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OCCASIONAL PAPER

12

Foreign Direct Investment, Development and Gender Equity: A Review of Research and Policy

by Elissa Braunstein





Occasional Paper 12

**Foreign Direct Investment, Development
and Gender Equity:**
A Review of Research and Policy

by Elissa Braunstein
January 2006

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acronyms

EPZ	export processing zone
FDI	foreign direct investment
GATS	General Agreement on Trade in Services
ILO	International Labour Organization
M&As	mergers and acquisitions
MAI	Multilateral Agreement on Investment
NBER	National Bureau of Economic Research
OECD	Organisation for Economic Cooperation and Development
PERI	Political Economy Research Institute
SAR	Special Administrative Region
TNC	transnational corporation
TRIMs	trade-related investment measures
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNRISD	United Nations Research Institute for Social Development
WTO	World Trade Organization

summary résumé resumen

SUMMARY

This paper provides a summary of the empirical and policy-related literature on the multifaceted relationships between gender inequalities and foreign direct investment (FDI). The literature on gender and FDI is evaluated with reference to the broader literature on FDI and economic development, new research directions are identified, and the policy implications of managing FDI for development and gender equity are discussed.

The empirical literature on the relationship between FDI and growth and development is surprisingly mixed. The paper reviews the research on the impact of FDI on investment, productivity, trade, employment, wages and working conditions, and finds few of the straightforward conclusions that the popularity of FDI as a tool for development would seem to indicate. However, despite a number of open questions and seeming contradictions, two consistent issues repeatedly arise. First, very little is understood about the dynamic impact of FDI. Even where positive correlations between FDI and investment, employment or wages appear, there is little analysis of whether and how the impact is sustained – to what extent (and how) FDI impacts the process and trajectory of development. Second, the research in which there does seem to be an emerging consensus is on the importance of the economic and policy context for FDI in determining its eventual impact.

In terms of women and FDI, it is clear that foreign investment in labour-intensive, largely export-oriented industries has had a significant impact on women's work and development. While there has been a positive relationship between women's employment and FDI in semi-industrialized countries, there is mounting evidence that women either lose jobs to more highly qualified men as industries upgrade, or get pushed down the production chain into subcontracted work as competition forces firms to continually lower costs. There is likely to be some short-term improvement in women's incomes as FDI expands, but the longer-term trajectory of women's wages is less promising. In terms of gender-based wage inequality, the research on FDI is consistent with other findings that trade does not systematically narrow the gender wage gap. The nature of gender segmentation and industrial distribution – where women are concentrated in highly competitive traded sectors – and the high mobility of transnational capital are instrumental in determining the gender wage gap. While women's wages may undergo an absolute boost from foreign investment, it seems less likely that this will result in a closing of the gender wage gap.

More research is needed in the following areas:

- FDI in the services sector, as much of the extant research is focused on the manufacturing sector, and services make up an increasingly significant part of exports for developing countries
- the relationship between foreign investment and gender equity, including an expansion of the ways that we measure gender equity beyond wages and education
- a closer assessment of how the changing structure of international production and the rise in subcontracting affect the statistics on women's employment and our assessments of them
- gaining a better understanding of the gender–FDI relationship over time, in terms of both the impact of FDI on gender, and the impact of gender on FDI
- lastly, identifying where and why foreign investment has worked well for women and development, with particular emphasis on the role of public policy.

Taking up the issue of public policy and FDI, the last section of the paper will review policies for managing labour-intensive, export-oriented FDI, the sector in which companies are most likely to be significant employers of women. The paper argues that there are ways to structure FDI policies from a gender-aware perspective, and that it is crucial to incorporate this perspective in struggles to link this type of FDI more closely with development. The last section introduces a framework for evaluating FDI policies, categorizing them according to their various targets: attracting FDI, contributing to economic growth or promoting gender equity. These policy targets can and do overlap, and three particular types are evaluated: those that link FDI (1) with growth, (2) with growth and equity, and (3) with equity. Among the FDI and growth target policies, the paper evaluates those that give advantages to domestically owned firms. For those that might link FDI with growth and equity, we evaluate performance requirements, incentives, labour standards and the regulation of physical capital mobility. In terms of equity itself, however, it is argued that the most important intervention open to governments is to enhance the productive capacities of women and girls, as well as to expand the social supports available to them and their families as they enter the labour market. Such policies will not only make women more productive workers, and thus better able to draw on the potential advantages of FDI, but will simultaneously redress the structural sources of gender inequities.

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RÉSUMÉ

Ce document propose une synthèse de la littérature existante sur les rapports multiples entre les inégalités entre hommes et femmes et les investissements étrangers directs (IED), les expériences et les politiques en la matière. L'auteur évalue la littérature relative au genre et aux IED par rapport à une littérature plus vaste, traitant des IED et du développement économique, dégage de nouvelles pistes de recherche et débat des politiques à mener pour que les IED soient gérés de manière à favoriser le développement et l'équité entre les sexes.

La littérature empirique sur les rapports entre IED, croissance et développement est étonnamment hétérogène. L'auteur passe en revue les recherches faites sur l'incidence des IED sur l'investissement, la productivité, le commerce, l'emploi, les salaires et les conditions de travail mais ne retrouve que rarement les conclusions sans ambiguïté que la popularité des IED comme outil de développement semblerait annoncer. Cependant, malgré un certain nombre de questions restées en suspens et de contradictions apparentes, deux interrogations reviennent sans cesse. Premièrement, l'impact dynamique des IED reste dans une large mesure inconnu. Même là où apparaissent des corrélations positives entre les IED et l'investissement, l'emploi ou les salaires, la question de savoir si l'impact est durable et comment il l'est, dans quelle mesure et en quoi les IED ont une incidence sur le processus et la trajectoire du développement est très peu analysée. Deuxièmement, les recherches dans lesquelles un consensus semble se dégager portent sur l'importance que revêtent les politiques menées et le contexte économique pour les IED lorsqu'il s'agit d'en déterminer l'incidence éventuelle.

Pour ce qui est des femmes et des IED, il est évident que les investissements étrangers dans les industries à forte intensité de main-d'œuvre, le plus souvent axées sur l'exportation, ont eu des répercussions importantes sur le travail et le développement des femmes. S'il y a eu une relation positive entre les emplois féminins et les IED dans les pays semi-industrialisés, de plus en plus d'indices tendent à prouver que les femmes perdent leur emploi au profit d'hommes plus qualifiés lorsque les industries se modernisent ou qu'elles sont reléguées de la chaîne de production au travail en sous-traitance lorsque la concurrence oblige les entreprises à limer constamment les coûts. Il est probable que les revenus des femmes s'améliorent à court terme lorsque les IED augmentent mais, à plus long terme, la trajectoire des salaires féminins est moins prometteuse. S'agissant de l'inégalité des salaires entre hommes et femmes, les conclusions des recherches sur les IED rejoignent celles d'autres recherches, qui montrent que le commerce ne réduit pas forcément l'écart entre salaires féminins et salaires masculins. La nature de la segmentation par sexe et de la répartition des hommes et des femmes selon les industries – les femmes sont concentrées dans des secteurs commerciaux soumis à une forte concurrence – et la forte mobilité du capital transnational contribuent à déterminer l'écart des salaires entre hommes et femmes. Si les investissements étrangers peuvent, dans l'absolu, entraîner une hausse des salaires des femmes, il semble moins probable qu'ils finissent par combler l'écart salarial entre hommes et femmes.

Des recherches sont encore nécessaires dans les domaines suivants:

- les IED dans le secteur des services, parce qu'une grande partie des recherches existantes porte sur le secteur manufacturier et que les services représentent une part de plus en plus importante des exportations des pays en développement
- la relation entre investissements étrangers et équité entre les sexes, notamment en trouvant d'autres moyens que les salaires et l'éducation pour mesurer l'équité entre les sexes
- une étude plus rigoureuse de la manière dont l'évolution changeante des structures de production internationales et la montée de la sous-traitance affectent les statistiques sur l'emploi des femmes et les conclusions que nous en tirons
- les rapports entre genre et IED dans le temps, pour parvenir à une meilleure compréhension à la fois des effets des IED sur l'équité entre les sexes et de l'impact du genre sur les IED
- enfin, recensement des cas dans lesquels les investissements étrangers ont eu des effets positifs sur les femmes et le développement, et recherche des raisons pour lesquelles il en a été ainsi, en étudiant en particulier le rôle des politiques publiques.

Abordant la question des politiques publiques et des IED, la dernière section du document passe en revue les politiques de gestion des IED dans les industries d'exportation à forte intensité de main-d'œuvre, secteur dans lequel les sociétés ont le plus de chances d'employer beaucoup de femmes. L'auteur explique qu'il existe des moyens de concevoir la politique des IED dans une perspective de sensibilité aux questions d'équité entre les sexes, et qu'il est essentiel d'intégrer cette perspective aux luttes visant à relier plus étroitement ce type d'IED au développement. La dernière section introduit une grille d'évaluation des politiques en matière d'IED, en les classant par rapport à leurs divers objectifs: attirer les IED, contribuer à la croissance économique ou favoriser l'équité entre hommes et femmes. Ces objectifs politiques peuvent se chevaucher et le font souvent, et trois types de politique sont étudiés: celles qui relient les IED 1) à la croissance, 2) à la croissance et à l'équité, et 3) à l'équité. Parmi les politiques qui visent à la fois les IED et la croissance, l'auteur analyse celles qui avantagent les entreprises détenues par des nationaux. Pour celles qui pourraient relier les IED à la croissance et à l'équité, elle étudie les impératifs de performance, les incitations, la législation du travail et la régulation de la mobilité physique du capital. Pour ce qui est de l'équité en soi, elle fait valoir, cependant, que l'intervention la plus importante à laquelle puissent recourir les gouvernements consiste à augmenter la capacité de production des femmes et des filles, et à étendre les appuis sociaux dont elles disposent, elles et leurs familles, au moment de leur entrée sur le marché du travail. De telles politiques feront non seulement des femmes des travailleuses plus productives et ainsi mieux à même de profiter des avantages potentiels des IED, mais corrigeront aussi les structures qui sont à l'origine des inégalités entre les sexes.

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RESUMEN

Este documento es un resumen de la literatura empírica y relacionada con las políticas sobre las multifacéticas relaciones entre las desigualdades de género y la inversión extranjera directa (IED). Se evalúa la literatura especializada sobre género e IED en relación con la literatura general sobre la IED y el desarrollo económico; se identifican las nuevas direcciones que han tomado las investigaciones en esta área y se analizan las implicaciones que, desde el punto de vista de las políticas, tiene la gestión de la IED para el desarrollo y la equidad de género.

La literatura empírica sobre la relación entre la IED y el crecimiento y el desarrollo es sorprendentemente diversa. En este documento se analizan las investigaciones sobre las repercusiones de la IED en las inversiones, la productividad, el comercio, el empleo, los salarios y las condiciones laborales, y se corroboran apenas algunas de las conclusiones directas que la popularidad de las IED como herramienta para el desarrollo parecería dar por sentado. Sin embargo, no obstante los diversos interrogantes sin respuesta y las aparentes contradicciones, surgen reiteradamente dos aspectos. En primer lugar, es muy poco lo que se sabe sobre el impacto dinámico de la IED. Incluso en casos y situaciones donde se observan las correlaciones positivas entre IED e inversión, empleo o salarios, no se ha analizado a fondo si tal repercusión es sostenida y cómo se mantiene—en qué medida (y cómo) la IED incide sobre el proceso y la trayectoria del desarrollo. En segundo lugar, parecería estar formándose un consenso en torno a la importancia del contexto económico y de las políticas de la IED para determinar su posible efecto.

En lo que atañe la IED y la mujer, resulta claro que la inversión extranjera en las industrias fundamentalmente exportadoras, de uso intensivo de mano de obra han tenido un efecto considerable sobre el trabajo y el desarrollo de la mujer. Pero si bien ha existido una relación positiva entre el empleo de la mujer y la IED en los países semi-industrializados, existe un volumen creciente de datos que comprueban que las mujeres pierden sus puestos frente a los hombres más cualificados a medida que las industrias aumentan su nivel tecnológico, o bien quedan relegadas a los niveles más bajos de la cadena de producción en el trabajo subcontratado a medida que la competencia obliga a las empresas a reducir constantemente los costos. Es probable que la expansión de la IED se traduzca en una mejora a corto plazo de los ingresos de la mujer, pero la trayectoria a largo plazo de los salarios femeninos es menos prometedora. En materia de desigualdad salarial sobre la base del género, las investigaciones sobre IED son congruentes con otras investigaciones que concluyen que el comercio no contribuye a reducir sistemáticamente la brecha salarial basada en el sexo. La naturaleza de la segmentación y la distribución industrial sobre la base del género (en virtud de la cual las mujeres se concentran en sectores de bienes altamente competitivos) y la gran movilidad del capital transnacional son factores cruciales para determinar la brecha salarial entre el hombre y la mujer. Si bien los salarios de las mujeres podrían experimentar un impulso absoluto a raíz de las inversiones extranjeras, es menos probable que esto conlleve a cerrar la brecha salarial entre hombres y mujeres.

Es menester profundizar las investigaciones en las áreas siguientes:

- la IED en el sector servicios, dado que la mayor parte de las investigaciones actuales se concentra en el sector manufacturero, y los servicios constituyen una parte cada vez más importante de las exportaciones de los países en desarrollo
- la relación entre la inversión extranjera y la equidad de género, incluida la ampliación de las formas en que medimos esta última más allá de los salarios y la educación
- una evaluación más profunda de la forma en que el cambio de la estructura de producción internacional y el incremento de la subcontratación afectan las estadísticas relativas al empleo de la mujer y la forma en que evaluamos esos datos
- una mayor comprensión de la relación género-IED a largo plazo, tanto en lo que tiene que ver con el impacto de la IED sobre el género como la repercusión del género sobre la IED
- Finalmente, determinar dónde y por qué la inversión extranjera ha obrado en favor de la mujer y el desarrollo, y analizar con particular énfasis el papel de la política pública.

En la última sección del documento, dedicada al tema de la política pública y la IED, se examinan las políticas de gestión de la IED orientada a la exportación y de uso intensivo de mano de obra, sector en el cual las compañías pueden llegar a ser importantes empleadores de mano de obra femenina. Se argumenta que existen formas distintas de estructurar las políticas de la IED desde una perspectiva de género, y que es fundamental incorporar esta perspectiva en los esfuerzos por vincular este tipo de IED de una forma más estrecha al desarrollo. En esta última sección del documento se presenta un marco para evaluar las políticas de la IED, al categorizarlas de acuerdo con sus distintos objetivos: atraer IED, contribuir al crecimiento económico o promover la igualdad de género. Estos objetivos de política pueden coincidir parcialmente, y de hecho lo hacen. En esta sección se analizan tres de estas políticas, a saber, aquellas que vinculan la IED con (1) el crecimiento, (2) con el crecimiento y la equidad y (3) con la equidad. Entre las políticas que relacionan la IED con el crecimiento, se evalúan aquellas que confieren ventajas a las empresas nacionales. En cuanto a las políticas que pudieran vincular la IED al crecimiento y la equidad, se evalúan los requisitos de desempeño, incentivos, normas laborales y la regulación de la movilidad del capital físico. Sobre la equidad propiamente dicha, se argumenta que la intervención más importante al alcance de los gobiernos reside en mejorar las capacidades productivas de las mujeres y las jóvenes y en ampliar el apoyo social a disposición de éstas y sus familias al ingresar al mercado laboral. Estas políticas no sólo contribuirán a hacer de las mujeres trabajadores más productivos y, en consecuencia, aprovechar en mayor medida las potenciales ventajas de la IED; también permitirán contrarrestar de forma simultánea las fuentes estructurales de las desigualdades de género.

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introduction

While the wisdom of encouraging short-term capital flows is increasingly questioned, foreign direct investment (FDI) is still viewed as a central element of development strategy by the international financial institutions, and indeed the United Nations (consider, for example, the Monterrey

Consensus). Many contentious issues remain in the literature about FDI, pertaining both to its growth and development effects and to the appropriate kinds of regulatory frameworks that would orient such investment towards development. Even though its development effects are debated, the literature on FDI and economic development has generally been gender-blind. However, a small but growing body of work has been addressing the gender dimensions of FDI in the context of efforts to understand how neoliberal economic policies and globalization patterns are having different impacts on women and men. Although the literature is relatively small, there are some stylized facts that can be drawn from these findings.

The purpose of this paper is to provide a summary of the empirical and policy-related literature on the multifaceted relationships between gender inequalities and foreign direct investment. The literature on gender and FDI will be evaluated with reference to the broader literature on FDI and economic development. The second purpose of the paper is to identify lacunae in the literature and to raise questions for new research directions. A third purpose is to draw out both the policy implications of what is already known and the questions that need to be researched in order to formulate development-friendly and gender-equitable policies with regard to FDI.

The paper begins with a review of the general literature on FDI in developing countries, covering the distribution and determinants of inward investment flows, and the role of wages and labour standards in affecting those inflows. The next section assesses the contribution of FDI to growth and development by reviewing the research into its impact on investment, productivity, trade, employment, wages and working conditions. The paper will then consider the gender-aware literature on the subject, and summarize its findings with regard to employment, wages and gender inequality, ending with questions for further research. The last section discusses policies for managing FDI for the good of development, evaluating which are the most promising for strengthening the links between gender, growth and foreign investment in female-intensive industries.

II.

foreign direct investment: where it goes and why

II.A.

the distribution of FDI flows

Table 1 presents the distribution of FDI inflows worldwide since the mid-1980s. As the table shows, the vast majority goes to developed economies, which as a group received over 70 per cent of world FDI inflows in 2001 and 2002. Since the mid-1980s, though, developing economies have steadily increased their share, which averaged only 18 per cent of the world total in the late 1980s but increased to an average of 36 per cent in the mid-1990s. The global economic slowdown that began with the Asian financial crisis reversed this trend somewhat, and the developing country share of FDI inflows stabilized at about 25 per cent in 2001 and 2002. Within the developing world, South, East and Southeast Asia account for about half of FDI inflows, with Latin America and the Caribbean taking a majority of the rest.

TABLE 1
FDI INFLOWS BY REGION (PERCENTAGE OF WORLD TOTAL)

Region/economy	1986-1991	1991-1996	1997	1998	1999	2000	2001	2002
	(annual average)							
Developed economies	81.3	60.8	56.0	68.8	76.4	80.4	71.5	70.7
Western Europe	41.7	35.8	28.9	38.3	43.5	51.0	48.7	59.0
United States	30.8	18.4	21.5	25.4	26.3	22.5	17.5	4.6
Developing economies	18.3	36.0	40.1	27.9	21.2	17.7	25.4	24.9
Africa	1.8	1.8	2.2	1.3	1.1	0.6	2.3	1.7
Latin America and the Caribbean	5.9	10.6	15.2	12.0	10.0	6.8	10.2	8.6
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
South, East and Southeast Asia	9.5	22.1	20.8	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
Central and Eastern Europe	0.4	3.2	3.9	3.3	2.3	1.9	3.0	4.4

Source: UNCTAD 1999, 2003b, Annex Table B.1

In addition to total inflows, there are some structural differences between the types of FDI that go to developed and to developing economies. Cross-border mergers and acquisitions (M&As), where foreign capital inflows go towards acquiring firms or facilities that are already established, are a more significant mode of entry for FDI in developed countries than in developing ones. In 2002, the ratio of cross-border M&As to total FDI inflows was 67 per cent for developed and 28 per cent for developing countries; over 87 per cent of the world value in cross-border M&As was carried out in developed countries.¹ These ratios must be interpreted with caution, however,

1 Author's calculations, based on data in Annex Tables B.5 and B.7, World Investment Report 2003 (UNCTAD 2003b).

TABLE 2
INWARD STOCK OF FDI BY REGION (PERCENTAGE OF WORLD TOTAL)

Region/economy	1980	1985	1990	2000	2002
Developed economies	56.0	58.4	71.6	68.0	64.5
Western Europe	33.3	29.3	40.7	40.4	39.0
United States	11.9	18.9	20.2	17.8	19.0
Developing economies	44.0	41.6	28.2	30.7	32.8
Africa	4.6	3.5	2.6	2.6	2.4
Latin America and the Caribbean	7.2	8.2	6.0	6.7	10.7
Asia	32.2	29.9	19.6	21.4	19.7
West Asia	1.1	3.9	2.1	1.7	1.0
Central Asia	–	–	–	0.1	0.4
South, East and Southeast Asia	30.9	26.0	17.4	19.4	18.3
Pacific	0.2	0.1	0.1	0.1	0.1
Central and Eastern Europe	–	0.0	0.1	1.3	2.6

Source: UNCTAD 1999, 2003b, Annex Table B.1

because data on FDI and M&As are not quite comparable. FDI is a balance of payments concept that reflects the source of capital funds, and M&A statistics include funds not usually categorized as FDI, such as purchases made through domestic and international capital markets. Data on FDI thus includes some proportion of M&A activity, meaning that FDI figures may give an exaggerated view of new investments, and that looking at M&As as a proportion of FDI will overstate the relative importance of mergers and acquisitions in foreign direct investment activity. Nevertheless, the ratio of M&As to FDI is a good barometer of the different nature of FDI in developed and developing economies.

Table 2 illustrates trends in inward stocks of FDI. From this perspective, the distribution of FDI stocks has actually tipped in favour of developed economies since the 1980s. The developed economies accounted for a little over half of the global FDI stock in 1980; in 2002, they accounted for about two-thirds. There is some evidence that developing countries are gaining though, as the stock of FDI in developing countries increased from 28 per cent in 1990 to 33 per cent in 2002.

Within the developing world, FDI is also highly concentrated. Table 3 shows the top 20 developing and transition-economy destinations for FDI. Taken together, these 20 countries accounted for 90 per cent of FDI inflows into the developing world in 2002, and 22 per cent of world FDI inflows. China and Hong Kong Special Administrative Region (SAR) together accounted for 41 per cent of FDI inflows to all developing economies in 2002. Brazil, Mexico, the Czech Republic and Singapore accounted for about another 30 per cent. In other words, just five developing countries accounted for almost three-quarters of all developing country FDI inflows in 2002.

The far-right column of table 3, which shows FDI inflows as a percentage of gross fixed capital formation, provides a way to measure the significance of FDI inflows to the host economy. Among the top performers in attracting FDI, the significance of FDI to overall investment varies. For the top transition-economy destinations for foreign investment (with the exception of the Russian Federation and Poland), FDI represented over half of gross fixed capital formation in 2002. These patterns reflect a high frequency of cross-border mergers and acquisitions, especially as a result of privatization (UNCTAD 2003b). The transition economies are also attractive destinations for FDI because of their likely accession to the European Union, and their potential as low-cost production bases for exports to other EU countries (or, in the case of Kazakhstan, as a source for oil and gas). Singapore (where FDI was 44 per cent of investment) and Hong Kong SAR (where it was 35 per cent) also have high levels of FDI relative to overall investment; these levels reflect intentional development strategies that depend more heavily on FDI. The narrow concentration of FDI suggests that the determinants of inward flows might also be specific; this is the topic of the next section.

	Inward FDI as a percentage of		
	FDI inflows to all developing economies	World FDI inflows	Gross fixed capital formation
China	32.5	8.1	10.5*
Brazil	10.2	2.5	19.6
China, Hong Kong SAR	8.5	2.1	35.2
Mexico	8.4	2.1	11.3
Czech Republic	5.7	1.4	59.1
Singapore	4.7	1.2	43.8*
Poland	2.5	0.6	11.4
Slovakia	2.5	0.6	56.9
India	2.1	0.5	3.2*
Malaysia	2.0	0.5	2.5*
Kazakhstan	1.6	0.4	55.6*
Russian Federation	1.5	0.4	3.9
Colombia	1.3	0.3	17.0
Korea, Republic of	1.2	0.3	1.5
Chile	1.0	0.2	11.4
Taiwan Province of China	0.9	0.2	2.9
Venezuela	0.8	0.2	16.7*
Thailand	0.7	0.2	3.7
Argentina	0.6	0.2	8.2
South Africa	0.5	0.1	4.8

Source: These regions represent the top 20 developing and transition-economy destinations for FDI averaged over the years 2000–2002. All data is for 2002, except in cases with an asterisk, which indicates the data is for 2001.

II.B.

the determinants of inward FDI, and the role of wages and labour standards

Unlike most other areas of empirical work on FDI and development, the empirical evidence on why investors choose the locales that they do is quite clear. Foreign investors are attracted to economically dynamic countries. They look for factors like high and growing per capita incomes, large domestic markets, a well-educated work-

force, well-developed physical and technological infrastructure, proximity to export markets, and social and political stability; the presence of other foreign investors – the “agglomeration effect” – is also a significant factor (UNCTAD 2003b). An illustrative survey of transnational managers and international experts reported that labour costs were ranked as being of only middling importance (an average score of 2.4 on a scale of 0 to 5), coming in ninth of 13 location criteria (Hattem 1997).² What is crucial in attracting FDI is what William Milberg calls a country’s “absorptive capacity”, or those factors that promote domestic economic growth through investment, infrastructure and human capital development (Milberg 1999: 100). According to this view, growth and development lead to FDI, rather than FDI leading to growth and development.

It is nonetheless reasonable to contend that labour costs might be a more significant determinant of inward FDI in developing countries when these inflows reflect an intention to minimize production costs. This type of FDI is commonly referred to as “efficiency seeking” FDI, and stands in contrast to resource-seeking and market-seeking FDI (UNCTAD 2003b). Resource-seeking investors come into countries in order to exploit natural resources, and while factors such as physical infrastructure and the pool of available labour jointly determine the profitability of such investments, in the first instance the criterion is largely a matter of a country’s natural resource endowment. Market-seeking investors make investments in order to sell their products in the host country’s domestic markets, so they are more concerned with factors like domestic market size and per capita incomes. Efficiency-seeking investors are looking for the lowest production costs, so for developing countries with few natural resources and small domestic markets, an emphasis on the comparative advantage of low-cost labour and low standards for working conditions can seem like a promising avenue for attracting FDI.

There is an empirical literature that supports this perspective; it argues for a clear negative correlation between wages and inward FDI – meaning that lower wages are associated with higher levels of inward FDI.³ The problem with these studies (and the overall contention that low-cost labour is a key to attracting FDI) is that they do not control for productivity and other factors, such as social and political stability, that are linked to productivity. Within the empirical literature that does control for productivity, there is a positive association between FDI and the types of labour standards that may raise wages but that ultimately contribute to worker productivity. OECD (2000) found that FDI was positively correlated with the right to establish unions, to strike, to collective bargaining and to the protection of union members. Rodrik (1996) found that US outward FDI between 1982 and 1989 was positively correlated with the Freedom House democracy index, and negatively associated a high child-labour index. These findings indicate that countries with weak democratic institutions

2 The criteria, and their scores, in order of importance are: (1) growth of market, 4.2; (2) size of market, 4.1; (3) profit outlook, 4.0; (4) political and social risk, 3.3; (5) skilled labour, 3.0; (6) regulatory framework, 3.0; (7) quality of infrastructure, 2.9; (8) manufacturing and services environment, 2.9; (9) cost of labour, 2.4; (10) resources-high technologies, 2.3; (11) fear of protectionism, 2.2; (12) access to financial resources, 2.0; and (13) access to raw materials, 2.0 (Hattem 1997:55–56).

3 A key general point to keep in mind in interpreting these types of results is that correlation is not the same thing as causation. Statistically significant correlations could mean that low wages draw in foreign investors, or that FDI inflows cause lower wages, or that something else entirely – an international agreement, for instance – could be driving both FDI and wages.

and more widespread child-labour practices do not perform as well in attracting US FDI as others in similar economic circumstances with strong democracies and a low incidence of child labour.

In a detailed empirical study of 27 high-income and 100 developing countries between 1992 and 1997, David Kucera (2001) showed that while wages were positively correlated with a number of political freedoms, the positive productivity effects of these freedoms far outweighed the negative effects of higher wages on inward FDI. After controlling for a number of determinants of FDI – including wages and productivity – Kucera showed that strong civil liberties, political rights and democracy were associated with higher levels of FDI.⁴ For example, in the full regression (which included all countries without regional dummies), he showed that a one-unit increase in the civil liberties index was associated with an 18.5 per cent increase in inward FDI. The total wage-plus-non-wage effect of this one-unit increase was a 14.3 per cent increase in FDI – with the difference of 4.2 per cent reflecting the impact of higher wages (which reduce FDI) that are associated with greater civil liberties. For the group of developing countries alone, a one-unit increase in the civil liberties index resulted in a 17.1 per cent increase in inward FDI. Adding the wage effect lowers the positive increase to 10.9 per cent. Comparing the combined model with the model only of developing countries, the lower impact of civil liberties on inward FDI (17.1 per cent compared to 18.5 per cent), and the bigger gap after accounting for wage effects (6.2 per cent, compared to 4.2 per cent), suggest that FDI is more cost sensitive in developing countries. This makes sense in light of the greater likelihood that this type of FDI is efficiency seeking, but does not detract from Kucera's conclusion that political freedoms are positively correlated with FDI. Kucera also finds positive correlations for unionization rates, freedom of association and collective bargaining indices, though these correlations are not as strong as the civil liberties index. He suggests that this is due to the fact that general rights may be more important in attracting FDI than rights that are specific to workers.

Similarly, in an OECD review of empirical work on trade and labour standards, Brown concludes that poor labour practices do not attract FDI (Brown 2000). In light of these findings that suggest a positive relationship between democratic-type rights and institutions and FDI, it is perhaps surprising to recall that China, a country with very weak democratic institutions, is also the main developing country recipient of FDI. But China is a special case, in that much of its FDI comes from nontraditional sources with strong cultural links such as Hong Kong SAR, Macao Special Administrative Region (SAR), Taiwan Province of China and Singapore. In fact, according to a cross-country study by Shang-Jin Wei on FDI from OECD countries, China actually gets much less FDI than its underlying economic fundamentals should attract (Wei 2000). Wei attributes this “underperformance” to corruption and excessive regulation; further study of how democratic institutions come into play would make for an important extension of Wei's findings.

Thus, although many developing countries, with the increase in competition for efficiency-seeking FDI, feel pressure to maintain relatively low wages and weak labour standards, the evidence favours an approach that focuses on developing a country's absorptive capacity, including thinking in terms of its overall labour productivity. As evidenced by the work reviewed above, the negative association between wages and FDI is one that does not account for the intervening role of labour productivity, or for the social and economic factors that jointly determine labour productivity.

4 The basic regression model regressed a country's share of FDI inflows on wages relative to manufacturing value-added, population (as a measure of market potential), per capita GDP, international trade/GDP, exchange rate growth, urbanization and literacy.

III.

the contributions of FDI to growth and development

nothing of broad development – is actually quite weak. This section will review the empirical literature on the connections between FDI and development, and discuss the extent to which FDI appears to be a favourable factor for growth and development.

This section will begin with the most common ways that economists have evaluated the impact of FDI on growth: through its impact on investment and productivity. It will also discuss FDI's impact on trade, and finally move into a more direct application to development by reviewing the literature on its role in enhancing employment, wages and working conditions in developing countries.

Foreign direct investment is commonly treated by economists and policy makers as a premier agent of economic growth and development. In light of the Asian and Latin American financial crises, where portfolio flows proved to be highly volatile, FDI is now more than ever courted as the capital flow of choice. Despite its increasing popularity in these policy prescriptions, the empirical evidence for a causal connection between FDI and growth – to say

III.A.

growth, investment and productivity

to promote FDI, then a positive correlation between the two could be taken to mean that growth leads to FDI. It is necessary to look more closely at the ways that FDI may contribute to growth, and here the empirical literature has identified two avenues: via its impact on investment, and on productivity.

Most macroeconomic studies find positive correlations between FDI and economic growth. But as the discussion on the locational determinants of FDI makes clear, the major problem with these types of studies is the question of causality. If factors that promote economic growth are also found

INVESTMENT

In terms of the impact of FDI on investment, it is easy to assume that FDI automatically adds to growth by expanding the pool of resources available for investment, but that need not be the case. FDI might encourage or “crowd in” domestic investment, as when there are strong backward or forward linkages with domestic firms created by new foreign ones. Conversely, it could crowd out domestic investment, as when foreign firms compete with domestic organizations and drive them out of business.

Empirical evidence suggests that policies and macroeconomic contexts have significant impacts on these effects. In an UNCTAD study of developing regions in Asia, Africa and Latin America between 1970 and 1996, Agosin and Mayer (2000) find evidence of crowding in of domestic investment in Asia (and to a lesser extent in Africa), and crowding out in Latin America. They conclude that the effects of FDI on domestic investment are not always

favourable, and that policies geared simply towards attracting FDI are unlikely to work well. Braunstein and Epstein (2004), in a similar study of mainland China between 1986 and 1999, find strong evidence for crowding out. Yasheng Huang (1998) argues that foreign investment crowds out domestic investment in China because foreign enterprises tend to be highly leveraged, competing with local firms for domestic financing. This leveraging is a direct result of policy incentives that grant preferred status to foreign-invested firms (Huang 1998). Weeks (2003), using a simulation approach to assess crowding in/out in Latin America, finds that differences in country size and simple structural characteristics do not explain the different country results. He finds that on average there has been a shift toward crowding out in the region, and concludes that government deregulation has played a key role in this trend. Taken together, these studies confirm that the relationship between FDI and overall investment is a complex one, and that economic conditions and policy environments are key aspects of that relationship.

PRODUCTIVITY

FDI may also contribute to development and growth via its impact on productivity. Foreign investment might bring with it advanced technology and ideas that enhance its direct effect on investment and growth if these factors “spill over” into the rest of an industry and increase the efficiency of domestic producers (Blomstrom 1989).

What is the empirical evidence? Most macroeconomic and industry-level studies find positive correlations between FDI and productivity growth.⁵ The evidence for spillovers seems to become stronger as transnational corporations (TNCs) source more of their inputs locally (Blomstrom and Kokko 1997). Still, there are significant statistical problems with these types of studies because they do not control for a number of variables that affect both FDI and productivity. Positive correlations that do not statistically control for other factors like workforce skills and the level of infrastructure could simply reflect the fact that TNCs locate in high-productivity industries. Similarly, government policies such as workforce education or road building that raise productivity and attract foreign investors could also cause misleading interpretations of correlations. Recent work that looks at particular firms finds that where TNCs operate in the same industry as domestic firms, they have in fact had a negative effect on the productivity of local companies, which suggests that the market power of transnationals may confine competing domestic firms to less profitable sectors (Hanson 2001). Other recent work at the microeconomic level, however, finds positive results for productivity spillovers (Lipsev and Sjöholm 2005; Blalock and Gertler 2005). As a whole, then, the literature on FDI and productivity is ultimately inconclusive, as macroeconomic studies are unable to adequately control for relevant factors, and the microeconomic literature is still being developed.

⁵ An interesting exception is a panel study of semi-industrialized countries by Stephanie Seguino, which finds that productivity is negatively correlated with (inward plus outward) FDI (Seguino 2003). Seguino argues that the ability of internationally mobile capital to flee in the face of increasing wage pressures leaves little incentive to improve productivity.

III.B.

FDI and trade

Many of the benefits that TNCs bring to their developing host countries stem from the linkages between TNCs and trade, a connection that is increasingly identified as one of the main conduits of FDI's contribution to growth in developing countries (Melitz 2005). Empirical studies of developing host countries have shown that TNCs may enhance the exporting capacity of their hosts both directly, by their own exports, and indirectly, by increasing the capacity of local firms to export (Blomstrom 1990; Aitken et al. 1994). The increase in FDI flows to developing countries between the mid-1980s and the late 1990s illustrated in table 1 can be explained by the sharp increase in flows to manufactures-exporting countries (Ghose 2003). In addition to increasing exports, the integration of TNCs with global markets provides host countries with increased opportunities for efficiency-enhancing spillovers.

An analysis of individual countries that have had success in attracting export-oriented FDI shows that the integration of TNCs with the domestic economy can be very shallow, with fewer opportunities for trade spillovers. Success in building up local capacities for production and export seems to be driven by industrial policies that actively manage FDI. China and the Republic of Korea have both been successful at managing export-oriented FDI in ways that encourage the development of local content and industrial upgrading (UNCTAD 2002). Conversely, countries like Costa Rica and Mexico, which have attracted export-oriented FDI effectively but have been less active in managing it, have not been able to create significant linkages with local firms (ibid.).

By virtue of their export orientation, foreign-invested firms may increase foreign exchange earnings,⁶ thus making possible purchases of capital goods on the international market and enhancing labour productivity despite having shallow links with domestic producers. However, foreign capital inflows associated with FDI may also increase the supply of foreign exchange, which may affect the exchange rate and lead to an appreciation of the currency. The result is upward pressure on the price of exports, and a decline in the relative price of imports that dampens the ability of domestic producers to compete with imported goods. On balance, then, while TNCs seem to raise a country's exports, it is not clear that the longer-term effect on domestic producers is necessarily positive.

III.C.

The contributions of FDI to enhancing employment, wages and working conditions

In addition to assessing the impact of FDI on economic growth, economists have also evaluated its impact on employment, wages and working conditions. However, much of the empirical work that has been done in this area focuses on wage inequality and the relationship between FDI, wage and employment levels is less well understood.

6 Because FDI also brings with it a foreign exchange liability, however, the balance of this effect may ultimately be negative (Singh 2002).

EMPLOYMENT

Broad macroeconomic studies of FDI and employment show modest positive effects (Braunstein and Epstein 2004; Dunning 1993). Studies of trade and employment in developing countries, which can be treated as indicators of the employment effects of efficiency-seeking FDI, confirm these positive effects, although there are some regional differences. In a study of the impact of trade on manufacturing employment in Asia and Latin America, Ghose (2003) found that trade increased manufacturing employment in countries such as China, India and Malaysia. The competition of increased imports from industrialized countries did not dampen the employment generation effect, probably because high rates of economic growth were able to accommodate import growth as well as increases in domestic production within import-competing industries (*ibid.*).

Ghose found a different situation for Latin American countries such as Brazil and Mexico, where the impact of trade on manufacturing employment has not been strongly positive. A big factor is certainly the problem of low rates of overall economic growth, but he also argues that part of the problem was excessive dependence on sustained inflows of FDI, which could not be relied upon to remain steady over the long term. Another potential problem with FDI which he identifies is that trade and investment liberalization were accompanied by the development of export-oriented industries using medium to high-technology, rather than unskilled labour-intensive ones (with the exception of the *maquiladora* sector).⁷ Employment growth suffered as a result. Thus, while empirical studies do confirm a modest positive relationship between FDI and employment in developing countries, further work is necessary to gain a more precise understanding of these relationships. Ghose's work on trade and employment suggests that the macroeconomic context is important, and that foreign investment inflows may not provide the long-term source of capital necessary to sustain employment growth.

WAGES

The empirical evidence on wages and FDI in developing countries, though more highly developed, is also inconclusive. While wages are often used as an independent variable to explain FDI, it is rare to find the causality running the other way in the empirical literature. But there is a clear causal link. First, FDI may affect labour demand (depending on whether it is for greenfield investment or cross-border mergers and acquisitions, and on what competitive impact it has on domestic investment), and thereby affects wages. Second, spillover effects from potentially higher-productivity (and higher-paying) foreign enterprises could raise wages throughout the country. And lastly, because capital is internationally mobile and labour is not, FDI may enhance capital's bargaining power relative to labour, thereby lowering wage growth (Paus and Robinson 1998; Seguino 2003).

Empirical studies of developing countries have indicated a positive correlation between wages and various measures of FDI.⁸

7 The term *maquiladora* refers to factories, especially on the US–Mexican border, that produce labour-intensive products with imported goods.

8 Aitken et al. 1996; Braunstein and Epstein 2004; Paus and Robinson 1998; te Velde and Morissey 2002.

Studies done at the plant level offer greater insight into the dynamics of these relationships. Harrison and Scorese (2004), in a study of Indonesian manufacturing between 1990 and 1996, found that TNCs and exporters paid higher wages overall, but that wages grew more quickly for domestically owned (36 per cent) than for exporting (18 per cent) or foreign (11 per cent) enterprises. Using firm-level panel data on FDI in Portugal from 1991 to 1998, Almeida (2004) finds that while foreign firms have a more highly paid and educated workforce, foreign investors choose to invest in firms with other features that are correlated with the demand for educated workers and higher wages. What is unique about her study is that she is able to control for unobservable firm characteristics, as she compares firms before and after foreign acquisition. Her conclusion suggests that the hypothesized line of causality may indeed be merely one of correlation, with foreign investment variables picking up other firm features that are difficult to capture and are associated with higher wages.

Other plant-level studies assess whether the positive effect of TNCs on wages in their own plants affects wages in other firms – whether there are spillover effects. One study done in Mexico and Venezuela found that the positive wage effect holds only for TNCs themselves, and does not spill over into the rest of the economy as theory would predict (Aitken et al. 1996). In contrast, a study of Indonesian manufacturing found evidence for positive wage spillovers (Lipsey and Sjöholm 2001). So while the findings on the positive relationship between FDI and wages seem consistent for the most part, there is less clarity about the larger impact foreign investors have on wages in the wider economy, and whether foreign ownership indeed reflects other unobservable firm characteristics associated with higher wages.

One increasingly important aspect of the relationship between FDI and wages is the relative mobility of foreign firms. Paus and Robinson's work (1998), a study of FDI and wages in developing and developed countries, indicates a structural shift in the relationship between FDI and wages beginning in the late 1980s, when the positive correlation between FDI and wages disappeared. They suggest that increasing global capital mobility is the likely culprit. Another study of China, the Philippines, Singapore and Thailand found evidence that FDI has contributed to an increase in the responsiveness of labour demand to wage increases (Mehmet and Tavakoli 2003). The authors proffer this as evidence of a “race-to-the-bottom” dynamic: that the ease with which foreign investors can move production when labour costs rise has dampened the rise in wages within these countries. So while FDI may be associated with higher wages, there is some evidence that, as capital has become more mobile, this association has weakened.

Much of the empirical work done on FDI and wages assesses whether FDI contributes to wage inequality between skilled and unskilled workers, with skill most often measured by the divide between production and non-production workers. Such an effect may seem counter-intuitive in light of standard trade theory that trade will increase the demand for the abundant-production factor (in the case of developing countries, unskilled labour), but it perhaps makes more sense if we consider FDI in terms of the growth of globally integrated production systems and the rise of outsourcing. Feenstra and Hanson (1997), in an industry-level study of FDI in Mexico between 1975 and 1988, found that foreign employers raised the relative demand for skilled workers (as measured by the non-production wage share), thus increasing skill-based wage inequality. They concluded that the growth in FDI accounted for over 50 per cent of the increase in the skilled-labour wage share during the late 1980s. They argue that this increase is the result of the nature of capital flows from North to South, which reflect a rise in Northern outsourcing and a concomitant increase in the Southern capital stock, raising the relative demand for skilled labour in the South. In making this argument, they also investigate whether the concentration of female employees in the *maquiladora* sector, together with the gender wage gap, is lowering average wages for production workers. If women's lower wages bring down the average wage of the unskilled workforce, this could be an alternative explanation for the pattern Feenstra and Hanson attribute to Northern outsourcing.

However, they find that the skilled-labour wage share increased at the same time that women's share of the *maquiladora* labour force declined, so gender-based wage gaps are not driving their results.

Te Velde and Morrissey (2002) consider macro-evidence for skill-based wage inequality in five East Asian economies (the Republic of Korea, Singapore, Hong Kong SAR, Thailand and the Philippines) for 1985–1998. Using country-specific trade and FDI effects, they find that FDI has raised skill-based wage inequality in Thailand, with less clear or insignificant results for the other economies in the study. Te Velde (2003) considers the effect of FDI on wage inequality in a number of Latin American countries, using wage and employment data from household surveys and focusing primarily on the 1990s. He concludes that FDI does not reduce skill-based wage inequality, with the possible exception of Colombia, where it might have played a “relatively minor inequality reducing role”. For countries like Bolivia, Chile and Costa Rica, FDI may have increased wage inequality. Te Velde concludes that most of the benefits of FDI have gone to skilled workers (as measured by occupation and education).

A different wage inequality dynamic is found in China, where Zhao (2001) argues that foreign firms have indeed raised the skill premium, but this increase was not due to skill-biased technological change in the industry. Because China has a dual labour market – the relatively privileged state sector versus the private sector, where foreign firms locate – the more educated workers seek employment in the privileged state sector. This means that the less educated are crowded into the private sector, resulting in unskilled wages in TNCs that are lower than in the state sector. Conversely, TNCs must pay skilled workers higher wages to entice them out of the state sector, with the effect of raising the overall skill-based wage premium. Data are from a household survey done in 1996, and with the relative decline since then of employment in the state sector and of the traditional benefits accorded these workers, it would be interesting to reexamine these relationships.

Taken together, these studies of FDI and wages indicate that while foreign firms often do pay higher wages, skilled workers seem to get most of the benefits. These findings go back to the point that countries must develop the absorptive capacities of their domestic economies if they are to benefit from FDI. From an employment standpoint, this means that investing in human capital must be a key step in any FDI programme. Indeed, empirical studies of human resources have indicated that skilled labour plays an important part in attracting FDI, as well as being an enabling factor in absorbing its positive benefits (Miyamoto 2003; Ritchie 2002). These studies thus bear out the more general conclusions detailed above on the locational determinants of FDI.

WORKING CONDITIONS

In terms of working conditions, while much of the popular literature has emphasized the sweatshop labour found in foreign-invested industries, research has shown that TNCs tend to offer better working conditions than their domestically owned counterparts (see Brown et al. 2002 for a review). Oman (2000) finds little evidence for a race to the bottom in terms of labour and environmental standards; he does not, however, rule out the possibility that foreign investment may inhibit a socially optimal raising of standards because of fears of capital flight to more accommodating locales (an issue that will be discussed more completely in the section on “Global labour standards” below). In terms of empirical research, the impact foreign investment has on working conditions in the wider economy, if any, is a question that has received little analytical attention.

III.D.

summary

In conclusion, the empirical literature on the relationship between FDI and growth and development is surprisingly mixed. This section has reviewed the research into the impact of FDI on investment, productivity, trade, employment, wages and working conditions, and found few of the straightforward conclusions that the popularity of FDI as a tool for development would seem to indicate. However, despite a number of open questions and seeming contradictions, two issues repeatedly arise. First, very little is understood about the dynamic impact of FDI. Even where positive correlations between FDI and investment, employment or wages appear, there is little analysis of whether and how the impact is sustained – to what extent (and how) FDI impacts the process and trajectory of development. Second, the research where there does seem to be an emerging consensus is on the importance of the economic and policy context for FDI in determining its eventual impact. In the next section, as we move into looking at these issues from a gender-aware perspective, this theme will become more clear, as will the importance of building gender-aware analyses of FDI and development.

IV.

gender and FDI: the empirical research

Research on gender and FDI in developing countries has been confined for the most part to small-scale studies that take a case study approach to women's employment by TNCs. A common question in these studies is whether this employment is good for women. The answer often depends on the frame of reference used for comparison – usually women's actual local alternatives versus how the TNC jobs measure up to a higher standard of human

development. Some have challenged the stereotype of low wages and poor working conditions, emphasizing that women working in export factories are much better off than they would be without this type of employment (Kabeer 2000; Lim 1990).

While the case study literature on gender and FDI provides key insights into the specific contexts of the case studies, it does not offer stylized analyses that can be used to compare the dynamics of FDI in different countries. Important exceptions include recent surveys on *maquiladora* employment in Mexico (Fussell 2000) and Honduras (Ver Beek 2001), both of which focus on evaluating whether *maquiladora* employment is better than local alternatives, an intentioned response to Lim's criticisms. This section will review the literature on gender and FDI, drawing out stylized facts from case study literature, and covering issues of employment, wages and gender equality.⁹

IV.A.

women's employment

In terms of employment, where FDI inflows have been sizeable – primarily in East and Southeast Asia and in parts of Latin America and the Caribbean – there is strong evidence that the share of female employees in the labour-intensive, export-oriented assembly and manufac-

turing sector is high.¹⁰ But there is some evidence that export sector employment may be on the decline for women in many countries. Joeques (1999) shows that the proportion of women employed in export processing zones (EPZs) actually declined between 1980 and 1990 in Malaysia, the Republic of Korea and the Philippines. Looking over the course of the 1990s, women's share of manufacturing employment has also declined in a number of manufacture-exporting countries, as illustrated in table 4.

Clearly, feminization trends can and have been reversed. Fussell (2000) details one such reversal in the Mexican *maquiladora* industry, an industry characterized by a high level of foreign investment. After the debt crisis in the early 1980s, more men and married women entered the *maquiladora* labour force, partly as a result of economic

⁹ It is important to note that this review draws significantly from literatures on trade, EPZs and growth, as many of their insights can be applied to the gendered dynamics of efficiency-seeking or labour-intensive FDI in developing countries. But it is certainly not the case that all production for trade is managed by foreign investors, or that EPZs are solely populated by TNCs, or that all relevant FDI is of the efficiency-seeking variety. The intention here is to deduce the broad themes suggested by extant empirical research.

¹⁰ Braunstein 2002; Joeques and Weston 1994; UNCTC/ILO 1985. This is not, of course, uniformly the case. In South Africa, for instance, trade liberalization was accompanied by a decline in women's employment in foreign-invested, labour-intensive industries supplying domestic markets because of competition from imports (Hart 2002).

hardship and because of labour shortages within the industry. At the same time, technological change spurred employers to look for more skilled labour, employment for which women were largely untrained. As a result, the proportion of women operatives dropped from 77 to 41 per cent between 1982 and 1999, even while the number of people employed in maquiladoras grew from fewer than 100,000 to nearly 750,000 throughout Mexico (Fussell 2000). Similar reversals have happened in India, Ireland and Singapore.¹¹

	1993	2000
Indonesia	47.4	43.7
Malaysia	44.4	41.3
Republic of Korea	38.3	36.1
Turkey	19.3	18.8

Source: Author's calculations based on ILO labour statistics database.

Note: Data for Indonesia and Turkey are for 1999, not 2000.

As suggested by studies of defeminization, these labour markets are segmented by gender. Women tend to be concentrated in electronics, textiles and garments, where there is particular pressure to keep labour costs low in the context of fierce international competition (Starnberg Institute 1989; UNCTC/ILO 1988). Why do TNCs prefer to hire women? As Diane Elson and Ruth Pearson (1981) pointed out in an important early article, one must consider how unit labour costs differ. First, women's wages are typically lower than men's,¹² and employers perceive women as more "productive" in the types of jobs available in the export sector. Reasons that employers cite for employing women rather than men include: that women are deemed to have "nimble fingers"; that women are regarded as more obedient and less prone to worker unrest; that women are seen to be more suited to tedious work; and that women are thought to be more reliable and susceptible to training than men.¹³ Similar reasoning can be applied to the "pink collar" aspects of the international production of services, an increasingly significant component of FDI in developing countries.¹⁴

Although the model worker of an export-oriented firm is widely thought of as a young unmarried woman, there are some differences by industry and region. Women working in the electronics industry, which requires greater dexterity and keen eyesight, tend to be younger, while women working in textiles and garments tend to be older and are more likely to be married.¹⁵ From a regional perspective, women in Asian EPZs tend to be younger and are less likely to be mothers than in Latin American and Caribbean ones (Baden and Joeques 1993; Lim 1990).

These patterns of segmentation reflect a key aspect of women's employment that is by no means unique to foreign-owned firms, as a number of countries have built their export success on female-intensive industries owned by domestic capital.¹⁶ But there are ways that the international character of FDI has a distinctive impact on the terms and conditions of women's work relative to men, as discussed in the section on "Gender inequality" below.

11 Elson 1996; Ghosh 2001; Joeques 1999.

12 The reasons underlying women's lower earnings include: gender segregation, where women are crowded into certain jobs and industries, increasing unemployment and lowering wages; discrimination, where employers pay women less simply because of their gender; differences in human capital attainment by gender; and systematic undervaluation of women's traditional work. For an econometric analysis of these issues in a developing country context, see Birdsall and Sabot (1991).

13 Anker and Hein 1985; Elson and Pearson 1981; Fernández-Kelly 1983; Lin 1985.

14 As of 2000, more than half of the share of inward FDI stock in developing countries was in services. An increasing proportion of these services is export oriented. For example, the developing country share of call centres and shared service centres increased from 22 per cent in 2001 to 39 per cent in the first five months of 2002 (UNCTAD 2002:158).

15 Fernández-Kelly 1983; Lim 1990; Safa 1990, 1995; UNCTC/ILO 1985.

16 For a description of the case of the Republic of Korea, see Cho et al. (2004).

One of the reasons that the employment effects of FDI are difficult to gauge is the increasing prevalence of subcontracting and informalization, part of the new trend towards creating more flexible structures of international production. Informal and subcontracted jobs are often directly connected to specific TNCs via local intermediaries, weakening the distinction between foreign and local ownership.¹⁷ In some industries, the extent of subcontracting is substantial. In Malaysia, for instance, over a third of all electronics, textile and garment firms subcontracted their work in 2000; in Thailand, as many as 38 per cent of garment workers were found to be homeworkers, and in the Philippines, 25 to 40 per cent (Sethuraman 2000, cited in Ghosh 2001). In addition to weakening the distinction between foreign and local ownership, subcontracting cuts off some of the pathways in which FDI may ultimately benefit women. Jayati Ghosh (2001), in discussing a decline in women's share of industrial employment in India (from 21.3 per cent in 1989–1990 to 17.5 per cent in 1994–1995)¹⁸ despite a period of higher export growth, suggests that the decline could be due to an increase in subcontracting to home-based workers or small manufacturers that work on a piece-rate basis. She concludes that the feminization of export-oriented employment in India has taken on a particularly regressive form, in that women have taken jobs at the least valued part of the production chain, and are the furthest removed from the potential benefits of formal employment.

IV.B.

women's wages

In terms of the wages women earn, there are good reasons to expect TNCs to pay wage premiums (and offer more job security) relative to locally-owned firms: the greater resilience of TNCs better insulates employees from economic cycles; workers in larger enterprises tend to be better

protected by labour legislation and are more likely to be unionized and receive benefits;¹⁹ and TNCs are concentrated in the relatively high-wage electronics sector.²⁰ This perspective is consistent with studies contending that export-oriented employment offers women good options for work relative to their local alternatives.²¹

For example, Delia Davin (2001), in a study of export-oriented employment of women in China (which receives a high proportion of the world's foreign investment), finds that women in these industries earn high wages by the standards of their rural home communities. Many of the women workers in EPZs, most of whom are young, are able to earn more in a month than a man in their home villages could make in a year (*ibid.*:15). This is quite a decent wage when compared to a common alternative: working on the family farm where women never receive an independent wage. And despite low job security, long hours, poor working conditions, and a lack of the health and welfare benefits typically enjoyed by state sector workers, it is difficult to argue that these jobs make these women worse off, since they had little or no entitlement to these benefits and social protections as rural residents and workers (*ibid.*).

17 Balakrishnan 2002; Benería 2001; Ward and Pyle 1995.

18 These data were taken from National Sample Survey Rounds (Ghosh 2001:19).

19 This is true despite the impression that EPZs, where some (though by no means all) TNCs locate, are presumed to feature lower labour standards. Surveys of governments and of workers' and employers' organizations found that the labour laws in most EPZs were the same as those applied in other parts of the country (ILO 2002).

20 Joeques and Weston 1994; Lim 1990; UNCTC/ILO 1985.

21 Davin 2001; Fernández-Kelly 1983; Kabear 2000, 2004; Lim 1990.

In considering wages relative to women's local alternatives, it is essential to acknowledge the potentially wider significance of earning a factory wage. This is a central focus in the work of Naila Kabeer, who has long studied the impact of export sector work on intra-household gender relations among Bangladeshi women. Although the export-oriented garment sector that employs these women is largely domestically owned in Bangladesh, Kabeer's insights into the implications of earning a factory wage are relevant to TNC employment as well. Speaking of findings on female garment workers in Bangladesh, Kabeer explains:

[Factory work] offered them a new sense of identity and self-worth. For poorer women who were accustomed to fending for themselves, factory employment offered higher returns, better working conditions and greater dignity than they had obtained from personalised, isolated and menial forms of employment previously available to them. For women who had never worked before, the key transformation was in their status from economic dependants to economic actors. Their increased sense of self-worth was evident in the way that they stressed they were standing on their own feet, that they were no longer dependants, that they could buy what they need when they needed it, and that they did not have to be constant supplicants from husbands, brothers or other family members.
(Kabeer 2000:189–190)

These results are powerful. To the extent that TNCs offer access to formal sector employment, the wages earned in these firms may provide transformatory opportunities for the women that work there.

In assessing the impact of TNCs on the level (and transformatory potential) of women's employment and wages, it is also essential to take a longer-term view, and take into account some of the dynamics of women's employment in transnational sectors. In terms of wage levels, time-series data drawn from work done in EPZs suggests a "salary lifecycle", where wages in more recently established EPZs tend to be higher than local wages, but over time these differentials decline (UNCTC/ILO 1988). Fussell's study of *maquiladoras* in Mexico mentioned above, where the export industry is 25 years old, supports this hypothesis.

Fussell (2000) uses regression analysis to evaluate a sample of 198 women workers in Tijuana from the 1993 Labour Trajectories Survey. She compares women's wages in the *maquiladora* sector with those in traditional forms of female employment in urban Mexico, such as commerce and service work as well as self-employment, and concludes that *maquiladora* wages are not higher than other types of work for women with comparable skills, though they are more stable. (She does find, however, that women *maquiladora* workers with less than a primary education earn more than self-employed women with similar a education.) She also finds that women tend to sort into occupations along sociodemographic lines, with most service and commerce workers being young, single and childless, while the *maquiladora* workforce is more heterogeneous, with more older women, married women and women with young children. She concludes that *maquiladoras* are not offering higher wages than other employers in the local market, but rather offer a stable alternative to self-employment, an option that is particularly attractive to workers with greater financial responsibilities for their households. So while women workers in *maquiladoras* may be better off than they would be without these opportunities, the payoff to working in the industry does not improve as the industry becomes more established.

Kurt Alan Ver Beek (2001), in a study of *maquiladoras* in Honduras that administered surveys to *maquiladora* workers and first-time *maquiladora* job applicants (used as a control group), finds that *maquiladora* workers earn about 50 per cent more than they did in their previous jobs. The *maquiladora* industry is much more recently established in Honduras than in Mexico, so Ver Beek's finding is not inconsistent with Fussell's findings in Mexico.

IV.C.

gender inequality

In light of the findings on the longer-term tendency of EPZ wages to level off, it is not surprising that studies of export-oriented trade have found that it does not systematically narrow the gender wage gap.²² These results are, however, surprising in light of standard neoclassical theories on discrimination, which predict that discrimination is negatively associated with competition, as non-discriminating firms (with broader access to qualified workers) will ultimately make higher profits (Becker 1971), and labour-intensive traded sectors are certainly among some of the most competitive industries in the world.

Berik et al. (2003) test this hypothesis directly, using data for Taiwan Province of China and the Republic of Korea in the 1980s and 1990s. They find that in the former, trade openness is positively associated with wage gaps between women and men, especially when openness is measured by the extent of manufacturing imports in that sector. They argue that import competition has adversely affected women's relative employment prospects in Taiwan Province of China, lowering their capacity to bargain for better wages so that they bear the "brunt of employers' competitive cost-cutting efforts" (ibid.:17). In the Republic of Korea, reductions in export competitiveness have been associated with relatively less gender wage discrimination, perhaps because of tighter restrictions on physical capital mobility and other public policies (Seguino 2000b, see the discussion below). Berik et al. interpret these results as evidence of the importance of equal pay and opportunity legislation, as international competition in female-intensive sectors has not resulted in greater gender wage equality.

Stephanie Seguino's work deals with the same persistence in gender wage gaps for export-oriented economies, but she argues that gender inequality – measured as the gender wage gap – has been a stimulus to growth via its positive effects on exports and investment (Seguino 2000a). Because women have been crowded into export sectors, the surplus of workers has lowered women's wages, and consequently increased profit for investors. The increased profits, especially in industries that also bring in the foreign exchange necessary for purchasing capital goods in global markets, ultimately lead to higher rates of economic growth. To show the relationship between gender inequality and growth, Seguino (2000a) uses a growth accounting method to decompose the sources of growth for a set of semi-industrialized countries (all of which were export oriented, with a large share of exports produced in female-dominated manufacturing industries), using period averages between 1975 and 1995.²³ Regressing GDP growth on the growth of the capital stock, a measure of the skill level of the labour force, and the gender wage gap, she finds that a 0.10 increase in the gender wage gap leads to a 0.15 percentage point increase in GDP growth. This finding is substantial. It means, for instance, that the difference in growth rates attributable to gender wage differentials for the Republic of Korea (8.0 per cent) and Chile (5.3 per cent) is 1.2 percentage points per year during the period studied. A second gender wage gap measure, which corrects for gender differences in education, lowers the impact only slightly: a 0.10 increase in the gender wage gap level now leads to a 0.10 percentage point increase in GDP growth.

Seguino (2000b) also looks more specifically at the impact of bargaining power variables, including capital mobility, on gender wage differentials in the Republic of Korea and Taiwan Province of China. For the latter, measures of capital mobility that reflect total inward and outward FDI as a share (1) of GDP and (2) of gross fixed capital formation, are both positively correlated with increases in the gender wage gap, as is a measure of crowding.²⁴ Conversely, in the Republic of Korea, measures of capital mobility did not negatively affect the gender

22 Berik et al. 2003; Cho et al. 2004; Jomo 2001; Seguino 2000b.

23 She also does the analysis using five-year averages, but only the period averages are discussed here.

24 FDI measures financial flows defined in terms of the balance of payments, and is thus an imperfect measure of physical capital mobility. It seems probable that the two are highly correlated, but this is an empirical question that has yet to be explored.

wage gap. Seguino explains that this is partly due to differences in FDI between the two countries, as FDI in the Republic of Korea is more capital intensive and from more male-dominated industries than those in Taiwan Province of China. She also notes that Korean firms in female-dominated industries have faced strict controls on physical capital mobility, as well as the control and rationing of subsidized credit to reward high-volume exporting firms. These firms have responded to increases in female wages by raising productivity, as well as by moving into niche markets where quality matters. She concludes that macro-level policies can have a significant impact on factors that are typically studied as micro-level phenomena, such as gender wage discrimination. In terms of assessing the impact of FDI on gender wage inequality, then, her study is strong evidence of the importance of the macroeconomic and policy environment.

Seguino's findings on FDI, gender wage inequality and growth seem to contradict a number of empirical studies on the positive relationship between gender equality and economic growth. Stephen Klasen (1999) finds that gender inequality in education (measured by female-to-male ratios of total years of schooling) lowers growth significantly for a panel dataset between 1960 and 1992. For example, regressions show that had South Asia and sub-Saharan Africa had more gender equity in education, growth would have been 0.9 per cent faster per year. Klasen offers a number of reasons why educational equity would lead to higher growth, including the following: closing the gender education gap by raising women's education increases the average quality of educated workers; and more educated mothers are associated with more educated children, as well as lower fertility and child mortality rates. Similarly, gender equality in employment – as measured by (1) the growth of female formal-sector employment as a share of the total number of females of working age, and (2) the change in the share of the total labour force that is female – affected growth positively. The main causal reasoning here is that keeping women out of employment keeps wages higher and competitiveness lower than they might otherwise be. Klasen finds that South Asia and sub-Saharan Africa suffered losses of 0.3 per cent per year compared to East Asia as a result of gender differences in employment, though these results are not as robust as the results on education.

Similarly, Hill and King (1995) find that for countries that are similar in terms of female education, labour force participation and capital stock, but where the ratio of female-to-male enrolment in primary or secondary schooling (the gender gap in education) is less than 0.75, GNP is 25 per cent lower. Dollar and Gatti (1999) do a two-stage panel data analysis (covering 127 countries and four five-year periods between 1975 and 1990) of the macro-determinants of gender inequality, and then assess the role of gender inequality in economic growth. They find that gender inequality in education can be explained by regional variables, religious preferences and the extent of civil liberties. They also find that increases in per capita income lead to reductions in gender inequality, but that the relationship is convex. That is, the impact of income on relative female educational attainment is small as countries move from very poor to lower-middle income, but it increases as countries move to higher income levels. There is further evidence for this in their growth equations, which show that gender inequality in secondary education has a negative impact on growth, but only for countries at lower-middle income status and above. They suggest that this is because at very low levels of development – in largely agricultural societies – gender inequality in education is less significant in terms of productivity. For these countries, as the level of initial education rises, a one percentage point increase in the share of adult women with secondary school education is associated with an increase in per capita income growth of 0.3 percentage points. Dollar and Gatti try a number of other measures of gender inequality that yield similar results to education, such as gender-disaggregated life expectancy and measures of legal and economic equality of women in society and marriage.

Kucera's analysis (2001) of the effects of core workers' rights on labour costs and FDI, discussed in detail in the section on "Foreign direct investment: Where it goes and why", seems to back up these findings on gender equity

and growth from the perspective of its impact on FDI. He finds a positive correlation between FDI and gender equality in educational attainment and literacy, as well as the percentage of the female labour force in managerial or administrative positions.²⁵

These positive findings on gender equity and growth, when combined with Seguino's findings on the negative associations between the two, indicate that the effect of gender inequality on growth may differ according to how it is manifested. Seguino uses the gender wage gap as a measure of inequality, while Klasen and others primarily use measures of education. This implies that the type of gender discrimination matters, and in cases where gender discrimination is manifested in ways that do not compromise the overall quality of the labour force but merely lower the cost of labour for employers, discriminating against women can have positive effects on growth.

IV.D.

questions for further research

The literature on FDI and women's employment, wages and gender equity is, in some cases, contradictory. While there are clear links between women's employment and FDI in semi-industrialized countries, there are also indications that women may eventually lose their comparative advantage in these job markets as industries upgrade, leading to defeminization. Subcontracting may also have a role to play in these trends, as women working independently for subcontractors linked with TNCs may contribute to defeminization in foreign-invested manufacturing sectors. And while TNC wages and working conditions are generally good by local standards, the longer-term trajectory of these jobs is less well understood. There is some evidence, drawn from *maquiladoras* in Mexico and other export-processing type industries, that the TNC/local wage gap declines over time, making these jobs less promising as a vehicle for greater well-being and equity. This convergence is consistent with findings that trade and FDI do little to narrow the gender wage gap. As in all areas of rich research, however, the studies reviewed have opened up as many questions as they have answered. Some of the more significant questions for further research are summarized below.

FDI IN THE SERVICES SECTOR

Much of the research we have reviewed on gender and FDI is grounded in work done in the manufacturing sector, but FDI in developing countries is also increasingly concentrated in the services sector (such as banking, telecommunications, insurance, health and education), as reflected in and promoted by the WTO's General Agreement on Trade in Services (GATS). A better understanding is needed both of the gendered employment

²⁵ These associations (correlations) are significant only when Kucera does not control for regional characteristics. When he does, the explanatory power shifts from gender equity to region. He explains that this shift has mostly to do with the Latin America and Caribbean region, which has relatively high levels of gender equity by world standards, as well as higher levels of FDI (Kucera 2001). This does not mean that one measure (gender equity or region) is a better indicator of FDI than the other, however. The results therefore leave the question open as to whether the regional factors are picking up gender equity factors, or some other factors not captured by the model.

dynamics in this sector, and of how foreign ownership in services affects women's and men's differential access to service-based resources (finance, insurance, telecommunications, health, education and the like).

FDI AND GENDER EQUITY

The literatures on gender equity, growth and trade need to be more explicitly linked. Is it really the type of discrimination that matters? Can we presume that the findings on trade apply to FDI, or do foreign investors behave in ways different from those of domestic exporters, with different implications for women's wages? In further exploring these links, it is important to expand the ways in which we measure gender inequality, to use other measures of women's well-being that are not so directly connected to the labour market (such as health and premature morbidity), and to look to assessments of equity at the intra-household level.

THE CHANGING STRUCTURE OF INTERNATIONAL PRODUCTION

How has the increasing international mobility of capital, as reflected in the rise of liberalizing investment agreements, affected the gender–FDI nexus? Is the rise in subcontracting, along with the increasingly flexible structures of international production, an important determinant of the relationship between gender and FDI? How has that affected the statistics we use to evaluate both the impact of FDI, and the country determinants of FDI inflows?

THE DYNAMICS OF THE FDI–GENDER NEXUS

It is important to gain a better understanding of the gender–FDI relationship over time, and to assess whether there are discernable patterns to the longer-term impact of FDI on women's work (both paid and unpaid) in various countries. Can we specify particular differences in the long-term versus short-term effects on women, and identify how these differences relate to the development dynamics of growth and structural change? We need to understand more about the feedback loops between gender and FDI – in terms both of how FDI affects women's roles at home and in the labour market, and of how gender in turn affects foreign investment and its contributions to development. Exploring these questions also has important methodological implications; this type of research will require a combination of time-series and institutional and qualitative analyses to reflect the complexities of these connections.

IDENTIFYING POLICIES AND CONDITIONS THAT WORK FOR WOMEN

It is also important to identify where and why foreign investment has worked well for women and economic growth. There seem to be some key differences in the policy structures of countries in East Asia from those in Latin America and the Caribbean, with the former meeting with more success in harnessing FDI for growth. A key question is: Can these instances of development success also be called a success with regard to making foreign investment work for women? If not, can we specify conditions under which this might be the case? The next section will address these questions by assessing the scope for managing FDI for the good of women and economic growth.

V.

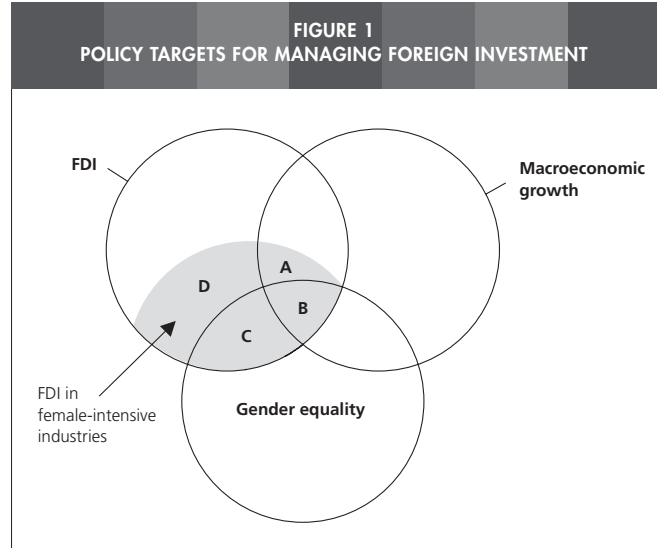
policies for managing FDI for the good of development

The empirical record on FDI and development indicates that attracting foreign investment should not be regarded as an end in and of itself, either from a development perspective, or from the perspective of enhancing gender equality or the well-being of women and men. FDI must be managed in order for societies to draw on the positive benefits that such investment can bring. This section will review some of the specific policies that governments can use to manage it, drawing out the conditions and contexts under which FDI can improve gender equity, as well as the conditions under which it can prove beneficial for growth.

These policies can be thought of as spanning three overlapping policy targets: foreign direct investment, macroeconomic growth and gender equality. FDI in female-intensive industries, as the subset of foreign investment of concern here, also spans these targets, as illustrated by the shaded area in figure 1. Section A encompasses measures that target FDI in female-intensive industries, but whose results primarily improve economic growth, and do not make clear and direct contributions to improvements in gender equity. Section B encompasses measures that attempt to link foreign investment, gender equity and growth. Section C encompasses policies whose main goal is to strengthen the link between gender equality and foreign investment. Such policies may have secondary impacts on growth, but this is not their priority.

Finally, section D covers foreign investment in female-intensive industries that does not contribute to either gender equity or growth. There is some contention over whether there is anything in section D, as the literature reviewed makes a strong case that TNC employment is better than many of the alternatives women have, regardless of the role of this sector in longer-term economic and social change. For the sake of this discussion, this paper will address only sections A, B and C, as the intention is to review policies that enhance growth and equity.

The point of categorizing policies designed to manage foreign investment in this way is to think more precisely about the benefits of different kinds of policies. Although there is a wide array of policy options to manage foreign investment in female-intensive industries, their first-order effects vary. Not all of them are equally relevant to improving the relationship between FDI and gender equity, yet they offer important opportunities to strengthen the linkage between this type of FDI and development. The next sections will review a number of these policy tools for managing foreign investment, delineating where in the diagram they belong as a way of assessing their relevance for furthering the goals of gender equity.



V.A.

strengthening the link between foreign investment in female-intensive industries and growth

GIVING ADVANTAGES TO DOMESTICALLY OWNED FIRMS

Giving targeted, sector-specific advantages to domestically owned firms as they collaborate and compete with TNCs may be beneficial from a development perspective, because these policies build up domestic capacities. Examples include giving special loans or subsidies to domestic firms in ways that enhance their capacity to absorb technology, or restricting entry into certain segments of the economy so as to incubate domestic firms before exposing them to international competition.

Within traded sectors, these sorts of industrial policies can lead to domestically integrated and higher value-added forms of exporting (Gereffi and Memedovic 2003). Shifting from assembly of imported inputs to higher value-added is a key to East Asia's success with export-led growth, and the close management of foreign direct investment was a central feature of this progression. Japan, the Republic of Korea and Taiwan Province of China all adopted restrictive policies towards FDI, directing it towards sectors that were considered desirable, ensuring that the right types of technology were transferred at the right cost, and preventing TNCs from repatriating too much of their earnings (Chang and Grabel 2004). In the Republic of Korea and Taiwan Province of China, EPZs were at first very liberalized and allowed 100 per cent foreign ownership on the condition that firms exported all of their output. The EPZs were phased out as foreign exchange constraints lessened (*ibid.*). Within Asia, countries that have depended heavily on FDI to build up domestic capital formation, such as Singapore and Malaysia, have been less successful in building industrial capacity than countries like Japan, the Republic of Korea and Taiwan Province of China, which had less overall dependence on FDI (Jomo 2001). China, by far the most popular destination for FDI in the developing world, has maintained tight control over FDI and other types of capital flows since it began opening its economy in the early 1980s. Foreign direct investment was restricted to certain sectors for the purposes of technology transfer and to encourage labour-intensive exports. These controls are beginning to be dismantled in the wake of China's WTO accession in 2001, but their presence in the 1980s and 1990s clearly did not handicap China's ability to attract FDI.

A growing constraint on implementing these sorts of policies is the notion of “national treatment”, a central principle of current trade agreements, including the WTO's trade-related investment measures (TRIMs) and GATS.²⁶ This means that host countries must treat foreign investors at least as well as domestic investors in “like circumstances”. There are two points at which national treatment may come into play: in the pre-establishment phase (as in whether or not to give market access to foreign investors), and in the post-establishment phase (after foreign investors are already established). Most countries outside the Organisation for Economic Cooperation and Development (OECD), that is, most developing countries, still exercise control over market access despite the increase in liberalizing trade agreements, though controls vary by sector and industry (UNCTAD 2003b).

²⁶ National treatment is not an automatic feature of GATS, an agreement whose rules apply to FDI via its “commercial presence” mode. GATS operates through a positive list approach, meaning that countries elect specific sectors to liberalize (such measures and their details are called “schedules”), and hence the sectors to which national treatment applies. Although countries are able to put limits on their liberalization schedules, GATS does nevertheless signify an effort to move towards liberalization by increasing the sectors open to FDI.

This means that developing countries can still protect certain segments of their economies. National treatment in the post-establishment phase, a principle that is becoming increasingly common in international agreements, means that national regulations cannot discriminate on the basis of the nationality of the investor, and this could limit the ability of developing country governments to provide special assistance to domestic firms. However, the exception for “like circumstances” leaves open the possibility that governments could successfully petition for special treatment in the short-term.

In terms of the types of foreign-invested industries that employ women, the policy space for assistance to domestic firms is probably narrower than for any other sector. Policies to protect domestic rather than foreign-financed firms are far more restricted in manufacturing, the most likely sector for FDI in female-intensive industries, than in other fields (UNCTAD 2003b). Even in cases where strong regulations have been imposed on foreign investors, as in the East Asian cases discussed above, FDI in female-intensive industries has often enjoyed the most liberal of investment environments.

Furthermore, there are some external constraints on assisting domestic exporters that deserve serious consideration. During the 1960s and 1970s, when the so-called “Asian tigers” (Hong Kong, Singapore, the Republic of Korea and Taiwan Province of China) successfully implemented export-led growth, there was less competition in export markets. Today’s export markets are much more saturated, partly as a result of increasing competition from other developing countries seeking to reproduce previous successes elsewhere. The result is widespread overcapacity and intensified competition (Erturk 2001). Such conditions can make assisting domestic exporters seem less promising, on the one hand, and attracting foreign investment in female-intensive industries, with its concomitant international networks and immediate competitive edge, seem more so, on the other.

From a gendered perspective, moreover, it is not clear that domestic exporters would be better employers for women. The rise of subcontracting by TNCs in labour-intensive export industries, such as garments, footwear, toys and consumer electronics, is instructive. These are buyer-driven production chains in which large retailers, marketers and brand names set up decentralized production networks in developing countries (Gereffi and Memedovic 2003). This is partly the result of the intensive economic competition discussed above, which leads retailers to source from facilities in the lowest-cost countries (Carr and Chen 2002). Women working in these industries find themselves at the least valued part of the production chain, where competition often results in sudden closures and employment loss, and bars substantial improvements in wages and working conditions (ibid). One way that domestic subcontractors survive is by diversifying into higher value-added exports, where markets are less crowded and profits are greater. In many instances, the result has been a loss of employment for women, as the demand for more highly skilled (male) workers leads to defeminization (ibid). These trends indicate that in the current global economic context, work in domestic firms may in fact be a less desirable form of employment for women than working directly for TNCs. While enhancing the capacity of domestic firms may add some depth to the domestic economy, these policies on their own are not directly linked to addressing gender equity.²⁷

27 One way that domestic ownership may be a better option for women workers is where domestic firms are less likely to invest outwardly than the foreign investors are to leave. If this is the case, the lower mobility of domestically owned firms will mean more relative bargaining power for workers (see the section on “Capital mobility” for further discussion of these issues).

V.B.

policies to link FDI, growth and gender equity

PERFORMANCE REQUIREMENTS

Performance requirements are conditions applied to TNC operations, sometimes in order to gain market access or to receive some kind of subsidy or tax break. Examples

include local content laws, whereby exporters are required to source a certain proportion of inputs locally, and domestic equity rules, as when foreigners are not permitted to wholly own a firm operating in a particular country. In the current global context of liberalization, there has been a decline in the use of mandatory performance requirements (those that are not linked to the take-up of a particular incentive or subsidy) as governments face mounting pressures to liberalize traded sectors. There are also direct prohibitions in the legally binding obligations of current trade agreements; the WTO's agreement on TRIMs, for example, prohibits performance requirements that are considered trade-distorting, such as local content requirements and export controls. TRIMs are designed to ensure that imports and domestic goods are treated the same. A range of other performance requirements that are not dealt with by the agreement are also prohibited, made conditional or discouraged by investment agreements at the regional or bilateral level (UNCTAD 2003a). Examples of the types of policy areas affected include employment, training, research and development, and technological transfer requirements. Growing constraints on performance requirements weaken the potential for government policy to ensure backward and forward linkages or spillovers, decreasing the probability that FDI will crowd-in domestic investment or lead to improvements in domestic productivity.

Such measures pose an additional constraint on the potential for foreign investment in female-intensive industries to contribute to growth, because this type of FDI is so closely linked with trade and therefore highly restricted in terms of imposing performance requirements. These restrictions can act as obstacles to measures that guide TNC linkages with and spillovers into the domestic economy – measures that partly underlie the sort of export upgrading successfully practised in East Asia. That said, it is also true that TRIMs permit performance requirements that are not “trade distorting”, such as local hiring rules. And the TRIMs agreement has been subject to a number of developing countries calling for amendments that would allow exceptions on developmental grounds, although developed countries are very much opposed to this (UNCTAD 2003b: 141).

If restrictions on performance requirements in traded sectors were eased, aspects such as employment and training requirements could be structured as a way to contribute to growth and gender equity. As a condition of market access, TNCs could be required to employ a certain number of women for predetermined periods of time or in more skill-intensive and non-production jobs. They could be required to provide the types of training that women could transfer to other sectors of the labour market, especially in more skill-intensive and highly paid sectors. In other words, the types of performance requirements designed to improve the labour impact of TNC presence could be redesigned to become more gender aware.

INCENTIVES

With the declining space for constraints on market entry and mandatory performance requirements, many developing countries have turned instead to using incentives as a way to influence the behaviour of foreign

investors. Countries such as Hungary, Malaysia, the Republic of Korea, Singapore and South Africa have made successful use of incentives designed to encourage technology transfers or specific activities such as increasing training and assistance to local suppliers (UNCTAD 2003b). But the incentives most commonly used by developing countries are targeted merely at attracting foreign investment, rather than guiding it once it has arrived. These include fiscal incentives like tax holidays, and regulatory concessions such as freedom from environmental or labour laws.

Despite the increasing prevalence of these fiscal incentives, their success in attracting FDI, and ultimately contributing to growth and development, is doubtful. Most economists agree that foreign investors are primarily concerned with economic fundamentals when making their investment decisions (UNCTAD 2004). The regulatory environment or the prospect of incentives are only a small part of a country's appeal. As a result, providing generous incentives for foreign investors carries the risk of wasteful giveaways as the investment might have been made in any case. These giveaways can compromise the state's ability to finance development and provide social protections.

Nonetheless, incentives can play a significant role in situations where countries are close substitutes, as might be the case when countries are located in the same region and their economic fundamentals are similar. In an OECD review of policy competition for FDI, Charles Oman (2000) argues that investment decisions undergo a two-stage process. First, investors draw up a short list of potential sites on the basis of economic and political fundamentals, identifying places that are close substitutes for one another in terms of these factors. In the second stage, in deciding between different localities on the short list, investors then seek out and consider incentives. Incentives can thus be decisive, but only for locales that are close substitutes.

Recent econometric studies have shown that incentives have become a more significant determinant of FDI flows in general.²⁸ They are more likely to be determinants in women's industries, because export-oriented, low-wage production is a comparative advantage shared by many neighbouring countries (UNCTAD 1996; Morisset and Prinia 2001). As such, the use of these types of incentives by one country may have a snowball effect as other countries jockey for a competitive advantage in attracting FDI. Witness the proliferation in the past twenty years of EPZs,²⁹ which have been widely adopted due to their links with opportunities for increased trade and investment.³⁰ Because of the concessionary nature of many of these incentives, incentive competition – especially for FDI in female-intensive industries – may draw countries into a race to the bottom, whereby the goal of attracting FDI forces countries to maintain low wages, poor labour and environmental standards, and weak tax structures.

Although there is little direct evidence that incentives have created a race to the bottom, it is unclear whether or not they have obstructed a socially optimal rise in labour and environmental standards (Oman 2000). For FDI in female-intensive industries, then, it is extremely important for countries to consider multilateral agreements

28 Clark 2000; Mutti 2003; Taylor 2000.

29 An OECD study put the number of EPZs at just a handful in 1970, growing to more than 500 in 73 countries by 1996 (OECD 1996). The ILO, in a web-based survey in 2003, put the current number of EPZs at more than 5,000 (ILO 2004).

30 Of course, it is not just competition that has given rise to EPZs. There are also other rationales, such as being able to concentrate the provision of infrastructure or labour power.

that limit the use of, and scope for, incentive competition.³¹ It is extremely difficult for any one country to refrain from proffering incentives if its close neighbours are doing so. But all countries would benefit if there were prohibitions on the use of incentives that blocked improvements in wages and labour standards. This is especially the case for FDI in female-intensive industries, which is subject to some of the most internationally competitive conditions.

Regulating incentive competition could have a direct impact on gender equity for women working in TNCs as well, as their jobs would be protected from the types of race-to-the-bottom pressures that affect those working in such highly competitive industries. In addition, it could ease the pressures on public budgets of incentives competition – for example, measures such as tax holidays that reduce state revenue and thereby lower the government’s ability to fund human development (an important aspect of advancing gender equity) or to conduct public investment (a key condition for FDI to pay off in terms of growth). Indeed, trade and financial liberalization has been associated with increasing pressures on public budgets, evidenced by correlated declines in public expenditure on capital formation and human capital (Rao 1999).

GLOBAL LABOUR STANDARDS

One way to coordinate a decline in the use of regulatory concessions would be to adopt what have come to be known as “global labour standards”. Global labour standards – on measures such as minimum wages, health and safety regulations, and ensuring the right to organize – would not only serve as a significant obstacle for incentive competition. They would also guard against other aspects of the race to the bottom, as countries would be less able to compete on the basis of cheap production costs, and more likely to do so on the basis of labour-force or product quality.

An immediate issue that arises when thinking of these cost trade-offs is the relationship between wages and productivity. Certainly there are strong incentives to raise labour productivity, as the consequent decline in unit labour costs could allow for real wage increases, as has been the experience of the newly industrializing East Asian countries such as Taiwan Province of China and the Republic of Korea (Singh and Zammit 2000). But these results are more problematic in the current global context of labour-intensive export industries, where global labour surpluses and extreme competition make it difficult for workers to capture the benefits of productivity improvements in the form of higher wages (Heintz 2003). As TNCs face a wide choice of low-cost production platforms and subcontractors, there is little incentive to introduce the sorts of productivity improvements that will result in higher wages, especially in cases where it is cheap and easy for capital to move. This is particularly the case in women’s industries, where women are crowded into export sectors, capital is highly mobile, and countries can be close substitutes, as found by Stephanie Seguino in her comparative analysis of the gender wage gap

31 The WTO’s 1995 Agreement on Subsidies and Countervailing Measures does limit the use of incentives that constitute direct financial contributions to specific enterprises, industries or regions. Export subsidies and local content subsidies are the only types of subsidies that are expressly prohibited (since these are perceived as interfering with trade). Other types of subsidies are what is called “actionable”, meaning that they are subject to challenge by other WTO members if they can show such subsidies have directly adverse effects. This agreement is significant from a development perspective because it essentially rules out import substitution and export promotion as a development strategy for most developing countries. In addition, by being limited to only financial incentives, it does not address the more pernicious problem of regulatory concessions.

in the Republic of Korea and Taiwan Province of China discussed above (Seguino 2003). With the option of moving to a cheaper production platform, firms can become “lazy”, responding to wage increases by moving rather than raising productivity (*ibid.*).

In addition to providing for minimum standards, ensuring labour rights at a global level will enable workers to counter the bargaining power of TNCs with less fear of capital flight. Such measures are extremely important for women working in foreign-invested industries because of the high capital mobility inherent in export-oriented TNCs. In addition, it is crucial that these types of standards be coordinated at a multilateral level, because unilateral efforts to raise wages or improve working conditions could merely result in capital flight. And where FDI in female-intensive industries has been supplemented by or replaced with informal networks of supply, as when TNCs contract with domestic firms to produce for export, it is crucial that global labour standards somehow address employment in the informal sector.

The question of how and where to enforce such standards is a contentious one. The global labour standards movement is sometimes identified as a thinly veiled attempt at trade protectionism by the North. Others have argued that mandatory labour standards will ultimately hurt labour in the South, as the consequent increase in export costs will lower employment and economic growth, and/or result in more production shifting to the informal sector, presumably beyond the reach of such standards (Kabeer 2004; Singh and Zammit 2000, 2004). It is clear that this is an area requiring more research, especially from a gender-aware perspective, as growth based on trade or financed by highly mobile foreign capital cannot be relied upon to bring about improvements in gender wage equity, or women’s working conditions in export sectors.

This point speaks to what may seem like a contradiction between the research reviewed in the earlier section on “The determinants of inward FDI”, where a number of cross-country studies have found a positive correlation between FDI and labour rights, and the previous paragraphs that suggest the need for policies that legally establish rights and standards for women workers. Growth and overall economic dynamism seem to lead to FDI, and labour standards can be a key feature of that dynamism. But the increasing competition for foreign investment and global export markets, the high levels of capital mobility for this type of labour-intensive production, and the increasing importance of incentives in firms’ choices of location certainly weaken the potential for FDI in female-intensive industries to substantively improve women’s work situations. This point is supported by the research on gender, trade and FDI reviewed above, which showed that export sector jobs, whether with domestic or foreign investors, have not provided a long-term pathway out of gender inequities.

A number of international organizations have issued statements encouraging codes of conduct for TNCs in their labour relations.³² These include a “tripartite declaration” via the International Labour Organisation, “guidelines” published by the OECD, and “norms” on the responsibilities of TNCs, based on the Universal Declaration of Human Rights, by the United Nations.³³ These guidelines tend to be rights based, addressing issues such as the right to organize and work in a safe environment, but they do not include any income standards such as a global minimum wage. The key problem with these guidelines, however, is enforcement. Even in cases where countries claim to have adopted the guidelines, it is ultimately up to individual governments to enforce these

32 Consumer boycotts can also pressure TNCs to enforce existing labour standards in their own firms, and to ensure that their subcontractors do so as well. Many NGOs have taken on this challenge, by administering ethical trade initiatives, alternative trading organizations and fair trade labelling movements (Cagatay 2001). Systematic studies of the effectiveness of these efforts are an important area for future research.

33 ILO 2000; OECD 2001; UN Economic and Social Council 2003.

standards, and many fear the resulting disinvestment in a world where their neighbours have not taken similar actions. An agreement with the force of, or even contained within, the WTO would address these enforcement problems. However, turning to the WTO is also problematic in that it lacks the credibility to be a strong enforcer of worker rights, and because penalizing countries via sanctions could ultimately have an immiserating effect (Cagatay 2001). But as Nilufer Cagatay has argued, opening WTO talks to include the rights of workers could at least provoke a deeper discussion about WTO policy. She notes that: “Dialogue on these issues can help clarify the kind of WTO needed to support workers’ rights, as well as how regional trade arrangements can help promote such rights, in ways that prohibit disguised protectionism” (ibid.:29). Such a dialogue would be especially important for women working in foreign-invested industries.

REGULATING PHYSICAL CAPITAL MOBILITY

Another way to enhance the bargaining power of labour (and governments) relative to capital would be to regulate international capital flows, through a combination of foreign exchange controls and the re-regulation of capital markets. Such regulations would enable governments to control the timing and amount of FDI, avoiding the financial fragility that can come with unregulated foreign exchange inflows and outflows (Singh 2001), as well as raising the cost of capital flight and reducing the conflict between the needs of communities and the incentives for TNCs. The trend, however, has been towards more liberalization. In 2002, 70 countries introduced new national regulations on FDI, and of the 248 regulatory changes recorded, 236 (95 per cent) were more “liberalizing” in the sense of lowering controls on FDI and increasing incentives (UNCTAD 2003b: 21). Between 1991 and 2002, 95 per cent of the changes introduced by 165 countries in their FDI laws were in the direction of greater liberalization (ibid: 20). Bilateral, regional and international investment treaties have also followed this course. The Multilateral Agreement on Investment (MAI), an OECD-led effort to substantially enhance the rights of international investors and constrain the ability of national governments to regulate investment, is an example of these efforts at the multilateral level. The MAI eventually failed, but some worry that a similar investment liberalization agreement will eventually be adopted by the WTO. By maintaining resistance to the passage of these types of investment liberalization agreements, countries can at least halt the tide of increasing liberalization at a multilateral level.

The impact of capital mobility on growth and gender equity has been discussed in detail throughout this paper. By raising the bargaining power of TNCs, it limits government capabilities to manage FDI for the good of development, as well as the capacity of women to bargain for better wages relative to their male counterparts working in less mobile industries. Continuing liberalization of capital flows only worsens these inequities, as it enables firms to more credibly threaten to leave (Burke and Epstein 2001).

The significance of threat effects in determining labour outcomes is a research area that has been more developed theoretically than empirically. Direct evidence of the impact of threat effects on labour is found in the research of Kate Bronfenbrenner (1997, 2000), who studied union certification campaigns (when workers vote on whether to have union representation) in the United States in the 1990s. Although threatening to shut down a plant to stop a unionization drive is illegal under US law, Bronfenbrenner found that employers threatened plant closure in 50 per cent of all such campaigns. There were different threat rates according to industry mobility: threats occurred in 36 per cent of surveyed units in immobile industries, and 62 per cent of units in

mobile industries,³⁴ and they made a difference to voting outcomes. The union election win rate was 33 per cent in units where closure was threatened, compared with 40 per cent overall. In conjunction with the research reviewed above about the impact of inter-jurisdictional tax competition, Bronfenbrenner's work shows that the mobile nature of foreign investment cannot only pit governments against one another in terms of offering competing incentives, but can also be an obstacle to achieving equity in the capital/community relationship.

Managing this mobility is a key policy goal from a gender-aware perspective. Because it is so cheap for labour-intensive producers to relocate or subcontract, women working in foreign-invested industries are highly exposed to the negative effects of capital mobility.

In addition to domestic regulation, it is essential to re-envision the global governance of FDI in ways that can support gender equity and growth. The regulation of international capital flows can underpin a levelling up, rather than a race to the bottom. Important components of such an agreement could include: international tax floors, regulation floors and wage floors, to ensure the levelling up process; rules to make TNC and government operations more transparent, so as to assist the public in grappling with tax, regulatory and subsidy abuses; policies and institutions to maintain adequate aggregate demand, ensuring lower unemployment (and maintaining labour's bargaining power); a system of insurance to protect foreign investors against expropriation; and finally, to administer the system, internationally governing bodies that are democratically organized (Braunstein and Epstein 2001).

V.C.

policies to enhance gender equity

This section briefly reviews policies that directly address how policy makers can improve the gender-equity impact of foreign investment. These measures are not presented as having immediate spillover effects onto growth, as do those detailed above. But there are secondary effects on

growth, to the extent that we can link improvements in women's well-being and in equity between women and men with increases in output. Certainly, if we take the reproductive sector into account,³⁵ improving women's situations may result in greater investment and production of human capabilities. This is not, however, why these policies are discussed here. Equity has its own merit in terms of development, whether or not it is directly linked to economic growth.

34 Immobile industries included healthcare, construction, hotel, restaurant and entertainment facilities, and most communication and service units. Mobile industries included manufacturing, storage and warehouse facilities, and some types of communication and service units.

35 The reproductive sector incorporates all the nonmarket production that goes into supporting ourselves and our dependents as human beings and workers.

ENHANCING THE CAPACITIES OF WOMEN AND GIRLS

Despite the fact that FDI in female-intensive industries may boost women's wages and employment, it has made women extremely vulnerable to the instabilities of the global economic system. This is due to the highly competitive nature of labour-intensive export industries, the high capital mobility characterized by this type of cost-sensitive FDI, and the fact that women's manufacturing industries are the most exposed to the liberalizing effects of current trade agreements. The interventions discussed above will address the foreign investment side; if the root causes of women's labour market inequality are not also addressed, however, there will always be constraints on the ability of countries to draw substantial development benefits from foreign investment in female-intensive industries, and on the potential for this type of investment to contribute to women's well-being.

Women are confined to the most flexible and poorly paid jobs because of persistent gender inequalities in education and labour markets, and because of gendered responsibilities in the home. Enforcing non-discriminatory practices in labour markets, and increasing investment in the education and job skills of women and girls, will enable them to get and hold on to better jobs. These types of investments will expand women's job opportunities beyond those typically offered through foreign investment, enabling women to bargain harder with TNCs and improve their work situations. This is especially important in light of the evidence discussed above on what has happened in many export industries as industrial upgrading occurs and productivity improves – women are left out of the increasingly lucrative jobs. Education, training and nondiscriminatory labour markets can help ensure that women and girls are able to access the fruits of these higher productivity industries.

SOCIAL PROTECTIONS AND THE SOCIAL WELFARE SYSTEM

Even after women get paid jobs, they maintain their non-market work in the home, leading to what has been termed the “double day”. This is a root cause of gender inequality, as women's non-market responsibilities constrain their abilities to compete for more lucrative jobs, and lowers their bargaining power with respect to their male partners in the household and with firms in the labour market. While this lack of bargaining power does make women cheaper workers, and hence may make them more attractive to foreign investors, it ultimately detracts from the ability of FDI to improve women's well-being, and to deliver longer-term development benefits.

Strong social protections for women and children, such as healthcare and childcare, are the key to redressing gender inequities in the labour market and at home. From this perspective, providing social welfare support for women is perhaps the most important thing that governments can do to strengthen the link between foreign investment in women's industries and gender equity. Working for a wage has been widely documented as having empowerment benefits,³⁶ but as long as women are constrained by their non-market sector responsibilities, there are limits to how far earning an income can improve their well-being and redress gender inequities.

36 Benería and Roldán 1987; Kabeer 2000; Kusago 1996; Roldán 1988; Tiano 1994.

V.D.

summary

This section of the paper has evaluated policies to manage FDI for the good of development, focusing on how these policies apply to FDI in female-intensive industries, and to what extent they are likely to meet the goals of growth and gender equity. There are a number of FDI management policies that can be directly connected to strengthening the links between FDI in female-intensive industries, growth and gender equity. They include performance requirements, incentives, global labour standards and regulation of physical capital mobility. But when the primary goal of public policy is to ensure that employment in TNCs enhances gender equity, the most effective policies are those that directly develop the capacities of women and girls through education, training and non-discriminatory labour markets, and strengthen the supportive services and protections provided by the social welfare system.

VII.

conclusion

This paper has presented a review of research and policy on links between gender equity, foreign investment and development. It began by appraising both the contradictions and the consistencies in the gender-blind literature on FDI and development. This literature provides broad and consistent evidence for the contention that growth leads to FDI, rather than FDI leading to growth. It also

underscores the importance of the economic and policy context for gaining development benefits from FDI. It is not enough to merely try to attract FDI by keeping production costs low. Countries must have adequate domestic capacities to benefit from FDI, capacities that largely coincide with those that lead to economic growth, including high levels of investment, infrastructure and human capital (Milberg 1999).

Looked at from a gender-aware perspective, foreign investment in female-intensive industries has had a significant impact on women's work and development. While there has been a positive relationship between women's employment and FDI in semi-industrialized countries, there is mounting evidence that women either lose their jobs to more highly qualified men as industries upgrade, or get pushed down the production chain into subcontracted work as competition forces firms continually to cut costs. There is likely to be some short-term improvement in women's incomes as FDI expands, but the longer-term trajectory of women's wages is less promising. These findings are consistent with those that indicate that trade and FDI have done little to narrow the gender wage gap.

Moving on to policies for managing foreign investment in female-intensive industries, the paper reviewed policies from the perspective of their relative strengths in targeting growth and/or gender equity. Of all the policies covered, it was argued that the most important intervention open to governments from an equity perspective is to enhance the productive capacities of women and girls, as well as to expand the social supports available to them and their families as they enter the labour market. These sorts of policies will not only make women more productive workers but will simultaneously redress the structural sources of gender inequities. In addition, there are ways to structure FDI management policies from a gender-aware perspective, and it is crucial to incorporate this perspective in struggles to link FDI more closely with development. Without those linkages, the potential for FDI to contribute to development and women's well-being is weak at best.

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