

# Is there a role for foreign development assistance in middle income Asia?



by Rosita Armytage

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Across Asia countries are rapidly transitioning from low to middle income status. This transition is enormously positive, pulling millions of Asians out of poverty, massively increasing levels of education, and creating new opportunities for employment and wealth accumulation. But the 'miracle' of Asian growth is deeply unequal, with many in middle-income Asia continuing to experience extreme poverty, and exclusion from the benefits of the thriving regional economy.

The reality is that most of the world's poor no longer live in low income countries. Most of the world's extreme and moderate income poor now live in **lower-middle income countries** [pdf]. In many parts of Asia, economic growth has not alleviated poverty: extreme and moderate poverty have persisted despite higher levels of average per capita income. In Asia, the countries that have achieved lower-middle income status include (in order from lowest to highest income) Vietnam, the Philippines, Indonesia, India, Mongolia and Sri Lanka. Those in the upper-middle income category include China, Thailand, Timor Leste, and Malaysia. Across Asia, the Gini coefficient (the most widely used measure of inequality) has actually **increased** from 39 per cent to 46 per cent.

Income inequality has even widened in China, India and Indonesia — the very countries that have powered the region's economic growth. Even in lower-middle income countries where inequality has not increased, it has remained **persistently high** [pdf] at around 45 per cent for the last 20 years despite overall national economic growth.

This reality has profound implications for where and through which means international development assistance is now delivered.

Middle income countries face the challenge of ensuring stable economic

environments, developing human capital, remaining competitive in the global market in the face of rising labour and production costs, improving governance, and tackling growing inequality. Many in the development industry are now focusing on these issues. But many in the development industry are now asking: Is there a role for foreign development assistance in middle income Asia? And if so, in which areas and in which ways can foreign assistance make the most useful contribution?

It is clear that the assistance international development organisations can provide to middle income Asia is dramatically different from the assistance it has historically provided to low income Asia. Middle income Asia has a large and growing skilled and educated domestic workforce capable — as demonstrated in the remarkable developments of the last two decades — of leading and managing the significant economic policy reforms required to support transformational economic growth. For many of Asia's upper-middle income countries the need for overseas development assistance funds is debatable.

The largest challenge these countries face is not economic growth: Asia has grown and continues to grow rapidly. The largest challenge is the distribution of that growth. This is something in which international development organisations can play a constructive role.

Part of the value-add of foreign assistance is that it is by definition external and not an integral part of domestic political, economic and social power structures. Though aid is inherently political, it does not necessarily operate within the domestic power structure. This outsider role has value.

In the domestic sphere, trusted foreign development organisations have the ability to convene domestic political players and to facilitate dialogue between domestic decision-makers and those who risk falling by the wayside of emerging opportunities. Regionally and internationally, foreign development organisations can also serve in a facilitation and convening role, bringing together regional and international leaders and experts, facilitating the sharing of regional experiences, and supporting regional policy analysis and information sharing. The Australian government has often positioned itself as part of, but separate to, Asia and taken on this convening role, albeit with varying levels of success. Development organisations, including smaller non-governmental organisations with less historically sensitive identities in the region, have also successfully served in this role in discrete instances.

Importantly, international development organisations can keep equity and wealth distribution front and centre in both international and domestic agendas. They can also stand by to provide assistance to Asia's middle income governments and

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citizens on creating and implementing policies and programs of inclusive economic growth, if and as needed.

*Rosita Armytage is a PhD candidate in Development Studies at ANU, and an independent development consultant.*

### **Author/s:**

#### **Rosita Armytage**

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