

Trade Payments Reform and Economic Growth Revisited

(joint with James Feyrer)

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Abstract

Previous studies of the impact of trade reform on economic growth have used a single binary variable to represent the dating of a significant liberalization in policy. This paper employs a time-varying indicator of current account openness that reflects the depth and speed of those episodes, as well as indicating policy reversals. This measure leads to more precise estimates of how changes in current account openness affects the path of economic growth. The results show that going from closed to open policies leads to a 10-20 percent increase in per capita GDP after 10-15 years. The results also reveal an interesting asymmetry: the costs of closing to trade are significantly larger than the gains from opening to trade.