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Feature Essay

Escape through Export: Can Access to Foreign Markets Help Women-Owned Enterprises?

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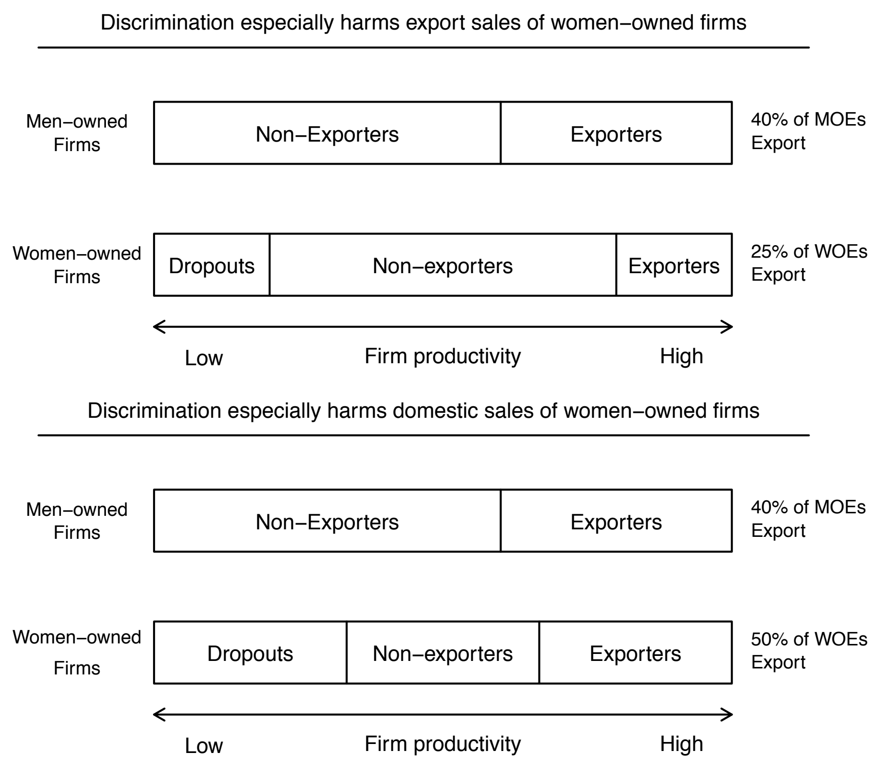
Does globalization reduce or reinforce inequality between men and women? Researchers have long considered the impacts of globalization on discrimination as a social institution, and also on women workers. In our paper "Escape Through Export? Women-Owned Enterprises, Domestic Discrimination, and Global Markets", we turn this question in a new direction, investigating the impact of one facet of globalization – trade openness – on another important group – women entrepreneurs. Women-owned enterprises (WOEs) face a host of impediments to the successful operation of their business, especially in countries where discrimination is most severe, including a lack of access to credit; few opportunities to get an education or other forms of human capital; norms against entrepreneurship; and discrimination from customers, suppliers, and workers (Baughn, Chua and Neupert, 2006; Greene et al., 2003).

For WOEs located in the most discriminatory countries, the ability to access export markets with less discrimination may provide an opportunity to avoid some of these effects. For example, stereotyping and discrimination from customers may be lower, and treatment by foreign courts may be less discriminatory, too. Exporting may therefore provide a partial 'escape' from discrimination, analogous to the escape afforded by business ownership for women confronting the glass ceiling in corporate life (Loscocco and Robinson, 1991). Of course, some aspects of discrimination cannot be avoided on export markets, like discrimination by local suppliers and workers, or local norms on gender roles. Moreover, it is possible that discrimination might especially impede exporting: think of the importance of financing, support form state agencies, and speedy movement through customs, all of which may be denied to WOEs in high discrimination countries.

So which is it? Does greater access to foreign markets with less discrimination help women entrepreneurs or simply serve to reinforce discrimination? The major contribution of our paper is the development of a new test to answer this question. As with much of the recent literature on international trade, our test builds off of the idea of firm heterogeneity in export performance by extending Melitz and Ottaviano's (2008) model. Nonetheless, the underlying argument is easily explained (Figure 1). First, in a given industry, only a minority of large and productive firms are capable of exporting; the rest serve only the domestic market (seen in the smaller proportion of both women and men owned firms that

Figure 1



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export in both panels). Second, because of the costs of discrimination, fewer women entrepreneurs enter the market and fewer WOEs can produce profitably, leading to greater dropout among WOEs. Discrimination, then, creates a selection effect (Anzia and Berry, 2011): only the most productive WOEs can remain in business but their observed productivity may not "look" higher on average because discrimination raises costs, and lowers sales, for women-owned businesses.

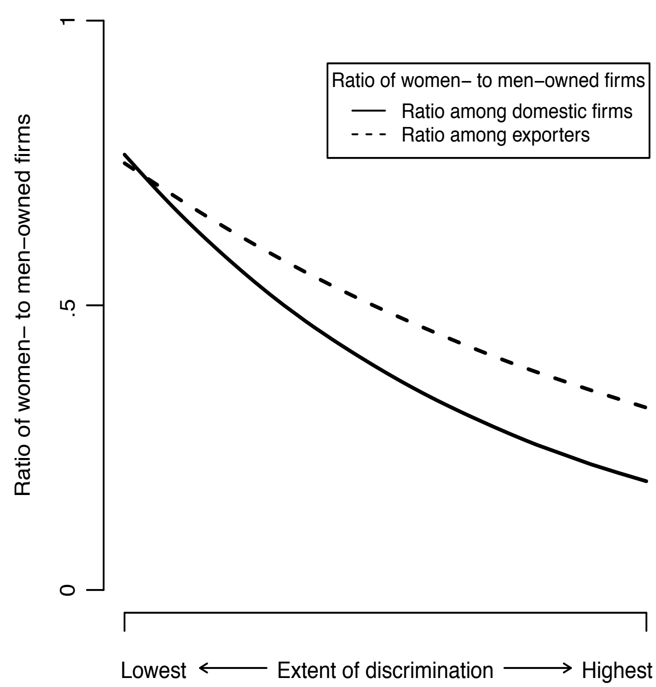
Now suppose that domestic discrimination especially burdens efforts to access export markets (the top half of Figure 1). There are fewer WOEs that serve the domestic market than MOEs due to discrimination and *sharply* fewer WOEs that export because these firms face especially high barriers to export due to discrimination. As a proportion of all remaining firms, then, relatively fewer WOEs export than MOEs. Note, crucially, that we focus on the "*proportion* of all *remaining* firms" which highlights the importance of selection effects; discrimination determines the set of firms which remain in business in the first place.

The importance of these selection effects is clear when we examine the alternative setting, where the burden of discrimination falls especially heavily on the domestic sales of WOEs and so exporting provides a partial escape (bottom half of Figure 1). We still expect to see fewer WOEs exporting than MOEs, but because the burden of discrimination falls heaviest on domestic sales, we would expect to see many fewer domestic-only WOEs than MOEs. Consequently, among all firms which survive, a greater *percentage* of WOEs export than MOEs, even though the absolute number of WOEs that export is still lower.

To test whether exporting provides any escape from discrimination, we use data from the World Bank Enterprise Surveys (World Bank, 2013) and a measure of discrimination from the Social Institutions and Gender Index (OECD, 2013). These data restrict us to developing countries although our argument might equally apply to developed countries. Figure 2 provides an illustration of our core results, by plotting the estimated ratio of women- to men-owned firms (and exporters) as a function of domestic discrimination. While discrimination reduces the numbers of women exporters and non-exporters alike, our test confirms the possibility of escape through export: the drop-off in the ratio of women- to men-owned exporters is noticeably less steep than the ratio of all women- to men-owned businesses. In countries with the most discriminatory institutions, the proportion of WOEs which export is thus higher than MOEs, suggesting that the burden of discrimination falls most heavily on domestic sales, and opening up export markets can provide some partial redress of inequality between the genders.

And yet, while exporting provides some escape from discrimination, it is only a modest one. For a WOE in a developing country around the 80th percentile in terms of discrimination, we estimate that exporting reduces discrimination-induced costs by around 6.5%. For very high discrimination countries, these reductions might be as much as 14%. While these are economically meaning-

Figure 2



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ful amounts, the bulk of the costs of discrimination are determined by your location and not by which country you serve. Note also that this 'escape' is only available to WOEs that export.

Our paper therefore has a normative implication, as it provides another justification for the wealthy democracies of the OECD to open their markets to the developing world. Because these states have relatively lower levels of discrimination, they can provide much needed export markets for WOEs from countries with high levels of discrimination. Since this is only a partial escape, though, OECD states might also consider building on these effects with special access for women-owned firms or by encouraging foreign investment by WOEs. This additional openness would allow women entrepreneurs greater access to key markets, the opportunity to grow their businesses, and potentially greater resources to effect change at home.

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