



Initiative for ASEAN Integration

Policy Brief 4

Graduation of all ASEAN Member States from Less Developed Country Status

Introduction

ASEAN recognises that concerted efforts are required to narrow development gaps between ASEAN countries to ensure that development and the benefits of economic integration are equitably shared by all member states and their citizens. Narrowing development gaps between member states is a cornerstone of the equitable economic development agenda within ASEAN and forms an important part of the ASEAN Roadmap. This agenda translates primarily to a concern for the relatively low development achievements in the CLMV countries compared to those in the ASEAN-6 group.

Within ASEAN and among its partners, there has been ambiguity over precisely how to define and measure the development gap between ASEAN countries, particularly the gap between ASEAN-6 and CLMV groups. One way of defining the gap is to treat it as an increasing function of the difference in average development achievement between the ASEAN-6 and CLMV countries.

The views expressed in this policy brief are those of the authors and do not necessarily represent those of ASEAN and its member states nor impose any binding obligations on them.

That is, the greater the difference between the average development achievement of the ASEAN-6 countries and the average development achievement of the CLMV countries, the larger the development gap. It follows that the elimination of the gap occurs when the average development achievement of the CLMV countries reaches the average development achievement of their ASEAN-6 counterparts.

Eliminating this gap is a valid aspirational goal, but it is a goal that will take decades to achieve. An intermediate goal is for all ASEAN member states to graduate from classification as Least Developed Countries (LDCs) as defined by the United Nations Committee for Development Policy (CDP). Three ASEAN member states are classified as LDCs: Cambodia, Lao PDR and Myanmar.

This policy brief identifies the development achievements required by Cambodia, Lao PDR and Myanmar to graduate from LDC status. It stops short of identifying specific policies that would be required by each country and its development partners in order to graduate. Such policies are addressed in an accompanying policy brief, *Policy Brief 3: Policy Recommendations for Narrowing the Development Gap in ASEAN*. While the policies considered in Policy Brief 3 are couched in terms of reducing the ASEAN development gap as defined as differences in multidimensional development achievements, they are in large part also applicable to LDC graduation.

The policy brief consists of a further three sections. Criteria for LDC classification and graduation are outlined in the next section. This is followed by an examination of how Cambodia, Lao PDR and Myanmar fare in terms of these criteria, including income, human asset and vulnerability data. The brief concludes by looking a general policy challenges and priorities for Cambodia, Lao PDR and Myanmar to graduate from LDC status.

Least Developing Country Status

The United Nations CDP defines LDCs as countries suffering from structural handicaps to economic development due low incomes, low levels of human resources or capital, and high levels of structural economic vulnerability (UN, 2008). In all, 48 countries are currently classified as LDCs. These countries are listed in the Appendix. The CDP uses Gross National Income (GNI) per capita to assess levels of income, the Human Assets Index (HAI) to assess human capital and the Economic Vulnerability Index (EVI) to assess structural economic vulnerability.¹

To become eligible for graduation, a country must reach threshold levels of these indicators over two successive triennial CDP reviews, or its GNI per capita must exceed at least twice the current threshold level with a high likelihood of this being sustained over time. The graduation threshold for GNI per capita was \$900 in 2006, \$1086 in 2009 and \$1190 in 2012. The graduation threshold for the HAI was 64 in 2006, 66 in 2009 and 66 in 2012. The graduation thresholds for the EVI were 38 in 2006, 38 in 2009 and 32 in 2012. Countries need to achieve EVI scores below these thresholds to become eligible for graduation with respect to vulnerability.

1 A three year average of GNI per capita measured using the World Bank Atlas method is utilized. The HAI is an equally weighted average of the following indicators: the child mortality rate; the percentage of the population that is undernourished; the adult literacy rate; and the gross secondary level enrolment rate. It ranges between zero and 100. The EVI is a weighted average of the following indicators: population size; the share of agriculture, forestry and fisheries in gross domestic product; merchandise export concentration; remoteness; instability of exports of goods and services; instability of agricultural production; the share of population in low elevation coastal zones and the number of victims of natural disasters. It is a decreasing function of population size and an increasing function of each the other seven indicators. It also ranges between zero and 100. The higher the EVI, the higher is the economic vulnerability of the country in question. Further details can be found in UN (2008) and Guillaumont (2008, 2009).

There are also inclusion thresholds in each of these three variables. These thresholds apply to countries that are not currently LDCs, but whose development achievements have deteriorated to such an extent that they are being considered for this classification. Inclusion thresholds are lower in terms of underlying development achievements than those for graduation. Thresholds for 2015 are yet to be determined (United Nations, 2012).²

ASEAN Least Developed Countries

As mentioned, Cambodia, Lao PDR and Myanmar are currently classified by the CDP as LDCs. GNI per capita, HAI and EVI data for these countries for the triennial review years of 2006, 2009 and 2012 are shown in Figures 1 to 3. Also shown in these figures are the graduation thresholds of each of these indicators. Additional data for the other CLMV country, Viet Nam, are also shown. Viet Nam's data are shown purely for comparative purposes. Note that the GNI per capita for Viet Nam in 2012 falls short of the graduation threshold (although it is at about the inclusion threshold for this variable) but satisfies the graduation thresholds for the EVI and HAI. All data required to construct these figures and those that follow are taken from United Nations (2012).

A mixed picture emerges from Figures 1 to 3. Each of ASEAN LDC member states in question is yet to achieve the GNI per capita graduation threshold, although each has moved closer to it (Lao PDR in particular). This is shown in Figure 1. As indicated in Figure 2, Myanmar has achieved the HAI graduation threshold in each of the review years under consideration. Lao PDR has moved further away from the HAI threshold since 2009. Cambodia has moved much closer towards this threshold 2009 but remains well below it.

2 The same indicators are used for including a country in the LDC group. The GNI per capita inclusion thresholds in 2006, 2009 and 2012 were \$749, \$905 and \$992. Those HAI inclusion thresholds in these respective years were 58, 60 and 60. Those for the EVI were 42, 42 and 36 (United Nations, 2012).

A particularly mixed picture emerges regarding the EVI graduation threshold. Lao PDR has experienced much lower economic vulnerability, with a substantially lower EVI score since 2009, and has moved much closer but is yet to achieve the EVI threshold. Cambodia has achieved slightly reduced vulnerability since 2009, but has actually moved further away from the threshold, which has decreased by a larger margin since that year. Myanmar has experienced much higher vulnerability since 2009 and has moved substantially away from the threshold.

Figure 1: GNI per capita, 2006 to 2012

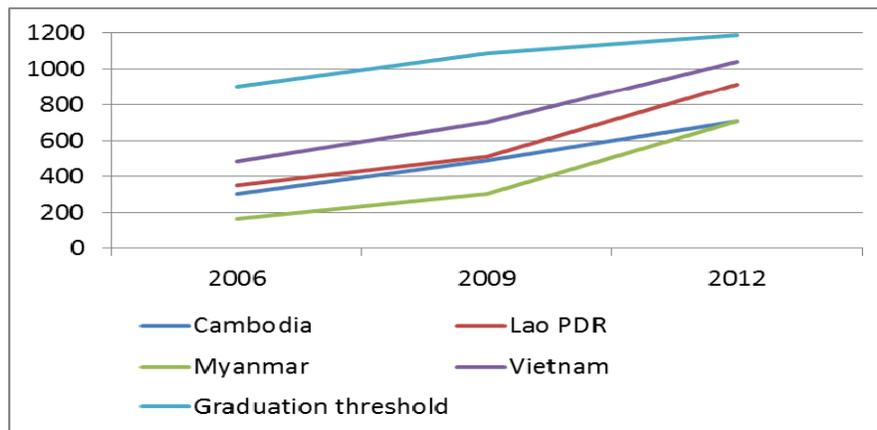


Figure 2: Human Assets Index, 2006 to 2012

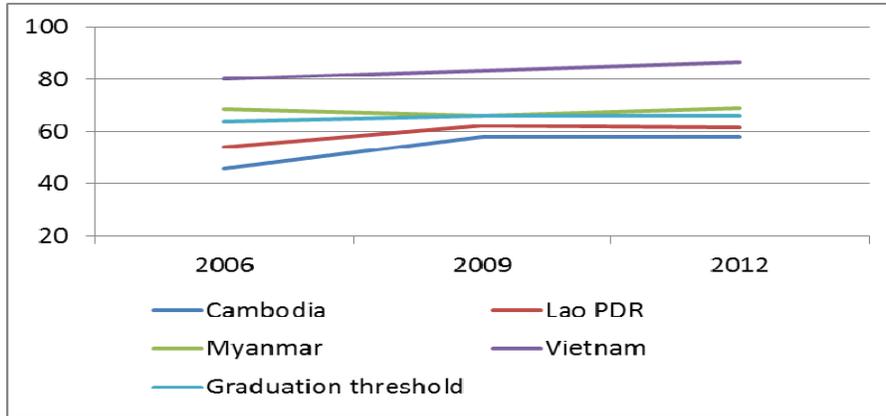
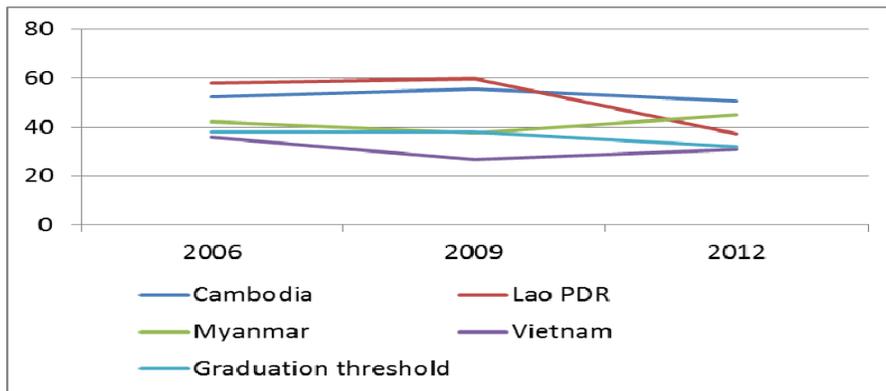


Figure 3: Economic Vulnerability Index, 2006 to 2012



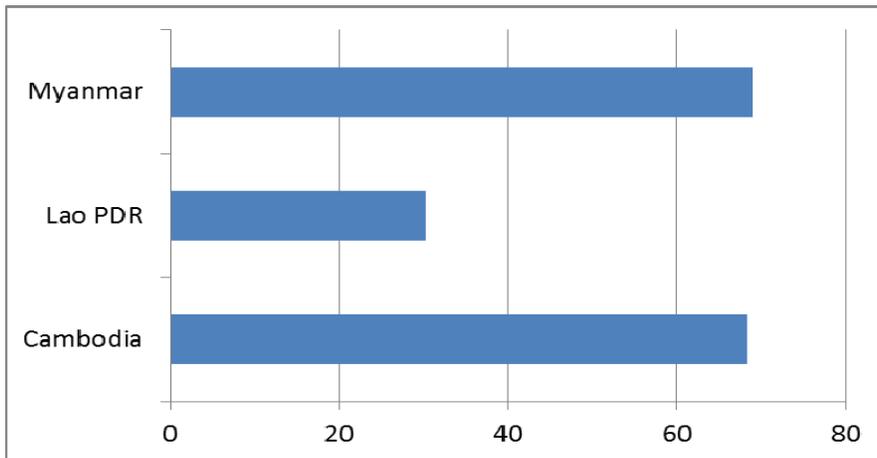
The main message emerging from Figures 1 to 3 is that Cambodia, Lao PDR and Myanmar are confronted by a challenging path if they are to graduate from the LDC category of countries in the foreseeable future.

This message is emphasised by Figures 4 to 6, which show the relative magnitude of effort required from Cambodia, Lao PDR and Myanmar to achieve each of the graduation thresholds. This effort is defined as the relative shortfall in 2012, expressed as the gap between the variable in question and its graduation threshold as a percentage of this variable.³ The next triennial review of LDC status occurs in 2015. To more accurately assess the effort required for graduation, the graduation thresholds that will apply in 2015 would be required. In the absence of these thresholds, we are forced to use 2012 thresholds, which are likely to be lower than those that will be adopted in 2015. This means that the efforts shown in Figures 4 to 6 will be underestimates, and this should be kept in mind when interpreting these figures.

The graduation threshold that seems to be the most difficult to achieve, in a purely statistical sense, is that relating to GNI per capita. Reaching this threshold requires the largest relative increase in all three variables under consideration. As in shown in Figure 4, Cambodia and Lao PDR would have had to have achieved GNI per capita that were 68 and 69 percent, respectively, higher than those actually achieved for them to meet the graduation threshold of this variable. Lao PDR would have had to achieve a GNI per capita that was 31 percent higher than what was actually achieved in 2012.

3 For example, it is the difference between GNI per capita of Cambodia in 2012 and the GNI per capita graduation threshold in this year, as a percentage of this country's 2012 GNI per capita.

Figure 4: Relative Shortfall in 2012 GNI per capita LDC Graduation Threshold (%)



The graduation threshold that is least in excess of actual achievement in 2012 is that in the HAI. Figure 5 shows this information. As mentioned, Myanmar achieved this threshold in 2012. Cambodia needed to have an HAI that was 14 percent higher than was actually the case in 2012, while Lao PDR would have had to have recorded a number that was 8 percent higher. As shown in Figure 6, EVI scores were far higher than those required to meet the graduation threshold for this variable. Cambodia, Lao PDR and Myanmar would have had to record EVI scores that were 37, 14 and 29 percent higher, respectively, than were actually recorded in 2012. That said, graduation even within this time frame appears to be a significant challenge.

Implications for Policy

It is evident from the statistical data presented above that the challenge of each of Cambodia, Lao PDR and Myanmar graduating from LDC status in the foreseeable future is considerable, keeping in mind that two of the three thresholds need to be achieved or, failing this, income per capita has to be twice the threshold and sustainable at that level into the future. Achieving LDC status after the next triennial review in 2015 seems unlikely; if appropriate policies are implemented in the near future, and with support from all development partners, graduation in 2018 or 2021 is a more realistic goal.

Figure 5: Relative Shortfall in 2012 HAI LDC Graduation Threshold (%)

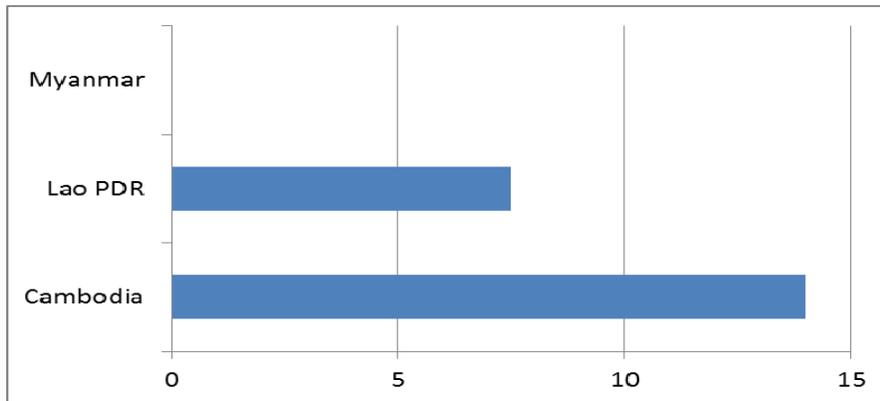
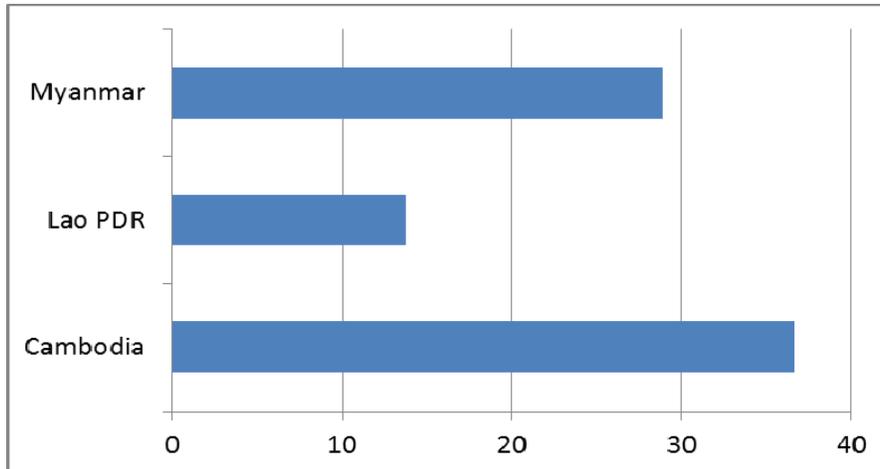


Figure 6: Relative Shortfall in 2012 EVI LDC Graduation Threshold (%)



That priority within ASEAN be given to the Cambodia, Lao PDR and Myanmar in all areas of policy is essential if the graduation of these countries is to be a reality in the foreseeable future. This is not to imply that policies should not aim to increase development levels in ASEAN-6. The aim of policies should be to assist all ASEAN member states to achieve higher levels of development, but to assist the Cambodia, Lao PDR and Myanmar to benefit disproportionately in this regard. Put differently, policy should aim to grow the total ASEAN cake, but with increasingly larger shares of it being achieved by these three countries so that they can join their fellow ASEAN states in the non-LDC group.

Appendix: List of Least Developed Countries Africa

1. Angola
2. Benin
3. Burkina Faso
4. Burundi
5. Central African Republic
6. Chad
7. Comoros
8. Democratic Republic of the Congo
9. Djibouti
10. Equatorial Guinea
11. Eritrea
12. Ethiopia
13. Gambia
14. Guinea
15. Guinea-Bissau
16. Lesotho
17. Liberia
18. Madagascar
19. Malawi
20. Mali
21. Mauritania
22. Mozambique
23. Niger
24. Rwanda
25. Sao Tome and Principe
26. Senegal
27. Sierra Leone
28. Somalia
29. Sudan
30. Togo
31. Uganda
32. United Republic of Tanzania
33. Zambia

Asia and the Pacific

1. Afghanistan
2. Bangladesh
3. Bhutan
4. Cambodia
5. Kiribati
6. Lao People's Democratic Republic
7. Myanmar
8. Nepal
9. Samoa
10. Solomon Islands
11. Timor-Leste
12. Tuvalu
13. Vanuatu
14. Yemen

Latin America and the Caribbean

1. Haiti

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This policy brief was written by Sasi Iamsiraroj and Mark McGillivray. It builds on the analysis and insights undertaken as part of the AusAID-funded 'Narrowing the Development Gap in ASEAN' publication, in particular:

Chapter Two: McGillivray, M., Feeny, S., and S Iamsiraroj (2013) "Understanding the ASEAN Development Gaps" and Chapter Three: McGillivray, M., Carpenter, D., and S. Iamsiraroj (2013) "Monitoring Progress towards Narrowing the Development Gap" 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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