables and: gross fixed capital formation, foreign direct investment & inflation were taken as explanatory variables. The results concluded that capital formation had positive and significant impact while on other side FDI and inflation had negative impact on economic growth of Pakistan.

### **3. Trade Liberalization in Pakistan**

After the independence of 1947, Pakistan economy faced a lot of problem such as political in- stability, mismanagement, lack of infrastructure, lack of industries & illiteracy and after two year in 1949 Pakistan faced devolution crisis.

In 1960s Pakistan started adoption of development strategies so in consequences during this age large scale of manufacturing industries were launched and to protect infant and newly born industries, Pakistan

applied direct (tariff and export tax) and indirect obstacles (exchange rate & long term investment assistance) in the economy. For the protection of infant industry, in 60's some additional policies introduced which were as follows.

- An overvalued exchange rate
- Export bonuses
- Low interest rate for putting the control on exports
- ESB (export bonus scheme) was introduced through bonus vouchers

In 1970s the Govt. introduced nationalization policies and reduced the anti-export bias but on the other hand, Pakistan faced serious problems such as East Pakistan War 1971 and deficit balance of payment due to oil price shocks. In this decade to support economy the Govt. of Pakistan took following steps.

- Devaluation of Pakistan rupee by 57% in 1972
- Elimination of export bonus scheme

In the age of 80s, the Govt. of Pakistan thought about economic development policies. For this purpose, the economy of Pakistan started to remove obstacle on trade because in the presence of restricted trade, efficiency, advancement in technology, variety of goods and services, competitive environment & skilled labour were remained closed. For the purpose of creating competitive environment the Govt. of Pakistan encouraged private investment and took different initiative steps which are as follows:

- Tax holiday
- Tariff cut
- Reduction in custom duties 13% to 5%
- Flexible exchange rate

Through these initiatives, the poverty declined from 46% to 18% in the late of 1980s. In 1950, 60s 70s & 80s Pakistani grew at 6% per year in spite of increasing trend in population growth (Haq's Musings).

In 1990s, due to the political instability, mismanagement, corruption and increasing trend in foreign debt the unemployment followed upwards trend and poverty rose 33% & inflation in double digit. In these decade Benazir Bhutto and Nawaz Sharif played musical chair due to these reason trade to GDP ratio of Pakistan remained 0.4 per annum which is less than other developing countries such as, India (0.8 per annum) & Korea (1% per annum).

In the regime of General Pervez Musharraf, the economy had better position & GDP rose in double digit. The era of 2000-2003 the Govt. took following steps to promote industrialization.

- Deregulation
- Reduction the cost of doing business

In current decade the industrialization sector of Pakistan economy is less liberalized than other developing countries. Pakistan could not produce in competitive environment for industrial sector due to energy crisis, corruption, high exchange rate, unemployment, lack of infrastructure, high import duties on raw material & machinery. This scenario is described as below:

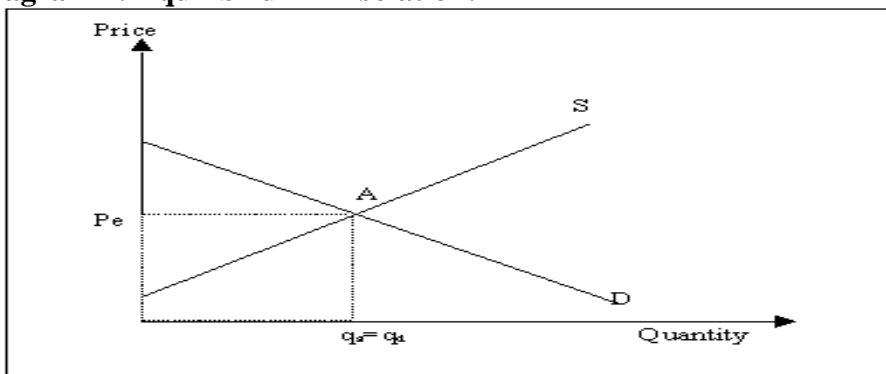
“Pakistan export fell to USD23.64 billion in 2011-12 from USD 24.82 billion in 2010-11, showing decline of 4.75%. Contrary to this, world trade expanded by 5% in 2011 compared to 13.8% growth in 2010. Pakistan exported to Asian countries slightly fell to USD11.709 billion in 2010-11 from USD 11.556 billion in 2011-12.”

#### **4. Theoretical and Conceptual Framework**

The economics is said an organized science after 1776 the publications of the “Wealth of Nations” by Adam Smith. During the seventeenth and eighteenth centuries a group of men in which bankers, government official and government and private servants are also included they wrote a pamphlets on international trade and present their arguments that in prance of trade a country become more progressive

if they promoted its export especially in the form of surplus gold and prohibited its imports especially in the form of luxury item & their arguments are called mercantilisms. In 16th and 17th centuries the british economist (Adam smith and David Ricardo) are also the advocates of mercantilism. After that the concept of absolute advantage emerged that a nation rely on domestic product and the supplier produced until when demand =supply. This situation is described below through diagram.

**Diagram 1: Equilibrium in Isolation:**



X-axis shows Quantity and y-axis price .The negative slope determined demand and positive slope shows supply when the supply and demand forces intersect to each other where the price determined  $P_e$  and equilibrium exist in a point A. This is point where  $q_s=q_d$ .

After this, in 19th century the David Ricardo stated the concept of comparative advantage also known as “comparative cost theory the gain from trade emerged. This theory putted arguments that both nations gain from trade by producing those goods which are cheaper in their own country through this way the nations utilized their local resources more efficient way and specialization occur in those commodities which produced cheaper in the country.

Some qualifications of comparative advantage theory are given below:

- This theory considered that there is full employment.
- There is no hindrance in the allocation of resources.
- Only commodities can moved investment resources are not internationally mobile.
- Comparative advantage is the basis of investment decision.

The critics on the qualifications of comparative cost theory are that: if the country having the condition of full employment there is no labour force resources are perfectly allocated and they produced whole goods efficiently than there is no need to decrease the quantity of one good.

After that in the mid of 1980s, the developing nations Asia, Europe & Pakistan etc. adopted trade openness policies ‘under the series of SAP developed by international monitor fund and World Bank’ because rapid economic growth is not possible without trade openness .

Economic growth is directly correlated with efficiency, skilled labour, experiences, variety of goods, investment ,capital formation & human capital and those are all do not possible without trade and on the other hand, the topic of globalization is not emerged in the absence of international trade and globalization played a vital role in economic growth because it promoted investment in human capital, capital formation ,social safety nets, reduced poverty by creating job opportunities, technological advancement, enhancement in standard of living ,raised investment through the attraction of foreign investor, access to new market & made easy foreign lending for developing countries.

These advantages of Globalization through diagram no: 2 are described below:

**Diagram 2:**



In current studies and arguments Globalization is defined as:

“Globalization is the forces of liberalization of investment & trade regimes, financial integration, international labour flows & technological change which are sweeping the world today with fierce velocity”.

But in the light of recent literature and arguments of development economist Globalization cast both positive and negative impact on economic growth. They putted arguments that before being a part of globalization the developing nations must outlook their circumstances and situation of the economy because in the presence of Globalization income inequality & environmental degradation followed increasing trend and on the other hand highly skilled and educated person moved to the developed nation for the sake of highest earning through this way efficiency reduced in the specific country.

**4.1 Data Sources**

The basic and core objective of study is to examine the impact trade openness on economic growth. The data of variables for Pakistan is collected of the years from 1975 to 2013 from The World Development Indicator CD-ROM (2003) and Hand Book of statistics (2010)

And For the year of 2014, the data is forecasted through moving average.

For example:

$$\text{Moving average} = (v_{2009}) + (v_{2010}) + (v_{2011}) + (v_{2012}) + (V_{2013})/5$$

(Values of above forecasted year (2009.....2013) divided by the number of years)

**4.2 Model Specification**

In this research study, for avoiding the problem of multicollinearity construction of model is done in two equations because in upper equation we used TOP (trade openness) to check the volume of the country trade which is the sum of imports and exports while on the other hand, imports & exports partially are partially used.

For checking the impact of trade on economic growth the basic two econometric models are defined as:

**Model No. 1**

$$GDP_t = \beta_0 + \beta_1 GFCF_t + \beta_2 FDI + \beta_3 TOP + \beta_4 LF + U_t \dots \dots \dots .(a)$$

**Model No. 2**

$$GDP_t = \beta_0 + \beta_1 X_t + \beta_2 M_t + \beta_3 GFCF_t + \beta_4 FDI + \beta_5 LF + U_t \dots \dots \dots (b)$$

Here,

GDP<sub>t</sub>= Gross Domestic Product at a time period t

X<sub>t</sub>=Exports of goods and services at a time period t

$M_t$ =Imports of goods and services at a time period t  
 $GFCF_t$ =Gross fixed capital formation at a time period t  
 $TFDI_t$ =Foreign direct investment at a time period t.  
 $TOP_t$ = Trade openness at a time period t.  
 $LF_t$ = labor force participation at a time period t.  
 $U_t$ = White noise error term

Here  $\beta$ 's represents the parameters of variable which we consider constant for obtaining results but in real life these variables showed trend.

For this research study, GDP is used as dependent variable and other variables which have significant impact on trade such as imports, exports, gross fixed capital formation and trade openness (used proxy of trade liberalization for the volume of country) are used as explanatory variables.

### 4.3 Definition of Variables

#### 4.4.1 Gross domestic product (GDP)

“The total value of goods and services which produced in a country in a given time period is called GDP”. GDP is a core, basic indicator, benchmark for competing other countries and initial value for checking the progress of the economy.

#### 4.4.2 Exports ( $X_t$ )

“Exports are the oldest form of economic transfer the developed nation who endowed with capital intensive technology mostly revenue earned from exports and those nations whose impose fewer restriction on trade such as tariff and quota”.

#### 4.4.3 Imports ( $M_t$ )

“The word import is derived from the word “Port” since goods are often via boat to the foreign countries. Imports are the back bone of international trade. Mostly the countries import those goods, services and raw material which within country not produce cheaply & efficiently. When the value of imports exceeds the value of exports then we say that the trade balance is negative and when the situation is opposite to this scenario then we say that trade balance is positive”.

#### 4.4.4 Gross Fixed Capital Formation (GFCF)

“Gross fixed capital formation is a major and core components of GDP expenditure & it include entire expenditure bear on fixed assets & replacement cost of fixed capital such as: land, building, machinery, transport equipment and engineering work”. Gross Fixed Capital formation is used as a proxy of Investment.

#### 4.4.5. Trade Openness (TOP)

Trade openness is used as a proxy variable to check the volume of the country. We compute trade openness

$$TOP = \frac{IMPORTS + EXPORTS}{GDP} * 100$$

#### 4.4.6. Foreign Direct Investment (FDI)

It is a major source of capital inflow. FDI is an investment made by a company or entity based in one country, into a company or entity based in another company. FDI includes all capital transaction between two units or between joined enterprises which may be incorporated or not incorporated.

**4.4.7. Labor Force (LF)**

All the member of a particular organization or country whose are able to work, employed or seeking employment in a country or region.

**5. Results and Discussion**

To obtain econometric model of study we take log on both sides. So, model is rewritten as

**Model No. 1**

$$\ln GDP_t = \beta_0 + \beta_1 \ln GFCF_t + \ln \beta_2 FDI + \beta_3 \ln TOP + \beta_4 \ln LF + U_t \dots \dots \dots (c)$$

**Model No. 2**

$$\ln GDP_t = \beta_0 + \beta_1 \ln X_{t+} + \beta_2 \ln M_{t+} + \beta_3 \ln GFCF_t + \beta_4 \ln FDI + \beta_5 \ln LF + U_t \dots \dots (d)$$

**5.1. Unit Root Test**

In this study co-integration is used to explore the long run association between human capital and economic growth of Pakistan. First of all stationarity of the variables is checked before applying co-integration.

**Table-2 ADF test results**

Variable Names	Level	1st Difference	Conclusion
Gross Domestic Product	-0.5651 (0.8668)	-7.1843 (0.0000)	I(1)
Imports	-0.4753 (0.8853)	-6.872107 (0.0000)	I(1)
Exports	-0.49795 (0.8809)	-6.4618 (0.0000)	I(1)
Gross Fixed Capital Formation	-1.7994 (0.3753)	-8.3816 (0.0000)	I(1)
Foreign direct investment	-2.9428 (0.0496)	-7.0898 (0.0000)	I(1)
Trade Openness	-0.4753 (0.8853)	-6.872107 (0.0000)	I(1)
Labour Force	-0.39685 (0.8749)	-9.1764 (0.0000)	I(1)

(Parenthesis shows probabilistic values)

After applying unit root test we conclude that all variables are stationary at I (1). So for showing results its first requirements that to decide the optimum lag length criteria. For this purpose, Akiake & Schwarz information criteria is used and in LR test, the optimum lag length is one. After deciding the lag length, Johansson co. Integration test is used

Johansson co. integration test executes two steps.

- Trace Statistics
- Maximum Eigen Value Statistics



**Table-3 Unrestricted co. integration Rank Test (Trace)**

Hypothesized No. of CE.(s)	Eigen value	Trace Statistics	Critical value (0.05)	Prob.**	Conclusion
None*	0.660853	96.98430	76.97277	0.0007	Exist long run relationship
At most 1*	0.478421	55.89405	54.07904	0.0341	Exist long run relationship
At most 2	0.372494	31.16005	35.19275	0.1277	
At most 3	0.231019	13.45200	20.26184	0.3288	
At most 4	0.087267	3.469842	9.164546	0.4968	

**Table-4 Unrestricted Co. integration Rank test (maximum Eigen value)**

Hypothesized No. Of CE(s)	Eigen value	Max Eigen statistics	Critical value	Prob.**	Conclusion
None*	0.660853	41.09025	34.80587	0.0000	Long run relationship exist
At most 1*	0.478421	28.73399	24.58808	0.0002	Long run relationship exist
At most 2	0.372494	17.70805	22.29962	0.4382	
At most 3	0.231019	9.982160	15.89210	0.3896	
At most 4	0.087267	3.469842	9.164546	0.8247	

Table-3 &4, represent the results of Johansson co. integration test. The table-3 of Trace values show that there exist long run co. integrated relationship among variables [GDP= imports, exports, GFCF & trade openness] at 2 levels because on two levels we reject the Null hypothesis that

$$\text{Trace value} > \text{critical value}$$

Table-4 shows the maximum Eigen values and there exist 2 co. integrating vector because we reject Null hypothesis on two levels that

$$\text{Maximum Eigen value Statistics} > \text{critical value}$$

Such as 41.099025 are greater than 34.80587 and 28.73399 is greater than 24.58808.

### Model-1

**Table-5 Co- integrating coefficient Of Normalized equation**

Variables	Coefficients	Standard error	T- Statistics
L Imports	5.59541	-1.25946	4.4427
L Exports	9.925253	-1.04695	9.4801
L GFCF	-0.026236	0.00867	3.0260
L FDI	1.033667	0.3934475	2.6270
L Labour Force	-0194710	0.003365	5.7863
C	0.184265	0.049705	3.7072

**Model-2****Table-6 Co- integrating coefficient of normalized equation**

Variables	Coefficients	Standard error	T- Statistics
<b>L Trade openness</b>	9.925253	-1.04695	9.4801
<b>L GFCF</b>	-.026236	0.00867	3.0260
<b>L FDI</b>	1.033667	0.3934475	2.6270
<b>L Labour Force</b>	-0.0194710	0.003365	5.7863
<b>C</b>	0.184265	0.049705	3.7072

These results suggests that foreign direct investment, imports & exports have positive impact on gdp growth while on the other hand; gross fixed capital formation& labour force has negative impact on economic growth. The reason behind these results are as follows:

- a. In the light of recent literature, it is a common argument that in global world, trade is the core and major element of economic growth & the expansion of trade is only possible through imports and exports and exports are the basic indicator of economic development so, for the expansion and diversification of exports the Govt. often took initiative step such as “Export Subsidies” because exports of Pakistan is often based on primary agricultural commodities (wheat, rice & cotton),manufacturing leather, textile and sports goods. According to the Fiscal year of 2008 72% of total GDP is based on mentioned above commodities and on the other hand, it is insufficient condition for the country to produce everything in the situation of Isolation so, imported goods enhanced the living standard of the people through removing poverty because people enjoy more opportunities of business, technology advancement and services and latest knowledge.
- b. Liberalized economies enjoy foreign direct investment & through this way market expand, cost per unit decreases, specialization occur & technological transmission become a reason to attain the attention of foreign investors.

$$\text{Trade openness TOP} = \frac{\text{IMPORTS+EXPORTS}}{\text{GDP}} * 100$$

is used as proxy variables to check the volume of the country and volume of the country is determined through imports and exports so, these indicators impose positive relationship on GDP growth. So, these results suggested that trade openness enhanced the volume of country when the economy is liberalized they enjoy competitive environment and the topic of specialization occur. Through this way, we concluded that imports, exports and trade openness cast positive impact on economic growth. These significant impacts described through many channel.

- c. Trade openness may create incentives for policy makers to pursue many macroeconomic policies, either because the threat of capital flight or because international arguments, implicit or explicit, that act as a check on policy and technological transmission. In turn, macroeconomic stability became reasons of many advantages such as: reducing prices uncertainty, moderating public deficit and it became a reason of increasing future tax.
- d. On the other hand, liberalized economies enjoy laissez- fair environment and public demanded goods provided in these economies. Openness economies will tend to specialization according to their comparative advantages so it became a cause of market expansion and attention of foreign investors. Trade openness simply allow domestic agents to import capital goods that are unavailable in the country or available at higher cost so these importable commodities became a reason to expand market size and raised the portion of export in the foreign market and create competitive environment for country. Liberalized economies enjoyed foreign direct investment and it capture the incident of a certain type of technological transmission & proves a substitute for trade because foreign investment is used to set up plants producing goods that cannot be imported because of trade restrictions. So, with the help of described above channel we can say that trade

openness became a reason of expanding imports and exports and through this way it cast positive impact on economic growth. Production function is determined through labour and capital.

$$Y=F(K,L)$$

- e. Every commodity is manufactured goods through those factor of production. Pakistan is one of them in developing countries and in 1994-95 it is a common argument that labour cast a positive impact on growth while on the other hand, by applying growth accounting approach to measure the contribution of labour tells us that in Pakistan economy labour cast a negative impact on economic growth the main reason of this phenomenon is illiteracy, low wages, unskilled labour, child labour, unemployment & increasing trend in population. Pakistan is a labour abundant economy but the utilization of labour is not in uniform manner. The labour group of Pakistan having no sufficient knowledge about the work they have done so the topic of specialization is not occur and on the other hand, food material is having insufficient quality because their wages are very low so in consequences their productivity follows decreasing trend. In this way, labour cast negative impact on the economic growth of Pakistan.
- f. GFCF (Gross Fixed Capital Formation) is used here as a proxy of Investment. In a common sense Investment cast positive impact on GDP growth but in developing countries because the people having no sufficient employment opportunities and they having a low amount for saving so, mostly investment are take place in loans and then mostly the ratio of profit is low then the amount of loans and then mostly these loans is used for unproductive necessities and therefore, the burden of debt .follow increasing trend in Pakistan.

## 6. Conclusion

This research study empirically analyse the impact of trade openness on economic growth. For this purpose, imports, exports, trade openness & gross fixed capital formation used as explanatory variables while real GDP treated as dependent variable for the time period of 1975-2014. After applying Johansson Co. integration approach, the result suggested that imports, exports & trade openness cast positive & significant impact on economic growth while gross fixed capital formation & labour force cast negative impact on economic growth.

For improving this situation the policy recommendations are as follows:

- According to the report of American Business Corporation of Pakistan, in a present situation import duties are applicable on raw material, machinery & equipment and those goods are not locally available in the country & on the other hand, Custom duties also follows increasing trend in 2008-09 so, reduction in these duties is very necessary for achieving the low cost of products.
- For increasing the portion of exports, the Govt. trade policies must be according to the circumstances of Pakistan. For this purpose, it's necessary that the Pakistan Development Authority conduct a questionnaire for knowing the condition of big and small unit industries.
- Improvement in infrastructure is very necessary to increase the volume of trade. For this purpose, it's necessary that chairman of relevant major Public Sector Organizations meet to relevant Ministries.
- Environmental change is very important for increased the productions in industries and raised the portion of services. For this, Pakistan Environmental Agency should be opened.
- Because Pakistan is a developing country and unemployment is going to be increased day by day so, Pakistan must introduced labour intensive products & also raised the portion of services.
- Pakistan should liberalize its exports & imports in such a manner that balance of trade achieved through imports and exports for achieving this target the Pakistan should pay more attention on technological advancement & capital goods.

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