



8th INTERNATIONAL GEM-IWG CONFERENCE
ENGENDERING MACROECONOMICS AND INTERNATIONAL
ECONOMICS

July 20- 22, 2007

Organized by GEM- IWG in Collaboration with
The Levy Economics Institute
Department of Economics, University of Utah, Salt Lake City

With Support From
The Ford Foundation

Trade Liberalization and Poverty Reduction in General
Equilibrium: The Role of Labor Market Structure

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Trade Liberalization and Poverty Reduction in General Equilibrium: The Role of Labor Market Structure

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The paper uses a dualistic, compact and “generic” (macroeconomic) computable general equilibrium (CGE) model specially constructed for the purpose of investigating the implications of trade liberalization for poverty reduction in South Asia under different labor market specifications. The model is a stylized representation of economies with large populations including large numbers of both urban and rural poor as in India, Pakistan or Bangladesh. The current “generic” model uses CES production functions and Harris-Todaro type migration model together with Indian data to generate economy wide results.. The model’s general equilibrium results allow us to test a number of hypotheses regarding the role of labor markets in inducing poverty reduction when trade liberalization policies are adopted.