

The Effects of Economic Policies and Export Promotion on Export Revenues in Developing Countries

Ekonomi Politikaları ve İhracat Teşviklerinin Gelişmekte Olan Ülkelerin İhracat Gelirleri Üzerindeki Etkisi

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Abstract

The aim of this paper is to analyze the effects of foreign exchange rate policy, export credits and export promotion on export revenues. Anti-inflationary policies curb the domestic demand and this leads to lower industrial capacity utilization. Shifting to domestic demand to export markets compensates the decrease in capacity utilization. In the first part of this paper, monetary, fiscal and foreign exchange policies are analyzed based on current account which is the main part of balance of payments. The success and effectiveness of application of these policies play an important role in the credibility of a country with respect to international competition. Besides economic policies, tools of export promotion and export credits are effective in increasing export revenues. In the second part, textile industry will be analyzed. Under these economic indicators, directing export and increasing export revenues become important. Both having export promotion and export credits are expected to increase export revenues. The sufficiency and effectiveness of these economic policies are evaluated with respect to cause and effect relationship. Each factor and tool will be analyzed based on their impacts and utilization methods. The rank correlation and chi square analysis will be used to analyze the data. The export promotion that is expected to increase the export revenues is discussed with respect to their effects on monetary and fiscal policies.

Özetçe

Bu makalenin amacı; döviz kuru politikasının, ihracat kredi ve teşviklerinin ihracat geliri üstündeki etkilerini istatistiksel yöntemlerle analiz etmektir. Enflasyonist politikaların iç talebi kısması, endüstriyel kapasite verimliliğinin azalmasına neden olur. Bu daralma dış piyasalara yönelerek telafi edilir. Bu bağlamda makalenin ilk bölümünde, para, maliye ve döviz kuru politikalarının ödemeler dengesinin temel hesap

grubu olan cari işlemler hesabı üzerindeki etkileri ile ele alınmaktadır. Bu politikaların başarılı ve etkili olarak uygulanması uluslararası rekabet ortamında bir ülkenin kredibilitesi açısından önemli rol oynamaktadır. Ekonomik politikalardan başka, ihracat teşvik araçları ve dış ticaret kredileri de ihracat gelirinin artmasında etkindir. İkinci bölümde, makaleye konu olan ve üzerinde uygulama yapılan tekstil sektöründe, dış ticaret araçlarının yeterliliği ve etkinliği sebep-sonuç ilişkisi içinde değerlendirilmektedir. Her faktör ve aracın etkileri verimlilik metotları temel alınarak analiz edilmektedir. Veri analizi için sıra korelasyon ve kay-kare kullanılmaktadır. İhracat gelirini artırması beklenen ihracat teşvikleri, para ve maliye politikaları üzerindeki etkisi bağlamında tartışılmaktadır.

Keywords: Monetary policy, exchange rate, exchange credits, export promotion, export revenue, fiscal policy, monetary and fiscal policy aims.

Anahtar Kelimeler: İhracat teşvikleri, Ekonomi politikaları, Verimlilik.

1. Introduction

In today's world where the macroeconomic indicators are still not stabilized, inflation continues to be an indispensable element in the whole economy, fiscal, budget and foreign trade deficits are climbing to higher values and income distribution has deteriorated, the most important tools for solving these problems are new advances in foreign economic relations and development.

However, in the world conjuncture in which the impacts of globalization are intensely experienced, very long-term investments have to be made as part of a 2010 vision with a strategy transcending interests of political parties for our country which has not completely solved its political, economical and structural problems. In order to succeed in economic policies (monetary, fiscal, trade, exchange rate) Turkey has to complete its critical infrastructural investments.

- Telecommunication
- Energy systems
- Banking and financing

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- Airports, seaports and highways which are necessary for preserving the regional power role, have to be completed and improved.

The significance of infrastructure is proved by the billions of dollars of investment funds assigned to this area in East Asian economies (Korea is the best example thereof.) Moreover, whether textile as an export sector can propel Turkey to the next centuries is a matter of controversy. It is incontrovertible that textile, which is the largest manufacturing industry and export sector in our country, has not displayed a successful performance after the EU and customs union.

Today, the propelling force of textile sector can be noticed in developed countries which have taken important steps in industrialization. These countries have assigned the revenues from this sector to other sectors such as machinery, electrics-electronics, and chemistry whereas the exactly the opposite has taken place in our country. Worse yet, there has been transfers from many other sectors to the textile sector because of the attractiveness of the customs union. However, this dynamism in the textile sector has not resulted in any investments to technology or machinery. Production has been carried out without new investments. In consequence, the textile sector has not contributed to the economy at the desired level in terms of income.

If we take a look at the economy from a larger perspective, we can see that another reason is that the stability policies have not functioned with full performance in cooperation.

The economic stability policies of the country are;

- Monetary policies (exchange rate, economic growth)
- Fiscal policies
- Trade policies.

In general economic strategy, monetary, fiscal, exchange rate, foreign trade and inducement policies are interrelated implementations which will help improve stability and foreign trade relations.

Events taking place in the world, particularly in foreign trade, shows how sensitive developed countries have become for preserving their shares in foreign trade. In order to improve it for all countries especially for the developing countries, the country must have a strong economy. Especially realized structural investment through inducement policies and particularly supporting export, the competitive advantage can rise in the long run.

In this paper, first part mentions economic policies which are interrelated with foreign trade policies. Second part is related to foreign trade policies and export promotions. Third part

Monetary policy determines how the relationship between money supply and interest rate must be with respect to nominal GDP. Fiscal policies are economic policy whose tools are government expenditures and taxes.

Aims of the fiscal policy are;

1. Achieving economic stability; withstanding deflationist and inflationist tendencies,
2. Achieving full employment
3. Realization of economic growth and development
4. Amelioration of wealth and income distribution as well as living standards in the economy

In order to achieve stability, fiscal policy has to withstand deflationist and inflationist tendencies and pressures. Withstanding inflationist pressures can be done by increasing or decreasing aggregate demand to the level of aggregate supply. However, the important point here is the source of the inflationist pressure.

In addition, using government expenditure and taxes selectively, aggregate supply could reach the level of the aggregate demand. The common feature of both solutions is that the fiscal policy is selective. Generally export promotion causes a rise in government expenditure. However, this expenditure can be met by an increase in export revenue. While fighting with inflation in the long run, economic growth may be provided by means of an increase in export promotion and investment expenditure. This may cause an increase in export revenue. It is not easy to realize for developing countries like Turkey because of their structural problems. On the other hand, dealing with deflationist pressures attempts to achieve equilibrium between aggregate demand and aggregate supply at the level of full employment. An increase in national income as an indicator of economic growth provides an efficient way in income distribution through the tools of public finance. This will solve social conflict and then this positive effect reflects the living standard of society.

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The objectives of monetary policy are the ultimate targets towards eliminating the domestic and international imbalances in the economy (in the real and monetary sector) which occur as a result of aggregate demand and price instability. These are: achieving stability in the general price level (price stability,) increasing economic growth to the desired level (economic growth,) obtaining the equilibrium in the balance of payments and lowering unemployment to the desired rates (Full Employment.). As we mentioned before, the priority of these aims depend upon the influence of economic, social and interest groups at a certain time. . Price stability is an important aim for monetary policy and external –internal economic stability. Since rising price levels cause uncertainty in the economy, price stability is achieved at an inflation rate of 2 or 3%. For developed countries a rate of 5% can even be considered normal. In an economy with no price stability, the tendency of prices to rise continuously causes an increase in the costs of goods and services and hence their prices also go up. It will reduce demand, the production of goods and services falls. This will naturally affect individuals and the economy. Escape from money will affect savings negatively, the domestic and external balance in the economy will deteriorate, the planned investments and future policies will be damaged and individuals will begin to compete with each other in order to keep their incomes or salaries above the rising price level. Because of this they try to keep foreign currency which is stronger than their money. It is handicap for economic stability.

As for the relation between monetary policy goals and export; there is a direct relation between economic growth and export. Kindleberger develop 2 different models about growth with export.

Firstly; export is first and most important sector. Secondly; export is the sector which sets back.

Under these assumptions; fast growth of export, direct effect making on employment and real income, positive effect creation on production, very small amount of export income goes to consumption, turning to new investment areas, In the conditions of providing technological development,

export cause growth by raising national income of the country and decreasing in cost.

If providing a successful growth patent from export is wanted, flexibility of export and import supply and demand must be sufficient.

If domestic supply have flexible, foreign demand have rising tendency, then it is possible to say that export awaken economic growth. However; because of both low domestic supply and foreign supply flexibilities in developing and underdeveloped countries, to achieve growth in export and derive return is harder than developed countries.

Before the economic growth in developing and underdeveloped countries, besides the structural problems, strict currency and financial politics applied because of inflation and unemployment problems. To materialize the other purposes is not very simple with such politics like this.

After the struggle politics for inflation, economic growth remains in the second plan in country. Because inflation target affects consumption and production capacity. If they can use their average of production factors against to developed countries with export and export promotion policy. As the export promotion policy increase out from the export policy the companies changing the routes to export considering the result of stability and cost. They change target of market standards so they increase exports. Foreign trade surplus more effective result than the developed economics but it is very hard to eventuate for developing countries. The important aim of the export substantiation is to provide exchange input for the industrialization with making good for the deficiency of the balance of the payment. Export promotion can change income distribution which is advantage for the export sector but disadvantage for the other production sector.

Frequently devaluations and low valued rate of exchange policies decreased real income level for the domestic currency holding sector but it creates positive effect for the exchange holding sector, therefore, this decrease income distribution.

As result of market liquidity need, public finance need and country's exchange reserve, amount of currency changes.

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Also changes in exchange reserves can be followed from countries' balance of payment.

-By the debt from international market, differences between income-outcome of exchange can be balanced with 2 ways. Amount of currency in country doesn't influence by this process.

-Countries which exchange income is positive can give debt to foreign. Important point is whether these debts are given by the private sector or not. The reason is when they are given from private sector, they don't reflect to foreign amount of currency.

- Income and outcome of exchange differences meet with exchange reserve changes of the country so in this situation, domestic amount of currency precisely changes. Consequently, there is a very strict relationship between balance of payment and amount of currency. In foreign economic relations, rate of exchange, price of goods, interest is decided in international markets and country's currency politics applications and these factors are main extents that constraint applications of country's currency politics.

The development of exchange rates is effective with the exchange rate regimes. They regulate the exchange demand and supply. Without the government intervention, the rate which reduces the gap between the demand and the supply in the market is the "Balance Exchange Rate", and its regime is the "Free Exchange Rate Regime".

The regime of rates in which the government intervenes is called "Armed Exchange Rates Regime" and it is branched into to as "Managed floating" and "Dirty Floating". In the later, the rates are adjusted according to the national policy targets. These adjustments separate the rates from the long-term steady state and the rates are valued or devaluated.

In general, the value of bundled money experience is more sustainable. In the years that gold standard was used, the standard was gold itself. Between 1944 and 1971 (in correlation with Bretton Woods), \$ has been accepted as the international monetary unit. To keep the persistency, governments should use their exchange reserves. As the reduction in reserves makes remarkable changes in the demand and supply, devaluation and revaluation are unavoidable.

Lateness of devaluation results in increases the import rates and reduces the export incomes, and the capital to escape out of the country. The way to

prevent this escape is to keep the interest rates more than the devaluation ratio towards a tight monetary policy. During all these economic establishments, inflation retains in the system as a distorting factor over sustainability.

In periods of devaluation, there is a valuation of all the active accounts regarding the foreign money in the country. However, for the parts indexed to national money, there is a negative effect.

Today, the money authorities support the market rates with the exchanges on hand by frequently doing exchange buying and selling and by using the credit tool. The exchange policy of the country should be convenient to the purchasing power parity that keeps the exchange rates fixed. On the contrary, there would be a reduction in the exchange reserve positions of the country.

The differences between the prices of goods in the international markets and the national prices directly affect the foreign trade balance. In result, current transaction balance, payments balance and monetary frame inside and outside price relations are interpreted by purchasing power parity. And the purchasing power parity is the balancing factor in outside economical relations.

Foreign Trade Policy, which is one of the sub-policies of the economy policies in terms of the balance of payments .Exchange rate affects export revenue and import revenue. Because exchange rate is most important factor effecting increases and decreases import and export.

Foreign trade policy is the main part of the foreign economic policy. It covers the export and import activities which exist in current account of balance of payments. The aim is to provide the allocation of resources in an optimum way. The main goals of foreign trade policies are as follows:

- To keep away from unbalanced foreign payment
- To protect from foreign competition
- Economic growth
- To overcome incompetence in markets
- To liberalize economy
- To provide stability of the economy
- To use monopolistic power in foreign markets

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-Autarchy

-To provide revenue for treasury

-Social and political reasons

In order to realize these goals, the below mentioned foreign trade policy instruments are applied.

Customs Tariff: A government has a system of depending up on the kind of goods. Tariffs are designed to protect domestic market from foreign competition and to make treasury earn revenue. Especially it is used for setting the deficit in balance of payments.

Non-tariff Tools: Quantity restrictions, voluntary export restrictions, invisible barriers and similar facts which are similar to tariffs are called non-tariff tools. Quantitative restrictions are used for restriction of import of a country. Exporting countries limit the volume of export goods to protect the importing country's domestic market.

Export incentives: The countries are promoted for export and in this they earn revenue on the one hand. These incentives create a positive effect on balance of payments on a macro basis on the other hand it provides a facility to decrease production costs. It is realized by international agreements.

Tied credits: It is a kind of an international trade that provides a relationship between buying and selling transaction. Nowadays, these policies are applied in a restrictive way because of world trade organization. The countries which prefer export promotion and import restriction attain their goal by means of exchange rate arrangement. Foreign trade policies are examined as external and internal.

Production in the economy of a country is categorized as domestic market and foreign market. If inward foreign trade policies are applied, domestic production is promoted as separation of the market. If outward foreign trade policy is preferred, (discrimination) separation of the market is not done.

Foreign trade policies are categorized in four groups. The countries applying outward orientated policies have direct controls and low protection rate. Besides that, overvalued exchange rate doesn't exist. Hong Kong, South Korea and Singapore are the example of this policy. Second group consists of partially open countries. Effective protection rate is low and direct control is not applied extensively. Indonesia, Malaysia, Thailand, Israel, Brazil and Turkey belong to this group. Especially Turkey takes place in

this group after 1980 structuring. Third group applies partially inward orientated policies. Extensive direct control, effective protection rate and overvalued exchange rate are the characteristics of that group. Fourth group applies inward orientation policies. High Effective protection rate, extensive direct control and overvalued foreign currency are the characteristic of this group. India, Gana Nigeria is the example of it.

Table 1 Foreign Trade at the Last Period of ottoman empire

| IMPORT | % | EXPORT | % |
|---------------------|----------|-----------------------|----------|
| FOOD | 34 | CEREALS | 45 |
| TEXTILE | 33 | INDUSTRIAL PLANTS | 38 |
| INVESTMENT GOODS | 10 | MANUFACTURED GOODS | 13 |
| THE OTHER | 33 | THE OTHER | 4 |

As it can be seen, Ottoman Empire had become “raw material and food exporting and manufacturing goods importing” .While the Ottoman Empire’ economy was collapsing, the deficit in foreign trade became impossible to close down. After the announcement of Republic of Turkey, new regulations and applications were realized in order to overcome the problems of balance of payments..

Turkish Eximbank is a specialization bank protecting exporters from the political and commercial risks. Turkish Eximbank provides short, middle, long term cash and credit programs and insurance guarantee programs. The target audience is the exporters, manufacturer and entrepreneurs acting abroad.Eximbank program can be classified as follows; the short term exportation programs, specialized credit programs. The countries that are scope of the program can be classified into 7 groups. It determines the receiver, receiver’s country’s risk group, payment style and term premium rate. Depending upon Customs Union Agreement, Turkey has obligation related to competition policy and European regulation. There are three kind of state grant-aid in European Union. Category A consists of cash based subsidy. Category B consists of participation to capital. Category C covers tax deduction. Category D covers export promotion and support of SMEs.

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Table 2. Intersectoral Distribution of Short Term Credits%

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|--------------------------------------|------------|------------|------------|------------|------------|
| Textile/Ready to Wear/Leather | 46 | 41 | 42 | 42 | 37 |
| Machine/Electrical Goods | 11 | 13 | 12 | 12 | 16 |
| Iron-Steel | 7 | 10 | 8 | 7 | 10 |
| Food/Agriculture/Livestock | 10 | 9 | 9 | 8 | 7 |
| The Other | 26 | 27 | 29 | 31 | 30 |
| TOTAL | 100 | 100 | 100 | 100 | 100 |

Source: http://www.eximbank.gov.tr/html_files/istatistik.htm

According to the table, textile sector is the main sector that uses Eximbank short term credits intensively. It shows that textile industry uses this financial based promotion to meet the demand. In this way, sales revenue of that sector increases by means of provided credits at low rate. Sector based promotion is the main part of government aid. Since 1971 textile sector promotion approach is applied. After the elimination of quotas, especially for EU and USA market it didn't arrive to the expected level. In case of difficulty of textile firm, it must be supported by export promotion up to the expected level. Government aid and structural investment make enforcement of economic structure. The usage of optimum monetary and fiscal policies provides the stability of the economy. In the long run, textile companies will have competitive advantage in international markets by means of export promotions. However, the other sectors are exposed to unfair competition. If the export promotions are not used in a right way, it can damage all economic stability of the country.

2. Experimental Results

This research tries to show what kind of export promotion is preferred in textile industry.

30 export firms are investigated on the bases of export promotion.

Question 4

Findings:

Table 3. Frequency Table

The type of payment method 1

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------------|-----------|---------|---------------|--------------------|
| Valid cash payment | 8 | 26,7 | 26,7 | 26,7 |
| cash against goods | 10 | 33,3 | 33,3 | 60,0 |
| cash against documents | 10 | 33,3 | 33,3 | 93,3 |
| letter of credit | 2 | 6,7 | 6,7 | 100,0 |
| Total | 30 | 100,0 | 100,0 | |

The first choice of firms for payment is cash against goods and cash against documents. Especially cash against goods is more riskier than the others. It may need support to decrease risk.

Question 5

Table 4. Frequency Table-2

The type of export financing 1

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|--------------------|-----------|---------|---------------|--------------------|
| Valid own sources | 23 | 76,7 | 76,7 | 76,7 |
| through trade bank | 3 | 10,0 | 10,0 | 86,7 |
| eximbank credits | 4 | 13,3 | 13,3 | 100,0 |
| Total | 30 | 100,0 | 100,0 | |

The first preference of the firms is to financing through their own sources.

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Eximbank credits and loans provided by commercial banks have almost the same ranking.

Question 9

Table 5. Conditions

Necessary conditions to keep Turkish Textile Industry at the expected level -Table 1

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|------------------------------|-----------|---------|---------------|--------------------|
| Valid brand | 8 | 26,7 | 26,7 | 26,7 |
| International fair financing | 1 | 3,3 | 3,3 | 30,0 |
| cost of raw material | 4 | 13,3 | 13,3 | 46,7 |
| a decrease in energy | 3 | 10,0 | 10,0 | 56,7 |
| foreign exchange rate | 13 | 43,3 | 43,3 | 100,0 |
| Total | 30 | 100,0 | 100,0 | |

The first choice is arrangement of foreign exchange rate. In this way these firms protect themselves from risk exposure.

Question 10

Table 6. Periods

The most frequently used period of export promotion

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-----------------|-----------|---------|---------------|--------------------|
| Valid 1980-1993 | 2 | 6,7 | 8,3 | 8,3 |
| 1994-1999 | 7 | 23,3 | 29,2 | 37,5 |
| 2000-2001 | 6 | 20,0 | 25,0 | 62,5 |
| 2002-2005 | 9 | 30,0 | 37,5 | 100,0 |
| Total | 24 | 80,0 | 100,0 | |
| Missing System | 6 | 20,0 | | |
| Total | 30 | 100,0 | | |

The most frequently used period is the term of 2002-2005.

Question 11

Table 7. effects

The effect of foreign exchange rate on your export sales (observed)

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|-------------------|-----------|---------|---------------|--------------------|
| Valid ineffective | 2 | 6,7 | 6,7 | 6,7 |
| effective | 28 | 93,3 | 93,3 | 100,0 |
| Total | 30 | 100,0 | 100,0 | |

According to the majority of the firms, arrangement of foreign exchange rate is effective factor on export sales.

3. Conclusion

In a general economic strategy, both foreign trade and export promotion policies are effective in development of stability and foreign trade relations. After 1980's, foreign trade and export promotion policies are applied extensively. The type of export promotion changes depending on economic conditions on that day.

Nowadays the below mentioned export promotions are applied in Turkey:

- Government aid for export promotion
- Inward processing regime
- Eximbank credits and eximbank credit insurance programs

The effects of these export promotions on especially export revenue of textile industry and expectations of this sector are analyzed. The research is realized by 30 Turkish textile firms. The data were analyzed by using SPSS version 13. Depending on data measurement techniques, descriptive statistics was applied.

According to the results of research, export promotion policies are realized as

- tax advantage
- direction to brand
- decrease in costs
- arrangement of foreign exchange

Exporters have been effective with respect to competition by using cost minimization and support of being brand. Arrangement of foreign exchange

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rate on behalf of exporters provides an advantage for domestic market when compared to foreign market.

Financial incentives are the main part of cost minimization promotion and are demanded by exporters in an extensive way. Therefore these incentives increase export volume and revenue when applied in extensive way. Credits, especially eximbank credits, take place at the first time at the ranking of cost minimization promotions. After period of 2002-2005, more export promotions were used when compared with the other periods of Turkey. Depending on the new economic definition, exporters prefer export promotions related to brand, research and development knowledge and technology. After 2001 crisis, both anti-inflationist policies and elimination the effects of stagflation made foreign trade policies more important than before.

The period of 1994-1999 took place at the second row of export promotion ranking. When the economic situation of that period is observed, stability program and economic crisis are effective. At the period of 2000 to 2001, devaluation, unsuccessful exchange rate policies and economic crisis increase the usage of export promotion. However, the period of 2002 to 2005 is the first row of the ranking. According to research, European Union Countries take place at the first row of foreign market ranking. The second one is North and South American Countries. There is still a very large potential market to be attained. At this stage, export promotions are very important tools to obtain them.

As a result, export promotions are very effective tools with respect to export and exporter. However, these promotions must not create negative impacts on some parts of the country while providing stability program at the same time.

Finally export promotion also has a dynamic dimension. In the long run the real exchange rate is endogenous variable, affected by fundamentals such as the trade regime itself. If the level of export incentives achieved in the immediate post-reform period is to be maintained in the longer term, supporting fiscal and financial policies may be required.

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