REGIONAL ECONOMIC INTEGRATION AND ECONOMIC CONVERGENCE IN THE WESTERN BALKANS: EVIDENCE FROM THE EUROPEAN INTEGRATION PROCESS

Ali MAKSUTI, Besa AMETI

University of Tetovo, North Macedonia, ali.maksuti@unite.edu.mk
University of Tetovo, North Macedonia, besa.ameti@unite.edu.mk

Abstract

The economic integration of the Western Balkans is a central component of the region's development strategy and of its gradual incorporation into the European economic area. Despite substantial progress in regional cooperation, trade liberalization, institutional reform and EU accession, income levels, productivity, investment capacity and macroeconomic performance still differ markedly across the Western Balkan economies. This study examines the relationship between regional economic integration and economic convergence in Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia, with particular emphasis on the role of the European integration process. It asks whether greater trade openness, foreign direct investment (FDI) and institutional development help reduce income disparities within the region and narrow the development gap with the European Union. Using panel-data techniques and convergence analysis, the study evaluates absolute and conditional beta convergence as well as sigma convergence over the observation period. Key indicators are GDP per capita, economic growth, trade openness, FDI, unemployment, inflation and institutional quality. The empirical framework identifies whether regional integration generates measurable convergence effects and whether these effects differ across countries according to their level of development and progress towards EU accession. The study links regional integration mechanisms with the wider process of European economic convergence and provides evidence on the Western Balkans as an emerging regional economic space. The findings inform policy for strengthening regional cooperation, improving competitiveness and accelerating sustainable convergence with the EU.

Keywords: Regional Economic Integration; Economic Convergence; Western Balkans; European Integration; EU Accession; Trade Openness; Foreign Direct Investment.
JEL codes: F15, F16, F17

1. Introduction

The Western Balkans have grown faster than the European Union for two decades, yet the income gap has closed only slowly. The OECD's convergence scoreboard reports that the region's average GDP per capita rose from 27% of the EU average in 2003 to 41% in 2024. Eurostat's 2024 figures in purchasing power standards (PPS) show how uneven this catch-up is: Montenegro 54%, Serbia 51%, North Macedonia 42%, Albania 37% and Bosnia and Herzegovina 35% of the EU-27 average, with Kosovo, at roughly 25%, the lowest of the six. Convergence towards the EU and convergence within the region are therefore two distinct questions, and both matter for policy.

Regional and European integration are the main policy instruments aimed at closing this gap. The Stabilization and Association Process, the Central European Free Trade Agreement (CEFTA, 2006), the Berlin Process and its Common Regional Market, and the EU's Growth Plan for the Western Balkans (2023) share one logic: larger markets, more trade and investment, and stronger institutions should raise productivity and speed up catch-up. Whether this logic holds in the data is an empirical question. Neoclassical growth theory predicts convergence when economies share similar structural characteristics, while new trade and economic geography theories warn that integration can also reinforce core-periphery divergence. (Maksuti, 2022)

This paper studies the link between integration and convergence in the six Western Balkan economies (WB6). It addresses four research questions:

https://doi.org/10.62792/ut.icfra.y2026.i2.pp146

1. Have the WB6 economies converged in income per capita, among themselves and towards the EU, over the observation period?
2. Is convergence absolute, or conditional on structural characteristics such as investment, human capital and institutions?
3. Do trade openness, FDI and institutional quality accelerate convergence?
4. Do these effects differ between countries at different levels of development and different stages of EU accession?

The corresponding research hypotheses are:
H1: The WB6 economies show sigma and absolute beta convergence, which is weak and sensitive to the period chosen.
H2: Conditional beta convergence is stronger than absolute convergence once structural controls are included.
H3: Trade openness and FDI have a positive and significant effect on per capita growth and therefore on catch-up.
H4: The effect of integration is larger in countries with better institutional quality and more advanced accession status.
The paper contributes in three ways and the research paper treats the WB6 as a regional economic space, rather than as a subset of a broad transition-economy sample. It tests absolute, conditional and sigma convergence within a single framework. And it adds interaction terms that let the effect of integration depend on institutions and accession progress.

2. Literature Review

2.1 Theories of economic convergence

The neoclassical growth model of Solow (1956) and Swan (1956) predicts that, with diminishing returns to capital, poorer economies grow faster than richer ones when they share the same savings rate, technology and population growth. Baumol (1986) and Barro and Sala-i-Martin (1992) turned this prediction into the empirical concept of absolute beta convergence: a negative relationship between initial income and subsequent growth. Barro and Sala-i-Martin found speeds of about 2% a year across US states and European regions. Mankiw, Romer and Weil (1992) showed that convergence appears across countries only once savings and human capital are held constant, which is conditional convergence. Islam (1995) moved the test to panel data with country fixed effects and obtained faster conditional convergence than cross-section studies.
Two further concepts complete the toolkit. Sigma convergence, discussed by Sala-i-Martin (1996), asks whether the cross-sectional dispersion of income falls over time; beta convergence is necessary but not sufficient for it. Quah (1993) argued that regression-based tests hide the shape of the whole income distribution and can miss polarization into "convergence clubs". Endogenous growth theory (Romer, 1986; Lucas, 1988) adds that knowledge spillovers and increasing returns can sustain divergence, so catch-up depends on the capacity to absorb technology and not only on capital accumulation.

2.2 Regional integration, trade and convergence

The theory of regional integration has ambiguous implications for convergence. Viner (1950) distinguished trade creation from trade diversion, and Balassa (1961) set out the stages from free trade area to economic union. Static gains of this kind are small; the larger gains come from scale, competition and technology transfer. Baldwin (1989) argued that integration raises the investment rate and thereby produces dynamic effects that outlast the initial liberalization.

Against this, new economic geography (Krugman, 1991; Krugman and Venables, 1995) shows that lower trade costs can pull industry towards a core and leave peripheries behind, at least until costs fall far enough for activity to disperse again.
Empirical findings reflect this ambiguity. Ben-David (1993) found that income dispersion among European Economic Community members fell after trade liberalization. Sachs and Warner (1995) found faster growth in open economies, although Rodriguez and Rodrik (2000) questioned the robustness of the cross-country evidence on openness. Frankel and Romer (1999) used geography to instrument trade and found a positive effect on income. The overall lesson is that openness helps when it is accompanied by sound institutions and macroeconomic stability.

2.3 Foreign direct investment and technology transfer

FDI is the main channel by which small, capital-scarce economies obtain capital, technology and access to export markets. Borensztein, De Gregorio and Lee (1998) found that FDI raises growth only when the host country has enough human capital to absorb the technology. Alfaro, Chanda, Kalemli-Ozcan and Sayek (2004) found a similar dependence on the development of local financial markets. Blomström and Kokko (1998) concluded that spillovers to domestic firms are not automatic, as they depend on the technology gap and on local capabilities. For transition economies, Bevan and Estrin (2004) showed that EU accession prospects were a strong determinant of FDI inflows. Estrin and Uvalic (2014) found that, once country characteristics are controlled for, the Western Balkans received less FDI than the new EU members, which they attributed to conflict, delayed reform and slower accession.

2.4 Institutions and growth

Institutional explanations place the source of income differences in the rules that shape incentives (North, 1990). Acemoglu, Johnson and Robinson (2001) linked long-run income to the quality of property-rights institutions, and Rodrik, Subramanian and Trebbi (2004) found that institutions dominate geography and trade in explaining income levels. For this study, the relevant point is that institutional quality conditions the benefits of integration, a point reinforced by the accession process itself, which requires the adoption of the EU acquis. The Worldwide Governance Indicators (Kaufmann, Kraay and Mastruzzi, 2010) are the standard cross-country measure and are used here.

2.5 EU membership and real convergence

The Central and Eastern European experience is the closest benchmark. Kutan and Yigit (2004) and Matkowski and Prochniak (2007) found real convergence among transition countries preparing for EU entry, while Crespo Cuaresma, Ritzberger-Grünwald and Silgoner (2008) found that EU membership is associated with faster growth, mainly through the improvement of institutions and policies before accession. Becker, Egger and von Ehrlich (2010) found that EU Structural Funds raised growth in the poorest regions where absorption capacity was sufficient. Gill and Raiser (2012) described Europe's "convergence machine" of trade, finance, and institutions, and noted that its effectiveness depends on the continued pull of EU accession.

2.6 The Western Balkans

Studies of the Western Balkans are fewer and mostly descriptive. Kaminski and de la Rocha (2003) assessed the integration options created by the Stabilization and Association Process

and stressed the small size of regional markets, which makes access to EU markets and supply chains more important than intra-regional trade alone. The OECD (2024) Competitiveness Outlook and the World Bank's regular economic reports document persistent gaps in productivity, investment and governance, and show that the pace of convergence has been uneven and that the average income of the region is still about 40% of the EU level. Estrin and Uvalic (2014) provide the most systematic evidence on FDI.

2.7 Research gap

Three main gaps can be identified in the existing literature. Most convergence studies cover Central and Eastern Europe as a whole, so the Western Balkans are either excluded or treated as a small subsample. Studies of the region tend to examine trade, FDI or institutions separately and rarely test their joint effect on convergence. And few studies ask whether the effect of integration depends on the stage of EU accession. This paper addresses all three by estimating absolute, conditional and sigma convergence for the WB6 with integration variables and accession interactions.

3. Data Analysis and Methodology

In the available income data the WB5 economies show no absolute beta convergence among themselves between 2015 and 2024, and their dispersion widened. All five did gain on the EU average, but the richer ones gained most. The estimates in Tables 2 to 4 are computed from Eurostat data, the full conditional panel (Table 5) is specified here and needs the World Bank and governance series, which could not be downloaded in this session.

3.1 Data and variables

The study covers the six Western Balkan economies: Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia. Income is measured by GDP per capita in purchasing power standards (PPS), expressed relative to the EU-27 average (EU-27 = 100), which removes price-level differences and is the standard indicator for comparing candidate countries with the EU. The convergence tests in Section 3.3 use the Eurostat series for 2015, 2020, 2023 and 2024 as reproduced by Paunović and Sergi (2025) (Eurostat extraction of 15 September 2025). Kosovo is excluded from these tests because Eurostat does not publish a comparable series, so the sample is the WB5. The 2024 values for Albania and North Macedonia are Eurostat estimates, and those for Montenegro and Serbia are provisional.
Table 1 lists the variables of the full panel model. The panel covers 2000 to 2024, with annual observations.

Table 1. Variables, sources and expected signs

Variable	Definition	Source	Expected sign
ln y	Log GDP per capita, PPP, relative to the EU-27	Eurostat; World Bank WDI	Dependent
Growth	Annual change in ln y	Eurostat; WDI	Dependent
TRADE	Exports plus imports, % of GDP	WDI	+
FDI	Net FDI inflows, % of GDP	WDI; UNCTAD	+

Variable	Definition	Source	Expected sign
INST	Mean of the six Worldwide Governance Indicators	World Bank WGI	+
INV	Gross capital formation, % of GDP	WDI	+
HC	Tertiary enrolment or years of schooling	WDI; Barro-Lee	+
UNEMP	Unemployment rate, % of labour force	WDI; ILO	−
INFL	CPI inflation, annual %	WDI	−
ACC	Accession stage, scored 0 to 4 (none, SAA in force, candidate, negotiations opened, clusters opened)	European Commission	+

3.2 Econometric models

The empirical analysis is conducted in four steps. First, the absolute beta-convergence regression examines whether the average annual growth of the income index between 0 and T is regressed on its initial level:

$$frac\{1\}\{T\}\backslash ln!\left(\backslash frac\{y_{\{i,T\}}\}\{y_{\{i,0\}}\}\right) = \alpha + \beta\backslash ln\, y_{\{i,0\}} + \varepsilon_{\{i\}}$$

A statistically significant negative β indicates convergence. Second, sigma convergence is assessed using the sample standard deviation of log income and the coefficient of variation (CV) across countries in each year; a falling series indicates convergence.

$$\sigma_t = \sqrt{\left\{ \backslash frac\{1\}\{N-1\} \sum_{\{i=1\}}^{\{N\}} \left(\backslash ln\, y_{\{it\}} - \overline{\{\backslash ln\, y_t\}}\right)^2 \right\}}$$

Third, the conditional panel model is estimated, with country fixed effects capture steady-state differences and year effects capture common shocks:

$$\Delta\backslash ln\, y_{\{it\}} = \alpha_i + \lambda_t + \beta\backslash ln\, y_{\{i,t-1\}} + \gamma_1 TRADE_{\{it\}} + \gamma_2 FDI_{\{it\}} + \gamma_3 INST_{\{it\}} + \delta' X_{\{it\}} + \varepsilon_{\{it\}}$$

In this specification, X includes investment, human capital, unemployment, and inflation. Fourth, interaction terms are introduced to examine whether the effects of integration depend on institutional quality and progress in the accession process:

$$\Delta\backslash ln\, y_{\{it\}} = \alpha_i + \lambda_t + \beta\backslash ln\, y_{\{i,t-1\}} + \gamma_1 TRADE_{\{it\}} + \gamma_2 FDI_{\{it\}} + \gamma_3 INST_{\{it\}} + \theta_1\left(TRADE_{\{it\}} \times INST_{\{it\}}\right) + \theta_2\left(FDI_{\{it\}} \times INST_{\{it\}}\right) + \theta_3\left(ACC_{\{it\}} \times \backslash ln\, y_{\{i,t-1\}}\right) + \delta' X_{\{it\}} + \varepsilon_{\{it\}}$$

With N = 6 and T near 25, the panel is a macro panel with a small cross-section. Fixed effects with a lagged dependent variable carry Nickell (1981) bias, which is small when T is large but is checked with the system GMM estimator of Blundell and Bond (1998), using a collapsed instrument set (Roodman, 2009). Because N is small, standard errors are the Driscoll-Kraay (1998) type, which are robust to cross-sectional dependence, and the choice between fixed and random effects is made with the Hausman (1978) test. Unit roots are tested with the Pesaran (2007) CIPS test. The conditional model is run on both the gap to the EU and the within-region gap.

3.3 Descriptive results: income relative to the EU

Table 2 shows that all five economies gained on the EU average between 2015 and 2024, by between 3 and 12 index points.

Table 2. GDP per capita in PPS

Country	2015	2020	2023	2024	Change 2015–24 (pp)	Share of EU gap closed
Montenegro	42	44	52	54	12	20.7%
Serbia	40	44	49	51	11	18.3%
Albania	30	30	36	37	7	10.0%
Bosnia and Herzegovina	31	33	36	35	4	5.8%
North Macedonia	39	42	41	42	3	4.9%
WB5 mean	36.4	38.6	42.8	43.8	7.4	11.6%

Table 2. GDP per capita in PPS, EU-27 = 100. Source: Eurostat, as reproduced by Paunović and Sergi (2025). Share of gap closed = change divided by (100 minus the 2015 value).

However, these gains were not evenly distributed across the five economies. Montenegro and Serbia, which started highest, closed about a fifth of their gap each, while North Macedonia, which started third, closed only 4.9% and Bosnia and Herzegovina 5.8%. Albania overtook Bosnia and Herzegovina in the ranking, and the order of the top three did not change. This pattern is consistent with the broader regional trend: the OECD reports that the WB6 average rose from 27% of the EU level in 2003 to 41% in 2024, so convergence with the EU is real but slow, at roughly 0.7 index points a year.WB6 average rose from 27% of the EU level in 2003 to 41% in 2024

Table 3. Sigma convergence among the WB5

Statistic	2015	2020	2023	2024
Mean (EU-27 = 100)	36.4	38.6	42.8	43.8
Standard deviation	5.50	6.62	7.40	8.41
Coefficient of variation	0.151	0.171	0.173	0.192
Standard deviation of ln y	0.156	0.179	0.171	0.191

Table 3. Sigma convergence among the WB5. Source: author calculations from Table 2 (sample standard deviation, N − 1).

Table 3 shows sigma divergence. The coefficient of variation rose from 0.151 to 0.192, an increase of 27%, and the standard deviation of log income rose from 0.156 to 0.191. The only temporary interruption is a modest decline in the standard deviation of log income between 2020 and 2023. Income levels in the region are therefore catching up with the EU on average while spreading apart from each other.

Table 4. Absolute beta convergence

	(1) Cross-section 2015–24	(2) Pooled sub-periods	(3) Country fixed effects
ln y initial (β)	0.014 (0.031)	0.028 (0.037)	−0.006 (0.086)
Constant	−0.031 (0.112)	−0.080 (0.137)	country-specific
R^2	0.066	0.042	—
Observations	5	15	15

Table 4. Absolute beta convergence, WB5. Dependent variable: average annual log change in the EU-relative income index. Conventional standard errors in parentheses; no coefficient is significant at any conventional level. Columns (2) and (3) use three sub-periods: 2015–20, 2020–23 and 2023–24. Source: author calculations from Table 2.

The coefficient β is positive in the cross-section (0.014, t = 0.46) and in the pooled model (0.028, t = 0.75), and slightly negative with country fixed effects (−0.006, t = −0.07). None is distinguishable from zero. This finding is consistent with the sigma-convergence results: poorer economies did not grow faster than richer ones. With only five countries the test has little power, so the result is best read as an absence of evidence for absolute convergence in this window, not as proof of divergence. Hypothesis H1 is only partly supported, since the region converges towards the EU but not within itself. The result is also what conditional convergence predicts, because without controls for investment, institutions and openness, economies with different steady states need not catch up with one another.

3.5 Conditional convergence and the effect of integration

Table 5 sets out the full panel specification and the hypothesis tested by each term. The estimates are left blank because the panel needs the World Bank WDI and WGI series, which could not be downloaded in this session; they are produced by the code below.

Table 5. . Conditional model

Term	Expected sign	Hypothesis	Estimate
ln y(t−1)	−	H2: conditional convergence	
TRADE	+	H3	
FDI	+	H3	
INST	+	H2, H4	
TRADE × INST	+	H4	
FDI × INST	+	H4	
ACC × ln y(t−1)	−	H4: faster catch-up at later accession stages	

Table 5. Conditional model: terms, expected signs and tests. Estimates to be inserted from the code below.

The results will be interpreted according to established econometric criteria. A significantly negative coefficient on ln y(t−1) after the controls supports H2, and its size gives the speed of convergence, with the half-life ln(2) divided by the absolute value of β. Positive and significant coefficients on TRADE and FDI support H3. A positive coefficient on TRADE × INST or FDI × INST means that integration pays more where institutions are stronger, which supports H4.

$$panel: country\ (1-6), year, lny, dlny, trade, fdi, inst, inv, hc, unemp, infl, acc$$
$$xtset\ country\ year$$
$$xtunitroot\ ips\ lny, trend$$
$$xtreg\ dlny\ L.lny\ trade\ fdi\ inst\ inv\ hc\ unemp\ infl\ i.year, fe$$
$$hausman\ fe\ re$$
$$xtscc\ dlny\ L.lny\ trade\ fdi\ inst\ inv\ hc\ unemp\ infl\ i.year, fe$$
$$gen\ tradeinst\ =\ trade * inst$$
$$gen\ fdiinst\ =\ fdi * inst$$
$$gen\ acclny\ =\ acc * L.lny$$
$$xtscc\ dlny\ L.lny\ trade\ fdi\ inst\ tradeinst\ fdiinst\ acclny\ inv\ hc\ unemp\ infl\ i.year, fe$$

3.6 Robustness and limitations

The findings presented above should be considered in light of three main limitations. First, Table 4 rests on five countries and three sub-periods, so its power is low and the standard errors are conventional, not clustered. Second, the 2020 to 2023 interval contains the pandemic and the 2022 energy shock, and 2024 values are partly estimated. Third, Kosovo, the poorest economy, with GDP per capita at roughly 25% of the EU-27 average, is missing from the tests. The OECD reports that Kosovo added about 10 percentage points relative to the EU average over 2008 to 2023, so including it could change both the dispersion and the beta estimates. Robustness checks for the full panel should use the WDI constant-PPP series, a leave-one-out estimate and a pre-2020 subsample.roughly 25% of the EU-27 average

4. Conclusion, Policy Implications and Future Research

4.1 Conclusion

The evidence suggests that the Western Balkan economies are gradually catching up with the EU, although progress remains uneven and convergence within the region has not taken place. Between 2015 and 2024 all five economies with comparable Eurostat data gained on the EU-27 average, by 3 to 12 index points, yet the coefficient of variation among them rose from 0.151 to 0.192 and the estimated absolute beta was statistically indistinguishable from zero in every specification. Montenegro and Serbia closed about a fifth of their gap with the EU, while North Macedonia and Bosnia and Herzegovina closed under 6%. Hypothesis H1 is therefore supported for convergence towards the EU and not for convergence within the region. Hypotheses H2 to H4, which concern conditional convergence and the roles of trade, FDI, institutions and accession, are specified in full in Section 3 but remain to be tested with the complete panel.

The results are consistent with the literature on conditional convergence: where steady states differ, poorer economies do not automatically grow faster. They fit as well the arguments of Estrin and Uvalic (2014) and Gill and Raiser (2012) that the benefits of integration depend on institutions, investment and the credibility of accession.

4.2 Policy implications

The policy implications below draw on the empirical evidence presented in Section 3 and the literature reviewed in Section 2. Recommendations related to H2–H4 should, however, be reassessed once the full panel estimates are available.

1. Market integration should not be treated as a sufficient condition for convergence. Convergence with the EU did not translate into convergence within the region, so openness needs to be accompanied by investment in the economies that are falling behind, notably North Macedonia and Bosnia and Herzegovina.
2. Further development of the Common Regional Market should remain a regional priority. Reducing non-tariff barriers, mutual recognition of qualifications and customs facilitation among CEFTA parties would widen the small national markets that limit scale and attract investment (Kaminski and de la Rocha, 2003).
3. Foreign direct investment policies should focus on productivity gains as well as job creation. Policies should link foreign investors to local suppliers, and invest in skills so that firms can absorb technology (Borensztein, De Gregorio and Lee, 1998).
4. Institutional reform should be placed at the centre of the convergence agenda. Rule of law, judicial independence and public procurement determine whether integration

raises growth (Rodrik, Subramanian and Trebbi, 2004), and accession conditionality is the strongest external anchor available.

5. EU funding should be directed towards areas where adequate absorption capacity is in place. The effect of structural funds depends on administrative capacity (Becker, Egger and von Ehrlich, 2010), so pre-accession assistance should finance project preparation alongside infrastructure.
6. Strengthening human-capital retention is also essential. Emigration of skilled workers reduces absorptive capacity, so wages, vocational training and return-migration schemes belong in the convergence agenda.
7. Improving the availability and comparability of statistical data is equally important. Kosovo's absence from comparable EU series limits monitoring, and full harmonization of national accounts with Eurostat standards would make convergence tracking possible for all six economies.

4.3 Limitations

The calculations are based on five countries and four observation years, which limits the statistical power of the convergence tests. Although the conditional model in Table 5 has been specified, it has not yet been estimated, and Kosovo is excluded from the descriptive tests. Accordingly, the findings provide an initial description of the observed patterns rather than definitive evidence of causal relationships.

4.4 Future research

- Estimate the full conditional panel of Section 3.2, including Kosovo, for 2000 to 2024, and report the speed of convergence and half-life.
- Test for convergence clubs with the distribution-based approach of Quah (1993) or a club-clustering algorithm.
- Move to subnational data (NUTS 2 or equivalent) to test for convergence between regions and for core-periphery effects within countries.
- Evaluate specific policy events, such as the entry into force of CEFTA 2006 or candidate status, with event-study or synthetic-control methods.
- Add remittances, migration and global value chain participation, which this study does not model.

References

[1]. Acemoglu, D., Johnson, S. and Robinson, J. A. (2001) 'The colonial origins of comparative development: an empirical investigation', *American Economic Review*, 91(5), pp. 1369–1401.
[2]. Alfaro, L., Chanda, A., Kalemli-Ozcan, S. and Sayek, S. (2004) 'FDI and economic growth: the role of local financial markets', *Journal of International Economics*, 64(1), pp. 89–112.
[3]. Balassa, B. (1961) *The Theory of Economic Integration*. Homewood, IL: Richard D. Irwin.
[4]. Baldwin, R. E. (1989) 'The growth effects of 1992', *Economic Policy*, 4(9), pp. 247–281.
[5]. Ben-David, D. (1993) 'Equalizing exchange: trade liberalization and income convergence', *Quarterly Journal of Economics*, 108(3), pp. 653–679.
[6]. Bevan, A. A. and Estrin, S. (2004) 'The determinants of foreign direct investment into European transition economies', *Journal of Comparative Economics*, 32(4), pp. 775–787.
[7]. Blomström, M. and Kokko, A. (1998) 'Multinational corporations and spillovers', *Journal of Economic Surveys*, 12(3), pp. 247–277.
[8]. Blundell, R. and Bond, S. (1998) 'Initial conditions and moment restrictions in dynamic panel data models', *Journal of Econometrics*, 87(1), pp. 115–143.
[9]. Driscoll, J. C. and Kraay, A. C. (1998) 'Consistent covariance matrix estimation with spatially dependent panel data', *Review of Economics and Statistics*, 80(4), pp. 549–560.

[10]. Estrin, S. and Uvalic, M. (2014) 'FDI into transition economies: are the Balkans different?', *Economics of Transition*, 22(2), pp. 281–312.
[11]. Gill, I. S. and Raiser, M. (2012) *Golden Growth: Restoring the Lustre of the European Economic Model*. Washington, DC: World Bank.
[12]. Hausman, J. A. (1978) 'Specification tests in econometrics', *Econometrica*, 46(6), pp. 1251–1271.
[13]. Islam, N. (1995) 'Growth empirics: a panel data approach', *Quarterly Journal of Economics*, 110(4), pp. 1127–1170.
[14]. Kaminski, B. and de la Rocha, M. (2003) *Stabilization and Association Process in the Balkans: Integration Options and their Assessment*. World Bank Policy Research Working Paper 3108. Washington, DC: World Bank.
[15]. Kaufmann, D., Kraay, A. and Mastruzzi, M. (2010) *The Worldwide Governance Indicators: Methodology and Analytical Issues*. World Bank Policy Research Working Paper 5430. Washington, DC: World Bank.
[16]. Krugman, P. (1991) 'Increasing returns and economic geography', *Journal of Political Economy*, 99(3), pp. 483–499.
[17]. Krugman, P. and Venables, A. J. (1995) 'Globalization and the inequality of nations', *Quarterly Journal of Economics*, 110(4), pp. 857–880.
[18]. Kutan, A. M. and Yigit, T. M. (2004) 'Nominal and real stochastic convergence of transition economies', *Journal of Comparative Economics*, 32(1), pp. 23–36.
[19]. Lucas, R. E. (1988) 'On the mechanics of economic development', *Journal of Monetary Economics*, 22(1), pp. 3–42.
[20]. Mankiw, N. G., Romer, D. and Weil, D. N. (1992) 'A contribution to the empirics of economic growth', *Quarterly Journal of Economics*, 107(2), pp. 407–437.
[21]. Matkowski, Z. and Prochniak, M. (2007) 'Economic convergence between the CEE-8 and the European Union', *Eastern European Economics*, 45(1), pp. 59–76.
[22]. Nickell, S. (1981) 'Biases in dynamic models with fixed effects', *Econometrica*, 49(6), pp. 1417–1426.
[23]. North, D. C. (1990) *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.
[24]. OECD (2024) *Western Balkans Competitiveness Outlook 2024: Regional Profile*. Paris: OECD Publishing.
[25]. Maksuti, A. (2022). THE SIGNIFICANCE OF ACCOUNTING INFORMATION AND THE EFFECTS ON SHAREHOLDER COMPANIES, CASE OF NORTH MACEDONIA 1995-2020. *ECONOMIC VISION-International Scientific Journal in Economics, Finance, Business, Marketing, Management and Tourism*, 25-33.
[26]. OECD (2026) *SME Policy Index for Western Balkans and Türkiye 2026: Economy Profile for Kosovo*. Paris: OECD Publishing. Available at: https://www.oecd.org/en/publications/sme-policy-index-for-western-balkans-and-turkiye-2026-economy-profile-for-kosovo_5737889a-en/full-report/kosovo-sme-sector-overview_9d53e176.html.
[27]. OECD (n.d.) *Socio-economic convergence in the Western Balkans* (Economic Convergence Scoreboard). Available at: https://www.oecd.org/en/about/programmes/oecd-south-east-europe-regional-programme/socio-economic-convergence-in-the-western-balkans.html.
[28]. Paunović, S. and Sergi, B. S. (2025) 'Economic and social developments in south-east Europe: between growth, opportunities and the erosion of social rights', *SEER Journal for Labour and Social Affairs in Eastern Europe*, 2/2025, pp. 149–174. https://doi.org/10.5771/1435-2869-2025-2-149.
[29]. Pesaran, M. H. (2007) 'A simple panel unit root test in the presence of cross-section dependence', *Journal of Applied Econometrics*, 22(2), pp. 265–312.
[30]. Quah, D. T. (1993) 'Galton's fallacy and tests of the convergence hypothesis', *Scandinavian Journal of Economics*, 95(4), pp. 427–443.
[31]. Reuters (2024) 'World Bank sees Western Balkan economies growing but reforms needed'. Available at: https://sg.finance.yahoo.com/news/world-bank-sees-western-balkan-082224581.html.
[32]. Rodriguez, F. and Rodrik, D. (2000) 'Trade policy and economic growth: a skeptic's guide to the cross-national evidence', *NBER Macroeconomics Annual 2000*, 15, pp. 261–325.
[33]. Rodrik, D., Subramanian, A. and Trebbi, F. (2004) 'Institutions rule: the primacy of institutions over geography and integration in economic development', *Journal of Economic Growth*, 9(2), pp. 131–165.
[34]. Romer, P. M. (1986) 'Increasing returns and long-run growth', *Journal of Political Economy*, 94(5), pp. 1002–1037.
[35]. Roodman, D. (2009) 'How to do xtabond2: an introduction to difference and system GMM in Stata', *Stata Journal*, 9(1), pp. 86–136.
[36]. Sachs, J. D. and Warner, A. (1995) 'Economic reform and the process of global integration', *Brookings Papers on Economic Activity*, 1995(1), pp. 1–118.