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## **Regional Economic Integration and the Poor**

- **States are attempting to develop and strengthen regional institutions and agreements as a strategy to confront the challenges of globalisation and capture the benefits**
- **Regional integration in South-east Asia has been characterised as a market driven process. However, the establishment of the Greater Mekong Subregion, under auspices of the ADB in 1992, rather suggests an institutionalised market-driven initiative.**
- **Broad macroeconomic benefits are enhanced via integration by enabling industries to enhance productivity and efficiency by pooling resources and harnessing the comparative advantages found in other subregional economies. Proponents expect this to lead to accelerated growth rates whose benefits will trickle down to improve human development**
- **The integration process tends to benefit highly skilled workers. However, critics point to the potential for destruction of the livelihoods of the poor and the exploitation of low skilled workers**
- **A continued reliance on private sector, market driven integration in the Mekong does not automatically produce optimal outcomes in terms of the provision of public goods, human development or poverty reduction**

## The Importance of Regional Economies

In the contemporary era, despite the onset of globalisation, the importance of regional economies has increased dramatically. Today, economic competition largely takes place between regions rather than states; consequently states are finding it important to be part of a well functioning regional bloc. This has resulted in an increase in regional institutions and agreements, evident in the emergence of the EU, NAFTA and MERCOSUR.

### Terminology

Various terms are used to describe economic processes within a region. Each has a specific meaning.

- **Regional economic integration**:- A process in which a group of nations reduces tariff and non-tariff barriers to allow for the free flow of goods, services and factors of production including labour and capital. The overall goal is to raise the growth rates of participating economies via an increase in economic activity.<sup>1</sup>
- **Regional cooperation**:- Arrangements whereby countries address problems that transcend national boundaries, thereby helping each other to promote the regional collective wellbeing.
- **Regionalism**:- Formal economic cooperation and integration arrangements undertaken by governments to liberalise or facilitate trade and investment, sometimes through free trade areas or customs unions. This term is used to describe the process through which the European Union was established, i.e. institutional / policy driven integration.
- **Regionalisation**:- Converse to the EU, the East Asia experience has been termed 'regionalisation', or market driven integration, fostered less by inter-governmental agreements and more by unilateral reforms in individual economies within a particular region or through private and international public sector initiatives.<sup>2</sup>

While the overall process of regional economic integration in Asia can be characterised as a form of regionalisation, the establishment of the Greater Mekong Subregion, potentially signals an emerging Asian regionalism.

### The Greater Mekong Subregion<sup>3</sup>

The Greater Mekong Subregion Program operates under the auspices of the Asian Development Bank, and includes: Burma, Cambodia, Laos, Thailand, Vietnam and the Yunnan and Guangxi provinces of China. The GMS initiative has identified nine priority sectors for cooperation, specifically: transport, energy, telecommunications, environment, human resource development, tourism, trade facilitation, agriculture and investment.<sup>4</sup>

<sup>1</sup> Belassa, B., (1961), *The Theory of Economic Integration*, Homewood, Richard D Irwin Inc.

<sup>2</sup> Lamberte, M., (2005), "An Overview of Economic Cooperation and Integration in Asia", *Asian Economic Cooperation and Integration: Progress, Prospects and Challenges*, Manila, Asian Development Bank.

<sup>3</sup> See the AMRC Mekong Brief #4 for further information on the ADB-GMS

<sup>4</sup> Asian Development Bank, (2007), 'Asian Development Bank: Greater Mekong Subregion', 7 March, available at [www.adb.org/gms](http://www.adb.org/gms).

The GMS program has recognized massive investment potential in the region, drawing particular attention to the vast natural resources, large labour force and strategic location. However, the ADB has argued that capital, infrastructure and common political will need enhancement to transform the GMS into a developed, fast growth region.<sup>5</sup> The GMS program aims to close these gaps through regional cooperation. This cooperation is fostered through the development of sub-regional economic zones and links, or 'corridors' across adjacent parts of countries where participating governments agree to put in place policies that are more liberal than national policies.

The development of economic corridors serves to attract private sector capital and ensures that natural resources are used for regional imperatives rather than remaining oriented toward national self sufficiency.

The GMS therefore emphasizes the need to let the market forces of supply and demand function more freely through the reduction of state ownership and government intervention in the allocation and use of human, natural and capital resources.

The ADB's vision of poverty reduction can be seen to hinge ultimately on economic growth and sustainable development programs that efficiently utilize the subregion's rich natural and human resources. This is seen to require market liberalization and the development of a business environment conducive to private sector interests.<sup>6</sup>

### Proposed Benefits of the GMS

Great benefits have been promised from regional integration through the GMS. The following is the rationale for such promises.

#### *Economic*

The GMS is in essence a regional economic development area (REDA). The rationale underpinning this strategy is that greater benefits can be obtained through subregional cooperation than would be possible through independent action. It is assumed that resource endowments in labour, technology, natural resources, technology and infrastructure are distributed irrespective of national boundaries. For example, Myanmar is rich in forests and Yunnan has extensive coal deposits, Lao PDR has hydroelectric energy resources, Vietnam and Cambodia have inexpensive labour while Thailand has transnational capital. Thus, it is argued that countries can overcome national deficiencies by facilitating cross border access to required production inputs found within the subregion.

Efforts to facilitate cross border flows are believed to make the subregion a more attractive trade and investment area as regional integration brings about a larger market size and potential for economies of scale, even for investments in the smaller economies such as Cambodia or the Lao People's Democratic Republic.

<sup>5</sup> Rahman, K., (2003), 'ADB participates in the Nation newspaper Conference on the GMS', available at <http://www.adb.org/documents/speeches/2003/ms2003052.asp>

<sup>6</sup> Guttal, S. (2003), 'Marketing the Mekong: The Asian Development Bank and the Greater Mekong Sub-region Economic Cooperation Program', Jubilee South.

By gaining access to the comparative advantages dispersed among the participating units of the subregion, costs of production, and hence the prices of consumer goods, are lowered. This may improve real incomes. Furthermore, income levels may also expand via the stimulation of employment through trade related activities. Consequently, “some positive impact, as such, may come to be exerted against poverty” (Oehlers 2006:467)<sup>7</sup>.

Other proposed benefits of a regional approach are specific to the level of development of the various members. For more developed states such as Thailand, it is assumed that regional economic cooperation offers solutions to the challenges of economic restructuring. Transborder economic arrangements provide outlets for relocating sunrise or labour intensive industries to lesser developed countries like Myanmar, Cambodia, and the Lao People’s Democratic Republic. This frees up resources and capital in the more advanced country for high-tech and higher value added industries.

On the other hand, member countries often contain an important outlet to global markets such as a port or international airport. Landlocked countries such as the Lao People’s Democratic Republic and Yunnan Province of China lack a strategic outlet to distribute goods. The ADB suggests that subregional initiatives such as economic corridors and the development of transport infrastructure will help alleviate these disadvantages, expand market reach and open up new areas to trade and investment.

#### *Political*

The GMS is designed to promote greater cooperation and harmonization of policies in areas such as customs and tariffs. This forces national and local governments to cooperate on a wide range of issues. By increasing interdependence and transnational economic linkages and creating a sense of mutual benefit, force is less likely to be used in settling disputes because of the disruptive effects it would have on the economies of the GMS.

#### *Social*

It has been claimed that economic development will bring concomitant benefits such as better education, improved health services, and a more elaborate social safety net. Thus, citizens of the GMS may gain substantial improvements in their standard of living and quality of life. Regional functional cooperation can also enable countries to address common problems that transcend national boundaries such as drug trafficking, illegal migration, trafficking of women and children, and the spread of disease.

Therefore, from a macroeconomic perspective there are potentially far-reaching benefits to be accrued. However, a closer analysis of the integration process suggests that many sectors of the population stand to lose out or to be adversely affected.

#### *Concerns over potential costs*

<sup>7</sup> Oehlers, A., (2006), “A Critique of ADB policies towards the Greater Mekong subregion”, *Journal of Contemporary Asia*, Vol. 36 No. 4, pp.464-478.

While great claims are made for regional integration, many concerns have also been raised.

#### *Uneven patterns of development*

Assessments of the impact of greater regional economic integration tend to reveal an uneven pattern. Economic convergence has been slow in the sub-region<sup>8</sup> and the disparity between countries continues to be relatively high. While this lack of convergence cannot be attributed to a failure of regional economic integration, as formal trade arrangements are a relatively recent phenomenon, it is related to the process of regionalisation i.e. market driven integration.

The UNDP's *Human Development Report 1999* expressed the concern that “when the market goes too far in dominating social and political outcomes, the opportunities and rewards of globalization spread unequally and inequitably”<sup>9</sup>

Internal disparities within countries (particularly between rural and urban areas) are also widened because of high capital and infrastructure investment in specific parts of countries, at the expense of other parts. Furthermore, many countries, such as Laos and Cambodia, do not have the public policies in place in the field of education and retraining to allow the population to adjust to the changing economy.

The ascendancy of neo-liberal economic policies, with a focus on privatization and liberalization, has served to supplant explicit policy measures and state social commitments against poverty and social inequality, with market forces acting to allocate public goods.<sup>10</sup>

#### *Labour Standards*

Workers in many developing countries fear that as a consequence of the entry of China and other labour surplus economies into the domestic economy, facilitated by regional integration, there will be downward pressure on their wages.

Furthermore, regional integration has encouraged flexibility in labour markets, which in turn has resulted in the informalization of labour.<sup>11</sup> Thus the quality of employment generated by trade focussed regional integration remains questionable.

As Oehlers (2006:471) notes, trade-related activities are often associated with low value added and low productivity jobs, which could result in a low productivity, low wage trap that “may ultimately work against the goal of poverty reduction in the longer term”.

#### *Environment*

The desire for faster growth and the centrality of natural resource exploitation in the GMS development vision results in the large scale expropriation of resources crucial

<sup>8</sup> Thailand per capita GNP in 2004 = US\$2540. Laos = \$390.

<sup>9</sup> UNDP, (1999), *Human Development Report 1999*, New York, UNDP, <http://www.undp.org>

<sup>10</sup> Haggard, S., (2004), “Institutions and Growth in East Asia”, *Studies in Comparative International Development*, Vol. 38, Issue (4), pp.53-82.

<sup>11</sup> This has particularly affected women who are usually poorly paid, lack social protection and have limited possibilities for upward mobility in the labour market.

to daily sustenance and rapid environmental degradation.

A depleted and degraded environment is likely to have an adverse impact on human development. The required resettlement of groups for infrastructure development, such as at the Nam Theun 2 Dam in Laos, tends to increase impoverishment as affected persons find it difficult to develop new livelihoods. Therefore, rather than producing broadscale reductions in poverty via increased access to livelihood choices, paid employment or public programs, specific groups are adversely affected.

#### *Migration*

A large part of regional economic integration is aimed at freeing up the movement of labour as migration enables local people to tap into the labour market of other countries, especially Thailand which has a labour shortage.

On the one hand, remittance incomes provide crucial benefits. Typically, they enable families back home to lead better material lives than would otherwise have been possible. On the other hand, families and communities of migrants often sustain social costs.

Furthermore, because policies towards labour migration currently lack coherence, there has been an increase in the number of undocumented migrant workers who are vulnerable to abuses and violations of human rights.

#### *Government/ Private provision of public goods*

The scale and expense of many GMS projects requires private sector participation. However, private sector involvement in key sectors such as energy, water and transport has implications for the access of local populations to those services. Private companies are profit seeking and try to increase market prices for products and services, thereby increasing the cost of living.

There is also the issue of the adequacy of educational institutions in coping with the demands likely to arise as a result of greater economic openness. Inadequate facilities for education and skill formation, combined with reduced public expenditure, results in an erosion of minimum wages, a rise in informal employment and increasing wage and income gaps between those with skills and those without.

In the rush towards economic development, those without the skills to participate effectively in the new economy are often left behind or left more vulnerable to illegal activities such as illegal logging or illegal migration, particularly local fisherman and farmers who generally have subsistence based livelihoods.

Furthermore, the entry of cheap goods from neighboring countries with well developed factor markets, e.g. Thai and Chinese produce, threatens the incomes of domestic farmers and producers in emerging economies. This vulnerability is compounded by opening areas up to the volatility of markets (evident in the 1997 Asian financial crisis), which potentially leaves producers open to deteriorating terms of trade, thereby undermining gains made in poverty alleviation.

Left to their own devices, market forces cannot guarantee economic convergence. This suggests a need for government intervention to stem market failure, exploit positive externalities and aid the provision of public goods.<sup>12</sup>

### **Concluding Comments**

Many studies reveal that there is a net positive impact of regional integration at the macroeconomic level in terms of higher levels of GDP. However, economic growth is a necessary but insufficient condition for poverty reduction. "Doubts may be cast on whether such a superficial form of regional integration (confined to the creation of a borderless region), by itself, will be sufficient to deliver the sort of sustained development required to make a dent on poverty" (Oehlers 2006:466).

In the present era, it seems that GMS governments are attempting to play the roles of owners, investors and regulators simultaneously which renders them incapable of fulfilling their obligations to protect the public interest in the face of recouping investments.

The GMS focus on the market driven allocation of resources potentially undermines the emergence of progressive regionalism and adequate programs for poverty reduction. Therefore the dominant vision of development tends to serve regional investment and resource transformation needs rather than national or local development priorities to benefit the poor.

### **An urgent need for balanced research**

Both the protagonists and antagonists of regional integration GMS-style base their positions on reasoned arguments. To date, there has been much less objective, well conceptualized and evidence-based research into the implications of the GMS program for the poor. Surely such research is of utmost urgency.

#### **AMRC's Mekong Brief Series**

This Brief is the seventh in a series of information sheets to be produced by the Australian Mekong Resource Centre (AMRC), University of Sydney, for students, teachers and others with an interest in the Mekong Region.

The AMRC was established in 1997 to promote research, discussion and debate on development and environmental issues in the Mekong Region. The AMRC is a focal point for information, dialogue and activities in support of an equitable and sustainable development path for the Mekong Region.

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<sup>12</sup> Importantly under the East Asian developmental state model, government interventions succeeded in stimulating economic growth because of the quality of institutions.