

MURAT SADIKU

South East European University, Macedonia

LULJETA SADIKU

International Balkan University, Macedonia

NASIR SELIMI

South East European University, Macedonia

ECONOMETRIC ANALYSIS OF COMPETITIVENESS, INNOVATION AND TRADE OPENNESS OF WESTERN BALKAN COUNTRIES

Abstract:

The level of trade openness plays a crucial role on boosting countries' competitiveness, innovation and productivity. Thus, the purpose of this paper is to empirically analyze the linkage of trade openness and competitiveness for Western Balkan countries covering the time period 2005-2017. The research method consists of a panel regression analysis by examining the static models for both fixed and random effects and using the Hausman test for deciding for the most appropriate model for the proposed sample countries. First, the gross competitiveness index is modelled as dependent variable on trade openness and a set of control variables such as: GDP per capita, gross fix capital formation, FDI, inflation and several interaction variables with trade openness. Second, innovation is taken as dependent variable whereas trade openness and the aforementioned indicators as independent variables. The empirical results of the fixed effects model suggest that trade openness positively affect competitiveness, as well as trade openness enhance innovation as in both models the coefficients of trade openness seem to be statistically significant and with positive signs. Regarding interaction variables between trade and FDI as well as trade and gross capital formation, it is confirmed that countries with higher level of FDI and higher physical capital benefit more from international trade, and in turn increase competitiveness. The findings of this research reveal important policy implications for Western Balkan countries, in terms of strengthening the mutual trade cooperation and joining the efforts for increasing even more their participation into the global market. It will imply extension of competitiveness and a range of paybacks, such that job creation, poverty alleviation and better standards of living of their citizens.

Keywords:

Trade openness, competitiveness, innovation, Western Balkan, panel regression analysis

JEL Classification: F14, O10, O47