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PAKISTAN TRADE AND ECONOMIC RELATIONS WITH UNITED KINGDOM [*]

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ABSTRACT

The current study explores the present and future potential of trade and economic relations with the economic leader of European Union (EU) namely United Kingdom (UK), and their impact on economic growth of Pakistan, and also assess the potential of Pakistan to keep these relations with EU rather that the BRICS, ASIAN, CAR, Gulf and other economies that might seem lucrative markets but is it at the cost or benefit to Pakistan's traditional relations with these EU economic and technological giants. The study concluded that there is highly significant impact on the economic growth of Pakistan by the trade and economic relations Pakistan with the UK. All variables found co-integrated for the UK which indicates that there is a long run co-movement exit between Pakistan and UK.

Keywords: Economic growth; Trade; Economic relations; Pakistan, United Kingdom.

FIRST LEVEL HEADING

Pakistan is a nation that has traditional relations with UK – England has been the colonial master in the region for more than a century, resulting in deep rooted economic and trade relations between the two countries. Punjab and Sind have been traditional suppliers of cotton and other basic raw materials to English factories. Pakistani's since independence have been sending its educated youth to study in UK universities, and a large number of compatriots are living and working in UK as labor force and sending much needed remittances to their families in Pakistan. Apart from USA UK, France, Germany, Italy and Spain have been trading partners of Pakistan. This paradigm how even is fast shifting to other economic centers and markets of the region and the world. Pakistan imports technology and knowhow from these traditional partners of Europe. Pakistan has strong economic and trade relation with the UK. UK is the largest investor and trading partner of Pakistan from the European Union. The UK has the stronger link to Pakistan is the field of education, culture, development, business and support.

[*] The views or opinions expressed in this manuscript are those of the author(s) and do not necessarily reflect the position, views or opinions of the editor(s), the editorial board or the publisher.
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UK is the biggest advocate of Pakistan in the European Union. Pakistan's political hierarchy picture has the base of building the broad-based substantive and long term relation with Germany. Pakistan and Germany both enjoy the relation and shared the common interests. Pakistan target is to access the EU market for trade that's why Pakistan vales the Germany assistances (Jamil, 2012).

United Kingdom is the largest trading partner of Pakistan after the USA. Pakistan exports and imports from United Kingdom increasing consistently. In the period of 80's Pakistan faces the trade deficit from the United Kingdom. In 1985 Pakistan trade deficit was $ 184.2 million and in 1990 it decreased to $ 29.3 million. In the last two decade Pakistan have trade surplus from the United Kingdom. Pakistan exports to United Kingdom rose from $ 574.6 million to $ 1027.7 million in 1995 to 2010. Pakistan imports from United Kingdom were $ 531.9 million in 1995, it decreased to $ 355.7 million and it rose to $ 532.4 million and again it increased to $ 596.9 million (State Bank of Pakistan, 2011).

Comparing these trade patterns with the GDP growth of Pakistan shows that in the years 1980 to 2000 there is huge decease recorded in the GDP growth over this period. In 2000 to 2005 GDP rise rapidly from 2% to 9% but afterwards downward trend started which causes GDP to fall at the stage from it starts in 2000 almost just 1.7% growth is recorded in 2009 and then it rise again to 3% in 2011 (Handbook of Statistics on Pakistan Economy 2010).

Pakistan main export item to UK are surgical and medical instruments, cotton yarn & woven fabrics, textile items, leather and leather manufactures, pharmaceuticals products and chemical products. Pakistan main imports item from UK are machinery and mechanical appliances, fertilizer, road vehicles and chemical products and articles (Government of Pakistan, 1950),(World Bank (IBRD), 2012).

Economic relations dimension includes the investments flow, aid flow, remittance flow and migration between the countries. UK is the second largest investor and aid donor of Pakistan. UK provides the aid to Pakistan for the following purposes: building Peace and stability, Federal and Provincial progress, Effective delivery of public services, empowering women and girls, Promoting macroeconomic stability, growth and jobs, for the peace with its neighbors, making democracy work, education, child survival and health, maternal health, poverty reduction, hunger vulnerability, humanitarian, supporting economic growth and UK aid for debt relief. UK has supported 420,000 children in school, help 400,000 girls to go to school, trained 34,000 teachers, constructed 35 community midwife school, trained 10,000 midwives, provides 40,000 directly to the household women in the flood affected area of Pakistan in the year 2010-2011 (UK Aid, 2012).

The migration from Pakistan to EU is important because it is improving economic condition in Pakistan through the remittance inflow and it is also working like a bridge to build strong relation with EU. There is 21.08 percent increase in the remittance received from EU in 2009. It was 6451 million in 2007-08 and it rises up to 7811 million in 2008-09 (Abbasi, 2010).

Every year Pakistan received large amount of remittance from United Kingdom. Remittance inflow in Pakistan from United Kingdom is increasing considerably in the last decade. In 2001 remittances inflow was $ 81.39 million and it rose to $ 875 million in 2010. The total volume of remittances inflow in Pakistan from United Kingdom is $ 4022 million (State Bank of Pakistan, 2010).

12.6 percent of Pakistan's population migrates every year. Pakistan is on the 7th number among the top emigration countries. There is largest inflow of migration in UK, Germany, France, Italy and Spain among the other EU countries. The high income countries are the main source of remittance and FDI for the developing countries and after U.S.A. large amount of remittance is received from the UK, Germany, Spain, France and Italy by Pakistan

(Auras, 2011). There are 2.2 million Pakistani who live in EU and more than half of this live in UK, France, Italy, Spain, Germany and Greece. The migration from Pakistan to EU is quite different from the migration from Pakistan to rest of the world.

Migration to United Kingdom from Pakistan is increasing rapidly over the 2000 to 2010. In 2000, 10 thousand people move from Pakistan to United Kingdom and it rose to 32 thousand people in 2010. In 2007 only 7 thousand people move from Pakistan to United Kingdom. This is the only year when migration from Pakistan to United Kingdom was not much high comparatively remaining years from 2000 to 2010. The total migration in this decade is 222 thousand (Office for National Statistics, 2010).

Problem Statement

The current study wants to research the present and future potential of trade and economic relations with the economic leader in EU (United Kingdom) and their impact on economic growth of Pakistan and also assess the potential of Pakistan to keep these relations with EU rather that the BRICS, ASIAN, CAR, Gulf and other economies that might seem lucrative markets but is it at the cost or benefit to Pakistan's traditional relations with these EU economic and technological giants.

Purpose Statement

The purpose of this study is to check what is the status of Economic relations of United Kingdom with Pakistan and what type of shift in these relations can become a dynamic factor that would streamline economic growth of Pakistan in the future i.e. a shift from traditional economic relations towards some new, modern ways of doing business in line with the structural transformation happening in United Kingdom?

Objectives of the Study

Current study would attempt to study the impact and viability (Past, Present & future) of the change in the independent variables concerning Pakistan and her economic growth potential. Therefore:

1. Analysis the present and future exports and Import (Trade) of United Kingdom with Pakistan and their impact on Pakistan's economic growth
2. Analysis the present and future Economic Relations of United Kingdom with Pakistan and their impact on Pakistan's economic growth
3. Analysis the present and future Economic (Services, Cooperation, and Technology transfer) of United Kingdom with Pakistan and their impact on Pakistan's economic growth
4. To explore the long-run relationship between Trade and Economic cooperation relations of Pakistan with United Kingdom and Pakistan's Economic Growth

Hypotheses

H_1: The United Kingdom–Pakistan trade relations would have a significant impact on economic growth of Pakistan

H_2: The Other Economic Relations of United Kingdom with Pakistan would have a significant impact on economic growth of Pakistan.

H_3: Trade and Economic cooperation relations of Pakistan with United Kingdom and Pakistan's economic growth have long-run relationship.

Research Question

Research question can be poised as how Trade, Economic and other such relations of Pakistan with United Kingdom can be improved in favor of Pakistan Economy from what they are today?

Beneficiaries of the Study

The current study should benefit:

a) The economic and foreign policy makers
b) The private sectors of Pakistan, in particular those that are and in future would be trading (and economic joint ventures) with United Kingdom
c) The social sector and labor market – skilled, semi-skilled or educated – as potential job seekers inside and outside Pakistan
d) The researchers that are researching the poverty reduction strategies of the country and the region
e) And the over body of economic knowledge in general and International economic and Commerce relations in particular

LITERATURE REVIEW

International Trade and Economic Growth

International trade has positive impact on the income level of the countries. Trade increases the employment rate and growth in the country. In the long and short run trade have economic advantages for the developed and less develop countries (Gabriel, 2005). Trade does not have any strong impact on the business cycle between the countries but trade promotes regional stability and economic growth among the countries (Martincus & Molinari, 2007). EU trade relation with Asia has significant impact on the economic growth of both countries. EU and Asia trade partnership have long run positive impact on the development (Gavin & Sindzingre, 2008).

Pistoresi and Rinaldi (2012) examine the relationship between import and export and economic growth in Italy from 1863 to 2004 and use the co-integration analysis and causality. The direction of causality indicates that imports and exports both lead towards growth in the long run and weak causality were found exports leads to growth and imports leads to growth.

Daumal and Ozyurt (2011) investigate the relation between international trade and economic growth in 26 Brazilian states from 1989 to 2002. They took the economic growth as dependent variable and international trade as independent variable and initial income levels, human capital, growth rate of labor force and private and public physical capital as control variables. The analysis conducted through dynamic growth regression using the GMM estimator. The result of the study indicates that there is long term significant relation between economic growth and international trade in Brazilian states.

The study of Berggren and Jordahl (2005) investigated economic freedom relationship with economic growth. it used the annual data set from 1975 to 2000. They used the regression analysis and after that applied sensitivity analysis. The study concluded that economic freedom has negative relation with economic growth. If there will be less free trade there will be high growth rate.

Imports are related to economic development, foreign income, price and exchnage rate. Income elasticity increases the imports of manufactures and non manufactured goods. Increase income elasticity of imports is a process of raing economic development but in country with lower GDP, price are important than the income elasticity (Lo, Sawyer, & Spri, 2007).

Mahadevan and Suardi (2011) examine the trade, division of labor and economic growth relation. The study used the quaterly data from 1991 to 2004 for the top five mobility countreies, China, Spain, Thailand, South Korea and Indonesia and applied VECM-GHARCH model for the analysis. The study concluded that labor productivity, trade and growth have causal relationship in small open economy. More the mobility and divison of labor more the economic growth in the country.

Marelli and Signorelli (2011) analyzed the economic growth of China and India concerning with the trade between these two countries and there economic relation concerning with foreign direct investment. The study used the fixed effect panel data model and causality 2SLS (specific instrument variables). The result of the study indicates that trade and FDI have significant impact on economic growth.

Trade policies and trade partner's technological progress affect the industrialization, industrial upgrading and economic growth in two countries. Trade liberalization may have first impact on consumption growth rate and industrial upgrading. By maintaining the optimal tariff rate trade will be beneficial for the economic growth and industrialization (Wang, 2011).

Gul and Yasin (2011) estimated the Pakistan trade potential using the gravity model. Panel data of 42 countries taken from 1981-2005 were used and founds Pakistan trade potential is highest with the European Union, the Middle East, Latin America, North America and Asia-Pacific region. Trade has impact on technological progress. There are two factors that are associated with growth human capital and knowledge transfer. Trade between the countries promotes the relation between the people of two different states and so on give chance to share knowldege and put significant impact on the growth (Bidlingmaier, 2007).

The effect of term of trade on the income, consumption, economic growth of Pakistan is studied by Fatima (2010). The data from 1990 to 2008 was taken. The study concluded that in Pakistan this relation is negative and suggest that in Pakistan there should be focused on whose commodities exports which have more demand and advantage in the market. There is need to develop export stratgy for the taking the advantage from the trade.

Awokuse (2007) investigated the import and export impact on ecnomic growth of Bulgaria, Czech Republic, and Poland. VAR model used to see the import and export contribution to the economic growth of the countries. The result indicates that export alone cannot have beneficial for the country and same as the case for the import. Trade is an engine of growth so both import and export collectively enhances the economic growth in the country.

Foreign Aid and Economic Growth

Start test from here. Foreign aid effects on the economic growth dependence on the mechanism through which aid inflow is taking place. Foreign aid has short run and long run effects on economic growth in the presence of elasticity of labor supply and production facilities, good government policies and better utilization of aid. Foreign Polices elites, government spending and interests groups can damage the aid effects on the economic growth (Chatterjee & Turnovsky, 2007).

The study investigates the role of foreign aid, capital movement, domestic savings, capital mobility and openness effect on investment in sub-Saharan Africa countries. The simple OLS techniques was applied and found that foreign aid, capital movement, domestic savings, capital mobility and openness have positive impact on investment and investment, capital movement, openness and foreign aid make country able to take advantage and foster GDP growth in the country (Payne & Kumazawa, 2005).

Neanidis and Varvarigos (2009) investigate the relation between growth and aid by using the simple linear regression on the data of 66 countries from 1973 to 2007. For this analysis aid is dividing into its two modules ‘pure aid’ and ‘directly productive aid’ found that growth is highly affected by the aid in the long run.

Angeles and Neanidis (2009) examine the aid impact on growth by using 171 countries data from 1958 to 2001 and found that there is no positive relation between the aid and growth. Foreign aid and economic growth relation investigated by the author through the panel data technique on the South Asian countries taking the data from 1975-2002. The long term positive relation was found between the foreign aid and GDP growth in South Asian countries.

Kourtellos, Ming and Zhang (2007) inspect the relation between aid and growth with the unbalanced dataset and converted it into two periods from 1965 to 1979 of 42 countries and from 1979 to 1994 of 56 countries. The result of the study indicates that there weak negative relation between the aid and growth. Foreign aid is seems to be the effort to develop the poor countries and to increase the growth rate. Foreign aid has socio-economic advantage for the poor countries but the political interest of donor and recipient countries influence the use of aid in the country and that’s why aid is not beneficial for the recipient country for achieving MGDs goal and aid have negative impact on the growth rate of the country but if aid is used in a productive way it will be beneficial for the country (Mavrotas & Nunnenkamp, 2007).

Development of the country influences the aid effect on the education growth. Increase in the foreign aid for education would increase the economic growth in the country and make it able to accomplish MDGs goals (Asiedu & Nandwa, 2007). Foreign aid has positive impact on economic growth and poverty reduction on HPIC in short run and in long run (Cassimon & Campenhout, 2007).

Ouattara and Strobl (2008) examine the impact of the foreign aid on economic growth of country and simple OLS techniques were applied. For this purpose foreign aid types are investigated separately and found that project aid has significant impact on economic growth of country and technical assistance, financial aid and food aid have negative impact on growth. Internal policies of country influence the relation between aid and growth.

Foreign aid impact on economic growth is depends on the use of aid, inflow of aid, fiscal policy, environment, internal policies for aid and political restriction on aid. Foreign aid has significant positive relation with economic growth in the presence of the public goods and negative impact in the presence of the rent seeking (Hodler, 2007).

Foreign aid has negative impact on the political institution of the country. aid is need to enhance the education level, human right, development and growth but aid dependence and aid political condition have negative relation with growth and development of the country (Djankov, Montalvo, & Reynal-Querol, 2008).

High income countries enhance economic growth in poor countries through foreign assistance but trade is more beneficial for the country to promote economic growth in the country than the aid. Developing countries should focus on the trade creation, increased the exports and show less concern for the foreign aid. Aid dependence reduces the development level of the country and has negative impact on economic growth of the country whereas trade has positive impact on the economic growth of the country (Lundsgaarde, Breunig, & Praka, 2007). Foreign aid has direct positive and significant impact on the economic growth of the country but due to rent-seeking activities aid has negative impact on the economic growth. In the public sector countries aid hurt the growth and rise social conflicts (Economides, Kalyvitis, & Philippopoulos, 2008).

International Migration and Economic Growth

Start test from here. International migration and remittance have positive impact on the country development and poverty reduction in a country. Remittance increases the per capital income in the country and a source of exchange rate in a country. International migration policy plays an important role in economic development and poverty reduction. Lowering the cost of transfer in the home country would encourage the migrants for the remittance flow (H, Jr, & Page, 2005).

The study of Maria and Lazarova (2012) checked the effect of skilled migration on human capital formation and growth. OLS method was used for analysis. The conclusion of the study are migration have positive impact on the economic growth and on human capital formation. Difference in the wage rate, technology, mobility, and work environment train the migrants and in they prove to the brain gain for the home country when went back. The remittances which migrants send to home country are also positive for economic growth.

Movements of worker are dependence on the wage difference of both countries and rise in their income of levels. Back migration is dependence on the level of saving and opportunities that they may avail in their home country. Remittances have positive impact on the economic growth of home country because remittances improve economic conditions and also capital labor ratio in home country. Technological differences slow and steadily disappear in long run but the wage differences, productive factors and opportunities availabilities between the countries are the main of cause the permanent migration (Larramona & Sanso, 2006).

Pieretti and Zou (2009) investigate the brain drain impact on the income and wage of sending country and also the potential of migration of skilled and unskilled workers of sending country. The conclusion of the study shows that unskilled worker migration does not have any strong impact on the economic growth of sending but skilled worker have. Weak substitutes of skilled workers somehow manage the gap and remittance send by the migrants also help to recover the income gap of the sending country. The possibilities of migration promote investment in the human capital instead the focus on economy growth they focused on the human capital accumulation which ultimately increase the probability of migration (Chen, 2008).

Calero, Bedi and Sparrow (2009) stated that remittances positively increase the school children enrollment, investment in human capital but have negative impact on the child labor. Remittances improve the household consumption and help economy to handle the economic shocks. Migration and tourism expenses have negative impact on the economic growth of the home country and it also affects the labor force, sector level output, regional income, welfare and price (Konan, 2011).

Migrants around the globe secure the household and Migrants brings new knowledge, ideas and techniques in home nations. Remittances play an important role in developing the living conditions of migrant's family and foster growth in country. Remittances are not only the way to have savings and investment but also are the way to earn foreign capital. Remittance and migration influence the economic and social activities in the home country and both have positive impact on economic growth and development of the home country (Cohen, 2005).

Migration is the source of mutual gain for the home and host country. Migration promotes stability among the countries and enhances growth in both countries by providing remittance and knowledge to the sending country and by substituting labor in the receiving country. Migration also affects the trade, FDI positively between the countries (Lavenex, 2007).

Migration impact on economic growth is dependence on the economic, social condition of both countries. The flow of immigration, labor movement and human capital formation has short run and long run impact on economic growth of the country. Migrants compensate the loss of sending country by sending different type of financial benefits to the home country such as remittance investment and in shape of return migration is the brain gain for the home country (Cipriani, 2006).

International labor movement is dependences on the social, economic and environment conditions of the countries. International migration has significant impact of the international policies, growth rate and developing good relations with countries (Hugo, 2006). Migration is brain gain for the source country in short run and migration has positive impact on the economic growth of the host country and negative relation in the source country. Labor movement has positive impact on employment rate, per capita income, growth rate and also on regional disparities (Ederveen, Nahuis, & Parikh, 2007).

Migration decision of the country dependence on the wage differences, opportunities abilities, labor market size and social economic condition in countries. Rational behavior of the migrants affects the internal policy of the source country. Italy economic social conditions are very peaceful to attract the foreign labor in the country. Italy demand for labor is elastic that is one of the major causes of movement of labor from the world in to Italy (Moretto & Vergalli, 2008).

International migration has Scio-economic spillover effect on the host country. In the long run migration changes the technology, investment pattern for the both countries. Short run effect of the migration is negative but in the long run migration is fruitful for the both countries. Migration impact on the wage and employment rate is dependence on the demand and supply function and migration have very less effect on the employment and wage rate. Migration flow in EU and US is large than compare to another country in the world and in both countries migration have negative impact on the employment and wage (Longhi, Nijkamp, & Poot, 2010). Labor market plays an important role in migration decision. Temporary migration is useful for the both sending and receiving countries; it increases the employment rate and also builds strong relation among the trade union (Ciupijus, 2011).

Migration is the expectation of future earnings and migration is rationale decision which is based on the government policies, capital labor ratio and profit on investment (Sandberg & Saldana-Zorrilla, 2009). EU labor migration policy is more flexible especially in Germany, France, Great Britain and Belgium than US. Immigration policy of country can have negative impact on the economic growth of other country because if the policy is attracting the migrants than migration rate will be increased which may have negative impact on the sending country growth. Permanent migration decision is based on the demographic and economic conditions of countries and temporary migration is more beneficial for the countries than the permanent migration. Labor mobility has the positive impact on economic growth of the country in the long run (Zimmermann, 2005).

Immigration effect depends on the government consumption of the country. Immigration effect is positive on economic growth of Austria but it is too small to eliminate the fiscal gap (Mayr, 2005). Labor movement leads towards the sustainable development in the country. Temporary migration has positive impact on the return conflicts and growth of the country (Maconachie, Binns, Tengbe, & Johnson, 2007).

Migration has positive impact on the FDI inflow in the origin. FDI is the source of capital and migration is the source of technology transfer, new ideas and techniques in the home country. Migration increased the education level in the home country through the remittance transfer. Return migration is source of brain gain for the country and Brain drain does not have any strong effect on the economic growth of home country. Migration and FDI enhances the economic development and growth in the country (Federici & Giannetti, 2010).

Labor mobility enhances economic development, reduce poverty and also increase the social and economic condition in both countries (Bardsley & Hugo, 2010). Migration increases the consumption and investment in the human capital and increase the small business in the home country through the inflow of remittance. Migration and remittances both have positive impact on the social and economic development of the country (Jason & Lopez-Carr, 2010). International migration increases the income, employment, investment, human capital, political stability in the both countries and also influences the migration flow and policies between the countries (Jennissen, 2007).

Remittances and Economic Growth

Start test from here. Catrinescu, Leon-Ledesma, Piracha and Quilli (2009) investigate the remittances impact on economic growth. The panel data OLS techniques were applied to analysis the impact of remittance on economic growth. The results of the study indicate that remittance has significant positive impact on economic growth. Sound institution system in a country enhances the investment from the remittance and leads investment towards economic growth.

Remittances have positive and significant impact on the economic growth and in reducing poverty on the country. Remittances increase consumption, income and capital in the receiving country. Government should increase the inflow of remittances through the formal channel and try to use remittances in productive activities (Jongwanich, 2007).

The study of Gupta, Pattillo and Wagh (2009) check the remittance impact on economic growth of sub-Saharan Africa. The volume of remittance in the sub-Saharan Africa is relatively small than the other developing countries. Aid inflow in the country is relatively large than the other developing countries. Remittances are the important private source of fund in a country. Ordinary Least square method was used for the analysis. The conclusions of the study are that remittance effect on the growth dependence on the house hold use of remittance. Although sub-Saharan Africa received small quantity of remittance but remittance have positive impact on the economic growth of sub-Saharan Africa. Migrants transfer abrupt fund in the home country which is the source of exchange rate earning for country and source of investment for the households. Remittance has long term positive effect on the development of the country and reduces the poverty in the country.

Combes and Ebeke (2011) investigate the remittance impact on household consumption instability. The panel data OSL technique was used to analysis the relationship in the developing countries. The result of the study shows that remittance has significant impact on the household consumption instability. There is positive relationship between remittance and financial development.

Nyamongoa, Misatib, Kipyegon and Ndirangua (2012) examine the relationship among remittance, financial development and economic growth in Africa. Panel data OLS technique was used for the analysis and found that remittance is the major source of capital in a counry and remittace have negatice impact on the economic growth of Africa but the fianncial development intrection with remittance can promote economic growth.

Ziesemer (2012) examine the remittance, migration, development aid, saving and investment effect on the economic growth of developing countries. OLS model was used for analysis and the result of the study indicates that remittance have positive and significant impact on the economic growth, GDP per capital of the recipient country and as well as on education level, savings investments and emigrants have negative effect on the economic growth, savings and investment. Aid is the financial help from the developed countries for the less develop country for the development but aid has negative relationship with economic growth. Aid inflow in the country makes it more dependent on the aid. Investment has positive impact on the growth of the country.

Ahamada and Coulibaly (2011) investigate the remittance impact on GDP growth with the interaction of financial development. Panel regression method was used and result of the study shows that financial development influence the remittance impact on the GDP growth. In the absence of financial development remittance impact on the DGP growth is non-linear in and its impact change over the time. Stability in financial sector and public and economic policy of the country can increase the remittance impact on GDP growth.

Naiditch and Vranceanu (2010) examine the relation of remittance with economic growth when migrants invested it in the home country. Two-country model was developed for the two different time period and for the incentives policy of the two different countries. Migrants moves from the home country to improve their financial conditions and they are self interest people and this self interest is beneficial for the home country.

Giuliano and Ruiz-Arranz (2009) concluded that remittance relation with economic growth is dependence on the financial system of the country. Financial system of the country and absorption power is the impotent for taking advantage from remittance inflow and financial system provides different option for investment. Remittance has positive impact on the economic growth in the presence of financial development.

Remittances have positive impact on the manufacturing growth of a country. Remittance inflow appreciate real exchange rate in a country which is beneficial for the country. Remittance inflow also improves the standard of living and this private source is important for the country (Dzansi, 2012).

DATA AND METHODOLOG

Data Collection

Various sources have been used to collect the yearly data obtained over the period 1975-2010 (e.g., Government of Pakistan and Handbook of Statistics on Pakistan Economy 2005, Direction of Trade published by State Bank of Pakistan (SBP), World Bank Indicators, United Nations, and Office for National Statistics).

Methodology

The analysis of the data conducted in four steps. First, concerned variables are tested for unit root via Augmented Dick-Fuller (ADF) test, to establish the extent to which the variables assemble essential stationary conditions. Secondly, Ordinary least squares (OLS) regression test applied to check the magnitude of influence by the indentified variable. Finally, co-integration among the variables explored with the Vector Error Correction (VEC) model of vector auto regression model.

OLS estimates have some strong statistical properties. Specifically when (1) the data obtained constitute a random sample from a well-defined population, (2) the population model is linear, (3) the error has a zero expected value, (4) the independent variables are linearly independent, and (5) the error is normally distributed and uncorrelated with the independent variables (the so-called homoscedasticity assumption); then the OLS estimate is the best linear unbiased estimate often denoted with the acronym "BLUE" (the 5conditions and the proof are called the Gauss-Markov conditions and theorem) (Abdi, 2007)."

The relation of variable can be explained through this model:

$$Y=\beta o + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_3 X_5 + \varepsilon$$

Where

β_0 = Intercept

β= Effect of independent variables

Y= Dependent variable (Gross Domestic Product)

X_1= Independent variable (Exports)

X_2= Independent variable (Imports)

X_3= Independent variable (Foreign Aid)

X_4= Independent variable (International Migration)

X_5= Independent variable (Remittances)

ε = error term

RESULTS AND DISCUSSION

The graph below shows the trends of concerned variables. It demonstrates the random walk with drift of variables upward trend of variables communicates that these series are non stationary.

FIGURE 1

Data Representation

Note. GDP, EXP, IMPT, AID, MG, REM represent the Pakistan GDP, exports, imports, foreign aid, migration and remittance with respect to United Kingdom.

The stationary condition of variables is verified that variables are integrated in order I (1) after transforming remittances in to log. From Table 1, P-value of OLS regression reveals that change in exports, imports, foreign aid, international migration and remittances is significant in explaining the change in GDP. R square shows 94% variation explained by independent variables in economic growth of Pakistan. The significance level of F-test is .000 which shows overall model is good fit. The value of T-statistic indicates that variable include in the study are significant except the variable remittances. Durban-Watson value in all regression model shows that the problem of heteroscadiscity does exists in the data. Variance inflation factor indicates that multi-collinearity does not exist between the independent variables.

TABLE 1

Ordinary Least Square: Pakistan and United Kingdom

Variables	Coefficient	Std. Error	t-Statistics		Prob.
C	-668575.4	193204.2	-3.460461		0.0016
Exports	1008.286	118.4433	8.512811		0.0000
Imports	709.9971	181.4139	3.913685		0.0005
Foreign Aid	966.1840	396.2246	2.438476		0.0209
Migration	7918.816	3761.922	2.104992		0.0438
Remittances	155224.2	104786.9	1.481332		0.1489
R^2	0.94	D.W	0.65	F	0.000

The regression model is as follow:

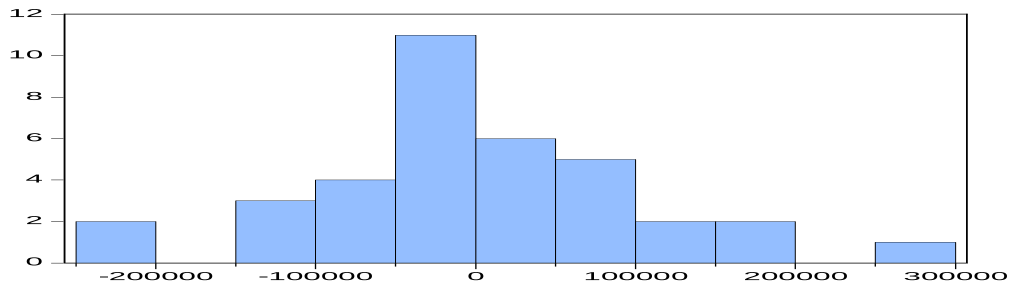
$$GDP = \beta o + \beta 1\ Exports + \beta_2\ Imports + \beta_3\ Foreign\ Aid + \beta_4 International\ Migration + \beta_5 Remittances + \varepsilon \quad (1.1)$$

$$GDP = -\ 6685 + 1008.2\ exports + 709.99\ imports + 966.18\ foreign\ aid + 7918.8\ international\ migration + 155224.2\ remittances \quad (1.2)$$

This model indicates that one unit change in the exports to United Kingdom will cause positive change by 1008.2 million in the GDP of Pakistan. The change in the value of imports from United Kingdom and will cause 709.99 million positive change in GDP growth. Same as one unit change in foreign aid, migration will also cause positive change in the GDP by 966.18 million and 7918.8 million respectively. Remittances from United Kingdom to Pakistan do not have any significant impact on the economic growth of Pakistan.

FIGURE 2

Histogram Normality Test



Cointegration is analyzed through using the Johansen Cointegration Test. Vector autoregression starting point in Johansen's methodology order of p value given by

$$Y_t = A_0 + A_1\ Y_{t-1} + \ldots.. + A_p\ Y_{t-p} + \varepsilon_t \quad (1.3)$$

Where Y_t shows the nxl vector of variables that are cointegrated in order 1 and ε_t is the nxl vector of innovations. Vector autoregression model can be written by as follow

$$\Delta\ Y_t = \mu + \prod Y_{t-1} + \sum \Gamma_i \Delta Y_{t-1} + \varepsilon_t \quad (1.4)$$

Here; $\prod = \sum A_i - I$ and $\Gamma_i = - \sum A_j$

The trace test and maximum eigenvalue test can be shown through the following equation

$$J_{trace} = -T \sum \quad \ln (1 - \lambda i) \quad (1.5)$$

$$J_{max} = -\ T\ In\ (1 - \quad _{r+1}) \quad (1.6)$$

T is the sample size and $_i$ is show the correlation. The trace test and Eigenvalue test analysis the cointegration vectors. The maximum Eigenvalue test results are purely based on the unit root test assumptions (Hjalmarsson & Österholm, 2007).

The cointegration equation model can be written as follows

$$GDP_t = \quad _0 + \alpha_{t-1}\ export + \alpha_{t-2}\ import + \alpha_{t-3}\ foreign\ aid + \alpha_{t-4}\ international\ migration + \alpha_{t-5}\ remittances + \varepsilon_t \quad (1.7)$$

TABLE 2

Results of Johansen Trace Test: Inexpt, lnImpt, lnaid, lnmig, lnremi

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.728742	130.0679	95.75366	0.0000
At most 1 *	0.650636	85.70870	69.81889	0.0016
At most 2 *	0.524400	49.95291	47.85613	0.0313
At most 3	0.372469	24.68483	29.79707	0.1730
At most 4	0.226528	8.842133	15.49471	0.3802

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
At most 5	0.003192	0.108717	3.841466	0.7416

Trace test indicates 3 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

For estimating the long run relationship between the United Kingdom and Pakistan trade and economic relations cointegration estimation is used. The table shows the output of the test results. GDP, Exports, Imports, Foreign Aid, International Migration and Remittances are found cointegrated. There exist 3 cointegrated vectors or 2 error terms according to the Trace and Maximum Eigenvalue. It indicates that there is long run relationship exists among variables. In the model all variables are endogenous and there is no exogenous variable. One or more than one cointegration vector in model stipulates that there is long run relationship among the variables.

TABLE 3

Results of Johansen Maximum Eigenvalue Test: Inexpt, lnImpt, lnaid, lnmig, lnremi

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.728742	44.35923	40.07757	0.0155
At most 1 *	0.650636	35.75580	33.87687	0.0295
At most 2	0.524400	25.26807	27.58434	0.0962
At most 3	0.372469	15.84270	21.13162	0.2342
At most 4	0.226528	8.733416	14.26460	0.3090
At most 5	0.003192	0.108717	3.841466	0.7416

Max-eigenvalue test indicates 2 cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

CONCLUSIONS AND RECOMMENDATIONS

The result of stationary of the data series reveals that there is chance of profitable speculation in the economic growth of Pakistan from the relation with UK. The UK trade and economic relations with Pakistan can be used to improve the economic growth in country. There is highly significant impact on the ecnomic growth of pakistan by the trade and economic relations with the UK. Hypothesis H1, H2 and H3 have been accepted which indicated that Pakistan trade and economic relations with UK would have significant impact on the economic growth of Pakistan. There is cointegration exists in trade and economic relations of Pakistan with UK. So, hypothesis H4 is accepted which demonstrate that there is long run relationship exists between Pakistan and UK. That means there is long-term co-movement among the UK, Trade and Economic relations with the Economic Growth of Pakistan.

Recommendations

Recommendations for policy makers. Following are some recommendations for the policy makers:

i. Pakistan has a need to develop the strong relations with United Kingdom for the profitable and purposeful economic relations between these trade partners and for growth of Pakistan
ii. The Polices should be underline with a view to cut the cost of doing business by giving subsidies and incentives to the major industries
iii. There is need to emphasize on the improvement of balance of payment and quality of exporting products to meet the competition is the market
iv. Trade in technology will be beneficial for the country so, the policies should be underlining the imports of machinery, automobiles and equipment for enhancing the growth. To improve exports focused should be on manufacture those products which have more margin and demand in the international market
v. Pakistan main exports to the United Kingdom consist on textile item. Government should give some export incentives and also reduce the tariff rate on the exports of textile industry for enhancing the exports with the United Kingdom

Recommendations for exporters. Following are some recommendations for exporters:
i. Main exports of Pakistan to United Kingdom consist of textile industry. It should be increase through specification
ii. There is a need to adopt trade diplomacy for enhancing exports
iii. Export promotion campaigns are need for promoting domestic industries

Recommendations for importers. In line with the H-O theorem import substitute item should be imported as it is cost effective. Pakistan should import machinery, automobiles from EU selected instead of manufacturing.

For economic cooperation. Following are some recommendations for economic cooperation:
i. Foreign aid should be governed by the donor of the aid as it will reduce the miss utilization of foreign aid
ii. The Policy statement of this study regarding foreign aid is that, the foreign aid should be used to reduce the debt burden, public sector borrowings, and investment in health and education which will also help them to achieve the MDGs. Moreover, it can be said that relationship between foreign aid and economic growth is sensitive which indicates that increase in the flow of foreign aid will leads towards lower economic growth so, there is a need for effective economic policy to utilize foreign aid for enhancing economic growth
iii. International Migration effect economic growth in both countries sending and receiving. The migration from Pakistan to United Kingdom is harmful in the shape of brain drain but, it also generates human capital and domestic investment through remittances
iv. There should be eye-catching system for remittances inflows in the country. The bank should increase the branches to facilitate the remittances easy inflows in the country. Remittances should be use in the productive activities in the country. The brain drain can be converted into the brain gain.

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