



Engaging with Asia's Advanced Middle Income Countries

Saku Akmeemana, DFAT-DPD

Sam Chittick, Asia Foundation

Michael Wilson, DFAT-DPD

William Cole, Asia Foundation

**Australasian Conference
February 2018**

Rising Wave of AMICs in Asia

Countries Ranked by GNI per Capita

Lower Income

Afghanistan	630
Nepal	730

Lower MIC

Cambodia	1070
Bangladesh	1190
Myanmar	1280
Pakistan	1440
India	1590
Laos	1730
Timor Leste	1920
Vietnam	1980

LMIC - near AMIC

Indonesia	3440
Philippines	3540
Sri Lanka	3800
Mongolia	3830

Advanced MIC

Thailand	5620
Maldives	6670
China	7820
Brazil	9850
Turkey	9950
Malaysia	10570
Chile	14060

Developed

Taiwan	20925
Greece	21090
Korea	27440
Spain	28520
Brunei	36710
Japan	36680
UK	43340
Singapore	52090
USA	54960
Australia	60070

- Asian countries
- Non-Asian

IMF Data, 2015

What Makes AMICs Different from LMICs?

- ❖ Poverty reduced, strong social indicators, large middle class
- ❖ Economies are more advanced, integrated into global markets
- ❖ More urbanized with better educated populations
- ❖ Greater in-country capacity to address their own problems
- ❖ Greater national confidence - more skeptical of donor wisdom and motivation
- ❖ Greater ability to engage with and shape external environments
- ❖ **Most traditional forms international aid end as countries enter their AMIC phase**

Core Challenge: Maintaining Economic Growth

Problem: Comparative advantage based on cheap labor (capital accumulation and labor reallocation) begins to fade...

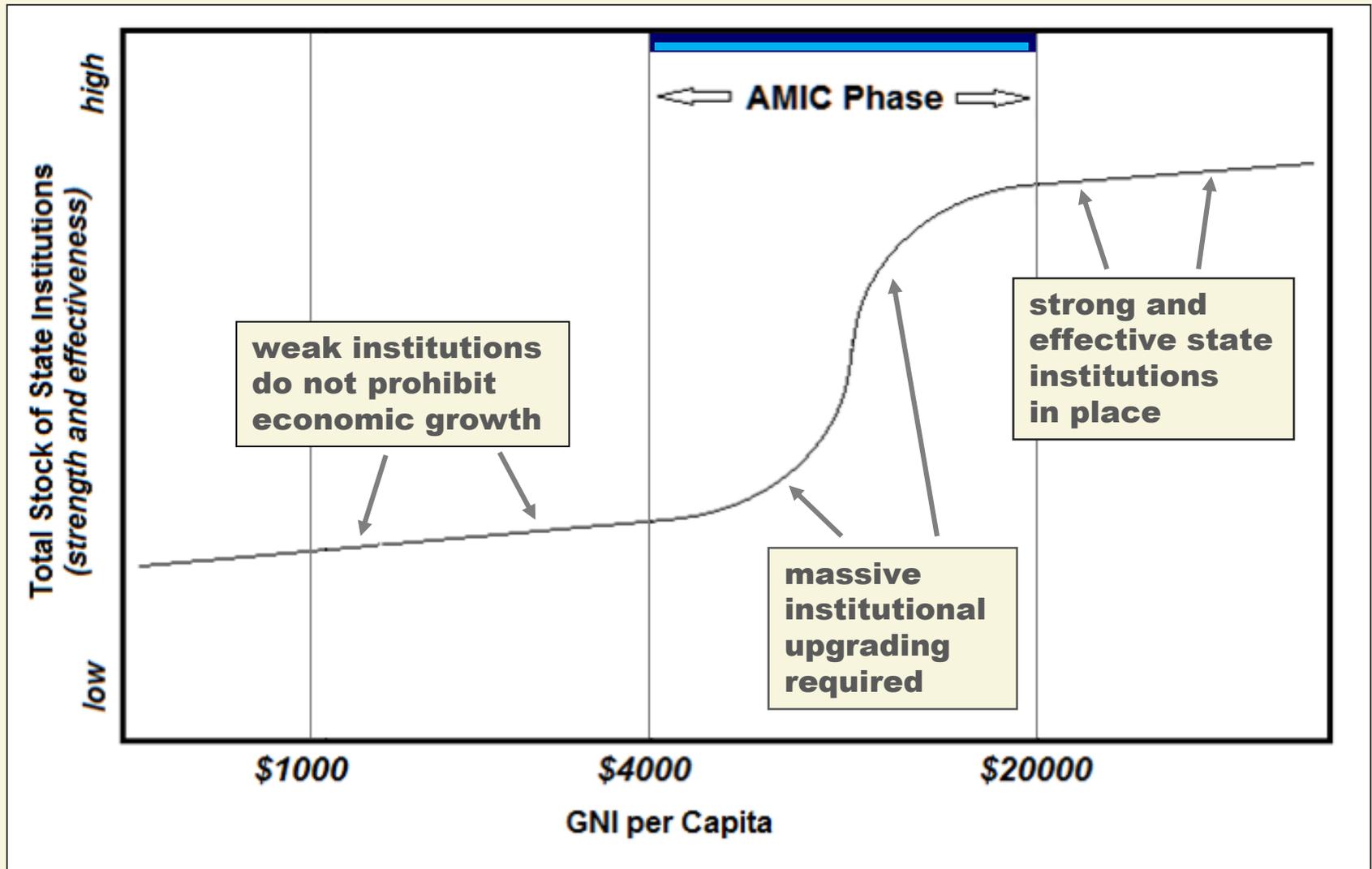
- ❖ **Remaining competitive requires that firms and countries achieve levels of productivity/innovation closer to advanced economies**
- ❖ **Moving toward the latter requires *economic upgrading*—the breadth, scale, and technical complexity of which is immense**
- ❖ **Failure, or significant delay, in pursuit of this upgrading agenda leads to stalling growth...one form of the **Middle Income Trap****

Economic Upgrading: What Does it Take?

Improvements across a very broad front...

- Macroeconomic stability: **debt management; monetary policy**
- Access to skilled workers: **education; labor reform; immigration**
- Access to ideas & technology: **IPR; FDI; “national innovation system”**
- Financial markets reform: **improved banking and capital markets**
- Spurring entrepreneurship: **regulatory barriers, incentives mix**
- Economic diversification: **diversifying basket of products and sectors**
- Stable and predictable government: **efficient and effective *public administration*; efficient and fair *legal system*; counter-corruption**
- Improved physical infrastructure: **energy, water, transportation, ITC**
- Adequate security: **conflict management; organized crime; CVE**
- Enhanced resilience: **disaster management; global econ shocks**
- Urban development: **growth, dynamism, innovation happens in cities**
- State revenues must increase: **tax reform; PFM**

Thought Exercise: S-Curve in State Institutional Development



Underlying Challenge: Political Management

Why is it so difficult for AMICs to make progress on upgrading?

- ❖ Reform *always* creates winners and losers...powerful actors react
 - ❖ Economic policy gets drawn into broader currents of partisan conflict
 - ❖ Skilled **political management** by leadership is essential
 - building and sustaining consensus
 - ensuring benefits/losses are shared (inequality)
 - insulating key technocratic decisions from partisan politics
 - ❖ Political management is complicated by growing fault lines in AMICs
 - ❖ New technologies are increasing the leverage of all factions—social media, disinformation, and psychographics make consensus harder
- ➔ Implication: Ineffective political management of reform processes is likely to be a key driver of growth slowdown in AMICs

Time Available for AMIC Transitions is Shortening

- ❖ Growth rates in AMICs today are slower: S-Curve has flattened
 - ❖ Do Asia's AMICs have 40-50 years to make the transition?
 - ❖ At least three trends will complicate, and may derail, AMIC transitions in some Asian countries:
 - climate change—uncertainty but increasing severity
 - demographics—greying populations
 - automation—may undermine EOI growth strategies
 - ❖ Perfect storm with growing impact 1 to 2 decades out
- ➔ Implication: Current relatively leisurely pace of upgrading reform must be accelerated

The Asian Century?



Australian Interests: Diplomacy and Aid

- ❖ **What are Australian interests in Asia's emerging AMICs**
- ❖ **To be effective in post-aid AMICs, how much will external actors need to adjust their approaches, expectations, forms of cooperation?**
- ❖ **Principles of engagement in AMICs?**
- ❖ **New forms of bilateral cooperation—how much innovation and experimentation is needed?**
- ❖ **How to mesh response to evolving development challenges in AMICs with broader Australia interests in these countries and the region?**
- ❖ **How does all this fit in the context of the White Paper?**

MANY THANKS