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Exchange rate, Investment, and Industrial Development: Revisiting their role in bringing Economic Growth to Pakistan

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Abstract
The goal of this study is to better understand how Pakistan's economic growth is influenced by factors such as investment, industrial development, and exchange rates. From 1974 to 2020, data from Pakistan of various have been used for the analysis. The empirical findings demonstrated a long-term relationship between the variables of the study using the Autoregressive distributed lag (ARDL) model in Pakistan. The performance of economic growth was observed to have a positive correlation with the labor force participation rate, and investments were observed to have a strong positive correlation with economic growth. According to the findings of the study, Pakistan should develop policies that align the exchange rate with the sector's actual demands to boost investment and economic growth. The policy must be based on a comprehensive understanding of both the various industry segments and the broader trends that affect them. According to conventional wisdom, devaluations of the currency are frequently used as development strategies. In the absence of accurate knowledge regarding how exchange rate fluctuations influence the sector and economic growth, policy intervention results in ineffectively low economic growth performance.

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Keywods: Industrial share; exchange rate; economic growth;

1 Introduction

Developing countries' ability to achieve high growth rates has been attributed mainly to industrialization. Emerging economies experienced rapid growth rates due to increased industrial development, resulting in further poverty reductions and high growth statistics for the countries involved (Kniivilä, 2007). When it comes to social and economic structure, it is defined as a process that changes a country's social and economic system while simultaneously raising the standard of living for its citizens by increasing the efficiency of the factors of production and technology employed. The development of the industrial sector significantly impacts the real sector of the economy, which has changed significantly as a result. It leads to a considerable increase in the national income of the country as well as the creation of new employment opportunities (Iqbal et al., 2021). This sector has attracted particular attention for an extended period because of its potential to improve the balance of payments, exportable goods production, and import substitution while at the same time increasing employment (Rongwong & Goh, 2020). A rise in national income is defined as an increase in GDP growth, a measure of economic growth (GDP). This increase in economic activity has increased production capacity, which indicates the ability to produce more goods and services. Economic growth directly affects our standard of living, whether directly or indirectly. As output increases, the country's citizens will enjoy a better standard of living as their incomes rise (Palmer & Warner, 2022). An increase in a country's employment rate is also linked to a rise in the country's economic growth. Three sectors contribute to GDP: agriculture, industry, and services.

There is substantial evidence in the literature demonstrating the benefits of the industrialization process to expand economic activity (Nasir et al., 2021; Yasmin et al., 2022). Increased productivity and income resulting from the industrial dynamic, which incorporates increasing returns to scale (learning by doing, positive externalities, and technological spillovers). The industrial dynamic also tends to loosen the restriction that results from a balance in the Balance of Payments (Rodrik et al., 2022). Considering the unique characteristics of this industry, a series of efforts were made toward industrialization in many parts of the world, which resulted in high growth rates in the end. Although this process of structural change in the industrial sectors has been slowed since the mid-1970s, it can be partially attributed to the company's reconfiguration of the productive structure and manufacturing methods. Therefore, it is possible to observe the process of industrialization, which is linked with other sectoral developments (Di Meglio & Gallego, 2022).

Thus, this study offers the solution to check all possible channels to investigate the exchange rate, investment, industrial development, and their collective contribution to Pakistan. The significance of this study is to incorporate the component of carbon emissions that is the output

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of the industrial action. Investment influences carbon emissions because it generates income, which fuels industrial growth. The acquisition could change the economy's structure regarding carbon emissions, meaning that the shift from agriculture to the industry could impact it (Wen et al., 2022). The technique effect refers to adopting new technology that may impact carbon emissions. For example, (Yin et al., 2016) have recently studied the relationship between Pakistan's CO2 emissions, economic growth, and foreign direct investment (FDI). The ARDL is used in this study to estimate short- and long-term models for empirical analysis. Because the econometric model used in the research does not take non-stationary time series into account, the ARDL is more efficient than the OLS. As a result, conducting empirical research with ARDL is a wise decision. The rest of the research article is divided into a study profile in Section 2, a review of the literature in Section 3, data and methods in Section 4, and results and discussion in Section 5, with the conclusion in Section 6.

1.1 Industrial Sector Exchange rate Economic Growth In Pakistan

The industrial sector, one of Pakistan's most important economic contributors, accounts for 25.5 percent of the country's gross domestic product (GDP) (GOP, 2021). The increased mobilization of foreign resources is critical in advancing this sector (Bakhsh et al., 2017; Khan & Kim, 1999). Investors worldwide and domestic businesses will find Pakistan's macroeconomic policies and structural reforms welcoming (Shah, 2014). Recent research has investigated the relationship between investment and its underlying factors (Sánchez-Triana et al., 2014; Shah, 2014). Bakhsh et al. (2017) On the other hand, previous research on industrial development has discovered that the relationship between CO2 and investment and the exchange rate is weak. As the economy grows and environmental concerns become more acute, investment will become increasingly important in the coming years. All of the following factors contribute to the economic impact of the investment: direct access to capital financing, positive externalities, innovation in advanced technology, and productivity gains (Ahmed et al., 2016; Wang et al., 2018). Additionally, local enterprise development is a positive effect of investment because it creates employment opportunities for both skilled and unskilled workers in the host country.

1.2 Historical trends in industrial sector growth

Figure 1 depicts the historical development of the industrial sector in the United States. The World Development Indicators (WDI-2014) publication provided information on the industrial sector's annual percentage growth rate. According to the data, figure 1 shows that the industrial sector was either zero or below zero in 1972, 1997, 2009, and 2013. Growth in the industrial industry exceeded fifteen percent in three consecutive years (1961–1970–2004), after which it has fluctuated between 0 and fifteen percent since then. Based on the linear trend, we can conclude that the growth of the industrial sector is progressing at a slower rate than the overall growth rate.

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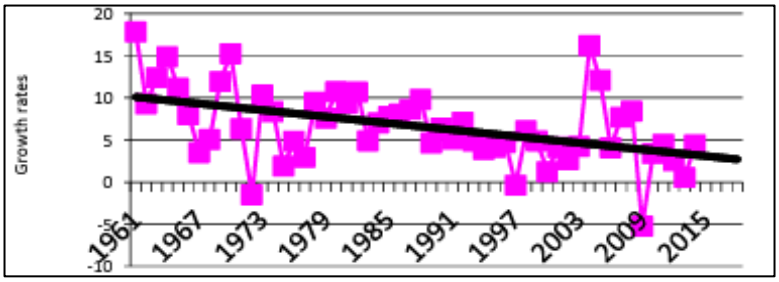
Figure 1: trends in industrial sector growth

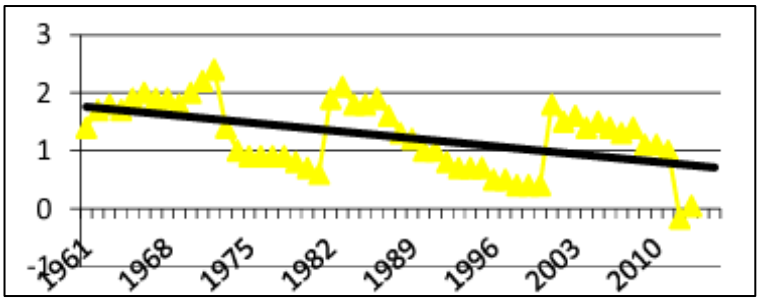


Source: World Development Indicators

1.3 Contribution of the industrial sector to exports

Figure 2 depicts the gradual decline in the industrial sector's contribution to exports over time. It was possible to create the data series by segmenting the export information into data from different industrial sectors. According to my data series on industrial sector contributions to exports, the industrial sector contributed more than two percent in 1972 and 1983 but only 0.5 percent or less in 1981, 196, 1997, 1998, and 2013. The industrial sector's contribution to exports is declining due to the global financial crisis and the energy crisis in 2013.

Figure 1: Industrial Sector to Exports



Source: World Development Indicators

1.4 Contribution of the Exchange rate to the industrial sector development

The Current Account Balance and the Move to a Market-Based Exchange Rate In May 2019, the State Bank of Pakistan implemented a market-based exchange rate regime to address emerging macroeconomic stability threats. Because of this, in the fiscal year, 2018's CAD (current account deficit) of US$ 19.2 billion was gradually reduced to US$ 13.4 billion in the fiscal year 2019 and even further to US$ 4.4 billion in the fiscal year 2020, respectively. Accordingly, the CAD had cumulative surpluses of $959 million from July to March 2021 instead of deficits totaling $4.13 billion from 2020. (see chart). Since the fiscal year 2020, workers' remittances have grown much faster than the rest of the economy.

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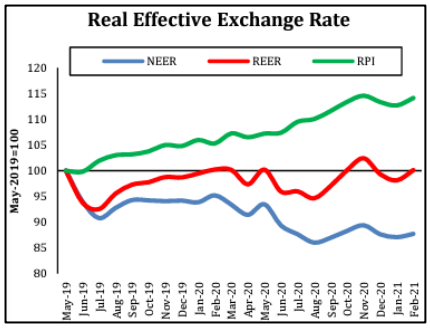
Figure 3: Trends in the Exchange rate



2 Literature Review

The critical point to emphasize in this section is that the literature on economic growth demonstrated that industry had taken precedence over progress transmission for more than half of the twentieth century. The industry is subject to dynamically increasing returns to scale. In contrast, other economic sectors are subject to either constant returns to scale (services) or decreasing returns to scale (non-service industries) (agriculture sector). Thus, the dynamics of industrial activity stimulate economic growth and overall productivity. Throughout the 1960s, there was considerable debate over the role of industry. The Balassa Samuelson effect is proposed in one of the results. It postulates that productivity earnings occur most frequently in tradable sectors (industry) and positively affect wages but that their effects also spill over into nontradable sectors due to their existence. As with the tradable sector, these sectors have lower productivity, and prices rise faster than tradable (Balassa, 1964; Samuelson, 1964). As a result, because tradable prices on the international market tend to stabilize, the country's currency with the highest production level will appreciate purchasing power parity (PPP). Because the industrial sector can increase productivity and add value to production, its relationship to economic growth has grown in importance, attracting the attention of researchers and policymakers (Baumol et al., 1985; Roach, 1988).

Yasmeen et al. (2021) elaborated that investments and processes that maintain a competitive real exchange rate are worthwhile by the exchange rate transmission channels. There are two stages to this process. As a rule, stage 1 consists of activities with limited or no access to the international market. The existing demand and the overall economic climate are insufficiently stimulating investments by current firms to increase or modernize their productive capacity. Moderate currency depreciation will have a short-term impact on the industry and current services if there is an effective development policy, well-organized institutions, macroeconomic stability, and economically and financially sound companies. As exchange rates depreciate, the economy's structure needs time to reorganize and reconfigure itself, so the industry channel, which operates on a cost-effective mechanism, is critical (Safdar et al., 2021). The exchange rate depreciation affects profit potential first before causing long-term structural changes. Pakistan's

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industrial sector is under increased pressure to increase productivity, reduce costs, and create a more environmentally friendly environment. Investing in new employees, expanding physical facilities, and purchasing new machinery are encouraged in this market.

According to (David et al., 2015), the importance of exchange rate policy in macroeconomic management stems from the fact that changes in the exchange rate have significant implications for a country's balance of payment position and the distribution of income and growth. An economically competitive currency is one factor that significantly impacts the presence and development of the manufacturing sector across a wide range of economies. A similar view is expressed by (Soderling & Beavo, 2000), who asserts that effective management of the real exchange rate is critical in promoting manufacturing exports). Competitive exchange rates are essential in helping a country's manufacturing sector to thrive. To put it another way, the value of the exchange rate is a factor that influences the performance of any economy in some way. It has a significant impact on the economy's ability to compete globally.

According articles by Yasmin et al. (2016), it is demonstrated that the industry sector's response to currency-induced competitiveness pressures relies heavily on product differentiation, wage moderation, and productivity gains. Yilmaz and Gonenc (2008) emphasize the importance of imports for manufacturing industries and their effect on the industry's competitiveness. Dogruel, Dogruel et al. (2010) investigated the impact of manufacturing industries with varying production structures. For the period 1995–2007, a panel regression was used. The findings confirmed that the proportion of imported inputs in total inputs and the profits gained from Dollar–Euro parity changes are significant determinants of Turkish manufacturing's competitiveness. According to a 2009 study by the European Commission, actual interest rates have a strong negative correlation with manufacturing output growth in 25 EU countries. Exchange rate movements were significant only for exporting sectors, with appreciation dampening output. Exports and intermediate demand were identified as the primary drivers of manufacturing production on the demand side. Government spending and imports had a negligible effect on manufacturing.

Ehinomen and Oladipo (2012) investigated the effect of currency management on Nigeria's manufacturing sector growth. Exchange rate appreciation was found to have a significant relationship with domestic output in Nigeria. Additionally, the exchange rate appreciation will stimulate growth in the manufacturing sector. Baltar et al. (2016) developed an investment model that considers changes in the real exchange rate, recognizing that the real exchange rate's impact on Brazilian manufacturing investment occurs via demand and cost channels. The main findings are that investment primarily responds to exchange rate changes through imports, owing to currency appreciation on final goods imports. Increased competition from imported products has counterbalanced the benefits of cheaper imported inputs or capital goods. In ten East African countries, Hunegnaw et al. (2018) examine the effect of actual exchange rates on manufacturing exports. The study analyzed disaggregated manufacturing exports using pooled mean group

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estimators combined with an Autoregressive Distributed Lag procedure, in contrast to previous studies that frequently examined aggregate exports using traditional empirical methods with various shortcomings.

Oriji and Anikpo (2019) estimated the impact of exchange rate (EXCH) fluctuations on Nigeria's manufacturing sector from 1981 to 2016. This study utilized time series data and the ordinary least squares (OLS) estimation technique to accomplish the stated objective. Specifically, EXCH, government capital expenditure (GCEXP), imports, and FDI positively correlated with MGDP. Falaye et al. (2018) examined the impact of exchange rates on the performance of the Nigerian manufacturing sector over 25 years, using exchange rates' independent variables such as inflation rates, capacity utilization rates, manufacturing sector foreign direct investments, and imports. The Unit Root test, the Johansen co-integration test, the Granger causality test, and the Error Correction Model examined stationary, long-run, causal, and short- and long-run equilibrium relationships. The study's empirical findings indicated that the devaluation of the Naira had a detrimental effect on the performance of Nigeria's manufacturing sector.

3 Data and Methodology

3.1 Sources of data

This study aims to investigate the role played by the exchange rate, investment, and industrial development in the promotion of economic growth in Pakistan. For Pakistan, data on various variables have been collected since 1974 and will be available until 2022. The data is managed by several sources, including the Pakistan Broadcasting Corporation and the Pakistan Economic Survey. The observed variable's nature is secondary in this study and is based on an annual observational period.

3.2 Model Specification Theoretical and Empirical

The empirical studies investigating investment, the industrial sector, and the role of the exchange rate have used different techniques to investigate the practical link in Pakistan. Some studies have applied various co-integration methods to estimate the long-run relation. The other empirical evidence reports the application of Engle-Ganger and Johansen (1988) and Johansen-Jeselius (1989); however, this research applied the ARDL approach to co-integration, which is a dynamic approach under a single equation system. This approach estimates the short-run and long-run models due to error correction terms.

3.3 Empirical Model specificationCO2

GDP = βo + $\beta 1$ (GFCF) + $\beta 2$(INDSHA) + $\beta 3$(LTEC)+ $\beta 4$(EXR) + $\beta 5$ (LFPR) + e

Variable Description

Table 1: Variable Description

Variables	Description	Sources
GDP	the total market value of goods and	Pakistan

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	services in each period by using all resources in an economy.	Economic Survey
GFCF	GFCF includes land improvements (fences, ditches, drains, and so on); plant, machinery, and equipment purchases; and the construction of roads, railways, and the like, including schools, offices, hospitals, private residential dwellings, and commercial.	Pakistan Economic Survey
INDUSHA	Share of industry in the country's GDP	WDI
LTEC	Total energy Consumption	WDI
EXR Exchange rate	Price of one currency in terms of another currency	Pakistan State Bank
LFPR	the number of persons in the labor force as a percentage of the working-age population	Pakistan economic survey

4 Empirical analysis

4.1 DESCRIPTIVE ANALYSIS

Before using econometric inquiry of time series data, we employed statistical analysis on secondary data; records contain 43 observations from 1976 to 2020, and descriptive results are given in table 5.1.

Table 5.1: RESULTS OF DESCRIPTIVE STATISTICS OF VARIABLES:

	GDP	GFCF	INDUSHA	ELEC	EXR	LFPR	
Mean	4.930932	16.24918	1113168.	10.37427	47.52754	29.678	
Median	4.846451	16.89896	440172.0	10.61094	45.04667	29.5850	
Maximum	10.21570	19.23542	4169821.	11.25285	101.6289		
Minimum	1.014396	12.52063	22944.00	8.812992	9.9		
Std. Dev.	2.066644	1.651860	1330038.	0.785631	31.12891	1.3738	
Skewness	0.224233	-0.552946	1.051519	-0.644381	0.24853		
Kurtosis	2.701512	2.406101	2.583753	2.146888	1.566042		

Author estimation: Descriptive statistics estimated by *Eviews 9.*

Table 5.2: RESULTS OF CORRELATION ANALYSIS OF VARIABLES:

	GDP	GFCF	INDUSHA	LTEC	EXR	LFPR
GDP	1					
GFCF	0.2677	1				

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INDUSHA	-0.2960	-0.7384	1			
LTEC	-0.4552	-0.5715	0.7653	1		
EXR	0.192897	0.369881	0.33227	0.014288	1	
LFPR	0.792199	0.400562	0.228724	0.319826	0.281976	1

Source: Author's calculation

The table shows the association among variables used in the study. EG has a negative association with co2, which is -0.4052, GDP has a negative association with LTEC -0.452, GDP has a positive association with GFCF 0.2677, and GDP has a negative association with INDUSHA -0.2960. co2 has -0.6800, 0.9230, 0.9407 association with GFCF, INDUSHA, and LTEC respectively.

5.4 UNIT ROOT TEST:

Table 5.4: unit root analysis

Variables	ADF(C)	ADF(C+T)	ADF(C)	ADF(C+T)	Results
	AT LEVEL		AT FIRST DIFFERENCE		
GDP	-4.903 (0.0036)	-5.118 (0.0062)			I (0)
GFCF	-1.2878 (0.245)	-2.76438 (0.141)	-3.745 (0.006)	-4.786 (0.0054)	I(1)
INDUSHA	0.006336 (0.9537)	-2.278869 (0.4355)	-5.870802 (0.0000)	-5.781556 (0.0001)	I(I)
LTEC	-4.740718 (0.0004)	-3.988403 (0.0035)			I(0)
INDUSHA	0.837775 (0.9931)	-0.932049 (0.9392)	-4.502416 (0.0012)	-5.079259 (0.0015)	I(I)
EXR	-3.090505 (0.1220)	-2.724519 (0.0786)	-7.975644 (0.0000)	-7.88092 (0.0000)	
LFPR	-5.7624 (0.0000)	-7.1651 (0.0000)			

Source: Author calculation

Table 5.3 illustrates the estimated values of the ADF test. In this table, we explain the augmented dickey fuller unit root test. This table shows the stationary or non-stationary data. The results show that GDP growth stands at the level and intercept with the I(0) integration order. So, we cannot accept the null hypothesis because the unit root problem does not exist. The data of GFCF is non-stationary because the value of probability is higher than 0.05. Because a unit root problem exist so we accept the null hypothesis. Inflation is stationary at a level or intercept. It is integrated with order I(0) so we cannot accept the null hypothesis. LINDUSHA is stationary at

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first difference with integration order I(1) so we cannot accept the null hypothesis. The human capital index and health index is non-stationary. Because the probability is greater than 0.05, we cannot reject the null hypothesis. Co2 omission stationary at level. Because unit root problem does exist, therefore, we can accept the null hypothesis. In this result, we will concern the method of autoregressive distributed lag (ARDL) in our study.

BOUND TEST FOR LONG-RUN RELATIONSHIP:

We used the bound test for the assessment the long run association between series. The condition of the long-run feature of variables must equal zero.

Null Hypothesis: $\alpha_1 = \alpha_2 = \alpha_3 \ldots\ldots\ldots\ldots = \alpha_8 = 0\ (NoCo - integration)$

Alternative Hypothesis: $\alpha_1 \neq \alpha_2 \neq \alpha_3 \ldots\ldots\ldots\ldots \alpha_8 \neq 0\ (Co - integrationexists)$

BOUND TEST

	Model	
	F-Statistic= 8 .641406	
Significance	I (0)	I (1)
10%	3.03	4.06
5%	3.47	4.57
2.5%	3.89	5.07
1%	4.4	5.72

Source: Author's calculations

The study explores the long-run association between energy and economic growth in Pakistan. The null hypothesis of the bond test is that 'no long-run relationship exists.' When the estimated value of F-statistics is higher than the lower and upper bond values, then the long-run association exists between the variables, and we reject the null hypothesis. Table 5.4 demonstrates the bond test results of the model. The significance level is checked at 10%, 5%, 2.5%, and 1%. The estimated value of F-statistics of our first model is 8 .641406, which is greater than the lower bond values and upper bond values; hence we cannot accept the null hypothesis and accept that there is a long-run relationship between GDP growth, labor force, gross capital formation, trade openness, and total energy consumption.

Table 5.4: Regression Results of the long run of model

Dependent Variable: ECONOMIC GROWTH

Long Run Coefficients				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CO2	-0.000036	0.000019	-1.871570	0.0735
GFCF	0.282101	0.098843	2.854020	0.0088
INDUSHA	0.596007	0.096825	6.155538	0.0000
LTEC	6.014576	0.887718	6.775320	0.0000

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EXR	-1.996519	0.348345	-5.731447	0.0000
LFPR	3.936100	0.637486	6.174410	0.0000
C	51.683239	7.816641	6.611950	0.0000

Source: Author's calculation

INTERPRETATION:

This table shows the long-run relationship of the Autoregressive distributed lag model. The coefficient of GFCF is 0.282101, and the probability is 0.0735. it shows that it is 1% increase in GCF will increase the value of growth 0.282101. INDUSHA has a 0.596007 coefficient, and the probability is 0.0000. The relationship between the variables is positive, and it is statistically significant. It shows that is 1% increase in INDUSHA will increase the value of GDP by 0.596007. LTEC coefficient is 6.014576, and the probability is 0.0000. the relationship between the variables is positive, and it is statistically significant. It shows that is 1% increase in LTEC will increase the value of EG by 6.014576.

DIAGNOSTIC TEST FOR MODEL:

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	2.024917	Prob. F(4,37)	0.1110
Obs*R-squared	7.542983	Prob. Chi-Square(4)	0.1098
Scaled explained SS	4.176050	Prob. Chi-Square(4)	0.3827

Breusch-Godfrey Serial Correlation LM Test:			
F-statistic	1.301182	Prob. F(2,35)	0.2851
Obs*R-squared	2.906714	Prob. Chi-Square(2)	0.2338

In this table, we explain the diagnostic test of the model. In the model, the BPG Test value of F-statistics is 1.301182, which is insignificant. There is no serial correlation, and heteroskedasticity exists in this model. We reject the null hypothesis and accept the alternative hypothesis. Also, in the heteroskedasticity model, the F-value is 2.024917, and the probability is statistically insignificant.

ERROR CORRECTION RESULT:

In the short period, evaluation demonstrates the relationship of the variables in the short run. The temporary phase co-integration value should be equally harmful and significant.

Table 5.7: REGRESSION RESULTS OF SHORT-RUN OF MODEL:

Dependent Variable: ECONOMIC GROWTH

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(GDP(-1))	1.417943	0.450062	3.150552	0.0043
D(GDP(-2))	0.844823	0.309892	2.726182	0.0118
D(CO2)	-0.355033	0.204175	-1.738869	0.0949

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D(CO2(-1))	-0.000104	0.000059	-1.756323	0.0918
D(GFCF)	0.817089	0.360687	2.265371	0.0328
D(INDUSHA)	-0.000001	0.000001	-1.042641	0.3075
D(LTEC)	15.535047	10.041487	1.547086	0.1349
D(LTEC(-1))	2.784398	11.640626	0.239197	0.8130
D(LTEC(-2))	12.708772	11.447045	1.110223	0.2779
D(EXR)	-0.090881	0.062287	-1.459063	0.1879
D(EXR(-1))	-0.091877	0.066850	-1.374379	0.2117
D(EXR (-2))	-0.112729	0.085531	-1.317982	0.2290
D(LFPR)	-0.090881	0.062287	-1.459063	0.1879
D(LFPR (-1))	-0.091877	0.066850	-1.374379	0.2117
CointEq(-1)	-0.817089	0.360687	-2.265371	0.0328

The value of Count Eq (-1) is -0.817089and negative of the value that exists in it will converge around 80 percent in a period.

TESTS OF STABILITY:

We approximated the CUSUM test in the autoregressive distributed lags technique (ARDL) to illustrate the reliability of the data. Our data are stable because the cumulative sum of recursive residuals CUSUM graph is within the limits of the 5% significant level, and the cumulative sum of the square of recursive residuals CUSUMSQ graph is also within the confines of 5% effective.

STABILITY TEST FOR MODEL:

Figure 1: Plot of Cumulative Sum of Recursive Residuals

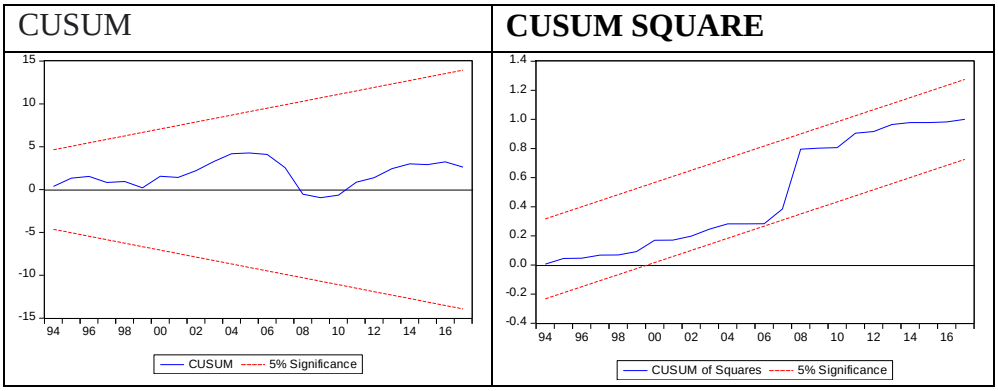

Figure 2: Plot of Cumulative Sum of Square Recursive Residuals

5.7 CONCLUSION:

The goal of this study is to better understand how Pakistan's economic growth is influenced by factors such as investment, industrial development, and exchange rates. From 1974 to 2020,

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statistics on a variety of variables have been gathered for Pakistan. The study drew on concerns expressed by several stakeholders on the exchange rate and industrial sector association. The empirical findings demonstrated that the variables in Pakistan had a long-term association. The results indicated a negative correlation between the exchange rate and the rate of economic expansion. This suggests that economic performance declines when the exchange rate weakens. Results also indicated a statistically significant positive association between industry share and the performance of the industrial sector. This suggests that as exports rise, manufacturing performance rises as well, leading to economic growth. Economic growth performance was observed to have a good association with the labour force participation rate, and investments were seen to have a strong positive relationship with economic growth. According to the study's conclusions, Pakistan should develop informed policies that match the exchange rate to the sector's actual demands to increase investment and economic growth.

The policy must be based on a thorough comprehension of both the various industry segments and the larger trends affecting them. According to conventional wisdom, devaluations of the currency are frequently used as development strategies. A depreciation of a currency is typically viewed as a remedy that corrects the weak performance of the manufacturing sector by a boost in exports given the trading environment of the manufacturing industry. This may not be the case (as demonstrated by this study) if an exchange rate depreciation has more indirect consequences than direct ones, such as imported inflation and a host of other issues (increase in exports). Depreciation, for instance, can lead to inflation, which may raise the cost of products and services. This could harm the expansion of the industrial sector and the economy. In this regard, policymakers must be aware of which parts of the industry sector will be impacted by a change in the exchange rate as well as the size of the impact to make wise choices. Policy intervention results in ineffectively low economic growth performance in the absence of accurate knowledge about how the exchange rate affects the sector and economic growth that are influenced by exchange rate fluctuations.

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