

# Making Growth Inclusive: a South-East Asian Experience for Accelerating Growth in Least Developed Countries

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World economic growth remained moderate in 2014, rising by 3.4%. The imperatives for stronger economic growth are greater than ever before. As developed countries continue to make valiant efforts to improve their growth figures, a number of emerging economies are encountering new domestic and international headwinds. And then there is the group of Least Developed Countries (LDCs) who are far more likely to be left behind if the support and attention of developed countries and international organizations are diverted away from them in their quest for higher growth. This essay underlines the need to keep the economic growth of LDCs on the international agenda, so as to narrow the development gaps among countries and make global growth inclusive.

The concept of LDCs was introduced to the discourse on development and growth in the early 1970s. This was the first time that a list of 25 original countries was compiled by the United Nations. The countries were identified to be low income and at early stages of development in economic and social sectors. Since then, the number of LDCs has grown to 48, with a quarter of them in the Asia-Pacific region and the rest in Africa.

Around 12% of the world's population live in the LDCs, with more than half of them belonging to the extreme-poor category. The LDCs account for less than 2% of the world's GDP, and around 1% and 0.5% of world trade in goods and services respectively. During the past four decades three countries (Botswana, Cape Verde and the Maldives) have moved out of the list of LDCs, and currently two more countries (Equatorial Guinea and Vanuatu) are in the pipeline to move out in 2016 and 2017 respectively. Despite notable progress made by the LDCs, most remain embedded with low capacities for development and growth. The development prospects of these countries are constrained not only by socio-economic impediments but often by adverse geo-physical locations. This is particularly true for landlocked countries and the small island nations. Some of them are especially susceptible to environmental changes and natural calamities.

There are economic, political and moral imperatives on the global community to make growth inclusive for all members. This can be achieved through support and cooperation for the weakest countries of the world. The Fourth United Nations Conference on the Least Developed Countries (LDC-IV) in Turkey in 2011 adopted the Istanbul Programme of Action (IPoA) for the LDCs. It stated that "Least developed countries represent an enormous human and natural resource potential for world economic growth, welfare, prosperity

and food and energy security. A successful renewed and strengthened global partnership that effectively addresses the special needs of least developed countries will contribute to the cause of peace, prosperity and sustainable development for all."

The IPoA identified eight priority areas for action: i) productive capacity, ii) agriculture, food security and rural development, iii) trade, iv) commodities, v) human and social development, vi) multiple crises and other emerging challenges, vii) mobilizing financial resources for development and capacity-building, and viii) good governance at all levels.

There is an understanding that LDCs can develop their potential and capacities best when supported by development partners. Both international cooperation frameworks and bilateral cooperation programs can contribute to existing national development strategies and also the development commitments made by the LDCs in the multilateral bodies or programs. The development partners and regional partners are best placed to support the LDCs' growth strategy.

## Growth of LDCs in South-East Asia

The Association of South-East Asian Nations (ASEAN) comprises 10 countries — Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. Three of them are LDCs — Cambodia, Laos and Myanmar — and one, Vietnam, a less developed country. This group is commonly referred to as CLMV, although Vietnam is increasingly kept out of most supportive interventions due to its remarkable growth and largely successful distribution of it. ASEAN has worked towards the economic integration of the region, both from within and in the larger East Asia region. The formation of the ASEAN Economic Community (AEC) in 2015 is an important milestone in the economic integration of the region. The AEC is also complemented by the ASEAN Socio-Cultural Community and the ASEAN Political-Security Community. Together they form the ASEAN Community (AC). Progress towards the AC has a positive bearing on the integration and development of CLMV.

The challenge in forming the AC has been immense given the different levels of development in the member countries. ASEAN countries have a wide spectrum of development, with Singapore at one end and Myanmar at the other. In between there are the large economies of Indonesia, Malaysia and Thailand. ASEAN has

experienced significant economic progress and transformation during the past two and a half decades, highlighted by its golden decade of 1985-1996 of high economic growth and substantial structural transformation especially in Indonesia, Malaysia, Singapore and Thailand. After the financial and economic crises in ASEAN in 1997-1999, ASEAN had more modest GDP per capita growth during the next decade. However, this period witnessed the upward movement in growth among CLMV. There was a marked rise in the share of industry, and a corresponding drop in agriculture share, in the CLMV countries.

Investment, especially foreign direct investment (FDI), and foreign trade were the main drivers of growth in CLMV. Myanmar's economy effectively opened up to FDI and foreign trade only after 2011, and the pace of its "catching up" is lowest even among CLMV (*ASEAN Rising: ASEAN and AEC Beyond 2015*, ERIA, 2014).

Low levels of labor productivity are a key concern in CLMV, mainly because of the large proportion of the workforce still employed in the relatively low labor productivity agricultural sector. Increased integration into regional production chains resulting from regional economic cooperation agreements has provided new opportunities in both the agriculture and manufacturing sectors. The rapid growth in manufacturing in Vietnam (in garments, computers and mobile phones) is already contributing to a rapid acceleration in urbanization. In Cambodia, Laos and Myanmar, regional integration is likely to stimulate growth in agriculture, industry and services. Nevertheless, rural-urban migration and growing urbanization is likely to accelerate with increasing integration (*Economic and Technical Cooperation under the RCEP*, ERIA, 2015).

Supported by increasingly open economies in ASEAN, the export orientation of much of the FDI, and the deepening integration of a number of ASEAN member states in the regional production networks in East Asia, CLMV have benefited to an extent not seen among the LDCs of Africa, or even those in South Asia. The South-East Asia region is the host to, and driver of, production networks in East Asia. The location of CLMV in this region and becoming a part of ASEAN has worked favorably for their growth strategy. It has also enabled the region to become more inclusive in its growth, and set a model of growth for LDCs through support and cooperation programs. However, domestic investment and development policies in CLMV need continued adaptation to reflect this reality and to ensure that national economic benefits from integration are

TABLE 1

### ODA received in 2013

	% of GNI	US\$ per capita	US\$
Cambodia	5.56	53.17	804,810,000
Laos	3.97	62.19	421,000,000
Myanmar	—	73.88	3,934,810,000
Vietnam	2.49	45.53	4,084,770,000

Source: WDI World Bank

maximized, and potential adverse social impacts are ameliorated.

CLMV have been hugely supported by development partners and ASEAN members. This support has ranged from Official Development Assistance (ODA), infrastructure development, capacity development, aid for trade, human resource development and institutional strengthening across sectors. The major recipients of ODA (both technical and investment assistance) till 2013 were Cambodia, Laos and Vietnam. Cambodia and Laos received inflows of \$804.8 million and \$421 million respectively in 2013. ODA disbursements to Myanmar picked up substantially during the same period and amount to \$3.9 billion, while Vietnam received the highest total ODA inflows of \$4.08 billion.

### Economic & Technical Cooperation for CLMV

A wide range of economic and technical cooperation (ETC) support is being provided by regional institutions to develop infrastructure, improve capacities, and facilitate trade and economic activities in CLMV. This support, which is instrumental in deepening the integration of CLMV into the region, includes the following:

- National-level capacity building initiatives supported by bilateral and multilateral development agencies.
- Development support provided through existing ASEAN+1 FTA (Australia & New Zealand, China, Japan and South Korea).
- ASEAN-Mekong Basin Development Corporation: proposed railway corridor from Singapore to Kunming, Yunnan through peninsular Malaysia, Thailand, and Laos, with branches connecting Cambodia and Myanmar.
- ASEAN Initiative for ASEAN Integration: programs in economic, socio-cultural, political security.
- The Greater Mekong Sub-region (GMS) initiative, (involving

CLMV, plus China and Thailand) includes support to the physical foundations of integration (roads, seaports, airports, power transmission, and economic corridor development), and trade and investment facilitation.

- The Mekong Ganga Cooperation involves cooperation between Cambodia, India, Laos, Myanmar, Thailand and Vietnam in tourism, education, culture, transport and communication.
- Development support provided through APEC ETC Steering Committee.
- United Nations Economic and Social Council for Asia-Pacific also provides regional trade and investment related development assistance. Its annual flagship report on trade and investment provides practical insights on priority areas for action to improve regional trade and investment.
- The OECD Southeast Asia Regional Program was formally established in 2014 to support domestic reform processes and contribute to regional integration initiatives, while facilitating access to the expertise of OECD bodies and adherence to our instruments. The OECD has already published two influential publications on regional economic cooperation and reducing regional development gaps.
- The Economic Research Institute for ASEAN and East Asia (ERIA) was established in 2007 to contribute to regional efforts for East Asian Economic Integration in wide-ranging policy areas from trade and investment to SMEs, human resource development, infrastructure and energy. ERIA provides capacity building support in CLMV for narrowing of development gaps and regional integration.

### Assistance & Support from International Organizations

A wide range of international ETC facilities are being conducted in ASEAN, which are helping CLMV to undertake reforms related to economic growth and integration. The World Bank Trade Facilitation Facility is a multi-donor trust fund launched in 2009 that aims to help developing countries improve trade facilitation systems to reduce trade costs. Governments can request TFF support “to improve infrastructure, institutions, services, policies, procedures, and market-oriented regulatory systems that enable firms to conduct international trade on time and at lower costs.” The World Bank also administers the second Multi-Donor Trust Fund for Trade and

TABLE 2

### Growth indicators for CMLV (US\$)

	2013		
	GDP	FDI Inflow	Exports
Cambodia	15,238,689,686	1,345,044,252	10,016,232,876
Laos	11,242,526,454	426,667,686	3,045,113,746
Myanmar	—	2,254,603,972	11,293,311,408
Vietnam	171,390,003,299	8,900,000,000	142,635,000,000

Source: WDI World Bank

Development (MDTF-TD2) which targets: i) trade competitiveness and diversification; (ii) trade facilitation, transport logistics and trade finance; (iii) support for market access and international trade cooperation; and (iv) managing shocks and promoting greater inclusion.

The WTO Trade Facilitation Agreement is a coordinated approach to assist developing, transitional and LDCs to reap real and sustainable benefits from it and bring stronger economic development for their citizens. It provides an opportunity to achieve deep and sustainable trade facilitation reforms that will have a long lasting and positive impact on development, transition and LDC economies and will enable them to more fully participate in the global economy. The WTO provides integration-related support to Cambodia, Laos and Myanmar under its Enhanced Integrated Framework for trade-related assistance for LDCs.

CLMV are integrated into the South-East Asia and East Asia region by way of trade and investments. A reduction in the development gaps in the region, and integration of CLMV into the AC has been largely through trade and economic activities. Consequently, the trade-related support and economic cooperation being provided to CLMV is diverse. This is also because of the priority the AC attaches to reducing development gaps in the region.

### ODA & ETC for Trade-Related Support to CLMV

The World Bank is implementing a multi-donor funded trade facility in Cambodia. This \$12.6 million Trade Development Support Program Project aims to assist the government of Cambodia in its capacity to formulate and implement effective trade policies. Additional trade-related support is provided by the Asian Development Bank (ADB), International Finance Corporation, United

Nations Development Programme (UNDP), and United States Agency for International Development. Many donors (including newer donors such as South Korea, China and Thailand) are providing related support (e.g. for SME development, regional cooperation and infrastructure development).

The World Bank is also implementing the second phase of a multi-donor funded trade facility in Laos which is funding a broad range of trade related initiatives (e.g., policy analysis, capacity building, development of sanitary and phytosanitary institutions, trade facilitation, information dissemination, and business support services). The \$14.0 million 2nd Laos Trade Development Facility supports implementation of government trade and integration priorities. Other donors such as the ADB, UNDP, International Trade Centre, and Germany, South Korea, and new donors such as China and Thailand, are also providing trade-related support, as well as broader development support for SMEs, a business-enabling environment and infrastructure development.

Development programs for Myanmar are being expanded following recent economic liberalization and reforms. While the initial focus was on humanitarian and social development, more ODA is now being provided for economic infrastructure and broader development initiatives. Myanmar has also been involved in technical assistance and dialogue activities under the GMS program since its inception. China has provided substantial support for infrastructure development in Myanmar. Thailand is increasing its development assistance to Myanmar.

In Vietnam, the World Bank and ADB have supported trade and investment related initiatives, with technical assistance (e.g. studies on logistics, policy lending, and project lending). The EU continues to provide long-term trade-related support under its Multilateral Trade Policy Assistance Projects project while a multi-donor financed “Beyond WTO” program was completed in March 2014. The ADB is providing support for SME development and state enterprise reform. Donors are funding many other trade-related initiatives in Vietnam (e.g. Japan, Australia, South Korea, Switzerland, and the US are all funding competition and business-enabling environment initiatives).

## Lessons from South-East Asian Experience in Inclusive Growth of LDCs

Ensuring adequate flow of ODA remains one of the major implementation challenges for inclusive growth. The current state of the global economy and the projected outlook suggest headwinds to

these activities. Developed partner countries and international organizations must sustain their financial commitments to the LDCs. Indeed, a South-South cooperation can play an important role in maintaining a steady flow of resources to the LDCs. The inclusion of China, Thailand and India in the list of countries supporting CLMV is a trend which is welcome for the region. The support given by Australia and New Zealand to CLMV, both through the ETC program in the ASEAN-Australia-New Zealand FTA and bilaterally, is a model for “geographical inclusion” which can be emulated in other regions which are home to LDCs.

Given their participation in the regional production networks, the overall development prospects of CLMV will be impacted by regional and global economic scenarios, affecting their export revenues, remittance flows and FDI. This also provides a strong message to them that they need to strengthen their domestic resource mobilization efforts.

CLMV national development strategies recognize that sustained, effective and efficient national investments in developing human capital and labour skills — complemented by improvements in infrastructure development and improvements in the business-enabling environment — will be critical in accelerating the pace at which development gaps are reduced. The CLMV Action Plan 2015 includes priorities related to economics — trade, human resources development, and capacity building.

The most practical lesson learnt from the South-East Asian experience in supporting the LDCs growth is aid effectiveness. The fragmentation and duplication of aid activities in CLMV has a cost to it and there is an urgent need to review the support and cooperation programs in terms of their efficiency and effectiveness.

Ultimately, the South-East Asian experience in integrating the LDCs and helping to reduce the development gaps is a working model of “support and self-help”, where the regional players and institutions are helping CLMV to develop and strengthen their own institutions and overcome their structural weaknesses. The growth of CLMV is also the most illustrative example of successful regionalism.

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