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Trade liberalisation and economic growth in export-oriented countries and protectionist countries: A Latin American Study

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Abstract

This is a systematic review of literature regarding the effects of trade liberalisation and trade openness on growth in the context of Latin American countries. The study used a structured Scopus-based literature search to identify research on trade openness and economic growth, prioritising studies employing rigorous econometric methods, controlling for relevant macroeconomic and institutional factors, and examining trade subcomponents using multiple growth measures. Articles published in English between 2019 and 2026 in economics/econometrics were screened for relevance, research-area alignment, and text availability. Most studies supported the conclusion that export-oriented economies have gained more from trade openness. However, it was not simply trade openness but rather trade openness interacting with other positive institutional factors that remained the best predictor of growth. Other studies pointed to trade diversification causing growth rather than trade openness per se, with varying sector-wise effects. Synthesis of studies pointed to subcomponents of trade openness, nature of governance, sector type, subnational effects and border effects causing variance in effects, but they remain underexplored in the existing literature and therefore represent important areas for future research.

Trade Liberalisation and Economic Growth in Protectionist and Export-oriented Countries: A Latin American Study

In the new global economy, international trade plays a critical role in economic growth, market expansion, and global integration. In a similar vein, trade agreements are fundamental instruments for promoting trade liberalisation, investment, and economic integration, while trade volume captures the magnitude of international trade and reflects a country's level of global market participation.

One of the neglected facets of trade liberalisation concerns the strength and weakness of state capacity (Johnson & Koyama, 2017). This stands in contrast to the theoretical model of free markets with well-defined property rights that are impartially enforced. It is important to note that political patronage networks hold significant economic power; economic reforms such as deregulation, trade liberalisation, and privatisation may benefit politically connected business elites rather than the broader economy, particularly when independent regulatory institutions are weak. Next, research conducted by Haber et al. (2008) found that trade liberalisation in Mexico during the 1980s failed to generate the expected increases in investment, trade, and economic growth because entrenched authoritarian systems continued to protect vested interests. Similarly, developing countries face distinct concerns from developed nations during trade liberalisation, as they feature fragile domestic industries, high reliance on small-scale agriculture, and weaker economic safety nets.

It has also previously been observed that Latin American countries moved from import substitution policies to trade liberalisation during the 1980s and 1990s (Sanguinetti & Bianchi, 2006). As middle-income developing economies, they share institutional and structural characteristics such as weak state capacity, governance challenges, corruption, and



rent-seeking (Peters & Filgueiras, 2022). These similarities make Latin America an appropriate comparison compared to a global sample, where advanced and developing economies differ substantially. Thus, this paper aims to review the impact of trade liberalisation, facilitated by regional and international trade agreements, on GDP growth in the context of Latin American countries, focusing on export-oriented economies, particularly Chile and Mexico, with trade-to-GDP ratios of 65 and 80, respectively, as per World Bank data, compared to economies with historically higher protectionist measures, namely Argentina and Brazil, with trade-to-GDP ratios of 30 and 35, respectively, per World Bank data. Additionally, the relatively homogeneous regional panel reduces cross-country heterogeneity, omitted-variable bias, and parameter instability, improving the reliability and comparability of the estimated effects.

Methodology

Research questions were addressed using 3 methods:

1. Prioritising papers that used rigorous econometrics with required filters.
2. Selecting papers that addressed effects of trade openness on growth while accounting for other variables such as governance quality, political stability, and inflation.
3. Selecting papers that focused on subcomponents of trade openness and used multiple measures for growth.

Scopus was used as the database for the search due to its credibility, relevance, and the variety of published work it showcases. However, the actual count of papers utilised was reduced due to relevance, text availability, and area of research. The entire process is depicted in Figure 1.

The main keywords used to collect relevant papers are:

- Trade Liberalisation OR Trade Openness OR Trade Reform OR Trade Agreement OR Regional Trade Agreement
- Economic Growth OR GDP OR Economic Development OR Productivity
- Latin America OR Mexico OR Chile OR Brazil OR Argentina
- Trade Policy OR Free Trade OR FDI OR FPI
- Papers with keywords such as Natural experiments OR Difference-in-Differences OR Instrumental Variables OR Event study OR Panel regression OR Synthetic control OR Comparative analysis OR Endogeneity

Filters chosen:

- Publication year 2019 - Publication year 2026



- Language - English
- Document type - Article, Review, Conference Paper
- Subject area – Economics, Econometrics and Finance; Social Sciences; Business Management and Accounting; Multidisciplinary

Figure 1

Research process

IDENTIFICATION	Records identified through keyword search • <i>Database: Scopus</i> (n = 161)	↓	
SCREENING	Records screened based on title and abstract (n = 161)	→	Records excluded (n = 125) Reasons: • Not related to international trade agreements • Not focused on trade volume or economic growth • Duplicate or irrelevant studies • Conference papers, book chapters, editorials • Non-English publications



ELIGIBILITY	Relevant full-text articles assessed for eligibility (n = 36)	→	Full-text articles excluded (n = 10) Reasons: • Full text not accessible • Did not meet inclusion criteria • Insufficient empirical evidence • Outside the scope of the study
INCLUDED	Studies included in the literature review (n = 26)	↓	

Literature Summary

Trade openness and growth

Research showed that trade openness was positively associated with economic growth (Usman, 2023; Gómez Sánchez Torres et al., 2026; Le & Bao, 2020; Joo et al., 2022). Additionally, research conducted by Mehta & Patel (2024) and Onafowora & Owoye (2024) found that trade openness interacted with multiple other institutional factors when affecting growth.

Usman, K. (2023) found a bi-directional causal relationship between GDP and trade in the long run amongst Emerging E7 economies. Gómez Sánchez Torres et al. (2026) studied four Pacific Alliance countries (Chile, Colombia, Mexico, and Peru) over the period 1990–2022. Trade openness had a positive and statistically significant effect on economic growth. For export-oriented economies such as Chile and Mexico, the study concluded that greater participation in global trade increased efficiency, improved resource allocation, and encouraged a wider range of exports beyond primary commodities.

Using yearly data from 1990 to 2014, Le & Bao (2020) examined renewable and non-renewable energy use, government spending, institutional quality, and financial development alongside trade openness and growth. The empirical results confirmed that trade openness, in the long run, had a positive and statistically significant association with economic growth and



development metrics across the selected Latin American economies. Both renewable and non-renewable energy, capital formation, government spending, financial development, and trade openness all contributed positively to economic growth. However, unlike previous studies, they found that institutional quality had no significant effect, which contradicts Campos et al. (2023) and Onafowora & Owoye (2024).

A 113-year-old dataset was constructed in Campos et al. (2023), which expanded back to the 1890s and found Trade openness to be positively and significantly correlated with growth in Brazil. Political instability was found to be a negative factor over the entire period of research. The results remained broadly unchanged even after controlling for the geographical and human capital factors, supporting the dependability of the main findings. Onafowora & Owoye (2024) investigated whether the relationship between trade openness and economic growth in Latin America and the Caribbean depended on governance quality. They found that trade openness, governance quality, human capital, and physical capital were positively associated with economic growth, but inflation was negatively associated with growth. Marginal effects analysis reported that trade openness negatively influenced growth when governance was weak, while trade openness had a positive impact on growth when governance was at an average or high level, indicating the presence of the governance threshold.

Mehta & Patel (2024) examined the asymmetric long- and short-run relationships between trade openness, economic growth, and government size for BRICS nations. The research supported the Compensation Hypothesis, which suggested that higher trade openness enhances government size within the BRICS countries, and found a significant unidirectional relationship between government size and economic development, supporting Wagner's law.

Joo et al. (2022) studied BRICS from the period of 1987-2018. The authors concluded that it is important for the FDI-receiving (host) country to possess a minimum level of macroeconomic stability, human capital, and trade liberalisation for realising the long-term growth benefits of FDI. While trade openness and its effects themselves were not the study objective, the study points to complex interactions between trade openness and other factors contributing to economic growth.

Quintana Romero et al. (2024) confirmed that simply increasing exports did not guarantee regional development in Mexico. High export growth or trade openness in adjacent states was associated with dragging down local per capita GDP growth. This suggested backwash effects, regional competition, or polarisation, where export-heavy hubs absorbed resources, labour, and capital from surrounding areas rather than spreading prosperity.

Maffini & González (2023) analysed whether international borders and trade agreements can explain regional differences in economic growth and inequality at the subnational level in Argentina at the district level using night luminosity satellite imagery. They approximated economic activity and its concentration in Argentina at the district level using night luminosity satellite imagery. The results suggested that an international border had a negative and significant effect on the economic growth of border districts. On the other hand, a commercial integration agreement tended to partially offset the negative effects on economic growth. Results also implied a reduction in the regional GDP growth rate for districts with borders compared to those without. It was also observed that river border crossings had a positive impact on the local economy, as they were associated with an increase in the growth



rate, whereas the presence of land border crossings was associated with a decrease in the growth rate. In light of findings from Quintana Romero et al. (2024), this suggests that regions bordering export hubs and international borders may experience lower growth than other regions. There is further scope for studies that account for border sharing itself as a variable and its interaction with trade openness. It is to be further determined if FTAs with countries that share varying levels of international borders show varying effects and if sub-national effects of trade openness may show more diverse effects than previous research indicates.

Alhasim et al. (2024) focused on the endogenous development theory and investigated the relationship between economic growth (dependent variable) and renewable energy consumption, technological innovation, and export diversification (independent variables) in seven emerging economies: Brazil, China, Indonesia, India, Mexico, Russia, and Turkey.

However, trade openness was found to have a negative and statistically significant association with economic growth in the studied countries, as opposed to previous studies on this subject. But export diversification had a positive association, and for each additional percentage of export diversification, economic development was estimated to increase by 2.12%.

Eyuboglu et al. (2025) studied how energy consumption, financial development, and other economic factors influenced economic growth in Colombia, India, Indonesia, Kenya, Malaysia, Mexico, and Poland from 1995 to 2019. The results showed that when these countries increased their international trade, it resulted in negative effects on the country's economy.

The authors speculated that trade openness exposed domestic industries to greater competition from foreign firms, which may have led to lower prices for consumers but could have also squeezed profit margins for domestic producers, leading to a decline in output, employment, and investment. Resulting trade deficits may have led to external indebtedness, currency depreciation, and inflationary pressures, whereas persistent trade surpluses may have distorted resource allocation, hindered domestic consumption, and impeded investment in productive sectors.

Other potential mechanisms involved in trade openness

Catelén, A. L. (2025) found that trade openness increased vulnerability to trade shocks in Argentina. The empirical study by Catelén, A. L. (2025) in Argentina found that trade shocks explained more of the variability in GDP, from 29.8% between 1930 and 1975 to 43% between 1976 and 2018. The reasons for this were attributed to the weakening of the productive structure, which occurred due to the abandonment of industrial policies and the adoption of trade liberalisation. This increased the country's dependence on imports and diminished the economy's resilience to external shocks, reflected in its stop-and-go dynamics, which aligns with the framework of Bhagwati, J. N. (1998)

Mukherjee et al. (2021) studied whether making money easier to circulate helped the economy grow with stability in countries that are still developing, such as BRICS and four other Southeast Asian economies, namely, Malaysia, the Philippines, Indonesia, and



Thailand, for a period of 22 years. Investment freedom, which included freedom to move capital across nations, was both significantly and positively correlated with depth. Capital account openness had a positive association with financial stability, which ran contrary to the expectation of unregulated capital movement leading to instability. Trade openness was also associated with improved efficiency, likely due to increased lending. Investment freedom, however, harmed competition, likely due to newer local players not entering the market to avoid competing with more reputed players.

Mukherjee et al. (2021) found that government efficiency and regulatory quality were negatively correlated with financial depth and efficiency, and the authors believed this was likely due to increased costs of compliance. Le & Bao (2020) found no effect of institutional quality on trade openness and its interaction with growth. This suggests that subcomponents of institutional quality as a variable itself need to be further studied, as governance may negatively affect the interaction between trade openness and growth when it causes regulatory compliance burdens, despite high government effectiveness. The study also found reduced entry of new players in financial investment firms, likely due to the entry of longer-running foreign firms with greater prestige.

Álvarez & Andreasen (2025), using difference-in-differences analysis, researched whether FTAs had made any difference in terms of increasing the volume of exports or the number of exported products by Chile and how this effect depended upon the initial export share of the industry, the level of income of trading nations, and financial development and capital controls of trading nations. FTAs increased export value by about 7.1% and the number of exported products by about 4.5%. The effect was strongest for industries with low-to-intermediate initial shares, while it turned negative for industries which were already highly export-oriented (near 30% share of sales), consistent with FTAs mainly enabling expansion into new products/sectors rather than boosting already-dominant traditional exports. FTA benefits, both in export value and product variety, were concentrated in agreements with financially less-developed partners and partners maintaining capital controls, which suggested FTAs help offset financial frictions that otherwise constrain trade. This suggests that firms that remain less efficient tend to lose from trade openness. However, the share of exports itself may increase if winning firms become more efficient, which agrees with the framework of Melitz (Melitz, 2003)

Escaith (2021) performed a constant market share analysis of U.S. imports, which revealed that Mexico (an export-led country) raised its shares from 6.4% in 1993 to 13.5% in 2020, while Argentina and Brazil, economies that have a protectionist profile, had a decline in their share over the same period: Argentina from 0.3% to 0.2%, and Brazil from 1.5% to 1.2%.

Flores-Sotel et al. (2026) analysed the macroeconomic factors that significantly affect the global competitiveness of Latin American countries during the period 2013–2023. Trade openness and investment in education were identified as the primary statistically significant determinants associated with regional global competitiveness. Gardner et al. (2023) also found marked differences in competitive outcomes across nations (with Chile and Colombia demonstrating higher relative competitiveness), demonstrating that national macroeconomic and structural policies played a decisive role in shaping competitive sustainability. Countries such as Chile and Colombia achieved over 80% Information and Communication Technology access, directly enhancing business climate efficiency. In contrast, countries such as Bolivia



and Nicaragua remained below 50% access due to persistent structural limitations in digital expansion.

The country with which the FTA was being signed itself was found to play a role. Viner (1950) argued that the welfare effects of customs unions depend on the balance between trade creation, which improves efficiency by replacing high-cost domestic production with lower-cost imports, and trade diversion, which reduces efficiency by diverting imports away from more efficient non-member countries toward less efficient member countries. Feng et al. (2026) found that all of China's FTAs did not work the same way. The Regional Comprehensive Economic Partnership and China-Chile FTA were standout successes, as they had lower trade inefficiency, which meant China's exports to those partners were closer to the trade frontier, i.e., maximum potential trade that could occur between two countries given their characteristics, such as GDP, distance, common language, trade agreement, etc.

Cateia, J. V., & Barbosa, W. (2024) did not find a large positive association between TFP and trade openness in Brazil. (Gardner et al., 2023) indicated that increases in labour productivity varied with subsectors and employee skill, but found an overall positive impact of trade openness on labour productivity in Brazil. Their research concluded that absorptive capacity measured using Gross Fixed Capital Formation was found to not increase total factor productivity; a 1% increase in investment or GFCF actually showed a ~0.52 percentage point decrease in permanent TFP, and the effect on cyclic TFP was also negative but not statistically important, with no growth in TFP between the 1980s and 2010 despite investments. A 1% increase in trade openness increased the permanent TFP by 26.28 percentage points in the short term and ~0.16 in the long term. This strongly suggested that even though investments were high, the means to use those investments efficiently were severely degraded, which was speculated to be due to factors such as the lack of infrastructure, weak Information and Communication Technology access, and burdensome tax and customs systems that prevent capital investment from turning into profitable gains.

Gardner et al. (2023) found that trade liberalisation during the 1990s was associated with increased productivity in Brazil's labour. Higher import penetration tended to be associated with improved labour productivity, especially in service subsectors with a lower proportion of college-educated workers. Highly skilled college-educated workers seemed to gain less with trade liberalisation, indicating differences in productivity gains of imports and exports between social classes. A significant increment could be noticed in labour productivity with lower tariffs on imported manufactured intermediate inputs, which were the most statistically reliable driver of productivity improvements.

Escaith (2021) studied the output per person under the export-led accumulation regime and showed that it was not as effective as it was expected to be. It fell from 1.18% in 1989-1994 to 0.00% in 1995 to 2019. No association between NAFTA and TFP was shown in Mexico, with an average TFP of -0.33% annually from 1995 to 2019. The country's sole strength lay in travel/tourism, with commercial services exports remaining stagnant at about 5% during the period 1995-2019. Despite this, an overall increase in the share of exports was found under NAFTA. Findings from Sotiriou & Rodríguez-Pose (2021) indicate that this may be due to varying effects of trade openness with various countries, as comparative advantage may be retained without increases in TFP.



Inequality and capture of gains by special interests may dampen the positive effects of growth from trade openness. Spruk (2021) researched the long-term regional convergence hypothesis in Mexican states. It was found that before the onset of the 1980s, Mexican states and regions exhibited a strong and robust unconditional (absolute) output per capita convergence with no evidence of self-perpetuating poverty traps. After the economic reforms carried out by the Miguel de la Madrid and Salinas de Gortari administrations starting in the early 1980s, Mexican regional convergence came to a halt, with little evidence of absolute and conditional per capita output convergence, since initially rich regions sustained higher growth compared to initially poor counterparts. They concluded that the reforms carried out by Miguel de la Madrid (1982-1988) and Salinas de Gortari (1988-1994) broke the cycle of decreasing regional inequality that began to unfold in the late 1950s, as measured by the Gini coefficient and Kuznets ratio. Their findings thus indicated that the distorted institutional environment that enables the clientelistic networks of business and political elites to flourish through patronage pacts most likely hinders the ability of the poorer states to catch up with the frontier.

Discussion

Trade Openness and its Non-uniform Effect on Economic Growth

The studies used for the literature review do not indicate a direct positive or negative relationship between trade openness and economic growth in Latin America. Rather, they point out different theoretical views on whether trade is beneficial or harmful for the country. For example, in the classical trade theories of Smith (1776) and Ricardo (1817), they speculate that trade openness and specialisation lead to higher efficiency and national welfare. One study by Melitz (2003) anticipates that countries reallocate resources to better-performing, more productive firms as a result of trade openness increasing aggregate productivity; several studies validate these theories. The study by Campos et al. (2023) on Brazil, using a dataset spanning over a century, concluded that trade openness has had statistically significant and positive effects on economic growth. Along with this, export diversification showed several positive effects on Pacific Alliance countries such as Chile, Mexico, Colombia, and Peru, as suggested by Gómez Sánchez Torres et al. (2026).

On the other side of the spectrum, several studies support the argument that trade openness, in fact, can be very harmful to developing economies, especially when they depend heavily on raw commodities, as reported by Prebisch (1950) and Singer (1950). Research by Eyuboglu et al. (2025) suggested similar negative effects; a 1% increase in trade openness resulted in a negative impact on economic growth by 0.0079% in a sample that included Colombia and Mexico. In addition, Alhasim et al. (2024) also suggested a negative and statistically significant impact of trade openness on growth in Brazil and Mexico, but also suggested positive effects of export diversification on growth. Balavac (2012) made a very important distinction between the concentration and diversification of exports and their effects on trade and growth. This divergence highlights that the composition of trade is more important than its volume. Both of the studies showed a directional relationship between trade openness/export diversification and growth, via Granger Causality analysis.



Trade openness is not a single variable with a single effect; it's a set of different channels that operate differently, and their composition yields different results. Even though the findings may sound contrary, it's because authors are combining different trade channels such as exports, imports, trade agreements, FDI, and technology into one broad measure of trade openness, which confines other ways trade affects growth; this is also the largest research gap in these papers; the studies only look at the trade-to-GDP ratio and base their results solely on that, but this is where disagreements form, and they end up with positive, negative, and insignificant effects of trade.

Other Constituting Factors Behind Heterogeneous Effects of Trade Openness

Institutional quality.

Several papers have suggested that institutional quality determines how trade liberalisation will be reflected in the country, less like a background control variable and more like a switch. With good governance, trade can materialise, and everyone benefits equally, whereas bad governance may result in corruption, elite capture, and little to no growth. Onafowora & Owoye (2024) reported that trade openness improves and increases growth only when the institutional quality is above a certain level; just having trade openness isn't automatically beneficial; governance determines whether the trade is going to work in everybody's favour. The study done by Haber et al. (2008) uses the example of Mexico, which had liberalised its economy, but due to weak institutions and authoritarian patronage, the benefits of liberalisation were mainly captured by the elites, channelling negative effects of trade despite being growth-positive in theory (liberalised economy). The conclusion was drawn due to a lack of catch-up growth amongst several states in Mexico after accounting for state- and time-wise fixed effects using Granger causality measurement. Joo et al. (2022), in their FGLS panel data study, argued that FDI did not automatically lead to growth; it also depended on that country's openness to international trade and its characteristics (institutional quality, absorptive capacity, macroeconomic stability, and infrastructure) to engage in trade and benefit from it. These findings were contradicted by Le & Bao (2020), who employed a D-H Causality analysis and reported that the governance threshold does not influence growth, either positively or negatively, as trade liberalisation showed positive effects regardless. This was probably because they measured governance using different metrics such as government spending, institutional quality, and financial development. Mukherjee et al. (2021) found government efficiency and regulatory quality to be negatively correlated with financial depth and efficiency, which they explained as likely due to increased costs of compliance. Therefore, institutions do determine the positive or negative effects of trade; the contradictory findings across papers may therefore be partly because of differences in how governance quality is measured, rather than institutions having no influence.

Absorptive Capacity

Another such factor is how well a country can actually benefit from trade liberalisation and investment; growth theory examines these as complementary mechanisms, and the findings indicate that they function as two sides of the same coin rather than as separate, independent engines. A study by Cateia & Barbosa (2024) revealed that in Brazil, Gross Fixed Capital



Formation, or investment in factories and workers, was causally linked to reduced Total Factor Productivity (TFP); conversely, openness contributed to an increase in TFP. These outcomes may not sound related, but they should be interpreted as one. A simple explanation behind this was that without the proper infrastructure, ICT, and human resources, investment can't be utilised to its full potential. In contrast, trade openness generated competition and increased TFP to some extent. Another comparative analysis by Escaith (2021) on Mexico found that, even though export volume increased, there were no significant gains in TFP across Mexico; gains were confined to the export sector. Hence, the benefits weren't enough that they could be distributed equally on a large scale. These only suggest that trade openness and investment increase growth individually; for both to work together, the country's absorptive capacity, generally an unmeasured variable, must be sufficient for it to benefit from both efficiently, which leads to a more refutable claim than either of the two conclusions alone.

Role of FTAs

The common knowledge about FTAs was found to be very different from what FTAs actually do. They are a diversification tool rather than a mere agreement that increases growth uniformly. Signing a lot of FTAs may not automatically increase productivity and growth, but rather, FTAs mainly reallocate which industries and firms benefit from that trade. For example, in a country, a large exporting industry that's already a major international exporter may not gain significantly more from that FTA than a smaller industry that now has access to foreign markets. Alvarez & Andreasen (2025), using difference-in-differences measures, evidenced this example; they found that industries with a smaller-to- medium level of export benefited the most from the agreements, whereas industries that were already major exporters didn't necessarily gain more. Feng et al. (2026) found different associations between export efficiency and FTAs in different agreements, which suggested that a country's FTAs will always yield different levels of outcomes with each of its trading partners, undermining the notion that signing multiple FTAs is always beneficial for the country. The agreement, design, industries, and countries involved also matter significantly. As suggested by the framework of Viner (1950), FTAs that substitute efficient trades with non-members for less efficient trades with members may lead to worse outcomes. Understanding that FTAs help diversify trade is beneficial to the countries involved in growing every sector/industry within that nation, rather than simply signing multiple documents just for the sake of entering the international market.

National GDP

Most studies focus on measuring national GDP after liberalising trade. At a subnational level, liberalisation is just as redistributive as the wealth it creates. As evidenced by a panel study by Quintana Romero et al. (2024) and causal analysis by Maffini & Gonzalez (2023), one of the key features of export-led growth is that it concentrates in particular centres, and it profits at the expense of the neighbouring regions that don't get the same benefits as the export capital region. Therefore, it is essential to understand that in the case of Chile and Mexico against Argentina and Brazil, the impact of openness on national GDP does not imply a



reduction in income inequality as far as the internal structure is concerned. We learn that most studies only look at overall growth, but the real question should be who actually benefits from that growth and whether the benefits are uniform across the country.

Limitations

Despite the comparative scope, this paper is subject to many limitations that influence the analysis of its results. Firstly, this paper relies on systematic identification and synthesis of secondary sources rather than generation or collection of primary data. Catelén, A. L. (2025) discussed that while the paper included real wages as an indicator, official wage data do not completely reflect changes in purchasing power because they largely exclude the informal labour market. This eliminates the study of illegal or informal activity, which contributes significantly to GDP.

Secondly, as noted by Usman (2023), Quintana Romera et al. (2024), Gomez Sanchez Torres et al. (2026), and Eyuboglu et al. (2025), prior studies did not control for government policy effectiveness, infrastructure, education quality, or their interactions with trade openness and growth. This constrains the depth of their conclusions. Likewise, Flores-Sotel et al. (2026) did not address reverse causality, simultaneity, or omitted-variable bias.

The detrimental effect of absorptive capacity on TFP runs counter to theoretical predictions (productivity should rise with absorptive capacity). The authors Cateia, J. V., & Barbosa, W. (2024) explain this ex post with "Custo Brasil", which is an interpretative gap, rather than a verified mechanism.

Thirdly, the geographic scope of the reviewed literature is uneven, contrasting single-economy deep dives with broad panels pooling Latin American or BRICS nations. As Quintana Romero et al. (2024) note, this unevenness highlights a broader need to examine sub-national dynamics rather than relying solely on cross-country generalizations. Because findings cannot be transferred between contexts with divergent trade-policy orientations (e.g., Mexico's USMCA alignment versus Argentina's protectionism), aggregate conclusions must be drawn cautiously. Furthermore, localized factors can skew results even within a single country—such as Escaith's (2021) finding that NAFTA's TFP benefits remained restricted to northern Mexico, a structural nuance outside the scope of many primary studies

Fourthly, several papers have measured trade openness at an aggregate level and did not research subcomponents of trade openness to understand how specific variables such as capital controls, labour mobility, quality standards, FDI, and so on specifically interact with institutions to contribute to economic growth. (Quintana Romero et al., 2024), (Eyuboglu et al., 2025), (Le & Bao, 2020), (Campos et al., 2023), (Onafowora & Owoye, 2024), (Mehta and Patel, 2024). This limits the granularity of the conclusions.

Lastly, the analysis in the paper by Spruk (2021) adopted the standard Solow Growth model to study the speed of regional convergence over time for Mexican states, which implicitly assumed the free flow of labour and capital. Such an assumption may be questionable given



that business activity in Mexico is subject to pervasive corruption, violence, and an institutional environment that is skewed towards the status quo.

Building on these limitations, future research can advance in several robust directions. Immediate extensions should incorporate a structured meta-analysis and meta-regression on moderator variables to enhance reproducibility. Additionally, future work must disaggregate institutional quality to examine how specific governance structures, such as heavy regulatory compliance burden, can impede the trade-growth nexus despite high overall government effectiveness. Finally, subsequent studies should explore whether Free Trade Agreements (FTAs) yield disparate effects based on shared international borders, and further investigate how sub-national dynamics create more diverse economic outcomes than aggregate literature suggests.

Conclusion

This paper does not offer a simple verdict on whether trade liberalisation helps or hinders growth in Latin America; it supports conditions in which both can occur and yield different results in different situations. Trade liberalisation has a positive impact on growth in countries where institutions are equitable and are strong enough to maintain elite non-capture, where the economy is structured in a way that it can benefit from the capital it is investing, and where exports are not just diversified export sectors that avoid reliance on a handful of industries. Otherwise, trade liberalisation can also yield stagnation, low productivity despite heavy investment and otherwise favourable conditions, and regional imbalances that create internal disparities.

This insight reshapes the comparative analysis that initially motivated this review. While export-oriented economies like Chile and Mexico appear more successful overall than protectionist economies like Argentina and Brazil, concluding that export orientation is the primary driver of growth is inaccurate; rather, it is frequently a symptom of deeper underlying strengths. This points to a significant research gap: most existing studies hold trade-policy orientation constant while varying factors like institutional quality and absorptive capacity. Future research should instead invert this approach—isolating trade orientation while holding other structural factors constant—to rigorously determine its true independent effect.

Research gap

The scholars recognise three main research gaps that are not acknowledged by the existing research; these mainly concern institutional design, inequality, and causality.

After a thorough assessment, we can't completely conclude which part of *good governance* actually benefits the nation; some studies claim that good governance is required before trade openness can help the economy, while others claim that it doesn't have much of an impact on trade openness. While these studies do point to institutions being worthy enough to have a large effect, they don't exactly mention which aspect of governance is actually driving the change between the countries. For instance, is it the regulatory difficulties? Is it government



effectiveness? There's no clear research done on the exact institutional factor that is making the real impact on trade openness.

When discussing the beneficiaries of trade openness, it leads to another such gap/debate about the unequal distribution of benefits gained from trade openness. Most studies looked at the overall national GDP growth of the country after trade openness, but they overlooked the fact that the growth was most likely not equally spread out, as the trade-centred regions grew and benefited, and conversely, the other regions did not. This still raises the question of whether the growth was mostly in certain areas/sectors or was spread evenly across the nation.

Lastly, the major gap is causality, which challenges the very essence of this paper. The comparative claim that export-oriented economies outperform protectionist economies cannot be fully proven, as Chile and Mexico could also have strong institutions while being export-oriented, making it difficult to determine whether their economic performance is actually caused by export orientation or by other such advantages. Therefore, future studies need to control for these factors to actually prove and determine whether export-oriented trade policies genuinely do perform better than protectionist trade policies.



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