



Science Arena Publications
International Journal of Business Management

ISSN: 2520-5943

Available online at www.sciarena.com

2018, Vol, 3 (3): 122-129

Study the Effect of Economic Subsidies on Export Development

Homeira Zare Joneghani¹, Sahar Zare Joneghani^{2*}

¹ M. A. in Department of International Commercial Management, Islamic Azad University South Tehran Branch, Tehran, Iran.

² M. A. in Economic Development and Planning, Alzahra University, Tehran, Iran.

***Corresponding Author**

Abstract: *Despite the fact that today, most developing countries are trying to bring their economies closer to a free economy and in this way, bring themselves together on the world stage, but there are also countries that consider subsidies and assistance to the domestic industry as one of the important ways to further support domestic industries. In fact, these credits have turned into investment incentives and help the economy and employment and capital of the country, increase social welfare and can affect the company's manufacturing and export activities as well. Therefore support for the export industries, especially non-oil exports, is one of our country's priorities for increasing economic growth and creating foreign exchange earnings. This research has been designed with the aim of investigating the relationship of subsidy on export development in the country, so that export can be improved by employing appropriate subsidies. This study is applied from purpose point of view, in the descriptive-survey framework and has importance on the field. The questionnaire was designed in Likert scale & distributed among 261 Managers and experts of the company export in Iran. Cronbach alpha is calculated as %86, which is well above the minimum desirable limit of 0.70. The study investigates 18 factors & extracts five important ones, which profitability and economic growth, quality, developmental factor, The Functional - Financial aspect, the incentive aspect. In this paper for analyze the data use from spss softwares.*

Keywords: *Subsidies, Export, Export Development, Economic.*

INTRODUCTION

Subsidies are, in fact, direct or indirect payments of a kind of financial assistance, economic privilege or granting special superiority to private institutions, households or government units which is done to achieve the desired goals. Among the various types of subsidies can point out to manufacturing, consumption, service, distribution, export subsidies. One of the most important goals that governments, especially in developing countries like our country, are following by paying subsidies is preventing the spread of poverty and social crises, trying to bring justice even at the cost of losing part of economic efficiency. Subsidy which is paid by the government aims to support consumers, distributors, and producers; it means that the government pays subsidies to consumers to compensate for part of the price of goods and services aimed at increasing production to producers, increasing the distribution function of distributors, and increasing the purchasing power of no-income or low-income consumers. In fact, subsidy payment is considered as a supportive policy and economic tool (Durmuşoğlu and et al, 2012).

The foreign sector of Iran's economy as a whole and Iran's non-oil exports, in particular, suffer from a set of fundamental backwardness. In order to achieve sustainable developmental changes in export, Iran must at least define and implement a comprehensive export development program, and because of the importance of export, governments tend to support export activity of the companies by utilizing incentives and supportive programs that are known as export promotion programs .(Fattouh and El-Katiri, 2013)

Hence, numerous government and nonprofit organizations in Iran, using a variety of export promotion programs, support export activities of the companies. The aim of this program is to improve export of the companies or stimulate them to start export activities (Kleer, 2010)

Governments have provided incentives for export either in the form of export support programs or in the form of institutions such as export development banks. From the government's point of view, export development programs are offering to enhance the international competitiveness of domestic enterprises and from the perspective of domestic enterprises, export development programs are designed to encourage and motivate firms to export.

Theoretical Bases

- **Definitions and concepts of subsidy**

Subsidy is either the total of cash and non-cash payments result from difference between the actual cost and prime cost or different kinds of government aids to organizations, under the title of activities subject to the Support System which is considered clearly in the form of transfer payments by the government and credit lines of the budget in budget calculations. Indeed, subsidy is a supportive tool which, while focusing economic facilities on target groups, should also be effective in modifying the natural mechanism of relative costs. Hence, efforts should be made to target and support low-income consumers and producers of certain goods and services (Morgan, 2013).

Definitions for subsidy in the international level

Definition of Economist Journal of the subsidy

Subsidy is the money which is paid by the government for three cases: to keep the product price lower than the price in free market, to maintain an industry that would be bankrupt in the absence of subsidies and in the last case to carry out activities that cannot be done without taking subsidy. Subsidy can be considered as a kind of support that makes domestic products and services artificially competitive against to import. Subsidies can impose heavy costs on the economy by market destruction (Meuleman et al., 2012)

Defenition of World Trade Organization (WTO) of the subsidy

According to WTO definition, subsidy is the financial participation of the government or any other public identity in the form of:

- 1) Direct funds transfer (including potential transfers such as loan guarantees)
- 2) Lost income (such as tax deductions)
- 3) Providing low-cost goods and services (excluding social infrastructures)
- 4) Forcing the private sector into triple cases (Tzeng and etal, 2011).

Definition of the Organization for Economic Cooperation and Development (OECD) of the subsidy

According to this organization, a subsidy on a product is a subsidy payable per unit of a good or service produced, either as a specific amount of money per unit of quantity of a good or service or as a specified percentage of the price per unit; it may also be calculated as the difference between a specified target price and the market price actually paid by a buyer (Stoian and etal, 2011).

- **Types of subsidies**

Given the variety and various applications of the subsidy, as well as the various effects and outcomes that the subsidy payment method can have, its categorization and separation is necessary. Subsidies are also more

diverse in proportion to the extent of the government duties in the economy. In general, the types of subsidies can be classified in four categories:

The categorization of subsidies based on government objectives, subsidy in terms of payment status, subsidies in terms of reflection in the budget and subsidies in terms of manner of distribution.

- **Study the role and status of the government in economical systems and export**

The scope of government's duties and authority is the distinction of different economic systems.

In socialist systems, the state has played the role of planner and employer in all sectors of the economy and a centralized planning methodology is an efficient method for allocation of resources. The underlying cause of this intervention is market failure, while in the free economic system, the role of the government has become narrower and its three main tasks are to restore order, protect public safety and establish public institutions. With the development and evolution of economic theories in the West, the role and position of the government has also been transformed (Navarro and etal, 2010).

Adam Smith's theories (who can be known as the founder of free economy) although are based on limiting the role of the state in market activities and private firms but he knows three functions as government's task: Protecting citizens and propertis by the army, protecting citizens' resources inside cities by military forces and establishing institutions and providing public services. With the development and evolution of economic theories in the West, perspectives on the government have also been transformed. Pigou, English Economist, in his famous book, "Economic Welfare", has taken an essential step in clarifying the position of the government in the economy. He deals with the overall costs and benefits, points out to the governmet as as a factor in making production productive along with the private sector. He believes that whenever production produces external benefits, the production level will be less than optimal production and here government can guarantee production increase to achieve the efficient production level by subsidy. Here, Pigo also refers to the full subsidy in which government take charge of production and delivery of goods. Paul Samuelson, well known American economist in the complete introduction of the public section and public goods, in the theory of production and consumption of public goods in 1954, took final step and it can be said that according to his economic theories, now in all developed Western countries, the public sector works along with private sector actively with independent identity (Nishimura and Okamuro, 2011).

Commercial policies used to encourage export by governments are supportive policies that one of its types is paying subsidy to export which is paid to related industries in order to boosting and flaourishing export. These governmental supports by compensating aprts of manufacturing cost of these goods and decreasing its prime cost causes competitive advantage for manufacturing industries compared to other similar industries and ensuring the continuity of growth and taking the initial stages of development. In other words, the domestic product in the global market is supplied at a lower price, competitive with other similar products.

Nonetheless, in Iran, usually when growth and expansion of non-oil exports is considered that, export of crude oil and revenues from their sales has been stagnant. In other words, it is usually in critical situations that efforts are being made to grow and expand non-oil exports (Nishimura and Okamuro, 2011)

Despite the fact that governments are said to play a decisive role in the creation of competitive advantage at the national level, but in fact it is not, instead, they have an indirect influence on decisive factors. The government indirectly affects on demand conditions through monetary and financial policies and directly as a major buyer of goods and services. In other words, the government can improve the competitive advantage or decrease it but cannot do anything about it (Cerqua and Pellegrini, 2014)

- **Development of Export**

In recent years, the views on the role of the government in development have changed a lot. Today, the important role of government in conducting the economy through resource allocation, currency control, key industries management, and the directing the production and distribution of goods and services should be reduced and in turn the role of the private sector should be strengthen. Export development is one of the key factors in sustainable economic growth. New empirical studies indicate that every one percent increase in

export growth is accompanied by a 0.2 percent increase in economic growth. However, Trade patterns and production growth are not the same in different regions. The growth of trade in the economies of the Organization for Economic Cooperation and Development (OECD) and the countries of Southeast Asia has been much faster than same cases in Latin America and Africa, and oil-exporting countries have had the lowest growth of trade both in absolute terms and in terms of their growth. (Antonelli and Crespit, 2013).

- **Export Development programs**

Export development plans refer to all policies and general programs designed to help firms in their export activities from consulting, tax incentives, and export finance to trade fairs and contribution to sales development. In fact, most export development programs are essentially designed for this purpose that provide initial export knowledge (which guarantees export benefits, export market information, and so on by sending business delegates, holding trade fairs, etc.) and the experimental knowledge and physical facilities needed for export for potential and actual exporters. In general, the purpose of export development programs is government programs to raise awareness of opportunities and to plan and increase the ability of firms to export which provides opportunities for cost sharing (Colomboand et al., 2013).

In addition to export development programs, the Export Development Policy Package is also a tool for expansion of export activity. Export Development Policy Package in different countries with different priorities is used for encouraging and developing export and includes commercial, tax, customs, currency, credit, insurance, free zones policies, attracting foreign investment, regionalization and other supportive trade policies. This package is used in different countries with different priorities for encouraging and expanding exports and is searching for shaping the necessary fields for export development including A) Create an incentive to export B) Reduce the cost of industrial production for export C) Improving International Competitiveness D) Creating a safe environment for export activities.

Trade development, especially the development of industrial exports, requires the realization of four pillars that, if for any reason, one of the four pillars is not active; fulfilling export goals will fail. (Bloemer and et al., 2013).

From the government's point of view, export development programs are provided to enhance the international competitiveness of domestic firms and from the perspective of domestic enterprises, export development programs are designed to encourage and motivate firms to export. Therefore, evaluating the effectiveness of export development programs is an important step towards achieving sustainable economic growth in a country. Historically, governments have provided incentives for exports either in the form of export support programs or in the form of institutions such as export development banks. Presence of knowledge, information, experience and resources are essential to overcome these obstacles for the firm and export development programs are also defined to meet these needs and help the learning process in the international competitive environment and motivate the business environment towards export goals and create the necessary infrastructure to facilitate exports (Afonso and Armando, 2012).

In order to achieve sustainable developmental transformations in the export goods in Iran, a comprehensive export development program should be defined and implemented. In this framework, most successful countries in export development have implemented an Export Development Policy Package.

Among all the factors affecting the country's export performance, it may be one of the components to be from the Export development Program. Achieving a proper understanding of these programs will help policy makers in the country's international trade and export sector to act more intelligently in choosing a variety of export promotion programs and allocate general public resources to supportive programs that have a greater impact on companies' export performance.

Research Methodology

- **Data collection and sample**

This study attempts to find the impact of Economic Subsidies on the Country’s Export Development. The proposed study uses factor analysis to extract most influence factors and sample size has been chosen from residents of Tehran. The questionnaire was designed in Likert scale & distribute among 261persons. To analyze the data, descriptive statistics were used to sort the data in the second part of the data analysis is performed based on statistical inference In this paper for analyze the data use from spss softwares. Factor analysis and T test analysis of the presumptive test was used.

- **Assessing reliability**

The reliability of the measurements in the survey was tested using Cronbach’s a. Hair et al. (1998) stated that a value of 0.70 and higher is often “considered the criterion for internally consistent established factors” .Cronbach alpha is calculated as 0/86,which is well above the minimum desirable limit of 0/70. The Cronbach’s a coefficients in parentheses indicating the internal consistency reliability of the measures (a = 0.868).

There are 18 variables and using factor analysis, We extract four factors where Kaiser-Meyer-Olkin Measure of Sampling Adequacy was 0/83(Approx. Chi-Square= 1484/886 df=153 Sig.= 0/000),which also confirms the results of our survey

Analysis and Results

The proposed study designs a questionnaire and distributes it among 261 Managers and experts of the company export in Iran. Chronbach alpha is calculated as 0/86, which is well above the minimum desirable limit of 0/70. Chronbach alpha has been calculated as 0/86 and table 1 demonstrates the results.

Table 1: Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based On Standardized Items	N of Items
0/862	0/863	18

We extract factors where Kaiser-Meyer-Olkin Measure of Sampling Adequacy was 0/83(Approx. Chi-Square =1484/886 df=153 Sig. = 0 / 0 00), which also confirms the results of our survey. Table2 demonstrates the results

Table 2: KMO and Bartlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0/83
Bartlett's Test of Sphericity	Approx. Chi-Square	1484/886
	Df	153
	Sig.	0/000

Interpretation of the results of the hypothesis:

In this section, we present details of five findings on five influencing factors.

- **The first hypothesis: the developmental factor of subsidies affects the export development of the country.**

According to the below tables, the t-test statistic is 27.75 and greater than 1.96, the upper and lower limit of the average are with the same sign and both positive, and the significance level is 0.000 which is less than 0.05. As a result, with this evidence, we can say that the zero hypothesis is rejected and the contrary

hypothesis is confirmed. This means that the developmental aspect of subsidies affects the country's export development.

Table 3: Descriptive Statistics

N	Mean	Std. Deviation	Std. Error Mean
261	4/00	0/58	0/03

Table 4: T Test

Test Value = 0					
t	df	Sig.	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
27/75	260	0/000	1/00	0/93	1/07

- **The second hypothesis: the quality aspect of subsidies affects the export development of the country.**

According to the below tables, the t-test statistic is 25.46 and greater than 1.96, the upper and lower limit of the average are with the same sign and both positive, and the significance level is 0.000 which is less than 0.05. As a result, with this evidence, we can say that the zero hypothesis is rejected and the contrary hypothesis is confirmed. This means that the quality aspect of subsidies affects the country's export development

Table 5: Descriptive Statistics

N	Mean	Std. Deviation	Std. Error Mean
261	3/99	0/63	0/03

Table 6: T Test

t	df	Sig.	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
25/46	260	0/000	0/99	0/91	1/07

- **The Third hypothesis: profitability and economic growth of subsidies affects the export development of the country.**

According to the below tables, the t-test statistic is 33.21 and greater than 1.96, the upper and lower limit of the average are with the same sign and both positive, and the significance level is 0.000 which is less than 0.05. As a result, with this evidence, we can say that the zero hypothesis is rejected and the contrary hypothesis is confirmed. This means that the profitability and economic growth of subsidies affects the country's export development.

Table 7: Descriptive Statistics

N	Mean	Std. Deviation	Std. Error Mean
261	4/05	0/51	0/03

Table 8: T Test

t	df	Sig.	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
33/21	260	0/000	1/05	0/98	1/11

- **The second fourth hypothesis: The Functional - Financial aspect of of subsidies affects the export development of the country.**

According to the below tables, the t-test statistic is 26.56 and greater than 1.96, the upper and lower limit of the average are with the same sign and both positive, and the significance level is 0.000 which is less than 0.05. As a result, with this evidence, we can say that the zero hypothesis is rejected and the contrary hypothesis is confirmed. This means that the **Functional - Financial** aspect of subsidies affects the country's export development

Table 9: Descriptive Statistics

N	Mean	Std. Deviation	Std. Error Mean
261	4/05	0/64	0/04

Table 10: T Test

t	df	Sig.	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
26/56	260	0/000	1/05	0/97	1/12

- **The fifth hypothesis: The incentive aspect of of subsidies affects the export development of the country.**

According to the below tables, the t-test statistic is 26.63 and greater than 1.96, the upper and lower limit of the average are with the same sign and both positive, and the significance level is 0.000 which is less than 0.05. As a result, with this evidence, we can say that the zero hypothesis is rejected and the contrary hypothesis is confirmed. This means that the incentive aspect of subsidies affects the country's export development

Table 11: Descriptive Statistics

N	Mean	Std. Deviation	Std. Error Mean
261	4/05	0/57	0/03

Table 12: T Test

t	df	Sig.	Mean Difference	95% Confidence Interval of the Difference	
				Lower	Upper
26/63	260	0/000	1/05	0/97	1/12

Conclusions

Export development plans create new capacity to cope with the complexity of export which their implementation causes 1- awareness of opportunities and planning to enhance the organization's ability to export 2- seeking opportunity to split costs 3- decreasing costs 4- integration of target markets information 5 – granting export credits and loans 6- reducing prime costs. These cases are among the reasons for giving subsidy, which directly affect the export development of the firm. Therefore, the grant of export subsidies is one of these support programs that improves the relative position of domestic firms in competing with other firms and it makes the domestic firm expand its market share and since the price is still higher than the final export cost, export expansion will increase domestic welfare. Based on this, the data and results of this study were analyzed using factor analysis method in Economic Subsidies, among which 5 components of Country's Export Development, profitability and economic growth, quality, developmental factor, The Functional - Financial aspect, the incentive aspect were identified and presented.

Reference

1. Afonso, Oscar, Armando, Silva. (2012). "non-scale endogenous growth effects of subsidies for exporters". *Journal of Economic Modeling*, Vol. 29, No. 4, pp. 1248-1257.
2. Antonelli, Cristiano, Crespi, Francesco. (2013). "The "Matthew effect" in R&D public subsidies: The Italian evidence". *Journal of Technological Forecasting and Social Change*, Vol. 80, No. 8, PP. 1523-1534.
3. Bloemer, Josée, Pluymaekers, Mark, Odekerken, Armand. (2013). "Trust and affective commitment as energizing forces for export performance". *Journal of International Business Review*, Vol. 22, No. 2, PP. 363–380.
4. Cerqua, Augusto, Pellegrini, Guido. (2014). "Do subsidies to private capital boost firms' growth? A multiple regression discontinuity design approach". *Journal of Public Economics*, Vol.109, PP. 114–126.
5. Colombo, Massimo G., Croce, Annalisa, Guerini, Massimiliano.(2013). "The effect of public subsidies on firms' investment–cash flow sensitivity: Transient or persistent?". *Journal of Research Policy*, Vol. 42, No. 9, PP. 1605–1623.
6. Durmuşoğlu, Serdar S., Apfelthaler, Gerhard, Nayir, Dilek Zamantili, Alvarez, Roberto, Mughan,
7. Fattouh, Bassam, El-Katiri, Laura. (2013). "Energy subsidies in the Middle East and North Africa". *Journal of Energy Strategy Reviews*, Vol. 2, No. 1, PP. 108–115.
8. Kleer, Robin. (2010). "Government R&D subsidies as a signal for private investors". *Journal of Research Policy*, Vol. 39, NO. 10, PP. 1361–1374.
9. Meuleman, Miguel, Maeseire, Wouter De. (2012). "Do R&D subsidies affect SMEs' access to external financing?". *Journal of Research Policy*, Vol. 41, No. 3, PP. 580–591.
10. Morgan, Horatio M. (2013). "Foreign banks and the export performance of emerging market firms: Evidence from India". *Journal of Research in International Business and Finance*, Vol. 29, PP. 52-60.
11. Navarro, Antonio, Losada, Fernando, Ruzo, Emilio, Díez, José A. (2010). "Implications of perceived competitive advantages, adaptation of marketing tactics and export commitment on export performance". *Journal of World Business*, Vol. 45, NO. 1, PP. 49–58
12. Nishimura, Junichi, Okamuro, Hiroyuki. (2011). "Subsidy and networking: The effects of direct and indirect support programs of the cluster policy". *Journal of Research Policy*, Vol. 40, No. 5, PP. 714-727.
13. Stoian, Maria-Cristina, Rialp, Alex, Rialp, Josep. (2011). "Export performance under the microscope: A glance through Spanish lenses". *Journal of International Business Review*, Vol. 20, No. 2, PP. 117-135.
14. Tzeng, Gwo-Hshiung, Huang, Jin-Jeng. (2011). "Multiple Attribute Decision Making". Printed on acid-free paper, United States of America.