Engaging with Asia’s Advanced Middle Income Countries

Saku Akmeemana, DFAT-DPD
Sam Chittick, Asia Foundation
Michael Wilson, DFAT-DPD
William Cole, Asia Foundation

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Rising Wave of AMICs in Asia

Countries Ranked by GNI per Capita

<table>
<thead>
<tr>
<th>Lower Income</th>
<th>LMIC - near AMIC</th>
<th>Developed</th>
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<tr>
<td>Afghanistan</td>
<td>Indonesia</td>
<td>Taiwan</td>
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<td>Nepal</td>
<td>Philippines</td>
<td>Greece</td>
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<td>Lower MIC</td>
<td>Sri Lanka</td>
<td>Korea</td>
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<td>Cambodia</td>
<td>Mongolia</td>
<td>Spain</td>
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<td>Bangladesh</td>
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<td>Myanmar</td>
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<td>Pakistan</td>
<td>Sri Lanka</td>
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<td>India</td>
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<td>UK</td>
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<td>Laos</td>
<td>Indonesia</td>
<td>Singapore</td>
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<td>Timor Leste</td>
<td>Philippines</td>
<td>USA</td>
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<td>Vietnam</td>
<td>Sri Lanka</td>
<td>Australia</td>
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<th>Advanced MIC</th>
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<td>Thailand</td>
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<td>Maldives</td>
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<tr>
<td>China</td>
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<td>Brazil</td>
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<td>Turkey</td>
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<td>Malaysia</td>
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<td>Chile</td>
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- **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

- Weak institutions do not prohibit economic growth
- Massive institutional upgrading required
- Strong and effective state institutions in place
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