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Trade and Gender Inclusion: What do the Data Say?

Policy Brief

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1 INTRODUCTION

Trade economists have long argued the case that increased openness to international markets can, under the right circumstances, boost productivity, which is the backbone of sustained growth in per capita incomes. The distribution of the gains from trade in a way that conforms to each society's view of equity is an issue best addressed by complementary policies, such as welfare and social safety net measures. But the experience of many developing countries suggests that trade can be an important part of promoting economic growth, which can help reduce poverty. Trade is therefore intimately linked to Sustainable Development Goals 1 and 8, which relate respectively to ending poverty, and promoting sustained, inclusive, and sustainable economic growth. The relationship between trade and growth is not as simple and direct as was believed by some commentators in the 1990s, but there is a broad consensus that without openness to international markets for goods, services, labor, and capital, it is difficult if not impossible to bring about rapid economic growth and development.

The aim of this Policy Brief is not, however, to present additional evidence on the links between trade and income. Instead, it is to explore another dimension of trade that is of particular relevance to the SDGs, namely gender. SDG5 aims to achieve gender equality and empower all women and girls. Can trade play a role in bringing about that outcome? That is the issue this Policy Brief seeks to address, albeit in a partial and data-driven way.

Trade can affect women through a variety of channels. On the one hand, women are consumers, and so are affected by the relative price changes that trade brings about. However, they are also producers, and are therefore liable to be affected by the expansion or contraction of various sectors that increased openness to trade can bring about. In particular, trade can alter the labor-market incentives women face, and change the trade-off between home-based and formal sector work. Changes such as these ones have far reaching social implications that are outside the scope of this Policy Brief. The purpose here is simply to elucidate two ways in which trade can affect women's growth and development experiences on the production side, by focusing on women-owned businesses, and demand for female labor.

To provide some preliminary data analysis on the issues that arise in the context of trade and gender, this Policy Brief uses the World Bank's Enterprise Surveys dataset. The Bank collects the data at the firm level in over 100 developing and transition economies, covering more than 100,000 firms in total. In the standardized version of the dataset, it is possible to distinguish between firms that have at least one female owner and those that do not, as well as to identify the proportion of employees who are women. We use these splits in the data to examine the ways in which developing country women participate in trade, and to highlight some of the potential questions that deserve further analysis.

The Policy Brief proceeds as follows. The next section addresses the issue of trade and women workers, by looking at employment data and firm-level involvement in trade. Section 3 looks at women-owned businesses and trade, to highlight the ways in which they interface with the international economy. The final section concludes and presents policy implications.

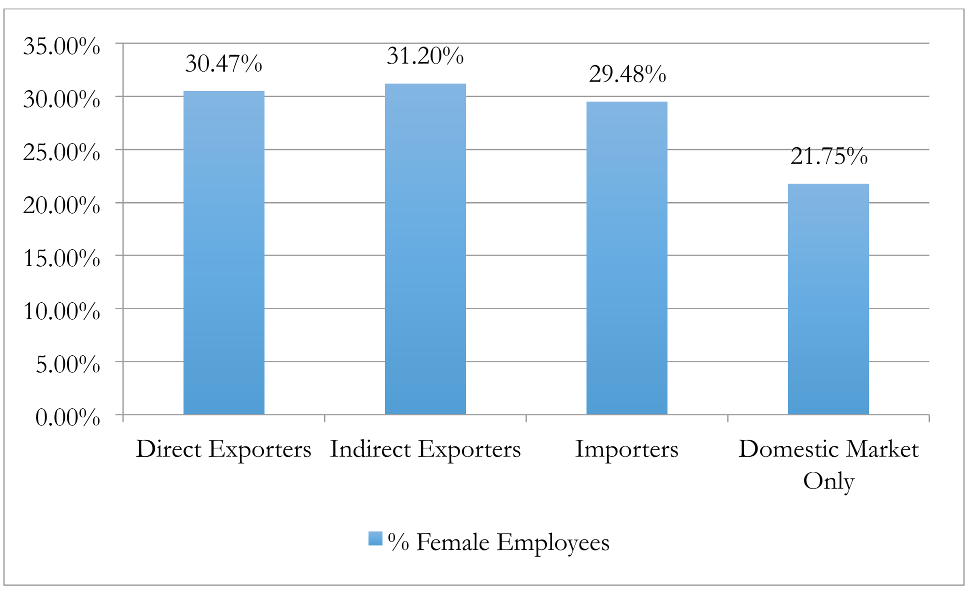
2 TRADE AND WOMEN WORKERS

One way in which trade can affect women on the production side is through their role as employees. As trade costs come down, economic resources—including employees—flow to sectors in which a country enjoys a comparative advantage. If comparative advantage sectors are relatively intensive in female employment, then one outcome of this process would be to improve labor market outcomes for women who have the necessary skills to work in the relevant sectors. By contrast, comparative disadvantage sectors contract and shed workers, including women. So the issue of intensity is again relevant because it speaks to the gender makeup of frictional unemployment, and thus also to the types of safety net policies that are required to ensure an equitable and efficient outcome.

The Enterprise Surveys dataset tracks the number of female production and non-production workers at each firm, in addition to total employees. That makes it possible to derive a measure of the proportion of each business's workforce that is made up of women. Figure 1 presents a breakdown of that measure by firm type, looking at direct exporters, indirect exporters (through a wholesaler), and firms that serve the domestic market only. Clearly, internationalized firms have a higher proportion of female employees than firms that do not export at all. In part, this finding is due to sectoral composition effects: many exporting firms in a number of Enterprise Surveys countries are active in the textiles and clothing sector, which is known to be intensive in female labor.

It is also important to highlight that firms that import intermediate goods also tend to employ a greater proportion of women. It is therefore not only on the export side that firm internationalization can create demand for female labor. Taking the exporting and importing results together indicates that linking firms to international markets can be one way of bringing women into the formal labor force, and providing them with wage income. Of course, this encouraging finding needs to be tempered by a recognition of persistent gender wage gaps, even in developed countries—an issue the Enterprise Surveys do not have any data on. Notwithstanding this caveat, the data nonetheless show that trade can potentially be good for women workers, as comparative advantage sectors take on more employees and draw them into the formal wage-labor market.

Figure 1: Percentage of female production and non-production workers, by firm type, all countries and years.

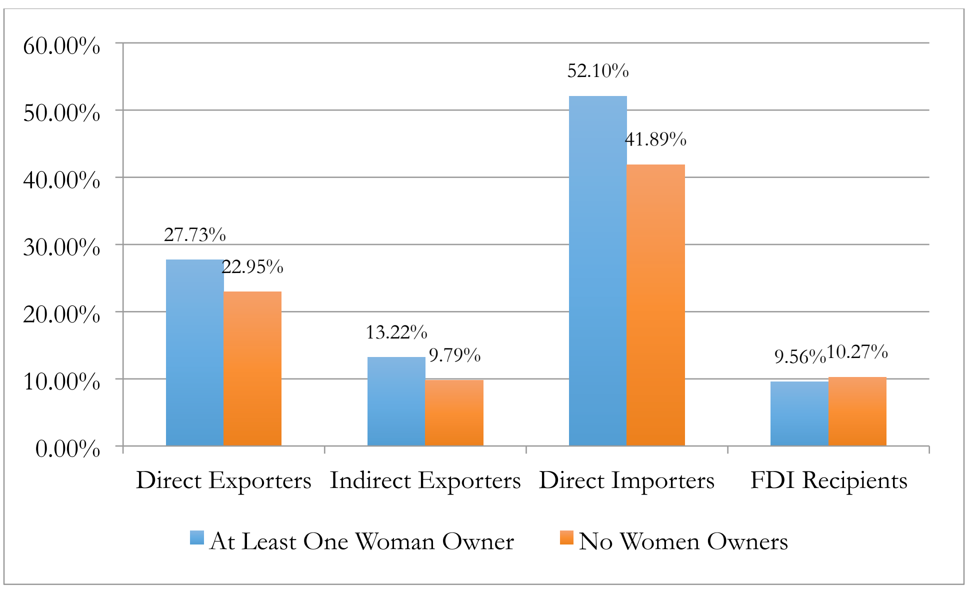


Of course, it is important to be cautious in interpreting simple averages, as in Figure 1. They represent observed differences only, and do not control for intervening factors that affect labor demand. It is important to supplement them with econometric analysis of the demand for female labor and its links to firm internationalization. Results from such an analysis[2] show that internationalized firms indeed tend to be more intensive in their use of female labor, even after controlling for other relevant factors. Of particular note is that the combination of importing, exporting, and being foreign invested all together is associated with a higher proportion of women in the workforce. This evidence tends to suggest that participation in global value chains (GVCs) can, under the right circumstances, be positive for women's employment, subject again to the issue of the gender pay gap, which cannot be evaluated using these data.

3 Women-Owned Firms and Trade

A descriptive analysis of the Enterprise Surveys data (Figure 2) suggests that women-owned firms are active in international trade. Higher percentages of women-owned firms export (directly and indirectly) than their counterparts with only male owners, although the differences are not very large. Women owned firms are similarly more likely to be direct importers of intermediate inputs, a factor that tends to boost productivity and competitiveness. However, these firms are slightly less likely to receive FDI. Based solely on the descriptive statistics, it would appear that women-owned firms compete successfully in international markets. But the understanding needs to be nuanced by detailed econometric analysis that controls for other factors.

Figure 2: Percentage of firms with at least one woman owner that engage in international activity, compared with other firms, all countries and years.



Preliminary analysis using an econometric model of export behavior that controls for factors like size and capital intensity suggests that the picture is not as rosy as Figure 2 would tend to suggest. In fact, women owned businesses export less directly in dollar terms than other firms, even after controlling intervening causes. However, performance for indirect exports is not different to a statistically significant extent. This finding suggests that women-owned business may be more reliant on intermediaries, like wholesales, to overcome some of the fixed costs associated with exporting.

[2] Shepherd, B., and S. Stone. 2013. "Global Production Networks and Employment: A Developing Country Perspective." Trade Policy Paper No. 154, OECD.

Examples of such costs include information costs on tastes and standards in the foreign market. Alternatively, the econometric results could be consistent with women-owned businesses having less well developed international networks, hence the need to go through a middleman like a wholesale. In any case, these preliminary results suggest that there is work to be done to boost the ability of women-owned firms to compete successfully in international markets, and in particular to make direct links with overseas buyers.

What are the factors constraining women-owned businesses in their pursuit of international success? The Enterprise Surveys provide some suggestive information. They ask respondents to cite their top three business constraints. For women-owned businesses, the most commonly cited are access to finance (16% of respondents), practices of competitors in the informal sector (13%), and tax rates (13%). By contrast, firms without at least one female owner list electricity (17%), access to finance (15%), and tax rates (12%). These results suggest that there is some overlap in terms of the policy agenda promoting the participation on women-owned businesses in international markets: women-owned firms as well as their male-owned counterparts clearly see tax issues and access to finance as crucial constraints on their ability to compete. There is a clear agenda for regulatory reform in those areas in a way that promotes inclusive growth. Importantly, though, women-owned businesses also cite practices in the informal sector, perhaps because at their smaller scale—and given their sectoral distribution—they are more subject to this type of difficulty than male-owned businesses. The formality discussion is one that has implications for women in a variety of settings, and these results suggest that it is true for trade too.

4 Conclusion and Policy Implications

This Policy Brief has presented some preliminary indications as to the ways in which trade can affect women on the production side. Women can also be affected on the consumption side, but that issue is outside this note's scope. The key finding to emerge from the firm-level data analyzed here is that trade—exports and imports—can be a positive force for women-owned businesses, and women who are, or who are seeking to be, active in the formal labor market. Descriptive statistics as well as econometric analysis show that women-owned businesses face difficulties in internationalizing, but that they nonetheless do so at an impressive rate. On the employment side, there is clear evidence that internationalization can be good for women's job prospects. Of course, the gender pay gap is persistent around the world, and is an issue that needs further consideration in the context of trade. This Policy Brief has dealt only with the issue of employment as such.

There are a number of policy implications that emerge from these findings. The first is to note that the gender aspects of trade are still ill understood and under-researched. There are few contributions in the academic literature, while the policy literature has tended to focus on particular issues such as women informal cross-border traders, and has not fully grappled with the available data. This Policy Brief, and the more detailed work it presages, are an attempt to come to a more complete understanding of the ways in which trade affects women in developing countries, specifically with the aim of establishing whether, and if so, under what conditions, trade can be a positive force for gender equity in the context of SDG5.

In reviewing the data on women-owned businesses, it is apparent that informal practices represent a serious constraint for formal sector businesses. The issue of informality is pervasive in developing economies, particularly in low-income economies. Barriers to formalization of economic activity, including trade, need to be addressed at a policy level. In some cases, administrative procedures are unnecessarily burdensome, which discourages entrepreneurs from moving into the formal sector. Employment laws can also be an issue, as can tax rates and administration. Regulatory reform that is effective—in that it achieves important social goals—and efficient—in that it does so at minimum economic cost—would be welcomed in many developing countries. Women-owned businesses, as well as women in the workforce, would stand to gain from these types of reforms.

Another issue relates to the role of GVCs in development. There is evidence that the cluster of activities associated with GVC participation is associated with more intensive use of female labor, although there is of course a sectoral composition issue playing out, particularly through textiles and clothing-related activities. Nonetheless, identifying policies that support women's engagement with GVCs promises to be beneficial for trade as well as gender equity.

As in the case of health, there is evidence that there is scope for "win-win" solutions in the area of gender and trade: policies that are good for women, and which also serve to boost engagement with international markets. Identifying such policies should be a priority for trade economists working with gender specialists in the context of promoting the SDGs.