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Financial Internet Quarterly 2024, vol. 20 / no. 4, p. 72-84

10.2478/fiqf-2024-0028

Financial Internet Quarterly

THE IMPACT OF THE EU'S GENERALIZED SYSTEM OF PREFERENCES PLUS STATUS ON COMPANIES AND FISCAL POLICY OF PAKISTAN: A CASE OF THE TEXTILE INDUSTRY

Mazhar Hussain Choudhary[1]

Abstract

This paper's main goal is to evaluate the before and after effects of EU's GSP plus on Pakistani company's tax payment of textile sector and suggesting the Fiscal policy. In fact, the study address what effect does the Generalized System of Preferences (GSP) plus Status of the EU have on the corporate taxation of Pakistan's textile industry and on tax policy? For that purpose, in this study the regression analysis is used. The data of listed local and international companies are gathered from Pakistan Stock Exchange. The results depict that exporting companies able to increase their profits and pay more corporate tax led to impart in the sustainable economic growth of Pakistan. This study will help out the fiscal policy makers in the development of tax policy for the potential exports sector to EU. Furthermore, assist the financial managers to create a corporate strategy for the multinational firms.

JEL classification: F14, F3, H2

Keywords: Pakistan, European Union, GSP plus, Corporate Tax, Tax Revenue

Received: 02.09.2024 Accepted: 21.10.2024

Cite this:

Choudhary, M.H. (2024). The impact of the EU's Generalized System of Preferences (GSP) plus status on companies and fiscal policy of Pakistan: A case of the textile industry. Financial Internet Quarterly 20(4), pp. 72-84.

[1] University of Ha'il, Saudi Arabia, e-mail: drmazharhussain76@gmail.com, ORCID: https://orcid.org/0000-0003-2355-7402.

Introduction

International businesses have evolved around the world and researchers are keen to understand the major factors which impact the profitability of a company. Moreover, the environment of international trading, particularly the international trade policy composition, is a significant component that might impact profits. One significant attribute of this research is to explore export-oriented companies and the ability to pay taxes. This study examines the changes in export tariffs due to the Generalized System of Preferences plus (GSP plus) status of the European Union (EU) for Pakistan on company profitability, which led to changes in tax payments. The impact of trade liberalization on profits and tax payment may look simple, however, previous research has documented its existence. The relationship between trade liberalization, tax payments and profits is so basic to the mechanisms underlying the theory of international trade and business and is one of the significant objectives of this research.

The core goal of the EU Commission is to provide access to the EU market to developing countries through international trade for the sake of elimination of poverty, and to enhance sustainable development, human rights and good governance in Generalized System of preferences (GSP) beneficiaries. Moreover, in GSP plus strategy, there is full elimination of duty for 66% of tariff lines as compared to the Standard GSP scheme for countries which are weak in economic diversification and export volumes. So, these countries effectively implement the GSP Regulation for the improvement in human and labor rights, environmental conditions and governance. According to the (EU Report 2016-2017), Armenia, Bolivia, Cabo Verde, Georgia, Kyrgyzstan, Mongolia, Pakistan, Paraguay, the Philippines and Sri Lanka are the 10 GSP plus beneficiary countries. Pakistan's utilization rate (96.5%) is the highest among these 10 comparators. Its textile exports account for about 74% of its total exports to the EU.

Since 2006, the EU has gotten involved in FTAs with East Asian countries. One of the most significant FTAs is the EU-China Free Trade Agreement because China is the region's largest and most dynamic economy. Therefore, China is the most logical trading partner of the EU among East Asian economies. That is one of the reasons the EU was interested in initiating the trading preferences with Pakistan. Furthermore, Pakistan has a great geographical location to link China with Europe through the Gwadar port. That is why this study has highlighted the significance of the EU's Generalized System of Preferences (GSP plus) Status of Pakistan and how Pakistan can earn tax revenue from this FTA.

The trade liberalization analysis is significantly highlighted by researchers such as (Alexander, 2021; Saira et al., 2021; Julia, 2019; Yakubu et al., 2018; Kiendrebeogo & Minea, 2017; Marilyne et al., 2017; Valentina et al., 2016) because of the evolution of theories associated with international financial management. Furthermore, a Multinational Company (MNC) reduces its systematic risk by opening subsidiaries in various geographical areas. Those companies which are involved in international trade can increase their profits and pay more corporate tax. Consequently, a country can generate more tax revenue. Thus, it is pertinent to mention that the financial economist can scrutinize the impact of the EU's GSP plus on companies and fiscal policy.

Pakistan is an agricultural economy, where a huge amount of land is used for production of cotton and other crops. This potential is why the Pakistani textile industry was established and flourishes. Hence, Pakistan is one of the significant countries which export low cost and quality products. The GSP plus agreement between the European Union and Pakistan was effective on 1st January 2014 . This agreement gave preferential access to important export goods to the EU market that lead to providing opportunity for the growth of export sectors as well as industrial policy initiatives for the long term. Consequently, Pakistan's textile exports surged to USD 14.22 billion in the fiscal year 2013-2014 as compared to the fiscal year 2012- 2013, which was USD 13.69 billion (Economic Survey of Pakistan).

The total trade of Pakistan with the EU accounts for 46.8%. In 2019, Pakistan's exports to the EU was USD 9.7 billion. Moreover, Pakistan's exports to the EU grew at a CAGR of 4.3% from 2014 to 2019, after getting the status of GSP plus. In contrast, it merely grew at 3.6% from 2008 to 2013, before the award of GSP plus to Pakistan in 2014. The EU's total imports from the world amounted to USD 6.2 trillion in 2019. However, for the same time period Pakistan's exports share to the EU market was 0.16%. Pakistani potential sectors were apparel & clothing (USD 4.2 billion), home textiles (USD 2.3 billion), rice (USD 426.5 million) and leather articles (USD 356.9 million). Currently, Pakistan is utilizing 96.5% of the GSP Plus scheme and under the same scheme Pakistani exports contribute 87.3% of total exports to the EU. (Pakistan Business Council-Report, 2020).

The above highlighted facts and figures motivated the author to further investigate the impact of the EU's GSP plus on the corporate tax of most of Pakistan's potential textile sector. Moreover, the previous studies have discussed the tax and EU trade liberalization like (Philipp, 2021; Christian et al., 2021; Michela, 2014; Osman, 2011; Ahmad & Kalim, 2014; Hallerberg & Basinger, 1998; Swank et al., 2002; Lewis et al., 2001;

Monteagudo & Watanuki, 2003; Chishti et al., 2008). Nonetheless, the impact of the EU's GSP plus on company corporate tax has not been considered by researchers before. Furthermore, the before and after impact of the EU's GSP plus on Pakistani company corporate tax has not been examined by financial economists. Thus, the goal of this study is to investigate before and after impact of the EU's GSP plus on Pakistani company corporate tax for non-financial companies of the textile sector. Moreover, this study examines the impact of the EU's Generalised System of Preferences (GSP) plus Status on corporate tax of the Pakistani textile industry and Fiscal Policy for policy makers. The contribution of this study is to identify whether the textile sector is utilizing the hundred percent benefit of GSP plus status and paying more corporate tax or not. This study assists the fiscal policy makers in formulating the tax policy for the potential exports sector to the EU as well as the financial managers to create a corporate strategy for multinational companies, which are getting the benefits from the EU's GSP plus status of Pakistan.

The literature review and the hypothesis is elaborated in the second section. Section three explains the methodology and the fourth section is about the results discussion. The last section states the conclusion and future aspect of the research.

Literature review

Previous literature discussed the impact of taxation on economic development, theoretically as well as empirically. The financial economists have utilized fiscal reforms and trade policies to investigate the relationship between taxes and economic growth. The researchers like (Mascagni et al., 2021; Bellon et al., 2022; Baunsgaard & Keen, 2010; Crivelli & Gupta, 2014; Crivelli, 2016; Gnangnon & Brun, 2017) examined the impact of trade liberalization on public revenue, including tax revenue.

Kashif and Maryam (2018) investigated the taxes and economic growth of Pakistan and they found the positive relationship of economic growth and international trade (tariffs). Moreover, Wet et al. (2005) argued that the impact of direct tax on economic growth is negative, but the impact of indirect tax is insignificant. Arisoy and Unlukaplan (2010), discovered that the effect of direct tax is insignificant on the economic growth. Johansson et al. (2008) as well as Arnold (2008) studies suggested a negative relationship between corporate income tax and GDP per capita. Nevertheless, Umoru and Anyiwe (2013) investigated how direct taxes raise economic growth. Similarly, Onakoya and Afintinni (2016) revealed that corporate tax has significant positive effect on economic development. Furthermore, Karras (1999) found minor effects of taxes on profits in contrast to impacts of taxes on goods and services. Madsen and Damania (1996) revealed that in the long run economic growth has no impact due to the indirect tax. Kneller et al. (1999) argued that economic growth and indirect tax have a positive relationship. However, currently the micro level impact of trade liberalization on tax revenue is not a matter of discussion by researchers.

Saeid (2008) found generally that few variables impact both the level and composition of total tax revenue while others impact the revenue level in a manner that is statistically insignificant for developing countries. Micah (2015) as well as Leuthold (1991) scrutinized determinants of TAX to GDP and identified that foreign trade raised the level of taxation to that which is statistically significant. Stotsky and Wolde (1997); Mascagni et al. (2022) examined the relationship between TAX/GDP and the sectoral composition of the value added and disclosed that the level of taxation positively impacted exports. Moreover, the results of Terence et al. (2006) showed that trade liberalization is strongly linked to higher income tax revenue. Mohammad et al. (2016) discovered that trade liberalization in the form of tariff reduction appears to have an impact on tax structure of developing countries. Gnangnon et al. (2019) argued that those countries which open their economies to trade attain a higher positive impact of tax reform on tax revenue as compared to those countries which have a lower degree of international trade. In the author's point of view, it is clear that the company level impact of FTA on tax payments has not yet been shown in previous literature.

Gap identified under literature review

Researchers have examined free trade agreements in recent literature, such as Woori et al. (2023), using company-level data and extensive data on the parameters of trade agreements. Using a revealed decision criterion, Legge and Lukaszuk (2024) conducted research on FTA and found a fixed cost component of usage that businesses avoid, especially for urgent shipments. Furthermore Pham et al. (2024) study examined the impact of news reports regarding the EU-Vietnam Free Trade Agreement (EVFTA) on the Vietnamese stock market from 2010 to 2020. Moreover, analysis has been made on how free trade agreements impact the duration of agricultural exports from the perspective of a company pair of destinations. Yue Jin (2023) carried out this study using highly disaggregated company level panel data from Chinese agricultural exporters. International trade and the risk associated with bilateral exchange rates were studied by Ramin et al. (2023). These recent studies examined how free trade agreements (FTAs) affect businesses, however they didn't take into account the impact of FTA on corporate tax of companies.

The study of Joseph et al. (2005) analyzed the FTAs among the European Union with developing economies, and found that Mexico, Chile, and Turkey FTAs are more broad and profound than the preferential reduction in tariffs. Maryla (2008) investigated the trade between the EU and Georgia has GSP plus status and they found a welfare gain for Georgia and deeper integration with the EU. Stephan et al. (2010) revealed that the Ukraine increased agricultural productivity due to improved market access of the EU. Yuhong et al. (2016) analyzed the changes in China and Central and Eastern Europe (CEE) trade. The result of their study revealed that CEE states and China had enhanced their shares in each other's markets. The EU's GSP plus status was examined by the researchers, but they still have not investigated the GSP plus status on tax revenue of any country.

Based on data from Tajikistan, the outcome suggests that the overall effect on reported net tax payment is dubious because of whether businesses did disclose the information properly or not (Okunogbe et al., 2022). Additionally, among the key enabling factors are sufficient staffing and taxpayer digital literacy (Mascagni et al., 2023), higher tax authorities' spending on information and communication technology (ICT), accountability, and the adoption of appropriate anti-corruption measures (Chalendard et al., 2020). To assess the importance of such enabling elements, the researchers used the Enhanced Digital Accessibility Index (EDAI) Alper et al. (2019) as one of the available proxies of digital enabling variables. Therefore, these factors can help the government to gain a surge in tax revenue.

The majority of African businesses, according to Joshi et al. (2012), are not part of the tax authorities' network. The fact that some registered businesses and individuals fail to file returns or submit zero files in Africa (Santoro, 2021) is another problem. Due to their lack of trust in the tax system and dissatisfaction with government services, African taxpayers are not very eager to pay taxes (Bratton & Gyimah, 2016; Isbell, 2017; Blimpo et al., 2018). The majority of developing nations deal with the same issues that were mentioned earlier.

The relationship between trade liberalization and company corporate profit is also very significant to discuss here because if the company earns corporate profit through international trade then it will be able to pay corporate tax, which will lead towards the economic growth of Pakistan. Therefore, it is pertinent to highlighted that the prominent researchers like (Hussain & Syed, 2020, 2022; Srithanpong, 2014; Mukherjee and Chanda, 2016; Breinlich, 2016; Wagner, 2011; Grazzi, 2012) explore the impact of trade liberalization on company profits.

In light of the above discussion, the researchers have totally ignored the EU's GSP plus impact on corporate tax of Pakistani companies. That is the reason this research tries to fill this gap. The following hypothesis is developed on the basis of the above reviewed literature:

H_1: The EU's GSP Plus status has significant impact on corporate tax of Pakistani companies.

H_2: The EU's GSP Plus status has significant impact on Pakistan's economic growth.

Methodology

The core aim of this study is to investigate the relationship between changes in tariff with corporate tax of companies. This scrutiny can only be examined in non-financial companies. Therefore, the focus is on 88 non-financial companies of the textile sector. Regression analysis is utilized to investigate the impact of pre and post EU GSP plus on Pakistani textile companies corporate tax with the help of E-views. Furthermore, the data is gathered from annual reports available on the website of the Pakistan Stock Exchange (PSE) of the textile companies regarding variables on annual basis from 2009 to 2020, as this time period cover the pre and post effect of the GSP plus status of Pakistan, which was introduced in 2014.

For scrutiny purposes, all listed non-financial textile companies on the Pakistan Stock Exchange (PSE) are the population. However, the criteria for sample selection of the major exports potential sector to the EU is the textile industry because the apparel & clothing (USD 4.2 billion) and home textiles (USD 2.3 billion) exports were recorded (Pakistan Business Council Report, 2020).

It is important to establish a relationship between corporate tax and tariff data for the sake of determining the effect of changes in tariffs. Pre and post EU rates of import tariffs have been collected from the World Trade Organization-MFN applied tariff. The average of each textile sub-sector is considered to determine before and after rates of tariff on an annual basis. Furthermore, every company is linked with a HS 6 digit code of each commodity for the shifts in tariff on an annual basis.

The tax ratio has been utilized as a proxy of corporate tax for analysis purposes. The negative tax ratio is considered zero for those years in which the company faces a loss. The formula to calculate tax ratio is tax paid divided by net income.

In Baggs and Brander (2006) utilized export intensity as a measure of export orientation. The intensity of exports reveals the sales' share for Pakistan's textile industry that had been exporting to the EU. According to Goel and Sharma (2015), the age of the company,

which is a control variable, is measured as the first year of analysis subtracted from the year of the business opened up to 2020. The rest of the variables are considered error terms, which are considered in regression analysis. Exchange rate is used as control variable because this macroeconomic variable also impacts profitability of the company, which will lead to payment of corporate tax to the tax authority. The data of exchange rate is gathered on an annual basis from the annual report of the State Bank of Pakistan.

The tax ratio is used as a dependent variable. Other independent variables are the changes in export tariffs. On the basis of Baggs and Brander (2006), the following equation (1) is developed, nevertheless, major amendments have been created for the objective of examination.

$$TR_{it} = \alpha_0 + \alpha_1 \Delta \tau_{it}^{x} + \alpha_2 \ln \Delta(\pi_{it}) + \alpha_3 Dexport_{it} + \alpha_c C_{it} + \varepsilon_{it} \quad (1)$$

Where:
TR = tax ratio,
π = profit,
τ^x = exports tariff,
C = the control variables,
E = random error,
It = ith company at time t is indicated by the subscripts i and t,
Δτ = the change in tariffs reflects the shift from the previous to the present period (as a result, a tariff decrease occurs as favorable).

The control factors such as company size are measured by taking the natural logarithm of assets. While the other control variables like company age, intensity of export, interaction of export (change in export tariff x export intensity), and exchange rate have been used as independent variables.

Dexport-for pre impact (change in export Tariff x 0) or for post impact (change in export Tariff x 1) depicts the dummy interaction of export tariffs. The effect of percentage change in export tariff on the tax ratio is explained by the coefficient of slope α3. Additionally, a dummy variable is developed in this study to compare the effects of the percentage change in tariffs on the dependent variable before and after. For that reason, the years from 2009 to 2013 are regarded as "0," and the years from 2014 to 2020 as "1". Consequently, Dexport records the percentage change in the export tariff's pre- and post-impact on the tax ratio.

The balanced panel data is used to cover the period from 2009 to 2020 for the EU's GSP plus status of Pakistan. This research uses company-specific random effects, company-specific fixed effects, and first differences for analysis. Furthermore, since corporate tax differences result from company-specific consequences, these methodologies are accurate and suitable. The data includes T time period and major N enterprises.

Identifying the companies that are most likely to be affected by increases in export tariffs is crucial. To achieve the aforementioned objective, the export intensity variable and related interaction term effects are employed. The entire textile industry exports to the EU divided by the industry's total sales yields the export intensity. The product of changes in export intensity and export tariffs is the export interaction term. The coefficient of the interaction terms indicates whether or not export orientation increases as a result of change in tariffs.

The data truncation of the corporate tax variable is the analysis's most important feature. As a result, all observations that are not positive for corporation tax are regarded as 0. According to Wooldridge (2002), this type of dependent variable can be managed by employing the Tobit estimate process, even with data accuracy concerns. However, removing the corporate tax observations that are not positive from the data and using Ordinary Least Squares (OLS) is one way to solve the problem. Tobit regression is employed in this study to account for business tax across all observations. Additionally, only positive corporation tax observations are employed in the three regression models first difference, OLS with random effects, and OLS with fixed effects.

The panel unit root test is used to verify that the panel data is stationary. Every series uses the LL panel test, as described by Levin et al. (2002). The series' stationary is examined by taking into account both the individual intercept and the individual intercept plus trend. The test results reveal that every variable in this study is significant, which is a clear indication that the data is stationary.

Results

The tax ratio mean and median for Pakistan's EU GSP plus status are displayed in Table 1. Additionally, the kurtosis's tax ratio value is greater than 3, indicating that it is lepto-kurtic. Pakistan's export tariff can have a maximum value of 7.17%. In contrast, an export tariff's minimum value is zero. The tax ratio's median value, which is 0.13, is higher than the average value of the same. The tax ratio is negatively skewed because of this. In the instance of Pakistan's GSP plus status with the EU, the mean tax ratio of enterprises is less than the median value, suggesting a negatively skewed tax ratio value.

Table 1: Descriptive statistics

EU's GSP Plus Status of Pakistan	Tax Ratio	Export Tariff %
Mean	0.10	0.62
Median	0.13	0.01
Maximum	39.33	7.17
Minimum	-355.31	0.00
Skewness	-29.97	3.01
Kurtosis	951.50	10.08

Source: Author's own work.

The control variables' descriptive statistics for Pakistan's GSP plus status with the EU are shown in Table 2. The company's average age is 36.89 years, with a positively skewed mean value; the median age is 33.00 years.

Table 2: Descriptive statistics of control variables

EU's GSP Plus Status of Pakistan	Profit Rs. Million	Assets Rs. Million	Age	Export Intensity
Mean	2.85	7.65	36.89	1.01
Median	2.92	7.61	33.00	0.93
Maximum	8.97	15.90	74.00	1.71
Minimum	0.00	3.12	10.00	0.08
Skewness	0.27	0.27	0.68	-0.37
Kurtosis	1.53	4.55	2.73	2.40

Source: Author's own work.

Table 3 displays equation 1, which takes into account the Tobit regression to investigate the EU's GSP plus status as well as the effect of tariff increases on the corporate tax ratio. By looking at the correlation between the two variables, the problem of multicollinearity between Dexport and export tariff changes is investigated. As a result, the export tariff is changed, and the regression produces comparable results when Dexport is removed. The post period of EU's GSP plus status of Pakistan from 2014 to 2020 (recorded using Dexport, a dummy x change in export tariff) indicates a negligible decline in export-oriented enterprises' tax payments relative to other companies, suggesting that these companies do not contribute to economic prosperity, which is consistent with the results of (Wet et al., 2005; Arisoy & Unlukaplan, 2010; Johansson et al., 2008; Arnold, 2008).

When the export tariff is substituted for Dexport in the regression, the pre-EU GSP plus period (2009–2013) yields identical results. The fact that the profit is extremely positively significant indicates that textile sector companies are raising their profits as a result of their export orientation and paying taxes to the appropriate authorities, both of which will support Pakistan's economic growth. The findings are similar like (Umoru & Anyiwe, 2013; Onakoya & Afintinni, 2016; Micah, 2015; Leuthold, 1991; Stotsky & Wolde 1997).

Table 3: EU's GSP plus effect of tariff changes on corporate tax (Tobit-1)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
Intercept	-0.72	0.66	-1.08	0.28
Profit	0.25	0.04	5.72	0.00
Company Size	0.00	0.08	-0.01	0.99
Age	-0.01	0.01	-1.29	0.20
Exchange Rate	0.00	0.00	0.37	0.71
DExport	-1.71	2.22	-0.77	0.44
Log likelihood	-1964.14			

Source: Author's own work.

The specification 2 is illustrated in Table 4, which also includes the export intensity and associated interaction term. The export intensity exhibits a positive sign, suggesting that companies that prioritize exports tend to generate higher profits and pay taxes in comparison to other businesses. Similarly, the interaction term yields an insignificant result with a positive sign when the change in export tariff is multiplied by the export intensity. It is important to note that the profit matches the outcome of specification 1 in that it is extremely positively significant.

Table 4: EU's GSP plus effect of tariff changes on corporate tax (Tobit- 2)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
Intercept	-0.57	0.71	-0.80	0.42
Profit	0.24	0.04	5.49	0.00
Company Size	0.01	0.08	0.13	0.90
Age	-0.01	0.01	-1.28	0.20
Export Intensity	0.14	0.34	0.42	0.68
Export Interaction	30.69	42.31	0.73	0.47
Exchange Rate	0.00	0.00	-0.42	0.67
DExport	-7.39	8.57	-0.86	0.39
Log likelihood	-1963.27			

Source: Author's own work.

For the regression of Specifications 3 and 4 only positive tax ratio are considered (only profitable years are considered in which a company pays tax). Specification 3 is used to regress the random effects model and specification 4 is used to regress the fixed effects model, for the purpose of identifying the appropriate model. The Hausman Test results suggest that fixed effects are preferable instead of random effects. The outcomes of the fixed effects are shown in Table 5, where the export interaction term yields positive significant findings (at 0.07 levels), nearly identical to specification 2. On the other hand, the Dexport on tax ratio is negatively significantly impacted (at 0.06 levels).

Table 5: EU's GSP plus effect of tariff changes on corporate tax (OLS-with fixed effects)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
Intercept	0.13	0.99	0.13	0.90
Profit	-0.02	0.06	-0.37	0.71
Company Size	0.16	0.12	1.32	0.19
Age	0.01	0.01	0.39	0.69
Export Intensity	-0.45	0.38	-1.19	0.24
Export Interaction	83.44	45.29	1.84	0.07
Exchange Rate	0.00	0.00	-0.37	0.71
DExport	-17.27	9.15	-1.89	0.06
R-squared	0.10			
Adjusted R-squared	-0.01			

Source: Author's own work.

First difference regression is covered by specification 5, and Table 6 displays the outcomes. The findings from specifications 2 and 4 are comparable in that they show that the Dexport is negatively significant following the post-2014 time frame. The export relationship has a strong positive impact on growth of tax ratio, implying that the textile industry is exporting its' products to the EU and obtaining profits, which will lead to increase in tax payment. (Terence et al., 2006; Mohammad et al., 2016; Gnangnon et al., 2019) reveal the identical outcome of their research.

Table 6: EU's GSP Plus Effect of tariff changes on corporate tax (OLS-with first difference)

Variable	Coefficient	Std. Error	z-Statistic	Prob.
Intercept	0.11	1.01	0.11	0.91
Profit	-0.02	0.07	-0.29	0.77
Company Size	0.09	0.12	0.77	0.44
Age	0.00	0.01	-0.09	0.93
Export Intensity	-0.98	0.52	-1.90	0.06
Export Interaction	141.94	62.12	2.28	0.02
Exchange Rate	0.00	0.01	0.56	0.58
DExport	-26.57	12.54	-2.12	0.03
R-squared	0.01			
Adjusted R-squared	0.00			

Source: Author's own work.

Discussion

After analyzing the results, the fact that the profit is highly positively significant suggests that businesses in the textile sector are making more money as a result of their export-focused business models and timely tax payments to the relevant authorities.

Consequently, this depict how Pakistan's economy will grow as a result. Researchers such as: Hussain and Syed (2020, 2022), Srithanpong (2014); Mukherjee and Chanda (2016), and Breinlich (2016), have reported similar outcomes. The similar outcome is displayed in Table 4, Specification 2 of Tobit Regression 2, where modifications to export duties significantly boost company profitability and ability to pay corporate tax to improve the economic condition of Pakistan and support the H_2.

Similarly, export interaction shows positive signals, suggesting that Pakistani textile companies are increasing their profits through export-oriented business practices with the EU and paying taxes to the government. The same study result satisfies H_1. Moreover, it also supported the findings of studies like (Mascagni et al., 2023; Chalendard et al., 2020; Alper et al., 2019). However, the results indicate that the export intensity term has a negative sign due to export competition in which the company's profitability decreases; these results are endorsed by (Hussain & Syed, 2020, 2022).

Therefore, it is crystal clear that if a business adopts new technology to increase productivity, it would likely result in higher earnings and higher tax obligations. Because export tariffs are declining, export-oriented businesses see increases in revenue and surges in tax payments. However, the export rivalries cause the companies' revenues to drop and their tax payments to decrease. Generally, these developments will contribute to Pakistan's sustainable economic growth. Therefore, the results are aligned with hypothesis (H_1) as well as (H_2) and are acceptable.

Conclusion

The Generalized System of Preferences (GSP plus) Status of Pakistan, which was signed in January 2014, is the subject matter of this study's analysis, as well ashow this FTA can generate tax money for Pakistan. Thus, the purpose of this research is to use regression analysis to examine the effects of the EU's GSP plus on Pakistani non-financial enterprises in the textile sector both before and after the impact, from the time period of 2009 to 2020. The textile industry's businesses appear to be benefiting from increased revenue due to their export-oriented business strategy and prompt tax payments to the appropriate authorities, as indicated by the fact that the profit is extremely positively significant. Additionally, there is a little upward trend in the export intensity, suggesting that companies concentrating on exports generally earn higher profits and pay higher taxes in comparison to other companies in the textile sector. These findings make it abundantly evident that the textile sector is exporting its goods to the EU in order to turn a profit and raise the amount of taxes that must be paid. This is indicated by the export interaction's positive sign and by the fact that it significantly raised the tax ratio. Pakistan's economy will expand as a result. However, those companies of the textile sector which face export competition are not able to generate profit and do not pay taxes to the government. Therefore, the outcome makes clear that a tiny portion of businesses do not prioritize exports, pay lesser taxes than other businesses, and do not contribute to long-term, sustainable economic growth.

Thus, it is recommended that to increase the exports the fiscal policy makers give tax subsidies on raw materials as well as on electricity. Moreover, the government may provide the incentive of duty-free import of textiles and apparel machinery and spare parts. Thus, these recommendations will ultimately reduce the cost of production of the textile industry. The Fed-

eral Board of Revenue (FBR) in consultation with the Ministry of Commerce may restore tax credit for investment, which will improve the production of the companies by reinvestment of their retained earnings. Therefore, the exporters can meet the demand of the EU market. Similarly, the Ministry of Commerce also may consult with the FBR and State Bank of Pakistan (SBP) to establish an automated mechanism for collection of corporate tax and other indirect taxes. Consequently, an increase in profitability of the companies enhances government corporate tax revenue. Moreover, another benefit can be attained by Pakistan i.e. when the exports to EU countries will be increased, then the dollar foreign reserves will grow.

The financial managers realize that the textile companies are 'high potential' exporting companies and they need to create a corporate strategy in a way which will become a benchmark versus the main rivals in the industry, who are exporting to EU marketplaces. This is very significant if companies want to attain the maximum EU market share gains for a longer period of time. Corporate managers should also file their tax returns in a timely manner and pay taxes to the government to achieve the goal of sustainable economic growth.

In general, the government of Pakistan produces the opportunities for the buyers of the EU to visit the textile industry of Pakistan, which will assist the buyers in placing orders according to their needs and also follow up on production. Furthermore, raw materials for value-added industries like leather, rice, and textiles must be available at costs that are competitive worldwide. Therefore, the Pakistani government can facilitate these industries in gaining access to globally competitively price inputs such as raw materials and especially energy. Future research on the EU's GSP plus/FTAs with other sectors can be carried out as well as studies with additional variables.

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