

Chapter V

Conclusions and Recommendations

This report linked three concepts: human development, regional economic integration, and regional cooperation. Human development in Southeast Asia is quite diverse and at a relatively low level compared to similar groups of countries. By way of answers to key questions, the main conclusions and recommendations in this report are summarized.

A. What is the State of Human Development in Southeast Asia?

Countries of Southeast Asia have made great strides in terms of human development in the past twenty-five years or so. However, the disparity among the countries in the region is relatively high (Table II.7) and the process of convergence is slow. Moreover, income inequality in many countries of Southeast Asia has stabilized at a relatively high level or has remained at a fairly constant level for an extended period (Table II.8 and Table III.7).

It has been argued that the high level of disparity among countries can be attributed to variations in human resource development and differences in the quality of governance. Many studies have shown that poor governance does have a direct adverse impact on human development. Meanwhile, differences in government priorities, policies, and available resources have resulted in the variation in human resource development (Section II-D).

B. Is Regional Integration Beneficial to Human Development?

Apart from the relationship between regional economic integration and human development, another key issue is whether greater economic openness can narrow the development gap in Southeast Asia. Regional integration in East and Southeast Asia has come mainly in the form of ‘regionalization’ or market-oriented integration. Hence it is basically an adjunct of globalization. Empirical studies generally show a net beneficial impact of globalization in countries of this region in terms of many indicators: aggregate welfare, poverty reduction, employment, wage volatility, nutrition, and child labor. However, except for the variation inflows of FDI to individual countries, the report did not look into other studies on the impact of greater economic openness on the degree of convergence.

What is evident is that the benefits of greater economic openness have not been distributed equitably among and within the countries. This is reflected in the wide disparity in development, the relatively high and/or fairly 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. In some countries greater economic openness was associated with rising income inequality.

It would be useful to study whether the income inequality within the countries can help explain the slow economic convergence among them.

Several factors contributed to the failure of the benefits of greater economic openness and outward orientation to be distributed more equitably in the larger countries of Southeast Asia (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.

Inflows of FDI could have also contributed to the observed development disparity in Southeast Asia, both within and among countries. As mentioned earlier, the disparity in development 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.

Meanwhile, with the exception of FDI in textiles, foreign investment in manufacturing has employed labor that is relatively skilled. This skill-bias of FDI has contributed to the observed large income inequality in countries of Southeast Asia. FDI has also led to enclave production in some countries thereby concentrating the benefits to only a few sectors and a small section of the population.

Income inequality may also reflect structural problems that are related to weak governance and institutions. This was the outcome of the analysis in section II-G.

The disparity among countries in terms of these factors—the coverage and effectiveness of social policy, the macroeconomic environment, policies vis-à-vis FDI, and the quality of governance—can also explain the relatively large development gap in Southeast Asia. It can therefore be argued that by bringing these aspects to an acceptable standard, the benefits of greater global and regional economic integration can be distributed more equitably among and within countries.

Assuring convergence in human development both requires direct government intervention not only at the national level but the regional level as well. This follows mainly from the textbook theory of market failure, public goods, and externalities that is, for example, the basis for providing free public school education and free or subsidized health care. The report then considered national policies and forms of regional cooperation that can effectively address these structural problems.

C. Are Existing Regional Cooperation Mechanisms to Enhance Human Development Adequate?

In Chapter III, the analysis traced the inequality within countries 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. Section III-D looked at national policies that could address these concerns. Meanwhile, Table V.1 summarizes how regional initiatives presented in Chapter IV address these four aspects.

What this table shows is that regional cooperation can compliment national policies. However, it must be emphasized that there are areas where collective action through regional cooperation is a necessary condition. Some examples are: 1) exploiting a common resource, the primary example being the Mekong River; 2) addressing the concerns of temporary migrants; and 3) transnational crime.

This report focuses more on whether international agencies and multilateral institutions tasked with promoting regional cooperation have adequate resources and the correct approach. Nevertheless, the UN, ADB and ASEAN should also carefully review the programs they have implemented to determine whether some important areas have been left out. One critical issue that has been overlooked is the case of migrant workers from other Southeast Asian countries. While the AFAS does address the issue of the movement of natural persons (see Box IV.3), it includes only relatively few sectors beyond GATS commitments. In particular, negotiations have largely excluded unskilled workers which have dominated migrant flows within Southeast Asia (Manning and Bhatnagar 2004). Many of them are also undocumented. There is a need for regional agreements to streamline restrictions invoked to protect domestic workers—especially those related to labor market/economic needs test—and to provide migrant workers with social security benefits.

Another area that has not been adequately covered is regional cooperation to improve the quality of governance in Southeast Asia. Sharing information on best practices, particularly in terms of government regulation and delivery of social services, is one possibility. Governments can also share best practices in dealing with FDI and also forge a unified approach in granting incentives to foreign investors.

Meanwhile, a more crucial and profound issue is the presence of ethnic conflicts in the countries of the region. Cooperation at the regional level could definitely contribute to the resolution of these problems.

D. How can the Beneficial Effects of Regional Economic Integration and Regional Cooperation be Broadened and Deepened?

Expanding the benefits of regional economic integration requires direct interventions at the national and regional level. The rationale for these interventions has been presented

together with the proposed policies at the national level. Existing regional initiatives aimed at enhancing human development were examined in Chapter IV.

In the case of regional cooperation, broadening and deepening the beneficial effects also requires interventions at the national level. However, a more crucial issue is to assure that the governments of individual countries recognize and comply with regional agreements. That Southeast Asian states are not inclined to adopt an institutionalized approach to regional integration does not bode well for one of the report's main recommendations: a region-based system of human rights. Even if there is an agreement on the substance of this system, it would be difficult to establish a peer review and monitoring system. The experience with the ASEAN Surveillance Process and Manila Framework Group is also not encouraging.

However, as argued in Chapter IV, what would actually inhibit meaningful cooperation is the absence of shared interests and not the adherence to the 'ASEAN way.' Hence, if the various stakeholders—particularly members of civil society—will be able to present a strong case for a system of human rights based on social concerns, it may yet convince the governments to adopt a functional monitoring system. Granted that the MDGs have the support of national governments and that ASEAN member states have endorsed Bali Concord II the foundation of this system of human rights has already been established. The next step is to create and implement an effective surveillance and peer review mechanism to enforce this system.

Meanwhile, limited funds could result in a fragmented approach to improving human resources and institutions wherein fundamental components cannot be put in place because of inadequate funds. One simple example is having qualified teachers who were trained under a rigorous program conducted under an ASEAN Plan of Action. However, the governments are not able to build enough school buildings because of budget constraints. This situation can be avoided by improving coordination among donor agencies and enhancing cooperation among various stakeholders especially between members of civil society and multilateral agencies.

Table V.1 Regional Initiatives and National Policies to Enhance Human Development					
Objectives of National Policy	ASEAN	ADB (GMS)	UNESCAP	UNDP	ILO
Expand coverage and efficacy of social policy	Plan of Action on Social Safety Nets	In the next phase GMS will (a) introduce capacity building initiatives to address cross-border human resource development and labor market issues; (b) address health and social problems associated with mobile populations, and; (c) network higher education and training institutions.	Subprogram of social development Human Dignity Initiative, the objective of which was to promote participatory community-based initiatives that improve living conditions in poor and disadvantaged communities.		Trafficking in Children and Women (TICW) Project
Improve macroeconomic environment	Plan of Action on ASEAN Rural Development and Poverty ASEAN Surveillance Process	The thrust of the GMS program during the first ten year of its existence has been the development of physical infrastructure.		The Urban Governance Initiative (TUGI) Macro-economics of Poverty Project	
Refine approaches to FDI				Macro-economics of Poverty Project	
Strengthen governance and institutions				The Urban Governance Initiative (TUGI) Launched the Asia Pacific Rights and Justice Initiative that integrates the crosscutting principle of equity with access to remedies for grievances of the poor and disadvantaged people.	

References

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- Pangestu, Mari. 2001. "The Social Impact of Globalisation in Southeast Asia." *OECD Technical Paper No. 187* (December).