



T.C.

ANKARA YILDIRIM BEYAZIT UNIVERSITY

GRADUATE SCHOOL OF BUSINESS

**PUBLIC EXPENDITURE FOREIGN TRADE AND
ECONOMIC GROWTH OF AFGHANISTAN**

MASTER THESIS

ABDUL RESHAD JABARKHIL

DEPARTMENT OF BUSINESS ADMINISTRATION

ANKARA 2022

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Abdul Reshad JABARKHIL



DEDICATION

I dedicate this project to my family and my beloved father for their unconditional support throughout my studies.

Abdul Reshad JABARKHIL



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First, I thank almighty Allah for his unconditional love and good health. Separately, I would like to thank the staff members of the University for providing a beneficial learning environment during my studies. The completion of my research project without the support and assistance of my advisor Assoc. Prof. Dr. Seda Ekmen ÖZÇELİK was not possible. Throughout my project, I received support and guidance from my supervisor. Your unwavering support has greatly appreciated.

Abdul Reshad JABARKHIL



ABSTRACT

Public expenditure foreign trade and economic growth of Afghanistan

Afghanistan is considered to be the least developed and sluggish economy in Asia. However, according to the Ministry of Finance (2019) announced the significant increase in economic growth but still there are many areas need to improve, for instance, the per capita income is meager, safety is lacking and education is not good. Afghanistan's exports and natural currency reserves are declining despite having many mineral assets, moreover the economy of developing countries' are heavily rely on the presence of small and medium-size enterprises (SMEs). In Afghanistan, SMEs contribute to over fifty percent of the country's GDP and employ over one-third of its labor force. Despite their positive impact they are still facing tough challenges due to the rapid emergence and evolution of new technologies and the globalization of their operations, therefore, to fill this gap, this study aims to comprehensively analyze the relationship between Afghanistan's public expenditures, foreign trade and economic growth from 2008 to 2020 and the biggest obstacles that affect the performance of SMEs in the country. The time-series data was collected from various sources such as World Development Indicator Ministry of Finance, National Statistics Information and World Bank Enterprises. It used different statistical methods including descriptive statistics and correlation technique. Based on the results of theoretical, descriptive and co-relational analysis indicates a statistically significant positive relationship between economic growth and government expenditures and significant negative relationship between foreign trade and economic growth, and identified the operation of SMEs that has been hampered by the biggest obstacles such as political instability, lack of access to capital, weak infrastructures, and unfair competition. Furthermore, study finding indicates the key factors that can improve economic growth and the performance of SMEs. The government should undertake specific measures to stabilize the exchange rate, reduce the import and export gap, adopt precise and accurate control of its spending, effective policies, a favorable business environment, and access to capital and other financial resources, reduce corruption and mismanagement. It can help to improve Afghanistan's economy and competitiveness of SMEs.

Keywords: Foreign trade, public expenditure, economic growth, enterprises.

ÖZET

Afganistan'ın kamu harcamaları dış ticaret ve ekonomik büyümesi

Afganistan, Asya'daki en az gelişmiş ve durgun ekonomi olarak Kabul ediliyor. Bununla birlikte, Maliye Bakanlığı'na (2019) göre, ekonomik büyümede önemli bir artış açıklandı, ancak yine de iyileştirilmesi gereken birçok Alan var, örneğin sermaye başına gelir yetersiz, güvenlik eksik ve eğitim iyi değil. Afganistan'ın ihracatı ve doğal döviz rezervleri birçok maden varlığına rağmen azalmakta, ayrıca gelişmekte olan ülkelerin ekonomisi büyük ölçüde küçük ve orta ölçekli işletmelerin (KOBİ'ler) varlığına güvenmektedir. Afganistan'da KOBİ'ler ülkenin gsyih'sının yüzde elliden fazlasına katkıda bulunmakta ve işgücünün üçte birinden fazlasını istihdam etmektedir. Olumlu etkilerine rağmen yeni teknolojilerin hızla ortaya çıkması ve evrimi ve operasyonlarının küreselleşmesi nedeniyle hala zorlu zorluklarla karşı karşıya kalıyorlar, bu nedenle bu boşluğu doldurmak için bu çalışma, Afganistan'ın 2008'den 2020'ye kadar olan kamu harcamaları, dış ticaret ve ekonomik büyüme ile Afganistan'ın performansını etkileyen en büyük engeller arasındaki ilişkiyi kapsamlı bir şekilde analiz etmeyi amaçlıyor. Ülkedeki KOBİ'lerin. Zaman serisi verileri Dünya Kalkınma Göstergesi Maliye Bakanlığı, Ulusal İstatistik Bilgileri ve Dünya Bankası İşletmeleri gibi çeşitli kaynaklardan toplanmıştır. Tanımlayıcı istatistikler ve korelasyon tekniği de dahil olmak üzere farklı istatistiksel yöntemler kullandı. Teorik, tanımlayıcı ve ilişkisel analiz sonuçlarına dayanarak ekonomik büyüme ile devlet harcamaları arasında istatistiksel olarak anlamlı pozitif ilişki ve dış ticaret ile ekonomik büyüme arasında anlamlı negatif ilişki olduğunu ortaya koymuş ve siyasi istikrarsızlık, sermayeye erişim eksikliği gibi en büyük engellerin engellediği KOBİ'lerin faaliyetlerini belirlemiştir. Zayıf altyapılar ve haksız rekabet. Ayrıca, çalışma bulguları ekonomik büyümeyi ve KOBİ'lerin performansını artırabilecek temel faktörleri göstermektedir. Hükümet, döviz kurunu istikrara kavuşturmak, ithalat ve ihracat açığını azaltmak, harcamalarının kesin ve doğru kontrolünü, etkin politikaları, elverişli bir iş ortamını, sermayeye ve diğer finansal kaynaklara erişimi benimsemek, yolsuzluğu ve kötü yönetimi azaltmak için özel önlemler almalıdır. Afganistan'ın ekonomisini ve KOBİ'lerin rekabet gücünü artırmaya yardımcı olabilir.

Anahtar Kelimeler: Dış ticaret, kamu harcamaları, ekonomik büyüme, işletmeler.

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NOMENCLATURE

Acronyms

GDP	Gross Domestic Product
SMEs	Small and Medium-sized Enterprises
MFI	Microfinance Institutions
DAB	Da Afghanistan Bank
ADF	Augmented Dickey-Fuller Test
ARDL	Autoregressive Distributed Lag Model
UNDP	United Nations Development Program
WFP	World Food Program
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNICEF	United Nations International Children's Emergency Fund
COVID-19	Corona virus disease of 2019
UN	United Nations
ACGF	Afghan Credit Guarantee Foundation
IMF	International Monetary Fund
ADB	Asian Development Bank
USAID	United States Agency for International Development
AREDP	Afghanistan Rural Enterprise Development Program
NSIA	National Statistics Information Agency

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CHAPTER 1

1.1. INTRODUCTION

This section presents a broad overview of the study's background and problem statement with research questions and research hypothesis. It also highlights the various methods used in the analysis with scope and sources of the data and provides the significance of the study with conclusion remarks.

1.2. Background of the study

Afghanistan is a landlocked country located in central Asia and among the less developed countries in the region. For almost three decades, the country has been through various political and civil conflicts. These have had a negative impact on its economy. To know various factors that contribute to the Afghanistan economic growth is very important to ensure that it can develop its conditions. This project aims to improve the comprehensive understanding of multiple factor that affect the growth of economy.

Acemoglu and Guerrieri (2008) the rapid emergence and growth of economies have been the main factors that have affected the lives of people all across the world. According to most growth theories, Aghion & Howitt, (1992) Swan (1956) the accumulation of physical and human capital and increase in productivity due to technological advancements are some of the factors that contribute to long-run growth of economy. According to most endogenous and neoclassical growth theorists, Aghion & Howitt (2008) an increase in economic growth is usually measured through the constant increase in GDP per capita. However, Afghanistan has experienced unprecedented and unstable economic growth over the past four and a half decades due to various factors such as macroeconomic instability, civil wars, weak infrastructures and political issues.

According to the UN's country-wide database facts and figures (2020) Afghanistan's gross domestic product had experienced unprecedented and unstable growth rate from 1970 to 2014. It ranged between a negative growth of -0.3% in 1970 to a positive growth of +5% in 2014. Despite the various difficulties that Afghanistan has faced over the years, it has maintained its average annual growth rate since 2014 onward of +2.2%. According to the World Bank's Ease of Doing Business Report (2011) the International Community has given Afghanistan over \$60 billion in aid. Unfortunately,

due to various factors, such as political instability and mismanagement, the country has not been able to develop a sustainable domestic economy.

Despite the current economic situation in Afghanistan, there are still many domestic opportunities that can contribute toward long-term economic growth. However, this study aims to provide a comprehensive analysis of the relationship between public spending, foreign trade and economic growth and discusses about the biggest obstacles that affect the performance of small and medium size enterprises and opportunities that are unlikely to be fully realized due to the improvement of Afghanistan GDP.

According ACCI – Mining in Afghanistan (2011) the vast mineral deposits found is the most promising sources of economic development. There are currently over 1,400 known mineral deposits, and more than half of them are located in central region. According to the US officials and geologists (2010), announced Afghanistan's mineral wealth is worth around \$3 trillion, while the Afghan Ministry of Mines claims that wealth is more than that estimation. The immense mineral deposits in Afghanistan have the potential to transform the country's economy. To extract these resources, the government has contracted with international mining firms, such as China's China Metallurgical Company (2008). According to the Afghanistan Ministry of Mines (2019) the government's annual income through mining could reach 3.5 billion dollars within the next 15 years. This would greatly increase the government's core budget. Even though the current projects in Afghanistan are aimed at develop the country's infrastructure there are still areas of potential economic development.

According to the Afghanistan ministry of agriculture irrigation and livestock (2019) agriculture is the main industry and majority of the country's population depends on cultivations for their livelihood. About 80% of the country's population relies on farming. The country's licit GDP is mainly generated by the production of agricultural products such as wheat and fruits. According to Afghanistan Ministry of Commerce and Industry (2019) Afghanistan's dried fruit exports are mainly concentrated in nuts and seeds, such as almonds, grapes and raisins. In 2009, the country's exports of dried fruit were \$53 million, while almonds, walnuts, and pistachios were around \$92 million. The former made up over 20% of the country's agricultural exports, and 14% of the country's agricultural GDP derived from livestock. The dried fruits sector is expected to play a vital role in boosting Afghanistan's export. Despite the potential of Afghanistan's goods

exportation, the country's imports of food remain high. For instance, rice, wheat and sugar are some of the basic food commodities that the country imports.

According to Afghanistan Ministry of Commerce and Industry (2019) The Afghan government has received financial and technical support from international donors to develop a variety of agricultural programs. These programs are aimed to increase country's agricultural production. These programs are supported by various international organizations and financial institutions such as World Bank, Asian Development Bank, and the USDA. It can contribute to the country's GDP. Despite the positive signs that have been presented in Afghanistan's economic development, there are still many obstacles that need to be overcome in order to realize its full potential. Such as the lack of infrastructures, and cold storages which prevents many Afghan products from reaching their intended destination, therefore it is necessary for the government to construct infrastructures such as standard cold storages across the country.

According to Afghanistan Investment Support Agency (2011) Food processing factories are expected to help boost Afghanistan's exportation, therefore, the Arab-American company has already committed (2014) to build a \$100 million plant that will process food products. This project is a vital step for the country's economy. According to Afghanistan Ministry of Commerce and Industry (2020) Afghanistan can still be considered an economic blessing. As a gateway to the Middle East, South Asia and Central Asia, it could become an important hub for international trade. However, securing and developing sufficient infrastructures are some of the factors that will need to improve. The construction of roads, railways and civil aviation facilities in Afghanistan expected to boost the country's international trade. It will also attract more foreign and domestic investors. These projects will help the country's economic development. The various economic opportunities that are available to the Afghan people can help improve the country's economy. For instance, the development of the mining and agricultural sectors can help boost the country's employment rate. In addition, the export of goods can help to improve economic growth. Increased trade transit between Afghanistan and other countries will improve the country's national revenues. These are positive developments but they must not be underestimated. Afghanistan's economic situation will be significantly affected by these developments. Therefore to improve the country's economy more efficiently the study aims to provide a comprehensive analysis of the relationship between public expenditures foreign trade and economic growth and the

biggest obstacles that affect the performance of small and medium size enterprises inside the country.

1.3. Problem statement

There are several problems that the country is severely suffering and inversely affect economic growth. Recently it is well evident that the direct exchange rate rose and the Afghan currency have dramatically depreciated. FM Gottheil (1977) argues that currency depreciation affect foreign trade increases exports and dampens imports; raising exports would lead to more jobs, infant industries and economic growth. According to the Afghan Ministry of Finance (2019) Afghanistan's government spending has increased significantly. John Maynard Keynesian (1930) rise in government spending is mainly due to expanding public services and the demand for capital goods. It helps social and economic service workers' productivity and improves national output.

Despite the significant increase in government spending, many Afghans still live in poverty. Afghanistan Socio-Economic Outlook (2021) reported that more than half of the country's population lives in poverty. Most of them are under the poverty line, the income difference between poor and rich continues to widen. Therefore, to fill this gap this study would assist us to investigate the relationship between public expenditures, foreign trade and economic growth and the biggest obstacles that affect the performance of small and medium-size enterprises in Afghanistan.

1.4. Objectives of the research

- The study aims to analyze the relationship between government expenditures and Afghanistan's economic growth (GDP).
- The study aims to analyze the relationship between Afghanistan's economic growth and foreign trade (export).
- The study aims to analyze the biggest obstacles that affect the performance of small and medium-size enterprises in Afghanistan.

1.5. Research questions

- What is the relationship between government expenditures and economic growth in Afghanistan?
- What is the relationship between foreign trade and economic growth in Afghanistan?
- What are the biggest obstacles that affect the performance of small and medium-sized enterprises?

1.6. Hypotheses of the study

H0 = There is no relationship between economic growth and public expenditures.

H1 = There is a relationship between economic growth and public expenditures.

H0 = There is no relationship between economic growth and foreign trade.

H2 = There is a relationship between economic growth and foreign trade.

H0 = There is no biggest obstacles that affect the performance of SMEs.

H3 = There is biggest obstacles that affect the performance of SMEs.

1.7. Research methods and data analysis

The study aims to analyze the relationship between public expenditures, foreign trade and economic growth as well as the biggest obstacles that affect the operation of SMEs in the recipient country. Therefore, several statistical analyses will be used such as descriptive and correlation analysis with the help of SPSS and Stata statistical analytical software's to find out the relationship of public expenditures, foreign trade and economic growth. Moreover, it would also include a detailed descriptive analysis on the biggest obstacles that affects the performance of SMEs in Afghanistan.

1.8. Scope and sources of the data

The prime purpose of the study is to investigate the relationship between public expenditures, foreign trade and economic growth through econometric co-relational analysis, as well as intended to analyze the biggest obstacles that affect the performance of small and medium-sized enterprises through descriptive-analytical design. In addition, to investigate the research, it will be used time-series data from 2008 to 2020. Primary data will be collected from various sources such as World Development Indicator, Annual Macro Fiscal Reports (Ministry of Finance), National Statistics Information Agency (NSIA) and World Bank Enterprises. Moreover, secondary data will be collected from Books, Journals, reports and authentic Web sites.

1.9. Significance of the study

The study aims to analyze the relationship between public expenditures, foreign trade and economic growth and the biggest obstacles that affect the performance of small and medium-size enterprises to improve the efficiency of several areas of Afghanistan's economy, it will assist policymakers in formulating policies related to the economy, and will help them to know the biggest obstacles that affect the performance of SMEs. The study findings will also contribute to disseminating information regarding Afghanistan economy, the broad scope and methodology of the study will allow research scholars to serve as a reference for the future research topic.

1.10. Conclusion remarks

The first chapter of this study provides an overview of the county's economy. It also has a problem statement and a framework for the research that describes the objectives and the study's structure. The quality of the literature review is very important to ensure that the project's success is supported by the scientific and empirical findings. Furthermore, the conclusion of upcoming chapter will provide an opportunity to develop theoretical and empirical beliefs.

CHAPTER 2

2.1. LITERATURE REVIEW

The goal of this chapter is to review the literature about the relationship between economic growths, public expenditures and foreign trade in Afghanistan. It also provides a conclusion that addresses the various aspects of foreign trade and Afghanistan's economy.

2.2. Relationship between public expenditures and economic growth

The relationship between public expenditures and economic growth has been the subject of various studies in the literature since 19th century. In theories, Wagner (1893) and Keynes (1930) established the relationship between economic growth and public expenditures. Wagner argues that economic growth is the main factor that influences public spending. Keynes defends the idea that public spending is the main factor influencing economic growth; both are argued that economic growth and public spending were the cause of economic expansion. It's widely believed that increase in public expenditures will have a positive impact on economic growth, because it can stimulate private investment and provide qualified workers.

According to Keynes (1930), Public expenditures accounts for half of the total income in most industrial countries. The increasing share of public expenditures in developed countries has raised concerns about improvement. However, despite the positive influence of public expenditures, it can still adversely affect the economy; for instance, Tanzi (1998) stated that increase in public expenditure can also affect the private sector's returns, it can lead to corruption that could affect private investments. E Nketiah (2009) presents a detailed analysis of the various government expenditures in pursuit of economic growth in Ghana from 1970 to 2004. Aside from infrastructure projects, the study shows that the government's spending on infrastructure projects and health did not contribute to the country's economic growth. The study also revealed that the political economy's of various factors, such as military dictatorship and democracy affected the country's economic growth.

Al-Shatti (2014) conducted a study to estimate the contribution of the public expenditures on several sectors of the economy, such as education, health and economic affairs. It examines the impact of these on economic growth in Jordan from 1993 to 2013

two mathematical models have been used to measure the impact of current and capital functional expenditures on economy. The model shows the high cost of education in Jordan has prevented the economy's steady growth from being influenced by these expenditures.

A study by M Yilgor (2012) revealed the relationship between public expenditures and economic growth from 1980 to 2010 by implementing ADF and Granger Causality tests. The study found that all transit costs and expenses are already rising. Furthermore, the country should be aware of a controllable increase in public spending. It also found that the cost of education could boost the country's growth rate. Therefore, governments need to reduce recurring costs and increase investment. However, since this has a positive effect on the growth rate, the cost of education must also increase.

Egbetunde and Fasanya (2013) focused on the effects of public spending on the economy in Nigeria from 1970 to 2010 and employed the ARDL estimation technique. The study shows that public spending positively affects the country's economic growth. It also states that the capital increase will boost economic growth. In addition, the study also noted that government spending contributed to the country's robust economic growth. Akinibosun and Oyinlola (2013) examined the relationship between economic growth and public spending in Nigeria from 1970 to 2009. Long-term flexibility results show that recurring costs adversely affect administrative costs, while transportation costs positively affect capital costs and social services. The paper also shows that the primary objective of government expenditure is to promote economic growth and development. Therefore, it is recommended that the government maintain a balanced budget for social and economic infrastructure.

N Bose (2007) the paper examined the growth effects of government spending in developing countries during the 1970s and 1980s. It used a methodology that recognizes the role of budget constraints in determining the level of government expenditure. It revealed that Government capital expenditure as a significant source of economic growth, but current spending is not significant. In addition, education and government investment are the only areas where total government spending is linked to economic growth. An Awan N Asghar (2011) investigated the relationship between gross domestic products and government expenditures in the community sector in Pakistan between 1974 and 2008. The variables were assessed income, education, health, legal and regulatory spending,

subsidies, economic and social services. The study employed the VECM and Johansson integration test to show long and short-run effects. The study found three sets of active unidirectional causalities, from the fiscal deficit to the terms of trade and exchange rate. The results of the diagnostic test supported the model.

A Rauf A Qayum (2012) this study was conducted to analyze the relationship between public expenditure growth and Pakistan's national income from 1979 to 2009. It used the ARDL approach to study the long-run relations. The study shows no long-run relationship between national income and public expenditure. It also states no causal link between national income and public expenditures. T Garba (2013) investigated Nigeria's long-term relationship between public spending and economic growth. It uses the annual time series data from 1970 to 2008. The study's results revealed a significant long-term positive relationship between Nigeria's public spending and economic growth. The study's findings also support the hypothesis that increasing population contributes to the country's robust economic growth.

M Gisore (2014) the paper used a panel-effects model to study the effects of external debt on the economic growth of the East Africa Community. It was constructed using the Solow growth model. The study found that external debt hurts the EAC's per capita gross domestic product growth. Therefore, the paper proposed that the external debt burden should reduce to promote rapid economic growth in the region. SA Aladejare (2013) focused on the dynamic interactions between the government's recurrent expenditures and economic growth from 1961 to 2010. RGDP is used as a proxy for the growth of the economy. The study's findings support the hypothesis, suggesting that public funds should be used to stimulate productive activities and support economic growth. The private sector should also collaborate with the government to provide essential services to boost the country's development.

B Kaur (2012) conducted this paper to determine if the factors contributing to economic growth are complementary or substitutes. The paper used modified-Wald tests to examine if various factors, such as public fixed capital investment, could substitute or complement economic growth. The test was conducted to find evidence of complementary relationship among various components of Canada's economy. Although it did not find evidence of dual causal relationship among these components, the test did find long-run relationship between various sectors. For example, the impact of public investment on

output growth is a dual causal relationship. It shows that increased public investment contributes to higher output growth but decreases output growth.

W Easterly and S Rebelo's (1993) paper presents the empirical regularities related to various fiscal policy variables, such as the development level, growth rate, and taxation. In addition, the effects of monetary policy changes on economic growth rate used a cross-section method in a sample of 28 countries between 1970 and 1988. It stated that the relationship between the level of development and the fiscal structure is strong, and the size of the economy influences the effect of taxation on various industries. It also revealed that government investment in telecommunications and transport positively impacted economic development. J Loizides, G Vamvoukas, (2005) the study conducted to determine the relationship between the size of government and economic growth, used the Granger error correction model for a group of 100 countries using data from 1960 to 1995. The result shows that economic growth caused by the size of the government it can lead to higher economic growth in all countries. According to the research, government investment can stimulate economic growth.

N Bose (2007) focused on the 1970s and 1980s to study the effects of government spending in 30 developed countries. The study analyzed the effects of government spending on economic growth using a statistical approach. It took into account the biases of neglected variables. State capital expenditures are linked to robust economic growth. Found that the effects of government spending on economic growth were positive. S Ghosh and Gregoriou (2008) the study's authors looked at the relationship between the distribution of government spending and the country's economic growth using the general moment method (GMM). The study's results revealed that the relationship between government spending and economic growth depends on the type of government spending. Keynes's views are compelling when government spending is compared to the size of the economy. The findings indicated that government spending on healthcare and operations positively impacts economic growth.

C. Alexiou (2009) the study, carried out in 15 Southeastern European countries (SEE) from 1995 to 2005, using a statistical model, analyzed the relationship between the level of government spending and the economic growth of the participating countries. Found that five factors were analyzed, four of which positively affected the countries' economic growth. It also revealed that spending increases the country's overall economic

growth. Nurudeen and Usman (2010) studied distributional government spending empirically to explain the effects of government spending on economic development in Nigeria from 1979 to 2007. The government's capital expenditures are divided by the expenses related to its operations. These include education, transportation, healthcare, and government. The study used the error correction method; it revealed that higher government expenditures negatively affect the country's growth. However, it also stated that the government should increase its education spending.

Wahab (2011) conducted a global study to find out the effects of government spending on productivity growth. Used two examples: one where total government spending was studied in 97 developed countries from 1960 to 2004 and second studied in 32 countries from 1980 to 2000. Asymmetric and disproportionate models study the effects of government spending and economic growth. The study found that government spending increases productivity and economic growth.

SA Hassan N Rafaz (2017) investigated the impact of female education on Pakistan's economic growth using the Ordinary Least Squares method from 1990 to 2016. The study shows that an increase of 1% in female education leads to a 96% boost in the country's GDP. The positive effects of female education are evidenced by the increasing labor force female participation rate. Therefore, the government should improve the quality of education in the country. In addition, the fertility rate of women can also decrease because of the quality of education. Attari and Javed (2013) explored the relationship between economic growth and government spending in Pakistan. Using time-series data on government spending from 1980 to 2010, the study revealed that government spending is divided into two categories: current and development spending. The study's results showed that current and development spending positively affects economic growth.

Fasanya and Egbetunde (2013), they are studying, show how public spending can boost economic growth in Nigeria. The study used the ARDL method. The data was collected from 1970 to 2010. Capital and regulated expenditures are two categories of public spending; the study found that these two sectors boosted economic growth in the country. MSA Alshahrani and MAJ Alsadiq (2014) examined the long and short-term effects of government spending on economic growth in Saudi Arabia from 1969 to 2010. They discovered that various types of government spending, such as health and domestic investment, the study stated that it boosted the country's economic growth. However, the

study also revealed that the cost of housing in Saudi Arabia affects the country's short-term economic growth. TM Al-Fawwaz (2016) in Jordan, from 1980 to 2013, used linear multiple regression models. The study showed a positive correlation between economic growth and public spending. It also revealed that the relationship between public spending and economic growth benefits a working country. It supports the idea of economist John Milton Keynes, who believed that government spending could boost economic growth.

UK De (2018) the paper conducted the impact of government agricultural and allied activities on the gross state domestic product of Meghalaya during the 1984-85 to 2013-14 periods. It found that the spending on crop cultivation positively affects the GSDP. However, although crop cultivation positively impacts economic growth, the linkage between other sectors is still needed.

EL Kimaro and CC Keong (2017) the study analyzed the effectiveness of public spending on economic growth in 25 SSA countries from 2002 to 2015 shows that public spending can help boost economic growth in low-income countries. Furthermore, it revealed that increasing public spending would raise economic growth. TLA Leshoro (2017) in South Africa focused on the country's economic growth in government spending; it revealed that government spending could boost economic growth; it used annual data from 1976 to 2015. It found that government spending could use the country's long-term economic growth. However, regardless of the long or short-term effects of government spending, it is still essential to consider the components of government spending.

D Lupu MB Petrisor (2018) investigated the effects of public spending on the country's economic growth. They used (ARDL), an estimation technique, and data from 1995 to 2015. The study revealed that an increase in spending on education and healthcare services contributes to economic growth in the countries where they operate. However, it also shows that the various categories of public spending positively and negatively impact the economy. D Landau (1983) analyzed the relationship between government spending and the economic growth of 65 least developed countries. He found that the economy's growth slowed dramatically after government spending increased. However, he added in his study that a different relationship exists between the level of government spending and the economic growth of the least developed countries. Therefore, Landau focused on the factors that affect the economic growth of mainly developed countries.

S Devarajan (1996) researched the context in which public spending increases in 43 developed countries. The study noted that the economy's steady growth and the primary contribution of various public spending sectors are essential for achieving sustainable economic development. In addition, the study found that using capital expenditure undermines the effectiveness of government spending and projects. RJ Barro (1999) conducted an experiment survey to study the economic growth determinants of 100 countries and used data from 1960 to 1995. The study revealed that the level of government spending is the critical factor affecting a country's economic growth. To achieve high economic growth, the government should spend relatively low.

CA Schaltegger B Torgler (2006) examined the relationship between the size of the Swiss economy and the growth rate. The country's budget is divided into two parts: the operating budget and the capital budget. The study revealed that the government's excessive spending in Switzerland harms the country's economic growth. Ghosh and Gregoriou (2008) conducted a study in 15 developing countries using GMM to examine the link between economic growth and government spending. The study focused on the effects of fragmented government spending on the economic growth of the participating countries. The study revealed that government spending on capital projects harms the country's economic growth.

Nurudeen and Usman (2010) The study examined the impact of government spending on the country's economic growth from 1979 to 2008 and used Nigeria's integration and error correction model. Aside from capital expenditures, the government also spends on other expenses such as education, health, and telecommunications. The study revealed that excessive spending on education and government funding harms the country's economic growth.

M Nyamwange (2012) explored the effect of the per capita gross domestic product on public healthcare expenditures in Kenya. It uses statistical data for the years 1982-2012, with OLS regression and various tests to analyze the long-run relationship between the per capita gross domestic product and the public healthcare expenditures. It revealed that the healthcare system in Kenya is a necessary good. It has an elasticity of 0.024% of GDP. Altunç and Aydın (2013) conducted a study on the relationship between the level of government spending and economic growth. The study aimed to determine if the relationship between government spending and economic growth is linear. The researchers

used the ARDL test to analyze the effects of government spending on growth. The study revealed that government spending in a given country was higher than the level appropriate for the growth economy. Hasnul (2015) studied the relationship between Malaysia's economic growth and government spending allocated by the various sectors and used the OLS technique from 1970 to 2014 to determine the exact size of government spending. The study revealed that the government's spending on various programs and projects during the 1970s negatively impacted the country's economic growth. The study also explored the government's spending on housing and development projects negatively impacted the country's economic growth. They also mentioned in their study that government spending affected the economic growth of the studied countries.

Muturi and Guandong (2016) focused on the relationship between government spending and the economic growth of South Sudan from 2006 to 2014. The researchers used a panel analysis method to study the relationship between government spending and the country's economic growth. It revealed that the spending on social services harmed the country's economic growth. Odhiambo and Chirwa (2016) identified the factors that led to South Africa's economic growth from 1970 to 2013. Using the ARDL technique, the researchers were able to identify a significant portion of government spending. Furthermore, the study revealed that government spending affected the country's economic growth.

MP Sáez (2017) focused on the relationship between government spending and economic growth in European Union countries. The study used a panel to analyze the relationship between government spending and economic growth from 1994 to 2012 for 28 EU countries. The study analyzed the data; it revealed that although government spending is linked to economic growth, the relationship is positive; it could be damaging for the country depending on its size. D Lupu (2018) conducted a study from 1995 to 2015 to examine how public spending affects economic growth in 10 Central European countries. Using the ARDL econometric method, the region's economic growth affected public spending in mentioned countries. The study found that it harmed the countries' social welfare, public services, and economic growth. N Bose and his colleagues (2007) examined the effects of government spending on economic growth in a sample of 30 developed countries. Data collected from the 1970s and 1980s, using a panel data econometric method, the authors could determine the effects of various public expenditures on economic growth. Although capital expenditures boost economic growth, they do not

significantly affect the country's economic development. T Chang, WR Liu (2004) tested Wagner's five laws for ten countries using error correction techniques and time-series data from 1951 to 1996. For the study, the authors focused on the spending patterns of various countries, such as Japan, Taiwan, South Korea, the United Kingdom, and the US. The remaining five countries were Australia, Canada, South Africa, Thailand, and New Zealand. The researchers concluded that Wagner's theory does not apply to the laws of the remaining countries, such as Thailand, Australia, South Africa, and Canada; the causal relationship between government spending and income has not been found. They found no evidence to support the hypothesis.

A year and Lorde (2004) Focused on the relationship between Wagner's laws and nine Caribbean countries, using annual time series data; the results indicate that the growth of public spending evidence the existence of the law; only three countries have long-term ties with Wagner's laws. These are Jamaica, Grenada, and Guyana. Public spending in Grenada and Jamaica generates national income for these two countries. In Guinea, the growth of national income shows that the existence of Wagner's law is still strong. LC Liu CE Hsu (2008) this paper used the framework of Wagner's Law and Keynesian theory to analyze the relationship between the federal government's expenditures and the gross domestic product. The data collected by the US government from 1947 to 2002 shows that the relationship between the two is causal. The study indicates that the total federal government spending is consistent with Keynesian theory and that the US should increase its human resources spending.

Loizides and Vamvoukas (2005) studied the causal link between revenue and state size growth in Ireland, Greece, and the UK. Public spending has been reported to increase national income in the long and short run in all countries. In Greece, the government enforces Wagner's law, which states that productivity increases lead to higher government costs. However, the Irish economy does not support Wagner's theory. BS Cheng, TW Lai (1997) discovered that the role of government in the economy could contribute to the country's economic development in South Korea from 1954 to 1994, using time-series data with an econometric statistical VAR approach. Their findings support a crucial framework that states that the level of government spending has a significant effect on the country's economic development. Wagner's law states that the national income growth encourages expanding public spending. D Sinha (1998) conducted a study in Malaysia from 1950 to 92, using time series data to analyze the link between economic growth and public

spending. The study noted that non-economic factors such as education and healthcare also play a crucial role in public spending growth. At the same time, GDP was not the primary driver of public spending growth. Instead, government spending was responsible for the steady growth of public consumption. This budget deficit increases public spending in Malaysia. It is also due to the country's current government structure not improving. Other government spending structures can help stimulate economic growth in the country.

R Ram (1987) conducted a study using time-series data and a cross-sectional approach on 115 countries, the data collected during the 1950-1980 periods, to analyze the validity of Wagner laws. It contributed to the study's findings. Although the study found no significant difference between the time series and the cross-sectional data, it noted that the data contributed to the study of Wagner's law. It is supported and rejected by other countries. The government's willingness to spend was negative for the economy. BR Kolluri (2000) determines if developed countries support Wagner law. The data was collected from 1960 to 1993. A sample of 53 countries was used for the study. These groups were composed of the countries that participated in the G7 meetings. The survey results revealed that developed nations widely supported the Wagner law. O Ekiran O Sola (2019) a study conducted to test the correctness of Wagner's hypothesis regarding the output and public expenditures in Nigeria from 1970 to 2016. A pair-wise econometric method was used to analyze the data. The method was formulated using the Vector Error Correction Model. The study revealed that government spending contributed to the country's economic growth. Therefore, it invalidated the applicability of Wagner's hypothesis in the country. The study also recommended the proper utilization of public funds to boost the country's economic growth. CJ Huang (2006) examined the laws in Taiwan and China from 1979 to 2002; findings support the idea of a long-term relationship between economic growth and government spending unrelated to Wagner's theory in these countries. He stated that these two countries' economic growth does not match Wagner's theory.

KH Ghali (1997) argues that the link between economic growth and public spending is strong enough to support Wagner's law. A study in Saudi Arabia showed that economic activity led to higher public spending. Gantt and Calvary (1978) analyzed the US economy from 1929 to 1971. It revealed that the country was in the middle of the pack compared to other major economies. In a follow-up study conducted by Islam (2001), the authors found strong evidence that supports Wagner's hypothesis against data collected by the US. C

Test (2011) the study uses annual data from 1976 to 2009 to investigate the causal link between consumption and economic growth in Bangladesh. The study used ARDL and ADF tests. The empirical findings revealed that various concerned variables are stationary in the level or the first differences form. The concept of the Granger causality test revealed a long-term causal relationship between consumption and economic growth in Bangladesh. The result supports the consumption function. S Ghosh (2002) used time-series data from 1950 to 1981; the researcher studied the link between India's economic growth and public spending. The study noted that increasing consumption habits significantly positively affect the country's economic growth. The study confirmed the country's gross domestic product and public spending. His findings support the existence of the Wagner law. Economists have been interested in the relationship between economic growth and government spending since the rise of the excellent economy has been associated with government spending. Although the endless debate about the state's role started with the publication of John Maynard Keynes' general theory in (1936) the debate about the relationship between government spending and economic growth is still very controversial and inconclusive. Despite this, existing literature still expresses regret. If government spending includes GDP calculation, many studies show a negative correlation between the level of public spending and economic growth. However, it has been shown that when government spending includes GDP calculation, it can be positive.

MO Odedokun (2001) conducted extensive research in 103 developed countries; split them into four groups based on their mineral export dependence. The study found that exporting capital and minerals to high-income countries could stimulate economic growth. However, the study also stated that high levels of government spending would prevent low-income countries from achieving robust growth. The fragmentation of services and goods makes it difficult for low-income countries to sustain growth. Although the cost of living increases in various sectors, salaries and wages usually go up in other categories. Aside from education and transportation costs, government spending can also affect the economy's growth.

J Loizides, G Vamvoukas's (2005) paper conducted to investigate if the size of government can be determined by the rate of economic growth used the error correction model to examine the relationship between unemployment and inflation. The paper combines the results of a test to examine the relationship between government size and economic growth in Ireland, Greece, and the UK. It shows that, in both cases, economic

growth generates higher levels of government spending in Greece and the UK. Devarajan, Swarup, and Zou (1996) the study focused on the relationship between government spending and economic growth, the data collected from 43 developed countries. The study's authors noted that consumer spending is associated with economic growth. However, capital spending is considered a negative factor.

Glomm and Ravikumar (1997) offer a comprehensive review of current developments in the internal growth model. They examined the impact of public spending on long-term growth. It focuses on two types of public spending. The first is what appears to be the input for the final product production. The second category includes the cost of state education in investment technology. Other related variables, such as financing of domestic public policy for government spending and private options, the flexibility of public education spending, and the export of public aid examined. The trial result shows that government health spending increases life expectancy. M Bruno, L Squire (1996) conducted the study in OECD countries for the period of 1960s to 80s; it explains the relationship between public spending and economic growth; the study used a cross-sectional regression econometric method to evaluate the efficiency of the economy. The study revealed that it did not appear that government spending has a negative correlation with the growth of the economy over the past five years. In the 1960s, the government's size affected the growth rate. It resulted in a rise in government spending. The ratio of public spending to gross domestic product grew by 6 percent in the second quarter.

Turnovsky and Fisher (1995) compared the effects of public consumption costs and public spending on infrastructure in the context of the best-time market clean-up framework. They found that increased public spending on infrastructure under the right conditions reflects higher productivity than government spending. In addition, both types of net increases in government spending are equal to the impact on the population. They also reported that the infrastructure in the United States was inadequate. The appropriate timing for government spending over a period is determined by fiscal policy.

TA Knoop's (1999) study shows that the link between the size of the government and economic growth can establish within the framework of the US growth model. The size of the government decreases as it gets smaller. It explains the decline in economic growth and prosperity. The mechanism used by the government to affect the interests of consumers and companies is known as the state purchase mechanism. Z Sattar (1993) found that a

particular type of public spending affects economic growth. In addition, the effects of different types of public spending are significantly between low-income countries and industries, while others stimulate economic activity. It is observed that government spending has no effect on growth in developing countries, but it has no positive effect in developed countries.

P Cashin (1995) studied the relationship between the level of government spending and the economic growth in 23 developed countries. An external growth environment from 1971 to 1988 is a framework in which public spending can affect productivity growth. Research has found that when governments use public nutrition resources to produce private agents, for example, spending on investment and money creates positive external factors and increases private investment. As a result, it will stimulate economic growth; financing such public expenditures will limit the small gains of private capital through intervention taxes. T Apata (2021) the study examined the effects of public spending on the productivity of major agro-ecological regions in Nigeria from 1981 to 2018. It revealed that the spending on various drivers of agricultural growth, such as education, health care, and feeder roads, significantly impacted the croplands' productivity. The data was analyzed by using three-stage simultaneous equations and descriptive statistics. It revealed that public spending on agricultural development/capital projects was less than 25% of total public spending. However, the elasticity of the results computed from the three-stage simultaneous equation indicated that the access to education, feeder roads, and health care facilities was significant at 1%. The result indicates that a 1% increase in public spending on these drivers of agricultural productivity would boost the nation's agricultural output by 0.6%. In addition, the study found that the quality of public spending on education, health care, and feeder roads would improve the productivity of croplands.

Amanja, and O Morrissey (2005), a study conducted in Kenya to examine the relationship between public spending and the country's economic growth from 1964 to 2002, used econometric time series techniques. Government expenditures are divided into two sub-categories, productive and non-productive. They reported that fiscal policy plays a vital role in Kenya in capturing the effects of each category on economic growth. Production costs are negatively linked to growth. On the other hand, government investment significantly and positively affects economic growth. Because the additional role to help and encourage private investment. Experimental results also show a positive

correlation between private investment, human capital mobilization, public spending, and economic growth.

Ramirez and Nazmi (2003) set the framework for dynamic reform between 1983-93 public investment and the growth of nine Latin American countries. They concluded that public and private investment positively affected economic growth. However, it is people's spending that influences the economy's growth. For example, public spending on health and education led to significant growth. Therefore, they suggested that lower government expenditures should direct towards raising new human capital and maintaining existing human capital.

Ahmed and SM Miller (2000) examined the effects of government spending on investment in developed and developing countries. They reported that government spending did not match. Compared to debt-financed government expenditures in developed and advanced economies, the tax-financed rate does not have significant capital and hinders growth. Similarly taxes or any financial liability support welfare and social security costs Transportation and telecommunications costs also benefit investment in developed countries. Emphasis is placed on the role of infrastructure in promoting investment and economic growth. The findings support the traditional view of segregation and the non-traditional view of the public about the effects of public spending.

BD Jones (1990) investigated the relationship between economic growth and policy of government expenditures in the American State, using the regulated model of imbalance for the period 1964-1984; research found different types of public spending. The welfare costs for all measures of economic growth related to the crisis. While education costs combine with consumption and investment factors, other costs, particularly local costs, show that they have a significant and positive effect on economic growth.

Nijkamp and J Poot (2004) reported a document that clarifies the link between growths of public spending and GDP; by considering different policies such as education costs, they used a sample of 93 articles published in cited journals from the early 1980s to late 1990s. It found that the impact of fiscal changes on public education and infrastructure, except for public spending, was weak. These results are susceptible to the research design parameters. In cross-country regression, it was necessary to include the

basic level of GDP. Only these regressions would reveal the significant effects of policies that include basic GDP rather than crises.

Knight, Loayza, and D Villanueva (1993) investigated the factors determining a country's economic growth. The report shows that the government's steady investment is significantly linked to overall economic growth. These findings are consistent with the predictions of the Solow model. It shows that savings positively affect the per capita gross domestic product and the rate of transition growth. The model also predicted that the decline would return to physical capital, supporting rapid integration hypotheses. A comparison between developed and developing countries shows that most developing countries have slower growth per capita regarding the rapid population growth rate. Countries with low initial human capital and fixed state investments experience low physical performance. Because the production of physical capital is limited under the influence of these factors according to the initial predictions of the model, fixed state investment has a significant and positive effect on the economy's growth. Emphasizing the importance of the role of the government over the private sector in providing infrastructure could explain low investment by the private sector or low production of government resources. In addition, higher tariffs affect capital imports, leading to slower technological advances. The positive impact of outsourcing strategies on economic growth was also noted.

Bleaney, Gemmell, and R Kneller (2001) attempted to isolate the short-term financial effects from the long-term using panel data for OECD countries from 1970 to 95 within the framework of internal growth. They found that effective government spending encourages growth. However, there is no evidence that these costs have a negligible effect on economic growth when separated from education and health costs. The findings also show that previous work on the subject has had several shortcomings in estimating equity using the five-year term and eliminating the role of budget constraints. Therefore, it hides the long-term situation. Financial variables significantly impact outcomes, including funding sources, making referral coefficients more stable and reliable.

Gupta and Verhoeven (2001) examined the effectiveness of government spending on health and education. It took samples from 37 African countries from 1984 to 1995 and compared findings with those in Asia and Western Hemisphere. They found significant differences in government spending effects in Africa regarding production. The

comparison also showed that production in African countries was generally lower than in Asia and the West. No correlation between production and personal consumption was recorded in Africa.

Similarly, the efficiency of input and the general cost is irrelevant. The change in the scope of foreign production potential is due to the effectiveness of public health and education. The regression analysis revealed that government spending on education and health positively correlated with educational achievement and health outcomes. The performance of analysis shows that government spending is critical in determining efficiency. It suggests that when government spending is high, greater attention must pay to expanding education and health spending. Kuhar, Juvancic, Sila, and Erajavec (2005) used the input-output model to measure the size and effects of different sources. The proportion of EU public spending on the Slovenian shores them found that fund was capable of bringing in significant support. However, post-participation benefits are offered and should consider. In the context of regional inequality, the fund affects both regions.

Mofidi and Stone (1990) point out that when revenue is applied to money transfer programs, work and investment have a negative and significant impact. In contrast, there was a positive correlation between health, education, highway costs, investment, and employment. The findings show a correlation between tax and public spending policies. Because when the government tries to increase spending on money transfers during the evil age, public spending on health, education, and highways increases, which will hurt the economy.

MDA Burhanudin's (2017) paper was conducted to analyze the effects of government debt on the country's sustainable growth from 1970 to 2015 in Malaysia. The findings show that government debt is a significant macroeconomic element that influences sustainable economic growth in Malaysia. It also stated that it has a positive long-run relationship with sustainable economic growth. Bose, Holman, and Neanidis (2005) compared the effects of income taxes and state capital expenditures on the economic growth of developed and developing countries. They concluded that the development phase is critical to the optimal form of public finance. In high-income countries, income tax on government expenditures slows economic growth more than the printing tax on these expenditures. Gupta, Clements, Baldacci, and Granados (2005) used a sample of 39 developed countries to examine the effects of fiscal consolidation. Budget structure

research on public spending and economic growth in the 1990s supports a strong link between government spending reform and economic growth. Mergers have a very positive effect on growth as they reduce the government's domestic demand for credit. As a result, the deficit-to-GDP ratio has fallen by more than half a percent on average over the long term. In the short term, the positive impact of fiscal reform on economic growth is even more pronounced as public investment is protected. In addition, reducing public wages has a positive effect on growth. The initial financial conditions of different countries, in particular, perform a significant role in determining the impact of a budget adjustment on the level of economic stability. They also found that the link between fiscal policy and growth is not linear. The results of the research preserved only countries with excellent economic stability.

MA Ali (2005) investigated the study to show the relationship between variables in Niagara. Fiscal policy and economic growth by using alternative econometric techniques, the study concludes that overall fiscal policy uncertainty and instability that occurred during the crisis harm economic growth. When the set of economic variables is controlled, the uncertain monetary policy variables explain a significant part of the differences in global growth. Although financial instability is significant in government debt and budget deficits on public spending and taxes, the impact on public transfers is significant. Public expenditures are one of the most important topics of public finance and the most sophisticated topic regarding government Expenditures, revenue, taxes, and etcetera. The government incurs public expenditures to provide and maintain various public goods and services. The primary purpose behind providing such goods and services is to improve society's welfare and provide those goods and services that the private sector does not intend to provide but are crucial for society.

P Smith, J Wahba (1995) public expenditures can boost the country's economic productivity through assisting in developing new industries and initiative of those activities not yet started by the private sector. It is also essential for policymakers as they actively use public expenditure policies to correct externalities and ensure a satisfactory provision of public goods and services. Nevertheless, it is not easy to define the optimal policy because the reaction may differ from country to country. M Deniz ZG Haidar (2018) a study conducted to analyze the effects of foreign aid disbursements on Afghanistan's economic development. It identified the factors that affected the country's economic growth and how these could affect future foreign aid programs. This research used various

methods and techniques to collect data, such as books, articles, and surveys, to analyze the country's economic conditions. In addition, it compares the disadvantages of foreign aid programs. The study's results revealed that although the presence of foreign aid programs has helped Afghanistan's economic growth, the country's socio-economic conditions have not improved despite international assistance. The study also revealed that the country's GDP growth has declined, and the level of corruption increased. It also increased the poverty rate and unemployment rate.

Adewara Sunday Olabisi and Oloni (2012) collected time-series data from 1960 to 2008 in Nigeria to study the effect of government expenditures and the economy's growth. They have used Vector Autoregressive (VAR) model; the study concluded that the government's transportation, agricultural, and health expenditures have positive and significant effects on economic growth, while government educational expenditures have an insignificant negative impact on economic growth in their respective country.

Okoro (2013) used 32 years of data from 1980 to 2011 in the study conducted to investigate the impact of public spending on the growth of the economy in Nigeria. He has used various econometric techniques such as the Granger Casualty test, the Johansen Co-integration test, and the OLS econometric to estimate the model and test the relationship between them. His findings revealed that a long-run equilibrium relationship exists between the level of government spending and the level of economic growth in Nigeria.

L Mallick, and PK Das (2016) the study, used panel data from 1973 to 2012 and discovered that educational expenditures positively affect the economic growth in 14 Asian countries. They have used various econometric approaches, such as Fully Modified Ordinary Square and Panel Vector Error Correction. The study's findings revealed that educational expenditures positively impact economic growth in all 14 Asian countries. The test results also showed a definite link between educational expenditures and economic growth. Although educational expenditures positively influence the economic growth of all Asian countries, the study recommended that the government increase its educational expenditures to have skilled human resources that can support long-run economic growth.

V Lhounu, B Mishra (2016) analyzed the impact of government spending on various sectors of society, such as education, health, transportation, and rural development, using Vector Error Correction Model and Multivariate Co-Integration Method, the study

conducted in Nagaland State. The author used the data from 1980 to 2009. The study revealed that only educational expenditures significantly affect the economy in the short run. In addition, although the study found a negative correlation between health, transportation, agricultural expenditures, and economic growth, these are significantly affected by factors that affect the economy.

TM Al-Fawwaz (2015) proposed the study to examine the impact of government spending on economic growth in Jordan. The study was carried out over the period 1980 to 2013; it used a linear regression model (OLS) to study the effects of government spending on economic growth. The study's author stated that the government should focus on current productive economic activities instead of increasing capital expenditures. This strategy can help stimulate the economy by carrying out activities geared toward creating new jobs. The findings of the study support the concept of the Keynesian model.

Gabriel and Chipaumire (2014) investigated the relationship between government expenditures and economic growth using data from 1990 to 2010. The study was conducted to test the validity of the Keynesian Macroeconomic framework, and the Classical perspective focused on the relationship between public expenditures and economic growth in South Africa. The authors used the Johansen Maximum Likelihood test and the Granger Causality test. The study revealed that long-term relationship between public spending and economic growth in South Africa, evidenced by various tests used in the study.

Emmanuel C Musaba (2013) in his colleagues focused on the effects of government sectorial expenditures on economic growth in Malawi. The study was carried out using the ECM error correction model, and co-integration used the data for 27 years from 1980 to 2007, they have considered the education, health, defense, and social protection, transport, and communication sectors. The findings concluded that there is not any significant effect of government sectorial Expenditures on the country's economic growth, although, in the long run, the agricultural and defense Expenditures have a significant positive impact on economic growth; in the other hand, education, health, social protection, transportation, and communication expenditures have a negative relationship with economic growth.

Abdu Muhammed (2014) investigated the impact of government spending on economic growth in Ethiopia. It used data from 1975 to 2011. The author used the co-

integration error correction method to analyze the data. It focused on the following areas: education, health, transport, and communication. Aside from education, the study also looked into the various areas of government spending. It found that the total recurrent expenditures were not significant. Udoffia D. T. (2016) investigated the impact of federal government spending on economic growth in Nigeria from 1981 to 2014. The study used a statistical method known as the Least Square econometric approach (OLS). It measures the impact of government spending on economic growth. It found that the federal government recurrent and capital expenditures positively impact the country's economic growth.

Abu Nurudeen (2010) the article investigated the impact of government spending on economic growth in Nigeria from 1970 to 2008. Keynesian and endogenous growth models have been used, showing that total capital negatively impacts the economic growth. In contrast, government expenditures, transport, communication, and health positively impact Nigeria's economic growth.

T Mohammadi, B Maleki (2012) investigated the impact of government expenditure composition on economic growth by using data from 1995 to 2009 about ECO countries. They used the generalized Moment method (GMM) and found that educational and defense expenditures positively affect the economic growth. In comparison, health expenditures have an insignificant and negative impact on economic growth in OEC countries.

Naftaly Gisore (2014) analyzed the impact of government spending on economic growth in East Africa from 1980 to 2010. Using LLC and multiple regression tests, the findings show that health and defense Expenditures were significant to economic growth while educational and agricultural expenditures were insignificant in East Africa.

Josaphat et al. (2000) studied the effects of government spending on economic growth in Tanzania from 1965 to 1996. It revealed that spending on productive activities harmed growth while consumption expenditures boosted economic growth. Higher government expenditures lead to higher economic growth and lower poverty reduction. S. Devajaran (1996) focused on the link between public spending and economic growth. The data was collected from 1973 to 1990 for 43 developing countries. The study shows that changes in the composition of public expenditures can lead to higher growth rates. This is because the changes in the composition of public spending are interrelated. He stated that

increasing the share of current expenditures has positive and significant growth effects. The results indicate that developing nations have been misallocating public funds for capital expenditures. The study also revealed that the government's consumption of goods and services positively affects economic growth. D. Landau, (1986) This study analyzed the government expenditures and activities related to revenue-raising and the relationship between government expenditures and per capita gross domestic product in developing nations, using the data from 1960 to 1980, the primary emphasis is on the expenditure because it is usually the case that revenue raises are influenced by government spending. The study found a negative relationship between government consumption and those countries' per capita GDP growth. The study also revealed that government-spending cuts harm the country's economic growth.

Baum and Lin. (1993) this paper presents evidence on the various government expenditures and their effect on economic growth. The researcher used cross-sectional data from 1975 to 1985 for developed and developing countries. It shows that the growth of education and defense expenditures has a significant impact on the growth of the economy. Moreover, the growth rate of defense expenditures positively affects the economy of a subset of countries. Among the study's findings, welfare expenditure harmed the output growth rate.

Al-Jarrah (2005) the link between military spending and economic growth has received increasing attention in recent years. The study investigated the relationship between military spending and total economic growth. The study used two econometric models, Johansen's co-integration procedure and the Granger causality approach to analyze the relationship between military spending and non-oil real growth in Saudi Arabia from 1970 to 2003. The study revealed a bi-directional relationship between defense spending and economic growth. It also found a unidirectional relationship between non-oil growth and military spending. It stated that higher military spending led to lower long-term economic growth.

Niloy Bose (2007) presents a study that investigated the effects of government spending on the growth of a panel of 30 developing countries during the 1970s and 1980s. It found that budget constraint significantly affects the growth of government expenditures. It stated that budget constraints played a leading role in the growth of government expenditures. Government capital expenditure is also significantly linked to economic

growth. At the disaggregated level, total expenditures in education and government investment are the only sector linked to economic growth once the budget constraints are considered. Although, current expenditures insignificant contributors to the expansion of developing countries. Masaviru (2012) investigated the effects of public funds on economic growth. It focused on the various sectors in Kenya's economic growth, such as education, defense, and agriculture, from 1972 to 2008, using the ordinary least squares (OLS) approach. It found that spending on education was a significant factor in determining the country's economic expansion.

MA Lotto (2011) the study examined the effects of government spending on economic growth in Nigeria from 1980 to 2008. It focused on sectoral expenditures. The study identified five key sectors: security, education, transportation, communication, and agriculture. The study indicates that the protection function of a nation is to ensure the rule of law is enforced. The techniques used in the study were error-correction tests and statistical analysis. The results revealed that spending on education and national health security was found to have adverse effects on economic growth. However, the study revealed that the impact of education on economic growth was insignificant. On the other hand, spending on national security and communication affected the economy positively.

Tajudeen Egbetunde and Ismail O. Fasanya (2013) used time-series data in Nigeria to investigate the effects of government expenditures on economic growth from 1970 to 2010. They examined the long and short-run links between public expenditure and economic growth using the bounds testing Auto-Regressive Distributed Lag (ARDL) methods. Discovered overall expenditure has a negative and insignificant impact on the economic growth in Nigeria, whereas recurrent expenditures are positive and significant for economic growth.

A study by Chude (2013) revealed that the overall government expenditures have a statistically significant influence on economic growth in Nigeria in the long term. They used time-series data from 1977 to 2012. Laura Obreja (2010) investigated to find out the link between Romania's defenses expenditures, and it is economic growth. The methods used were cluster analysis, quintile inference, and Granger causality. The result shows that a high proportion of defense spending in Romania negatively correlates with the country's economic growth.

Sam s. Enimola and Akungba Akoko (2011) investigated the level of defense expenditures in Nigeria from 1977 to 2006. It linked the expenditures to its economic growth. The study used a supply model to analyze the production function of defense projects. It shows that the link between the level of defense expenditures and economic growth is unidirectional. For instance, if the government increases its defense budget to promote economic growth, then the same funds use for other purposes.

Ertugrul Tekeoglu (2008) the study investigated the relationship between Turkey's defense expenditures and economic growth. The results indicate that country's political stability and economic well-being are at risk. An econometric model investigated the association between defense expenditure and economic growth. The model explored a negative association between the two. It also looked into the welfare relationship between the country's education and health sectors, which found a positive relationship between defense expenditure and education. Srinivasan P. (2013) conducted a study investigating the causal link between economic growth and public expenditure in India from 1973 to 2012; it used the co-integration approach and the error correction model. The empirical findings indicate that economic growth and public expenditure are causal.

Deepti Ahuja Deepak Pandit (2020) investigated the relationship between public expenditures and economic growth. It used copious panel data from 59 countries from 1990 to 2019; the empirical findings indicate that the causal relationship between government expenditure and economic growth is strong. It supports the theory that government spending is a vital component of recovery. The study also indicates that public expenditure positively influences economic growth after considering various control variables such as inflation and trade accessibility. It found that trade openness encourages economic growth in developing countries. However, high unemployment and population growth can prevent economic growth.

Various economic theories have been presented to explain economic growth and public expenditures. One of the most important economic theories that have been presented is Wagner's Law and the Keynes hypothesis. German economist Wilhelm Wagner (1883) noted that public spending increased in various countries during the 19th century. Wagner has focused on the state's role in society's economic and social spheres in his work. According to Wagner, the rise of social progress has affected the weight of the private and public sectors in the economy. Musgrave, Peacock, (1958).

According to Adolph Wagner, economic development and the rise of public economic activities would result in increased public expenditures. Government spending is widely attributed to the need to perform administrative and security duties. Aksoy, (1991) Keynes explained that public spending could be used to boost economic growth. Public spending could utilize as a policy tool to improve short-term fluctuations and stimulate economic growth. Keynesian economists believe that increasing government spending can stimulate the economy by increasing domestic production. John Maynard Keynes argued that increased public spending could stimulate economic growth.

Keynesian economics is a theory that explains why persistent unemployment occurs. It also explains how the government can reduce it. It explains that persistent unemployment occurs due to the reduction in the private sector's expenditures. Keynesian economists believe that increasing the total spending of the government can reduce the level of unemployment. According to Keynesian economists, the causation of economic growth is linked to the level of government spending. Therefore, the increase in government expenditures evidences the relationship between government expenditures and economic growth. In addition, the theory states that higher government spending increases the demand for other goods and services. Therefore, it leads to faster economic growth.

According to the theory of Keynesians, policymakers can generate long-term stability through a balanced budget. Therefore, it is widely believed that the government should introduce fiscal policies to stimulate the economy. These policies can help boost the economy's growth by preventing it from going into recession. On the other hand, a classical economist argues that policies that drown out private spending are counterproductive. When prices of goods risers due to government spending increases, the private sector cuts back on it is services. High government expenditures can prevent the private sector from funding its budget. It can be solved through various measures, such as increasing the interest rates or restricting the loan availability. This study aims to introduce a theoretical framework known as the Keynesian hypothesis. The study uses the framework of the Keynesian hypothesis to explain how higher government spending can stimulate the economy. The mixed results of several studies revealed that higher public expenditures could stimulate economic growth.

2.3. Relationship between foreign trade and economic growth

Modern economics Adam Smith in his book *The Wealth of Nations* (1776) states that the primary source of income for people is trade. Most of the empirical studies focus on the relationship between foreign trade and economic growth. It suggests that it has a significant affects on the country's GDP. Although economic growth and export have the same fundamental relationship, Mercantilism (16 -18) believed that the destiny of the country's economic growth is linked to the export of goods and services.

Frankl and Roemer (1999) examined the study of 150 countries, the study indicates that raise in trade will leads to increase in revenue, also states that the improvement of a physical and human capital and raise of production at a certain level of capital will lead economy to increase its growth. N Chen (2009) noted that the relationship between imports and economic growth in developed countries usually benefits from capital and technology, While developing countries usually have a comparative advantage in terms of natural resources and labor, the export and import structure of these countries formed due to their main exports are commonly agricultural and low-value products, while most of the import goods are high-tech commodities, therefore imports are an essential tool for overcoming obstacles to economic development.

RAM (1985) study conducted on manufacturing activities on various components such as GDP, capital, and labor to analyze the relationship between export and economic growth using the econometric OLS regression method for several developing and developed countries. The study revealed the vital relationship between export and economic growth in developing countries. Jang C Jin (1995) The experiments were carried out with quarterly data from 1973 to 1976 for the four sample countries by implementing (VAR) model, the result indicates that trade has a positive effect on the real GDP levels of the countries. The study's finding shows that the external factors of countries cause the causal relationship between trade and economic growth.

AL-Youssef (1997) focused on the relationship between the export and economic growth in four Arab Gulf countries: the United Arab Emirates, Kuwait, Oman, and Saudi Arabia 1973 to 1973, the study result indicates that the relationship between export volumes and economic growth in these countries statistically significant and positive relationship. Salykova (2012) studied the impact of its foreign trade policies on the

country's economic growth. The study utilized a cross-sectional analysis of 12 Commonwealth of Independent States to identify the various factors that influence economic growth, in the case of Kazakhstan. The study finding indicates the evolution of trade policies of various CIS countries studied. A strong correlation between the country's export and GDP growth was also established. Various factors such as government consumption expenditures, private consumption expenditure, and export show adverse effects on economic growth in some countries, while the positive effect is seen in others. Furthermore the study finding reveals the evolution of trade policies in Kazakhstan and other countries since 1991. Exports have been the primary source of growth for most of the CIS nations since 1992. The country's export-oriented policies have led to faster economic growth since the beginning of the study period. As a result, the country's foreign trade policy shifted toward an outward-oriented path from 1992 to 2008. O Njikam (2003) investigated the relationship between export and economic growth in 21 SSA countries. It used Hsiao's Granger-causality model to analyze the various strategies of these countries. It found among the countries studied, the growth of exports had a positive effect on the economy. However, the test results revealed that most countries have different strategies for implementing the Granger Causality model. During the EP period, the growth of agricultural exports has a unidirectional effect on the economic development of various countries. It also causes manufactured exports to grow.

B Matemvu (1997) the study tried to investigate the link between economic growth and foreign trade in the Southern African Development Community (SADC). It found strong empirical evidence supporting the link between economic growth and foreign trade in several countries. This study also pointed out that the effects of foreign trade on local economies were severe in certain countries such as Malawi. It concluded that South Africa's economic growth is linked to its export performance. Jung and Marshall (1985) conducted a series of tests in 37 countries to find the relationship between export and economic growth, they used the Granger and regression tests to measure the accuracy of their hypothesis, and the tests revealed that there was not enough evidence to support the hypothesis. Helleiner (1986) conducted a study to determine the relationship between the share of export revenues and economic growth in different African countries, using annual time series data; the study found that the share of GDP that African nations export harms economic growth. It also indicates a persistent negative correlation between GDP growth

rate and export revenues' share. However, it did not find a strong link between the share of export revenues and economic growth.

Kotan and Saygılı (1999) used two different regression techniques to analyze the import demand of Turkey; the two models compared the short-run flexibility. The first model shows that factors affecting imports, such as the country's income level, inflation rate, and international reserves, significantly affects the import function. The second model used the structural VAR method to analyze the import demand. It explores the expected changes in a real interest rate and income growth that significantly affect the import demand. Therefore, imports have a positive and long-run effect on the country's economic growth.

Bahramshah and S Rashid's (1999) the study conducted on Malaysia, shows that the country's imports and exports positively correlate. In addition, the study revealed that continuous growth of the country's exports and imports is linked to the level of its gross domestic product. Studies also showed that the country's dependence on technology and machinery has contributed to its long-term growth. Awokuse (2007) the study investigated to support the positive impact of imports and exports on the growth of several Eastern European countries. Using the integrated VAR model, it was discovered that predictions were more accurate and precise. The integrated VAR model combines the factors that affect imports with the country's expected economic growth. Therefore, combining import and export variables allows for more precise and accurate predictions. As a result, import growth is expected to positively affect the economic growth of various Eastern European countries. Furthermore, it found that the expansion of trade could stimulate economic growth.

FFR Ramos (2001) the paper investigated the relationship between Portugal's exports and its economic growth from 1865 to 1998 with an OLS regression test. The findings support the idea that the output growth in Portugal from 1865 to 1998 was influenced by a small dual economy that operated with limited intra-industry transactions. Furthermore, the study revealed the positive effects of imports on the economy related to the factors that drive growth. Awokose (2008), the paper analyzed the various growth perceptions in South America through imports. It shows that imports have the potential to boost economic growth. However, the empirical evidence also shows that controlling external shocks, such as volatility in the exchange rate, is necessary for long-run and robust export growth.

Lopez and V Thomas (1990) review the factors that will influence the level of imports in seven sub-Saharan African countries from 1966 to 1986, using the OLS method. Adjustment programs and higher interest rates were considered to check their effect on imports. The absorption level is the main factor influencing the level of imports. It is also influenced by the level of government consumption stimulus and the reduction in investment. The ratio of exports to debt is used to measure the effectiveness of import barriers. It is calculated as an indicator of the availability of foreign exchange. They found that real income or gross domestic product significantly affected imports. The study's finding suggests that a more comprehensive analysis of import demand is needed to assess the changes in the demand for goods following the implementation of policy reforms. FM. Mweha (1993) this paper used an error correction model to study the demand flexibility of various aggregate imports in Kenya from 1964 to 1891; the results indicate that the demand flexibility of the imports is not significant. More generally, the authors suggest that policies that boost export earnings and allow access to external capital are more likely to significantly impact import volumes than policies that focus on exchange rate management. The link between real income and import prices is suggested as a potential explanation for the high import volumes of consumer goods. However, it found that the capital goods industry is also affected by real income.

Nyasulu and Themba (2013) conducted a study to analyze the effects of foreign trade on economic growth in Malawi from 1970 to 2010. A neoclassic econometric growth model was used to ensure statistical accuracy. The study revealed that exports significantly affect the country's economic growth, while imports have a negative effect. The labor force and capital effects were also positive. Although the study revealed that the effects of trade on the economy were adverse, it confirmed the existence of long-run equilibrium. The study's findings indicate that country should continue focusing on its export-led growth strategies. Moreover, the study supports the government's efforts to boost the country's economic development and encourages the nation to explore other avenues of growth, such as through value-addition. Doing so could help improve the quality of the labor force and lower the country's imports.

Pawlos (2002) used error correction and co-integration mechanisms to separate the long-run and short-run relationship between Ethiopia's imports and GDP from 1960 to 1995. It shows that real income impacts long-term imports, but these impacts are not significant enough to alter the country's current import demand. The effect of imported

capital goods and intermediate goods on economic growth is also studied. It shows that the long-run elasticity of imports is positive. The real international reserve can also affect imports positively. However, the short-run elasticity of imports is still significant. It suggests that policies that promote a balance of payment position may not improve it. EM Ekanayake (1999) used co-integration and error-corrected models to analyze the relationship between economic growth and export expansion in eight developing Asian countries from 1960 to 1997. The paper supports the export-led growth hypothesis and provides evidence of the positive effects of export expansion. The empirical results show that the link between economic growth and export expansion is strong in most Asian developing countries.

The paper also shows that the link between economic growth and export expansion is strong enough to support the export-led growth hypothesis. MU Din (2004) the paper used Johansen co-integration and Granger causality tests from 1960 to 2002 to examine the export-led growth hypothesis of the five largest economies in South Asia. The study focuses on the South Asian countries that have adopted export promotion policies in their growth strategies. The study provided a detailed analysis of the role of imports in the export-led growth model of South Asia. The results show that the export-led growth hypothesis is linked to the output growth of India, Bangladesh, and Sri Lanka. Although the export-led growth hypothesis is presented for most countries, it lacks empirical evidence for long-run relationship among the relevant factors. These results contrast the earlier studies that suggested the export-led growth hypothesis is a long-run phenomenon for most countries in South Asia.

AC Jordaan (2007) investigated the relationship between exports and GDP in Namibia from 1970 to 2005. Time-series econometric techniques test the hypothesis that a growth strategy based on exports leads to higher productivity. The study's findings indicated that the relationship between export and GDP is influential and vital. M Haseeb M Azam (2011) the study investigated to find out the relationship between Malaysia's economic growth and foreign direct investment. The data was collected from 1971 to 2013, based on the annual time series. Auto-Regressive Distributed Lag (ARDL) model was used to investigate the effects of various factors. The study shows that the productivity factor and the external effect of exporting contribute to the non-export sector's growth. Therefore, the study supports the country's export and FDI-led growth models. It suggests Malaysia

should pursue a liberal investment policy and continuous export promotion to maintain and bolster its economic growth.

JD Sachs (1995) states that free trade supports the idea of increase productivity and provides additional resources to support economic development. However, it is also believed that trade's contribution to growth depends on the country's environment and policies. ZA Sultan (2018) this paper investigated to establish a long-term relationship between the growth of Saudi Arabia's economy and oil export. It shows that an increase in oil export positively affects the government's consumption expenditures. Furthermore, the study argues that any disturbance in the oil market could affect the country's economy. It uses the Johansen co-integration method to analyze the relationship between oil export and the country's consumption. Despite the positive effects of oil export, the study warns that the country's dependence on imports could negatively affect its economic growth.

Y Chuang (2000) the paper investigated the causal relationship between human capital accumulation and economic growth in Taiwan, Using error-correction and co-integration methods, Data collected from 1952 to 1995. The paper tested the relationship between human capital accumulation and Taiwan's economic growth and real GDP, as well as export and higher education attainment. It found that capital accumulation promotes long-run growth while exports stimulate growth. The paper's main findings show that capital accumulation promotes long-run growth and stimulates exports. The paper supports the theory of the export-led growth hypothesis.

K Olayiwola (2013) the study investigated to analyze the contribution of foreign direct investment (FDI) to the non-oil export performance of Nigeria. It supports the notion that the size of the FDI inflow goes to the oil sector. This study argues that despite the advantages of foreign capital, it still focuses on taking advantage of the cost-efficient production conditions of the oil industry. The study further shows that the relationship between FDI and non-oil export performance is unidirectional. It shows the impact of shocks on the oil industry's performance, followed by an inactive response. The study also shows that despite the potential advantages of foreign investment, it is still necessary for the non-oil export performance of Nigeria to improve.

M Taghavi (2012) the study focused on the relationship between Iran's import and export figures from 1962 to 2011 using the econometric VAR method. The paper examined the indirect long-run and direct long-run relationship between imports and exports figures. The study's findings supported a long-term relationship between export

and the country's economic growth. The study revealed that import harms the country's economic growth and it is a long-term effect. The study's empirical results revealed that export positively correlated with the country's economic growth. The study also showed that a shock in the export positively affected the country's economic growth. However, a shock to the import had a negative effect. Adam Smith (1776) argued that people's natural tendency toward self-interest leads to greater prosperity. For example, he argued that allowing people to trade freely would be able to do so without being restricted by government regulations. "Their everyday economic choices influence humankind's desire to promote the public interest," A Smith said, made to maintain their security and promote their gain. He added that this individual's intentions are seldom different from those of others.

The free-market system is known as the invisible hand, but support is needed to bring it about. The market emerged from the labor divisions that society had been experiencing. After becoming a baker, it is now necessary for someone else to provide for clothes and meat. Meanwhile, the people who specialize in clothes now rely on them for theirs. The various economic distribution and automatic pricing mechanisms act as their direct and indirect effects are controlled by central planning authorities. Adam Smith (1776) The concept of the invisible hand, which A. Smith identified as the sum of various phenomena that happen when consumers and producers transact in commerce, became the main reason for the existence of free-market theories. The invisible hand concept also states that society will thrive if a trade occurs without regulation. The government is not always expected. It comprises individuals and groups who have defined goals and intentions through force. However, in the opposite direction, macroeconomic forces are voluntarily engaged in the market until government policies can suppress them. A. Smith believed that the government's responsibilities were limited to the defense of the country, the enforcement of legal rights, and the punishment of crime.

Exports are considered one of the most crucial factors that affect a country's economic growth. They boost the domestic industry's ability to expand and create mass production. Several experts believe the link between economic growth and export is complex. Some argue that an increase in export can lead to higher economic growth. A rising in export volume can help developing nations lower their poverty rate. Aside from economic growth, they also believe that exporting helps improve the standard of living of developing nations. It is widely known that trade increases economic growth. Trade allows

economies to benefit from the increased presence of foreign direct investment. It encourages innovation and the expansion of markets. The concept of free trade encourages productivity and the development of new technologies. It also helps minimize the diversion of resources and promotes the transfer of knowledge and skills.

2.4. Public expenditures foreign trade and economic growth of Afghanistan

According to Afghanistan Ministry of Mines (2019) Afghanistan's mineral resources including gold, copper, and iron are predicted to be worth more than \$ 3 trillion. However despite the considerable size of the country's mineral deposits, the capacity to export of these resources are still years away. According to the World Bank Indicator (2020) Afghanistan's cross-border trade is among the worst in the 189 countries surveyed. Exports have significantly declined since 2008 dropping by as much as 50 percent. Afghanistan Officials (2020) attributed the drop in export to various factors. They include the political instability and weak infrastructures.

Moreover, Central Asian nations in 2016 are unwilling to expand their trade with Afghanistan due to its security and political uncertainties. According to World Bank Enterprise Survey (2018), Exports in Afghanistan rose to about \$100 million in 2002 and reached \$470 million in 2012. If the unrecorded goods are included, the total value of exported goods could reach \$2.6 billion. In 2008, exports reached \$547 million, primarily due to the low starting point may have affected the rant money's injection into a slight trend in export volumes may have been affected by the low starting point.

A report by the Asian Development Bank (2012) published that Afghanistan's export could reach \$1 billion by 2010. Also International Monterey Fund (2012) noted that without substantial improvement in regional trade agreements, Afghanistan's export could reach \$1 billion in 2010. Moreover, Afghanistan's main trading partners are China, Pakistan, Iran, and Uzbekistan. Afghanistan's total trade with Central Asian nations amounted to \$1.5 billion in 2008.

According to the Afghanistan Ministry of Finance (2008), the value of Afghanistan's imports from Pakistan was \$597 million in 2008, while its exports were valued at \$151 million. Despite its dependence on foreign products, Afghanistan's exports mainly focused on traditional items. About 80 percent of Afghanistan's dried fruit goes to Central Asia. According to The Organization for Economic Cooperation and Development OECD

(2009) Most of the products exports through unofficial channels due to the corruption and trafficking on the country's eastern border. Therefore, Central Asian nations are reluctant to expand their trade with Afghanistan.

Despite the importance of the former Soviet Union to Afghanistan's commercial relations with Moscow, the two countries' relationship eventually broke down due to the anti-Soviet insurgency. The civil war in Tajikistan, which lasted from 1991 to 1996, had significant affects on the economies of the Central Asian nations. Since the insurgents frequently used Afghanistan as their base of operations, the lack of official economic relations between the two countries affected their trade. As a result, transitioning from the civil war to the recession was very challenging for Afghanistan's economy.

According to Regional Economic Outlook Asia and Pacific (2010) from 2001 to 2010, all Central Asian countries experienced economic growth. In 2010, Turkmenistan's economy grew by double-digits. Trade growth in Central Asian countries has mainly been influenced by the increasing demand for metals and hydrocarbons. Central Asian countries' exports to the European Union and Russia accounted for about 69 percent of their total trade. The trade volume between Central Asian countries and other nations remains dismal. Afghanistan's share of Tajikistan's foreign trade remained at less than one percent, Due to the unresolved issues related to customs technology and border clearing Afghan officials are reluctant to expand their trade with Central Asian nations.

The World Bank's Logistics Performance Index (2018) measures the ease of doing business in Central Asian countries, showing some nations have improved their rankings. For instance, Afghanistan gained 15 places to rank fifth on the index. Other nations such as Kazakhstan and Uzbekistan improved their rankings. Over the past decade efforts have made in Central Asia to improve transport facilitation through establishing infrastructure.

The Asian Development Bank (2014) is coordinating with the various governments of Central Asian nations to improve the region's transportation infrastructure. This effort is part of the Bank's strategy to promote trade facilitation. Through the Central Asian Regional Transport Commission (2014), or CAREC, countries have already implemented over 120 transport projects worth about \$19 billion. Over the next seven years, the governments of Central Asian nations have planned to build the other railway and road

projects worth over \$38.8 billion. For Afghanistan, the development of its transportation infrastructure has been acknowledged as one of its achievements during the past decade.

According to the Afghanistan Ministry of Transport (2002) Afghanistan only had about 50 kilometers of paved road. Today, it has a 3,200- kilometer-long ring road. The new railway, a 75-kilometer-long project, runs between Afghanistan and Uzbekistan. It can transport up to 40,000 tons of cargo per month. Due to the unreliable supply route through Pakistan, the US and its allies rely on the railway to transport their supplies. As part of its effort to reduce its dependence on Pakistan, NATO (2016) has started a feasibility study for a 300-kilometer east-west railway line.

Despite the significant infrastructure development projects in Central Asia, the lack of soft infrastructure components has hindered the expansion of trade between Afghanistan and Central Asia. In addition, customs officials of Central Asian countries have expressed concerns about the safety of the goods coming from Afghanistan due to the perception of illicit substances.

Central Asian nations are still not ready to integrate their customs and transportation systems. In contrast, Afghan Ministry of Finance with the collaboration of World Bank at the beginning (2004) has implemented a modern customs system that allows traders to monitor and communicate with officials across borders easily and many Afghan customhouses have been established to allow residents easily share information about their country.

According to the Afghan Ministry of Trade (2014) the high land transportation cost and lack of confidence in the partnership between Central and South Asian nations also affect the flow of goods between the two regions. Afghanistan's potential to connect Central and South Asia is immense. Its potential to become a transit route for India's goods, it could create immense opportunities for both countries. Central Asian nations could also benefit from Afghanistan's growing trade with its leading trading partner. According Socio-Economic Outlook (2020) exporters believe that Afghanistan's potential as a trade partner is limited, if the New Silk Road Initiative focuses on regional traffic instead of the country's economy. Central Asian nations are still not convinced that the country can truly become a transit hub. The New Silk Road Initiative has remained ambiguous since it lacks a clear strategy and a budget.

According to the Afghanistan Ministry of Energy and Water (2018), a project related to the Central Asia-South Asia electricity transmission (CASA - 1000) and trade project aims to boost Central Asian economies by providing electricity to Afghanistan and Pakistan. Through the project, Afghanistan would receive up to 300 megawatts of electricity annually, which would allow it to transit through Pakistan's national grid. The project's technical implementation is expected to start in 2014. The (TAPI) pipeline, which is expected to cost about \$7 billion, is a 1,735-kilometer pipeline that will carry gas from Turkmenistan to Pakistan and India.

Despite the slow pace of the project's development Afghan officials has started to believe that the project will be completed by 2017. The pipeline, which is expected to carry about 3.2 billion cubic feet of gas per day, will construct from Turkmenistan's Dault-Abad fields. The gas will be transported through 735 kilometers of Afghan territory and 800 kilometers of Pakistani territory. The project's partners signed an agreement in 2010.

Afghanistan is became one of the biggest recipients of foreign aid. The country received over \$100 billion in assistance from the US and other international organizations. The ratio of aid to gross domestic product remained low. This issue can trigger political and economic instability.

According to the Afghanistan Ministry of Finance (2018), the aid-dependence ratio of Afghanistan's gross domestic product was about 71%. While the security and stability operations have received the bulk of the aid, only a tiny portion, or about 51% of it, has been allocated to the economy. As a result, the country's GDP has remained dependent on aid. On August 15, 2021, Afghanistan's political change took place, even as the country was already in need of humanitarian assistance. The uncertainty about the future political status has affected ordinary citizens. The political change on August 15, 2021, has created new conditions, such as the drop in foreign aid has significantly affected the economy, as it was already declining,

According to Socio-Economic Outlook (2022) Afghanistan's economic growth rate could shrink by up to 20 percent. The dependence on food and energy imports is expected to reduce by half. The report also warns that the banking sector is at risk of financial instability. The combination of these factors could cause the poverty rate to reach a level that exceeds the national income threshold.

According to National Statistics Information (2021) increase in poverty was already caused by COVID-19 and the national poverty rate reached 55 percent in 2017. This increase was slightly unexpected since the per capita income declined, and affected the country's economy. Since then, the number of people living in poverty has gradually increased. According to the latest estimation of the Food and Agriculture Organization WFP (2021) almost 23 million people 2022 will require food assistance.

According to Socio-Economic Outlook (2022) the restrictions on women's employment by Taliban will also harm the economy and society. It will prevent new women from entering the workforce. It will reduce the income of women who are working. It also harms the demand for various products and services. According to the United Nations Development Program for Afghanistan (2022), the reduction in employment will harm the country's gross domestic product and household consumption. A complete ban on female employees may cause some to lose their jobs in the short term, but it will not immediately affect the overall employment rate.

According to UNDP Afghanistan (2020) employment segregation is the most sensitive issue the output caused by segregation is expected to be higher than the regional averages. According to the UNDP (2020), if the government does not restrict women's employment, the contraction of gross domestic product may reduce by 3 to 5 percent. It could result reduction in consumption of around 5 percent. The ban's impact on women's employment will be more significant in households with higher socioeconomic status. The country's low level of inequality has caused the consumption of the top quintile to reduce by around 4 percent. Human rights are an issue that Afghanistan's government and its people are bound to address. However, implementing the ban on women's employment is bound to harm the country's current production.

The UN Security Council (2021) expressed its support for women's rights in Afghanistan and recognized that the Taliban had restricted them. However, the organization warned that the humanitarian challenges would become much more complicated if they were still excluded from employment.

There is a strong link between humanitarian needs and sanctions on Taliban although, they usually targeted by the governments of the day. The UN Security Council (2021) humanitarian aid program for Afghanistan expected to expand as donors provide

additional funds. It discussed how the economic crisis affected the country's social conditions.

According to National Statistics Information classification (2021) Almost 7 million people in Afghanistan were considered food insecurity by October 2021. Nineteen million of them are considered high food insecurity. The number of people suffering from food insecurity is expected to increase to almost 9 million by March 2022 The World Food Program organization WFP (2021) reported that most vulnerable individuals should prioritize humanitarian assistance. This assistance should supplement to support of vulnerable households during the winter wheat season and prevent the further deterioration of the rural population.

In addition, the governments of a given country usually impose these restrictions to constrain the private sector from operating in that country. They can also limit the country's economic growth and put people into greatest need under severe constraints. Sanctions also affect non-profit organizations operating in the country. In addition, these restrictions can enforce by various agencies and individuals. They include the ban on selling products and services in the country and the refusal to conduct international financial transactions. Following a change in the political landscape of Afghanistan on August 15, 2021, the country's economic situations become worsened. It had already been experiencing a shortage of external support. The effects of these restrictions are already felt across various sectors, including the social and economic sectors.

Despite the harsh restrictions, there is a global agreement to ensure that the lack of humanitarian assistance does not exploit the people of Afghanistan. Human rights violations, including those against women and minorities, have created conditions for resistance to removing the existing sanctions against the Taliban. Although the sanctions are generally clear, they can also be less clear when guiding what can and cannot be done by the private and non-government sectors. For instance, in Afghanistan, the implementation of sanctions can be complex as they apply to the government and the private sectors, due to the country has no control over the activities of designated terrorist groups. The status of the Taliban as a sanctioned entity is also not clear. This uncertainty could affect the operations of international financial institutions in the country. Beyond this exact status of the Taliban and the various sanctions that will be implemented are still

unclear. Although the sanctions can target individuals working with the Taliban, they can also be limited to groups and institutions unrelated to the government.

If the activities of these groups are conducted outside the country, then the sanctions against the Taliban government may not apply to Afghanistan. However, these sanctions can also apply to Afghanistan's government and people in the most severe form. It would be similar to the restrictions imposed on North Korea and Iran. The same course of sanctions in Afghanistan is still unclear. For instance, the frozen assets of the Da Afghanistan Bank (DAB) could be interpreted as a sanction against the entire government, not just a limited group. In response to the humanitarian situation in Afghanistan, the US and other international organizations are allowing humanitarian activities to be conducted. Whatever the approach is taken, the goal should be to provide the most humanitarian relief possible to the people of Afghanistan. It should also be flexible enough to allow private and non-government organizations to operate more effectively.

According to the UN Secretary-General (2021), encouraging private investment in Afghanistan's economy can help and boost the country's recovery. Despite the apparent literature and normative beliefs the study aims to provide a unique analysis of the relationship between public expenditures foreign trade and economic growth and the biggest obstacles that affect the performance of small and medium size enterprises inside the country.

2.5. Conclusion remarks

This chapter judged on the available various theoretical and empirical studies related to public expenditures, foreign trade and economic growth. It also provides a comprehensive understanding of the relationship between public expenditures, foreign trade and economic growth in Afghanistan. Moreover, the finding of several theoretical and empirical studies indicates positive effect between public expenditures, foreign trade and economic growth, while others shows the negative effect.

In Afghanistan, the apparent literature and normative beliefs justify the relationship between foreign trade and economic growth. First, Afghanistan's exports are mainly made up of dry and fresh fruits. Due to the lack of infrastructure, such as roads and cold storage facilities, Afghanistan cannot rely on the export-led growth hypothesis. Second, the effect of exports on the country's economic growth is affected by political instability; it is one of

the worst scenarios for Afghanistan. Even with years of studies conducted in Afghanistan, the export-led hypothesis remains erroneous. Finally, the different trade policies have also prevented exports from contributing to the country's economic growth.

Furthermore the theories and empirical studies show the relationship of public spending and economic growth is positive which is compatible with Keynesian framework. Despite the results of theoretical and empirical studies it is important to identify the relationship of these variables with the help of descriptive and correlation analysis. Therefore the next chapter will describe the different research methodologies with the research philosophy and approach as well as data collection process with identifying variables.



CHAPTER 3

3.1. RESEARCH METHODOLOGY

The first section of the study talks about the research methodology. then describes the various steps involved in the study's development, such as the collection of data, the establishment of a research structure, and the use of data analysis methods. It also provides an introduction to the study's several variables and the conclusion statements.

3.2. Research philosophy

The study's primary purpose is to investigate the relationship between public expenditures, foreign trade, and economic growth. It uses the econometric co-relational analysis to carry out its study. It also analyzes the biggest obstacles that affect the performance of small and medium-sized enterprises in Afghanistan. Through descriptive-analytical design, it aims to investigate the phenomenon of these enterprises.

3.3. Research approach

This study aims to find the relationship between government expenditures, foreign trade and economic growth. The study uses a deductive approach to test the hypothesis and the biggest obstacles that affect the performance of SMEs in Afghanistan.

3.4. Research design

The study aims to conduct a quantitative research method using descriptive and Co-relational approaches to investigate the relationship between public expenditure, foreign trade and economic growth and the biggest obstacles that affect the performance of SMEs in Afghanistan.

3.5. Data collection procedure

To investigate the research, time-series data will be used from 2008 to 2020. Primary data will be collected from various sources such as World Development Indicator, Annual Macro Fiscal Reports (Ministry of Finance), National Statistics Information Agency (NSIA) and World Bank Enterprises. Moreover, secondary data will be collected from Books, Journals, reports and authentic internet sites.

3.6. Method of analysis

This study aims to determine the country's fluctuation indicators from a distinct perspective, correlation technique will be used to test the relationship between public expenditures, foreign trade and economic growth and to identify variables and the direction of their movement. The study would also include a detailed descriptive analysis on the biggest obstacles that affect the performance of firms in Afghanistan.

3.7. Variables

3.7.1. Government expenditures (capital expenditures)

Capital expenditures are the expenses that the government has allocated to increase a country's production capacity. These include the construction of dams, schools and colleges, transportation, and telecommunication equipment. According to the Ministry of Finance annual report (2020) the government's capital expenditures are allocated for purchasing all the various assets worth more than 50,000 Afg. Rosen (1976) expenditures improve a country's capital stock and contribute to sustained economic growth. These expenditures also contribute to the government's recurrent expenditures, for this study we have used the government capital expenditures as the independent variable.

3.7.2. Foreign trade (exports)

Export is an excellent indicator to measure a country's economic growth. Adam Smith (1776) exports fuel the foreign trade, contribute to the country's gross domestic product, and provide a living standard for its residents. For this study we have used the export as foreign trade proxy as an independent variable.

3.7.3. Economic growth (GDP)

The gross domestic product is the market value of all the goods and services produced in a given year. Gross domestic product is a good indicator of economic growth because it measures the effects of inflation and deflation. Simon Kuznets (1934) Economic growth is a primary objective of any government. It can lead to a better quality of life and employment and high economic growth for the country's development. For this study we have used the real gross domestic product (GDP) as a dependent variable.

3.7.4. Small and medium size enterprises (biggest obstacles)

According to Pissarides (1999) Small and medium-sized enterprises are typically the most dynamic sector of emerging economies. Firms are capable of generating significant economic development. Firms are the most supportive part of the developing countries economy. However, despite their significant role they are still facing tough challenges due to the rapid emergence and evolution of new technologies and the globalization of their operations it has been challenged since the 1950s. Therefore to identify the most common obstacles that are hindering businesses in the country, we have taken biggest obstacles as independent variables and SMEs as a dependent variable.

3.8. Conclusion remarks

The chapter provides overview of the research methodology, which guides the study's improvement. It describes the main ideas and procedures that followed by the implementation of the study and structure of the research includes data source and collections. It also provides an overview of various data analysis and its methods used in the study with introduction of several variables.

Moreover, it's necessary to investigate the relationship between public expenditures, foreign trade and economic growth in Afghanistan with the help of descriptive and correlation analysis. Therefore, the next chapter will provide a comprehensive different statistical analysis to describe the results of association between variables and provides the conclusions remarks.

CHAPTER 4

4.1. CORRELATION ANALYSIS

This chapter presents the results of the study, which involved analyzing the data collected during the course of the study. It begins with a case processing summary and tests of normality, which also includes the results of the Spearman and Kendall's rho correlations analysis.

4.2. Descriptive Statistics

Descriptive statistics of variables are presented in the following tables. Economic growth (GDP) is the dependent variable, government expenditures (Capital expenditures) and foreign trade (Export) are independent variables measured by the US dollar.

Table 4.1. Case processing summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Economic Growth (GDP)	13	100.0%	0	0.0%	13	100.0%
Government Expenditures (Cap/Exp)	13	100.0%	0	0.0%	13	100.0%
Foreign Trade (Export)	13	100.0%	0	0.0%	13	100.0%

The above table shows the number of valid values collected during the case processing. Since we have chosen pair wise data handling for the analysis, the complete information about each variable is stored in the table (Table 4.1). It shows the full details of the various variables included in the analysis. It also shows that none of the missing values were found.

Table 4.2. Descriptive analysis

		Statistic	Std. Error	
Economic Growth (GDP)	Mean	18334.721	881.8162	
	95% Confidence Interval for Mean	Lower Bound	16413.408	
		Upper Bound	20256.033	
	5% Trimmed Mean	18525.755		
	Median	19477.070		
	Variance	10108797.278		
	Std. Deviation	3179.4335		
	Minimum	11422.0		
	Maximum	21808.9		
	Range	10386.9		
	Interquartile Range	4974.2		
	Skewness	-1.026	.616	
	Kurtosis	.239	1.191	
Government Expenditures (Cap/Exp)	Mean	220285.154	23084.8651	
	95% Confidence Interval for Mean	Lower Bound	169987.554	
		Upper Bound	270582.754	
	5% Trimmed Mean	222407.782		
	Median	254484.000		
	Variance	6927842935.474		
	Std. Deviation	83233.6647		
	Minimum	83041.0		
	Maximum	319322.0		
	Range	236281.0		
	Interquartile Range	151644.0		
	Skewness	-.506	.616	
	Kurtosis	-1.408	1.191	
Foreign Trade (Export)	Mean	1814.882	159.7478	
	95% Confidence Interval for Mean	Lower Bound	1466.822	
		Upper Bound	2162.943	
	5% Trimmed Mean	1783.547		
	Median	1609.470		
	Variance	331751.735		
	Std. Deviation	575.9789		
	Minimum	1136.0		
	Maximum	3057.8		
	Range	1921.8		
	Interquartile Range	819.5		
	Skewness	.871	.616	
	Kurtosis	.169	1.191	

The descriptive box shows the various statistics about the continuous variable these include skewness and kurtosis categories both concepts are commonly used to describe

the statistical data, for economic growth the skewness of -1.026 (SE= .616) and kurtosis of .239 (SE=1.191) for government expenditure the skewness of -.506 (SE=.616) and kurtosis of -1.408 (SE=1.191) for foreign trade the skewness of .871(SE=.616) and kurtosis of .169 (SE=1.191).

Computed z-value for economic growth skewness -1.66 and kurtosis 0.20 for government expenditures skewness – 0.82 and kurtosis -1.18 for foreign trade skewness 1.41 and kurtosis 0.14 the z-values of these variables are between – 1.96 and + 1.96. In our example, the data is slightly skewed and kurtotic for variables but not significantly different from normality. We can assume that the data are approximately normally distributed. It is because the data is not significantly different from the norm of skewness and kurtosis.

Table 4.3. Tests of normality

	Kolmogorov-Smirnov ^a			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Economic Growth(GDP)	.193	13	.198	.895	13	.113
Government Expenditures(Cap/Exp)	.198	13	.173	.886	13	.086
Foreign Trade (Export)	.178	13	.200*	.926	13	.305

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

Since the sample size of the data was small, it was important to determine the distribution of the variables for choosing an appropriate statistical method. Therefore, the first step was to perform a Shapiro-Wilk test to check if there was evidence of non-normality, but this test did not find evidence of non-normality.

The test of normality (Table 4.3) indicates that economic growth (GDP) (W = .895, p-value = .113) government expenditures (Cap/Exp) (W = .886, p-value = .086) foreign trade (Export) (W = .926, p-value = .305). The p-value of all variables is greater than 0.05. Based on this outcome, we decided to implement non parametric correlation tests.

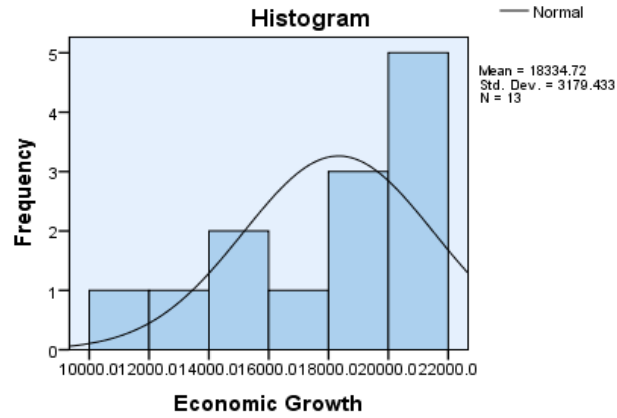


Figure 4.1. Test of normality in histogram economic growth (GDP)

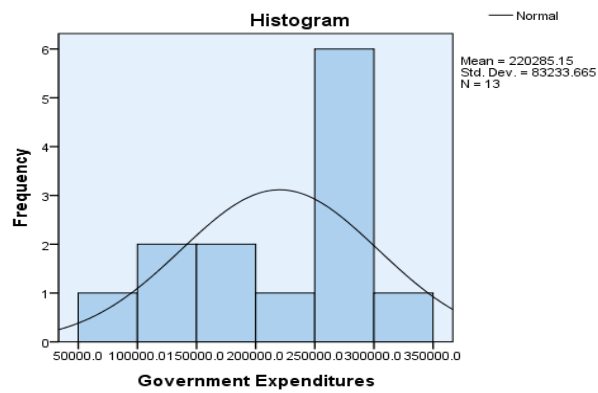


Figure 4.2. Test of normality in histogram government expenditure (Cap/Exp)

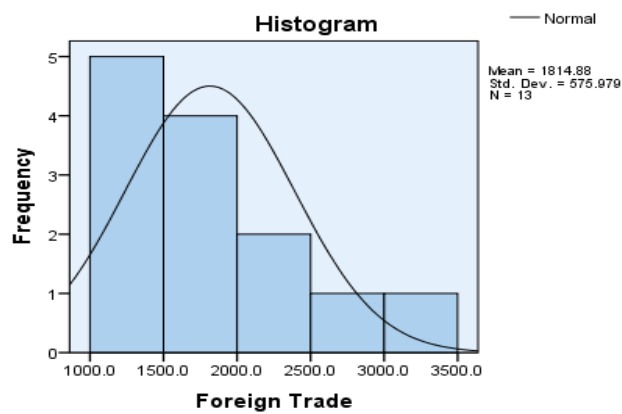


Figure 4.3. Test of normality in histogram foreign trade (Export)

Histograms of the data with a small sample size produced a smooth standard bell shaped curve similar to the one shown in (Figure 4.1), (Figure 4.2), and (Figure 4.3). In addition, the data is normally distributed and has a fairly symmetrical peak, and the assumption of normality can meet.

4.3. Correlation tests

The concept of the correlation used to analyze the strength of relationship and direction between two variables. The concept states that a change in one variable value will result change in another variable value.

Table 4.4. Kendall's tau_b correlation

			Economic Growth (GDP)	Government Expenditures (Cap/Exp)	Foreign Trade (Export)
Kendall's tau_b	Economic Growth (GDP)	Correlation Coefficient	1.000	.897**	-.359
		Sig. (2-tailed)	.	.000	.088
		N	13	13	13
	Government Expenditures (Cap/Exp)	Correlation Coefficient	.897**	1.000	-.410
		Sig. (2-tailed)	.000	.	.051
		N	13	13	13
	Foreign Trade (Export)	Correlation Coefficient	-.359	-.410	1.000
		Sig. (2-tailed)	.088	.051	.
		N	13	13	13

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

Kendall's tau-b non parametric correlation test has been conducted in (Table 4.4) to investigate the relationship between government expenditures, foreign trade and economic growth. The correlation analysis shows statistically significant positive relationship between economic growth (GDP) and government expenditures (Cap/Exp). Indicates that $\tau_b = .897$, $p = .000$. It reveals that increasing in government expenditures would lead to higher economic growth. Furthermore, the correlation analysis shows statistically significant negative relationship between foreign trade (Export) and economic growth (GDP). Indicates that $\tau_b = -.359$ $p = .088$. It means that an increase in foreign trade would not lead to boost the economic growth (GDP).

Table 4.5. Spearman's rho correlation

			Economic Growth (GDP)	Government Expenditures (Cap/Exp)	Foreign Trade (Export)
Spearman's rho	Economic Growth (GDP)	Correlation Coefficient	1.000	.973 **	-.599*
		Sig. (2-tailed)	.	.000	.031
		N	13	13	13
	Government Expenditures (Cap/Exp)	Correlation Coefficient	.973**	1.000	-.632*
		Sig. (2-tailed)	.000	.	.021
		N	13	13	13
	Foreign Trade (Export)	Correlation Coefficient	-.599*	-.632*	1.000
		Sig. (2-tailed)	.031	.021	.
		N	13	13	13

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

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

Spearman's non parametric correlation test has been conducted in (Table 4.5) to investigate the relationship between government expenditures, foreign trade and economic growth. The correlation analysis shows statistically significant positive relationship between economic growth (GDP) and government expenditures (Cap/Exp). Indicates that $r_s(13) = .973, p = .000$. It reveals that increasing government expenditures would lead to higher economic growth. Furthermore the correlation analysis shows statistically significant negative relationship between foreign trade (Export) and economic growth (GDP). Indicating $r_s(13) = -.599, p = .031$. It means that an increase in foreign trade would not lead to boost the economic growth.

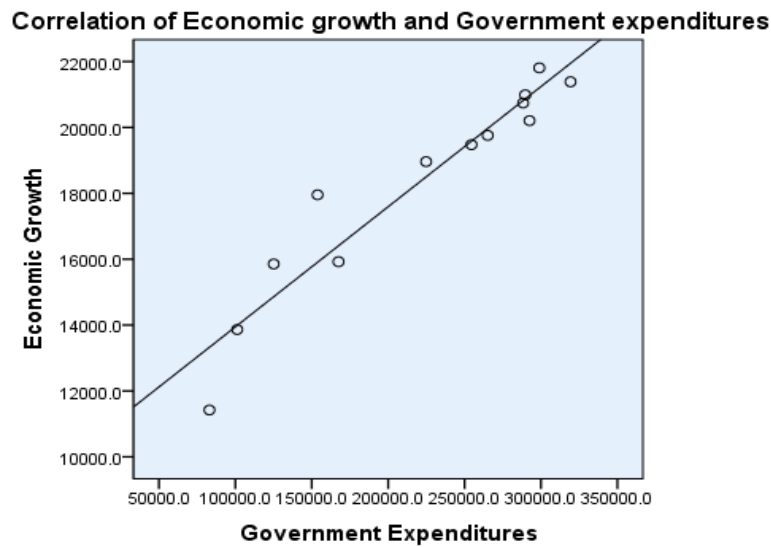


Figure 4.4. Relationships of economic growth and government expenditures in scatter-plot

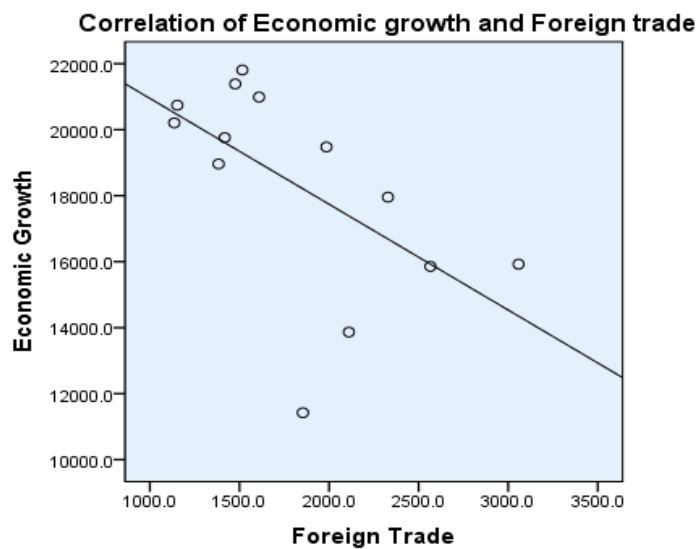


Figure 4.5. Relationships of economic growth and foreign trade in scatter-plot

Scatter-plot in (Figure 4.4) indicates the result tend to clusters together in a diagonal line in graph slopes upward from zero shows that economic growth has a positive correlation with government expenditures. In contrast, a scatter-plot in (Figure 4.5) shows that the clusters are not together in a diagonal line in graph starts high at zero and gradually slopes downward. It means that economic growth has negative relationship with foreign trade.

4.4. Conclusion remarks

The main conclusions are consistent with the theories and findings of other similar studies. Therefore, the values of the first two variables are compatible with the proposed Keynesian framework. It shows that increase in government spending will improve economic growth in the form of real GDP. The study supports the proposed theory that exports will stimulate economic growth; however the last variables are incompatible with the proposed theory. The result of correlation analysis shows that the relationship between foreign trade (Export) and economic growth (GDP) in Afghanistan is negative. However, the study proposed that increased exports would stimulate economic growth in Afghanistan. Nevertheless, the study still aims to justify theoretically and empirically the negative relationship of foreign trade and economic growth by studying the several ways that can be rationalized as follows: First, Afghanistan's primary export is fresh and dry fruits. Therefore, the lack of infrastructures and weather conditions in the country are the factors that affect the prices of these commodities. Since the country has experienced significant changes in its weather conditions over the years, it cannot consider an export-led growth hypothesis. Second lack of bilateral strong trade policies with its trade partners this is the most significant factor that affect the prices of commodities. Finally the export could not deliver positive changes in Afghanistan's economic growth due to political instability, government's unfair actions and mismanagement prevented Afghanistan from exporting. It is unsurprising that the export-led hypotheses are still not supported in the country. Despite the government's efforts, Afghanistan's trade deficit remained high, because the government's focus has been on finding new trade partners which could benefit the country's economy, for instance, the Cha Bahar Port and the Air corridor connecting India, the Middle East, European, and America. The main conclusions are consistent with the theories and findings of other similar studies. Although, due to the limitations of small simple size of data, we have had difficulties to making an accurate assessment of the various aspects of public spending and foreign trade to improve the GDP growth in the country. However, the main findings of this study support the existing literature on the subject. Since it is significant and massive topic it needs to dispense extra evidence for the debate to the value of these variables in the country. Moreover, it's necessary to understand the various obstacles that affect the operation of SMEs in the country, Therefore the next chapter will provide a comprehensive theoretical and statistical descriptive analysis with its results on SMEs in Afghanistan.

CHAPTER 5

5.1. SMEs in AFGHANISTAN

This chapter explores the background of small and medium-sized enterprises (SMEs). It also explores the literature reviews and provides a variety of analytical tools and data sources that can be utilized to study and analyze the subject.

5.2. Background of the study

Small and medium-sized enterprises (SMEs) are considered to be the backbone of developing countries. Afghanistan is home to a flourishing small- and mid-sized enterprise (SMEs) industry. This sector is expected to contribute the country's economic growth. Despite the Afghanistan conflict challenges, the private sector has remained resilient. As a result, the country's mid and small enterprises have the potential to contribute to the rebuilding of the nation. Afghanistan research and evaluation unit (2020) estimated that SMEs contribute half of the country's economic output and provide 35 percent of the jobs.

According to Abeh (2017) small and medium-sized enterprises (SMEs) are often faced with various challenges due to the environment. These include lack of funds, political and religious factors, infrastructure and social and cultural factors. According to Naithani (2007) the lack of support from government for the small and medium-sized enterprises (SMEs) has led to their failure, because the government has a policy that allows a cut-throat environment for foreign competitors and prevents them from properly competing with domestic producers. Besides the state actors, SMEs also face various problems from non-state actors. According to Mathai (2015) the main factors that affect the development of SMEs are the lack of credit, the lack of distribution channels, the lack of skilled and experienced workers, and the lack of advanced technology.

According to a recent report by the Organization for Economic Cooperation and Development OECD (2020) only 3.5 percent of Afghanistan's economic output is allocated for bank loans to private enterprises. This percentage is lowest in the world. Due to the lack of accurate data in the land register, most of the real estate properties in Afghanistan are not considered collateral for bank loans. Due to lack of proper financial accounting procedures and business plans, many companies in Afghanistan do not have access to bank loans. To mitigate the risks associated with lending, banks often require loan guarantees.

The Afghan Credit Guarantee Foundation ACGF a non-profit organization (2019) indicates many of the organization's partners would not be able to provide loans to SMEs without these guarantees. Aside from the actual risks, the lack of experience in the finance industry also contributes to high perceived risks associated with loans.

During several conflicts in Afghanistan, millions of Afghans were forced to leave their homes. Many of them went to neighboring countries such as Pakistan and Iran. Although the large number of people who have returned home places a burden on the country, they also have the potential to create opportunities for SMEs. Many of them have returned to establish micro-enterprises. However, they have professional qualifications that enable them to manage large enterprises.

The World Bank (2019) the European Union (2001) and the Organization for Economic Cooperation (2014) have also supported the development of the private sector in Afghanistan. Access to finance and formal economic procedures are critical components of developing Afghanistan's economy. Establishing loan guarantees and other financial services will help the private sector continue its positive development, Aside from infrastructure; public interests also include education, health, and energy. These can help lower the cost of production for private firms. Unfortunately, the lack of security has restrained the private sector's growth. However, the private market's contribution to the humanitarian crisis has remained small. According to the Ministry of Finance (2019), The Afghan economy is characterized by a mix of informal, semi-autonomous, and aid-sustained elements. Most of the country's micro-enterprises are concentrated in the informal sector. According to the Afghanistan-Socio-Economic Outlook (2022), the formal private sector's contribution to Afghanistan's gross domestic product was only 10 to 12 percent. The small size of the private sector and the illicit and smuggling activities within the country's external borders constrain the tax base's growth.

According to the Afghanistan-Socio-Economic Outlook (2022) the private sector in Afghanistan has a challenging operating environment due to the numerous non-regulatory barriers. These include corruption, red tape, and a lack of support for local industry. In addition, the lack of connectivity between the country and its neighbors can prevent the potential benefits of trade. The lack of reliable transportation and critical infrastructure are some of the factors that constrain domestic connectivity. These infrastructure projects are essential for developing rural areas and food security. According to Afghanistan-Socio-

Economic Outlook (2022) the private sector has had a minimal role in the country's economic growth since the early 2000s. External grants primarily influence its contribution. However, the private sector can still contribute to the nation's economic growth despite its minimal role. Other factors such as conflict and instability also prevent it from contributing to the country's development. The legacy of the competition has also affected the private sector's performance. Since the people of different regions have varying political and economic interests, it can reinter behavior in different parts of the country. According to the Afghanistan-Socio-Economic Outlook (2022) the financial sector has been pushed into crisis due to the lack of funds that severely affected the operations of both the central and commercial banks.

Following the Taliban's takeover of power in Afghanistan 15 August 2021, banks stopped operating. Since they could not process international transactions, they faced difficulties in processing transactions. The restrictions on bank deposits imposed by the Central Bank (2021) have prevented many firms and households from accessing funds. It has undermined formal international trade. The prospects for the private sector's contribution to the country's humanitarian difficulties are not promising. According World Bank Survey (2022) Due to the country's dependence on opiate production, the economy will eventually rely on basic activities such as agriculture. It is also due to the large-scale investments in water management and irrigation. Therefore, supporting the private sector can help boost the country's domestic financing. In addition, it can help minimize the impact of the government's actions.

According to the Afghanistan-Socio-Economic Outlook (2022), The US' decision to allow humanitarian aid to continues for creating a way around the legal restrictions that could prevent from doing business with the Taliban. It also ensured that the money sent by Afghans to their needy relatives would keep them safe. However, the Taliban banned the use of foreign currency in the country. The Taliban's decision to ban the use of foreign currency in Afghanistan undermines the private sector's ability to supply. According to Da Afghan states Bank (2021), the banking sector's contribution to the country's economic growth has been limited. Its credit to the private sector has remained at around 4 percent of GDP. Banks are still relying on their deposits to support loans to their customers. The lack of contractual enforceability and the weak rule of law have prevented many private-public partnerships and foreign direct investments from flowing into the country. Many Afghanistan-based groups have also maintained their commercial bases due to their ties to

the country's ethno political groups. It can also contribute to the country's economic fragmentation by sidelining entrepreneurs. Islamic banking in Afghanistan (2020) could still support the country's development and humanitarian efforts. It can also promote financial inclusion by encouraging individuals and institutions to deposit and loan money. It can also reduce the need for intermediaries in non-banking transactions. Through the private sector, Islamic banking can promote and expand. It could be solved by creating new financial institutions or investing in existing ones. The Islamic Development Bank (2020) has also played a vital role in the development of Afghanistan by providing loans and investments in various sectors. Although the Taliban did not establish Islamic banking principles during their rule, the authorities may expand the scope of Islamic finance in the country. Afghanistan's Central Bank (2018) has a regulatory framework that allows Islamic banking. Several banks in the country have been operating under Islamic finance windows. The framework was officially implemented in 2018.

According International Monetary Fund IMF (2022) additional conditions such as an increase in imports and a partial revival of financial services are expected to boost the economy in the near term. However, a recovery may not happen in less than three years due to the uncertainties involved in the current economic situation. The scenarios presented subject to various factors, such as the Taliban's policy course and the international community's response to the problem. Even though, the current situation could affect the lives of the people in Afghanistan. The International Monetary Fund IMF (2022) estimated that Afghanistan's gross domestic product might contract up to 30 percent. The Asian Development Bank ADB (2022) has prepared several scenarios for the country, it will result in a drop in real GDP by up to 30 percent if the suspension of development projects and humanitarian assistance extends. Under a less-optimistic plan, the country's economy would shrink due to the reduction of foreign investment and the support of the international community. According to Raza (2018) the failure rate of small and medium-sized enterprises in developing countries is higher than in other regions. Therefore this paper aims to provide a comprehensive analysis of the biggest obstacles that affect SMEs operation in Afghanistan.

5.3. Research methods and data analysis

The study aims to dispense a extensive statisticle descriptive analysis of various obstacles that affect small and medium size enterprises at country level through several tools suach as SPSS and Stata statisticle softwares, the primary data will be collected for statistical discriptive analysis from World bank enterprises for the year 2013 and the secondry data will be composed form various sources suach as annual macro fiscal reports (Ministry of Finance) and books, articles and genuine web sites

5.4. Significace of SMEs

Small and medium-sized enterprises (SMEs) are considered to be the backbone of developing countries. Afghanistan is home to a flourishing small- and mid-sized enterprise (SMEs) industry. This sector is expected to contribute the country's economic growth therefore this study will investagates the obstacles that affect the performance of SMEs at country level and providedes facts that improve the operations of small and medium size enterprisse to contribute effecintly in country's GDP.

5.5. Literature review

The concept of small and medium-sized enterprises (SMEs) is quite challenging to define, due to the varying definitions that scholars have come up with. For instance, according to Baumback (1982) the definition of a small and medium-sized enterprise differs from the prospect of size, number, employees and type of industries in the country. According to Jasra (2011) small and medium-sized enterprises (SMEs) are businesses not public limited companies with over 250 workers in various service industries, such as manufacturing. According to Arowomole (2000) SMEs are separately possessed and operated businesses that are not leading in their field and meet the criteria of business administration. Darren and his colleagues (2009) defined a medium enterprise as an organization that has employs up to 250 employees in UK, up to 200 employees in Australia, and up to 500 employees in the US.

According to various studies conducted by Wasilczuk (2000) Drnovsek, & Soufani (2002) Markman & Baron (2010) identified that effective managerial skills are very important for small and medium-sized enterprises (SMEs) to succeed. Besides managerial skills, other factors such as access to the latest technology are also important for businesses

to gain competitive advantage. According to Al-Mahrouq & Maher (2010) Marketing is widely acknowledged and accepted by all businesses.

According to Ridderstrale (1971) Innovation and creativity are the keys factors for the improvement of entrepreneurship. According to Leitão & Franco (2011) Skills and personality of an entrepreneur are linked to the performance of small and medium-sized enterprises (SMEs) because it can help to expand the creativity and innovation.

According to Fielden (2000) Darroch (2005) Okapar & Kabonga (2009) One of the most important factors that affect the growth of small and medium-sized enterprises (SMEs) is the government's role that providing various services. Such as tax relief, building trust in the judiciary, and accessing public procurement projects. In addition, other factors such as infrastructure development and security are also taken into account to ensure that they can operate successfully. According to Harvie (2005) In Afghanistan, the government support for the small and medium-sized enterprises is very important because country's economy is struggling. To encourage entrepreneurship, the government should come up with regulations that are conducive to the development of businesses.

According to Okapar & Kabonga (2009) the government has a responsibility to increase the availability of financing facilities for small and medium-sized enterprises (SMEs) in developing countries. Due to the high risk that they might not be able to pay back, and the high collateral requirements, banks in these regions have a hard time providing loans.

5.6. Biggest obstacles that affect the performance of SMEs

There is a wide literature about the performance of small and medium-sized enterprises (SMEs) these studies have identified various factors that can affect the performance of these organizations. Some studies focused on the internal and external factors that affect the performance of small and medium-sized enterprises (SMEs). According to Jahur & Quadir (2012) identified the services of merchandise and customer relationships as external factors that affect the operation of SMEs. On the other hand according to Noreen & Junaid (2015) identified lack of skilled labor, technology and managerial skills as internal factors that can affect the performance of the SMEs.

According to Ghosh (2012) In Afghanistan, a large number of small and medium-sized enterprises have failed to reach their operation. This is a concern that needs to be addressed in order to prevent these organizations from going out of business. Most non-state actors and competitors pay little attention to the development of small and medium-sized enterprises (SMEs) in Afghanistan, because they don't consider them as an integral part of the country's development. Many small businesses are more vulnerable than established ones. The military presence has distracted the government from its primary objective of supporting the development of small and medium-sized enterprises (SMEs) in Afghanistan this could have detrimental effects on the country's long-term economic sustainability.

According to Afghanistan-Socio-Economic Outlook (2022), many SMEs in Afghanistan are still in fragile, mainly due to the lack of attention they received. The government did not have a strategy for SMEs until 2009, and its implementation started in 2012. The initial phase of the process focused on developing alternative sectors that could benefit from the country's massive trade deficit. Despite the lack of a clear strategy, many projects are funded by donors, such as USAID. The strategy's objective was to fill the gaps in the SMEs' value chains and improve their technical capabilities. Among the factors that threaten the stability of the SMEs are the uncertainties of the business environment and the dependence on the donor community.

According to Ghosh (2012) the biggest obstacles that threaten the stability of SMEs include the lack of access to credit, energy, and creativity. In addition, the workings of the new economy and trade system are still hampering the growth of SMEs. According to Afghanistan-Socio-Economic Outlook (2022) Fear of corruption and bureaucracy are some of the obstacles that prevent many SMEs from formalizing their businesses. It contains many SMEs from entering the market and operating correctly. It also leaves them vulnerable to exploitation by a mob of export workers. The quality of Afghan products is also jeopardized due to the lack of capacity of SMEs to manage their marketing and business planning. According to Afghanistan Rural Enterprise Development Program AREDP (2015), many respondents identified lack of electricity as their primary challenge, while 78 percent said they experienced corruption and land acquisition as a significant concern for the SMEs. In addition, the capacity of SMEs hinders access to markets. International exhibitions have revived the connections between Afghan SMEs and markets.

However, many of them are still not equipped to take advantage of the opportunities presented by such events.

According to the Afghanistan Finance Ministry (2021), the financial sector is already facing significant constraints. It is expected to face further problems due to the country's worsening situation. The rise in dollar auctions and cash withdrawal from commercial banks has severely affected the central Bank's liquidity. Since banks were not allowed to operate following the Taliban's takeover, international transactions have been severely affected. Due to the restrictions on the withdrawal of foreign currencies and US dollars, households and firms have been unable to access their bank deposits.

According to Afghanistan-Socio-Economic Outlook (2022), many of the challenges faced by SMEs in Afghanistan are related to the unstable political situation and the lack of donor support. Together with other factors, it has raised concerns about their ability to compete in the future. In addition, the lack of knowledge about the new economic and trade system is considered a significant obstacle to the growth of SMEs. Most SMEs operate in urban areas, and many of them remain unregistered. As a result, many are reluctant to formalize their business due to the perceived risks of corruption and bureaucracy. According to AREDP (2015), many SMEs identified lack of electricity, corruption, and land acquisition as their biggest challenges. In addition, most SMEs operate in urban areas, such as Herat, and Kandahar.

According to Afghanistan-Socio-Economic Outlook (2022), the lack of transportation and customs offices impedes SMEs growth. Muhammad Khalique, Adel, & Shaari (2011) noted that many factors that affected SMEs' growth in Malaysia were global sourcing, low productivity, and lack of managerial capabilities. According to Hussain (2012) identified various factors that SMEs faces in developing countries, such as high cost of funds, lack of skilled employees, and weak international markets also revealed that many SMEs in Pakistan face various issues when it comes to accessing finance, these includes the availability of short-term loans, the lack of skilled workers and entrepreneurs, high employee turnover, and low awareness about their products and services.

Afghanistan's SMEs face various challenges as a developing country, which are considered the most influential factors in driving their development. These include the country's poor governance, instability, and corruption however, despite these obstacles,

they remain optimistic about the country's future. According to the Switchasia survey (2017), many SMEs face challenges such as lacking marketing, finance, and business planning capacity. USAID (2009) conducted a survey identified various challenges faced by SMEs, such as lack of skilled labor, inefficient electricity, and law. Most participants pointed out that the government's support for startups was insufficient to encourage SMEs to operate correctly. Instead, they are treated as an extension of the established SMEs. One way to improve the transparency and credibility of the Afghan SMEs goods and services are by creating a Standardized Agency to identify high-quality producers. This agency should be able to provide a better image for the country's products and services by ensuring high quality.

5.7. Conclusion remarks

The main conclusions of the theoretical and empirical studies are consistent with the findings of other similar studies. Although Small and medium-sized enterprises (SMEs) are crucial part of developing countries as they are able to create jobs and improve the lives of their citizens. However, they are also face to experiencing various obstacles that prevent them from achieving their goals. Moreover, the findings of theoretical and empirical studies can explain the SMEs' business model that faced with the most common barriers that prevent them from improvement of performances such as political instability, lack of infrastructures, corruptions and crime, customs regulation, practices of competitors in information and transport regulations in the recipient country.

In the upcoming section, discuss the various obstacles that prevent small and medium-sized enterprises from performing their operations in Afghanistan. It will also provide a statistical analysis of obstacles and their impact on the country's economy.

5.8. Descriptive analysis of SMEs at country level

Adam Smith (1776) argues that robust small and medium-size enterprises sectors can contribute to the country's GDP by reducing the unemployment rate and promoting entrepreneurship, these includes the government's role in the implementation of new technologies and the emergence of their operations and highlighted the importance of the skilled labor and use of capital for the growth of small and medium-size enterprises.

Therefore, the study aims to identify the biggest obstacles that affect the performance of small and medium-size enterprises in 2013 and for this study we have taken biggest obstacle as a independent variable and SMEs as a dependent variable.

Table 5.1. Biggest obstacles that affec the operation of firms

Obstacles	Frequency	Percent	Cumulative
Access to Finance	42	12.39	12.39
Access to Land	40	11.80	24.19
Business Licensing and Permits	6	1.77	25.94
Corruption	65	19.17	45.12
Courts	2	0.59	45.72
Crime, Theft, and Disorder	19	5.60	51.32
Customs and Trade Regulation	14	4.12	55.46
Electricity	44	12.98	68.44
Inadequately Educated Workforce	8	2.36	70.80
Labor Regulation	2	0.59	71.39
Political Instability	59	17.40	88.79
Practices of Competitors in the Info	4	1.18	89.97
Tax Administration	2	0.88	90.86
Tax Rate	14	4.12	94.99
Transports	17	5.01	100.00
Total	356	100.00	

Source: World Bank Enterprises

The (Table 5.1) indicates various obstacles that affect the firms' improvement in order to operate efficiently for the year 2013. Access to finance 42 with constitute 12.39

percent, access to land 40 with constitute 11.8 percent, business licensing and permits 6 with constitute 1.77, corruption 65 with constitute 19.17 percent, courts 2 with constitute 0.59, crime, theft, and disorder 19 with constitute 5.60 percent, customs and trade regulation 14 with constitute 4.12 percent, electricity 44 with constitute 12.98 percent, inadequately educated workforce 8 with constitute 2.36 percent, labor regulation 2 with constitute 0.59 percent, political instability 59 with constitute 17.40 percent, practices of competitors in info 4 with the constitute 1.18 percent, Tax Administration 2 whit constitute 0.88 percent, tax rate 14 with constitute 4.12 percent and transports 17 with constitute 5.01 percent.

The most challenging obstacles are corruption, political instability access to finance, access to land and electricity are biggest obstacles that affect the improvement of small and medium size enterprises in Afghanistan.

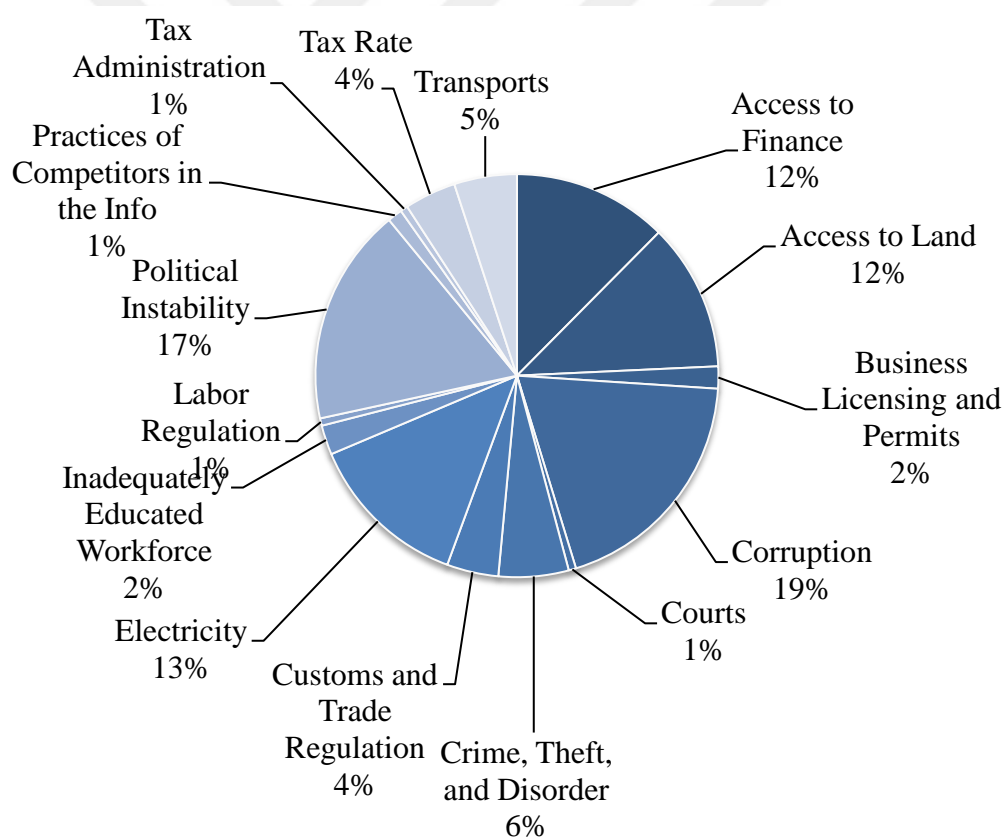


Figure 5.1. Biggest obstacles that affect firms operation

Table 5.2. Obstacles that affect operation of exporter and non-exporter firms

Obstacles Affecting the Operation	Non Exporters -	Exporters - 1	Total
	0		
Access to Finance	0.1284	0.2581	0.1328
Access to Land	0.1519	0.1795	0.1528
Business Licensing and Permits	0.0076	0	0.0073
Corruption	0.1709	0.2793	0.1746
Courts	0.0031	0	0.0030
Crime, Theft, and Disorder	0.0488	0.0841	0.0500
Customs and Trade Regulation	0.0208	0	0.0201
Electricity	0.0919	0.0979	0.0921
Inadequately Educated Workforce	0.0306	0.0038	0.0297
Labor Regulation	0.0032	0.0898	0.0032
Political Instability	0.2175	0.0898	0.2131
Practices of Competitors in the Info	0.0118	0	0.0114
Tax Administration	0.0086	0	0.0083
Tax Rate	0.0606	0	0.0586
Transports	0.0445	0.0038	0.0431
Total	1.00	1.00	1.00

Source: World Bank Enterprises

The (Table 5.2) indicates obstacles that affect exporter and non-exporters SMEs operations. In total access to finance 0.13 percent, access to land 0.15 percent, business licensing 0.073 percent, corruption 0.174 percent, courts 0.030 percent, crime 0.05 percent, customs 0.020 percent, electricity 0.092 percent, inadequately educated workforce 0.029 percent, labor regulation 0.03 percent, political instability 0.21percent, practices of competitors in information 0.011percent, tax administration 0.008 percent, tax rate 0.058 percent, and transports 0.043 percent.

The most common obstacles that prevent the performance of small and medium-sized enterprises (SMEs) from being successful in terms exporter and non-exporter are access to finance, political instability, and access to land, electricity and corruption.

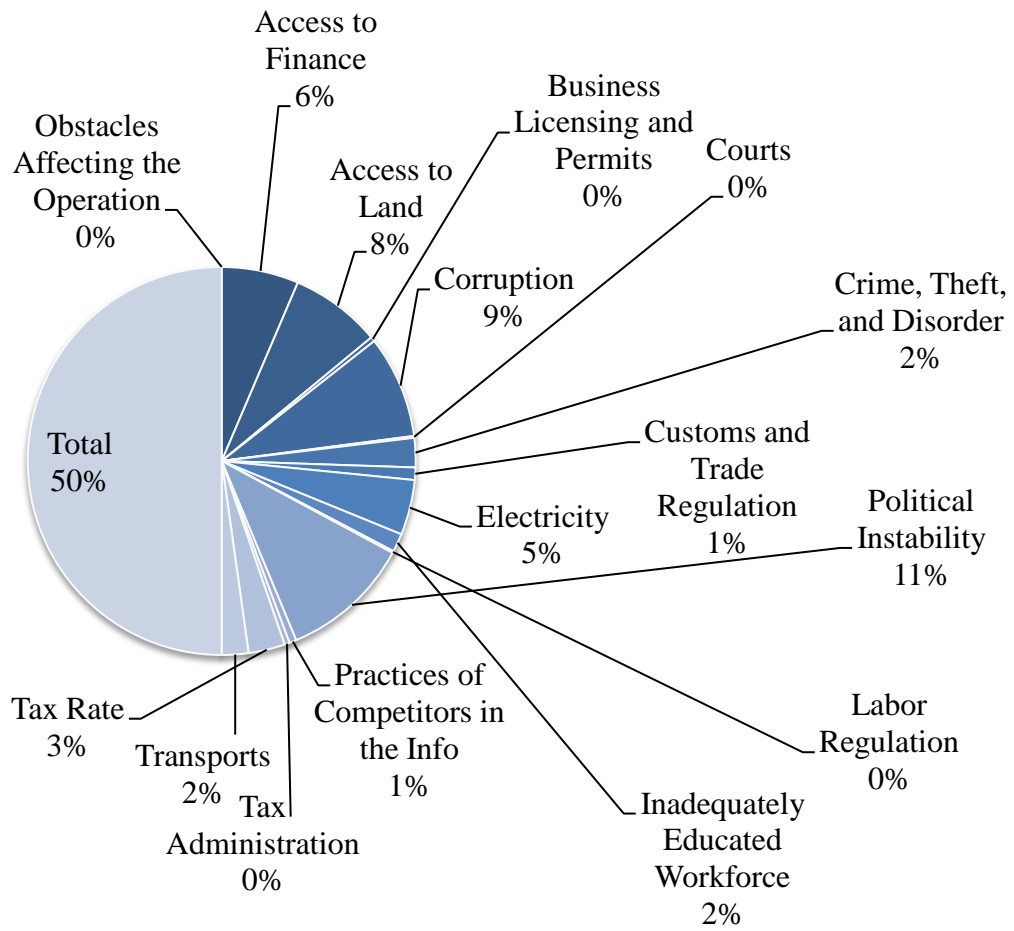


Figure 5.2. Obstacles that affect the operation of exporter and non-exporter SMEs

Table 5.3. Classification of firms according sectors

Industry Sampling Sector	Frequency	Percent	Cumulative
Food	37	10.39	10.39
Textiles	11	3.09	13.48
Garments	1	0.28	13.76
Wood	2	0.56	14.33
Paper	2	0.56	14.89
Refined Petroleum Procedure	3	0.84	15.73
Chemicals	6	1.69	17.42
Plastics and Rubber	10	2.81	20.22
Non Metallic Mineral Products	14	3.93	24.16
Basic Metals	9	2.53	26.69
Fabricated Metal Products	1	0.28	26.97
Machinery and Equipment	9	2.053	29.49
Electronics	6	1.69	31.18
Precision Instrument	1	0.28	31.46
Transport Machines	6	1.69	33.15
Furniture	4	1.12	34.27
Construction Section F	58	16.29	50.56
Services of Motor Vehicles	7	1.97	52.53
Wholesale	79	22.19	74.72
Retail	56	15.73	90.45
Transport Section I	34	9.55	100
Total	356	100	

Source: World Bank Enterprises

The (Table 5.3) shows the percentage of SMEs according sectors that operating in Afghanistan. The computed descriptive analysis of construction SMEs 58 with the constitute 16.29 percent, wholesale SMEs 79 with constitute 22.19 percent, retail SMEs 56 with constitute 15.73 percent, food SMEs 37 with constitute 10.39 percent, transport section SMEs 34 with constitute 9.55 percent, non metallic mineral products SMEs 14 with constitute 3.93 percent, textile SMEs 11 with constitute 3.09 percent, plastics and rubber SMEs 10 with constitute 2.81 percent, machinery and equipment SMEs 9 with constitute 2.053 percent, services of motor vehicles SMEs 7 with constitute 1.97 percent, transport machines SMEs 6 with constitute 1.69 percent, electronics SMEs 6 with constitute 1.69 percent, chemicals SMEs 6 with constitute 1.69 percent and furniture SMEs 4 with constitute 1.12 percent of the overall ratio operating in the country.

According to computed data the larger industries operating in country are Construction, wholesale, retail, food, transport section, non metallic mineral product, textile, plastics, rubber, machinery, services of motor vehicles, transport machines, electronics and chemicals are the larger portion of industries. Other industries are the minor portion that are operating with the constitute 0.28 of the overall ratio.

A conclusion can be drawn from the (Table 5.1) that there is a lack of SMEs operating in the Metal products, Garments, and Precision instruments industry. However, despite the lack of establishments in these sectors, the country's construction and food production are abundant. There is still needs for SMEs in Afghanistan to operate in different sectors to improve their performances. Due to vast potential, which include the garments industry, paper, wood, plastic, and precision instruments, they must be improve to boost their operations and develop the country's economy.

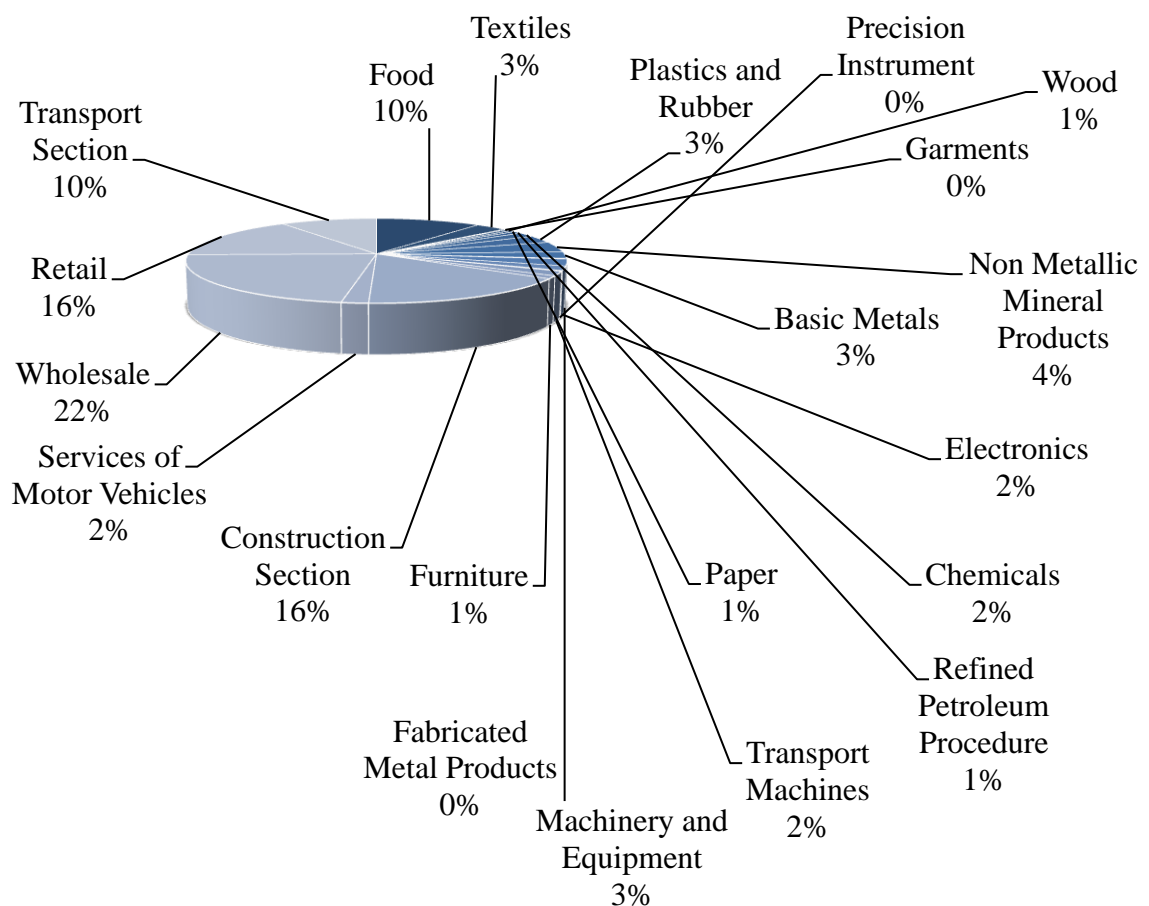


Figure 5.3. Classifications of SMEs according sectors

Table 5.4. Firms operating in capital and other parts

Freq. Cum.	Frequency	Percent	Cumulative
Capital	242	67.98	67.98
Other parts	114	32.02	100.00
Total	356	100.00	

Source: World Bank Enterprises

The number of firms operating inside the capital are 114, with constitute 32.02 percent of the total sample size and the number of firms operating in other parts of the country are 242 with constitute 67.98 percent of the sample size.

The (Table 5.4) indicates that a sufficient number of small and medium-sized enterprises are operating inside the capital of Afghanistan. Also indicates that the values of SMEs operating in other parts of the county are higher than SMEs operating in capital.

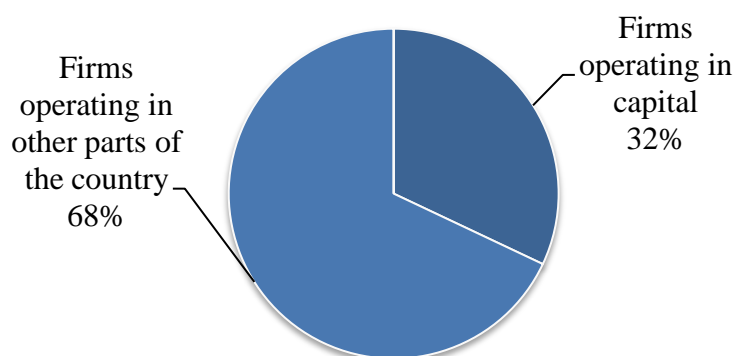


Figure 5.4. Firms operating in different parts

Table 5.5. Firm size distribution

Sampling Size	Frequency	Percent	Cumulative
Small (5 to 19)	258	72.47	72.47
Medium (20 to 99)	84	23.60	96.07
Large (100+)	14	3.93	100.00
Total	356	100.00	

Source: World Bank Enterprises

Firms are divided into three categories according to the size of employees:

- Large firms that have 100 or over 100 employees.
- Medium firms that have 20 to 99 employees.
- Small firms between 5 and 19 employees.

The number of small firms operating in the country are five or between 5 – 19 employees 258 with constitute 72.27 percent of the total sample size and medium firms twenty or between 20 – 99 employees 84 with constitute 23.60 percent of total sample size and the number of large firms operating in the country hundred or 100+, 14 with constitute 3.93 percent of the total sample size.

The (Table 5.5) indicates that the number of small firms operating in the country is higher than others and also shows the size of SMEs according employees.

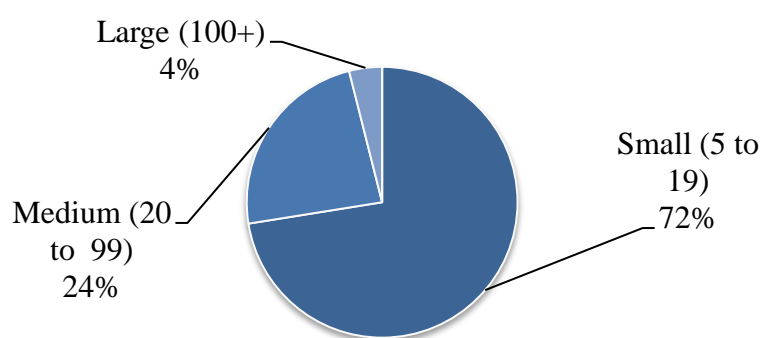


Figure 5.5. Average size of SMEs in the country

Table 5.6. Legal status of firms

Legal Status of the Firm	Frequency	Percent	Cumulative
Shareholding Company with Shares Trade	1	0.28	0.28
Sole Proprietorship	260	73.03	73.31
Partnership	88	24.72	98.03
Limited Partnership	7	1.97	100.00
Total	356	100.00	

Source: World Bank Enterprises

SMEs as a Shareholding 1 with constitute 0.28 percent of the total sample size SMEs as a sole proprietorship 260 with constitute 73.03 percent of the total sample size and SMEs as a partnership 88 with constitute 24.72 percent of the total sample size SMEs as limited partnerships 7 with constitute 1.97 percent of the total sample size.

The (Table 5.6) indicates the availability of four types of SMEs to the individuals and the value of sole proprietorship SMEs are higher than others in terms of performance.

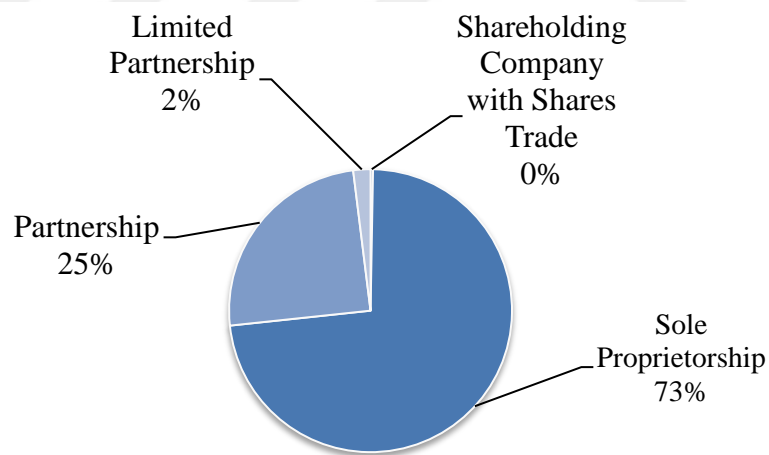


Figure 5.6. Legal statuses of the firms

Table 5.7. Percentage of ownership

%age of Ownership	Frequency	Percent	Cumulative
% owned by Private Domestic Individuals, Companies or Organizations	356	100.00	100.00
% owned by Private Foreign Individuals, Companies Or Organizations	0.00	0.00	
% owned by Government/State	0.00	0.00	
Total	356	100.00	

Source: World Bank Enterprises

(Table 5.7) indicates that SMEs owned by private domestic individuals are 365 with constitute 100 percent of the sample size it means that private individuals own the majority of the sample size. There is no evidence in the sample that foreign nationals or government agencies own any SMEs.

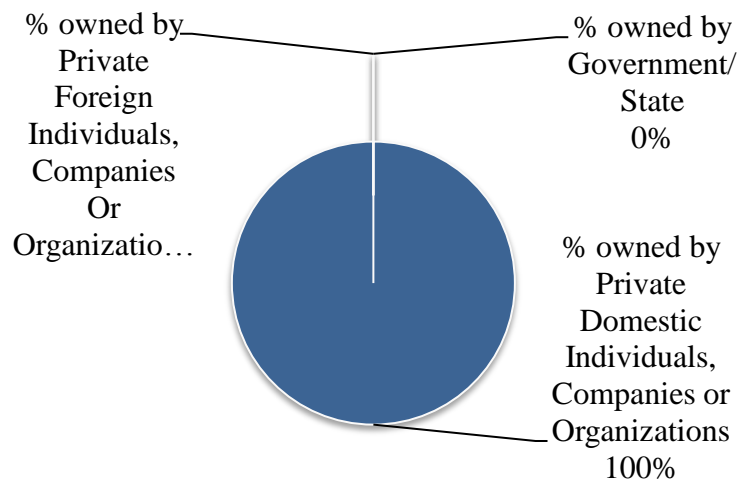


Figure 5.7. Percentage of ownership

Table 5.8. Highest level of education completed by the owner of the firms

Level of Education	Frequency	Percent	Cumulative
None	20	5.63	5.63
Primary School	52	14.56	20.28
Mid or High School	125	35.21	55.49
Vocational or Technical Training	24	6.76	62.25
University Education	130	36.62	98.87
Other	4	1.13	100.00
Total	356	100.00	

Source: World Bank Enterprises

The (Table 5.8) indicates the education level of the owners None 20 with constitute 5.63 percent, Primary School 15 with constitute 14.56 percent, mid or High School 125 with constitute 35.21 percent, Vocational or Technical Training 24 with constitute 6.76 percent, University Education 130 with constitute 36.62 percent and Other 4 with constitute 1.13 percent, it means one percent for Other and most of the owners are university graduates.

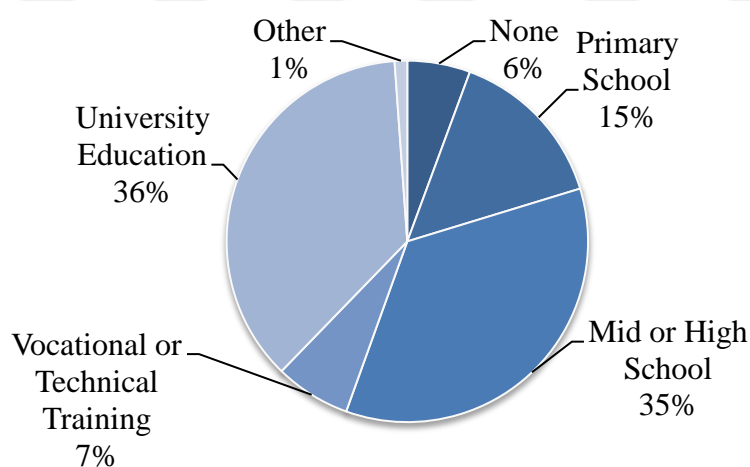


Figure 5.8. Level of education in firms

Table 5.9. Gender diversity of ownership

Owners	Frequency	Percent	Cumulative
Female	11	3.09	3.09
Male	345	96.91	100.00
Total	356	100.00	

Source: World Bank Enterprises

The (Table 5.9) indicates gender diversity of the ownership in SMEs. Owned by female 11 with constitute 3.09 percent of the total sample and SMEs owned by Male 345 with constitute 96.91 percent of the total sample. Male owners of SMEs are higher than female. The gender gap between male and female owners of SMEs is still significant.

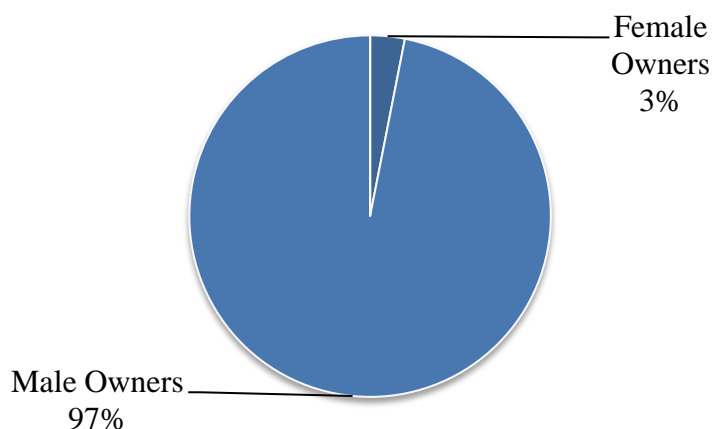


Figure 5.9. Gender diversity of the ownership

Table 5.10. Gender diversity of managing firms

Female Manager	Frequency	Percent	Cumulative
Female	14	4.01	4.01
Male	335	96.99	100.00
Total	356	100.00	

Source: World Bank Enterprises

The (Table 5.10) indicates the gender diversity of those who managing the firms. It shows 14 female SMEs 14 with constitute 4.01 percent and male SMEs 335 with constitute 96.99 percent. There is a high gender gap in the number of firms managed by male and female managers. Male managers are more than Female managers.

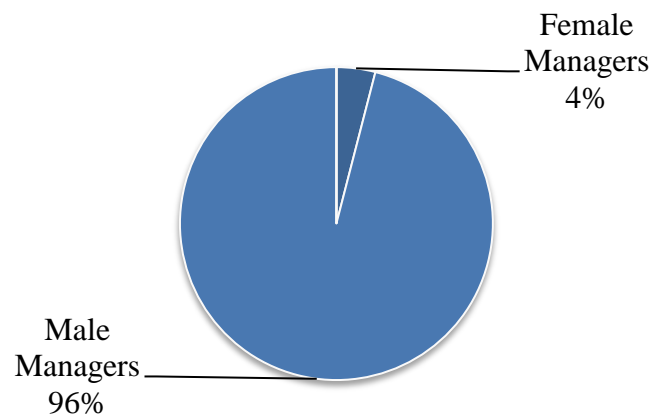


Figure 5.10. Gender diversity managing the firms

Table 5.11. International recognized quality certification

Recognition Certificate	Frequency	Percent	Cumulative
International recognize	64	18.71	19.71
None Internaional	278	81.29	100.00
Total	356	100.00	

Source: World Bank Enterprises

The (Table 5.11) indicates SMEs with recognized certification internationally or none internationally there are 64 SMEs with constitute 18.71 percent, that internationally recognized and 278 SMEs with constitute 81.29 percent, that not internationally recognized. The portion of none recognized SMEs are higher than internationally recognized.

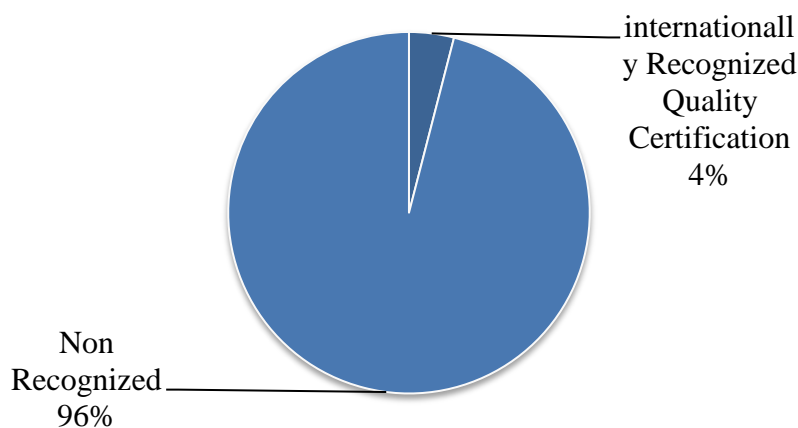


Figure 5.11. Internationally recognized quality certification

Table 5.12. Number of non-exporter and exporter firms

Exporter /Non Exporter	Frequency	Percent	Cumulative
Non Exporters Firms	339	95.22	95.22
Exporters Firms	15	4.21	4.21
Total	356	100.00	

Source: World Bank Enterprises

The (Table 5.12) indicates non-exporter and exporter firms. Non-exporter SMEs 339 with constitute 95.22 percent and exporter SMEs 15 with constitutes 4.21 percent of the total simple size. The portion of non exporter is higher than exporter it means that more SMEs stick to national transactions.

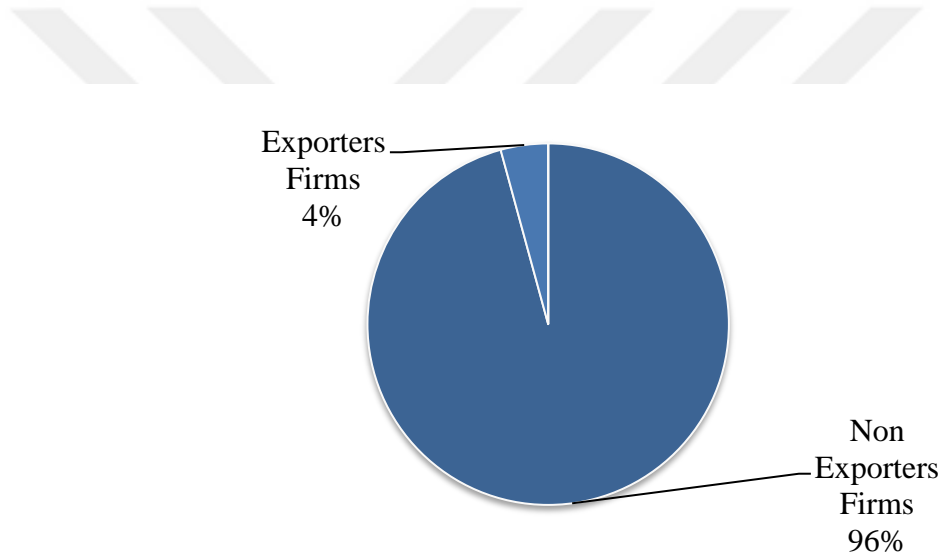


Figure 5.12. Number of non-exporter and exporter firms

Table 5.13. Percent share of exports in total sale

Legal Status of the Firm	Mean	Linearized Err.	Std. [95% Conf. Interval]	
D3c	44.1032	19.3133	-0.4334	88.6399

Source: World Bank Enterprises

The percentage share of total sales exported as shown (Table 5.13) it indicates that the total sales generated from exports are 44.10 percent of the simple size SMEs generates a tiny portion of the total sales through exports. The standard error is 19.3133, shows that the export quantity was incorrectly computed for the export quantity the highest and lowest confidence intervals are 88.6399 and -0.4334. As a result, the mean value of the population of the sample size is 44.1032 derived from the confidence interval. It shows that the value is 95 percent accurate there is only a 5% error.

Table 5.14. Distribution of exporter and non-exporter according sectors

Industry Sampling Sector	Non Exporters	Exporters	Cumulative
Food	0.1056	0.00012	0.1058
Textiles	0.0148	0.00850	0.0233
Garments	0.0009	0	0.0009
Wood	0.0087	0	0.0087
Paper	0.102	0	0.0102
Refined Petroleum Procedure	0.0109	0	0.0109
Chemicals	0.2740	0	0.0274
Plastics and Rubber	0.0215	0.0029	0.0244
Non Metallic Mineral Products	0.0362	0.0056	0.0418
Basic Metals	0.0386	0	0.0386
Fabricated Metal Products	0.0048	0	0.0048
Machinery and Equipment	0.0276	0.0030	0.0306
Electronics	0.0154	0.0058	0.0212
Precision Instrument	0.0002	0	0.0002
Transport Machines	0.0185	0	0.0185
Furniture	0.0145	0	0.0145
Construction Section F	0.0869	0.0027	0.0896
Services of Motor Vehicles	0.0250	0	0.0250
Wholesale	0.2080	0.0037	0.2084
Retail	0.1831	0.0610	0.1892
Transport Section I	0.1059	0	0.1059
Total	0.9648	0.0352	1

Source: World Bank Enterprises

The (Table 5.14) indicates the total number of non-exporters and exporters in various sectors. Non-exporters in the food sector are 0.1056 percent of the total simple size and exporters are 0.012 percent of the simple size. Non-exporters in the textile industry are 0.148 percent, and exporters in the textile industry are 0.8 percent. Non-exporters in the retail sector 0.1831 percent and exporters 0.0610 percent of the total sample size.

Table 5.15. Difference in top managers experiences in exporting and non-exporting firms

Group	Obs	Mean	Std. Err	Std. Dev.	[95 % Conf. Interval]	
Non-export	241	12.6802	0.5176	9.5575	11.6623	13.6984
Export	15	12.3333	3.1223	12.0928	5.6365	19.0301
Combined	356	12.6657	0.5118	9.6571	11.6591	13.6723
Diff		0.34700	2.5512		-4.6704	5.3645

Source: World Bank Enterprises

The (Table 5.15) indicates the difference between top managers' experience in terms of exporting and non-exporting SMEs. The result of the study reveals that there is no difference in top managers' experiences in both SMEs.

The mean value of exporter and non-exporters in terms of top managers' experience are same. The mean value of non-exporter is 12.6802, and exporter is 12.333. It shows a bit difference 0.34 in mean values it is still negligible. The standard errors commonly encounter during data analysis of lesser magnitude on the other hand the standard error for non-exporters are 0.51 and exporters are 3.12. The significance of the difference shows the standard error for non-exporters are lesser than exporters. The mean value of both exporters and non-exporters are derived from 95 percent confidence interval it represent 5 percent error it commonly encounter during data analysis.

Table 5.16. Difference in exporter and non-exporter firms in terms of innovativeness

Group	Obs	Mean	Std. Err	Std. Dev.	[95 % Conf. Interval]	
Non-expoter	341	0.3313	0.0255	0.4714	0.2816	0.3815
Exporter	15	0.1333	0.9085	0.3518	-0.0615	0.3281
Combined	356	0.3230	0.0248	0.4682	0.2742	0.3718
Diff		0.1980	0.1232		-0.0443	0.4404

Source: World Bank Enterprises

The (Table 5.16) indicates difference between non-exporters and exporters in term of innovativeness the analysis shows the mean value of non-exporters 0.3313 and standard error 0.025 and exporter 0.1333 with the standard error 0.9085. It shows that the mean value of non-exporters is higher than exporter and standard error for non-exporters is lesser than exporters. The mean value of both computed using the 95 percent of confidence interval. It means that the error only represents 5 percent. Therefore it concludes that non exporters are more innovative than exporters.

Table 5.17. Difference in number of employees in exporter and non-exporter firms

Group	Obs	Mean	Std. Err	Std. Dev.	[95 % Conf. Interval]	
Non-exporter	330	2.5581	0.0561	1.0197	2.4476	2.6685
Exporter	15	3.4180	0.2804	1.0860	2.8166	4.0195
Combined	356	2.5954	0.0557	1.0360	2.4857	2.7052
Diff		-0.8599	0.2699		-1.3909	-0.3289

Source: World Bank Enterprises

The (Table 5.17) indicates the difference in number of employees hired by exporters and non-exporters the result of the analysis shows that there is a difference in terms of the number of permanent employees hired by exporters and non-exporters firms. The mean value of non-exporters 2.5581 with standard error of 0.0561 and exporters 3.4180 with standard error 0.2804 the mean value of exporters are higher than non-exporters the number of hired employees of exporters is greater than non-exporters. The standard error of non-exporters 0.0561 and exporters 0.2804 shows that standard error of exporters is higher than non-exporters. The mean value non-exporters and exporters both are within the 95% confidence interval.

5.9. Conclusion remarks

The main conclusions are consistent with the theories and findings of other similar studies. Although, Small and medium-sized enterprises (SMEs) are vital part of developing countries as they are able to create jobs and develop the lives of citizens. Still face to experiencing various obstacles that prevent to achieve their goals. This paper aims to identify the biggest obstacles that have impact on the performance of SMEs and prevent them from achieving their goals.

Based on theoretical and statistical descriptive analysis the findings indicates the most common barriers that small and medium-sized enterprises (SMEs) faces such as business licensing, court, crime, customs regulation, inadequate work force, and labor regulation, practices of competitors in information, tax rate and transport. According to the descriptive analysis of the study, Access to finance, access to land, corruption, electricity and political instability are the biggest obstacles that SMEs are facing with.

Following the analysis of the various obstacles that affect small and medium-sized enterprises (SMEs), we have also looked into the various obstacles that affect the

operation of SMEs in terms exporter and non-exporter. The findings of the study indicates that most challenging obstacles are Access to Finance, Political Instability, Access to Land, Electricity and Corruption are in higher portions that affects the performance of small and medium size enterprises in terms of exporter and non-exporter SMEs in Afghanistan. Furthermore the study shows that the experience of top managers does not differ between exporters and non-exporters. The mean values of non-exporters are 12.6802, with the standard error 0.51 and exporters are around 12.333 with standard error 3.12. The differences between the mean values are 0.34%, which is relatively small.

In addition, the study revealed that the difference in innovativeness of non-exporters and exporters. The significance of this difference can explain by the mean values. The mean values of non-exporters are 0.3313 with the standard error of 0.02 and exporters are 0.133 with the standard error of 0.9085. The mean value of non-exporters is higher than exporters in terms of innovativeness. Moreover, the study shows the number of employees of non-exporters and exporters have significantly different. The mean values of non-exporters are 2.5581 with a standard error of 0.0561 and exporters are 3.4180 with a standard error of 0.2804. It shows that the value of exporters is greater than non-exporters. The percentage of employees employed by exporters is higher than non-exporters.

The key conclusions of this study are reliable with theories and findings of other comparable studies. Although, due to the limitations of the data simple size, we have had difficulties in making an accurate assessment of the various obstacles that affect the performance of small and medium size enterprises (SMEs) and it is improvement in the country. However the main findings of this study support the existing literature on the subject. Since it is crucial and enormous topic it needs to provide additional evidence for the debate about the importance of enhancing the operation of small and medium-sized enterprises (SMEs) in developing countries.

As result, upcoming chapter presents the conclusion and discussion of the study it summarizes the major findings of the research related objective of the study and provides conclusion based on findings. It also explores the various aspects of the study and its academic contribution. Furthermore, it presents the policy implications of the study and its academic limitations.

CHAPTER 6

6.1. CONCLUSION

The chapter covers the main findings of the study and discusses the discussion points related to study. It also contributes to the conclusion based on findings and provides an overview of the various aspects of the study, as well as its academic contribution. It also explores its policy implications and limitation of the study.

6.2. Findings and discussion

The study investigates relationship between public expenditures foreign trade and economic growth and the biggest obstacles that affect the performance of Small and Medium-sized enterprises in Afghanistan. Time series data was used form 2008 to 2020 the data collection was from various sources such as World Development Indicators Ministry of Finance National Statistics information agencies and World Bank enterprises Moreover the statistical descriptive and econometric co-relational analyses were used to find out the relationship of variables and the biggest obstacles that affect the operation of SMEs.

The findings of the descriptive and correlation analysis revealed that public expenditure has a significant positive relationship with economic growth and foreign trade has significant negative relationship with economic growth and indentified the biggest obstacles that affect the performance of small and medium size enterprises such as corruption, political instability, access to finance, access to land and electricity was the main obstacles that prevent the improvement of small and medium size enterprises.

Despite the apparent literature and normative beliefs the study findings justify the relationship between export and economic growth. First, Afghanistan's exports are mainly made up of dry and fresh fruits. Due to the lack of infrastructure, such as roads and cold storage facilities, Afghanistan cannot rely on the export-led growth hypothesis. Second, the effect of exports on the country's economic growth is affected by the political instability it is one of the worst scenarios for Afghanistan. Even with years of studies conducted in Afghanistan, the export-led hypothesis remains erroneous. Finally, the different trade policies have also prevented exports from contributing to the country's economic growth. The main conclusions of the study are consistent with the theories and

findings of other similar studies. Although, due to the limitations of small simple size of the data, we have had difficulties in making an accurate assessment of the various aspects of public expenditures and foreign trade to improve the GDP growth in the country. However the main findings of this study support the existing literature on the subject. Since it is significant and massive topic it needs to dispense additional evidence for the debate about the importance of these variables in developing countries.

Moreover the findings of the study can easily explain the SMEs' business model, It indentified the biggest obstacles that affect the performance of small and medium size enterprises such as corruption, political instability, access to finance, access to land and electricity was the main factors that prevent the improvement of small and medium size enterprises.

Furthermore, the study finding shows that the experience of top managers does not differ between exporters and non-exporters. The mean values of non-exporters are 12.6802, with the standard error 0.51 and exporters are around 12.333 with standard error 3.12. The differences between the mean values are 0.34%, which is relatively small, and also the study revealed that the difference in innovativeness of non-exporters and exporters. The mean values of non-exporters are 0.3313 with the standard error of 0.02 and exporters are 0.133 with the standard error of 0.9085. The mean value of non-exporters is higher than exporters in terms of innovativeness.

Moreover, the study states that the number of employees of non-exporters and exporters have significantly different. The mean values of non-exporters are 2.5581 with a standard error of 0.0561 and exporters are 3.4180 with a standard error of 0.2804. It shows that the value of exporters is greater than non-exporters. The percentage of employees employed by exporters is higher than non-exporters.

In addition, the study indicates the biggest obstacles that affect the operation of SMEs in terms of exporter and non-exporter the most challenging obstacles are access to finance, political instability, and access to land, electricity and corruption are in higher portions that affects the performance of small and medium size enterprises in Afghanistan.

6.3. Contribution of the study

This study aims to provide a unique analysis of the relationship between public expenditures foreign trade and economic growth and the biggest obstacles that affect the performance of small and medium size enterprises in Afghanistan.

The study has made valuable contributions to the analysis of these variables to the country's economy. The study suggests that increase in government spending is compatible with the proposed Keynesian framework for economic growth.

Moreover, the learner or readers will understand several facts that study provides associated to the Afghanistan economy, and know various obstacles that affect the operation of small and medium size enterprises at a country level Furthermore, The broad scope and methodologies of the study with conclusions based on findings will support investigators to serve as references, the main conclusions of the study consistent with the theories and findings of other similar studies.

Although, due to the limitations of the simple size of the data, we have had difficulties in making an accurate assessment of the various obstacles that affect the performance of small and medium size SMEs in the country. However the main findings of this study support the existing literature on the subject. Since it is crucial and enormous topic it needs to provide additional evidence for the debate about the importance of enhancing the performance of small and medium-sized enterprises (SMEs) in developing countries.

6.4. Policy implication

Furthermore the study aim was to analyze the relationship between public expenditures, foreign trade and economic growth and the biggest obstacles that affect the performance of small and medium-size enterprises to improve the efficiency of various sectors of the Afghanistan's economy.

The study will assist policymakers in formulating policies related to the economy, and will help them to understand the biggest obstacles that affect the performance of SMEs. The study findings will also contribute to disseminating information regarding Afghanistan economy, the broad scope and methodology of the study will allow research scholars to serve as a reference for the future research topic.

6.5. Limitation of the study

Moreover, the goal of this study was to make our research more scientific and systematic. However, there are still many limitations that need to be acknowledged. The main limitation of this study is that the data are only limited to 13 annual observations which were taken from 2008 to the end of 2020.

Unfortunately, due to the limited number of data set and macroeconomic variables that were available, the research was not able to find a large scale impact on various aspects of the country's economy. This study was carried out using time series data, which means that there might be errors in the data that the researcher might not have known about. This means that the data set cannot be guaranteed to be hundred percent accurate.

6.6. Recommendations

The study conducted on the relationships between public expenditures, forging trade and economic growth and the biggest obstacles that affect the performance of small and medium size enterprises in Afghanistan to provide a better understanding of this type activity on the country's economy. However, due to the various limitations that were identified during the research process, further studies are required to know better the impact of these type variables on the country's economy.

Due to the limited number of observations, it is recommended to conduct further research with a longer dataset to ensure that the results are more relevant to the analytical tests that are used in this study. This is also beneficial since a longer dataset can be used to improve the quality of the study. The impact of foreign trade and SMEs on the economy of the recipient country is a critical issue that needs further study. This paper aims to provide a deeper understanding of the factors that affect the export and the performance of small and medium size enterprises to the country economy.

It is recommended that a comprehensive study be conducted on the impact of foreign trade and various obstacles that affect the operation of SMEs to the economy of recipient country to examine the factors that affect the country's economic growth. The impact of different forms of public expenditures on the recipient economy is also being studied. Since each of these has its own characteristics, it is not yet clear which sector of

public expenditure is more beneficial or has long-term positive effects on the recipient economy. It is recommended that a comprehensive study be conducted on the effects of government spending on several sectors of the recipient country. In addition to examine the factors that influence the country's growth and the study should also look into the other macroeconomic variables that can affect the economic growth of Afghanistan.



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