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Exporting Assistance Program by Federal Government in Developing Island State: A Time Series Analysis

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Abstract: *The government initiatives for exporting firms are geared towards mitigating firm's operational cost to provide the competitive edge in the global markets and access to new markets. The National Export Strategy commenced in 2007 with the aim of reducing trade deficit in Fiji. This paper intends to define the role of and impact of Fijis National Export Strategy on firms export value from 2000 to 2020. This research will use content analysis and empirical analysis to compare the view the impact of National Export Strategy funding for firms export values. Content analysis will provide an incite of empirical analysis to explanatory variables. Empirical analysis states that National Export Strategy grant is inversely related to the recipient firms export values. Policy implication drawn from the analysis is that the government needs to have transparent policies in disbursing and monitoring grants for value adding and the funding assistance should not discriminate sectors.*

Keywords: National Export Strategy, Export Growth, Small Island State

1.0 Introduction

Fiji is one of the wealthier countries in the Pacific, with a GNI per capita of US$4,370 (2013), and its central location in the South Pacific has enabled it to serve as a regional hub for transportation, business, and telecommunications, and to provide a home for important regional institutions. In addition, Fiji has a more diversified economy and is less dependent on external aid than many islands in the Pacific. Historically, sugar and garments were the backbone of the economy, but both are now undergoing structural decline due to the loss of preferential access to export markets. Over the past two decades, tourism has become the leading sector and currently accounts for about 38 percent of GDP (World Bank, 2013).

The Fijian economy adopted policy changes after getting its independence in 1970. Economic policies during the early post-independence period (1970 to late-1980s) were based on import-substitution, self-sufficiency, and extensive Government involvement in business. Strong growth early in this period was followed by over a decade of low average growth. From the late 1980s Fiji switched to a more market-oriented, outward-looking development strategy, with an emphasis on trade liberalisation, deregulation, investment promotion and an increased role for the private sector. [Fijian Trade Policy framework-2015-2025].

The Fijian Government acknowledges the utmost importance of international trade as it fosters bilateral, regional and multilateral integration with like-minded countries. Fiji has entered into Regional Trade Agreements (RTAs) with its neighbouring Pacific Islands Countries (PICs) such as, the Melanesian Spearhead Group Trade Agreement, Pacific Islands Countries Trade Agreement (PICTA), and is negotiating the Pacific ACP (PACP) – European Union (EU) Economic Partnership Agreement (EPA) (Fijian Trade Policy framework-2015-2025).

The National Export Strategy (NES) is being implemented to achieve sustainable growth by encouraging exports, competitiveness, value adding, and export diversification in six priority areas: agro-business; forestry; marine products; mineral water; information and communication technologies (ICT); and audio-visual services. The NES is administered and implemented by the Ministry of Industry, Trade and Tourism which also assists micro, small and medium-sized enterprises within the prioritized sectors on a cost-sharing basis with an emphasis on addressing supply-side constraints (e.g. product development, packaging, infrastructure, marketing and training).

This study explores the significance of National Export Strategy. Furthermore, the research contributes by analysing the effects of trade strategy on the exports. The article is organized as follows. Section 2 discusses the existing literature on export strategy. Section 3 describes the empirical model, data for significance testing and the outlining discussions. Section 4 discusses the policy implications with concluding remarks.

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2.0 Review of Literature

Trade is a recognized motor for development. A national export strategy advances the power of trade to build sustainable economic development. However, trade does not happen by accident but rather by design. National export strategies provide a considered approach that helps countries reap the benefits of their trade policies and integrate into the global economy. Strategies are designed to reduce economic vulnerabilities and build a resilient economy.

Many developing countries (including transition economies) are liberalizing their economies to attract foreign direct investment, imports and licensing of foreign technology in order to have more competition in their domestic market (Sinha,2009). Globalization and integration of various economies has often been linked to internalization of economic growth and development. Export is a very important factor for achieving high economic growth rates (Hessels and van Stel, 2007; Shih and Wickramasekera, 2010). But there is no proof that state aid and special measures to promote export are effective for stimulation export of companies (Leniodou, 1998; Wiliams, 2008).

Less developed countries are sceptical in adopting policies for export promotion even though primary products export resulted in positive trade outcome via multiplier effect however developing countries are resources constrained to exporting of primary products - mainly agricultural commodities (Chambers and Gordon, 1966). A research conducted by Fatima, Akmal and Butt in 2011 states that the rapport between exports and economic growth, subsequent to Pakistan accomplishing a certain level of economic development using threshold effects. This report concluded that Pakistan's exports promotion strategy was positively significant, conditional to cheap labour with low cost of production. The threshold effect analysis did not summon promotion of export as harmful however over reliance on export to stimulate growth may be misleading".

Import substitution strategies and import restriction resulted in slow growth as experienced by East Asian Countries. A study by Kim (1987) and Snape (1988) as cited in Kruger (1990) explored the factors that contributed to rapid export growth of East Asian Tigers and identified the following: real exchange rate for exporters, well define and committed government policies, controlled and exempted import restrictions and infrastructure. An interesting revelation is that no policy or strategy is workable without collaboration of other economics agents. Governments in export strategy countries should not discriminate the incentives for exporting and import competing production instead, the profits sourced from import restrictions were channelled to exporters" (Kruger, 1990 and Prakash, 2018).

Shahbaz, Ahmad and Asad (n.d.) use the ARDL bounds test approach to explore the export led growth in Pakistan with data from 1990 to 2008. The study proves that the export is positively interrelated with growth for both the short-run and the long-run period. It further provides evidence that a depreciation in exchange rate hinders economic growth while a running real capital stock fosters it. Another study by Sharma and Dhakal (1994) also examines the association of exports growth and economic growth in thirty developing countries for the years 1960 to 1988. It is evident that international trade increases the level of output and generates more income in a country which assists in stimulating the volume of trade (Raj and Chand, 2017).

Furthermore, export market competition is the extent to which businesses must strive to outdo each other to gain the economic rents of that industry. Competition may vary along multiple dimensions, such as the number of competitors, price competitiveness, and service/delivery. Any manager who is committed to developing a suitable marketing strategy must initially identify the key competitors (Clark and Montgomery, 1999; Day and Wensley, 1988). In addition, it is necessary to make an analysis of the prices (Cavusgil and Zou, 1994) and delivery times (Czinkota et al., 1996) of competitors in the different markets (Lages and Montgomery, 2005).

Clay (2013) highlighted that agricultural subsidies may boost developing countries via innovations and building stronger middle class, feeding the hungry, producing surplus for export and complementing transition of rural poor out of poverty with better lifestyles. Arguments that favour export subsidies by the Economists (2000) are: a) infant industry argument, b) to assist domestic infant firms with capital markets, c) to boost domestic employment and d) healthier balance of trade. A research on Peru and Colombia by martincus and Carballo (2009) and Helemers and Trofimenko (2009) disclosed positive effect of export subsidies using firm level data. (Prakash, 2013)

3.0 Data Analysis and Discussion

Fiji is described as middle-income country and one of the more developed of the Pacific island economies, it remains a developing country with a large subsistence agriculture sector. For many years sugar and textile exports drove Fiji's economy. However, decline in preferential market access and the phasing out of a preferential price agreement with the European Union [to sugar price reductions of 36%] undermined earnings and the potential of these two sectors in becoming competitive in globalized markets. In 2005, the textile industry in Fiji markedly declined following the end of the quota system under the Agreement on Textiles and Clothing (ATC) and the full integration of textiles into the World Trade Organization (WTO) General Agreement on Tariffs and Trade. In recent years, growth in Fiji has been largely driven by a strong tourism industry. Tourism has expanded since the early 1980s and is the leading economic activity in the islands.

Fiji mainly exports sugar, mineral water, fish, gold and garments. Fiji's main export partners are Australia, the United Kingdom, United States, Singapore, Japan and New Zealand. Fuel, foodstuff, machines, manufactured goods are principal import items of the country with Singapore, Australia, New Zealand, the United States, Japan and China being major import partners. Tourism is the key economic activity contributing approximately 25% to Fiji's GDP. It is a member of Melanesian Spearhead Group (MSG), the Pacific Island Countries Trade Agreement (PICTA), the South Pacific Regional Trade and Economic Cooperation Agreement (SPARTECA), and the World Trade Organisation (WTO).

The data period is 2000 – 2020 and sourced from Fiji Bureau of Statistics. The independent variables utilized for this study are: domestic exports, re-exports and dummy variable to represent the National Export Strategy (NES). The regression model is specified below:

$Total\ Exports = \beta_0 + \beta_1 Domestic\ Exports + \beta_2 Re\_Exports + \beta_3 NES + \mu$--- (1)

Where **Total Exports** represent all goods leaving the country, through customs, for a foreign destination. **Domestic Export** consist of the exports of all goods grown, produced, extracted or manufactured in Fiji, leaving the country, through customs, for a foreign destination. **Re-Exports** signify the export of goods that have previously entered Fiji and are leaving in the same condition as when first imported.

Furthermore, it is anticipated that both domestic exports and re-exports will have a positive sign. In addition, dummy variable is used to capture the significance of the National Export Strategy. The National Export Strategy was rolled out in 2007 thus, in this study the gains of NES are likely to be realized from 2008 where absence of NES = 0 and presence of NES = 1. It is expected that the National Export Strategy will be a positive sign.

Table 1: Linear Regression - Total Exports

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Domestic Exports	0.849407	0.095250	8.917678	0.0000
Re_Exports	0.329821	0.022025	14.97508	0.0000
NES	-0.033423	0.030650	-1.090477	0.2917
C	-1.791701	1.299741	-1.378506	0.1870
R-squared	0.988795	Mean dependent var		14.27738
Adjusted R-squared	0.986694	S.D. dependent var		0.272664
S.E. of regression	0.031452	Akaike info criterion		-3.903827
Sum squared resid	0.015828	Schwarz criterion		-3.704680
Log likelihood	43.03827	Hannan-Quinn criter.		-3.864951
F-statistic	470.6363	Durbin-Watson stat		0.844174
Prob(F-statistic)	0.000000			

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Table 1 presents results of the linear regression model specified in Eq. (1) with total exports as the dependent variable using Ordinary Least Squares. Domestic exports and re-exports are highly significant positive determinants of total exports. A percent change in domestic export increases total export by approximately 0.0085 percent. While re-exports bring about approximately 0.0033 percent increase in total export for a percent change.

The National Export Strategy has an inverse relation to the total export and is insignificant. One of the reasons for NES having inverse effect is due to the fact in Fiji the Government had focused on few sectors when compared to East Asian Tigers which had non-discriminatory policies. Also, Fiji being developing nation lacks resources and infrastructure. Together with that Fiji as a developing nation holds a small international market which makes it a price taker thus prices are not influenced in the international market. Together with that Fiji has face 2 political instabilities [2000 & 2006] and this has greatly affected Fiji's international relations.

For the regression model specified in equation1; **three diagnostics tests were done respectively: serial correlation, heteroscedasticity and multicollinearity**.

Breusch-Godfrey Serial Correlation LM Test:

F-statistic	1.603855	Prob. F (2,14)	0.2360
Obs*R-squared	3.728224	Prob. Chi-Square (2)	0.1550

The null hypothesis: absence of serial correlation, alternative hypothesis: presence of serial correlation. At 5% significance level, the null hypothesis is not rejected thus, no presence of serial-correlation.

Heteroskedasticity Test: Breusch-Pagan-Godfrey

F-statistic	0.496501	Prob. F (3,16)	0.6899
Obs*R-squared	1.703309	Prob. Chi-Square (3)	0.6362
Scaled explained SS	1.142572	Prob. Chi-Square (3)	0.7668

The null hypothesis: absence of heteroscedasticity, alternative hypothesis: presence of heteroscedasticity. At 5% significance level, the null hypothesis is not rejected thus the error variances are constant.

Variance Inflation Factor

Variable	Coefficient Variance	Centered VIF
Domestic Exports	0.009073	2.409232
Re-Exports	0.000485	3.688958
NES	0.000939	4.558321
C	1.689327	NA

There is no presence of severe multicollinearity between the independent variable as the Variance Inflation Factors is < 10.

4.0 Summary, Policy Implications and Limitations

Fiji is a small, open economy with narrow based export opportunities. Given the size of the market and low levels of productive capacity, Fiji cannot influence world prices of goods and services, particularly commodity prices. The country faces unique challenges because of its size, lack of economies of scale, high dependence on a few tradable primary commodities, isolation from major markets, vulnerability to natural disasters, and difficulties in attracting foreign investment that exacerbate its trading outlook [International Trade Centre, 2008].

To sustain improvements in export performance, it is vital that Government develop a realistic National Export Strategy. An appropriate mechanism must also be put into place to facilitate its management and implementation. A relevant and concerted response is required to address the imminent phasing out of preferences accorded to sugar and garment industries; Fiji's inability to diversify its export mix to 'add value' to resource-based sectors gain market access currently denied on the grounds of non-compliance with standards and certification requirements; reduce leakages in the high performing tourism sector; the near absence of export oriented small and medium enterprises and Fiji's chronic balance of payments deficit [International Trade Centre, 2008].

The Fijian government used National Export Strategy to curb trade deficit in 2007. The National export strategy covered 12 sectors namely: Fisheries, Forestry, Agro-business, Manufacturing, Tourism, Hospitality, ICT, Textile Clothing and Footwear, Financial Service providers and Energy Development sectors. The policy implication from empirical analysis is in light that Fiji governments export led promotion; NES is not statistically significant for the export values of the firms. Thus, the findings demand reflection on the export led growth, implementation of NES. Pugel (2007) state that small countries are not able to influence world trade thus can Fiji increase its world share through exports. Pursing an export led growth requires non-discriminatory policies however in Fiji NES was aligned for a few sectors. Fijis first attempt to implement NES in 2007. Reflecting the results obtained Fiji needs to re-strategize and diversify in other potential areas of exports.

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