

Concept Paper

Caught in a Trap? Asia and the Pacific's Middle-Income Countries at a Crossroads

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A. INTRODUCTION

1. The Independent Evaluation Department (IED) at ADB in partnership with the Thammasat University of Bangkok, Thailand (Faculty of Economics) will host a learning event entitled *Caught in a Trap? Asia and the Pacific's Middle-Income Countries at a Crossroads*, at the Shangri-La Hotel on 21 June 2017 in Bangkok, Thailand. Its main focus will be the variety of challenges and opportunities that face middle-income countries in Asia and the Pacific. The event will lay out a frank assessment of the problems and top priorities associated with middle-income countries, and will also present cutting-edge solutions and promising experiences.

2. The event will be anchored in a range of topical studies that IED, Thammasat University, and the wider development community have produced recently. The proceedings of the event will be used by Thammasat University and ADB to inform future work and studies, including the preparation of ADB's new corporate strategy (*Strategy 2030*). The findings are expected to feed into the policy agenda considered by Thammasat University and others in the region, policy makers and the operational agenda of ADB, and other financiers.

B. BACKGROUND AND RATIONALE

3. The Asia and Pacific region has witnessed rising prosperity in the past half century. Many countries are now in the middle-income category, an increasing number are now upper middle-income countries, and some have marched on to join the Organisation for Economic Co-operation and Development (OECD), a grouping of high-income nations.

4. Yet the region continues to house half the world's poor, mostly in the lower middle-income economies, while the middle class has grown rapidly, and its rising aspirations pose more development challenges. Some of these challenges have come with rapid growth and ambitious development plans that have led to chaotic urban conglomerations, degraded physical environments, and fiscal imbalances that have raised the question of sustainability.

5. The difficulty in further raising total factor productivity have surfaced in many countries as they go about diversifying and striving to design and implement complementary policies in the areas of education, social and physical infrastructure, access to finance and opportunities, and innovation. Increasing interconnectedness, climate change, and the prospects of game-changing developments also pose a whole new set of development challenges.

6. At the same time, the private sector is recognizing that in the medium term, its profitability and prosperity objectives should be pursued in harmony with social responsibility and environmental sustainability. And the ambitions and plans for South–South cooperation of some middle-income countries have opened the doors for ADB and other multilaterals to further their convening powers.

C. STRUCTURE OF THE EVENT

7. Thammasat University and IED agreed to jointly host *Caught in a Trap? Asia and the Pacific's Middle-Income Countries at a Crossroads*, a learning event targeting government officials from the region, private sector representatives, civil society organizations, academics, and members of the development community.

8. The event will comprise an opening session, featuring high-profile speakers from both inside and outside the region. The opening session will provide a framework for the succeeding, more operational sessions, each addressing one of the specific challenges discussed above. Each technical session will feature one speaker from IED, additional speakers from the wider evaluation community, governments, the private sector, academe, and/or civil society organizations.

9. The sessions will be organized around:

(i) The importance of second generation structural reform and innovation

Middle-income countries have unfinished development agendas and some argue that they run the risk being trapped in middle-income status if they do not further their own economic, social, and structural transformation.¹ As countries reach middle-income status, they encounter second generation reform challenges that reflect the more advanced stage of their development. These challenges include aging populations, pension reform, tertiary education, social inequality, competitiveness, trade and tax policy, financial literacy, green growth, lifestyle diseases, and urbanization. Many of these challenges cut across disciplines and/or are multi-sectoral, requiring integrated, innovative approaches. What are some of the global experiences and lessons learned, that are of relevance to the region?

(ii) The role of the private sector and private sector development

The private sector can contribute to development through the creation of employment opportunities, the financing of infrastructure, participation in the delivery of public services, and other areas. But unleashing the innovation, expertise, and financial resources of the private sector will require essential upfront work to ensure, inter alia, a fair regulatory and trade environment, fostering of entrepreneurship, decent labor conditions, and sustainable use of natural resources. Where does the region stand on these issues?

¹ Whether a middle-income trap actually exists or not is a topic of heated debate amongst economists and policy makers.

(iii) Regional cooperation and regional public goods

Middle-income countries are increasingly plugged into regional and global economies and have access to a number of financial sources. As a result, regional production networks have expanded. The external environment has become increasingly important to them, and their growing economic muscle has led to stronger regional integration, South–South cooperation, and mobilization of international resources.

The flipside is that countries' development challenges have also become increasingly global/regional concerns and have become increasingly complicated, cutting across sector and national boundaries. Key regional public goods issues that, by their nature, are not addressed by the market or fail to receive sufficient attention from middle-income country governments include the coordination of regional infrastructure connectivity, trade and investment, monetary and financial integration, regional energy cooperation, regional health programs to contain endemic diseases, climate change mitigation, and environmental preservation.

(iv) The importance of subnational financing to pursue social equity and inclusion in Asia's growing cities

Inequality serves as an impediment to sustainable growth and social protection is an effective instrument for narrowing development gaps. Pursuing an inclusive growth trajectory and having in place systems for social protection are important ways of countering inequality and promoting equity. Recognizing the potentially negative socioeconomic and political consequences of these trends, more and more Asian countries are adopting inclusive growth as the goal of development policy.

Yet ADB's Social Protection Index suggests that, despite steep economic gains in recent decades, the majority of countries in Asia and the Pacific—particularly those that have graduated to middle-income status—have not correspondingly strengthened their systems of social protection. The question then becomes how to best scale up and finance these systems.

Policy makers at the national and municipal levels must ensure that urbanization proceeds in an economically efficient, environmentally sustainable, and inclusive manner. Urban planning and fiscal decentralization arrangements need to match physical expansion by promoting access to jobs, affordable housing, public transportation, and health and education services that ensure equal opportunities. What is the role of municipal financing in steering a sustainable urbanization? Can we distinguish trends that are of relevance to the region?

10. The venue for the event will be at the Shangri-La Hotel, Bangkok.
11. Invitations will be sent to experts from the international evaluation community (for example, through the Evaluation Cooperation Group [ECG], International Development Evaluation Association [IDEAS], evaluation partners, etc.); government officials from middle-income countries (in consultation with the different ADB operations departments); representatives of international organizations; the academe; civil society; and the private sector.
12. Media coverage will be organized in cooperation with Thammasat University and might include the desks of international newspapers based in Bangkok and local media.

13. The cost of programmed activities will be charged, as appropriate, to either IED's ongoing administered technical assistance projects or internal administrative expense budget for knowledge sharing and outreach. Thammasat University is looking into cofinancing possibilities. The evaluation event will be funded by Regional Technical Assistance (RETA) 9172: Selected Evaluation Studies and Outreach for 2017 and 2018 (Subproject 1).²

14. Thammasat University commits to providing support on the ground during preparations, including the identification of speakers and participants, and execution.

² For more information, visit the project's page at <https://www.adb.org/projects/50092-002/main>