# Chapter III
# Regional Economic Integration and Human Development

In this chapter, the impact of regional economic integration on human development is analyzed, with the discussion proceeding on a top-down approach. First, the configuration of regional integration in Southeast Asia is considered. The basic conclusion is that presently regional integration is merely an adjunct to the process of global integration. Hence, the analysis proceeds by examining the macroeconomic impact of both greater unilateral and intra-regional trade liberalization, inflows of FDI, and intra-regional migration. The impact of greater financial integration or a more open capital account is analyzed by reviewing the 1997 East Asian financial crisis. The consequences in terms of human development are evaluated by looking at empirical studies on this topic and assessing the winners and losers in the adjustment process, especially in terms of gender bias. The analysis could help explain the pattern of development in Southeast Asia that was described in Chapter II and also determine whether regional economic integration could help narrow the disparities in development in the region.

The observed impact on human development would be the basis for recommendations on how to proceed with regional economic integration in Southeast Asia. The analysis would also establish the framework by which to consider the measures to alleviate the adverse effects of greater regional and global integration through regional cooperation. The possibility of reverse-causation is considered when the impact of human development on the process of regional integration is analyzed.

## A. Regional Economic Integration in Southeast Asia

Regional economic integration consists of agreements among countries in a geographic region to reduce, and ultimately remove, tariff and non-tariff barriers to the free flow of goods, services and factors of production among each other. Since the mid-1980s East Asia has been experiencing 'regionalization' or market-driven integration. The process has been spurred by unilateral reforms in individual economies and the logic of the 'flying geese' pattern of relocating production processes to cheaper areas abroad as domestic costs rise (Pangestu and Gooptu 2003). The East Asia experience can be contrasted to what is termed 'regionalism' which refers to formal economic cooperation and economic arrangements. The European Union is the foremost example of successful regionalism.

The more prosperous countries of Southeast Asia—Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand, referred to as the ASEAN-6—have moved forward in integrating their economies. In 1992, these countries agreed to form the ASEAN Free Trade Area or AFTA which became effective in 2002. Ironically, this was the first formal arrangement in East Asia. Since then there has been a proliferation of regional trading arrangements (RTAs) especially after the 1997 crisis, most of which are bilateral in nature.

The recent admission of the CLMV countries—Cambodia, Lao PDR, Myanmar and Viet Nam—to ASEAN makes the latter a potential force in the global arena. However, it poses new challenges because these economies are new to international trading arrangements and are economically behind the six other members. Thus, ASEAN in its Hanoi Plan of Action articulated its vision of regional economic integration that will (i) strengthen the process that has already been put in place; and (ii) ensure that the new ASEAN members come up to par with the ASEAN-6 in the shortest possible time through certain initiatives, such as the ASEAN Integration System of Preferences for CMLV. Longer timetables apply to these countries in their accession to AFTA: 2004 for Viet Nam, 2006 for Lao PDR and Myanmar, and 2008 for Cambodia. The emergence of Timor Leste adds another dimension to integration and cooperation efforts in Southeast Asia.

Even without a formal RTA intra-regional trade among the 10 ASEAN member countries expanded steadily. In 2002, intra-ASEAN trade was 29 percent of total exports of these countries compared to 19 percent in 1990 and 16.7 percent in 1980 (Table III.1). However, this is relatively low compared to the EU-15, where intra-regional trade was 47 percent of total exports in 1960 and 61 percent in 2001. Trade between Malaysia and Singapore—which accounted for a third of total intra-ASEAN trade in 2002—has historically dominated regional trade. Moreover, between 1980 and 2001, at which time intra-ASEAN trade was recorded at 22.4 percent, the change was relatively small. Nevertheless, the sharp increase between 2001 and 2002 augurs well for AFTA, assuming that the jump can be explained by the onset of the agreement.

While the full potential impact of AFTA has yet to be observed, there are several reasons to doubt that regional economic integration will progress substantially in Southeast Asia. It has been observed that due to rapid progress in unilateral liberalization in each of the AFTA member countries, the difference between the preferential AFTA tariff and the MFN tariff for non-AFTA economies is quite small. As a result, the share of intra-ASEAN trade conducted at the preferential AFTA tariff will also be small (Soesastro 2001). There are other factors which are related to reasons why the ASEAN member countries were initially reluctant to embark on closer economic integration (Chia, 2000). One, the wide differences in levels of economic development, industrial competence and commitment to free trade made it difficult to forge consensus on economic integration.

Two, there has been limited complementarity among the economies, except perhaps between Brunei and Singapore, on the one hand, and the other countries, on the other. However, Brunei and Singapore have small populations and cannot perform the role that Germany and France did in the EU. Trade among the ASEAN plus 3 economies—referring to China, Korea and Japan—stood at 36.4 percent in 2002 (Table III.2), indicating that this bloc should be able to form a more viable RTA. At present, a modest degree of complementarity exists between the middle-income Southeast Asian economies and the CMLV countries.

And three, Southeast Asia was—and remains—too small to be economically crucial for individual member countries. Economic relations with countries outside the region will likely be dominant in the foreseeable future.

In this context, the role of formal regional arrangements in Southeast Asia is more to facilitate and support unilateral reforms and contribute to multilateral liberalization than advance regional integration and intraregional trade and investment (Pangestu and Gooptu 2003). This is consistent with the evolution of regionalization in East Asia which has been fuelled by spontaneous market forces directly linked to the restructuring of the Japanese and other economies in the area. The general outcome for most of the Southeast Asian countries was greater international trade—exports and imports—fuelled by an inflow of foreign direct investment. Thus, in assessing the impact of closer regional integration in Southeast Asia, studies that look at the impact of greater global integration should be considered equally relevant. This point becomes quite important in the subsequent sections of this chapter.

## B. The Impact of Greater Regional Economic Integration on Economic Performance

The central issue in this section is whether regional economic integration has had a beneficial impact in terms of aggregate economic performance. The process of regional integration and its potential benefits and drawbacks are detailed in Box III.1. However, because of the nature of regional economic integration in Southeast Asia, the impact of economic openness at both the global and regional level is considered.

*The Impact of Trade Liberalization*

Early studies on the integration process among ASEAN member countries pointed to its beneficial impact at the macroeconomic level in terms of higher trade volume and faster economic growth (Nakamura and Yap 1990, Imada et al. 1991). More recent studies have affirmed the beneficial of closer regional economic integration and even extended the analysis to cover more countries. Table III.3 shows similar results that were reported in a recent World Bank study (Krumm and Kharas 2003). The empirical evidence indicates that ASEAN member countries will benefit more by expanding the coverage of their regional trade arrangement. Moreover, the benefits are generally lower if the agriculture sector is excluded from the RTA.

The analysis can be applied to an individual country and with an appropriate quantitative model the impact of various trade arrangements can be examined. One example is a study on Viet Nam (Fukase and Martin 2001) which applied a multi-regional computable general equilibrium model to determine the impact of several possible trade arrangements. The first is accession to AFTA under different scenarios that depend on which commodities were liberalized, i.e. those under the Inclusion List (IL), the Temporary Exclusion List (TEL), the Sensitive List (SL), and the General Exceptions List (GEL). The simulation results showed that the static economy-wide effects of AFTA liberalization are relatively small and that there may be substantial losses in terms of trade from the export expansion associated with AFTA liberalization. The results suggest that it would be more beneficial for Viet Nam to extend its AFTA concession on an MFN basis, i.e. unilateral liberalization.

Similar results were obtained in a study that centered on Indonesia (Feridhanusetyawan and Pangestu 2003). Applying a global computable general equilibrium model known as the Global Trade Analysis Project (GTAP), the study shows that full implementation of agreements under the Uruguay Round and APEC will yield substantial benefits for the Indonesian economy. The gains—which are derived mainly from a more efficient allocation of resources—would be magnified if Indonesia were to apply unilateral liberalization.

Since a global model was used, the study was able to capture the impact on other countries of Southeast Asia. Singapore was shown to benefit the most from trade liberalization under different scenarios. Malaysia had slightly lower gains than Indonesia, while the benefits accruing to the Philippines were 30-40 percent that of Indonesia. Meanwhile, Thailand was shown to be adversely affected by trade liberalization under all arrangements considered in the simulation exercises. This was due to the negative terms of trade effect on the Thai economy which overwhelmed the gains from more efficient resource allocation. One important conclusion of the study was that AFTA is expected to contribute very little to welfare gains to the five Southeast Asian countries considered in this study. Similar to the results shown in Table III.3, including agriculture in the various trade arrangements would be generally beneficial to these countries.

This type of analyses can be extended to all countries of Southeast Asia provided that the appropriate analytical tools are available. For example, in the Viet Nam study, the CGE model had the capability of distinguishing trade arrangements with different countries or regions. This task can be left for future studies.

*The Impact of Foreign Direct Investment*

Undoubtedly, the single most prominent factor that propelled economic growth in the larger economies of Southeast Asia in the last two decades was foreign direct investment. Table III.4 shows the pattern of foreign direct investment inflows to various countries in the region between 1989 and 2003. At its peak in 1997, inflows of FDI were the equivalent 4.3 percent of the combined GDP of Southeast Asian nations. Meanwhile, intra-regional FDI has been erratic (Table III.5). Prior to the 1997 financial crisis, intra-regional investment among the 10 ASEAN member countries peaked at 13.3 percent.[1] After the onset of the crisis the figure fell to 4.2 percent in 1999 and recovered to 9 percent in 2001.

The impact of FDI on economic performance has been extensively analyzed (e.g. UNCTAD 1999) and its influence on economic growth measured quantitatively (Jalilan and Weiss 2001). The consensus is that the FDI has had a net beneficial impact on economic performance. The channels by which FDI affects the growth and development

[1] This pales in comparison to intra-regional foreign direct investment in the EU which reached 60 percent in 2000 (EuroStat News Release No. 74/2001, 6 July 2001).

of host countries range from ‘direct effects’ on employment and training, through ‘classical multiplier effects’—e.g. workers use their wages to purchase goods and services from local firms—to ‘spillover’ effects whereby indigenous firms acquire knowledge and technology from foreign firms through a variety of transmission mechanisms (Mirza and Giroud 2004). The latter is considered the foremost reason for encouraging FDI.

Regional integration serves as a conduit for FDI if the resulting larger regional market is attractive to foreign investors. Membership in AFTA, for example, could bestow a ‘halo effect’ on the country and stimulate inflows of FDI to take advantage of the integrated market in Southeast Asia. However, a survey of multinational firms in Southeast Asia in the context of Viet Nam’s accession to ASEAN indicated that there is little evidence of the ‘halo’ and market effect (Mirza and Giroud 2004). This result is not surprising given that FDI flowed into Southeast Asia even before AFTA was established in 1992.

The surge in FDI in this region could be attributed primarily to the economic restructuring in Japan, which in turn was the main outcome of the sharp appreciation of the yen vis-à-vis the US dollar in 1985. Reference was made earlier to the logic of the ‘flying geese’ pattern. Greater trade liberalization and a more stable macroeconomic environment also induced greater inflows. A more open trade regime, in particular, encouraged the establishment of integrated production processes across Southeast Asia.

What remains to be seen is whether the ‘halo’ and market effects will become more significant in the future as the integration process progresses in Southeast Asia. It has also been observed that the impact of FDI in this region has been limited largely to the ‘direct effects’ with very minimal ‘spillover’ effects (Mirza and Giroud 2004). This has implications for both economic performance at the aggregate level and the impact of FDI on human development.

*Financial and Capital Account Liberalization and the 1997 Financial Crisis*

Much has already been written about the 1997 East Asian financial crisis and it has been widely accepted that excessively rapid financial and capital market liberalization was probably the single most important cause of this debacle (Stiglitz 2003). As an integral part of the so-called Washington Consensus, financial and capital market liberalization was encouraged to promote a more optimal allocation of investible funds. Capital controls were viewed as impediments to economic efficiency. Moreover, greater financial integration would allow greater diversification of sources of funding thereby enhancing a country’s economic stability. Many of the larger countries in Southeast Asia liberalized their capital account beginning in 1991.

Despite the potential benefits, there is little evidence that these policies promoted growth and there has been ample evidence that they imposed huge risks on developing countries (Stiglitz 2003). This concern was borne out by the disastrous experience in Southeast Asia. It has been observed that the removal of capital controls, particularly establishing the right to repatriate dividends and capital, may have been the most important factor in the surge of foreign capital flows to emerging market economies (Taylor and Sarno, 1997). Thus, as a result of capital account liberalization, many countries in Southeast Asia experienced a surge in portfolio inflows or the so-called "hot money."[2] The stylized economic impacts include: a) an appreciation of the real effective exchange rate which hurt the manufacturing sector and benefited the non-tradable sectors, especially real estate; b) an increase in external debt, particularly short-term obligations of the private sector; c) a widening of the current account deficit because of the appreciation of the real exchange rate and the availability of more foreign exchange to pay for imports; and d) a consumption boom driven by faster credit growth and more imports.

The liberalization of the capital account also heightened the vulnerabilities emanating from other areas of the economy. In particular, the soft exchange rate peg in most of the crisis-countries encouraged foreign borrowing since most central banks implicitly guaranteed a fixed exchange rate in the foreseeable future. Meanwhile, the financial system in most of the countries was not mature enough in terms of the quality of supervision and regulation. Combined with some unscrupulous practices by some banks and firms, the result were loans of dubious quality.

The sequence of events that defined the crisis is all too familiar (e.g. Yap 2001). Because of a deteriorating current account, the Thai baht had to be devalued. Normally, the rise in the exchange rate and the resulting improvement in the current account would have been enough to cool an overheating economy. However, because they had incurred many dollar-denominated debts, bank and firms began experiencing problems servicing their obligations on mostly short-term liabilities. The problems of these firms prompted foreign investors to pull out their money causing the baht to depreciate further. The downward spiral that arose resulted in a sharp contraction in the Thai economy.

Because of its exposure to Southeast Asia in terms of loans and investments, Korea was affected by the crisis. In late 1997, rumors flashed through Wall Street that Korean firms did not have the reserves to pay loans that were coming due and that these would not be rolled over by creditors (Stiglitz 2003). Because of these rumors, creditor banks decided not to roll over their loans to Korea and the result was that their prophecy came true. Indonesia, Malaysia and the Philippines were dragged into the crisis in a similar fashion by pure contagion. Investors decided to pull out of Southeast Asia as a whole because they did not have the patience, time, and resources to try to distinguish among the countries of the region. The result was a herd reaction by investors resulting in a self-fulfilling hypothesis. It has been argued that the dominant element of the crisis was a huge, abrupt outflow of capital from the region (Radelet and Sachs 1998).

The 1997 financial crisis epitomizes the risks that are involved with greater global and regional economic integration. The impact on human development and measures to mitigate such risks are discussed in the latter part of this report.

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[2] FDI inflows also increased but as mentioned earlier, the rise in FDI had occurred mainly because of economic restructuring in Japan, which preceded the liberalization of the capital account in 1991.

*Migration*

Asia has become one of the most significant regions in the world not only in terms of the cross-border movement of capital and goods, but also in terms of the movement of people (Ghosh 2004). This is particularly true of Southeast Asia. The stock of intra-regional temporary labor migrants in Southeast Asia grew from 300-500 thousand persons in the early 1970s to a peak of 3-3.5 million persons prior to the onset of the crisis (Table III.6). Temporary labor migrant flows to the major host countries—Malaysia, Singapore and Thailand—represent about 7 percent of their labor force combined. Latest estimates put the stock of temporary migrants at 3.25 million, about 95 percent of whom are considered as unskilled labor (Manning and Bhatnagar 2004).

Intra-regional migration reflects the uneven pace of economic development in the region. Migration is intrinsically linked to the level of development as gaps in living standards and disparities in capital and labor supply and demand among Southeast Asian nations create the conditions for intra-regional migration (Yeoh 2004). The process of migration has varied effects on both home and host countries (see also Box III.1). In the home country, the most direct benefit comes from remittances and savings brought home by return migrants. However, while such remittance inflows are a definite boon to foreign exchange constrained economies, the overdependence on such inflows is also undesirable in the same way that dependence upon some major export commodity can be problematic. This is especially the case when migration and remittances are affected by business cycle, political and other phenomena in the host countries which can cause sharp changes in both the number of workers and the amount of remittances they are able to send home. Temporary migration not only implies the diversification of income sources for poor households; it also has wider effects of reducing the vulnerability of poor communities in general from the impact of domestic economic crises.

One key issue is how the beneficial impacts of greater labor mobility in the region can be maximized and the costs reduced. This can be achieved through appropriate labor and social policies. This is part of the recommendations outlined in Section D.

## C. The Impact of Greater Regional Economic Integration on Human Development

The experience with the 1997 crisis confirms that greater global and regional integration need not necessarily have beneficial impacts. In the case of greater trade liberalization and greater inflows of FDI, while evidence at the aggregate level favors more economic openness, the impact at the micro level, particularly in terms of human development, may be not be as auspicious. The objective of this section is to evaluate the impact of greater global and regional integration on human development in Southeast Asia.

*Key Issues and Framework*

The more relevant concerns revolve around the relationship between greater openness to the world market and human resource development, particularly with respect to the labor sector. These concerns can be articulated as follows:[3]

> "First is the fear of further immiserization as a result of globalization. Wage inequalities can widen as in many countries, particularly in Latin America. Workers in many developing countries fear the entry of China and other labor surplus in the international trade, as wages are pressured to decrease.
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> "Second is the possibility of increased unemployment and international migration. Particular industries that have been previously protected may be unfavorably affected, possibly resulting to a reduction in domestic labor demand. While a number of industries will to some extent benefit from this globalization, it is expected that the process of readjustments will cause some short-term loss of jobs. One way workers can cope with unemployment is to consider international migration as an alternative. However, the prospects and the costs of future migration may be a problem.
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> "Third is the concern about labor standards and institutions. Market regulations may have to be imposed as workers may be forced to work in substandard conditions in order for firms to be competitive. At the same time, the importance of long-term labor arrangements and unionization has been put into question in the light of the need for greater competitiveness.

There is also the issue of the adequacy of educational institutions to cope with the demands that would arise as a result of greater economic openness. Related to core labor standards is the matter of environmental standards. On the one hand, the desire for faster growth has led to more rapid environmental degradation in many East Asian countries. On the other hand, imposition of stricter environmental rules is viewed by some policy makers as a covert means of protectionism.

Quantitative evidence is presented to determine whether some of these concerns are valid. A useful framework to adopt is that of MIMAP or microeconomic impact of macroeconomic adjustment policies. Measures that enhance global and regional economic integration are considered as 'macroeconomic adjustment policies.' The general MIMAP framework is depicted in Figures III.1 while Box III.2 describes this program at length. In this framework, the macroeconomy determines the aggregate supply and demand of goods and services, the overall price and employment levels, and the aggregate balance of trade in goods and services and international financial flows with the rest of the world. The interface between the macroeconomy and household

[3] Lanzona (2001), pages 2-3.

outcomes is where output, relative and general price levels affect sectoral factor demand and supply, factor quantities employed, factor returns and the functional distribution of income. The stipulated ownership and access to the various productive factors then determines the size distribution of income. Relative prices, employment, the level and distribution of public goods and services, and the size and distribution of income influence household choices. The latter are translated to outcomes that determine the level of human development.

MIMAP-type models evaluate the impact of macroeconomic adjustment policies on poverty incidence, income distribution, health outcomes, education, gender bias, and the environment. Unfortunately, there is a dearth of studies that deal solely with the impact of *regional* integration in Southeast Asia.

It should be noted that the MIMAP approach is not unique in relating macroeconomic policies with microeconomic outcomes. The more recent quantitative tools with similar objectives were reviewed in a World Bank study (Bourguignon and Pereira da Silva 2003).

*Poverty and Income Distribution*

Economic growth is a necessary but not sufficient condition to reduce poverty incidence. The net positive impact of regional integration at the macroeconomic level in terms of a higher level of GDP indicates that the necessary condition is satisfied. The main channels through which macroeconomic policies affect poverty incidence are employment and wages. The varying effects on the different factors of production will account for the distributional impact. For example, the study on Viet Nam showed that accession to AFTA will likely increase the real wages for skilled and unskilled labor as well as return to capital (Fukase and Martin 2001). The magnitude of the increase doubles when Vietnam further liberalizes against the rest of the world.

The GTAP model was used to study the impact of multilateral trade liberalization on poverty by linking it with new international, cross-section consumption analysis and earnings data from household surveys (Hertel, et al. 2002). Indonesia, the Philippines, and Thailand were among seven countries included in the study.[4] The focus was on vulnerable households—or those at the edge of poverty. The data showed that the poor tend to be more specialized in the earnings sources than the non-poor. This makes them more vulnerable to trade policy changes which tend to favor one sector at the expense of another. The results of the simulations show that the aggregate measure of poverty was reduced in the three Southeast Asian countries. Moreover, households in these three countries that largely depend on income from the agriculture sector benefit substantially from liberalization by developed countries in this sector.

A subsequent study applied the same methodology but expanded the number of countries to fourteen, with Viet Nam added to the list of countries from Southeast Asia (Hertel, et al. 2003). The impact of trade liberalization was also shown to reduce aggregate poverty

[4] A related study, Hertel, et al. (2004), dealt solely with Indonesia.

incidence in Viet Nam. In fact, the latter experienced the highest percentage drop in the poverty headcount. It should be noted that the favorable impact of trade liberalization on poverty arises mainly from the inclusion of the agriculture sector in the simulation exercises. Since the bulk of the poor are dependent on agriculture to some degree, the national poverty rate tends to fall since trade liberalization tends to raise the profitability of agriculture.

The recent World Bank study on integration in East Asia suggests that trade liberalization has not resulted in increased volatility or vulnerability for wage workers in Thailand and Indonesia (Bourguignon and Goh 2003). Their analysis finds no correlation between greater exposure to trade and greater variability in earnings or employment. Meanwhile, a study using Philippine manufacturing sector data showed that globalization—as measured by an increase in trade flows—increased the demand for labor in the export sector (Orbeta 2002). However, the increase in the propensity to import did not have an unambiguous effect on labor demand. In terms of employment structure, the impact of greater openness on the proportion of women workers was not significant at the aggregate level. At a lower level of disaggregation, however, greater manufacturing activity proved to be a boon to women workers. Finally, the study of Orbeta showed that the increase in export propensity led to a rise in the proportion of low-skilled workers at all levels.

A review conducted on the impact of trade liberalization on output and income distribution in the Philippines (Yap 2002) indicates that greater global integration generally has a net positive impact on welfare and poverty reduction but the results for income distribution are mixed. However, there are stronger indications that Washington Consensus type policies did have an adverse impact on income distribution. This finding was supported by the sharp increase in the Gini index of the Philippines between 1994 and 1997 during which time the government accelerated the implementation of market oriented policies (Table III. 7).

In the case of Southeast Asia, a recent study indicates that several factors contributed to rising income inequality in the larger countries (Pangestu, 2001): a) These countries have had either inadequate or no social safety-net or income transfer programs; b) Southeast Asia did not have the experience of Korea and Taipei,China of an export oriented strategy accompanied by the spread of industrialization to rural areas, increased rural-urban linkages and rapid increases in non-agriculture employment, especially in the countryside; and c) While the labor markets in the larger countries responded to the need of the labor intensive export-oriented drive, they have been hampered in the subsequent stages of export orientation by the lack of skilled labor. Southeast Asia did not move as fast as Northeast Asia to educate its workers, so while labor markets are still flexible, the result is still growing inequity due to the sharp rise in wages of skilled labor compared with unskilled.

Pangestu's analysis dovetails with the observation that poverty reduction and narrowing income inequality during the early stages of rapid growth in Southeast Asia was not due to a particularly egalitarian pattern of growth, nor to higher spending for social services, nor to social safety net programs. Rather it was a result of economic growth and the associated increase in labor-intensive employment mainly in the export-oriented textiles and electronics sectors (Stewart 1998).

Data on the pattern of poverty incidence and income distribution over time support the general conclusion that greater economic openness coincided with a fall in poverty incidence and a deterioration in income distribution. The data in Table III.7 indicate that there was a distinct downward trend in poverty incidence, especially in the 1990s before the financial crisis. However, in terms of income distribution, after initial dramatic improvements between the 1970s and 1980s, there has hardly been any change and consistent with the argument of Stewart (1998), the pattern of income distribution in Southeast Asia stabilized at a relatively high level of inequality. In the case of Malaysia and the Philippines, income distribution actually deteriorated in the 1990s with the trend being reversed only after the 1997 crisis. In the other countries, income distribution practically remained constant, particularly in the transition economies of Cambodia, Lao PDR and Viet Nam.[5]

In the case of FDI, its positive impact on economic growth implies that it has satisfied the necessary condition to have a beneficial effect on poverty. Other channels by which FDI can influence poverty are as follows (Klein, et al. 2001):

- Reducing the volatility of capital flows and incomes. Compared to other capital flows, FDI is more stable and has a better risk profile and is therefore more conducive to macroeconomic stability. The latter is a necessary condition for economic growth.
- Improvement of corporate governance. Companies that are owned and controlled by foreigners have improved productivity more than those under dispersed ownership. One reason is that FDI brings with it the superior incentives of equity investors who try to make sure they invest sensibly.
- Better social and environmental standards. There is a perception that multinational companies tend to locate production in countries or regions with low wages, low taxes, and weak environmental and social standards, thereby contributing to the "race to the bottom." However, what matters for foreign investors is profit, and business opportunities are enhanced by better social and environmental standards. Foreign investors usually observe better standards than domestic firms because a) they can afford it due to higher productivity; and b) they are under greater scrutiny and are under pressure particularly from civil society groups.
- Improvement of social safety nets and basic services for the poor. Foreign investors contribute to tax revenues which are used to finance social safety nets and basic services for the poor. They also spend significant resources on community development in areas where they are located. Foreign investment in

[5] The data across countries are not necessarily comparable mainly because of the different methodology in computing a national poverty line. Other sources would also yield different figures. For example, the Gini index for Thailand is 43 percent in 1990 and 44 percent in 1998 as reported in ADB (2001). What is more important and useful is tracking the behavior of poverty incidence and income distribution across time.

telecommunications, electricity and water have brought more and improved service to millions of households including poor ones.

To verify whether FDI had contributed to poverty reduction in Southeast Asia, a study was conducted by researchers from the University of Bradford. One part of the study was the estimation of an econometric model to assess the degree to which FDI induces economic growth and leads to poverty reduction (Jalilan and Weiss 2001). Both developing and developed countries were included in the model. The relevant results can be summarized as follows:[6]

> "…our econometric analysis finds that FDI inflows are associated with higher economic growth, while it is in countries with higher educational levels (as proxied by primary school enrolment) where the FDI impact of growth is strongest. In terms of the relation between growth and poverty we find, as other have, that there is a close relation between average income growth and growth of the incomes of the poor. For our larger sample of countries we find no direct link between FDI and poverty reduction. However, turning to the question of poverty in ASEAN we find evidence that FDI in the region is poverty-reducing and that this effect is stronger there than elsewhere. Further there appears something special about these relationships in ASEAN, since it is only in these five countries (those for which data are available) that there is a direct relation between FDI and poverty reduction. On average in our sample for ASEAN roughly 40 percent of the poverty-reducing effect of FDI arises through economic growth and the other 60 percent from a direct impact. The obvious candidates for this direct effect include labor training and direct employment of the poor. The growth effect will pick up additional job creation over time, but this mechanism is the conventional trickle-down path in response to rising mean-incomes. The implications of these findings are considerable. ASEAN countries are significant and special. Only in the ASEAN-5 economies (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) is there an unambiguous link between FDI and poverty reduction…"

Inflows of FDI could have also contributed to the observed development disparity in Southeast Asia, both within and among countries. In this context, the disparity among countries is partly caused by the difference in the volume of FDI and the variations in policies in handling the inflows of FDI. The latter are related to measures that affect the potential for workers and for the economy to benefit from FDI. Worker-related policies are those in the areas of education, training, and industrial relations. Policies that enhance the capability of the economy to benefit from FDI are related to measures to enhance the technological capability of domestic firms in order for them to benefit from linkages with and spillovers from foreign firms. In addition, the government can encourage FDI to flow into areas that have would have stronger linkages to the rest of the economy. For example FDI in rural-based industries would have a more significant impact on poverty reduction.

[6] As quoted by Mirza and Giroud (2004), page 238.

Meanwhile, the inflow of FDI is likely to have contributed to income inequality within countries. With the exception of FDI in textiles, foreign investment in manufacturing has employed labor that is relatively skilled. The reasons for this include: FDI induces skill-specific technological change, it can be associated with skill-specific wage bargaining (i.e. workers who have higher skills are in a better position to bargain for higher wages); FDI may locate in skill-intensive sectors; and foreign firms usually provide more training to skilled than unskilled workers (Velde 2003).

Policy proposals that deal with FDI include the dissemination of best practices in managing FDI among countries in Southeast Asia based on the experience of individual countries; measures that would improve the chances of unskilled workers to benefit from FDI, particularly through training; and measures to encourage FDI to areas that have a significant impact on the poor.

*Health, Nutrition and Labor Standards*

To monitor the impact of trade liberalization on other aspects of human development, household models can linked to standard macroeconomic models. In a study on nutrition in the Philippines, an Almost Ideal Demand System was estimated in order to obtain price and demand elasticities of food using nationally-representative sample survey data (Orbeta and Alba 1998). The impact of tariff reform program on the prices of the different food items were obtained from a standard CGE model of the Philippines. The results indicated that, except for beverages, price of food items declined following the reduction in tariffs. As a result of this decline in prices, households increased their demand for most of the food items except for the highest income quintile, where only the demand for cereal, fish, and other food increased. The tariff reform program also yielded a progressive increase in income. After translating the changes in food demand into calorie and protein availability in households, the findings showed that the tariff reform program was quite progressive in terms of macronutrient availability in households.

Another study dealt with household choice of health care facility via estimated price and income elasticities (Orbeta and Alba, 1999). A discrete choice model of outpatient care was estimated using data drawn from a household survey. The choice alternatives included home care and formal care, which consists of hospital outpatient clinics, independent private clinics, and public or charity clinics. The empirical results showed that prices or user fees and income are important determinants of health care choice. Moreover, there is a clear tendency for bigger price elasticities among lower income households. This implies that uniform price increases will hurt the poor more than the rich. Applying the same inputs from the CGE model as the nutrition model, the impact of the tariff reform program was simulated. Apart from food prices and income distribution effects, the CGE simulations generated prices of public and private health care services. The actual results showed that the tariff reform program led to an increase in the cost of private health care and a decline in the cost of public health care.

A similar approach was adopted to investigate the impact of greater trade liberalization on child labor in Viet Nam (Edmonds and Pavcnik 2002). Using a panel of Vietnamese households, it was determined that reductions in child labor are increasing with rice prices. Declines in child labor were largest for girls of secondary school age, which corresponds to an increase in school attendance for this group. Since trade liberalization—through a relaxation of the rice export quota—resulted in a rise in the average domestic price of rice, it was concluded that trade liberalization contributed to a decline in child labor in Viet Nam.

This type of studies can be applied to other Southeast Asian economies. However, such undertakings require extensive data gathering and model building. This may not be a feasible exercise for some of the countries.

Finally, the case for labor and environmental standards is considered. A World Bank study found no evidence that weak labor rights or environmental standards are positively correlated with export performance (Maskus 2003). Given that East Asian developing countries have weaker measured labor and environmental standards—relative to per capita income—than do other developing regions, the empirical results imply that countries in this region have considerable room for improving their protection of fundamental labor rights and environmental standards. In short, the developing economies of East Asia can feel comfortable in applying greater weight to social considerations in setting their policies, without significant fear of deterring export growth.

*Gender Issues*

Economic development in Southeast Asia in the last two decades was anchored on the export sector, which in turn was supported by FDI. From the early 1980s onwards, the increasing importance of export-oriented manufacturing activities in many developed countries had been associated with a much greater reliance on women's paid labor (Ghosh 2004). It has been argued that their labor constituted the ultimate foundation of international competitiveness in the region (Gills 2003).

This process was most marked over the period 1980 to 1990 (Table III.8) in the high-exporting economies of East and Southeast Asia, where the share of female employment in total employment in the Export Processing Zones (EPZs) and export-oriented manufacturing industries typically exceeded 70 per cent (Ghosh 2004). The so-called feminization of employment in many Asian countries resulted from requirements by employers for cheaper and more "flexible" sources of labor. The driving force was the need to remain competitive in a very dynamic and fluid economic environment.

Feminization was also encouraged by the widespread conviction among employers in East and Southeast Asia that female employees are more tractable and subservient to managerial authority, less prone to organize into unions, more willing to accept lower wages because of their own lower reservation and aspiration wages, and easier to dismiss using life-cycle criteria such as marriage and childbirth (Ghosh 2004).

Employment data indicate that the process of feminization of export employment peaked somewhere in the early 1990s and that thereafter the process was not only less marked, but may even have begun to taper off. This is significant because it refers very clearly to the period before the effects of the financial crisis began to make themselves felt on real economic activity, and even before the slowdown in the growth rate of export production. Such declines in female share of employment were normally associated with either one of two conditions: an overall decline in employment opportunities because of recession or structural adjustment measures, or a shift in the nature of the new employment generation towards more skilled or lucrative activities. There could be another factor. As women became an established part of the paid work force, and even the dominant part in certain sectors (as indeed they did become in the textiles, ready made garments and consumer electronics sectors of East Asia) it became more difficult to exercise the traditional type of gender discrimination at work. Not only was there an upward pressure on their wages, but there were other pressures for legislation which would improve their overall conditions of work. Social action and legislation designed to improve the conditions of women workers, tended to reduce the relative attractiveness of women workers for those employers who had earlier been relying on the inferior conditions of women's work to enhance their export profitability. The rise in wages also tended to have the same effect. Thus, as the relative effective remuneration of women improved (in terms of the total package of wage and work and contract conditions), their attractiveness to employers decreased.[7]

Hence the more recent experience with employment of women has been moves towards casualization of labor, shift to part-time work or piece-rate contracts, and the reliance on the informal sector through sub-contracted and home-based work. It has been observed that this is part of a wider international tendency of somewhat longer duration: the emergence of international suppliers of goods who rely less and less on direct production within a specific location and more on subcontracting a greater part of their production activities (Ghosh 2004). These trends have reduced the social protection of women and made them more vulnerable to economic downturns (see also Box III.3).

The early feminization of employment had both positive and negative effects for the women concerned. On the one hand, it definitely meant greater recognition and remuneration of women's work, and typically improved the relative status and bargaining power of women within households, as well as their own self-worth, thereby leading to empowerment (Ghosh 2004). On the other hand, regardless of a woman's participation in productive work, social reproductive work—which includes cleanliness and sanitation of the household, care of children, and food preparation—remains the primary responsibility of a woman. This means that the increase in paid employment actually led to an increase in the burden of work of women.

In summary, greater global and regional integration in Southeast Asia had initially led to a rise in the labor force participation rate of women. However since the early 1990s this has leveled off and women have borne the brunt of the adjustment process brought about

[7] These reasons are lifted from Ghosh (2004).

by greater competition among domestic and international firms. Not only has labor force participation declined, the degree of casualization and use of informal labor has been on the rise. Women were also more adversely affected by the 1997 crisis.

The challenge is to devise mechanisms that will a) reduce the gender bias in terms of the adjustment process inherent in globalization; b) adopt social policies that could reduce the double burden of work of women, e.g. establishment of child-care centers; c) improve protection to people in the informal sector, particularly women; and d) eliminate gender bias in the provision of social security. The latter is related to the observation that pensions are calculated based on earnings or contributions. Because of discriminatory forces in the labor market, Asian women tend to earn lower wages and work fewer years than men. This results in an inherent bias against women in terms of social security.

*The Social Dimension of Migration*

Apart from the debate on the economic impact on migration on both home and host countries, the social implications should also be considered. Social costs often fall directly on families or specific home bases of migrants. The absence of the migrant may have important adverse effects on the family including the separation and disruption of relationships and possible adverse effects on the education and socialization of children (Ghosh 2004). This may be especially true when women migrants have to leave young children behind. On the other hand, remittance incomes provide crucial benefits, and typically enable families back home to lead better material lives than would otherwise have been possible, and may even contribute to expenses towards children's education, better health care for the sick and elderly in the household, and so on (Ghosh 2004).

The current policy regimes in both sending and receiving countries show the lack or absence of coherent policy frameworks with regard to labor migration. This has at least two important implications. The lack or absence of policies tends to increase the number of undocumented migrant workers who are vulnerable to abuses and violations of human rights. On the part of the sending country, the absence of policy on overseas employment shows the inability of the state to protect its citizens who are working outside its borders.[8]

Depending upon the nature of the migration, and the type of work that is found, migration may be a source of empowerment for the migrant personally, or it may involve greater potential for exploitation in various ways, which obviously have completely different human development implications. Migrants are naturally more vulnerable than locally resident populations in the destination countries, and temporary migrants are often the most vulnerable, so that they can be subject to various forms of exploitation by employers and others.

Host country governments tend to view migrants as threats to political and social stability, additional burdens on constrained public budgets for social services and infrastructure, and a potential source of corruption of local culture. This is why there is so little attempt across the region to ensure decent conditions of migrants, even in terms

[8] This paragraph quoted from Rico (2004), page 152.

of ensuring their basic safety and freedom from abuse and exploitation. This is an important issue for women migrants in particular, since they are especially vulnerable to sexual exploitation, not only when they are workers in the entertainment and sex industries, but also when they are employed in other service activities or in factories as cheap labor.

Cross-border migration in Asia is highly gendered, with women migrants largely found in the service sector, especially in the domestic and care sectors, as well as in entertainment work. The increasing demand for women's paid domestic work on an international scale is mainly due to the following factors (Yeoh 2004): i) the decline in state support for child care and care for the elderly and infirm; b) an increase in women's labor force participation in more developed economies; and c) the expansion of hospitality and sexual services as male executives and entrepreneurs become more mobile.

There is often a fine line between voluntary migration and trafficking in women (and girl children). Trafficking is a widespread problem which is on the increase, not only because of growing demand, but also because of larger and more varied sources of supply given the increasingly precarious livelihood conditions in many rural parts of Asia.

To summarize, intra-regional migration can be a boon and bane to the migrants and both sending and host countries. Government interventions at both the national and regional levels are needed to minimize the social cost of migration. Women migrants are particularly vulnerable and proposals to address their plight should dovetail with social policies that address gender inequality. Governments, especially in the receiving countries, should explore the possibility of undertaking cooperative arrangements with authorities in sending countries. A more sustainable and efficient solution is to include migration problems, issues and concerns in the agenda of regional and multilateral fora such as the ASEAN, the Asia-Pacific Economic Cooperation (APEC), and track two mechanisms like the Asia Pacific Roundtable, among others (Tigno 2003).

*The Social Impact of the 1997 Financial Crisis*

Many studies have extensively analyzed the social impact of the 1997 crisis (UNESCAP 1999, Khandker 2002). In general the social consequences were uneven and the vulnerable in the urban areas suffered more than the urban rich and rural households (Khandker 2002). A succinct account is provided by Stiglitz (2003) thus:

> "As the crisis progressed, unemployment soared, GDP plummeted, and banks closed. The unemployment rate was up fourfold in Korea, threefold in Thailand, tenfold in Indonesia. In Indonesia, almost 15 percent of males working in 1997 had lost their jobs by August 1998, and the economic devastation was even worse in the urban areas of the main island, Java. In (South) Korea, urban poverty almost tripled, with almost a quarter of the population falling into poverty; in Indonesia, poverty doubled. In some countries like Thailand, people thrown out of jobs in the cities could return to their rural homes. However, this put increasing pressure on those in the

> rural sector. In 1998, GDP in Indonesia fell by 13.1 percent, in Korea by 6.7 percent, and in Thailand by 10.8 percent. Three years after the crisis, Indonesia's GDP was still 7.5 percent below that before the crisis, Thailand's 2.3 percent lower."[9]

The description of Stiglitz is consistent with the upward trend of poverty incidence in Indonesia, Malaysia, the Philippines, and Thailand after the crisis (Table III.7). Another outcome was soaring inflation, particularly in Indonesia, which eroded purchasing power and reduced standards of living. Empirical analysis has shown that the impacts of price changes on poverty were far more significant that the impacts of changes in income (Khandker 2002). It is an established fact that the lower income groups are hardest hit by inflation.

The contraction in the real economy also led to the reversal of many past achievements in the areas of education and health care. However, the most glaring revelation by the crisis was the absence of social safety nets that could have mitigated the difficult adjustment process.[10] Only after the crisis did governments realize the importance of social safety nets not only during a crisis period but also during the process of adjustment that accompanies greater global integration.

*Winners and Losers*

The assessment of the impact of greater global and regional economic integration reveals that it has been largely uneven. While many of the larger economies experienced high economic growth rates during the period of greater economic openness, this did not shield them from the 1997 crisis. Moreover, the reported gains during the period prior to the crisis are measured on a consolidated basis, meaning that the outcome is a reflection of the benefits less the costs. Hence, even if a net positive impact is reported—as is the case in counterfactual studies—there is an underlying adjustment process that reallocates resources between industries and sectors. This adjustment process results in beneficiaries or 'winners' and those adversely affected or 'losers.'

If 'winners' outnumber 'losers' consistently, there should be a trend towards convergence, not only within a country, but also among countries. However, economic convergence has been slow in coming among the countries in Southeast Asia (Table I.1). Moreover, as shown in Chapter II, the disparity among countries in Southeast Asian countries is relatively high. Income distribution in Southeast Asian countries is also relatively highly unequal especially among the larger economies (Tables II.8 and III.7). These outcomes reflect either of two situations: i) the number of winners are less than those who either 'lose' or whose welfare remains unchanged; or ii) the number of 'losers' are more than those who either 'win' or whose welfare remains unchanged.

Individual country experiences support these general trends. As mentioned earlier, policy constraints in the larger countries of Southeast Asia prevented the gains from economic

[9] Stiglitz (2003), page 97.

[10] Among the five hardest hit countries, only Korea had an unemployment insurance program at that time.

openness from being spread more equitably. This would include inadequate education and training, absence of social safety nets, and a bias towards skilled labor (Pangestu 2001). Management of FDI inflows was also largely unsatisfactory. Apart from the skill-bias of FDI, government and private sector policies—with the exception of Malaysia and Singapore—did not seriously encourage the establishment of sufficient numbers of local manufacturing firms to link effectively with foreign subsidiaries (Mirza and Giroud 2004). This resulted in enclave production wherein the sectors considered as 'winners' were limited to those directly engaged in export activity.

A similar story has evolved in Cambodia (Beresford et al. 2004). Trade liberalization and a more outward oriented economy have had a very limited and concentrated impact, with the benefits accruing to sectors directly involved, mainly textiles and garments and tourism. The beneficiaries are largely in urban areas—Phnom Penn, Siem Reap, and Sihanoukville—and the linkages with the rest of the country and economy are weak. Factors that have constrained greater economic diversification include weak governance, poor infrastructure and a lack of human resources.

In Viet Nam, growth of incomes and, therefore, poverty reduction, has been greater in the more developed provinces, which produce most of the exportable commodities (Weeks et al. 2003). This is largely based on a survey that showed that poorer provinces benefited little in terms of employment from the export-led growth process. The most important direct impact of trade liberalization on the poor would have likely been through its effect on food prices, particularly rice. However, existing statistics cannot support an unequivocal statement on the impact of a more open economy on the poor.

A value-chain analysis of rice production in Cambodia and Viet Nam reveals the impediments that interfere in the transmission of the price signals and reduce the ability of poor producers to benefit from expanding opportunities (Arulpagasam et al. 2003). In these two countries powerful constituents appropriate rents through explicit preferences (credit for state-owned enterprises in Viet Nam), industrial structure (near monopsony for a few millers in Cambodia) and corrupt practices that are tolerated (illegal fees) while poor producers remain trapped in low-productivity states in the absence of improvements in public service delivery (e.g. poor road network). The analysis shows that the poor can benefit from expanded opportunities presented by global integration, provided that these institutional constraints are addressed.

The experience with trade liberalization in Viet Nam mirrors the role of FDI in the country. Subsidiaries of transnational corporations in Viet Nam are closely integrated into regional-global value chains, and their primary roles are either as suppliers of final products to the global market or, more likely, as branch plants to sister plants in other Southeast Asian countries (Mirza and Giroud 2004). Similar to the experience of other countries in the region, these subsidiaries have little or no linkages with domestic firms, thereby limiting their impact on poverty reduction.

While this lack of convergence cannot be attributed to a failure of regionalism—as formal trade arrangements among Southeast Asian countries began only recently—it can definitely be related to the process of regionalization and globalization. The 1999 UNDP Human Development Report 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--concentrating power and wealth in a select group of people, nations and corporations, and marginalizing others." At that time inequality had been rising within and between countries and as a result the income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest rose to 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960.

The more important message being carried across is that, if left on their own, so-called 'market forces' cannot guarantee convergence. Not only does government intervention at the domestic level have a role, but so do mechanisms at the regional level. These interventions stem from the theory underlying market failure, positive externalities, and the provision of public goods. These will be discussed in the next section.

*Regional Economic Integration, Regional Cooperation and Governance*

Since variations in the quality of governance is a major determinant of the disparity in the level of development in Southeast Asia, it is but appropriate to analyze the impact of greater economic openness and outward orientation on this factor. Two major issues can be discussed. One is whether greater economic openness has compelled governments in Southeast Asia to improve the quality of governance in order to 'enhance competitiveness.' A variation of this theme is whether high economic growth resulting from greater outward orientation has induced better governance. On the other hand it has sometimes been argued that government interventions in some countries (e.g. Korea and Taipei,China) succeeded in stimulating economic growth because of the quality of institutions behind the interventions. In other words 'good' institutions were necessary for these countries to take advantage of opportunities provided by greater outward orientation. Meanwhile, the second issue revolves around the possibility that greater economic openness and adherence to the 'international rules of the game' may have constrained government action, particularly in the provision of public goods.

Regional cooperation and integration among the countries of Southeast Asia could benefit from better governance within each country in many ways, even as conversely, good governance could be helped by greater regional cooperation and integration. In a way, they could be mutually reinforcing and important in narrowing the gap among countries and in promoting human development in the region.

Good governance, particularly in the area of transparency and accountability, serves as an important indicator of a state's commitment to international and regional agreements, norms, and standards. For instance, if a state does not believe in or adhere to the rule of law, it is much harder for it to have the trust and confidence of other countries. Control of corruption is likewise as important because it earns for a country the confidence not only of other states but also the private sector and donor communities, most especially in attracting foreign investments and assistance that are necessary for job creation and infrastructure development.

Good governance is also a requisite for successful regional cooperation and integration because economic growth is dependent on well-functioning institutions that accompany free trade and secure an efficient functioning of societies as a whole (Langenhove 2003). These institutions established strong property rights and political stability which were necessary conditions for encouraging private investment and fostering economic growth (Haggard 2004b). In the case of regional institutions, if they are to be built, government effectiveness of member states must be assured for the latter to comply with and carry out agreements. This is simply not possible if states have weak governance institutions at home, or have not really put in place an efficient and competent bureaucracy that could handle the demands of regional cooperation and integration.

Ineffective governance at home could militate against regional cooperation and integration. As Ninawolo (2003) observed, several factors constrained regional integration in Africa, such as: 1) lack of political will to establish effective and dynamic intra-national institutions and to implement agreed upon treaties and protocols; 2) lack of sanctions against non-performance; 3) heavy reliance on tariffs for fiscal revenues; 4) inadequate mechanisms for equitable sharing of costs and benefits of integration; 5) non-observance of the rule of law and good governance code; 6) poor private sector and civil society participation; and 7) overlapping memberships where members are unable to manage effectively nor fund adequately the many regional integration arrangements to which they belong.

Meanwhile, regional cooperation and integration could help countries promote good governance at home. Theoretically, any initiative for regional integration must prove its worth by taking into account several issues: 1) it should contribute to peace and security in the region; 2) provide an enabling environment for private sector development; 3) strengthen trade integration; 4) develop strong public sector institutions and good governance; 5) reduce social exclusion and foster an inclusive civil society; 6) develop infrastructure programs in support of economic growth and regional integration; 7) build environmental programs at the regional level; and 8) strengthen the region's interaction with other regions in the world (Langenhove 2003). States may consider these issues as "pressures" or "challenges" (rather than constraints) for building and enhancing their governance capabilities, especially if they believe in the benefits that their countries would derive from greater regional cooperation and integration. In a way, the economic convergence of countries in the region will depend also on political convergence and harmonization of standards for effective governance. In Viet Nam, for example, the need for accelerating institutional reforms has been recognized. It includes improvement of the legal framework for a market-oriented economy, public administration reform, and the wider participation of the public into social, economic, and political life (Viet Nam HDR 2001).

The large variation, however, in the quality of governance as presented in Chapter II indicates that greater global economic integration has not influenced governance significantly. On the contrary, it has also been argued that the emphasis on international competitiveness and export promotion often supplanted explicit policy measures against poverty and social inequality (Gills 2003). This trend in East Asia was initially facilitated by the establishment of governments that were conservative and anti-communist, with many being authoritarian in nature. The elimination of the left and effective control of labor reduced any political incentives for the creation of social insurance outside of government workers and small segments of the urban workforce (Haggard 2004a).

Subsequently, in some of the countries of Southeast Asia there was a clear linkage between the turn to export-oriented growth, labor controls and the withdrawal of previous social commitments (Haggard 2004a). Thus, greater economic openness or, more accurately outward orientation, had a distinct adverse impact on the quality of governance. However, the dilution of social insurance was partially offset by the sharp rise in real incomes and the high investment in human capital (although at a lower scale compared to Northeast Asia).

One could also cite the potential impact of reduction in tariffs and the rise in debt service in the aftermath of the 1997 crisis on the national government budget and social spending. While, there is no clear evidence of any relationship, any fall in government revenues and rise in the share of debt service could only have a negative effect on social spending.

**Box III.1 Regional Integration: Process, Benefits and Drawbacks***

Regional economic integration is both a process and state of affairs. The former implies a dynamic sequence of events the outcome of which cannot fully be captured by static models. Economic integration can also be viewed as a means of developing deep and stable relations of labor division among national economies. However, the more accepted definition is that economic integration is a recognition by a group of countries that partnership among themselves—whether weak or strong—will lead to a higher level of welfare compared to unilateral pursuit of such a goal.

Regional economic integration generally proceeds in a hierarchical fashion. The most basic form is a free trade area of which AFTA is an example. This is followed by a customs union, a common market, an economic union—of which the EU is the only example—and full political union. The various levels differ on five criteria: (1) reduction or removal of tariffs and quotas; (2) existence of common external tariffs; (3) degree of factor mobility; (4) harmonization of economic policies; (5) total unification of economic policies. The different levels of regional economic integration based on their characteristics can be summarized in the following table:

| | TYPE OF INTEGRATION |
|---|---|

| POLICY ACTION | Reduction/ Removal of Tariffs and Quotas | Common External Tariffs | Factor Mobility | Harmonization of Economic Policies | Total Unification of Economic Policies |
|---|---|---|---|---|---|
| Preferential Tariff Agreement | Yes (reduction) | No | No | No | No |
| **Free Trade Area** | Yes (removal) | No | No | No | No |
| **Partial Customs Union** | No | Yes | No | No | No |
| **Customs Union** | Yes | Yes | No | No | No |
| **Common Market** | Yes | Yes | Yes | No | No |
| **Economic Union** | Yes | Yes | Yes | Yes | No |
| **Total Economic Union** | Yes | Yes | Yes | Yes | Yes |

Theoretically, there are many benefits that can be enjoyed by countries that increase their level of regional and global economic integration. The main benefit arises from economic efficiency gains resulting from trade liberalization. A member country will allocate resources to sectors in which it has a comparative advantage vis-à-vis other members, and trade is created. Consumer will have a wider selection of products that are suitable to their preferences. Since firms of participating countries face greater competition in the markets, they are forced to sell their product at a lower price and with better quality.

Economic integration is also beneficial to producers (firms) of participating countries. One of the benefits provided by economic integration is broader access to markets of other member countries. This may stimulate firms to expand their production, specialize, and take advantage of economies of scale. Competition with other firms will promote technological improvement and raise the quality of workers. Firms with the most modern technology will have first-mover advantages to dominate markets. Meanwhile, in order to improve efficiency of its operations, firms need trained workers with a particular level of specialization, which can be more readily obtained in a larger labor market.

Other than the traditional economic benefit of greater economic efficiency, countries enter into regional trade agreements for many development-related reasons. Such arrangements offer the chance to create larger regional markets that are more attractive to foreign investors; to sequence liberalization by opening up in stages; to lock in unilateral reforms; and to pursue structural change jointly with other members. RTAs also provide political benefits. Economic interdependence creates incentives for political cooperation and reduces potential for violent confrontation. Together, the member countries have the economic clout to enhance trade with other countries or trading blocs.

Regional trade arrangements also carry potential drawbacks, one of which is that trade may be diverted away from more efficient nonmembers to less efficient members. If a preferential agreement diverts more trade than it creates, it will yield smaller efficiency gains than would multilateral liberalization. Trade may also be diverted if members of a free trade area impose rules of origin, since these may cause imports to be redirected through the member country that has the lowest external tariff. The literature on the benefits and costs of regional trade agreements doest not offer conclusive guidance on whether trade creation will outweigh trade diversion or on what such agreements will contribute to welfare.

A special note should be given to the higher forms of integration: common market, economic union, and total economic union, where factors of production—capital and labor—are allowed to move freely among the member countries. Free capital movement is generally easier to achieve since many countries tend to liberalize both their capital account and financial system toward freer international capital flows while retaining immigration policies to protect indigenous workers. The consequences of free labor mobility are ambiguous. On the one hand it may adversely affect human development since workers in a member country will face stiffer competition from other member countries' workers. This may result in a decline in wages. On the other hand an incentive to get a better job or keeping their existing job workers have to improve their skills and raise the quality of their work. Human resource development then becomes a must for countries involved in economic integration to secure welfare of its own citizens. As mentioned earlier, removing barriers to factor mobility will benefit firms by increasing the effective labor pool.

*This box is largely based on Jovanovic (1998) and Pangestu and Gooptu (2003).

**Box III.2 The MIMAP Program***

<u>The Context</u>

In the 1980s, many developing countries introduced measures to meet structural adjustment targets and to promote sustained economic growth. These included reducing public spending, devaluing local currencies, and liberalizing the trade and financial sectors. These macroeconomic changes had drastic and unintended effects on the poor and vulnerable. Concern about these effects was reinforced by the publication of important studies by the United Nations Children's Fund, the World Bank, and the Organisation for Economic Co-operation and Development. Although tools for measuring poverty at the household and community levels and for modeling national economies were developed to address these concerns, their use suffered from the limited involvement of developing-country researchers and policymakers. It became clear that a local capability and knowledge base were essential to sustain efforts to measure poverty and analyze the impacts of macroeconomic policies and shocks. To that end, the International Development Research Centre (IDRC) launched the Micro Impacts of Macroeconomic and Adjustment Policies (MIMAP) program in 1990.

<u>The Program</u>

The MIMAP program helps developing countries design policies and programs that meet economic stabilization and structural adjustment targets while alleviating poverty and reducing vulnerability. The program has established the MIMAP Network that connects developing-country researchers, policy officials, nongovernmental organizations (NGOs), and international experts. Through research, training, and dialogue, the network works to increase knowledge of the human costs of macroeconomic policies and shocks; improve policies and programs to alleviate poverty and increase equity; and press for their consideration and implementation at the sub-national, national, and international levels. The network includes more than 40 research teams from Asia, Africa, and Canada.

Country Projects

Africa: Benin, Burkina Faso, Morocco, Senegal, Ghana

Asia: Bangladesh, India, Lao PDR, Nepal, Pakistan, Philippines, Sri Lanka, Viet Nam

*Obtained from the MIMAP website, http://network.idrc.ca/ev.php?ID=6672_201&ID2=DO_TOPIC

**Box III.3 Children and Women are Most Vulnerable in the Adjustment Process**

Gender is also an important dimension of inequalities in Southeast Asia. Although women in Malaysia seem to have benefited equally from rapid economic growth, the increase in the proportion of female workers has been negligible, which only grew from 46.6 to 47.1 percent between 1970 and 1995, and 48.9 percent as of 2002. Malaysia and the Philippines have the lowest percentage of female economic activity rate (48.9 and 49.9 percent respectively) in 2002 while Cambodia had the highest (80.2 percent). Estimated earned income (as of 2002) of women in Southeast Asia ranges from 49 percent (in Singapore) to 65 percent (Lao PDR) less than their male counterparts (HDR 2004). Thus, women's wages were much lower than those of men, which indicate wage discrimination rather than different education levels (Pangestu 2001).

In the Philippines, poverty and gender roles are important factors that modify patterns of employment between men and women. While more of the poor are in the labor force compared to the non-poor (69 percent vis-à-vis 64 percent), women make up a larger proportion of the poor who stay out of the labor force. Much of this could be attributed to the fact that poor households are larger with more dependent children. This effectively ties women down to housework and prevents them from joining the labor force due to traditional roles. Meanwhile, the share of women in employment is about the same level (36-37 percent) for both poor and non-poor, which reflects a male bias in employment (Philippine HDR 2002).

In Myanmar, there appears to be no pattern of discrimination against girls and women as far as educational attainment is concerned. It has been reported that a slightly higher percentage of women than men attend tertiary level education. However, when it comes to the workplace, women face a "glass ceiling" that prevents them from occupying higher positions of authority (Myanmar HDR 1998).

In terms of adult literacy, females in the region tend to have lower literacy rates (except in the Philippines where it is slightly higher) than the males. The gender disparity in literacy is even more pronounced in Cambodia and Lao PDR (over 70 percent for both). However, enrolment ratio for both males and females tend to decline significantly from primary to tertiary levels of education. Female tertiary gross enrolment ratio is lowest in Cambodia, Lao PDR, and Viet Nam (2, 3, and 9 percent, respectively), while Thailand and the Philippines had the highest in Southeast Asia at 38 and 35 percent, respectively (HDR 2004).

While Viet Nam appears to have successfully narrowed the gender gap in education, it still remains very high particularly among the poor and in the rural areas of the country. Moreover, although Vietnamese women in general have higher life expectancy than men, they are more disadvantaged in terms access to education, work more hours, and employed in unskilled jobs. They also have modest participation in business and other decision-making positions, especially in rural areas (Viet Nam HDR 2001).

Poverty in less developed countries of Southeast Asia has serious consequences for vulnerable sectors, particularly children and women. In Cambodia, for example, it is one of the important reasons for the high prevalence of child labor (estimated at 42 percent for children aged 14-17 years old in 1999). In poor households, each able member – whether child or adult – has to work to enable the family to eke out a living, especially in families where the male head is disabled or absent. In a way, child labor has become a coping strategy for vulnerable and indigent families, and the more desperate ones resort to worst types of child labor such as selling or trafficking children into prostitution. More often, desperately poor families deliberately sacrifice opportunities for one child in order that other children in the family may avail of opportunities such as going to school. Half of the children aged 14-17 are girls, which explains also the divergence in school enrolment rates between Cambodian boys and girls. Child labor is much more common in the rural areas of Cambodia than in the urban areas, but the incidence is also high in the latter – 17 percent for urban boys and 39 percent for urban girls and 29 percent for rural boys and 53 percent for rural girls (Cambodia HDR 2000). Child labor has also been reported in Myanmar, estimated at 4 million between ages 6-16 who work, if only part-time. Parents in rural areas generally employ their children in agrarian mode of production, while a growing number of children are also subject to exploitative labor in urban areas (Myanmar HDR 1998).

In the Philippines, the incidence of child labor is highest for low-income households (15.22 percent). In 1995, for example, it was estimated that there were 1.86 million children who worked for market goods. Of these, 412,000 were employed outside of their homes (e.g., in other homes, factories, the streets, construction and mining sites). The poorest families are forced even to send their children to work in known hazardous jobs, and more of these children drop out of school. Poverty, the high cost of quality education, and the lack of superior employment prospects for the future bias the choices of families in favor of child labor, which can add a substantial amount to household income. Although the law prohibits the employment outside the home, government enforcement is quite marginal. That the incidence of child labor is strongly correlated with the number of children in the family implies that there is a need for a serious program in reproductive health to help poor families attain their desired family size (Philippine HDR 2002).

Girls and women who are less educated and from poor families are more vulnerable because they are likely to engage in commercial sex in order to support their families. In fact, following the 1997 financial crisis, many Indonesian middle class women who were once housewives were forced to look for jobs in household trade, including massage and domestic service. There was also an increase in prostitution in Jakarta's red light district every month in 1998 as female unemployment and child labor increased also (Mishra 2002). In Myanmar, proximity to the Thai border exposes many young girls in border States to sexual trafficking. Child traffickers exploit the increasing poverty in the country by persuading parents to part with their daughters against advance payments and promises of jobs in the cities. It is estimated that about 10,000 adult and child prostitutes from the Shan State work in Chiang Mai alone (Myanmar HDR 1998). In Cambodia, the HIV/AIDS epidemic (estimated at 2.9 percent of the population) is also induced by poverty and inequality (Cambodia HDR 2001).

## D. The Way Forward

Greater economic openness through global and regional integration has generally benefited countries in Southeast Asia. This is manifested by the higher inflows of foreign direct investment, a surge in trade flows particularly in exports, increasing intra-regional migration, more rapid expansion of output, and a general rise in the standard of living. Counterfactual studies indicate a favorable impact of trade liberalization and foreign direct investment on employment and poverty. Greater openness to trade has also been shown to impact positively on health outcomes, child labor, and the environment. The emphasis on export-orientation has led to an increase in the labor participation rate of women.

However, not all aspects of greater global integration have been beneficial as shown by the 1997 financial crisis. Moreover, the evidence clearly shows that the benefits were largely unevenly distributed within and among the countries of the region. This is reflected in the large disparity in levels of development, the relatively high and/or constant Gini indices of individual countries, the enclave nature of the export and manufacturing sectors in several countries, the deteriorating working conditions for women and workers in the informal sector, and the absence of social protection for unskilled temporary migrants. The analysis has traced this inequality to the several factors: 1) the shortcomings in social policy (e.g. absence of safety nets); 2) the gaps in macroeconomic policies (e.g. provision of physical infrastructure); 3) inappropriate approach to foreign direct investment; and 4) weak governance and institutions.

This section looks at policy measures to address the disparities and inequities that have resulted from greater economic openness. The emphasis is on measures at the national level. A detailed discussion of each proposal is eschewed in order to give more attention to the theme of the report, which centers on solutions at the regional level. For example, there is consideration of a pan-ASEAN safety net. There can also be cooperation in terms of enhancing access of ASEAN member countries to leading educational institutions in the region. These regional mechanisms are the focus of the next chapter.

*Social Policy*

Social policy has two major components. The first is insurance against major risks that are present during one's lifetime: unemployment, sickness and disability, and old age. Unemployment and health insurance and pensions can be provided through a variety of mechanisms that range from mandatory government schemes to purely private provision. These systems may be more or less universal and more or less redistributive in their design. The second aspect of social policy is the provision of social services. In developing countries, the most important of these constitute investments in basic human capital: the provision of primary and secondary education and basic health care. As with social insurance, the delivery of these basic services can also be more or less universal in coverage and involve different mixes of public and private financing and provision.

Social policy measures that address the inequities of global and regional integration should center on the following aspects:

- Provide adequate and timely responses to cushion trade-related adjustment costs and compensate the 'losers.' Box III.4 shows how elements of social policy can address this issue, including the provision of safety-nets.
- Make legislative changes entitling subcontracted workers to rights protected by the labor laws. A major advance in this area would be to make governments ratify the 1996 ILO Convention on Home-based Workers, which promotes equality of treatment in relation to: home-workers' right to organize; protection against discrimination; occupational safety and health; social security protection; access to training; minimum age restrictions; and maternity protection.
- Eliminate the male bias in social security programs. This can be accomplished, for example, by tax-financed universal programs, where entitlements to benefits are based on citizenship or residency. These are likely to be more successful in reaching women than employment-based schemes.
- Address the problem of lack of host-country legislation specifically designed to protect migrant workers, especially women. The ILO Convention on Migrant Workers provides a framework for policies in this area. An example of measures adopted by a sending country is presented in Box III.5.

In the aftermath of the 1997 crisis many governments responded to labor market changes through active labor market interventions in terms of job creation, skills training, employment services, employment subsidies and skills transfers. Unfortunately some of the programs were poorly designed and implemented with poor targeting, making them ineffective in reaching the poor (Khandker 2002).

Thus, governments must be circumspect in crafting social insurance policy. For example, it has been determined that the delivery of social safety nets is best done through local communities, which provide control and ownership but still require guidelines, supervision and financial support from the central government (World Bank 2000). Specific details of these proposals are left for future studies.

The paradoxes inherent in the process of globalization have created both positive and negative impacts on the educational sector. The rapid developments in information and communication technology (ICT) have greatly expanded the wealth of knowledge and ease of transmission across the globe. However, many schools in developing countries that are not connected with the network of information technology are likewise not able to reap the benefits of a more integrated knowledge world.

Aside from the technological divide that it creates, globalization has also reinforced existing inequities in the education sector. The internationalization of higher education, for example, is moving towards the congruence of academic standards through harmonization of teaching, language of instruction, contents of knowledge, research and other forms of academic inquiry. However, such harmonization for quality education can bring about exclusion of educational institutions that may not have the resources to keep up with the strict educational standards that harmonization requires. In an environment where academic centers in developed countries provide leadership in science and scholarship, other universities particularly in developing countries are mere consumers of knowledge and become more dependent on academic centers in developed countries for content, research and analysis (Altbach 2002).

In addition, with the liberalization of educational services the provision of educational services can be performed by both local and international service-providers. Under such environment, foreign-service providers can displace existing educational institutions in the country.

Given these impacts, government can promote policies to mitigate the divisive consequences of globalization. Since information and communication network is a requisite to reap the benefits of expanded knowledge and the emergence of a knowledge-based economy, governments in developing countries should build and strengthen their information and communication infrastructure to link their schools with the wealth of knowledge in the cyberspace. On the educational divide, resources should be properly used to make sure that a national educational institution would have the resources to at least link with the centers of knowledge in developed countries. Institutions with potentials for research should be funded and other educational institutions should focus more on manpower training to meet the requirements of a globalized labor market. As for the entry of various educational service providers with the liberalization of educational services, they should be encouraged as they can contribute in building a more efficient, competitive educational sector. However, the government should have the necessary regulatory infrastructure to protect the students from scrupulous educational service providers.

*Reconfiguring Macroeconomic Policies and Regional Economic Integration*

One reason why greater economic openness has not yielded some of its predicted benefits is the absence of a conducive macroeconomic environment. This aspect goes beyond the standard monetary and fiscal policies, and usually deals with issues of governance and the state of physical infrastructure. Inadequacies in both these factors were cited as reasons why the rice farmers in Viet Nam and Cambodia could not benefit more fully from greater global integration. Efforts at the regional level to address these issues will be discussed in the next chapter. Meanwhile, the topic of quality of governance was discussed at length in Chapter II.

Policies that deal with foreign direct investment can also be evaluated. The CLMV countries have a great deal to learn from the experience of the more developed countries of Southeast Asia.[11] One key lesson is to encourage foreign subsidiaries to link up with local manufacturing firms as this would ensure that the spillover effects of FDI will be significant. Apart from forging links between local and foreign firms, the latter should be persuaded to give more training to unskilled workers. FDI could also be guided to sectors with higher impact on poverty reduction. Lastly, granting fiscal incentives to foreign investors should be weighed carefully as many studies indicate that these are not very effective in attracting FDI.

The more important issue is whether regionalism should be pushed more vigorously in Southeast Asia, with the view that it could accelerate development and convergence in the region. This is the spirit behind the ASEAN Economic Community as outlined in the Bali Concord of October, 2003 (Section IV-B). A framework similar to the EU is apparently the end-goal as gleaned from the objective "to create a stable, prosperous and highly competitive ASEAN economic region in which there is a free flow of goods, services, investment and a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities in year 2020."

The goal of emulating the EU brings to fore the crucial differences between the European and East Asian integration experience. It has been observed that these differences are related to the depth of economic integration, the institutional density of regional arrangements, the content and negotiating devices of regional rules and the procedures for ensuring these rules are respected (Guerrieri and Falautano, 2000). In particular, the EU is considered to be a highly legalistic institution, and the political integration objective had facilitated the shift in political sovereignty to the supranational institutionalized way of implementing and enforcing integration (Langhammer 1997). The economic reality of increased interdependence came later for Europe while in East Asia the intensity of economic interaction was the basis for considering greater integration (Munakata 2002).

Another issue stems an observation that even if ASEAN has very little to learn from Europe's highly institutionalized way of implementing and enforcing integration, it still could draw a lesson on how the EU handled the issue of widening membership to encompass lesser developed neighboring countries through its social chapters and social cohesion fund (Langhammer 1997). In this context, the numerous programs that have

[11] See for example ADB (2004).

been initiated by ASEAN may be limited in their effectiveness by lack of funding for key projects. At present, ASEAN has an annual budget of 10-14 million US dollars, which includes funding for its various programs. This pales in comparison, for example, to the 15 billion ECU (approximately 17 billion US dollars) that was allocated by the EU cohesion fund between 1993 and 1999 to help Ireland, Spain, Greece, and Portugal to cope with the adjustments related to the monetary union.

The viability of Southeast Asia as a common market is a complex issue and the obstacles to greater economic integration have already been mentioned earlier. In this context, the AEC has been approached as either an 'FTA-plus' or a 'common market minus.' However, the critical issue remains to be how AEC will relate to the more viable alternative of a regional FTA that involves the entire region of East Asia.

East Asian 'regionalism' has historically been hampered by several factors such as competition and antagonism between Japan and China, disgruntlement and suspicion among some about US regional leadership, and an absence of a kind of overwhelming geopolitical challenge that helped post-war Europe to cohere (Munakata 2001). Another important constraint is that owing to their colonial past, countries in this region are more guarded when it comes to sovereignty issues. Since the factors are mainly political in nature, it may take time before a more institutionalized approach to regional integration can be adopted.

In the meantime, the various FTAs in East Asia, particularly those described as ASEAN+1 agreements, should be geared towards the establishment of a region-wide arrangement. This can be accomplished by adopting the 'APEC Common Understanding on Regional Trading Arrangements' as a guideline for the different FTAs in order to ensure that they would be consistent with the eventual East Asia Free Trade Area (Soesastro 2003). In the context of human development, one arrangement to promote vigorously is the comprehensive economic partnership agreements espoused by Japan with ASEAN member states (Yamazawa and Hiratsuka, 2003). For example, in the case of the Japan-Singapore Economic Partnership Agreement, the two countries agreed to cooperate in financial services, information and communication technology and human resource development. The implication is a more direct channel of addressing social concerns, at the same time promoting greater regional integration.

Southeast Asian countries can also band together in demanding that the agriculture sector be included in any multilateral or regional trade arrangements. Empirical studies cited in this report consistently show that Southeast Asian countries stand to gain from agricultural sector liberalization particularly if developed countries are involved. The studies also show that liberalization in the agriculture sector has a strong impact on poverty reduction in developing countries, including those in Southeast Asia.

### *Regional Cooperation and Regional Economic Integration*

Market failure has been a major reason why the benefits of greater global and regional economic integration have not been fully realized. Usually the presence of externalities—when the actions of individuals have effects on others for which they neither pay nor are compensated—prevents the market from working efficiently. In this situation, collective action may be required.

The increasing pace of globalization has raised the need for global collective action through systems of global governance. In this context, the observation that the international system has found itself in a post-hegemonic mode becomes important. This can be defined as an oligopolistic international context in which no one country is able unilaterally to supply the public goods in an international system; or, in other words, a set of rules that would assure the orderly functioning of the system. Because the distribution of international (economic and political) power is no longer hegemonic, the supply capability of international public goods has remained constant or has even diminished. Parallel to this trend, the globalization of markets has increased the demand for public goods; in other words, a demand for new "rules".[12]

In response to this concern, multilateral efforts—the prime example being the World Trade Organization (WTO)—have been undertaken but the global institutions that have been established have not worked perfectly (Stiglitz 2003). Instead of waiting until these imperfections are corrected, many countries have embarked on regional efforts to push for collective action. This is the rationale for greater regional cooperation in Southeast Asia.

Regional cooperation can facilitate the process of regional integration in three general ways. First, there are forms of regional cooperation that are intrinsic to the process of regional integration, e.g. agreements to bring down barriers to trade and free flow of factors of production. Second, regional cooperation on social issues can hasten the convergence process and attainment of the critical threshold of development among all member countries that is necessary for regional integration to succeed. Lastly, regional cooperation can provide an enabling environment to help mitigate potential adverse impacts of regional integration at the macroeconomic level.

The first set of regional mechanisms is not relevant to this report. The second category—which has a direct impact on human development—has been alluded to earlier and will be discussed at length in the next chapter. The third set of mechanisms is mainly in the form of regional monetary and financial cooperation.

Regional cooperation in the monetary and financial spheres can be justified by three phenomena that were highlighted during the 1997 crisis (Montiel, 2003): (i) spillovers from exchange rate policies, which presents a reason for exchange rate coordination; (ii) inadequate supplies of international liquidity; and (iii) common structural weaknesses in the financial sector and corporate governance, which can be addressed more effectively by cross-country cooperation in the reform process. The forms of regional cooperation in this area include information coordination and surveillance, resource coordination or

[12] Taken from Guerrieri and Falautano (2000), page 15.

reserve pooling, and exchange rate coordination. The details of specific proposals were laid out in a set of studies under the coordination of the Asian Development Bank (2003).

A complete analysis of regional financial and monetary cooperation is beyond the purview of this report. However, the main goal of this effort is to achieve a stable regional macroeconomic environment, the benefits of which can be gleaned from the lessons of the 1997 crisis and an observation of intra-regional foreign investment in Southeast Asia (Table III.5). A more stable regional macroeconomic environment is indeed important for regional integration in terms of capital flows and this can be brought about by greater financial and monetary cooperation.

**Box III.4 Compensating the Losers in Regional Economic Integration***

To help sectors and individuals cope with the adverse effects of regional economic integration and globalization, policy makers can consider the following programs.

*Training and Job Search Programs*

Worker training and job search programs that smooth transitions to new types of employment will particularly help workers become more productive sooner. The availability of effective programs prior to further rounds of liberalization will also make workers less anxious about prospects of integration. New skills taught to displaced workers should reflect the new profile of demands in the economy, regardless of whether those new demands derive from generalized technological change or tariff reductions.

*Unemployment Insurance*

In order to shelter workers from labor market shocks when competitive pressures are strong and significant structural adjustment essential, it is preferable to rely mainly on unemployment insurance and in-work benefits than on employment protection legislation. Although protecting workers against labor market risk inevitably reduces efficiency, unemployment insurance can cover a larger segment of the labor force than employment protection, while involving fewer efficiency losses.

*Safety Nets*

Targeting employment and training programs to workers in sectors affected by liberalization may be desirable, but most social welfare policies should not be linked to the process or policies of liberalization. Social safety nets should be available to those in poverty, regardless of the direct cause of poverty. In the context of reducing poverty and raising living standards, social safety nets must consider the welfare and capacities of all family members, not only those who have lost jobs.

*Promotion of Competitiveness in Rural Economic Activities*

Worldwide trade liberalization in agriculture is critical for making trade work for the poor. Poverty tends to be concentrated in rural, agricultural areas throughout Southeast Asia. Continued subsidies in the agriculture sectors in the developed world keep the international price of commodities artificially low. There is also the problem of lack of technology and production alternatives. Regional integration in infrastructure, particularly in the Greater Mekong subregion, is critical for generating opportunities in agriculture. Some unification of standards would facilitate exports. Assistance can also be provided to small and medium-sized firms to help them meet the standards required for their agricultural products.

*Education*

The education of the next generation of workers should be a priority. A labor force with a high level of general skills will be best placed to take advantage of or weather the adjustments from changes in international prices and advancements in technology. Often a basic set of skills is necessary before job specific training is effective. If the relative demand for skill rises, the increasing returns to skill provide an additional incentive to stay in school longer. But this is not possible if the quality and quantity of educational opportunities are lacking. To meet the rising demand for skill that seems to follow liberalization, public investment in broad-based education becomes increasingly important.

*Contents of this box were lifted mainly from Inter-American Development Bank (2002).

**Box III.5 Example of Policies Adopted by a Labor Sending Country**

Today, the Philippines is the largest exporter of labor in Asia and is considered a pioneer in the formulation and implementation of overseas employment policy in the region. In 1974, Presidential Decree 442 or the Labor Code of the Philippines was issued by then President Marcos. This law signified the government's interest to handle recruitment, placement, and remittances of migrant workers. When the number of overseas foreign workers increased sharply, agencies responsible for migrant workers were consolidated under the Philippine Overseas Employment Administration (POEA) in 1982. This agency is mainly in charge of regulating the employment of Filipino workers and professionals overseas. The POEA in coordination with the Department of Foreign Affairs also conducts studies of foreign markets where Filipinos can avail of employment opportunities.

Part of the government's policy on overseas employment is the process of recruitment of OFWs. Foreign private employers and principals desiring to employ Filipino workers can channel their requests through private recruitment agencies, while foreign government employers or principals channel requests through the Government Placement Branch, which is under the POEA. A process of accreditation is undertaken by a foreign employer to guarantee the existence of employment terms and conditions to help standards evolve according to realities.

On the part of prospective Filipino overseas workers, they must fulfill the following requirements: 1) pay a placement fee authorized by the POEA; 2) undertake a pre-employment orientation seminar and a pre-departure orientation seminar if he/she is a newly-hired worker; 3) undertake a trade testing; and 4) take a pre-employment medical examination conducted in a duly-accredited medical clinic.

Source: Rico (2004), pages 139-141.

### E. The Impact of Human Development on Regional Economic Integration

The third section (Section C) highlighted the following aspects in Southeast Asia. First, a number of empirical studies showed that greater global and regional integration are predicted to yield significant benefits at both the macroeconomic and household level. This is consistent with the analysis in Chapter II which showed increasing levels of income and human development over time. Second, 'losers' seem to outnumber 'winners'—or at the very least the benefits are not equitably distributed—as income inequality remains high and convergence has been slow if non-existent.

The lack of convergence among Southeast Asian countries may be a symptom of deeper structural problems. It is likely that some countries, particularly those in the lower-income bracket, have not achieved the critical threshold of development that will allow them to reap the benefits of globalization and regional integration. Definitely human development would be a more important consideration compared to standard indicators such as GDP. For example, in Europe, institutionalization along education, welfare, health and labor standards encouraged foreign direct investment that is characterized as 'movement of firms to markets' rather than FDI that is 'movement of firms to low-cost locations.' The former type of FDI has more far-reaching multiplier effects than the latter.

A deficiency in capabilities in terms of human resources and institutions is also a constraint for closer regional cooperation. Not only will these countries be unable to participate effectively in the creation of the regional arrangement, they will also have difficulty in implementing the policies agreed upon. Hence, it may be imperative to establish a threshold level in key areas of human development in a truncated period of time. Not only will this facilitate regional economic integration and regional cooperation, it will also accelerate the overall development process.

A very important issue that countries in Southeast Asia must decide on is whether they should agree on a region-based system of human rights to help countries concerned to achieve the critical threshold of development. This is borne by the experience of the European Union (Schiavone 2001):

> "The fact is that respect for human rights and fundamental freedoms should not be viewed as an objective to be pursued per se on a region-wide level but rather as a key component of any advanced cooperation and integration experience rooted in regional model of society. The ultimate

> success of any regional integration arrangement would ultimately be guaranteed also by the full observance of human rights."

Since discussion of human rights is a very sensitive topic in Southeast Asia, focus could be made on economic, social and cultural rights, such as the right to work, the right to social security or the right to education, which essentially entitle the individual to ask for and obtain a series of benefits and services from the state. Labor and environmental standards can be incorporated in this framework. The Millennium Development Goals adopted by each country are an ideal foundation for the regional system of human rights (see Box III.6).

Establishment of this system of human rights at the regional level offers a chance to countries with a shared tradition and a common understanding of basic values to adopt their own version and to identify a proper enforcement machinery. Rights also lend moral legitimacy and the principle of social justice to the objectives of human development. The rights perspectives helps shift the priority to the most deprived and excluded.[13] Details of this framework can be a subject of future studies and debate. For example, the system can specify a minimum level of social spending—as a percentage of GDP—that countries have to achieve within a pre-arranged time horizon. A basic level of social and infrastructure services that should accrue to individuals can also be stipulated.

There are several advantages associated with establishing such a system of human rights at the regional level. First, it will be not be tainted by the perception that it is an imposition of Western democracies. The usual argument is that the social standards required by multilateral institutions (e.g. the ILO) are a form of protectionism or an affront to sovereignty. Second, shared principles will prevent a 'race to the bottom' by the countries involved. There is a tendency by some governments to be lax in their labor and environment standards in order to attract more foreign investment. Third, putting the standards in black and white provides policy makers with a goal to strive for and civil society with a norm by which to measure the performance of government. The more relevant aspect, however, is that a region-based system augments the accountability process since it opens the door to a peer review mechanism.

The process of promoting and implementing this regional system of human rights should be an integral part of regional cooperation. One suggestion is to establish a procedure similar to the ASEAN Surveillance Process and the Manila Framework Group. The ASP operates on the principles of peer review and mutual interest among ASEAN member countries. It has two mechanisms: the monitoring mechanism that allows early detection of problems that might affect the economy, in general, and the financial sector, in particular; and a peer review mechanism that focuses on the policy measures needed to quickly address the issues identified in the monitoring exercises. The MFG has a similar philosophy but involves the IMF, World Bank, Asian Development Bank and the Bank of International Settlements.

[13] The last two sentences were lifted from the 2000 Human Development Report.

A peer review process can be established along the same lines for the region-based system of human rights, with UNESCAP or UNDP being the outside observer. However, the ASP and MFG have been criticized for being too informal and non-confrontational. A similar situation should definitely be avoided. Otherwise the system of human rights will lose its purpose and become a mere set of platitudes.

**Box III.6 The UN Millennium Development Goals (MDG)**

The United Nations MDG has enshrined the importance of prioritizing human development in a globalizing world. The main objective of the MDG is to liberate men, women and children from abject and dehumanizing poverty, to which a billion of them are subjected. Among its eight goals to pursue this objective is the development of a global partnership for development. To realize this goal, it calls for the further development of an open-trading and financial system that is rule-based, predictable and non-discriminatory. It also includes a commitment to good governance, development and poverty reduction nationally and internationally.

The proposed partnership should also address the special needs of the least developed countries. Among these needs are tariff and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction. The MDG also aims to comprehensively deal with developing countries' debt through national and international measures to make debt sustainable in the long term.

Other areas for global partnership for development proposed by the MDG include addressing the special needs of landlocked and small developing states. It also advocates, in cooperation with the developing countries, the generation of decent and productive work for the youth. Lastly, it seeks to make available, in cooperation with the private sector, the benefits of new technologies – especially information and communication technologies.

The millennium development goals, or MDGs, are a set of measurable and time-bound targets that were adopted at the UN Millennium Summit in 2000. Achieving these goals would mean that during the lifespan of this generation, we would:

1. Eradicate extreme poverty and hunger;
2. Achieve universal primary education;
3. Promote gender equality and empower women;
4. Reduce child mortality;
5. Improve maternal health;
6. Combat HIV/AIDS, malaria and other diseases;
7. Ensure environmental sustainability; and
8. Develop a global partnership for development.

Source: www.un.org./millenniumgoals/

**Table III.1. Summary intra-ASEAN exports as a percentage of all exports, by ASEAN country 1990 to 2002**

| Country | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Brunei Darussalam | 20.9 | 19.8 | 25.9 | 22.8 | 26.2 | 22.2 | 21.4 | 20.9 | 9.3 | 25.1 | 23.2 | 16.7 | 18.8 |
| Cambodia | 74.6 | 44.3 | 67.4 | 51.1 | 77.1 | 63.1 | 39.5 | 59.8 | 42.4 | 30.3 | 6.8 | 5.9 | 7.8 |
| Indonesia | 10.0 | 11.5 | 13.4 | 13.6 | 14.9 | 14.3 | 15.4 | 17.1 | 19.1 | 17.0 | 17.5 | 16.9 | 17.4 |
| Lao PDR | 68.4 | 56.0 | 43.5 | 40.8 | 52.8 | 55.0 | 79.5 | 18.1 | 40.2 | 51.6 | 42.6 | 44.6 | 44.9 |
| Malaysia | 29.5 | 29.4 | 29.9 | 28.4 | 27.9 | 27.6 | 28.5 | 28.1 | 24.3 | 23.8 | 26.6 | 25.1 | 33.9 |
| Myanmar | 28.2 | 19.0 | 18.4 | 19.4 | 23.0 | 30.3 | 25.4 | 20.6 | 15.5 | 19.2 | 21.1 | 35.4 | 44.6 |
| Philippines | 7.3 | 7.2 | 5.6 | 7.0 | 10.6 | 13.6 | 13.1 | 13.8 | 13.0 | 14.1 | 15.7 | 15.5 | 25.3 |
| Singapore | 22.4 | 23.7 | 22.5 | 24.9 | 29.8 | 30.3 | 29.3 | 27.8 | 23.9 | 25.8 | 27.4 | 27.0 | 36.5 |
| Thailand | 11.9 | 12.1 | 13.5 | 17.2 | 20.5 | 20.8 | 20.7 | 21.3 | 17.5 | 18.6 | 19.3 | 19.3 | 23.7 |
| Vietnam | 13.8 | 24.0 | 19.7 | 21.5 | 22.0 | 19.8 | 23.8 | 21.3 | 21.7 | 21.8 | 18.1 | 17.0 | 13.6 |
| **ASEAN** | **19.0** | **19.8** | **20.1** | **21.4** | **24.4** | **24.6** | **24.5** | **24.0** | **21.2** | **21.7** | **23.0** | **22.4** | **29.0** |

Source:IMF Direction of Trade Statistics December 2003

**Table III.2. Summary intra-ASEAN+3 exports as a percentage of all exports, by ASEAN+3 country 1990 to 2002**

| Country | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Brunei Darussalam | 91.5 | 92.8 | 93.3 | 95.1 | 94.5 | 93.4 | 93.1 | 92.1 | 72.1 | 78.8 | 78.5 | 79.3 | 77.8 |
| Cambodia | 82.5 | 53.7 | 72.7 | 80.9 | 80.7 | 66.5 | 43.7 | 68.3 | 47.8 | 32.1 | 9.9 | 8.3 | 12.6 |
| Indonesia | 61.1 | 59.1 | 55.4 | 53.4 | 52.0 | 51.6 | 52.0 | 51.1 | 46.8 | 49.3 | 52.1 | 50.6 | 50.7 |
| Lao PDR | 84.6 | 63.3 | 57.2 | 55.8 | 57.1 | 59.5 | 80.5 | 22.1 | 46.9 | 56.4 | 47.0 | 47.8 | 48.2 |
| Malaysia | 51.5 | 51.6 | 48.5 | 47.4 | 45.9 | 45.3 | 47.4 | 46.3 | 39.8 | 41.1 | 46.0 | 46.1 | 46.4 |
| Myanmar | 45.5 | 46.6 | 43.0 | 45.8 | 45.2 | 49.8 | 45.3 | 35.8 | 28.6 | 33.4 | 33.3 | 45.3 | 49.4 |
| Philippines | 30.6 | 31.3 | 26.3 | 26.6 | 29.1 | 33.1 | 34.4 | 33.1 | 30.2 | 31.7 | 35.3 | 37.0 | 40.4 |
| Singapore | 34.8 | 36.1 | 33.9 | 37.7 | 41.6 | 43.2 | 43.9 | 41.0 | 36.5 | 39.8 | 42.4 | 42.9 | 44.0 |
| Thailand | 32.0 | 32.6 | 33.9 | 36.6 | 40.8 | 41.7 | 42.6 | 41.3 | 35.6 | 37.4 | 40.0 | 40.9 | 41.4 |
| Vietnam | 28.7 | 60.0 | 54.8 | 60.8 | 60.5 | 56.4 | 56.6 | 48.4 | 45.2 | 46.5 | 48.9 | 45.9 | 37.8 |
| China | 22.0 | 23.5 | 22.0 | 26.2 | 27.3 | 30.6 | 32.2 | 29.3 | 25.6 | 26.9 | 28.2 | 28.6 | 26.9 |
| Japan | 24.4 | 26.3 | 27.0 | 30.3 | 32.9 | 35.8 | 36.5 | 34.4 | 27.0 | 29.4 | 32.8 | 33.1 | 35.9 |
| Rep of Korea | 26.2 | 28.6 | 30.1 | 31.3 | 31.8 | 33.6 | 34.5 | 33.8 | 29.8 | 32.9 | 34.4 | 34.1 | 35.5 |
| **ASEAN +3** | **29.1** | **30.9** | **30.9** | **33.5** | **35.4** | **37.6** | **38.7** | **36.6** | **30.8** | **33.0** | **35.7** | **35.8** | **36.4** |

Source: IMF Direction of Trade Statistics December 2003

**Table III.3: Renewed regionalism provides scope for gains in East Asia**
**Effect on economic welfare of various regional trade proposals**
*% of GDP (% of GDP excluding agricultural liberalization)*

| Proposal | ASEAN | China | Korea | Japan | USA |
|---|---|---|---|---|---|
| China+Korea+Japan | -0.26 (-0.16) | +0.1 (-0.2) | +1.0 (+0.6) | +0.1 (+0.2) | +0.0 (+0.0) |
| ASEAN-China | +0.9 (+0.5) | +0.0 (+0.1) | -0.1 (-0.1) | +0.0 (+0.0) | +0.0 (+0.0) |
| ASEAN-Japan | +1.1 (+0.2) | -0.1 (-0.1) | -0.2 (-0.1) | +0.0 (+0.1) | +0.0 (+0.0) |
| ASEAN+3 | +1.5 (+0.6) | +0.1 (-0.2) | +1.1 (+0.8) | +0.2 (+0.2) | -0.1 (+0.0) |
| Asean+3+CER | +1.3 (+0.6) | +0.0 (-0.1) | +1.1 (+0.9) | +0.2 (+0.2) | -0.1 (+0.0) |
| APEC Liberalization (MFN) | +0.7 | +0.5 | +0.7 | +0.4 | -0.0 |
| APEC Preferential Liberalization | +0.8 | +0.6 | +0.9 | +0.4 | +0.0 |

Note: (1) Calculations for ASEAN include only Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam. (2) CER includes Australia and New Zealand. (3) Figures in parentheses refer to net welfare effects when agriculture is excluded.

Source: Table 1, Overview chapter of Krumm and Kharras (2003).

**Table III.4: Foreign direct investment flows in ASEAN, 1989-2002 (US$ million)**

| | 1989-1994 (annual average) | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|---|
| Brunei | 4 | 583 | 654 | 702 | 573 | 596 | 600 | 244 | 1035 |
| Cambodia | 26 | 162 | 586 | -15 | 230 | 214 | 179 | 113 | 54 |
| Indonesia | 1524 | 4346 | 6194 | 4677 | -356 | -2745 | -4550 | -3277 | -1523 |
| Laos | 19 | 88 | 128 | 86 | 45 | 52 | 34 | 24 | 25 |
| Malaysia | 3964 | 5816 | 7296 | 6324 | 2714 | 3895 | 3788 | 554 | 3203 |
| Myanmar | 135 | 277 | 310 | 387 | 314 | 253 | 255 | 123 | 129 |
| Philippines | 879 | 1459 | 1520 | 1249 | 1752 | 578 | 1241 | 1792 | 823 |
| Singapore | 4798 | 8788 | 8608 | 10746 | 6389 | 11803 | 5407 | 8609 | 7655 |
| Thailand | 1942 | 2068 | 2271 | 3626 | 5143 | 3561 | 2813 | 3759 | 1068 |
| Vietnam | 651 | 1780 | 1803 | 2587 | 1700 | 1484 | 1289 | 1300 | 1200 |
| ASEAN | 13942 | 25367 | 29370 | 30369 | 18504 | 19691 | 11056 | 13241 | 13669 |

Source: Table 2 of Mirza and Giroud (2004)

**Table III.5: Intra-ASEAN FDI as a percentage of total FDI by host country, 1995-2001**

| Host country | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|
| Brunei | 53.4 | 54.0 | 54.8 | 43.1 | 0.6 | 1.9 | 2.0 |
| Cambodia | na | na | na | na | na | Na | na |
| Indonesia | 14.0 | 3.1 | 5.8 | 10.8 | 15.6 | 5.1 | 7.3 |
| Lao PDR | 7.4 | 80.2 | 74.9 | 62.9 | 60.4 | 40.3 | 12.9 |
| Malaysia | 30.2 | 19.8 | 41.2 | 14.4 | 11.4 | -14.2 | 41.5 |
| Myanmar | 30.4 | 39.3 | 36.8 | 22.5 | 13.6 | 35.6 | 35.1 |
| Philippines | 15.3 | 4.6 | 11.3 | 6.2 | 8.1 | 8.3 | 21.2 |
| Singapore | 8.2 | 9.3 | 5.6 | 4.3 | 0.7 | 4.5 | -2.0 |
| Thailand | 8.0 | 13.6 | 8.2 | 7.7 | 9.3 | 11.9 | 42.5 |
| Vietnam | 21.8 | 18.2 | 21.2 | 23.5 | 19.5 | 15.7 | 18.6 |
| **ASEAN** | **14.9** | **12.1** | **13.3** | **9.5** | **4.2** | **8.3** | **9.0** |

Source: ASEAN Statistical Yearbook 2003

**Table III.6 Stock of Intra-Regional Temporary Labor Migrants in Southeast Asia With Details for the Latest Estimates, 2000-2002** (In Thousands)

| | Early 1970s | Early 1980s | Early 1990s | 1996-97 | 2001-2002 |
|---|---|---|---|---|---|
| Within SE Asia | 300-500 | 500-1000 | 2,000-2,500 | 3,000-3,500 | 3,000-3,250 |

| *Details 2000-02* | Destination | | | | | |
|---|---|---|---|---|---|---|
| | Within Southeast Asia | | | | | Outside SE Asia |
| COUNTRY OF ORIGIN | Malaysia | Thailand | Singapore | Other | Total | |
| Indonesia | 1500 | na | 200 | 50 | 1750 | 1000 |
| Myanmar | 5 | 500 | 2 | 5 | 512 | 100(?) |
| Philippines | 300 | 10 | 150 | 20 | 480 | 2000-2500 |
| Malaysia | xx | 5 | 300 | 10 | 315 | 20 |
| Indochina states | 25 | 75 | 5 | 5 | 110 | 50 |
| Other | 10 | 5 | 2 | 20 | 37 | 300 |
| Total | 1840 | 595 | 659 | 110 | 3204 | 3650-4150 |

Source: Manning and Bhatnagar (2004), Tables 3 and 4.

| Table III.7 Poverty and Income Distribution in Southeast Asia | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Indonesia | | 1976 | 1980 | 1984 | 1990 | 1996 | 1999 | 2002 |
| | Poverty Incidence | 40.1 | 28.5 | 21.7 | 15.1 | 17.7 | 18.2 | 18.2 |
| | Gini | 34 | 34 | 33 | 32 | 36 | 31 | 33 |
| Malaysia | | 1970 | | | 1990 | 1995 | 1997 | 1999 |
| | Poverty Incidence | 52.4 | | | 17.1 | 9.3 | 6.8 | 8.1 |
| | Gini | 1979 | 1984 | 1987 | 1990 | 1995 | 1997 | 1999 |
| | | 50.5 | 48.3 | 45.8 | 44.6 | 46.4 | 47.0 | 44.3 |
| Philippines | | 1971 | 1985 | 1988 | 1991 | 1994 | 1997 | 2000 |
| | Poverty Incidence | 52.0 | 44.2 | 40.2 | 39.9 | 35.5 | 31.8 | 33.7 |
| | Gini | 53.0 | 44.7 | 44.4 | 46.8 | 45.1 | 48.7 | 48.2 |
| Thailand | | 1976 | 1981 | 1988 | 1990 | 1996 | 1998 | 1999 |
| | Poverty Incidence | 31.0 | 23.0 | 32.6 | 27.2 | 11.4 | 13.0 | 15.9 |
| | Gini | | | 48.5 | 52.4 | 51.5 | 51.1 | 53.3 |
| Cambodia | | 1990 | 1996 | 1997 | 1998 | 2000 | 2002 | 2003 |
| | Poverty Incidence | 48.3 | 36.70 | 38.4 | 36.9 | 39.7 | 37.2 | 35.7 |
| | Gini | 41.6 | 41.6 | 41.6 | 41.5 | 41.4 | 41.5 | 41.6 |
| Lao PDR | | 1990 | 1996 | 1997 | 1998 | 2000 | 2002 | 2003 |
| | Poverty Incidence | 53.0 | 41.3 | 38.4 | 39.5 | 35.1 | 31.0 | 29.0 |
| | Gini | 32.6 | 36.5 | 36.5 | 36.5 | 36.5 | 36.5 | 36.5 |
| Viet Nam | | 1990 | 1996 | 1998 | 1999 | 2000 | 2002 | 2003 |
| | Poverty Incidence | 50.8 | 25.4 | 18.8 | 18.0 | 15.2 | 10.4 | 8.4 |
| | Gini | 35.0 | 35.5 | 35.4 | 35.1 | 35.3 | 35.8 | 36.3 |

Notes: a) Poverty incidence is based on a headcount or percentage of the population below poverty line except for the Philippines and Malaysia which is a percentage of households.

b) Poverty incidence is based on a national poverty line for Indonesia, Malaysia, the Philippines, and Thailand. For Cambodia, Lao PDR and Viet Nam, it is based on the $1 a day threshold.

c) The Gini index is based on income data except for Indonesia which is based on expenditure data. In Thailand, the Gini index was measured with respect to the per capita household income appropriately weighted by a population weight given to each household.

Sources of Data:
*Indonesia*: Said and Widyanti (2002) used data from Badan Pusat Statistik (BPS) and various National Economic Surveys (or Susenas). Data for 2002 were obtained from BPS.
*Malaysia*: Data on poverty incidence for 1970 and 1995-1999 and the Gini indices were obtained from Zin (2002) which are consistent with data from ADB (2001), from which the 1990 figure was obtained.
*Philippines*: Family Income and Expenditure Survey, various years. Gini for 1971 is an estimate.
*Thailand*: Data for poverty incidence and Gini indices were obtained from Natenuj (2002). The data for poverty incidence for 1976 and 1981 were obtained from a report of the Thailand Development Research Institute (TDRI) while data for later years were obtained from the Development Evaluation Division, National Economic and Social Development Board.
*Cambodia, Lao PDR and Viet Nam*: The data were obtained from the World Bank East Asia Regional Update, November 2002 and are reported in the website of the Asia Regional Information Center of the ADB (www.aric.adb.org).

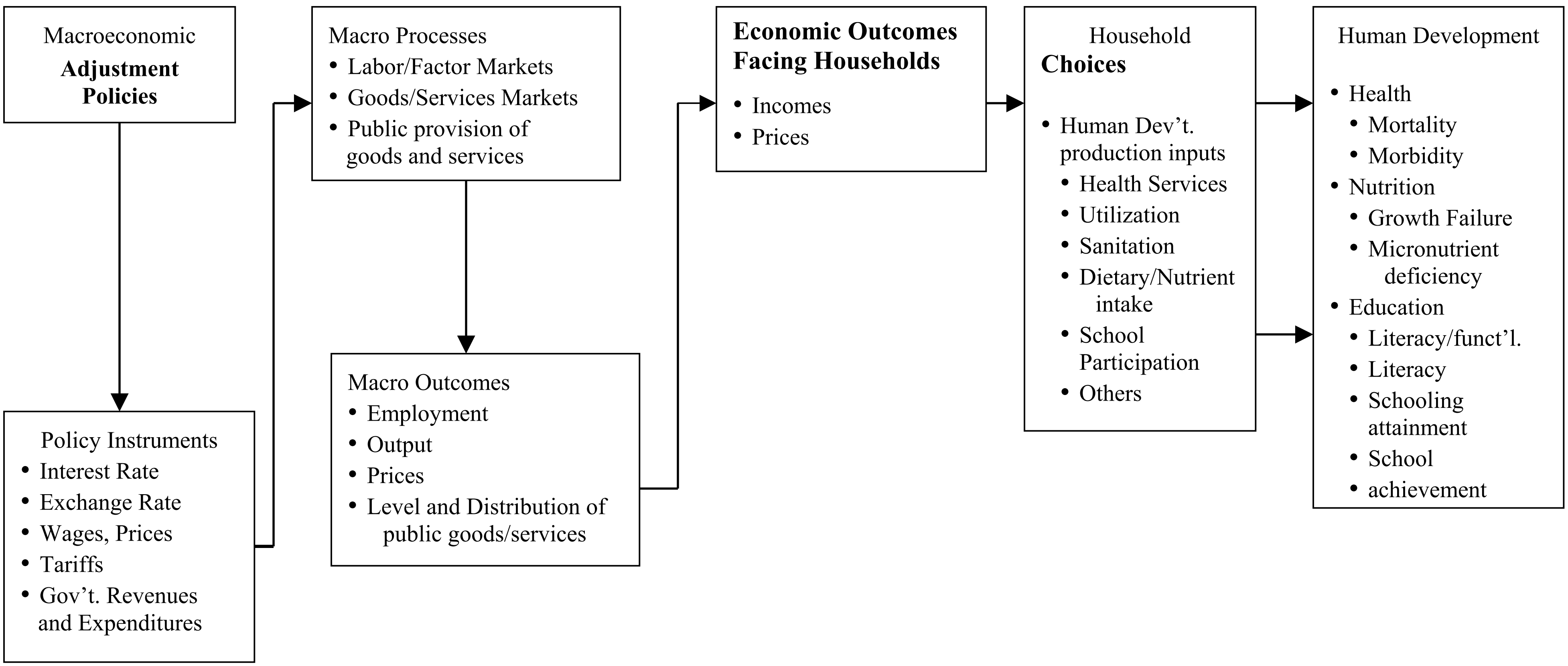
**Table III.8 Labor force participation rates**

| | Men | | | | Women | | | |
|---|---|---|---|---|---|---|---|---|
| | 1980 | 1990 | 1995 | Latest year | 1980 | 1990 | 1995 | Latest year |
| China | 87.9 | 85 | 85.6 | | 69.5 | 73 | 73.7 | |
| Hongkong,China | 80.9 | 78.9 | 76.6 | 75.5 | 45.7 | 46.6 | 47.6 | 48.5 |
| South Korea | 76.4 | 74 | 76.5 | 74.4 | 42.8 | 47 | 48.3 | 47.4 |
| Cambodia | 83.7 | 84.3 | 87.1 | 81.2 | 82.4 | 82 | 82.6 | 73.5 |
| Indonesia | 84.7 | 82.7 | 82.3 | 84.6 | 44.3 | 44.6 | 52.8 | 51.5 |
| Malaysia | 82.5 | 81.9 | 83.2 | 82.8 | 41.2 | 45.2 | 48.9 | 44.7 |
| Philippines | 83.5 | 81.8 | 82.1 | 81.8 | 45.0 | 47.5 | 49 | 50 |
| Singapore | 80.9 | 79.2 | 78.4 | 77.5 | 44.3 | 50.3 | 50 | 51.3 |
| Thailand | 87.8 | 87.7 | 86.4 | 80.3 | 76.6 | 76.3 | 73.5 | 64.2 |
| Vietnam | 87.1 | 85.2 | 83.5 | | 70.0 | 75.9 | 74.6 | |

Notes: 1. The latest year varies according to country, from 1998 to 2001.
2. The data relate to population aged 15 years and above.

Source: Table 4 of Ghosh (2004); ILO Key Indicators of the Labour Market, 1999 and 2003.

## Figure III.1 Analytical Framework for Assessing the Microeconomic Impact of Macroeconomic Adjustment Policies




* Modified diagram version of Table 1 of Herrin, A. N. (1992):
"Micro impacts of macroeconomic adjustment policies on health, nutrition, and education," Workshop paper (July).

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