

Some preliminary remarks on gender analysis of trade and investment issues in the context of mobilizing international resources for development

Speaker's Notes

Theme 2: Mobilizing International Resources for Development-  
Foreign Direct Investment and other private flows, and trade.

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Trade and foreign direct investment have been long standing elements in the institutional framework for promoting development and growth. Yet as we move toward the 21st century it is clear that the existing institutional framework has not led to development or significant reduction in poverty. Rather, development is stagnant, and many developing countries' economies are in retrogression and the number of people in poverty are growing. Much of this retrogression has occurred during the last twenty years, in particular under the era of economic liberalism. It has been generally argued that the expansion of world trade since the 1940's has been primarily due to the GATT system of free trade. What is often left unsaid is that during the period, 1940-1970s, there was a great deal of attention paid to poverty eradication, and the creation of full employment through the careful regulation, domestically and internationally, of the movement of capital in all its forms. Capital controls, a fixed exchange rate system and relatively easy access to intellectual property underpinned the growth and development of the OECD nations, which in part helped to pull along some nations in the South, in particular the Caribbean. However, starting in the 1980's, with the reign of economic liberalism, initially implemented in Southern economies under structural adjustment programs, now under the WTO, liberalization of trade, exchange rates and capital markets have engendered the dominance of financial market over production and the loss of the economic policy autonomy of developing countries without the expected benefits of growth and development.

Certainly, there has been great wealth produced by countries whose economic system had evolved enough to deal with the new framework and a handful of countries in the South, most notably the NICs, were deftly able to utilize elements of the new framework within their own independent development designs to generate their own growth path. But the empirical fact is that growth and development has eluded most of the countries of the developing world who continue to suffer systematic loss terms of trade and market share during the twenty year reign of economic liberalism. They are now more indebted and dependent on (declining) overseas development assistance and private capital inflows.

Today, according to the World Bank, 24% of the world's population still live on incomes of less than \$1 a day and the percentage of people living on less than \$1 a day has declined only modestly-if at all-in many regions of the world. Most of these people are women who today constitute the backbone of the unpaid, and a growing pool of the paid, workforce underpinning trade liberalization and foreign direct investment in EPZ. Women are over-represented in informal economy, sex tourism/trafficking, poverty and

destitution. Women are also the major cushion for domestic adjustment. This has been documented under SAPs. But this is not new, especially not for women of the Caribbean who historically have been exposed to rape and the onerous burden of slavery and indentureship in the early waves of capital movement and world economic integration. We therefore cannot assume that the present wave of global integration is good or benign in its impacts.

Thus there are important reasons for integrating a gender perspective into the themes of this meeting that is concerned with financing for development, and especially with sub theme of foreign direct investment, other private capital flow and trade. We see these as inextricable intertwined with the topic of debt and systemic reform.

The topics of this hearing and the underlying reasons for such a conference, those described above, raise two broad questions. The first is of the efficacy of economic liberalism which now dominate the international political economy. According to the World Bank, economic liberalism prescribed balanced budget, sound currency and free trade as the key to growth and poverty reduction. A crucial element of this is the liberalization of capital which is still being pushed as the magic ingredient for growth. Indeed, the IMF is pushing for a stronger role for itself over capital account liberalization. Elsewhere, attempts have been, and are being, made to create a multilateral framework for investment which would privilege the rights of private capital over the rights of states to make decisions about the necessary and important constitutive elements of their economies. And all of this is being done in the name of growth and poverty eradication.

The second question is about the nature and characteristics of trade and investment, in particular capital flows and their role and contribution to development.

Though we are here today, and in the coming months we will continue to debate and discuss the critical themes of this conference agenda, it is important to acknowledge that there are those who would want nothing more than to simply move ahead with a few recommendations that would simply add patches here and there without substantially altering the present framework. But to simply add more layers to such a system without a comprehensive assessment of what are its over-riding objectives and the nature, scope and outcomes of existing mechanisms and processes and why they have failed to work would be counterproductive. The fact is that both trade liberalization and foreign investment have not done the job. We must examine openly, honestly and humbly why the old strategies did not work before we begin to advocate for more of the same.

The strategy did not work because the link between trade and foreign direct investment and poverty were simply assumed to exist. It was assumed that trade liberalization was automatically linked to growth. It was assumed that foreign direct investment is relatively costless, less volatile than other capital flow and was inherently beneficial to host economies. It was also assumed that gender did not matter, either in the overall policy design framework or in the implementation of projects and programmes. Where gender was explicitly included it was added on to improve the instrumentality of policy effectiveness.

The empirical evidence runs counters to these assumptions, assertions and mythology:

- Trade liberalization does not automatically lead to growth
- Foreign investment is not without significant and FDI is not inherently less volatile than other capital flow; nor does it bring only positive outcomes
- Other private capital flows are speculative, move rapidly and may lead to de-stabilization.
- Foreign capital inflows lead to debt and repayment constrains whether in the context of flexible or fixed exchange rate system
- And gender does matter. It matters whether it is consciously designed into policy or not, since women's labour underpins export expansion; women shoulder the burden of SAPs, and women are the cheap labour underpinning comparative advantage in the south. It matters as matter of equity, economic and gender justice that women constitute half the world population and yet control and own less than ten percent of its resources and earn less than men for comparable work. It matters for the effectiveness of trade and investment liberalization policy whether gender inequality and gender bias constrain women's ability to make effective use of the opportunities provided, or are able to respond to policy initiatives or to engage in productive improvement in terms of land rights, credit and technology. It matters whether there are gender biases that impact the availability of women's labour between social reproduction and the formal economy giving rise to a pool of labour for low wage growth strategy being employed by many economies.

## Trade

Increasingly countries are being told that the problem is that they need to integrate into the world economy. We submit that all countries have been integrated in the world economy and if you look at those countries they have been and continue to be involve with MNC, trade and debt. So it is not

simple integration but the nature of that integration and the latitude for domestic policy intervention based on society needs and not the external agenda of bilateral donors, international financial and trade institutions.

Today, open trade and the multilateral disciplines of trade liberalization is being applied to all sectors of the economy, especially those in which developing countries have special interests: agriculture, fish and fish products, textiles and clothing, footwear, and light manufacturing. In addition trade rules now cover future growth areas such as services and e-commerce as well as investment. And, as noted by Elgin, "WTO rules have too much flexibility for contingent trade measures (anti-dumping duties, countervailing measure, safeguard measures) to be applied against (the) exports of developing countries." The general context is one of export promotion, greater emphasis on reciprocal exchanges of concession and less attention to differential treatment and the erosion of preferences. In such an environment the relevant comparative advantage of developing countries would seem to lie in cheap labour; increasingly that cheap labour is female labour.

Therefore the operations and governance of the multilateral and regional trade system have significant gender dimensions. One dimension is the issue of the role that gender plays in setting trade and investment rules, the kinds of assumptions that these rules are based upon and the consequent false premises and mis-diagnosis of development and social issues that follows. It also includes the issue of who decides and who are consulted in the decision making process surrounding WTO, IMF and World Bank provisions as well as provisions at the regional level. A second gender dimension focuses on the two way interplay between existing gender inequalities and trade policies designed to facilitate export promotion and trade liberalization.

First, given the relative lack of attention to the role of unpaid labour in the economy, trade and investment policies have serious implications for women's welfare. This is likely to be the case if policies simply focus on the employment creating aspects of liberalization policies without putting in place mechanisms to support social reproduction. Furthermore, decrease tax revenue from the liberalization of imports and the custom valuation agreements of the WTO will lead to increasing fiscal deficit. As the experience from structural adjustment programmes have shown, the likely targets of the spending adjustments are social programmes which chiefly benefit women.

Second, it is assumed that trade liberalization creates employment which is unambiguously good for women. However, there are issues of the health implications of such jobs, the long term income and livelihood sustainability

of the women workers in the export sectors. The employment of women is predicated on gender bias the shunt women into low paying and or zero-benefit-jobs. Furthermore, the trade liberalization process has been associated with the casualization of labour thus reinforcing the tendency to pay low wage both in agriculture and manufacturing. This phenomenon has implications for countries' terms of trade both in agriculture and manufacturing.

Third, trade rules which focus on export promotion by altering domestic regulations and forcing factor re-allocation may also affect women's access and control over resources such as land, credit and technical assistance. A case in point is the shift from food production to cash crop production which puts pressure on the transformation of the use of land towards the cash crop sectors and away from women's traditional domain.

Fourth, it is assumed that trade rules and policies have their primary impact only at the level of the formal economy hence not much attention is paid to how the implementation of trade rules impact the informal economy. However, the expansion of export production, in particular, in manufacturing, has been associated with expansion of informal sector activities and homeworking, drawing directly on women's labour.

Fifth, there is the all too dark side of trade expansion for developing countries, that it has been driven by import growth with threats to the livelihood of some women and loss of traditional market domain such as vegetable and food production, marketing and distribution.

### **Foreign capital flows**

- 500 largest TNC control about 70% of world trade and 80% of foreign investment;
- There are 800 Free Trade Zones in 102 countries;
- Skewed distribution of FDI: only 12 developing countries received over 70% of FDI 1997/98, China tops the list with about 30%;
- FDI has replaced ODA has the largest provider of financing for some countries ;
- FDI flows to the 48 LLDCs is very small and the level of concentration is higher than with ODA: top10 FDI recipients accounts for 79% of total FDI flows while 10 ten ODA recipients account for 32% (Panchumki);
- Most FDI originates from Developed countries; only about 10% (1990-94) from developing countries, mainly Hong Kong, Taiwan, China, South Korea, Malaysia and Singapore (Mehta)

Private and commercial capital inflows increased from \$25 billion (1988) to \$227 billion (1998) Bramble and Dodd 1999. Direct corporate investment, foreign direct investment constitute the majority of this flow (\$155 billion), private debt flows, commercial bank lending, bond lending and short term capital such as bills of credit account for \$58 billion and portfolio equity flows \$14 billion. However, as noted above, the distribution of capital flows, especially FDI, is highly skewed in favour of Argentina, Brazil, Chile, China, Greece, Hungary, Indonesia, Malaysia, Mexico, Nigeria, Poland and Thailand. The distribution to low-income countries in the same period were: total net private flows \$15.2 billion; international capital market, \$4.7 (with portfolio equity flows of \$0.4); and FDI \$10.6 billion (Bramble and Dodd 1999). Very little flowed to sub-Saharan Africa (except Nigeria) where private capital flows was less than 2% of GDP (UNCTAD 2000).

Capital flow is held to be unambiguously good for the receiving economy. It is generally argued that private non-direct flows improve the quality of financial assets, engender competition and broaden and deepen the local market thus presenting savers with a wide array of options for income earnings on their decision to postpone consumption and providing investors with access to investment. However, recent events in South East Asia, Mexico, Brazil and Russia have given cause for re-thinking this logic and raise question about the real benefits of these kinds of capital flows which are de-stabilizing and occur in stops and starts and which may or may not lead growth but rather may lag behind it.

There are two problems with the presumed benefit inducing properties of capital flows. The first is indirect, present capital flow suffers from an allocation problem: the market simply cannot be relied on to allocate capital to where it is most needed and the current level of capital flow is not adequate enough to meet the demand for it. Thus there is a resource gap and so the presumption of capital led growth does not materialize for some countries, in particular, low income and LLDCs. The second issue is more direct and challenges the presumed automatic link between capital flow and growth and development.

The link between foreign capital inflow and the real economy of the host country operates via a two-way transmission mechanism--the exchange rate and the interest rate. It may be either growth inducing or growth stagnating.

The interest rate channel: Often countries must have a high interest rate in order to attract foreign capital (Bennett 1999 and Damodaram 1999) . But high interest rates have adverse impact on domestic investment. A high interest rate makes the servicing of the public debt more expensive which

lowers private capital investment and hence welfare. Thus foreign capital inflow can result in stagnation in the host country (Damodaram 1999).

The exchange rate channel: Capital inflows can cause appreciation (in the case of flexible exchange rate) or overvaluation (in the case of fixed exchange rate) of the exchange rate. In either case the result may be current account deficits and in the latter case inflation and ultimately erosion of competitiveness. Appreciation of the exchange rate causes export to be more expensive and imports cheaper. In the fixed exchange case capital inflows lead to increase reserves which increase the rate of growth of the money supply leading to inflation and hence exchange rate overvaluation (Damodaram 1999). Capital outflow causes depreciation of currency which may narrow current account deficit (if export production and imports are responsive to depreciation and exports are not very import dependent. Depreciation may also lead to high import cost (if exports and imports elasticities are not high and exports are highly import dependent) inflation and ultimately capital flight (Damodaram 1999).

In the case of foreign direct investment, FDI is said to promote economic growth because it can promote technology transfer, increased production, efficiency, improvement in the quality of production factors, generate an inflow of investment funds to the balance of payment all of which will lead to increase exports, increases in savings and investments and ultimately faster growth of output and employment (Khor 2000 and South Centre 1997).

However the cost of FDI are often overlooked and there are a few myths that are not systematically addressed.

A few of these costs include:

- Possible negative impact on domestic savings due to consumption impact;
- Negative impact on finance (de-capitalization): due to outflow on profit and other investment income overtime. In this regard, as noted by Ghazali 1996 (cited in Khor 2000 and 1990, Eshag 1990, FDI when compared to debt and aid, might have a greater de-capitalization effect given the rate of return vis a vis the rate of interest on debt;
- Positive impact on trade (in terms of higher export earnings and savings on imports, for products produced locally) but negative impact through higher imports of intermediate capital goods (Khor 2000);
- Negative BOP effect: if FDI is heavily reliant on large imports of capital and intermediate goods this reduces its positive trade effect so FDI can cause an overall negative effect on the balance of payment;

- De-nationalization: too rapid a buildup of FDI (foreign share of the nation's wealth stock increases relative to the local share);
- High market power of MNC can lead to non-competitive pricing and result in inefficiency in resource allocation;
- Discourage local tech know-how development;
- Transfer pricing;
- Distortion of consumption patterns due to brand names (this can supplant local food-food security issues);
- Job loss when capital intensive FDI replace labor-intensive local firms.
- Environmental and natural resources cost. (Khor 2000, Damoradam 1999, UNCTAD 1999)

### Two Persistent FDI Myths

- FDI is a stable source of financing unlike other private capital flows because it does not respond rapidly to short term economic changes

Reality: FDI can also be a source of financial instability. It can respond rapidly to short term economic changes. As noted by Khor, 'retained earnings (or profit re-investment) is a major form of FDI, and some of these are invested in financial assets rather than physical assets. Changes in the rate and volume of reinvestment can result in fluctuation and instability of FDI flows' (Khor 2000, p.38). The World Bank has also pointed out that FDI can borrow funds locally in order to export capital hence generating rapid capital outflow (cited in Khor; but a point also noted by Eshag 1990). In addition, evidence from Argentina, Indonesia and Korea shows that FDI had a higher coefficient of variation than portfolio capital (Claessens, Dooley and Warner 1995, cited in Bennett 1996)

- FDI has at best a positive, and at worst a neutral affect on the BOP.

Reality: FDI can have a positive or negative effect on the BOP. This is because FDI inflow is associated with outflows in the forms of profits, royalties and licensing fees, which can overwhelm the inflows of FDI. Furthermore, as noted by ECLAC, increasing remittances and rising concentration of FDI in non-tradeable sectors and the exhaustion of privatization-linked FDI has translated into 'a decreasing association between FDI and export growth in developing countries' (cited in UNCTAD 1999 and Khor 2000).

Overall, the empirical evidence suggests 'insignificant causal relationship between FDI and growth'; the experience in East and South East Asia points out that the causation may run from growth to FDI and not always in the way that conventional wisdom would dictate: "Countries with high domestic

savings rate attract more FDI." Resolution to this apparent paradox requires an analysis of the pattern and efficacy of the flow of FDI.

Apart from these questions and the issue of the development dimension of FDI and its friendliness to development objectives, there are concerns about the gender impact of this flow. Though there has been much research on Export Processing Zones and SAPs there has been little examination on the gender impacts of the broader issues of FDI and other private capital flows.

Braunstein (1999 and 2000) attempted to capture the stylized facts surrounding FDI and gender. She argue that as with other macro-level phenomena (such as trade, above), the relation between FDI and gender operate at the macro level, the meso and the micro. At the macro level the feminization of the labour force impacts aggregate investment and savings patterns and the size and intensity of women's labour in the formal and informal sectors of the economy. At the meso level there are issues of transaction costs, imperfect information, gender biases, market interlinkages, property rights and gender segmentation of markets. At the micro level the focus is usually on the division of responsibility between men and women, labour and power within households, gender differentiated patterns of demands and differing patterns of control over assets, and the bargaining power and position of women and men.

From this framework and with reference to the numerous studies on gender and Export Processing Zones, Braunstein was able to identify the following stylized facts.

- Household relations are a central determination of female labour to MNCs. Different types of household labour (whether patriarchal, female headed or bargaining) lead to different reservation wages to MNCs;
- There is a high share of female employment in MNCs particularly for export intensive labour export oriented assembly and manufacturing (Joeques and Weston 1994). Tzannatos (1997) estimates that of the 4 million employment world-wide by MNCs in the 1990s, women workers comprised 60-80% . However, the rise of subcontracting and domestic outwork is making this more difficult to assess since MNCs connect via local intermediaries (Ward and Pyle 1995);
- Product mix is key to determining sex ratios of employees. For example, electronic and garment manufacturing employ mostly women, more industrial sectors employ more male labour (Starnberg Institute 1989, ILO 1988); there are also differences in terms of marital status with younger women clustered in the electronics sector and older and married women in textiles and garments;

- MNC in electronics and EPZs are very footloose due to the intensity of international competition, production and trade cycles in garments and electronics and low cost penalty for high labour turnover. But even when MNCs are stable they are able to effectively utilize the threat of moving to strengthen and maintain their bargaining power;
- There is a positive association between the degree of export orientation and women but it is difficult to map the export orientation of MNCs since it is not very direct;
- Garment and light assembly seems to be more prone to subcontracting and domestic work than electronics (Mitter 1994 and Kim 1997).

As noted above, much of the research has focused on EPZs and very little on FDI in the wider economy, but since, under multilateral trade disciplines, FDI will be able to operate freely in the wider terrain of the host country it is important to investigate the other aspects of FDI. In this context the information from EPZs will provide a useful starting place. But that must be discussed in the wider context of two analytical and policy questions about FDI, raised by Braunstein: 1) what are the gender effects of FDI? And 2) How does gender shape the relationships of FDI?

The first question places attention on issues such as the persistence of wage gaps in some countries, the short term accrual of economic gains of FDI to some women from employment in EPZs and MNCs in general, and the impact of increased educational opportunities on employment in areas dominated by TNCs in the export sectors?

The second question places the spotlight on issues that are critical for policy makers concerned with both the development dimensions of FDI and gender equality objectives. Policy issues arise here in terms of assessing the impact of female labour on the competitiveness of the economy in the long run (what are the limits to increasing female wages in the context of FDI?) and can FDI promote gender equality in the long run?

These questions are critical for assessing the consequences for all forms of private capital inflows on development especially with regard to their potential for eradicating poverty and promoting gender equality. They pose issues for the types of policy initiative that will enable a country to attract and retain capital as well as the potentials and problems of relying on foreign capital for financing current account deficit and the problem of destabilizing movement of capital flows on the economy. Thus the role played by foreign capital in terms of its contribution to investment, consumption economic growth, poverty eradication and gender equality is still an open question that needs to be fully explored in the context of searching for the

most efficient way of mobilizing financial resources for development. The quest is how to maximize the benefit and minimize the cost.

In this context, attention must also be placed on the role of the IMF and WB as the key institutions promoting trade liberalization, capital and investment liberalization. With the exception of Asia, most all developing countries have adopted the programs and follow the rules of the IFIs with the expectations of obtaining capital flow. But this has not materialized. In fact in some countries capital flows have been less than they were accustomed to. There are also serious questions about the ability of both the Bank and the Fund and their networks of regional partners (the development banks) to leverage capital in support of the prescriptions they proposed for developing countries.

It is often assumed that there is a catalytic effect of the multilaterals on private capital flows to developing countries: that they catalyze other lending, including private capital flows and bilateral donors. However, there are theoretical ambiguities and lack of supporting empirical evidence with regard to this claim. Do the IMF and the Bank 'crowd-in, crowd-out or substitute for foreign private capital? There is very little empirical evidence to support the catalytic effect thesis (see for example Rodrik 1996, Killick 1995 and 1998 and Rowland et al 2000). Rowlands et al, among others, argue that the Fund and the Bank can just as easily discourage private capital flows. As noted by Rolland et al (2000), the catalytic effect may be negative in the sense that Fund's program is seen as a sign of economic distress. Surprisingly enough, some researchers have found that bilateral lending has had a stronger and more positive catalytic effect on private capital flows than the IFIs. The Fund may have some impact on the Bank and regional banks regarding FDI but their impact on private capital flows is not significant. Thus the Fund and the Bank may only be good at catalyzing each other. This raises serious issue of the role and continued viability of the Fund and the World Bank in the development process. Have they been useful and have they outlived whatever utility they brought to the process?

Thus attention needs to be paid to the nature of the systemic process governing the intervention of the multilateral financial institutions and the flow of capital. These institutions as well as the WTO must be held accountability for their policies and as advocated by Korten (2000), their mandates revised and they be desolved, if necessary, and replaced with new institutions and framework that are predicated on poverty eradication, gender equality and environment protection and preservation, and not to simply add other layers to these failed policies and programs (Korten 2000).

If in fact we are to believe in the pronouncements of the World Summit for Social Development, the Beijing Platform of Action and the host of international agreements that were upheld and reinforced by the Millennium Assembly and the implicit and explicit acknowledgement of the IMF, WB, and (post Seattle mea culpa of the QUAD) the WTO that that they were wrong and that the system has problems, then there is an economic, political and moral imperative to move forward differently. The reconstruction of the system then needs to begin from, and be driven by, the vantagepoints and needs of the poor.

This requires a comprehensive assessment of the trade and financial system and the re-connection with certain base values already laid down in the international system, primary of which is the Universal Declaration of Human Rights and the assorted rights convention- CEDAW, the Right to Development, the Convention on the rights of the child etc.

### **Principles and recommendations for mobilising international financial flows and trade**

From a gender perspective what is important is that financial and trade policies, programs and mechanisms promote sustainable human development, values and enhances social policy which protects the poor and promotes the economic and social advancement of women and men; take difference in country needs, nature and scope of business size, activities, constraints and ability to compete, in consideration; recognize and develop mechanisms and processes that seek to overcome the special constraints that women faces in the economy due to gender biases and gender inequality.

There is need for an integrated framework for sustainable gender sensitive human development. This framework must link trade, debt and investment (including capital flows).

There is necessity for a comprehensive review of how trade, debt and capital flow (in all its forms) have facilitated, fostered, or hindered sustainable development as defined above. What has been their impact on gender sensitive poverty eradication development? Specific attention needs also to be paid to the pattern of indebtedness its root causes and the role of the multilateral financial institutions in sustaining the process including structural adjustment programs.

In this context we support:

- A review of private capital flows and trade and their utility and efficacy for development, paying particular attention to the concerns of the poor and women; balancing the rights and obligations of investors and host country; and recognizing that foreign investors are essentially, that, they are guests in a foreign country and thus are entitled to the right and privileges of a guest but have no inherent right to national treatment or command over national economic and social decision making;
- Selectivity in liberalization of trade, investment and labour markets that balances the rights of children, women and men and even the nation state against the pecuniary aspects of global economic competition;
- Debt cancellation and debt write-offs as a minimum necessary step to promoting sustainable human and gender sensitive development;
- Capital controls on the movement of international capital, including a process of 'financial disarmament' (Damodaram): a freeze or extensive tightening of speculative instruments, couple with an expansionary but prudent macroeconomic policy approach as a minimum necessary condition to promote sustainable growth and human development worldwide. In this regard we agree with J. Bhagwati that "...it is a lot of humbug to say that without free portfolio capital mobility somehow the world cannot function and growth will collapse."
- International supervisory mechanisms to oversee the international movement of capital and regulate the allocation of credit. In this regard we agree with the views of Soros that the private market is inefficient in the international allocation of capital and support the sentiments of R. Mc Kinnon who wrote that "paradoxically, a de-regulated financial system may need more supervision than one that is subjected to extensive administrative controls and government intervention".

In addition to these broad system-wide approaches we also offer the following more grounded and specific set of recommendations:

**Principle One:** International financial resources and trade should promote sustainable human development, which is pro poverty eradication and pro gender equity.

Basis for concern: Current international advocacy of liberalisation of capital flows and trade seems to promote the rights of foreign investors over human rights. There is far too much preoccupation with limiting governments' ability to regulate for development priorities and gender sensitive objectives.

Actions Required: 1) Governments should be allowed to maintain strategic use of investment, finance and trade including domestic content requirement, universal service provision and special programs for vulnerable groups; and 2) Governments should encourage development of local firms and entrepreneurs through measures such as preferences and tax breaks to local investors, farmers and women entrepreneurs.

**Principle Two:** "The legitimate political institutions of the country should determine the nation's economic structure and the nature of its institutions not foreign investors, or the IFIs."

Basis for concern: Current attempts to regulate all aspects of developing countries economies such as the prohibitions and anti-deregulator bias of the WTO Agreements, specifically, the TRIMs and the domestic regulations provision now being negotiated under GATS; the newly revised poverty approaches of the IMF (PRGF) and World Bank (PRSP) which seem to strengthen and deepen the control of IMF around broad areas of the political and economic aspects of governance in developing countries. Though cast in a broad 'participatory' framework which is supposed to include the participation of civil society, the nature of that participation is vague and subject to interpretation and given the current tendencies of the IMF and World Bank on the face of it seems to be process for legitimating further control over domestic macroeconomic policy biased towards liberalisation of trade, finance and investment.

Actions required: 1) Cancellation of external debt and debt write-off; 2) The establishment of a poverty eradication fund facility to be administered under the auspices of ECOSOC and implemented via the network of UN specialised agencies involved in key areas linked to essential services: food, health, education and housing (FAO, WHO, UNESCO, UNICEF, UNDP, UNIFEM); and 3) the overall poverty eradication fund and associated programs are to be driven by the imperatives and guidelines of the human rights system including CEDAW and the convention of the rights of the Child.

**Principle Three:** Respect for and effective operationalization of the principle of special and differential treatment in trade, investment and financing agreements and programmes.

Basis for concern: The pervasiveness of 'one size fits all' strategy in trade and investment rules and the reliance on 'single undertaking' in trade negotiations which does not differentiate between the different needs and constraints of different countries.

Actions required: 1) Repair, review and reform of the present WTO system including correcting the widely noted imbalances and asymmetries in rights and obligations between developing countries and developed countries. Particular attention should be paid to rules that obligate developing countries to implement provisions that impose extreme hardship on the vulnerable sectors in their economies; 2) Mechanisms to prevent wide swings in volume of lending including mitigating 'run with the herd and flee in panic cycle. These controls must be used as temporary measures to prevent economic crisis and not simply as acts of last resort; and 3) improved and more effective mechanisms to prevent wide swing in commodity terms of trade.

**Principle Four:** More democratic participation of southern states in the enforcement and implementation of international reform, rules and standard setting; and active and effective participation of civil society in global economic decision-making.

Basis for concern: currently the North dominates the debate and the mechanisms of reform, implementation and enforcement are concentrated among the most powerful countries.

Actions required: 1) New criteria of participation and decision making in international institutions that moves beyond the narrow confines of share subscription, share of trade etc to more democratic mechanisms; 2) Improved and more broad based mechanisms for enhancing the technical capacity of developing countries to participate effectively in international rule and standard setting institutions and which goes beyond building the capacity to implement particular provisions of trade agreements, including data collection, policy formulation, and expertise on big picture questions. More democratic decision-making procedures; and 3) more civil society involvement in global decision making.

**Principle Five:** The rights and power of developing country governments to protect the balance of payments.

Basis for concern: Current investment provisions within trade agreements are precluding the ability of countries to take proscriptive measures with regard to protecting the balancing payment. This is also being reinforced by the pressure for capital account convertibility.

Actions required: 1) government should retain the rights to institute requirements on foreign investment in order to protect the balance of payment and meet the foreign exchange needs of the economy. These include resort to local content requirement, import restrictions, conditions on profit repatriation and retained earnings and listing on local stock exchange;

and 2) Furthermore, each state needs to undertake policy to promote and nurture local enterprise, enhance domestic savings and foster investment focusing on improving the social and economic circumstances of women, the most marginalized and excluded sectors based on race, ethnicity and indigenous peoples.

**Principle Six:** Mobilisation of international financial resources in the form of private capital flow and trade must be undertaken in a context that does not exacerbate the current trend towards privatising social/public goods.

Basis for concern: 1) water, housing, health care and utilities are increasingly being commercialised, de-regulated and privatised; 2) the increasing trends toward FDI in the service sectors of developing countries not only do not expand the existing capital stock but constitute, in many cases, the 'fire-sale' of public assets; in addition, they do not necessarily generate export revenues since they are not always in the tradeable sector; ultimately, these types of foreign direct investment may end up compounding the problems of affordable and accessible services to the poor.

Actions required: 1) the social sector should be prioritised for public financing and not open up to unbridled privatisation; 2) some sectors should be restricted to the entry of foreign investment; and 3) government should ensure that they are not switching from public monopoly to an inefficient private monopoly which will eventually result in increased cost and lack of some vital services to citizens, especially the poor.

**Principle Seven:** There should be more balance in the direction of international financial resources to broader groups of countries and for the capital enhancement of particularly marginalized groups especially women in those countries.

Basis for concern: Some regions (such as the Caribbean, other small island states and the Least Developed Countries) are not receiving an adequate share of global financial resources and are being increasingly marginalized

Actions required: 1) (See also general recommendation above for) international supervision mechanism for regulating and allocating international capital flow; 2) Debt cancellation and debt write-offs beyond (the enhanced) HIPC; 3) increase the flow of ODA (developed countries should at least increase contribution to the 0.7% target); 4) creation of a development fund facility for channelling capital flows to countries now marginalized from international capital flows; 5) Restraint on the practice of tax incentives to FDI, this simply switches resources from social programs to subsidise multinational corporations. At best there should be an international

mechanism for diverting such tax breaks into the aforementioned development fund; 6) Developing countries should discourage the purchase of existing assets by FDI since this does not added to existing capital stock nor necessarily create additional jobs and; 7) The creation of an international fund for increasing the scope of women owned businesses and encouraging their greater participation in the export sector. This would move beyond the current emphasis on micro financing which is more a survival strategy rather than promoting the competitive participation of women' owned business. Government could target these businesses as purchasers of privatised assets.

**Principle Eight:** Countries and peoples should not be forced to make trades of desperation such as relying on the low wages and the exploitation children and women workers for competitive advantage.

Basis for concern: 1) Currently countries seem to be involved in competitive process of offering women and children as cheap labour, sex objects (sex tourism and trafficking in women and girls); and 2) the rampant and continued exploitation of women workers in TNCs and Export Processing Zones.

Actions Required: 1) Coordinated international efforts to end the international trafficking in women; strong international discipline of this; 2) Domestic and international regulation of industry. Corporations must be obligate to protect the human rights of women and girls; and 3) Strengthen existing institutional mechanism for protecting labour rights including greater attention to gender specific worker rights issues such as freedom from sexual harassment and sexual discrimination; access to day care centres; menstruation leave and breast feeding times; and 4) strengthen and enforceable TNC code of conduct (many examples of which currently exist).

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