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Instable Domestic Conditions and Textile Industry: The Case of Pakistan

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Abstract

The foremost objective of this paper is to study the effects of domestic instability on the returns of the Textile Industry, which is one of the most affected industries of Pakistan. The instability in the country is due to socio-economic, political issues and the increasing war on terror, consequently energy-breakdowns, frequent strikes and political walk-outs have burst the performance of the Textile Industry. The paper is an Event Study Analysis, considers the five-year time period and observes the returns of textile industry in various domestically instable conditions of the country. The Regression Analysis is used to calculate the estimated returns where returns of KSE-100 are incorporated as the proxy of the market. In addition to this ARCH-GARCH models are employed to evaluate the volatility. The findings are consistent with the related studies that are applied to support the hypothesis of the study. It is concluded that there is a significant negative effect of domestic instability on the stock returns of the Textile Industry. Moreover there are two-way effect on the stock market, which means some conditions mark direct effect, where negative wave of disappointment captures the attentions of the investors and they become more coherent about their investment decisions and the other is indirect effect, that directly affects the industry units and indirectly changes the perceptions of the investors about the potential returns and risk related to the stock.

1. Introduction

Pakistan is experiencing uncompromising socio-economic and political instability and its distressing consequences. The increasing manifestation of sectarian, politics and religion, has encouraged terrorism and provided the basis for severe damages of public and private resources, involved striking attentions of media and drastically affected financial markets.

Pakistan is an episodic-democratic country where socio-political disorder continues since its independence. Military interference is one of the most influential aspects in the history of Pakistan. Anti-government manifestation, wars, strikes, energy break-downs and political walk-outs, and presently the most severe issue of war on terror have burst Pakistan on the grounds of socio-political issues and therefore exploded terrorism in the country.

Terrorism is the most important reason of instability in Pakistan. The life fatalities, damage of infrastructure, and psychological fear among the inhabitants of the country are one sided effects of terrorism. Towards the other side it has stated severely adverse affects on various aspects of the economy as well. It has flawed tourism, foreign direct investment (FDI), foreign trading, urban economy, savings, consumption, local investments, national income, economic growth and development, and financial markets of the country.

The instability has depressing inference in the movements of stock prices, investors' perceptiveness and their anticipation about future prospects of stock returns. Therefore market is becoming more uncertain and reacts more often in response to the occurrence of such instable conditions. The assumption of efficient market hypothesis suggested that the fluctuations in stock prices are reliant on the information infiltrate into the market and investors rationally set high probabilities for their expected stock returns and its risk association. Hence, the instability prevailing in Pakistan is rendering adverse signals of disappointment to the financial market therefore it is incorporating with high volatility and uncertain stock movements.

"Pakistan has dynamic, vigorous and export oriented textile industry that has an overwhelming impact on economy. Textile being largest industrial sector generates the country's highest export earnings of about 58%; providing the bulk of employment (39%) to largely underutilized workforce, and contributes 8.5% to the GDP", according to Ministry of the Pakistan Textile Industry.

However, the Pakistan Textile Industry is now confronted with the dilemma of increasing cost of inputs, energy break-downs, frequent strikes and political walk-outs, instability in the country, and least government's consideration towards sustainability of the Industry units. Therefore there is a considerable decline in its production. Various studies that have been observed, found that the effects of terrorism, high inflation, energy and financial crisis hindered the performance of the Textile Industry.

Since it is the one of the most affected industries and the three major cities of Pakistan that are known as the Hubs of the Textile, Karachi, Lahore and Faisalabad are the foremost victims of this instability. Karachi the biggest business city of Pakistan is now the biggest prey of terrorists' attacks, issues of political manifestation and socio-economic disorder. Therefore, the study is initiated to investigate the effects of domestic instability on the Pakistan Textile Industry. It is an Event Study Analysis comprised of the various domestically instable events, observed over the five-year time period. The ARCH-GARCH models are implied to evaluate the volatility in the prices and returns of the Textile Industry. The literature of various studies is also included to support the findings of the study.

1.1 Significance of the Study

By domestic instability we mean, the unrest in the country due to some unforeseen situation. Either due to terrorists' attacks, lack of law and order, political, social or economic distress. These conditions signal the inefficiency of financial markets, performance of industries, and prospect the future of stocks. Therefore the instable conditions are the indicators that assist potential investors to predict the trends of stock market and ultimately help to direct the investment decisions. Since investors preferences are likely to invest in stocks that are expected to generate more money for their invested money.

Thus, significance of the study is to evaluate the efficiency of Signaling Effect, as investors are driven by psychological factors and they foresee domestic instability as a shortcoming that can affect their expected returns against the invested money, therefore their confidence level shatters.

Another marked significance of the study is that it represents domestic instability as a whole and observed major issues arose within the five years of the democratic government (2008-2013). It includes strikes, incident of target killing, unforeseen break-downs, government issues and long-march etc, specifically occurred in the major cities of Pakistan like Karachi, Lahore, Faisalabad and Islamabad.

1.2 Research Questions

The study has been instigated to serve the following research questions;

1. What is the effect of domestic instability on the stock returns of the Pakistan Textile Industry?

2. How efficiently Signaling Effect works?

1.3 Objectives of the Study

The study aims to uncover the relationship between domestic instability and returns of the Pakistan Textile Industry; however it intends to accomplish the following objectives;

1. To study the effects of domestic instability on stock returns of the Textile Industry.
2. To evaluate the performance of the Textile Industry during the successive five-years.
3. To analyze the factors of instability and responsiveness of the potential investors.
4. To illustrate the usefulness and efficacy of the Signaling Effect.

1.4 Scope for Future Research

The study focuses on the efficiency of Signaling Effect, that how potential investors react when some instability occurs within the country. It incorporates the simple statistical techniques including regression analysis to calculate the estimated returns during instable conditions, and ARCH-GARCH models are implied to evaluate the volatility. However, there is a wide scope for future research by using advanced techniques like Implied Probability Densities With Nonparametric Volatility-Smoothing method. Moreover, the same tests that have been operated in this study can be applied for other industries or for the analysis of related industries for any economy.

2. Literature Review

There is an extensive range of literature that has been set out to assess the impact of macroeconomic indicators on stock market returns. Macroeconomic indicators that include money supply, index of industrial production, exchange rate, inflation and balance of trade showed no causal relationship with KSE-100, analyzed by Ali et al (2009) using Granger Causality Test however, Nishat & Shaheen (2004) observed otherwise. Nevertheless, the determinants like government instability, war on terror, and social-political instability etc are the indicators that have an influential impact on stock market returns.

Marc Chesney et al (2010) showed significant negative results of terrorism on various markets in their event-study. They observed that 55 out of 77 terrorist attacks have turned out with significant negative results according to GARCH-EVT method. The significance level of such instable conditions on the event day may vary from market to market and industry to industry. However Marc Chesney et al (2010) further added that in most of the cases, the event day stock returns movements of financial market associated with terrorism attacks are extreme and the strength of the impact declines in the post-event period.

Tahir Suleman (2012) used EGARCH model in his study and found significant negative impact of terrorist attacks on the returns of all the sector indices. He discussed some basic learning for investors and risk managers about strong nature and misleading notion of such events. Firstly the initial market impact from terrorist attacks is likely to be overdone and to unwind over subsequent days. Second, once the initial panic eases, investors take a more rational look at the medium-term economic impact. Thirdly, the micro impact of attacks can be more serious that of the macro. Finally, the extent to which attacks have a long-term market impact on industries and countries depends on whether they cause investors to re-evaluate their long-term risk assessments.

The instability in domestic conditions increases risk factor, specifically associated with financial market variables. Rigobon and Sack (2005) examined that in ten weeks before the war begun with Iraq, the war risk reached 13 and 63 percent due to the change in financial market variables like oil prices, gold prices and US dollar.

In paper J.Nikkinen and S. Vahamaa (2010) estimated the implied probability densities with nonparametric volatility-smoothing method on option prices time series of FTSE-100. Around terrorist attacks like (2001) 9/11 attacks, (2004) attacks in Madrid, and (2005) attack in London they proved strong adverse effect on stock market sentiments, their results also suggested that terrorism attacks cause market respondents to quickly impose higher probabilities for future sharp downward movements and market expectations about possibility of future extreme movements are revised upward in the immediate consequences of such attacks, measured by using kurtosis.

Saeed and Kaveh (2011) analyzed terrorist attacks over a 17-year time period through Mean Analysis and found significance impact of terrorism on Tehran Stock Exchange Price Index (TEPIX) and impact of terrorism in the metropolises on TEPIX. They observed that unforeseen socio-political events may be viewed as external shocks

to capital markets that can directly affect market risk premium highly increasing volatility and thus exert an adverse impact on asset valuation, investment decisions and portfolio allocation.

In another event study analysis by Karolyi and Martell (2005) they assessed empirically by using terrorism incidents (official list) and concluded with significant negative impact on stock price of -0.83%, and an average loss per firm per attack of $401 million in market capitalization of firms during 75 attacks (1995-2002) in which public firms were objected.

The socio-political issues that are the root cause of severe terrorist attacks are never free of cost. Christofis et al (2010) added that beyond the loss of life and personal injuries that are the victims of terrorist attacks and the environment of fear, terrorists seek to create with their premeditated use of brutal violence, terrorism also has real economic costs.

R. Barry Johnston and Oana M. Nedelescu (2005) contributed that the economic consequences can be largely broken down into short-term direct effects, medium-term confidence effects and long-term productivity effects. The direct economic costs of terrorism, including the destruction of life and property, responses to the emergency, restoration of the systems and the infrastructure affected, and the provision of temporary living assistance, are most pronounced in the immediate outcome of the attacks and thus, matter more in the short-run. Whereas, the indirect costs of terrorism can be significant and have the potential to affect the economy in the medium-term by undermining consumer and investor confidence. Since, the financial markets digest the information on the economic and financial impact of the attacks after an initial shock and efficiently incorporate the information into asset prices, so that it could be integrated into decisions about the future with higher levels of uncertainty. Hence, financial markets shift according to the perception of potential investors.

Specifically, in case of Pakistan a study by Ahmed et al (2012) focused on the relationship between terrorism and macroeconomic factors like interest rate and inflation on KSE-100 index by using various statistical tools including ARCH GARCH, GARCH-EVT, Granger's causality test and co-integration etc. This study also revealed a significance negative results for terrorism, causal relationship with interest rate factor, however no relationship is found with inflation factor. They concluded that investors certainly use macroeconomic variables to predict the trends of equity markets which help them to take rational investment decisions, however there is an influencing behavior of macroeconomic variables and terrorism on KSE returns. They operated with specific observations, which incorporated the most affected times of terrorists attacks as well as the most volatile times of KSE returns to capture the factual picture of interactions.

Regarding financial crisis, According to Abbas et. al (2012), on the basis of analysis of Activity, Liquidity and Profitability ratios, performance of textile industry was worse in times of financial crisis (2008-2009) than pre-crisis period and post-crisis period. "Financial crisis badly affects the sales, the costs of sales, receivables, payables, fixed assets and equity of the textile sector." According to Khan& Khan (2010), the major reasons for this collapse include Global recession, high cost of production due to high energy costs etc. Depreciation of Pakistani Currency has affected the growth rate of textile industry negatively. Costs of imported inputs, financing costs and inflation rate have also increased because of depreciation in Pakistani Rupee.

Another most important factor, affecting textile industry's performance is energy crisis. Hafiz M. Yaseen Afzal (2012) describes electricity a very important factor in any industrial activity. He has also mentioned the usage percentage of electricity in different corners of textile industry in such manner: The 38% of electricity in chemical processing, 34% in spinning, 23% in weaving and 5% for other purposes. Shortage of electricity and high interest rates has raised the costs of production of textile industry because production has decreased and fixed costs remained constant. Textile production Capacity has decreased by 25-30% because of this reason. Textile mills operate 24 hours in three shifts if electricity is available according to requirement, but current situation is less than 8 hours electricity supply is providing to the sector (Sohail, Aamar :2011). Electricity Crisis doesn't occur in separation but it is interrelated with other forms of energy crises. Shibata (1983) describes the link between these crises and founded that rise in electricity's cost is because of oil crisis and high oil prices. Its impact on GDP is bad and negative. Khan& Khan (2010) mentioned that Textile industry shares 60% to country exports in Pakistan but due to energy crisis, high inflation and interest rates and political instability, its growth rate declines day by day. Government of Pakistan can raise its growth in textile industry by introducing new technology via R&D.

Textile industry nearly contributes, 8.5 % to GDP in Pakistan's economy (Sohail, Aamar: 2011). Mehmood (2012) conducted a comparative analysis in a research on GDP growth of Pakistan and Bangladesh by taking thirteen factors as variables, affecting GDP, including Gross National Expenditure (GNE), Goods and services

(exports & Imports), FDI inflows and outflows etc. the results of this analysis show that Bangladesh lie in better position as compare to Pakistan. He also mentioned that as the factors FDI doesn't show any effect on the GDP of Pakistan. Due to some factors including Booms blasts, uncontrollable system of the country, politics parties and instability in the prices of different goods, products, and services etc., foreign countries don't show much interest regarding investment in Pakistan. That's why Bangladesh's economy is growing faster than Pakistan's economy.

A research conducted on the effects of macroeconomic variables on stock prices in Pakistan examines the influence of these factors including Exchange Rate(ER), Foreign Exchange Rate (FER), Industrial Production Index (IPI), Interest Rates (IR), Wholesale Price Index(WPI), Exports (X), Imports (M) etc on economy (Hussain et. al 2012). A study on china said in that industrial production, short-term interest rate, money supply and exchange rate had significant positive relation with stock prices. Whereas Inflation had negative relation with stock prices and long term interest rates had no significant relation with stock prices (Garcia & Yue: 2010). The performance of textile industry also affects the market price of shares. A research on stock price and performance of textile industry examine this effect by using Efficient Market Hypothesis (EMH) which says that "a market is efficient if all relevant publicly available information is quickly reflected in the market price. P/B ratio, Earning/Price ratio and EPS are important indicators to measure the performance and profitability of company as well as its shares for investors (Aamir, Khan& Rehan: 2012).

A common problem because of it, economic growth has stopped in Pakistan, is Corruption. According to a study on risk factors in textile industry, crises started when new elected parliament was taken control of country in 2008. Disappointment and corruption is everywhere even at the private sector. Ministers have proven corrupt but Supreme Court didn't take any considerable action against them. At International level, textile industry had affected by global recession, started from 2008-2009, international monetary policies and US&EU influence on Pakistan's economy and strategic decisions (Sohail, Aamar :2011).

2.1 Hypothesis

As research topic describes and in the light of the review of the related studies, there is the relationship between instable domestic conditions and stock returns, therefore the following hypothesis has been developed to facilitate the empirical testing of the study;

H1: Domestic Instability has significant negative effect on stock returns.

3. Research Methodology

3.1 Event-Study Analysis

It is an event study analysis, constituted the effect of instable domestic conditions on the stock returns of the Pakistan Textile Industry. The aggregate returns are incorporated, a Sample Size of 50 companies has been observed with a combination of companies taken from three Sub-industries of the Textile Industry (Textile Composite-15, Textile Weaving-5 and Textile Spinning-30). The study covered five-year time period i.e., from March 2008 - February 2013. The index of Karachi Stock Exchange (KSE-100) is employed as the proxy of the market to calculate the estimated returns during the unrest conditions. Various domestically instable events are taken from the given time to study the Signaling Effect, and the market responsiveness as a result of the occurrence of such events.

An Event Window comprised of the returns of seven days prior to the occurrence of an event i.e., Pre-Event returns and seven days subsequent to the occurrence of an event i.e., Post-Event returns, is operated to facilitate the methodology for each of the selected events.

3.2 Quantitative Techniques

The Slope-Intercept Line (Regression-Line) is exercised to calculate Estimated Returns on the aggregate stock returns of the Industry (TIR) in effect of the market returns i.e., KSE-100 index. The analysis quantifies the degree of change i.e., 'a_s' in Y_{TIR} in respect of the degree of change in X_{KSE}. The regression line also represents ascend of the line, i.e.,' b_i' in the following equation. Hence,

$$Y_{TIR} = b_i + a_s\,(X_{KSE})$$

Abnormal Returns (AR) are calculated by subtracting the Estimated Returns (R_e) from the Actual Returns (R_i) for each of the event window (-7 to +7) days of the events. However, Cumulative Abnormal Returns are calculated by sum of all abnormal returns during each event. The divergence of expected returns from actual is a function of systematic and unsystematic risk associated with the returns.

$$AR = R_e - R_i$$

Where, Actual Returns for the market and the Industry are calculated by using the following equation;

$$R_i = \frac{\text{Ending Value} - \text{Beginning Value}}{\text{Beginning Value}}$$

The absolute dispersion of the observations is obtained by Standard Error ($\mathbf{S.E_X}$), which is the estimated Standard Deviation (α) of the set of data, since;

$$\mathbf{S.E_X} = \frac{\boldsymbol{\alpha}}{\sqrt{\mathbf{n}}}$$

Whereas, to find out the absolute value of dispersion from the mean value is the Standard Deviation (α) of the study, which is calculated as;

$$S.D_X(\alpha) = \frac{\sqrt{\sum X - X'^2}}{n}$$

The simplest average of all the observations is used under the implication of the study which is obtained by dividing the sum of all the observations by the number of observations, 'X'';

$$X' = \frac{\text{sum of all the observations}}{\text{number of the observations}}$$

To weight the validity of the hypothesis another statistical analysis is utilized i.e., T-Statistics ($\mathbf{T_{stat}}$), which is obtained by dividing regression co-efficient of an independent variable i.e., KSE-100 to the Standard Error;

$$T_{stat} = \frac{AR}{\frac{\alpha}{\sqrt{n}}}$$

3.3 ARCH-GARCH Analysis

ARCH (Autoregressive Conditional Heteroskedasticity) model established by Engle (1982) is applied to estimate the comparative volatility of prices of market and the Textile Industry over following periods. The Error Variance is restricted on the precedent information that changes over time as a function of precedent errors Table 03. However the Table 04 illustrates comparative volatility of returns of market and the Textile Industry over following periods which is computed by applying GARCH (Generalized Autoregressive Conditional Heteroskedasticity) model, introduced by Bollerslev (1986) which is used to measure error variances. The techniques are employed to represent varying volatility of the Textile Industry (dependent) relative to the market (independent).

4. Findings

The findings of the study revealed significant negative effect of the domestically instable conditions on the returns of the industry. Table 01; hold Aggregate Abnormal Returns of the industry during instable conditions of the country. Col.1 shows the days of the event window (-7 to +7), 0'day is the day on which events occurred. Col.2 represents Aggregate Abnormal Returns (squared) during the times of distress. Col.3 shows the validity of the results and Col.4 shows Significance of the results. Whereas Col.5 holds the Cumulative Aggregate Abnormal Returns of the event window, the study observed immediate short term effect of certain conditions like terrorists' attacks, strikes and energy breakdowns on the returns and investors started setting high probabilities and stock market become more volatile. Although certain conditions like socio-political and economic issues, might not hold immediate short-term effect but changed the perceptions of the investors over time. The results are consistent with the related studies that are applied to support the findings of the study

however; the point of difference is that the most of the international studies observed instability (specifically terrorists; attacks like 9/11 2001, Madrid 2004 and London 2005) of the developed countries where occurrence of any distress (Abnormality) can be easily distinguished from Normal day returns. Since Pakistan is experiencing persistent instability, frequent terrorists' attacks, strikes, political walkouts; sectarian and socio-economic issues on routine basis, therefore significance is low as the actual returns and the abnormal returns slightly vary. These conditions have left significantly adverse signals of disappointment on the stock market. As it reacted relative to the domestic conditions, absorbed instability as it occurred and reflected significantly negative effect to the market. Therefore the following graphical demonstration Figure 01, reviews an overall picture of the Textile Industry during the given time in respect of the Table 02; that represents aggregate Actual Returns, where Rm denotes Returns of Market (KSE-100) and Rt indicates Returns of the Textile Industry. The Actual Returns of the market lies close to 0, whereas the Actual Returns of the Textile Industry are negative in first two years however, slightly positive in the third year, yet again negative in the subsequent year and dropped significantly in the last year. In Table 03 ARCH Effect measures the volatility of prices of the Textile Industry relative to the volatility of the index. Rt (-1) shows the variation in the prices, however value of Rt (-1) is less than 1, which indicates that present volatility of prices is higher than previous volatility. Table 04 demonstrates the GARCH Effect that determines the volatility of returns of the Textile Industry in relation to the volatility of the market returns. Rt (-1) illustrates the variation in the returns, yet value of Rt (-1) is less than 1, which designates that present volatility of returns is higher than previous volatility of returns. Whereas the volatility of the Textile Industry relative to the market is less because the market consists of number of other industries as well and this study constituted the effects on the Textile Industry specifically. Therefore, this exhibits that market is becoming more volatile in effect of the domestic instable conditions and so the Textile Industry. However, P value signifies that present volatility is predicted from previous as there is a continual instable domestic conditions furthermore volatility is increasing gradually. Hence, the Pakistan Textile Industry is the most important victim of the domestic instable conditions and the environment of distress has led performance of the Textile Industry to a miserable situation. Thus, the hypothesis of the study is accepted that 'Instable Domestic Conditions have significantly negative effect on the stock returns'.

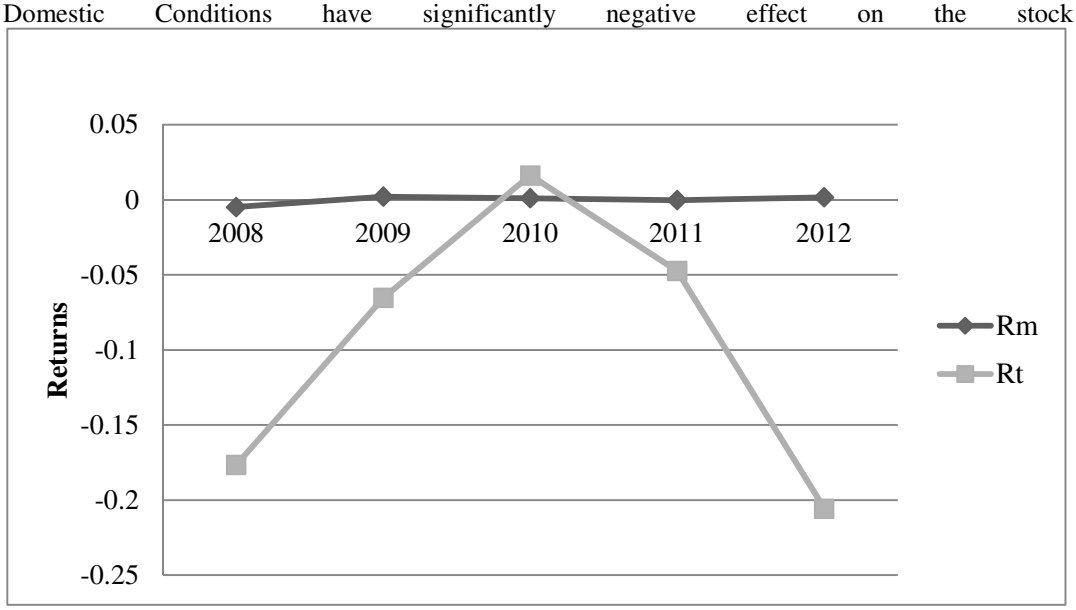

Figure 01: Aggregate Actual Returns of Pakistan Textile Industry

Rm: Market Returns
Rt: Returns of Textile Industry

4.1 Discussion

On the basis of the findings, the study answers the research questions and fulfills the research objectives in the following ways;

Research Question 01: What is the effect of domestic instability on the stock prices of the Pakistan Textile Industry?

There is a significant negative effect of domestic instability on the stock returns of the Pakistan Textile Industry. The domestic instability due to terrorists' attacks, strikes, and target killings, lack of law and order, and socio-political issues has adverse effects on the stock market and it is becoming more uncertain over time. As the instable conditions occurred in the country considerable stock movements are observed, this indicated that stock market reacted relative to the conditions of the country. However, these instable conditions signaled the uncertainty of the market, and put a question mark on the expected returns and risk association of the stock. Therefore investors became sharper and place high probabilities to the stock, consequently stocks become more volatile. Specifically in the case of Pakistan Textile Industry, it is afflicted by the routine instability in the country. The three major cities which are the hubs of the Textile Karachi, Lahore and Faisalabad are the most victims of this instability. There are a number of factors that are affecting the Textile Industry but there is a least government consideration towards the sustainability and advancement of the Textile units. Government needs to be more concerned about the development of the manufacturing units of the industry; the energy crisis in the country has reduced the production level considerably. There are more rapid fluctuations in the costs of inputs (cotton and yawn) of the industry that have stressed the production capacity, increasing inflation rates in Pakistan as compared to the countries like Bangladesh, Srilanka, China and India, which is one of the major causes of increasing trend among the Textile units to switch towards these countries. It has not only popped the performance of the Textile Industry but also strained the backbone of the Economy of Pakistan.

Research Question 02: How efficiently Signaling Effect works?

The Signaling Effect does work efficiently. As the instable conditions arose within the country it reflected a negative signal to the stock market, thereby the potential investors became more rational about their expected returns and risk related to the stock. The instability in the country has destroyed the confidence of the investors as they predicted the future prospects of their investments and anticipated such kind of instability as a shortcoming that might affect their possible returns.

The instability in the country has two ways affect on the stock market. The 'Direct Effect' or the short-term effect, in which market responded as quickly as the instability occurred, for instance terrorists' attacks, target killings and riots in the main cities of the Textile production. For instance, one of the most important issues that have captured the attentions of the media, political and non-political parties and stock market and left adverse effect on the stock prices, occurred in the start of the year 2013 is the Dr. Qadri's long-march that led to significantly adverse effect on the stock market specifically. "Dr. Qadri and the Supreme Court have targeted the government at the same time, causing the uncertainty to reign supreme in the political and financial spheres of the country. The 2.5 per cent drop on January 2nd and the 3.2 per cent decline on January 15 show the bears scaling bourse's walls as investors abandon the market in a hurry. Dr. Qadri's long march, which has turned into a short stay, has also caused suspension of business activity in Islamabad. The Federal Board of revenue estimates a daily loss of one billion rupees from the suspension of commerce in Islamabad alone." (Murtaza Haider: 2013)

During another incident the Layari Operation in Karachi, Karachi Stock Exchange has reported increase of 252 points. However the study has found significantly negative effect on the stock prices of the Textile Industry. Consequently, in the direct effect as the market captured the bad (or good) signals it immediately incorporated those signals and reflected back negative (or positive) signals to the investors (existing and potential) but as the negative wave of panic relieves in the subsequent days and stock returns get their positions over (Event Study Analysis).

In addition to this there is the 'Indirect Effect' or the long-term effect, in which the chaoses affected the industry units directly and signaled the negative wave of disappointment to the investors indirectly. For instance the issues like SNGPL notification, political instability, power rental case, strikes, unforeseen conditions and frequent energy break-downs, increasing costs of inputs directly affected the production capacity of the Textile units that led significant decline in exports of the country, which resultantly increased unemployment, consequently GDP shifted downward. This put an adverse affect on the economy of Pakistan. The downward trend in the economy as a result of the domestic instability has not only reflected the negative signal towards the potential investors of Pakistan but also the foreign direct investment has also decreased. Therefore, the Pakistan Textile Industry has been affected by the direct-effect as well as the indirect-effect of the instable domestic conditions of the country. Concisely, in effect of such conditions it has not only shattered the confidence of the investors but the persistent environment of the instability and routine based terrorists' attacks in the country left Pakistan disparaged in the eyes of the world.

5. Conclusion

There are a number of factors that are obstructing the performance of the Pakistan Textile Industry. There is a continual instability in the country due to everyday terrorist's attacks, political, social and economic issues, strikes, energy break-downs and political walkouts. These instable conditions signal the uncertainty of the market, consequently stocks become more unpredictable. Such instability has not only affected the growth and development of the country but also struck the perceptions of the potential investors about the prospects of the financial market. The Regression Analysis is used in the Event Study and ARCH-GARCH models are implied to evaluate volatility, and it is concluded that there is a significant negative effect of domestic instability on the stock returns of the Textile Industry. Additionally, the outcomes of such instable conditions vary because there are two-way effect on the stock market, which means certain conditions mark direct effect, in which immediate negative wave of disappointment captures the attentions of investors and they become more rational about their investment decisions and the other is indirect effect, that directly affects the industry units and indirectly changes the perceptions of the investors about the possible returns and risk related to the stock. On aggregate basis the instable domestic conditions have adverse effects on the stock returns of the Pakistan Textile Industry. Moreover there is a wide scope of future research by applying more advanced approaches for this topic.

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Annexure

Table 01: Aggregate Abnormal Returns of the Textile Industry

Days	Aggregate Abnormal Returns	T-Statistics		Cumulative Aggregate Abnormal Returns
-7	0.008063	0.000752708	***	0.008063
-6	15.93567	1.487664688		15.94373
-5	40.21681	3.754583765		9.601917
-4	4.729981	0.441564491		11.77677
-3	0.092987	0.008680783	**	11.47183
-2	0.214022	0.019979921	**	11.93446
-1	0.039399	0.003678052	**	11.73597
0	5.419985	0.055979402	*	9.407879
1	12.47044	1.164170473		12.93923
2	12.29093	1.147411994		16.44507
3	17.43334	1.627478924		20.6204
4	12.75228	0.019048169	**	17.04936
5	25.36703	2.368123728		12.01279
6	21.59956	2.016413965		16.66033
7	1.644909	0.5053558664		15.37779

Significance (***) (**) (*)

Table 02: Aggregate Actual Returns

Years	Rm	Rt
2008	-0.00483	-0.17649
2009	0.002112	-0.06527
2010	0.00103	0.016263
2011	-0.00025	-0.04737
2012	0.001668	-0.205676

Table 03: ARCH Effect

Variable	Coefficient	Std. Error	Z-Statistic	Prob.
C	0.033687	0.024565	1.371328	0.1703
Rt(-1)	0.009333	0.031885	0.29272	0.7697
	Variance Equation			
C	0.650234	0.021948	29.62604	0
RESID(1)^2	0.241449	0.044137	5.470478	0
Rm	-7.43505	1.079344	-6.88849	0

Table 04: GARCH Effect

Variable	Coefficient	Std. Error	Z-Statistic	Prob.
C	0.024787	0.022886	1.08304	0.2788
Rt(-1)	0.013983	0.033271	0.420287	0.6743
	Variance Equation			
C	0.031021	0.003359	9.235853	0
RESID(1)^2	0.11982	0.014795	8.098519	0
GARCH(-1)	0.850363	0.014378	59.14449	0
Rm	-2.92046	0.296377	-9.85385	0

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