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Eurasian Economic Union: Asymmetries of Growth Factors*

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Abstract

The aim of the study is to assess the asymmetry of influence of factors of economic growth of national economies, which are included in the integration. Unlike previous research, the scientific significance of the obtained results consists in the use of a new method of study – external demand as a factor of economic growth, disaggregated into two components. The first is net exports mutual trade in goods within integration associations. The second is net exports of foreign trade in goods outside the integration. By use of these methods we have evaluated the contribution of these factors on economic growth of the Customs Union and the Common Economic Space (CU/CES), as well as Kazakhstan, Russia and Belarus. In the conducted analysis of scientific research was based on the fact that the economies of the member (CU/CES) are very different in scale, economic potential and volume of foreign trade. Based on this research we conclude: integration is developing successfully and efficiently only with the rise of the national economies of the member countries; to enhance economic growth and competitiveness of the countries of the Eurasian integration it is necessary to increase the volume of mutual trade of member countries of this integration.

Keywords: Globalization, Integration, Economic Growth, External Demand, Domestic Demand, Net Exports Trade.

JEL Classification Code: F14, F15, F62.

1. Introduction

In the modern world the relationship of globalization and regional integration becomes a rather topical problem. Globalization is diverse process of development of the world economy, which leads to new integration blocs and unions. Regional integration is a complex process, largely dependent on the specific characteristics of each individual case where there are no rules that would be both universal and practical policy in relation to integration agreements. Dialectics of interaction of processes of globalization and integration confirmed that:

- Firstly, the establishment of integration associations is a natural reaction to the negative effects of globalization, particularly the instability of the world economic system.
- Secondly, the tendency to the creation of an integrated global system global partnership (between the integration associations).

It is an undisputed fact that economic integration is a means of resolving contradictions of globalization. The value of integration is determined by the creation of its opportunity to enhance the competitive position of the participating countries in the uncompromising struggle for world markets, sources of raw materials and energy resources, new technologies, investments, etc. Along with this, the rich experience of Western European States clearly shows that integration enhances competitiveness of national economies. The establishment of integration associations contributes to their opposition to the largest transnational and national economic structures can pose a real threat to the sovereignty of developing countries and emerging markets (Khusainov, 2012).

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At the turn of 80-90-ies of XX century the process of globalization has caused two interrelated phenomena: the decline of the role of the nation-state and the emergence of regional groupings (blocks). At the same time in modern conditions, regional integration has become the dominant trend of development of the world. In fact the whole world today is a set of regional blocs. In Western Europe, North America, South America, Southeast Asia, the former Soviet Union and Africa are the major regional enterprises, related to General economic and geopolitical interests. Goals and reasons for creating them was different, but in the context of globalization of the world economy they are all aimed at defending national interests of a group combine their states. And this is their strength, comparable with the possibilities of a single country.

In the modern global economy prosperity, the role and place of the state, to a certain extent depends on the ability to function effectively in integration associations, defending national interests, which is a very non-trivial problem.

In this context it is very important to evaluate factors of economic growth, integration associations, and national economies of the member countries. There is a certain amount of research aimed at identifying the effects of participation of any country in the integration associations. However, very few academic works that explore the contribution of various factors, in particular, of foreign and mutual trade and domestic demand to economic growth. This is the novelty of the conducted research.

Economic phenomena and processes that occur in integration cannot be in equilibrium. Moreover, the national economies under the influence of transformational change (and not only them, as will be shown later) accumulated asymmetries, which to disturb the balance and to create a certain imbalance in their integration development. There are also asymmetries that came from the previous economic system.

Asymmetry is a characteristic feature of globalization and, as a consequence, the world economic development. However, the asymmetry inherent in the development of not only the global economy, but almost all of the integration formations, of which there are more than two hundred. These are the asymmetry in the Eurasian integration Association. And therefore, *this research paper aims to identify and analyze the asymmetry.*

The study is divided into the following sections. The Section 2 proposes to consider the literature aspects of the economic process and growth. Section 3 sets the methods of net exports of goods within the integration and net exports external trade in goods outside the integration. Section 4 is a concluding part.

2. Literature Review

Economic growth is the most pressing problem of economic theory and practice. In the world economic science to problems of economic growth is dedicated to the many scientific papers. This is evidenced by numerous studies, including the famed Cambridge debate on capital theory, in fact, despite a wide range of issues. The significance of this debate is crucial in methodological terms, and applied economic-mathematical aspect. Since 1950-ies, this debate has involved in its orbit a lot of economists, including the "famous" scientists of the first magnitude, and went far beyond the discussion of the problem of capital (Dzarasov, 2004).

The discussion was conducted by two groups of scientists' economists – English Cambridge and American Cambridge. Thus, the English Cambridge were presented scientific papers of Sraffa (1960); Pasinetti (1966); Harcourt (1969); Robinson (1980); Cohen (1989), which examined the measurement of capital models aggregated production function. But, American Cambridge was presented scientific works among them Nobel laureates like Modigliani and Miller (1958); Samuelson (1962); Solow (1963), which studied theories and models about the general equilibrium.

Further, important task is to explain the reasons for the growth of real output in the long term, to perform various scenarios of this growth, to determine the factors influencing economic growth. This task helps to identify the causes of cross-country differences in living standards and identify ways to eliminate them. From a chronological point of view count modern theories of growth have begun from the work of Ramsey (1928). The problem of optimization of the households, which studied by Ramsey gave impetus not only to growth theory but also the theory of business cycles, consumption, prices, and assets. However, the most complete view of the neoclassical model of economic growth was obtained in the works of Solow (1970) and Swan (1956), then Solow-Swan growth model. A significant part of modern theories of economic growth aimed at generation of external demands specified in the growth model of Solow-Swan focused on aspects of the determinants of economic growth. Thus, using the proposed growth model can be considered optimum economic growth, which is characterized by the highest possible level of consumption.

Since the advent of Solow-Swan growth model, these aspects represent some of the most promising areas of economic science. In particular, Russian researchers have focused on the determination of the values of the factor of technological progress for economic growth. In this regard, mention must be made of a number of concepts for long-term economic development and forecasting, a long time to

develop in Russia. They are based on different theoretical aspects: methodology multivariate analysis of the dynamics of scientific and technical progress as a long-term development of the level of public technology (Lvov, 1990); in the successive stages of theory of scientific progress (Anchishkin, 1989); the theory of long-term economic development based on the concept of technological structures (Glazyev et al. 1992); development of evolutionary economic theory (Maevsky, 2003; Inshakov, 2004).

Then, some economists noted that increased income inequality reduces economic growth, but growth increased of inequality in the long run (Herzer & Vollmer, 2013). Other economists postulate that in some periods, inequality will grow more rapidly than the wealth accumulated labor (Piketty, 2014). It goes without saying that in our research is use of a new method of study – external demand as a factor of economic growth, disaggregated into two components: net exports mutual trade in goods within integration associations and net exports of foreign trade in goods outside the integration.

3. Methods

The proposed study aimed to assess the asymmetry of influence of factors of economic growth of national economies, which are included in the integration. The novelty of the methodology that external demand disaggregated into two components:

- net exports (difference between exports and imports) of goods within the integration of education, i.e. net exports in mutual trade;
- net exports external trade in goods outside the integration.

Domestic demand was also disaggregated into two components – the final consumption and fixed capital investments. Accordingly, in this research evaluated the contribution of these factors on economic growth of the Customs Union (CU) and the Common Economic Space (CES), as well as Kazakhstan, Russia and Belarus, which have formed this association.

The methodology of our study used three instrumental variables. The essence of this method consists in the following. The contribution of net exports mutual and foreign trade (net of mutual trade) in real gross domestic product (GDP) is calculated as the average of changes in real volumes for a certain period of time divided by the value of real GDP in the initial year of this period. Similarly calculate the contribution of final consumption to the growth rate of real GDP. The contribution of investment in fixed assets in the growth rate of real GDP is calculated as the difference

between average annual growth in real GDP and a total contribution of net exports mutual and foreign trade, and final consumption.

For the correctness of the assessment and comparative analysis that was conducted for the period 2004-2014, the values of all indicators were converted to constant USD in 2005 year. Net export of goods of mutual and external trade of Kazakhstan, Russia and Belarus transferred in a comparable form with the purchasing power indices of exports. These indexes are taken from statistics UNCTAD data base (UNCTAD, 2014). Foreign trade indicators in current prices were taken from Trade map database (TM, 2014), GDP and final consumption were taken from the World Bank database (WBDB, 2014).

3.1. General Comments on the Relationship of Economic Growth and Trade

Analysis of the calculations suggests a remark on the impact of foreign trade on economic growth. Foreign trade generally stimulates economic growth and ultimately contributes to public welfare and, consequently, to poverty reduction. In some economic studies it is proved theoretically that the impact of trade on welfare is always positive in the absence of market failures and distortions caused by economic policy (Stiglitz & Charlton, 2005). If the failures and distortions do occur, the impact of trade on economic growth can be both positive and negative. Despite the fact that in the economic research have accumulated empirical experience in building models, there are certain conceptual and technical difficulties that impede the establishment of links between trade and economic growth (Winters, 2004).

This is obvious there are some reservations in the general rules.

Firstly, participation in foreign trade is associated with certain costs. In particular, it makes the country vulnerable to world markets from the impact of protectionist measures taken by trading partners. Moreover, this vulnerability is particularly acute where exports or imports mostly raw materials, as commodity prices more volatile than manufactures. So, for example is the economy of Kazakhstan, Russia and some Latin American States, including those in MERCOSUR.

Secondly, in the case of market failures or distortions caused by economic policies, trade can have a negative impact on economic growth. Ultimately, this affects the public welfare. For example, if trade between two economies generated by artificial specialization and is conducted without due regard to the comparative advantages of these countries, this may lead to slower

economic growth in both countries. Unwanted is also to increase the volume of exports by lowering export prices. This can lead to "depleting growth" in which the production expansion is accompanied by a decrease in social welfare. So, for example is the export from the republics of the USSR (export of copper from Kazakhstan, the trade of which was carried out from the so-called center, i.e. the Union Ministry of non-ferrous metallurgy). In particular, copper, which in 1990 accounted for a quarter of the export potential of the Republic (3.2 billion USD) exported for internal very low prices and sold abroad at world prices, which were significantly higher than domestic. As a result, the export of copper had positive effects on economic growth of Kazakhstan and the increase in social welfare in the Republic. Another example is the export of Uzbek cotton. And these "experiments" in foreign trade are numerous.

Thirdly, in order to participate in foreign trade and to reap the benefits, the government should have a clear and sound economic policies, relevant institutions and infrastructure for its development and support. However, the creation of institutions and infrastructure of foreign trade requires quite a long time. Thus economic policy must organically include

trade policy, policy in the field of competition, investment policy, favorable foreign exchange and tax regime, transport and communication infrastructure, logistics services, and a number of other important components.

3.2. Evaluation of the Contribution of Factors to Real GDP Growth in the CU/CES and Incoming of Countries-Members.

Overall, it is difficult to compare the associations of integration due to very different scales of their economies, the significant differences and asymmetries in levels of development of countries in them. However, the comparative analysis of the key macroeconomic parameters of integration structures allows identifying the main trends of their development in the global economy. Thus, we propose to analyze the contribution of net exports mutual and foreign trade, final consumption and investments in fixed assets in the annual average real growth with total GDP of the CU/CES (Table 1).

<Table1> The contribution of net exports mutual and foreign trade, final consumption and investments in fixed assets in the annual average real growth with total GDP of the CU/CES in 2004-2014 years, in %

Indicators	Customs Union (CU) and Common Economic Space (CES)									
	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
GDP	7.1	7.5	8.5	6.7	-1.0	-1.2	4.7	4.0	2.6	1.4
Net exports in mutual trade	-0.06	-0.03	-0.01	-0.02	-0.01	0.14	0.09	-0.24	-0.29	-0.12
Net exports of foreign trade	15.1	17.6	14.7	13.4	13.2	13.9	14.5	14.5	13.6	13.3
Final consumption	6.9	7.9	7.7	1.8	0.3	4.3	5.4	4.9	-37.8	-39.1
Investments in fixed capital	-14.9	-18.0	-13.9	-8.4	-14.4	-19.5	-15.3	-15.2	27.1	27.3

Note: Bold italics indicate values of positive factor of economic growth mentioned integration associations

According to the analysis of indicators was obtained the following results:

Firstly, the main contribution to the growth of real aggregate GDP of the CU/CES makes a net export of foreign trade (excluding mutual trade) beyond integration association (Khusainov, 2015).

Secondly, the factor of net exports of foreign trade in the limits of integration Association plays a key role in the two leading economies of the CU/CES (Kazakhstan and Russia).

Because the main volume of commodity exports of Russia and Kazakhstan are sent to foreign countries.

Thirdly, Belarus' exports to global markets also play an important role, especially in European markets, primarily the markets of countries-members of EU. If in the early 2000s supply of products of Belarus to the market of Russia accounted for more than half of total exports. But in 2005-2014, the Russian market share was, on average, was 36.9%. In 2014 the Russian market in the total volume of

Belarusian exports amounted to 41.8%. Besides, more than half of Belarusian imports from the Russian products.

The contribution of net exports in mutual trade of the CU/CES in the last decade, with the exception in 2009-2011 years, is consistently in the negative range. This is due to the fact that the balance of mutual trade in the CU/CES in constant 2005 prices has a negative value.

Total final consumption within integration associations has a positive impact on the economic growth of the CU/CES. The exceptions are two time periods: 2012-2013 years and 2013-2014 years. In these two time periods the negative impact of final consumption was maximum (-37,8% and -39,1 %). It affected the slower growth of real aggregate GDP of the CU/CES. The main limiting factor here was the relatively low rate of growth of real GDP in Russia and Belarus for the last three years of the study period. At the same time, Kazakhstan has a least a significant slowing of

GDP. This is due to the ongoing crisis and, as a consequence, a slowdown in real GDP growth primarily in Russia.

The contribution of investment in fixed capital in the growth dynamics of aggregate real GDP of the CU/CES, with the exception of 2012-2013 and 2013-2014, is in the negative range. However, on the basis of obtained results it is impossible to make unambiguous conclusion about the positive effects associated with the creation of integration enterprises. So, we have conducted an additional study evaluating the contribution of three factors in Kazakhstan, Russia and Belarus, which formed the CU/CES.

Thus, a more meaningful analysis of the contribution of net exports mutual and foreign trade, final consumption and investments in fixed capital in the growth of real GDP presented in Table 2.

<Table2> The contribution of net exports mutual and foreign trade, final consumption and investments in fixed capital in the growth of real GDP in 2004-2014 years, in %

Indicators	Kazakhstan									
	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
GDP	9.6	10.1	9.6	5.3	2.0	2.9	7.3	6.1	5.7	5.3
Net exports in mutual trade	-5.3	-7.1	-7.1	-6.2	-5.8	-4.2	-3.7	-5.4	-6.0	-3.0
Net exports of foreign trade	<i>20.8</i>	<i>26.1</i>	<i>23.9</i>	<i>25.5</i>	<i>25.6</i>	<i>25.6</i>	<i>30.9</i>	<i>31.8</i>	<i>27.2</i>	<i>11.6</i>
Final consumption	7.1	7.4	5.6	2.2	3.6	7.2	7.8	8.0	3.9	0.0
Investments in fixed capital	-13.1	-16.3	-12.8	-16.1	-21.3	-25.6	-27.7	-28.2	-19.3	-3.3

Source: Statistical Yearbook of the Republic of Kazakhstan by the Committee on statistics

Note: Bold italics indicate values of positive factor of economic growth mentioned integration associations

According to the analysis of indicators was obtained the following results:

Firstly, the main factors of growth of real GDP are net exports of foreign trade and final consumption. Moreover, this situation is typical for the whole analyzed period.

Secondly, the development of mutual trade is not in favor of Kazakhstan. But this is especially clearly seen since 2004-2005. A negative value of net exports of Kazakh products to the market of the single customs territory is increasing annually, reaching a maximum value of 2013-2014 (minus 5,628.4 billion USD). It is clear that this is due to the increasing cost and physical volumes of Russian and Belarusian exports to Kazakhstan market. The analysis showed that the negative balance of mutual trade of

Kazakhstan with Russia and Belarus is increasing every year, especially after the establishment of the CU/CES. So, the balance of mutual trade of Kazakhstan with the countries-members of the customs Union/EEA in 2010 compared to 2009 decreased by 52.7%. However, in 2011 in comparison with 2010 this figure increased 3.3 times. This is due to the dramatic surge of imports of Russian and Belarusian goods to the market of Kazakhstan, i.e. after formation of the CU. The maximum value of the negative balance of mutual trade of Kazakhstan with Russia and Belarus was recorded in 2013. Compared to 2011 this figure increased by 33.7%. Given the current geopolitical situation (economic sanctions of the West against Russia and retaliatory actions by Russia against the import of food and

other goods) we can assume the following. The coming years may worsen the situation with dynamics of mutual trade of Kazakhstan with the countries-members of the CU/CES.

Thirdly, the contribution of investment in fixed assets in dynamics of growth of real GDP is consistently negative. Moreover, since 2007 the financial crisis began in Kazakhstan, which had a negative effect on the dynamics of growth of real GDP. Even in safe years before the crisis it was clear that the economic growth should be provided with the transient factors and it will be necessary to take steps in the direction of Kazakhstan transition to the steady growth based on modernization and innovations (Kireyeva & Nurlanova, 2013). So, the combined contribution of domestic demand to economic growth of Kazakhstan is a deterrent.

Further, we propose to analyze of net exports in mutual trade of Russia and Belarus. In Russia, as in Kazakhstan,

the main contribution to real GDP growth net exports making a mutual trade. However, unlike Kazakhstan and Belarus, with net exports in mutual trade also has a positive effect on the dynamics of growth of real GDP of Russia. Moreover, in the crisis of 2008-2009, as well as immediately after the creation of the CU/CES, the contribution of this factor to economic growth was the highest in the past decade. The contribution of final consumption to the growth rate of real GDP is positive throughout the studied decade. The exception is the period of 2013-2014, when the contribution of final consumption to economic growth in Russia was almost zero. Investment in fixed capital had a negative effect on Russia's economic growth as well as in Kazakhstan. This indicates a low efficiency of investments allocated for the development of national economies of both countries (Table 3).

<Table 3> The contribution of net exports mutual and foreign trade, final consumption and investments in fixed capital in the growth of real GDP of Russia and Belarus in 2004-2014 years, in %

Indicators	Russia									
	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
GDP	6.8	7.2	8.3	6.7	-1.5	-1.9	4.4	3.8	2.3	1.0
Net exports in mutual trade	0.9	1.1	1.3	1.4	1.5	1.5	1.2	1.0	0.9	0.9
Net exports of foreign trade	14.9	17.2	14.1	12.4	12.2	13.3	13.2	12.8	12.5	12.8
Final consumption	6.8	8.0	7.8	1.6	-0.1	4.0	5.2	4.6	1.6	0.0
Investments in fixed capital	-15.8	-19.1	-14.8	-8.7	-15.1	-20.7	-15.3	-14.5	-12.8	-12.7
Indicators	Belarus									
GDP	10.4	9.7	9.3	9.4	1.3	1.1	6.6	2.9	1.8	1.9
Net exports in mutual trade	-16.1	-15.9	-18.7	-23.5	-24.5	-21.6	-16.2	-13.2	-9.8	-7.8
Net exports of foreign trade	10.0	10.9	9.5	10.8	8.9	1.3	2.4	9.9	5.4	0.5
Final consumption	8.5	8.4	9.9	5.3	3.3	4.0	4.4	7.5	5.6	1.7
Investments in fixed capital	8.0	6.3	8.6	16.7	13.6	17.4	15.9	-1.3	0.6	7.4

Source: compiled by the UNCTAD statistical database

Note: Bold italics indicate values of positive factor of economic growth mentioned integration associations

According to the above analysis it is evident that the situation is different for net exports was formed in Belarus. Growth factors of the national economy of this country are: net exports of foreign trade, final consumption and fixed capital investments. Overall, domestic demand, whose contribution to the last the period decreased significantly

and has a positive impact on the growth of the Belarusian economy. This is a big difference in the economy of this country. It is noteworthy that net exports of foreign trade; an important factor in the growth of the national economy, throughout the analyzed decade has had a positive impact on the dynamics of real GDP of this country. In Belarus, as

well as in Kazakhstan, the contribution of net exports in mutual trade to economic growth is negative. This is due to the chronic deficit in bilateral trade with Russia.

4. Conclusions

Based on the conducted research, we made the following conclusions:

Firstly, to increase economic growth and, as a consequence, the competitiveness of the Eurasian economic Union must increase the volume of mutual trade of member countries of participants of the integration Association. However, we should develop certain limiting parameters of growth of volumes of mutual trade. This is due to the fact that the economies of the member (CU/CES) are very different in scale, economic potential, the volume of foreign trade.

Secondly, without major changes in the structure of Kazakhstan's exports should not expect a substantial increase in the growth rate of net exports in mutual trade. This necessitates the development of adequate trade and industrial policies aimed at overcoming the commodity

structure of Kazakhstan export. It is also necessary to reduce dependence on the import of products that can be produced on the territory of Kazakhstan.

Thirdly, and this is a key point, it should be to develop a coherent trade policy of the Eurasian economic Union, adequate to the modern geopolitical challenges and threats of globalization, without which the development of national economies of the integration of the enterprises will be are not effective.

Fourthly, an important condition of efficiency of integration processes is the proximity of levels of economic development of the participating countries of the regional Association. As world experience shows, in order for the country with lower economic development indicators could equal participation in the integration processes, requires quite a long time. But most importantly, it is necessary that the participating country itself must seek own development.

Fifthly, regional integration, as a complex of measures on creation of free trade zone, then the Customs Union and the Common Economic Space, etc. – the process is gradual from the lower to the higher forms, where each stage must be consistent the interests of all participants of the integration process.

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