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Impact of Foreign Trade on Economic Growth: Empirical Evidence from Pakistan

Tariq Rahim[1], Muhammad Ibrahim[2], Taimoor Ali Shah[3], Wajid Mehmood[4]

Abstract

This research examines the impact of Foreign Trade i.e., exports, imports, foreign direct investment, exchange rate, and trade policies on economic growth in Pakistan using panel data from 2000 to 2022. The study used random effect model to analyze the impact the independent variables on gross domestic product (GDP). The descriptive statistics show that exports, imports, foreign direct investment, and exchange rate have positive means, while trade policies have a negative mean. The correlation analysis reveals that all the independent variables are significantly correlated with GDP. Based on the results of the Multicollinearity test, it resulted that the independent variables are not correlated with one another, indicating the no presence of Multicollinearity. The regression analysis shows that exports, imports, foreign direct investment and trade policies have a positive and significant impact on GDP, while exchange rate have an insignificant impact. The study concludes that exports, imports, foreign direct investment and trade policies are significant determinants of economic growth in Pakistan, while exchange has no significant impact. The study recommends that the government should promote export-oriented policies, attract foreign direct investment, and adopt stable exchange rate and trade policies to enhance economic growth.

Keywords: foreign trade, economic growth, exports, imports, foreign direct investment, exchange rate, trade policies, Pakistan

1. Introduction

International trade is essential to national economies and the development of the global economy as a whole. It allows companies to sell their wares to the wider audience, which in the turn increases the likelihood of making a profit. In addition, it encourages competition, which may lower costs and raise standards. Trading internationally is crucial to national economies and the global economy as a whole (Alam & Murad, 2020). It opens the door to a bigger consumer base, which may result in higher product demand and higher sales and profitability for enterprises. Competition is encouraged, which may lower costs and raise standards for everybody involved. The exchange of the goods and the services across borders may also facilitate the dissemination of information and expertise, therefore boosting domestic output and international competitiveness. Additionally, foreign trade can provide access to capital and resources, which can help to finance investments and drive economic growth. However, foreign trade can also have potential negative effects, such as exposing the economy to external shocks and creating trade imbalances. Therefore, policymakers need to carefully manage foreign trade to maximize its benefits while minimizing its potential negative impacts (Alola, Bekun, & Sarkodie, 2019). The impact of international trade on country economy may be both beneficial and detrimental. On the positive side, foreign trade can provide access to larger markets for exports, increase competition, promote the transfer of technology and knowledge, and provide access to capital and resources. On the negative side, foreign trade can lead to dependence on foreign markets and suppliers, expose the economy to external shocks, and create trade imbalances (Ali and Chani, 2013; Ali and Naeem, 2017; Ben et al., 2019).

The link between global commerce and GDP growth has been the subject of several theories. According to the traditional principle of comparative advantage, nations should focus on manufacturing the types of commodities at which they excel and import those in which they fall short. According to this notion, increasing efficiency and productivity brought about by trade with other countries may help the economy expand. Endogenous growth theory contends that technical development, human capital, and foreign trade are the primary drivers of economic growth and are thus amenable to policy intervention. The idea posits that foreign trade boosts GDP by enhancing knowledge sharing, fostering healthy competition, and opening up new markets for domestic producers (Audi and Ali, 2018; Kerr, 2020; Ahmad et al., 2022). The impact of international trade on GDP has been a subject of contradictory empirical findings. While some research has indicated a positive correlation between international commerce and GDP expansion, other studies have found either a negative one or no correlation at all. A country's degree of development, the types of commodities and services exchanged, the composition of the economy, and the rules and institutions controlling international trade may all influence the direction and strength of the link between foreign trade and economic growth (Khan et al., 2020; Ali, 2022). Pakistan has a predominantly agrarian economy, with textiles and clothing being the largest export sectors. Over the years, Pakistan has undertaken various trade policy reforms to promote its exports and attract foreign investment.

[1] Primary School Head Teacher, M.Phil (Economics), City University of Science and IT Peshawar, Pakistan, tariqrahimspst14@gmail.com
[2] Secondary School Teacher (Maths/Phy), M.Phil (Economics), City University of Science and IT Peshawar, Pakistan, ibrahimhng14@gmail.com
[3] Ph.D Scholar, Qurtuba University of Science & IT Peshawar, Pakistan, Lecturer in Management Sciences, Institute of Professional Studies Peshawar, Pakistan, taimooralishah569@gmail.com
[4] Ph.D Scholar, Qurtuba University of Science & IT Peshawar, Pakistan & Senior Lecturer in HRM, Institute of Professional Studies Peshawar, Pakistan, wmkhattak@gmail.com

For example, Pakistan has signed various trade agreements, such as the South Asian Free Trade Area (SAFTA) agreement, to promote trade with other countries in the region. Pakistan has also implemented various measures to improve the business climate and attract foreign investment (Khan et al., 2020).

Some empirical research has shown a positive effect of foreign trade on the Pakistani economy, while others have found no correlation at all. Various academic investigations of the link between foreign trade and GDP growth in Pakistan have shown mixed results. Exports and imports were shown to have a considerable and beneficial effect on economic development in Pakistan by Amanullah and Din's (2017) research. According to the research, FDI helped spur economic expansion in the near term but had no lasting effect. According to Ghauri and Qayyum (2013), trade openness, as calculated by total of the exports and the imports as the proportion of GDP, positively affected economic growth in Pakistan. Although some research has thus shown a positive correlation between exports and GDP growth in Pakistan, other research has found the opposite to be true. Saqib and Javed (2012), for instance, showed that trade liberalisation had no appreciable effect on economic expansion in Pakistan.

The mixed results of empirical studies on impact of foreign trade on economic growth in Pakistan may be due to various factors, such as the structure of the economy, the nature of the goods and services traded the policies and institutions governing foreign trade, and the level of development. Despite the mixed results, policymakers in Pakistan continue to focus on promoting exports and attracting foreign investment to drive economic growth and development. There is a need for further research to understand the impact of the factors of foreign trade on economic growth in Pakistan. In this study, exports, imports, foreign direct Investment, exchange rate and trade policies are taken as determinants of foreign trade.

1.1. Research Objectives

Below are the objectives of the current study.

1. To investigate impact of exports on the economic growth of Pakistan.
2. To investigate impact of imports on the economic growth of Pakistan.
3. To investigate impact of foreign direct Investment on the economic growth of Pakistan.
4. To investigate impact of exchange rate on the economic growth of Pakistan.
5. To investigate impact of trade policies on the economic growth of Pakistan.

1.2. Research Significance

The study can provide valuable insights to policymakers in Pakistan regarding the formulation of trade policies that can promote economic growth. The results of the study can guide policymakers in identifying the factors that can enhance the competitiveness of the Pakistani economy in the global market and promote exports. Foreign investors interested in setting a business in Pakistan may learn useful information from this study. The results of the study can help investors in understanding the impact of the foreign trade on economic growth of Pakistan and identifying potential investment opportunities. The study can contribute to the overall economic development of Pakistan by providing evidence-based insights into the relationship between foreign trade and economic growth. The study can help policymakers in Pakistan make informed decisions about trade policies that can promote economic growth and sustainable development. The research has the potential to add to the current literature on the topic of how foreign trade affects economic development by offering actual data from Pakistan. This research has the potential to bridge a knowledge vacuum and provide fresh light on the topic of how international commerce affects emerging economies like Pakistan's. As a conclusion, the research on the role of international commerce in Pakistan's GDP growth is important because it may inform policymakers, investors, and academics, all of whom have a stake in the country's economic progress.

2. Literature Review

2.1. The Concept of Foreign trade

In the academic terminology, "foreign trade" means the buying and selling of the products and the services and also the transfer of money from one of country to the. Commerce across national boundaries includes not just the exchange of physical products but also the movement of money, information, and know-how. Foreign trade is an important component of the global economy, and it has a significant impact on the economic growth and development of individual countries. The study of foreign trade in the literature is focused on understanding the determinants of trade flows, the impact of trade on the economic growth, and the implications of trade policies on trade flows and economic outcomes (Muhammad, Long, Salman, & Dauda, 2020). Researchers in the field of economics and international trade have studied various aspects of foreign trade, including the role of exports and imports, foreign direct investment, exchange rates, inflation, and trade policies in shaping trade flows and economic outcomes. The literature also explores the impact of globalization and technological advancements on foreign trade, as well as the distributional effects of trade on different sectors and groups within a country.

Below are the few definitions of foreign trade

i. ""Foreign trade" means the trading of products and services between nations, where goods produced in one country are sold to another country and vice versa" (Chowdhury, 2019, p. 24).

ii. "The term "foreign trade" refers to exchange of the products and services across international boundaries, as well as the movement of money and technology from one country to another" (Dixit & Norman, 2019, p. 56).
iii. "Foreign trade refers to exchange of the goods, services, and the capital across national borders, which is driven by the differences in factor endowments, technology, and consumer preferences between countries" (Krugman, Obstfeld, & Melitz, 2018, p. 43).
iv. "Foreign trade encompasses all economic transactions between individuals or firms in one country and individuals or firms located in another country. It involves the exchange of goods and services, also the transfer of technology, capital, and labor" (Caves, Frankel, & Jones, 2020, p. 78).

Overall, the literature on foreign trade provides a theoretical and empirical framework for understanding the determinants and impact of the trade on economic growth and development, and it has important implications for policymakers, investors, and businesses operating in the global economy.

2.2. Foreign Trade and today's fast changing economies

Foreign trade remains a significant driver of economic growth for countries in today's changing economies. As a result, nations may sell their products and services to a wider audience, which, in turn, can boost sales, profitability, and economies of scale. Additionally, foreign trade provides economies with access to a wider range of products and services, which can lead to greater consumer choice and improved quality of life. Increased productivity, efficiency, and originality are just some of the benefits that may accrue from nations sharing their knowledge and skills with one another via foreign commerce (Shikur, 2022). This may be especially useful for poor nations that may lack the means and knowledge to independently create innovative technology and procedures. Moreover, foreign trade can be a source of foreign direct investment (FDI) for countries, which can help to stimulate economic growth and create employment opportunities. FDI can provide countries with access to capital, technology, and management skills, which can help to improve productivity and competitiveness (Wang & Zhang, 2021).

Foreign trade and the fast-changing economies of today present countries with new challenges and opportunities. Countries are addressing these changes in various ways. One way countries are dealing with these changes is by diversifying their export markets. Many countries are looking to reduce their dependence on a few key markets by expanding their export base. This helps to mitigate the risks of political or economic instability in any one market and ensures a more stable and sustainable export base. Another approach countries are taking is to focus on innovation and competitiveness (Zheng & Walsh, 2019). Countries recognize the need to invest in research and development, upgrade infrastructure and technology, and foster a business environment that encourages entrepreneurship and innovation to maintain their competitive edge in the global marketplace. Strengthening trade agreements is also a critical part of countries' strategies to address the changes brought by foreign trade and fast-changing economies. Countries are working to reduce tariffs, remove non-tariff barriers to trade, and protect intellectual property rights to create a more level playing field for all parties involved. Embracing digital trade is another way countries are responding to the changes brought by foreign trade and fast-changing economies. With the rise of digital technologies, countries are recognizing the need to embrace digital trade to remain competitive. This means creating policies and regulations that facilitate cross-border data flows, protect consumer privacy, and promote e-commerce (Adeleye, Adeteye, & Adewuyi, 2015).

2.3. Factors of Foreign Trade

Exports, Imports, Foreign Direct Investment, Exchange Rate, and Trade Policies are commonly considered as the determinants of foreign trade. Products made in one nation and sold abroad are known as exports, whereas those made in another country and purchased domestically are known as imports. FDI, or foreign direct investment, is when a company or individual from one nation purchases a similar business or asset in another one. In foreign trade, the importance of the exchange rate, or the value of one currency expressed in terms of another, cannot be overstated. Trade policies are the regulations and laws that countries impose on international trade to protect domestic industries, such as tariffs, quotas, and subsidies (Lawal & Ezeuchenne, 2017).

Several researchers have identified these determinants as significant factors affecting foreign trade. For instance, research conducted by Adeniyi and Omisakin (2018) on the determinants of foreign trade in Nigeria found that exchange rate, FDI, and trade policies significantly affect the level of foreign trade. Similarly, research by Rahman and Mustafa (2019) on the determinants of foreign trade in South Asia identified exports, imports, FDI, exchange rate, and trade policies as significant determinants affecting foreign trade. According to Ahmed and Ahmed (2018), exports are one of the most important determinants of foreign trade as they generate foreign exchange earnings and provide access to international markets. Similarly, imports are also a crucial determinant of foreign trade as they represent the demand for goods and services that are not available domestically. FDI is another determinant of foreign trade, as it can bring in new technology and know-how, as well as generate employment opportunities in the host country (Hakimzadi et al., 2019). The exchange rate is also an important determinant, as it affects the relative prices of goods and services between trading partners, which in turn influences the volume of trade (Iqbal et al., 2019). Inflation is another determinant of foreign trade, as it affects the competitiveness of a country's exports and imports. High inflation can erode a country's competitiveness by increasing the cost of production, while low inflation can enhance competitiveness by reducing production costs (Ali et al., 2019; Ghani et al., 2022).

2.4. Theoretical review of literature

Several economic theories support the idea that foreign trade can have a positive impact on economic growth. These include:

i. Theory of Comparative Advantage: Based on the work of economist David Ricardo, countries should focus on creating goods and services in which they have a comparative advantage and then trade with other countries to boost production and decrease prices. Countries may boost their economies by specializing in the production of a few key commodities, since doing so allows them to take advantage of economies of scale to boost output while lowering input costs (Nguyen, 2020).
ii. Product Life Cycle Theory: This theory, developed by the Raymond Vernon, suggests that as products mature, production moves from developed countries to developing countries, leading to increased exports and the economic growth in the developing countries. As developing countries gain expertise in the production of these goods, they may become exporters themselves, leading to further economic growth (Alam & Murad, 2020).
iii. Endogenous Growth Theory: This theory, developed by Paul Romer, suggests that technological progress is endogenous to the economy and can be influenced by policies that promote innovation and knowledge creation. Increased productivity and economic development may result from the sharing of knowledge and technology gained via foreign trade (Alola et al., 2019).
iv. Economic Convergence Theory: According to this idea, economic convergence will occur when nations with lower per capita income expand faster than those with greater per capita income. Foreign trade can facilitate this process by allowing countries to access larger markets and benefit from economies of scale, leading to increased productivity and economic growth (S. A. R. Khan et al., 2020).

Overall, these theories suggest that foreign trade can have a positive impact on economic growth by increasing access to foreign markets, facilitating the transfer of technology and knowledge, and promoting economies of scale.

2.5. Empirical review of literature

Foreign trade can have both positive and negative impacts on a country's economic growth in literature. In Pakistan, for instance, exports and imports were shown to significantly contribute to economic development in 2017 research by Akbar and Hussain. The research, which looked at data from 1980 to 2015, revealed that exports boost GDP growth over the long run, but imports boost GDP growth over the short term. Khilji et al. (2016) also analyzed the role that FDI played in Pakistan's economic growth. The study found that FDI has a positive impact on economic growth in the short and long run, and that FDI inflows can lead to increased exports and improved technology transfer, which can further boost economic growth. Hussain and Ahmed (2017) conducted research on how fluctuations in the Pakistani rupee's exchange rate affected the country's GDP growth. The research concluded that fluctuations in the value of a country's currency have a negative effect on economic development but that this effect may be somewhat offset by rising exports. Additionally, Javid and Qayyum (2014) looked at how trade liberalization affected GDP growth in Pakistan. In the long term, the research revealed, trade openness contributed to economic development, whereas in the short run, it had a lower effect. The study also found that trade policies play an important role in promoting economic growth through foreign trade. On the negative side, foreign trade can also have adverse effects on a country's economic growth. For example, an increase in imports can lead to a decline in domestic production, as domestic producers may not be able to compete with lower-priced imports. This can result in unemployment and lower economic growth. Furthermore, an economy's vulnerability to external shocks, such as shifts in global demand or trade policy, might increase if it is too dependent on exports (Khan, Ullah, & Khattak 2020; Sachs & Warner, 1995). Trade imbalances, such as a trade deficit, can also negatively impact a country's economic growth. Foreign trade's impact on economic expansion is moderated by several variables, including the nature of the economy, the extent of its development, and the nature of the policies in place to direct trade (Rodriguez & Rodrik, 2001).

2.6. Study Hypotheses

i. There is significance impact of the exports on the economic growth of Pakistan.
ii. There is significance impact of the imports on the economic growth of Pakistan.
iii. There is significance impact of the foreign direct Investment on the economic growth of Pakistan.
iv. There is significance impact of the exchange rate on the economic growth of Pakistan.
v. There is significance impact of the trade policies on the economic growth of Pakistan.

3. Methodology

3.1. Research Design

This study used a quantitative approach for its investigation. The impact of foreign trade on Pakistan's economic growth was examined using secondary data in this research.

3.2. Research Population

The research population for this study was the entire population of Pakistan, and data was collected based on the economy of Pakistan.

3.3. Data Collection

Data for this research came from previously published works.. The sources of data included publications by the World Bank, International Monetary Fund (IMF), State Bank of Pakistan, and the Pakistan Bureau of Statistics. The data was collected for the period of 2000-2022.

3.4. Variables Measurement

Below proxies were used to measure the variables.

Independent Variables

i. Exports: The measurement proxies for exports are the total value of exports in US dollars, the percentage of exports to GDP, and the growth rate of exports.
ii. Imports: The measurement proxies for imports are the total value of imports in US dollars, the percentage of imports to GDP, and the growth rate of imports.
iii. Foreign Direct Investment: The measurement proxies for FDI are the total value of FDI in US dollars, the percentage of FDI to GDP, and the growth rate of FDI.
iv. Exchange Rate: The measurement proxies for the exchange rate are the nominal exchange rate and the real exchange rate.
v. Trade Policies: The measurement proxies for trade policies are the average tariff rate, the number of non-tariff measures, and the trade openness index.

Dependent Variable

In this analysis, GDP was regarded as a proxy for economic growth because of its widespread usage as such. Value of all final products and services produced inside a country's boundaries over a certain time period is reflected in GDP.

3.5. Data Analysis

SPSS, a statistical package, was used to analyses the data gathered. Characteristics of the data were examined using descriptive statistics. Foreign trade and economic growth were analyzed using inferential statistics like correlation and regression.

4. Results

4.1. Descriptive analysis

Below are the mean and standard deviation of the dependent and independent variables of the study.

Table1: Descriptive analysis

Variable	Mean (billion USD)	Standard Deviation (billion USD)
Exports	15.94	9.70
Imports	32.20	18.49
FDI	1.08	2.27
Exchange Rate	81.44	26.16
Trade Policies	4.12	2.09
GDP	244.07	140.63

The mean value of exports is 15.94, with a standard deviation of 9.70, indicating that the exports of Pakistan during the period 2000-2020 were on average around 15.94 and varied by approximately 9.70 around this mean. The mean value of imports is 32.20, with a standard deviation of 18.49, indicating that the imports of Pakistan during the period 2000-2020 were on average around 32.20 and varied by approximately 18.49 around this mean. The mean value of foreign direct investment (FDI) is 1.08, with a standard deviation of 2.27, indicating that the FDI inflows to Pakistan during the period 2000-2020 were on average around 1.08 and varied by approximately 2.27 around this mean. The mean value of exchange rate is 81.44, with a standard deviation of 26.16, indicating that the exchange rate of Pakistani Rupee (PKR) against the US dollar during the period 2000-2020 was on average around 81.44 PKR/USD and varied by approximately 26.16 around this mean. The mean value of trade policies is 4.12, with a standard deviation of 2.09, indicating that the trade policies of Pakistan during the period 2000-2020 were on average around 4.12 and varied by approximately 2.09 around this mean. The mean value of GDP is 244.07, with a standard deviation of 140.63, indicating that the GDP of Pakistan during the period 2000-2020 was on average around 244.07 and varied by approximately 140.63 around this mean.

4.2. Correlation Analysis

Based on correlation analysis, it can be observed that there exits strong positive correlation between exports, imports and GDP, with correlation coefficients of 0.918 and 0.912, respectively. This suggests that as exports and imports increase, GDP also tends to increase. There is also a moderately positive correlation between FDI and GDP, with a correlation coefficient of 0.762, indicating that FDI can have a positive impact on economic growth. On the other hand, there is a weak positive correlation between trade policies and GDP, with a correlation coefficient of 0.652. This suggests that trade policies may have a small but positive impact on economic growth. There is also a weak negative correlation between exchange rate and GDP, with a correlation coefficient of -0.068, indicating that a higher exchange rate may have a slightly negative impact on economic growth. Overall, the correlation analysis provides some initial evidence for the relationship between factors of the foreign trade and the economic growth in Pakistan.

Table 2: Correlation Analysis

Variables	Exports	Imports	FDI	Exchange Rate	Trade Policies	GDP
Exports	1	0.871	0.701	0.125	0.512	0.918
Imports	0.871	1	0.678	0.148	0.533	0.912
FDI	0.701	0.678	1	0.061	0.362	0.762
Exchange Rate	0.125	0.148	0.061	1	0.102	-0.068
Trade Policies	0.512	0.533	0.362	0.102	1	0.652
GDP	0.918	0.912	0.762	-0.068	0.652	1

4.3. Multicollinearity

The VIF measures how much the variance of the estimated regression coefficient for each independent variable is increased due to collinearity with the other independent variables. A VIF greater than 10 indicates high multicollinearity. Below are the VIF values for each independent variable:

Table 3: Multicollinearity

S.no	Variables	Value
1	Exports	3.21
2	Imports	3.92
3	Foreign Direct Investment	2.34
4	Exchange Rate	2.18
5	Trade Policies	2.98

All VIF values are less than 10, which indicate that there is no high Multicollinearity among the independent variables.

4.4. Regression Analysis

To conduct the regression analysis, the study used the random effects model. The model equation is:

$GDP = \beta0 + \beta1 \text{ (Exports)} + \beta2 \text{ (Imports)} + \beta3 \text{ (FDI)} + \beta4 \text{ (Exchange Rate)} + \beta5 \text{ (Trade Policies)} + u$

Where GDP represents the gross domestic product of Pakistan, Exports represents the value of exports, Imports represents the value of imports, FDI represents the value of foreign direct investment, Exchange Rate represents the exchange rate, Trade Policies represents the trade policies, β0 represents the intercept, β1-β5 represent the coefficients of the independent variables, and u represents the error term. Below are the results.

Table 4: Regression Analysis

Variable	Coefficient	Standard Error	t-value	p-value
Constant	0.038	0.012	3.167	0.002
Exports	0.529	0.041	12.909	0.000
Imports	0.379	0.039	9.624	0.000
Foreign Direct Investment	0.256	0.056	4.583	0.000
Exchange Rate	0.017	0.011	1.564	0.118
Trade Policies	0.139	0.023	5.991	0.000
R-squared	0.865	Adjusted R-squared	0.756	
F-statistic	148.35	Degrees of Freedom	5	82
p-value (F-statistic)	0.000			

The regression analysis (random effects model) shows that exports, imports, and foreign direct investment have a statistically significant positive impact on economic growth in Pakistan. The coefficients for these variables are 0.529, 0.379, and 0.256, respectively. This means that a 1% increase in exports, imports, and foreign direct investment will lead to a 0.529%, 0.379%, and 0.256% increase in GDP, respectively. On the other hand, the exchange rate variable has a statistically insignificant positive impact on economic growth. The coefficient for this variable is 0.017, which means that a 1% increase in the exchange rate will lead to a 0.017% increase in GDP, but this result is not statistically significant. Trade policies have a statistically significant positive impact on economic growth in Pakistan. The coefficient for this variable is 0.139, which means that a 1% improvement in trade policies will lead to a 0.139% increase in GDP. The constant term is also statistically significant, with a coefficient of 0.038 and a p-value of 0.002, indicating that there are other factors besides the independent variables that affect economic growth in Pakistan. The overall model has a high level of significance, with an F-statistic of 148.35 and a p-value of 0.000, indicating that the model is a good fit for the data. The adjusted R-squared value of 0.756 indicates that approximately 76% of the variation in GDP can be explained by the independent variables included in the model.

5. Conclusion and Discussion

The results of the study show that exports, FDI, and trade policies all significantly contribute to Pakistan's economic development. Imports and exchange rate, on the other hand, have a negative impact on economic growth. The findings of this research provide credence to the arguments that exports, FDI, and trade policy all contribute to economic expansion. It also highlights the importance of carefully managing imports and exchange rates to avoid any negative impact on economic growth. Consistent with prior studies, this one finds that international commerce contributes to GDP expansion. Studies such as those by Mekonnen and Gebreeyesus (2019), Yilmazkuday and Akay (2017), and Edwards (1993) have found that exports, imports, foreign direct investment, and exchange rates have a positive and significant impact on the economic growth. In terms of the trade policies, findings of this current study are consistent with those of Arribas et al. (2018) and Malik and Brana (2017), who found that trade liberalization policies, have a positive impact on economic growth. The results also highlight the importance of maintaining a stable exchange rate, as instability in the exchange rate can negatively impact economic growth. This is supported by the findings of studies such as those by Kibritçioğlu and Kibritçioğlu (2004) and Razmi and Refaei (2019). Furthermore, the findings of this study suggest that a balanced approach to foreign trade is necessary for sustained economic growth. While exports and foreign direct investment can have positive effects on economic growth, an excessive reliance on imports can have negative effects on domestic industries. This is consistent with the argument made by critics of free trade, such as Rodrik (2018) and Stiglitz (2018), who advocate for a more balanced and strategic approach to trade policies. Overall, the findings of this study provide empirical evidence to support the theoretical argument that foreign trade can be a key driver of economic growth. The results also highlight the importance of a balanced and strategic approach to trade policies, which can maximize the benefits of foreign trade while minimizing its potential negative impacts.

5.1. Recommendations

The following recommendations are based on the study's findings:

i. The government of Pakistan should focus on increasing exports by providing incentives and subsidies to exporters. As a result, the trade imbalance may go down and economic growth would improve.
ii. The government should also focus on attracting foreign direct investment (FDI) by providing a conducive environment for foreign investors, such as improving infrastructure, reducing bureaucratic hurdles, and offering tax incentives.
iii. The government should maintain stable exchange rates to avoid fluctuations that may negatively impact foreign trade.
iv. The government should also review and revise trade policies to ensure that they are in line with global best practices and promote free and fair trade.
v. Future research should explore the impact of other factors, such as political instability and technological advancements, on foreign trade and economic growth in Pakistan.

Overall, the study highlights the significant impact of exports, imports, FDI, exchange rates, and trade policies on economic growth in Pakistan. The findings can help policymakers in designing effective strategies to promote foreign trade and improve the country's economic growth.

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