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Introduction

Economic integration and structural adjustments in North America, Central America and the Caribbean A computable general equilibrium approach

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Abstract

The articles in this special issue are part of the results of an multinational research project entitled: “Regional Integration in Greater North America: A Research, Training and Policy Program.” It would have been impossible to undergo this multinational task without the economic support so kindly granted by the *Ford Foundation* and the continuous support of Dr. Norman Collins and Dr. Michael Conroy, both of whom worked for the Ford Foundation in Mexico City. The project also benefited from the institutional support of *El Colegio de México* (COLMEX), the *Fundación Nacional de Desarrollo* (FUNDE), from the University of California, Los Angeles, the University of California, Davis, as well as from the Inter–American Development Bank and the governments of the countries included in this study. This volume is the result of intense and collective work, not only by the authors of the articles, but also from other researchers and from officials belonging to various institutions in Central America, the Caribbean, Mexico and the United States. We wish to give our special thanks to Alfonso Goitia, Ph.D., Executive Director of FUNDE, El Salvador, for his support as well as his researchers, Mario Lungo and Sonia Baires. We also wish to thank Mr. Óscar René Cardona for his help during the first stages of our research for Guatemala. We would like to thank Professor Victor Bulmer Thomas for his support as well as the authorities from the *Banco Central de Guatemala* for their help in building the database used in our investigation of this country’s economy. © 1999 Elsevier Science Inc. All rights reserved.

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1. Introduction

Latin American economies are undergoing profound adjustments to adapt to the demands of an ever-accelerating regional and global economic integration process. This can be observed in the “structural adjustment” policies agreed to by Latin American governments after the debt crisis of 1982, in their decision to join the trade liberalization processes of the Uruguay Round for the General Agreement of Tariffs and Trade (GATT) and in their efforts to negotiate regional free trade agreements during the last decades of the twentieth century. Globalization, the disintegration of the socialist model and the success of some developing economies that decided to follow an outward oriented growth strategy, have brought about, in the region, the substitution of national development plans—founded on import substitution—with projects based on freer trade with other countries.

Most of the countries in Central America and the Caribbean are no strangers to these modifications and objectives. Nevertheless, putting these structural adjustment measures into effect is no easy task. These changes cause financial unbalances and impact domestic economic agents and the general population in unequal ways. Aside from these consequences, there is uncertainty regarding the effect that this process is now having and will have in the near future, as well as the options the governments of the region have to advance towards a more open economic trade framework.

The purpose of this research project—the results of which are presented in this volume—is, precisely, to suggest answers for these questions, based on the construction of models for a quantitative impact analysis. To achieve our goal, it was necessary for all researchers involved to undertake a series of major efforts: from building coherent databases compatible with the demands of our approach, to the application of general equilibrium models for all the countries in the region, which we will call the “Greater North America” region including the United States and Mexico, five Central American economies (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), and the Dominican Republic.

The research project was carried out in three different levels: national, local and multi-national. In all the levels, researchers used computable (or applied) general equilibrium models (CGEs). The databases for these models were based on national social accounting matrices (SAMs). The main objective of all these studies was to quantify the possible impacts liberalization policies would have: on the economy of each of the Central American and Caribbean countries included in this investigation (the five members of the Central American Common Market and the Dominican Republic); on Santa Elena (a rural Salvadoran community made up mostly of migrants); and on the “Greater North America” region as a whole. In our national studies, a CGE model—built by Devajaran, Lewis, and Robinson for Cameroon—was adapted to each country’s characteristics. In our study of a rural town, we use a micro-regional model built by Taylor, whereas in the multinational level we use a CGE model built by Hinojosa, Lewis, and Robinson that includes details on the economic structures of the United States, Mexico, Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.

The main contribution of the articles in this special issue is the rigorous quantification of the effects that internal economic reforms and trade liberalization would have on the studied economies. To achieve this, it was necessary to build databases in the form of SAMs for each

of the levels of analysis. This effort, in itself, is a contribution: the SAMs that were built will provide insight into the contemporary socioeconomic structure of the countries and regions studied, where there are frequent limitations concerning data availability. The SAMs for Central American countries update and extend the effort undertaken in the MOCECA Project (*Modelo de Coherencia Económica del Istmo Centroamericano: Economic Coherence Model for the Central American Isthmus*) to build input-output matrices (CADESCA, *Unidad de Publicaciones*, Panama, 1992). With the purpose of having a common basis for the study of the possible impacts that the Central American economies and the Dominican Republic would have on liberalization processes, the same simulations were applied, as well as similar “macroeconomic closings” for each of them. Therefore, three sets of exercises were carried out for each country. They capture the structural modification processes in a stylized way: 1) by opening trade, 2) by a reduction in government spending, and 3) by devaluing the local currency. The second and third simulations were also carried out for Santa Elena, the Salvadoran migrant town.

This issue is divided into two parts. The first one starts with a synthesis of the characteristics of the basic model used for each country’s studies (Chap. 1). Afterwards, the economic structure and the results of impact analysis for each country are discussed: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic (Chaps. 2–7, respectively). The chapter on El Salvador is divided into three parts: in the first section, we present the results of the study for the country as a whole. In the second part we introduce the results for Santa Elena, and in the third part we compare the results for the country as a whole with those for the migrant community. In the second part of the special issue, we discuss the results yielded by the “Greater North America” multinational model. The issue concludes with a discussion on the main research findings and with a few observations on certain aspects related with economic policy and with the effects of structural change in the economic development of Central America and the Dominican Republic.

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