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THE DIFFERENTIAL IMPACTS OF FOREIGN DIRECT INVESTMENT ON GENDERS IN THE SERVICE SECTOR OF SOUTH ASIA

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Abstract:

This study investigated: 1) the impacts of Foreign Direct Investment (FDI) on gender inequality (2005-2015) in the service sector of South Asia; 2) the factors that moderate the impacts of FDI on gender inequality in the service sector. The study was approached as a quantitative study using secondary data on Greenfield FDI and women employment. It employs a fixed-effect model: panel regression with and without interaction terms. The study finds that: first, gender inequality in the service sector of South Asia has increased over time. Second, FDI inflow share a significant negative correlation with female employment. Third, women's human capital and institutional settings moderate the impact of FDI on gender inequality in the service sector of South Asia.

Key words: *Foreign Direct Investment (FDI), gender inequality, moderating factor, service sector, South Asia*

1. Introduction

Globalisation facilitated the movement of capital, people, goods and services across borders (Goldin and Reinert, 2007) and is characterised by many happenings, but a significant attribute of the period is observed in the movement of capital (FDI) between countries, mostly from industrialised to developing countries (Hofmann, 2013). In the situation of lack of domestic capital, FDI has become a key external source of finance for many developing countries. By the year 2000, 40 percent of investments to developing countries were in the form of FDI and from the year 1990 to 2011, FDI in the world's total GDP increased from 8 to 29 percent (Schwab, 2014) highlighting the growing significance of FDI in the global economy. It is therefore not surprising that researchers have investigated the impacts of FDI on a range of development outcomes and determinants.

It is clear that FDI supplements national capital and benefits the host economy through multiple channels evident from the findings of numerous existing studies. However, researchers has also asserted that effects of FDI on different economies may vary depending on various factors (Blonigen and Wang, 2004) and FDI could make the

local market vulnerable by crowding effect on local investments, dependence and generate disparity in the host country (Wan, 2009). In this context, increasing studies has focused on the association between FDI and inequality, however, most of these studies are focused on the association between FDI and income/wage inequality. The rationale of this study arises from the argument that issues of inequality in societies are multi-layered and income inequality presents only a single dimension.

If we look at two distinguished concepts of inequality, it can be divided into inequality of 'outcome' and 'opportunities'. Inequality of outcome reflects on the disproportionate distribution of material wealth commonly evaluated using income distribution and consumption levels (Afonso, LaFleur, et al., 2015). On the other hand, the concept of Inequality of opportunities reflects Amartya Sen's 'capability framework' to evaluate well-being on the basis of an individual's ability to do or to be (Sen, 1993). It accentuates on balancing opportunities to cover dimensions that may not be measured by income (Afonso, LaFleur, et al., 2015). Hence, evaluating the impacts of FDI and inequality of outcome, that is, income inequality may not have revealed the true extent of its effects on individuals and society.

In the context, this study investigated the impacts of FDI on gender inequality in the service sector of South Asia (2005-2015) because, *Gender Inequality* is a prominent example of inequality of opportunity which is a common characteristic of most societies, with males on average are superiorly positioned in social, economic, and political hierarchies (UNDP, 2013). The South Asian region provided a fertile ground of research on the subject because of its socio-economic conditions and associated policy challenges. The region remains an attractive destination for FDI but it appears that the benefits of FDI may not have been inclusive. According to ILO, from 1995 to 2011, Developing Asia, particularly the South Asian region experienced a widening gender gap by 2.3 percent and the female employment to population ratio is three-time lower than that of men (ILO, 2016).

Originality: Extant studies on the impacts of FDI on inequality are mostly focused on income inequality and its impacts on gender inequality is under-researched. Further, studies have viewed the relationship through an economy-wide lens or are focused on the manufacturing sector failing to capture the fact that the impacts may vary from sector to sector.

Value/Significance: The findings of the study adds to theories focusing on the link between FDI and inequality. For policymakers, the study not only inform policymakers on the implications of FDI on genders in the labour market of South Asia but also guides on the factors and conditions that should be emphasized to enable women to draw on the potential advantages of FDI amid a shifting global economy towards knowledge and service sectors. Overall, the study will support narrowing gender gap challenging patriarchy and allowing to harness human capital and the economic potential of women which could improve household income, reduce poverty, and promote sustainable and inclusive development.

The paper is structured as follows. Section 2 elaborates on the materials and method. Section 3 presents the research findings. Section 4 presents the discussions and Section 5 provides the conclusions of the study.

2. Materials and Methods

This chapter covers the development of a framework for the step-by-step approach for research design, data collection and data analysis methods. It includes the operationalisation of the concepts into entities that can be evaluated by observation or measurement guiding the empirical part of the research by explicating what will be measured and how the measurements will be evaluated.

2.1. Operationalisation of concepts:

The tables below presents the variables, indicators and their sources.

Table 1: Dependent Variable

Variable	Indicator	Source
Gender Inequality	Female Employment (percentage of total employment)	ILO- International Labour Organisation

Source: Author, 2019

Table 2: Independent Variable

Variable	Indicator	Source
Greenfield FDI (inflow)	Sectoral FDI inflow	FDI markets

Source: Author, 2019

Table 3: Moderating Variables (Women's Absorptive Capacity)

Variable	Indicator	Source
Human capital	Labour force, female (percentage of total)	World Bank database
	Population with at least some secondary education, female percentage (ages 25 and older)	UNDP Human Development Data
	Life expectancy at birth, female (years)	World Bank database
Physical infrastructure	Air transport, registered carrier departures worldwide	World Bank database
	(ICT) Broadband subscription	World Bank database

Institutional settings	CPIA gender equality rating (1=low to 6=high)	World Bank database
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Source: Author, 2019

Table three above show the indicators of human capital, physical infrastructure and institutional settings which were included in the model as a measure of women's absorptive capacity. The indicators of the labour force and education are used in the model to capture the available human capital in the country in terms of workforce and education respectively. An indicator of life expectancy is included in the model to capture the health dimension of the women's human capital in the country. All the indicators on human capital used in the model are female specific indicators. Data on access to electricity and broadband subscription is used as the indicator of the physical infrastructure development of countries in South Asia. Last, a CPIA (country policy and institutional assessment) indicator on gender inequality have been used as a measure of institutional setting. It evaluates the role of institutions and policies in promoting gender parity at work and other areas of access to health and education. A higher rating for the CPIA gender equality indicator might be indicative of strong policies and institutions that lessen gender inequality.

The variables of moderating factor included in the model is derived from theory which are explained below:

Absorption capacity: The impacts of FDI inflow on the host country vary depending on the market conditions and the characteristics of the host country. This country-specific characteristic is largely referred as the 'absorption capacity' which moderate the impacts of FDI (Blomstrom and Kokko, 2001). It indicates the maximum amount of FDI that a country can utilize in an effective way benefitting everyone similarly (Kalotay, 2000). Many studies have claimed that human capital (Blomstrom and Kokko, 2001, Khordagui and Saleh, 2013, Borensztein, De Gregorio, et al., 1998) physical infrastructure (Kinoshita and Lu, 2006, Khadaroo and Seetanah, 2010, Reynolds, Kenny, et al., 2004) and institutional framework (Alguacil, Cuadros, et al., 2011, Khordagui and Saleh, 2013) of the host economy are vital elements that determine the absorption capacity of a country.

Human capital: FDI is associated with transfer of advanced knowledge, skills, and information in the recipient country. The transfer and utilization of this advanced knowledge, however, depend on the availability of qualified and skilled human capital in the host country (Borensztein, De Gregorio, et al., 1998). The human capital in the context of this research is the knowledge and skill of women population in host country achieved by education or training which determines their productivity.

Physical Infrastructure: Physical infrastructure refers to the facilities like roads, buildings, power supplies, and telecommunication set ups available in a country necessary to initiate investments to experience optimum spill overs from FDI. The provision of adequate physical Infrastructure in a country has not only been asserted as a prerequisite of FDI attraction but studies have also exhibited that the positive impacts of FDI in terms of generating opportunities for the population are enhanced when the country has the

necessary infrastructure to engage it. Countries with poor physical infrastructure have experienced minimal impacts of FDI compared to countries with the advanced level of infrastructure (Kinoshita and Lu, 2006). For instance, women in rural parts are not encouraged to go to work as men because of the lack of road connectivity as it requires walking a long distance from home to work (Le Blanc, Freire, et al., 2016). Further, infrastructure in the form of information and communication (ICT) connectivity allows transparency, accountability, and accessibility to various information's relating to public services and opportunities which might be crucial in avoiding corruption and situations that might generate inequalities in the society. It might also influence public opinion on certain customs and practices in societies that restrict women to work, study and avail other opportunities like men (Chen, 2004).

Institutional settings: Hodgson (1988) defined it as 'Systems of established and prevalent social rules that structure social interactions' (Hodgson, 1988, Pg-2). Institutions develop the framework for the effective functioning of the society under different circumstances and it reflects public essentials like policies, law, culture, rights, and responsibility (Khordagui and Saleh, 2013). The institutional settings in this research refer to gender policies to regulate the local market that may moderate the impacts of FDI on gender inequality in the host country.

Table 4: Control Variables

Variable	Indicator	Source
Demography	Women's Population density	UNDP Human Development Data
Trade	Exports and imports (percentage of GDP)	UNDP Human Development Data

Source: Author, 2019

Table four presents the set of control variables which were used in the regression analyses: Trade (Busse and Spielmann, 2006) and women's population density to control country-specific characteristics.

2.2. Data Analysis

The study adopted two methods: panel regressions with and without interaction terms. This model enabled to offer an explanation of the role and significance of women's absorption capacity (human capital, physical infrastructure, and institutional settings) as a moderating variable in the FDI and gender inequality relationship. It is explained on the basis of the interaction between FDI inflow and indicators of absorption capacity and the consequent changes in the dependent variable (gender inequality).

All the regressions adopted the necessary assumption tests of normality, linearity, multicollinearity, homoscedasticity, model specification and independence. Also, the outliers in the data were eliminated using cook's d as a measure to detect the influential points and robust standard errors were used for heteroscedasticity. Following a Hausman

test, all the regressions with and without interaction terms were performed using a fixed-effect model.

The equation for panel regression (fixed effects model): $Y_{it} = \beta_1 X_{it} + \alpha_i + u_{it}$
Where α_i is the unknown intercept, Y it is the dependent variable where i = entity and t = time, X_{it} represents one independent variable, β_1 is the coefficient, u_{it} is the error term.

For the panel regression with interaction terms, Let Y be the dependent variable, gender inequality and X_1 be FDI inflow, the independent variable and X_2 be the absorption capacity. The interaction effects between the independent and moderating variable, X_1 and X_2 can be estimated by multiple regression models of the form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_1 X_2 + e$$

$$\text{Gender inequality} = \beta_0 + \beta_1 \text{FDI inflow} + \beta_2 \text{Absorption Capacity} + \beta_3 \text{FDI inflow} \times \text{Absorption Capacity} + e$$

3. Research Findings

This chapter presents the findings of the research in two broad sections of descriptive and inferential statistics. The first section presents the data on gender inequality and FDI inflow in service sector of South Asia. The second part of the chapter presents the results of the regression analysis.

3.1. Descriptive Statistics

Gender Inequality

Figure one below displays a visual representation of gender inequality in the eight South Asian countries in the year 2015. The size of the circle represents the extent of gender inequality in South Asian countries. In the year 2015, gender inequality is found to be the highest in labour market of Afghanistan with a mere 15.7percent women employment and Nepal has the least gender inequality with 49.4percent. The order of the countries according to the extent of gender inequality in a descending order is as follows: Afghanistan, Pakistan, India, Sri Lanka, Maldives, Bangladesh, Bhutan, and Nepal.

Figure 1: Gender inequality in South Asia (2015)

Source: Author, 2019

Figure two below displays the distribution of male and female employment in the South Asian labour market for the years 2005 to 2015. It illustrates that the female workers form only a small portion of the workforce of the South Asian labour market. The highest female employment recorded was 29.4percent in the year 2005 and the lowest in the year 2012 was 26.2percent. Empirical evidence also confirms that the South Asian labour market has witnessed an upward trend in regards to total employment from 2005 to 2015. While the employment of male workers experienced a rising trend similar in line with the growth trend in total employment, the female employment growth has not witnessed a similar growth. The male employment is observed to be improved from 70.5percent in the year 2005 to 73.4percent in the year 2015.

Although female employment has increased in numbers from 2005 to 2015, it is appalling that the percentage of female workers with respect to total employment has declined from 29.4 percent in 2005 to 26.51percent in the year 2015. It appears that the substantial economic growth achieved by South Asia in the period have not benefitted women.

Figure 2: Gender inequality (employment) in the labour market of South Asia (2005-2015)

Source: Author, 2019

Gender Inequality (Service sector)

Table 5: Summary of gender inequality data in the service sector

Variable	Obs	Mean	Std. Dev.	Min	Max
Female employment	88	22.05183	11.7505	6.014628	38.64379

Source: Author, 2019

Figure three below show that the service sector of the South Asia is also a male dominated industry. The female employment in the service sector reduced from 16.8 percent in the year 2005 to 15.7percent in the year 2015 but the male employment increased from 83.1percent in 2005 to 84.2 percent in the year 2015.

At a country level, the maximum female employment recorded in the service sector was 38.6 percent for Maldives in the year 2015 and the least was 6.0 percent for

Pakistan in the year 2013. Countries like Afghanistan and Pakistan only share a female employment ratio of 6 percent to 8 percent in the period 2005 to 2015. The nearest parity between men and female employment in the service sector is observed to be in the service sector of Maldives with a female employment ratio of 35.3 percent in 2005 to 38.6 percent in the year 2015. The service sector of Nepal shares a comparative female employment ratio with the Maldives with a female employment ratio of 34.4 percent in 2005 to 37.8 percent in 2015. From 2005 to 2015 most of the countries have experienced a trivial growth in the female employment ratio with the only exception of Bangladesh, Bhutan, and Pakistan. Both Bangladesh and Bhutan experienced a significant drop in the female employment ratio from 2005 to 2015. Bangladesh witnessed a drop from 21.1 percent in 2005 to 11.3 percent in 2015 and Bhutan experienced a drop from 27.1 percent in 2005 to 17.6 percent in 2015. It is observed that the service sector is an unequal sector in South Asia with huge gaps between men and women employment.

Figure 3: Gender inequality (employment) in the service sector of South Asia (2005-2015)

Source: Author, 2019

Total FDI inflow in South Asia (2005-2015)

Table 6: Summary of FDI inflow data at a country level

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI inflow	88	4608.641	10900.13	0	51029.35

Source: Author, 2019 (STATA)

Figure four below displays a visual representation of the eight South Asian countries in accordance to the total FDI inflow received in the period 2005 to 2015. The size of the circle represents the magnitude of FDI received by the South Asian countries. The order of the countries in respect to FDI inflow in descending order is as follows: India, Pakistan, Sri Lanka, Bangladesh, Maldives, Nepal, Afghanistan, and Bhutan. In the period,

India received the maximum total FDI equal to (348562.9 million \$) and Bhutan received the lowest amount (686.5 million \$). The maximum FDI for a single year was received by India in the year 2008 equal to an amount of (51029.3 million \$).

Figure 4: Order of countries in terms of the magnitude of FDI inflow (2005 to 2015)

Source: Author, 2019 (developed in GIS)

FDI inflow in the service sector of South Asia

Table 7: Summary of FDI inflow data in the service sector

Variable	Obs	Mean	Std. Dev.	Min	Max
FDI inflow	88	1841.98	4156.724	0	17385.97

Source: Author, 2019 (STATA)

Figure five below display the FDI inflow trend in the service sector of the eight South Asian countries. It is found that only the service sector of Sri Lanka and Bangladesh show a steady growing FDI inflow trend in the period. India, Nepal, and Maldives display a stable trend and Afghanistan show a gradual growth for the period. Both Pakistan and Bhutan spectacle a dropping FDI inflow trend for the period 2005 to 2015.

Afghanistan, Bangladesh, Bhutan and Sri Lanka received the maximum FDI inflow in the period 2010 to 2014. India, Maldives, Nepal, and Pakistan had similar experience in the period 2005 to 2009. The FDI inflow in the service sector of Bhutan was very inconsistent having received FDI in only five of the years in the period 2005 to 2015. Most of the countries experienced a rise in the FDI inflow in 2015 compared to 2005 except for Pakistan and Afghanistan which experienced a drop in the amount of FDI received in 2015 compared to 2005. Largely, FDI inflow in the service sector of South Asia exhibits huge fluctuations in the period.

Most of the South Asian countries attract a fair amount of FDI in the service sector. It is the next preferred sector by the MNEs in South Asia subsequent to the industrial sector. However, countries like Afghanistan (68.6 percent), Bangladesh (53.3 percent) and Sri Lanka (52.5 percent) receive the maximum amount of FDI in the service sector compared to other sectors. Maldives, on the other hand, receives the least amount of FDI in the service sector which equals to 13.8 percent of the total FDI inflow.

Figure 5: Trend of FDI inflow (service sector) in South Asia (2005-2015)

Source: Author, 2019

3.2. Inferential Statistics

Table below presents the result of the regression analysis (with and without interaction terms) of FDI and gender inequality in the service sector of South Asia. The analysis is performed in four different models.

Table 8: Results of the regression with and without interaction terms (Service sector) Source: Author, 2019 (STATA)

VARIABLES	(1) Female employment	(2) Female employment	(3) Female employment	(4) Female employment
FDI inflow	-0.0113*** (0.002)	-0.0105*** (0.002)	-0.00832*** (0.002)	-0.00925** (0.004)
Labour force (F)	1.277* (0.651)	1.205 (0.637)	1.116 (0.708)	0.989 (0.731)
FDI*labour force(F)	-0.000195** (0.000)	-0.000171* (0.000)	-0.000151* (0.000)	-0.000130 (0.000)
Life expectancy (F)	-2.587** (0.820)	-3.681** (1.486)	-3.532** (1.385)	-3.871** (1.350)
FDI*Life expectancy (F)	0.000269*** (0.000)	0.000253*** (0.000)	0.000233*** (0.000)	0.000242*** (0.000)
Education	0.839*** (0.193)	0.970** (0.347)	0.791 (0.502)	0.654 (0.495)
FDI*Education	-0.000172** (0.000)	-0.000236** (0.000)	-0.000164 (0.000)	-0.000155 (0.000)
Access to electricity		0.0804 (0.055)	0.102 (0.064)	0.159** (0.065)
FDI*Access to electricity		3.12e-07 (0.000)	3.04e-06 (0.000)	-1.14e-06 (0.000)
Broadband Subscription		6.05e-07 (0.000)	6.76e-07 (0.000)	7.46e-07 (0.000)
FDI*Broadband Subscription		-0 (0.000)	-0 (0.000)	-0 (0.000)
Gender Equality			2.245 (2.175)	2.621 (2.309)
FDI*Gender equality			-0.000556* (0.000)	-0.000565* (0.000)
Population density				0.0122 (0.015)
trade				0.0253 (0.030)
Constant	152.0** (52.847)	222.9* (100.462)	207.6* (95.467)	226.3** (92.040)
Observations	88	88	88	87
R-squared	0.383	0.410	0.440	0.460
Number of C_ID	8	8	8	8

Robust standard errors in parentheses *** p<0.01, ** p<0.05, * p<0.1

Table eight above show that the FDI inflow has a significant negative correlation with female employment in all the four models of the analysis. The first three model share a very significant correlation ($p < 0.01$) and the last model show a significant correlation ($p < 0.05$). The results of interaction terms show that the impacts of FDI inflow on female employment become significant and positive when interacted with indicators of human capital and institutional setting: labour force ($p < 0.05$ in the model one and $p < 0.1$ in model two and three), education ($p < 0.05$ in model one and two) and gender equality ratings ($p < 0.1$ in model three and four). The interaction of FDI with the third indicator of human capital: life expectancy, which was included in the model to capture the health dimension of the women's human capital, is found to be significantly negative.

4. Discussions

The results of the empirical analysis show that FDI inflow is significantly correlated (negative) with female employment in the service of South Asia. The results point out that the FDI activities in the service sector of South Asia tend to hire lesser women furthering gender inequality. The tendency of hiring lesser women may relate to the lower absorptive capacities of women in South Asia and as well be motivated by the cost lessening strategies of the MNEs.

The finding of the study is consistent with several existing studies. Aguayo and Tellez (2012) found a positive correlation between FDI and gender inequality in developing countries. The study explains the gender gap to be fuelled by the differences in skill endowment of men and women. As FDI leads to the technological advancement of local industries, more employment opportunities were created for men than women because most women were found to be less skilled compared to men (Aguayo-Tellez, 2012). Similarly, a study by (Siegmann, 2006) asserts that FDI may have affected men and women differently in developing countries and has caused a disparity between sexes in the labour market for employment and other opportunities. It explicates that the cost reduction strategy of the MNEs by hiring women and paying a lower wage, and men worker's superior ability in the skill-intensive industry leads to gender inequality in the host country. (Vijaya and Kaltani, 2007) studied cross-country data and also found that the FDI adversely impacted women wages in the manufacturing sector because of the vulnerability and lower bargaining power of women compared to men.

However, extant studies on the subject is not only at a nascent stage but also lacks consensus on the impacts of FDI on gender inequality. The mixed results of the FDI and gender inequality relationship may be attributed to the differences in the women's absorption capacities as determined by the human capital, infrastructural development and institutional settings of different geographic locations. The moderating impacts of women's absorption capacity on the impacts of FDI on gender inequality is discussed in greater detail below.

Moderating Factors

The results show that the interaction of FDI inflow with the labour force, education and gender inequality policies have a significant positive correlation with female

employment in the service sector of South Asia. The role of education in influencing the impacts of FDI on gender inequality relates to the skills and knowledge diffusion in the host countries that are likely to be accompanied by FDI inflows. The introduction of new technology into the service sectors raises the minimum educational requirements of the workforce and creates the need for educated female workers at work (Richards and Gelleny, 2007). Therefore, a highly educated female labour force becomes crucial in the host country to have optimistic impacts of FDI on gender inequality in the service sector. Studies claim that the majority of the uneducated female workers are found to participate in the agricultural subsistence activities, informal activities and physical labour in the industrial sector. However, women with at least a high school education and above are found to join the labour market for jobs and benefits in the service sector (Verick, 2014). According to the results, gender policies for equal opportunities for women and men at work will also be vital to realising the positive effects of FDI on gender inequality in the service sector. Similarly, (UNCTAD, 2014) also suggest that human resource management and development which refers to the employment policies, including the processes of training, developing and compensating personnel are likely to have significant influence gender inequality in relation to FDIs. Therefore institutional setting in the form of effective gender policies will be significant to avoid gender-biased decisions at work.

A variable of female life expectancy was included in the model as an indicator of the human capital from a health perspective. The interactions of FDI inflow and life expectancy were significant, but the main effect of life expectancy display a negative correlation with gender inequality in the service sector hinting a longer life expectancy of the female population might escalate gender inequality. The interactions of FDI inflow with life expectancy and reduction in female employment may be associated with a dependency ratio of a country. Higher dependency ratio or population aging is claimed to be associated with a reduction of the labour force which is vital for efficient utilization of the benefits of FDI. As a result, it slows the economic growth of a country that threatens employment and opportunities (Bloom, Canning, et al., 2010).

5. Conclusions

Research on the impacts of FDI on inequality has mostly been focused on income inequality, but the outcome of this study show that FDI has also affected men and women differently in South Asian labour market. It appears that amid a shifting global economy towards service sectors, FDI activities in South Asia has marginalized the role of women in the labour market of South Asia. Due to the lower absorptive capacities of women in South Asia; firms tend to employ relatively fewer women in the service sectors which may have furthered gender inequality. However, the problem of adverse effects of FDI on genders can be moderated. It is probable that the impacts of FDI on gender inequality may be optimistic if women's absorptive capacity is enriched to cope with the changes in the labour market that accompany globalisation. Presently, most of the South Asian countries have fragile women's human capital. Policies to promote gender parity at work and to

progress human capital for a skilled and educated female labour force will be the key in realizing equitable and inclusive impacts of FDI on the South Asian economy.

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