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Targeting Export Performance through Business Confidence, Exchange Rate and Trade Barriers: Time Series Evidence from Australian Economy

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Abstract: *To improve overall performance of any economy, exports perform an imperative role. It helps in earning foreign exchange, improve overall production, improve balance of payment and also reduce budget deficits. Therefore, present research is designed to investigate the factors which may help in boosting exports in Australia. For this purpose, this research explores real effective exchange rate, custom and other import duties, business confidence index, interest payments and domestic credit to private sector as important determinants of exports in the selected economy. KPSS unit root test is applied to find out order of integration, ARDL bounds test is applied on a data series from 1975 to 2024 to find out long run cointegrating relation. The findings confirm mixed order of integration and bounds test suggest long run equilibrium relation between exports and its determinants. The empirical results further reveal that business confidence significantly expand exports in both long and short run while real effective exchange rate significantly reduces exports in the similar periods. Trade barriers in the form of custom and other import duties significantly decrease exports in the long run while it boost exports in the short run. Domestic credit to private sector as a measure of financial sector liberalization only expands exports significantly in the long run. Interest payments demonstrate insignificant impact on exports in both eras. Improving business confidence and credit to private sector can be helpful to improve export performance in Australia while careful dealing with real effective exchange rate and trade barriers in the form of custom and other import duties can be channelized to retrieve their fruitful results for exports.*

Key Words: Australia, Business Confidence, Real Effective Exchange Rate, Custom, Import Duties, ARDL Bounds Test

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Introduction

Exports play an important role in economic development as a major contributor of output growth, employment and foreign exchange earnings. The ability to compete in international markets is a vital part of the overall macroeconomic performance, especially for economies that are dependent on trade. Consequently, the determinants of export performance have been an ongoing research issue in international economics and various factors have been explored as potential drivers of exports, such as exchange rates, trade policy, financial conditions, and business expectations (Arize et al., 2000; Fajgelbaum et al., 2019; Nguyen and Su, 2021). Australia provides a uniquely valuable environment for such an investigation, as one of the most trade-intensive advanced economies in the world. The export basket consists mainly of natural resources, especially iron ore, coal, and liquefied natural gas, along with gold,

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agribusiness and educational and tourist services. Australia is the biggest iron ore exporter, and in 2024 it exported some three hundred and sixty billion United States dollars of goods and services (Observatory of Economic Complexity, 2024). It is mainly traded in the Asia–Pacific region, with the main destinations being China, Japan, South Korea, and India. Australia's export revenue is highly vulnerable to commodity prices, external demand and exchange-rate fluctuations, given this concentration in resource commodities and in a few Asian markets.

This paper investigates the factors that influence Australia's export volumes in annual data for the period 1973–24. This period has seen huge structural transformation and shocks such as trade liberalization since the 1980s, the Asian industrialization-driven mining boom, the Global Financial Crisis, the COVID-19 pandemic, and more recent geopolitical tension and supply-chain disruption. The analysis of such a long period allows the short-term adjustments and the long-term equilibrium relationships between Australia's exports to be captured. The study investigates five determinants of export performance. The real effective exchange rate affects price competitiveness; if it appreciates, the relative price of exports to foreign countries will increase, and vice versa, the relative price of exports will decrease (Arize et al., 2000; Handoyo et al., 2023). Customs and other import taxes increase the price of imported inputs and lead to trade retaliation, thereby reducing export activity (Fajgelbaum et al., 2019; Handley et al., 2025). Domestic credit to the private sector is the credit finance that firms need to carry out production and cover the fixed costs of exporting, which will facilitate export growth in the deeper credit markets (Nguyen and Su, 2021; Öncel et al., 2024). Interest payments reflect the cost of servicing debt, that can reduce productive investment, restrict credit availability, and increase the real exchange rate (Sonaglio et al. 2016; Chor and Manova, 2012). Lastly, business confidence is forward-looking; an increase in business confidence leads to increased investment, which is essential for export growth, but a decrease in business confidence has a larger effect on trade (Novy and Taylor, 2020; Adekoya and Oliyide, 2021). Despite Australia's extensive international trade, export revenues have been highly volatile over the last 50 years. Despite the extensive studies on the individual determinants of exports, and often in the context of other economies, the empirical literature addressing the relationship of these five factors with the export performance of Australia as a whole is limited. Without coordinated evidence, policy makers have no clear basis for coordinated trade, monetary and financial policies to stabilize the export sector. Accordingly, this study examines the short-run and long-run effects of these determinants on Australia's exports and establishes the speed at which the export sector adjusts towards long-run equilibrium.

Three gaps motivate the study. First, the effects of exchange rates, trade policy, financial development and uncertainty have all been analyzed individually, but few studies include all five determinants in a single export model, thus restricting knowledge of the relative and combined impact. Second, the role of business confidence as an explanatory variable for exports is not well researched, especially for a developed resource-based economy like Australia, where most studies focus on business confidence as a dependent variable to capture uncertainty rather than an independent variable to explain exports. Third, the literature on customs and import duties is largely of a firm- and product-level nature, with recent trade conflicts providing the clearest evidence, and macro-level impacts of import-duty regimes have been under-researched, with interest-payments channels typically being studied indirectly.

The findings are expected to be of value on several fronts. The study serves as integrated evidence for policymakers of the impacts of exchange-rate, trade-policy, financial and expectational factors on exports. Exporters and businesses will find the results helpful to understand the impact of currency fluctuations, funding conditions, and business confidence on competitiveness. For the literature, the study provides one of the few comprehensive empirical studies that simultaneously analyzes all five determinants of exports. This study considers Autoregressive Distributed Lag model in order to investigate the effect of real effective exchange rate, business confidence index, trade barriers in the form of custom and other import duties, credit to private sector and interest payments on export performance of Australia. An annual time series data from 1975 to 2024 is utilized to examine the empirical results. This research is designed to share introduction in the first section, discussion of literature in the second section, sample and methods in third while section four will demonstrate results and their discussion and last part will shed light on conclusion and policy implications.



Literature Review

This section reviews the empirical evidence on the five explanatory variables employed in the present study. The reviewed studies are organized according to variables one by one, and each section ends with a summary of the combined results.

Linking Exports with Real Effective Exchange Rate

Among various imperative macroeconomic factors of exports is real effective exchange rate (REER). It measures the value of the currency of a nation with respect to the currencies of the trade weighted basket of its major trading allies. The difference in relative prices is also adjusted into such exchange rate. The contribution of Arize et al. (2000) suggested that real exchange rate volatility left negative and statistically significant effect upon export in the 13 selected nations in long and short run eras. Foreign direct investment and international trade significantly respond to the changes in exchange rate volatility in the developing economies on the Belt and Road Initiative as disclosed by Latief and Lefen (2018) in their research. Focusing on transition and developing economies, Khachatryan and Grigoryan (2020) examined Armenia and determined the real exchange rate was an important determinant of exports, with real depreciation aiding export growth.

Similarly, Mesagan et al. (2021) concluded that exchange-rate movements significantly influence Nigeria's non-oil exports across agriculture and manufacturing, with volatility discouraging exports. After this, we witnessed the contribution of Hassan et al. (2022) who explored determinants of exports for Canadian nation. Their findings suggested that real effective exchange significantly reduced exports in the selected developed nation. Extending the analysis to Southeast Asia, Handoyo et al. (2023) applied ARCH/GARCH, ARDL, and Nonlinear ARDL models to the ASEAN-5 economies, finding that volatility significantly affects manufacturing commodity exports, that exporters display risk-averse behaviour in the long run, and that the effect is asymmetric across most commodities. Collectively, the studies of Arize et al. (2000), Latief and Lefen (2018), Khachatryan and Grigoryan (2020), Mesagan et al. (2021), and Handoyo et al. (2023) confirm that the real effective exchange rate significantly determines export performance, with appreciation and volatility exerting adverse effects and depreciation enhancing competitiveness.

Impact of Customs and Other Import Duties on Exports

Customs and other import taxes are a tax on the import inputs and increase the production costs of exporters, thus encouraging response from trading partners. Fajgelbaum et al. (2019) examined the tariff hikes in 2018 in the United States and found that tariffs were almost fully passed-through into domestic prices, imports were significantly reduced, and retaliatory tariffs had a large adverse impact on exports. Amiti et al. (2019) analyzed the price and welfare impact of the same episode and concluded that import tariffs were passed through almost entirely to domestic prices, thus affecting domestic firms and consumers, reducing the competitiveness of exporters. The retaliatory dimension is studied directly by Grant et al. (2021) who discovered that retaliatory tariffs had a significant impact on reducing the US agricultural exports in targeted product categories during the trade conflict between the United States and other countries in 2018/2019. Grossman et al. (2024) showed from a supply-chain point of view that tariffs imposed on imported inputs have negative effects on production costs and export competitiveness. Handley et al. (2025) confirmed this in confidential firm-trade linked data, showing that export growth for products most vulnerable to import-tariff increases was significantly lower in 2018–2019, corresponding to a 2–4 per cent ad valorem tariff on United States exports. The consistent findings from the five studies cited above (Fajgelbaum et al., 2019; Amiti et al., 2019; Grant et al., 2021; Grossman et al., 2024; Handley et al., 2025) indicate that increases in customs and import taxes lead to a reduction in export volumes because of cost push, pass-through and retaliation, as well as supply-chain disruption.

Impact of Domestic Credit to Private Sector on Exports

Domestic credit to the private sector, a commonly used indicator of financial development, is linked to exports because exporting requires substantial initial investments, such as market entry costs, logistics,

and working capital. Nguyen and Su (2021) employed system GMM to analyse 110 countries and discovered that the impact of financial development on export quality and upgrading is significant and larger in financially underdeveloped economies where credit is the limiting factor. In a complementary macro study, Öncel et al. (2024) analyzed the panel of nine economies of the CIS using panel VAR, VECM, FMOLS and DOLS estimators, and found long-run cointegration between domestic credit to the private sector by banks, exports and economic growth. Extending the financial aspect, Gnangnon (2022) revealed that higher financial openness corresponds to export product and services diversification, suggesting that financial openness helps companies diversify and scale up their export operations. Relevant to the present specification, Islam et al. (2024) analyzed the relationship between financial development and tariffs, as well as regional trade agreements and exports, and concluded that financial development has a positive impact on exports, but tariffs have a negative impact. All of these studies confirm that domestic credit to the private sector has a positive impact on exports, both in terms of quantity and quality and diversification.

Impact of Interest Payments on Exports

Interest payments affect exports by crowding out productive investment, limiting credit availability and bringing about an appreciation of the real exchange rate. Sonaglio, et al. (2016) identified the interest rate spread as one of the factors that can cause overvaluation of the currency and found that a high domestic rate increases the real exchange rate, reducing the external competitiveness of manufactured exports from Brazil. One piece of direct evidence on the cost-of-credit channel comes from Chor and Manova (2012), who investigated the collapse of trade during the global financial crisis, and concluded that countries with higher interbank interest rates, and thus tighter credit conditions, exported significantly less, particularly in sectors that were more dependent on external finance. These results are corroborated by more recent studies. In the 2013 bank-interest deregulation in China, Sun et al. (2025) observed that a reduction in the cost of borrowing had a significant positive effect on firms' export performance, suggesting that an increase in the cost of borrowing had a negative impact on firms' export performance. However, the study conducted by Yuliadi et al. (2024) applied a fixed-effects panel model on ASEAN countries, which shows that an increase in the interest rate in the countries in ASEAN has a positive but not statistically significant effect on exports, indicating that the direct influence can vary depending on the context. The evidence indicates that an increase in interest rates tends to decrease exports, but the size and importance of the direct impact depend on the economy.

Impact of Business Confidence Index on Exports

The business confidence index (BCI) reflects the expectations of firms about future conditions and is viewed as a good indicator of investment. Because heightened uncertainty is the inverse of business confidence, a substantial literature links uncertainty to trade outcomes. Novy and Taylor (2020) show that the trade uncertainty multiplier can be large because as uncertainty rises, so does the contraction of trade compared with domestic activity, due to decreased precautionary inventories and delayed market entry by exporters. Caldara et al. (2020) also discovered that increased trade-policy uncertainty has a significant adverse impact on export volumes and investment. Examining the confidence–trade nexus in an emerging-market context, Liu et al. (2024) found that heightened economic policy uncertainty significantly reduces China's export volumes and intra-industry trade, with the effect more pronounced in high-technology sectors. In the field of transmission mechanism, Montes and Nogueira (2021) demonstrated the strong negative link between economic and political uncertainty and business confidence, in turn, and lower private investment, which translates into lower production capacity via a confidence–investment link. Business confidence is also a leading indicator, as Adekoya and Oliyide (2021) concluded that economic policy uncertainty and oil-price shocks adversely impact business confidence and confidence is also a good predictor of future economic growth. The findings from these studies suggest that overall, greater confidence in business helps export activity, while greater uncertainty hurts exports by less investment or late market entry.

Research Gap

The review identifies several gaps that are addressed by the present study. First, the actual effects of the five determinants have been studied separately, but very little research integrates the determinants into a single comprehensive export model, thereby limiting the understanding of the interaction of macroeconomic, trade-policy, financial and expectational determinants of export performance. Second, although there are many papers on the subject, the export effects of the business confidence index are still not well-explored, especially for one advanced resource-exporting economy like Australia. Third, the literature on customs- and import-duties is primarily firm- and product-level evidence based on the United States trade conflict, whereas the literature on the interest-payments channel has been mainly financing conditions and exchange-rate appreciation based, rather than the direct channel of aggregate exports. By incorporating all five determinants within a single empirical framework for Australia over 1975 to 2024, the study aims to fill these gaps.

Data and Methods

After considering the dataset of the World Bank database (2026), the export performance of Australian economy is determined for the sample ranging from 1975 – 2024. The indicators of export are real effective exchange rate, import duties, interest payments, business confidence index and credit to private sector. For making the discussion and results generalized, this study has transformed all the selected indicators into natural log form. This will enable the results to be interpreted in percentage form. Through the literature, below provided functional form has been conceptualized for this research for Australian economy:

$$lnEXP_t = f\ (lnREER_t\ ,\ lnCID_t\ ,\ lnINTPAY_t\ ,\ lnBCI_t,\ lnDCPS_t)$$

Table 1

Variables: Name & Representation

Name	Representation	Data Source
Export Performance	$lnEXP_t$	World Bank (2026)
Real Effective Exchange Rate	$lnREER_t$	
Custom Import Duties as share of GDP	$lnCID_t$	World Bank (2026)
Interest Payment as share of Total Revenue	$lnINTPAY_t$	World Bank (2026)
Business Confidence Index	$lnBCI_t$	World Bank (2026)
Domestic Credit to Private Sector	$lnDCPS_t$	World Bank (2026)

The analysis will start with sharing summary stats to demonstrate the main features of the selected indicators. This will be highlighted through normality, standard deviation and mean values of the variables. Afterward, the properties of stationarity relating to all the variables will be assessed by considering Kwiatkowski, et al. (1992) unit root test. The null hypothesis of this test states series is stationary while alternate reveal nonstationary series. This will report about order of integration. Besides this, bounds test proposed by Pesaran et al. (2001) will be applied to see whether export performance has long run cointegrating and equilibrium link with its indicators or not? This technique is more consistent for the combination of I(0) and I(1) data series. After confirming long run association between export performance and its factors, the elasticities for the long run and for the short run will be provided to see how selected explanatory factors influence the export performance in long and short run in Australia.

Once the empirical results will be obtained, the validity of these results will then be tested through multiple diagnostic tests. Among various diagnostics, testing structural stability is one of the diagnostics which is possible by applying the cumulative sum (CUSUM) and cumulative sum of squares (CUSUMSQ) graphs. The stable CUSUM and CUSUM squares will provide evidence of stable mean and variance of residual term. This will further confirm structural stability of the estimated coefficients during the selected sample period. The reliability and robustness of the results will further be tested using post-estimation diagnostic tests like heteroscedasticity, serial correlation, the normality of residuals and misspecification

of the functional form. Once post estimation diagnostic tests appear to be stable then policy implications will be proposed based on the estimated results. The results section is provided as under:

Estimations and Interpretation

This part demonstrates the results and their discussion. The summary stats expressed in the natural log are presented in the below provided Table 2. Mean values, standard deviations and the normality status of all the selected indicators is shared in this table. The natural log of business confidence index reveals the highest mean value but lowest standard deviation while natural log of custom and import duties provides minimum mean value but highest standard deviation. The high standard deviation shows greater deviation of data points from its corresponding mean value and vice versa. Besides this, the probability values of Jarque Bera test for natural log of real effective exchange rate and natural log of interest payments confirm that both indicators follow normal distribution while the rest indicators do not meet normal distribution assumptions. The summary stats are shared as under:

Table 2

Descriptive Stats

Variables	Mean	Maximum	Minimum	Std. Dev.	Jarque-Bera	Probability	Observations
LNEXP	2.9403	3.3200	2.4316	0.2885	5.7159	0.0574	50
LNREER	4.4686	4.6916	4.2132	0.1192	2.0071	0.3666	50
LNCID	-4.0399	-2.2614	-5.1857	0.8039	5.1456	0.0763	50
LNINTPAY	1.5053	2.3658	0.2902	0.5629	3.1390	0.2081	50
LNBCI	4.6045	4.6206	4.5750	0.0093	11.3842	0.0034	50
LNDCPS	4.2872	4.9566	3.2961	0.5960	5.3539	0.0688	50

After expressing summary stats, properties of unit root using KPSS unit root test are examined and the findings are shared in Table 3. The results suggest that natural log of real effective exchange rate and natural log of business confidence index have LM stats less than their corresponding 1% critical value. This means that we are failed to reject Ho and hence it is concluded that both data series are stationary at level specification. Besides this, all the other indicators, such as natural log of exports, natural log of customs and import duties, natural log of interest payments, and natural log of credit to the private sector, are first-difference stationary variables because their LM-stat values are greater than the corresponding 1% critical value at level. This confirms the evidence of mixed order of integrated data series. Therefore, it helps in applying the bounds test approach of Pesaran et al. (2001) in order to find long run equilibrium relation between export performance and its selected indicators in the study. The results are shared in the below Table 3:

Table 3

KPSS Unit Root Test

Variables	LM-Stats	Variables	LM-Stats
LNEXP	2.3212	**dLNEXP**	0.2716
LNREER	0.3864	**dLNREER**	0.0983
LNCID	1.1540	**DLNCID**	0.6670
LNINTPAY	1.4583	**dLNINTPAY**	0.1255
LNBCI	0.6955	**dLNBCI**	0.0371
LNDCPS	1.6576	**dLNDCPS**	0.3972
The Asymptotic Critical Values are at 10% = 0.347; 5% = 0.463, and at 1% = 0.739.			

The findings obtained through the ARDL bounds test indicate that F-stat = 4.1996 is greater than the 5% upper critical boundary, which is 4.1863, while the same is true for W-stat, which has a value of 25.1974 and is higher than the 5% upper critical value, 25.1118. This suggests that the null hypothesis of no cointegration is rejected, and it is confirmed that export performance has a long-run equilibrium link with its selected explanatory variables during the selected time period in the study. The results further identify

that the residual term has no serial correlation, there is no evidence of misspecification of functional form, the residual term remains normal, and the variance of the residual term is not heteroskedastic. This conclusion is finalized on the basis of insignificant probability values of these tests. This can be witnessed from Table 4 provided below:

Table 4

ARDL Cointegration Test

Estimated Model	LnEXP = f(lnREER, lnCID, lnINTPAY, lnBCI, lnDCPS)			
Optimal lags	(1 , 0 , 1, 0 , 0 , 1)			
F – statistics	4.1996			
W – statistics	25.1974			
Significance Level	***Critical Bounds For F – Statistics***		***Critical Bounds For W – Statistics***	
5 percent	2.9196	4.1863	17.5176	25.1181
10 percent	2.4476	3.6114	14.6855	21.6686
DIAGNOSTIC TESTS				
Serial Correlation	0.3932 [0.531]		***Normality***	1.2299 [0.541]
Functional Form	2.5973 [0.115]		***Heteroscedasticity***	0.0001 [0.992]
The Probability Values are shared in the square brackets.				

After confirming the long-run equilibrium relationship between exports and its determining factors through the ARDL bounds test, the long-run and short-run elasticities are found and reported in Table 5 provided below:

Table 5

Estimated long-run coefficients (dependent variable: LNEXP)

Regressor	Coefficient	Std. Error	t-Ratio	Prob.
LNREER	-0.4579	0.1034	-4.4287	0.000***
LNCID	-0.1145	0.0558	-2.0545	0.047**
LNINTPAY	0.0342	0.0322	1.0609	0.295
LNBCI	2.8266	1.3545	2.0868	0.043**
LNDCPS	0.2813	0.0829	3.3944	0.002***
C	-9.6691	6.1326	-1.5816	0.122

*1% significance level is highlighted by Note: ***, while 5% is with ** and 10% is with * respectively.*

The real effective exchange rate and customs and import duties have a negative and statistically significant impact on exports. This reveals that an increase in the exchange rate shows appreciation of the domestic currency. This increases export prices, and hence it reduces demand for exports and therefore, overall exports deteriorate. Besides this, when customs and import duties are imposed by the economies, it will make the importing economies annoyed in the long run. Consequently, they will retaliate and will start imposing trade restrictions upon the exports of countries that are putting restrictions upon their exports. This exhibits the negative impact on the overall exports of each country. This means that putting import restrictions through customs and other import duties may be beneficial in the short run but not in the long run. It will harm the exports of the country. Therefore, imposing tariffs in the long run is prohibited since it allows nations to retaliate, and both nations will receive zero welfare from trade barriers.

The coefficient of real effective exchange rate is -0.4579, which shows that if the real exchange rate appreciates by 1 percent, then exports will decline by 0.4579 percent. Similarly, by increasing customs and import duties by 1%, exports will decline by 0.1145%. The negative impact of real exchange on exports is consistent with Arize et al. (2000) and Handoyo et al. (2023). Besides this, the negative impact of customs and import duties is supported by Fajgelbaum et al. (2019) and Islam et al. (2024).

The results further reveal that both business confidence and credit to the private sector have significant and positive impacts on export performance in Australia. The elasticity of the business confidence index is witnessed as the highest elasticity among all the indicators of exports. A one percent increase in the business confidence index significantly enhances exports by 2.8266 percent. This shows a more elastic impact of business confidence on exports. The finding is consistent with theory, stating that an increase in business confidence results in expansion in investment, which enhances domestic production; after meeting domestic demand, surplus production will be exported, and hence overall exports will escalate. The positive sign of the coefficient is consistent with the findings of Adekoya and Oliyide (2021). Domestic credit to the private sector has a positive and highly significant influence upon exports with a coefficient of 0.2813. This shows that a one per cent increase in domestic credit to the private sector increases exports by about 0.2813 percent. This finding is supported by Nguyen and Su (2021) and Öncel et al. (2024), who argue that better access to finance allows firms to invest in production and cover fixed costs associated with exporting. Lastly, the coefficient of interest payments is positive, but it is statistically insignificant. Yuliadi et al. (2024) also provided similar findings in their research. After sharing the interpretation of long-run elasticities, now the interpretation of the short-run elasticities is provided as under:

Table 6

Short Run Elasticities

Dependent Variable: ΔLNEXP				
Regressor	**Coefficient**	**Std. Error**	**t-Ratio**	**Prob.**
ΔLNREER	-0.1957	0.0532	-3.6761	0.001***
ΔLNCID	0.0823	0.0429	1.9157	0.062*
ΔLNINTPAY	0.0146	0.0132	1.1057	0.275
ΔLNBCI	1.2083	0.6490	1.8618	0.070*
ΔLNDCPS	-0.1040	0.1044	-0.9956	0.325
ecm(-1)	-0.4275	0.0908	-4.7056	0.000***

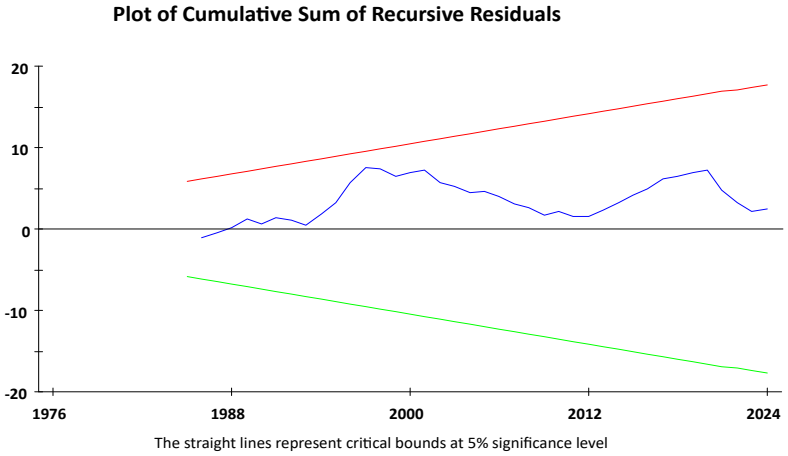
*1% significance level is highlighted by Note: ***, while 5% is with ** and 10% is with * respectively. Δ denotes the first-difference operator.*

The real effective exchange rate has a negative and significant effect on exports in the short run as well. One percent appreciation in the exchange rate significantly reduces exports by 0.1957 percent. Furthermore, customs and import duties and the business confidence index exert a positive and significant short-run effect on exports. One percent increase in customs and import duties significantly improves export performance, while exports significantly follow an upward trend by 1.2083% due to a one percent increase in the business confidence index. Unlike the long run, business confidence exhibits a strong and more elastic impact on export performance in the short run. Interest payments and credit to the private sector report insignificant impact on exports in the short run. The speed of adjustment to restore towards long run and stable equilibrium in response to any macroeconomic shock is 42.75 percent each year. This means that, in about 2.34 years, long-run and stable equilibrium will be attained. The coefficient of ecm(t-1) is significant, and it is negative with a coefficient size of -0.4275. This indicates evidence of the convergence hypothesis.

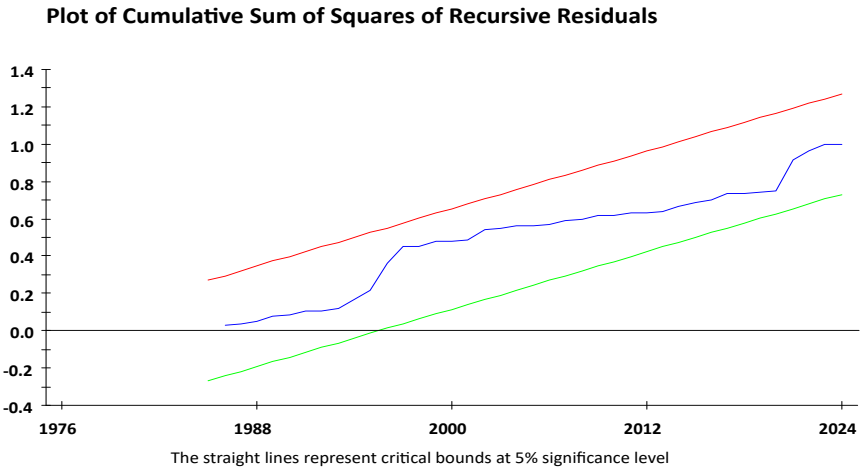
After the short and long run estimations and their discussion, cumulative sum (CUSUM) and cumulative sum of squares (CUSUM SQ) graphs are used for finding the structural stability of the selected ARDL functional form. The findings are presented in Figure 1, which illustrates that both graphs of CUSUM and CUSUMSQ fall within their corresponding critical boundaries, showing the stability of the mean and variance of the residual term of the model. This further indicates the stability of the estimated long and short-run elasticities during the selected time period from 1975 to 2024 in the case of Australia. remain within their respective 5% critical bounds throughout the sample period. The results are shared in Figure 1 provided below.

Figure 1
Stability Test

CUSUM



CUSUM Square



Conclusion and Policy Implications

This research is organized to inquire into the role of real effective exchange rate, customs and other import duties, and business confidence index on export performance of Australia. For obtaining empirical results, ARDL bounds test over the sample period from 1975 to 2024 is applied. The findings report that real effective exchange rate exerts a negative and statistically significant impact on exports in both the long and short runs, while the business confidence index reveals a significant and expansionary effect on export performance in both eras. Customs and other import duties significantly curtail exports, but these expand exports in the short run. Lastly, credit to the private sector significantly improves exports in the long run only.

These findings suggest that an increase in the real effective exchange rate exhibits appreciation of the domestic currency and hence reduces exports. Therefore, domestic currency may be strengthened in a way that it should not harm exports. In a globalized world, putting trade barriers to support domestic infant industry may be beneficial in the short run but not in the long run; therefore, imposing these trade restrictions should be dealt with carefully, as these may reduce exports in the long run, and experts of trade also guide us about prohibited tariff rates, as this enhances retaliation among the trading nations. Providing confidence to businesses is key to expanding exports in Australia. Therefore, all the efforts should be made to raise the level of confidence of all the businesses so that they keep on investing and expanding overall production and exports in the country. Lastly, financial sector liberalization is also conducive, but it will only escalate exports in the long run.

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