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Econometrics Analysis of Contributions of Primary, Secondary, and Tertiary Sectors in GDP of Nepal

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ABSTRACT

GDP is an essential indicator of a country's economic health, impacted by variables such as inflation, foreign investment, market openness, supply and demand, population, and political environment. The primary sector, which generates raw materials for industries such as agriculture, mining, and quarrying, gives input to the secondary and tertiary sectors. The study's goal is to look into how the primary, secondary, and tertiary sectors influence economic growth.

The study looks at the relationship between Nepal's GDP, primary, secondary, and tertiary sectors from 2060/61 to 2078/79. Data were obtained from the NRB, the World Bank, and the Ministry of Finance. Analytic and descriptive approaches were used, using mean and standard deviation for descriptive research and the OLS method for analytical research. E-Views software was utilized for the analysis. The study investigates the elements that influence Nepal's GDP growth, revealing a substantial positive relationship between GDP growth and developments in the industrial, service, and agricultural sectors. The service sector, followed by agriculture and industry, makes a significant contribution. Nepal's small landlocked size and reliance on China and India make it challenging to achieve GDP development. Modernizing agriculture, lowering food imports, and expanding the industrial sector are critical.

1. INTRODUCTION

The contribution of different sectors to Nepal's GDP has changed over time. While the primary industry is still essential, particularly in rural regions, there has been an apparent movement towards the secondary and tertiary sectors as the country strives for economic diversification and development. This transition is due to changes in consumer demand, technical developments, and regulatory actions targeted at increasing industrial and service activity. The primary, secondary, and tertiary sectors are interlinked and serve as the economy's backbone. The primary sector provides raw resources for processing by the secondary sector, which then supplies goods and services to both the primary and tertiary sectors. The tertiary sector complements the other two by providing critical services such as transportation, finance, and communication, thus facilitating economic activity across the board.

An essential measure of a country's economic well-being is its gross domestic product (GDP), which is impacted by a number of variables, including inflation, foreign direct investment, the import and export of goods and services, market openness, supply and demand for goods and services, population, and the political environment. The environment, sustainable development, and diversification are all natural variables that influence economic growth. The primary sector, which is often referred to as the primary production or extraction sector, is crucial for the economy since it provides the basic materials required for other economic activities. These industries include those in agriculture, mining, and quarries, for instance. The primary sector serves as a source of input for the secondary and tertiary sectors, and financial development promotes efficient use of resources.

Economic development is a multifaceted process that frequently has a distinct flow. Nations work to advance their economies despite obstacles, often being influenced by socioeconomic rigidities and economic fragility. Foreign trade is essential for fostering economic progress because it is the primary way for developing nations to gain from globalization and heightened competition. Landlocked Nepal has a weak industrial base, but between 1994 and 1997, the development of information and communication technology created new prospects for developing countries. Different nations place different emphasis on the primary sector, with industrialized nations frequently having a lower share of GDP because of their more diverse and service-oriented economy. The Gross Domestic Product (GDP) of a country is a comprehensive assessment of its economic performance that includes the total value of goods and services generated over a specific time period. GDP is often classified into three major sectors: primary, secondary, and tertiary, each representing a different type of economic activity.

The primary sector encompasses operations related to the extraction and production of raw materials. This sector serves as the foundation for all other sectors and is essential to the economy's basic sustenance. It is primarily made up of agriculture (crop and horticulture cultivation), forestry (forest management and exploitation), fishing (fish and other aquatic organism harvesting), and mining and quarrying. Because of its agrarian origins, Nepal's primary sector has traditionally been an important portion of the economy. The country's diversified climatic conditions and fertile terrain support a wide range of crops, making agriculture a vital source of employment and income for a substantial proportion of the population. However, this industry frequently faces issues such as low production, reliance on monsoon rains, and restricted access to modern agricultural equipment.

The secondary sector involves the transformation of raw materials into finished items via manufacturing and industrial processes. This sector includes manufacturing (the production of commodities in factories, such as textiles, electronics, and food products), construction (the construction of infrastructure such as roads, bridges, and buildings), and utilities (the provision of critical services such as electricity, water, and gas). Nepal's secondary industry has gradually expanded, contributing to the country's industrialization and urbanization efforts. Textiles, food processing, and cement manufacture are among the key sectors. Despite this expansion, the business confronts challenges such as restricted availability of electricity, insufficient infrastructure, and the need for improved regulatory frameworks.

The tertiary sector, commonly known as the service sector, includes a diverse set of enterprises that deliver services rather than goods. This sector provides trade (wholesale and retail distribution of goods), transportation (the provision of transportation services for people and goods), communication (telecommunications and information technology services), financial services (banking, insurance, and investment services), healthcare (medical and health-related services), and education. Tourism, information technology, financial services, and education have all contributed to Nepal's rapid tertiary sector growth. This industry has become a significant contributor to GDP and employment, indicating

a trend towards a more service-oriented economy. Tourism, in particular, is crucial due to Nepal's rich cultural legacy and natural beauty, which draw visitors from all over the world.

This study seeks to address the primary issue of whether the primary, secondary, and tertiary sectors affect economic growth and, if so, what kind of relationship should exist between them.

The study's research question is to analyze the effect of primary, secondary, and tertiary sectors on economic growth.

Objectives of the study

The study's objective is to examine the effect of primary, secondary, and tertiary sectors on economic growth.

2 LITERATURE REVIEW

Gross Domestic Product (GDP)

According to conventional macroeconomic theory, the GDP can be divided into three main categories: the agricultural, the industrial, and the service sectors. Out of these three sectors, agriculture has traditionally been regarded as a crucial one in developing nations since it helps to promote sustainable growth and fight poverty. According to other studies (Datta & Ravallion, 1998; Timer 1979 & Thirtle 2001), agricultural growth is more effective than industrial growth at reducing rural poverty if the ownership of land is not significantly skewed. Agriculture accounts for a larger share of GDP, employment, and earnings in developing nations. Therefore, governments in developing countries must focus more on the expansion of the agricultural sector in order to facilitate and ensure continuity in the process of socioeconomic development.

Nepal is one of the world's least developed and poorest nations. As of right now, 21.6 percent of people are poor (14th plan, 2073–74–2075–76). Remittances, which make up almost 30% of Nepal's GDP, are a major source of dependence (MOF 2073/74). The country's remittance flow has recently dropped by 1.7% until Falgun 2078/79 compared to 2077/78 (MOF 2078/79). Almost two-thirds of the nation's population depend on agriculture for their livelihood. Consequently, the majority of Nepalese people still rely on agriculture, although this industry only contributes 23.9% of the country's GDP (MOF 2078/79). But these days, the non-agricultural sector is contributing more to GDP, and the agricultural sector's share is decreasing. As of late, the GDP contribution from non-agricultural sectors is at 75.1%. In terms of the nation's economic expansion, 2078–2079 has been a good year. It is projected that in 2078–2079, Nepal's economy will rise by 5.84 percent. This year, the agriculture sector's output has grown by 2.30 percent. Furthermore, the production from the non-agricultural sector expanded by 8.66 percent as a result of remittances, tourism, and other reasons. The non-agricultural sector is becoming more and more critical to the nation's economic expansion. This industry raises money, improves employment opportunities, and raises people's standards of living.

Primary Sector (PS)

Agriculture is the primary source of employment, food, and housing for the majority of Nepalese people. However, investment in agriculture is not encouraging, accounting for only approximately 3% of total government outlays from 2002 to 2014. Gross Domestic Product was regressed on Domestic Savings, Government Expenditure on Agriculture, and Foreign Direct Investment on Agriculture using data from

fiscal years 2002/03 to 2014/15. The analysis revealed that government expenditure on agriculture contributed significantly to GDP, whereas domestic savings and foreign direct investment in agriculture were determined to be minor. The compound annual growth rate of government expenditure was determined to be slightly lower than the budget given to the Ministry of Agricultural Development. In summary, the study determined that government spending on agriculture is critical to the national economy. The Government of Nepal (GoN) has recognized the importance of agriculture and has prioritized it in its plans, policies, yearly budget, and programmers over the previous three years. According to MoAD reports, the funding has climbed significantly year after year. However, organized development in Nepal began with periodic plans from 1996. The first periodic plan emphasized agriculture as both an urgent activity and a foundation for future prosperity, allocating Rs. 12 million from Rs. 330 million (NPC, 1956). It was only in the fifth plan (1975-80) that the agriculture sector was prioritized, with 2032 BS designated as Agriculture Year. The ninth periodic plan (1997-2002) is also an important phase for agriculture. During that time, a long-term agriculture policy, the Agriculture Perspective Plan (APP), was developed to promote overall national growth through agricultural expansion (Mongues et al, 2012).

According to a number of earlier studies (Douglas & Clark, 1941; Kuznuts, 1957; and Fuchs, 1980), the number of individuals working in various economic sectors varies from year to year as they move from one to another as the economy develops. A certain percentage of people transition from the agricultural to the industrial to the service sectors as a result of economic development. By transitioning their economies from the agricultural and industrial sectors to the service sector between 1970 and 1980, 123 nations increased their per capita GDP (Kongsamut, Rebelo, & Xie, 2001).

According to Rath et al. (2006), India's rising service sector is the primary reason for the nation's quicker economic growth rate. As opposed to 12% and 17%, respectively, in the industrial and service sectors, 71% of Nepal's labor force is employed in the agricultural sector (United Nations, 2013).

Secondary Sector (SS) and Tertiary Sector (TS)

According to the United Nations (2013) analysis of the ILO's Key Indicators of the Labor Market (KILM), the labor force ratio in the agricultural, industrial, and service sectors will be 69%, 13%, and 19%, respectively, in 2018. This projection predicts that only a tiny proportion of the population will transition from the primary to the secondary and tertiary sectors of the economy, with little to no effect on Nepal's GDP even in five years.

Agriculture, industry, and services make up the three main economic sectors in Nepal. The country's GDP is only 33.9%, which is accounted for by the agriculture sector, which includes agriculture, forestry, and fishery. In contrast, the service sector includes business, public administration, defense, wholesale and retail trade, hotels, restaurants, transportation, storage, communication, financial intermediation, real estate, renting, and other business-related activities. The nation's economy has slowly modernized and developed, with the greatest sub-sector's contribution to the GDP in FY 2013/14 coming in at 44.42%. The most thriving sector is the service industry, which accounts for nearly twice as much of the GDP as agriculture and more than three times as much as manufacturing. In comparison to the agricultural and industrial sectors, the service sector is growing at a significantly faster rate.

Despite the fact that nearly 70% of agriculture is dependent on the rural population, the Asian Development Bank (ADB) study showed that little spending is made on agriculture, with 4.75 percent of GDP during the first two years of the TYIP (2008–10) and less than 2 percent of GDP for the previous ten years (Barrios, 2007).

The industrial sector, which makes up the majority of the commerce, manufacturing, and service sectors, contributes 13.5 percent of GDP outside of agriculture. In a similar vein, the development of both formal and informal employment in the nation is greatly aided by the service sector, which is another industry other than agriculture. The most well-liked service industries in Nepal's economy are hydropower, education, healthcare, finance, travel and tourism, and communication. In addition, there are other services like construction, transportation, social services, informal services, wholesale and retail trading, and consulting. The service sector makes up 59.5 percent of Nepal's GDP outside of agriculture (The World Fact Book 2019).

Economists and national planners must comprehend the influence of economic sector fluctuations on GDP to take corrective action and gauge the degree of modernization and economic progress. The basic, secondary, and tertiary sectors are the main contributors to GDP growth in Nepal, and the study examines their effects on this growth. The socioeconomic growth of a nation is determined by how much each of these three sectors contributes to GDP.

Hypotheses of the Study

Hypotheses should be set to test the relation between the variables used in this study. For this purpose, the following are the hypotheses of the study:

H_0: There is no significant effect of primary, secondary, and tertiary sectors on economic growth.

H_1: The primary, secondary, and tertiary sectors have a significant effect on economic growth.

Conceptual Frameworks

In order to examine the relationship between the variables of gross domestic product, primary sector, secondary sector, and tertiary sector of Nepal, the study came to the conclusion that the following frameworks should be designed and adopted. It used secondary annual time series data from 2060/61 to 2078/79, sourced from the Central Bank of Nepal (NRB). After reading the chapter on the review of literature and considering established theory, this was done.

This section aims at describing the Gross domestic product (GDP)

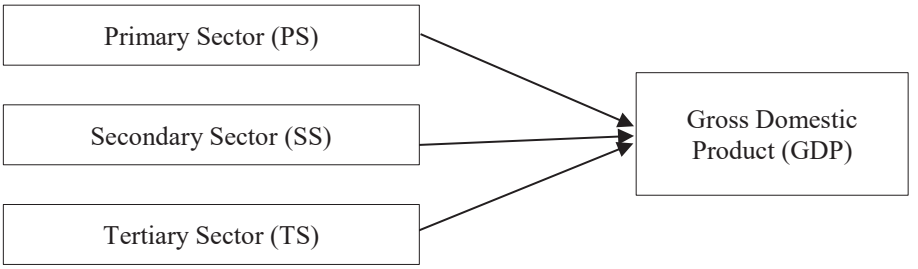


Figure 1: Conceptual Framework

Dependent variable

Gross Domestic Product (GDP): The total market value of all currently created final goods and services from every producing unit within a country's geographical authority over a certain period is what is known as the gross domestic product, or GDP. The total amount of finished goods and services

produced in a specific location over a given period is known as the gross domestic product, or GDP. The Gross Domestic Product (GDP), which is calculated in monetary terms, only includes commodities and services intended for further processing and manufacture. GDP is a common metric of an economy's health because it measures production activity.

The study took the growth rate of GDP as the dependent variable.

Independent Variables

A. Primary Sectors (PS): The primary sector of the economy is the area where raw materials are extracted or produced directly from natural resources. It serves as the backbone of economic activity and encompasses a number of businesses involved in the early extraction and gathering of natural resources.

B. **Secondary Sectors (SS)**: The secondary sector, usually referred to as the industrial sector, is a sizeable portion of the economy that processes and creates finished items from raw materials. By transforming the primary sector's raw materials into a variety of manufactured goods, this industry adds value to the products.

C. **Tertiary Sector (TS):** The tertiary sector, commonly referred to as the service sector, is an important component of the economy that focuses more on offering services than it does on creating products or mining raw resources. It includes a broad range of companies and pursuits that attend to the requirements and tastes of people and organizations. Intangible interactions and outputs define the tertiary sector.

3. METHOD OF ANALYSIS

The full study period, from 2060/61 to 2078/79, was used to investigate the link between Nepal's gross domestic product (the dependent variable), primary sectors, secondary sectors, and tertiary sectors (the independent variables). The figures were obtained from the NRB. E-Views software is used to compare and analyze the models.

Nature and Sources of Data

The data utilized in this article came from the NRB, the World Bank, and their published materials, as well as various issues of the Economic Survey published by the Ministry of Finance and other research papers.

Tools and Method of Data Analysis

The data in the paper were examined using analytical and descriptive methods. In descriptive research, the mean and standard deviation are used, while in analytical research, the OLS method is used to evaluate the dependent and control variables. The study examined the variables affecting GDP and used E-Views software to analyze the information.

Model Specification

A simple model for the determinant of the gross domestic product becomes

$$GDP = F(PS, SS, TS) \quad \text{..... (i)}$$

The OLS model that represents the model is presented in the equation as

$$GDP = a + b_1 PS + b_2 SS + b_3 TS + e \quad \text{..... (ii)}$$

Where;

GDP = Growth rate of GDP, PS = Primary Sectors, SS = Secondary Sectors, TS = Tertiary Sectors, a = Constant, e = Error term, b_1, b_2, b_3 = constant parameter

4. ANALYSIS OF DATA AND PRESENTATION

An ordered, deconstructed, and interpreted picture of information is painted on the structured table intended for data analysis. With the use of this tabular framework, complex datasets may be understood, and valuable conclusions can be made. Tightly constructed dimensions, each column and row in the table contains a certain feature of the data for analysis. For research purposes, the NRB provided the following secondary data.

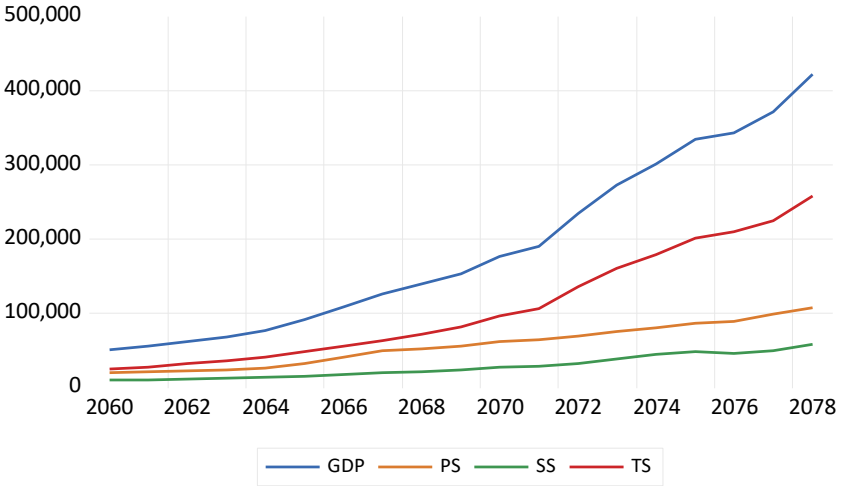
Table 1.1

Data for analysis

Years	GDP	Primary Sector	Secondary Sector	Tertiary Sector
2060/61	50069.9	18863.2	8690.2	24246
2061/62	54848.5	20211.6	9431.1	27015.2
2062/63	61111.8	21483.8	10196.4	31352.8
2063/64	67585.9	23024	11211.2	35501.2
2064/65	75525.7	25156.6	12653.8	40133.8
2065/66	90952.8	31463.7	14381.6	48043.6
2066/67	108341.5	40168.1	16345.7	55343.3
2067/68	124848.2	48510.5	18588.9	61914.8
2068/69	138748.2	51445	20722.1	71580.3
2069/70	152522.1	54408.4	23035.3	80598.9
2070/71	175873.8	60561.3	26027.1	95583.8
2071/72	189908.9	63777.6	28032	105361
2072/73	234140	67914	31649	134577
2073/74	272056	74494	38013	159549
2074/75	301102	79032	43766	178294
2075/76	334248	85489	48007	200752
2076/77	342852	88296	44804	209752
2077/78	371493	97894	49281	224318
2078/79	421215	106233	57026	257956

Source: *Nepal Rastra Bank (NRB)*

The following graph shows the findings of the descriptive statistics conducted before the inflowing time series analysis.



Source: *Authors' calculation through E-views*

The following table shows the summery output of the analysis.

Table: 1.2

Summery Output

Regression Statistics	
Multiple R	0.999958
R Square	0.999915
Adjusted R Square	0.999898
Standard Error	1208.924
Observations	19

Source: *Authors' calculation through Excel*

The correlation coefficient between the values predicted by the model and the observed values is known as multiple R. In this instance, it is extremely near to 1, suggesting that the independent and dependent variables have a strong linear relationship. R Square quantifies how effectively the independent factors account for the dependent variable's variability. It has a 0–1 range, where 1 represents an ideal match. The fact that it is nearly equal to 1 (99.9915%) in this instance indicates that practically all of the variability in the dependent variable can be explained by the model.

A modified form of R^2 that accounts for the number of predictors in the model is called Adjusted R Square ($\bar{R}^2$Predictor additions that do not considerably enhance the model are penalized. Given that our number is really near R2, it appears that our model's predictors are truly helpful. The average deviation of the observed values from the expected values is expressed as the standard error. In this case, it's 1208.924, and it shows how accurate the forecasts were. A lower standard error indicates a better match.

Based on these statistics, our regression model appears to be a perfect match for the data overall, as seen by the high R Square value and the deficient standard error. However, in order to guarantee the validity and reliability of the regression model, it's crucial to take into account additional factors like the data's context and probable assumptions.

Table: 1.3

ANOVA of Independent Variable and Dependent Variable

	df	***SS***	***MS***	***F***	***Significance F***
Regression	3	258981463221.14	86327154407.05	59067.58	0.00
Residual	15	21922471.71	1461498.11		
Total	18	259003385692.86			

Source: *Authors' calculation through Excel*

Freedom degree (df) The number of independent variables in the model is indicated by the three degrees of freedom. The number of observations minus the number of parameters calculated in the regression is represented by the residual 15 degrees of freedom. The total degree of freedom, or 18 degrees, is the product of the residual and regression degrees of freedom.

The regression in the total squared discrepancies between the expected values and the dependent variable's mean is represented by the sum of squares (SS) of 258981463221.14. The residual, or SS 21922471.71, is the total squared discrepancies between the expected and observed values. The sum of squared differences between the observed values and their mean, or total SS 259003385692.86, is the total value.

Regression mean squares (MS) 86327154407.05 are determined by dividing the degrees of freedom of the regression sum of squares. By dividing the residual sum of squares by its degrees of freedom, one can find the residual MS (1461498.11). The ratio of the mean squares of regression to residual is 59067.58, or the F-statistic. It evaluates the regression model's overall significance. Importance The p-value for the F-statistic is F 0.00. A statistically significant regression model is indicated by a small p-value (< 0.05).

Based on the extremely low p-value (0.00), the regression model seems to be highly statistically significant overall. The dependent variable's means fluctuate significantly amongst the various levels of the independent variables, as indicated by the F-statistic of 59067.58. The residual MS gives an estimate of the variance not explained by the model. The high Regression SS indicates that the model may explain a significant amount of the dependent variable's overall variance. The ANOVA findings show that the regression model explains the variation in the dependent variable in a statistically meaningful way. Given the strong significance of the F-statistic, it may be concluded that the independent variables together significantly influence the dependent variable.

Table 1.4

Coefficient of Multiple Regression Analysis

	Coefficients	***Standard Error***	***t Stat***	***P-value***
Intercept	760.59	1124.15	0.68	0.51
Primary Sector	0.74	0.06	13.05	0.00
Secondary Sector	0.88	0.25	3.61	0.00
Tertiary Sector	1.13	0.04	27.19	0.00

Dependent Variable: GDP

Source: *Authors' calculation through Excel*

We appear to have provided the results of a regression analysis, most likely from some statistical program or software. Based on our data, a regression model was estimated, and the results are shown in this output. The main statistics and coefficients shown in the output are explained as follows:

The regression equation includes a constant element called the intercept (C). When all independent variables are zero in this situation, the coefficient indicates the estimated value of the dependent variable. The t-statistic calculates how far the coefficient is from zero by how many standard errors. If the intercept is statistically significant, the p-value shows it. Since the p-value is 0.51 in this instance, the intercept could not be statistically significant.

In the regression model, the variable Primary Sector (PS) is an independent variable. The coefficient, while maintaining other variables constant, shows the estimated change in the dependent variable for a one-unit change in PS. The t-statistic and p-value reveal the significance of this coefficient. The PS variable is probably statistically significant in this instance, given the low p-value (around 0). Secondary Sector (SS) is an additional independent variable, similar to PS. Its coefficient, t-statistic, and p-value all have the same meaning. A small p-value denotes statistical significance for the SS variable. Tertiary Sector (TS) is another variable. The TS variable is expected to be highly statistically significant according to its coefficient, t-statistic, and p-value.

5. DISCUSSION

The study examines the impact of Nepal's primary, secondary, and tertiary sectors on GDP growth between 2060-2061 and 2078-2079 years. Results show a positive relationship between GDP growth and the service, manufacturing, and agricultural sectors, with the service sector being the largest contributor. The report suggests updating agricultural methods, developing the service sector through tourism, and growing the industrial sector through hydroelectric power. The research provides practical suggestions for long-term economic growth in Nepal.

The effects of the primary, secondary, and tertiary sectors on Nepal's GDP growth from 2060–2061 to 2078–2079 are investigated in this paper. The study emphasizes how a nation's GDP, a crucial gauge of its economic health, is affected by a number of variables, including population, supply and demand, market openness, foreign investment, inflation, and political climate. The primary sector supplies the secondary and tertiary sectors with raw materials. It consists of mining, quarrying, and agriculture. The study used information from the Ministry of Finance, the World Bank, and the Nepal Rastra Bank (NRB) to examine the connection between GDP growth and various economic sectors. Both descriptive and analytical techniques were used, with analysis performed using E-Views software and the Ordinary Least Squares (OLS) approach.

The results show a strong positive correlation between GDP growth and advancements in the industrial, service, and agricultural sectors, with the service sector contributing the most, followed by the industry and agriculture sectors. However, attaining strong GDP growth is hampered by Nepal's landlocked location and reliance on its neighbors, China and India. In order to boost economic growth, the report emphasizes the importance of modernizing agriculture, decreasing food imports, and growing the industrial sector. The primary study question asked whether there is a substantial relationship between economic growth and the primary, secondary, and tertiary sectors. The hypotheses investigated indicated that there is.

A high correlation coefficient in the regression analysis suggested a robust linear link between the independent and dependent variables. The model appears to account for almost all of the GDP

fluctuation, as indicated by the high R Square value of 99.9915%) and the low standard error of the estimates. The p-value and F-statistic showed the regression model's overall statistical significance. According to sectoral analysis, the industrial and agricultural sectors are equally important to the GDP, while the service sector makes up the majority of the total. Using Nepal's hydropower potential to strengthen the industrial sector and utilizing its tourism potential to increase the GDP contribution of the service sector are among the recommendations.

The study delivers insightful information about the variables influencing Nepal's GDP growth and makes tactical suggestions for promoting economic development in the face of political, social, and environmental obstacles. The report offers a thorough examination of the contributions made by various economic sectors to the GDP growth of Nepal. It highlights the important responsibilities that the service, agricultural, and industrial sectors play while also pointing out the difficulties that Nepal's location and economic situation present. Sustained economic growth depends on implementing the ideas for modernizing agriculture, increasing industrial production through hydroelectric power, and improving the service sector, especially tourism. This thorough research provides insightful information to stakeholders and policymakers who want to support Nepal's economic development.

6. CONCLUSION AND RECOMMENDATION

This academic study focuses on the elements that affect Nepal's GDP growth. The study's findings show a substantial positive correlation between the GDP growth rate and changes in the industrial, service, and agricultural sectors of the economy. According to analysis, the service sector, followed by the agricultural and industrial sectors, is one of the most significant contributors to GDP. Being a small landlocked nation bordered by the two economic behemoths of China and India makes it incredibly difficult for Nepal to reach the planned rate of GDP growth quickly.

Modernizing Nepal's agricultural system and lowering the amount of food it imports from abroad are both imperative. In terms of producing energy from running water, Nepal is the wealthiest country in the world. The only way to boost the contribution of the industrial sector to GDP is to generate more and more electricity and export it to nearby nations. Given that Nepal is a mountainous nation and one of the top tourist destinations in the world, the tourism sector has the potential to become a significant service sector and boost Nepal's GDP. Additionally, the study shows that the association between GDP and the service and agricultural sectors is robust and favorable, while the relationship with the industrial sector is relatively weak.

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