The Impact of Exchange Rate Fluctuation on Imports and Exports of Pakistan: Time Series Analysis From 1985-2015.

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Abstract:
Looking at the gap in trade policy which is main parameters are export and import. Policies must be made in a way that economy of Pakistan may proceed towards growth. Secondary annual data was collected from Pakistan Bureau of Statistics Government of Pakistan and World Bank from the year 1985-2015. For data analysis, SPSS 18 was used by using linear regression to examine the relationship between the variables. The study concluded that exchange rate fluctuation significantly and positively related to export and import of Pakistan.
Keywords: *Exchange rate, Import, Export*

Introduction:

Exports serve an essential role in the Economic well-being of any country. Efficiency and well-being of the economy can cause the increase in exports and play mainly in GDP of developing and small countries. Though devaluation of exchange rate value would impact the exports, where the probability of this trend emerged since 1973 and floating in global trade existed all over the industrial countries. (Cushman, 1983), (Hooper & Kohlhagen, 1978) (Bailey et al (1987) reported incredible animation and instability of exchange rate movements during 1973 got to alert the regulators and researchers to highlights the effect of such movements about trade volume.

Floating exchange rate methods exercised in 1982 in Pakistan. Mean while the period the Instability and stability of exchange rate was trouble free and formal. Import trend of Pakistan across the globe having no large alterations from decades, representing an increase in imports through stability in the exchange rate. However movements in exchange rate, fluctuates the trend in exports, differents experimental studies justifies the inverse relationship between foreign trade and exchange rate fluctuations (Kenen & Rodrik, 1986) (Pritchett, 1991) , while positive (Asseery & Peel, 1991) or According (Bailey et al (1987) , (Gotur, 1985) no relationship is determined.

Devaluations of currency indicate to weaken the worth of native currency in associations to foreign coin or gold. This trends mainly seems when countries minimize the space of external balance shortfall, however most economist believes currency devaluations would truly be helpful for economy because the depreciated currency would improve exports and possibility of more jobs, by the way, would get better economic growth, where same policies being followed by International Monetary Fund (IMF) and the Central Bank of Pakistan to enhance exterior strength encouraging through exports, minimize imports, in turn, will make better trade and current account Ballance. Devaluations primarily debated not as good but finally make better balance of payments.

what level of degree of enhancement in export has been achieved? declining in import? How far condition of External bill recovered in term of devaluation?.the environment of the economy in Pakistan is varied and a key segment of the economy affected by some hazards for last some yeara and explaining downbeat growth. Better movement in export and alongside increasing level of import recorded during the year 2011. Federal board of statistics reported the accumulating' $40.414 billion of import by the year 2011 beside &34.710 billion during the year 2010 that is 16.43 percent higher". By the increasing level of exchange rate devaluation recorded the Increase in level of petroleum and manufactured products import.

Contradicting to the theory it was seen depressing interrelationship of depreciation and external balance.

Only exchange rate devaluation appended Rupees 1,125 billion in public debt and cost to & 13 billion. It is also observed an increase in public debt will enhance interest expense, in turn, declining financial gap for development outlays and take vast stress on budget and in the result of extra addition of public debt. Currently devaluation of exchange in Pakistan **as** usual low rupee 106 beside each $ owing to sky-scraping required for import bill. Moreover rupee devaluation increases the payment of import in addition rising home consumer price index and sequencing declining the buying ability of citizens and leading increasing inflation in the country. It is observed what may be the reasons of devaluation, results in the worsening of the economy besides other countries, where the extreme devaluation of past severely Influenced country credit standing in the global market.

The rising level of instability and ambiguity about the instability of exchange rate from the time of start of the emergence floating during 1973 have directed regulators and researchers to pay the attention of the circumstance and level of the effect of these fluctuations to the size of the trade. Though such researchers relate with the rate of exchange instability impact about trade streams have given the diverse outcome. Beside, Number of researchers has concluded that the devaluation of the exchange rate would inflict charges on hazard adverse market contributors would normally react through behalf of home to international trade for the profit. The studies reveal trader facing unexpended exchange hazard; if forecasting is unfeasible or expensive and dealer are hazard reluctant, risk familiar anticipated of margin trade will decline if exchange hazard raises.

Elastic structure of exchange rate is pursued in Pakistan since 1982. The volatility of exchange rate was very small at the beginning. Though the largely emergence of export as a comparison to overall global imports rose. Percentage of imports was steady during past 24 years of 1980, lying between lowest of 0.12% and highest of 0.18 % during 1992. Proportion during 2002-2003 was 0.17%. This demonstrates the export size depend upon the exchange rate up and down. According to the empirical research of Kumar & Dhawan, (1991) predicted that the fluctuations of the exchange rate of Pakistan's exports having an impact on the development of countries since 1974-1985. Fluctuations of the exchange rate were investigated by them that negatively effect on demand for export and also examined the influence of 3rd country impact and recommended the other options of Pakistan exports are" Japan and West Germany to the united states and united kingdom".

Concluding the above arguments it is deemed that devaluation does not favoring a long-stand solution to the underlying economic problems, if the policies not being amended and the implementations of strategies, therefore alone depreciation cannot steady the external worth of our currency. Policy makers should pay greatest priority for the stability of our economy besides expansion. The motive of this research is to examine exports unpredictability keeping in view exchange rate in Pakistan during 2001-2010 alongside giving a contribution to the experimental discussions on impact and instability of exchange and export value.

Literature review:

Exchange rate fluctuation got a considerable attention from a lot of studies made earlier, the different inclusions are considered on this issue. Exporters are deemed to be risk averse beside the fluctuations in exchange rate because the reason to declining the international trade. The main purpose of this study is either the vagueness in the exchange rate is negatively associated with Pakistan's export or positively. A lot of studies have been done in the association of exchange rate ambiguity and degree of export whether optimistic or in a direction to turn downward.

Khan, (2014) Stated that exports of a country are contributing largely in the GDP of developing countries as compare to developed countries.Though exports influence in different ways due to fluctuations of exchange rates. Further reported that exchange rate direct effect on the actual price of exported products, where the impact of exchange rate instability change across the sectors and have considerably negative effects on trade of a country.

Over the time period, instability of currency in Pakistan has shifted the consideration of economist towards the exchange rate, it plays a vital role in determining the country's economic performance,

(Ahmed et al 2014). Export of country is one of the main factor representing the economic health of a country. While fluctuating the exchange rates and relative price can affect the level of exports and it is a shocking situation to a country when exports are influenced by the exchange rates fluctuation (Haseeb & Rubanly, 2014) .

Bashir et al,(2013) Concluded that the exchange rate fluctuations of Pakistan destabilizes the exports with main trade partners and consequently affected the economy and growth of the country. So for the purpose of economic development, it's needed either control or forecasts the exchange rates in order to minimize uncertainty having effects on exports of Pakistan and adopted a valid strategy to control the ambiguity and uncertainty of exchange rates. Specifically, in Pakistan monitory policy must be controlled to avoid the instability in the exchange rate to protect the exporters from the risk of loss of their equity.

According to Shah et al (2010), more fluctuations of the exchange rate causes the reductions in the trade, further concluded that the positive relationship of the exchange rate with export trade, depreciation in the value of a currency impact on export increases of a country. (Hasan, 2013) Reported that the uncertainty of exchange rate would highly affect the trade as well economic growth. For economic growth, there must be control or forecast for future period uncertainty thus assists the foreign investors to save the reduction in foreign trade.

According to Dincer & Kandil,(2008), A positive upset to the exchange rate, a unanticipated increasing the domestic currency value, which decreases the exports of a country, random fluctuations approximately expected trend produce asymmetric trend on sartorial expert in turkey. (Humayon, Ramzan, & Ahmed, 2007) Stated that uncertainty in exchange rate increase the costs of production rapidly and reduce the profit hence decline in export of the country. They concluded that in economic growth, exports play a vital role along with the development of the country, where exchange rate fluctuation affects the exports. (Yousaf & Sabit, 2015) analyze the off exchange rate fluctuations effect on Asia, further, they argued on china's bilateral trade, in which they concluded that the fluctuations of exchange rate effect on export were inelastic, exchange rate elevated by when 1 percent beside export fall by 0.21 percent.

The exchange rate determines the price of domestic as well as foreign goods so it affects the worth and volume of exports sold and in return import bought, and its impact on trade balance (Elwell, 2012). The devaluation of exchange rate protects essentially to guide and enhance the balance of payment (Ahmed, Ahmed, Khoso, Palvishah, & Raza, 2014). According to (Dognalar, 2002) the effect of exchange rate fluctuations on export of five developing countries along with Pakistan in which he concluded that broad relationship exist between the exchange rate and export, further as concluded that exporters are the risk avoided because the exchange rate instability would be reason to exporter to reduce the export in that conditions. (Ragoobur & Emamdy, 2011) Concluded that positive impact examined for a short run while fluctuations in exchange rate expected in long run.

Khan U.(2013) reported that G.D.P (gross domestic production) and exchange rate showing insignificant impact on Pakistan's export, exchange rate instability impact on price level and trade, either positively or negatively, in his study further he examined that the appreciation of currency may also affect export, and a decrease in currency may increase export temporarily if the demand of export is high in traded country.

Shah et al,(2010) Argued that fluctuations of exchange rate either depreciation or appreciation have a different effect on trade, it effects on the price level of the supplies to be exported and also the goods to be imported. The overall balance of export proceeds and that of import payments verify the trade balance of a country and payment it determines the position of the current account. Fluctuations of exchange rate create the uncertainty in the shape of reducing the trade volume. According (Sandu & Ghiba, 2011) exchange rate instability discourages the international trade. They examined the relation between exchange rate and exports of Romania and further. In which he found there is an inverse relation between exchange rate and exports in Romania.

Khan et al,(2014) Studied in his research that devaluation of currency restricted the total supply because of expensive import production units, wages, the working capital cost is high and the potential for trade has been decreased. Whereas (Shahzad & Afzal, 2013) examined in their research that devaluation of currency discourage imports of a country as it encourage the export of a country and increases the foreign receipts and saving also assist in improving trade balance and I has an expansionary effect on the economy.

Fag, Lai, & Miller,(2009) examined the influence of instability about the exchange rate of eight developing countries in comparison to the export of United States and concluded that instability of exchange rate tends to have a positive influence on exports those either negative or positive impact. It has been examined by the different researchers that instability of exchange rate influences the international trade negatively.

The outcomes considerably varied in term of South Africa like Todani & Munyama,(2005) discovered either the positive impact of the instability of exchange rate on exports or insignificant relationship. This gap in outcome was owing to the use of unlike assessment of volatility. The co-relationship too assessed of Mauritius export and experimental examination suggested that the effects can be positive provided that for a short run, where fluctuations in exchange rate anticipated depressing effects when analyzed for the long run (Ragoobur & Emamdy, 2011) .

Hall et al, (2010) examined that countries financial and monetary development impact the availed outcomes by applying econometric methods in relation to better-advanced economies, rising states respond quickly for that instability of exchange rate affects the real economy within a short period. While rising economy alike of the one in Romania beside developed alone is further delicate to distress owing to sub-standard effectiveness mechanism and redressed financial assets existing.

At the period of disaster, instability of exchange rate raised due to severe macro-economic disparity. “The contagion effect” considers the “Romanian leu”, becomes insightful fluctuations of the different currencies as of the Eastern Europe.During the similar period, exports relationship is reducing the overseas demand. At this situation, the exchange rate has an effect on the exports development. Domestic currency is determined by few researchers where reduction might be an essentially (Hall et al, (2010). The idea contradicts with diffent elements and maintains the reduction of exchange rate might have further negative beside positive influence (Ripoll-i-Alcon, 2010).

Exchange rate instability affected by financial market growth. In such conditions instability having tough insinuation on foreign trade provided growth of the market is declined (Aghion, et al, 2009). This thought was given by (Rehman & Serletis, 2009) who gave particular consideration to the condition of the association engaged in foreign trade relating hazard of currency. Where some important elements highlighted at the time of carrying out an examination of their co-relationship in the exchange rate and exports, while the emergence of international corporations participated in foreign trade and partners perspectives about the fluctuations of the exchange rate.

Bashir et al (2012) analyzed that the strong relationship between unstable exchange rate and the exports of Pakistan in long run. (Shaheen, 2013) Concluded that the direct impact of exchange rate fluctuations on the Pakistan’s exports. (Kandil, 2009) Argued that the currency appreciation effects in improving the trade balance and balance of trade, which has directly effect on increase in the dollar value of exports that dominates the increase in the dollar value of imports and improvement, indicates the stability of balance of trade. (Mohammed, Yusoff, & Sabit, 2015) Analyzed that fluctuations exchange rate negative impact on trade. According to their findings, they recommend that the Asian nations should maintain the constancy of their two-sided exchange rates with Chinese Yuan as a means to push their exports to China due to the strong economy of china.

Yukseli, et al (2013) Analyzed that the fluctuations of exchange rate reduced the international trade, further they argued that depreciation of domestic currency encourages the export, while it was found to adversely effect on imports. In this study, they concluded that an increase in exchange rate instability affected the demands for both exports and imports. (Kandila*, Berumentb, & Nergiz Dincerc, 2007) Argued that currency devaluation promotes the trade balances largely, which depends on switching the demand in the proper direction and sometimes its effect on the export increase and export surplus.

Barkhomay,(2011) Stated that exchange rate affected the country’s foreign trade and balance of trade. Exchange rate fluctuations have an impact on exports and imports of the country and they concluded that exchange rate fluctuations have a major effect on bilateral trade between countries. (NYEADI, ATIGA, & ATOGENZOYA, 2014) Stated that valuation of the local currency against, the trading partner countries will lead to exports expensive while import becomes cheaper and depreciation of local currency leads the cheaper export while imports become expensive and depreciation of domestic currency leads higher the domestic production.

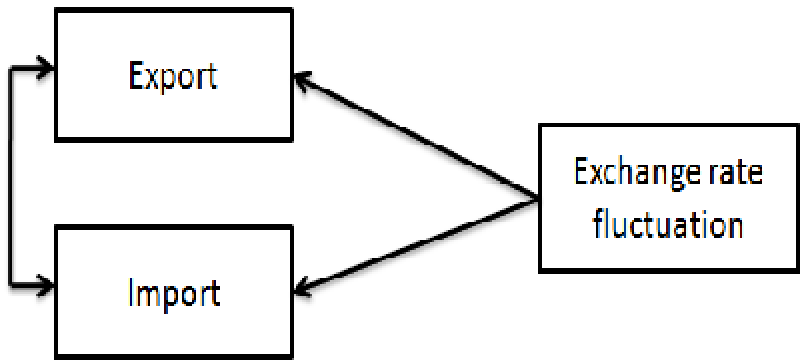
Glein.erdal, H, & K,(2012) concluded that exchange rate variations have a positive and long run impact on export earnings of the production of industrial sector while the depreciation of the currency have expected long-run effect on the import of the production of industrial sector and have positive effect on export earnings of the agricultural sector of the country. (Thorbecke, 2011) Surveyed on the relationship between exchange rate and trade between Asian countries. In this, they concluded that exports of Asian countries depend on the exchange rate throughout the East and central Asia. Export varies along with exchange rate variations.

Devaluation of currency, lowering the prices of export and raising the import prices. In the case of trade is in balance then trade terms and conditions are not changed according to the price variations when imports increase then the exports, it will cause to reduce real income inside the country. Currency devaluation increases the exports and decreases the imports of the country (KANDIL, 2004).

According to Anca GHERMAN, STEFAN, & FILIP, (2013), The relationship of the exchange rate and fuels export, capital goods and chemicals as compare is weaker than the relation of the exchange rate and food exports. (Bristy, 2013) Argued that instability of exchange rate movement increased extremely and this lead policy maker to examine the effects of the exchange rate variations on balance of trade. Fluctuations of exchange rate create uncertainty of trade, which reduces the benefits and earnings of international trade. (KN & TC, 2011) Stated that strong relationship exists among quantities of export, as relative to the price, foreign income, and exchange rate variability for a long time. Further, they stated that exchange rate fluctuations have an effect on long and short run exports.

For the Romanian case, Sandu & Ghiba, (2011) analyze the exchange rate relation with the international trade and they concluded that the devaluation of Romanian currency have no or a small effect on exports and its relation with imports is weak as compare to export. (Shah, Mehboob, & Raza, 2010) Analyzed that variations in exchange rate devaluation or valuation of currency, both kinds of fluctuations have an impact on the trade; it affects the price level of exported products and also the imported products. The export receipts and the payments of import determine the balance of trade of the country. (Bashir, Hassan, Naseer, & afzal, 2012) Concluded that the uncertainty of exchange rate in Pakistan resulting destabilizing the exports and hence, it may injure the economy.

Research Model:



Export= β o +β1 (Each: rate) + μ

Import= β o +β1 (Ech: rate) + μ

Where:
Export (dependent variable)
Import (dependent variable)
Exchange rate (Independent variable)
β o= constant intercept
β= coefficient of the variable
μ= error term

Hypothesis:

HO: Exchange rate fluctuations have positive effects on export

HO: Exchange rate fluctuations have positive effects on import

Data & Methodology:

Secondary annual data was used and collected from Pakistan Bureau of Statistics Government of Pakistan and World Bank from the year 1985-2015; different research article could be reviewed for the review of the literature. For data analysis, SPSS 18 was used by using linear regression to examine the relationship between the variables.

Results:

The adjusted R-square measure the overall fitness of model, table above shows the adjusted R-square is .896 which reveals that this model is fit at 89.6%, which state that independent variable namely exchange rate is contributing only 89.6% to the exports, while remaining 10.4% is an error term and significant of this model is at .000, which states that exchange rate is a major contributor to predict the export.

Table 1: **Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.949[a]	.900	.896	2292.083

a. Predictors: (Constant), Exchange Rate

Table 2: **ANOVA[b]**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.321E9	1	1.321E9	251.405	.000[a]
	Residual	1.471E8	28	5253644.117		
	Total	1.468E9	29			

a. Predictors: (Constant), Exchange Rate

b. Dependent Variable: Export

Table 3: **Coefficients[a]**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-587.267	906.616		-.648	.522
	Exchange Rate	252.888	15.949	.949	15.856	.000

a. Dependent Variable: Export

The results are shown in above table that exchange rate is positively related to export, also the significant positive relationship between exchange rate and export highly strong

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.900[a]	.811	.804	6475.362

a. Predictors: (Constant), Exchange Rate

Table 5: Coefficient

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.030E9	1	5.030E9	119.971	.000ᵃ
	Residual	1.174E9	28	4.193E7		
	Total	6.204E9	29			

a. Predictors: (Constant), Exchange Rate

b. Dependent Variable: Import

Table 6: Coefficient for Import

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5220.864	2561.281		-2.038	.051
	Exchange Rate	493.529	45.058	.900	10.953	.000

a. Dependent Variable: Import

The adjusted R-square measure the overall fitness of model, table above shows the adjusted R-square is .804 which reveals that this model is fit at 80.4%, which state that independent variable namely exchange rate is contributing only 80.4% to the import, while remaining 10.4% is an error term and significant of this model is at .000, which states that exchange rate only is not a major contributor to predicting the export but import also.

In the table above the value of beta for the exchange rate is highly positive at .900 and significantly related to import.

Conclusion & Recommendation:

Exchange rate fluctuations is problem of many economic systems, which can be made better through different policies analysis, for that purpose research was done, that revealed that exchange rate fluctuation is significantly and positively associated with inputs, which can be controlled if favored export and import policies be encouraged that is logically justified in this research that exchange rate fluctuation is positively and significantly related with both export and import.

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