

Regional Integration and Poverty

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- **Partners:**
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Bolivia and Tanzania

In cooperation with



Background and Methodology of the Research

It is often suggested that regional integration is good for poverty by increasing trade and investment and creating jobs for the poor. At the same time, the number and scope of regional trade agreements is increasing rapidly. However, there is little about whether and how regional integration provisions affect development and poverty in poor countries. Statistical studies tend to describe regional integration processes as a 0/1 variable. This study therefore examined in more detail the scope and effects of different type of regional integration provisions.

The synthesis of the literature provided evidence to set up a mapping structure linking regional integration and poverty via trade, investment and migration. We discussed how the effects of regional integration on poverty depended on the type of region (e.g. different internal and external tariff liberalisation, investment rules, etc.) and constructed an index of integration. The overview paper provided a mapping framework from regional integration to poverty.

The econometric analysis for a panel of UK and US FDI and all FDI in developing countries allowed for the effects of regional investment provisions on different countries, and controlling for other determinants of FDI such as human

resources and infrastructure. It tested whether RI also affects FDI and poverty in the poorest, smallest and most peripheral countries of the region.

The country-case studies, conducted by local researchers, examined aspects of regions relevant for Bolivia and Tanzania and included south-south and north-south regions. The country case studies provided evidence for the relevance of the mapping, by following the same mapping structure as in the overview paper.

Objectives of the Research

The objectives of the research were to:

- Examine the channels through which regional integration (RI) affects poverty by a synthesis of the literature. This included how RI affects foreign direct investment (FDI) and trade. One particular area of review was the link between RI, FDI and poverty, thereby focusing on the pathways and interdependencies between these variables.
- Analyse empirically the effects of regional integration on FDI after controlling for other determinants of FDI (market size, human resources, infrastructure etc.) in developing countries, thereby distinguishing between different (types of) regions (world-wide coverage).
- Analyse how regional integration affects poverty in Bolivia and Tanzania.

Policy Recommendations

While there is a role for regions, expectations relating to poverty effects should be tempered. The trade effects from developing country regional integration are expected to be small because of the low importance of intra-regional trade for most developing countries. While there may well be dynamic effects and these can be more important than static effects, the evidence of this remains limited, and it needs to be shown whether dynamic effects from regional integration

support dynamic effects from multilateral integration.

- While regional integration does tend to raise investment from outside, the type of provisions matter, and the benefits are likely to be distributed unequally across the region as the bigger countries tend to capture most of the benefits.
- Capacity constraints further limit the ability of poor countries to benefit fully from trade and investment liberalisation, as was clear from both the Tanzania and Bolivia case studies.

- Regional integration processes affect the incentives to engage in multilateral integration.

On the positive side, regional groupings are well placed to address poverty by providing appropriate regional public goods and dealing with liberalisation of sensitive services sectors. Thus the scope of regional integration matters.

For further information on this research project, please visit:

EC-PREP website: www.ec-prep.org

ODI website: www.odi.org.uk

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EC-PREP is supported by the UK Department for International Development (DFID). In 2001, DFID, in collaboration with the European Commission, launched the European Community's Poverty Reduction Effectiveness Programme (EC-PREP). The main objective of this research initiative is to produce findings and policy recommendations that support and contribute to improving the European Community's effectiveness in attaining poverty reduction targets via its external assistance programmes. The programme has funded 13 Research Projects and 10 Commissioned Studies, which relate to one or more of the six focal areas of EC's development policy. More information about the research funded by EC-PREP can be found on www.ec-prep.org.