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GENDER INEQUALITY IN A GLOBALIZING WORLD

by

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Abstract

Emphasis on market-friendly macroeconomic and development strategies in recent years has resulted in deleterious effects on growth and well-being, and has done little to promote greater gender equality. This paper argues that the example of East Asia states, which recognized their position as “late industrializers,” relied on a managed-market approach with the state that employed a wide variety of policy instruments to promote industrialization. Nevertheless, while Asian growth was rapid, it was not enough to produce greater gender equality. A concentration of women in mobile export industries that face severe competition from other low-wage countries reduces their bargaining power and inhibits closure of gender-wage gaps. Gender-equitable macroeconomic and development policies are thus required, including financial market regulation, regulation of trade and investment flows, and gender-sensitive public sector spending.

JEL Codes: L5, 01, F4, E24, F16, J16, I31

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I. INTRODUCTION

In the last two decades, macroeconomic policies and development strategies have increasingly exhibited adherence to the goals of liberalization and global economic integration, deeply impacting the lives of women and men across the globe. In most countries, policies reflect a commitment to “market fundamentalism,” whereby social policy is sublimated to and determined by market outcomes.

The evidence suggests, however, that this approach has contributed to a slowdown in economic growth rates, increased firm mobility, accompanied by an exacerbation of financial and economic volatility (Eatwell 1996; Singh 2002; Prasad et al. 2003). Liberalization policies, more generally, seem unable to generate social development in terms of steady increases in GDP or in terms of improved standards of health, education, and human security (Wesibrot et al. 2001; Çağatay 2004; Wade 2004). Feminist scholars have highlighted the gendered impacts of these policies, many of which increase women’s job vulnerability, unpaid work burden, while reducing state-level resources that might be used to provide a social safety net (Elson 2002; Çağatay and Erturk 2004).

What then of those countries that have adopted an interventionist or managed market approach? Has this approach led to better macroeconomic performance? And if so, has gender equity improved as a result? This paper seeks to answer these questions.

II. MANAGED MARKET APPROACHES DEVELOPMENT AND GROWTH

The experiences of South Korea and Taiwan exemplify the managed market or heterodox approach to growth and development. The core development problem these countries faced was that they were “late industrializers,” trying to catch up to the West and Japan.¹ These countries recognized that reliance on exports of low cost manufactures and primary commodities would not on its own lead to higher incomes or move their economies up the industrial ladder to the production of more skill-intensive goods that could ratify higher wages. South Korea and

¹ For detailed discussions of South Korea and Taiwan’s development strategies as late industrializers, see Amsden (1989, 2001), Wade (1990), Nelson and Pack (1998), and Akyüz et al. (1998).
Taiwan therefore proceeded to create *dynamic comparative advantage* in more technologically sophisticated industries.

To attain these development goals, these East Asian states mediated market transactions. The lesson is that the means to promote development and growth differ, depending on the historical circumstances and the external environment. Late industrializers faced challenges that early industrializers did not and, for that reason, intervention in markets was needed to raise domestic capacities so that the “laggards” could compete internationally. This suggests that under some circumstances, new institutional forms may need to be created, such as the developmental state.

In the case of East Asia, “catch up” required the government to intervene in markets to nurture domestic capabilities. The goal was to help domestic firms compete, based on acquiring new technologies from abroad, thereby raising their productivity. Thus, new and strategic domestic industries were protected from foreign competition via import tariffs, quotas, and outright restrictions. This “breathing space” allowed firms to learn by doing. But such an approach also required free trade to meet demand for imported intermediate and capital goods. Thus, the state selectively restricted imports. Further, in order to expand capacity in strategic industries, which had large capital requirements, governments were required to socialize some of the risks of investment.

Some economists decry state intervention in markets, pointing to the experience of economies that have remained stagnant or backward as a result. In South Korea and Taiwan, however, the state’s policies did not block but rather promoted structural changes. First, the state targeted investment in strategic industries (industries that would produced spillover effects to there industries terms of productivity as well as industries that would reduce reliance on imported capital goods). The “carrot” was subsidized interest rates, offered by state-owned banks. Firms also benefited from import restrictions on consumer and luxury goods to give infant industries the breathing room to learn by doing, contributing to productivity growth but also protecting and indeed enhancing firm profits. A critical factor in the success of this approach is that the state demanded a *quid pro quo* for its subsidies to business (Seguino 1999-2000). Firms had to meet export and investment targets in order to qualify for the largesse the government handed out.
Another tool in the “managed market” toolbox was restrictions on foreign direct investment (FDI). Taiwan and especially South Korea had little FDI. What little there was, was limited to joint ventures and only for limited time in sectors in which the state wanted to develop technical capacity. Moreover, most foreign capital was in the form of loans, channeled through the government (Amsden 1989, 2001). The limited presence of foreign capital thus strengthened the hand of government in managing the economy. Unlike countries such as Singapore where foreign firms dominate the domestic economy and can threaten to relocate in order to gain concessions from the local government, in South Korea and Taiwan, domestic firms whose access to capital was limited were effectively disciplined by the state.

In sum, these countries engaged in strategic economic openness, a flexible policy approach tailored to achieving the domestic goals of promoting industrialization and stable economic growth, while pursuing the means to acquire advanced technologies (Singh 1997). As a result, Taiwan and Korea have been able to avoid the negative effects of increased competition amongst low-wage export producers for a limited market share—a competition that holds down wage growth and can lead to employment insecurity. South Korea’s macroeconomic record is noteworthy: average annual GDP growth from 1970-95 of 7%, and unemployment at about 2%. Taiwan’s growth performance was similarly positive. We can pin this success on their willingness to avail themselves of a broader set of policy tools to promote growth, smooth economic fluctuations, and gain competitiveness.

III. GENDER AND EAST ASIAN GROWTH: THE FEMINIZATION OF FOREIGN EXCHANGE EARNINGS

A key component of Taiwan’s and South Korea’s strategy was to target investment in strategic sectors to help industries acquire technology needed to upgrade. Low cost exports were relied on to generate the foreign exchange necessary to finance technology imports—either in the form of turnkey factories, technology licensing, or the purchase of imported capital goods.

Low-cost exports were produced primarily by women, who faced job segregation in export industries (Seguino 1997; Cheng and Hsiung 1998). Empirical evidence suggests that low wages for women, roughly half those of men, were a stimulus to growth (Seguino 2000a). That is because women’s artificially low wages (due in part to their “crowding” in export industries) helped keep the cost of exports low, and thus were a primary factor in generating foreign exchange necessary to acquire technology. Further, low wages for women substituted
for currency devaluation, thus shielding male wages, and preserving a patriarchal hierarchy in both labor markets and households.

While women’s wages and income grew in absolute terms during this time period as female employment in manufacturing expanded, the conditions of women’s employment made it difficult to close gender wage gaps. Women’s jobs in labor-intensive export industries (wearing apparel, electronics, footwear, plastics, and rubber) were dead end; there was no job ladder for women to climb. In numerous cases, women were fired when they married (Nam 1991). In Taiwan, the state promoted a “living rooms as factories” program to enable women to combine unpaid domestic labor with export manufacturing employment (Hsiung 1996). The result is that women had little bargaining power in the workplace, and even less at home since their outside options (paid work) were tenuous, short-lived and ill-paid. All of this occurred, despite more gender equitable educational attainment than in other parts of world.

IV. POLICY AND STRUCTURAL CHANGES IN THE 1990S

A variety of pressures resulted in movement towards more neoliberal policies in the 1990s, even in East Asia. This was due in part to the extension of rules favoring transnational corporations, especially via the WTO, which reduced the ability of the state to control capital and trade flows as a means to implement industrial policies and to raise productivity. The Asian crisis also made it possible for IMF to impose neoliberal policies on South Korea, which prior to that time, had not needed to resort to IMF lending. With the opening of the crisis and the subsequent IMF “bail-out,” South Korea was pushed to adopt the model of an independent central bank. The developmental role of the Central Bank and banking system more generally was circumscribed, and instead, monetary authorities shifted to a focus on inflation rather than growth and employment. The crisis itself, in which thousands of firms faced bankruptcy, created an opening for expansion of foreign ownership in South Korea, increasing the share of FDI in investment and thus firm mobility.

These policy shifts were accompanied by structural changes. Increased competition from other low wage producers led to outward FDI, especially of labor-intensive firms, from Taiwan to Southeast Asia and China. Given women’s concentration in labor intensive industries, the loss of female bargaining power and decline in female employment put downward pressure on
female wages relative to men’s, with the result of a widening gender wage gap in manufacturing (Seguino 2000b).

An additional cause of downward pressure on women’s wages subsequent to the Asian financial crisis is the shift to more informal work arrangements. Numerous formal sector jobs have been converted to informal employment arrangements, structured as subcontracting or home worker arrangements. This has occurred primarily in female- dominated labor-intensive industries. Women’s sequestration in such jobs provides even less bargaining power and we know from research on home workers that the wages women earn in such jobs is little more than half of what they earn in formal sector jobs (Roh 1990; Carr et al. 2000; Balakrishnan 2002). We don’t know the precise effect of this shift in production strategy on gender wage differentials because labor surveys often exclude establishments with less than 5 employees.

To extrapolate from this experience, it appears that the increased mobility of firms combines with women's segregation to lower women’s bargaining power and hold down wages. The limited potential for women to raise wages under these conditions combine with the precariousness of such employment to circumscribe the benefits of female integration into paid labor in a globally integrated economy that places no constraints on firm behavior.

An additional problem for East Asia has been that the new industrial jobs that are emerging are gender-typed, with the result that female share of manufacturing employment is declining in Taiwan, and to a lesser extent, in South Korea (Berik 2000). The reason for gender-typing such jobs is not clear. It may be that more technologically sophisticated jobs are less reliant on low labor costs of remarket share as capital intensity of production rises, and therefore it becomes less costly to exclude women from such jobs. It may also be linked to training. Women’s gender role as caretaker prejudices employers from hiring them, since it is assumed women’s job tenures will be shorter than men’s due to the expectation they will withdraw from the labor force when they marry.

In sum, 40 years after the take-off of the Asian Tigers, the gender wage ratio in Korea is 55.6% in 1999 (ILO 2003). In Taiwan, women’s wages are roughly 2/3 of men’s, and the gap due to discrimination has increased since 1980 (Berik et al. 2004). There is evidence for both Taiwan and South Korea that the gender wage ratio is inversely related to trade. Moreover, the evidence suggests that the increased mobility of capital, due to relaxation of rules on FDI, has contributed to a widening gender wage gap in Taiwan (Seguino 2000b).
The reasons for this unhappy outcome can be summarized as follows. Women are concentrated in industries in which workers have less bargaining power—industries in which foreign firms are more “mobile” as well as domestic firms that produce for export. The experience of these countries shows that FDI and trade liberalization reinforce the tendency to job segregation and thus women’s lower wages.

Women’s share of manufacturing employment is rising in other SE Asian economies (Thailand and Malaysia, and China) but if the experience of South Korea and Taiwan is any example, these employment gains are likely to be transitory. Moreover, the low bargaining power of women in these mobile industries is likely to hold wages down. Indeed, there is evidence that the portion of the gender gap not explained by skill differences has widened in China (Maurer-Fazio and Hughes 2002). Further, in Viet Nam we observe that liberalization coincides with an increase in the discriminatory component of wage payments (Packard 2004).

FDI has been shown to have a negative effect on wages in other countries as well. Evidence from semi-industrialized economies indicates that FDI is inversely related to wage growth (Seguino 2005a). It is likely that FDI more negatively affects women than men, at least in semi-industrialized countries, because they are concentrated in mobile industries. The reverse is true in industrialized countries, and in particular the US, where firm mobility has been linked to a decline in male wages and a narrowing of the gender wage gap (Kongar 2004).

Other more direct indicators of well-being such as female to male population ratios show that that ratio is declining in China, Korea, and India (Klasen and Wink 2003). This is due to excess female infant mortality and child mortality, sex bias in access to health, and increasingly, sex selective abortion. These outcomes suggest that growth is not sufficient to improve women’s status, and indeed, in spite of rapid growth, women’s relative economic status can worsen.

IV. STRATEGIES FOR IMPROVING WELL-BEING

As the previous section suggests, faster growth is not enough to close gender gaps in well-being. The World Bank (2001), in its analysis of the effects of growth on women’s relative education, arrives at the opposite conclusions, arguing that growth is good for women. Their focus is on

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2 Several other studies have found similar effects in industrialized countries, and a broader range of developing economies. See Barry et al. 2001; Choi 2001; Gopinath and Chen. 2003; Oostendorp 2004.
education and life expectancy, but they fail to consider the economic aspects of women’s well-being, including employment, unemployment, wages, and access to social safety nets.

There is some evidence, particularly among the lowest income and middle-income semi-industrialized countries, that growth is inversely related to a composite measure of well-being that includes variables measuring capabilities as well as some economic variables (Seguino 2002, 2003a, 2004). This is not an argument in favor of slow growth since clearly a goal is raising not only relative well-being but also absolute well-being—and the latter require an expansion of output. But these findings do underscore that key distributive mechanisms—in particular, via labor markets and the state—need to operate in such a way as to ensure that increases in output will remedy existing gender inequalities.

What other macro level policies can promote gender equity in well-being? First, we should be clear about what our goals are. The movement toward gender equity in well-being requires strategies that enhance women’s capabilities as well as their ability to provision for themselves and their families. The goal of adequate livelihood or means to provision requires ability to generate adequate levels of income as well as security of income.

What policies then can be enacted to improve women’s well-being and promote gender equity? Focusing attention here on gender gaps in capabilities and opportunities to provision for oneself and one’s family, policies to promote gender equity in four areas are critical:

• expansionary macroeconomic policy;
• financial market regulation;
• regulation of trade and investment flows;
• gender-sensitive public sector spending.

I discuss each of these briefly in turn. In so doing, it should be emphasized that we must avoid a one-size-fits-all approach, since economic structure will determine the parameters of policy designed to close gender gaps.\(^3\)

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\(^3\) For a more detailed discussion of these issues, see Elson and Ça atay (2000), Seguino and Grown (2003) and Ça atay and Erturk (2004).
Expansionary Macroeconomic Policy

Tight monetary and fiscal policies associated with neoliberal macroeconomic policies have been harmful. They have led to a deflationary bias—slow growth and high unemployment—that harms women more than men (Braunstein and Heintz 2005; Charmes et al. 2002; Fodor 2004; Seguino 2003b). Fiscal austerity, pushed by the IMF but also the result of financial liberalization in which financial markets perceive budget deficits as inflationary and therefore harmful to returns on investment, has led to downward pressure on public budgets with cuts in public expenditures redounding more heavily on women and girls.

The emphasis on low inflation, pushed by the IMF, is too great. The theoretical framework which lauds low inflation rates fails to take into account the costs of unemployment, including the long-run growth effects. Moreover, the most rapidly growing economies have hardly been stymied by moderate inflation. For example, South Korea’s GDP growth from 1970-95, which averaged 7% a year, was accompanied by an average annual inflation rate of 13%. 4 This is consistent with the findings of a World Bank study by Bruno and Easterly (1998) that found no evidence of a negative effect of inflation on growth until it reaches 40% a year.

To refocus away from an excessive emphasis on inflation targeting, it is useful to restore the central bank’s role in macroeconomic management, shifting it from one of inflation targeting to the achievement of a number of gender-equitable goals, including employment generation and targeted investment to strategic sectors to stimulate productivity growth. A shift in central bank targets to encompass livelihood-enhancing goals would enable governments to pursue expansionary fiscal policy as well, without such policies being vetoed by central banks (Epstein 2003).

Role Of The State

Of course, inflationary pressures can arise, and these often result from supply bottlenecks. Therefore, government must be an active participant in the growth and development process, able to shift resources to areas where supply bottlenecks exist, such as in infrastructure, education, and training. Also, industrial policy is needed to move countries out of emphasis on low-wage labor-intensive commodities. Such measures would include selective import protection, the promotion of export goods whose demand will rise as world income rises, and selective subsidized credit allocation.

4 Author’s calculations from World Development Indicators data.
Active labor market policies are also needed. These enable those whose jobs have been eliminated to retrain for newly emerging jobs. Women will benefit from such policies, particularly if they include funding for childcare.

**Regulation Of Firm Mobility And Capital Flows**

Because of the increased mobility, it is unlikely that firms can be induced to take up such training costs unless they are given tax incentive to do so. This highlights the potential benefits of circumscribing firm mobility, although there are other reasons to do so as well. Limiting firm mobility also creates the conditions whereby higher wages that induce increased productivity can be ratified. Under current conditions, firms can easily relocate in response to wage demands, and the possibility of a win-win situation in which higher wages induce productivity growth, keeping labor costs relatively constant, is prohibited.

Regulation of capital flows can avoid excessive volatility of such flows and exchange rates, which have a destabilizing effect on economies that women bear the brunt of. Regulation of flows will reduce pressures to limit government spending, as noted above.

**Labor Standards**

Labor standards are also a mechanism for raising the wages and employment conditions of workers in export industries. This policy tool, implemented at the international level, is designed to place a floor beneath workers to ensure or to provide workers the bargaining power to demand a decent living standard.  

**Gender Sensitive Public Spending**

The national government represents a critical locus of resources with which to promote gender equity. Regulation of capital flows will permit greater flexibility in public expenditures levels. That is a step in the direction of expanding women’s capabilities via government expenditures that overcome household biases. Furthermore, public expenditures in infrastructure, such as clean water and roads, can reduce women’s unpaid care burden, along with public expenditures

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5 There is as yet no consensus on this position amongst feminist economists. For more discussion of these issues, see Seguino (2005b) and Kabeer (2004).
on health care. An important question is which mechanisms will contribute to a gender-equitable use of those resources.

Gender responsive budget audits are useful mechanism to achieve this goal (Hewitt and Mukhopadhyay 2001). Budget audits can be used to review and analyze national budgets and expenditures to determine which groups benefit from fiscal policies, and whether biases against women, poor people or other disadvantaged groups are built into them.

In sum, trade and FDI policies must be employed as a means to promote development and expanded well-being. Managing trade and competitiveness are necessary to protect the domestic economy from severe employment dislocation, and entrenched dependence on exports of labor-intensive goods and primary commodities whose demand is unlikely to rise in the future, thus putting downward pressure on prices and thus wages. This implies that trade policy must be a tool of a country’s development strategy rather than an end in itself. As such, this means that while liberalization may be the right strategy at some times and for some goods, there are also circumstances for which trade protection is warranted to give domestic firms the breathing space to develop capacity to compete in international markets. While temporary trade protections may be justified, such policies work only if there is a quid pro quo—if domestic firms are held accountable to measurable targets in return for protection. Managing FDI helps to rebalance the bargaining power of workers, and also may promote productivity growth as firms rely less on low wages for competitive advantage.

V. CONCLUSION

The well-being of women in developing countries relies in part on reforming the austerity policies that have influenced macroeconomic policies in developed countries. These policies have also had negative effects on women in developed economies in access to employment, wage, and shortages of funding for public goods. There is thus common cause amongst women in the global north and south in a number of areas, including capital controls, alternative roles for central banks, limited firm mobility, and labor standards.
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