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Relevancy and drivers of trade openness: a study of GIPSI countries

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Abstract PurposeThe purpose of this research is to systematically scrutinize the influence of macroeconomic determinants on trade openness, through the lens of various trade theories, with a particular focus on the economies of the GIPSI countries - Greece, Ireland, Portugal, Spain and Italy.Design/methodology/approachThis study investigates the macroeconomic factors influencing trade openness in the GIPSI economies from 1995 to 2020. Methods include stepwise regression (SR) for model selection, Pedroni panel

cointegration test and panel regression results. The analysis uses advanced panel regressions, including FMOLS, Panel OLS and FEM. The long-term dynamics were tested using Pedroni cointegration, while Granger causality testing was used to examine the causal direction between the trade openness ratio and trade determinant. Findings The results show both long-term and short-term relationships between trade openness and (1) foreign direct investment, (2) labor force participation rate, (3) trade reserves and (4) trade balance. The researchers also detected unidirectional and bidirectional causality relationships between trade openness and these four factors. The study also revealed that trade reserves (TR) emerge as the most influential determinant of trade openness, and per capita income does not exhibit economic significance concerning the trade openness of GIPSI economies. Research limitations/implications This research is conducted within the context of the GIPSI nations (Greece, Ireland, Portugal, Spain and Italy). As such, the outcomes may not be universally applicable to other economic systems due to the distinct institutional settings and governance structures across different economic groups. Future investigations may explore the relationship between trade openness and its determinants by incorporating different variables. Originality/value To the best of the authors' knowledge, this is the first study investigating the theory that suggested trade drivers drive the trade openness of GIPSI countries context. By focusing on GIPSI countries, the study offers a unique perspective on the dynamics of trade openness in economies that have experienced financial crises and stringent austerity measures.

Keywords

Author Keywords: Trade openness; Panel data; Trade openness drivers; Trade reserves

Keywords Plus: FOREIGN DIRECT-INVESTMENT; ECONOMIC-GROWTH; TIME-SERIES; PANEL COINTEGRATION; SECTOR DEVELOPMENT; LIBERALIZATION; PRODUCTIVITY; TESTS; FDI; DETERMINANTS

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