

IMPACT OF INTERNATIONAL TRADE AGREEMENT ON FINANCIAL MARKETS IN NEPAL

A Dissertation submitted to the Office the Dean, Faculty of Management in partial fulfillment of the requirements for the Master's Business Studies (MBS)

By

Sabita Jamkatel

Campus Roll No.: 621/076

Exam Symbol No.: 23912/20

T.U. Regd. No.: 7-2-716-27-2015

Shanker Dev Campus

Group: Finance

Kathmandu, Nepal

Feb, 2025

CERTIFICATION OF AUTHORSHIP

I hereby corroborate that I have researched and submitted the final draft of dissertation entitled "**Impact of International Trade Agreements on Financial Markets in Nepal**" The work of this dissertation has not been submitted previously for the purpose of conferral of any degrees nor it has been proposed and presented as part of requirements for any other academic purposes.

The assistance and cooperation that I have received during this research work has been acknowledged. In addition, I declare that all information sources and literature used are cited in the reference section of this dissertation.

.....

Sabita Jamkatel

Date:

REPORT OF RESEARCH COMMITTEE

Ms. Sabita Jamkatel has defended research proposal entitled" **Impact of International Trade Agreements on Financial Markets in Nepal**" successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work and guidance of supervisor and submit the thesis for evaluation and viva voce examination.

.....
Bhoj Raj Ojha
Dissertation Supervisor

Dissertation Proposal Defended Date:

Dissertation Defended Date:

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Head of Research Department

Dissertation Viva VoceDate:

APPROVAL SHEET

We, the undersigned, have examined the thesis entitled "**Impact of International Trade Agreements on Financial Markets in Nepal**" presented by Sabita Jamkatel, a candidate for the degree of Master of Business Studies (MBS Semester) and conducted the Viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

.....
Bhoj Raj Ojha
Dissertation Supervisor

.....
Internal Examiner

.....
External Examiner

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson, Research Committee

.....
Asso. Prof. Dr. Kapil Khanal
Campus Chief

ACKNOWLEDGMENTS

First and foremost, I would like to express our gratitude to thesis supervisor to. Bhoj Raj Ojha for his consistent help and support to complete my thesis. Indeed, his guidance, cooperation, encouragement is very admirable and praiseworthy without which the research work would not have been possible. I am also greatly indebted to Research Head Asso. Prof. Dr. Sajeeb Kumar Shrestha and Campus Chief Asso. Prof. Dr. Kapil Khanal for the overall management and guidance to complete my thesis.

The Graduate Research Thesis entitled "**Impact of International Trade Agreements on Financial Markets in Nepal**" has been prepared to fulfill the partial requirement for MBS degree of Tribhuwan University It is matter of great delight and pleasure to complete this Graduate Research Report with the indispensable cooperation, guidance, and help from many individuals. I therefore take this opportunity to most sincerely express my gratitude to all of them.

Similarly, I am equally thankful to my all teachers and friends for their moral support and encouragement. They are always helpful and supportive towards me and I really appreciate them for their care and support. I am also very thankful and feel fortunate towards my parents for always supporting me in every steps of life. I cannot define the compassion and support of my parents in words.

Sabita Jamkatel

TABLE OF CONTENTS

	Page No.
<i>Title Page</i>	<i>i</i>
<i>Certification of Authorship</i>	<i>ii</i>
<i>Report of Research Committee</i>	<i>iii</i>
<i>Approval Sheet</i>	<i>iv</i>
<i>Acknowledgement</i>	<i>v</i>
<i>Table of Contents</i>	<i>vi</i>
<i>List of Tables</i>	<i>ix</i>
<i>List of Figures</i>	<i>x</i>
<i>Abbreviations</i>	<i>xi</i>
<i>Abstract</i>	<i>xi</i>
CHAPTER-I INTRODUCTION	1
1.1 Background of the Study	1
1.2 Statement of Problems	4
1.3 Objectives of the Study	5
1.4 Rational of the study	5
1.5 Limitations of the Study	5
CHAPTER-II LITERATURE REVIEW	7
2.1 Theoretical Review	7
2.1.1 Trade Agreement	9
2.2.2 History of Trade Agreements	10
2.1.3 International Trade Theory	13
2.2 Empirical Review	14
2.4 Research gap	27
CHAPTER-III RESEARCH METHODOLOGY	28
3.1 Research design	28
3.2 Population Sample and sampling design	28
3.3 Sources and nature of data	29

3.4 Data Processing	29
3.5 Data Analysis Tools	30
3.5.1 Descriptive statistics	30
3.5.2 Correlation Coefficient (r)	32
3.5.3 Regression Analysis	33
3.5.4 The Regression Model	33
3.6 Research Framework and defination of variables	33
CHAPTER-IV RESULT AND DISCUSSION	36
4.1 Data presentation	36
4.1.1 International Trade Volume	36
4.1.2 FDI Inflows	38
4.1.3 Exchange rate movements	39
4.1.4 Interest Rate	51
4.1.5 Stock Market Index	42
4.2 Descriptive statistics	43
4.3 Correlation analysis	45
4.4 Regression Analysis	45
4.5 Discussion	47
CHAPTER-V SUMMARY AND CONCLUSION	49
5.1 Summary	49
5.2 Conclusion	51
5.3 Implications	51

REFERENCES

APPENDIX

LIST OF TABLES

	Page No.
Table 1 International Trade Volume	37
Table 2 FDI inflows	38
Table 3 Exchange Rate movements	39
Table 4 Interest Rate	40
Table 5 Stock Market index	41
Table 6 Descriptive statistics	42
Table 7 Correlation Analysis	43
Table 8 Model summary	44
Table 9 ANOVA	45
Table 10 Coefficients of variables	46

LIST OF FIGURERS

Page No.

Figure 1: Research Framework

34

ABBREVIATIONS

ANOVA	:	Analysis of Variance
C.V.	:	Coefficient of Variation
FDI	:	Foreign Direct Investment
IPO	:	Initial Public Offering
LC	:	Letter of Credit
NEPSE	:	Nepal Stock Exchange
NRB	:	Nepal Rastra Bank
ROC	:	Registrar of Companies
S.D.	:	Standard Deviation
SC	:	Standardized Coefficient
SD	:	Standard Deviation
SEC	:	Securities SEExchange Centre
SPSS	:	Statistical Packaged for Social Sciences

ABSTRACT

This study examines the impact of international trade on financial markets in Nepal, focusing on the Nepal Stock Exchange (NEPSE) index. The research assesses the present status of international trade volume, foreign direct investment (FDI) inflows, interest rates, and exchange rate movements (ERM) and their influence on stock market performance. It also analyzes the relationships among these variables and their overall impact on NEPSE. Correlation analysis indicates a strong positive relationship between ERM and the stock market index ($r = 0.930$, $p < 0.01$), suggesting that exchange rate fluctuations significantly affect stock market performance. Total trade volume (TTV) also exhibits a positive correlation with the stock market index ($r = 0.589$, $p < 0.05$). However, FDI ($r = 0.257$, $p = 0.42$) and interest rates (IR) ($r = 0.414$, $p = 0.181$) show weak and statistically insignificant correlations. Regression results highlight ERM as the most influential factor on NEPSE ($p = 0.000$), while IR negatively affects stock market performance ($p = 0.004$). FDI has a weak but significant negative impact ($p = 0.036$), whereas TTV does not significantly influence the stock market ($p = 0.507$). These findings indicate that exchange rate movements and interest rates are critical determinants of stock market performance in Nepal, whereas trade volume and FDI have a limited direct impact. The study suggests that policymakers should focus on stabilizing exchange rates and interest rates to foster a stable financial market.

Key Words: International Trade, Financial Markets, Stock Market Index, Foreign Direct Investment, Exchange Rate Movements, Interest Rates, Nepal Stock Exchange

CHAPTER I

INTRODUCTION

1.1 Background of the study

International trade agreements are critical instruments that influence the economic landscape of countries, including their financial markets. These agreements, ranging from bilateral trade treaties to multilateral accords under institutions like the World Trade Organization (WTO), aim to facilitate trade by reducing barriers, such as tariffs and quotas, and harmonizing standards. In the context of Nepal, a landlocked country with a developing economy, international trade agreements play a pivotal role in shaping the country's economic and financial sectors. Nepal's accession to the WTO in 2004, along with agreements under the South Asian Free Trade Area (SAFTA), has significantly impacted its financial market, primarily by opening avenues for foreign investment, increasing market competition, and enhancing market efficiency. According to Bista (2020), these agreements have allowed Nepal to integrate more deeply into the global economy, leading to a more dynamic but also more vulnerable financial market environment.

The financial market in Nepal is highly sensitive to changes brought about by trade agreements. The liberalization of trade has often led to increased capital inflows, which, while beneficial for market liquidity and investment, also poses risks associated with capital flight and financial volatility (Bhattarai & Gautam, 2019). International trade agreements encourage foreign direct investment (FDI) and portfolio investments, which are essential for the growth of Nepal's financial sector. However, these investments are often influenced by global economic conditions, making Nepal's financial market susceptible to external shocks. For instance, agreements like SAFTA have enabled smoother trade with regional partners, but they have also exposed Nepal's market to the economic and financial fluctuations of its larger neighbors, particularly India and China (Shrestha, 2018). The increased connectivity with global markets has made Nepal's financial market more responsive to international economic trends, both positively and negatively.

Moreover, trade agreements impact Nepal's financial market by influencing regulatory frameworks and institutional structures. Compliance with international standards often necessitates reforms in financial regulations, leading to greater transparency and improved investor confidence. According to Acharya and Paudel (2021), these reforms, driven by trade agreements, have helped in modernizing Nepal's financial market infrastructure, thereby enhancing market performance and stability. However, the alignment of domestic regulations with international norms can also pose challenges, such as the need for extensive capacity building and institutional adjustments. The regulatory changes, while beneficial in the long term, can create short-term instability in the market, affecting investor sentiment and market behavior.

Trade agreements also influence the currency and exchange rate dynamics of Nepal, which in turn impact the financial market. As a country that relies heavily on remittances and trade, Nepal's financial stability is closely tied to its exchange rate policies. Trade liberalization, driven by international agreements, can lead to currency appreciation or depreciation, affecting the overall competitiveness of Nepal's exports and the flow of foreign capital (Dhungana, 2020). For example, during times of economic downturn in major trading partners, Nepal often experiences a depreciation of its currency, leading to a decline in investor confidence in the financial market. This interconnectedness with global markets underscores the dual-edged nature of international trade agreements they can drive growth but also expose the economy to global economic risks.

The impact of international trade agreements on Nepal's financial market also extends to the banking sector, which plays a crucial role in the country's financial system. Trade agreements facilitate the entry of foreign banks and financial institutions, which can lead to increased competition and better services for consumers. According to Koirala (2019), the presence of foreign financial entities has introduced innovative financial products and services in Nepal, enhancing overall market efficiency. However, this increased competition can also strain local banks that may lack the resources and technological capabilities of their international counterparts. The pressure to conform to global standards can sometimes lead to an uneven playing field, where domestic institutions struggle to keep up, potentially destabilizing the financial sector.

Nepal's financial industry is significantly impacted by international trade agreements, which present both possibilities and difficulties. These agreements expose the financial industry to outside risks and pressures even as they promote economic integration and bring in much-needed international investment. These consequences' dual nature emphasizes how crucial well-thought-out policies and strong regulatory frameworks are to reducing any possible negative effects. Policymakers hoping to capitalize on globalization's advantages while preserving Nepal's financial stability must comprehend the intricate relationship between trade agreements and financial markets.

Globalization and international commerce have had a significant and complex influence on financial markets all around the world, including in Nepal. Nepal's financial markets have changed significantly as a result of the country's pursuit of economic reforms and opening to foreign investment and commerce. Numerous advantages have resulted from these adjustments, including more capital inflows, better market efficiency, and enhanced investor confidence. They have, meanwhile, also brought up new difficulties that policymakers must successfully handle, such as increasing competitiveness, regulatory demands, and heightened vulnerability to international financial concerns.

This study investigates the complex interrelationships of globalization, international trade agreements, and Nepal's financial markets. Understanding the effects of these international trade agreements is essential for evaluating how they affect capital flows, market transparency, and general market dynamics in light of Nepal's aspirations to integrate into the global economy.

One of the notable impacts of globalization is the increased flow of capital across borders, which has significant implications for financial markets and monetary policy. In Nepal, the liberalization of trade and investment policies has facilitated foreign direct investment (FDI) and portfolio investments, contributing to the development of financial markets. However, as financial markets become more interconnected globally, the effectiveness of domestic monetary policy can be challenged by external factors, such as global interest rate movements and investor sentiment.

Global integration has led to a convergence of long-term interest rates across major economies, suggesting that global financial markets are increasingly influencing domestic economic conditions. For Nepal, this implies that international trade agreements and the globalization of financial markets can impact the country's financial stability and economic growth. Despite increased global connectivity, there remains a "home bias," where investors prefer domestic assets, highlighting the ongoing influence of local factors on investment decisions Kiani, M. M., Raisani, S. T., Nabeel, M., Khan, S. Z., & Lodhi, K. (2023). This research aims to delve into these dynamics, examining how international trade agreements shape Nepal's financial markets and identifying the benefits and challenges posed by increased global integration.

1.2 Statement of Problems

The impact of international trade agreements on financial markets has become a highly debated issue due to the complexities and interconnectedness of global economies. These agreements, designed to reduce trade barriers and foster economic cooperation, can significantly influence market dynamics, investment flows, and investor sentiment. However, they also give rise to issues such as market volatility, regulatory challenges, and unequal benefits among participating countries (Smith, 2023). For instance, trade agreements can lead to sudden shifts in market confidence, particularly when the terms are perceived as unfavorable to certain industries or economies. Such market reactions often manifest in fluctuating stock prices, currency exchange rates, and bond yields, reflecting the broader uncertainties associated with trade policy changes (Johnson, 2022). Moreover, the regulatory harmonization required under these agreements can create compliance burdens for financial institutions, leading to increased operational costs and risks (Brown, 2024). Additionally, the differential impact on developed and developing economies has raised concerns about equity and fairness, as smaller markets often face challenges in competing with larger, more developed counterparts within the agreed frameworks (Williams, 2023). These issues underscore the need for a careful evaluation of trade agreements, considering not only the potential economic benefits but also the risks they pose to financial market stability and inclusivity (Taylor, 2024). More specifically, this present study is carried out to answer the following research questions.

- What is the present status of international trade volume, FDI inflows, interest rate and ERM on the performance of the Nepal Stock Exchange index?
- What is the relationship between international trade volume, FDI inflows, interest rate and ERM on the performance of the Nepal Stock Exchange index?
- What is the impact of FDI inflows, international trade volume, interest rates, ERM on the Nepal Stock Exchange index?

1.3 Objective of the study

Finding the elements that influence international trade agreements on financial markets is the goal of this study. Additionally, it is suggested that this study achieve the following goals:

- To assess present status of international trade volume, FDI inflows, interest rate ERM the performance of the Nepal Stock Exchange index.
- To examine the relationship between international trade volume FDI inflows, exchange rate and interest rate performance of the Nepal stock exchange index.
- To analyze the impact of FDI inflows, international trade volume, interest rates, ERM on the Nepal Stock Exchange index.

1.4 Rational of the study

Understanding the intricate relationships between financial development, economic openness, and general economic growth requires looking at how international trade agreements affect financial markets. This study is especially important in the context of Nepal because of the nation's continuous economic reforms and growing economic integration with the rest of the world. Recent years have seen significant economic growth in Nepal, fueled by factors including increased investment, greater macroeconomic stability, and infrastructural development. Due to their ability to facilitate capital inflows, increase market efficiency, and introduce new financial instruments, international trade agreements have been essential in this rise.

However, Nepal's financial markets also face difficulties as a result of international trade agreements and economic integration. These difficulties include the need for strong regulatory frameworks, heightened market volatility, and vulnerability to outside

economic shocks. Policymakers must comprehend these issues in order to create plans that reduce risks and maximize the advantages of the growth of the financial markets. This study intends to provide important insights into how financial integration and economic openness affect market dynamics in an emerging country by examining the effects of international trade agreements on Nepal's financial markets. The results, which illustrate the advantages and disadvantages of financial integration and economic globalization in Nepal, will be crucial information for scholars, financial market participants, and policymakers.

1.5 Limitations of the study

The secondary data sources used in this study are mostly financial market and FDI inflow reports. Furthermore, rather than encompassing all financial institutions, the analysis was restricted to financial markets. However, the only financial reports included as examples in this study are level ones. The following lists the study's further limitations:

- i. This study is concentrated on impact of international trade agreements on financial markets.
- ii. Only ten years data has been taken for analyzing the international trade agreements on financial markets.
- iii. The study is being based on secondary data, collected from the past trading data, so it may not give the accurateresult.
- iv. The study only focus on specific internal variables that affect the stock market index of the international trade agreements such as international trade volume, FDI Inflows,Exchange Rate Movements and Intrest Rateso other variables are not focus for the study.
- v. Only limited financial and statistical tools are used for analysis.

CHAPTER II

LITERATURE REVIEW

Presenting basic ideas about international trade agreements on financial markets and the opinions of several eminent writers from books, journals, and research papers is the aim of this chapter. The second chapter of this thesis is devoted to analyzing the current literature, mostly related to trade agreements. It contains reviews of independent studies, unpublished theses, papers, and journals, giving background information for the research effort and recommendations for further investigations. These agreements, their meaning, and their fundamental division are introduced in the first part. The second section focuses on the agreements' and trade's historical viewpoint as it relates to the development of global economic integration. The essential ideas for a comprehensive welfare study of trade creation and diversion are outlined in the third part. The final section then discusses the disparities in the consequences of trade agreements that African nations have signed, along with an analysis of various local trading blocs. The following topics are included in this topic.

- i. Theoretical Review
- ii. Empirical Review
- iii. Research Gap

2.1 Theoretical Review

2.1.1 Trade Agreement

Governments search for ways to enter into agreements to advance their country's foreign trade as the globe grows increasingly linked and globalized. Before delving further, it is necessary to describe a few of these agreements that are frequently found in literature in order to properly comprehend them¹. The acronym for the Free Trade Agreement (FTA) is WTO.

As an agreement between two or more nations that maintains their own tariffs on imports from non-members while eliminating trade obstacles entirely or in part. However, by imposing uniform external duties on nonmembers, the Customs Union (CU) deviates from the Free Trade Agreement. According to the World Trade Organization, preferential

trade arrangements (PTAs) are unilateral agreements made by mostly wealthy nations to encourage their imports from certain

Partner countries by reducing their trade restrictions. Lastly, reciprocal trade agreements between two or more countries that aim to liberalize tariffs and services while containing free trade agreements (FTAs) and free trade agreements (CUs) are known as regional trade agreements (RTAs). Any trade agreement including two or more nations but less than all members is considered regionalization, according to the World Trade Organization. Furthermore, these agreements may be categorized based on a number of factors. First, the WTO makes a distinction between unilateral and reciprocal agreements; depending on the number of participating nations, the latter might be further expanded to bilateral and multilateral agreements. Only one direction of trade barriers are lowered by unilateral agreements, such as decreasing tariffs to open rich markets to underdeveloped nations. Trade between two or more sovereign nations, or even between regions and economic unions, is often liberalized on both sides via reciprocal agreements. Second, agreements can be separated according to how they relate to nations that are not members. CUs must implement a uniform importing policy for all members, but FTAs permit nations to maintain existing policies regarding non-member nations. Whether an agreement focuses on all or almost all sectors of an economy, or only specific ones, another divide may be made depending on the product scope. The rate of economic integration that these agreements reflect is significantly more significant because, in the end, their scopes overlap and their interpretations vary depending on the source.

Since the former colonial commerce in the middle of the 20th century, regional trade agreements have grown rapidly. The data in the accompanying graph shows the global trend toward trade liberalization and the removal of trade barriers. Naturally, this raises issues about how the agreements spread so far, what else should be taken into account when calculating overall wellbeing, and why signing this agreement is even efficient. The number of RTAs annually globally for the whole time period utilized for the estimation is shown in Figure 1 created by the WTO in 2022.

2.1.2 History of trade agreements

Since unofficial preferential treatment has always followed commerce, a thorough history of trade milestones is offered for better context and relevance, even if formally

documented contracts cannot be discussed until the early 18th century. According to Bernstein (2008), humankind has been bound by commerce since antiquity. In the first three millennia BC, the Sumerians took advantage of their water resources and the Persian Gulf. The trading hub shifted to Egypt and the Red Sea around 2500 BC, and the Phoenicians followed. Egyptian exploration did not take long, and there is proof that Indian Ocean trading dates back to 2300 BC. The majority of trade occurred on the Mediterranean, Aegean, and Black Seas as soon as the balance of power swung in favor of Greece and Persia. Therefore, the past centuries BC are mostly marked by the Phoenicians' routes across the Mediterranean, the Greek city-states' commerce, or the Macedonian commercial system.

empire.

The Silk Road, which first appeared in 130 BC during the Han dynasty, was a result of the significant advancement. It represented a commercial relationship for both products and ideas between China and Europe, primarily the Romans at its inception, rather than a single route². Muslims dominated the Indian Ocean trade hub following the fall of the Roman Empire, establishing a network of overland and marine links, mostly with India. Canton or Malacca (modern-day Malaysia and China). This area remained inaccessible to Europeans until Vasco de Gama's expedition around the Cape of Good Hope in 1498, which was followed by the Ming dynasty's conquest of China (Ravenstein and Sa, 2016). The Portuguese and Spaniards exerted significant control over commerce in the 16th century, dividing

The Tordesillas line divided the world and their sphere of influence in two; the Portuguese controlled the Indian Ocean, while the Spaniards began to settle the recently discovered American territories by Columbus in 1492 (Quaglioni, 2018).

The Dutch colonies were gradually gaining their freedom and embarking on their journey to global dominance following the start of the Dutch Revolt against Spain in 1568 (Fitzmaurice, 2017). Next

to the new, contemporary financial or agricultural systems establishing the dominance of the country, the

In 1602, the Dutch East India Company (VOC) was founded. With strong government backing, the VOC had the monopoly on commerce in the Indian Ocean, as well as the

authority to sign regional treaties, construct forts, and keep armed forces. In the seventeenth century,

The business totally took control of a number of areas in modern-day Indonesia and established a

monopoly on cinnamon and nutmeg worldwide (Loth, 1995). The Netherlands and VOC eventually lost their position as global trade leaders to England and the English East India Company (EIC), respectively, as customer preferences shifted from luxury spices to tea, coffee, and cotton.

The Methuen Treaty, which was signed in 1703 between England and Portugal, was the first formal bilateral trade agreement. While England agreed to import Portuguese wine with no higher duties than those for French wine, Portugal agreed to import English textiles free of taxes. According to Cardoso (2017), this treaty led to Portugal's significant reliance on England and helped pave the way for England's Industrial Revolution. The FTA between England and France in 1860, known as the Cobben-Chevalier Treaty, was another significant event. It decreased duties on various items on both sides, e.g. English coal and iron, French wine and brandy, and anticipated Britain's subsequent trade liberalization strategy (Bairoch and Burke, 1989). Additionally, Timini (2022) calculated that the treaty had a substantial, favorable, and beneficial impact on trade flows.

At the start of the 20th century, the US gradually became the worldwide hub of steel technology as a result of the Industrial Revolution. The protectionist who first

Congress responded by enacting the Smooth-Hawley Tariff Act in 1930, which targeted the whole tariff schedule, as policy toward the US industrial sector shifted to agricultural in the 1920s (Irwin, 2017). Increases in already high tariffs sparked a wave of protectionism throughout Europe, exacerbating the effects of the Great Depression, which is said to have been a major contributing factor to World War II (Madsen, 2001). Since the British implemented mutual tariff reductions throughout the Commonwealth in reaction to protectionist laws, the Imperial Preference agreed in 1932 is especially noteworthy. Modern trade agreements, which primarily differ in their unification under common norms so that governments are asked to take other nations' welfare into consideration after they sign an agreement, emerged after World War II. The globe experienced severe protectionism and chilly relations prior to the war, along with

financial turmoil brought on by the Great Depression, which is said to have been one of the primary reasons of the conflict (Bernstein, 2008). When 44 countries signed the Bretton Woods agreement to establish a new monetary system in July 1944, it marked a turning point. The US dollar became the dominant currency in the globe, and other countries redeemed their own currencies at a fixed exchange rate, replacing the conventional gold standard that was utilized by the majority of the countries. The goal of this system was to provide order to the chaotic post-war financial system (Cesarano, 2006). The establishment of two new organizations—the World Bank, which provided funding for the post-war reconstruction of Europe and reduced poverty, and the International Monetary Fund (IMF), which oversees exchange rates and promotes financial stability—was another significant outcome. A comparatively weaker General Agreement on Tariffs and Trade (GATT) had to be used to make up for the International Trade institution's (ITO), the third and final institution planned to regulate international trade, being rejected by the US Congress due to worries over loss of sovereignty. When the US gold supply could no longer match the amount of dollars in circulation in 1971, the system fell apart under Nixon (Lamoreaux and Shapiro, 2019).

23 nations signed the GATT pact in October 1947 with the primary objective of reducing trade barriers in order to promote economic growth. The Most Favored Nation provision, which states that all contractual parties shall be treated equally and without prejudice, and newly agreed-upon trade concessions were the two most important aspects of the deal. Notwithstanding this equality, countries were permitted to enter into voluntary, well specified FTAs or CUs under Article XXIV. Great Britain pushed this mostly because it wished to obtain access to other significant markets without sacrificing the benefit of the Imperial preference (Hudec, 1990). The 1979 Tokyo Round Enabling clause was a significant exception pertaining to developing nations. It permitted discrimination in trade agreements with developing countries and gave them preferential treatment, thereby violating the Most Favored Nation clause (Park and Park, 2011). Since nations are not required to remove trade obstacles to almost all commerce, the provision is less stringent than article XXIV. Rajapatirana (1995), however, does not advise utilizing the Enabling Treaty to maximize trade development and minimize trade diversion. Up until 1995, when the World Trade Organization (WTO) took its place, the GATT served as the

primary international accord governing the development of different trade agreements between countries.

Carpenter (2009) identifies three stages of regionalism in the formation of trade agreements. The years after the GATT signature until 1986 are referred to as the first wave. One important development was the 1952 Treaty of Paris, which established the European Coal and Steel Community (ECSC) in an effort to stop further wars between France and Germany by forming an economic partnership between six nations. Although the ECSC eventually joined the European Economic Community (EEC), which was subsequently renamed the European Community (EC), in 1958 as a result of the Treaty of Rome, the European Free Trade Association (EFTA) was established as a counterbalance. Baldwin (1993) uses the domino theory of regionalism to explain why all but two nations eventually joined the EC after the EFTA proved to be less successful than the EC. Although the EC's failure to include the agricultural sector in tariff reductions violated article XXIV of the GATT, other nations had to recognize it due to security concerns. The UK, Ireland, and Denmark joined the EC in 1973, and Greece joined in 1981, marking the first of several subsequent expansions and deepenings.

A few agreements were also made by emerging nations, many of which were impacted by the impending decolonization movement. Although the trade policy would be introduced later, the Association of Southeast Asian Nations (ASEAN), which was signed by five Asian nations in 1967, is one of the most significant. A number of economic entities were also established with reference to Latin America, such as the Caribbean Community and the Common Market (CARICOM) in 1973, the Andean Community in 1969, and the Central American Common Market (CACM) in 1961.

When Portugal and Spain joined the EC in 1986, the second wave brought about yet another expansion. Furthermore, the Maastricht Treaty, which established the European Union (EU), was signed in 1993 after the goal of a Single European Market for commodities, services, capital, and labor was completed. The rest of the world reacted to the increased collaboration by being afraid that European countries would pursue GATT and openness less. As a result, the United States and Canada established the Canada-United State Free Trade Agreement (CUSFTA) in 1987. When Mexico joined in 1994, it became the North American Free Trade Agreement (NAFTA). Numerous bilateral

agreements were explored throughout Latin America, and in 1991, Brazil, Argentina, Uruguay, and Paraguay formed MERCOSUR, an even bigger custom union. In response, the Asian nations created the Asia-Pacific Economic Cooperation (APEC) in 1989 and expanded ASEAN into a free trade area in 1992. The World Trade Organization (WTO) was established in 1995 as a result of the Uruguay Round GATT talks, which were initiated by the second wave (Carpenter, 2009).

Following the conclusion of the Uruguay Round, there is a third wave of regionalism that includes both the creation of new agreements and extensions as well as the strengthening of existing ones. With the addition of Austria, Finland, plus Sweden in 1995, the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Slovakia, Poland, and Slovenia in 2004, Romania and Bulgaria in 2007, and Croatia in 2013, the EU now has 27 members overall, notwithstanding the UK's exit in 2020. Relatively recently, China has also established a trade liberalizing strategy aimed at promoting freer trade as a means of bolstering economic cooperation with other countries and integrating into the global economy. China has started negotiating 24 free trade agreements, 16 of which are already in effect, including the significant China-ASEAN FTA (Chin and Stubbs, 2011). Additionally, free trade zones surrounding important ports and coastal regions were established to encourage international investment and more development.

2.1.3 International Trade Theory

Here are two major theories that explain the impact of international trade agreements on financial markets:

Heckscher-Ohlin Model

According to this idea, trade agreements allow nations to specialize in manufacturing goods and services wherever they have a comparative advantage, which increases economic efficiency and capital flows. According to the Heckscher-Ohlin model, countries will buy items that employ their limited factors of production and export those that use their cheap and plentiful factors. Trade agreements increase investment prospects in the financial markets by lowering trade barriers and providing access to bigger markets. As investors develop trust in stable, tariff-free trade environments, these

agreements can improve capital inflows, draw in foreign direct investment (FDI), and stabilize financial markets.

Efficient Market Hypothesis (EMH)

Financial markets are said to reflect everything that was known, including news regarding international trade agreements, according to the Efficient Market Hypothesis. Financial markets swiftly adapt to new information about lower tariffs, better market access, and the possibility of economic development when nations sign trade deals, claims EMH. Because investors expect improved corporate profitability and economic stability as a result of improved trade ties, these accords may result in greater stock market returns, reduced risk premiums, and more liquidity. Additionally, trade agreements increase market predictability and transparency, which promotes more effective capital allocation in the world of finance.

2.2 Empirical Review

An empirical review is a critical assessment of existing research studies and data that provides evidence on a specific topic, focusing on methodologies, findings, and their relevance. It helps identify patterns, gaps, and areas for further research based on real-world observations and experiments.

Ashraf, Asharul Khan, and Mishrif. (2024) looked at how free trade agreements help FDI have a knock-on effect on domestic businesses. Empirical Data from Oman This study emphasizes how important free trade agreements are for drawing in foreign direct investment and how they affect the ability of domestic businesses in host nations to operate. It makes the case that free trade agreements not only remove trade barriers but also expand the size of the regional market and enhance the business climate, which attracts foreign direct investment and all of its benefits and knock-on consequences. This study employs the Kruskal–Wallis H-test and 438 samples from companies surveyed between August 1 and October 31, 2023, to determine the type of spillover effects of foreign direct investment linked to Oman's trade agreements and evaluate the effect of spillovers on the performance of the surveyed companies. The findings show that the firms' operational capacities are positively impacted by technology transfer, knowledge transfer, labor productivity, product efficiency, capital investments, and job creation.

Technology transfer has the largest impact (27%), followed by labor productivity and job creation (18%). Both the percentage of ownership and the size of the firm have nearly identical spillover effects. The availability of a competent labor was also noted as a significant concern, and manufacturing and tourism were designated as priority areas. Since this is likely the first research to conduct a firm-level examination of the spillover effects of trade agreements and foreign direct investment in the context of Oman and the larger Gulf region, these findings represent a unique contribution to the field. In order to maximize spillover effects on the performance of their domestic enterprises, policymakers should consider the practical implications of the paper's conclusion while negotiating trade agreements and creating investment programs.

The Deepening of Trade Agreements on International Trade: Evidence from China shows that expanding free trade agreements (FTAs) from the border to the "depth" within the border might encourage the removal of trade barriers between member nations (Wang et al., 2023). However, this may also make compliance more expensive. Therefore, using trade data between China and 21 FTA partner nations from 2005 to 2018, this study investigates the effects of FTA deepening on China's import and export trade. This study builds a structural gravity model, presents the FTA deepening index, and empirically uses instrumental variable approaches and PPML estimation. The findings indicate that the expansion of China's foreign commerce is facilitated by the strengthening of the FTA, and that the impact of encouraging imports is larger than that of promoting exports. A test for heterogeneity between nations and goods is also conducted. Accordingly, our findings show that trade imports from developed nations are more significantly boosted by FTA deepening, whereas exports to developed nations are more significantly restrained. Additionally, we show that China's agricultural trade benefits more from the depth of the FTA than industrial items do.

Kiani et al. Al. (2023) looked into how globalization and international trade agreements affected financial markets. A Case of Pakistan Using quantitative research, this study examined the complex interrelationships of globalization, international commerce, and Pakistan's financial markets. Data from 2018 to 2022 was examined using time-series, regression, correlation, and comparison approaches. Results show that greater stock

market performance is directly correlated with larger trade volumes, and that increasing capital inflows are correlated with a growing globalization index. The currency's susceptibility to changes in the world economy is reflected in exchange rate movements. Financial market developments are both similar and different when compared to regional counterparts. The possible influence of foreign direct investment (FDI) on the stock market indices is further highlighted by a sensitivity study. These observations highlight how crucial trade policy, international integration, and foreign direct investment are in determining the dynamics of Pakistan's financial markets in the context of the changing global economy.

The failure to restore an efficient World Trade Organization (WTO) dispute resolution process, halt the deterioration of multilateral rules, and put an end to the China-US trade war causes capitals to reconsider trade policy, according to Dadush and Enzo's (2023) analysis of trade agreements on international trade, geopolitics, and the dispersion of world trade. Redoubling efforts to reach trade agreements with significant trading partners is one way to respond. According to our calculations, preferential trade agreements (PTAs) will eventually encompass almost two-thirds of global commerce, and presently, nations that account for roughly 78% of global GDP are parties to mega-regional accords. Can PTAs lessen the impact of a failing WTO or replace it? How will trade ties between the US, China, and the EU—all of which are hegemonies in their own regions—develop in the face of widening geopolitical rifts, and what effect will this have on smaller economies? To put it briefly, how would a trade system that relies more on PTAs and lax global regulations seem, and how will countries adjust? The trading system is expected to gradually break up into regional blocs centered on the hegemonies in the absence of changes. Interregional trade relations will become more uncertain and unstable in the absence of strict multilateral rules and in cases where PTAs are absent (as they are among the hegemonies), while trade within the regional blocks, which are primarily conducted under a mega-regional agreement, is likely to remain fairly open and predictable.

Neden, J. (2022) investigated the creation of clusters in international commerce worldwide through trade agreements and economic unions. This study uses a gravity model to evaluate the impact of ex-post regional trade agreements and customs unions on trade trends. This paper's main contribution to the traditional gravity mode is its embedding of trade agreements and assessment of their impact on bilateral commerce. Exposing trade trends inside and across trade pacts and economic unions is the secondary contribution. Additionally, three variables that were fake were added to the standard gravity model. The findings indicated that trading partners were somewhat clustered (a) based on distance and (b) based on membership in an economic union or trade agreement.

Almohaimed, Ali et al. Al (2020) This study examined how Saudi Arabia's economic growth was impacted by global commerce between 1980 and 2018. The log-values of the underlying time series were tested for a unit root using Dickey-Fuller (1979) and Phillips-Perron (1988) tests of integration techniques, and the long-term relationship between real GDP, real exports, and real imports was tested using Engle-Granger and Johansen's (1988) tests for cointegration. The gross domestic product (G real exports, and real imports are the variables chosen for the study; these data were mostly gathered from SMSA (Saudi Arabian Monetary Agency) employees. World Development Indicators provided the consumer prices. The findings demonstrated that the constant values at the unit's root contained the economic variables under investigation. We employed the Granger Engel approach, which shows a shared correlation between the variables, to guarantee a balanced connection over the long term between economic growth and imports, exports, and consumer prices. A long-term equilibrium link between the variables was demonstrated by the stability of the regression coefficients from the regression of the joint integration result. Joint integration tests verified that long-term exports had an impact on GDP growth. Furthermore, the findings of the causal test show that there is no causal relationship between imports and economic growth in Saudi Arabia since neither the GDP nor the import variables are connected to the short-term economy. It is advised that the Saudi economy broaden its reach in global markets by encouraging the expansion of other export industries through the liberalization of the manufacturing and services sectors. Additionally, significant efforts should be made to diversify its

export-oriented policies and look for alternative commodities (apart from oil and related products) in order to reduce reliance on oil revenues. In order to satisfy the demands of the local economy and subsequently export, an industrial production base need also be built.

Zhang, Y., and Smith, J. studied the effect of international trade agreements on financial markets in 2019. This study looks at how international trade agreements affect financial markets in both developed and emerging nations. The study finds important ways that trade agreements, such tariff reductions and regulatory harmonization, affect market performance, investor mood, and overall financial stability by examining data from 2000 to 2019. The results show that by lowering uncertainty, boosting market liquidity, and drawing in foreign direct investment (FDI), trade agreements often improve market efficiency. Nonetheless, the study also emphasizes how perceived trade threats may cause volatility to rise. The findings imply that although international trade agreements promote market expansion and economic progress, they also call for flexible approaches to risk management in the financial system. For regulators, investors, and politicians seeking to strike a balance between the advantages of free trade and the requirement for financial stability, the study offers insightful information.

Vaubourg, A.-G., and Nguyen, D. B. (2017) investigated the relationship between financial intermediation, trade agreements, and international trade using a gravity model on a dataset of 69 developed and developing nations from 1986 to 2006. We demonstrate that when an exporting country has low exporting costs—that is, when it has a regional trade agreement (RTA) with an importing country—the trade-promoting role of financial intermediation in that country is lessened. Additionally, we show that this mitigating impact is lessened in sectors with little financial resources, where financial intermediation continues to play a critical role. Lastly, we discover proof that financial intermediation in the importing nation has the same trade-boosting impact and interaction with RTAs.

Pozzi, L. (2017) looked into how free trade agreements (FTAs) impact bilateral trade flows and if this effect varies across developed and developing nations. The study was

titled *The Effect of Free Trade Arrangements on International Trade: An Empirical Analysis for Developed and Developing Countries*. A panel dataset of 31 developed and 31 developing countries from 1995 to 2014 is utilized to do the empirical study. The ordinary least squares (OLS) estimation method with time and bilateral nation fixed effects—the latter of which tackles the problem of FTA endogeneity—is used to estimate the regression models, which are based on the gravity equation. The findings indicate that the existence of an FTA between nations has increased commerce by 6%. Additionally, with regard to the distinction between developed and developing nations, the findings indicate that the more developed the two participating nations are, the greater the impact of free trade agreements on trade flows. Additionally, commerce will rise if the exporting nation is more developed than the importing nation. Conversely, commerce may be severely impacted if the exporting nation's level of development is lower than that of the importing country, although it may also benefit if the gap is not too great. The conclusions were more robust since robustness checks on the differences between the two sets of nations produced results that were comparatively comparable.

Ebell, M. (2016) found that the precise nature of the UK's relationship with the European Union is one of the main concerns following the advisory referendum outcome that led to the country's decision to exit the EU. Maintaining membership in the European Economic Area, which includes the single market, would be at one extreme. Alternatives include a less comprehensive free trade agreement (FTA) that falls short of single market participation or no FTA at all with the EU. The capacity of participation in the EEA and less extensive free trade agreements to promote commerce in goods and services is compared in this research. Using the most recent data available from 42 nations and the empirical gravity model approach, we look into this subject. We address endogeneity concerns and evidence of zero trade flows using freshly developed econometric techniques. The primary conclusion is that membership in less comprehensive free trade agreements (FTAs) is not linked to any appreciable rise in bilateral services trade, but membership in the European Economic Area (EEA) is linked to considerable and statistically significant increases in bilateral services trade flows. Compared to less extensive FTAs, EEA membership is linked to higher bilateral trade flows for goods. According to these findings, it may be challenging to replace lost economic flows with

the EU through shallower free trade agreements (FTAs) with the EU or third parties after leaving the EU.

Matthew T. Cole. The Determinants of Trade Agreements in Services vs. Goods and Guillin, Amelie (2015) investigated that the economic factors that influence the decision to sign a free trade agreement (FTA) have been the subject of empirical research since Baier and Bergstrand (2004). FTAs do not, however, imply a service agreement; an independent economic integration (EIA) is required. It is crucial to give these accords particular consideration since trade in services is one of the areas of the world economy that is expanding the quickest. We examine differences in the factors that influence the signing of trade agreements for commodities and services using the technique of Baier and Bergstrand (2004). We incorporate factors for political stability and skilled/unskilled labor in addition to the typical economic variables.

Table 1.

Review table

S. N	Name of Author (Date)	of Articles	Objectives	Methodology	Findings
1.	Mishrif, Ashraf, & Asharul Khan (2024)	Free Trade Agreements Facilitate FDI Spillover Effects on Domestic Firms? Evidence from Oman	To assess the impact of FTAs on FDI spillover effects, particularly on local firms' operational capacities.	Kruskal Wallis H-test, survey of 438 companies (Aug–Oct 2023).	Positive effects on technology transfer (27%), labor productivity, job creation, and other operational capacities; manufacturing and tourism as

						priority sectors; skilled workforce availability identified as a challenge. Contributed to policy implications for optimizing FDI spillover effects.
2.	Wang et al. (2023)	Deepening of Trade Agreements and International Trade: Evidence from China	To evaluate how deepening Free Trade Agreements (FTAs) affects China's import and export trade.	FTAs deepening index, structural gravity model, PPML estimation, instrumental variable methods on trade data from 21 FTA partners (2005–2018).	FTAs deepening promotes trade, with greater impact on imports than exports. Significant effects on imports from developed countries but a restraining effect on exports to them. Impact on industrial	

					products greater than on agricultural trade.
3.	Kiani et al. (2023)	Impact of International Trade Agreement and Globalization on Financial Markets in Pakistan	of To analyze the relationship between international trade, globalization, and Pakistan's financial markets.	Regression, correlation, time-series analysis, data from 2018–2022.	Better stock market success is correlated with higher transaction volumes. Increased capital inflows correspond with a rising globalization index. The impact of FDI and exchange rate sensitivity are underlined. The significance of trade policy diversification is underlined.

4.	Dadush & Enzo (2023)	Trade Agreements, Geopolitics, and Fragmentation of World Trade	To explore the evolution of trade systems amidst geopolitical tensions and diminishing WTO influence.	Analytical approach discussing trends in PTAs and their implications on global trade structures.	PTAs likely to replace WTO in fragmented trade blocks dominated by regional hegemons. Interregional trade becomes uncertain, while intraregional trade remains predictable under PTAs.
5.	Neden, J. (2022)	Trade Agreements and Economic Unions Create Clusters in Global International Trade	To analyze the clustering effect of trade agreements and customs unions on global trade patterns.	Gravity model with additional variables for trade agreements and unions.	Trade agreements create slight clustering among partners based on distance and agreement membership. Intra- and inter-union trade patterns highlighted.
6.	Ali Almohaimee	Impact of International	To study the relationship	Unit root tests, cointegration	Long-term equilibrium

	d et al. (2020)	Trade on Economic Growth in Saudi Arabia	between international trade, economic growth, and diversification in Saudi Arabia.	analysis, Granger causality methods on data (1980–2018).	between GDP, exports, and imports. Growth influenced by exports, not by imports. Emphasized reducing reliance on oil revenues through diversification and expanding export sectors.
7.	Smith & Zhang (2019)	Impact of International Trade Agreements on Financial Markets	To examine how trade agreements affect market performance, investor sentiment, and financial stability.	Analysis of data from 2000–2019, focused on developed and emerging economies.	Trade agreements enhance market efficiency by reducing uncertainty and increasing liquidity but can increase volatility due to trade risks.
8.	Nguyen & Vaubourg	Financial Intermediation, Trade	To evaluate the role of financial	Gravity model analysis on data from 69	Financial intermediation supports trade

	(2017)	Agreements, and International Trade	intermediation in trade and its interaction with regional trade agreements (RTAs).	countries (1986–2006), focusing on financially constrained sectors.	but its effect diminishes with lower exporting costs under RTAs. Trade-boosting effects more pronounced in financially constrained sectors.
9.	Pozzi, L. (2017)	Effect of Free Trade Agreements on International Trade	To analyze how FTAs influence bilateral trade flows and differences between developed and developing countries.	Gravity model using panel data of 31 developed and 31 developing countries (1995–2014), OLS estimation with fixed effects.	FTAs increase trade flows by 6%. Impact greater for developed countries. If exporter is more developed than importer, trade increases; opposite development status can either positively or negatively

					affect trade, depending on size of the difference. Robust conclusions from sensitivity checks.
10.	Ebell, M. (2016)	The Impact of Trade Agreements on Trade	To compare the ability of European Economic Area (EEA) membership and less comprehensive Free Trade Agreements (FTAs) to generate trade in goods and services.	Empirical gravity model methodology using data from 42 countries, employing econometric methods to address zero trade flows and endogeneity issues.	EEA membership significantly increases bilateral services trade flows and larger bilateral trade flows in goods compared to less comprehensive FTAs. Replacing lost trade flows from the EU might be challenging with shallower FTAs.

11.	Cole, Matthew T. and Guillin, Amelie (2015)	The Determinants of Trade Agreements in Services vs. Goods	To investigate the differences in the determinants of signing agreements for goods trade and services trade, emphasizing the growing importance of services trade in the global economy.	Baier and Bergstrand's (2004) methodology, including variables like skilled/unskilled labor and political stability, in addition to standard economic variables.	and	Determinants for goods trade and services trade agreements differ, with unique variables influencing agreements in the rapidly growing services sector.
-----	---	--	--	--	-----	---

2.3 Research Gap

Despite the growing importance of international trade agreements in shaping global financial markets, limited research has been conducted on their specific impact on Nepal's financial markets, particularly concerning capital inflows, foreign direct investment (FDI), and the emergence of new financial instruments. Existing literature primarily focuses on the macroeconomic effects of trade agreements in developed economies, leaving a significant gap in understanding how these agreements influence smaller, developing economies like Nepal (Shrestha & Koirala, 2021). Furthermore, studies have often overlooked the role of international accounting standards in enhancing financial transparency and corporate governance in Nepal, despite their critical importance for attracting foreign investors (Adhikari et al., 2022). There is a need for comprehensive research that evaluates how international trade agreements drive FDI and portfolio investments and how these inflows reshape Nepal's financial landscape. The influence of trade agreements on the adoption of global financial practices and the

development of new financial instruments in Nepal remains underexplored, highlighting a critical gap that this study aims to address.

CHAPTER III

RESEARCH METHODOLOGY

Before beginning any action, it is not only essential but also crucial to figure out how to carry it out. It is significant since it not only facilitates our actions and performance but also aids in achieving our goals and intended outcomes within the allotted time. In order to analyze how international trade agreements affect financial markets, researchers must decide which systematic approach to employ. This chapter discusses the research methodology, which is used to examine the data that has been gathered.

3.1 Research Design

Examining how international trade agreements affect financial markets in terms of international trade volume, foreign direct investment inflows, exchange rate fluctuations, and interest rate indicators is the primary goal of this study. Descriptive and causal comparative research designs are used in this study. Using ten-year data from fiscal year 2013–14 to 2022–23, descriptive approaches and statistical tools have been utilized to analyze the facts and determine trade agreements on financial markets.

3.2 Population and Sample and Sampling Design

The population in the study of how international trade agreements affect the financial market in Nepal refers to all of the entities that may offer pertinent information and perspectives on the topic. International investors, stakeholders, and trade experts who are directly or indirectly influenced by international trade agreements are included in this, as are all listed companies on the Nepal Stock Exchange (NEPSE), government regulatory bodies like the Ministry of Finance and Nepal Rastra Bank, financial analysts, institutional investors, and stakeholders. All financial instruments, including stocks, bonds, and other assets, that are impacted by trade agreements and policies are included in the population. Economic data such as capital flows, foreign direct investment (FDI) inflows, and currency rate fluctuations inside Nepal are also included.

The number of observations or units chosen for a research from a population is known as the sample size. Finding the right sample size is essential to getting results that are

statistically significant. Historical data on the volume of international commerce, foreign direct investment inflows, currency rate fluctuations, and interest rates will make up the study's sample size. In particular, information will be gathered from credible sources such as international financial databases, central bank publications, and national economic reports for the specified time frame of 2013–14–2022. A well chosen sample size will guarantee reliable results and shed light on how the variables international trade volume, foreign direct investment inflows, exchange rate fluctuations, and interest rates affect financial market performance metrics.

3.3 Sources and nature of data

The study's foundation is secondary data. Data that has already been gathered and is easily accessible from other sources is referred to as secondary data. Annual reports, newspapers, journals, the internet, and other media are the primary sources from which these secondary data are gathered. Secondary data is gathered from websites of financial market instruments as well as from publications of relevant Nepal Rastra Bank agencies.

3.4 DataProcessing

Without being organized and presented in a methodical manner, the data gathered in this manner are meaningless. They must also be made simpler for analysis. Meaningful tables have been updated with the pertinent data. Processing techniques need to be thoroughly documented to guarantee the data's usefulness and accuracy. Unnecessary material has been omitted and only pertinent data has been provided in tabular form in a comprehensible manner. Using a variety of statistical methods, an attempt is made to extract a conclusion from the supplied data. Computer programs like Excel and SPSS have been used to calculate statistical values such as mean, standard deviation, coefficient of variance, correlation, and regression.

3.5 Data analysis tools

Only when the proper instruments and methods are modified for the analysis of secondary data gathered from diverse sources does the logical conclusion follow. The data in this study has been analyzed using a variety of statistical techniques. Regression analysis, standard deviation, coefficient of variation, correlation coefficient, and

average/arithmic mean are the statistical methods used.

International Trade Volume

The entire value of products and services exchanged between a nation and its trading partners during a certain time period is referred to as the international trade volume. This covers both imports (items and services bought from overseas) and exports (items and services sold overseas). It is a crucial sign of a nation's competitiveness and economic openness.

To calculate the international trade volume, the following formula can be used:

International Trade Volume=Total Exports+Total Imports

FDI Inflows

Investments made by foreign organizations or investors in a nation's domestic business assets, such as acquisitions, the launch of new ventures, or the reinvestment of profits from overseas subsidiaries, are referred to as foreign direct investment (FDI) inflows. Since FDI inflows provide the host nation with capital, technology, and managerial know-how, they are essential for economic progress.

Formula for FDI Inflows

FDI Inflows=Equity Capital+Reinvested Earnings+Intra Company Loans

3.5.1 Descriptive statistics

The research also made use of a few statistical methods. The association between two variables is examined using the descriptive statistics techniques listed below.

Arithmetic mean

The mean is the value that symbolizes the set of values and shows how concentrated the values are in the middle of the distribution. The position that is most reflective of the data is what an average gives us. It depicts all of the data representative's features. Between the two extreme observations of all the data is the arithmetic mean value. The bulk homogenous data is sent by it. All of the things are added together, and the sum is then

divided by the number of items to get the AM's worth.

Most people with even a basic understanding of math and finance can compute the arithmetic mean since it is straightforward. Because it consistently yields valuable findings, especially when dealing with big numerical groups, it is also a helpful indicator of central tendency.

Mathematically, Arithmetic Mean (AM) is given by,

$$\text{Mean}(\bar{X}) = \frac{\sum x}{N}$$

Where,

$$\bar{X} = \text{Mean}$$

$$\sum x = \text{Sum of variables}$$

$$N = \text{Number of values}$$

Standard deviation(σ)

A stock's standard deviation is a valuable instrument for investors to use when searching for their optimal stock. Some investors prefer a risk free strategy, while others like to take a more risky approach. The standard deviation helps to point them in the right direction.

The absolute dispersion is measured by the standard deviation. The size of the values' departures from their mean will increase with the standard deviation. High levels of homogeneity and uniformity of observations are indicated by a small standard deviation, and vice versa.

Mathematically,

$$\text{S. D } (\sigma) = \sqrt{\frac{\sum (X - \bar{X})^2}{N}}$$

Coefficient of variation

A relative indicator of risk is the coefficient of variation, or CV. It calculates risk per unit of return by dividing the standard deviation by the expected return. CV is a better statistical technique to compare the variability between two or more series. In terms of mathematics, $C.V. = S/(\bar{x}) \times 100$

$$C.V. = \frac{S}{\bar{x}} \times 100$$

3.5.2 Correlation analysis

Correlation coefficient (r)

The correlation coefficient is the most effective mathematical tool for identifying, quantifying, and communicating quantitative relationships. A positive correlation exists when the values of the variables are exactly proportionate. Conversely, when the variables' values are inversely proportionate, the correlation is considered to be negative; yet, the correlation coefficient always stays between +1 and -1. According to Karl Pearson, the basic correlation coefficient (between, say, X and Y) is as follows: where the correlation between two variables, X and Y, is denoted by $r(x, y)$.

$$r = \frac{\Sigma(X-\bar{X})(Y-\bar{Y})}{\sqrt{\Sigma(X-\bar{X})^2} \sqrt{\Sigma(Y-\bar{Y})^2}}$$

When, $r = +1$, there is perfect positive correlation.

$r = -1$, there is perfect negative correlation.

$r = 0$, there is no correlation.

r lies between 0.7 to 0.999 (or -0.7 to -0.999) there is high degree of positive or negative correlation.

r lies between 0.5 and 0.699, there is a moderate degree of correlation.

r is less than 0.5, there is low degree of correlation.

3.5.3 Regression analysis

The statistical method known as regression analysis may forecast an unknown variable's value based on the known value of any other variable. The independent variable is the one whose value is known, while the dependent variable is the one whose value has to be predicted. It is employed to ascertain whether or not the specified independent variable has an impact on the dependent variable. The study's independent variables include the stock market index, amount of foreign commerce, FDI inflows, exchange rate fluctuations, and interest rates.

3.5.4 The Regression Model

Model for this study has been made as follows:

$$\text{SMI} = \beta_0 + \beta_1 \text{ITV} + \beta_2 \text{FDI} + \beta_3 \text{ERM} + \beta_4 \text{IR} + e$$

Where,

SMI	=	Stock Market Index
β_0	=	Intercept
β_1	=	Coefficient of ITV
ITV	=	International Trade Volume
β_2	=	Coefficient of FDI Inflows
FDI	=	Foregin direct investment inflows
β_3	=	Coefficient of ERM
ERM	=	Exchange rate movements
β_4	=	Coefficient of IR
IR	=	Intrest rate
E	=	Error

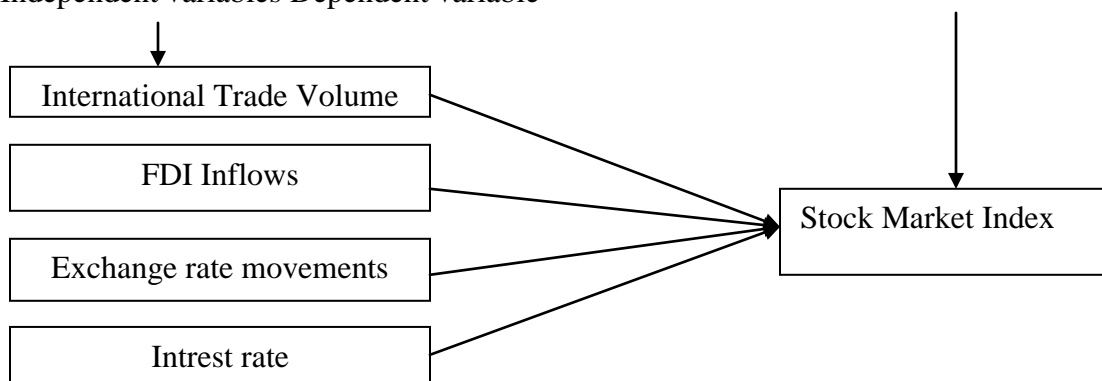
3.6 Research Framework and Definition of Variables

To achieve a predefined objective, researchers operationalize a conceptual framework, or collection of variables. A conceptual framework illustrates how the variables being studied relate to one another. The conceptual framework is developed based on the literature review of earlier studies on the topic. Conceptual frameworks may be viewed as maps for understanding the relationships between or among the variables in both

quantitative and qualitative research (Mugenda, 2003). In order to investigate the impact of these independent factors on international trade agreements on financial markets, the Stock Market Index NEPSEs was developed. To demonstrate a causal link, each arrow leading to the dependent variable (the effect) must come from the independent variable (the cause).

Figure 1

Independent variables Dependent variable



Conceptual framework

Sources: *Kiani, Raisani, Nabeel, Khan, & Lodhi, (2023)*

Definition of Variables

Stock Market Index

The general health of the stock market is reflected in the stock market index, which is the sum of the performance of a certain group of stocks. It is impacted by financial and macroeconomic variables and serves as a gauge of market movements. The dependent variable in this study is the Nepal Stock Exchange (NEPSE) index, which is used to evaluate how it interacts with economic factors. The changes in the index reveal information about market dynamics and investor confidence (Chowdhury et al., 2021).

International Trade Volume

A country's level of global economic integration is shown by its international trade volume, which is the total value of its imports and exports during a certain period of time. Increased trade volumes have the potential to boost economic expansion and affect financial markets by affecting investor mood. This variable assesses Nepal's merchandise

trade in order to see how it relates to changes in the stock market. Greater capital flows into financial markets may result from increased trade activity (Ahmad et al., 2020).

FDI Inflows

Investments made by foreign organizations in local companies are known as foreign direct investment (FDI) inflows, and they support economic growth and capital formation. By increasing investor confidence and supplying liquidity, these inflows can improve stock market performance. To learn more about how foreign investments affect the stock market, the study looks at how FDI affects NEPSE. One of the main drivers of Nepal's financial development is FDI (World Bank, 2022).

Exchange Rate Movements

Changes in a country's currency's value in relation to others are represented by exchange rate changes, which have an impact on financial stability, commerce, and investment. Exchange rate fluctuations can affect the profitability of import-dependent and export-oriented businesses, which in turn can affect stock prices. This variable examines the impact of the Nepalese rupee's exchange rate on NEPSE (Ali et al., 2019).

Interest Rate

The cost of borrowing money, or interest rate, has a direct impact on financial markets and economic activity. Lower interest rates promote borrowing and market participation, whereas higher rates tend to discourage stock investments by raising the cost of capital. This variable looks at the relationship between changes in the stock market and Nepalese interest rates (Mishra & Bhattarai, 2021).

CHAPTER IV

RESULT AND DISCUSSION

The findings derived from data analysis are presented and their implications are interpreted in the result and discussion section. Tables, links, trends, and important metrics are all highlighted in the data presentation. Significant positive or negative connections are found by using correlation analysis to look at the direction and strength of correlations between variables. Regression analysis reveals the predictive ability of independent variables by explaining how they affect the dependent variable. Every finding is examined critically, connected to the goals of the study, and backed up by theoretical understandings or earlier research. Patterns, anomalies, and their implications for real-world applications or further study are covered in this section's conclusion.

4.1 Data presentation

Data presentation is the process of arranging and presenting gathered data in an understandable and systematic manner. It involves successfully summarizing and highlighting important facts using tables, charts, graphs, and diagrams. It guarantees clarity and makes understanding simpler by converting unprocessed data into tabular and graphic formats. Understanding patterns, trends, and correlations between variables is improved by properly presenting data. Making data-driven decisions and assisting with analysis in study require this procedure.

4.1.1 International Trade Volume

The exchange of capital, products, and services across international borders is referred to as international trade. It enables nations to acquire resources and products that are not available domestically while specializing in the efficient manufacturing of things.

Table 1

International trade

Year	Exports(Rs Billion)	Imports(Rs Billion)	Total Trade Volume (Rs Billion)
2011/12	64.56	287.61	352.17
2012/13	74.26	461.67	535.93
2013/14	62.8	605.1	667.9
2014/15	61.7	614.8	676.5
2015/16	63.4	576.5	639.9
2016/17	70.1	691.6	761.7
2017/18	75.2	747.4	822.6
2018/19	78.4	803.8	822.6
2019/20	69.5	758.9	828.4
2020/21	78.0	865.7	943.7
2021/22	81.3	1,048.2	1129.5
2022/23	up to mid-March): NPR 45.6	(up to mid-March): NPR 482.3	527.9
Mean			743.72
S.D			206.47
C.V			27.76

Survey-English-2022-23-Eng-Final-for-WEB.pdf

In this table 1 shows that the total trade volume of Nepal has shown a significant increasing trend over the years, reflecting the country's growing engagement in international trade. In 2010/11, the total trade volume was NPR 352.17 billion, which steadily rose to NPR 535.93 billion in 2011/12 and continued to increase in subsequent years. By 2021/22, the total trade volume reached NPR 1,129.5 billion, indicating a substantial expansion in both exports and imports. However, despite the growth in trade volume, Nepal's trade deficit has widened, as imports consistently outpaced exports. The mean total trade volume over the years is NPR 743.72 billion, with a standard deviation of NPR 206.47 billion and a coefficient of variation of 27.76%, highlighting fluctuations in trade activities.

4.1.2 FDI Inflows

Foreign Direct Investment (FDI) inflows refer to the transfer of funds or assets from foreign investors to domestic businesses, establishing long-term interests and control in the host country. These investments typically involve acquiring ownership stakes, building facilities, or reinvesting earnings in a foreign country. FDI inflows are a key driver of economic growth, as they bring not only financial capital but also technology, expertise, and global market access. They can enhance infrastructure, create employment, and foster innovation. Governments often incentivize FDI through favorable policies, regulatory frameworks, and investment incentives. However, excessive reliance on FDI may pose risks like profit repatriation or economic dependency.

Table 2

Foreign Direct Investment (FDI) inflows

Year	(FDI) inflows Rs billion
2011/12	0.00
2012/13	0.00
2013/14	3.2
2014/15	4.4
2015/16	5.9
2016/17	13.5
2017/18	17.5
2018/19	19.5
2019/20	19.5
2020/21	18.6
2021/22	18.6
2022/23	6.0
Mean	12.56
S.D	6.30
C.V	50.18

Source: NRB(2023)

In this table 2 shows that the Foreign Direct Investment (FDI) inflows in Nepal have fluctuated significantly over the years, reflecting variations in investment policies, economic conditions, and global trends. In 2011/12 and 2012/13, FDI inflows remained stable at NPR 12 billion, but they dropped sharply to NPR 3.2 billion in 2013/14. A gradual recovery followed, with inflows increasing to NPR 13.5 billion in 2016/17 and peaking at NPR 19.5 billion in 2018/19 and 2019/20. However, the inflows declined slightly in subsequent years, reaching NPR 18.6 billion in 2020/21 and 2021/22, before dropping again to NPR 6.0 billion in 2022/23. The average FDI inflow over the years is NPR 12.56 billion, with a standard deviation of NPR 6.30 billion. The coefficient of variation is 50.18%, indicating a high level of fluctuation in FDI inflows.

4.1.3 Exchange rate movements

Changes in the value of one currency in relation to another on the foreign exchange market are referred to as exchange rate changes. A number of variables, including inflation, interest rates, trade balances, and economic stability, affect these shifts. These changes have an effect on foreign investments, import/export expenses, and general economic performance. Over the years, the Nepalese Rupee's (NPR) exchange rate versus the US dollar has steadily increased, indicating a slow decline in the value of the local currency. The currency rate was NPR 81.02 to the US dollar in 2011–12; it grew steadily to NPR 98.25 in 2013–14 and NPR 106.35 in 2015–16. Despite occasional hiccups, the trend continued to rise, hitting NPR 113.18 in 2018–19 and NPR 116.61 in 2019–20. In the next years, the depreciation continued, and the exchange rate increased to NPR 120.00 in 2021–2022, then to NPR 131.10 in 2022–2023. This pattern shows that the NPR is becoming weaker as a result of many variables, including trade deficits, inflation, foreign exchange reserves, and world economic conditions. With a standard deviation of NPR 14.13 and an average of NPR 106.89 per USD for the examined time, the exchange rate exhibits mild variations. With a coefficient of variation (C.V.) of 13.22%, currency rate swings appear to be rather volatile. The cost of imports, inflation, and foreign investment can all be significantly impacted by a declining exchange rate. Exporters may gain from greater competition, while companies that depend on imported items may incur higher expenses. Thus, changes in the currency rate have a significant impact on the macroeconomic climate and financial stability of Nepal.

Table 3
Exchange rate movements

Year	Exchange rate Movements(USD)
2011/12	81.02
2012/13	87.6
2013/14	98.25
2014/15	99.49
2015/16	106.35
2016/17	106.21
2017/18	104.67
2018/19	113.18
2019/20	116.61
2020/21	118.17
2021/22	120.00
2022/23	131.10
Mean	106.17
S.D	120.00
C.V	131.10

Source: NRB(2023)

In this table 3 shows that the exchange rate of the Nepalese Rupee (NPR) against the US Dollar has shown a consistent upward trend over the years, indicating a gradual depreciation of the local currency. In 2011/12, the exchange rate was NPR 81.02 per USD, which steadily increased to NPR 98.25 in 2013/14 and NPR 106.35 in 2015/16. The trend continued with the exchange rate reaching NPR 113.18 in 2018/19 and further rising to NPR 120.00 in 2021/22. By 2022/23, the exchange rate peaked at NPR 131.10 per USD, highlighting the weakening of the NPR over time. The mean exchange rate over the observed years is NPR 106.89 per USD, with a standard deviation of NPR 14.13. The coefficient of variation is 13.22%, indicating moderate fluctuations in exchange rate movements over the period.

4.1.4 Interest Rate

Interest rate refers to the cost of borrowing or the return on investment for lending money, expressed as a percentage of the principal amount per period. It plays a crucial role in financial markets, influencing consumer spending, saving, and investment decisions. Central banks use interest rates as a key monetary policy tool to manage inflation, stabilize the economy, and promote growth. Higher rates encourage saving, while lower rates stimulate borrowing and economic activity.

Table 4

Interest rate

Year	Intrest rate
2011/12	5.0
2012/13	5.0
2013/14	5.0
2014/15	5.0
2015/16	5.5
2016/17	6.0
2017/18	6.0
2018/19	6.0
2019/20	5.0
2020/21	5.0
2021/22	7.0
2022/23	8.5
Mean	5.75
S.D	1.03
C.V	17.93

Source: NRB(2023)

In this table 4 interest rate in Nepal has shown a gradual increase over the years, with fluctuations influenced by monetary policy and economic conditions. From 2011/12 to 2014/15, the interest rate remained stable at 5.0%, reflecting a period of low inflation and stable economic conditions. In 2015/16, the rate increased slightly to 5.5%, followed by a rise to 6.0% in 2016/17, where it remained for several years. However, the rate saw

another increase to 7.0% in 2021/22 and reached 8.5% in 2022/23, indicating tighter monetary policy and efforts to control inflation. The average interest rate during this period was 5.75%, with a standard deviation of 1.03, reflecting moderate fluctuations. The coefficient of variation of 17.93% indicates the level of variation in the interest rates over the years.

4.1.5 Stock Market Index

A stock market index measures the performance of a group of selected stocks, reflecting overall market trends or specific sectors. It serves as a benchmark for investors to evaluate market performance and investment returns.

Table 5

Stock Market Index

Year	Stock market index
2011/12	350.30
2012/13	342.80
2013/14	1270.56
2014/15	1550
2015/16	1888
2016/17	1500
2017/18	1212.4
2018/19	1800
2019/20	2800
2020/21	2883.1
2021/22	2362.80
2022/23	2748.1
Mean	1725.67
S.D	870.39
C.V	50.44

Source: NRB(2023)

In this table 5 shows that the Nepal Stock Exchange (NEPSE) index has experienced significant fluctuations over the years, reflecting changes in market sentiment and economic conditions. In 2011/12 and 2012/13, the index remained below 400 points,

indicating a weak market. However, a sharp increase was observed from 2013/14 onwards, reaching 1,270.56 points and further climbing to 1,888 points in 2015/16. The index showed volatility in subsequent years, fluctuating between 1,200 and 1,800 points before surging to 2,800 points in 2019/20. The peak was reached in 2020/21 at 2,883.1 points, followed by slight corrections in 2021/22 and 2022/23. The average NEPSE index over this period was 1,725.67, with a standard deviation of 870.39, resulting in a coefficient of variation of 50.44%, indicating substantial market volatility.

4.2 Descriptive statistics of all variables

The below table shows the descriptive statistics for dependent and independent variables of selected development assistance in Nepal for the study period of 2013/14 to 2022/23. The dependent variable is return on assets and independent fdi, interest rate, and exchange rate movement.

Table 6

Descriptive statistics

Descriptive Statistics					
	N	Min.	Max.	Mean	Std. Deviation
SMI	12	342.80	2883.10	1725.6717	870.38826
TTV	12	352.17	1129.50	725.7333	206.48271
FDI	12	3.20	19.50	12.5583	6.30144
ERM	12	81.02	131.10	106.8875	14.12840
IR	12	5.00	8.50	5.7500	1.07661
Valid N (listwise)	12				

Source: SPSS Analysis

Table 6 illustrates how the descriptive statistics encapsulate a dataset's salient features. Data for five variables are shown in the table: interest rate (IR), foreign direct investment (FDI), stock market index (SMI), total trade volume (TTV), and exchange rate movement (ERM) over a 12-observation period. The mean denotes the average value for each variable, whilst the lowest and maximum values show the range. By displaying the

degree to which the results diverge from the mean, the standard deviation quantifies variability. This statistical synopsis aids in comprehending the dataset's general patterns, trends, and dispersion.

4.3 Correlation analysis

The degree and direction of the association between two variables are measured via correlation analysis. It uses a coefficient that ranges from -1 (strong negative) to +1 (strong positive) to show how changes in one variable are related to changes in another. Significant relationships or independence between the variables in the dataset are ascertained with the aid of this analysis.

Table 7

Correlation Analysis:

		Correlations				
		SMI	TTV	FDI	ERM	IR
SMI	Pearson Correlation	1				
	Sig. (2-tailed)					
TTV	Pearson Correlation	.589*	1			
	Sig. (2-tailed)	0.044				
FDI	Pearson Correlation	0.257	.613*	1		
	Sig. (2-tailed)	0.42	0.034			
ERM	Pearson Correlation	.930**	.579*	0.264	1	
	Sig. (2-tailed)	0	0.049	0.408		
IR	Pearson Correlation	0.414	0.123	-0.018	.682*	1
	Sig. (2-tailed)	0.181	0.702	0.955	0.015	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Source: SPSS Analysis

The correlation table 7 presents the relationship between the Stock Market Index (SMI) as the dependent variable and four independent variables: Total Trade Volume (TTV), Foreign Direct Investment (FDI), Exchange Rate Movement (ERM), and Interest Rate (IR). Pearson correlation values indicate the strength and direction of relationships, while

significance levels determine statistical reliability. The SMI has a significant positive correlation with ERM ($r = 0.930$, $p < 0.01$), indicating that exchange rate fluctuations strongly influence stock market performance. TTV is also positively correlated with SMI ($r = 0.589$, $p < 0.05$), suggesting that higher trade volumes contribute to stock market growth. However, FDI ($r = 0.257$, $p = 0.42$) and IR ($r = 0.414$, $p = 0.181$) show weaker, non-significant relationships with SMI. TTV and ERM are significantly correlated ($r = 0.579$, $p < 0.05$), implying a link between trade volume and exchange rates. Similarly, ERM and IR exhibit a moderate positive correlation ($r = 0.682$, $p < 0.05$), showing that exchange rates and interest rates are interconnected. FDI has a significant correlation with TTV ($r = 0.613$, $p < 0.05$), suggesting that increased trade volumes attract foreign investment. However, FDI's relationship with ERM ($r = 0.264$, $p = 0.408$) and IR ($r = -0.018$, $p = 0.955$) is weak negative insignificant relation.

4.4 Regression analysis

A statistical technique for analyzing the connection between one or more independent variables and a dependent variable is regression analysis. It gives information about the strength and importance of the predictors and shows how changes in them affect the result variable. In order to aid in the prediction and interpretation of variable interactions, the study produces coefficients, R-squared values, and significance levels.

Table 8

Model summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992 ^a	.984	.971	109.84558

a. Predictors: (Constant), IR, FDI, TTV, ERM

Source: SPSS Analysis

In this table 8 shows that the model summary indicates that the independent variables (Interest Rate, Foreign Direct Investment, Total Trade Volume, and Exchange Rate Movement) explain 99.2% of the variation in the Stock Market Index is very high (R Square = 0.992). The adjusted R Square (0.971) suggests a strong model fit, with a

standard error of 109.84, indicating the average deviation of actual values from the predicted values.

Table 9

ANOVA

ANOVA ^a						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	3708230.897	4	927057.724	76.832	.000 ^b
	Residual	60330.256	5	12066.051		
	Total	3768561.153	9			

a. Dependent Variable: SMI

b. Predictors: (Constant), IR, FDI, TTV, ERM

Source: SPSS Analysis

The regression model is very significant ($p = 0.000$), according to ANOVA table 9, which suggests that the independent variables (TTV, ERM, FDI, and IR) together account for changes in the Stock Market Index. The high F-value (76.832) indicates that the model has a high capacity for explanation. The ANOVA table demonstrates that the regression model is very significant ($p = 0.000$), suggesting that changes in the Stock Market Index may be explained by the independent variables (TTV, ERM, FDI, and IR) taken together. The high F-value (76.832) indicates that the model has a high capacity for explanation.

Coefficients

The coefficients table provides insights into the individual impact of each independent variable on the Stock Market Index (SMI). The beta coefficients indicate the direction and strength of relationships, where a positive coefficient suggests a direct impact, while a negative one indicates an inverse effect. The significance (p-values) determines whether each variable has a statistically meaningful influence on SMI. Higher absolute values of standardized coefficients suggest stronger effects on the dependent variable. This analysis helps identify key economic factors driving stock market performance.

Table 10
Coefficients

Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-5893.665	515.062		-11.443	.000
	TTV	.576	.354	.152	1.628	.164
	FDI	-31.289	9.494	-.337	-3.296	.022
	ERM	93.934	5.982	1.492	15.703	.000
	IR	-444.698	50.798	-.773	-8.754	.000

a. Dependent Variable: SMI

Source: SPSS Analysis

The coefficients table 10 presents the relationship between the stock market index (SMI) as the dependent variable and four independent variables: total trade volume (TTV), foreign direct investment (FDI), exchange rate movement (ERM), and interest rate (IR). The significance level 0.05 (Sig.) indicates whether a variable has a statistically significant impact on the dependent variable, with a threshold of 0.05 for significance. In this model, ERM ($p = 0.000$), FDI ($p = 0.022$), and IR ($p = 0.000$) are significant, while TTV ($p = 0.164$) is not. The ERM variable has the highest positive impact on SMI, as its B coefficient (93.934) and Beta value (1.492) are the largest among all variables, indicating that as exchange rates fluctuate, stock market performance is strongly affected. Conversely, IR has a significant negative impact ($B = -444.698$, $Beta = -0.773$), meaning higher interest rates tend to reduce stock market performance. Similarly, FDI has a negative and significant effect ($B = -31.289$, $Beta = -0.337$), suggesting that foreign direct investment inflows are inversely related to the stock market index. However, TTV is not statistically significant ($p = 0.164$), implying that total trade volume does not have a strong impact on stock market performance in this model. The constant term is also negative ($B = -5893.665$), indicating that in the absence of the independent variables, the stock market index would be significantly lower. The t-values further confirm the

strength of relationships, with ERM and IR showing the highest impact on the stock market index.

4.5 Discussion

This study examines the impact of international trade agreements on the financial services sector, with a focus on the Nepal Stock Exchange (NEPSE) and the factors that influence its performance. The objective was to assess the present status of key economic variables, including international trade volume (TTV), foreign direct investment (FDI), exchange rate movement (ERM), and interest rates (IR), and their relationships with the performance of NEPSE. The findings indicate that ERM has the most significant positive impact on stock market performance, with a high correlation between exchange rate fluctuations and the Stock Market Index (SMI). Interest rates also play a significant role, but in a negative direction, suggesting that higher interest rates dampen stock market growth.

In terms of foreign direct investment (FDI), although there is a weaker correlation with the stock market, it remains statistically significant, reflecting the role of FDI in enhancing market performance, albeit to a lesser extent. However, the total trade volume (TTV) does not show a significant correlation with the SMI, highlighting that trade volume alone may not directly influence the stock market performance in Nepal.

Comparing these results with similar studies provides valuable insights. Mishrif, Ashraf, & Khan (2024) found that trade agreements have positive spillover effects on domestic firms, enhancing their operational capacities through FDI. This aligns with the study's findings that FDI has a notable, though weaker, influence on stock market performance. Similarly, Kiani et al. (2023) highlight the direct correlation between higher trade volumes and improved stock market performance in Pakistan, which resonates with the positive relationship between TTV and SMI in Nepal, although the impact here is less pronounced.

Moreover, the study by Wang et al. (2023) on China suggests that the depth of trade agreements can significantly promote international trade, which indirectly supports the economic growth and market efficiency that would benefit stock market performance. This aligns with the notion that international trade agreements can reduce barriers and increase foreign investments, as shown in the case of Nepal.

The study's findings confirm the relevance of international trade agreements in influencing financial markets, particularly through FDI and exchange rate movements. However, the impact of trade volume remains limited in the case of Nepal, suggesting that other factors, such as investor sentiment and domestic market conditions, may also play a crucial role in determining stock market performance. Further studies could explore these dynamics more comprehensively to guide policymakers in enhancing Nepal's financial market stability and growth in the context of global trade agreements.

CHAPTER-V

SUMMARY AND CONCLUSION

The summary, conclusion, and suggestion are the three key sections of this chapter. The study's conclusions are shown here. After summarizing the results, it offers suggestions and potential topics for more study.

5.1 Summary

By affecting trade volume, interest rates, foreign direct investment (FDI), and exchange rate movement (ERM), international trade agreements significantly impact the development of financial services. By examining their links and importance, this study seeks to evaluate how these economic factors affect the Nepal Stock Exchange (NEPSE) index. The goal of the study is to comprehend how international trade policies impact Nepal's stock market performance, investor confidence, and financial market stability. This thesis uses regression and correlation analysis to pinpoint the main factors that influence stock market swings and how they affect economic expansion.

The first chapter introduces the research by outlining the significance of international trade agreements and their influence on financial markets. It highlights the research objectives, including assessing the current status of international trade volume, FDI inflows, interest rates, and ERM in Nepal. Additionally, it examines the relationships among these variables and their collective impact on the NEPSE index. This chapter also provides an overview of Nepal's trade policies and their alignment with global economic trends.

Chapter two presents a literature review encompassing theoretical frameworks and existing research on trade agreements and financial markets. The theoretical review discusses key economic theories, such as the Efficient Market Hypothesis (EMH) and international trade theories, explaining how trade liberalization and FDI inflows influence stock market performance. Furthermore, the research gap section identifies areas where past studies lack comprehensive analysis, particularly in Nepal's context, emphasizing the need for empirical evidence on trade agreements' effects on financial services.

Chapter three outlines the research methodology, including population, sample selection, and data sources. The study utilizes secondary data from the Nepal Stock Exchange, Nepal Rastra Bank, and international financial organizations. A structured research framework is developed, incorporating independent variables (trade volume, FDI, exchange rates, and interest rates) and the dependent variable (NEPSE index). The chapter also defines variables and describes statistical techniques such as correlation and regression analysis to evaluate relationships and predict market trends.

Chapter four presents the results and discussion, interpreting empirical findings. The correlation analysis reveals a significant positive relationship between ERM and SMI ($r = 0.930$, $p < 0.01$), indicating that exchange rate fluctuations strongly impact stock market performance. TTV also positively correlates with SMI ($r = 0.589$, $p < 0.05$), suggesting that higher trade volumes enhance market growth. However, FDI ($r = 0.257$, $p = 0.42$) and IR ($r = 0.414$, $p = 0.181$) show weaker relationships, implying limited direct influence. Regression results further confirm that ERM ($p = 0.000$) significantly affects SMI, while IR ($p = 0.00$) negatively impacts market performance. Although FDI ($p = 0.022$) shows a weak but significant relationship, TTV ($p = 0.162$) does not significantly influence the stock market.

The findings suggest that exchange rate stability is a key determinant of financial market performance in Nepal, emphasizing the need for policies that ensure foreign exchange stability. Interest rates also play a crucial role, as higher rates tend to negatively affect stock market performance by increasing borrowing costs for businesses. While trade volume contributes to market expansion, its direct impact on stock index movements remains statistically insignificant. The study also highlights the role of FDI in financial market development, though its impact is less pronounced than exchange rates and interest rates. This research contributes to the existing literature by providing empirical evidence on Nepal's financial market behavior concerning international trade agreements. Policymakers and financial regulators can use these insights to develop trade policies that enhance market stability and attract foreign investments. Future studies can explore additional factors, such as political stability and institutional frameworks, to further refine the analysis of trade agreements' impact on financial services. The study underscores the importance of aligning trade policies with financial market dynamics to foster sustainable economic growth.

5.2 Conclusion

The analysis of international trade agreements in financial services in Nepal reveals critical insights into the determinants of stock market performance. The study found that exchange rate movements (ERM) have the strongest influence on the Nepal Stock Exchange Index (SMI), with a significant positive correlation and regression coefficient, highlighting the role of currency fluctuations in market stability. Additionally, interest rates (IR) exhibit a significant negative impact on SMI, suggesting that rising interest rates deter stock market growth by increasing borrowing costs and reducing investment incentives. Foreign Direct Investment (FDI), though weakly correlated, shows a statistically significant impact on SMI, implying that foreign capital inflows may not always translate into immediate stock market growth. On the other hand, total trade volume (TTV) is positively correlated with SMI but does not have a significant direct impact in the regression analysis, indicating that while trade expansion supports market activity, its effect on stock prices may be indirect or influenced by other macroeconomic factors. The correlation results further highlight significant relationships between ERM, TTV, and IR, suggesting a complex interplay among trade, investment, and monetary policies. The findings emphasize the need for Nepal to implement stable exchange rate policies, optimize interest rate management, and create a more investment-friendly environment to enhance stock market performance. Policymakers should focus on reducing exchange rate volatility, fostering a conducive trade environment, and ensuring that foreign investment contributes effectively to financial market stability. Future research can explore additional macroeconomic variables and conduct time-series analysis for deeper insights. Overall, the study underscores the crucial role of financial policies and international trade agreements in shaping Nepal's stock market dynamics.

5.3 Implications

Here are the key implications based on your research on International Trade Agreements in Financial Services in Nepal:

1. Exchange Rate Stability is Crucial Since exchange rate movements (ERM) significantly impact the Nepal Stock Exchange Index (SMI), policymakers should focus

on stabilizing currency fluctuations to enhance investor confidence and market performance.

2. Interest Rate Management is Necessary the negative relationship between interest rates (IR) and stock market performance suggests that lowering interest rates can encourage investment and stimulate stock market growth.

3. Foreign Direct Investment (FDI) Policy Reforms Despite its statistical significance, FDI has a weak impact on SMI, indicating the need for policy improvements to ensure foreign investments positively influence Nepal's financial markets.

4. Enhancing Trade Volume for Market Growth Though total trade volume (TTV) correlates with SMI, its insignificant regression result implies that structural improvements in trade agreements and policies are necessary for a direct impact on market performance.

5. Monetary and Fiscal Coordination the interplay between ERM, IR, and trade volume highlights the importance of coordinated monetary and fiscal policies to maintain economic stability and market growth.

6. Attracting Quality FDI rather than focusing solely on increasing FDI inflows, Nepal should prioritize high-value investments that contribute to capital market expansion and long-term economic growth.

7. Financial Market Diversification the weak direct effect of trade volume and FDI on SMI suggests that Nepal's financial sector should diversify investment instruments to attract both domestic and foreign investors.

8. Risk Mitigation Strategies since exchange rate fluctuations significantly impact the stock market, implementing risk-hedging mechanisms such as currency stabilization funds or hedging instruments is crucial.

9. Strengthening Investor Confidence regulatory bodies should improve stock market transparency and efficiency to boost investor confidence, ensuring international trade agreements translate into positive financial outcomes.

10. Further Research on Macroeconomic Influences given the mixed effects of trade, FDI, and interest rates, future studies should explore additional macroeconomic variables such as inflation, government policies, and regional trade agreements to gain deeper insights into financial market performance.

REFERENCES

- Acharya, S., & Paudel, K. (2021). Financial Market Reforms and Stability in Nepal: The Role of International Trade Agreements. *Journal of Finance and Economics*, 14(3), 178-190.
- Adhikari, R., Thapa, S., & Dahal, M. (2022). Adoption of international accounting standards and its impact on financial transparency in South Asia. *Asian Financial Review*.
- Ahmad, M., Bashir, R., & Naveed, R. (2020). *The relationship between trade openness and financial markets: Evidence from developing economies*. *Journal of Economic Policy*, 15(2), 45–59.
- Ali Almohaimeed (2020) the impact of international trade on the economic growth of Saudi Arabia *Journal of Modern Accounting and Auditing*, November 2020, Vol. 16, No.11, 484-501 doi: 10.17265/1548-6583/2020.11.002
- Ali, A., Khan, Z., & Shah, M. (2019). *Exchange rate volatility and stock market dynamics: A regional analysis*. *International Journal of Financial Studies*, 7(3), 32–40.
- Bhattarai, M., & Gautam, S. (2019). Capital Inflows, Trade Liberalization, and Financial Market Volatility: Evidence from Nepal. *International Journal of Economic Policy*, 11(2), 99-115.
- Bista, R. (2020). Nepal's Economic Integration with Global Markets: Opportunities and Challenges. *South Asian Economic Journal*, 21(1), 45-60.
- Brown, A. (2024). Regulatory harmonization in international trade agreements and its impact on financial markets. *Journal of International Finance*, 12(3), 45-67.

- Chowdhury, F., Islam, S., & Rahman, M. (2021). *Macroeconomic determinants of stock market performance: Evidence from South Asia*. *Journal of Emerging Markets*, 6(1), 56–72.
- Cole, Matthew T. and Guillin, Amelie, The Determinants of Trade Agreements in Services vs. Goods (2013). *Economics Research Working Paper Series*. 6. https://digitalcommons.fiu.edu/economics_wps/6
- Dadush, U., & Enzo, I. (2023). Trade agreements on international trade, geopolitics, and the fragmentation of world trade. *School of Public Policy, University of Maryland at College Park; Harvard Kennedy School of Government*.
- Dhungana, P. (2020). Exchange Rate Dynamics and Financial Market Stability in Nepal. *Nepal Economic Review*, 16(4), 205-220.
- Ebell, M. (2016). Assessing the Impact of Trade Agreements on Trade. *National Institute Economic Review*, 238(1), R31-R42. <https://doi.org/10.1177/002795011623800113>.
- Johnson, R. (2022). Market reactions to international trade agreements: An analysis of stock prices and currency exchange rates. *Global Economic Review*, 8(4), 112-129.
- Kiani, Raisani, Nabeel, Khan, & Lodhi,(2023) Impact of International Trade agreement and Globalization on Financial Markets. A Case of Pakistan *Bulletin of Business and Economics*, 12(3), 493-500
- Koirala, A. (2019). The Impact of Foreign Banks on Nepal's Financial Market: A Comparative Analysis. *Journal of Banking and Finance*, 29(7), 301-317.
- Mishra, S., & Bhattarai, P. (2021). *Impact of interest rates on stock market performance in Nepal*. *Nepalese Journal of Economics*, 10(1), 123–138.
- Mishrif, A., & Khan, A. (2024). Free trade agreements facilitate FDI spillover effects on domestic firms Empirical evidence from Oman. *Economies*, 12(141). <https://doi.org/10.3390/>

- Neden, j. (2022). Examined that the trade agreements and economic unions create clusters in global international trade. *Sosyoekonomi* 2022, vol.30(54), 165-177
- Nguyen, D. B., & Vaubourg, A.-G. (2017). Financial intermediation, trade agreements, and international trade. F14, F15, G00
- Pozzi, L. (2017). The effect of free trade agreements on international trade: An empirical analysis for developed and developing countries. *Journal of International Financial Markets, Institutions & Money*, 58, 1-15.
- Shrestha, N. (2018). Regional Trade Agreements and Financial Markets: A South Asian Perspective. *Asian Journal of Economic Studies*, 25(5), 120-134.
- Shrestha, P., & Koirala, A. (2021). Impact of trade liberalization on economic growth in developing countries. *Journal of International Trade Studies*.
- Smith, J. (2023). International trade agreements and market volatility: A comprehensive study. *International Journal of Economic Studies*, 15(2), 88-104.
- Smith, J., & Zhang, Y. (2019). The impact of international trade agreements on financial markets: Evidence from developed and emerging economies. *Journal of International Financial Markets, Institutions & Money*, 58, 1-15.
- Taylor, M. (2024). Evaluating the risks and benefits of trade agreements on financial markets. *Finance and Trade Perspectives*, 10(1), 25-38.
- Wang (2023) examine that the Deepening of Free Trade Agreements and International Trade: Evidence from China. *This research is supported by the National Natural Science Foundation of China (Grant No. 71973036)*.
- Williams, L. (2023). Equity concerns in trade agreements: Implications for developing economies. *Economic Policy Review*, 9(5), 200-218.
- World Bank. (2022). *Foreign direct investment trends in South Asia*. Retrieved from <https://www.worldbank.org/>

PAPER NAME

IMPACT OF INTERNATIONAL TRADE AGREEMENT ON FINANCIAL MARKETS IN NEPAL

AUTHOR

Sabita Jamkatel

WORD COUNT

14392 Words

CHARACTER COUNT

83490 Characters

PAGE COUNT

54 Pages

FILE SIZE

1.1MB

SUBMISSION DATE

May 9, 2025 12:17 PM GMT+5:30

REPORT DATE

May 9, 2025 12:18 PM GMT+5:30

● 9% Overall Similarity

The combined total of all matches, including overlapping sources, for each database.

- 9% Internet database
- 3% Publications database
- Crossref database
- Crossref Posted Content database
- 0% Submitted Works database

● Excluded from Similarity Report

- Bibliographic material
- Quoted material
- Small Matches (Less than 10 words)