



Source: National Department of Statistics, DANE (www.dane.gov.co); Central Bank of Colombia (www.banrep.gov.co)

Labor in the manufacturing industry in Colombia⁶

According to the 2005 census, the population in Colombia is approximately 46.5 million. Approximately 77% of the total population is of working age and 46% is part of the labor force. In 2009 the unemployment rate was 12%, and 17% of the working age population was underemployed.⁷ Among the total population employed in Colombia, 18% (approximately 2.5 million) work in the manufacturing industry. The employment rate for the manufacturing sector has been the most affected among all the sectors of the economy during the economic downturn, mostly in 2009; this trend has not been exclusive to Colombia but is also visible in other economies such as the US, Germany and France.⁸ The workers directly involved in the production processes (red collars) have been the most affected by the economic problems than those in administrative positions (white collars).

6 "National Population Census 2005," National Department of Statistics, accessed November 1, 2010, http://www.dane.gov.co/daneweb_V09/index.php?option=com_content&view=article&id=121&Itemid=67.

7 This paper defines underemployment as working for less than 32 hours per week.

8 "Industry Report," Ministry of Industry and Trade of Colombia, accessed December 5, 2009, www.mincomercio.gov.co.

Source: National Department of Statistics, DANE www.dane.gov.co.

In terms of wages, the minimum wage in Colombia is approximately \$250 per month and is annually calculated based on the inflation rate of the previous year. The minimum wage in Colombia is not only a way to measure and control the labor costs of production but also “an economy wide mechanism for coordinating prices.”⁹ Despite this fact, the real wages in the manufacturing industry has increased as inflation, measured by the consumer price index (CPI), has increased. Compared to 1990, by the end of 2009 the real wage of the industry was 44% higher while annual inflation was 3.4%.¹⁰

After examining the data for trade, FDI and labor of the manufacturing industry in Colombia, important questions arise: How does trade account for the performance of the labor variables (employment and wages) in the manufacturing industry? Are trade (particularly exports) and FDI the only variables to take into consideration when trying to explain the impact of the international markets on manufacturing industry labor in Colombia? Is there a relationship between international investment/risk perception and labor in the Colombian manufacturing industry? The next section revises the existing literature. The third section discusses the dataset and research methods. The fourth section is dedicated to the findings. Finally, the fifth section presents final conclusions and policy recommendations.

Literature Review

Traditional trade theory has defended the idea that, in general, trade benefits employment and wages. For instance, the Heckscher-Ohlin Trade Theory argues that by trading with other countries and thereby specializing in production, countries can increase their income.¹¹ As a consequence of production specialization in countries, there is an increase in wages (which benefits the workers) and a decrease in the income of the capital owners. Finally, based on the Heckscher-Ohlin Trade Theory, the country benefits as a whole because the gain of the workers is higher than the loss of the capital owners. Based on this theory, trade has been promoted as a way of increasing economic growth and

9 W. Maloney and J. Mendez, “Measuring the Impact of Minimum Wages: Evidence from Latin America” (*NBER Working Paper Series* 9800, 2003): 13.

10 “DANE,” Colombian Demographic and Labor Statistics website, accessed November 1, 2010, www.dane.gov.co.

11 Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy* (New York: Prentice Hall, 2009).