International Capital Flows: Identifying the Gender Dimension

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Summary. — This paper explores the main issues involved in examining the gender impact of international capital flows to developing countries. It argues that at the macroeconomic level women lose more than men from slow and/or unstable economic growth, financial crises and meltdowns, and even more so the longer and deeper the economic downturn because, without a social security system, the family and women have many additional burdens. Women should formulate an agenda of their own with respect to international monetary reform and some proposals are outlined in this respect, including those involving capital controls.

Key words — financial crises, gender, international financial system

1. INTRODUCTION

There is now a widespread recognition of gender dimensions of international trade that affect developing countries and a growing literature explores both conceptual and empirical aspects of the issue. Important contributions to this literature have been made by, among others, Berik and Cagatay (1990), Cagatay and Ozler (1995), Elson (1996), Joekes (1995), Ozler (1999), Pearson (1991, 1998), and Standing (1989). Some of the most significant work has been concerned with the relationship between exports, female employment and women’s wages in developing countries. There is evidence of increasing participation of women in the industrial labor force, particularly in export-related sectors. Whether this is demand or supply led is debated, as are the implications both for women’s welfare and the economy at large.

In contrast to this rich and growing literature on the gender dimensions of international trade, the gender impact of international capital flows to developing countries has received little or no attention. Even the suggestion of such gender connections is often met with derision, reflecting more than anything a lack of gender awareness or concern.

This paper attempts to help fill this gap in knowledge. This is particularly important in view of the fact that in developing countries the potential gender implications of international capital movements are arguably more important than those of trade. Specifically, the paper concentrates on two main issues: first, how freer private capital movements (as a result of capital account liberalization measures which have been implemented in many developing countries), affect the long-term rate of growth of GDP and its stability and second, what the implications of these changes are for wages, employment and the unpaid labor of women.

The paper also provides some broad suggestions regarding the sort of policies with respect to external capital flows that might be expected to work in women’s interests. These suggestions form the basis of proposals for the reform of the international financial system posited here from the perspective of women.

The paper is organized as follows. Section 2 sets out the main facts regarding international capital flows to the South over the last decade or so, providing an overview of the trends and
changes in the composition of such flows. In view of their potentially important gender implications, section 3 analyzes in some detail the impact of external capital flows on (a) long-term economic growth, (b) the stability of the growth path, as well as (c) the question of convergence. Section 4 considers more closely the relationship between gender and (a) and (b). It specifically examines the potential gender impact of economic crises in developing countries, paying particular attention to the effects of the Asian crisis on women.

Finally, section 5 briefly examines the main changes to the international financial system that would be required to improve the situation for women in developing countries. It urges that women should articulate their own interests on these matters and ensure that their voice is heard in the ongoing discussions. The paper outlines certain specific proposals that might form part of a women’s agenda.

2. INTERNATIONAL CAPITAL FLOWS TO DEVELOPING COUNTRIES: AN OVERVIEW

(a) Trends

The main facts concerning international capital flows, public and private, to the South during the last three decades are the following:

(i) Aggregate growth

Net resource flows to developing countries have greatly increased in magnitude over the last three decades from nearly US$ 11 billion in 1970 to over US$ 338 billion in 1997, falling to US$ 275 in 1998 following the Asian crisis (Table 1). As a proportion of total South GNP they have risen from 1% to 4.8% in 1997. As domestic savings constitute on average approximately one-fifth of GNP in developing countries, this suggests that, in the aggregate, external capital flows are adding almost a quarter to resources for investment.

(ii) Changing composition of flows

In view of the fact that different flows have a different impact on the economy and on men and women, it is important to note the changing composition of external capital flows to developing countries. Data in Table 1 suggest that whereas in 1970 bilateral and multilateral grants constituted around 20% of net resource flows, they constituted 8% in 1997. The other major component of net resource flows in the 1970s, namely bank loans, bonds and other long-term debt rose from just over 60% of total flows in 1970 to almost 80% in 1980, but then fell to 35% in 1997. The share of foreign direct investment (FDI) in 1970 was 20% and in 1997 50%. Portfolio equity flows, which were negligible in the 1970s and 1980s, expanded rapidly in the 1990s and comprised about 16% in 1996 and fell to around 9% in 1997 and 5% in 1998.

A somewhat different composition of capital flows to developing countries is provided by the International Monetary Fund (IMF), namely distinguishing between net private and net official inflows. The figures indicate that between 1984–89 and 1990–96 net official flows fell by nearly 50%, while net private flows rose by 700% (see Table 2).

(iii) Geographical distribution

The changes in the regional distribution of international capital flows are also significant (Table 3). In 1970 and 1980, sub-Saharan Africa received about 15% of the developing

| Table 1. Net capital flows to developing countries (US$ billions)* |
|-------------------------|---------|---------|---------|---------|---------|---------|---------|
| Net flow of long-term debt (excl. IMF)¹ | 6.9     | 65.2    | 43.4    | 77.0    | 87.6    | 118.7   | 82.9    |
| Foreign direct investment (net) | 2.2     | 4.4     | 24.5    | 95.5    | 119.0   | 163.4   | 155.0   |
| Portfolio equity flows | 0.0     | 0.0     | 3.7     | 32.1    | 45.8    | 30.2    | 14.1    |
| Grants (excl. technical cooperation) | 2.2     | 13.2    | 29.2    | 32.6    | 29.2    | 25.7    | 23.0    |
| Total net resource flows | 11.3    | 82.8    | 100.8   | 237.2   | 281.6   | 338.0   | 275.0   |


¹ Bank loans, bonds, official (bilateral and multilateral) loans.
countries’ total, whereas in 1997 its share was only a little over 5%. The share of the East Asia and Pacific region doubled from 20% in 1970 to 40% in 1995, falling to and 34.8% in 1998 in the aftermath of the Asian crisis. Following the debt crisis, the share of the Latin American and Caribbean region fell from over 35% in 1970 and 1980, to just over 20% in 1990. Subsequently it recovered again to almost 35% in 1997.

Further breakdown shows that most FDI flows and portfolio flows, which have been the most dynamic flows in the 1990s, have gone to only a very small number of developing countries. Altogether 14 developing countries account for 95% of private flows to developing countries. Table 4 provides detailed information on FDI inflows, indicating that China, Brazil, Mexico, Argentina, Poland, Chile, Malaysia, Thailand, Venezuela and the Russian Federation (in descending order by receipts in 1998) accounted for nearly 70% of FDI flows to developing countries over 1992–98. The low income countries’ share of FDI inflows was only 6.9% in 1992–93 and it fell marginally to 6.7% in 1997–98. China was the single largest recipient of FDI inflows, receiving over one-quarter of net FDI flows to developing countries during 1992–98. Over 1993–98, FDI accounted for nearly 5% of China’s GDP compared with less than 2% for the low income countries.

Detailed information provided by the OECD (1999) for the 1990s indicates that total net private flows rose more than fivefold during 1990–96. In 1997, the year of the Asian crisis, these declined by about 10%. Particularly notable are the movements in international bank lending: such lending rose from a little over US$6 billion in 1990 to US$86 billion in 1996, that is, almost a 14-fold increase. In 1997, however, it fell by nearly 75% to US$20 billion. This is widely acknowledged to have played a leading role in the onset of the Asian crisis.

(b) Reasons for trend changes

Bilateral and multilateral “assistance” (comprising grants and concessional lending) was, in the early decades following WW II, virtually the only source of international capital available to developing countries. Although a commitment was made by donor countries to raise the level of such transfers to 0.7% of their GNP, the figure has declined from an average of 0.34% in 1981–82 to 0.22% in 1997. The decline in ODA is the result of several factors, the main ones being the end of the Cold War which removed the need to win friends and influence, the ideological shift against counterproductive “interventionism” by the state or international community, and so-called donor fatigue. Private capital flows, seen as an efficient substitute, were supposed to replace official flows.

Table 2. Net private and official capital flows: developing countries 1984–89, 1990–96

<table>
<thead>
<tr>
<th>Region</th>
<th>1984–89</th>
<th>1990–96</th>
</tr>
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<tbody>
<tr>
<td>Net private capital flows</td>
<td>17.8</td>
<td>129.4</td>
</tr>
<tr>
<td>Net direct investment</td>
<td>12.2</td>
<td>57.9</td>
</tr>
<tr>
<td>Net portfolio investment</td>
<td>4.9</td>
<td>51.1</td>
</tr>
<tr>
<td>Other net investment</td>
<td>0.6</td>
<td>20.4</td>
</tr>
<tr>
<td>Net official flows</td>
<td>27.2</td>
<td>16.8</td>
</tr>
<tr>
<td>Change in reserves</td>
<td>5.1</td>
<td>-54.8</td>
</tr>
</tbody>
</table>

Source: IMF (1998a, b).

Because of data limitations, “other net investment” may include some official flows.

A minus sign indicates an increase.

Table 3. Net capital flows to developing countries, percentage distribution by region

<table>
<thead>
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<tbody>
<tr>
<td>East Asia and Pacific</td>
<td>20.0</td>
<td>15.8</td>
<td>27.6</td>
<td>40.4</td>
<td>36.3</td>
<td>34.8</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>5.0</td>
<td>16.1</td>
<td>13.3</td>
<td>17.1</td>
<td>17.5</td>
<td>17.7</td>
</tr>
<tr>
<td>Latin America and Caribbean</td>
<td>37.0</td>
<td>36.1</td>
<td>21.6</td>
<td>28.2</td>
<td>34.3</td>
<td>30.3</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>10.6</td>
<td>10.3</td>
<td>10.2</td>
<td>1.0</td>
<td>2.0</td>
<td>6.3</td>
</tr>
<tr>
<td>South Asia</td>
<td>12.4</td>
<td>7.9</td>
<td>9.1</td>
<td>3.5</td>
<td>4.3</td>
<td>4.5</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>15.1</td>
<td>13.9</td>
<td>18.1</td>
<td>9.8</td>
<td>5.4</td>
<td>6.3</td>
</tr>
<tr>
<td>Total (US$ billions)</td>
<td>11.3</td>
<td>82.8</td>
<td>100.8</td>
<td>237.3</td>
<td>338.2</td>
<td>274.9</td>
</tr>
</tbody>
</table>

Source: IMF (1998b); World Bank, Global Development Finance, various years (data for 1995 are from Global Development Finance, 1997).

Percentage of the total for all developing countries. Figures add up to 100 except for rounding errors.
In the event, as seen above, private capital has not become widely available to many developing countries, particularly the least developed and, for reasons which become clear later in this paper, their needs would be better served by significantly greater inflows of official capital.

Bank loans greatly increased in the 1970s as a result of both demand and supply factors. On the demand side, the negative real interest rates which prevailed in the mid-1970s made it attractive for the leading newly industrialized countries (NICs) to borrow from foreign banks to finance their industrial development. The banks, on their side, had a plentiful supply of petrodollars. Although there is evidence of loan pushing by the banks, there was also a strong desire on the part of the NICs such as Brazil, Korea and Mexico to raise capital in order to deepen their industrial base by means of imported capital goods and technology.

In the 1980s, as a result of the debt crisis, commercial banks almost withdrew from voluntary foreign lending to developing country borrowers. As noted earlier, there was a resurgence of bank lending in the 1990s, followed by a precipitate decline in East Asia in the late 1990s.

FDI and portfolio capital (bonds and equity) inflows increased markedly in the 1990s, due to both push and pull factors. The pull factors included deregulation, liberalization and privatization in developing countries, making them more attractive to potential developed country investors. The push factors included the drop in the rates of return in the advanced industrial countries due to cyclical factors, and changes in the rules to allow the rapidly growing pension and investment funds in the advanced industrial countries to invest a proportion of their funds abroad.  

(c) Surges in capital flows and volatility

In assessing the impact of capital flows, it is not only the level of the flows and the medium and long-term trends which are of importance but also the fluctuations in flows. For example, for developing countries in which bilateral and multilateral assistance account for a significant proportion of GDP, variations in receipts from one year to another can cause considerable macroeconomic management problems.

Nevertheless, the more critical problem arises with respect to private capital inflows, which for a number of middle income countries now constitute the bulk of their foreign capital receipts. Importantly, in the recent period these have been subject to surges and sudden withdrawals. This fact, although evident in the aggregate data, emerges even more clearly from the data for individual countries. To illustrate, after the debt crisis of 1982, Mexico received very low voluntary private inflows in the 1980s. But as a result of the introduction of Brady bonds as part of the debt restructuring process
and the market-oriented reforms carried out by the Mexican government, foreign inflows resumed at the end of the 1980s. During 1990–93 Mexico attracted US$91 billion, amounting to one-fifth of all foreign inflows into developing countries. During 1992–94, the annual capital inflows averaged 8% of GDP, compared with 5% of GDP during the previous peak period in 1977–81 (prior to the debt crisis). Net portfolio flows accounted for the larger share of these inflows: for 1990–93 they amounted to US$61 billion or 67% of net capital inflows. The Mexican stock market received US$22 billion of these net portfolio inflows which fuelled a rise in the share price index of 436% in dollar terms. In local currency, the rise in the share price index was almost 10-fold during 1989–94. Again, following the 1994 crisis, there was a steep decline in private capital flows into Mexico, to be followed again by a surge a couple of years later (Singh & Weiss, 1998).

The question of whether different kinds of capital flows have varying degrees and patterns of volatility, say, for example, behave in a pro or anti-cyclical manner, is a significant but controversial issue and is taken up later in the discussion.

3. ECONOMIC EFFECTS OF INTERNATIONAL CAPITAL FLOWS

(a) Microeconomic analysis

In assessing whether capital flows to developing countries are gender neutral and how they affect women and men, it is necessary to consider their effects both at microeconomic and macroeconomic levels.

The effects at the microlevel are relatively more easily identified and these will be primarily determined by the composition of the flows and the specific activities to which they are directed. For example, grants and concessional loans from bilateral and multilateral sources are often given for specific projects and purposes, rather than as general budgetary or program support. These will have gender implications, and evidence suggests that not only has such assistance often benefited men but sometimes has actually disadvantaged women.

The World Bank and several DAC donors are now working toward “mainstreaming” gender in all aspects of their work (Stiglitz, 1998a; Moser, Tornquist & van Vornkhorst, 1998). Gender objectives are becoming an increasingly explicit condition for both multilateral and bilateral assistance, and some funds are now being given specifically for projects intended to benefit women, either in their own right or as vehicles to improve the present and future situation of the family. The results of these policy initiatives will, however, require close monitoring.

In principle, at the microeconomic level, FDI also seems easier to assess in terms of its gender impact. Leaving aside the complications concerning the measurement and definition of FDI (see South Centre, 1997), FDI in the common sense use of the term, involving additions to a country's production capacity, may take place in activities where women are as or more likely to be employed than men. For example, as noted earlier, to the extent that FDI is related to manufactured exports or export processing zones in developing countries, it is likely that in a number of semi-industrial countries more women than men will be employed. Whether or not this generates a net addition to employment and whether it is women or men who gain on balance can only be ascertained through careful research. For example, new FDI may displace one or more existing firms leading to a reduction in employment. On the other hand, it may lead to more technical progress and greater productivity growth and hence greater employment for both women and men in the long term.

(b) Macroeconomic analysis

Micro studies are based, however, on partial equilibrium analysis which ignores the macroeconomic effects on growth and stability of aggregate international capital flows. These may be more important from the perspective of women. There are good analytical reasons as well as evidence (reviewed in section 4) which indicate a clear asymmetry with regard to the way women, as compared with men, are affected by economic growth and reversals in growth.

If international capital flows were conducive to faster national economic growth, and to a higher overall level of employment, this might generate increased employment opportunities and possibly higher wages for both women and men, other things being equal (which is a big assumption bearing in mind various kinds of discrimination against women). Moreover, faster economic growth might facilitate higher
government expenditures on health, education and other services and benefits and these might directly benefit women as well as men. Such social expenditures might also benefit women indirectly by relieving some of the burden they bear as unpaid carers and providers of sustenance in the absence of social services and social safety nets.

The economic and social impact of economic instability and crises in developing countries falls, however, more forcefully on women than on men. This is largely because, apart from the direct effects of economic crisis on women as wage earners, women, whether in paid employment or not, become subject to increased economic and social pressures and are required to bear a number of additional burdens in times of economic crisis. These arise from the fact that developing countries do not have, and for a long time are unlikely to have, an adequate publicly provided social security system, leaving the family, and women in particular, to perform these functions as part of their unpaid domestic labor. (See further, section 4.)

The key policy questions at the macroeconomic level in the current context relate to the issues of freer private capital movements or the desirability of greater capital account liberalization. In assessing the effects of international capital flows on men and women, it is necessary to address first the following issues:

—How would capital account liberalization measures in developing countries affect their long-term economic growth?
—Do freer capital movements increase cyclical instability or are they stabilizing?
—Are free capital movements likely to promote wage convergence between workers in the rich and poor countries and between men and women? Further, would such a convergence occur at the higher wages of the rich countries or the lower wage of the poor countries or in between the two?

A full assessment of the gender implications of capital account liberalization measures requires a separate analysis of each of the above issues as well as their combined effect. The latter is necessary as there may be tradeoffs in the outcomes of the three issues. For example, even if it were the case that free capital movements increased cyclical instability, this may be more than compensated for by a sufficiently higher rate of long term growth.

These three issues are major ones on which there are sharply diverging views among economists at the theoretical, empirical, and policy levels. The controversy cuts across the usual ideological divisions. The main points at the different levels of the argument will be briefly reviewed below.

Orthodox economists have traditionally provided broadly positive answers to each of the above questions. Their case for free private capital movements is analogous to that for free trade. Capital movements can be regarded as a form of intertemporal trade which enables economic agents to even out fluctuations in their income or consumption levels. More generally, it is argued that this permits capital receiving nations to avoid sharp downturns in economic activity as a result of shocks, internal or external.

At the global level, free private capital movements are thought to lead to a better allocation of the world’s resources. It is suggested that, under such a regime, resources will move from capital abundant advanced countries where their marginal product is relatively low to poor economies where they may earn a higher return because of the scarcity of capital. This point is given added emphasis by the different demographic evolution in the rich and the poor countries: the former have ageing while the latter have youthful populations (IMF, 1998b; Reisen, 1994). In an influential contribution, Sachs and Warner (1995) have suggested that free trade and capital movements would lead to convergence between rich and poor countries at the higher income levels of the former.

At the theoretical level, the IMF (1998b) argues that the case for external financial liberalization is no different from that for domestic financial market liberalization. McKinnon (1973) and Shaw (1973) suggested long ago that a liberal financial system (compared to a repressed one) leads to greater savings and investment, particularly financial savings; greater productivity of investments, and hence, because of these two factors, to faster economic growth. Levine (1997) reaches the same conclusion in a recent work on endogenous growth models which incorporate money and finance.

Other recent theoretical work reveals serious inadequacies in these orthodox conceptions. The critics’ essential argument is that the case for free capital movements is fundamentally different from that for free trade. Capital flows are subject to asymmetric information, agency problems and adverse
selection. Although such problems may occur also in trade in goods and services, they are intrinsic to financial flows and are far more important. Two critical elements of the financial contract are that it takes place over time, and the lenders do not have the same information as the borrowers. As the real world is subject to countless uncertainties and it is difficult to write contracts to cover all contingencies, it is too costly for the lenders to ensure the best use of their funds by the borrowers. This leads to an acute moral hazard problem as well as to adverse selection.

Many leading economists suggest that these market imperfections which are inherent to finance make the virtues attributed to international financial integration unattainable. The orthodox response recognizes these imperfections but suggests that the financial system provides appropriate institutions (for example, banks) to ameliorate them. The counterargument at the theoretical level is that such institutions create imperfections of their own. For example, excessive risk taking by banks in response to competition subjects the economy to the hazard of systemic failures.\footnote{8}

Importantly, there are also diverging views about the price formation process in asset markets such as the stock market and the currency markets. A large number of economists subscribe to the theory of efficient markets. In this view, prices are a collective outcome of actions of a multitude of individual economic agents whose behavior is assumed to be based on utility maximization and rational expectations. A powerful counterview is that put forward by Keynes (1936) in chapter 12 of the General Theory and which is encapsulated in his well-known “beauty contest” analogy which highlights the role of speculation in determining prices.

Thus, in Keynesian analysis, which has been formalized in recent theoretical contributions, price formation in asset markets may often be dominated by speculators or noise traders in modern parlance. Moreover, theoretical work on Darwinian selection mechanisms indicates that the Friedman (1952) assertion that rational investors will always wipe out speculators is far from being valid in all situations.\footnote{9}

Further, the critical school note that the orthodox case for free trade and capital movements rests on the assumption that there is full utilization of resources, including labor, in all countries of the world. This may, however, be a particularly untenable assumption in the real world, which is subject to incomplete markets and frequent coordination failures. Keynes was particularly worried about this problem in relation to the post WW II world economy—that was his rationale for creating an institution such as the IMF. Modern analysis recognizes that because of these coordination failures financial markets often generate multiple equilibria, some good, some bad. In the absence of appropriate coordination by the government or international authorities, an economy may languish in a low-level equilibrium, producing suboptimal output and employment levels.

Coordination by the government or an international authority does not always resolve the problem and may even aggravate it. It may result in coordinating individual economic agents’ expectations in a counterproductive way. To illustrate, the pronouncements and actions of the IMF in relation to the recent Asian economic crisis would be regarded by many as an unfortunate example of such coordination. At the start of the Asian crisis, instead of calling attention to the strong fundamentals of the East Asian economies, their export orientation, and their ability to pay off their debts in the medium to long term, the IMF argued that these countries’ problems were deeper and structural. They would need far-reaching reforms to the basic structure of their economies (such as abolition of crony capitalism, the introduction of free markets in labor and capital, changes in corporate governance, and the relevant laws and institutions) to get out of the crisis. This evidently panicked investors, and their withdrawal compounded the crisis. A relatively tractable liquidity problem was thus turned into a massive solvency crisis, with enormous losses in employment and output. (For a fuller discussion on these issues see Feldstein (1998), Radelet & Sachs (1998), and Singh (1999a).)\footnote{10}

To sum up, the orthodox theory that financial liberalization leads to global economic efficiency based on the analogy with free trade is flawed on several accounts. Within the neoclassical tradition itself, it is the intrinsic nature of financial contracts (as outlined above), which leads to contagion and multiple equilibria which can produce pathological outcomes. The Keynesians’ emphasis is on speculation and the coordination failures to which financial markets are particularly prone. Other schools of thought not discussed
above, such as the post-Keynesian, stress different factors such as the intrinsic fragility of the banking system in a competitive economy.11

(c) Empirical evidence

(i) Long-term economic growth

Just as there is no agreement on the theoretical analysis of the effects of capital account liberalization on economic growth or its stability, there is also divergence on the assessment of the empirical evidence. Rodrik (1998) has carried out the closest direct test. Controlling for the other relevant variables (such as initial levels of per capita GDP, initial secondary enrollment rate, index of quality of government institutions and regional dummies) for a sample of 100 developing countries over 1975–89, he finds no relationship between the capital account regime in developing countries and the following three indicators of economic performance: per capita GDP growth, investment ratio in GDP, and inflation.

Carrasquilla (1998) finds results similar to those of Rodrik for 1985–95 for 19 Latin American countries. This study uses more direct measures of capital controls.

Singh (1997a) considers the case of advanced countries. He suggests that the experience of these countries is relevant for developing economies, since the former have operated under a regime of relatively free trade and capital movements during the last 15 years or so—long enough to be able to make at least a preliminary assessment of the effects of the economic regime on performance. Evidence suggests that the record has been less than impressive despite the fact that the world economy during this period has not been subject to any abnormal shocks such as the oil price increases of 1973 and 1979. Indeed, the economic performance of industrial countries during this later period has been much worse than in the earlier period of the 1950s and 1960s when they functioned under a myriad of capital controls.

—GDP growth in the 1980s and 1990s under a liberal regime regarding private capital flows was much lower than that achieved in the “illiberal” and regulated “golden age” of the 1950s and 1960s;
—There has been a comprehensive failure of GDP growth in the later period: 21 out of 22 OECD countries recorded a fall in GDP growth;
—Productivity growth in the last 15 years has been half of what it was in the “golden age”;
—The critical failure is, however, with respect to employment: eight million people were unemployed in the OECD countries in 1970, but by the mid-1990s 35 million were unemployed, that is, 10% of the labor force.

Analysis indicates that the poor performance of industrial countries in the recent period is closely linked to intrinsic features of the liberal financial regime. Coordination failures have led to suboptimal levels of world output and employment. In other words, when capital flows were regulated in the 1950s and 1960s, and there was coordination under the aegis of the hegemony of the United States, payments balance between countries was achieved at much higher levels of output and employment than subsequently under financial liberalization.12

Further, at a more elementary level, the expectation of the orthodox theory that savings would move from capital abundant advanced countries to the capital scarce poor countries has not been realized, despite the high degree of capital account liberalization in poor as well as rich countries during the last two decades. In fact, capital movements appear to be in the direction opposite to that predicted. A considerable proportion of the world’s savings flow to the United States.13

In contrast to the studies above, which are skeptical about the positive effects of capital account liberalization on long-term growth, other studies on related issues arrive at somewhat more favorable conclusions on this matter. (See, for example, Quinn (1997), Tamirisa (1998) and Lewis (1996, 1997).)14 Nevertheless, IMF (1998b), which favours capital account liberalization albeit with safeguards, makes the following overall assessment of the empirical evidence on this question:

These studies provide useful insights into the consequences of capital account liberalization.15 At best, however, they provide mixed support for the hypothesis that capital account liberalization has a positive impact on economic growth. Existing studies provide weaker evidence of a positive effect on growth for capital account liberalization in particular than for financial development generally (italics and end note added).

Arestis and Demetriades (1997) and Singh (1997b) argue however that the evidence is even weaker.
Economic fluctuations

Contrary to the expectation of orthodox analysis that free capital movements should in principle smooth out income and consumption for individuals and countries, the experience has been quite the opposite. Although capital account liberalization measures are by no means the only cause of financial crises, analysis and evidence suggests that since 1980 such measures have contributed to a number of banking and currency crises. Liberalization makes capital importing countries vulnerable to changes in foreign interest rates and a volatile external environment.

Demirgüç-Kunt and Detragiache (1998) found in their study of 53 countries during 1980–95 that banking crises are more likely in situations where the domestic financial system has been liberalized. Although this study considers only domestic liberalization, the linkage with external liberalization is provided by two factors—banking crises lead to currency crises and vice versa, and external events, through external liberalization, also lead to banking crises.

World Bank (1998b) provides further indirect evidence linking international capital flows with crises for a sample of 27 capital inflow surges in 21 emerging markets. In two-thirds of episodes, the Bank reports that there was a banking, currency or a twin crisis in the wake of the capital surge.

The costs of these crises in terms of lost output and unemployment, among other things, have been very high. IMF (1998a) estimates that, in the case of the twin banking and currency crises, the cumulative loss of output in each crisis has been as high as 18% of GDP in 26 emerging countries.

Research also indicates that financial liberalization is more likely to cause financial crises in countries with weak and underdeveloped financial systems. It is important to note, however, that even the most developed financial systems have been subject to crisis following financial liberalization, for example, the savings and loans crisis in the United States in the late 1980s, the Scandinavian crisis in the early 1990s and that in Italy and the United Kingdom in 1992 when they had to abandon the European Exchange Rate Mechanism.

Research also points to the reasons why financial liberalization leads to banking and currency crises. The more important of these include excessive risk taking by banks as a consequence of greater competition following financial liberalization, and contagion effects (see below). Indeed, Obstfeld (1998) argues that, as long as there is asymmetric information, financial crises cannot be avoided.

Thus most economists would agree that free flows of international capital have made financial markets, as also the real economy, much more unstable, both in developed and developing countries. The gyrations in the stock markets and financial markets in the advanced economies in the 1980s and 1990s have become much more pronounced than in the earlier period of regulated capital flows. UNCTAD (1996) provides evidence for advanced economies to suggest that, since the implementation of financial liberalization, all the components of aggregate demand (consumption, investment, exports) have become more variable than before. The fluctuations in aggregate demand are partly due to fluctuations in the stock markets and currency markets. The unprecedented high real long-term interest rates which have prevailed in the last 20 years are partly the consequence of this increased instability and greater riskiness of the financial markets. The high long-term interest rates would, in turn, most likely have contributed to the lower investment and reduced growth. Thus economic fluctuations in themselves have a negative impact on the long-term rate of growth of the economy.

Turning to the developing world, a host of countries in recent years have not only been the victims of greater economic fluctuations than before but also of what in effect has amounted to financial “melt-downs.” This phrase accurately describes what happened in Mexico in 1994 and the Asian countries in 1997. (See further, note 22.) Kindleberger (1984) has observed that financial markets are subject to frequent crises, which he ascribes to periodic and alternating bouts of irrational exuberance and pessimism largely unrelated to fundamentals. Ironically, Kindleberger’s historical analysis is implicitly endorsed by Alan Greenspan, the Chairman of the US Federal Reserve himself, who recently commented as follows on the 1987 US stock market crash and the Asian financial meltdown of the 1990s:

At one point the economic system appears stable, the next it behaves as though a dam has reached a breaking point, and water (read, confidence) evacuates its reservoir. The United States experienced such a sudden change with the decline in stock prices of more
than 20% on 19 October 1987. There is no credible scenario that can readily explain so abrupt a change in the fundamentals of long-term valuation on that one day. But why do these events seem to erupt without some readily evident precursors? Certainly, the more extended the risk-taking, or more generally, the lower the discount factors applied to future outcomes, the more vulnerable are markets to a shock that abruptly triggers a revision in expectations and sets off a vicious cycle of contraction. Episodes of vicious cycles cannot easily be forecast, as our recent experience with Asia has demonstrated (Greenspan, 1998).

The psychological reasons for these kinds of investor behavior in the financial markets were also explained by Keynes in chapter 12 of The General Theory. Keynes’s insights have been more recently formalized in the theoretical economic literature. This literature is able to provide a rational explanation for the herd-like behavior, contagion and other irrational manifestations of those involved in financial markets.16

(iii) Convergence

The Sachs and Warner (1995) proposition that free trade and capital movements lead to convergence finds some support in the study by Ben-David (1993) of countries integrating into regional trading arrangements. Although it does not consider specifically external financial liberalization, the Ben-David analysis suggests that European Community countries experienced convergence while those rich countries outside the European Community did not. He arrives at similar conclusions with respect to the cases of the other integrating economies compared with those which did not integrate.

This analysis has been sharply criticized by Rodriguez and Rodrik (1999) and Slaughter (1998) on methodological grounds. Slaughter concludes from his analysis, using superior difference-in-differences estimations, that the “main empirical result is that trade liberalization did not trigger convergence in any of the four cases. If anything, trade seems to have caused income divergence” (p. 1).

4. GENDER IMPLICATIONS

(a) Economic growth and fluctuations: gender effects

(i) Long-term economic growth, poverty, employment and gender

Before the Asian crisis, the fast long-term growth of the South East Asian countries led to a sizeable reduction in poverty in these economies. In Latin America, however, poverty rose in the 1980s due to slow growth consequent on the debt crisis, fell in the early 1990s in response to revived growth and rose again in the late 1990s in the aftermath of the Asian crisis. A similar situation occurred in Africa.

Empirically, there is a well-established relationship between economic growth and poverty. Ravallion (1995) estimated that in the late 1980s the elasticity of poverty reduction with respect to growth in mean incomes (assuming distributional neutrality) was 3.5 in Malaysia, 3.5 in Thailand, 2.8 in Indonesia, less than 2 in most of sub-Saharan Africa and less than 1 in Brazil. Further, Morley’s (1994) study shows that poverty rose in 55 of the 58 recessions in Latin America during the 1980s; it fell or remained unchanged in 25 of 32 recoveries.

The reason why the income elasticity of poverty reduction with respect to economic growth varies between countries is that, as research suggests, there are variables other than growth which also affect the incidence of poverty. The most important of these are: inflation, particularly unanticipated inflation; inequality of income distribution; public expenditure; stability of employment growth; initial distribution of land and other assets (including human capital). With respect to inflation, World Bank (1998b) suggests that high and variable inflation, that is, unanticipated inflation, is particularly damaging to the poor who lack both institutional and market mechanisms for protecting their consumption.

Since the majority of the world’s poor are women, there must be a presumption that a reduction in poverty will benefit women, though this may not necessarily happen due to various forms of discrimination against women. There is evidence in the case of East Asia to suggest that women benefited from the fast, long-term economic growth enjoyed by these countries in the pre-crisis period. Thus World Bank (1998c):
As in most of the world, ... women in East Asia ... are generally less powerful than men at home, at work and in politics. Nevertheless, women shared in the massive absolute economic and social gains during the decades of growth, and even enjoyed some reduction in relative disparities, for example, in the labor market (p. 81).

The relationship between growth and employment in developing economies is more complicated that that between growth and poverty. This is mainly because most such countries do not have public unemployment benefits. Consequently, measured unemployment tends to be low, as large numbers of people are obliged to work in the informal sector regardless of how little productive and poorly remunerated such work is. Consequently, there is often no relationship between growth and changes in the employment level in the informal sector. There is a close relationship, however, between economic growth and formal sector employment and real wages. Thus in the Asian economies during the decade or so before the financial crisis, high growth rates led to growth of employment in manufacturing of 5% a year and also an increase in real wages of about 5% a year. In contrast, in Latin America in the 1980s both formal sector employment and real wages fell with reduced economic growth.

ILO (1999a) evidence suggests that Indonesia, Thailand and Republic of Korea, the countries most affected by the crisis, enjoyed full employment during a period of sustained growth over two decades. In particular there were high rates of growth in women’s employment and an increase in the women’s participation in the formal sector labor force, largely as a result of the reliance on exports of labor-intensive manufactured products. Heyzer (1995) indicates that high growth in Korea, Indonesia, Malaysia and Thailand benefited women, through investment in education, healthcare and new employment opportunities. There is, however, some evidence that although women have benefited, men have benefited more from faster growth.

To the extent that the fast growth of the manufacturing sector led to increased formal sector employment for women, this may have been to their benefit in that this provides an independent source of income and access to urban facilities, contacts and services. On the other hand, women are paid relatively low wages, often have only temporary jobs, have few prospects of upward mobility and their working conditions are often repressive. Nevertheless, a situation of (continued) fast growth may contribute to lightening women’s load of unpaid work related to social reproduction; it may also increase opportunities and raise remuneration levels in the informal sector where women are often overrepresented.

(ii) Economic recessions, depressions and gender

Regardless of whether men or women gain more from faster economic growth, there are good reasons, as well as evidence, to suggest that women are more disadvantaged by cyclical instability and economic depressions than are men.

Unlike in advanced countries where economic downturns tend to throw more men out of work than women, in many developing countries the opposite is the case. The reasons for this lie in the differences in the production and gender employment structures in the two sets of countries (Howes & Singh, 1995). In advanced countries men are often employed in cyclically unstable industries or industries in long-term decline (deindustrialization) while women tend to be employed in more stable service industries. In many semi-industrial countries, however, women tend to be employed in labor-intensive manufactured export industries which are more prone to fluctuations. With respect to the crisis in Korea, ILO notes that three types of substitution occurred in the labour market which had clear gender features, namely men workers substituted for women workers; young women substituted for older women and workers in precarious jobs substituted for workers in stable and regular jobs. The first substitution reflected the prevailing patriarchal notions of male family breadwinners and the other two substitutions reflected relative labour costs.

Further, assessing the preliminary and rather scanty evidence regarding the impact of the Asian crisis on women, ILO (1999a) suggests that women are particularly vulnerable to dismissal from their jobs in times of economic downturn.

Because of their unequal position in the labour market, and their ascribed roles in society, women have been more adversely affected than men. The basic labour market vulnerabilities of women have been reinforced by sexist attitudes on the part of employers who regard women as secondary income earners and have used this as a pretext for dismissing them first when their enterprises experience difficulties.
Furthermore the ILO notes that, given their lower incomes, women are more sharply affected than men by reductions in earnings resulting from crisis, either due to falling real wages or lower earnings in the informal sector as more people seek to earn a living from such activities.

The main effects of economic downturns on women do not manifest themselves just in the form of reduced employment or wages, or fewer and less remunerative opportunities for homework or informal sector activities. The downturns invariably involve structural adjustment under IMF auspices, which often include the following detrimental elements among others:

—reduction in social expenditures;
—introducing charges for previously free public services in health and education;
—the reduction or removal of food, transport, and other subsidies.

The gender implications and the generally negative impact on women resulting from such policies have been widely noted in studies on the impact of structural adjustment policies implemented in a large number of developing countries. Such studies have documented the direct and indirect impacts in situations where the family is a surrogate social safety net, and where the women in the family assume even greater responsibilities, often at a time when there are less resources available to help maintain the family. Thus women are observed to bear the stress of being caught in a pincer movement: the amount of caring and unpaid household duties may increase when family members become unemployed or sick, while the economic pressures increase for woman to undertake paid labor to contribute to family income, no matter how poor the remuneration and disagreeable or degrading the activity. Case study evidence summarized in Ozler (1999) points to the specific ways in which women’s unpaid work increases:

Women spend more time shopping for cheaper items, and more time cooking because they buy less processed items. Women villagers cultivate vegetables in home gardens. Length of stays in hospitals shorten and convalescence periods at home increase. It is also observed that not only women’s work increases, but also the increase in domestic burden is also felt by daughters since they spend more time helping mothers in comparison to sons. Examples of increased work of women’s unpaid reproductive work at the community level include opening of milk feeding programs for children, and communal kitchen organizations, organization of community groups to lower cost of food (sic.) … Evidence also indicates an increased bias against girls’ education. These adverse consequences are likely to have significant economic costs as they impact the quality and quantity of the current and future labor force. 20

Ozler further notes that evidence suggests that in families adversely affected economically, women and children suffer from depression and delinquency. In acting as a social safety net to cushion the effects of economic recession or crisis, women are often subject to societal pressures to be strong for the sake of others. For example, Tauli-Korpuz (1998) reports that the Korean government promoted the national slogan “Get Your Husband Energized,” which called on women to absorb and buffer the impact of the financial crisis on men, who on becoming unemployed or bankrupt were subject to depression. Women who had lost their jobs apparently did not need such support, but were encouraged to find work to help the family. 21

(b) Asian melt-down, the real economy and gender implications

The melt-down in Asia generated a deep economic crisis. 22 The main crises were experienced in Thailand, Indonesia, Malaysia and Korea, and, although these economies are now experiencing positive growth, during much of 1998 and early 1999, each suffered a sharp fall in GDP. After a decade or more of fast growth, the GDP of Korea and Malaysia fell by more than 5% in 1998, in Thailand it declined by nearly 8%, and in Indonesia by a catastrophic 20%. 23

The effects of this growth reversal on poverty, real wages and employment have been estimated by the World Bank to be extremely large. On the basis of preliminary data, the World Bank estimates that, assuming no change in the distribution of income, and using the US$ 1 a day poverty line for Indonesia and Philippines, and US$ 2 dollars a day for Malaysia and Thailand, in Indonesia 17 million more people will have fallen below the poverty line in 1998, 2.3 million more in Thailand, 665,000 in the Philippines, and just under half a million in Malaysia. Thus approximately 20 million people will have been added in 1998 to the 30 million or so who were already below the poverty line (World Bank, 1998b).

With respect to unemployment, World Bank estimates suggest that 18 million more people
would have become unemployed by the end of 1998 in Indonesia, Thailand and Korea. This may be compared with the corresponding pre-crisis figure for the three countries together of 5.3 million in 1996. In addition to this huge rise in open unemployment, there will also have been a big increase in the already high incidence of underemployment.

World Bank (1998b) preliminary estimates further suggest that in 1998, one year after the crisis, real wages are likely to have fallen by 40–60% in Indonesia, and by over 10% in Thailand. The Indonesian figure is considerably higher than that suffered by any of the Latin American countries after the debt crisis of the 1980s.

Although the effects on women have so far not been studied in any detail, the available evidence from the Asian crisis countries suggests that the burden of the crisis falls disproportionately on women. The evidence, however, is scattered.

Nathan and Kelkar (1999) point out that in Thailand, although more men became unemployed than women because of the rate of job loss in the construction sector, women’s average wage fell more than men’s. They further point out that there is evidence of a drastic drop in women’s incomes in the informal or homework sector which is almost exclusively the preserve of women.

The same authors also indicate that in Malaysia marginally more men wage workers than women were laid off—53% versus 47%. In addition, however, account has to be taken of the impact on the informal sector (for example, street-sellers and those working at home—activities in which women are overrepresented—which suffered a sharp contraction during the crisis).

Nathan and Kelkar (1999) suggest that in Indonesia women are overrepresented among the open unemployed. In addition, there has been a virtual collapse in the numbers of own account workers and petty traders. They also refer to an IFAD report that, in Indonesia, income in weaving declined by more than 75% and women now preferred work as agricultural laborers.

South East Asian countries also “exported” and employed large numbers of migrant workers. There is evidence that the majority of the region’s migrant workers expelled from some of the crisis countries were women (Tauli-Korpuz, 1998).

The World Bank (1998c) sums up the effects of the Asian crisis on women as follows:

But women and girls may be disproportionately hurt by the financial crisis. Women lose their jobs first, and families pull their daughters out of school before sons. The particularly hard pressed may sell their daughters to brothels. Even before the crisis, girls in Indonesia were six times more likely than boys to drop out of school before the fourth grade. Once girls are removed from school they rarely go back.

Social organizations also point to a rise in domestic violence and prostitution. Though gender equity is not a new problem in the region, the crisis situation has exacerbated the difficulties faced by poor women and girls in Asia.

(c) Latin America

Although the Asian financial crisis, together with those in Russia in 1998 and Brazil in early 1999, had serious consequences for the Latin American financial markets, the effect on the real economy of most countries has fortunately been limited. The two economies with the largest contraction of GDP in the first quarter of 1999 were Colombia (nearly 5%) and Venezuela (almost 10%). For Latin America as a whole, the annualized rate of growth of GDP fell from 5.7% in the first quarter of 1997 to −1% in the first quarter of 1999 (see Table 5).

Consequently, the effects on employment, unemployment and real wages in Latin America have been relatively small compared with those in the South East Asian countries. For Latin America as a whole, the effects of the recession have been marginally increased.

| Table 5. Latin America and selected countries: GDP (annualized growth rate) and unemployment rate by gender, provisional estimates, 1997 (I)–1999 (I) a |
|-----------------|--------|--------|
| Country         | 1997   | 1999   |
| Latin America   |        |        |
| GDP growth      | 5.7    | −1.0   |
| Unemployment rate |      |        |
| Women           | 9.1    | 10.2   |
| Men             | 6.8    | 8.2    |
| Colombia        |        |        |
| GDP growth      | 1.3    | −4.8   |
| Unemployment rate |      |        |
| Women           | 16.3   | 23.2   |
| Men             | 10.1   | 16.5   |
| Venezuela       |        |        |
| GDP growth      | 4.7    | −9.9   |
| Unemployment rate |      |        |
| Women           | 14.8   | 18.9   |
| Men             | 10.6   | 13.6   |

a Source: ILO (1999b).
unemployment rates for both men and women (Table 5). There is also evidence of a marginal decrease in the participation rates of men and an increase in that of women, as well as reduced real wages. Although this economic downturn in Latin America has been relatively mild, the adverse social impact of such small recessions should not be underestimated. As Stiglitz (1998a,b) reminds us, even relatively short periods of economic contraction can have a long-term effect on people's well-being. He cites evidence to suggest that brief periods of child malnutrition may result in long-term damage to children’s mental and physical potential, even if their nutrition improves once the economy recovers (Stiglitz 1998a,b).

(d) Full employment—the best safety net

In the light of the massive economic and social dislocation and increase in poverty in the East Asian countries affected by the financial crisis, the World Bank and multilateral financial institutions have suggested that governments in the affected countries are at fault for not having introduced social insurance systems earlier when these economies were growing rapidly and had the means to institute such systems.

Now, these and other countries are being persuaded to institute social safety nets and social security schemes to provide assistance particularly for those who fall into hardship and below the poverty line in times of economic crisis. The inference is that, if such schemes are in place, it would be easier to live with the potential costs of instability and crises arising from financial liberalization policies, which are now acknowledged to be unavoidable accompaniments of financial liberalization.

The question of funding such schemes in developing countries is highly problematic, particularly if they are also to cater to the large numbers of people who work in the informal sector, very many of whom are women. To the extent that financial liberalization makes developing countries subject to deeper economic downturns, this raises further problems for social safety nets.

If social safety nets and social security schemes are to be affordable and practical in developing countries, it is argued that they would have to be closely targeted. Ranis and Stewart (1999) come to the conclusion, however, that the World Bank schemes involving targeting have been unsuccessful in providing for the poor and that such proposals are generally impractical.

James Wolfensohn, the President of the World Bank, is surely right when he observes in this context (quoted in Singh, 1999b. See further Singh and Zammit, 1995):

While macroeconomic management is never perfect—there will always be some fluctuations in output and employment—the most effective safety net is a policy which maintains full employment. Deep recessions and depressions have adverse effects on virtually every one of the elements of a development strategy: health deteriorates, schooling is interrupted, and poverty increases. Formal safety nets are but an imperfect stop-gap measure in addressing the failures of macro policies to maintain the economy at full employment.

(e) Gender and liberalization of the financial services sector

Another aspect of financial liberalization, namely the expansion and diversification of the financial sector, has important gender dimensions. Apart from employment issues, there may be significant implications for women's access, particularly in the case of poor and low-income women, to financial assets and savings instruments on appropriate and nondiscriminatory terms and conditions. Another important issue for women, who comprise a large proportion of overseas migrant workers, is whether the deregulation and diversification of the financial services sector facilitate the easier and cheaper repatriation of migrant workers' earnings. Evidence on the gender implications of these and other matters relating to banking practices, as financial liberalization measures are undertaken, is scanty. In view of their importance for women's financial security and independence, and for their ability to finance and develop their economic activities, this suggests itself as an area for more policy-oriented research.

5. IMPROVING THE INTERNATIONAL FINANCIAL SYSTEM TO ACHIEVE GENDER GOALS

In the light of the increasing frequency and intensity of economic crises in recent years, there have been widespread calls for reforming the international financial system. That the system has failed developing countries is implicitly accepted by everyone, but there is
contention over the reasons for this failure and the implications for change. The G7 countries, where the former US Treasury Secretary Rubin was the first to raise the need for new “international financial architecture,” appear to want minimal changes in the system. It would seem that the main changes sought by the G7 are a credit contingency line, prudent regulation, greater transparency and more information from the financial and nonfinancial sectors in developing countries. Contingency finance for well-behaved countries (that is, those which follow prudent macroeconomic as well as market-oriented economic policies in all spheres), is also proposed to help forestall crises. It is suggested that such reforms would reduce the frequency and intensity of crises, but, if crises should occur, the G7 proposes measures such as orderly standardized bankruptcy procedures, and, as mentioned above, domestic safety nets to minimize the consequences.

Others have more fundamental criticisms of the current system and hence favor more radical changes. These range from the abolition of the International Monetary Fund, all the way to giving it greater resources to make it the international lender of last resort. How practical these proposals are, and how likely they are to find agreement among the whole international community, remains to be seen.

In view of these ongoing discussions, it is timely to formulate and articulate a gender perspective on these issues. Whether or not there is success in achieving the objectives, the exercise would help to demystify the subject of gender and international economics and also that of the international financial system. It has been argued above that, from the perspective of women, what is most desirable is fast and stable growth and women-friendly government fiscal policies. What must be avoided are deep fluctuations in economic activity because of their particularly high costs for women. What kinds of reforms and institutional changes are therefore required to achieve such objectives?

We start from the premise that the reforms proposed by the G7, and others which stand the greatest chance of being adopted, are unlikely to prevent the occurrence of serious crises (Feldstein, 1999; Rodrik, 1998; Chang & Singh, 1999). Moreover, when such crises do occur the affected countries are likely to have to resort to the IMF and hence have to accept a wide range of unwelcome conditionalities. Developing countries should therefore consider various ways of preventing crises, for, even if the necessary measures have a high cost, there may still be a net benefit.

Feldstein (1999) suggests that one of the best ways for developing countries to avoid a crisis is to have large international reserves and cites the case of China. The Chinese example is not a straightforward one, however, since although China had high international reserves, it also had capital controls, which may have been more effective in preventing crisis. In this context, it is interesting to consider the case of India. India has also been able to resist the strong regional contagion and avoid a crisis. India, however, has only relatively small reserves and worse fundamentals than China’s, but it does have capital controls. Moreover, UNCTAD (1998) has considered the question of international reserves in some detail and concludes that the accumulation of large reserves will have far too big a fiscal cost for most developing countries.

Following Chang and Singh (1999), we believe that, in view of the fickleness of international investor sentiments, developing countries must have the option of controlling capital inflows and outflows as part of normal policy, especially because of the important structural factors involved in the development process. The process inevitably produces an uneven distribution of gains and losses which gives rise to social strife. The potential for such strife (for example, the Chiapas rebellion in Mexico), and the policies to resolve them, often cause panic among international investors as well as national wealth-holders and lead to unhelpful surges in capital movements to and from the country.

To propose capital controls is not to deny that developing countries can be helped by foreign capital, or that capital controls do not have costs. What is required is capital committed on a long-term basis to support the country’s development strategy. It is often argued that this suggests that short-term capital inflows, which are thought to be highly volatile, should be resisted, while FDI, which is regarded as being more stable, should be encouraged. Research by Claessens, Dooley and Warner (1995) suggests that one cannot distinguish between different capital account categories regarding their degree of volatility because of the high degree of substitution among them. Chuhan, Perez-Quiroz and Popper (1996) and World Bank (1998b), on the other hand, suggest that the composition of
capital flows does matter, since it is found that short-term inflows are more influenced by movements in FDI than the reverse. Be that as it may, FDI is also thought to bring other benefits to the economy, notably through technological spill-overs. This contention is also disputed. 25 As Singh and Zammit (1997) noted, the appropriate policy conclusion from the analysis of the costs, benefits and the relative volatility of FDI is that developing countries should not welcome just any or all FDI but make careful choices regarding which FDI to accept. FDI also should be subject to controls so that its level, timing and content are such as to help rather than hinder economic development. (See also South Centre, 1997.)

Turning to the World Trade Organization (WTO) multilateral negotiations on services, including financial services, the position taken in this paper would suggest that developing countries should normally be extremely circumspect about further financial sector liberalization. This may, however, present a potential conflict of interest between that of women and society as a whole, at least in the short term, because, if a country opens up its banking and insurance sectors to multinational investment, this may not be in its best developmental interests. It may, however, be of some advantage to women, as foreign financial services firms may have a more gender neutral stance in lending and employment policies than do domestic firms.

To sum up, whatever reforms may be proposed for the international financial system to help deal with the consequences of crisis once it has occurred, developing countries must be allowed the option of maintaining capital controls as an essential component of an avoidance strategy. They should not be pressured by the multinational financial institutions into greater capital account liberalization than they desire, let alone rapid and full liberalization. The right to control capital flows must be the linchpin of any reform of the international financial system from the perspective of developing countries.

With respect to other aspects of policy in developing countries, our emphasis on an avoidance strategy means that these countries should follow prudent macroeconomic policies, which do not lead to unsustainable fiscal or balance of payments disequilibria. Nevertheless, disequilibria may occur due to external factors beyond developing countries’ control, as for example, changes in the terms of trade, or, in the case of indebted countries, an international interest rate shock. In these circumstances, it is both in the national and international interest that the crisis should be resolved as quickly as possible at least cost to the real economy and the population. This requires new mechanisms for orderly debt workouts and standstill agreements of the kind proposed by a number of economists and organizations which among other things aim for a more equitable sharing of the burden of bad debt between international creditors and debtors in developing countries. (See for example, UNCTAD (1998) and South Centre (1999).) Importantly, in any adjustment program agreed with multilateral financial institutions such as the IMF, there must be transparency and much wider participation than just that of the Ministry of Finance in determining the details of the agreement. The domestic adjustment costs must also be equitably shared, and particular attention paid to the interests of the poor, including women.

The preceding analysis has so far addressed problems mainly relating to middle-income developing countries and the more industrialized of the low-income countries, both of which are in a position to attract private capital flows. But, a large number of countries with a low level of development have not attracted adequate and affordable private inflows, despite liberalization and the considerable incentives offered. These countries particularly require official development assistance to support their development needs. Part of the reform of the international financial system should be new measures to ensure the provision of higher and stable levels of development assistance. 28 A related issue is that of debt servicing by the highly indebted poor countries which results in a reverse capital flow, with crippling consequences for the countries concerned. Women would gain from the cancellation forthwith of these debts. Another important but more contentious point in this connection is that of conditionality, including whether donors should be able to stipulate specific gender conditionalities. Opinions will differ on whether intrusive conditionality by donors is morally and politically justifiable.

To avoid misunderstanding, it is important to note that the proposals made in this paper are limited to the reform of the international financial system from the perspective of women particularly in developing countries. These policies will need to be supplemented at the
international level by other measures, for example, those intended to achieve a trend increase in the rate of growth of real world aggregate demand, production and employment on a sustainable basis (Singh, 1997a). Such policies will benefit both women and men, but women will derive greater advantage from the greater stability generated by such policies. This will not, however, necessarily eliminate gender discrimination in all its forms and hence other policies at the national and international level will be required for that purpose.

In conclusion, the recent financial crisis has at last led to serious international interest in rethinking the world’s financial and monetary system and the institutions which support it. It is vital that women should formulate and articulate their own ideas on what best serves their interests in order to make a significant input into the discussions on the so-called new global financial architecture. It is hoped that this paper will help clarify these issues, even for those who do not share its policy conclusions.

NOTES

1. The bulk of these flows were to the East Asian countries, rather than to the many small island economies of the Pacific.


3. See Table 3.4, World Bank (1999).


5. Arguably even these low figures overstate the level of official flows, for they do not take account of the fact that a number of items in the bilateral assistance account involve little or no transfer of funds to developing countries, as for example technical cooperation and food aid. If these and other items are deducted from the figures for DAC bilateral flows, ODA as a percentage of donor GDP was 0.12% in 1997, South Centre (1999).

6. There is a considerable literature explaining movements in FDI and portfolio flows to developing countries in the 1990s. This is reviewed in Singh and Weiss (1998). See also IMF (1998b).

7. For example, economists such as Jagdish Bhagwati who is a leading advocate of free trade does not support capital account liberalization in developing countries (Bhagwati, 1998).

8. There is voluminous literature on these issues; for opposing perspectives, see Levine (1997) and Hellmann, Murdock, and Stiglitz (1996).


10. An interesting example of successful coordination by means of pronouncements, it may be interesting to recall, was Deng Tsiao Ping’s visit to South China in 1992. His strong affirmation of China’s new economic policies is thought to have influenced investors’ expectations toward a “good” equilibrium of high growth of output and employment, not only in China but in Singapore and Taiwan too. Lau (1997) suggests that this enabled the Chinese economy to recover from the post-Tiananmen Square economic slowdown more quickly that would otherwise have been the case, and laid the foundations for China’s subsequent boom.


12. Singh’s (1997a) analysis also shows that the poor performance of industrial countries during the 1980s and 1990s cannot alternatively be ascribed to exogenous factors such as the exhaustion of technological opportunities, or to labor market imperfections.


14. For recent reviews of these studies see IMF (1998b) and World Bank (1998c).

15. IMF (1998b) did not consider Singh (1997b) in their analysis.

16. See further, Rodrik (1998), Radlett and Sachs (1998) and Scharfstein and Stein (1990). These rational explanations for irrational investor behavior involve, among other things, the assumption of asymmetric information and observations concerning the nature and intensity of competition in the fund management indus-
try, and how rewards are determined in the industry. On the last point, see Singh (forthcoming).

17. It is in any case difficult to weigh up the various factors and arrive at an objective assessment of the extent to which women benefit from the new export processing or manufacturing jobs, or which are associated with fact economic growth in a considerable number of developing countries. Whether, for example, it is preferable to remain in wageless work in a tightly patriarchal rural society or to work and live in repressive conditions in the confines of a factory is a subjective judgement and even the individual women concerned may not have a clear view on this matter.

18. ILO (1999a), referring to information in a working paper on the gender impact of the economic crisis in Korea, developed under the AIT/ILO research project on this topic.


20. The author draws on case studies by several other writers.

21. The World Bank (1998c) estimates that in Korea 86% of those who lost their jobs in the banking and financial services sector were women.

22. “Melt-down” is an appropriate term for what happened to the currency and the stock markets, precipitating the Asian financial crisis. Between 1 July 1997 and February 1998, the Indonesian stock market fell by over 80% and the currency depreciated by over 70%. In Thailand, over the same period share prices fell by nearly 50% and the value of the exchange rate against the US dollar declined by more than 4%. See further Singh (1999a).


24. It is ironical that such proposals are being made at a time when advanced countries are being encouraged to roll back their social security systems in view of the disincentives to work that they are alleged to generate. Moreover, under the liberal economic regime of free international capital flows it is becoming increasingly difficult in developed countries to generate the necessary revenues to fund such comprehensive schemes.

25. For a discussion of these issues see Baden (1996).

26. An important issue is whether liberalization brings changes in banking practice and law, so that attitudes and practices do not discriminate against women, ending, for example, the requirement for the husband’s signature to enable women to open accounts or borrow.

27. Recent studies (see, for example, Atkin & Harrison, 1999), suggest that previous research which generally found overall positive effects of FDI was methodologically weak as it did not take into account the fact that multinationals tend to invest in the more productive sectors. Atkin and Harrison’s large panel-data study of 4,000 plants in Venezuela during 1976–89 suggests that the positive spill-over effects of FDI on total factor productivity for recipient firms were outweighed by the negative effects on firms that were wholly domestically-owned. In the case of Venezuela they find no evidence supporting the existence of technological “spillovers from foreign firms to domestically-owned firms” (p. 617).

28. This would require a major shift in political attitudes in most of the advanced industrial countries. The World Bank (1998d) has recently claimed that, in the right policy environment, “aid” has an important role to play. This raises the question as to what is the right policy environment (Chang, 1998; Singh, 1999a).

REFERENCES


