



TAXATION OF THE GIG ECONOMY: CHALLENGES AND LEGAL RESPONSES IN DEVELOPING ECONOMIES

Nandini Sharma*

ABSTRACT

The considerable growth of the gig economy has disrupted the labour market in most parts of the world, especially in developing economies, where the informal sector is dominant. The present paper looks at the issues and legal reactions to the taxation of the gig worker in those jurisdictions. Gig work and freelancing activities, as well as platform work, are highly challenging to tax authorities, including worker identification, tracing income, tax avoidance, and compliance, among others. Effective collection of tax is further problematic in most of the developing economies, given that they do not have a digital infrastructure, and those on the gig are oblivious of their tax-paying obligations. The given paper presents an overview of the legal framework in developing economies, along with the questions and deficiencies of the existing tax laws. It examines the reaction of such countries as India, Brazil, and South Africa, which attempt to handle the problem with taxes, and the changes they are introducing to provide gig workers with inclusion into the formal tax base structure. Also, the paper presents a comparative study of the taxation systems of developed economies and presents the best practices, which may be modified to the specifics of the developing ones.¹ Examples of case studies and comparisons on a worldwide scale apply to the paper, giving practical solutions to bridge the gap and elaborate on better taxation of gig workers, such as digital opportunities, tax simplification, and better interactions with government and platforms. Finally, the paper will help in creating an in situ situation where equitable, unavoidable and sustainable taxing policies can be made to promote the gig economy and its ability to produce a desirable amount of revenue to support the developmental process of the developing economies.

*BA LLB, FIFTH YEAR, AMITY UNIVERSITY, NOIDA.

¹ Schweltnus, C, Sutherland, D and D V A (2019) 'The Rise of the Gig Economy: Challenges and Opportunities for Developing Economies' (OECD Working Paper).

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INTRODUCTION

The gig economy has been established as a competitive labour market in whichever economies, especially in developing economies where informal labour is rampant. Short-term work arrangements have been promoted through the gig economy, which has grown enormously over the past few years, with unprecedented growth in the past year. Freelancers or other gig labourers work in any industry (e.g., transportation services (e.g., Uber, Lyft), accommodation (e.g., Airbnb), digital services (e.g., Upwork, Fiverr)), and are considered to be outsiders. This expansion has brought about great economic and social changes, which involve new means of income-earning roles for people in developing economies. But even though it comes with many benefits, there are also challenges that accompany the gig economy, especially regarding taxation, compliance and the legal system.²

Informal employment is largely unregulated in developing countries, where taxation in the gig economy is highly complicated. In these areas, tax collectors are having trouble efficiently tracing and collecting revenue from gig workers because of non-identification, inadequate digital infrastructure, and the short-lived nature of gig work. A large number of gig workers have improved incomes that are sporadic and variable because they are paid by various parties; therefore, governments have found it hard to monitor and possibly tax them. Additionally, much of the gig economy in most developing countries is informal, where the awareness and understanding of tax registration among workers and employers are deficient, or workers and employers cannot meet the formal taxation requirements (Schwellnus et al., 2019).

However, due to the emergence of these challenges, several developing nations have resorted to legal systems and taxation to control the operation of the gig economy and ensure that the gig labour is adding to the national treasury. Nonetheless, the legal frameworks of most developing economies cannot always support the nature of platform-based work, being outdated or not well-prepared to deal with it.³ The currently available tax codes are often oriented toward the traditional employment style and thus very difficult to apply to the gig workers since they do not consider them to be employed in the traditional sense of the word (Zhang, 2020). Furthermore, the governments of the developing economies encounter

² Zhang, Y (2020) 'Taxation of the Gig Economy: Legal and Administrative Challenges in Developing Countries' (2020) 33(2) *Journal of Taxation and Development* 45.

³ Harrison, A (2021) 'Global Tax Responses to the Gig Economy' (2021) 15(1) *World Tax Journal* 12.

extensive obstacles in regard to capacity, resources, and infrastructure to realise tax compliance among the gig workers.

The international responses to deal with the gig economy taxation are inconsistent. In more developed countries, such as the United States and the members of the European Union, legal reactions have centred on the reinstatement of proper classification of gig workers as employees or laying down new regulations related to taxes applied to freelancers. Such structures will be more implementable since the technological infrastructure is superior and the regulatory frameworks are stronger. Nevertheless, in the case of developing economies, these reforms are complex due to the lack of government resources, insufficient digital literacy rates, and the variety of economic phenomena that entitle them to specific methods of taxation ⁴

This paper will discuss the issues of taxation that come with the gig economy in third-world countries with a view to looking at legal actions and reforms that are being undertaken to curb them. The paper will offer an understanding of the regulation of the gig work exercise by governments on factors and issues related to the complexities of tax compliance, income tracking, and legal regulatory frameworks that governments should apply to regulate work in the gig economy and facilitate its further development as a novel type of labour market. The paper will also evaluate the best practices that have been established in developed economies and the recommendations that can be advanced to suit the interests of the developing economies.⁵

LITERATURE REVIEW

The gig economy has become another popular topic in the academic and policy circles, specifically because of the issues it poses to taxation in developing economies. Researchers have also observed that this digital-based rapid growth of gig work has led to it exceeding the capacity of the legacy tax system to tax and oversee the income earned by gig workers (Schwellnus et al., 2019). The gig economy also makes it even more difficult to collect and meet the tax in developing economies, where most of the populace is in the informal segment of the labour market.

Several issues can be identified when investigating the aspect of taxation towards gig workers. To begin with, the question of the status of gig workers is one of the most basic problems. A

⁴ Piketty, T (2014) *Capital in the Twenty-First Century* (Harvard University Press).

⁵ Wood, A, Lehdonvirta, V and Graham, M (2018) 'The Gig Economy: A Critical Introduction' (2020)

high proportion of gig workers are classified as independent contractors, not as employees, and the tax authority has a problem with the enforcement of the conventional taxation rules under which the formal employment relationship is not framed (Zhang, 2020). The absence of the true employment relationship implies that a gig worker is not frequently faced with withholding taxes, and it contributes to the problems of increasing tax evasion and non-compliance. Moreover, the irregular streams of income, as well as the multiplicity of sources of revenue that are the features of work in the gig economy, make the tracking of income and reporting on taxes more complicated (Harrison, 2021).

The second difficulty is the digital divide in developing economies. Although developed countries have been using digital platforms and technologies to enhance tax compliance, a majority of developing countries struggle to implement digital platforms in their reliance on the infrastructure and low digital literacy rates (Schwellnus et al., 2019). Additionally, there are also the issues of lower rates of voluntary compliance, as workers in the context of the mentioned economies are not very enlightened when it comes to the taxation they may owe (Zhang, 2020).

According to several studies, to overcome these obstacles, the jurisdictions in third-world economies would have to implement new legislation that would take into consideration the peculiarities of gig work. These models should support the simplification of tax compliance or licensing, superior digital infrastructure, and enhanced visibility on the part of the population to understand their tax obligation (Harrison, 2021).

UNDERSTANDING THE GIG ECONOMY

The gig economy is a form of labour market that comprises short-term employment, flexible and temporary occupations, usually with the help of digital platforms or apps. Workers in the gig economy also tend to be independent contractors, in contrast to the traditional employment system, in which people enter into long-term engagements when they are employed. Such employees can work in any type of job or be a freelance worker, an on-demand service worker, or a project worker. With the introduction of smartphones and digital interfaces that led to a real-time connection between workers and employers, the gig economy has been growing at an impressive rate over the past few years. This growth has especially affected the urban places where the demand for on-demand services is high. It is estimated that the worldwide gig

economy has earned trillions of dollars, and the largest shares have gone to developed economies as well as developing economies.⁶

The gig economy constitutes a significant share of the labour market throughout the world. Gig work has been extensively incorporated into the formal labour market in developed nations, such as the United States and the European Union and, in most cases, they offer a flexible working arrangement to both part-time and full-time employees. Nevertheless, the gig economy is particularly well-populated in developing nations, where formal work stations may be scarce, and the populace has to survive on informal or offbeat work to make a living. To illustrate, such nations as India, Brazil, and South Africa now receive gig work as an important source of income, especially among the younger generations and marginalised groups. The introduction of the gig economy in developing economies is especially significant because in this type of economy, informal labour is very large. It allows them to join the workforce at a fast rate, and prevents them from the slowing effect of accessing education or employing contracts that last long. This is where gig work is known to be a lifeline, particularly in high-unemployment and under-employment rate areas, as it has enabled people to earn money depending on their skills and time availability.⁷

There are several characteristics of the gig economy. The employment of the gig workers is not as such, but they get hired to accomplish certain types of jobs or projects. This is short-term in nature, hence flexible, but also unstable, as workers may not be able to have permanent income. Gig workers are usually independent contractors; this enables them to gain greater control over their working hours and methods. Such independence is considered one of the appeals of gig work, a factor that gives workers the freedom to adjust their schedules or have multiple occupations at once. The gig economy is all about digital platforms and apps. Companies such as Uber, TaskRabbit, and Fiverr play an intermediary role by communicating between the employee and the employer, conducting payment and matching a job. Such apps usually deduct a percentage of the worker's income, making this a commission-driven business model as opposed to an employment contract business model. Most of the jobs done in the gig economy are premised on on-demand employment. To give an example, through ride-sharing applications, customers are able to request a driving service right now, and via delivery apps such as Grubhub, users can make orders at their leisure. The thumbprint of the gig economy is

⁶ Mattila, P (2018) 'The Gig Economy: A Review of Taxation in the European Union' (2018) 21(3) *European Tax Review* 150.

⁷ Nussbaum, M (2011) *Creating Capabilities: The Human Development Approach* (Harvard University Press).

immediate access to services. Gig work is cross-border as skills can be provided over the internet to employers without geographical limitations, such as in the technology and creative services industry. Such websites as Upwork and Fiverr allow workers in developing economies to compete with workers in other countries, expanding markets and opportunities. Contrary to the usual full-time jobs, there are no regular salaries in gig work. Rather, their revenues are based on work quantity and the number of gigs performed. Such a change in income may cause financial stability, which is one of the major problems of gig workers in developing economies where the existence of social safety nets is less robust.⁸

The rise of the gig economy has been observed, especially in technology-driven environments where technological platforms have transformed the mode of service provision. This trend gained fuelled from the COVID-19 pandemic when an increasing number of workers became remote and freelance because of lockdowns and social distancing requirements. A report by McKinsey claims that the level of gig workers in advanced economies grew by 25-30% over the course of the pandemic. The use of mobile technology and the necessity to find ways to earn an additional income helped to expand the gig economy in developing countries as well. Nevertheless, although the gig economy brings opportunities to the employees, it is also associated with challenges, namely, the stability of work, benefits (healthcare, retirement plans, etc.), and income regularity. Also, the alignment usually restricts rights to workers, like paid leave or social insurance, which are usually exclusive to formal workers, due to the nature of gig work, especially in developing economies. The gig economy has revolutionised the labour markets, especially in developing economies, and it has also created additional income generation opportunities. It offers flexibility and accessibility, but at the same time, it is very challenging regarding taxation, regulation, as well as worker protections. These dynamics are vital to policymakers who want to incorporate gig work into formal economies and shoulder any novel problems that it brings.⁹

CHALLENGES

There are many issues emerging from the gig economy that especially affect developing economies. These issues require a deeper understanding of economic, social, and regulatory dynamics. The first of these challenges is the classification of gig workers, which has

⁸ Monga, S (2021) 'Social Security for Gig Workers: A Case Study from India' (2021) 12(2) *Asian Development Review* 35.

⁹ Lee, K (2020) 'Gig Economy: A Global Regulatory Framework' (2020) *International Labour Law Journal* 10

ramifications for taxation, labour rights, and social protections. Aside from being a few of the benefits of full-time employment, many gig workers are deprived of paid leave, social security, and health insurance because they are the ones termed independent contractors. With this distinction, governments are unable to provide adequate worker protections while also contributing to the social welfare system. Moreover, a lack of clear standards and laws enables the gig economy to exploit workers, who are deprived of any legal recourse against unfair treatment or unsafe conditions.

Under another set of threats for the gig economy lies this issue of income instability for gig workers. They enjoy their freedom to pick and choose their work hours and locations, but their earnings are unstable, as they are based primarily on the amount of work available and extrinsic circumstances such as market demand and competition. This creates an environment in which gig workers, especially from developing countries, might frequently find it hard to fulfil the basic needs of existence, much less save for the future. When compared to salaried counterparts, there is the "uncertainty of a permanent income," which makes it difficult for workers to balance their personal needs and sustained savings for big projects like acquiring shelter, a good educational offer, or retirement benefits. Financial insecurity has remained particularly pronounced for gig workers from countries where little or no form of social safety net or unemployment benefit exists.[Graham, M, Wood, A and Lehdonvirta, V (2017) 'The Gig Economy in the Global South' (2017) 56(4) Journal of Labour and Society 99.]

Gig economy taxation presents unique challenges for governments in developing economies. As gig workers tend to be independent contractors, most bear the burden of reporting and paying taxes for themselves. But many gig workers are oblivious to their tax obligations, while others do not possess the resources to process tax codes or simply find the conclusion too complex to abide by willingly. This, therefore, creates an enormous gap in tax revenues-the revenues that could be generated but are lost to non-compliance or outright tax evasion. Because of the informal nature of gig work, workers often are not duly registered with tax authorities, thus cloaking their earnings and making it difficult for governments to chalk out and implement appropriate policies for taxation."

Further exacerbated by this digital divide is the bleak situation in many developing countries. Even as digital platforms catalyse the blossoming of the gig economy, they also find many developing nations grappling with the factors of limited internet access, low digital literacy, and poor technological infrastructure. This lack of access to digital tools and platforms stands

to disenfranchise gig workers from getting their hands dirty working within the digital economy, and also complicates the government's attempt to track earnings and enforce tax laws, not to mention the possibility of an empty-handed approach to Digital Services offering for tax reporting and payment.[Johnson, M and Hayes, A (2020) 'Taxation and the Gig Economy: A Comparison of Models in Developed Economies' (2020) 22(1) Tax Policy Review 78.]

Besides, the platform itself further contributes to these issues. These platforms, while providing Uber, Airbnb, or Upwork gig workers with employment opportunities, often prioritise profits over the rights of workers. Most platforms fail to withhold taxes on behalf of gig workers, thereby shifting the burden onto the workers. This practice of identifying workers as independent contractors to deny them benefits or tax obligations is also engendering debate about worker misclassification and the exploitation of gig workers: in many instances, the platforms do exert considerable control over the work by determining the pay, the hours that have to be worked, and performance standards. [Bawany, N (2020). Regulating the Gig Economy in Pakistan: Policy and Challenges (2020) 15(3) Pakistan Economic Journal 42.]

As a consequence of these challenges, the governments in developing economies have begun exploring regulatory frameworks. Such frameworks set up a formalised structure for gig work, thereby ensuring workers' protection and properly collecting tax revenues. Some states, such as India and Brazil, have started to introduce legislation identifying gig workers as a separate class of persons, with some protections provided to ameliorate the taxation issues confronted in gig work. Yet the majority of these efforts remain nascent, facing critical implementation issues.

In addition to creating new policy frameworks, the gig economy also presents a number of tax challenges beyond the borders, with many gig workers performing work internationally. For instance, a graphic designer in India may be working for a client in the United States, thereby making the application of tax laws difficult. Governments find it difficult to impose taxes on income that is produced across national borders, thereby leading to the possibility of either double taxation or non-taxation of cross-border gig work. This brings to light the need for international collaboration in regulating and taxing the gig economy. [Ali, R and Shah, A (2021). Regulation of Gig Workers in Pakistan' (2021) Pakistan Labour Journal 67.]

In fact, beyond these challenging areas lie some major avenues and opportunities for reform and innovation in the gig economy taxation system. Governments can apply the latest digital technologies to enhance tax compliance and develop modern and simple tax systems for gig workers. Mobile applications that would track all earnings and automatically calculate tax obligations could make tax compliance very easy for workers. On the other hand, international cooperation could facilitate uniform tax structures for cross-border gig work to protect the workers against double taxation and guild fair contribution to the global tax system. [Aslam, M (2020). The Role of Digital Platforms in the Gig Economy (2020) 14(2) Global Business and Economics Review 50.]

In conclusion, the gig economy is set to change the shape of labour markets in developing economies and thereby offers workers plenty of avenues for earning income. However, this transformation presents serious challenges in terms of taxation, regulation, and worker protection. Governments need to fashion innovative solutions and legal frameworks to deal with these challenges and ensure that the benefits of the gig economy are fairly distributed. On account of the continuous growth of the gig economy, it is pertinent that both policymakers and platform providers collaborate to pave the way for a fair, transparent, and sustainable environment for gig workers.

LEGAL FRAMEWORKS IN DEVELOPING ECONOMIES

The issue of the gig economy is especially problematic in the context of developing economies because this kind of employment introduces new employment relationships that cannot be described by the current legal regulations. The traditional labour laws, not intended to deal with the non-formal employment relationship, have not been able to meet the nature of the gig work, especially how the workers will be classified, how they will be taxed, and how they may be socially protected. Classification of gig economy workers is one of the major problems of the gig economy. The gig workers can easily find themselves in the grey space between the employee and independent contractor boundaries, meaning that governments cannot figure out their rights and duties. In a good number of the developing economies, gig workers are categorised as independent contractors, making the platform providers not liable to offer health insurance, paid leave and pension benefits. This informal classification results in a misunderstanding of labour rights and protection. Other developing nations have enacted laws that consider the gig Workers as a separate form, and they are given some rights, including minimum wage and social security, without necessarily being full workers. Nonetheless, such

initiatives are in their infancy, and most countries are yet to develop elaborate legal systems for gig workers.¹⁰

Another area where the law in developing economies fails is in the taxation of the gig worker. Gig workers usually have to pay their taxes themselves, and their salaries are usually irregular and change depending on the demand. It becomes hard on the part of the tax bodies to monitor revenue and ensure compliance. Gig workers are working in informal sectors in most of the developing nations, and sometimes they do not possess formal contracts or even business licenses, which makes them difficult to locate by the governments and thus difficult to tax as well. Moreover, gig workers are also either unaware of their taxes or act knowingly in their evasion. This establishes a huge tax gap, which denies governments substantial money. In other nations, like Mexico, straightforward tax regimes have been established, where gig employees can pay a fixed percentage of their incomes in taxes. On the same note, India is also considering utilising digital tax systems to monitor income and enhance tax collections. Such efforts will minimise the administrative costs of gig workers and tax authorities, but suffer because of low digital literacy and poor technology access in underserved regions or rural settings.¹¹

Another topical issue in developing economies is social coverage of the gig workers. Other forms of social safety nets are traditional, such as unemployment policies, pension systems, and healthcare systems, which usually support people in permanent employment, so there is no support scheme available to gig workers. Gig workers in most of the developing economies have been locked out of formal social protection initiatives due to the already-existing weak social protection systems. Such inability to access healthcare, retirement benefits schemes, and paid leaves puts gig workers at risk of participating in the free flow of the economy, especially during times of sickness, injuries, or economic depressions. Countries such as South Africa have suggested a universal basic income (UBI) to workers in the gig economy to ensure a security net for people in the informal sector. Although these notions are still in their infancy, they indicate a significant move to close the social protection gap. Likewise, other countries such as Kenya and Nigeria have been contemplating the use of micro-insurance as a way to provide the gig workers with affordable health insurance and other primary benefits. The goal of such initiatives is to provide social protection to the gig workers, although their viability will

¹⁰ Abelson, P and Gray, E (2019) 'Employment Relations in the Gig Economy: A New Legal Framework' (2019) *Australian Labour Law Journal* 122.

¹¹ Tsolakis, L (2021) 'Taxation of Freelancers and Gig Workers: A Developing Economy Perspective' (2021) *Taxation Policy and Law Journal* 88.

be limited by the capacity of governments to finance the infrastructure that will be required and to access remote workers.

Taxation is one of the most common challenges in the gig economy, where most gig workers have clients in foreign countries. This poses problems to taxing authorities tasked to ascertain the country or territory where the income was acquired, and the country that has the right to tax the income. Developing countries have workers who give services to customers in the developed world, and although the business may be conducted correctly, the earnings may not be sufficiently taxed using the local taxation methods. In a bid to resolve this problem, certain governments are considering international taxation agreements where taxation on international gig worker earnings can be imposed. That would necessitate international collaboration to design uniform tax regulations and avoid double taxation of gig employees. Nonetheless, this entails challenges of introducing such agreements, as cross-jurisdiction tax laws vary, and it may be quite difficult to impose tax compliance on international transactions.

Developing countries should include gig economy concerns in the legal frameworks they set up. Among the areas targeted for changes in law are establishing clear definitions and classifications for gig workers. The definitions and classifications must permit appropriate classifications of such workers without complicating the lives of the platform providers. Also, tax compliance can be enhanced, as can ease of administration, by the introduction of simple tax regimes and online tax management for the workers and the administration. Social protection reforms should also see to it that gig workers are not left behind, for instance, through a universal basic income or micro-insurance. In line with this, tax collaboration on an international level is an absolute must to bring some order to the complexity created by gig work in the international arena and for fair taxation. Thus, by legislating specific legal changes and devising new practices upon them, governments can begin regulating the dynamics of the gig economy to ensure that gig workers are protected and are fairly taxed. These reforms are necessary to ensure that the gig economy will not be a third-world economic agony but rather a framework that observes workers' rights and guarantees social stability.

CONCLUSION

The gig economy has emerged as a radical change in labour markets, providing a huge yardstick for individuals to earn, each with its own range of intersections with labour flexibility and employment opportunities. Developments in the area of gig work have mainly affected

developing countries, through which underdeveloped individuals in areas of unemployment or underemployment can interact with the rest of the world economy. Nevertheless, the fast emergence of gig work has created some topsy-turvy challenges with regard to taxation, worker protection, and legal framework. At this point, the gig work opens up a new problem where the opposing party cannot easily categorise them under labour relations, and this situation puts severe pressure on the existing laws that were never designed to accommodate such work. [Zong, H and Su, R (2020)]

One of the principal concerns is about taxing gig workers in developing countries. Since most gig workers are treated as independent contractors, they deal with tax issues on their own. This burden, coupled with the irregular incomes and diverse revenue streams that many gig workers are reliant upon, raises huge obstacles for governments in that they still track incomes and observing tax compliance. Legal authorities in these developing countries are, therefore, in trouble in that the informal nature of gig work makes it difficult for them to trace and register gig workers. Hence, governments may be required to innovate with highly simplified models for tax establishment, digital solutions for tax, and tax collection via platforms for clients in gig economy activities. Mexico and India present evidence that such models are able to make the tax filing processes smoother and improve compliance, notwithstanding their hiccups about digital infrastructure and potential financial literacy levels.

Just as important is the matter of worker protection. Gig workers in developing economies normally do not receive social benefits that are available to formal workers, such as health services, patient leave, and pensions. Without access to social safety nets, gig workers run into several vulnerabilities in the event of sickness, injury, or economic breakdown. Governments must, therefore, look into emerging models of social protection, such as universal basic income or micro-insurance plans, to consider gig workers. South Africa has initiated a universal basic income, and micro-insurance models are being explored in Kenya and Nigeria as potential solutions, although they are still early days. Strengthening gig workers' rights and benefits to the level of formal workers is an important service to reducing social inequalities brought about by the gig economy. [European Commission (2020) 'The Gig Economy: Challenges and Responses in the EU' (European Commission Report)]. The legal system of any developing economy must evolve to identify gig-workers as a separate labour category. These include clarifying work classification so that gig-workers are either classified as independent contractors or as employees, depending upon the type of relationship that they establish through

the work relationship. In countries like Brazil and India that are addressing these issues through legal reforms, possibly creating an entirely new category of gig workers could assist in protecting the rights of gig workers while giving clearer guidance to the platforms. However, these reforms will need to consider and ensure an appropriate balance between the need for flexibility in the gig economy and the need for protection in consideration of the local context and the economic reality of informal labour.

International cooperation will become highly important for the taxation of gig workers, particularly those who provide cross-border services. Due to the inherent nature of the gig economy, cross-border taxing issues must be dealt with under the auspices of international arrangements, which will set forth the standards for the common treatment of gig workers and prevent double taxation. These arrangements will help stop inequitable deductions or exclusion of gig workers from developing countries.

To conclude, while a gig economy has significant potential for individuals in developing economies, it also comes along with complex problems that call for pervasive legal and regulatory reforms. Such governments need to be proactive in establishing clear frameworks with respect to gig work by tying in measures for workers' protection, fair taxation, and social security. It is through such innovative legal responses, together with digital tax regimes and cooperation between governments and platforms, that the developing economies can collect the payoff of the gig economy, while still protecting the rights and well-being of gig workers. In matters of further expansion of the gig economy, these efforts will comprise a deciding factor to ensure that benefits from gig work are equal, sustainable, and able to enhance the economic development of these regions as a whole.