

**GEM-IWG 2009**

**DAY 6, SESSION II**

**NILUFER CAGATAY**

Since the late seventies, great emphasis has been placed on international trade and trade liberalization “as the engine of growth” in the context of general market liberalization policies.

“Trade has become the lens through which development is perceived, rather than the other way around.” (Rodrik 2001; p. 5),

- **Reasons for renewed emphasis on trade liberalization:**
  - a) **Trade liberalization is an important part of the overall switch to policy packages of market liberalization.**
  - b) **Free Trade is seen as “optimal” (countries should specialize according to their comparative advantage – endowment – based concept of CA)**
  - c) **It is argued that greater openness, defined in a variety of ways, and trade liberalization lead to higher growth rates.**
  - d) **Higher growth rates are seen as synonymous with development and as key to poverty reduction.**
  - e) **The theory of comparative advantage (H- O- S version) still remains a favorite theory of the majority of trade economists and the accompanying policy prescriptions about trade liberalization remain one of the most important elements of what is now referred to as the augmented Washington Consensus.**
  
- **Many contest the generalization that a simple, straightforward positive relationship exists between trade liberalization and growth. (Rodrik 1997; Rodrik 2001; Rodriguez and Rodrik 2000; Chang 2002; Nayyar 2003)**
  
- **The growth effects may be different depending on the type of economy (There are threshold levels of human development, industrial and technological development)**

- **The correlation between growth and export orientation may be the manifestation of reverse causality (growth may be causing successful trade performance and not the other way around or there may be cumulative causation)**
- **Growth is Not Synonymous With Development**
- **Benefits of Growth Do Not Trickle Down Automatically to Reduce Poverty**
- **These Depend on the Initial Distributive Patterns as well as the Impact of (Trade) Liberalization on Distribution**
- **A minority of heterodox economists also contest the concept of comparative advantage and proposed alternative theories of competitive advantage or absolute advantage (Shaikh, 1980, 2003, Milberg 1994, Cagatay 1994).**
- **A recent new argument in favor of trade liberalization and trade expansion by mainstream economists is the claim that increased trade also has gender-wise equalizing effects. (Bhagwati 2004)**
- **A comprehensive assessment of the gendered impacts of trade reform and trade performance would analyze changing patterns and conditions of work, including paid and unpaid work; changes in gender gaps in wages, earnings, patterns of ownership and control over assets; technical change, changes in consumption patterns and use of technology by men and women; changes in public provisioning of services (through impacts on taxes and expenditures) and their gendered impacts, as well as the gender-differentiated empowerment implications of trade flows.**

### **Three Central Questions:**

- a) **How do trade policies and the emergent patterns of trade perpetuate, accentuate or erode existing gender inequalities and gender relations?**
- b) **Are there changes in gender-based power relations within households, communities and the society at large as a**

**result of “opportunities” created and/or destroyed by newly emerging international trade patterns?**

- c) What role do gender inequalities and gender relations play in trade performance? (two –way causality between gender relations/ inequalities and trade).**

**(Caution)**

- **It is, of course often very difficult to separate the effects of trade liberalization and trade performance from the impacts of a variety of other policy changes.**
- **The effects of a particular policy (e.g. trade liberalization) will depend on the economic, political and social context of that policy as well as the interaction of that particular policy with other policies. Besides data problems, assigning causality in many instances is difficult.**
- **Notwithstanding these analytical and empirical obstacles, a long history of feminist work has addressed the effects of trade liberalization, trade expansion and export – orientation on the well- being of women compared to men. In particular, changes in the gendered patterns of work in the context of the international economy have been an area of research for feminist economists since the late 1970s.**
- **Feminist economists (as well as a variety of institutionalist and other types of heterodox economists), however, either offer opposite or more complex empirical findings than do neoclassical economists or differ from neoclassical economists on the interpretation of the same findings, as they start from different methodological assumptions and theoretical frameworks than do neoclassical economists.**
- **Most notably, this body of research by feminist economists has shown that:**

**a) The effects of trade liberalization and export promotion policies are gender- differentiated, alongside being differentiated by class, race and ethnicity. These effects vary according to the type of**

**economy and can be contradictory. It is not possible or even meaningful to conclude whether increased trade or trade liberalization is “good” or “bad” for women as a whole in an absolute or relative sense (relative to men) as the effects differ across different classes of women or women and men in different sectors of the economy. A more meaningful question to ask how can trade policies be made more gender- equitable, pro-poor and, in general, human development oriented.**

**b) Gender inequalities mediate the outcomes of trade policies, especially with regard to growth and gains from trade. Gender inequalities, in some instances, promote growth in the context of international trade and export – orientation while at the same time reinforcing a trade and growth (the low road) pattern that may not be beneficial or even harmful to developing countries in the long – run.**

**c) Gender- based inequalities in labor markets of many countries, far from being eroded by increased competition induced by international trade, serve as instruments of competition at distinct stages of incorporation to the world economy.**

- However, perhaps the most important obstacle to a better and deeper understanding of the multiple complex relationships between gender and trade at this point is the theoretical lacuna in the area of international trade.**
- Gender-aware analyses of trade performance and trade policies requires a prior judgment about which trade theory or theories constitute the appropriate analytical frameworks for ‘engendering’, that is integrating gender into the theoretical apparatus.**
- It is not possible to add women and stir into any theory and come up with a meaningful analysis. Trade and investment theories (or broadly economic theories) will have to be transformed by a gender – aware approach to economics.**

## **Some Theoretical Considerations:**

- **Which theory (ies) of trade are more conducive to a feminist approach? Which theories have a better “fit” with the stylized facts that have emerged from the feminist work on trade and gender? How do trade theories become more illuminating as a result of the incorporation of gender into the analytical framework? How do we get a better understanding of the relationship between trade patterns, performance or the benefits from trade (or the lack thereof) or the relationship between trade, growth and development? How do we get a better understanding of the relationship between trade, growth and poverty? What kind of new theoretical, empirical questions and policy positions emerge as a result of such a theoretical rethinking?**

## **A Short Excursion Into Trade Theories:**

- **Among economists, the principle of comparative advantage is almost a universal article of “faith”. Although there are different versions of this principle, the one that is based on differences in relative factor endowments as in the case of the H- O- S theory of trade appears to be the most popular especially in policy circles. The H- O theorem predicts the direction of trade. “Free Trade” is “optimal” in most instances. The empirical verification of H- O- S has been problematic and the controversy surrounding the empirical debate is known as the Leontief paradox.**
- **Two other theorems associated with the H-O-S theory predict the distributive implications of international trade (between autarky versus free trade positions). These are the Factor Price Equalization Theorem (FPET) and the Stolper- Samuelson Theorem (SST). The H-O-S framework always showed that there would be winners and losers from free trade and that free trade would be optimal only when the winners compensate the losers (an often forgotten aspect of trade policy). The distributive theorems have been used in recent research and debates on the distributive consequences of trade liberalization especially to**

**interpret the empirical evidence on widening wage disparities between skilled and unskilled workers in the North.**

- **However, these predictions do not hold true, for example in the case of Latin American economies there are widening disparities between skilled and unskilled workers. (Wood (1997)). Therefore, many trade economists have argued that such patterns are better explained by technical change which leads to increased demand for skilled workers and renders unskilled workers redundant.**
- **Indeed, there have been a variety of responses to the Leontief paradox during the last fifty years. One response is the argument that the assumptions of H- O- S are violated in reality. The H-O-S theory of trade entails a number of unrealistic and consistently violated assumptions such as full employment, balanced trade, similarity in preferences across countries, same technological blueprints, perfect competition, constant returns to scale, immobility of factors of production, non – reversibility of factor intensities and the like. These are clearly problematic assumptions as unemployment is a persistent condition and trade imbalances over long periods of time are also common features of the international economy.**
- **A second response is sharpening the econometric techniques to verify the H- O- S.**
- **A third response is the development of New Trade Theory (NTT), which is not bound by the unrealistic assumptions of H- O- S. NTT incorporates assumptions such as imperfect competition, increasing returns to scale and emphasizes technical change, technological gaps, technology transfer, innovation, product cycles, uneven development, cumulative causation and the like.**
- **Even though the techniques of the NTT are somewhat “new”, many of these building blocks can be found in the works of Smith and Marx, and are common to analyses of trade within the**

**Marxian and post- Keynesian traditions, which have a long lineage of theories of “uneven development” and “unequal exchange” (Cagatay 1994).**

- **The policy implications of NTT, however, are not so straight forward as the H- O- S. Once the assumptions get messy, the policy prescriptions are no longer simple and they entail strategic trade policy in many instances. Because of this, H- O- S still maintains its explicit or implicit supremacy in policy dialogues and policy formulation. The mental space it occupies among policy makers and in academia has even been justified by one of the principal architects of NTT, Paul Krugman (1987) in an article title “Is Free Trade Passe?”. His answer to this question is a definite no, on the basis of the argument that it provides a simple rule of thumb for policy (never mind the thumb may be pointing in the wrong direction !).**
- **However, the violation of the assumptions of H- O- S also lead to a violation of the principle of comparative advantage. Heterodox economists such as Shaikh (1980, 2003) and Milberg (1994) provide critiques of this principle. Shaikh begins by pointing out that the empirical evidence does not support the orthodox claim that trade liberalization leads to increased growth rates and to balanced trade between countries. He argues that it is not the real world that is “imperfect” in the way it lives up to trade theory, but rather that the theory itself is inadequate. He proposes an alternative trade theory, one that is based on the principle of “competitive (absolute) advantage” according to which globalization is expected to favor the rich over the poor and developed over developing countries. From such a theoretical perspective the empirical and historical phenomena of globalization do not entail “imperfections” that can be corrected but rather they reflect the predictable outcomes of trade liberalization policies themselves.**
- **Milberg (1994), similarly provides a critique of the theory of comparative advantage from a Keynesian/ Marxian perspective. Marx and Keynes both rejected the concept of comparative advantage both in its positive and normative forms, meaning both in terms of the ability of the theory to predict patterns of**

**international trade and its policy implications. This is because of the problematic assumptions of full employment and the existence of an automatic price adjustment mechanism that brings about balanced trade in each period. Marx and Keynes both insisted on the monetary nature of production, and viewed the persistence of unemployment (reserve army of labor in Marx's terminology) and excess capacity as inherent features of capitalist production. Following this line of critique of comparative advantage, Millberg develops an operational post-Keynesian/ Marxian model of trade based on the principle of absolute advantage that stresses the role of innovation in international competitiveness.**

- Similar to the argument put forth by Shaikh, he argues that from such a perspective, for developing countries there is no guarantee that specialization in international trade will bring about “catch up” with advanced capitalist countries. The policy implications of this approach include a renewed role for the state in providing incentives for innovation, skills development and organizational capabilities and infrastructure in order to render an economy internationally competitive.**
- Indeed, not only is it the case that “free trade” may not be critical at the onset to inducing growth, but it may more likely be the agent of uneven development. A long line of literature within the Marxian/structuralist / post-Keynesian tradition have argued this position for a long time. Many have pointed to the uneven distribution of gains from trade. Unequal exchange theories, of which the Prebisch – Singer can be seen as a variant, have been advanced to explain uneven development. The idea that North-South trade can lead to declining terms of trade for the South is known as the Prebisch-Singer thesis. It was advanced half a century ago to explain uneven development.**
- While there are many versions of unequal exchange and theories of uneven development, some, especially the Arghiri Emmanuel (1972) variant, emphasize the differences in the wage rates in the South versus the North as their starting point. The idea is that controlling for productivity differences, the wages in**

**the South are much lower than in the North leading to higher rate of exploitation of workers in the South than in the North and also leading to “transfers of value” from the South to the North through the process of international investment which equalizes the rates of profit between the North and the South and through the process of international trade. One implication of these theories is that improvement of the wage rates in the South would lead to an improvement of the international terms of trade of the South vis- a vis the North.**

- **Given these critiques of the foundations of mainstream trade theories, there are several questions to reflect upon: To what extent are mainstream trade theories useful in understanding gender concerns? If these theories are not adequate for understanding patterns of trade and growth, can they be useful for understanding gender and trade? Can gender concerns be integrated into the critical approaches proposed by Shaikh and Milberg? And if yes, how?**

## **I. Implications for Gender and Trade of Mainstream Economics**

**From the point of view of mainstream economics, one of the important debates has been about the effects of trade liberalization on gender-based wage gaps. From a neoclassical perspective, there are three reasons as to why these gaps may close.**

- The first argument is based on a simple supply and demand analysis to argue that women stand to gain more than men from both trade liberalization and labor market deregulation. This means that any set of policies that promote labor market deregulation is expected to benefit women. Institutional and feminist economists, among others, take issue with these arguments.**
- Another recent argument that makes the case that trade liberalization would close gender-based wage gaps is based on Gary Becker's theory of discrimination (Becker 1971).**
- The argument that women stand to gain more than do men from trade liberalization can also be made on the basis of mainstream H- O- S trade theory and the distributive theorems of H- O- S.**

## **II. Feminist Approaches to International Trade**

**In contrast to mainstream economists, feminist economists start from different methodological premises and ask a broader range of questions. They redefine the sphere of economic analysis to include the unpaid domestic and community labor, and examine how social relations that also embody gender inequalities interact with economic outcomes in different historically specific circumstances. Interested in understanding the social conditions of what has been historically referred to as "women's emancipation" feminists' traditional focus is often on the historical processes through which women become wage workers, or proletarianized, in the context of capitalist (and especially industrial) development and integration into the world economy, which takes many forms.**

**Yet, feminist economists recognize that women's ability to earn an income need not automatically result in "empowerment" and an increasing bargaining power within the household (Elson 1999).**

**Given the potential of labor market participation to empower women (Elson 1999), feminist economists are keenly interested in understanding the obstacles against the expansion of women's paid employment. They study why labor markets can be highly segmented and gender segregated, and how these patterns of segregation and segmentation can persist but also evolve through industrialization and major policy shifts such as trade liberalization. The increased participation of women in employment is examined not only in the context of labor market dynamics and patterns of segmentation, but also in relation to their impact on the reproductive economy. The benefits of increased command over income are weighted against whether the responsibility of women for the burden of unpaid work within the household and the community is lessened in relation to that of men.**

**Posing different questions than mainstream economists, feminist researchers have produced complex findings with regard to changing gendered patterns of work in the context of globalization. In particular, they have shown that the impact of international trade and investment policies have been different on women and than on men, and with differentiated effects on women (and men) in different social classes and types of economies.**

**1. Feminist economists (as well as institutionalists and a variety of heterodox economists would have a different perspective on the relationship between trade performance, trade liberalization and labor market deregulation, on the one hand, and gender relations and inequalities on the other. The methodological starting points may be summarized as follows:**

**2. Feminist economists have explored the role that gender inequalities have played in international competitiveness and patterns of competition, as well as, the role that international competition plays in reshaping and reconstituting gender inequalities, starting from the basic premise that gender relations permeate all aspects of**

economic life and mediate the outcomes of all economic policies. Feminist economists have argued and demonstrated empirically that there is a two-way relationship between gender inequalities and trade performance.

3. Feminist economists put an emphasis on the complex (sometimes complimentary and sometimes contradictory) relationship between different types of inequalities (based on gender, class, as well as inequalities across countries), as they are concerned with not only gender relations but also the role of other types of social relations (which are also power relations) in the determination of economic outcomes and patterns of accumulation and vice versa.

4. Feminist economists emphasize the fact that labor markets are highly segmented (although patterns of segmentation may change over time) and that outcomes of trade policies would be mediated by the labor markets institutions, which would include labor laws, social norms, trade unions as well as employers' behavior. They have argued that all institutions are bearers of gender bias in ways that are specific to the context of an economy and society.

5. Feminist economists would redefine the sphere of economic analysis to include unpaid domestic labor and community labor to understand the relationship between production and reproduction and what roles international trade and accumulation in general play in that interaction.

6. Feminist economists do not generally presume that the economy operates with full employment. Unemployment, underemployment, disguised unemployment, discouraged workers and what is until recently referred to as "atypical work" are not anomalies, but regular features of capitalist production and reproduction processes.

7. Feminist economists accept that capitalist production is inherently a monetary process, but they also recognize that needs are provisioned not only through exchange and commodification, but also through reciprocity.

8. Feminist economists emphasize the fact that gender relations (alongside other social relations) determine who owns what, who gets

what and who does what in an economy. To put it in more economic terms, these relations influence distribution, value and accumulation processes (which are the main analytical starting points of classical political economy).

9. All these different methodological starting points have led to different questions as well as different interpretations of a variety of empirical findings on gender and trade. So far, the following “stylized facts” and “pointers” have emerged from feminist research:

a) Feminists (alongside others) have shown that there has been a general process of feminization of the labor force and feminization of the conditions of work (meaning informalization, casualization and general disempowerment of workers vis a vis capital) for all workers in the world economy. The former (that is feminization of the labor force) is also consistent with expectations of neoclassical economists and indeed constitutes one of the reasons for the defense of globalization (e.g. Bhagwati 2004), but the interpretations and explanations put forth by feminist economists are very different from those put forth by neoclassical economists. Neoclassical may view this phenomenon as “good for women” or as a “window of opportunity for women”, while feminists view feminization of the labor force as a “contradictory” phenomenon from the point of gender inequalities as *this general* trend disguises a number of complications and countertrends which may not be so beneficial from the perspective of women and especially poor women. (Cagatay 2001, Cagatay and Erturk 2004).

b) In most industrialized economies, the effects of trade liberalization were accompanied by defeminization through labor shedding in female-intensive sectors apparel and textiles (Kucera and Millberg 2000). With the entry of China into the WTO and the phasing out of MFA, it is likely that these effects (which have been so far observed in industrialized countries) may be observed in middle income countries and even in low income countries such as Bangladesh which have relied heavily on a feminized textile and apparel sectors in their export drive.

(c) The trend towards feminization of paid employment seems to have been weaker in predominantly agriculture-based economies, where

trade liberalization may in fact have *jeopardized* women's livelihoods and well being. Trade liberalization also leads to import competition displacing smaller and weaker farmers who are more likely to be women and when new markets emerge, in general, women are slow to take advantage of such opportunities that emerge because of their relative disadvantages in accessing credit, new technologies and marketing networks, etc. Fontana et. al. (1998) point out that the impact of these changes is likely to be more severe for women-headed households and poor women. This is an area that needs further investigation.

(d) Moreover, as Joeques (1999) has argued, in instances where unpaid family work is the prevalent norm, the livelihoods of poor women tend to be adversely affected by the corrosive effect of market liberalization on the environment and common property resources. In economies where self-employment or unpaid family work is more prevalent, gender-based differences in resource control have more adverse consequences for women than they do in semi-industrialized economies where there are more opportunities for wage labor (Joeques 1999). As pointed out at the very beginning, what matters is not simply the nature of the policy, but the economic and social context in which a policy is implemented. It is, therefore, important to contextualize the analysis of the effects of trade policies as opposed to assuming on an a-priory basis what the effects should be based on a presumption about equal access and control over resources (or a notional capitalist economy). In the latter, gender inequality in pay may make women the preferred workers, leading to feminization of employment. In the former, the impact of trade liberalization is mediated more forcefully by what happens to common property resources and gender differentiation in private property rights within poorer and rural households. So a comparative study of countries classified according to the prevalent types of labor use in agriculture (e. g. family based, versus large commercial firm based agriculture versus common property use) may yield further insights into patterns of work and trade.

(e) Feminization of the labor force might prove temporary and can be reversed as production moves up the skill ladder at later stages of export-promotion (Joeques 1995, Pearson, Fussel 2000). Thus the degree of feminization is related to the technological characteristics

of production. Although this “stylized fact” has emerged from work on Mexico among other countries, it can still be usefully investigated in other Latin American countries which are at similar stages of the product cycle in Latin America.

(f) The increase in paid employment might end up raising women’s overall work burden if no corresponding reduction lowers their unpaid household labor. This is another area which needs further empirical investigation in the context of a variety of economies including those in Latin America. (e.g. Fontana 2003 )

(g) Market liberalization can cause polarization among women as it creates ‘winners’ and ‘losers’ even when female labor force participation and employment rises in the aggregate and compared to that of men in a particular economy). This phenomenon requires further empirical investigation in specific countries and gender-specific evidence is scarce, but it is quite possible that polarization among skilled and unskilled workers that had been observed (for example in Latin America) may be replicated among women as a result of import competition that is concentrated in informal work, among small farmers, in small firms and among low-skilled workers.

(h) Feminists have explored the role of gender based wage gaps in the trade policy outcomes. In *outward –oriented semi-industrialized countries*, gender gaps in manufacturing wages have been found to be associated with higher economic growth (Seguino 2000). In some semi-industrialized economies, such as those in East Asia, the high growth rates that are associated with increased international trade might have been achieved at the expense of gender equality in labor markets. One implication is that international trade and investment liberalization policies thus provide a context and an incentive to individual countries to repress women’s wages to stay competitive and attract foreign investment.

Another implication is that gender based discrimination is an instrument for international competition and international competitiveness. This is consistent with the theories of competitive advantage and absolute advantage put forth by Shaikh and Millberg, mentioned above, but is not consistent with neoclassical approaches.

**It would be fruitful to consider these theories as useful frameworks for understanding the dynamics of international trade and gender.**

**(i) Gender gaps in wages have also been explored in the context of theory of unequal exchange and in particular the P- S version (Osterreich 2003, 2004). Here the causality goes from gender based wage gaps to terms of trade. More specifically, it has been found that in semi-industrialized economies, the higher the gender-based gaps in the manufacturing sector, the lower is the manufacture – manufacture terms of trade of that country vis- a vis its industrialized trade partners. What these findings imply is that though gender-based wage differences can create a competitive advantage for semi-industrialized countries, they might at the same time be responsible for a slow but steady deterioration in this group of countries' terms of trade as a whole vis-à-vis industrialized countries. As argued by Joeke (1999), gender relations and inequalities have been a central driving force of the evolution of the international economy and gender discrimination has been a contributory factor to the structural limits placed on the ability of low- income countries to benefit from international trade as originally put forth by Raul Prebisch and Hans Singer in the 1950s. The Prebisch – Singer thesis, a critique of mainstream international trade theories and trade liberalization policies, has resurfaced in the context of current globalization debates and the observed patterns of trade, growth and development. The implication of these arguments and the empirical findings is that elimination of gender inequality in labor markets should be a central focus of policy not only for equity purposes but also for maximization of development gains from trade.**

**(j) Contrary to the claims of neoclassical economists, gender based wage gaps have been persistent and there is no clear evidence that increased international trade helps erode these gaps.**

**In those cases where the gender wage gap diminished, this has come about as a result of *downward* harmonization of men's wages, which is an undesirable mechanism,**

**Gender based wage gaps in earnings can have many underlying causes: gender segregation by occupation and industry; gender differences in education and skill acquisition; gender differences in the ability to get organized as workers.**

Higher unemployment rates for women) is a persistent feature of the world economy and this is another macroeconomic “stylized fact” consistent with the expectation that wage gaps are not likely to close in an “automatic” way with increased international trade. Feminization of the labor force can be accompanied by persistently higher unemployment rates for women as often what drives women into the labor force is overall deterioration of income distribution (across households and between labor and capital). This also has an effect on gender – wise distribution as in many instances women’s rate of proletarianization is greater than the rate of absorption of women into employment helping preserve gender- based wage gaps.

### **Concluding Remarks**

The above discussion was meant to serve as a starting point for thinking for a new research agenda on gender and trade.

Mainstream expectations about the benefits of international trade generally and with regard to women have not born out. Critical voices on international trade are gaining ground.

It is extremely important for feminist economists to engage with those holding critical perspectives both for the purpose of usefully employing frameworks developed by such economists and also for the purpose of improving upon them through feminist insights. Such critical economists also suffer from gender – blindness, but their frameworks are more conducive to gender analysis.

Feminist economists have produced a rich set of research findings which are consistent with the arguments of heterodox economists. These need to be synthesized and integrated into the general debates over trade and trade policy both for achieving (gender) equity and for the formulation of trade policies which are oriented toward growth and human development in general.

**This is just the beginning !**

**La Lutta continua !**

**Muchos Gracias**

**Tesekkurler**

**Sipasiba**

**Merci**

**Arigato Gozaimasu**

**Adelante !**