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## Article

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## **How Do Trade Liberalization and Gender Inequality Affect Economic Development?**

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### **Abstract**

This study examines the relationship between trade liberalization, gender inequality and economic development in 18 selected developing countries over the time period from 1993 to 2017. Panel ARDL approach has been employed to examine the relationship among variables. The results of the study suggest that trade openness and gender inequality in education and employment, and female to male ratio have negative impact on GDP per capita in developing countries. Based on these results and keeping in view the importance of trade openness and gender equality for economic development, this study is useful to suggest that export led trade policy and provision of equal opportunities to both male and female in education and employment should be adopted in order to achieve higher levels of economic development and for bringing gender equality in all economic activities.

**Keywords:** trade liberalization, gender inequality in education, gender inequality in employment, GDP per capita, ARDL approach.

### **1. Introduction**

Many developing nations were beginning to liberalize trade in 1980s and 1990s, adapted outward orientation or trade liberalization measures which resulted reduction in quantitative import tariff and simplification of the restriction leads to higher level of openness as calculated by the exports plus import to the level of GDP which in turn leads to higher growth in liberalizing economies. The World Bank facilitated trade liberalization planning with loans and technical assistance. The World Bank started to

lend in 1980 for structural adjustment programs and in 1995 it provides around \$20 billion to more than 60 countries for implementing structural reforms which caused to promote higher growth and productivity in most developing nations. During the 1950, 1960s and 1970s most of the nations adopted the policy of import substitution for industrialization. As a result, many problems faced by developing nation such as inefficient industries, little labor absorption, excursive capital uses, greater balance of payment deficit, negligence of the agriculture sector, these all problems led to lower growth as well as lower productivity. Afterwards, in 1980s developing nation decided to pay more attention to agriculture sector by adopting export- oriented policies, which allows developing nations to take advantages of economies of scale, stimulate efficiency, expansion of domestic markets and improved technology. But developed nations are providing significant protection to their- industries profiling commodities in which developing nations have comparative advantage, consequently this attitude enhanced the competition for poor nations.

Moreover, it is well known fact that mostly developing countries have comparative advantage in labor intensive commodities. Therefore, it is very much important to invest in labor in terms of human capital and to wipe out the gender gap in economic activities for inclusive growth. In this perspective, role of trade sector and gender inequality in education and employment have become the integral part as efficient use of trade structure or reforms in developing nation ensures more productive allocation of domestic and foreign resources which in turn leads to higher income. Therefore, this study empirically explored the impact of trade liberalization and gender inequality on the economic development in developing countries. The outcome of this research will be helpful in providing guidelines about the role of trade openness and gender inequality in low income countries for efficient trade free policies which are necessary for economic development.

Gender inequality means genotypic and biological difference between male and female, it also refers to the social, economic, psychological, behavioral, religious and cultural characteristic as well as all types of roles, responsibilities and importance of men and women in our families, societies, communities, economics and culture. However, a strict division between men and women exist in certain groups of some countries but feminist movement removed this division between the groups of male and female. Gender inequality is the unequal distribution of power, wealth and heritage among male and female. Feminism plays an important role to improve the social status of female in the society and across the world feminism is a way to change the thinking about man and women and is a socio-economic and political movement. The main purpose of feminism movement was to achieve equality is education, employment, power, wealth, status, wage, freedom, opportunities, life style and in right to vote. In 1792 Mary Wollstonecraft's first time worked for the rights of woman which is considered to be modern feminism afterwards in the mid of 19th century a movement for woman started whose basic theme was woman right to vote. This period is known as the first wave of feminism which struggled to give same legal political, social and economic rights to women so that they can contribute in the progress of the society and nation. In 1963 "second wave" of feminism emerged because of the work of feminine Mystique Friedan highlighting the role of female in the society by giving rights of education and

opportunities in public sphere and focusing on the role of women. Friedan pays attention to the role of housewife and mother and also noticed the risk that due to “personhood” woman may deny the importance of home, family and children (Heywood, 2005). In spite of all these movements, still there is a considerable gender gap especially in education and employment which impedes the women to participate in labor market. Existing literature recognizes the critical role played by gender equality to foster economic development (Agenor & Canuto, 2015).

Simply economic development referred to a policy which aims to bring socio-economic, political and infrastructural changes in the economy as well as improving living standards, hospital, education and nutrition facilities in the economy. Moreover, economic development has multi-dimensional aspects and deals with economic, social, political, religious and institutional aspects of the economy and its moderation are: economic, social and political equality, eradication of vicious circle of poverty, improved education system, improved standard of living and well-being of the people, giving importance to choose, implement and maintain rule of law in the country, modernization of institutions, self-reliance, availability and access to opportunities, strong and better political relationship, good governance and democracy in the nation. To measure economic development, several methods or measures are used but some common and most important are: income per-capita growth rate, gross national income and gross domestic product. After world war-II and in the beginning of 1970 a new economic view of development was introduced which redefined the economic development in terms of reduction of unemployment, inequality and poverty? (Seers, 1969). The World Bank classified countries on the basis of gross national income per capita: countries with less than \$1025 were considered as low income countries and those with gross national income per capita ranges from \$1025 to \$12475 are middle income countries. Apart from the gross national income per-capita measure of economic development, other fundamental indicators of development are real income, health and education. Economic development can be measured through newly human development index, income index, life expectancy index, education index, mean years of schooling index and expected years of school etc. (Human Development Report 2013).

Based on these theoretical grounds, we cannot ignore the interlinkages of globalization, gender inequality and economic development. It is clear from the previous studies that lessening the gender gap (Agenor & Canuto, 2015) and Increasing human capital accumulation fosters economic development by encouraging the expansion of skill/labor-intensive industries and new technologies (Bal-Gunduz et al., 2015). The novel aspect of the present study is to examine the impact of trade liberalization and gender inequality on economic development in some selected developing economies which is currently a debate of various policy makers in all over the world. There upon the policy implications given in the last section will be helpful for the policy makers to make appropriate and applicable policies for future development of developing countries. This study has a main contribution in the field of research because of the reason that previous studies focused on the relation between trade openness, gender inequality and economic development separately but this empirical study checks their association jointly with special reference to selected low income countries.

The paper is organized as follows. Section I describes the introduction and conceptual framework, Section II documents some basic facts on trade openness, gender inequality and development, Section III explains the model specification and results obtained by employing econometric approach, and Section IV comprises conclusion and policy recommendations.

## **2. Literature Review**

Literature review is presented in two sections. Section I gives detail about previous studies related to trade openness and economic development whereas section II gathered the findings of studies related to gender inequality and economic development as well as linkages between trade openness and gender inequality. There are many studies who concentrated on the issues of trade liberalization and gender inequalities but few significant studies have been reviewed in this study. We begin by documenting the relationship between trade openness and economic development (Atique et al., 2004) attempted to capture the impact of FDI on Economic growth in Pakistan. The results suggest that foreign direct investment had greater impact on export promotion trade regimes compared to an import–substitution (IS) regime. Foreign direct investment generates more employment and production capacity in larger markets and also develops human resources through investment in education and training which enhances human capital and increases productivity of factors of production in addition to export promotion strategy. Another study by Siddiqui (2015) estimated how trade openness affects output growth in Pakistan. They clearly analyzed that when government of Pakistan accepted first IMF Structural Adjustment Program after 1988, mostly trade regions were gradually liberalized and also concluded that there is negative relationship between trade growth and GDP growth but have positive relation between GDP and exports or imports. Chaudhry (2007) explored the negative impact of gender inequality in education on economic growth in Pakistan.

Manni and Afzal (2012) examined the effects of trade liberalization on economic growth. Through trade liberalization, they analyzed the achievements of growth, inflation, exports and imports. Results clearly declared that GDP increased with trade openness. Trade liberalization does not affect inflation, but positively affect economic development. Export and import also increased with greater openness. So, trade liberalization policy had significant impact on economic growth of developing country. Likewise, the study of Taleb (2012) discussed the policy impact of trade liberalization on real economic growth. They also end up with the same results that trade expansion had significant impact on real economic growth. The Results supports the previous trend of significant impact of trade openness on real economic growth. So, policy of trade liberalization contributed to increase the trade deficit. One more study Shaheen et al. (2013) make this evidence stronger by analyzing the impact of trade liberalization on the economic growth in Pakistan. They considered Gross fixed capital formation (GFCF), foreign direct investment (FDI) and Inflation as independent variables and their impact on Gross domestic product (GDP). The results showed that trade openness and gross fixed capital formation had positive and significant impact on economic growth but foreign direct investment (FDI) and inflation had negative effect on economic growth. Contrary to the previous studies the more recent study Eugene (2017) focused separately on long run and

short run relationships between trade openness and growth with special reference to Nigeria. In the long run trade liberalization had negative insignificant impact on the economic growth, but positive significant impact in short run. While other variables labor force, gross capital formation had insignificant impact on economic growth. Therefore, FDI played an important role and also improved gross capital formation, human capital to increase economic growth in Nigeria. One of the latest study Le and Tran-Nam (2018) checked the impact of trade liberalization financial modernization on the economic development in the 14 selected Asia specific countries and indicated that financial modernization and trade liberalization had unidirectional causality towards economic development.

Now we turn our attention towards the important linkages between trade liberalization and gender inequalities. Mukhopadhyay and Chaudhuri (2011) investigated the effects of economic liberalization policies on gender wage inequality and welfare. The researchers considered three sector general equilibrium's model to examine female labor oriented export sector. There existed differences in productivity of male female due to differences in education wages and nutrition. There was positive relationship between tariff cut and gender wage inequality and detrimental on welfare. Government must have adopted the policies for the increment of availability of education & health facilities to reduce the gender wage inequality. Villalobos and Grossman (2010) explored the relationship between trade liberalization and wage inequality in Mexico manufacturing industry. The main objective was to analyze the effects of the relationship between export orientation and gender wage inequality. The results declared negative impact of export orientation on both wages of men or women and gender wage ratio. Similarly Mukhopadhyay (2015) instigated that how gender inequality is affected through trade openness by using interaction between relative wage change due to trade openness, intra household bargaining power of women and female's work preference. The results of comparative static analysis declared that tariff cut reduces female labor force participation and widen the gender gap subject to male labor-intensive agricultural sector and female preference to work at home.

Few studies have also been reviewed to know the impact of gender inequality on economic development. The impact of gender inequality on economic growth is ambiguous so far. Majority of the studies are in favor of its negative impact while few are having the opposite opinion. Some are the supporters of negative impact of gender inequality on economic growth especially in case of African countries (Karoui & Feki, 2018). Some showed the impact of gender inequality in education and employment on economic growth and reported fertility (female labor force participation) as more significant as compare to education (Kleven & Landais, 2017 and Chaudhry et al., 2018).

### **3. Methodology and Data Description**

The present study is employing panel data for the 18 developing countries over the period from 1993 to 2017. The data set is employed from the World Development Indicators (WDI) database. The countries are selected based on the basis of data availability. The results of the study are presented at two stages. At first stage, descriptive statistics is

estimated, and secondly Panel ARDL technique is used for econometric results. ARDL model is more suitable when the data has mixed stationary as in our case.

### 3.1 Model Specification

Since the objective of the study is to examine the impact of trade liberalization and gender inequality on economic development in developing countries, the description of selected variables and panel causality analysis is given as follows.

#### 3.1.1 Model 1

**Table 1: Description of Variables**

<b>Variables</b>	<b>Description</b>	<b>Measuring Units</b>	<b>Expected Sign</b>
<b>GDPPC</b>	Gross domestic product pre-Capita inflation.	Millions	Dependent variable
<b>INF</b>	Inflation	Consumer prices (Annual %)	Negative
<b>GFCF</b>	Gross fixed capital Formation	Millions	Positive
<b>TOPN</b>	Trade openers	Millions	Positive
<b>TLF</b>	Total labor force	Millions	Negative
<b>INEQEDU</b>	Inequality in education	Female to male Ratio	Negative
<b>INEQEMP</b>	Inequality in employment	Female to Male Ratio	Negative
<b>FDI</b>	Foreign Direct Investment	Millions	Positive

## 4. Results and Discussion

The causality in econometrics refers to the ability of one variable to explain the other variable. Granger causality is used to find out the appropriate test to detect the cause and effect relationship among the variables.

**Table No. 1: Results of Granger Homogeneous Causality Test**

Depart ment variable	GDPPC		LGCF		LINEQEDU		LINEQEMP		LFDI		LINF		LTOPN	
	Pr ob	Decis ion	Pr ob	Decis ion	Pr ob	Decis ion	Pr ob	Decis ion	Pr ob	Decis ion	Pr ob	Decis ion	Pr ob	Decis ion
LGDP C	-	-	0.00	-	0.00	Causality exist	0.00	Causality exist	0.00	Causality exist	0.02	Causality exist	0.00	Causality exist
LGCF	0.00	Causality exist	-	-	0.09	Causality exist	0.00	Causality exist	0.00	Causality exist	0.01	Causality exist	0.00	Causality exist
LINEQ EDU	0.33	No causality	0.25	No causality	-	-	0.00	Causality exist	0.00	Causality exist	0.53	No Causality	0.04	Causality exist
LINEQ EMP	0.01	Causality exist	0.01	Causality exist	0.00	Causality exist	-	-	0.03	Causality exist	0.00	Causality exist	0.01	Causality exist
LEDI	.000	Causality exist	0.01	Causality exist	0.30	No Causality	0.01	Causality exist	-	-	0.00	Causality exist	0.00	Causality exist
LINF	0.55	No Causality	0.09	Causality exist	0.11	No Causality	0.00	Causality exist	0.00	Causality exist	-	-	0.00	Causality exist
LTOPN	0.00	Causality exist	0.09	Causality exist	0.18	No Causality	0.21	No Causality	0.01	Causality exist	0.06	Causality exist	-	-

In order to investigate, the long run relationship between variables, Granger causality test is applied in the models. This table presents the causality relationship between variables used in the model. The results of the causality analysis show that Foreign Direct Investment has causality relation with Gross Domestic Product, Gross Capital Formation, Inequality in Education and Trade Openness by accepting the alternative hypothesis. It is observed from the results that Gross Domestic Product has causality relation with all variables such as Foreign Direct Investment, Gross Capital Formation, Trade Openness, Inflation, Inequality in education and Inequality in Employment. Inequality in education has causality relation with Foreign Direct Investment, Trade Openness and Inequality in Employment so it rejects the null hypothesis and accepts the alternative hypothesis which indicates no causality relation with Gross Domestic Product, Gross Capital Formation and Inflation. The next variable Inequality in employment has causality relation with Gross Domestic Product, Foreign Direct Investment, Inflation, Trade Openness, and Inequality in Education except Gross Capital Formation. Similarly Trade Openness has causality relation with Gross Domestic Product, Foreign Direct Investment, Gross Capital Formation, Inflation except Inequality in Education and Inequality in Employment.

### 3.1.2 Model 2: Panel ARDL Long Run Results

**Table No. 2: Panel Autoregressive Distributed Lag Model Approach**  
(Dependent variable: GDPPC)

Variable	Coefficient	Std. Error	t-Statistic	Probability
<b>Long Run Equation</b>				
<b>LGFCFM</b>	0.778	0.141	5.517	0.000
<b>LTOPN</b>	-0.648	0.150	-4.304	0.000
<b>TLF01</b>	-0.010	0.020	-0.497	0.619
<b>LINF</b>	0.513	0.109	4.706	0.000
<b>LFDIM</b>	-0.176	0.049	-3.567	0.000

Trade openness is a main variable in this model. The result shows that trade openness has a negative impact on Gross Domestic Product Per Capita. The coefficient value of trade openness has negative impact while inflation has positive impact on economic



development in developing countries. As many developing countries are exporting raw material and food items and in return having import manufacturing goods from rich countries. This may cause deficit in trade balance for poor nations. The coefficient of gross fixed capital formation (LGFCF) appears with positive sign (0.778) signifying positive relationship between Gross Fixed Capital Formation and gross domestic product per capita. An increase in inflation would cause an increase in GDP which increases the economic growth of the economy. As increase in prices encourages producer towards more investment or productivity which in turn increases GDP per capita. The coefficient of Foreign Direct Investment has negative sign. FDI extract all the benefits of investment and prevent developing nations to establish their enterprise. FDI exploit poor nations as it used raw- material and minerals and pay less to host country. FDI by MNCs used capital intensive technology which is not suitable for labor abundant poor nations because lack of knowledge about technology domestic labor remained underemployed and technologically dependent which in turn lowers the GDP Per Capita income in most of the developing countries. This study found that FDI has negative impact on economic development. The results are consistent to (Shaheen et al., 2013).

**Table No. 3: Short Run Results (Dependent Variable is GDPPC)**

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
COINTEQ01	-0.105	0.044	-2.392	0.018
D(LGDPPC(-1))	0.093	0.146	0.633	0.528
D(LGFCFM)	-0.040	0.100	-0.403	0.688
D(LGFCFM(-1))	-0.188	0.083	-2.254	0.025
D(TLF01)	-3.929	5.550	-0.708	0.480
D(TLF01(-1))	4.466	6.362	0.702	0.484
D(LTOPN)	0.517	0.391	1.322	0.188
D(LTOPN(-1))	-0.123	0.125	-0.977	0.330
D(LINF)	-0.003	0.044	-0.059	0.953
D(LINF(-1))	-0.011	0.040	-0.266	0.790
D(LFDIM)	0.025	0.019	1.316	0.190
D(LFDIM(-1))	-0.024	0.024	-0.995	0.321
C	0.185	0.106	1.746	0.082
Mean dependent var	-0.001	S.D. dependent var		0.339
S.E. of regression	0.189	Akaike info criterion		-0.655
Sum squared resid	7.540	Schwarz criterion		1.527
Log likelihood	386.41	Hannan-Quinn criter.		0.205

The results are showing that the value of estimated co-integration term is -0.105 in short run which shows that the deviation from long run disequilibrium is corrected by 10% over each month.

To determine the long run relationship between dependent and independent variables coefficient of gender inequality is reported in the table. Mostly variables show negative impact on dependent variable in the long run in almost 18 developing countries. The dependent variable is gross domestic product per capita whereas gross capital formation, inflation, trade openness, gender inequality ratio female to male in education and gender

inequality ratio female to male in employment considered as independent variables in the model.

**Table No. 4: Panel ARDL Long Run Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
<b>Long Run Equation</b>				
<b>LINEQEDU</b>	-0.505	0.305	-1.654	0.0996
<b>LINEQEMP</b>	-0.202	0.056	-3.578	0.0004
<b>LINEF</b>	-0.062	0.011	-5.8507	0.0000
<b>LTOPN</b>	-0.486	0.065	-7.407	0.0000
<b>LGCFM</b>	0.703	0.021	33.902	0.0000

The coefficient of Inequality in Education shows negative but significant impact on GDP per capita as more and more gender inequality in education lowers growth rate of GDP Per Capita in the long run. The coefficient value of Inequality in Education is -0.505 which illustrates that 1 percent unit increases in gender inequality in education female to male ratio will lead to 0.505 percent decreases GDP Per Capita. Gross enrollment in education of male is greater than the female inequality which contributes to lowers the Gross Domestic Product and growth rate. The coefficient of variable INEQEMP shows negative but significant impact on GDP per capita as gender inequality in opportunities increase it will lead to lower growth rate in GDPPC in the long run as male secures higher paying jobs than female. This study found that INEQEMP has negative impact on GDPPC (Nguyen, 2017). The results also show that inflation has negative coefficient which indicates that increase in inflation would cause a decrease in Gross Domestic Product and the economic growth of an economy. The reason is that as the factor prices increases it not only discourage the producers to invest more but also increases the cost of production which in turn lowers the productivity, as a result GDP per capita also declines as a study found relationship between inflation and growth rate (Olowe, 2015). The coefficient of gross capital formation (LGCF) appears with positive sign 0.703 indicating the positive relationship between Gross Capital Formation and gross domestic product per capita. The coefficient is statistically highly significant and it depicts that if there is an increase in gross capital formation in developing countries than gross domestic product per capita will also increase as domestic resources are used efficiently which accelerate the economic growth. The last variable is trade openness in this model. The results of trade openness show negative impact in GDP Per Capita. The coefficient value of trade openness is -0.486 which reveals the fact that trade openness increases economic development in long run in developing countries. As many developing countries are exporting raw material and food items and in return importing manufacturing goods from rich countries. This may cause deficit in trade balance for poor nations. This study found that trade openness has negative impact on economic development (Shaheen et al., 2013).

In short run, mostly indicators work differently than long runs. To determine the short run relationship between dependent and independent variables coefficient of gender inequality is given in the table. All independent variables expected relation with dependent variable. In developing economies generally inefficiencies exist in utilizing

domestic resources and technologies. As we can from the table that short run results differs from the long run results.

**Table No. 5: Short Run Equation Results**

Variable	Coefficient	Std. Error	t-Statistic	Prob.*
COINTEQ01	-0.222	0.091	-2.445	0.015
D(LINEQEDU)	-0.407	0.552	-0.737	0.462
D(LINEQEMP)	-0.087	0.065	-1.344	0.180
D(LINF)	0.009	0.008	1.145	0.253
D(LTOPN)	-0.026	0.087	-0.291	0.766
D(LGCFM)	0.221	0.049	4.482	0.000
C	-2.861	1.229	-2.328	0.021
Mean dependent var	0.052	S.D. dependent var		0.116
S.E. of regression	0.057	Akaike info criterion		-2.899
Sum squared resid	0.669	Schwarz criterion		-1.588
Log likelihood	566.649	Hannan-Quinn criter.		-2.375

The short run results of gender inequality in education and employment and economic development are presented with empirical evidence. The estimated co-integration is (-0.222) demonstrating that deviation from long run disequilibrium is corrected by 22 percent by each year.

### 5. Conclusion and Policy Recommendations

The purpose of this study is to investigate the impact of trade liberalization and gender inequality in education and employment on economic development in developing countries. For this purpose, panel autoregressive distributed lag model approach has been applied for empirical results and panel data set for the period of 1993 to 2017 has been employed. It is observed that rapidly growing economies have well-developed industrial (or manufacturing) sector enriched with capital and technology abundance, efficient and skilled experienced workers and gender equality in education and employment for both male and female. Gender equality plays vital role in efficient allocation of resources and acceleration of growth which enhance the productivity and income of the economy. This study used ratio of export and imports to level of GDP as a proxy variable to trade liberalization, female to male ratio in primary and secondary school enrollment as a proxy for inequality in education and female to male ratio in labor force and population as proxy for gender inequality in employment. Both indicators have negative impact on the economic growth of some selected developing countries taken in this study. According to empirical findings of the study it is concluded that trade liberalization and gender inequality play key role to accelerate the growth rate of developing countries.

This study found a negative impact of trade liberalization and gender inequality on economic development of developing nations based on empirical results and findings

which may be considered as policy recommendations. Keeping in view the internal condition of the nation or resources available to it, trade sector should perform its duties efficiently in order to achieve higher economic growth. It is very important to maintain the macroeconomic stability and to achieve these goals there is a need to make proper and strong policies regarding free trade. In order to achieve higher growth rate policy maker should make powerful and efficient policies that can help to attain better utilization of available resources, technology and other factors or resources. To achieve long run benefits, developing nations must invest in their infrastructure, education and redistribute equal opportunities for both male and female, so that each one can contribute in the development of the economy. After realizing the importance of trade liberalization and gender equality developing nations have made many efforts to reform their trade policies as well as to control gender inequality and unfairness among the male and female by creating equal opportunities. In order to stabilize the performance of trade sector and gender equality perspectives there is a need of political stability and good governance.

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