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Who gains from trade reform? Some remaining puzzles ¹

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Abstract

This paper focuses on three unresolved issues with regard to the impact of trade reform. First, many studies linking trade reform to long run growth are surprisingly fragile. To illustrate the problems with this literature, we examine a popular measure of openness recently introduced by Sachs and Warner [Sachs, J., Warner, A., 1995. Economic reform and the process of global integration. *Brookings Papers on Economics Activity* 1, pp. 111–117]. We show that their measure fails to establish a robust link between more open trade policies and long run growth. The second puzzle we identify is the small impact of trade reform on employment in developing countries. Finally, we analyze evidence on the relationship between trade reform and rising wage inequality, focusing on the 1985 Mexican trade reform. Wage inequality in Mexico rose after the reform, which is puzzling in a Heckscher–Ohlin context if Mexico has a comparative advantage in producing low skill-intensive goods.



Keywords

Openness; Trade policy; Growth; Wage inequality

JEL classification

F11; O15

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