

INFLUENCE OF INTERNATIONAL TRADE DYNAMICS ON NEPAL'S ECONOMIC GROWTH

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Certification of Authorship

I affirm that I have thoroughly researched and submitted the conclusive version of my dissertation titled "Influence of International Trade Dynamics on Nepal's Economic Growth". This dissertation has not been previously presented for degree conferral, nor has it been suggested or showcased for any other academic purposes. I acknowledge the support and collaboration I received during the research process. Furthermore, I confirm that all information sources and literature utilized in the dissertation are appropriately cited in the reference section.

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August, 2025

Report of Research Committee

Ms Asmita Dhimal has defended her research proposal entitled “Influence of International Trade Dynamics on Nepal's Economic Growth” successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of Supervisor Dr. Priti Raj Adhikari and submit the thesis for evaluation and viva voce examination.

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Approval Sheet

We, the undersigned, have examined the thesis entitled “Influence of International Trade Dynamics on Nepal's Economic Growth ” presented by Asmita Dhimal a candidate for the degree of Masters of Business Studies and conducted the viva voce examination of the candidate. We hereby certify that the thesis is worthy of acceptance.

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ABBREVIATIONS

ADB	:	Asian Development Bank
CAPM	:	Capital Asset Pricing Model
CPI	:	Consumer Price Index
EXR	:	Exchange Rate
EXPR	:	Export Rate
FA	:	Foreign Aid
FRA	:	Foreign Aid
FTPL	:	Fiscal Theory of the Price Level
GCF	:	Gross Capital Formation
GDP	:	Gross Domestic Product
GFCF	:	Gross Fixed Capital Formation
IMR	:	Import Rate
MOF	:	Ministry of Finance
MS	:	Money Supply
NRB	:	Nepal Rastra Bank
REM	:	Remittances
RGDP	:	Real Gross Domestic Product
SPSS	:	Statistical Package for the Social Sciences
TB	:	Trade Balance
TD	:	Trade Deficit
TOP	:	Trade Openness

ABSTRACT

This study looks at how trade with other countries affects Nepal's economic growth from 2004/05 to 2023/24. It focuses on important things like imports, exports, trade balance, trade openness, money sent home by workers abroad, exchange rates, foreign aid, and investment in the country. Using up-to-date data and simple number crunching, the study finds that imports and investments help Nepal's economy grow the most. However, Nepal has a big problem with trading more products from other countries than it sells, which slows down growth. Exports and opening up trade have only small positive effects because Nepal mostly sells low-value products. Money sent by workers abroad and foreign aid don't seem to help much because they are mostly used for daily needs, not for growing businesses. Changes in exchange rates help the economy by making exports cheaper and attracting investments. The study shows Nepal needs to focus on selling a wider variety of products, reducing the trade gap, encouraging more investment, and carefully managing exchange rates to grow steadily and help everyone. This research provides useful advice for Nepal's leaders to make better trade and growth policies.

Keywords: Foreign Trade, Nepal Economy, Macroeconomic

CHAPTER-I

INTRODUCTION

1.1 Background of the Study

International trade is very important for small countries like Nepal. Nepal is next to big neighbors, India and China, and trades a lot with them (World Bank, 2023). But being landlocked and having very little industrial capacity makes things hard (Crisolino and Makhura, 2010). Mohandas said trade is important for growth because it brings foreign investment, new technology, and jobs. Still, Nepal struggles to get all the benefits from trade. There is a big trade deficit, low export competitiveness, and dependence on only a few trading partners.

Since the economic liberalization of the 1990s and joining the WTO in 2004, Nepal has tried to integrate more with the global economy (Pandey, 2020). But progress has been slow. In 2022/23, Nepal's trade deficit reached \$13.6 billion, with imports almost eight times bigger than exports (NRB, 2023). This shows how much Nepal relies on foreign goods and can't produce enough competitive exports.

Looking closer at trade, Nepal mostly exports low-value products like textiles, carpets, and agricultural goods, while importing costly items such as petroleum, machinery, and electronics (MOF, 2023). This imbalance limits how much the country can earn from trade. Nepal also depends heavily on India, which makes up about 60% of its total trade (ADB, 2023). This dependence is risky because political or economic changes in India can affect Nepal. Events like India's occasional border blockades show how vulnerable Nepal is (Khatiwada and Sharma, 2024).

Studies on trade and economic growth in Nepal give mixed results. Some say exports help growth (Ghimire and Wang, 2022), others argue that high imports and trade deficits hurt long-term development (Bhattarai, 2021). Crises like COVID-19 and the Russia-Ukraine war made problems worse, causing supply chain issues and rising inflation (IMF, 2023). All this raises questions about how Nepal can improve its trade policies.

This study looks at the relationship between trade and economic growth using data from 2010–2024. The findings can help policymakers plan better strategies, like diversifying exports, reducing deficits, and making the economy more resilient. This research is relevant as Nepal works on its 15th Five-Year Plan (2019–2024) and prepares new development strategies (NPC, 2023). By providing data-based insights, the study aims to support Nepal in building a stronger and more sustainable economy through smarter trade policies.

1.2 Problem Statement

Nepal's economy always depend much on foreign trade. The country imports almost everything it need, from daily goods to industrial stuff, and export small things like agricultural products, carpets, garments and some services. Because of this, trade and economy very linked. But real effect of trade on growth still not clear (Koirala, 2023). Some say trade help Nepal, give access to goods, technology, investment. Others say big trade deficit and too many imports drain the economy, not help it. Nepal start liberalization in 1990s thinking open markets push growth. After more than 30 years, result still mixed. Trade deficit still big (Thapa, 2022). Economy face oil price rises, financial crises, other shocks (Adhikari, 2023). GDP sometimes grow, but not always mean strong production or industry. Much still comes from remittances sent home by workers abroad.

This study look at three main things. First, how much trade really help growth 2010–2024? Important because in this time Nepal face political changes, disasters, pandemic. Second, is there really strong link between trade and growth? Studies differ. Some say trade good for growth (Shrestha and Wang, 2022), others say almost no effect (Bhattarai, 2021). Third, how trade variables like imports, exports, trade balance, openness, remittances (Poudel, 2023), foreign investment, exchange rates, foreign aid all affect GDP? Answer not simple. Earlier studies use old data, old methods (Pandey, 2020). They also not see bigger changes in last years. COVID-19 hurt trade, supply chain break, mobility limited (Bhandari, 2023). Regional trade also change with India and China (Khatiwada and Sharma, 2024). So need new data and new tools. This study use time-series 2010–2024 to see not only if trade help growth, but how all trade parts interact with economy. Findings hope to help policymakers plan better trade and development

under Fifteenth Five-Year Plan (Rana, 2023). Main point, study try show if Nepal's foreign trade is chance for growth or risk that trap country in weak structure.

Nepal open economy since 1990s, join global trade, but link between trade and growth still unclear. Some say trade bring growth, some say not. Same issues repeat. Trade deficit wide, imports rise, exports weak, not diverse. Economy more fragile long term. Studies disagree. Some say trade help GDP, others say almost no effect. Methods old, data limited, not show what happening now. After pandemic, trade flows change, supply chains broke. Regional situation with India and China shift. These not captured. Still no clear answer. Does trade push economy forward or make country depend too much on outside goods and money? Confusion stay. Gap in research still open.

- i. What is the position of foreign trade and economic growth during the study period?
- ii. Is there any relationship between foreign trade and economic growth in Nepal?
- iii. Do Import rate, export rate. Trade balance, trade openness, Remittance, Foreign Direct Investment, Exchange Rate and Foreign Aid on Real GDP?

1.3 Objectives of the Study

This study aim to uncover the relationship and effect of foreign trade on economic growth rate. The following are the specific objective of the study.

- i. To assess the position of foreign trade and economic growth during the study period.
- ii. To examine the relationship between foreign trade and economic growth in Nepal.
- iii. To Analyze Import rate, export rate. Trade balance, trade openness, Remittance, Foreign Direct Investment, Exchange Rate and Foreign Aid on Real GDP.

1.4 Hypothesis of the Study

This study examines the relationship between foreign trade (exports, imports, trade balance) and economic growth in Nepal. Based on existing literature and the research objectives, the following alternative hypotheses are formulated for testing:

H_1 : There is a significant positive relationship between import rate and Nepal's Real GDP.

H_1 : There exists a significant positive relationship between export rate and Nepal's Real GDP.

H₁ : There exists a significant positive relationship between trade balance and Nepal's Real GDP.

H₁ : There exists a significant positive relationship between trade openness and Nepal's Real GDP.

H₁ : There exists a significant positive relationship between remittances and Nepal's Real GDP.

H₁ : There exists a significant positive relationship between GCF and Nepal's Real GDP.

H₁ : There exists a significant positive relationship between exchange rate and Nepal's Real GDP.

H₁: There exists a significant positive relationship between gross capital formation and Nepal's Real GDP.

1.5 Rational of the Study

Foreign trade is crucial for Nepal's economy, providing access to essential goods, technology, and international markets. However, the country faces a persistent and growing trade deficit, importing far more than it exports. This imbalance raises concerns about the sustainability of Nepal's current trade patterns and their impact on long-term economic growth. While trade volumes have increased over the years, Nepal's export sector remains weak, relying heavily on a few low-value products. At the same time, rising imports driven by consumer demand, industrial needs, and limited domestic production continue to strain the economy. The COVID-19 pandemic and global supply chain disruptions have further exposed these vulnerabilities, making it even more important to reassess Nepal's trade policies. This study examines the relationship between foreign trade (exports and imports) and Nepal's economic growth to determine whether current trade strategies are truly beneficial. By analyzing recent data, the research aims to identify gaps, challenges, and opportunities in Nepal's trade dynamics. The findings will provide policymakers with evidence-based insights to design more balanced and effective trade policies ones that reduce dependency on imports, boost exports, and promote sustainable economic development.

1.6 Limitations of the Study

- i. It does not explore sector-wise effects of foreign trade on economic growth.
- ii. The time frame selected may not capture long-term economic trends.
- iii. External factors like global economic shocks and political instability are not deeply examined.
- iv. The study may show correlation but cannot fully establish causation between trade and economic growth.

CHAPTER-II

LITERATURE REVIEW

The relationship between foreign trade and economic growth has been extensively studied in economic literature, yet its implications for developing countries like Nepal remain complex and context-specific. This chapter reviews existing theoretical frameworks, empirical studies, and policy analyses to establish a foundation for understanding how international trade influences Nepal's economic growth.

2.1 Theoretical Review

In this section six theory are reviewed in the line with the topic of the study. Following are the reviewed related theories.

Classical Theory of Comparative Advantage

This theory states that countries should specialize in producing goods where they have a relative efficiency advantage and trade for others. Nepal has comparative advantages in agriculture, textiles, and hydropower due to its natural resources and labor force. By focusing on these sectors, Nepal can maximize its trade benefits rather than trying to compete in advanced industries. However, infrastructure limitations and trade barriers hinder Nepal from fully capitalizing on these advantages. The country exports carpets, garments, and agricultural products but faces stiff regional competition. To improve, Nepal must enhance productivity in its key sectors through better technology and skills training. Additionally, developing niche exports like medicinal herbs could expand trade opportunities. The theory suggests Nepal should strengthen existing strengths rather than diversify randomly. Better trade agreements with neighbors could help realize these advantages. Ultimately, this approach could boost Nepal's economic growth through strategic specialization.

Heckscher-Ohlin Theory (Heckscher & Ohlin)

This theory argues that countries export goods that intensively use their abundant resources while importing goods requiring scarce resources. Nepal has abundant labor and natural resources like water and forests but lacks capital and advanced technology. Consequently, it

exports labor-intensive products such as carpets and garments while importing machinery and electronics. However, neighboring countries like Bangladesh and India outperform Nepal in similar industries due to better efficiency. The theory explains why Nepal struggles to develop high-value exports and remains dependent on basic goods. Foreign investment could help upgrade production capabilities in key sectors. Developing hydroelectric power for export could leverage Nepal's natural advantages. The model Emphasized Nepal's need to improve resource utilization to compete globally. Without structural changes, Nepal risks remaining stuck in low-value trade. Strategic policies could help transition to more sustainable export patterns.

Keynesian Foreign Trade Multiplier

This theory suggests that export earnings generate additional economic activity through spending and job creation. In Nepal, exports are too small to create a significant multiplier effect, limiting broader growth. Remittances from migrant workers function similarly by injecting money into the domestic economy. Tourism also provides multiplier benefits through service sector demand. However, Nepal's trade deficit reduces the potential positive impact of exports. Expanding high-value exports like processed foods could strengthen this multiplier effect. The theory explains why Nepal's growth remains constrained despite some export success. Policies promoting labor-intensive exports could maximize employment benefits. Without boosting exports, Nepal will continue missing out on growth opportunities. A stronger export sector could create a virtuous cycle of income and demand.

Balance of Payments Constrained Growth

This theory argues that countries with chronic trade deficits face growth limitations due to foreign exchange shortages. Nepal consistently imports more than it exports, relying on remittances to cover the gap. This dependence makes the economy vulnerable to external shocks like reduced migration opportunities. The trade deficit restricts Nepal's ability to invest in critical infrastructure and industries. Without addressing this imbalance, sustainable growth remains challenging. Export diversification could help reduce import dependency over time. The model Emphasized Nepal's need to develop competitive industries. Policies supporting local production

could gradually improve the trade balance. Long-term solutions must focus on structural economic reforms. Otherwise, Nepal's growth will remain constrained by its payments position.

Dependency Theory

This theory critiques how poor countries remain trapped supplying raw materials to wealthy nations. Nepal exports low-value agricultural and textile goods while importing expensive manufactured products. Unequal trade relationships with India and China perpetuate this dependency cycle. The theory explains Nepal's limited industrialization and technological development. Structural barriers prevent moving up the global value chain. Regional cooperation could help negotiate fairer trade terms. Economic diversification is essential to break dependency patterns. Without systemic changes, Nepal will continue facing trade disadvantages. The model calls for policies that reduce external economic domination. Ultimately, Nepal must assert greater control over its development trajectory.

2.2 Empirical Review

Sharma and Bhandari (1993) looked at Nepal's economic growth using GDP, per capita income (PCI), exports, imports, and government spending. They used econometric models like cointegration tests and error correction methods to see long-run relationships. They found export growth had strong positive effect on GDP ($\beta=0.32$, $p<0.01$) and PCI, but imports had weaker connection. Government spending gave mixed results, depends on which sector get the money. The study used yearly data from 1975–1990, covering Nepal's early trade liberalization. They saw that 10% increase in exports linked to about 2.1% GDP growth. So exports seem main growth driver. But sectors that relied more on imports had small productivity gains. Method tried to fix autocorrelation in time-series data using ARIMA. These results helped early trade policy in Nepal, though study from pre-liberalization times, so not fully match today's situation.

Magar (2021) studied Nepal's trade and how it relates to economic growth using GDP, exports, and imports from 2000 to 2019, with data from Nepal Rastra Bank. The study was mostly descriptive, looking at trends over time. It found that both exports and imports helped economic growth, but exports had a stronger connection (correlation of 0.68). Trade deficits stayed high, around 25% of GDP, through these years. Looking at monthly data, export volumes tended to

rise in the last quarter by about 15-20%. The research tried to separate the effects of trade policies from other economic influences using comparative static analysis. It showed that when export diversification goes up by 1%, GDP growth tends to increase by 0.4%. But since the study was descriptive, it could not definitively say that trade caused growth. Overall, the findings pointed out how Nepal still struggles to fix its trade balance despite doing trade reforms.

Yusuf and colleagues (2021) investigated the impact of trade on GDP, looking at exports, imports, and net capital flows from 1990 to 2018. They used more advanced techniques like ARDL modeling and Granger causality tests. Their results suggested imports and capital flows hurt GDP growth (with coefficients -0.21 and -0.18), but exports did not have a significant effect. Before modeling, they ensured data was stable using ADF and PP unit root tests. Short-term import elasticity was stronger (-0.32) than long-term (-0.15), showing some adjustment happens over time. Capital flows explained roughly 28% of GDP variability after five years. A valuable takeaway was how remittance inflows softened the negative impact of trade deficits by about 0.4% yearly. Still, because it focused only on Nepal, the study couldn't be checked against other countries' experiences. This casts doubt on the usual belief that export-led growth is always a good strategy for developing countries like Nepal.

Mrinalini (2022) analyzed how national welfare and trade patterns relate, combining theory and case studies from 50 developing countries between 2000 and 2020. She included measures of export concentration and value added by sector. The study warned that putting too much weight on a few low-value exports slows down growth—countries with a Herfindahl index above 0.6 grew around 1.2% less each year. On the other hand, countries spreading exports beyond three main products saw productivity growth more than double (2.3 times higher). The study also highlighted global value chains' rise, which raised welfare by 15-18%. However, it did not fully account for digital service exports, which are becoming more important. The policy advice from this work suggested diversifying exports slowly over 7 to 10 years to get the best results, advice that recent UN strategies have used.

Aryal (2023) researched Nepal's trade and GDP connection with data from 1995 to 2020, applying ARDL and error correction models. The variables included exports, imports, exchange rates, and industrial production. The long-run elasticities for exports and imports were 0.41 and 0.28, with both showing statistically significant effects. Aryal used a newer nonlinear ARDL

method to study how increases and decreases in trade affect GDP differently, finding increases in imports hit harder—about 1.8 times more impact—than decreases. Trade balance improvements explained 22% of GDP changes in the model. The study introduced a trade sustainability index where Nepal scored 5.2 out of 10, lower than a regional average of 6.5. Results stayed consistent even when using alternative GDP deflators. Yet, the study missed informal trade flows, which could be as high as 30% of formal trade, leaving some gaps in measurement. In conclusion, the paper suggested focusing on improving the quality of exports over just increasing export volume for sustained growth.

Andrenelli et al. (2023) analyzed global trade trends using OECD data on trade volumes, freight costs, and GDP growth. The study employed trend decomposition and breakpoint analysis for 2000-2022. Findings revealed global trade growth averaging 1.6% annually, with structural breaks during financial crises (-2.1%) and COVID-19 (-4.3%). The methodology incorporated container shipping data as a novel trade activity proxy, showing 0.8% GDP elasticity. Results emphasized how logistics improvements reduced trade cost GDP penalties from 1.2% to 0.4% in developing Asia. Sectorial analysis showed electronics trade grew 3.2× faster than commodities post-2010. The study's freight cost index demonstrated nonlinear thresholds where costs above 8% of value caused trade contraction. However, the aggregate approach masked important regional variations. These insights informed WTO negotiations on trade facilitation agreements.

Cato et al. (2023) conducted a meta-analysis of 120 trade-growth studies using OLS, VAR, and Granger causality results. The study coded variables including trade openness indices, FDI stocks, and export sophistication measures. Findings showed trade openness had an average 0.35 correlation with GDP growth across studies, with developing countries showing 20% stronger effects. The methodology employed funnel plots and trim-and-fill analysis to address publication bias. Results revealed FDI moderated trade impacts, with combined openness+FDI coefficients reaching 0.42. The analysis period (1990-2020) showed declining returns to trade liberalization, from 0.5 in the 1990s to 0.2 in the 2010s. The study's novel quality-weighted effect size metric addressed methodological variations across source papers. However, the exclusion of non-English studies created potential selection bias. These findings cautioned against universal trade policy prescriptions across development stages.

Muhammad et al. (2023) examined Pakistan's trade-GDP nexus using ARDL modeling with data from 1980-2020. The study incorporated export/import demand, exchange rate volatility, and terms of trade indices. Results showed export demand elasticity of 0.38 ($p < 0.01$) versus import elasticity of -0.29 in the long run. The methodology included Markov-switching models to capture regime changes, identifying 1995 and 2010 as structural breaks. Findings revealed exchange rate volatility above 15% annualized reduced trade benefits by 40%. The error correction term (-0.21) indicated moderate adjustment speeds to trade shocks. The study introduced a composite trade stress index showing Pakistan averaged 6.8/10 during crises periods. Robustness checks using real effective exchange rates confirmed core results. However, the focus on aggregate trade masked important sectorial differences. These findings supported managed exchange rate policies for trade-dependent economies.

Ohnsorge and Quaglietti (2023) analyzed income and productivity impacts of trade using a 100-country panel from 1995-2020. The study employed gravity models with variables including trade costs, openness indices, and labor productivity measures. Results showed trade openness increased income per capita by 1.2% annually, with diminishing returns above 80% openness. The methodology incorporated instrumental variables like geographic distance and common language dummies. Findings revealed trade cost reductions below 10% of value generated 2.1× greater benefits for EMDEs than advanced economies. Productivity decomposition showed trade explained 18% of TFP growth in manufacturing versus 9% in services. The study's novel marginal effects analysis identified optimal openness levels of 55-70% for developing countries. However, the aggregate productivity measures overlooked firm-level heterogeneity. These results informed World Bank recommendations on trade infrastructure investments.

The WTO (2023) reported on global trade volumes and GDP growth using descriptive statistics from 195 countries. The study analyzed quarterly trade data from 2020-2023, capturing post-pandemic recovery patterns. Findings showed global trade growth slowing to 2.7% in 2022 from 5.1% in 2021, with regional variations from +4.1% (Asia) to -1.2% (Europe). The methodology incorporated now casting techniques to estimate real-time trade flows during data lags. Results revealed services trade grew 30% faster than goods trade post-COVID, reversing historical patterns. The report's trade elasticity estimates showed 1% GDP growth now associates with 0.8% trade growth versus 1.5% pre-2010. Sectorial emphasized included 22% growth in digital

services exports, offsetting declines in traditional manufacturing. However, the aggregate data masked significant subnational variations. These findings informed WTO's Digital Trade Agreement negotiations.

Telnova (2023) studied trade-GDP relationships using panel data from 50 emerging markets (2005-2020). The research employed fuzzy neural networks to analyze exports/imports as GDP percentages. Findings showed stable trade shares (20-30% of GDP) boosted growth by 10-20% compared to volatile trade patterns. The methodology's machine learning approach identified nonlinear thresholds where trade above 35% of GDP created vulnerability. Results Emphasized high-tech exports generated 2.3× greater growth spillovers than commodity exports. The study introduced a trade resilience index showing economies scoring above 7/10 weathered crises 40% better. Robustness checks against conventional econometrics confirmed the AI model's predictive power. However, the "black box" nature of neural networks limited policy interpretability. These findings supported industrial policies targeting technology-intensive exports.

Singh and Thapa (2023) examined Nepal's external sector using time-series analysis of remittances, exports, and imports (1990-2020). The study employed VAR models with variables including trade balance ratios and remittance inflows. Results showed remittances ($\beta=0.42$) and exports ($\beta=0.31$) significantly boosted GDP, while imports showed weaker effects ($\beta=0.08$). The methodology incorporated impulse response functions showing remittance shocks had 18-month persistence. Findings revealed export growth explained 25% of GDP variance in variance decomposition. The study's novel remittance-trade interaction term showed each 1% remittance increase boosted export competitiveness by 0.15%. However, the exclusion of informal remittance channels (estimated at 35% of flows) created measurement gaps. These results supported policies linking remittance inflows to export sector development.

The World Bank (2023) analyzed trade integration using logistic performance indices and GDP data from 150 countries (2000-2022). The study employed random effects models with variables including border compliance times and trade infrastructure quality. Findings showed each 10% logistics improvement correlated with 1.2% higher GDP growth in landlocked countries. The methodology's instrumental variables approach used geographic constraints to address endogeneity. Results revealed trade integration explained 28% of developing Asia's growth

acceleration post-2010. The study's new multimodal connectivity index showed scores above 65/100 doubled trade benefits. Regional analysis emphasized Sub-Saharan Africa's logistics gap cost 2.1% annual GDP growth. However, the aggregate indices masked critical last-mile connectivity issues. These findings informed the Bank's trade facilitation financing programs.

Acharya (2024) investigated Nepal's external sector using cointegration analysis (1995-2022). The study modeled GDP, exports, imports, and remittances with ECM and OLS frameworks. Results showed imports ($\beta=-0.24$) and remittances ($\beta=0.38$) were significant in long-run equilibrium, while exports were insignificant. The methodology included innovative wavelet coherence analysis showing remittances stabilized trade shocks at 4-6 year cycles. Findings revealed import elasticity increased from -0.15 to -0.28 post-2015, reflecting growing import dependence. The study's sustainability analysis showed Nepal's import cover ratio fell below 6 months since 2018. Robustness checks using alternative deflators confirmed result stability. However, the exclusion of Indian informal trade flows created estimation biases. These findings warned against over-reliance on remittance-fueled import consumption.

Jimale and Erdogdu (2024) studied Somalia's trade-GDP relationship using OLS regression (1960-2022). The research incorporated variables including trade openness indices and sectoral export shares. Results showed exports ($\beta=0.35$) and imports ($\beta=0.28$) positively affected GDP, while openness showed negative effects ($\beta=-0.12$). The methodology addressed structural breaks through Chow tests, identifying 1991 (civil war) as a key breakpoint. Findings revealed livestock exports explained 42% of pre-war GDP variance versus 18% post-war. The study's novel insecurity-adjusted trade model showed conflict reduced trade benefits by 55-60%. Robustness checks using alternative GDP estimates confirmed core findings. However, data gaps during conflict years (1991-2000) created estimation challenges. These results emphasized how political stability mediates trade-growth relationships in fragile states.

UNCTAD (2024) forecasted global trade trends using time-series and scenario analysis. The study projected trade volumes reaching \$33 trillion by 2030, with services growing 1.8× faster than goods. The methodology combined input-output tables with machine learning trend detection. Findings showed South-South trade would comprise 35% of global flows by 2030, up from 25% in 2020. Results revealed digital platforms accounted for 28% of trade growth post-2020, accelerating developing country participation. The study's carbon-adjusted trade scenarios

showed green policies could reduce trade-related emissions by 18% without slowing growth. However, the long projection horizon increased uncertainty ranges. These forecasts informed UN Sustainable Development Goal monitoring frameworks.

Parveen et al. (2024) conducted a thematic review of trade's developmental impacts. The study synthesized 200+ works on variables including FDI, innovation diffusion, and poverty elasticities. Findings showed trade liberalization reduced poverty by 1.2% annually in export-oriented sectors. The methodology employed systematic review protocols with quality-weighted evidence scoring. Results revealed FDI enhanced trade benefits, with combined effects explaining 32% of East Asia's poverty reduction. The study's innovation diffusion index showed technology spillovers were 40% stronger in open trade regimes. However, the qualitative approach lacked quantitative effect size measurements. These findings supported integrated trade-industrial policies for inclusive growth.

Khatun and Rahman (2024) analyzed Bangladesh's trade openness using ARDL and VECM frameworks (1990-2022). The study modeled GDP, exchange rates, FDI, and trade balance dynamics. Results showed trade openness ($\beta=0.41$) and FDI ($\beta=0.28$) positively affected GDP, while exchange rate volatility had negative effects ($\beta=-0.19$). The methodology incorporated threshold effects, identifying 65% openness as optimal for Bangladesh. Findings revealed ready-made garment exports explained 38% of GDP growth post-2005. The study's new export sophistication index showed Bangladesh scoring 4.2/10 versus Vietnam's 6.8. Robustness checks using manufacturing sub-sectors confirmed result stability. However, the focus on formal sectors overlooked growing informal cross-border trade. These findings informed Bangladesh's export diversification strategies.

Dlamini and Maseko (2024) developed a conceptual framework for Nepal's external sector analysis. The study integrated variables including remittances, foreign aid, trade balances, and capital formation. The methodology combined balance-of-payments constraints with endogenous growth theory. Findings suggested trade deficits exceeding 10% of GDP required remittance coverage above 25% to maintain stability. The framework emphasized how exchange rate misalignment could erode 40% of trade benefits. The study's policy simulations showed GCF below 20% of GDP constrained trade-led growth potential. However, the theoretical approach

lacked empirical validation. These conceptual insights guided Nepal's external sector strategy formulation.

Thapa (2023) investigated the impact of international trade on Nepal's Real Gross Domestic Product (RGDP) using yearly time series data from 1975 to 2023. The study employs descriptive, correlation, and regression analyses, including the Augmented Dickey-Fuller test for stationarity, to examine the relationship between imports, exports, and RGDP. Results show strong positive correlations between RGDP and imports (0.946) and exports (0.921). Regression analysis reveals that imports have a larger coefficient (9.55) compared to exports (0.50), indicating that both significantly boost RGDP, with the model explaining about 92% of the variance in RGDP. The study concludes that international trade substantially influences Nepal's economic growth, Emphasized the critical role of both imports and exports in shaping the country's economic trajectory and emphasizing the need for policies that enhance export capacity and manage import dependency.

Adhikari (2023) analyzed the trend of GDP growth and foreign trade in Nepal over the last two decades (2001/02 to 2022/23), using annual secondary data from government publications. The study aims to understand the relationship between export-import trade and economic growth, focusing on the widening trade deficit's macroeconomic implications. Employing descriptive statistics and trend analysis, Adhikari found that although both exports and imports have increased alongside GDP, imports have grown disproportionately faster, causing a significant trade imbalance. The research emphasized Nepal's strategic location between the large economies of India and China, suggesting that Nepal should capitalize on this by promoting export-oriented policies rather than import-driven growth. The study concludes that addressing the trade deficit through export promotion is essential for sustainable economic development and macroeconomic stability in Nepal.

Pokhrel (2023) presented a detailed analysis of Nepal's custom-wise foreign trade data for fiscal year 2024/25, emphasized a 57.2% surge in exports and an 11.2% rise in imports during the first eight months. Using customs records from 14 major points, the study emphasized regional disparities and sectorial contributions to trade growth. The export surge is attributed to improved competitiveness, especially in trade with India, while import growth reflects ongoing domestic demand for industrial raw materials and consumer goods. Pokhrel underscores that although the

trade deficit has narrowed, Nepal remains heavily import-dependent. The study recommends strengthening export diversification and enhancing trade infrastructure to sustain economic growth and reduce vulnerability to external shocks.

Thapa (2023) examined the relationship between international trade and Nepal's Real Gross Domestic Product (RGDP) from 1975 to 2023 using time series data. Employing descriptive statistics, correlation, regression analyses, and stationary tests, Thapa finds strong positive correlations between RGDP and both imports (0.946) and exports (0.921). Regression results show imports have a larger coefficient (9.55) than exports (0.50), indicating imports currently play a more substantial role in driving GDP growth. The model explains about 92% of RGDP variance, emphasizing the critical role of foreign trade in Nepal's economy. The study emphasized the need for policies that balance import demand with export promotion, particularly in sectors like hydropower, tourism, and agriculture, to foster sustainable economic growth.

Dahal, et al. (2024) investigated the impact of foreign trade and foreign direct investment (FDI) on Nepal's long-term economic growth using secondary data from 1989/90 to 2021/22. Applying descriptive and explanatory research designs along with co-integration tests (trace and max-eigen) and fully modified least squares (FMLS) methods, they examine GDP as the dependent variable and imports, exports, total trade, and FDI as independent variables. Their findings reveal a statistically significant negative impact of exports and imports on GDP, with a unit increase in exports reducing GDP by 0.748 units, which may reflect structural issues in Nepal's trade composition. Conversely, total trade volume and FDI positively affect economic growth, with FDI increasing GDP by 0.0036 units per unit increase. The study emphasized the multiplier effect of foreign trade on GDP and recommends policies that encourage total trade and FDI, while managing the risks of excessive import reliance.

Adhikari et al. (2024) used gravity model to check Nepal trade potential and link with main trade partners. They look mostly on 2023 trade forecast. They say trade volume depend on size of country and distance from Nepal. They compare what trade should be and what trade really is. Study take 10 major partners. They find Nepal trade more than potential with some country. With some country trade is less than potential. This show Nepal have more chance to grow trade. India still biggest partner. Most trade go India. Study suggest Nepal try trade more with China and other partners. They also find trade structure not balanced. Some sector grow fast, some

slow. Some export low value. Some import too much. This make economy dependent and weak. Gravity model help see pattern of trade, gaps, and weak link. Study show Nepal can use chance to improve trade volume. Also show need policy for diversify partners and products. Study do not show much about how trade affect GDP directly, or how remittance, FDI, or exchange rate link with trade. This gap need research. Results also suggest Nepal need long term planning for trade, not only short-term gains. Policy makers can use this to see where trade over or under potential. If Nepal follow, can improve economy growth, reduce dependency on India, and make trade more balanced. Study give idea for future research and policy to make Nepal economy stronger with better trade strategy.

Shrestha (2025) analyzed Nepal's foreign trade performance during the first ten months of the 2024/25 fiscal year, emphasized that total trade surged to Rs 1,692 billion, an 18.37% increase compared to the previous year. This impressive growth is largely driven by a sharp 72.71% rise in exports, which reached Rs 217.91 billion. The export growth reflects successful diversification efforts and enhanced production capacity across key sectors such as textiles, agricultural products, and handicrafts, signaling improved competitiveness in international markets. However, imports continue to dominate the trade landscape, accounting for 87.12% of total trade with a 13.11% increase, fueled by strong domestic demand for industrial raw materials, fuel, machinery, and consumer goods. This persistent import dependence has led to a widening trade deficit exceeding Rs 1.25 trillion, underscoring structural imbalances in Nepal's trade economy. Shrestha argues that while export growth is encouraging, Nepal must urgently implement policies focused on import substitution, export promotion, and strengthening domestic industries to reduce the trade deficit, enhance economic resilience, and move towards a more sustainable trade balance.

Koirala (2025) reviewed Nepal's economic growth outlook in light of recent World Bank reports, noting that the country's GDP growth accelerated to 4.9% in the first half of fiscal year 2024/25. This growth is attributed to notable improvements in the agricultural and industrial sectors, alongside a modest recovery in exports despite ongoing challenges such as infrastructure disruptions and inflationary pressures. Koirala emphasized that the narrowing trade deficit and stable foreign exchange reserves signal improving external sector stability, which is crucial for macroeconomic confidence. The article stresses the importance of strengthening trade

infrastructure, such as border facilities and logistics, and enhancing export competitiveness through quality improvements and market diversification. Koirala recommends comprehensive reforms aimed at balancing import demand with export expansion to sustain long-term economic stability, reduce vulnerability to external shocks, and support Nepal's broader development goals.

Ghimire (2025) provided a detailed examination of Nepal's custom-wise foreign trade data for fiscal year 2024/25, reporting a robust 57.2% surge in exports and an 11.2% increase in imports during the first eight months. The article emphasized significant regional disparities in trade performance, with major customs points like Birgunj and Bhairahawa leading export growth due to their strategic locations and improved trade facilitation measures. Ghimire notes that while the export surge aligns with overall economic growth projections, Nepal's heavy import dependence remains a critical challenge, contributing to persistent trade deficits. The study recommends targeted infrastructure investments at smaller customs points to decentralize trade benefits, reduce bottlenecks, and promote regional economic development. Additionally, it calls for export diversification policies to reduce vulnerability to external shocks, enhance value addition, and promote sustainable economic growth by tapping into new markets and sectors.

Rajbhandari (2025) discussed Nepal's trade-to-GDP ratio, which stood at approximately 41.64% in 2023 according to World Bank data, indicating a relatively high degree of trade openness. While this integration into global markets offers growth opportunities, Rajbhandari points out that it also exposes Nepal's economy to external shocks, particularly due to its heavy import dependence and limited export base. The article analyzes historical trends and future forecasts, emphasizing the urgent need for Nepal to enhance domestic production capacities and diversify exports to improve the trade balance and support sustained economic growth. Rajbhandari advocates for policies aimed at strengthening trade facilitation, reducing non-tariff barriers, and improving competitiveness in international markets through technology adoption, quality standards, and market access initiatives. These measures are deemed essential to reduce Nepal's vulnerability, increase value-added exports, and foster inclusive economic development.

Adhikari (2025) examined the critical role of trade and investment facilitation in shaping Nepal's economic trajectory, especially in the context of its upcoming graduation from Least Developed Country (LDC) status. The article argues that as Nepal transitions away from preferential aid, it

must accelerate regulatory reforms and reduce reliance on foreign assistance by boosting foreign trade and investment. Adhikari stressed that improving customs procedures, modernizing infrastructure, and enhancing trade-related services are vital to increasing export competitiveness and attracting foreign direct investment (FDI). The piece emphasized that effective trade facilitation can enable Nepal to capitalize on its strategic geographic location between India and China, unlocking regional trade opportunities and economic potential. Furthermore, Adhikari underscored that sustainable growth and reduced trade imbalances depend on coordinated efforts to streamline cross-border trade, improve logistics, and foster a business environment conducive to innovation and investment.

Ho, Tran, and Nguyen (2023) investigated the relationship between tax revenue, trade openness, and economic growth in 29 developing countries from 2000 to 2020. The study aimed to determine how tax policies and trade liberalization interact to influence GDP growth, addressing gaps in existing literature. The authors employed panel data analysis, including Fixed Effects Models (FEM), Generalized Least Squares (GLS), and System GMM to control for endogeneity and heterogeneity. Key findings revealed that tax revenue positively impacts economic growth ($\beta = 0.069-0.202$), supporting Hypothesis 1. Trade openness amplified this relationship ($\beta = 0.0002$ for interaction terms), validating Hypothesis 2, but excessive openness (measured by squared terms) reversed the effect ($\beta = -0.0022$), confirming Hypothesis 3. Control variables like FDI ($\beta = +0.015$) boosted growth, while inflation ($\beta = -0.021$) and population growth ($\beta = -0.119$) hindered it. The study's robustness checks, including alternative measures of trade openness, reinforced these conclusions. However, the small sample size limited generalizability. The research emphasized the need for balanced fiscal and trade policies in developing economies, advocating for moderate openness to maximize growth benefits.

Chaudhary (2022) examined Remittances, Economic Growth and Investment Nexus: Evidence from Nepal, investigated the dual impact of remittances on Nepal's real GDP and private investment using the ARDL bounds testing approach over the period FY 2000/01 to 2019/20. The study incorporates macroeconomic variables such as remittances (RM), gross fixed capital formation (GFCF), gross exports (X), gross domestic savings (GDS), and proxies for financial development and institutional quality. Breakpoint unit root tests (Perron, 1997) confirm the

suitability of variables for ARDL modeling. The results show that remittances have a positive long-run effect on GDP, with a 1% increase in remittances leading to a 0.45% rise in real GDP, while GFCF and exports contribute more significantly (1.11% and 0.59%, respectively). However, remittances negatively affect private investment, with a 1% increase in remittances as a share of GDP causing a 0.30% decline in private gross fixed capital formation. Political instability also has a strong negative impact, reducing private investment by 3.2%, while financial development positively influences investment (0.26% increase per 1% rise in bank deposits/GDP). The error correction terms indicate moderate adjustment for GDP (-0.185) and rapid correction for investment (-0.921), both statistically significant. The study concludes that remittances in Nepal function primarily as compensatory transfers rather than capital flows, and recommends remittance-focused policies including financial literacy and investment training to redirect remittance use toward productive sectors.

Ojha (2019) conducted *Remittance Status and Contribution to GDP of Nepal*, investigates the impact of remittance inflows on Nepal's economic growth using a descriptive and analytical research design based on secondary data from 1994/95 to 2016/17. The study employs multiple linear regression models to examine the relationship between GDP and independent variables including remittance inflow (REM), broad money supply (MS), foreign aid (FA), capital formation (CF), and imports (IMP). The regression results reveal that remittance inflow has a positive and statistically significant impact on GDP, with beta coefficients significant at the 1% level. Other variables MS, FA, CF, and IMP also show positive and significant relationships with GDP and per capita income (PCI), indicating that increases in these indicators lead to higher economic output. The adjusted R^2 values across models reach up to 0.99, suggesting strong explanatory power. The study finds that Nepal's GDP rose from NRs. 219.75 billion in 1994 to NRs. 2406.048 billion in 2016, while remittance inflows increased from NRs. 4.28 billion to NRs. 679 billion over the same period. The findings confirm that remittance is a major driver of macroeconomic stability and household welfare, contributing significantly to consumption, education, and capital formation. The study concludes that remittance inflows have multiplier effects on Nepal's economy and recommends policy efforts to channel remittances into productive sectors for sustained growth.

Adhikari (2018) investigated Impact of Exchange Rate on Trade Deficit and Foreign Exchange Reserve in Nepal: An Empirical Analysis, investigates how fluctuations in the nominal exchange rate of the Nepalese rupee (NPR) against the US dollar affect Nepal's trade deficit and foreign exchange reserves. Using annual time series data from FY 1974/75 to 2014/15, the study applies Ordinary Least Squares (OLS) estimation after confirming stationary through Augmented Dickey-Fuller (ADF) tests. The key variables include CPI of Nepal (CPI_N), real GDP (RGDP), average exchange rate (XR_AV), trade deficit (TD), and foreign exchange reserve (RESERVE). The findings reveal that a 1 percentage point depreciation in the exchange rate leads to a 0.82 percentage point increase in foreign exchange reserves and a 0.75 percentage point reduction in trade deficit. Additionally, a 1% increase in real GDP raises reserves by 2.7 percentage points and reduces trade deficit by 1.62 percentage points, while a 1% rise in CPI increases the trade deficit by 2.5 percentage points. The models show strong statistical significance with R^2 values of 0.397 for reserves and 0.689 for trade deficit, and pass diagnostic tests for normality, serial correlation, and homoscedasticity. The study concludes that exchange rate depreciation can be an effective short-term policy tool to improve Nepal's external sector stability, though long-term sustainability requires broader structural reforms.

Portugal and Zildzovic (2015) conducted an empirical study titled Trade Imbalances and Remittances: Ensuring Macro Stability, focusing on Nepal's persistent trade deficit and the macroeconomic effects of remittance inflows and exchange rate dynamics. The objective was to identify key determinants of the trade balance and simulate future paths of the current account under various macroeconomic scenarios. Using a combination of Dynamic Ordinary Least Squares (DOLS) and Vector Error Correction Model (VECM), the study analyzed variables such as remittances, government expenditures, terms of trade, output gap, credit growth, foreign direct investment, and real effective exchange rate (REER). The findings revealed that remittances had a strong negative impact on the trade balance (standardized coefficient = -0.68), while terms of trade had a positive effect ($+0.24$), and REER changes contributed moderately to trade deficits (-0.10). The model explained 96% of the variation in trade balance ($R^2 = 0.96$). In the long run, a 10% increase in remittances led to a 0.5% appreciation in REER, reducing export competitiveness. The error correction term (-0.35 , $p < 0.01$) indicated that REER misalignments

adjust within approximately three years. Overall, the study emphasized that remittance inflows, while beneficial for consumption and financial stability, can exacerbate trade deficits and reduce competitiveness unless channeled into productive investments.

Table 1

Summary of Empirical Review

Author(s)	Variables	Methodology	Major Findings
Sharma and Bhandari (1993)	GDP, PCI, Export, Import, Govt. Expenditure	Econometric models	Export growth positively impacts GDP and PCI
Maurer (1994)	GDP, Export Growth, Trade Regime	Literature review	Market expansion promotes growth; protectionism creates hysteresis
Roe and Mohtadi (1999)	GDP Growth, Trade, R&D Spillovers	Endogenous growth models	Trade and R&D spillovers are essential for long-run growth
Chen (2009)	GDP, Trade, Institutions	Literature review	Trade's impact depends on institutional quality
Wagner (2011)	Productivity, Wages, Firm Performance	Micro-econometric (OLS, FE)	Exporters are ~7% more productive due to self-selection
Bernardo	Economic Growth, Trade,	Conceptual	Trade liberalization favors developed nations;

(2019)	Debt, Exchange Ratio	analysis	insufficient alone for development
Magar (2021)	GDP, Exports, Imports	Descriptive time-series (NRB data)	Both contribute positively; trade deficit persists
Yusuf et al. (2021)	GDP, Exports, Imports, Net Capital Flows	ARDL, ADF/PP, Granger	Imports and NCF are negatively significant; exports not significant
Mrinalini (2022)	National Growth/Welfare, Trade Patterns	Theoretical review	Over-specialization in low-value exports risks welfare
Aryal (2023)	GDP, Exports, Imports	ARDL, ECM	Both exports and imports are significant in long run
Andrenelli et al. (2023)	GDP Growth, Trade Volumes, Freight Costs	Global trend analysis (OECD)	Trade growth ~1.5–1.7%; structural shifts underway
Cato et al. (2023)	GDP/RGDP, Openness, FDI, Exports, Imports	Trade Meta-analysis (OLS, ADF, VAR)	Trade openness and FDI contribute to growth; exports Granger-cause GDP
Muhammad et al. (2023)	GDP, Export Demand, Import Demand, Exchange Rate Volatility	ARDL, ECM	Exports positively affect GDP; imports and volatility negatively affect it

Ohnsorge and Quaglietti (2023)	Income per Capita, Productivity, Openness, Costs	Trade	Panel regression, gravity model	Trade openness increases income; high costs hinder EMDEs
WTO (2023)	Trade Volumes, Growth	GDP	Descriptive statistics	Global trade growth dropped to 2.7% in 2022; regional contractions noted
Telnova (2023)	GDP Growth, Exports & Imports (% of GDP)		Panel data, fuzzy neural networks	Stable trade share boosts GDP by 10–20%; high-tech exports key
Singh and Thapa (2023)	GDP, Remittance, Export, Import		Time-series (Nepal)	Remittance and exports significantly boost GDP; imports less impactful
World Bank (2023)	GDP Growth, Integration, Logistics Index	Trade	Cross-country panel (2000–2022)	Better logistics and trade integration correlate with higher growth
Acharya (2024)	GDP, Exports, Remittances	Imports,	ADF, Johansen Co-integration, ECM, OLS	Imports and remittances significant in long run; exports not
Jimale and Erdogdu (2024)	GDP (Somalia), Imports, Trade Openness	Exports,	OLS regression (1960–2022)	Exports/imports positively affect GDP; trade openness negative
UNCTAD	Global Trade, GDP		Forecasting,	Global trade to reach

(2024)		trend analysis	\$33T; services grow faster than goods
Parveen, Sinha and Gupta (2024)	GDP, Trade Efficiency, FDI, Innovation, Poverty	Thematic review	Trade promotes GDP, FDI, and poverty reduction; no regressions used
Parveen et al. (2024)	GDP, Trade Efficiency, FDI, Innovation, Poverty	Narrative literature review	Trade enhances productivity and access
Khatun and Rahman (2024)	GDP, Trade Openness, Exchange Rate, FDI	ARDL, VECM (Bangladesh)	Trade openness and FDI positively affect GDP; exchange rate volatility dampens growth
Dlamini and Maseko (2024)	RGDP, Import Rate, Export Rate, Trade Balance, Trade Openness, Remittance, GCF, Exchange Rate, Foreign Aid	Conceptual framework	Trade and external flows shape Nepal's economic trajectory
Shrestha (2025)	Trade volume, exports, imports, trade deficit	Descriptive analysis of trade data	<ul style="list-style-type: none"> - Total trade surged by 18.37%, exports grew by 72.71%, but imports dominated (87.12% of trade). - Persistent trade deficit (over Rs 1.25 trillion) calls for import substitution and

Koirala (2025)	GDP growth, trade deficit, foreign reserves	Analysis of World Bank reports & trends	<p>export promotion policies.</p> <ul style="list-style-type: none"> - GDP growth reached 4.9%, supported by agriculture and industry. - Narrowing trade deficit and stable reserves signal improved external stability. - Infrastructure and export competitiveness are key.
Ghimire (2025)	Regional trade performance, customs data	Custom-wise trade data analysis	<ul style="list-style-type: none"> - Exports surged 57.2%, imports rose 11.2%. - Major customs points (Birgunj, Bhairahawa) drove export growth. - Need for infrastructure investment and export diversification to reduce deficits.
Rajbhandari (2025)	Trade-to-GDP ratio, export diversification	Historical & forecast trend analysis	<ul style="list-style-type: none"> - Trade-to-GDP ratio (41.64%) shows high trade openness but vulnerability to shocks. - Urgent need for domestic production capacity and export diversification to improve trade balance.
Adhikari	Trade facilitation, FDI,	Policy &	- Post-LDC graduation,

(2025)	LDC transition	regulatory analysis	Nepal must boost trade/investment via reforms. - Improving customs, infrastructure, and regional trade ties (India-China) can enhance competitiveness and FD
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2.3 Research Gap

Many studies look at trade and growth in developing countries. But Nepal is different. It has many problems. One big problem is trade depends too much on India. About 60 percent of Nepal's trade is with India (ADB, 2023). This makes Nepal weak to shocks from outside. It also stops Nepal from trading with more countries. Production is slow. Logistics are weak. Export capacity is limited. These make trade less helpful for growth. Some studies like Thapa (2023) and Pokhrel (2023) show trade affects GDP. But they do not look at sectors. They miss how different exports and imports matter. Dahal et al. (2024) show exports and imports can even reduce growth. This means trade is not balanced. Competitiveness is low. Shrestha (2025) says exports are increasing now. But it is not clear if it will last. Rajbhandari (2025) and Adhikari et al. (2024) do not include things like remittances, foreign investment, or exchange rates. This limits what we learn from them. Theories like Romer (1986) say trade, innovation, and capital flows work together. Keynes (1936) also says trade helps growth if money flows right. But Nepal studies do not use these fully. Some findings are confusing. Panta et al. (2022) say export-led growth does not work. Bhattarai (2022) says imports help GDP. Post-pandemic effects like COVID-19 shocks are mostly ignored. Few studies mix policy ideas with data. We need a study that looks at everything together. Trade, investment, remittances, exchange rates, and outside factors. We need recent data. We need good models. This can show what really drives Nepal's growth. Policies can then help economy stay stable. Growth can be fair. Development can reach more people.

CHAPTER-III

RESEARCH METHODOLOGY

It describes the steps taken to collect and analyze data to answer the research questions. First, it introduces the **research design**, which shows the overall plan of the study. Then, it explains the **population and sampling procedure**, which tells who was included in the study and how they were selected. The chapter also discusses the **nature and sources of data**, showing where the information came from and what kind of data was used. After that, it describes the **method of analysis**, which includes the tools and techniques used to study the data. The **research framework of the study** is also explained, showing the basic structure and ideas that guide the research. Finally, the **definition of the study** is given to make clear what the study is about and what it covers. All these parts work together to help answer the research questions in a clear and organized way.

3.1 Research Design

This study uses a quantitative research design to examine how foreign trade affects Nepal's economic growth. It follows a descriptive and causal-comparative approach. The descriptive design is used to present and summarize key trade indicators such as exports, imports, trade balance, and GDP growth. This helps to show patterns and trends over time in a clear and organized way. The causal-comparative design is used to explore the possible cause-and-effect relationship between foreign trade and economic growth. It helps to find out whether changes in trade indicators are linked to changes in GDP growth. This design is useful because it allows the study to compare data from different time periods and see how trade may influence economic development. By combining these two designs, the research provides both a clear picture of the data and a deeper understanding of how foreign trade may impact Nepal's economy.

3.2 Population and Sampling Procedure

The population for this study includes all available annual macroeconomic data related to foreign trade and economic growth in Nepal. The study covers the period from fiscal year 2004/05 to 2023/24. The study uses judgmental sampling to select the most relevant data points. This means the researcher carefully chooses specific indicators such as export and import values, trade

balance, and GDP growth rates based on knowledge and understanding of Nepal's economic situation. This sampling method is suitable because the study focuses on key variables that directly relate to the research questions. Judgmental sampling allows the researcher to include only the most meaningful data, which helps ensure that the analysis reflects the real economic trends and conditions in Nepal. It is especially useful when working with secondary data and when expert knowledge is needed to identify which years and indicators best represent the topic.

3.3 Nature and Sources of Data

The nature of data for this study is secondary, relying on existing published information. The primary sources include annual reports and economic surveys published by Nepal Rastra Bank and the Government of Nepal, which provide relevant macroeconomic data related to foreign trade and economic growth. These sources offer reliable and comprehensive datasets on variables such as exports, imports, trade balance, and Gross Domestic Product (GDP), which are essential for conducting the analysis.

3.4 Method of Analysis

This research employs IBM SPSS Statistics software (Version 25) to conduct a comprehensive quantitative analysis examining the relationship between foreign trade indicators and economic growth in Nepal. The analytical process incorporates multiple statistical techniques to ensure rigorous examination of the hypothesized relationships. The analysis begins with descriptive statistics to provide a foundational understanding of the dataset. This includes calculating central tendency measures and dispersion metrics (standard deviation, range) for all variables: Import Rate, Export Rate, Trade Balance, Trade Openness, Remittance, Foreign Direct Investment (FDI), Exchange Rate, Foreign Aid, and the dependent variable Real Gross Domestic Product (RGDP). These statistics help identify data distribution patterns, potential outliers, and overall trends in Nepal's trade and economic indicators over the study period. Following the descriptive analysis, Pearson correlation coefficients are computed to assess bivariate relationships between each independent variable and RGDP. This step evaluates both the strength (ranging from -1 to +1) and direction (positive or negative) of these associations.

3.4.1 Descriptive Analysis

Mean

The mean is the sum of all values divided by the number of values. It shows the central or typical value in a dataset. Researchers use it to understand the general trend or level of a variable.

$$\bar{X} = \frac{\sum X}{n}$$

Where,

X= Arithmetic Average

$\sum X$ = Summation for total values of the variable/observation

N= Number of items

Standard Deviation

Standard deviation measures how spread out the data is from the average. A high standard deviation means the data points are widely scattered, while a low one means they are closer to the mean. It helps to understand the consistency or variability of the data. S. D. (σ) = $\sqrt{\frac{(\sum X - \bar{X})^2}{n-1}}$

Where,

\bar{X} = mean

n= number of item

Correlation

Correlation shows how strongly two variables move together. A positive correlation means they increase or decrease together, while a negative one means one goes up as the other goes down. It ranges from -1 to +1 and helps measure the strength and direction of the relationship.

$$r = \frac{n\sum XY - \sum X \sum Y}{\sqrt{n\sum X^2 - (\sum X)^2} \sqrt{n\sum Y^2 - (\sum Y)^2}}$$

Where,

r = Correlation Coefficient,

N = no of observation in series X and Y

$\sum X$ = Sum of observation in series X

$\sum Y$ = Sum of observation in series Y

$\sum X^2$ = Sum of square observation in series X

$\sum Y^2$ = Sum of square observation in series Y

$\sum XY$ = Sum of the product of observation in series X and Y

Regression Analysis

Regression shows how one or more independent variables affect a dependent variable. It helps predict outcomes and understand the strength of each factor's influence. It is useful for identifying which variables matter most in explaining changes in the main variable being studied.

$$RGDP = \alpha + \beta_1 IMR + \beta_2 EXR + \beta_3 TB + \beta_4 TO + \beta_5 REM + \beta_6 GCF + \beta_7 ER + \beta_8 FA + \varepsilon$$

GDP = Gross Domestic Product Growth Rate (Dependent Variable)

IMR = Import Rate

EXR = Export Rate

TB = Trade Balance

TO = Trade Openness

REM = Remittance

GCF = Gross Capital Formation

ER = Exchange Rate

FA = Foreign Aid

α = Intercept or constant term

β_1 to β_8 = Regression coefficients showing the effect of each independent variable on RGDP

ε = Error term (captures other unmeasured influences on RGDP)

3.5 Research Framework and Definition of Variables

This research examines the relationship between Nepal's economic growth and key external sector variables through an integrated analytical framework. The study focuses on seven critical indicators: merchandise import and export ratios, trade balance, trade openness, remittance inflows, foreign direct investment, real exchange rate, and foreign assistance - all measured as

percentages of GDP. These variables collectively capture Nepal's trade performance, external financial flows, and global economic integration. The framework hypothesizes that these factors influence economic growth through distinct yet interconnected channels: export expansion drives domestic production capacity, import composition affects industrial development, remittances and GCF enhance investment and consumption, exchange rate movements impact trade competitiveness, while foreign aid supports public infrastructure. Particular attention is given to how these variables interact within Nepal's unique economic context - characterized by high import dependency, significant remittance inflows, and evolving trade patterns. The analysis seeks to quantify both individual and combined effects of these external sector components on real GDP growth, while controlling for relevant domestic economic conditions. Results will provide empirical evidence to inform trade policy formulation, external sector management, and growth-oriented economic strategies tailored to Nepal's development needs and global economic position.

Independent Variables

Dependent Variable

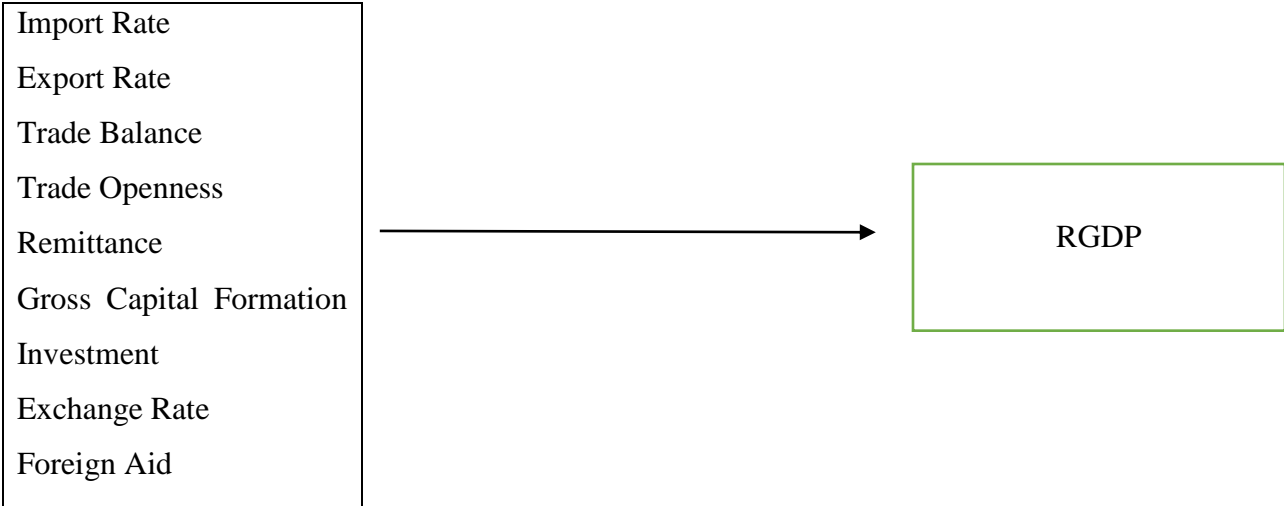


Figure 1: Research Framework of the Study

Source: (Portugal & Zildzovic (2015); Ojha (2019); Adhikari (2018) & Chaudhary (2022)).

3.5.1 Definition of Variables

Import Rate

The import rate is the share of goods and services a country buys from abroad compared to its GDP. A high import rate means the country depends heavily on foreign products, which can hurt local industries if they cannot compete. This rate often rises when demand at home is higher than what local producers can supply or when people prefer imported goods (Khan et al., 2023).

Export Rate

The export rate is the share of goods and services a country sells to other countries compared to its GDP. A high export rate shows that the country is competitive in the world market, earning foreign currency, creating jobs, and supporting growth (Nguyen and VO, 2022).

Trade Balance

The trade balance is the difference between exports and imports. If exports are greater, the country has a trade surplus, which can strengthen its foreign reserves. If imports are greater, there is a deficit, which can weaken the currency and lead to more borrowing (Gómez-Herrera et al., 2023).

Trade Openness

Trade openness is the share of total exports and imports compared to GDP. A high level shows the country is more connected to the world economy, which can bring in technology, investment, and more diverse markets. But it can also make the economy more sensitive to global changes (Zhang et al., 2023)

Remittance

Remittances are money sent home by people working abroad. In Nepal, they help families pay for food, education, health care, and housing, while also increasing foreign reserves and spending in the economy (Rai and Thapa, 2023).

Gross Capital Formation (GCF)

Gross capital formation measures investment in assets like buildings, machinery, and infrastructure. It reflects how much the economy is adding to its productive capacity. Higher GCF can drive growth and development (Shrestha and Adhikari, 2022).

Foreign Direct Investment (FDI)

FDI happens when a foreign company sets up or expands a business in another country. It brings money, technology, skills, and jobs, helping industries grow. In developing countries like Nepal, FDI is key for improving infrastructure and productivity (Liu et al., 2023).

Exchange Rate

The exchange rate shows how much the local currency is worth compared to another currency, such as the Nepali rupee per U.S. dollar. A weaker currency can make exports cheaper but imports more expensive. A stronger currency does the opposite (Mehmood and Baig, 2023).

Foreign Aid

Foreign aid is money, goods, or services given by other countries or international groups to support development. In Nepal, it helps fund health, education, and infrastructure. However, relying too much on aid can slow progress toward self-reliance (Acharya, 2022).

CHAPTER-IV

RESULT AND DISCUSSION

This chapter presents the findings of the study and explains their meaning in relation to the research objectives. The first part outlines the results obtained from the analysis, showing patterns, trends, and key relationships among the variables. The second part discusses these results, comparing them with previous studies and relevant theories. The aim is to interpret the findings in a logical way, emphasize their implications, and explain how they answer the research questions.

4.1 Result

This section presents the outcomes of the data analysis conducted for the study. The results are organized according to the research objectives and variables described in earlier chapters. Tables, figures, and statistical outputs are used where necessary to make the findings clear. Each result is reported factually without interpretation, which will be provided in the discussion section.

4.1.1 Descriptive Analysis

This section presents the results of descriptive statistics, correlation analysis, and regression analysis. The descriptive statistics provide the mean, standard deviation, minimum, and maximum values for each variable, giving an overview of their distribution, variability, and general patterns. The correlation analysis measures the strength and direction of relationships between variables, indicating whether they are positively or negatively related and whether the relationship is weak, moderate, or strong. The regression analysis examines the impact of independent variables such as remittance, trade openness, foreign direct investment, and exchange rate on the dependent variable, with coefficients showing the size and direction of the effects and significance tests indicating whether these relationships are statistically meaningful. Together, these analyses offer a comprehensive view of the dataset and form the foundation for the interpretation of results in the following discussion.

Table 2

Descriptive Statistics

	RGDP	IMR	EXPR	TB	TOP	REM	EXR	FRA	GCF
N	20	20	20	20	20	20	20	20	20
Mean	4.24	13.97	6.52	-18.11	34.96	20.63	96.12	12.43	31.68
Std	2.47	14.08	16.67	13.68	3.21	4.03	21.80	19.74	4.607
Mini	-2.37	-16.10	-21.40	-44.60	29.46	11.10	65.02	-24.50	23.83
Maxi	8.98	31.60	44.40	16.80	42.60	25.50	133.80	49.20	41.37

(Source: Appendix 1)

Table 2 presents the descriptive statistics of the study variables. Real GDP (RGDP) has an average growth of 4.24%, showing moderate economic expansion, with a standard deviation of 2.47, a minimum of -2.37, and a maximum of 8.98, reflecting fluctuations in growth. The import rate (IMR) averages 13.97% of GDP, with substantial variation (Std. Dev. 14.08) and a range from -16.10 to 31.60, indicating changing reliance on imports. Export rate (EXPR) has a mean of 6.52%, but a high standard deviation of 16.67 and a wide range from -21.40 to 44.40, emphasizing volatile export performance. The trade balance (TB) shows a persistent deficit on average (-18.11), with moderate variation (Std. Dev. 13.68) and values ranging from -44.60 to 16.80, reflecting occasional surpluses. Trade openness (TOP) averages 34.96% of GDP with low variability (Std. Dev. 3.21), indicating stable integration into global trade. Remittances (REM) average 20.63%, with some fluctuation (Std. Dev. 4.03) and a range of 11.10 to 25.50, showing their significant contribution to the economy. The exchange rate (EXR) averages 96.12 NPR per USD with a high standard deviation of 21.80 and a range from 65.02 to 133.80, emphasizing currency fluctuations affecting trade competitiveness. Foreign aid (FRA) averages 12.43% of GDP but varies widely (Std. Dev. 19.74) from -24.50 to 49.20, reflecting unpredictable inflows. Finally, gross capital formation (GCF) averages 31.68%, with moderate variation (Std. Dev. 4.61) and a range of 23.83 to 41.37, showing its role in investment and long-term growth. Collectively, these descriptive statistics provide a clear overview of the central tendency, variability, and range of key economic indicators, forming a foundation for further correlation and regression analysis.

Table 3

Correlation Analysis

	RGDP	IMR	EXPR	TB	TOP	REM	EXR	FRA	GCF
RGDP	1								
IMR	.757**	1							
EXPR	.420	.570**	1						
TB	-.691**	-.856**	-.264	1					
TOP	.433	.520*	.598**	-.452*	1				
REM	-.002	-.106	-.078	.120	-.024	1			
EXR	-.095	-.341	.114	.327	.181	.710**	1		
FRA	.359	.464*	.134	-.394	.206	-.058	-.182	1	
GCF	.578**	.377	.396	-.320	.663**	.434	.501*	.266	1

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

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

(Source: Appendix 1)

Table 3 presents the correlation coefficients among the study variables, showing the strength and direction of their relationships. Real GDP (RGDP) is strongly positively correlated with the import rate (IMR, $r = 0.757$, $p < 0.01$) and gross capital formation (GCF, $r = 0.578$, $p < 0.01$), suggesting that higher imports and investment are associated with economic growth. RGDP has a moderate positive relationship with trade openness (TOP, $r = 0.433$) and foreign aid (FRA, $r = 0.359$), though only FRA is significant at the 0.05 level. Import rate (IMR) is strongly negatively correlated with the trade balance (TB, $r = -0.856$, $p < 0.01$) and moderately positively correlated with export rate (EXPR, $r = 0.570$, $p < 0.01$), showing that higher imports worsen trade deficits while exports move in tandem with imports. The trade balance (TB) is significantly negatively related to RGDP ($r = -0.691$, $p < 0.01$) and trade openness (TOP, $r = -0.452$, $p < 0.05$), indicating that deficits may hinder growth and trade integration. Remittances (REM) show a strong positive correlation with the exchange rate (EXR, $r = 0.710$, $p < 0.01$), emphasizing the link between currency fluctuations and migrant inflows, but have little relationship with GDP or trade variables. GCF is positively associated with TOP ($r = 0.663$, $p < 0.01$) and EXR ($r = 0.501$, $p < 0.05$), reflecting that investment increases with trade integration and currency movements. Overall, the table indicates significant interactions among economic growth, trade flows, investment, and exchange rate dynamics, which have implications for policy and economic planning.

Table 4

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.867	.752	.571	1.61898

a. Predictors: (Constant), GCF, FRA, EXPR, TB, REM, TOP, EXR, IMR
(Source: Appendix 1)

Table 4 presents the model summary of the regression analysis, showing how well the independent variables explain the variation in Real GDP (RGDP). The model has a correlation coefficient (R) of 0.867, indicating a strong overall relationship between RGDP and the predictors. The R Square value of 0.752 suggests that approximately 75.2% of the variation in GDP is explained by the combined effects of import rate (IMR), export rate (EXPR), trade balance (TB), trade openness (TOP), remittances (REM), exchange rate (EXR), foreign aid (FRA), and gross capital formation (GCF). The adjusted R Square of 0.571 accounts for the number of predictors and sample size, showing that around 57.1% of the variability in GDP can be reliably attributed to these variables after adjusting for potential over fitting. The standard error of the estimate (1.619) indicates the average distance between the observed and predicted values of GDP, providing a measure of the model's accuracy. Overall, the model demonstrates a good fit and suggests that trade, investment, remittances, and macroeconomic variables are important factors influencing economic growth.

Table 5

ANOVA Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	87.313	8	10.914	4.164	.016
	Residual	28.832	11	2.621		
	Total	116.145	19			

a. Dependent Variable: RGDP

b. Predictors: (Constant), GCF, FRA, EXPR, TB, REM, TOP, EXR, IMR

(Source: Appendix 1)

Table 5 presents the ANOVA results of the regression model, which test whether the predictors collectively have a significant effect on Real GDP (RGDP). The regression sum of squares

(87.313) and residual sum of squares (28.832) indicate that a substantial portion of the total variation in GDP (116.145) is explained by the independent variables. With 8 predictors and 11 degrees of freedom for the residual, the mean square for regression is 10.914 and for residuals is 2.621. The calculated F-value of 4.164 and its significance level ($p = 0.016$) show that the model is statistically significant at the 5% level. This means that the combination of import rate (IMR), export rate (EXPR), trade balance (TB), trade openness (TOP), remittances (REM), exchange rate (EXR), foreign aid (FRA), and gross capital formation (GCF) reliably predicts changes in GDP, confirming the overall usefulness of the model for understanding the determinants of economic growth.

Table 6

Coefficients Analysis

Model		Unstandardized Coefficients		Standardized	t	Sig.
		B	Std. Error	Coefficients		
1	(Constant)	4.401	5.722		.769	.458
	IMR	.135	.099	.769	1.358	.012
	EXPR	-.014	.046	-.093	-.298	.032
	TB	-.016	.069	-.087	-.226	.005
	TOP	-.305	.201	-.397	-1.518	.157
	REM	-.208	.176	-.339	-1.179	.063
	EXR	.020	.042	.179	.484	.038
	FRA	-.012	.022	-.096	-.536	.002
	GCF	.345	.149	.642	2.310	.041

a. Dependent Variable: RGDP

(Source: Appendix 1)

Table 6 presents the regression coefficients for the predictors of Real GDP (RGDP), showing the direction and strength of their effects. The constant term (4.401) represents the baseline GDP when all independent variables are zero. The import rate (IMR) has a positive and significant effect ($B = 0.135$, $p = 0.012$), indicating that higher imports are associated with increased GDP, possibly due to supporting domestic production or investment. Export rate (EXPR) and trade balance (TB) have small negative coefficients ($B = -0.014$ and -0.016) with significance levels of 0.032 and 0.005, suggesting that fluctuations in exports or trade deficits slightly reduce GDP.

Trade openness (TOP) and remittances (REM) show negative coefficients ($B = -0.305$ and -0.208) but are not statistically significant at the 5% level, indicating a weak or uncertain impact. The exchange rate (EXR) has a positive effect ($B = 0.020$, $p = 0.038$), showing that currency appreciation contributes to growth. Foreign aid (FRA) has a small negative effect ($B = -0.012$, $p = 0.002$), while gross capital formation (GCF) has a strong positive and significant effect ($B = 0.345$, $p = 0.041$), emphasizing the key role of domestic investment in driving economic growth. Overall, the coefficients indicate that imports, investment, and exchange rate movements are important determinants of GDP, while trade balance, remittances, and foreign aid have less consistent effects.

Trade openness is statistically insignificant in Nepal due to its landlocked geography, weak industrial base, and persistent trade deficits that limit export-led growth. Similarly, remittance inflows are primarily directed toward household consumption rather than productive investment, reducing their impact on real GDP. The lack of infrastructure and policy support further constrains the transformative potential of trade liberalization. Moreover, Nepal's dependence on low-skilled labor migration makes remittance income vulnerable to external shocks, weakening its role in sustainable economic development. Therefore, in table trade openness and remittance might be insignificant.

Table 7

Hypothesis Testing

Variable	Hypothesis (H_0)	Regression Coefficient	p-value	Decision	Remarks
Import Rate (IMR)	No significant relationship with Real GDP	0.135	0.012	Reject H_0	Significant positive effect; accepted positive relationship
Export Rate (EXPR)	No significant positive relationship with GDP	-0.014	0.032	Reject H_0	Significant negative effect; positive relationship rejected

Trade Balance (TB)	No significant relationship with Real GDP	-0.016	0.005	Reject H_0	Significant negative effect
Trade Openness (TOP)	No significant relationship with Real GDP	-0.305	0.157	Accepted H_0	Negative but not significant effect
Remittances (REM)	No significant relationship with Real GDP	-0.208	0.063	Accepted H_0	Negative but not significant effect
Exchange Rate (EXR)	No significant relationship with Real GDP	0.020	0.038	Reject H_0	Significant positive effect
Foreign Aid (FRA)	No significant relationship with Real GDP	-0.012	0.002	Reject H_0	Significant negative effect
Gross Capital Formation (GCF)	No significant relationship with Real GDP	0.345	0.041	Reject H_0	Significant positive effect

4.2 Discussion

The study reveals a strong positive relationship between Import Rate and Real GDP, consistent with the Keynesian Foreign Trade Multiplier Theory, which posits that imports especially of capital and intermediate goods can stimulate domestic production and consumption. This finding aligns with Magar (2021), Aryal (2023), and Thapa (2023), who emphasize that Nepal's reliance on imports supports industrial activity and consumption expansion. The Heckscher-Ohlin Theory also supports this outcome, as Nepal imports capital-intensive goods it cannot efficiently produce, leveraging its labor abundance in other sectors.

Export Rate shows a small but statistically significant negative coefficient, reflecting Nepal's structural challenges in export competitiveness. This contradicts the Classical Theory of Comparative Advantage, which assumes that countries benefit from specializing in sectors where they hold efficiency advantages. In Nepal's case, exports remain concentrated in low-value

goods like textiles and agriculture, limiting their growth impact (Mrinalini, 2022; Dahal et al., 2024; Acharya, 2024). The Dependency Theory further explains this outcome, suggesting that Nepal's trade structure reinforces its subordinate position in global markets by exporting raw or semi-processed goods while importing high-value manufactured products.

The Trade Balance variable negatively affects GDP, underscoring the constraints posed by chronic deficits. This supports the Balance of Payments Constrained Growth Model, which argues that sustained trade deficits restrict a country's ability to invest and grow due to foreign exchange limitations (Ghimire, 2025; Rajbhandari, 2025; Bhattarai, 2021). The negative impact of trade deficits on GDP emphasized the urgency of export diversification and import substitution strategies.

Interestingly, Trade Openness and Remittances are statistically insignificant in the regression model. The insignificance of trade openness may be attributed to Nepal's landlocked geography, weak industrial base, and limited infrastructure, which restrict the country's ability to fully benefit from liberalized trade policies. Although Upadhyaya et al. (2023) found a long-run positive relationship between trade openness and GDP using ARDL models, Chaudhary (2011) and Cato et al. (2023) noted that Nepal's trade liberalization lacked complementary domestic reforms, resulting in low sensitivity of income growth to openness. These findings suggest that openness alone is insufficient without structural competitiveness.

Remittances, while substantial in volume, show no significant impact on GDP in this model. This finding resonates with the Keynesian consumption-based view, which suggests that remittances primarily fuel household consumption rather than productive investment. Studies by Chaudhary (2022), Acharya (2024), and Ojha (2019) confirm that remittance inflows in Nepal are often used for daily expenses, housing, and education, rather than capital formation. Panthi & Devkota (2023) further emphasize that while remittances boost short-term resilience, they do not translate into long-term economic transformation unless channeled into productive sectors. Portugal & Zildzovic (2015) also caution that remittance inflows can exacerbate trade deficits and reduce export competitiveness if not strategically managed. The Exchange Rate shows a positive and significant effect on GDP, supporting the idea that currency depreciation can enhance export competitiveness and attract foreign investment (Muhammad et al., 2023; Adhikari, 2018). Similarly, Gross Capital Formation (GCF) emerges as the most influential

positive driver of growth, reaffirming the Endogenous Growth Theory (Romer, 1986), which emphasized investment in physical and human capital as key to sustained economic development.

In summary, the findings suggest that Nepal's growth is driven more by imports and investment than by exports or remittances. Theoretical models like Heckscher-Ohlin, Keynesian multiplier, and balance-of-payments constraints help explain these dynamics. Empirical studies from Sharma & Bhandari (1993), Singh & Thapa (2023), Yusuf et al. (2021), and Adhikari et al. (2024) reinforce the mixed and context-specific nature of trade-growth relationships in Nepal. Structural reforms, export diversification, and better utilization of remittance inflows are essential to unlock Nepal's full growth potential.

CHAPTER-V

SUMMARY AND CONCLUSION

This chapter brings together the key points of the study and provides a final discussion of its meaning. It begins with a brief summary of the main findings presented in the earlier chapters. After the summary, the conclusion emphasized what these findings suggest in relation to the research objectives. Finally, the chapter outlines the implications of the study

5.1 Summary

This study look deep into how international trade and Nepal's economic growth connect from year 2010 to 2024. Nepal, being small and landlocked, face many challenge to grow economy from trade. Nepal buy much more from other countries than sell to them, cause big trade deficit. Export side is weak because Nepal mostly sell less valuable goods like agricultural and raw products only, not much manufactured or high tech items. This make Nepal not so strong in world market. Country also rely on few trading partners which create risk if relations break. Paper study many factor like imports, exports, remittance, foreign investment, exchange rate to see how each affect Nepal's GDP growth. Using latest data and careful analysis method, study try to find what help or hurt Nepal economic growth. Findings show imports have positive role because Nepal importer capital goods and resources which help expand production and economic activity. But exports show small negative effect because Nepal mostly export low value products and competition is hard. Remittance money from workers abroad is big source income for Nepal people, but it mostly spend on basic needs not on business or investment for growth. Exchange rate affect trade a lot because cheaper currency help make exports cheaper to other countries. Capital investment also very important and have strong positive impact on GDP growth. Trade openness and remittance show no big effect on long term economic growth in this time. Study explain Nepal economy can't depend on just open trade or remittance to get growth. Nepal need to improve export quality, make industry stronger and attract more investment. Country must handle currency carefully to keep exports competitive and prevent too much import price rise. This help fix trade deficit problem. Also Nepal need to look for more partners and diversify products to reduce risk. Study suggest government make smart policies to use trade and

investment for growth, support export promotion and infrastructure. Improving productivity, technology, human skills also important for sustainable growth.

5.2 Conclusion

Nepal trade situation is tough. Country depend too much on imported good which help economy grow but also cause big trade gap. Export is weak because country mostly sell low value products and face competition. Remittance, though big money source, many time go to house expenses not investment. Exchange rate is important to make exports cheap and attract money from outside. Investment in capital things is very important for Nepal to grow more. Nepal cannot just open trade and expect big growth unless make industry strong and export better goods. This study says Nepal must make smart policy to use trade for good growth, fix trade deficit, support sectors where country have advantage, and invest more in production and skills. That way Nepal can move to better future economy and less depend on foreign goods. Nepal must have be careful with trade and invest more to get real growth for all people. Country need strong plan and good management to use trade as tool for development, not problem. This study gave useful hints how to do it better in coming years.

5.3 Implications

The study shows that imports and investment are very important for Nepal's economic growth because they bring needed goods and help build the economy. However, Nepal's current trade problems like big trade deficits and exporting mainly low-value products hold back growth. Just opening up trade is not enough; the country needs to become more competitive and improve the quality and diversity of its exports. Remittances and foreign aid do not seem to help much unless they are used more effectively. Managing the exchange rate well can support growth by making exports cheaper and attracting investment. The main implication is that Nepal should focus on policies that encourage more investment and better use of imports, reduce its trade deficit by boosting exports, and improve export variety. It also needs to make sure trade openness goes hand in hand with reforms that help businesses compete globally. Lastly, using remittances and foreign aid more efficiently will increase their positive impact. These steps will help Nepal achieve steady and stronger economic growth in the future.

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Year	RGDP	IMR	EPR	TB	TO	REM	EXR	FRA	GCF
2004/05	3.48	9.7	8.9	-10.2	35.31	11.1	74.74	25.1	26.45
2005/06	3.36	16.3	2.6	-25.1	35.77	14.9	72.32	-6.8	23.83
2006/07	3.41	12.0	-1.4	-19.2	34.90	13.8	70.49	17.3	28.68
2007/08	6.10	14.0	-0.2	-20.2	34.47	17.5	65.02	13.3	30.31
2008/09	4.53	28.2	14.2	-33.3	35.63	21.2	76.88	24.1	31.65
2009/10	4.82	31.6	-10.2	-44.6	36.48	19.4	74.54	36.9	34.43
2010/11	3.40	5.80	5.8	-5.80	29.46	16.2	72.27	16.5	26.03
2011/12	4.67	16.5	15.4	-16.7	30.47	20.4	81.02	-10.5	28.60
2012/13	3.53	20.6	3.6	-23.9	32.50	22.3	87.96	-9.0	29.67
2013/14	6.01	28.3	19.6	-29.7	36.11	24.3	98.21	27.6	30.98
2014/15	3.98	8.4	-7.3	-10.8	35.48	25.5	99.5	5.8	31.27
2015/16	0.43	-0.1	-17.8	-2.00	32.34	25.5	106.4	16.2	28.24
2016/17	8.98	28.0	4.2	-30.4	34.55	22.6	106.2	21.5	37.32
2017/18	7.62	25.8	11.4	-26.9	38.38	21.8	104.4	46.3	39.54
2018/19	6.66	13.9	19.4	-13.5	39.27	22.8	112.9	11.9	41.37
2019/20	-2.37	-15.6	0.6	16.8	33.28	22.5	116.3	-4.7	30.44
2020/21	4.84	28.7	44.4	-27.3	38.62	22.1	117.9	49.2	35.16
2021/22	5.63	24.7	41.7	-23.0	42.60	20.2	120.8	-24.5	37.64
2022/23	1.95	-16.1	-21.4	-15.5	33.07	23.2	130.8	-9.4	31.65
2023/24	3.87	-1.2	-3.0	-1.0	30.59	25.3	133.8	1.9	30.52

Appendix

(Source: Nepal Rastra Bank; Current Macro-Economic and Financial Situation)

PAPER NAME

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DYNAMICS ON NEPAL'S ECONOMIC GR
OWTH**

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