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Trade liberalization and gender effects: a literature review for Colombia

Jairo Guillermo Isaza Castro¹

ABSTRACT

This paper presents a literature review about the gender effects of trade liberalization with emphasis in Colombia. In addition, it reviews some theoretical approaches about trade and its interrelations with gender, poverty, inequality and labour markets. Based on the existing literature about the social effects of trade in Colombia, it concludes with some considerations for empirical research.

Key words: Colombia, trade liberalization, gender, JEL classification: O54, 024, J16.

RESUMEN

Este documento presenta una revisión de literatura sobre los efectos de género de la liberalización del comercio con énfasis en Colombia. Además, revisa algunas aproximaciones teóricas sobre el comercio y sus interrelaciones con el género, la pobreza, la desigualdad y los mercados de trabajo. Basado en la literatura existente sobre los efectos sociales del comercio en Colombia, el documento concluye con algunas recomendaciones para futura investigación empírica.

Palabras claves: Colombia, liberalización del comercio, género, JEL classification: O54, 024, J16.

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INTRODUCTION

Since the beginning of the 1990's, Colombia and most of Latin American economies embarked in a process of neo-liberal trade reforms. The main objective was to enhance economic growth through an export-oriented model in which free market operation was regarded as the most efficient mechanism to reallocate economic resources. Such relocation implied a shift of labour and other productive factors from low productivity –mostly non-traded- sectors to highly competitive –mainly traded- sectors. Assuming full employment of all productive factors, it was supposed that resources movement would proceed without painful social and economic consequences.

Experience so far has shown a quite ambiguous pattern regarding the outcomes on employment creation, income distribution and poverty reduction in Colombia. On the one hand, the first half of the 1990's was characterized by strong economic growth, very low unemployment rates and poverty reduction. On the other, with the economic crisis at the end of the 1990's, the country's achievements in terms of poverty reduction during the last three decades have been reversed, unemployment rates climbed to the highest levels recorded by official statistics and, income distribution worsened. Since 2000, the Colombian economy recovered its traditional positive growth path but poverty headcount ratio remains above 50 percent and two-digit unemployment rates seem difficult to reduce.

There is no theoretical consensus about the social and economic effects of trade liberalization. From a neoclassic perspective, Londoño and Székely (1998), for example, argue that equity is positively related

with economic growth and investment. In this sense, trade and capital liberalization support low-income groups given that they promote employment in labour-intensive activities. Based on the Stolper-Samuelson theorem, trade liberalization improves income distribution and reduces poverty in as much as it increases demand and remuneration of the relatively abundant factor, which in developing countries is supposed to be less-skilled labour.

Feminist economists², on the contrary, argue that trade liberalization and other structural adjustment policies have not been neutral either in terms of class or in terms of gender (Cagatay *et al.*, 1995: 1828)³. They argue that the assumption of costless mobility of labour is constrained by the sexual division of labour between market, community and household activities. In addition, women's relative lack of power hampers their possibilities to take advantage of the jobs and income opportunities promoted by trade liberalization (Elson, 1995: 175). Thus, differences in the access to, and control over, economic resources between men and women, in addition to gender-based roles in both the labour market and the household, lead an unequal distribution of costs and benefits from trade reforms (Fontana, 2003: 1).

This paper presents a literature review of the gender impact of trade reforms in Colombia. As a main finding, it argues that, despite a sound theoretical framework to assess the impact of trade policies from a gender perspective, lack of empirical evidence hampers the claims of feminist economists in the Colombian case. The discussion that follows is organized in five parts, including this introduction. The second one presents a theoretical discussion around the social effects of trade policies and its

2 A label to define a non-orthodox stream of economists who stand for a new paradigm to rethink economics around the provisioning of human life through market work, unpaid family labor and volunteer work in communities and social organizations. For a comprehensive review of the incorporation of gender analysis in economics, see Benería (1995).

3 See also Cornia and Stewart (1987), Bourginon, de Melo and Morrison (1991), and Commonwealth Secretariat (1989).

differentiated impacts between men and women. The third makes an overview of structural adjustment policies in Colombia and labour market trends during the 1990's. The fourth shows the results of a literature review for the Colombian case regarding the impact of trade policies. Lastly, the fifth proposes some possible ways for future research on this topic in Colombia.

2. GENDER, POVERTY, DISTRIBUTION AND TRADE: A THEORETICAL DEBATE

2.1. BASIC ISSUES

Since the 1980's, developing countries started to implement a set of economic policy reforms called structural adjustment policies –SAP, herewith. These policies may be divided in two broad categories: stabilization policies and structural adjustment policies (Horton, *et al.*, 2004: 1). Stabilization policies encompass short-run measures usually aimed at reducing national expenditure towards controlling fiscal imbalances. They may also include devaluation of national currency, increases in interest rates and other monetary measures which complement conventional fiscal stabilization policies. Structural adjustment, in turn, represents a broad category of market-oriented reforms aimed at increasing economic efficiency through relocation of productive resources. It usually includes trade and capital liberalization, privatization of state-owned enterprises and removal of government intervention on national markets (i.e., labour market flexibilization).

For the purposes of this paper, the discussion will focus on trade liberalization but, it is important to keep in mind that other measures such as those mentioned above usually accompany it. For this reason, feminist critiques of macroeconomic reforms

usually analyze not only trade or financial liberalization measures but also the entire set of market-oriented reforms, which has been labelled in the literature as the «Washington Consensus» (*Cfr.* Williamson, 1993). Hence, much of the critical feminist literature about trade policies takes the entire policy reform package proposed by the Washington Consensus as a whole.

Based mainly on micro evidence in developing countries, feminist theorists have pointed out that women tend to suffer disproportionately the impact of SAP, due to male bias in three overlapping aspects: sexual division of labour, unpaid domestic work, and household relations. In designing SAP, it is assumed that changes in relative returns between tradable to non-tradable goods will serve to reallocate labour towards labour-intensive export activities, assuming also that female labour is plentifully available. Usually, female work participation takes place in labour-intensive activities such as assembling factories. However, the assumption of labour mobility does not take into consideration the sexual division of labour –this means that when women join paid work, they have also to cope with most of the housework (Elson, 1991: 165-187). At the same time, all this happens when the state provision of social services, many of them complementary to female housework, is being reduced thereby creating additional pressures on women.

After the implementation of SAP, feminist critics point out that women tend to increase their participation in the labour force, particularly in agriculture, manufacturing and informal activities. However, women are likely to earn less than men do and their economic contribution is under-recorded by official statistics. Retrenchment in public and private enterprises during structural reforms has meant falls in household incomes, which, in

turn, has not only pushed more women to seek employment outside the home, but also has deprived them from the best opportunities in the labour market. Moreover, many women have lost their jobs in the private formal sector during economic recessions that are frequently induced by macroeconomic stabilization processes. There is some evidence that, partly as a result of discrimination, women encounter more difficulties in getting another job in the formal sector, which again represents additional pressure to drive them into informal activities (Commonwealth Expert Group on Women and Structural Adjustment, 1990: 6). Indeed, some research in Latin America about women's urban employment has shown strong evidence of gender inequalities expressed in a high concentration of women in informal activities compared to men, extensive gender segregation in both formal and informal sectors and, significant differentials between male and female incomes (Scott, 1994: 13-34).

2.1 ON INCOME DISTRIBUTION AND POVERTY UNDER TRADE LIBERALIZATION

One of the most important policy questions around trade liberalization has to do with its impact on poverty and income distribution. As stated by Taylor and Vos (2000: 1) the «fundamental question» around the social effects of structural reforms in developing countries is «whether liberalization of trade and capital flows [...] promote equality and reduce poverty».

A common approach to argue in favour of trade liberalization is through the Stolper-Samuelson theorem. This theorem says that when a country moves to free trade, the real return of its relatively abundant factor (i.e., labour) increases while the real return of its relatively scarce factor (i.e., capital) decreases. Increasing trade promotes the demand

for exports which are usually capital or labour intensive. Assuming that export production is intensive in the use of the abundant factor, increasing exports, in turn, enhance the demand for the relatively abundant factor and its remuneration. At the same time, the relative return from the relatively scarce factor will fall in relation to the remuneration for the abundant factor.

The implications of this theorem for developing countries are straightforward: supposing that their exports are likely to be labour-intensive -their abundant factor-, trade liberalization will promote an expansion of labour demand, which shall be compensated with higher wages. To the extent that workers belong to the poorest sectors, trade liberalization is good not only to reduce poverty but also to lessen income disparities.

From a neoclassical or supply-side approach, Londoño and Székely (1998) argue in favour of this point of view. Based on empirical data for 73 countries, the authors find an inverse relationship between income inequality and both, investment and human capital accumulation. In addition, they find that trade liberalization in Latin America tends to favour low-income groups through its positive effects on investment, economic growth and employment. According to these authors, this region seems to be located in the down-ward section of the Kuznets' curve, which indicates that further increases in per capita's economic output will be associated with improvements on income inequality. Hence, temporary income increments are associated with reductions on the Gini coefficient and *vice-versa* (*Ibid.* 13). In other words, the trickle-down effect of enhanced economic growth is possible and beneficial for low-income groups through employment generation given that trade liberalization facilitates investment and resource reallocation to circulate more freely.

Londoño and Székely (1998: 16) indicate also that an extremely unequal distribution of human capital among population groups, in addition to inflationary cycles, have limited the scope for distributive improvements that could be derived from economic and investment growth in some Latin American countries. They emphasize also that inequality would be higher today in the region if economic reforms, particularly trade liberalization, had not taken place. Thus, they attribute the small distributive progress on these countries to a slow pace of economic reforms (Londoño and Székely, 1998: 20)⁴. It must be noted also that some authors such as Wood and Ridao-Cano (1997), using panel data for 90 countries between 1960 and 1990, have found that greater trade openness tends to widen differences in skill endowments. This might hint a relationship between trade liberalization and distribution of human capital dynamics which is neglected by Londoño and Székely.

Supply-side effects are, however, just one part of the story. Shifting from an import-substitution model to a more open economy model implies substantial reallocation of capital and labour. Before trade liberalization, macroeconomic policy in developing countries was focused on the demand side: Keynesian wisdom advised to enhance internal markets with increasing wages. Contrastingly, under the new regime, reduction of labour costs became a priority. To the extent that economic growth is high enough, diminishing labour incomes might be compensated with more employment creation. Adverse demand-side effects may arise when, however, «wage levels are seriously reduced and/or workers with high consumption propensities lose their jobs» (Taylor and Vos, 2000: 17). Such demand-side effects are expressed in reduced labour incomes among unskilled workers and more income

inequality if these workers are displaced towards (usually informal) activities with a declining demand (Taylor and Vos, *Ibid*).

Contrary to the neoclassical predictions, trade liberalization in Latin America has widened wage differentials between skilled and unskilled workers. Given that trade liberalization was accompanied by an opening of capital accounts, appreciation of local currencies boosted the demand for imported goods and fuelled credit towards non-traded activities such as real state, while margins in traded activities diminished due to increasing competition. Local producers with enough capacity to survive managed to do so by reducing production costs, especially, wages. Due to the fact that non-skilled labour is an important component of the variable cost structure, improvements in productivity were achieved by dismissal of this type of workers and reductions on their remunerations (Taylor and Vos, 2000: 26).

From a theoretical point of view, it is not easy to predict the outcomes of trade policies on poverty and income distribution. It depends on the previous conditions of the economy as a whole in terms of employment allocation between, for example, traded and non-traded sectors, and qualification of labour force across economic activities. However, it is possible to identify some of the typical channels through which trade liberalization may affect the poor. McCulloch *et al.* (2001: xxiii-xxvi) indicate that they are (i) price transmission, (ii) enterprises and (iii) taxes and spending. The first one has to do with price changes induced by trade liberalization on internal goods and services consumed and/or produced by the poor households. The second is expressed in changes on profits and their incidence on wages and employment for vulnerable

⁴ The emphasis of Londoño and Székely on the income distribution issue in Latin America is explained by the fact that, according to these authors, this region is the most unequal in the world (Londoño and Székely, 1998: 5).

households. Lastly, the third relates with changes in government's fiscal structure which may entail compensatory measures such as diminishing budgets for social provisioning and increasing indirect taxation (i.e., sales tax) on poor households. All of these three factors may have positive and negative impacts on the poor and their direction is country specific so, broad generalizations are difficult to make.

In addition, McCulloch *et al.* (2001: xxiv-xxv) indicate the three pathways through which trade liberalization is related with poverty dynamics interact with four further issues. The first one is the extent to which trade speeds up economic growth. According to these authors, evidence suggests that trade liberalization is good for economic growth and economic growth benefits the poor. The second issue is the distribution of the costs of adjustment expressed in job losses inside formerly protected sectors and loss of government revenues. The third is the change in the «nature of risks» faced by the poor and their ability to cope with uncertainty. The fourth and last one is the supply response issue, represented by the capability of the poor to take advantage of the new opportunities offered by increasing trade.

A gender aware approach in the analysis of trade liberalization entails further complexities for the assessment of distributional and poverty outcomes. Resource endowments, property rights, labour market institutions and other country-specific conditions mediate the distribution of costs and benefits from trade policies between women and men. For instance, resource endowments determine which factors of production and what population groups may be more favoured by trade liberalization. Property rights structure may include or exclude women or men from opportunities opened by increasing trade, which in turn, may represent additional effects on the distributive structure. In

addition, labour market institutions may also influence the extent to which women will be able to move from declining sectors to flourishing activities. The interaction of all these aspects decides how positive or negative are the gendered effects of trade policies (Fontana, 2003: 2-3).

2.3 ON GENDER AND TRADE LIBERALIZATION

According to Fontana (2003: 19-20), differences in women's and men's access and control over resources, besides the gendered division of labour inside and outside the household, are the underlying reasons that explain the gendered differentiated effects of trade policies.

Several dimensions should be taken into account in the gender analysis of trade liberalization. For instance, a common approach is to distinguish gender implications at the «macro», «meso» and «micro» levels. The first one encompasses an analysis of the gender division of labour between market activities (productive labour) and household activities (reproductive labour). The second one involves institutional settings which, in turn, determine gender inequalities and biases in the distribution of jobs, goods and services in the markets' sphere. The third one examines intra-household relations regarding gender division of labour, consumption and control over resources (Fontana, *Ibid.*).

At the «macro» level, trade liberalization is supposed to enhance efficiency through a change in relative prices of goods. The design of trade policies assumes that changes in relative returns between tradable and non-tradable goods will serve to reallocate labour to labour-intensive export activities. It is a well-established trend, for instance, that trade liberalization is strongly related with feminization of the manufacturing labour force. This is relevant

when the share of female-intensive labour sectors such as garments, textiles and electronics is important in the country's export structure (Wood, 1991 –cited in Fontana, 2003: 4).

In this way, trade liberalization may affect gender inequalities at all levels. At the macro level, changes in relative returns may reduce gender wage gaps if female-intensive sectors increase more their labour demand than other sectors in the economy. Again, this may be the case when export activities, that are supposed to expand after trade liberalization, are female-labour intensive. Nevertheless, the same may not be true when a stagnating sector expels women to work into occupations such as domestic servants or petty traders (Elson, 1995: 1853).

Trade liberalization is also likely to reduce import tariffs which, in turn, lead to diminishing government revenues. To adjust the government fiscal balance, this may be expressed in gender differentiated effects at the «meso» level⁵: for example, government expenditures for the provision of social services (i.e., education and health) which are complementary to female reproductive work at home may be reduced (Fontana, 2003: 20). Schemes such as user fees are implemented in order to fund the state provision and compensate fiscal deficits originated in tariff reductions.

These institutional changes at the «meso» level, however, transfer costs from the public sector to the households. Some research has shown how this may entail growing demands in terms on female reproductive work, which is a typical expression of the gender implications at the «micro» level (Elson, 1995; Cagatay, 1998). Taking into account that those

demands take place when female labour participation is increasing, this may end hampering women's leisure devoted to vital activities to preserve health (Elson, 1991: 165-187).

Another way of conceptualizing the effects of trade liberalization on women is a division between practical and strategic gender needs (Moser, 1989 – cited in Fontana, 2003: 3). Practical gender needs are related with women's material status given a prevailing gender division of labour. Strategic gender needs have to do with the manner in which trade liberalization contribute to more egalitarian gender division of labour either in the market or in the household. In this way, enhanced employment opportunities for women in export activities may address practical gender needs; the extent to which these labour opportunities improve women's options and control over resources may address strategic gender needs (Fontana, 2004: 50).

Thus, an empirical assessment of trade effects on women should ideally evaluate not only labour market effects such as employment structure and wage differentials but also gender relations pertaining decision making and control over resources in both, the household and the society. However, a combination of methods would be required in order to evaluate in a comprehensive way all mentioned effects. According to Fontana (2004: 75), CGE modelling may be accurate to analyse practical gender needs, while qualitative methodologies may be more useful in the understanding of subjective wellbeing changes and gender strategic needs.

5 Developments in economics conceal that structural adjustment policies in general, and trade liberalization in particular, may have disproportionate effects on women. Edwards and Roberts (1994: 309-10) indicate that trade liberalization tends to be associated with reductions in the protection of workers through labour reforms, which is another effect to evaluate at the institutional or «meso» level. Indeed, trade liberalization was accompanied by two labour reforms in the Colombian case.

2.4 ON LABOUR MARKETS AND ADJUSTMENT

Under stabilization and structural adjustment, one of the most important assumptions is that the labour market is expected to behave in the manner of classical competitive market:

As national expenditure falls there will be downward pressure on output prices *if output markets behave like classical competitive markets*. This downward pressure on output prices will lead to cutbacks in production, and hence in demand of labor. *If the price of labor falls in response to this reduced demand*, then this reduction in cost will help to maintain the level of production. *If the price of labor falls sufficiently in relation to the original fall in output prices, under certain conditions* there need be not fall in total output (Horton *et al.*: 1994: 3).

Thus, under several assumptions, the role of the labour market during stabilization is to ensure that reductions in national expenditures take place without inducing a substantial reduction in national production. Likewise, the labour market is expected to allow «temporary-wage differentials» which encourage reallocation of labour as intended by SAP.

According to IDB (1998: 139-162.), unemployment will rise and the cost of stabilization will be distributed more unequally if labour market «rigidities» such as wage indexation prevent real wages from falling enough to maintain production costs. Therefore, labour policies should be aimed at four basic areas: (1) flexibilization of contracting conditions, removing restrictions on par-time and temporary contracts, (2) elimination of minimum wage legislation or establishing of a reduced minimum wage for young workers, (3) unemployment protection mechanisms financed

mainly by employees themselves and (4) restructuring of pension systems under a scheme of individual savings accounts (IDB, 1998: 139-40).

Contrastingly, Horton *et al.* (1994) point out that the assumed paramount role given to the labour market in the designing of SAP has serious theoretical flaws. They argue that it is «severe and unrealistic» to assume that the labour market is able to work as a classical competitive market (Horton *et al.*, 1994: 3). In this sense, van der Hoeven (2000) claims that the labour market does not work in isolation from other markets. Theoretically, rising unemployment, income inequality and poverty may also be the result of imperfectly competitive product markets and aggregate demand feedbacks from real wages reductions. In practice, the supposed allocative role of labour market may be hampered, for example, when the credit market is not playing its role (van der Hoeven, 2000: 4-5).

It is frequently argued that labour market institutions in developing countries benefit only a small proportion of workers and that their very existence has adverse consequences such as greater income inequality and, restrictions on the creation of jobs in the formal sector (IDB, 1998: 139-43). Contrastingly, Berry (1997: 10) observes that the impact of labour legislation on inequality depends on the proportion of incomes taken by protected labour from capital rents and/or the rest of non-protected labour. Others as van der Hoeven (2000: 6) point out that slow job creation in formal activities may also exist due to lack of investment or demand, inaccessibility to diverse markets, or general absence of development incentives. In addition, empirical evidence shows how some labour market institutions such as minimum wages are related to more progressive income distributions (van der Hoeven: 18-21; see also Morley, 1994 and Berry, 1997: 33-34).

3. SAP AND LABOUR MARKET TRENDS IN COLOMBIA: AN OVERVIEW

3.1 TRADE LIBERALIZATION AND STRUCTURAL ADJUSTMENT POLICIES IN COLOMBIA

Like other Latin American countries, since 1990s the Colombian government has embarked on the implementation of an intense process of structural economic and institutional reforms. This process, which in Colombia received the name of «La Apertura»⁶, had three main components: (i) liberalization of foreign transactions, (ii) redefinition of state functions and, (iii) labour and social security reforms. It must be noted that Colombia may be regarded as an exception in Latin America given that it was the only country in the region «to adopt the package without being pressured to do so by severe circumstances» (Berry, 1997: 23). Those «circumstances» are related with the debt crisis which affected other countries in the region during the 1980's.

The liberalization of foreign transactions, which is at the core of the reforms, had two basic elements. The first one was import liberalization, which included a total elimination of quantitative restrictions and a reduction of import tariffs from an average of 47.7 percent in 1989 to 11.7 percent in 1996. The second element was the signing of three trade agreements –one with México and Chile, other with Caribbean countries and, another, with the Andean Pact –Venezuela, Ecuador, Peru and Bolivia. These reforms were complemented by a capital account liberalization, which included a total elimination of restrictions on direct foreign investments and multilateral agreements for mutual

protection of investments from/in other countries (Pineda and Ayala, 1993: 222-238; see also Cárdenas and Gutierrez, 1997: 223).

The second component of SAP in Colombia, the restructuring of the state, mandated a progressive increase of transfers from the central government to regions and municipalities in order to finance more social investment and social security. According to Ocampo *et al.* (2000: 56-8) this is a peculiarity of the Colombian case in the implementation of SAP during the 1990s, since the state's size grew from 30 percent of the GDP in 1990 to 38 percent in 2000. The fast expansion of public expenditure was compensated through six tax reforms between 1990 and 2000. At the same time, the consolidated fiscal deficit rose from zero in 1990 to 5.2 percent of the GDP in 1999 due to increasing expenditures on debt service, defence, justice and, social investment (Ocampo *et al.*, 2000: 56-8)

The third component of SAP in Colombia was labour and social security reforms. A first labour reform in 1990 (Law 50, 1990) was aimed at removing restrictions on fixed-term contracts, relaxation of norms regarding individual and collective dismissals, elimination of labour benefits for high-income workers (Pineda and Ayala, 1993: 220-2). A second labour reform in 2002 (Law 789, 2002) reduced payments for extra-time hours and additional payments for hours worked on Sundays and holidays. This reform further relaxed hiring and firing regulations (Isaza, 2003: 16-18). In turn, the social security reform (Law 100, 1993) paved the way for private companies to collect and administer payroll contributions for health and pensions. With the social security reform, the coverage of health services was extended to workers' families and the pension system was divided in two kinds of

6 In English, this term may be translated as «The Opening».

systems, one of mutual contributions and another with individual accounts in private financial institutions (Isaza, 2002: 429).

3.2 ECONOMIC AND LABOUR MARKET OUTCOMES AFTER TRADE LIBERALIZATION

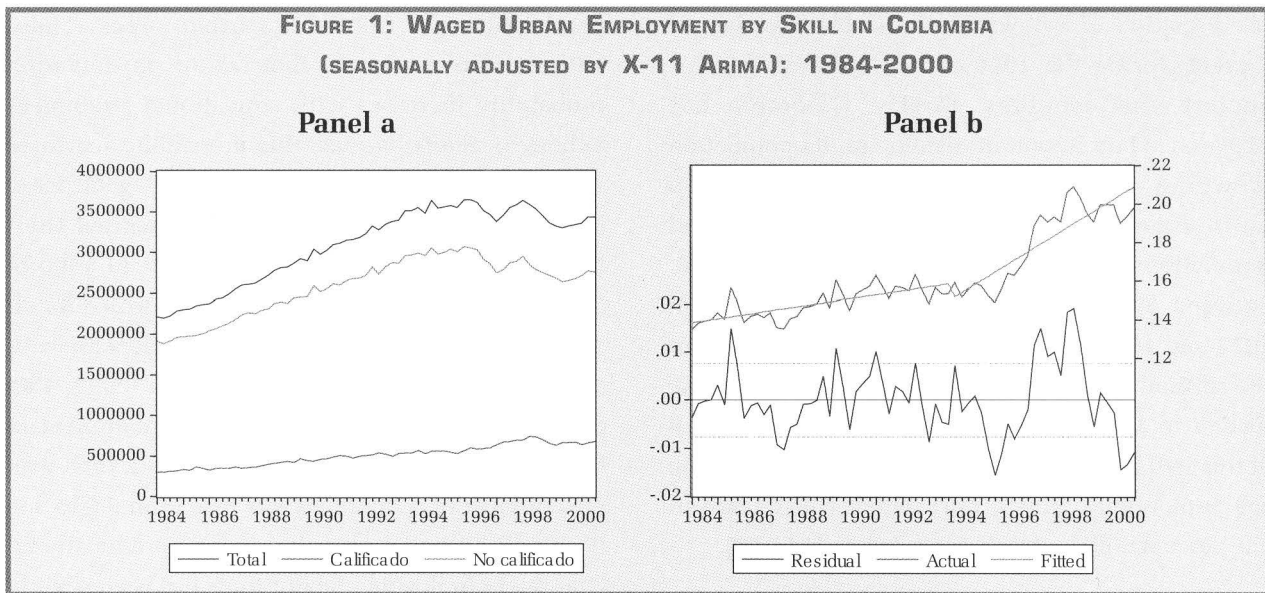
Since the application of trade liberalization policies, important changes have occurred in the Colombian economy and its labour market. During the first five years (1991-1995), economic growth was moderated; manufacturing production recorded a steady positive growth rate, while real industrial wages for white-collar workers showed a strong increase since 1991. At the same time, labour force participation and employment increased whereas open unemployment declined to the «lowest levels observed in the last two decades» (Florez, 2002: 7-8). The monetary and foreign exchange policies, in combination with a financial liberalization reform, encouraged a credit boom and an unprecedented expansion of internal and external debt between 1993 and 1994. In this period, aggregate demand recorded the strongest expansion in Colombian history, especially for non-traded goods such as real state and some imported goods (Ocampo *et al.*, 2000: 57).

The period of 1996-2000 was characterized by recession and economic crisis. Economic growth declined and recorded negative figures in 1999. Similarly, the growth rate of manufacturing product showed a steady decline during the same period. The wage gap between white and blue-collar workers salaries widened at the same time that employment rates were decreasing and labour force participation continued increasing. At the end of the decade, urban unemployment reached the highest levels in the Colombian statistical history (more than 20% in urban areas) (Florez, 2002: 8). In 1995, monetary policy turned to restrictive measures, which, in turn,

induced a progressive slowdown of aggregate demand *vis-à-vis* reductions in GDP. These measures were complemented with restraining measures on government spending. However, efforts to minimize the fiscal deficit were insufficient in these years, given the decline in government revenues highly sensitive to the business cycle such as income taxes and retail taxes. The fiscal situation was further aggravated in 1997 with the international financial crisis. In turn, the Colombian central bank decided to confront the external turmoil with a new package of stabilization policies that included devaluation of the real exchange rate and an increase of real interest rates by more than 70 percent. As a result, the external accounts improved and the inflation was reduced, although, at the expense of the worst recession in the country's history (Ocampo *et al.*, 2000: 59).

Waged employment in urban areas recorded two contractions in the 1990's. The first one took place between 1996 and 1997 while the second did it during the economic crisis at the end of that decade. Most of the employment reductions affected non-skilled workers (see Panel a in Figure 1). At the same time, the proportion of non-skilled workers in the waged labour force experienced a steady decline since the implementation of SAP (see Panel b in Figure 1). In fact, Isaza and Meza (2004) found that those reforms seem to be related with a structural change in the urban labour demand in Colombia. Based on cointegration analysis of time series data, they identified that labour demand became less elastic in relation to product variations after 1991, particularly, among non-skilled workers. In other words, it means that every GDP increment generates less employment since structural reforms came into force. This was found to be associated with widening wage gaps between skilled and non-skilled workers (Isaza and Meza, 2004: 38)⁷.

7 This is in line with a hypothesis suggested by Rodrik (1997: 11-27), according to which trade liberalization tends to expand wage differentials by skill.



Source: Isaza and Meza (2004: 35-36).

Waged employment structure in urban areas changed also since the implementation of SAP. While primary and secondary activities declined their number of waged jobs between 1990 and 2000, tertiary activities increased their share from 63.1% to 67.4% during the same period. It must be noted that employment generation in urban areas after trade liberalization was implemented in 1991 was minimal. For instance, industrial employment in urban areas contracted almost 2% between 1990 and 2000, which is equivalent to a destruction of 21 thousand waged jobs (Isaza and Meza, 2004: 37-38).

3.3 GENDER DIMENSIONS OF LABOUR MARKET CHANGES DURING TRADE LIBERALIZATION

One of the most important trends in the urban labour market in Colombia during the last decades is the increasing participation of women. While women participation rate was only 19 percent in 1950, it grew to 39 percent in 1985 and 47 percent in 1997 (Tenjo and Ribero, 1998: 9). It must be noted that this trend started well before trade liberalization

policies and may be attributed, mainly, to declining fertility rates (Ocampo *et al.*, 2001: 319). Tenjo and Ribero (Tenjo and Ribero, 1998: 9) also point out that this process has been accompanied by strong increases in female educative attainment as well as a mobilization of women towards high-remuneration occupations.

Some authors refer to the increasing labour participation of women as a «feminization of the labour force» (Florez, 2002: 21). Such feminization, according to Florez (2002: 21) has on the rise in all occupational categories, although gender differences prevail. In the informal sector, for instance, women are over-represented in two categories: domestic servants and unpaid family workers, which are characterized by their unregulated contractual nature. Contrastingly, female participation remains very low as owners of small informal firms. In the formal sector, increasing participation of women is recorded in all occupations (Florez, 2002: 21-22).

According to López (2001: 161), there are three theoretical dimensions behind the increasing

participation of women in the Colombian labour market during the 1990's; they are demography, society and economy. Firstly, Colombia has experienced an important decline on its population growth, a common trend to the great majority of Latin American countries. Indeed, the annual population growth rate decreased from 3.1 percent, between 1951 and 1973, to 2.4 percent between 1973 and 1993. Population projections indicate that the annual population growth rate will decrease further to 1.7 percent between 2000 and 2005. All of this will bring about a stabilization of the working age population's growth rate, which will remain in 2.2 percent until 2005 (López, 2001: 161-162).

Secondly, societal changes have also played an important role on the increasing labour participation of women in Colombia. As indicated by Isaza (2002) in the case of Bogotá, and Vélez and Winter (1993) for the urban areas in general, female labour participation has shown a steady growth in the last three decades while male participation rates have shown a slight reduction, particularly among the older. In this sense, Farné (1996 –quoted in Gilbert, 1997: 1062) points out that the growing participation of women may be explained by four fundamental causes: (i) falling fertility rates –which are related to demography- and its consequent reduction on child-bearing demands inside the household; (ii) educational improvements and their effect on female human capital which have matched some of the labour market requirements; (iii) increasing wage expectations in the long term and their stimulus on education demands for the labour market among female population and, (iv) development of new occupations which match the social role given to women.

Tenjo and Ribero (1998: 39) verified that the existence of children below six years old in the household decreases women's probability of labour

participation in Colombia's urban areas. These authors also confirmed that labour participation probability increases with educational attainment although, *ceteris paribus*, this probability increases stronger among men. In the case of Bogotá, Isaza (2002: 435) found that women augmented their labour participation from 49.2 percent in 1990 to 56.7 percent in 2000. This trend was verified for all age groups and categories of family relationship with the household head. In addition, Isaza (2002: 436) confirmed that women's educational attainment in Bogotá improved during the same period: their average number of schooling years rose from 9.0 to 9.9. It should be noted also that women's educational attainment in Bogotá's labour force has been slightly higher than that for their male counterparts since 1990 (Isaza, *Ibid*).

According to Isaza (2002: 459), the improvement in educational levels among female economically active population went together with a selective recruiting process of the most educated women in the formal sector of the economy in Bogotá during the 1990's. Meanwhile, women with low educational background were increasingly confined to marginal occupations, mainly, in the informal economy of the Colombian capital. Unskilled women's situation became even more disadvantageous because there are less available occupations for them. Taking into account that the majority of the new female entrants in the informal economy took place in only two economic activities (trade and services), the female structure of informal employment became less diversified, making self-employment the most prevalent occupational position among female informal workers (Isaza, *Ibid*).

Lastly, economic forces are also at the core of the increasing labour participation of women in Colombia. Tenjo and Ribero (1998: 38), and more recently Santamaría and Rojas (2001), verified that the busi-

ness cycle has an important influence in the labour participation of secondary members⁸. Santamaría and Rojas (2001: 31-33) conclude that increasing unemployment rates and declining family incomes at the end of the 1990's are among the most important causes behind the extraordinary increase of female labour participation in Colombia. Similarly, Isaza (2002: 458-459) found that the loss of job among male-headed households seems to be one of the main reasons behind the increasing labour participation of women in Bogotá. This process took place at the same time that unemployment and informality recorded historical levels among men and women.

According to Florez (2002: 38), the size of the informal sector in relation to the total occupied population decreased between 1990 and 1996, and increased until 2000, reaching the highest level (52 percent) in the past 15 years. In a similar manner, Isaza (2002: 459-460) also found that the proportion of jobs in informal activities among the total employment of the Colombian capital recorded its highest historical level in 2000. In the same vein, the share of informal jobs occupied by women was higher than that among men. This is the case of unpaid family workers and domestic servants, two occupational categories of the informal sector which have been traditionally designated to women. Conversely, women in the formal sector improved their situation not only in terms of the number of jobs that they occupy but also by the elimination of their income differentials in relation to men. In fact, figures for June 2000 in Bogotá indicate that the mean income of women in the formal sector is slightly higher than that of men. Meanwhile, real incomes from labour activities plummeted in the informal sector, especially among of women (-42 percent). In

addition, the earnings differential between men and women in the informal sector and the wage differential between women in the formal and informal sectors, after controlling for differences in education, professional experience and other relevant characteristics, expanded between 1990 and 2000 (Isaza, 2002: 461).

4. ECONOMIC LITERATURE ABOUT TRADE LIBERALIZATION EFFECTS IN COLOMBIA

The gender implications in the distribution of benefits and costs of trade liberalization in Colombia are not very clear on the literature. As will be shown in this section, most of the existing works focus on labour market trends. The methodologies used on these papers are varied, ranging from econometrics to computable general equilibrium – CGE models.

The first study aimed at assessing the impact of trade liberalization on income distribution was carried out by Lora and Steiner (1994). Their analysis, which focuses on the distributional effects of trade reforms, may be regarded as a pioneering CGE exercise. As a main conclusion, they find that the elimination of import quantitative restrictions could have a positive distributive effect through the reduction of monopolist power among local producers. For the purposes of this literature survey, Lora and Steiner' study does not involve any gender considerations. An additional limitation of this study is the time framework, to the extent that it only captures the first years of trade liberalization.

⁸ Secondary members are those who are not supposed to be working unless a unusual disruption in the household livelihoods force them to participate in income-generating activities. Basically, the influence of the business cycle on labour market participation is expressed by the added-worker effect and the discouraged-worker effect. The first one is a household's survival strategy in which the family sends secondary members to the labour market in order to compensate falling incomes due to the household head's joblessness. The second one operates the opposite: falling wages and/or difficulties to get a job discourage some family members to keep looking for an opportunity in the labour market.

Cárdenas and Gutierrez (1997) analyze the initial effects of trade liberalization and other structural reforms implemented during the 1990's in Colombia on both, economic efficiency and labour market differentials –regarding wages and employment by skill. The authors found that trade liberalization increased the demand for, and wages of skilled workers, which might have compounded an adverse distributive effect against non-skilled workers (1997: 257-258). Such a finding was drawn after analyzing income differentials between skilled and non-skilled workers in the industry. This conclusion is shared also by Birchenal (1997), and subsequent studies about the impact of trade reforms on income distribution (i.e., Ocampo *et al.*, 1998; Ocampo *et al.*, 2001). Although their figures are disaggregated between men and women, gender aware considerations are absent from the analysis. This study represents by itself a valuable piece of literature as one of the first attempts to assess the impact of structural reforms on the labour market. However, its methodology is framed in the «before and after» approach, which, by definition, does not control for the influence of other variables different to those related with structural reforms.

Ocampo *et al.* (1998) analyzed the effects of market reforms on income distribution and poverty in Colombia, using regressions⁹ in differences with quarterly time series data from 1984 to 1995. Poverty headcount ratio and Gini coefficient were used as dependent variables, on the one hand, and proxy variables of economic activity, factor availability indicators, inflation and internal economic policy were used as explanatory variables, on the other. Their results for the first half of the 1990's show that increasing economic growth and opening of trade, in addition to high investments in fixed capi-

tal and increases public consumption had adverse distributive effects. Regarding the poverty effects, minimum wage increments and, to a lesser extent, investment rates have favourable effects. The positive impacts of economic growth on poverty are stronger when GDP variations are strong enough to push employment creation. Ocampo *et al.* (1998) suggest also that devaluations of local currency are accompanied by a pattern of employment generation which favours the poor. Thus, the authors conclude that trade reforms had an adverse distributive effects which increased urban and rural differences. In the urban areas, Ocampo *et al.* (1998: 39) conclude that improvements on income distribution during the 1980's are explained by the opening of employment opportunities, particularly for women. However, urban income distribution deteriorated during the 1990's due to an employment generation bias in favour of skilled workers which was further enhanced by trade liberalization. Finally, it must be observed that the econometric methodology deployed in Ocampo *et al.* (1998) only allows controlling for the variables included in the estimated models. In this way, however, other economic and social forces, which may be behind the changes in poverty and income distribution, are not controlled for.

More recently, Ocampo *et al.* (2001) studied labour market and income distribution changes between 1991 and 1997 and evaluated the influence of economic liberalization on such changes through a micro-simulation analysis¹⁰. This study is the first one attempting to build a counterfactual using a «with and without» liberalization approach for Colombia. Ocampo *et al.* (2001) found that the capacity of the Colombian economy to generate employment worsened remarkably and, as Cárdenas and

9 By ordinary least squares. Variables were expressed in logarithms either in levels or in differences, depending on the Phillips-Perron test for unit roots.

10 As the CGE modelling approach, microsimulations allow to construct a hypothetical scenario of poverty and income distribution under which, changes in the labour market would not take place. This methodology was originally developed by Almeida dos Reis and Paes de Barros in 1991 to analyze labour income inequality in Brazil (see Paes de Barros and Leite, 1998; Paes de Barros, 1999 and Frenkel and Gonzalez, 1999).

Gutierrez (1997), concluded that the increasing wage gap between skilled and non-skilled workers contributed to deteriorate income distribution. Besides, Ocampo *et al.*'s work indicates that employment destruction in traded activities was particularly intense among non-skilled workers which, in turn, further led to inequality of wealth distribution. Overall figures on this study indicate that employment dynamics between 1990 and 1997 were positive for women and negative for men. Most of the female employment generation took place as waged workers, mainly, in tertiary activities (Ocampo *et al.*, 2001: 328-331). After simulating that the labour market structure of 1991 would prevail in 1997, Ocampo *et al.* (2001: 341) find that the Gini coefficient had been lower –this is that income distribution had been better. The most important factors behind this result are both, changes in unemployment rates and changes in employment composition by economic sectors. Results for changes in poverty household ratios are a bit ambiguous. While poverty diminishes in urban areas, it increases in rural households after the labour market structure of 1991 was simulated with 1997's data. Ocampo *et al.* (2001: 342-343) explain that these results may indicate the relevance of other factors to explain poverty dynamics such as decreasing prices in the basic food basket. Although some figures are presented by gender, the microsimulation exercise does not incorporate disaggregated results for men and women.

In turn, Sánchez and Hernández (2004) evaluate changes in economic growth, employment, poverty and income distribution using a CGE model for Colombia. The model is built over a social accounting matrix –SAM, which conciliates 1997's information from the national accounts system, household surveys and the National Quality of Life Survey – QLS. The authors performed several simulation exercises in order to assess the impact of policy

changes and external shocks. As a main finding, Sánchez and Hernández (2004: 246-247) indicate that the increasing income inequality observed during the 1990's was not caused by trade liberalization. Based on the simulations exercises with the CGE model, they argue, on the contrary, that tariff reductions and export incentives enhance economic growth and have no distributive effects. This suggests, according to Sánchez and Hernández (*Ibid*), that further trade liberalization is likely to increase labour incomes, particularly among the less-skilled workers. Such a finding has the implication that opening of trade has had a positive distributive effect in Colombia. However, the authors recognize that their CGE model «does not capture the increasing wage dispersion which accompanies trade liberalization processes» (2004: 247), due to the fact that conventional CGE models are not designed to incorporate technological changes.

This limitation in the Sánchez and Hernández's work suggests that the predicted decreasing inequality in this study as a result of further trade liberalization should be interpreted with caution. As shown in this literature review, several studies make explicit reference to the adverse distributive effects of the technological change occurred during the 1990's. It is difficult to understand such technological change without the stimulus of trade opening. On the other hand, the standard CGE model used by Sánchez and Hernández assumes full employment as a closure rule, which, by definition, implies that changes in labour demand for different types of workers are reflected in changes of labour incomes (see footnote in Sánchez and Hernández, 2002: 237). This assumption may be reasonable in 1997 but not under the current circumstances of the Colombian economy after the economic crisis of 1998-1999, when unemployment rates reached two-digit figures. Hence, it may be expectable that the envisaged poverty reduction as

a result of increasing trade would be somewhat different under a more realistic specification of the labour market.

Finally, Karl (2004) performed a CGE exercise in combination with microsimulations through a micro-macro link between QLS data and aggregates of the national accounting system. This methodology allows detailed poverty and income distribution analysis of macroeconomic policies. Although this study is not specifically aimed at assessing the impact of trade reforms, the microsimulation exercises incorporate a scenario of unilateral import tariffs reduction by 50%. The results obtained by Karl (2004: 21) indicate that tariffs reduction increases imports of agricultural and industrial goods and reduces both, production of national goods and factors' demand. In addition, the inflow of imported goods reduces consumer price indexes and depreciates the real exchange rate which, in turn, promotes exports. Tariffs' reduction also reduces tariff revenues and public expenditures. Reduction in consumer price index benefits the households with higher consumption propensity while Gini coefficient increases by 0.6 percent. At the same time, poverty headcount and household ratios decrease by 0.3 percent and 0.5, respectively. The author draws attention to the fact that

(...) the small gains in social welfare and the increase in the income dispersion led to think that without the proper social net, the cost can be greater than the benefits in terms of income distribution. In addition, the counterfactual of this experiment is to raise other taxes in order to keep at least constant public consumption (...) (Karl, 2004: 21).

The author also warns that these conclusions need to be taken with caution, given that the exercise

assumes international trade exogenously and does not take into account «imperfect competition, rigidities or specific functional forms for the productive sectors» (Karl, 2004: 20-21). Although Karl's study does not include any gender consideration, it constitutes, as other works in this literature review, an important reference for future research.

5. FINAL REMARKS

Three findings emerge from the literature review presented in the previous section of this paper about the social effects of trade liberalization in Colombia. Firstly, statistical information sources such as periodical household and quality of life surveys – in addition to usual macroeconomic input-output data, before and after the reforms, are available¹¹. This has made possible to develop several research exercises based on econometrics and CGE modelling. This advantage, however, has not been expressed in analytical efforts to assess welfare effects of trade policies from a gender perspective at the national level.

Secondly, there is some consensus about the positive effects of trade liberalization on economic growth, employment generation and, to a lesser extent, on poverty. Some evidence in Colombia suggests that greater openness tends to favour low-income groups through decreasing prices of traded goods consumed by poor households. It is less evident, though, the way in which employment generation from increasing trade benefits specifically the poorest or less-skilled workers. Besides, it is still not clear the magnitude of these positive effects, which are mainly derived from increasing exports. Available research has not answered how compensatory fiscal measures, in the face of decreasing tariffs revenues,

11 Household surveys in Colombia are carried out quarterly since 1984 and monthly since 2000 but their coverage is available only for urban areas. National household surveys are available for September 1978 and 1988; and are carried out on an annual basis since 1996. Quality of life surveys, which encompass a wider range of variables regarding consumption patterns with national coverage, are available for 1997 and 2003.

shall be translated into welfare changes, either by increasing taxation or decreasing government expenditures.

Thirdly, the distributive effects of trade liberalization seem to be adverse, to the extent that observed widening wage differentials between skilled and non-skilled workers expanded as a result of a technological change bias in favour of capital-intensive processes, which are complementary to skilled workers. Nevertheless, some CGE modelling exercises (Lora and Steiner, 1994; Sánchez and Hernández, 2004) conclude that increasing trade has had a positive impact on income distribution. Limitations in terms of the analyzed period –Lora and Steiner’s study cover only the first three years of trade liberalization- and difficulties to incorporate technological change into the production function –as in Sánchez and Hernández, where technology is assumed to be constant- throw some doubts about distributive analyses from available CGE modelling exercises in the Colombian literature.

Despite sound theoretical and case-based evidence about the gender differentiated effects of trade liberalization policies, empirical evidence is scarce, not only in Colombia but also in other developing countries where this kind of reforms has been implemented. From a methodological point of view, several ways are available for a quantitative assessment of trade policies. For instance, two compilations of studies for Latin American countries (Ganuza *et al.*, 2001a and Ganuza *et al.*, 2004a) show that it is possible to evaluate trade and financial liberalization effects on employment, poverty and income distribution. Methodologies vary from decompositions of effective demand (Taylor and

Vos, 2001), decompositions of trade deficits, decompositions of sectoral growth (Morley and Vos, 2004) and microsimulations (Ganuza, *et al.*, 2001b), to macro-micro CGE models with microsimulations for detailed poverty and income distribution effects (Ganuza, *et al.* 2004b). Although these models do not incorporate an explicit gender perspective, they provide valuable insights about some possible ways to construct counterfactual scenarios for policy evaluation.

Recent developments in CGE modelling are making possible the incorporation of gender in the assessment of trade liberalization. Some pioneering research done by Fontana and Wood (2000), Fontana and Wobst (2001), and Fontana (2002, 2003 and 2004) –for the case of Zambia and Bangladesh-, show how to incorporate gender analytical dimensions in the assessment of trade effects. For instance, it is possible to regard men and women as separate production factors and to value time devoted to household and leisure activities as economic sectors into a coherent CGE modelling framework. Nonetheless, information about spent time in both, household and market activities, is still required to arrive at sound monetary valuations of the productive and reproductive economy –an essential dimension in a gender sensitive economic analysis. Some limitations regarding the typical full-employment assumption about the labour market setting in conventional CGE models may be overcome by introducing separated wage curves for every occupational category, as it is done in Paes de Barros and Corseul (2001) for Brazil. Even better, specific wage curves for men and women into each occupational category might provide more powerful insights for a gender-aware analysis.

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