



Initiative for ASEAN Integration

Policy Brief 3

Policy Recommendations for Narrowing the Development Gap in ASEAN

Introduction

There is significant variance in development achievements between ASEAN countries. Gaps in development assessed using various indicators (including the Human Development Index) are large and will require comprehensive and sustained efforts to reduce over the coming years. For example, the gap in income per capita between the ASEAN-6 and CLMV has increased by approximately 10% over the last 11 years, and shows little evidence of becoming smaller (see Figure 1), while the gap in average human development achievement between the ASEAN-6 and CLMV, which is also large, has converged by about 13% during the same period (see Figure 2).

A number of development driver disparities influence relative and absolute development achievements across ASEAN. These include differences in infrastructure endowment, and in governance and institutional quality measurements.

Overall, the relative rankings for measures of governance and institutional quality have fallen for almost all ASEAN countries over time. ASEAN can therefore be characterised as a region with increasing income disparity and inequality, slowly converging human development, but increasingly poor governance and institutional quality. This analysis stresses the importance of focusing on inclusive growth and improving governance and institutional

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capacity across all ASEAN countries but with priority given to the CLMV group of countries.

That priority be given to the CLMV countries in all areas of policy is absolutely essential to reducing the ASEAN development gap. If future policy interventions equally benefit all ASEAN members then it must follow that the development gap will increase given that the ASEAN-6 countries presently experience higher levels of human development achievement than their CLMV counterparts. The aim of policy should be to assist all ASEAN member states to achieve higher levels of development, but the intention should be to assist the CLMV to benefit disproportionately in this regard. It is for this reason that the policy recommendations outlined herein focus largely on the CLMV countries.

Figure 1: Differences in Achievements in Income between ASEAN Countries, 1980 to 2011

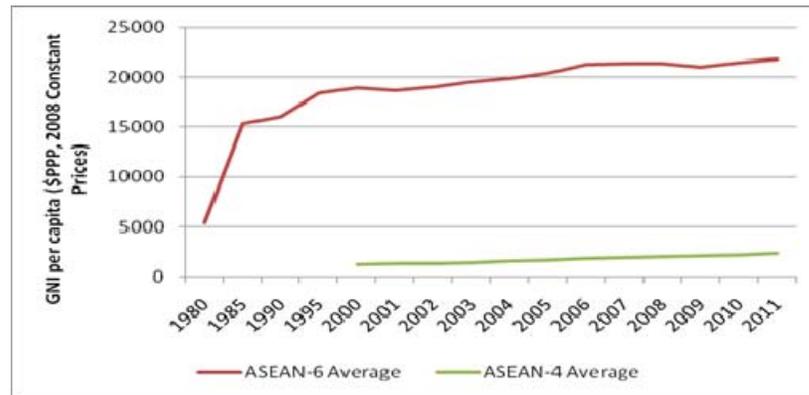
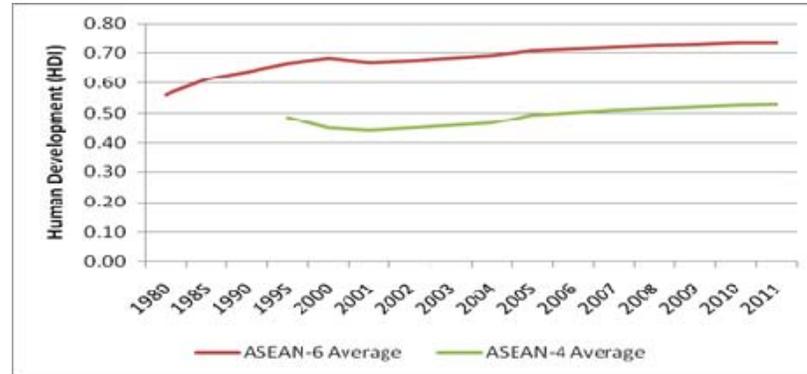


Figure 2: Differences in Human Development between ASEAN Countries, 1980 to 2011



Policy Recommendations

A large number of policy interventions affect development gaps in ASEAN. These policy interventions seek to influence the drivers of development. These drivers are important as they contribute to the widening or narrowing of the development gap. These drivers include: physical capital, openness to trade, human capital, financial sector development, governance, labour mobility, foreign direct investment and external development finance. These will be discussed in turn and policy recommendations will be suggested that pertain to each of these.

Physical Capital

Physical infrastructure investments in Cambodia, Lao PDR and Myanmar are too low to expect any significant human development improvement in the short term. As such, the nations of Cambodia, Lao PDR and Myanmar, and the donors that support them, should prioritise the following forms of physical infrastructure:

- Electricity coverage in Myanmar and Cambodia, which stands at 13 per cent and 24 per cent respectively, should be addressed as a matter of urgency.
- Road density in Myanmar, Lao PDR and Cambodia, which stands at 4, 17, and 21 kilometres of road per 100 sq. kilometres respectively, should be fast tracked. The focus in these countries should be on secondary and community roads which have been shown to have significant impacts on poverty in remote areas.
- Improved water sources in Cambodia and Lao PDR should be targeted to improve income, health and gender outcomes.
- Improved sanitation in Cambodia is a very high priority and should be targeted for the direct health benefits.
- Better alignment is needed between physical capital investments and those in health and education in the CLMV countries. The human development returns on investments are greater when physical infrastructure such as roads and electricity enables access to social services such as health and education. More needs to be done across the region to coordinate these activities which are often funded by different development actors; ASEAN has a role to play in the coordination of these issues.

Openness to Trade

Increasing CLMV trade flows with not only ASEAN-6 nations but with the rest of the world is important if the development gap is to be

narrowed. This is especially important for Myanmar, not only due to its relatively low development achievements but also because its exports and imports relative to GDP have trended downward over the last decade. To facilitate trade openness the following issues should be considered:

- CLMV countries should follow their ASEAN-6 counterparts by multilaterising their AFTA and various ASEAN +1 preferential tariffs.
- ASEAN and its Development Partners should work with Myanmar to facilitate targeted aid-for-trade to this country, focussing on trade-related technical assistance and trade-related infrastructure. A special taskforce with ASEAN could be established to look into this issue.
- ASEAN and its FTA partners should continue to strengthen trade ties in the region by prioritising negotiations around the Regional Comprehensive Economic Partnership, which commenced in November 2012. ASEAN has a central role to play in this partnership and in supporting CLMV countries negotiate this process.

Human Capital

Human capital is the stock of competencies, skills and knowledge possessed by individuals that can be used to produce economic value. Human capital takes into account not only education and training, but also the health status of individuals, as health status affects the ability to produce economic value. There are a large number of drivers of health and educational achievements including economic growth, appropriate government expenditure, and the effective delivery of quality services. The effective delivery of quality services is predicated upon the development of human resources, the provision of quality medical and educational products and appropriate governance arrangements.

The large ODA-funded health and education investments made by bilateral and multilateral agencies do not take into account the relative achievements of countries within the ASEAN region, these donors focus primarily on the absolute achievements of the country they partner with. This can actually lead to a situation where aid exacerbates relative achievement in health and education with ASEAN. ASEAN and its dialogue and development partners should use regional development cooperation as a compensatory mechanism to encourage the more unified achievement of education and health outcomes across ASEAN; specific policy recommendations might include:

- ASEAN could focus its health sector activities on child, maternal, and neo-natal mortality, quality healthcare delivery and other areas that contribute more directly to narrowing the development gap in life expectancy between ASEAN countries in complementarity with national level initiatives.
- ASEAN could analyse those best practices in health that contribute to improvements in life expectancy across ASEAN countries, and design activities that can build knowledge and capacity in the health sector through meaningful South-South cooperation at all levels. This may include triangular cooperation, which would see donors working with ‘pivotal’ and ‘beneficiary’ countries within ASEAN. For example, if Thailand’s experience in reducing infant mortality (which has been impressive) was found to be of particular relevance to Myanmar for example (who faces a big gap in this area), then programs could be established in a strategic way to initiate development cooperation activities that seek to draw on Thailand’s experience in this area. In this instance, Thailand is the ‘pivotal’ country and Myanmar the ‘beneficiary’. Similar triangular partnerships could be established for other health issues, based on sound analysis. It is important that

CLMV countries and pivotal countries together own this triangular process.

- ASEAN could focus its education sector initiatives on improving the education and training outcomes for adults and improving regional education cooperation particularly in technical and scientific education.
- ASEAN could establish a network of technical and vocational colleges and other adult education institutions.
- ASEAN could measure and monitor gaps in education and develop strategic interventions for the sharing of best practice across ASEAN countries using triangular cooperation modalities, along the lines of those discussed above for health.
- ASEAN could establish university-level exchange programs that target those areas of technical expertise that are, and will be, in demand in ASEAN.

Financial Sector Development

Overwhelming evidence shows that financial sector development leads to higher levels of economic growth and that the growth impacts are greater for developing, as opposed to developed, countries. Noting that very little is being done at the regional level by ASEAN with regards to financial sector development, the following issues could be considered:

- Efforts to strengthen the financial sector in Cambodia, Lao PDR, Myanmar and Viet Nam are a priority. Activities could be designed using dialogue and development partner funding that compares and contrasts the relative strengths and weaknesses of the financial sectors in CLMV (and poor ASEAN-6 countries) and capacity building programs could be developed that target public and private financial sector stakeholders to improve policies and practices.

- ASEAN could also develop capacity-building and knowledge-sharing projects that target the provision of financial services in rural and remote areas in the CLMV countries, and to the poor in urban areas including the provision of micro-finance and other financial sector products that are of potential benefit to the poor.

Governance

There is a strong positive correlation between governance and institutional quality and economic growth and income levels. Improved governance and institutional quality also leads to higher levels of human capital development which is an important driver of development. The governance driver interacts with many of the other drivers to improve overall performance towards narrowing the development gap.

Governance includes accountability, transparency, rule of law, political stability, bureaucratic capability, property rights protection, contract enforcement and the control of corruption. It is clear that ASEAN, on average, is not performing very well in many governance indicators and much more needs to be done, nationally and regionally to improve governance and institutional quality if the development gap is going to be narrowed more expeditiously. With those issues in mind:

- ASEAN could monitor the relative performance of low ranking ASEAN-6 and CLMV countries using readily available data and establish strategic capacity building and knowledge sharing activities that target the gaps that exist, in complementarity with national programs.
- ASEAN could establish a more robust analytical approach towards capacity development that focuses on identifying critical gaps in the CLMV public service that are not being addressed through national programs. CLMV countries

should work closely with ASEAN counterparts to identify these gaps.

- ASEAN could monitor and evaluate the outputs and outcomes of their capacity building activities and develop programs that better link individual capacity building to institutional and organisation change.
- There is also a need for ASEAN to do more to improve regional environmental governance. ASEAN needs to ensure that those projects which seek to improve ASEAN Connectivity (a public good) do not at the same time create 'public bads' through the creation of environmental externalities. This standardised approach to pan-ASEAN environmental regulation is a high priority for ASEAN and its dialogue partners.

Labour Mobility

Labour mobility is an important driver of development as it provides employment for workers from source countries, meets labour demand in receiving countries, and contributes to Gross National Income through remittances. Labour mobility also helps improve human capital outcomes for workers. In general, the benefits of labour mobility for sending countries outweigh any negatives that may result from the movement of skilled workers. It is highly likely, given the current economic inequalities that exist within ASEAN, that focusing on the freer movement of skilled workers will accentuate inequality and do little to narrow the development gap as it stands in 2013. As such the following policies could be considered:

- ASEAN could expand its labour mobility policies to include the movement of semi-skilled and unskilled workers. The movement of these workers should be a managed process and strategic in nature, in that it links demand with supply.
- ASEAN could prioritise the development of regional solutions to social protection.

- ASEAN could use regional development cooperation funds from dialogue and development partners to establish South-South cooperation in the area of migrant worker protection.
- ASEAN could ensure that semi-skilled migrant workers have access to adult education and the opportunity to improve skills through training in receiving countries.

Foreign Direct Investment (FDI)

FDI has played an important role in driving growth throughout ASEAN. It can also play an important role in narrowing the ASEAN development gap, provided a number of conditions are met. The first concerns the streamlining procedures governing the approval of investment projects and the provision of non-market distorting investment incentives. Once again, Myanmar is the stand out case among the CLMV countries, due to its low level of FDI. Over time it could follow the lead of its fellow CLMV group members in terms of procedural streamlining and incentive provision, with that in mind:

- A task force devoted to FDI promotion within Myanmar could be established by ASEAN. This task force should assess barriers to FDI in Myanmar and develop a work program to address these barriers. Beyond these efforts, prioritising development achievements in Myanmar through addressing all the drivers mentioned in this policy brief will help provide the preconditions necessary for greater FDI flows in Myanmar. The government of Myanmar should act to ensure that national policies and regulations provide an enabling environment for FDI. Richer ASEAN countries with strong FDI can provide important advice in this area.

External Development Finance (EDF)

The vast majority of EDF in the ASEAN region comes from bilateral and multilateral donors and from emerging Southern donors such as China. There are small amounts of development finance provided for regional development cooperation within ASEAN. Bilateral and

multilateral EDF is usually allocated to developing countries in ASEAN based on their absolute development requirements as enshrined in national plans or development agreements with donors. These allocations do not necessarily take into account the relative achievements of other developing countries in ASEAN. This may lead to the situation where EDF could actually exacerbate development gaps between countries. Where possible regional development cooperation should complement bilateral and multilateral funding and act as a compensatory mechanism to ensure the more equitable achievement of development outcomes across the region. This goes to the heart of the ASEAN equitable economic development agenda. In order to improve the effectiveness of the regional aid that is available, and to optimise the chances that it will contribute to a narrowing of the development gap the following recommendations could be considered:

- ASEAN could play a more strategic and influential role in regional development cooperation, through the development of an ‘ASEAN Narrowing the Development Gap Strategy’, that develops a strategic vision and promotes policies and interventions that specifically target development gaps as they stand in 2012. The policy recommendations suggested in this brief and the analysis undertaken as part of this broader project could provide some substance for this Strategy.
- Dialogue and development partners could ensure that a proportion of their planned expenditure from 2013–14 onwards aligns with the suggested ‘ASEAN Narrowing the Development Gap Strategy’, the same way donors align with development strategies at the country level. Stronger efforts should also be made by regional donors to harmonise regional support, and a mechanism for stronger regional harmonisation could be investigated.
- ASEAN could work with donors and other regional actors to develop an ASEAN Human Development Monitoring

Program, which can track the progress of ASEAN countries in various areas of human development.

- ASEAN could establish capacity building programs that seek to improve the capacity of CLMV public officials to effectively coordinate EDF. This could be carried out in the same triangular modality as discussed under ‘human capital’ above.
- ASEAN could use its position at the centre of the economic cooperation architecture in the region to promote regional development cooperation initiatives into wider regional forums such as ASEM, ASEAN+3 and the EAS in particular.

This policy brief was written by David Carpenter. It builds on the analysis and insights undertaken as part of the AusAID-funded ‘Narrowing the Development Gap in ASEAN’ publication, in particular:

Chapter Six: Carpenter, D., and M. McGillivray (2013) “Narrowing the Development Gap: Policy Recommendations for ASEAN and Development Partners” in McGillivray, M and D. B Carpenter (2013) Narrowing the Development Gap in ASEAN: Drivers and Policy Options, London: Routledge.



Narrowing the Development Gap
Promoting Inclusive & Equitable Growth in ASEAN



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