

Reflection No. 3:

The social dimension of regional integration: more than a minimum floor?

Presentation by Gijsbert van Liemt

24 May 2004

Note: Citations of points made in this presentation are to be attributed to Mr. van Liemt.

Motivations for Regional Integration

Gijsbert van Liemt identified reasons why countries participated in such groupings in the first place. He explained that although different countries had various reasons for taking part in RI, these reasons could generally be seen as economic or political and they tended to reinforce one another. The perceived benefits of RI (increased intra-regional trade, economies of scale and production savings in low-cost areas, for example) were among the economic incentives for participating in RI.

Historically, there have also been strong political reasons for countries to engage in RI as could be seen with the European Coal and Steel Community, the Association of South East Asian Nations, or the development of the Southern Africa Development Community. RI may also have been an attempt to lock in the democratic or economic reforms of newly-joined member States. Countries may also have pursued membership in an RI group for fear of being left out. Moreover, within the multilateral trade context, RI could be seen as a strategy to enact policy objectives regionally when there was resistance at the international level.

Depth of Regional Integration

The depth of integration between countries could be assessed according to a traditional classification that ran from weaker to stronger integration arrangements (preferential trade agreement, free trade agreement, customs union, single market, monetary union, economic and political union). The level of institutional coordination varied from one arrangement to the next with some agreements largely facilitative and others involving large bureaucratic structures. It was not always the case, however, that RI involved only countries of close geographic proximity (e.g. US-Singapore, Canada-Israel, EU-Mexico). Nor was it always the case that member countries shared similar levels of economic development (a striking example was the case of ASEAN). Huge disparities between member countries, however, did pose significant policy challenges, particularly with regard to the social dimension of RI.

One question to consider was how much government policies versus spontaneous economic forces were responsible for RI. In some groupings such as the East African Community and the Andean Community, for instance, RI initiatives had not had a significant impact in the region. On the other hand, Japan, Korea and China were not members of any RI arrangement yet had strong economic ties beyond their borders.

Concerns Related to the Social Dimension

- i) *Employment* - Opponents argued that RI resulted in job losses whereas supporters pointed to RI's potential for job creation. In many cases, however, the net effect on employment was small. However, RI did potentially threaten jobs in vulnerable sectors and accordingly, job losses were often concentrated geographically, by skill category and by age group. A fundamental question was whether RI could be separated from the many other factors that determined changes in employment and the labour markets.
- ii) *Uneven distribution of benefits* – Within groupings of uneven economic strength, the less developed countries were concerned that their more developed trading partners would have an advantage and thereby benefit disproportionately.
- iii) *Regulatory competition* – The concern was that increased competition brought through freer trade would extend to government regulation thereby putting downward pressure on higher standard countries and potentially undercutting their labour protections. Regulatory competition could be found in areas such as taxation, investment rules, industrial policies and environmental and labour standards.
- iv) *Uneven bargaining power* – The elimination of barriers to trade and capital movements had given capital the option of exit, whereas labour was still the immobile production factor. This appeared to give leverage to representatives of capital over those of labour by threatening to relocate production to lower labour cost countries.

Key Elements of the Social Dimension

Several policy options have been considered by governments to different degrees and in different circumstances to address the concerns related to RI. These include:

- i) *Special treatment for sensitive sectors* – Governments could attempt to exclude certain sectors from the effects of RI (trade protection etc.) that were deemed vital to national interests and therefore deserving of special treatment. The difficulty here was in determining what should qualify as a sensitive sector and how this decision was made.
- ii) *Transition periods* – What was the optimal pace of integration? This likely depended on many diverse factors given the countries involved, but attempts could be made to control the speed of integration (lowering tariff barriers and introducing labour mobility for example) as a policy measure to ease into an RI arrangement and soften its potential dramatic negative consequences.
- iii) *Intra-regional Compensation schemes* – Attempts to redress regional economic imbalances had taken several approaches such as intra-regional fiscal compensation schemes, regionally differentiated industrial development incentives and agreed specialization.
- iv) *Adjustment assistance* – Adjustment policies assisted workers in transitioning from one job to another and could include such things as financial assistance, training, relocation assistance and job hunting services. The difficulty, as shown in the trade adjustment assistance in the United States, was for individuals to demonstrate they had lost their jobs because of trade liberalization. Making such a case would be even more difficult when trying to show that RI was the cause of the job loss.
- v) *Minimum standards* – A set of social ground rules, including legislation to allow a proper system of industrial relations to function, could be designed to ensure that there is a floor below which social standards did not fall in certain key areas.

Commentary

Georges Minet wondered what the ILO proposed to do given the significance of RI and the social concerns relating to such arrangements, and following the World Commission's report which acknowledged that RI could be a stepping stone to fairer globalization. He said the ILO could, much like UNCTAD, act as a facilitator for representatives who negotiate RI agreements and advise them on identifying the issues and how to position themselves to advance their interests. RI efforts in Africa were largely unsuccessful in part because there had been an excessive economic focus. There were, however, limited successes in Africa (the technology field is one example) and efforts were being made in some regions to harmonize commercial and labour legislation (OHADA).

The ILO could encourage tripartite participation within RI groupings and assist in strengthening participation in regional and institutions. This could be done by supporting the creation of new employer and worker confederations at the regional and sub-regional levels. Also, assistance could be given to national institutions to address the social dimensions of RI.

Discussion

Christoph Ernst questioned the need for RI in some cases. Was Switzerland, for example, better off as a non-EU member or not? He said that perhaps trade arrangements were sufficient and wondered about the positive impact of RI on countries. It was difficult to single out the effects of RI and in fact, the impact of FDI was perhaps more important as far as the impact on employment and real wages was concerned. In Latin America there was a MNE database with figures on output, sales, employment etc. There was a methodological challenge in trying to separate the effects of RI and FDI.

Hans Hofmeijer suggested it might be better to concentrate on research in countries with significant FDI. He mentioned the three tripartite meetings approved by the Governing Body, on the Tripartite Multinationals Declaration for ILO member States of ASEAN, Mercosur and SADC.

Fred Fluitman questioned whether it was worth it for the ILO to have a position on multilateral trade. He cited the differing views that the NAFTA experience has provoked. Would it be possible to go beyond banal statements?

Eric Maertens noted that it was probably not difficult for the ILO to have a position on RI but the challenge was in the Organisation's capacity to understand this phenomenon given the wide variety of RI groupings and contexts. However, there was much to be done in terms of expanding social indicators and statistical analysis on RI.

Anne Trebilcock recalled that the ILO has a position on trade: the ILO Declaration on

Fundamental Principles and Rights at Work (Preamble and paragraph 5).

Alvaro Ramírez mentioned that the ILO could play a role in strengthening the capacity of workers and employers to participate and negotiate in the social sphere. He gave the example of CAFTA which was the first time Central America had negotiated as a region with its main trading partner (U.S.). This kind of assistance was crucial for enabling countries to prepare themselves for increased competition and for developing strategies to assist those who were most vulnerable to this competition. Now, he noted, the EU has asked the ILO to set up a technical committee to look at the social dimension of trade barriers.

Gijsbert van Liemt said that there should be more analysis of RI along with capacity building and institutional support to prepare the parties for the effects of RI. He asked why RI was so popular. With tariff barriers going down generally, what is the added value of RI agreements? He suggested that many look to Europe as a model for integration while, ironically, more and more within Europe are doubtful of its advantages. He also asked how one might assess the success of RI. In Europe, as compared to other regions (NAFTA and CUFTA, for example), there was little critical debate or analysis on the impact of RI. He mentioned the Lisbon process and its yearly peer review as one option.

Staff in Attendance :

Georges Minet	IFP/DIALOGUE
Eric Maertens	ED/REGIONS
Hans Hofmeijer	MULTI
Christoph Ernst	EMP/STRAT
Alvaro Ramírez	ACTEMP
Yujun Lao	EXREL
Christoph Becler	RELCONF
Fred Fluitman	TURIN
Anne Trebilcock	INTEGRATION
René Robert	INTEGRATION

Note prepared by René Robert, 9 June 2004