

Human Capital Formation and the Linkage between Trade and Poverty: The Cases of Costa Rica and Nicaragua

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The main objective of this study is to estimate the impact of trade on poverty and inequality, when complementary human capital policies are applied. To achieve this goal we use several methodologies. First, we build a dynamic Computable General Equilibrium (CGE) model and we analyze the macroeconomic effects of FTAs. Secondly, using a .top-down approach, we assess the micro-economic effects on households when the macro policies are implemented. Finally, we implement a human capital satellite model to assess the effects of human capital policies on labor efficiency and human capital stocks. We then interlink the satellite model with the CGE model to interact trade and human capital policies at the macro level. The combination of these methodologies enables a very rich analysis of each policy (education and trade), their interactions and complementarities.

With respect to the macro component, this paper builds on previous studies that estimated the macroeconomic effects of both FTAs. In Francois et al. (2008) the economic implications of DR-CAFTA were assessed, while Rivera and Rojas-Romagosa (2007) studied the effects associated with different prospective scenarios associated with the EU-CAAA.

The .top-down methodology takes a two-step approach where changes in factors and .nal goods prices and quantities are .rst estimated through a Computable General Equilibrium (CGE) model and then mapped into the welfare function of each household using detailed household survey data.² With this methodology we can assess the poverty and inequality effects of both DR-CAFTA and the forthcoming EU-CAAA on two Central American countries: Costa Rica and Nicaragua.