DEVELOPMENT CHALLENGES FOR SELECTED MIDDLE-INCOME COUNTRIES

1. This compilation provides an overview of key development challenge that middle-income countries (MICs) in Asia and the Pacific region face in general, with specific data and examples referring to 19 MICs for which country-specific investigations were made.

A. Macroeconomic Stability

2. **Fiscal and current account deficits***.* High and/or persistent fiscal deficits threaten macroeconomic stability in Pakistan (where the deficit is –8% of gross domestic product, GDP), Maldives (–7.7%), Mongolia (–7.1%), Sri Lanka (–5.3%), and India (–3.8%), as shown in Table 1. This means there is little fiscal space for investments and government expenditure (e.g., on infrastructure and delivery of social services). Tax reforms need to be pursued and other sources of revenues explored. In the People's Republic of China (the PRC), fiscal deficits have become evident at the local government level following the fiscal stimulus package introduced in 2008. For some MICs, including Mongolia and small island countries, significant current account deficits can lead to macroeconomic instability (Table 2).

Table 1: Fiscal Deficit (% of Gross Domestic Product)

Country	2005	2006	2007	2008	2009	2010	2011	2012
Azerbaijan	-	-	-	19.6	7.6	15.4	12.9	6.1
Bangladesh	(1.0)	(1.2)	(1.1)	(0.8)	(1.4)	(0.8)	(0.8)	-
People's Republic of China	-	-	-	-	-	-	-	-
India	(3.2)	(2.2)	(0.5)	(4.9)	(5.4)	(3.4)	(3.0)	(3.8)
Indonesia	-	-	-	-	-	(0.7)	(1.1)	(1.8)
Kazakhstan	-	-	-	-	-	-	-	-
Malaysia	(3.8)	(3.0)	(3.2)	(4.4)	(6.1)	(5.0)	(4.6)	(4.4)
Maldives	(8.1)	(4.8)	(3.4)	(10.6)	(19.4)	(15.0)	(7.7)	-
Mongolia	-	2.8	7.1	(3.3)	(4.1)	2.6	(2.6)	(7.1)
Pakistan	(3.2)	(3.9)	(3.9)	(7.2)	(4.6)	(5.0)	(6.4)	(8.0)
Papua New Guinea	-	-	-	-	-	-	-	-
Philippines	(2.8)	(1.3)	(1.4)	(1.2)	(3.8)	(3.5)	(1.8)	(1.9)
Sri Lanka	(7.0)	(6.9)	(6.5)	(6.6)	(8.9)	(6.3)	(5.8)	(5.3)
Thailand	1.9	1.4	(0.3)	0.0	(3.3)	(0.6)	(1.1)	(1.2)
Tonga	-	-	-	-	-	-	-	-
Turkmenistan	-	-	-	-	-	-	-	-
Uzbekistan	-	-	-	-	-	-	-	-
Vanuatu	-	-	-	-	(0.8)	(2.5)	(2.3)	-
Viet Nam	-	-	-	-	-	-	-	-

( ) = negative, - = no available data.

Note: Government cash surplus or deficit is revenue (including grants) minus expense, minus net acquisition of nonfinancial assets.

Source: World Bank. World Development Indicators 2016 Database. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed 27 July 2016).

Table 2: Current Account Balance (% of Gross Domestic Product)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Azerbaijan	1.3	17.7	27.3	33.7	23.0	28.4	26.0	21.8	16.6	13.6	(0.4)
Bangladesh	0.7	1.7	1.1	1.0	3.5	1.8	(0.1)	1.9	1.4	0.4	1.4
People's Republic of China	5.8	8.5	10.0	9.2	4.8	3.9	1.8	2.5	1.6	2.7	3.0
India	(1.2)	(1.0)	(0.7)	(2.5)	(1.9)	(3.2)	(3.4)	(5.0)	(2.6)	(1.3)	-
Indonesia	0.1	3.0	2.4	0.0	2.0	0.7	0.2	(2.7)	(3.2)	(3.1)	-
Kazakhstan	(1.8)	(2.5)	(8.0)	4.7	(3.6	0.9	5.1	0.5	0.4	2.0	-
Malaysia	13.9	16.1	15.4	16.9	15.7	10.1	10.9	5.2	3.5	4.4	3.0
Maldives	(24.4)	(20.5)	(15.4)	(28.9)	(10.2)	(8.4)	(15.7)	(7.3)	(4.6)	(3.8)	(9.4)
Mongolia	3.3	6.5	4.1	(12.3)	(7.5)	(12.3)	(26.5)	(27.4)	(25.4)	(11.5)	-
Pakistan	(3.3)	(4.9)	(5.4)	(9.2)	(2.4)	(0.8)	(1.0)	(1.0)	(1.9)	(1.5)	(0.6)
Papua New Guinea	11.1	6.0	0.9	8.8	(7.2)	(6.5)	(1.3)	(14.9)	(22.4)	14.1	-
Philippines	1.9	5.7	5.4	0.1	5.0	3.6	2.5	2.8	4.2	3.8	2.9
Sri Lanka	(2.7)	(5.3)	(4.3)	(9.5)	(0.5)	(1.9)	(7.1)	(5.9)	(3.4)	(2.5)	(2.4)
Thailand	(4.0)	1.0	5.9	0.3	7.3	2.9	2.4	(0.4)	(1.2)	3.8	8.0
Tonga	(8.2)	(16.7)	(13.5)	(26.9)	(30.7)	(21.6)	(19.3)	(8.5)	(7.5)	-	-
Turkmenistan	-	-	-	-	-	-	-	-	-	-	-
Uzbekistan	-	-	-	-	-	-	-	-	-	-	-
Vanuatu	(8.6)	(6.9)	(6.5)	(23.3)	1.7	(6.0)	(7.7)	(8.8)	(0.6)	2.4	
Viet Nam	(1.0)	(0.2)	(9.0)	(10.9)	(6.2)	(3.7)	0.2	6.1	4.5	5.0	0.5

( ) = negative, - = no available data.
Note: Current account balance is the sum of net exports of goods and services, net primary income, and net secondary income.
Source: World Bank. World Development Indicators 2016 Database. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed 27 July 2016).

3. **Weak financial institutions and state-owned enterprises.** India's financial sector has a proliferation of nonperforming loans (which rose from 2.4% of total loans in 2008 to 5.9% in 2015) and a highly indebted corporate sector (Table 3). Other countries with large numbers of nonperforming loans include the Maldives (14.1%), Pakistan (11.4%), and Bangladesh (9.3%). In countries with a significant number of state-owned enterprises (SOEs)—such as the PRC, India, Pakistan, and Viet Nam—their inefficient and poor performance can have a significant impact on economic growth. In addition, a weak banking system can have further adverse effects on the economy (as in Viet Nam).

Table 3: Bank Nonperforming Loans to Total Gross Loans (%)

Country	2008	2009	2010	2011	2012	2013	2014	2015
Azerbaijan	-	3.5	4.7	6.0	5.7	4.5	4.4	4.9
Bangladesh	-	-	-	5.8	9.7	8.6	9.4	9.3
People's Republic of China	2.4	1.6	1.1	1.0	1.0	1.0	1.1	1.5
India	2.4	2.2	2.4	2.7	3.4	4.0	4.3	5.9
Indonesia	3.2	3.3	2.5	2.1	1.8	1.7	2.1	2.4
Kazakhstan	7.1	18.9	20.9	20.7	19.4	19.5	12.4	8.0
Malaysia	4.8	3.6	3.4	2.7	2.0	1.8	1.6	1.6
Maldives	-	-	-	-	20.9	17.6	17.5	14.1
Mongolia	-	-	-	-	-	-	-	-
Pakistan	9.1	12.2	14.7	16.2	14.5	13.0	12.3	11.4
Papua New Guinea	-	-	-	-	-	-	-	-
Philippines	4.6	3.5	3.4	2.6	2.2	2.4	2.0	1.9
Sri Lanka				3.8	3.6	5.6	4.2	3.2
Thailand	5.7	5.2	3.9	2.9	2.4	2.3	2.3	2.7
Tonga	-	-	-	-	-	-	-	-
Turkmenistan	-	0.1	0.1	0.0	0.0	0.0	0.0	-
Uzbekistan	3.0	1.2	1.0	0.7	0.5	0.4	0.4	0.4
Vanuatu	-	-	-	-	-	-	-	-
Viet Nam	2.2	1.8	2.1	2.8	3.4	3.1	2.9	-

- = no available data.
Note: The figure for bank nonperforming loans to total gross loans is the value of nonperforming loans divided by the total value of the loan portfolio.
Source: World Bank. World Development Indicators 2016 Database. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed 27 July 2016).

4. **Political instability.** For a country with a strong tourism industry, such as Thailand, political instability can negatively affect the economy's overall GDP growth rates.

B. Structure of the Economy

5. **Lack of diversification**. Many Central and West Asian economies, including Azerbaijan, Kazakhstan, and Turkmenistan, whose economies rely heavily on oil and gas, are vulnerable to fluctuations in the international oil and gas markets. Given the weak oil and commodity prices in recent years, these economies need to explore how they can sustain economic growth and to identify sectors where they can galvanize productivity growth.[1] Other Central and West Asian economies could also benefit from diversification; for example, Uzbekistan could diversify towards machinery, metals, and chemicals. Mongolia and Papua New Guinea, which are dependent on extractive industries, could also benefit from investing in other areas. The Maldives, which relies heavily on tourism, is vulnerable to the international economic situation.

6. **High domestic saving rates and low domestic demand.** The PRC has the highest savings rate of nearly 49% of GDP, yet among the lowest consumption rate of 51% of GDP (Table 4). The MIC with the lowest consumption rate is Turkmenistan, as per the most recent year for which data is available.

Table 4: Gross Savings and Total Consumption (% of Gross Domestic Product)

Country	Gross Savings, % of GDP (latest available year)	Total Consumption, % of GDP (latest available year)
Azerbaijan	28.7 (2015)	68.3 (2015)
Bangladesh	36.1 (2015)	78.5 (2015)
People's Republic of China	48.7 (2014)	51.1 (2014)
India	33.1 (2014)	68.9 (2014)
Indonesia	31.0 (2014)	65.2 (2015)
Kazakhstan	26.8 (2014)	62.4 (2014)
Malaysia	28.0 (2015)	67.3 (2015)
Maldives	11.4 (2005)	98.5 (2005)
Mongolia	23.4 (2014)	70.9 (2015)
Pakistan	23.3 (2015)	91.0 (2015)
Papua New Guinea	30.4 (2004)	66.8 (2004)
Philippines	44.9 (2015)	84.1 (2015)
Sri Lanka	27.9 (2015)	77.4 (2015)
Thailand	27.5 (2014)	69.2 (2014)
Tonga	29.4 (2012)	102.6 (2012)
Turkmenistan	-	23.9 (2012)
Uzbekistan	-	77.7 (2015)
Vanuatu	28.9 (2014)	75.0 (2014)
Viet Nam	26.9 (2015)	71.5 (2015)

- = no available data.
Note: Final consumption expenditure (formerly total consumption) is the sum of household final consumption expenditure (private consumption) and general government final consumption expenditure (general government consumption). Gross savings are calculated as gross national income less total consumption, plus net transfers.
Source: World Bank. World Development Indicators 2016 Database. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed 27 July 2016).

C. Poverty and Inequity

7. **High poverty incidence.** Despite economic growth, MICs are still faced with significant number of population below the poverty line. The World Bank estimates that 31.5% of the total population in Bangladesh is living below its national poverty line; 39.9% in Papua New Guinea, 21.9% in India, 11.3% in Indonesia, and 25.2% in the Philippines. For a cross-country comparison, a benchmark for extreme poverty of less than $1.25 a day in purchasing-power-parity terms can be considered: on this basis, the poverty incidence is 43.3% in Bangladesh, 23.6% in India, 16.2% in Indonesia, and 19% in the

[1] ADB. 2015. *Central Asia, Southern Caucasus, and the Future of Regional Cooperation and Integration*. Issue paper prepared for the 45th Annual Meeting of the Asian Development Bank.

Philippines.[2] In Azerbaijan, on the other hand, which has the world's highest ratio of internally displaced persons, a large number of its people are vulnerable to and heavily dependent on state transfers. Thailand's conflict-affected southern provinces have a large number of poor. Lack of access to social infrastructure and inadequate social safety nets contributes to Viet Nam's poverty incidence (Tables 5 and 6).

Table 5: Poverty Incidence using the National Poverty Line

Country	Percentage Poverty Incidence (latest available year)
Azerbaijan	6 (2012)
Bangladesh	31.5 (2010)
People's Republic of China	-
India	21.9 (2011)
Indonesia	11.3 (2014)
Kazakhstan	2.8 (2014)
Malaysia	0.6 (2014)
Maldives	15.7 (2009)
Mongolia	21.6 (2014)
Pakistan	29.5 (2013)
Papua New Guinea	39.9 (2009)
Philippines	25.2 (2012)
Sri Lanka	6.7 (2012)
Thailand	10.5 (2014)
Turkmenistan	-
Uzbekistan	16.0 (2011)
Vanuatu	12.7 (2010)
Viet Nam	13.5 (2014)

- = no available data.
Note: National poverty headcount ratio is the percentage of the population living below the national poverty lines. National estimates are based on population-weighted subgroup estimates from household surveys.
Source: World Bank. Poverty and Equity April 2016 Database. http://databank.worldbank.org/data/reports.aspx?source=poverty-and-equity-database (accessed 27 July 2016).

Table 6: Extreme Poverty based on $1.25/day at 2005 Purchasing-Power-Parity

Country	Percentage of Extreme Poor (latest available year)
Azerbaijan	0.3 (2008)
Bangladesh	43.3 (2010)
People's Republic of China	6.3 (2011)
India	23.6 (2011)
Indonesia	16.2 (2011)
Kazakhstan	0.1 (2010)
Malaysia	0.0 (2009)
Maldives	1.5 (2004)
Mongolia	-
Pakistan	12.7 (2010)
Papua New Guinea	-
Philippines	19.0 (2012)
Sri Lanka	4.1 (2009)
Thailand	0.3 (2010)
Tonga	-
Turkmenistan	24.8 (1998)
Uzbekistan	-
Vanuatu	-
Viet Nam	2.4 (2012)

- = no available data.
Note: Poverty headcount ratio at $1.25 a day is the percentage of the population living on less than $1.25 a day at 2005 international prices.
Source: ADB. Key Indicators for Asia and the Pacific 2015. http://www.adb.org/publications /key-indicators-asia-and-pacific-2015 (accessed 27 July 2016).

[2] ADB. 2015. *Key Indicators for Asia and the Pacific 2015*. Manila. http://www.adb.org/sites/default/files/publication/175162/ki2015.pdf

8. **Rising income inequality**. In addition to high poverty incidence, MICs are faced with huge income disparities. In Kazakhstan, there is a widening urban–rural income gap; in Sri Lanka, sharp differences in per capita incomes across provinces are prevalent; and in Viet Nam, rising inequality is caused by employment shifts from agriculture to non-agriculture sectors. Gini coefficients are high, with a 40% or more in, among others, the PRC, Malaysia, Papua New Guinea, and the Philippines (see Table 7).

Table 7: Gini Coefficients

Country	Gini Coefficients (latest available year)
Azerbaijan	16.64 (2005)
Bangladesh	31.98 (2010)
People's Republic of China	42.06 (2010)
India	33.90 (2009)
Indonesia	35.57 (2010)
Kazakhstan	26.35 (2013)
Malaysia	46.26 (2009)
Maldives	36.78 (2009)
Mongolia	33.75 (2012)
Pakistan	29.59 (2010)
Papua New Guinea	43.88 (2009)
Philippines	43.04 (2012)
Sri Lanka	38.58 (2012)
Thailand	39.26 (2012)
Vanuatu	37.18 (2010)
Viet Nam	38.70 (2012)

Note: World Bank estimates. A Gini coefficient measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total income received against the cumulative number of recipients, starting with the poorest individual or household. The Gini index measures the area between the Lorenz curve and a hypothetical line of absolute equality, expressed as a percentage of the maximum area under the line. Thus a Gini coefficient of 0 represents perfect equality, while a coefficient of 100 implies perfect inequality.
Source: World Bank. World Development Indicators 2016 Database. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed 27 July 2016).

9. **Increasing poverty incidence amid relatively high economic growth.** Uneven distribution of resources and unequal access to opportunities worsen poverty and inequality in MICs. While MICs experience economic growth as a whole, ensuring that the benefits from such growth are enjoyed by all sections of society remains a critical challenge. In the Philippines, for example, poverty levels are unchanged despite years of economic growth. Substantial disparities exist between rural and urban areas, genders, and among and within provinces or states in the PRC, India, Indonesia, Maldives, Mongolia, Pakistan, Philippines, and Thailand. In Mongolia, welfare programs need to be reformed to better target the poor. In Malaysia, there is scope to improve the targeting of cash transfers to poor households.

10. **Slow progress on human development outcomes**. Most MICs did not achieve some of their Millennium Development Goals. For example, Kazakhstan and Pakistan have lagged in terms of achieving their targets for providing access to primary education and social and health services; and Indonesia has lagged in targets for maternal mortality, HIV/AIDs incidence, and access to improved water and basic sanitation. Gender equality remains a concern in many countries, including Kazakhstan and the Maldives. In Thailand, female participation in employment and decision-making remains markedly below that of men.

11. **High unemployment rate**. Lack of access to economic opportunities remains a challenge for MICs, particularly for Uzbekistan (10.6% unemployment rate), Turkmenistan (10.5%), the Philippines (7.1%), Indonesia (6.2%), Azerbaijan (5.2%), and Pakistan (5.2%). In the PRC, sustaining job growth for migrants and new entrants to the work force is a concern; while in the Maldives, the limited

employment opportunities in the outer islands contribute to its 11.6% unemployment rate. See Table 8 for data on the MICs.

Table 8: Unemployment Rate (% of Total Labor Force)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Azerbaijan	7.3	6.6	6.3	5.9	5.7	5.6	5.4	5.2	5	5.2
Bangladesh	4.3	4.2	4.3	4.4	5	4.5	4.5	4.5	4.5	4.3
People's Republic of China	4.1	4	3.8	4.4	4.4	4.2	4.3	4.5	4.6	4.7
India	4.4	4.3	3.7	4.1	3.9	3.5	3.5	3.6	3.6	3.6
Indonesia	11.2	10.3	9.1	8.4	7.9	7.1	6.6	6.1	6.3	6.2
Kazakhstan	8.1	7.8	7.3	6.6	6.6	5.8	5.4	5.3	5.2	4.1
Malaysia	3.5	3.3	3.2	3.3	3.7	3.4	3.1	3	3.2	2
Maldives	13.5	14.4	12.6	12.6	12.2	11.7	11.6	11.7	11.3	11.6
Mongolia	6.9	5.9	7.2	5.6	5.9	6.5	4.8	5	5	4.8
Pakistan	7.1	6.1	5.1	5	5.2	5.1	5.1	5.1	5.1	5.2
Papua New Guinea	2.7	2.7	2.5	2.5	2.5	2.5	2.4	2.5	2.5	2.5
Philippines	7.7	8	7.4	7.3	7.5	7.3	7	7	7.1	7.1
Sri Lanka	7.7	6.5	6	5.2	5.9	4.9	4.2	4	4.4	4.6
Thailand	1.3	1.2	1.2	1.2	1.5	1	0.7	0.7	0.7	0.9
Tonga	-	-	-	-	-	-	-	-	-	-
Turkmenistan	11.1	11	11	11.1	10.8	10.9	11	10.8	10.7	10.5
Uzbekistan	10.9	11	11	11	11	10.9	10.9	10.8	10.8	10.6
Vanuatu	-	-	-	-	-	-	-	-	-	-
Viet Nam	2.1	2.3	2.3	2.4	2.6	2.6	2	1.8	2.2	2.3

- = no available data.

Note: Unemployment refers to the share of the labor force (modeled International Labour Organization estimates) that is without work but available for and seeking employment.

Source: World Bank. World Development Indicators 2016 Database. http://databank.worldbank.org/data/reports.aspx?source=world-development-indicators (accessed 27 July 2016).

D. Improving Productivity

12. **Lack of innovation and investments in research and development (R&D).** Over the last 2 decades, labor productivity growth has slowed in many MICs—with the PRC and India being the prominent exceptions. In Pakistan, for example, manufacturing is of a low quality with little diversification; Uzbekistan and Sri Lanka have low productivity in the agricultural sector; and Bangladesh experiences low yield grains and stagnant growth in livestock. Technology and innovation play a critical role in increasing productivity.

13. **Lack of investment in human resources and development**. In most MICs, enhancing the capacity and skills base of its labor force is a major concern. For example, Uzbekistan and Pakistan face inadequate work force skills. Skills mismatches are prevalent in South and Southeast Asian countries (Bangladesh, Indonesia, Philippines, and Thailand, among others).

14. **Structural factors contributing to productivity slowdown**. In most MICs, structural change can enhance productivity growth. In Pakistan, for example, growth in the higher productivity industry and services sectors would increase overall productivity. In some cases, competition with neighboring countries could provide an impetus for productivity growth (e.g., among Malaysia, Singapore, and Thailand). The PRC could benefit from better management of overcapacity in various industrial segments, such as iron and steel, coal mining, cement, ship building, aluminum, and from reorienting its growth patterns toward domestic consumption and services. The PRC also needs to move up the value chain to higher productivity areas to sustain high economic growth. For small island countries, such as Tonga and Vanuatu, economic transformation programs need to address the constraints posed by low or limited economies of scale and isolation; while in Papua New Guinea, current regional distribution schemes, subsidies, and heavy government contributions for provinces with no mineral resources may need to be revisited. In general, some MICs could transition to high-income status by

improving productivity in key sectors, such as manufacturing, and through greater integration with global value chains and distribution networks.

15. **Lack of support for small and medium-sized enterprise development.** SMEs comprise the majority of the businesses in MICs but they do not make a commensurate contribution to GDP or manufacturing value added.[3] This is particularly evident in Thailand, where SMEs comprise 99% of businesses but only contribute 40% of GDP. To increase SMEs' contribution to the economy, they need more financial support (for example, in the Philippines). For the Maldives and Tonga—where tourism plays an important role—aside from pursuing economic diversification, the private sector contribution, particularly from domestic companies, needs to be facilitated. In the Maldives, plans to privatize about 20 SOEs should be taken further. In India, where the private sector is strong, a healthy banking sector is crucial to finance its activities. For a diversified economy such as Malaysia, the private sector can provide leadership in human capital development and innovation.

E. Infrastructure Deficit

16. **Increasing demand for infrastructure**. New and rehabilitated infrastructure is required in many MICs. In Southeast Asia, transport connectivity has been identified as a priority.[4] In Bangladesh and Sri Lanka, infrastructure in the power, energy, water, railways, and roads sectors needs to be addressed; while in the Maldives, the maritime and road transport systems have to be improved. Aside from physical infrastructure, logistics need to be strengthened in the MICs.

17. **Insufficient infrastructure financing**. In 2015, the total investment (public and private) to GDP ratio was less than 35% of GDP for most MICs (Table 9). Given the relatively narrow fiscal space of most MIC governments, the private sector has a bigger role to play in financing infrastructure. Apart from the PRC and Malaysia, MIC governments invest less than 10% of GDP in physical infrastructure.

Table 9: Total Investment to Gross Domestic Product Ratio (%)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Azerbaijan	41.5	29.9	21.5	19.8	18.4	18.5	21.2	22.7	23.1	23.5	26.4
Bangladesh	26.1	26.2	26.2	26.2	26.2	26.9	27.9	28.3	28.5	28.8	29.0
People's Republic of China	40.5	40.0	40.7	42.6	45.7	47.2	47.3	46.5	46.5	45.9	43.3
India	34.7	35.7	38.1	34.3	36.5	36.5	39.6	38.3	34.7	34.1	33.3
Indonesia	28.6	29.0	28.7	33.0	31.2	32.9	33.0	35.1	33.8	34.6	34.6
Kazakhstan	30.1	33.4	35.5	27.5	29.4	25.4	22.5	24.8	23.9	24.2	26.8
Malaysia	22.3	22.4	23.0	21.1	18.9	23.4	23.2	25.7	25.9	25.0	25.1
Maldives	45.0	40.0	10.0	30.0	20.0	15.0	20.0	20.0	20.0	20.0	20.0
Mongolia	31.4	50.6	51.4	50.8	44.4	42.1	58.2	55.9	53.3	35.2	26.2
Pakistan	19.1	19.3	18.8	19.2	17.5	15.8	14.1	15.1	15.0	15.0	15.1
Papua New Guinea	17.5	15.7	15.5	15.4	21.8	24.4	25.9	26.2	24.3	20.2	8.1
Philippines	21.6	18.0	17.3	19.3	16.6	20.5	20.5	18.2	20.0	20.9	20.9
Sri Lanka	26.8	28.0	28.0	27.6	24.4	27.6	29.9	30.6	29.8	27.4	27.9
Thailand	30.4	27.0	25.5	28.2	20.6	25.4	26.8	28.0	27.5	24.1	24.1
Uzbekistan	28.0	29.6	30.0	31.0	31.0	30.7	30.9	30.9	30.8	30.8	30.8
Vanuatu	24.1	28.4	32.3	40.6	39.9	34.7	27.5	23.0	26.1	27.0	51.2
Viet Nam	33.8	34.5	39.6	36.5	37.2	35.7	29.8	27.2	26.6	26.8	27.6

Note: Expressed as a ratio of total investment and gross domestic product in current local currency. Investment or gross capital formation is measured by the total value of the gross fixed capital formation and changes in inventories and acquisitions less disposals of valuables for a unit or sector.
Source: International Monetary Fund. World Economic Outlook April 2016 Database. https://www.imf.org/external/pubs/ft/weo/2016/01/weodata/index.aspx (accessed 27 July 2016).

[3] ADB. 2015. *Asia SME Finance Monitor.* Manila.
[4] http://www.adb.org/sites/default/files/page/181506/Note-to-File_Southeast%20Asia%20Consultations_2224%20Mar%202016_Hanoi.pdf

F. Demographic Changes

18. **Dwindling pool of young workers**. In the PRC, the working population is reducing and dependency ratios are rising (the proportion of over-60s is projected to rise to 28% of the total population by 2040).

19. **Increasing youth unemployment**. In countries with large young populations (such as the Philippines, Tonga, and Vanuatu), governments need to pursue policies to create more jobs for the young labor force.

G. Governance

20. **Institutional weakness.** MICs are economies in transition and are in the process of developing their private sectors, including SMEs. Reducing regulatory constraints and improving the infrastructure necessary for the private sector to operate is critical for improving productivity. This is particularly important for many MICs in Asia and the Pacific region. An improved investment climate (i.e., a flexible labor market and stronger incentives) can enable businesses to improve their productivity and to compete nationally and internationally—a direction that many Southeast Asian countries are striving toward (e.g., Indonesia, Philippines, Thailand, and Viet Nam). An improved business environment would promote the establishment of industrial clusters in Turkmenistan and improve the productivity of its economy. A better business environment, coupled with enhanced capacity to participate in the global value chains, would promote SME development, particularly in countries such as Pakistan, Thailand, and Viet Nam.

21. **Weak financial sector**. Reforms in the legal and regulatory framework for and integration of good international practice into the financial sector can help strengthen the private sector in (among others) Bangladesh, Sri Lanka, Turkmenistan, Tonga, and Viet Nam. In the PRC, the establishment of a more market-based financial system and monetary policy framework remains a challenge.

22. **Prevalence of corruption and economic crimes**. Among the challenges the PRC faces are corruption and other economic crimes. Corruption and low accountability and transparency need to be addressed in many MICs, including Indonesia, Mongolia, Papua New Guinea, the Philippines Uzbekistan, Vanuatu.

H. Environment and Climate Change

23. **Environmental degradation amid rapid urbanization and growth**. Containing environmental damage—an unintended consequence of economic growth—is a serious challenge in many MICs. Air pollution has increased as a result of reliance on fossil-fuels for power generation and manufacturing. Economic expansion has placed unprecedented pressures on the natural resources of many MICs, including Mongolia (with large investments in mining industries) and Maldives (where ground water resources have been depleted and polluted).

24. **Poor urban and rural planning**. Given deficiencies in urban planning, cities in many MICs (such as those in Azerbaijan, Bangladesh, India, Indonesia, and the Philippines) are not designed to house their current populations. Communities often live in flood-prone and disaster-prone areas. The link between urbanization and air and water pollution is also evident in other MICs (such as Tonga and Uzbekistan). In rural areas, heavy reliance on agriculture and natural resources raises sustainability concerns, as in the Philippines.

25. **Inadequate disaster risk reduction and climate change mitigation.** Building resilience and adapting to climate change can be challenging for all MICs, including small island economies. Nevertheless, all MICs can focus on reducing greenhouse gas emissions in their energy systems, move

towards sustainable transport options, and improve urban waste management systems, among other measures.

I. Resilience

26. **Adverse impact of financial integration**. While financial market integration expands investment opportunities and allows greater access to capital resources, it also increases the risks of a contagion that can spread a financial crisis from one country to another. As a result of their high exposure to international financial markets and their indebtedness in foreign currencies, some MICs find it difficult to preserve macroeconomic stability, given their narrow national capital markets. The deeper the internal financial markets, the greater the ability to withstand the contagion effects. Macroprudential regulations and arrangements to manage the risk of contagion and crisis are particularly important in the ASEAN region where financial markets are relatively well integrated. MICs need to establish systems that will monitor and assess vulnerability to crises and provide early warning indicators to their economic and financial sectors.

27. **Managing natural disasters**. Given the rising incidence of natural calamities across Asia and the Pacific, MICs (and other countries) need to find ways to reduce the fiscal burden from the economic losses that follow natural calamities, and to mobilize financial resources for recovery activities quickly.