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Data Analytics Supports Decentralized Innovation.

We use Italian regional data to answer the question whether trade affects within-country income differentials. In Italy, the more affluent Northern regions trade more with the rest of the world than the poorer ones in the Southern "Mezzogiorno" regions. Prima facie, there is a positive correlation between external trade and per capita income. Studying this relationship empirically requires taking into account the endogenous component of trade. We argue that panel cointegration models can complement instrumental variables techniques to account for the endogeneity of trade in a panel context. Both methods show a positive link between trade openness and the level of income per capita.