

Trade openness and poverty: success and failure in Central America

Marco V. Sánchez *

Abstract

During the past two decades, trade regimes have been reformed in Latin America to facilitate export-led growth, and with the expectation that this would eventually trickle down thus helping the poor. These goals have been achieved in different degrees. Not only has accomplishing them depended upon the effectiveness of the trade policy reforms but also upon exchange-rate policy, external shocks and inflows of remittances. Furthermore, technological change has also been crucial to capitalize on the benefits of the reforms. These claims are substantiated through simulation results from a computable general equilibrium model solved with data for Costa Rica, El Salvador and Honduras. The model is combined with a microsimulation methodology to capture the full distributive implications of simulated policy and external shocks.