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THE IMPACT OF TRADE OPENNESS ON THE ECONOMIC GROWTH OF SOUTHEAST EUROPEAN COUNTRIES

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ABSTRACT

This study examines the impact of trade openness on the economic growth of Southeast European countries for the period 2012–2022. The key factors analyzed include Gross Domestic Product (GDP), Government Spending (GE), Tax Revenues (TR), Unemployment (UN), Trade Deficit (DEF), and Trade Openness (TRO). A quantitative approach is adopted, using secondary annual data obtained from the World Bank and analyzed with Stata software. The results indicate that higher government spending, particularly when combined with elevated unemployment, tends to hinder economic growth, whereas tax revenues, trade deficits, and trade openness positively contribute to economic performance in the region. The originality of this study lies in its integrated econometric analysis of multiple macroeconomic factors affecting Southeast European countries—a region that has been underexplored in the empirical literature. The study also provides practical implications for policymakers, suggesting that effective fiscal and trade policies can foster sustainable economic growth. Furthermore, the findings offer valuable insights into regional development strategies, highlighting how trade openness and macroeconomic management can enhance economic performance across Southeast Europe.

Keywords: Trade Openness, Gross Domestic Product, Trade Deficit, Tax Revenue, Unemployment, Panel data

INTRODUCTION

Economic scholars have long examined the relationship between trade openness and economic growth, generally concluding that higher levels of trade activity significantly influence a country's economic development.

International trade offers substantial advantages for both global commerce and national economic progress. An expansion in trade volume tends to enhance productivity levels and generate greater value for consumers. This occurs as market competition intensifies among businesses, allowing individuals to access a broader selection of products and services at more affordable prices.

According to the World Bank (2023), by improving infrastructure and streamlining border processes, nations can increase trade by reducing the cost of transporting commodities across international borders. Additionally, they can enact laws that will enable them to take advantage of the rapidly expanding trade in services, particularly digital services.

The primary advantages of trade liberalization include the generation of new employment opportunities, the alleviation of poverty, higher productivity, enhanced competitiveness, and the promotion of innovation. Trade liberalization through the removal of tariffs and non-tariff barriers, strengthening democratic institutions, economic cooperation, and alignment with the common market tends to promote trade openness and stimulate economic development and prosperity.

Countries that have higher initial per capita income levels benefit more from trade openness, which also brings benefits to countries with higher levels of foreign direct investment and total formation of sustainable capital. (Fetahi-Vehapi, M., Sadiku, L.. & Petkovski, M., 2015)

In several Southeast European nations-such as Albania, Kosovo, Serbia, North Macedonia, Bosnia and Herzegovina, Montenegro, Bulgaria, and Romania - market-oriented economies have gradually taken the place of former socialist systems. The process of EU integration and the Stabilization and Association Agreements have often been key drivers of trade liberalization in the region. Although nearly all these countries have achieved notable improvements in economic growth, the extent and speed of trade openness vary considerably across them. Moreover, a strong reliance on imports, persistent unemployment, limited diversification of production sectors, and institutional shortcomings have left these economies vulnerable to fluctuations in global trade dynamics.

Kosovo, a new economy that declared independence in 2008, is characterized by a trade deficit where imports exceed exports. However, trade openness has positively influenced economic growth.

Albania shifted from a centralized socialist economy to an open market economy in the early 1990s. Deep structural changes, a gradual liberalization of trade, and growing integration into global markets have all been part of this process. Since the Stabilization and Association Agreement with the European Union entered into force in 2009, Albania has improved its economic openness and strengthened its prospects for free trade.

Following the political and economic shifts of the 1990s, North Macedonia - much like Albania - transformed its economic system from a centralized structure to a market-oriented framework. A major distinction between the two countries lies in North Macedonia's early institutional engagement with the European Union, formalized through the Stabilization and Association Agreement signed in 2001 and implemented in 2004. This agreement served as a catalyst for trade liberalization and fostered closer economic alignment with European markets, thereby accelerating the nation's integration process.

LITERATURE REVIEW

Research on trade openness consistently highlights its nuanced effects on economic growth across different regions. Fetahi-Vehapi (2015) notes that Southeast European (SEE) countries exhibit minimal variation in trade openness levels despite differences in development and EU participation, with most pursuing global integration and regional economic cooperation through trade policies. The study finds that the benefits of trade openness are conditional, being more pronounced in countries with higher initial per capita income, greater Foreign Direct Investment (FDI), and higher gross fixed capital formation.

In a broader EU context, Keijzer (2023) reports that a 1% increase in trade openness contributes to a 0.118–0.159% short-term growth improvement among 27 EU nations (2007–2021), suggesting that trade-promoting policies can stimulate short-term growth, though non-stationarity and potential endogeneity limit long-term inference. Similarly, Bayar (2016) finds that both trade openness and economic freedom positively affect economic growth in transition economies, whereas financial openness may hinder it, emphasizing the need for robust institutional frameworks to support sustainable development.

Pilinkiene (2016) highlights that despite high trade openness, Central and Eastern European (CEE) countries display diverse growth and competitiveness patterns, demonstrating a reciprocal relationship where economic growth enhances trade openness, and improved competitiveness further accelerates growth. Ahmad et al. (2025) show a long-term positive impact of trade openness on South Asian countries' growth via specialization, technology transfer, and market expansion, with VECM analysis indicating unidirectional causality from trade openness to growth.

Huq Sowrov (2024) finds a positive correlation between trade openness and growth, though lagged tariff models show a negative effect, underlining the importance of trade liberalization and tailored tariff reduction. Similarly, Yeboah (2023) demonstrates the favorable impacts of trade openness and FDI on economic growth in the Czech Republic, Estonia, Lithuania, and Slovakia, recommending policy improvements to attract investment and strengthen commercial links.

Wang and Sua (2025), using Bootstrap ARDL-ECM models, emphasize that effective logistics and infrastructure are critical in translating trade openness into growth among G20 countries. In contrast, Su, Nguyen, and Christophe (2019) find that trade openness and FDI combined yield a neutral effect on growth, but individually produce positive outcomes, highlighting the role of economic institutions. Nam and Ryu (2024) point out that excessive trade liberalization in developing countries may hinder GDP, while increased trade volumes generally stimulate growth, moderated by the presence of trade barriers.

Other studies reinforce these findings: Polat and Andrés (2017) show that labor market regulations strengthen the growth benefits of trade openness, Idris et al. (2016) report bidirectional causality between trade openness and growth, supporting endogenous growth theory, and Rehman et al. (2021) demonstrate that trade, knowledge transfer, and export promotion facilitate higher growth in emerging economies. Dritsaki and Dritsaki (2020) highlight interdependencies among the Baltic countries (1990–2020) through cross-sectional time series analysis.

Finally, Seti et al. (2025) underscores the importance of selective liberalization, strong governance, and institutional support to ensure inclusive and sustainable growth. Overall, panel data estimates, including fixed effects and GMM, indicate that trade openness has a positive and statistically significant impact on economic growth, supporting the trade-led growth hypothesis and emphasizing the role of complementary policies such as export promotion in emerging economies.

Panel data analysis, incorporating fixed effects and the generalized method of moments (GMM), indicates that trade openness exerts a positive and statistically significant

influence on economic growth. These empirical results reinforce the trade-led growth hypothesis across the examined economies and remain robust across various model specifications. Moreover, strategies such as trade liberalization and export promotion can further accelerate growth in emerging markets (Rehman, Shaheen, & Munir, 2021).

Haliti (2021) examines how the Stabilization and Association Agreement between Kosovo and the EU influences economic and institutional development. The study shows that trade liberalization can support economic improvement, but its effectiveness depends on parallel institutional reforms. The findings also highlight that regional integration processes help stimulate growth by enhancing the trade environment and strengthening economic cooperation.

This study examines whether trade openness contributes to economic growth in Central and Eastern European (CEE) countries. Using fixed-effects estimates for 17 CEE countries from 1994 to 2014, the results show that greater trade openness is linked to higher real GDP per capita growth. These findings remain robust even after excluding Croatia and Estonia. (Iyke, 2017)

The positive effect of trade openness on growth, especially through regional and EU integration, is conditional on initial income and other factors. Countries with higher starting income, stronger FDI inflows, and lower fiscal deficits benefit more. Both the financial crisis and the COVID-19 pandemic led to declines in GDP, trade openness, and overall economic performance (Elezi, Boskoska Klisaroski, & Midovska Petkoska, 2024).

The study conducted by Popović, Erić, & Popović (2019) evaluates how trade liberalization influences economic growth in the Republic of Srpska. The findings show that higher trade activity and stronger export performance are linked to GDP growth, while trade deficits relate negatively to it. The results also indicate that economic openness supports growth, although excessive exposure to external competition may create risks for long-term stability.

The WBC constitutes a transition region where trade openness and institutional development have shaped economic performance. This study examines whether trade openness and institutional quality drive GDP growth from 2005 to 2017, incorporating EU-integration dummy variables and FDI as a control. Panel analysis and VAR impulse responses show that most variables exert a significant impact on the economic growth of the Western Balkans (Popović, Erić, & Stanic, 2020).

Previous studies on trade openness and economic growth show mixed evidence: many find a positive effect, while others report limited or no impact. Building on this, the present study analyzes Albania, North Macedonia, and Serbia (2005–2013) and finds that trade openness significantly supports economic growth in these transitioning economies (Berhani, 2015).

META-ANALYSIS

The following table summarizes the key studies included in the meta-analysis, including authors, year, country, methodology, and main findings.

Table 1. Meta-analysis of the study

Authors	Year	Variables	Methods	Findings
(Frankel, J. A., & Romer, D. , 2017)	Cross-sectional analysis	Trade openness, Income, GDP	Instrumental Variables (IV) Estimation,	In this research, geographic characteristics

			Ordinary Least Squares (OLS)	of countries are employed as instrumental variables to assess the influence of trade on national income. The findings indicate that trade exerts a positive, substantial, and robust impact on income, though its statistical significance is moderate. Furthermore, there is no indication that conventional estimates exaggerate this effect.
(Neagu, O., Dumiter, F., & Braica, A., 2016)	2000-2014	market capitalization, the educational level of the labor force, foreign direct investment (FDI), and trade openness	Panel Data Analysis	The analysis reveals that trade openness, foreign direct investment (FDI), and market capitalization contribute to higher income inequality, while a more educated labor force tends to mitigate these disparities. Additionally, growth in GDP per capita is linked with an increase in income inequality.

(Yeboah, 2023)	1995–2021	Trade openness, Economic growth, Foreign Direct Investment	Dynamic panel model Pooled OLS Fixed-effects model Random-effects model	The study examines the effects of trade openness and foreign direct investment (FDI) on economic growth in the Czech Republic, Estonia, Lithuania, and Slovakia over the period 1995–2021, employing panel data and various econometric approaches, including pooled, fixed-effects, random-effects, and dynamic panel models. The findings reveal that both trade openness and FDI positively influence economic growth, with the random-effects model identified as the most appropriate. The study recommends that governments focus on enhancing the business environment to attract greater foreign investment and strengthen economic and
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				commercial linkages.
(Erkisi, K., & Ceyhan, T. , 2019)		Trade exports, investments in fixed assets, inflows of foreign direct investment, the level of human capital, and overall economic output (GDP)	Analysis of panel datasets incorporating causality assessments and estimation of long-run elasticities	The findings for both the short and long run reveal that trade liberalization fosters economic growth, showing reciprocal relationships among exports, imports, and GDP, which aligns with the feedback hypothesis
(Alam, K. J., & Sumon, K. K. , 2020)	1990–2017	Economic Growth, Trade Openness,	Panel-based cointegration techniques combined with causality analysis	Empirical results verify the presence of a long-run equilibrium relationship among the variables. The analysis indicates that trade openness exerts a positive influence on economic growth. Furthermore, the panel vector error correction–based Granger causality test reveals a bidirectional causal connection between trade openness and economic performance.

(Fetahi-Vehapi, M., Sadiku, L., & Petkovski, M., 2015)	1996 -2012	The model includes the initial per capita income, human capital indicators, gross fixed capital formation, foreign direct investment, labor force participation, as well as several interaction terms involving trade openness and GDP.	Generalized Method of Moments.	The results suggest that the beneficial influence of trade openness on economic growth depends on certain conditions. In particular, nations with higher starting levels of per capita income, greater foreign direct investment inflows, and stronger gross fixed capital formation tend to gain more from increased trade openness.
(Mano-Bakalinov, 2016)	1993-2014.	Gross domestic product, Foreign direct investments, Government revenue, Trade openness, External Debt, Debt service payment, Percentage of population enrolled in secondary school, Inflation index	The autoregressive distributed lag (ARDL) model	The study's results reveal that strategies aimed at liberalizing markets and increasing the country's trade openness contribute positively to Macedonia's economic growth in both the short- and long-term periods.
(Dalaseng, V., Xiongying, N. I. U., & Srithilat, K. , 2022)	2000–2020	Indicators such as the expansion of the economy, the degree of trade liberalization, inflows of	Panel data analysis, Hausman test	The empirical findings indicate that gross national expenditure, capital accumulation,

		foreign direct investment, total national spending, accumulation of fixed capital, and the volume of goods and services exported and imported are considered.		exports, overall trade openness, and the labor force exert a significant and positive effect on economic growth. In contrast, imports display a negative association with growth. Although foreign direct investment (FDI) maintains a positive link with economic performance, its impact is not statistically significant.
(El Muharromy, N. S., & Auwalin, I. , 2021)	2005-2019	Population Growth, Trade Openness, Economic Growth,	Fixed effect model panel data regression analysis technique, and using the Eviews application	The study concludes that both trade openness and investment play a crucial role in promoting economic growth, while population growth and fluctuations in exchange rates have a significant adverse effect. Nonetheless, within OIC countries, the impact of investment on growth appears minimal. Since the level of trade openness in

				these nations remains below its potential, policymakers are encouraged to control population growth and strengthen international trade to enhance economic performance.
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Source: Author's own elaboration (2025)

METHODOLOGY

The primary objective of this study is to explore how trade openness influences the economic growth of Southeast European countries. Specifically, the analysis focuses on understanding the extent and direction of the relationship between trade liberalization and growth performance in the region. The research incorporates several key macroeconomic indicators, including Gross Domestic Product (GDP), Government Spending (GE), Tax Revenues (TR), Unemployment Rate (UN), Trade Deficit (DEF), and Trade Openness (TRO). A quantitative research design has been employed in this paper. The study relies on secondary data collected from official publications of the World Bank, covering annual time series presented in percentage terms. The empirical analysis is conducted using the Stata statistical software, which facilitates an in-depth examination of the relationship between the selected variables.

The research questions guiding his study are:

1. How does trade openness affect the growth of GDP in Southeast European countries for the period 2012–2022?
2. How does the change in tax revenues affect the GDP of Southeast European countries for the period 2012–2022?
3. What is the relationship between government spending, unemployment, trade deficit, tax revenue, trade openness, and GDP?

The main hypotheses of this research are:

- H0 - Trade openness has a negative effect on the economic growth of Southeast European countries.
- H1 - Trade openness has a positive effect on the economic growth of Southeast European countries.

Table 2. Description of the variables included in the econometric models

Variables	Variable description	Data source
Dependent Variable (Y)	Gross Domestic Product (GDP)	World Bank annual reports, time series (2012-2022) https://data.worldbank.org/
Independent Variable (X ₁)	Government expenditure (GE)	World Bank annual reports, time series (2012-2022) https://data.worldbank.org/

Independent Variable (X ₂)	Unemployment (UN)	World Bank annual reports, time series (2012-2022) https://data.worldbank.org/
Independent Variable (X ₃)	Tax Revenue (TR)	World Bank annual reports, time series (2012-2022) https://data.worldbank.org/
Independent Variable (X ₄)	Trade deficit (DEF)	World Bank annual reports, time series (2012-2022) https://data.worldbank.org/
Independent Variable (X ₅)	Trade openness (TRO)	World Bank annual reports, time series (2012-2022) https://data.worldbank.org/

Source: Data processing by authors (2025)

The hypotheses formulated in this research are examined through an econometric specification designed to test their validity. The structure of the model is presented as follows:

$$GDP_{it} = \beta_0 + \beta_1 GE_{it} + \beta_2 UN_{it} + \beta_3 TR_{it} + \beta_4 DEF_{it} + \beta_5 TRO_{it} + \gamma_{it}$$

When:

Gross Domestic Product (**GDP**)

Government expenditure (**GE**)

Unemployment (**UN**)

Tax Revenue (**TR**)

Trade openness (**TRO**)

stochastic variables (other factors not considered in the model)

i - code and **t** - time period

RESULTS

This section presents the empirical findings derived from the estimated model. Table 3 summarizes the main regression results

Table 3. Descriptive statistics of the variables included in the study

Variable	Obs	Mean	Std. Dev.	Min	Max
GE	330	45.13121	7.281218	21.2	63.2
UR	330	7.466628	4.263174	2.02	27.69
TR_interp	330	21.31252	.6061533	20.64784	23.03345
TR_interp	330	21.31252	.6061533	20.64784	23.03345
Def_interp	330	-2.437301	1.876528	-6.196154	-.1307692
TRO	330	131.4872	67.74529	54.86758	393.1412
GDP	330	2.318427	3.755443	-11.1673	24 3+.47525

Source: Data processing by authors in STATA (2025)

From Table 1, we observe that with 330 observations, GE has an average of 45.13 and a standard deviation of 7.28. UN has a mean of 7.46 and a standard deviation of 4.26. at the same time, TRO has an average of 131.48 and a standard deviation of 67.7, whereas GDP has a mean of 2.31 and a standard deviation of 3.75.

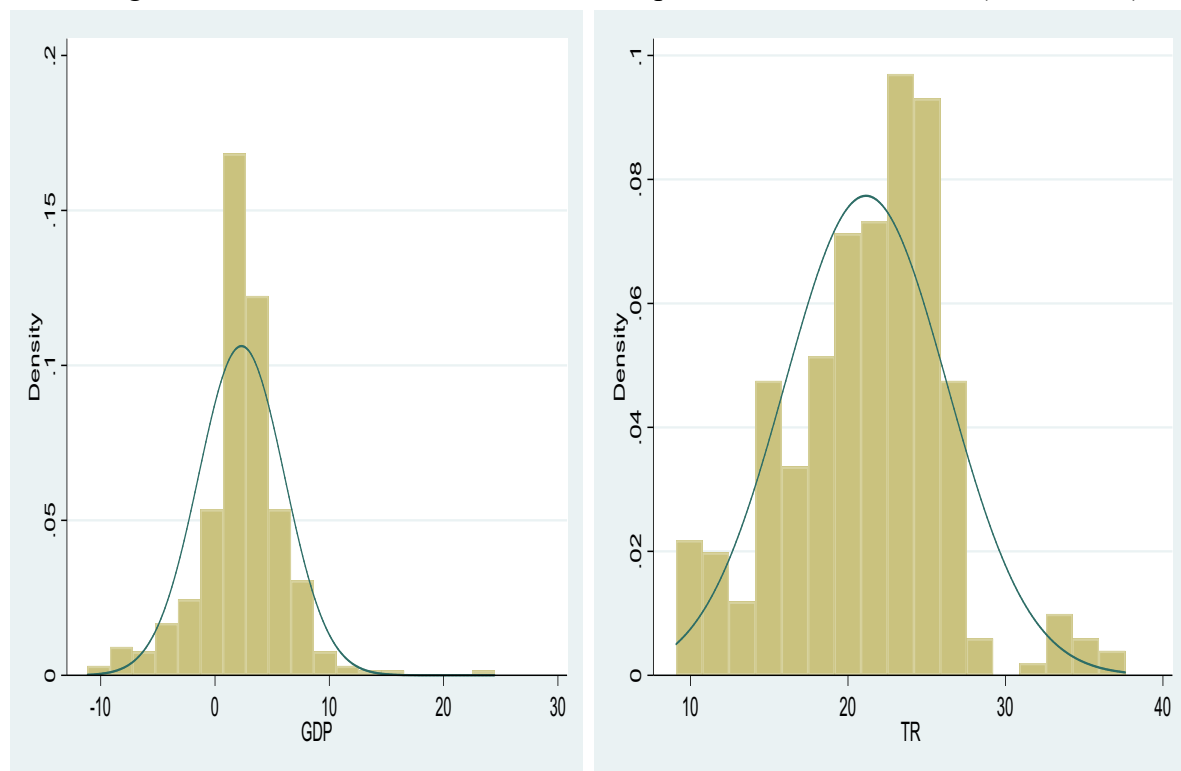
Table 4. Linear regression analysis

Source	SS	Df	MS	Number of obs	=	330
F(5, 324)	=	35.63				
Model	1646.24182	5	329.248363	Prob > F	=	0.0000
Residual	2993.76036	324	9.24000111	R-squared	=	0.3548
				Adj R-squared	=	0.3448
Total	4640.00217	329	14.1033501	Root MSE	=	3.0397

GDP	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
GE	-.1329824	.0265089	-5.02	0.000	-.1851338	-.0808311
UR	-.1120661	.0421192	-2.66	0.008	-.1949277	-.0292044
TR_interp	1.232367	.2928022	4.21	0.000	.6563332	1.8084
Def_interp	.5326882	.0967495	5.51	0.000	.3423517	.7230246
TRO	.0066413	.0028051	2.37	0.018	.0011229	.0121598
_cons	-16.68293	6.431197	-2.59	0.010	-29.33511	-4.030755

Source: Data processing by authors in STATA (2025)

Figure 1: Distribution of GDP and Trade Openness across countries (2012–2022)



Source: Data processing by authors in STATA (2025)

Both histograms show that the data have a distribution that is not completely symmetrical and includes some extremes. The TR density curve shows a high concentration in the middle, suggesting that most trading decisions are close to the average, while extremes are

rarer. Meanwhile, the GDP histogram shows the distribution of GDP change. Most of the values are clustered around 0–5, suggesting that most economies have moderate growth.

EMPIRICAL SUMMARY OF ECONOMETRIC MODEL RESULTS

In Table 5, we summarize the results of the econometric model, which will be interpreted through the GMM Model.

Table 5. Summary of empirical results from the econometric model

Variable s	Linear Regression	Random Effects Generalized Least Squares (GLS) Regression	Fixed Effects Regression	Hausman Taylor Regression	GEE Model	GMM Model
GDP	-	-	-	-	-	-
GE	-.1329824 (0.000)***	-.1344257 (0.000)***	-.166188 (0.020)**	-.1452991 (0.003)***	-.1341014 (0.000)***	-.3694439 (0.000)***
UR	-.1120661 (0.008)***	-.131327 (0.006)***	-.2418323 (0.003)***	-.2100124 (0.001)***	-.1274209 (0.005)***	-.3663147 (0.000)***
TR_inter p	1.232367 (0.000)***	1.208857 (0.000)***	.8090553 (0.018)***	1.103246 (0.000)***	1.213662 (0.000)***	2.124462 (0.000)***
Def_inter p	.5326882 (0.000)***	.5284048 (0.000)***	.4883128 (0.000)***	.506233 (0.000)***	.5293039 (0.000)***	.6037535 (0.000)***
TRO	.0066413 (0.018)***	.0065493 (0.049)**	.0316646 (0.113)	.0070205 (0.273)	.0065649 (0.039)**	-.0003381 (0.989)
R Square	0.3548					
Adj. R ²	0.3448					

Source: Author's calculations in Stata (2025)

***significance level 10%**

****significance level 5%**

*****1% significance level**

Based on the results of the standard multiple regression analysis and the equation of regression, we see that all the variables of this study are significant at a reliability level of 5%

significance level. The correlation coefficient between the dependent and independent variables is 35.48%. And the coefficient of determination between the variables of independent and dependent variables is, on average, high in value, 34.48%, so for 34.48% the independent variables explain the dependent variable. These results prove that this model is statistically sustainable.

β_0 - whether all factors are constant, then the value of e GDP IS -16.68.

β_1GE - If government spending increases by one unit, holding other factors constant, then GDP will decrease by 0.13 units. This statement is true because the significance level is $0.000 < 0.05$.

β_2UR - If the unemployment rate (UN) increases by one unit, holding other factors constant, then GDP will decrease by 0.11 units. This statement is true because the significance level is $0.008 < 0.05$.

β_3TR - If tax revenue (TR) increases by one unit, holding other factors constant, then GDP will increase by 1.23 units. This statement is true because the significance level is $0.000 < 0.05$.

β_4DEF - If the trade deficit (DEF) increases by one unit, holding other factors constant, then GDP will increase by 0.532 units. This statement is true because the significance level is $0.000 < 0.05$.

β_5TRO - If Trade Openness (TRO) increases by one unit, holding other factors constant, then GDP will increase by 0.006 units. This statement is true because the significance level is $0.01 = 0.01$.

We can conclude that all independent variables are significant and prove the validity of hypothesis H_1 of this study.

CONCLUSIONS

The main findings regarding the topic, the Impact of Trade Openness on the Economic Growth of Southeast European countries, are summarized below:

Southeast European Countries for the period 2012–2022 are summarized below:

- Government Spending and Unemployment: The findings of the analysis indicate that both public expenditure and the unemployment rate exert a negative influence on the economic performance of Southeast European nations throughout the period 2012–2022.
- Positive Determinants: In contrast, variables such as tax revenue, trade deficit, and trade openness demonstrate a positive association with the economic growth of these countries during the same timeframe.
- Trade Deficit Mechanism: The finding that an increasing trade deficit is associated with an increasing GDP is based on the logic that a trade deficit often implies a surge in imports. Since imports of goods and services primarily fuel consumption in the recipient economy, and consumption is a major component of GDP growth, the overall effect on GDP can be positive in the short to medium term.
- Trade Openness and Growth: The analysis clearly indicates that trade openness has a positive impact on the economic growth of Southeast European countries over the period 2012–2022.
- Policy and Regional Development Implications: This study contributes to literature by providing integrated empirical evidence on the macroeconomic determinants of growth in a less-explored region. The results offer practical evidence for policymakers to design trade and fiscal policies that enhance regional economic performance, promote investment, and support sustainable development across Southeast Europe.

DISCUSSION

The results of this research align closely with existing studies on the role of trade openness in fostering economic growth. For instance, **Yeboah (2023)** demonstrates that both FDI and trade openness exert a significant positive influence on four European countries, confirming these effects through a range of econometric models. Conversely, **Su (2019)** finds that while the combined effect of trade openness and FDI on growth is neutral, analyzing them separately reveals a positive impact.

Similarly, Keijzer (2023) reports that a 1% increase in trade openness corresponds to a short-term growth boost of approximately 0.118–0.159%, reinforcing the notion that trade liberalization enhances economic performance. Ahmad et al. (2025) further highlight a positive long-term relationship between trade openness and economic growth, showing that openness promotes growth via specialization, technology transfer, and expanded market access. Their VECM analysis points to a unidirectional causality from trade openness to growth, emphasizing the importance of liberal trade policies.

According to Huq Sowrov, S. M. T. (2024), trade openness is positively associated with growth, though lagged tariff models reveal a negative influence on economic performance. Likewise, Bayar (2016) underscores a long-term positive relationship between trade openness and economic freedom, while financial openness may restrict growth. These findings underline the need for policies that strengthen trade frameworks and institutional quality to sustain growth during economic transitions.

On the other hand, Polat and Andrés (2017) argue that trade openness alone does not consistently or significantly affect economic growth; however, when coupled with stringent labor regulations, trade's positive contribution to growth is enhanced.

In summary, the literature generally supports the view that trade openness can stimulate economic growth, but its effectiveness often depends on complementary factors such as FDI, institutional quality, labor policies, and economic freedom. These insights corroborate the conclusions of the present study and stress the importance of considering contextual and institutional conditions when evaluating the impact of trade policies on economic performance.

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