Trade—Finance

Linkages

and Gender

Implications to Asian Women

Trade—Finance Linkages and Gender: Implications to Asian Women

An IGTN-Asia Economic Literacy Packet

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1 Controlling Development through Trade—Finance Policy Coherence

BY AVANTI MUKHERJEE

THE ADOPTION OF THE World Trade Organization (WTO) agreements in 1995 included the "Declaration for Achieving Coherence in Global Policy-Making," a document calling for increased cooperation among the WTO, the World Bank (WB) and the International Monetary Fund (IMF) on achieving global trade, finance and development policies (Caliari & Williams 2004; Bello 2003). This formal declaration of collaboration has not been a random convergence; rather it has cemented the increasing formalization of a process through which these institutions pursue their relentless advocacy of economic liberalization. The dominant view that trade and investment are inextricably linked is used to legitimize greater discipline on countries regarding investment.

> Governments ideally should tailor foreign investment flows to suit their specific developmental needs and in line with a well thought-out development strategy.

'Coherence' entwines the mandates, policies, and activities of the IMF, WB, and WTO through specific mechanisms and routes. The result: ever increasing number of institutionally forged complementarities between trade and financial liberalization that compromise nation-states' abilities to draw up development strategies, as well as, challenges posed to political-economy management at both the national and global levels.[1]

WTO Agreements Ape BWI-style Reforms

The influence of the Bretton Woods Institutions (BWI) in trade and investment policies predates the WTO and can be traced back to policy-based lending in the 1980s. Both the WB and the IMF view foreign direct investment (FDI) as a vehicle of trade expansion and advocate lifting restrictions on foreign ownership to lubricate investment that are oriented towards exports. The institution of the WTO itself provides a new context within which the BWIs can pursue their roles as institutional engines of the neo-liberal agenda, promoting ever greater freedom to trade and financial flows. Disciplines are scattered through WTO agreements; in articles III and XI of the 1994 General Agreement on Tariffs and Trade (GATT), Trade-Related Investment Measures (TRIMs), General Agreement on Trade in Services (GATS), Agreement on Subsidies and Countervailing Measures (ASCM), and even in the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Besides, a working group on Trade and Investment that has been constituted (Williams 2002). The striking commonality across these agreements is that rules are tilted more in favor of investors than the developmental needs of the host countries. There are continuous attempts by the advanced industrial nations to widen the already intrusive WTO mandate with respect to investment (Caliari & Williams 2004; Nageer 2001).

Foreign investment itself is a mixed bag of positives and negatives for economic development, depending on the

[1] While financial liberalization typically involves policies designed to liberalize both internal financial/investment environments and external financial accounts, this article focuses on measures that lower restrictions within internal environments.

initial economic conditions prevailing in the host country as well as the terms and conditions that manage investment inflows and outflows. Therefore governments ideally should tailor foreign investment flows to suit their specific developmental needs and in line with a well thought-out development strategy. The ability of a government to ensure that such flows are beneficial for broader economic development is tied with the enforcement of certain measures (See Box 1). Such measures enable governments to channel FDI in directions that push up local technological frontiers, promote forward and backward linkages with the local economy, curtail inherently destabilizing effects that FDI can have on the balance of payments or its tendency to treat host sectors as mere sites of assembly operations (Williams 2003a).

An application of Articles III and XI of GATT 1994, which obliges member countries to provide national treatment and non-discrimination to foreign investment, would imply the prohibition of domestic (local) content requirements and trade balancing requirements, as well as of import limitations and foreign exchange balancing requirements. To consolidate the application of these principles, the TRIMS is directed at phasing out those governmental measures that are seen to be trade distorting or in violation of articles III and XI. Under the TRIMs agreement, the following measures are prohibited:

- Local content requirements
- Trade balancing requirements
- Foreign exchange balancing requirements
- Restrictions on repatriations of dividends, ceilings on equity holding of foreign investors
- Export controls

TRIMS, restrictive as it may be, leaves options that governments can take to channel FDI suitably.[2] But the Coherence Agenda ensures that even these options are cut down. For instance, one option under the WTO in general is to set restrictive import measures to protect the balance of payments (BoP). But given that the IMF has the final say in defining balance of payments problems; it can overrule any BoP agreement between the WTO and any of its member countries.

BOX 1: Possible Investment-Related Trade Measures

- **Performance requirements and technology transfer requirements**—to maximize transfer of technology and know-how
- **Domestic (local) content requirements**—requiring at least equal preference given to local suppliers or certain amount of components being purchased locally (in terms of value, volume or proportions)
- **Trade balancing requirements**—limits on purchase or use of an imported product up to the maximum value or volume related to local production
- **Import limitations**—of products to be used in local production process which is related to amount (value or volume) of local production which is exported
- **Foreign exchange balancing requirements**—maximum limit of foreign exchange for import of product used in local production processes which is related to the foreign exchange inflows activity of the firm
- **Export obligation**—Limitation of exports
- **Restrictions on repatriation of dividends, ceilings on equity holding of foreign investor**—to mitigate potential destabilizing BoP effects

Source: Williams 2003a.

[2] Measures not covered under TRIMS are minimum export requirement, technology transfer requirement, employment obligations, minimum equity obligations, export performance requirements, joint venture requirements and research & development requirements (Williams 2003: 146).

Box 2: Instances of Areas for Trade-Related Technical Assistance

- **Business climate**—This rather amorphous term refers to underlying rules, laws, and regulations as well as the "culture" that shapes the environment for privately-owned businesses in a particular country and makes it more or less "attractive" as a place to do business and invest. Such things as the corporate tax code, the existence of a well-functioning stock market, property rights protection, capital controls, limits on foreign direct investment, the level of corruption, the extent of State owned enterprises, etc. are some aspects that policy-based technical assistance and finances might address.

- **Institutional capacity**—Aid and advice relates to helping governments modernize and make more efficient their customs procedures, inspections, certifying bodies, check clearing systems – all kinds of behind the scenes logistical activities that make trade and investment easy or difficult. Aid and a policy advice in this arena could also involve training government officials as to how to implement new trade agreements, and create any new bodies or mechanisms necessary to carry out the terms of the agreements (e.g. hiring and training patent inspectors).

- **Negotiating capacity**—Many developing countries do not have the size of staff or the technical capacity to adequately pursue their interests in trade negotiations—particularly as many occur simultaneously (e.g. at the WTO).

- **Macroeconomic adjustment**—There will always be "winners" and "losers" as a result of changes in trade law. Opening one's markets to greater global competition can bring major social and economic dislocations to certain sectors that aren't globally competitive (e.g. small farmers, infant industries, small entrepreneurs, etc.). This is another logical area for Trade-Related Technical Assistance (TRTA)—helping workers, communities and businesses rebound.

Source: Interaction Issue Brief

In addition to TRIMS, TRIPS indirectly has adverse implications for the efficacy of FDI through restrictions on technology transfers (Williams 2003a). The World Bank offers policy advice on investment measures with the aim of promoting 'efficient trade' and TRIMS compliance. In addition, both the Bank's and the Fund's investment climate reforms are significant tools used to add on to the restrictions under TRIMS. These would include shifts in a whole range of domestic macroeconomic policies such as freeing of interest rates, deregulation of the financial sector, lifting caps on foreign ownership in domestic firms, expanding the scope for financial "innovation" and restructuring the banking system (Ghosh 2005).

Some BWI-style reforms are complementary to disciplines on investment measures under the WTO, especially those covered under GATS through mode 3 (investment as 'commercial presence'). In the context of commercial presence, social equity issues in areas such as health and water become urgent. Foreign investment in these areas could generate additional resources for investment in health care/water supply and upgrading infrastructure. But it could as well end up not meeting the needs of poorer clients with prohibitive user fees. The BWIs are proponents of privatization of utilities like health and water; policies that they integrate in borrower countries through either Structural Adjustment Programs (SAPS) or Poverty Reduction Strategy Papers (PRSPs) (Nageer 2001). This is part of their broader stance on privatization that can include national banks.

BWI's Paving the Path for Investment through Trade-Related Measures

Trade-Related Technical Assistance (TRTA) is an instrument used by the World Bank to mainstream trade into PRSPs. Trade policy can potentially aid in poverty reduction and this is used to legitimize existing trade rules as well as 'aid' countries to build certain capacities ostensibly to improve

countries' development chances through trade (See box 2). That such assistance is problematic becomes clearer when one considers the conflicts in interest that can be generated through any building of such capacities. For instance, building efficient negotiating capacities by donor countries when those very donor countries sit at the tables of trade negotiations makes the sincerity of such attempts seem rather suspect. While potentially this could be an excellent form of assistance, most often it comes after an agreement has taken place and focuses on a very narrow policy agenda.

Macroeconomic adjustment explicitly ties trade liberalization to the liberalizing adjustments that the BWIs advocate. Again, it is proposed that to deal with costs like worker and firm dislocations experienced through trade liberalization, 'supportive' adjustments have to be made that will eventually be compensatory.

The increasing intrusion of the BWIs in national policies regarding trade and investment is further evident in the usage of ex-ante mechanisms, which contrast with conditionalities typically put into place in the future. An example of ex-ante mechanisms are the Country Policy and Institutional Assessments (CPIAs) carried out yearly by the BWI's to rate policy and institutional environments. CPIAs can even overturn priorities set in PRSPs which are 'country-owned'(Caliari & Williams 2004). Through such mechanisms, countries are implicitly or explicitly required to put into place policies, which are mostly related to trade and investment. Another instance is the barter of reforms in lieu of debt relief. Zambia was given a Highly-Indebted Poor Country (HIPC) status only after it undertook concrete steps to restructure its banking system along IMF lines.

In the name of capacity-building or macroeconomic stabilization mechanisms and even debt 'relief,' what is truly happening is a further curtailing of national policy-making space in ever increasing number of areas. Pressures for internal investment liberalization are combined with pressures to liberalize the capital account, which, when

Box 3: Evolution of the Bretton Woods Institutions

The Bretton Woods System was established in 1944 to enable active international economic management. It consisted of the IMF endowed with financial resources and powers of surveillance over the new international monetary system of adjustable pegs linked to gold and the WB which allocated longer term funds towards productive investments. Exchange rates could be adjusted only with the IMF's approval and in case of balance of payments difficulties, the IMF provided financing to member countries to allow for adjustments. The World Bank's mission on the other hand was to mediate between capital markets and governments needing financial support for reconstruction and development projects; offering funds at favorable rates to countries having difficulties acquiring loans in the market.

By the late 1960's, a productivity slow-down was not matched by a deceleration in the growth rate of real wages leading to a squeeze in profits. Difficulties in national regulatory regimes were compounded by the oil price shocks in 1973 that unraveled the Bretton Woods System, with a shift towards floating exchange rates. The latter shift reduced the role of the IMF as guarantor of exchange rate stability and regulator of international liquidity. The IMF response was intensification in its role of surveillance in monitoring domestic fiscal and monetary policies made possible by the growing indebtedness of Southern countries in the aftermath of the oil shock. The World Bank increasingly stepped in to help countries with balance of payments difficulties and advocate structural reforms. With the IMF moving closer to development financing and advocating stabilization policies and the World Bank increasing its role for balance of payments support; their activities started overlapping. Although WB had introduced structural adjustment lending in 1970, it was in the early eighties that it launched its programme of reforms to eliminate structural rigidities. "The IMF and WB evolved into agents of structural reforms for debt-ridden developing countries, with loans as inducements and conditionality as the weapon."

Sources: You (2002); Howes & Singh (1995)

implemented result to the financial fragility of the economy. The expanding focus on trade by the BWIs are coupled with a combination of debt and portfolio liabilities accruing among developing countries. This together with the fact that developed countries are not indebted to the BWIs and most often are sources of financial flows mean an exacerbation of existing asymmetries in the global political economy.

The Problem of Control[3]—Roots of the Coherence Agenda

For nearly a quarter century after the Second World War, a number of capitalist-oriented economies characterized by a significant degree of state intervention and an international economy with strong constraints on trade and capital flows were evident. This was due to a specific economic regime which made full employment of labor, a primary objective for governments (more so in Western Europe and Japan than in the United States of America). For this purpose, domestic institutional arrangements for capital accumulation and international institutions for financial stability and trade expansion were required (You 2002; Howes & Singh 1995).

The aftermath of the oil price shocks that started in 1973 saw the debt crisis of the 1980s and the evolution of the BWIs more powerful than ever (See Box 3). The current phase of globalization pushed by the relentless ideological pressure of the BWIs has meant an undermining of the role of the state as an economic agent, capable of guiding economic activity and negotiating social compromises. It has also seen an unprecedented increase in global financial flows[4] accompanied by increased volatility of global and national monetary and financial systems. Increased economic integration coupled with revolutions in production processes and information and communication technologies has fuelled structural economic forces that are increasingly gaining a life of their own, defying control (Sen 1997).

The problem of control is faced both by the South and North with common problems regarding controlling unemployment, inflation, financial systems and speed of technological change, coping with threats from firms to relocate unless given benefits through taxes and regulations. But, they start at different points in terms of levels of poverty and social development, the development of markets and institutions, and their bargaining strengths in international trade and financial frameworks.

The state is in crisis in both the North and the South, and at both national and international levels (Sen 1997). But the Northern countries are making headway through regional programs of economic integration (NAFTA, European Union and literally thousands of bilateral trade and investment treaties) as a mechanism to regain control on decision-making. There is also the fact that Northern countries are far more powerfully represented in international multilateral frameworks such as the WTO, the WB and the IMF. For instance, conditionality itself started proliferating as developing countries started replacing European countries as principal borrowers. The scope for developing countries to put their foot down as advanced European countries did when the latter managed to delay the inclusion of conditionality in the IMF's Article of Agreement (You 2002), is limited given the governance structure at both the Bank and the Fund that exclude borrower countries from decision-making processes.

Joseph Stiglitz, in his stinging tell-all after his stint as chief economist at the World Bank, strongly feels that the underlying problems of the IMF and other international economic institutions are reflective of governance: "who decides what they do." These institutions reflect not just the interests of the wealthiest industrial countries but also the commercial and financial interests in these countries. The IMF in particular has changed its mandate and objectives "from serving global economic interests to serving the interests of global finance. Capital markets may not have contributed to global economic stability, but it did open up vast new markets for Wall Street." This should not be surprising when one considers that finance ministers, treasury secretaries and central bank governors of the developed

[3] As termed by Gita Sen (1997).

[4] It is common fact now: 80% of the US$3 trillion that cross borders across the world daily is purely speculative and has nothing to do with movements in the real economy.

countries who control the IMF and the WB, "are closely tied to the financial community; they come from financial firms and after their period of government service, this is where they return" (Stiglitz 2002: 18-20, 207-208).

The content of the Coherence Agenda in trade, finance, and development policies seem almost inevitable when one considers that those in power are from the finance world and seem to view the global economy with an investor's eye. Over the past decade, as memories of the financial crises dim in mainstream memory, the idea that financial flows are the route to growth has taken over the mainstream and popular imagination. For this reason, enthusiasm for trade, investment, and financial liberalization has increased. It is not just the BWI's or WTO that push for increasing liberalizing macroeconomic policy, but domestic "financial classes" as well as the elite and middle classes in developing countries, who typically have greater political voice and potential short run benefits from such policy shifts (Ghosh 2005).

The seeming inevitability of "Liberalize! Liberalize!" as the only route to growth flies in the face of numerous empirical studies (some from very mainstream quarters like the IMF) that suggest that financial liberalization plays little role in increasing the investment rates of developing countries and exposes countries to many undesirable risks. Besides, the continued stalemate in negotiations at the WTO is proof enough that the Southern countries can work the political-economy systems to fight for their economic sovereignty. Thus far, attempts to incorporate TRIMS Plus agreements, such as the Multilateral Agreement on Investments (MAI), the Singapore issues, have been kept at bay till date. ■

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"Aid for Trade" and Development Finding the Policy Link[1]

BY MARIA ROSARIA IORIO

WHEN READING THE RECOMMENDATIONS by the Task Force on Aid for Trade (WT/AFT/1), the Mainstreaming of Trade in Development policy appears to be the means to promote growth, development, and poverty reduction as well as to achieve the Millennium Development Goals (MDGs).

The macro-economics theory of supply and demand[2] is inspiring the document of the Task Force, and it is applied to the formulation and the implementation of Aid for Trade. This theoretical reference does not go without consequences as it constitutes the milestone of the world trading system. Although supporters of the existing liberal trading system proclaim that international trade has achieved its results in terms of global economic growth, empirical evidence shows that it still has not succeeded in lifting citizens out of poverty, while jeopardizing employment and incomes at the regional and national levels.

Aid for Trade should go beyond the general policy declarations related to gender-sensitive policy and sustainable development. It should be part of a specific global plan by sectors aimed at improving female employment and working conditions.

At least three main questions can be raised when examining the implementation of aid for trade as planned:

(i) What are the foreseen consequences, if any, of such an external intervention, on infrastructure building and export production strengthening?

(ii) What will be the impact on local and national social preferences and production systems?

(iii) While shifting resource allocations and prices of goods destined for international markets, how are donors planning to face this shift of preferences and loss of jobs, in particular for women, that derive from the adjustment costs to trade liberalization in developing countries, thus undermining the local demand?

The risk being that while raising expectations, Aid for Trade might still leave weaker trading partners in a dependent position vis-à-vis international markets. Thus, main structural production systems imbalances will persist, and redistribution policy issues might remain unsolved as national authorities will have to face the consequences of adjustment costs.

Adjustments Costs

The recommendations also state that Aid for Trade should address the supply-and infrastructure constraints of developing and least developed countries World Trade Organization (LDC WTO) members, and help these countries to better

(i) adjust to trade liberalization;
(ii) integrate regionally and internationally, and
(iii) implement WTO Agreements.

[1] This article was excerpted from a longer work entitled "The Doha Development Agenda and Aid for Trade: Finding the Policy Link."

[2] "Supply" is the quantity that producers are willing to sell at a given price. The main determinants of supply will be the market price of the good and the cost of producing it. In fact, supply curves are constructed from the firm's long-run cost schedule. "Demand" is the quantity of a good that consumers are not only willing to purchase but also have the capacity to buy at the given price per unit of time.

These objectives are too ambitious when compared to resources available.

As generally acknowledged, adjustment costs in most countries result mostly from preference erosion, loss of tariff revenue, loss of employment, adjustment to the expiration of the Agreement on Textiles and Clothing, high food prices, weak supply-side responses, social costs from job losses and retraining, and increases in interest rates, plus cross-country effects of tariff cuts.

In this respect, in 2003 the International Monetary Fund (IMF) estimated that a 40 percent cut in the MFN tariffs of QUAD countries (US, Japan, Canada and the European Union) would result in a potential aggregate value of export revenue loss for LDCs of about US$530 million per year and about US$914 million for middle-income developing countries.

In this context, Aid for Trade should not and cannot be the development solution to adjustment costs, including diversification into new products, finding alternative sources of fiscal revenue, retraining and retooling of employees to facilitate social adjustment, and helping enterprises adapt to a more competitive trading environment.[3]

This is not only a practical, but also a political issue. On the one hand, developed countries' trade policies impede poorer countries from accessing rich markets for their goods, while distorting international trade. International aid should not be used to compensate for lack of market access. Furthermore, for developing countries, which are currently not able to take advantage of existing market access possibilities in developed countries, funds provided under Aid for Trade will not be enough to address their supply side constraints.

Developing countries that have to adjust to their niche loss in developed countries' markets as a result of the phase out of the Agreement on Textiles and Clothing or as a result of new sugar market conditions, will not be able to do so in the current system of economies of scale.

The contradiction remains evident as both bilateral and multilateral donors are ready to enter into Aid for Trade to increase developing and LDCs participation in the world trading system.

Trade Mainstreaming and Development

The Task Force clearly states that "mainstreaming trade into national development strategies is the key to the effectiveness of Aid for Trade." As a result, actions that should be taken at the national, regional and global levels are identified.

The Task Force also emphasizes the link between economic growth and trade liberalization as means to stimulate growth and poverty reduction.

This emphasis feeds into the main negotiating positions of developing and LDC WTO Members that articulate their needs in terms of increased market access to Northern Developed countries' markets.

However, in this regard a number of questions arise:

(i) Is increased market access the solution to development-related issues?

(ii) Is this perspective to be replaced by a larger policy space and autonomy at the national level, including a gender-sensitive production system that creates equitable employment opportunities?

(iii) Should national autonomy and institutional development aim at facing national economic redistribution of wealth and gender-equitable social policies?

These questions define a different scenario from the market access one, and stress the national policy autonomy dimension, while raising issues of political philosophy, i.e., production systems, social-democracy, redistribution of trade revenues and autonomous alternative policy-making (as opposed to autonomous trade liberalization).

[3] Report on a conference organized by the UNCTAD and the Commonwealth Secretariat, United Nations, New York and Geneva, 2006.

Indeed, a number of studies have demonstrated that growth and trade are not enough to reduce poverty, without the necessary national redistribution and social policies put in place by national governments on the basis of citizens' control and choices.

The assumption of trade as "the development tool" confuses the end and the means as it "diverts the debate from the more central question on whether or not open trade policies are a reliable mechanism for generating self-sustaining growth and poverty reduction, the evidence for which is far less convincing" Evidence shows that unless there is a national institutional framework, including domestic regulations and social schemes as well as a national priority setting, trade alone does not take countries to development (Rodrick, 2001).

Country-Eligibility, Monitoring and Evaluation

As envisaged by the Task Force:

In principle, all developing countries and LDCs will be eligible for Aid for Trade, as noted in the Hong Kong Ministerial Declaration. However, given the WTO self-eligibility procedure, the eligibility criteria for Aid for Trade should be further clarified as well as indicators of success or failure. This is part of the Monitoring-Evaluation phase.

In recipient countries, Aid for Trade is to be monitored with regard to aid mainstreaming, identification of priority needs, donor responses, and progress made in implementing trade-related projects and programs as well as the impact of these efforts. Evaluation of in-country processes should focus, *inter alia*, on progress in mainstreaming trade in national development plans. Evaluations should adopt a results-based approach in order to ensure effectiveness of Aid for Trade programs in relation to the objectives.

As it concerns donors, they should report on the content of such commitments as well as on how they plan to meet the targets for Aid for Trade that they have announced.[4]

[4] WT/AFT/1.

As we see it:

Monitoring and Evaluation are to be situated in the clear objectives and program formulation and implementation. Experience in UN executing agencies has shown that stating general principles is not enough to guarantee effective use of aid.

Past experience has shown that monitoring and evaluation should take into account not only institutional mechanisms, but also principles underpinning as well as outcomes of assistance programs.

Quantifiable criteria of evaluation (this is an indicative list to be accompanied by qualitative assessment) should include whether or not Aid and Trade:

(i) Has lifted nationals out of poverty by raising their incomes in a stable and sustainable manner;

(ii) Production and exports of beneficiaries have increased to a certain percentage as a result of aid for trade;

(iii) Building infrastructure has benefited the whole population, in particular women as main care economy actors;

(iv) Has been beneficial to local producers and local distribution chains;

(v) Has been used to reorient mono-crop export-led agricultural production into self-reliant and diversified production aiming at solving malnutrition and famines;

(vi) Has resulted (wherever possible) in national industrialization plans;

(vii) Has promoted services of interest to the overall well-being of local populations.

Conclusions

On the basis of the above, the following points are to be stressed:

Role of trade in national development policy-making

Without denying its contribution to world welfare, trade should continue to be perceived as a sub-item of development, and not the means, if not the only means, to achieve or maintain economic growth and development;

Trade needs are to be put in the larger context of social and political national strategies and preferences and not be the condition *sine qua non* to shape national socially equitable development policies;

Role of Aid for Trade in national policy-making

Aid for Trade should not become a sub-item of the World Bank programs, which remain a revamped version of Structural Adjustment Programs (SAPs), but rather a sub-item of national autonomous policy-making centered on social-friendly economic policies.

Aid for Trade should go beyond the general policy declarations related to gender-sensitive policy and sustainable development (para. F2 of the Task Force document W/AFT/1). It should be part of a specific global plan by sectors aimed at improving female employment and working conditions wherever possible, i.e., higher employment standards and more stable and sustainable income.

Aid for Trade should be indeed monitored and evaluated. This process should take place in light of clearly stated objectives and both qualitative and quantitative criteria.

Formulation of appropriate national regulatory frameworks should be a priority activity, in particular in LDCs and lower-income developing countries.

Aid for Trade should address main production systems imbalances, in particular to reduce external dependency and support transformation of mono-culture productions into a more self-sustained and development-friendly production system at the national, regional and global levels.

In conclusion, independently of whether or not Aid for Trade shall be or will be linked to the continuation of the DDA negotiations, the reflection on the evolution of aid for trade in both the WTO and other agencies context raises a number of issues that relate on the one hand to the rationale underpinning aid for trade.

On the other hand, evaluation remains central. Indicators of success (or failure) taking into account both quantitative and qualitative aspects of development should be set to ensure appropriate and really sustainable implementation of Aid for Trade. Such an approach would avoid undermining on-going national development efforts, and resulting in even more disrupted local social and production realities.

Nevertheless, when analyzing the contemporary international production system through the lens of social reciprocity and redistribution as well as of gender social symmetry, citizens in the world can easily assess how harmful the impact the existing production and trading system can be on national social and political stability.

Aid for Trade will not be enough to face these challenges, and definitely is not the policy link necessary to lift people out of poverty, and guarantee sustainable gender-sensitive development in the world. ■

Gender Dimensions of Trade—Finance Nexus in the Fiscal Picture

BY ATHENA PERALTA

TRADE AND FINANCE are clearly intertwined in developing countries' fiscal positions. The relationship runs in both directions. On the one hand, trade liberalization affects public debt levels. Reduced government revenues from lowered import tariffs and export taxes widen budget gaps, leaving cash-strapped governments with little recourse but to rely on local and foreign borrowing. On the other hand, the debt overhang restricts the ability of developing countries to reap gains from market access opportunities. To meet rising debt servicing obligations, governments employ drastic cuts in social spending (e.g. education, health) and infrastructure expenditures (e.g. ports, irrigation facilities, electricity). However, fiscal retrenchment in the social and infrastructure sectors essentially diverts public funds from much needed investments in human and physical capital that play an important role in building trade competitiveness.

Gender budget initiatives conducted over the last two decades reveal that the trade—finance nexus in the fiscal picture is never gender-neutral.

This article essentially argues that the trade-finance dynamics described above promote a "vicious cycle" of fiscal unsustainability, especially for low-income countries in Asia, with disturbing implications for social equity. Gender budget initiatives (see Box 1) conducted over the last two decades reveal that the trade—finance nexus in the fiscal picture is never gender-neutral.

Trade Liberalization → Fiscal Gap → Increased Debt

Over the past 25 years, trade liberalization has been increasingly mainstreamed into national development strategies in line with: (1) Structural Adjustment Programs (SAPs) imposed by international financial institutions as loan conditionalities; as well as (2) commitments under multilateral, regional and bilateral trade agreements. Much of the criticism around the policy of opening up domestic markets through the lowering of tariffs has centered on

BOX 1. Gender Budget Initiatives

In recent years, gender budget initiatives have gained recognition as a tool to analyze the consistency of public revenue generation and expenditures with social priorities, particularly that of achieving social equity. Gender budgets bring to light the different impacts of fiscal policies and budgets, including taxes and external debt, on women and men based on their different roles, constraints and needs in society. At the same time, gendered analyses of the budget are used to critique the ways in which policies and budgets are developed (i.e. who was involved in the process?), serving as platforms for holding governments and policymakers accountable for their policies and commitments to social development and gender equality.

For the most part, however, actual implementation of gender-sensitive budgets, which is, at core, a matter of political will and power, still has a long way to go.

Sources: Cagatay et al (2000) and Caglar (2003)

documented adverse impacts on rural and urban livelihoods as well as on real wages with gender-specific consequences (see Box 2).

A relatively neglected, yet no less significant, concern with free trade policies has to do with the impacts of tariff reductions on countries' fiscal health. Since trade taxes are an important source of revenues for developing countries – it is estimated that import tariffs comprise as much as a quarter of total government revenues of Asia's poorest economies (Weisbrot and Baker 2002)—there is good reason to suppose that the liberalization of trade regimes could have the long-run effect of undermining fiscal consolidation.

Theoretically, the net effect of trade liberalization on government finances, at least in the short run, is deemed ambiguous (UNECA 2004). While the elimination of import duties worsens government revenues, other related measures—namely, the conversion of non-tariff barriers into tariffs and the reduction or elimination of export subsidies and tariff exemptions—could have a positive impact on government revenues.

Empirically, the fiscal consequences of free trade policies for developing economies are more patent. Although the bulk of research to date has focused largely on the experience of African countries, Pascual (2004) provides compelling evidence of substantial trade liberalization-related revenue loss for the Philippines. He estimates that in 2003 alone, total foregone income from trade taxes reached P108 billion, a huge increase from P58 billion in 1998 and averaging 2.4 percent of Philippine gross domestic product (GDP) for the period. In general, studies point out that the magnitude of revenue impacts is largely determined by the nature, timing, and sequencing of trade reforms as well as countries' initial conditions.

Confronted with the reality of declining revenues and expanding budget deficits, developing country governments have tended to react in several (not necessarily independent and mutually exclusive) ways: (1) imposing higher domestic taxes; (2) slashing social expenditures; and (3) resorting to increased public borrowing.

Higher Domestic Taxation

The standard response to fiscal gaps has been to attempt to recoup losses and build up the public revenue base by taxing other sources of income. But, as cautioned by Weisbrot and Baker (2002), taxes raised in order to offset foregone revenues from trade tariffs could be more distortionary and less efficient than the latter. In particular, the introduction of broad-based value added taxes (VAT) on domestic consumption of goods and services has been commonly recommended by the International Monetary Fund and the World Bank. The VAT is preferred over other taxes since it limits tax evasion and does not discriminate between domestic and foreign firms (UNECA 2004). However, the VAT is not only regressive, with the poor and women in particular shouldering the increase in tax burden (see Box 3), these taxes appear to have generally failed to fully compensate for the fiscal costs of eliminating import and export duties. A study by Baunsgaard and Keene (2005)

Table 1: Taxes on International Trade and Transactions as a Percentage of Total Government Revenues, Selected Asian Countries, 2001

Country	Tariffs as a Percentage of Total Government Revenues
China	6
India	21
Indonesia	4
Pakistan	17
Vietnam	25

Source: World Development Indicators (2001) in Weisbrot & Baker (2002).

Box 2: Gender Dimensions of Trade Taxes

Trade taxes affect women and men differently in at least three ways: (1) as workers in sectors of the economy where goods are exported and imported; (2) as consumers of imported goods; and (3) as traders of exported goods.

Gender budgets and other analyses demonstrate that, even though the lowering of import tariffs may make some consumer goods more affordable to women, this policy also causes widespread job losses and erodes the real wages of workers in many labor-intensive industries where women predominate (e.g. garments and microchips).

Sources: Goldman (2000) and Seguino (2000) in Grown (2006).

BOX 3: Gender Dimensions of VAT

Because of their ease of administration and collection, the Value Added Tax (VAT) is perhaps the most popular form of commodity and service taxation in both developing and developed countries. As a consumption tax, the VAT is generally regressive since the poor spend more of their income on consumption as compared to the rich.

Gender-based biases in the VAT tend to be implicit rather than explicit, stemming from differences in consumption patterns. In general, women may bear a bigger burden of indirect taxation since women more than men have been found to consume goods and services that benefit family health, education, and nutrition. The VAT also effectively alters relative prices between the paid market economy and the unpaid care economy, affecting the distribution of work between them with clear gender implications.

In promoting the objective of gender equality, some taxes are clearly superior to others. Raising the rate of income taxes does more to achieve equity between women and men than raising the rate of the VAT.

Source: Grown (2006).

BOX 4: Gendered Impacts of Social Retrenchment

Because of women's socially ascribed responsibilities for maintaining the well-being of the household, the elimination of social subsidies on basic needs such as food, electricity, and water has invariably placed additional pressure on poor women's time, labor and capacities.

The dismantling of subsidized public health systems has also intensified women's domestic burdens in caring for the ill, young, and elderly in the family and community. Moreover, women's health is put at risk as mothers choose to forego unaffordable medical treatment for difficult births.

As public education allocations are trimmed and user fees for educational facilities introduced, poor families have had to pull out their children from school. In some country cases, more girls than boys drop out of classes because of a socio-cultural preference to educate male children.

Source: SAPRIN (2002).

reveals that, in the last 25 years, middle-income countries (e.g. China, the Philippines and Thailand) have been able to only partially reclaim liberalization-related revenue shortfalls—in the order of 45-60 cents of additional domestic tax revenues per dollar of lost trade tax revenues. For low-income countries, which are the most heavily dependent on government revenues (e.g. Bangladesh, Myanmar and Nepal), the picture is considerably worse: only 30 cents has been recovered per dollar lost.

Social Retrenchment

Yet another response to tackle trade liberalization-induced fiscal imbalances has been to rein in public expenditures. Perversely, the social sector is often targeted for cutbacks while defense and military budgets, which have been expanding in the post-11 September 2001 scenario of global insecurity, have been largely off-limits. Moreover, Rodrik (1997) argues that these slashes in social spending are being pushed at a time of heightened economic inequality when public clamor for protection is increasing. There is now an extensive literature on—including early feminist critique of—the impacts of SAPs via shrinking social expenditures and the privatization and/or imposition of user charges on social services. For the most part, these studies point to dramatic repercussions on the most vulnerable groups in society (see Box 4).

Increased Public Borrowing

Even with the implementation of the previous two options, which are not without problems, developing country governments have frequently turned to borrowing from both local and foreign sources to fund budgetary shortfalls at least partially resulting from the reduction or removal of import duties. The gender dimensions of local versus foreign borrowing merit a more comprehensive examination (Grown 2006). Nonetheless the inevitable result of increased borrowing, regardless of the source, is the ballooning of public debt. For a number of economies in Asia, public debt levels have been rising (see Table 2).

The Philippine Experience: Trade Liberalization and Fiscal Crisis

Among Asian countries, the Philippines' recent fiscal problems are particularly illustrative of a causal relationship between trade liberalization and heightened indebtedness (see Box 4). The pursuit of an aggressive tariff reform in the 1990s (aggravated by rising interest payments on debt on the expenditure side) brought on chronic and massive fiscal gaps that have been subsequently financed through loans and the issuance of short-term government bonds. As a consequence, the Philippines' public debt has skyrocketed to unprecedented levels, casting doubts on the country's prospects for attaining fiscal sustainability.

Debt Overhang ➔ Cuts in Human Capital and Infrastructure Investments ➔ Slower Export Growth

The previous discussion has shown that trade liberalization affects debt levels. At the same time, it is contended that a high debt overhang hampers the expansion of high-value exports and the conduct of a genuinely development-centered trade policy (Caliari 2006).

A number of developing countries in Asia, notably Indonesia, Pakistan and the Philippines, are burdened by huge public debts as evidenced by public debt to GDP ratios above 80 percent (see Table 2). Especially in the current environment of rising interest rates that has resulted from the liberalization of capital accounts, debt payments eat up considerable portions of national budgets, again, as illustrated by the Philippine case. This, in sequence, severely constrains government outlays for investment in human and physical capital. As pointed out earlier, gendered analyses of the budget suggest that cutbacks on social and infrastructure spending have disproportionately negative effects on the poor and on women. But no less worrying is the fact that these ultimately hinder the capacity of developing countries to benefit from increased market access.

As emphasized by the United Nations Conference on Trade and Development (UNCTAD 2002), investment growth spurs export growth. More specifically, huge investments in human resources, infrastructure, and science and technology are necessary in order for developing countries to exploit export opportunities that may arise from the lowering of market barriers. Under the neoliberal paradigm, which views the state as largely inefficient, the private sector is seen as better placed to undertake these investments. However, one of the most important and lasting lessons that can be gleaned from the so-called East Asian economic miracle has to do with the interventionist role played by the state in industrial development planning as reflected in its fiscal spending behavior. South Korea, for instance, directed large public investments in human capital accumulation by subsidising and strengthening educational systems and technical training (Fisher 2004). This had positive and dynamic spill-over effects on export competitiveness, not only because an educated and skilled workforce is more productive, but also because the development of advanced technologies necessitates inputs of highly educated labor. Therefore, the fact that social expenditures on education have been falling for some Asian countries (e.g. the Philippines)—as linked to rising debt payments—does not bode well for these economies' prospects of moving onto a high-value export path and, therefore, a dynamic and sustainable growth path.

Table 2: Total Public Debt and Public Debt to GDP Ratios, Asian Countries in the Top 20

Country	Total public debt (USD billion)		Public debt/GDP (%)	
	1992	2002	1992	2002
China	68	366		
India	156	380	74	81
Indonesia	56	149	40	86
Korea	61	232[1]		
Pakistan			81	90
Philippines			81	89

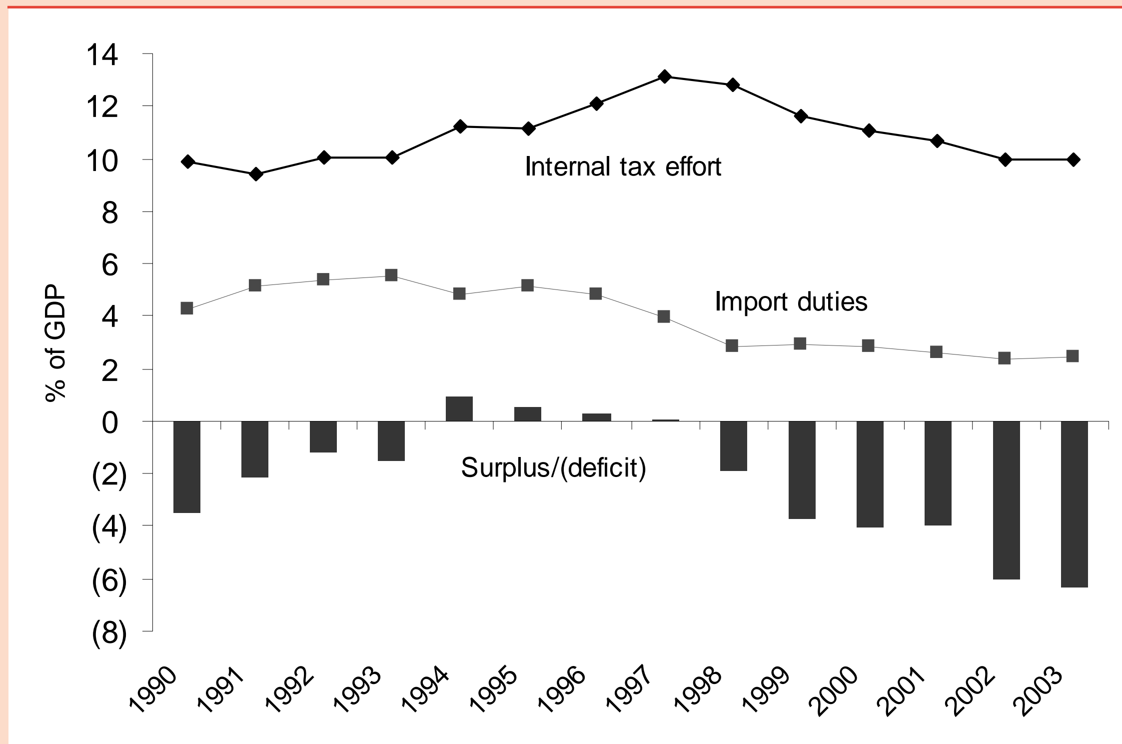
Source: WB (2003) and IMF (2003) in Gill & Pinto (2005).

[1] Estimate is for 2001.

Box 5: Seeds of the Philippine Fiscal Crisis

In 2002-2003, the Philippines was in the throes of a fiscal crisis, with the government budget deficit reaching a record high of 5.3 percent of gross domestic product (GDP). The primary reason behind the deterioration in the country's fiscal position was the fall in import tariff revenues in the mid-1990s. Measured as a percentage of GDP, total revenues dropped by 7.5 percent while import duties declined by 2.4 percent during the period 1994-2003.

Chart 1: Revenues, Import Duties, and Domestic Tax Effort



The speed and magnitude of the country's liberalization experience can be gleaned from the following: (1) the weighted average tariff fell from a peak of 32 percent in 1993 to 22 percent in 1997; (2) import duty collections plunged from 31 percent of the country's total dutiable goods in 1991 to a mere 17 percent in 1997; and (3) the share of non-dutiable imports to total imports rose from 12 percent in 1986 to 37 percent in 1990 and 49 percent in 1997.

Its effects on fiscal revenues were staggering. The share of customs collections to total government revenues shrank from 36 percent in 1993 to 23 percent in 1997 while import duties and taxes as a percentage of GDP came down from 5.6 percent in 1993 to 3.9 percent in 1997.

The revenue shortfall was further exacerbated by rising interest payments on debt obligations on the expenditure side of the picture. Interest payments on debt increased by more than 60 percent from 3.2 percent of GDP in 1997 to 5.2 percent of GDP in 2003.

To cope with the fiscal crisis, the country implemented textbook fiscal reforms: a new VAT law was also introduced in 2005; and social expenditures have been progressively slashed, with real per capita expenditures on health and education contracting by 17 percent between 1997 and 2003. Even so, the country's fiscal deficit had to be financed through more borrowing from both local and foreign banks as well as the issuance of short-term government bonds. Total public debt is currently estimated at an astounding USD 95 billion, which is equivalent to 118 percent of Philippine GDP.

Sources: Pascual (2004); Guzman (2006).

Conclusion

The World Trade Organization (WTO) and International Financial Institutions (IFIs) purport to pursue the development objectives of trade expansion and fiscal sustainability (through balanced budgets). However, the neoliberal agenda being pursued by these institutions, primarily through policies of relentless trade liberalization and stringent fiscal austerity in developing countries, could in fact lead to contradictory outcomes. Drastic trade liberalization tends to provoke a "fiscal squeeze" through its negative effect on government trade revenues. This, in turn, could lead to increased and unsustainable public borrowing as well as undermine the export competitiveness of developing countries.

One of the pathways through which the lowering of trade barriers could enlarge public indebtedness (and increasing public debt could erode export capacity) has to do with the assault on public expenditures on the social sector. Gender budget initiatives have revealed that this pernicious type of trade-finance dynamics, which play out in developing countries' fiscal accounts, adversely affects groups in society that are already vulnerable to begin with: the poor, particularly poor women. This is clearly a matter of tremendous concern for government policy and civil society advocacy in and of itself. But even within the dominant neoliberal framework that emphasizes efficiency over equity and economic growth over human development, social retrenchment in fiscal policy could in fact backfire on export performance and economic expansion of developing countries in the long term. Government spending on education and health is an important way of advancing peoples' economic, social, and cultural rights. Yet it is also crucial to bear in mind that such expenditures are actually investments in long-run economic productivity, and must therefore be doubly protected. ■

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4 Gender-Based Distributional Dynamics in Trade and Financial Flows

BY AVANTI MUKHERJEE

OVER THE PAST 3 DECADES, global economic integration has proceeded at an unprecedented pace with an escalation in the volume and speed of financial flows. While cross-border financial flows have not been unknown to the world, their altered configuration through the fall in official flows and dramatic rise in foreign direct investments (FDI) and international capital market flows is a radical shift.[1] Together, private financial flows have comprised more than 80% of all net long-term resource flows to developing countries (Singh 2000). This process has been fuelled by economic liberalization policies pursued in the developing world in a bid to step up economic growth.

In what follows, the macroeconomic dynamics between FDI, trade and investment are considered from a gendered perspective. Greater openness to the vagaries of international capital markets are fraught with dangers for macroeconomic stability as well as the sustainability of gains from trade. While capital market flows per se might not be explicitly gendered, the macroeconomic adjustment that lubricates their entry and working has gendered repercussions.

Given that macroeconomic contexts contain gendered societies, the volatile functioning of capital markets has gendered repercussions through shifts in macroeconomic policy, financial crises, and may even lead to unexpected consequences.

FDI + Gender Wage Inequality => Export Competitiveness => Growth

FDI is strongly associated with trade in manufactures, since it supports the export production process of transnational corporations. Around 16% of the world's manufacturing output in 1990 was produced under the backing of companies in locations outside their home economies (Braunstein 2000). In the words of Marina Durano:

> "The system of production has changed dramatically in the recent decades as firms continually learn to break up the production process and distribute production blocks outside of their home economies. Much of trade today is a trade of intermediate products, where components produced in one country are traded with another for further processing or assembly. Intra-firm trade, as this is called, is made possible by the location choices made by foreign direct investment. Corporations decide on an investment location according to their perception of the country's ability to meet their production requirements. For example, in the information technology industry, companies have divided Southeast Asia according to skill levels, where South Korea and Taiwan produce sophisticated products, Thailand and Malaysia produce standardized products and the Philippines, Indonesia, and India specialize in assembly and testing. Meanwhile, the most important activities of production such as research and design and control over finance are retained in the headquarters located in developed countries."

FDI inflows into Asia constitute 75% of all FDI flows entering developing countries. China, Hong Kong and Singapore are among the top 5 destinations which comprise 75% all FDI inflows into the developing world. India, Malaysia, Republic of Korea, and Thailand figure in the top 20 destinations (See Table 1).

The literature on the interrelationships between FDI and gender in the South East and East Asian region bring out

[1] Financial flows comprise of official flows and private flows. Private flows are the sum of international capital market flows and FDI. Private financial flows other than FDI are flows from international capital markets such as private debt flows, flows from commercial banks, portfolio equity flows, bonds, and others. Private financial flows excluding FDI will be referred to as capital market flows.

the employment opportunities that exist for women in labor-intensive, manufacturing industries (Berik 2000; Seguino 2000b; Braunstein 2000). A majority of these countries had higher shares of female workers in the manufacturing sector than in the entire economy. Disaggregating the share of female workers by specific industries within manufacturing brings out the sheer dominance of women workers in labor-intensive export-oriented industries. For instance, Thailand registered the highest share of women employed in export-oriented sectors to all workers at 91.2% in 1988.

This points to a segmentation in the labor markets along gendered lines, where women are cloistered into the manufacturing sector, and further in textiles, clothing, and electronics (Seguino 2000b). In addition, while the typical worker in an export-oriented unit is a single young woman, there are differences by industry and region. Women working in the electronics industry tend to be younger, while women working in textiles and garments tend to be older and married (Braunstein 2006).

Clearly FDI inflows into this region would have to be geared towards manufactured exports production to utilize the available labor resources. Apart from gendered characteristics such as "nimble fingers" and being more amenable to tedious work, the general possibility of keeping women's wages depressed have acted as an inducement for FDI to set up shop in specific contexts. Despite more or less sustained demand for female labor, studies have found a persistence of the gender wage gap. The very persistence of the gender wage gap has helped to maintain the profitability of investments in and the export competitiveness of the manufactured sector. Seguino (2000b) finds that over the period 1975 to 1995, a 10% increase in the gender wage gap has led to a 15% increase in GDP growth.

This continuation of gender wage inequalities has been attributed to gendered structures within households and the societies, which work to keep wages low (Seguino 2000a; Seguino 2000b; Braunstein 2000). Whereas Seguino (2000b) shows how the state perpetuated patriarchal gender norms and stereotypes so that Asian women's labor served to raise exports and investment in the manufactured sector and thereby stimulate growth, Braunstein (2000) specifically models MNC investment behavior and household structures to draw out implications of gender regimes and international capital mobility on women's employment and wages.

Seguino (2000b) cites country level analyses that illustrate the state's role in promoting gender inequality through a continuation, even active promotion of gender stereotypes. South Korea condoned a marriage ban requiring women workers to quit after marriage. This ensured limits to women's job tenures, organizing abilities as well as wage gains. Singapore worked gender and ethnicity simultaneously, by regulating low-paid female Malay immigrants in export manufacturing firms through high job insecurity, penalizing with loss of job pregnancy or acts that lead to permanent residence in Singapore. In contrast, upper-class educated Chinese women were exempt from such treatment. Taiwan's "Living Room as Factories" and "Mother's Workshops" collapsed the productive and reproductive spheres to contain both women's wages and patriarchal discontent with women getting into paid work. This way, the state ensured the perpetuation of traditional values of women providing for the family and community and a ready supply of cheap, female labor. Considering that such home-based units typically hired no greater than 30 workers, they were ineligible for unionization (Seguino 2000b). These 3 countries also had the highest gender wage gaps in the given order among the 9 countries that Seguino surveyed.

Empirically, she finds that wider gender wage gaps are associated with faster growth and higher investment shares in GDP, even after accounting for productivity differences based on educational attainments. Lower female wages substitute for currency devaluation to make exports more

TABLE 1: THE SHARE OF INWARD FDI

	In All Inflows to Developing Economies	In World FDI Inflows
China	32.5	8.1
Hong Kong	8.5	2.1
Singapore	4.7	1.2
India	2.1	0.5
Malaysia	2.0	0.5
Republic of Korea	1.2	0.3
Thailand	0.7	0.2

Source: Braunstein (2006).

competitive. The implication is that women's labor is the primary resource in generating foreign exchange. The resulting paths to greater investment and growth are:

- Generated foreign exchange resources, conserved while holding down import costs through conscious state policy, are used to purchase sophisticated technologies to raise productivity and simulate growth.

- Lower wages in the export sector keep down costs of production. This raises the profit share of income thereby inducing a positive effect on investment spending.[2]

- Lower wages for women who are crowded into the export good sector raise the real wages of men, reducing the potential distributional conflicts between male workers and their employers. This reduces the uncertainty associated with investment in the non-tradeables sector, potentially attracting further investment.

Braunstein (2000) has a different kind of reasoning where two kinds of gender regimes are included in a model of female labor supply, employment, and aggregate demand in the context of MNC export-oriented production. Household structures are characterized by gender regimes that determine female labor supply. The East and South East Asian contexts are identified as being more patriarchal, with a preference to keeping wives at homes and sending daughters out to work. As a result, the latter end up having low reservation wages. A shift in aggregate demand (through rise in world demand of exports) within a context of high degree of capital mobility would lead to increases in female wages faster than increases in output. But any lowering of gender discrimination in such a context of high degree of capital mobility would result in lower levels of employment and output, since FDI could move out in search of other options.

Joekes (1999) points out the rise in informalization with trade-related demand in labor. There is significant evidence that production through subcontracting has been extensive in some manufacturing industries. Around 38% of all garment industry workers in Thailand and 25-39% in the Philippines were estimated to be home-workers. So long as FDI-related trade offers better paid work than is otherwise available, it does offer women an advantage. This is primarily because wages in export-oriented manufacturing are often greater than that earned as agricultural labor, or in domestic services. There is evidence in studies from Bangladesh, Thailand, and the Philippines that despite self-reported dislike for the strenuous work and low valuation of labor effort, women had an appreciation for the expanded social opportunities and displayed an enhancement in self-esteem (Joekes 1999).

Questioning the Reliability of FDI-Led Export Strategies

There have been questions raised about the sustainability of the gains from trade for women, especially as export structures get diversified into high-skilled, capital-intensive industries. The experience of Taiwan's progress into production of sophisticated technology exports and reaching the eminent position of overseas investing in the labor-intensive, manufacturing sectors of its neighbors brings out some relevant points in this regard. First, trade-displacing effects can occur with disproportionate loss of production jobs and smaller gains in salaried jobs with export restructuring. Export orientation and overseas investment are associated with lower wages for women over and above the effects of gendered labor segmentation, keeping skill composition, productivity and firm size constant (Berik 2000). Joekes (1999) perceives two possibilities in export-led strategies, a "high" road like that of Taiwan involving continuous productivity enhancements and a "low" road where export production is at same level, attempting to maximize international market shares under increasingly competitive conditions. She opines that prospects are bleak in both cases: a drop in women's share in employment as output composition shifts and an increased demand for women's labor with worse conditions of work and earnings, respectively.

The second problem is a gendered fallacy of composition in emerging trade in manufactures: the sum of countries' individual efforts to promote commodity exports intensifies the downward trend of commodity prices, with terms of trade shifting in favor of manufactures (Ocampo & Parra n.d.; Mayer 2003). Considering the rapid growth of heavily populated Asian economies, especially China and India, in manufacturing exports, the fallacy of composition could be re-oriented towards a manufacture-manufacture terms of trade. With greater export competition in manufactured

[2] The underlying assumption behind class redistributions of incomes through shifts in the profit and wage shares in income is that capitalists have a higher propensity to save and hence to invest, than workers do.

exports, it will be with greater difficulty that the many labor-intensive manufacture exporting economies in Asia can move up the productivity and higher value-added ladder. The fallacy of composition might emerge with a 'race to the bottom' which, as we have seen has significant gendered implications in terms of both employment and wages.

Thirdly, state-policies directed Taiwan's efforts to move away from labor-intensive into more technology-intensive exports. This is becoming less possible in the present context of increasingly liberalized environments that excessively rely on market forces and stress on a minimalist role for the state. Cagatay and Ozler (1995) produce empirical results to show that as countries undergo macroeconomic adjustment, improve their export-GDP shares and experience a feminization of the labor force, these also exhibit a worsening income distribution. Hence feminization of labor under conditions of macroeconomic growth is not necessarily positive, neither are the prospects for active state coordination that would be necessary in any development strategy.

The results of empirical studies on the effects of FDI on growth in developing economies generally show positive associations but the causalities are unclear (Braunstein 2006). It is equally possible that FDI follows growth, rather than leading it. Seguino's (2000b) analysis shows how economic growth can co-exist, even flourish with wage inequalities. Braunstein (2006) points to the fact that factors such as growth, profit outlook, quality of infrastructure, political and social risk and regulatory frameworks are more important factors to foreign investors than cost of labor in seeking out investment destinations. This could mean that only after actually 'setting-up-shop' in a particular destination, wage-setting becomes a factor in ensuring profitability.

The dubiousness of potential gains from FDI actually materializing depends on the actual macroeconomic environments they function in. In terms of linkages, depending on the macroeconomic contexts, FDI can either stimulate domestic investment through positive spillovers or "crowd out" domestic investments through increased competition. China and the Republic of Korea are instances of successful management of export-oriented FDI in building up local capacities (Braunstein 2006). If, however, the extent of repatriation of profits, interests, dividends, and management fees is greater than the positive transfers to the capital account and generation of exports, FDI can have negative effects on the balance of payments. In the present context of economies being increasingly financially liberalized, FDI has become an unstable source of capital. This is because it can insure against foreign exchange by using its access to foreign capital markets to hedge against its domestic liabilities. This gives FDI some characteristics of portfolio flows (Durano, n.d). Therefore, while FDI can lead to increased trade, unshackling FDI flows entirely can destabilize potential gains from exports in the long run.

BOX 1: INTERNAL FINANCIAL LIBERALIZATION

- **Retreat of the State from Financial Intermediation**—Privatization of publicly owned banks and conversion of development banks into regular banks.
- **Central Bank Independence**—Engaging in market operations to exercise monitoring and regulatory role.
- **Freeing of Interest Rates**—Removing ceilings to promote greater competition among financial firms in attracting both depositors and borrowers.
- **Easing Conditions of Participation in Stock Markets**—Freedom to price new issues, greater freedom to intermediaries, relaxing conditions governing borrowing against shares and investing borrowed funds in the market.
- **Reduction in Controls Over Investments Undertaken by Financial Agents**—breakdown of divisions between separate segments of financial sectors like banking, merchant banking, insurance and mutual funds.
- **Expansion of Sources from and Instruments through which Agents Can Access Funds**—Proliferation of financial instruments.
- **The Liberalization of the Rules Governing the Kinds of Financial Instruments** that can be issued and acquired in the system.

Source: Ghosh (2005).

Capital Market Flows <= Macroeconomic Adjustment => Gendered Repercussions

Macroeconomic environments are an important a factor in determining a countries' attractiveness to financial flows. Capital market flows to developing economies have been far greater in volume than the FDI inflows (Singh 2000). The facilitating factor has been an array of liberalizing policies leading to macroeconomic adjustments. Crucial among these has been financial liberalization, both internal and external. Internal financial liberalization aims to liberalize the financial sector of an economy (See Box 1) and external financial liberalization involve changes in the exchange rate control regime to accord greater freedom in capital account transactions. Such moves are supposed to increase the financial sector's capability in raising savings thereby increasing the quality and quantity of investment. However, capital market flows freed from their constraints have lacked in their contributions to productive investments or national output growth (Ghosh 2005). In this sense, they are divorced from the real economy, no longer being mechanisms of facilitating trade and investment, feeding only on over-valuation of real goods. Whereas one real good is exchanged for another in the real economy, in financial markets, agents essentially bet on movements in prices or interests (Singh 2000).

The facilitating macroeconomic adjustments to financial liberalization have entailed policies with clear deflationary biases. Deficit financing is inimical to financial interests, as it can erode the value of financial assets even with modest inflation. As a result, governments cut down public spending to appease the sentiments of capital markets, with critical areas like health, education, provision of social safety nets coming down (Elson & Cagatay 1995). Financial liberalization itself has meant cut-backs in priority sector lending and directed credit. This, together with the freeing of interest rates, has affected critical employment-generating sectors like agriculture and small-scale production by making small-scale borrowing either expensive or inaccessible. This compels cultivators and petty producers to seek credit from informal finance, which is typically given at usurious rates. The agrarian crises in most parts of the developed world have been fuelled in part by the lack of access by farmer to institutional finance (Ghosh 2005) as well as trade liberalization, removal of government support either in terms of price interventions or food subsidies.[3] What this means for women from the affected income groups is that either they are driven to seeking more work or that their burdens in the reproductive sector would spiral up or both (See Box 2).

In perverse contrast, financial liberalization has led to a number of advantages to the middle and elite classes through an exponential growth in the range of financial services on offer. Easy availability of consumer credit through a variety consumption related personal loans such as housing and car; banking that combines insurance, savings, and mutual funds; EMI facilities (every monthly installments) that enable a staggering of consumption expenditures etc. Floro and Dymski (2000) finds associations between this growth in household credit and women's access to formal sector employment. Trade liberalization is typically prior to financial liberalization and has associated with the expanded use of female wage labor. The resultant

BOX 2: Agrarian Distress in India

Between 1998 and 2003, it is estimated that between 16,015 to 17,471 (CMS 2006) farmers in India committed suicide out of sheer indebtedness.

Cultivation has become unviable in the country with rising input costs and falling output prices. Increased cash crop cultivation oriented towards exports need costly inputs such as seeds, fertilizers, and pesticides. Trade liberalization has led to corporate control over seed markets, declining fertilizer subsidies and withdrawal of price supports. These have left farmers to fend for themselves with global commodity prices sliding fast; a feature of the liberalized world itself.

While suicides are a particularly ghastly expression of the agrarian crisis, they form only the tip of the iceberg. The suicides themselves have left many households bereft of the sole income provider, male or female.

Distress mass migrations have included women and children. Hunger deaths reported from various parts point to growing nutritional deprivation that is in part due to a dysfunctional food subsidy system. Implicit in such a context are pressures on women's food provision and caring tasks being stretched to near breaking point.

Sources: Ghosh (2006); CMS (2006).

[3] Market intervention programs were followed by India, China, Thailand, Vietnam, Sri Lanka, and Indonesia. In addition, state trading enterprises like the Food Corporation of India, the National Food Authority in the Philippines, the Paddy Marketing Board in Sri Lanka and the BULOG in Indonesia were engaged into putting in ensuring food and livelihood security to farmers as well as consumers. These are over time being slowly withdrawn from support activities (Sharma n. d.)

BOX 3: SURGE IN GOLD PRICES => HIGHER DOWRY EXPENSES

Increased volatility in currency trading has created greater preferences for trading in gold. The resultant hike over the past few years in demand for and trade in gold has led to a sharp surge in gold prices globally.

Expenditure on gold also happens to form a significant share of total expenditures in weddings in India, as well as other South Asian countries. It is linked to the wide-spread practice of dowry, which, at best, is a transfer of moveable assets in the form of jewelry from parents to daughters on her marriage.

The spiraling prices of gold can mean that in cases where women do have control over assets like jewelry, they have a greater fall-back position in times of need. It could as well lead to the impoverishment of poorer parents, exacerbating the notion of "daughters as burdens." Incidents of dowry-related violence is not unheard of, and could rise. Who could imagine that capital markets could be blamed!

In dollar terms, rough movements in gold prices per ounce were:

- 280$ on 29th August 2001
- 320$ on 17th June 2002
- 380$ on 22nd June 2003
- 420$ on 22nd January 2004
- 460$ on 21st January 2005
- 680$ on 12th June 2006.

Source: Trend Prices of Gold derived from http://goldprice.org/gold-price-history.html

increase in household incomes lead to purchases of market produced goods and services to replace household produced goods and services. Household assets that save domestic labor such as washing machines, microwaves, dishwashers may be acquired. The growth of financial institutions, as in Korea in the mid-1990s, was in response to this; to cater to previously untapped middle and upper-income households. The surge in credit supply feeds consumerism. But credit-financed expenditures make households financially vulnerable and women more dependent on cash-flows.

The problem is that even the short-run benefits of liberalization can be easily reversed with the slightest of exogenous shifts that might not be seen as favorable by investors. Large-scale capital inflows can lead to asset booms or speculative bubbles in the equity or real-estate markets, in which the demand for financial claims can rise faster than actual growth (Floro & Dymski, 2000). If, for some reasons, capital flows are reversed, the bubble breaks and a financial crisis could be triggered. In such a situation, the ensuing liquidity crunch leads to escalating costs of current transactions, distress sale of assets and ultimately deflation with extremely adverse implications for employment and incomes (Ghosh 2005). Financial crisis lead to reduced incomes with the result that women and men become more vulnerable. In certain cases, women could lose the household assets they control and end up bearing a disproportionate share of the household adjustment costs (Floro & Dymski, 2000).

Even under non financial-crisis situations, there are many risks because capital market flows lead to exchange rate volatilities that central banks have a tough time containing. Huge inflows into stock markets put an appreciating pressure on the domestic currency. The relative increase in supply of foreign currency as a result of inflows works against the domestic currency. The Central Bank typically reacts to such situations by buying up excess foreign liquidity to contain the appreciation. Sufficiently large inflows then lead to an unnecessary accumulation of foreign exchange reserves. This is not necessarily good because the Central Bank intervention involves increasing the domestic money supply which can lead to inflationary pressures. In a bid to deal with excess domestic liquidity, the Central bank issues government securities. However, the supply of these securities are limited implying that large foreign inflows can pose problems with either exchange rate affecting export competitiveness or Central bank intervention leading to inflationary pressures or both.

Thus, macro-economic adjustments through financial liberalization pose numerous pressures and risks to any macroeconomic context without any concrete advantages in return. Given that macroeconomic contexts contain gendered societies, the volatile functioning of capital markets has gendered repercussions through shifts in macroeconomic policy, financial crises and may even lead to some unexpected consequences (See Box 3). ■

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Micro-finance, Poverty Reduction and Women's Empowerment in the Context of Market Liberalization

BY ATHENA PERALTA

WOMEN'S UNEQUAL ACCESS TO FINANCE

JUST LIKE OTHER MARKETS, credit markets are replete with gender-based distortions that restrict women's access to finance vis-à-vis men (see Box 1) (Van Staveren 2002).

The traditional view of men as household heads and main breadwinners has helped to secure men's property rights (Kabeer 1994; Agarwal 1994 in Van Staveren 2002). Moreover, various discriminatory laws and customs may disallow women from either inheriting, acquiring, or disposing property. In cases where resources are jointly owned or where women are in possession of resources, women may not necessarily exercise decision over these assets, requiring either explicit or implicit permission from their husbands, fathers, or other male relatives. Since property serves as collateral for loans, women's lack of property rights severely hinders their access to credit.

There are significant limitations to micro-finance in terms of enabling poor people to grow out of indebtedness, with further implications for meeting women's strategic interests.

Moreover, financial markets are characterized by gender-based segmentation. That is, women tend to loan smaller amounts than men often from institutions that have special programs for women or from informal credit associations. Owing to myriad reasons related, for instance, to their lower literacy levels or restricted mobility (which serves to increase transaction costs), women are less able than men to tap formal sources of credit.

Finally, lending institutions may assume that women are not as credit-worthy as men and, hence, charge prohibitive interest rates for loans taken out by the former. This is based on preconceptions that women are less business-minded and/or borrow money mainly for consumption rather than investment purposes, thereby inhibiting their capacity to pay back their loans. It is now well-established that credit programs focusing on women enjoy repayment levels as high as 97 percent, which is higher than repayment levels of men (Women's World Banking 1996 in Van Staveren 2002).

BOX 1. CONSTRAINTS TO WOMEN'S ACCESS TO FINANCE

- Inequality in property rights
- Segmentation in credit markets
- Discriminatory norms in credit markets

Source: Van Staveren (2002).

Recognizing these gender-based inequities in credit markets, the Beijing Platform of Action arising from the UN Conference on Women held in Beijing in 1995 highlighted the need to direct efforts towards enabling poor women to access credit as an important strategy for improving their socio-economic welfare. For over a decade now, international donors and aid agencies, national governments, and non-government organizations have employed micro-finance programmes targeted at low-income female borrowers to address overarching objectives of poverty reduction and women's empowerment. A controversial yet critical question is: have these high expectations been met? Or, contrarily, has micro-finance contributed towards the feminization of debt as countered by some analysts (see Box 2)?

EVIDENCE FROM ASIA

Asia is a major regional recipient as well as a pioneer of micro-finance initiatives. Though there is little standardization with regard to methodologies and criteria for evaluating the impacts of such initiatives, research point to generally positive effects based on economic indicators (e.g. income and consumption), social indicators (e.g. health and education), and on less quantifiable indicators related to the concept of intra-household and political empowerment (e.g. involvement in family decision-making and political activities).

Case studies from South Asia indicate that micro-credit schemes have played a critical role in increasing poor women's and their families' income flows, at least in the short run, thereby enhancing their consumption levels and reducing their vulnerability to adverse circumstances. An early study on the Grameen Bank in Bangladesh by Pitt and Khandkar (1995) reveals that credit raises women's asset holdings (except land) and is a significant determinant of total household expenditures. Furthermore, Khandkar (1999) finds that a one percent increase in loans to women borrowers with the Grameen Bank increases the probability of school enrolment by 1.9 percent for girls and 2.4 percent for boys.

Micro-finance programs have also allowed women to exercise control over finances, resulting in stronger perceptions of their contribution to household income and bolstering their participation in domestic and community decision-making processes. According to Schuler and Hashemi (1994), Bangladeshi women's integration into micro-finance circuits is associated with improvements in their physical mobility, economic security, ability to make own purchases, freedom from family domination, political and legal awareness, and public participation.

However, such outcomes occur less evenly and women's situations are more varied. Many women may actually have limited control over their loans and incomes and/or what little income they earn may substitute for former male household contributions as men retain more of their earnings for their own personal use. Goetz and Sen Gupta's research (1995) finds that only 4 out of 10 Bangladeshi women retained control of their micro loans. In nearly 6 out of 10 cases, women's loans were actually invested by male relatives, while women bore the formal responsibility for repayment. In some cases where women actively press for change, there may be increased tensions in the household and therefore the incidence of violence. Rahman (1999 in Kabeer 2004) finds that 70 percent of 120 women borrowers with the Grameen Bank reported an increase in domestic violence as a result of their involvement in the lending programme. Finally, in spite of gaining a "voice" in household decisionmaking, many women remain marginalized in local and national level political processes.

There is considerably less evidence that the provision of micro loans has helped women to establish income-generating activities that deliver regular returns on loans, subsequently putting them and their families on a sustainable path out of poverty. This suggests that there are significant limitations to micro-finance in terms of enabling poor people to grow out of indebtedness, with further implications for meeting women's strategic interests. More specifically, the following problems have been observed:

- Micro-finance programs have not benefited the poorest of poor women since micro lending

BOX 2: FEMINIZATION OF DEBT?

- **Increasing Women's Debt?** Are women being trapped in debt dependency and forced to sacrifice consumption and investment to meet unnecessarily high interest and insurance obligations as well as poor performing savings and pensions?
- **Feminization of Household Debt?** Are women being used by men to access credit? Does the shifting and increasing responsibility of women for household savings and credit lead to decreased contributions by men to household budgets?
- **Feminization of Costs of Micro-finance Delivery?** Are programs targeting women because they are compliant and easy to pressure into paying? Are institutions using women's groups to reduce program costs?
- **Feminization of the Costs of Structural Adjustment Programs?** Is micro-finance being advanced to enable women to pay for the increased cost of education, health, and other social services resulting from structural adjustment policies imposed by international financial institutions as loan conditionalities?
- **Feminized Debt Substituting for Crucial Reforms?** Are these schemes being promoted by international agencies and national governments to avoid addressing key structural issues that are at the root of the problem of poverty and gender inequality (e.g. inequitable trade agreements, declining terms of trade, land redistribution and legal reform).

Source: Mayoux (2002).

institutions tend to concentrate on the "upper" and "middle" poor to ensure financial viability (Hulme & Mosley 1996).

- A large proportion of women's loans are used up for consumption rather than for investment purposes, which, while reducing vulnerability, does not offer a lasting way out of poverty. Microlending rates may go up as high as 30 percent. Although such expensive credit is expected to reduce poverty by funding commercial self-employment ventures of poor women, various studies indicate that loans are largely used by poor people to meet daily needs, primarily food, but also school fees and healthcare (Floro & Messier 2004 in Floro & Hoppe 2005).

- Most women earn low incomes from a narrow range of "female" activities characterized by low productivity and low capital in increasingly saturated markets. A study on the Grameen Bank in Bangladesh (Kabeer 2001) reveals that, while access to credit enable women to increase their participation in economic activities, women's business ventures continue to be confined to activities that are unprofitable as well as offer little opportunity for innovation.

- Women's workloads have intensified, combining both market production and social reproductive tasks (which continue to disproportionately fall on women's shoulders), with adverse impacts on health and on business success. This has been found to be particularly true in the case of women workers in informal home-based micro-enterprises in India, Pakistan, Indonesia, the Philippines and Thailand (Mehrohtra & Biggeri 2002a).

- Women's expenditure and investment decisions may continue to prioritize men and male children whether explicitly and implicitly. For instance, girl children have been withdrawn from school in order to provide supplemental labor to family enterprises (Mehrotra & Biggeri 2002b).

- Women continue to be disadvantaged vis-à-vis men in terms of lack of access to complementary resources and infrastructural support (e.g. land, literacy, skills and business training, childcare services).

The Missing Link: Macroeconomic Policies and Micro-Finance Projects in the Informal Economy

Notwithstanding the expanding literature on micro-finance, which is a reflection of its continuing popularity with development and donor agencies, the linkages between these micro projects to the broader macroeconomic environment has, thus far, been largely ignored. The fact that micro-finance interventions appear to have less than enduring impacts on poverty has to do with the following realization: even if women's access to and control over credit and finance are enhanced, there remains the bigger and more complicated question of women's access to and control over markets. The latter is an arena that is largely influenced by macroeconomic policies, especially trade policies, which, in turn, are shaped by current globalization processes.

In line with obligations under the World Trade Organization and other trade treaties, many developing countries have liberalized their trade regimes by abolishing quantitative controls on imports, reducing customs duties and eliminating subsidies to domestic producers. Plentiful research has shown that the liberalization of trade has destroyed import-competing jobs in the agricultural and industrial sectors of the developing world (see Lee 2005 for a summary). In India, for example, Topalova (2004) finds that a "sudden, comprehensive and externally-imposed" trade liberalization program contributed to an increase in poverty rates in rural districts where industries more exposed to liberalization were concentrated. This is linked to the finding that many rural livelihoods have been jeopardized by the volatility and decline of export crop prices (e.g. cotton) in the world market. According to Ghosh (2005), the daily status rate of rural unemployment in India rose from 5.6 percent in 1993-1994 to 7.2 percent in 1999-2000; and in some states, agrarian joblessness went up as high as 15 percent. Relatedly, farmer suicides due to economic failures and severe indebtedness have become common occurrences in the Indian rural landscape.

Within this picture, engaging in self-employment in the informal sector represents one of the few options available to poor women. This is a survival strategy that is precisely encouraged by micro-lending programs that specifically target women. However, the reality is that, in an increasingly globalized marketplace, female-run informal micro-enterprises are confronted with tremendous disadvantages vis-à-vis capital- and technology-rich domestic and transnational businesses. According to the Women's Micro-credit Accountability Network (Singh et al, n. d.):

"…the cumulative effect of rising costs, declining demand, and competition from both cheap imports and increased entrants into the sector leads to shrinking profits in informal-sector trade."

While there is a need to conduct more research on the impacts of trade liberalization and other macroeconomic policies on informal sector businesses, Kabeer (2001) provides indications that some micro-financed enterprises run by Bangladeshi women are facing strong competition from imports (e.g. street-vending and selling of second-hand clothes). On the other hand, in cases where informal home-based businesses support export-oriented production in global manufacturing value chains, women workers receive low (piece-rate) wages in precarious employment (Mehrotra & Biggeri 2002a).

For the above-cited reasons, incomes from self-employment tend to be highly erratic and are often barely sufficient to meet the rising cost of essential needs and services, much less to invest further in enterprises. Floro and Messier (2004 in Floro & Hoppe 2005) explore the interrelationships between micro-credit, job uncertainty, and income volatility and find that the unsteady flow of earnings in the informal sector causes a reallocation of credit for consumption needs rather than for commercial purposes.

Moreover, many micro-credit-financed ventures are likely to face closure over time in the absence of social and infrastructural support. The policy of fiscal retrenchment, which has also been engendered by globalization processes, has resulted in severe cutbacks in social insurance, public infrastructure and agricultural business assistance programs that are often needed by poor borrowers and small enterprise entrants. As the experience of the Self-Employed Women's Association in India has shown (see Box 3), the provision of insurance, health services and skills-training seminars alongside lending programs makes a significant contribution to the long-run success of micro-finance institutions. However, many micro-credit organizations have had to drastically trim support services because of pressures to meet financial sustainability requirements (UNIFEM 2000).

Overall, as micro-enterprises fail to turn in profits in globalized, highly competitive and unstable market environs, poor women have had to cut down on consumption and/or turn to other sources of borrowing in order to repay their loans, thereby getting ensnared in a vicious spiral of indebtedness. Empirical studies suggest that women tend to bear a bigger burden of household debt servicing as compared to men (Goetz & Gupta 1995; Floro & Messier 2004 in Floro & Hoppe 2005).

Box 3: The Self-Employed Women's Association: A Success Story

The Self-Employed Women's Association (SEWA) based in Ahmedabad, India currently has 200,000 depositors and a working capital of US$ 20.6 million. It is important to point out that institution's accomplishments are not merely derived from a simple process of making small loans to the poor. SEWA is known for being one of the first micro-finance institutions to focus on savings, not just loans, and to offer insurance services. Moreover, SEWA combined low-interest micro-loans with labour advocacy on behalf of women employed in the informal sector as well as provision of health care, training and other services, thereby raising the wages, education and standard of living for the women it serves.

Sources: Singh et al (no date) and UNIFEM (2005).

Conclusion

To summarize, micro-finance programs have undoubtedly served as an important coping mechanism for many poor Asian women and their families who have utilized loans to smooth consumption especially during periods of economic difficulty. To some extent or for some women, these have also improved their status in households and enhanced political agency. But for a few entrepreneurial women, micro-finance schemes have played a limited role in advancing poor women's economic, social and political empowerment in the context of liberalized market regimes.

Linkages between household socio-economic welfare and the performance of small-scale businesses to national and global economic structures are now increasingly recognized by women's organizations. In the final analysis, micro solutions such as micro-finance cannot have broad and enduring impacts on poverty—which, in the current period of economic globalization, is largely determined by macroeconomic structures. Thus, many women's organizations contend that the economic agenda for women's empowerment has to shift from a singular focus on micro-finance initiatives to ensuring that women get on board as well as influence the critical macroeconomic discussions that are affecting their daily lives.

What are some of the immediate policy and advocacy implications? One is a need for increased coordination between micro-finance efforts and pro-poor trade advocacy efforts. This is based on the analysis that micro lending cannot empower women nor tackle poverty without enabling macroeconomic environments. Moreover, for micro-finance initiatives to have an irrevocable impact on

poverty, these must be accompanied by comprehensive social protection programs (e.g. insurance, education, and health services), which help to ensure that loans are put to productive investments rather than used to address household emergencies. Poor women who take out micro-loans face more risks as a consequence of globalized markets; and this clearly necessitates more, not less, social support.■

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Migrant Remittances
Women Propping Up the Balance of Payments?

BY ATHENA PERALTA

DRIVEN BY PROCESSES of global economic restructuring, international migration has shown remarkable expansion over the last two decades. Particularly in Asia, women have been increasingly drawn into largely one-sided migratory flows from poor to richer countries. As an offshoot of this phenomenon, remittances—or the money sent home by migrants—increased five-fold between 1980 and 2004 to US$ 160 billion,[1] surpassing financial inflows of official development assistance (ODA) and catching up with foreign direct investments (FDI) in developing countries (World Bank 2005).

Remittances, mostly from women migrant workers, have larger macroeconomic functions and impacts apart from directly reducing poverty.

Notably, government policy has sometimes played a facilitative role in this process. Cash-strapped governments in Asia have promoted labor export programs and have pushed for greater mobility of labor, including through negotiations around the General Agreement on Trade in Services (GATS) of the World Trade Organization (WTO). In addition to mitigating domestic unemployment crises, the main aim of labor export programs is to increase remittances as a source of foreign exchange earnings.

Focusing on the Philippines, which is the third largest country recipient of migrant transfers following India and Mexico, this article discusses the increasingly important function of remittances in shoring up the country's balance of payments (BoP) in the context of intensified economic globalization. While remittance inflows have, to some extent, compensated for huge external debt payments and structural trade deficits in the BoP, less attention has been paid to its long-run effect on exchange rates and therefore on export competitiveness and potential economic growth. Yet there are theoretical as well as emerging empirical bases for concern over the country's ever-deepening reliance on remittances.

Feminization of Migration

In Southeast Asia, a little over 50 percent of international migrants are women, representing an increase of three percentage points from 1980 (Zlotnic 2002). This observed regional (as well as global) trend towards rising female participation in migration is intimately linked to transformations in the system of global economic production and the resulting restructuring of labor in both rich and poor countries (Ramirez et al 2005; Sørensen 2005).

On the one hand, the crisis of the reproductive model in rich countries has resulted in: (1) aging populations; (2) the rationalization of social welfare sectors, with subsequent reductions in pensions, childcare and other support services; and (3) increased female involvement in professional careers, leaving many women with scarcely any time and energy to address domestic chores (especially since women's integration in the formal labor market has not been automatically accompanied by a redistribution of household work between women and men). In turn, these factors have translated to a growing demand for "basic service providers" that has reshaped the expansion of the global service industry as well as influenced the emergence of highly gender-specific forms of migration. As much as 70 percent of the estimated 8 to 11 billion Filipinos working overseas are female (POEA 2004 in Ramirez et al 2005); and most of them are to be found in "feminized," relatively low-skill, low-status and low-paid jobs in the services sector. More specifically, Filipinas have been migrating as domestic helpers to industrialised countries in Asia and Europe, as nurses and caregivers to the North America, and as entertainers, mail-order brides, and factory workers to Japan, Korea, and Taiwan. By and large, the terms and conditions of low-skill migrant work leave much to be desired: there is no shortage of accounts of migrants experiencing discrimination, abuse, and exploitation.

In poor countries, on the other hand, feminized migration constitutes an important household survival strategy in the face of deteriorating economic conditions in the domestic front. This is most acutely manifested in the dearth of jobs: in the Philippines, the unemployment rate hovers between 10-12 percent and it is notable that this figure tends to be around two percentage points higher for women vis-à-vis men (NSCB 2005). Ramirez et al (2005: 7) contends that structural adjustment policies have exacerbated the economic situation and therefore out-migration of women in poor countries:

1 This figure may be hugely underestimated since it does not include money transferred through informal systems (Ghosh 2005).

"The increasing percentage of women in migratory flows is directly related to the austerity measure imposed by the International Monetary Fund (IMF) and World Bank (WB) on developing countries in the last decades of the 20th century. Structural adjustment policies…have resulted in the failure of small- and medium-sized businesses, increasing unemployment, cuts to social spending and unsustainable national debt. The implementation of such policies has worsened the living conditions of the most vulnerable population groups, especially women and children."

Remittances as the New Development Finance

As migration has expanded in relation to asymmetric economic conditions in rich (migrant-receiving) and poor (migrant-sending) countries, remittances from rich to poor countries have exhibited phenomenal and at the same time, relatively stable growth vis-à-vis ODA, FDI and other resource flows (see Table 1). For these reasons, international institutions, financial agencies, and governments have paid increased attention to migrant transfers. No doubt much of the rise in interest, particularly among private banks, stems from an increasing recognition of the potential profits to be made from transfer fees and securitization.[2] But perhaps more significantly, development agencies are posing the following question: are remittances the new development finance (Kapur 2004)?

While comparisons are often made between various financial flows, Ghosh (2006) points out that remittances cannot substitute for ODA. The former are private flows that go directly to households while the latter represent transactions between governments that are earmarked for development purposes. Moreover, the stability of remittance flows (which are said to be motivated by the altruistic behavior of remitters) relative to ODA and FDI (which are impelled by political or market sentiment) cannot be taken for granted since both migration and remittances are ultimately affected by economic cycles in migrant-receiving countries.

Nonetheless, there is little disagreement, if any at all, that the funds transferred by migrant workers to their countries of origin have contributed to improvements in income and consumption levels of receiving households and communities. Studies generally indicate that a huge chunk (around 80 percent) of remitted money are used by households to provide for basic needs and services such as food, school fees, health services, clothes and housing (Ghosh 2006); in this way, remittances have helped to offset government cutbacks in social expenditures in poor countries. Anecdotal evidence further suggests that the gender of the remitter and recipient could be a factor in determining the amount of remittances and how these are spent: it is argued that, to the extent that women have control over remittances, expenditures are more likely to increase household well-being (Ramirez et al 2005).

Apart from directly reducing poverty levels at the micro level, remittances have larger macroeconomic functions and impacts that are currently the subject of considerable debate.

"Labor Export Programs" → Increased Remittances → Debt Repayment

For many poor countries in Asia, huge foreign debt servicing burdens and deteriorating terms of trade for their primary commodity exports as well as for manufactured (albeit low value-added) exports[3] continue to create problems for balancing national accounts. Within this scenario, some governments have sought to develop niches in the global service industry by deliberately pursuing labor export policies in order to raise much-needed dollars to pay for burgeoning foreign liabilities.[4]

The Philippines, which has been plagued by BoP difficulties since the 1970s, is one of the pioneers of labor export programs (De Guzman 2005); and this has undoubtedly helped to facilitate one of the highest out-migration rates in Asia. In 1974, the Marcos government created three agencies including the Philippine Overseas Employment Authority to formally administer and oversee the export of labor (primarily of construction workers to the Middle East) as a "stop-gap measure." The current administration continues to vigorously pursue the exportation of Philippine workers: it declared 2002 as the "Year of the Overseas Employment Provider" and has been especially keen on negotiating for increased access of relatively skilled Filipino migrant workers (e.g. nurses and informal technology personnel) to rich countries' labor markets at the WTO via Mode 4 ("movement of natural persons") of the GATS.

[2] The issuance of securities based on future flows of remittances may be used by poor countries to raise external capital at relatively low interest rates (World Bank 2005). However, the costs and benefits of securitization of remittances merit further study.

[3] Much like the prices of primary commodities, prices of low value-added labor-intensive exports of developing countries have been observed to decline over time vis-à-vis capital-, technology-, and or skill-intensive imports of developed countries (Birdsall & Hamoudi 2002).

[4] Being inflows of foreign currency, remittances can be used to pay foreign debt without adding to the stock of external debt (Bagamelli & Paterno 2005).

TABLE 1. REMITTANCES TO DEVELOPING COUNTRIES VIS-À-VIS OTHER RESOURCES FLOWS 1995 AND 2004

Resource flow	1995 (US$ billion)	2004 (US$ billion)
Remittances (gross)	58	160
FDI	107	166
Private debt and portfolio equity	170	136
ODA	59	79

Source: World Bank (2005).

Other than curbing unemployment, there is an important reason for the Philippine government's consistent promotion of labor exports: the undeniable magnitude and contribution of migrant transfers to the Philippine economy.

In 2004, Filipino migrant workers transmitted more than US$ 8 billion (corresponding to around 9 percent of gross domestic product (GDP) in remittances to their country of origin, making it the single largest source of foreign exchange earnings for the Philippines after merchandise exports; and preliminary figures for 2005 indicate that remittances may have further expanded by 25 percent to a record high of US$ 11 billion (World Bank 2005 and 2006).

In order to truly comprehend the significance of these figures, it is necessary to relate remittances to other components of the BoP. The Philippines is burdened by one of the highest external debts in the Asian region, amounting to US$ 56 billion in 2005 (World Bank 2006); and increasing foreign debt interest payments have imposed huge foreign exchange requirements. At the same time, remittances from overseas workers were equivalent to 1.1 times the amount of the country's debt service in the first five months of 2004 (Juinio 2004). Moreover, as trade regimes have been increasingly liberalized in line with WTO commitments, the country has suffered from chronic trade gaps: imports have consistently outpaced exports since 2001. Even so, remittances covered 3.3 times the amount of the trade deficit in goods in the first semester of 2004 (Juinio 2004). In other words, migrant transfers have enabled the Philippines to enjoy a positive current account balance and a generally strong BoP position notwithstanding growing debt payments and sluggish exports.

It has also been argued that funds sent home by migrant workers, through its positive and stabilizing effect on the BoP, helped the Philippines to ride out the worst of the Asian financial crisis in 1997-1998. Bagamelli and Paterno (2005) find that remittances do contribute to financial stability and therefore reduce the probability of the occurrence of crises resulting from rising stocks of external debt and/or falling stocks of international reserves. This mechanism has a stronger effect when remittances as a percentage of GDP are well above three percent as in the case of the Philippines.

Overall, there is little dispute that remittances have increased the Philippine's national income, boosted domestic consumption, as well as considerably eased foreign exchange constraints, thereby supporting the BoP in the short-term.

REMITTANCES ➔ APPRECIATION IN REAL EXCHANGE RATE ➔ SLOWER EXPORT GROWTH

In the long run, however, migrant remittances could in fact have a negative effect on the BoP as well as, eventually, on economic growth.

Much of the debate on the impact of remittances on growth revolves around the question of the degree to which remittances are used for consumption or investment purposes. If remittances are used primarily for conspicuous consumption and if these encourage the importation of luxury goods, then these inflows could lead to an appreciation in the external values of a country's currency (i.e. a variation of the "Dutch disease") (Ghosh 2006). In sequence, currency appreciation, which makes exports more expensive vis-à-vis imports, could undermine export performance to the detriment of the BoP as well as overall growth. (Alternatively, if remittances are utilized for financing of enterprise development and investment in human resources, then these could very well have positive impacts on growth.)

Because of the size of remittances received by the Philippines and some evidence of these transfers being partially spent on imported goods, there is strong concern that the country has been experiencing remittance-induced currency appreciation. A recent study by Lucas (2005) confirms that, in past two decades, growth in remittances has been significantly correlated with an appreciation in the Philippine peso's real exchange rates. Nonetheless, the same study notes that the country's exports have managed to increase even during episodes of currency appreciation. This

interesting anomaly may be explained in part by the fact that a huge chunk of the inputs to the country's foremost manufactured export, microchips, are imported.

There is another avenue through which remittances could erode long-term economic growth: the "moral hazard" problem (Chami 2003). That is, at the household or micro level, greater dependency on migrant transfers may substitute for labor income and reduce the work effort of recipients. Meanwhile, at the national or macro level, governments of countries receiving large amounts of remittances:

> "…may be able to ignore imbalances in the domestic economy and avoid taking politically costly steps to address them. At worst, governments could intentionally pursue politically but economically unwise policies, in the expectation that remittance flows will continue to insulate the domestic economy from negative consequences. Such policies would likely exacerbate the conditions that led to large-scale migration and remittance transfer, leading to heavier dependence on immigrant remittances and decreased effort on the part of domestic workers, firms and entrepreneurs" (Chami 2003: 23).

Applying the model developed by Chami (2003), Burgess and Haksar (2005) provide preliminary findings of a negative (although insignificant) relationship between remittances and economic growth in the Philippines beginning in the 1980s. However, because of problems of endogeneity,[5] among others, the research does not conclusively corroborate (nor reject) the thesis that remittances, particularly via lower labor effort, have resulted in reduced growth for the country.

Conclusion

Feminized migration has not merely emerged as a household survival strategy for poor women and their families—it has also become a national survival strategy so far as countries confronted with perennial external debt liabilities and trade gaps, the Philippines being a prime example, has become increasingly dependent on migrant remittances as one of its foremost sources of convertible currency. It may be argued that such a survival strategy has been drawn up in a context of diminishing spaces for conducting independent macroeconomic (i.e. trade, monetary and fiscal) policy in an era of economic globalization. Because of the huge social costs to migrant workers, of whom a majority are female, it may be further argued that such a survival strategy is largely founded on the super-exploitation of Asian women's labor for export. ■

[5] Growth in income both determines remittances and is affected by remittances. Thus, Burgess and Haksar (2005) find it difficult to derive conclusions on the causal relationship between the two variables.

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Gender and Trade—Finance Linkages
A Summary of the Key Issues

BY ATHENA PERALTA

IN THE CURRENT PERIOD of rapid global economic integration, it has become increasingly obvious that trade cannot be examined in isolation from finance. The two are clearly interlinked. For instance, international trade is facilitated by foreign direct investment (FDI). Even with increased market access, debt burdens restrict country capacities to exploit trade opportunities. And, as the 1997-1998 Asian meltdown illustrates, financial crises precipitated by exchange rate and capital account volatility often extend to the "real" economy, with consequences for trade. In view of the foregoing, developing countries have recognized the urgent need for consistency between—or at least proper sequencing of—macroeconomic policies in advancing development objectives.

Neoliberal macroeconomic policies aimed at market liberalization work through trade-finance channels resulting in anti-development outcomes.

However, macroeconomic management in developing countries has increasingly shifted away from national governments and their human rights commitments under the United Nations (UN) framework towards multilateral trade and financial institutions that currently shape trade, loan and investment rules and agreements. This is particularly reflected in the coherence agenda between the World Trade Organization (WTO), the International Monetary Fund (IMF) and the World Bank (WB) (see Box 1), which has, in effect, deepened neoliberal reforms aimed at liberalizing trade and finance in developing countries, notwithstanding growing evidence of the failure of such policies to promote growth, much less eradicate poverty.

The empirical record would show that neoliberal trade and financial policies have had adverse impacts on poor people's—especially poor women's—livelihoods and access to basic needs. The latter may be traced to gendered norms and structures that dictate the terms and conditions of women's participation in the global economy. While there has been an increase in their economic activities, women have largely been absorbed in precarious employment and continue to be disadvantaged in resource allocation. At the same time, gender inequalities such as the gender-based wage gap have impelled global restructuring processes.

Against this background, this article briefly considers some of the interrelationships between trade and finance, particularly within the balance of payments (BoP) framework, with the intention of highlighting key issues from development and gender-aware perspectives. The discussion draws on the experiences of Asia, which has earned the distinction of being the most "globally integrated" region in the world in terms of trade-to-gross domestic product (GDP) ratios, absolute inflows of FDI and other financial capital as well as movements of labor (Ghosh 2003).

FDI as Facilitating Trade

Perhaps the most basic relationship between trade and finance has to do with the fact that trade requires reliable, adequate and efficient long- and short-term financing for its expansion (Auboin 2004). Towards addressing this need,

BOX 1. Coherence Between the WTO and Bretton Woods Institutions

The 5th Ministerial Meeting of the WTO in Doha, committed trade ministers to work with the Bretton Woods Institutions (BWIs) for greater coherence in global economic policy-making". It further declared:

> "We agree to an examination, in a Working Group under the auspices of the General Council, of the relationship between trade, debt and finance, and of any possible recommendations of steps that might be taken within the mandate of the WTO to enhance the capacity of the multilateral trading system to contribute to a durable solution to the problem of external indebtedness of developing and least developed countries, and strengthening the coherence of international trade and financial policies, with a view to safeguarding the multilateral trading system from the effects of financial and monetary instability."

Nonetheless, even prior to the Doha Declaration, WTO agreements had already shown a degree of coherence with the BWIs' agenda. For example, the General Agreement on Trade in Services (GATS) allows foreign private ownership of service industries through Mode 3 ("commercial presence"), which is consistent with the BWIs' push to privatize social services through Poverty Reduction Strategy Paper processes. WTO agreements also contain provisions protecting the right of some member countries to impose import restrictions in case of balance of payments crises as strictly defined by the IMF.

Sources: Nageer (2004); WTO (2001).

TABLE 1. FDI Inflows in Asia as a Percentage of World Total

Region/Economies	1986-1991	1991- 1996	1997	1998	1999	2000	2001	2002
Developing	18.3	36.0	40.1	27.9	21.1	17.7	25.4	24.9
Asia	10.3	23.5	22.7	14.6	10.1	10.2	13.0	14.6
West Asia	0.8	0.9	1.2	1.0	0.1	0.1	0.6	0.4
Central Asia	0.0	0.4	0.6	0.4	0.2	0.1	0.5	0.6
East, South & Southeast Asia	9.5	22.1	20.3	13.1	9.8	10.0	11.8	13.6
Pacific	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0

Source: UNDP (1999) and (2003) in Braunstein (2006).

financial regimes in developing countries were substantially liberalized over the 1990s, as advised by the BWIs, and international, regional, and bilateral trade and investment treaties have since proliferated, resulting in substantial movements of foreign direct and portfolio equity investments between regions and countries.

FDI is strongly related to trade since it supports export production (both inside and outside of export processing zones) of multinational corporations (MNCs), which currently account for around two-thirds of world trade (UNDP 1999). Over the last couple of decades, the Asian region attracted growing shares of FDI, the bulk of it ending up in export-oriented industries, even though this type of capital inflows substantially tapered off following the 1997-1998 Asian crisis (see Table 1).

Developing economies have actively courted FDI based on the neoliberal assumption that these flows contribute positively to the BoP, economic growth and broader development objectives, including that of gender equality, through increases in capital formation, productivity, and employment generation, among others. Surprisingly, however, there is actually very little empirical support for a causal connection between FDI and growth (see Braunstein 2006 for details). As summarised by Akyuz (2006: 16):

> "The impact of FDI on capital accumulation and growth is highly contentious. Its contribution to the BoP appears to be generally negative over the long-term even though it may provide net positive transfers in the short-run before profit remittances pick up. This is so not only where FDI is concentrated in non-traded sectors, but also in export-oriented sectors linked to international production networks because of high import content and profit margins."

While FDI has been associated with improvements in employment, especially female employment in export-oriented, labor-intensive manufacturing in the 1980s (Braunstein 2006), the terms and conditions of increased female participation in trade and FDI-related production have received critical attention (see Box 2).

Lessons from the more successful Asian performers (e.g. Japan, Korea, Taiwan, and China) suggest that FDI has to be managed to ensure technology transfer, develop domestic production linkages, restrict repatriation of profits, and uphold labor standards. However, developing countries are increasingly unable to implement such measures due to commitments under the WTO Agreement on Trade-Related Investment Measures (TRIMS) and the GATS which operate on the "national treatment principle."

Portfolio Equity Investments—Impacts on Trade

Compared with FDI, portfolio equity investments are not directly linked with trade and have increasingly taken on a life and purpose of its own. Nonetheless, these extremely mobile flows compensate for trade gaps in the BoP through the capital account and have, in recent years, been associated with exchange rate appreciation, capital account volatility and financial crises (Singh & Zammit 2000). Notwithstanding the potentially disastrous impacts of financial crises on trade, the WTO and BWIs have promoted the opening up of capital accounts to short-term capital flows (which is closely related to the liberalization of trade in financial services through the GATS). UNCTAD (2005) points out that this represents a major instance of incoherence between trade and financial policies.

Inflows of financial flows, not least portfolio investments, influence exchange rate levels, which, in turn, partially determine the competitiveness of a country's exports. Between 1992-1997, FDI inflows into Asia began to be supplanted by huge amounts of short-term flows of portfolio capital and external commercial borrowing, causing Asian currencies to appreciate and current account deficits to grow, and thereby creating the conditions for the 1997-1998 crisis (Ghosh 2003).

Financial crises have harmful spill over effects on "real" economies and therefore on trade. Not only did GDP and employment dramatically contract in the immediate aftermath of the 1997-1998 Asian crisis, exports and imports of the more seriously affected countries (e.g. Korea, Indonesia and Thailand) also suffered decreases due in part to the collapse of short-term trade financing facilities (Auboin 2004). The crisis had doubly heavy consequences for women as workers in export- and domestic-oriented production as well as in non-monetized social reproduction that plays a "smoothing" function in times of economic downturn (Singh & Zammit 2000).

BOX 2: FDI and Gender Relations: Some Concerns

- Women's entry in export-oriented manufacturing industries has not necessarily been accompanied by a narrowing of the gender-based wage gap. Contrarily, Seguino (2000) and Berik et al (2002) provide evidence of increasing gender-based wage disparity in Taiwan and South Korea, which achieved phenomenal growth rates in part by exploiting wage differentials between women and men.

- Female workers are located in less skill-intensive industries such as garments and microchip assembly where there is limited scope for wage increases, improvements in working conditions and skill upgrading (Seguino 2000).

- As countries move on to the production of more technologically-sophisticated products, women are squeezed out of the production force in favor of men due in part to skill limitations and gender stereotyping. In Malaysia, women's share in the Export Processing Zone (EPZ) workforce fell sharply from 75 percent in 1985 to 54 percent in 1990 (Ghiara 1999 in Joekes 2000).

One of the foremost policy lessons to be derived from the Asian crisis has to do with the importance of regulating portfolio investments and other short-term capital flows through taxes and other instruments. This policy option is, however, increasingly precluded by provisions in bilateral and regional trade and investment agreements that restrict countries' use of capital controls.

Exports as a Source of Foreign Exchange, Declining Terms of Trade and Debt Repayment

For over two decades now, the BWIs have prescribed trade liberalization as a core policy conditionality attached to lending based on the view that borrowing countries need export earnings to meet their external debt obligations. Trade liberalization, primarily through export promotion, is believed to have a positive impact on the BoP (as well as on growth and employment). However, the growing empirical literature on the subject indicates that this relationship cannot be assumed (Birdsall & Hamoudi 2002). For many developing countries, the lowering of domestic trade barriers in agriculture and industry has translated to a faster growth in imports than in exports, leading to chronic trade deficits and current account difficulties, increased borrowing and higher levels of indebtedness (in that order).

While the WTO and BWIs have tended to focus on the problem of developing countries' lack of access to developed countries' heavily protected and subsidised agricultural markets, which has indeed thrown millions of poor farmers out of production, little attention has been paid to to underlying structures that essentially relegate poor economies to positions of exporters of low-value commodities and services and importers of high-value technology-intensive products and services. As put forward by Prebisch and Singer (1950) more than half a century ago and more recently by Birdsall and Hamoudi (2002), developing countries continue to face falling prices for their main export products (i.e. primary commodities as well as for low-skill labor-intensive manufactured products). Poor wages paid to women (vis-à-vis men) combined with women's increased participation in the manufacturing labor force may have reinforced developing countries' predicament of confinement to low-value exports (Joekes 2000).

In the face of rising external debt payments and structural trade deficits (which are interlinked concerns), cash-strapped governments in Asia have begun to pursue labor export programs and have pushed for greater mobility of labour, including under Mode 4 ("movement of natural persons") of the GATS, with the objective of boosting migrant remittances as a source of convertible currency. Remittances of migrant workers—a growing majority of whom are women—have played an increasingly important role in shoring up the BoP of some Asian countries, particularly the Philippines, where migrant transfers have overtaken FDI and official development asistance as the foremost capital inflow. In spite of this, there are theoretical as well as empirical bases for concern over developing countries' long-term dependence on migrant transfers. In particular, large amounts of remittances may induce currency appreciation with consequences for export growth.

Trade-Finance Nexus in the Fiscal Account

Trade and finance are also inextricably entangled in countries' fiscal accounts. On the one hand, trade liberalization affects debt levels. Fiscal deficits—resulting from reduced government revenues from lowered import tariffs and export taxes—have left developing country governments with little choice but to rely on borrowing. On the other hand, debt overhangs restrict the ability of developing countries to benefit from market access opportunities. With rising debt payments, governments have had to resort to cuts in social (e.g. education, health) and infrastructure (e.g. ports, irrigation facilities, electricity) spending, which not only place harsh adjustment burdens on the poor and women in particular, but also divert public funds from much needed investments in human and other resources that play an important role in building trade competitiveness. In other words, the WTO's and BWI's prescription for developing countries to liberalize trade appears to be in conflict with the latter's policy advice to balance fiscal budgets. In addition, in strictly adhering to the latter to the extent of drastically slashing public investments, developing countries' export performance has suffered.

Largely in response to some of these issues (termed "supply-side" constraints), the WTO Doha Ministerial Declaration

made “Trade for Aid,” particularly trade-related technical assistance and capacity building for developing countries, key components of the work program of the Doha Development Round. Relatedly, the 2004 Debt Sustainability Framework of the IMF and WB purports to recognize the need for compensatory finance for trade-related losses. Needless to say, however, “Trade for Aid” and trade-related compensatory finance are contingent on the core liberalization agenda of the WTO and the BWIs, ultimately hampering peoples’ and women’s capacity to define and shape national development agendas.

Trade Liberalization and Microfinance: At the Crossroads of Macro and Microeconomics

Outside of the BoP framework, liberalization of trade and financial regimes has a bearing on micro-finance initiatives. Women’s access to credit is restricted because of their limited ownership of assets for collateral use and preconceptions about their inability to repay loans (even though the record would show that female borrowers have a higher repayment rate than male borrowers) (Van Staveren 2002). Responding to this issue, international donors (including the WB) and governments have supported and implemented numerous micro-finance schemes targeted at low-income women in countries such as Bangladesh and India. To some extent, these micro-credit projects have enabled women to start small-scale businesses that have enhanced their income levels and strengthened their participation in decision-making processes within households and communities. However, the gains are by-and-large tenuous. Country commitments to liberalize financial services under the GATS could restrict governments’ role in granting preferential credit to small enterprises, especially those run by women (UNDP 2003). And as agricultural and industrial sectors are increasingly opened up in line with trade agreements, women’s micro-credit-financed businesses have experienced difficulties in competing with low-priced imports, leaving many women trapped in indebtedness. The need to coordinate micro-finance initiatives with macroeconomic policies such as trade reforms has therefore become more patent.

Conclusion

This article highlights some of the important linkages between trade and finance in the context of heightened global economic integration. It has shown how neoliberal macroeconomic policies aimed at market liberalization have worked through various trade-finance channels to result in anti-development and anti-people outcomes. Overall, these have translated to a substantial and continuous erosion of the sovereign policy space of developing countries to formulate and implement domestic policies and strategies according to their different contexts and objectives (Floro & Hoppe 2005). More importantly, these have had negative implications for livelihoods and the provision of people’s, especially women’s, basic needs (e.g. food, water, employment, education and health)—enshrined as economic, social and cultural rights in the UN Declaration on Human Rights—and meeting other social goals as these are more and more subsumed to narrow neoliberal objectives of efficiency, growth, and profit. While increased coordination of trade and financial policies is clearly urgent, even more critical is the need to ensure that such coordination is, first and foremost, under girded and shaped by a genuine (not merely rhetorical) commitment to sustainable development, gender equity, social protection, human rights, and decent work for all. ■

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