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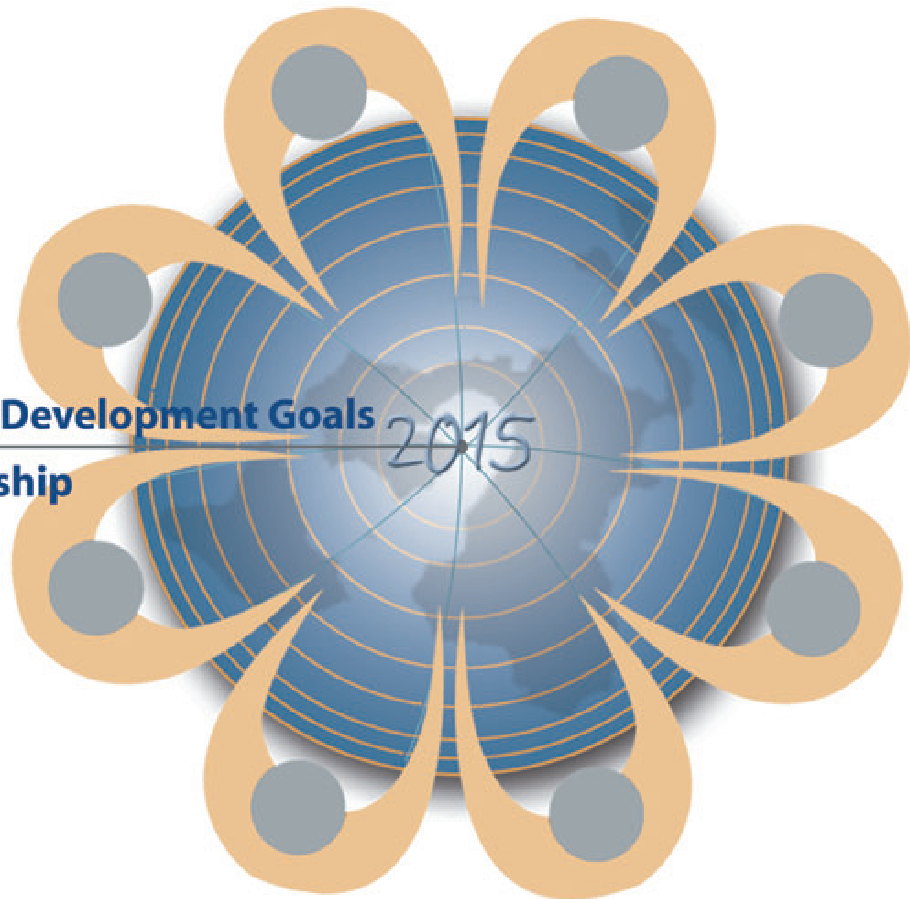
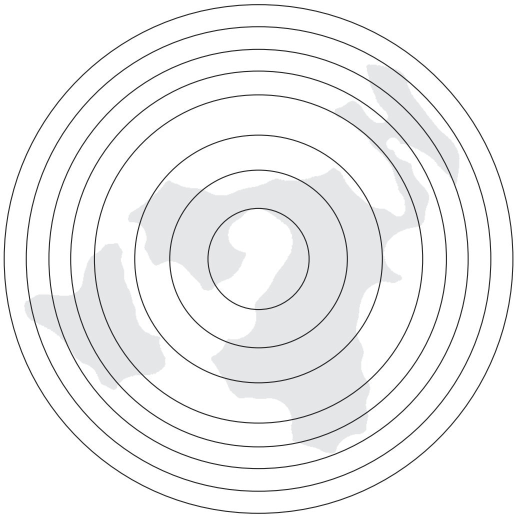
Voices of the Least Developed Countries of Asia and the Pacific



Achieving the Millennium Development Goals Through a Global Partnership



The cover design depicts Global Partners supporting progress toward the Millennium Development Goals represented by the eight concentric circles, targeting the year 2015

Voices of the Least Developed Countries of Asia and the Pacific:

Achieving the Millennium Development Goals Through a Global Partnership

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Preface

At the Millennium Summit held in September 2000, the Member States of the United Nations adopted the Millennium Declaration and committed themselves to a series of goals and targets to be reached by 2015. Progress toward attainment of these Millennium Development Goals (MDGs), however, has varied greatly among countries of Asia and the Pacific, especially by the Least Developed Countries (LDCs) of the region.

Today there are 14 LDCs in Asia and the Pacific – Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Lao People's Democratic Republic, Maldives, Myanmar, Nepal, Samoa, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu. These countries collectively account for 37 percent of the global population in LDCs. Clustered in South Asia, South-East Asia and the Pacific, the 14 Asia-Pacific LDCs vary widely, with four landlocked countries and seven island developing countries among them. Bangladesh is the largest, with a population of more than 130 million, while Tuvalu is the smallest, with less than 11,000 people. As a result of these differences, the experiences of these countries also vary widely. While some countries have made significant progress, both in social and economic terms, and stand at the threshold of graduation from the list, others have continued to stagnate for more than two decades. In most of these countries, overall progress toward the achievement of the MDGs has been imbalanced, with success in some areas marred by failure in others.

In the United Nations Millennium Declaration, member states resolved to create an environment, both at national and global levels, conducive to development and the elimination of poverty, and committed themselves to addressing the special needs of the LDCs. Among its fundamental values, the Millennium Declaration noted that efforts at achieving worldwide economic and social development must be shared among the nations of the world. The eighth MDG, accordingly, calls for a global partnership for development, whereby countries

- Provide tariff- and quota-free access for exports from the LDCs;
- Implement the enhanced programme of debt relief for the heavily indebted poor countries and cancel all official bilateral debts; and
- Grant more generous development assistance to LDCs committed to poverty reduction

Such international measures would enable LDCs to make more sustainable progress toward the achievement of the MDGs.

This Report is unique in its scope and timeliness. It is a platform for Asia-Pacific LDCs to voice their views. It draws the attention of the international community to the challenges faced by these countries, seeking the support required to ensure that all countries in the region attain their MDGs. The concept for this Report emerged at a workshop conducted by our organisations on the progress toward the attainment of the MDGs in Siem Reap, Cambodia, 1-3 October 2004. The recommendations contained in the Report were endorsed at the inter-governmental level at the Seventh Session of the Special Body on Least Developed and Landlocked Developing Countries, Bangkok, 10-11 May 2005.

As we move toward the Millennium +5 Summit in September 2005 and the Sixth WTO Ministerial Conference in Hong Kong in December 2005, this Report aims to be a timely reminder that LDCs in our region are no less in need of support from the international community. With 10 years until 2015, we hope this document, with its recommendations, will serve to forge a more effective partnership between the Least Developed Countries in Asia and the Pacific and their development partners inside and outside the region.

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Regional Director for Asia and the Pacific

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July 2005

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The UNDP-UNESCAP team who prepared the Report consisted of Anuradha Rajivan, Aynul Hasan, Hirohito Toda, Kalpana Choudhary, Marie Laberge and Tiziana Bonapace. Mustafizur Rahman, the Lead Researcher, was assisted by Asif Anwar, A.H.M. Ashrafuzzaman, Syed Saifuddin Hossain, Nafisa Khaled and Wasel Bin Shadat. An earlier version of the draft was peer reviewed by Charles Gore, Yuba Raj Khatiwada and Vadiraj R. Panchamukhi. Minh Pham, Regional Manager, UNDP's Asia-Pacific Regional Centre, Colombo, provided very useful advice and comments. Editorial support was provided by Fareeda Hla and Paranjoy Guha Thakurta. The research was funded by UNDP's Regional Bureau for Asia and the Pacific under its Asia-Pacific Regional MDG Initiative (MDGI) located at the Regional Centre, Colombo.

The Report benefited from inputs provided by the following experts who participated in a technical consultation held in Dhaka, Bangladesh on 15-16 February 2005: Nasiruddin Ahmed, Quazi Mesbahuddin Ahmed, Kamal U. Siddiqui (Bangladesh), Lam Dorji (Bhutan), Vadiraj R. Panchamukhi (India), Masahiko Kiya (Japan), Yuba Raj Khatiwada (Nepal), Skip Kissinger (United States of America), Hua Du, M. Zahid Hossain, Putu M. Kamayana (ADB), Stan Vandersyp (Pacific Islands Forum Secretariat), Charles Gore (UNCTAD), Syed Azim, Jorgen Lissner (UNDP), Erna Witoelar (United Nations Special Ambassador for MDGs in Asia and the Pacific) and Annet Blank (WTO).

The Seventh Session of the Special Body on Least Developed and Landlocked Developing Countries at ESCAP, Bangkok on 10-11 May 2005, endorsed the voices of the Asia-Pacific Least Developed Countries. Feedback was received from participants in the Cluster Meeting of the UNDP Resident Representatives and Deputy Resident Representatives held in Bangkok in April 2005, as well as from UNDP's Regional Bureau for Asia and the Pacific, New York, chaired by Hafiz Pasha, in May 2005. The Report team also thanks B. Murali, Kay Kirby Dorji, Ramesh Gampat, Richard Leete, Santosh Mehrotra, Susan Howes (UNDP) and Harriet Schmidt (OHRLLS) for their extremely useful comments and suggestions.

Abbreviations

ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AGOA	African Growth and Opportunity Act
ASEAN	Association of Southeast Asian Nations
BIMSTEC	Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation
CDP	Committee for Development Policy
DAC	Development Assistance Committee
EVI	Economic Vulnerability Index
FDI	Foreign Direct Investment
FTA	Free Trade Area
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GSP	Generalised System of Preferences
HAI	Human Assets Index
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immuno-Deficiency Virus/Acquired Immuno-Deficiency Syndrome
IDS	International Development Statistics
IMF	International Monetary Fund
Lao PDR	Lao People's Democratic Republic
LDC	Least Developed Country
MDG	Millennium Development Goal
MFA	Multi-Fibre Arrangement
NGO	Non-Government Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPP	Purchasing Power Parity
PRSP	Poverty Reduction Strategy Paper
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
TRIPS	Trade-Related Aspects of Intellectual Property Rights
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCAP	Economic and Social Commission for Asia and the Pacific
UN-OHRLLS	UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States
USITC	United States International Trade Commission
WB	World Bank
WTO	World Trade Organisation

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The Millennium Development Goals

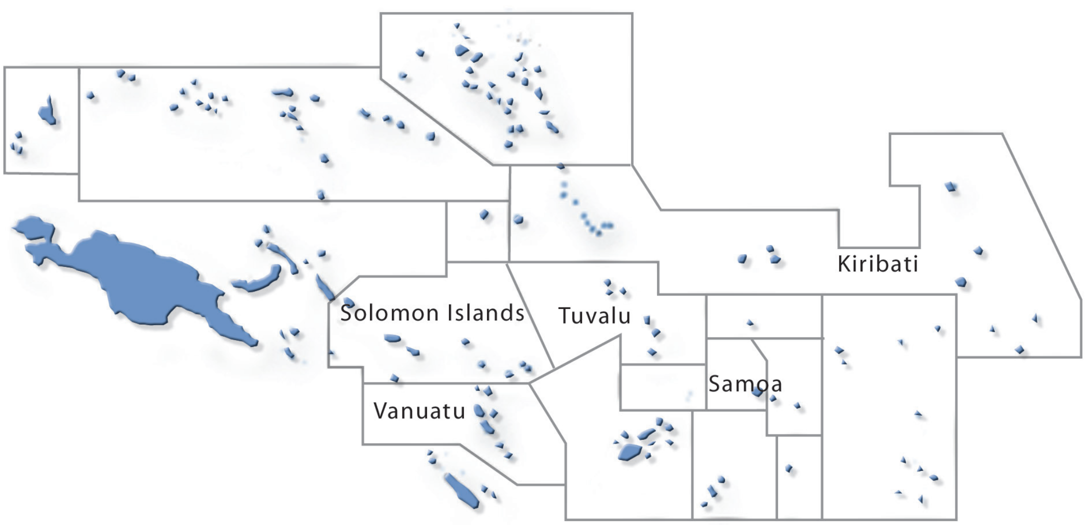
Goals with Corresponding Targets

GOAL 1	**ERADICATE EXTREME POVERTY AND HUNGER**
TARGET 1	Halve, between 1990 and 2015, the proportion of people whose income is less than US$ 1 a day
TARGET 2	Halve, between 1990 and 2015, the proportion of people who suffer from hunger
GOAL 2	**ACHIEVE UNIVERSAL PRIMARY EDUCATION**
TARGET 3	Ensure that by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
GOAL 3	**PROMOTE GENDER EQUALITY AND EMPOWER WOMEN**
TARGET 4	Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education no later than 2015
GOAL 4	**REDUCE CHILD MORTALITY**
TARGET 5	Reduce by two-thirds, between 1990 and 2015, the under-5 mortality rate
GOAL 5	**IMPROVE MATERNAL HEALTH**
TARGET 6	Reduce by three-quarters, between 1990 and 2015, the maternal mortality ratio
GOAL 6	**COMBAT HIV/AIDS, MALARIA, AND OTHER DISEASES**
TARGET 7	Have halted by 2015 and begun to reverse the spread of HIV/AIDS
TARGET 8	Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
GOAL 7	**ENSURE ENVIRONMENTAL SUSTAINABILITY**
TARGET 9	Integrate the principles of sustainable development into country policies and programmes and reverse the loss of environmental resources
TARGET 10	Halve by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation
TARGET 11	Have achieved a significant improvement by 2020 in the lives of at least 100 million slum dwellers
GOAL 8	**DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT**
TARGET 12	Develop further an open, rule-based, predictable, non-discriminatory trading and financial system (including a commitment to good governance, development and poverty reduction, nationally and internationally)
TARGET 13	Address the special needs of the Least Developed Countries (including tariff- and quota-free access for exports of the Least Developed Countries; enhanced debt relief for heavily indebted poor countries and cancellation of official bilateral debt; and more generous official development assistance for countries committed to reducing poverty)
TARGET 14	Address the special needs of landlocked countries and small island developing states (through the Programme of Action for the Sustainable Development of Small Island Developing States and 22nd General Assembly provisions).
TARGET 15	Deal comprehensively with the debt problems of developing countries through national and international measures to make debt sustainable in the long term
TARGET 16	In cooperation with developing countries, develop and implement strategies for decent and productive work for youth
TARGET 17	In cooperation with pharmaceutical companies, provide access to affordable, essential drugs in developing countries
TARGET 18	In cooperation with the private sector, make available the benefits of new technologies, especially information and communication

Source: United Nations 2001 (September 6). Road Map Toward the Implementation of United Nations Millennium Declaration. Report of the Secretary General, New York.

Note: The Millennium Development Goals originate from the Millennium Declaration signed by 189 countries, including 147 heads of state, in September 2000. The Goals and targets are related and should be seen as a whole. They represent a partnership of countries determined, as the Declaration states, "to create an environment — at the national and global levels alike — which is conducive to development and the elimination of poverty".

Location of the Least Developed Countries in Asia and the Pacific



Chapter 1

Introduction

1.1 Background

Asia-Pacific is a region of contrasts. It has some of the fastest-growing economies of the world while, at the same time, the Least Developed Countries (LDCs) continue to face persistent challenges. As a whole, the region has made significant inroads into poverty reduction with progress toward the internationally agreed Millennium Development Goals (MDGs). China and India, together accounting for nearly 40 percent of the world's population and ranking among the fastest-growing countries, account for most of this progress, along with the "tiger" economies of East and South-East Asia. Due to the tyranny of averages, the relatively poor performance of the Asia-Pacific LDCs gets overshadowed. Only a more disaggregated appraisal reveals the far more limited gains in the LDCs[1]. Thus, the dynamism of Asia represents both a challenge and an opportunity. It could increase inequalities that contribute to growing tensions. It also could generate resources and opportunities. Attainment of the MDGs in Asia and the Pacific as a whole will be marked by the far more limited progress made by the 14 LDCs of the region (Table 1).

Table 1. *The Least Developed Countries in Asia-Pacific*

Afghanistan	Lao PDR	Solomon Islands
Bangladesh	Maldives	Timor-Leste
Bhutan	Myanmar	Tuvalu
Cambodia	Nepal	Vanuatu
Kiribati	Samoa	

None of the Asia-Pacific LDCs has been able to graduate from the LDC status. In fact, the number of countries in the region in the LDC category has increased, with the addition of Timor-Leste in 2003. Samoa was identified as eligible for graduation in 2006, but a decision is yet to be taken. While Maldives qualified for graduation in 2003, the tsunami devastation of December 2004 has revealed the fragility of the progress made. Given the challenges that need to be overcome to attain their MDGs, these countries require focused international support. Asia-Pacific LDCs find their voices obscured, both by the comparative success of the other developing countries of the region as well as the current priority given by the international community to the poorest countries in other regions. Given the increasing marginalisation of the LDCs of Asia and the Pacific in the global development debate, the world's attention needs to be refocused on them.

This document advocates on behalf of Asia-Pacific LDCs, with particular focus on MDG 8: Develop a global partnership for development. All partners of the LDCs could consider extending tariff- and quota-free access for exports from these countries; enhancing their programmes of debt relief, including cancellation of official bilateral debt; and increasing official development aid (ODA) for those most in need. In a spirit of equal partnership, Asia-Pacific LDCs also recognise the need to fulfil their part of this shared responsibility by allocating any public savings arising from reduced debt servicing toward the social sectors. They also must ensure that increased aid flows lead directly to a substantial reduction in poverty, strengthening local productive capacities and institutions. Such a global

The voices of the Least Developed Countries in Asia and the Pacific need to be heard

[1] Of the 50 LDCs in the world, 34 are in Africa, 14 in Asia and the Pacific, one in the Latin America and Caribbean region (Haiti) and one in the Arab States region (Yemen). The criteria for determining least developed status are presented in Annexure 1.

partnership will contribute to peace, prosperity and economic security, with improved quality of life for all. This win-win situation rests not just on a moral argument but equally on a strategic argument, a commercial argument and an efficiency argument. If global partners do not fully address the special needs of the LDCs, neither the Asia-Pacific region nor the world will be able to meet the MDGs by 2015. In the words of the United Nations Millennium Project Report, the MDGs are too important to be allowed to fail, even by the most marginal of countries.

After a brief discussion of the Millennium Declaration and the Goals, this chapter presents the key characteristics of the Asia-Pacific LDCs. Chapter 2 assesses progress toward attainment of the MDGs in these countries. Impediments to growth in Asia-Pacific LDCs are discussed in Chapter 3. Trade, aid and debt relief, the three instruments identified under MDG 8, are elaborated in Chapters 4 and 5, with corresponding recommendations. Chapter 6 concludes by underlining the importance of a global partnership to achieve the MDGs in Asia-Pacific LDCs and presents the specific recommendations that arose from the Special Body on Least Developed and Landlocked Developing Countries, at its Seventh Session, held in Bangkok, 10 and 11 May 2005..

Millennium Development Goal 8 focuses on a global partnership for development

1.2 The Millennium Declaration and the Millennium Development Goals

In the UN Millennium Declaration (A/RES/55/2) of 8 September 2000, the General Assembly expressed the commitment of countries to eliminate extreme poverty and ensure the right to development for everyone. To achieve these objectives, the Millennium Declaration noted that the responsibility for managing worldwide economic and social development must be shared among the nations of the world and should be exercised multilaterally. In line with this Declaration, eight goals on development and poverty eradication, otherwise known as the MDGs, were established.

Through their commitment to the MDGs, countries agreed to work together to eradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability; and develop a global partnership for development. While the first seven MDGs are set for each country to achieve, the eighth Goal, on developing a global partnership, was set as a measure of the commitment by the international community to assist these efforts. The eighth Goal committed the international community to address the special needs of the LDCs through tariff- and quota-free access for LDCs' exports; enhanced programmes of debt relief for heavily indebted poor countries and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction (Box 1). In addition, this Goal committed the international community to develop an open, rule-based, predictable, non-discriminatory trading and financial system; to address the special needs of landlocked developing countries and small island developing states; and to deal comprehensively with the debt problems of developing countries in order to make debt sustainable in the long term. The Brussels Declaration and Programme of Action for the Least Developed Countries for the Decade 2001-2010, from the Third United Nations Conference on the Least Developed Countries, Brussels, 14-20 May 2001, further reiterated these goals for the LDCs.

Since Asia-Pacific LDCs are located in a dynamic region, a strengthened partnership between these countries and other developed and developing countries would not only significantly accelerate their progress toward the achievement of their MDGs but would also provide significant returns at the regional level. Managing challenges such as cross-border migration, trafficking of people and drugs, spread of trans-boundary diseases, preparedness for disasters, usage of natural resources including water, and control of environmental hazards would greatly benefit from sustained support for the LDCs. The rationale for global and regional partnerships also must be perceived in terms of a common ethical response to the needs of these countries, since shared humanity binds all people to a common destiny. Neglect of these countries also could result in widening inequalities and growing disaffection, which could lead to conflicts within and outside the region. In addition, reducing poverty in its various manifestations by supporting these countries to invest in their people and to implement policies that would enable their economies to grow will widen global opportunities and markets, yielding positive, long-term dividends. This could, in turn, lead to a decline in LDCs' dependence on aid from developed countries.

The spirit of the Millennium Summit was subsequently bolstered by several initiatives that

Box 1. *Millennium Development Goal 8 and its Target 13: Addressing the Special Needs of the Least Developed Countries*

Goal 8. Develop a global partnership for development

Target 13. Address the special needs of the Least Developed Countries

Includes: tariff- and quota-free access for Least Developed Countries' exports; enhanced programme of debt relief for heavily indebted poor countries and cancellation of official bilateral debt; and more generous ODA for countries committed to poverty reduction.

Indicators

Official development assistance

33. Net ODA, total and to LDCs, as percentage of Organisation for Economic Cooperation and Development (OECD)/Development Assistance Committee (DAC) donors' Gross National Income (GNI)(OECD)

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43. Debt relief committed under HIPC initiative (IMF-WB)

44. Debt service as a percentage of exports of goods and services (IMF-WB)

Source: United Nations 2001 (September 6). Road Map Toward the Implementation of the United Nations Millennium Declaration. Report of the Secretary General, New York.

Investing in development in the Least Developed Countries of Asia and the Pacific offers significant regional and global returns

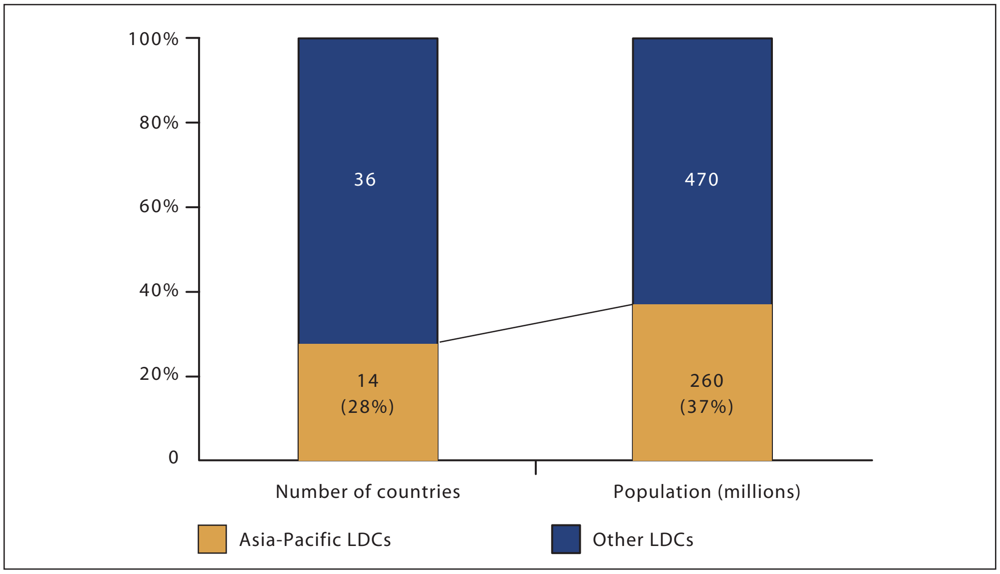
followed, in particular the launch of the Doha Development Agenda at the Fourth Ministerial WTO Conference in Doha, 9-14 November 2001, which recognised that development was one of the core issues of the global trading system. This was followed by the Monterrey Consensus of the International Conference on Financing for Development in Monterrey, Mexico, 18-22 March 2002. The Monterrey Consensus committed countries to a broad-based development agenda and recognised the need for a new partnership of rich and poor countries based on expanded trade, aid, debt relief and good governance. A distinction was made between developing countries with adequate infrastructure and human capital to attract private investment, and the LDCs that had to rely on ODA to build up those assets. Several regions were identified where ODA was particularly necessary to meet the MDGs, including in the least developed, landlocked and small island developing countries. The need for significant increases in ODA to meet the MDG targets was recognised and donor countries committed themselves to the long-standing goal of devoting 0.7 percent of GNP to ODA. The importance of trade as a critical engine of growth also was noted, as well as the need for improved market access and financial assistance for the poorest countries to remove supply-side constraints through investment in trade infrastructure, technology and institutions[2].

In light of these developments, the UN Millennium Project, an independent advisory body directed by Jeffrey D. Sachs, was commissioned by Secretary-General Kofi Annan to develop a practical programme of action to achieve the MDGs. Its Report, reviewing progress made on achieving the MDGs and containing several recommendations for both developing and developed countries, was submitted in January 2005[3].

1.3 Asia-Pacific Least Developed Countries

The 14 LDCs of the region, constituting 28 percent of all 50 LDCs in the world (Annexure 2), account for a disproportionately high population share of 37 percent (Figure 1). Clustered in South Asia, South-East Asia and the Pacific, these LDCs are characterised by enormous diversity, with four landlocked countries and seven island developing countries among them. Of the world's 50 LDCs, Bangladesh is the largest in terms of population, accounting for more than half the Asia-Pacific LDC population, while Tuvalu is the smallest (Table 2). During the period 1990-2000, per-capita GDP for Asia-Pacific LDCs increased, on average, by 1.5 times and exports more than tripled. The adult literacy rate increased from 60 percent in 1990 to 71 percent in 2000, life expectancy rose from 58 to 62 years, and the infant mortality rate dropped from 77 to 55 (per 1,000 live births). Despite these improvements, the per-capita nominal annual GDP of Asia-Pacific LDCs in 2003 was only US$ 513, which, though higher than the US$ 310 noted for other LDCs, is only one-fourth of the US$ 2,130 for the Asia-Pacific region as a whole. While the small island LDCs in the Pacific seem relatively well-off with respect to per-capita GDP, they face special disadvantages given their small population base, geographical characteristics and distance from regional growth centres, all of which contribute to high economic and environmental vulnerability. Regarding the Human Development Index (HDI), only Maldives and Samoa were classified as being above the median, and other countries, including Timor-Leste, were classified as being low[4]. Finally,

Figure 1. *Share of Asia-Pacific Least Developed Countries and their Population*



Source: ESCAP, *Statistical Indicators for Asia and the Pacific* (Vol. XXXV, No. 1, March 2005); World Bank, *World Development Indicators 2005 database,* http://devdata.worldbank.org/data-query (latest available data).

[2] *Monterrey Consensus on Financing for Development* (United Nations publication, DPI/2329-October 2003-20M) available at http://www.un.org/esa/ffd.

[3] UN Millennium Project. *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals* (New York, Earthscan, 2005).

[4] The HDI is a summary composite index that measures a country's average achievements in terms of longevity (life expectancy at birth), knowledge (combination of the adult literacy rate and the combined primary, secondary and tertiary gross enrolment ratio) and standard of living (GDP per-capita, PPP US$). Countries are classified as being high (HDI of 0.800 or above), medium (0.500-0.799) or low (less than 0.500). HDI country ranking ranges from 1 (highest) to 177 (lowest). See http://hdr.undp.org/hd/.

Table 2. *Key Indicators of Least Developed Countries in Asia and the Pacific and in Other Regions*

Country	Geographic status	Population in 2003 (Millions)	GDP per-capita in 2003 (US$)	Aid per-capita in 2003 (US$)	Indebtedness status in 2003	Exports of goods and services as a percentage of GDP in 2003	HDI status in 2004 (HDI value; HDI rank)
Afghanistan	Landlocked	22.2	167	69	Not classified	57%	n/a
Bangladesh	Coastal	134.6	385	10	Less indebted	14%	Medium (0.51; 138)
Bhutan	Landlocked	2.26	303	88	Severely indebted	22%	Medium (0.54; 134)
Cambodia	Coastal	13.3	278	38	Moderately indebted	62%	Medium (0.57; 130)
Kiribati	Small island	0.09	781	191	Not classified	n/a	n/a
Lao PDR	Landlocked	5.68	361	53	Severely indebted	25%	Medium (0.53; 135)
Maldives	Small island	0.29	2 260	61	Less indebted	85%	Medium (0.75; 84)
Myanmar	Coastal	53.22	1174	3	Severely indebted	n/a	Medium (0.55; 132)
Nepal	Landlocked	24.2	233	19	Less indebted	17%	Medium (0.50; 140)
Samoa	Small island	0.18	1807	186	Severely indebted	n/a	Medium (0.77; 75)
Solomon Islands	Small island	0.51	568	132	Moderately indebted	31%	Medium (0.62; 124)
Timor-Leste	Small island	0.77	434	196	Not classified	n/a	Low (0.44; 158)
Tuvalu	Small island	0.01	2285	624	Not classified	n/a	n/a
Vanuatu	Small island	0.21	1140	154	Less indebted	n/a	Medium (0.57; 129)
Asia-Pacific LDCs (weighted averages)		**257.52**	**513**	**19**	**n/a**	**21%**	**0.52**
Other LDCs (weighted averages)		**470.69**	**310**	**43**	**n/a**	**26%**	**0.39**

Sources: ESCAP, *Statistical Indicators for Asia and the Pacific* (Vol. XXXV, No. 1, March 2005); World Bank, *World Development Indicators 2005 database*, http://devdata.worldbank.org/data-query; OECD, *International Development Statistics (IDS) online*, http://www.oecd.org/dataoecd/50/17/5037721.htm; and UNDP, *Human Development Report 2004: Cultural Liberty in Today's Diverse World* (New York, Oxford University Press, 2004).

Notes: Indebtedness as defined by the World Bank. Severely indebted means either the present value of debt service to GNI (80 percent) or present value of debt service to exports (220 percent) is at critical levels. Moderately indebted means either of the two key ratios exceeds 60 percent of, but does not reach, critical levels. All other economies are listed as less indebted. See http://www.worldbank.org/data/countryclass/countryclass.html. The aggregate values for Asia-Pacific LDCs and for other LDCs are calculated as population-weighted averages of individual country values, except for total population figures. Average GDP per-capita and average exports of goods and services as a percentage of GDP are calculated as GDP-weighted averages. N/a = not available.

since many of the LDCs are marred by conflict, ensuring long-term political stability and strengthening of institutions are critical.

These LDCs have implemented numerous measures to overcome their challenges. As a result, the economies in many of these countries have undergone important structural changes in recent years (Table 3). With the exception of Afghanistan and Myanmar, the share of the agricultural sector in GDP has declined substantially during the period 1990-2003. Led primarily by

Table 3. *Structural Changes in the Shares of Major Sectors in GDP (Percent), 1990–2003*

Country	Agriculture		Industry: All		Industry: Manufacturing only		Services	
	1990	2003	1990	2003	1990	2003	1990	2003
Afghanistan	35.7	48.5	23.7	19.4	20.6	14.0	40.6	32.1
Bangladesh	29.4	21.0	20.9	25.3	12.7	15.2	49.7	53.7
Bhutan	43.2	33.2	25.3	39.5	8.2	7.7	32.7	28.8
Cambodia	55.6	37.2	11.2	26.8	5.2	19.3	33.2	36.0
Kiribati	18.6	14.2	7.6	10.9	1.2	0.8	73.8	75.0
Lao PDR	61.2	48.6	14.5	25.9	10.0	19.2	24.3	25.5
Maldives	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Myanmar	57.3	57.2	10.5	10.5	7.8	7.8	32.2	32.4
Nepal	50.6	39.2	15.9	20.9	6.0	7.9	33.5	39.9
Samoa	23.0	13.7	28.9	28.2	19.6	17.4	48.7	59.2
Solomon Islands	45.5	n/a	7.9	n/a	3.7	n/a	46.6	n/a
Timor-Leste	n/a	27.1	n/a	19.8	n/a	2.8	n/a	53.1
Tuvalu	25.6	16.6	14.5	14.8	3.1	3.7	59.9	68.6
Vanuatu	20.7	15.6	12.3	9.0	5.5	3.5	67.0	75.4

Source: Asian Development Bank, *Key Indicators of Developing Asian and Pacific Countries 2004, <http://www.adb.org/documents/books/key_indicators/2004/pdf/rt13.pdf>*

the growing importance of the garment sector, the share held by the manufacturing sector rose substantially in several Asian LDCs, such as Bangladesh, Cambodia, Lao People's Democratic Republic (PDR) and Nepal, but generally remained stagnant in the Pacific LDCs. The importance of the service sectors also increased over the period and contributed to more than half of GDP in Bangladesh as well as in the island LDCs of Kiribati, Samoa, Timor-Leste, Tuvalu and Vanuatu in 2003. Domestic economic policies followed by the governments of Asia-Pacific LDCs have also contributed to their comparatively low debt burdens and good debt repayment records. Most Asia-Pacific LDCs have undertaken wide-ranging trade reforms in the recent past, and many have fairly open economies. Six countries are already members of the WTO; five are in the process of accession[5]. The growth performance of Asia-Pacific LDCs has also been, by and large, commendable. This implies that these countries already possess many of the prerequisites that could enable them to attain the MDGs by 2015. What is now required for this group of countries is the tangible commitment from the international community to help them reach their Goals.

[5] As of 16 February 2005, Bangladesh, Cambodia, Maldives, Myanmar, Nepal and Solomon Islands are members of the WTO; Afghanistan, Bhutan, Lao PDR, Samoa and Vanuatu are Observers.

Chapter 2

Progress Toward Attainment of the MDGs in Asia-Pacific Least Developed Countries

The Asia-Pacific region presents a mixed picture of progress toward the attainment of the MDGs. Much of the overall progress results from rapid developments in China and India, the two most populous countries in the world, as well as in countries in South-East Asia, which recovered ground lost during the 1997-1998 financial crises. Performance indicators for the Asia-Pacific region as a whole do not reflect the far more limited achievements of many LDCs. While many of these countries have been able to move toward attaining some MDGs, critical deficits exist in others (Box 2). A review of the MDG progress reports indicates that many countries are on track to achieve the targets on the net school enrolment ratio, under-5 mortality rate and selected health-related targets, such as the proportion of the population with sustainable access to improved water sources and improved sanitation[6] (Annexure 3). However, in crucial areas such as poverty reduction, minimum dietary needs, literacy rate and infant mortality rate, most of these countries are not on track. As a result, the experiences of the Asia-Pacific LDCs are often similar to those of LDCs in other regions, despite their achievements. For example, the ratio of literate women to men, at 78 percent in the Asia-Pacific LDCs, was lower than the 80 percent recorded in other LDCs. The literacy rate in the 15-24 age group was 63 percent in the Asia-Pacific LDCs, lower than the 69 percent recorded in other LDCs.

When resources are available, policies are in place, and national governments are serious about their stated intent, progress does take place. National efforts, however, need to be strengthened and reinforced through global support. Most of these LDCs will otherwise not be able to achieve the MDGs by 2015. In fact, they may fall even further behind the achievements of other developing countries in Asia and the Pacific, hence widening social and economic disparities in the region.

A key MDG target is to halve the percentage of population below the poverty line by 2015 (Goal 1). As per the latest data available, the share of people living below the international poverty line in Asia-Pacific developing countries is 22 percent. For the LDCs of the region, the corresponding figure is much higher, at 38 percent (Figure 2). As a result, these LDCs, which account for only 7 percent of the total population in the region, comprise 12 percent of the region's extreme poor, living with less than US$ 1 per day[7]. Using the national poverty lines, more than half (55 percent) of the Asia-Pacific LDC population was classified as poor in 1990. To reach the target of halving the population below the poverty line, these countries must reduce the proportion of the poor to 27.5 percent of their population by 2015. In 2000, however, nearly half of the population (46.8 percent) in Asia-Pacific LDCs was still below the national poverty lines (Figure 3). At the country level, this

A wide gap exists in MDG performance between developing and Least Developed Countries in Asia and the Pacific; these LDCs suffer disproportionately from poverty

[6] Of the 14 Asia-Pacific LDCs, Afghanistan, Bangladesh, Bhutan, Cambodia, Lao PDR, Nepal and Timor-Leste have prepared national MDG progress reports. A Pacific Islands Regional MDG Report 2004 was also prepared to review progress in the region, which included Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu.

[7] *Sources:* ESCAP, *Statistical Indicators for Asia and the Pacific,* Vol. XXXV, No. 1, March 2005); United Nations, Millennium Indicators Database, <http://unstats.un.org/unsd/mi/mi_goals.asp>; poverty incidence in Myanmar (national poverty line, 2002) from ADB, http://www.adb.org/Statistics/pdf/Basic-Statistics-2005.pdf.

Box 2. *Progress Toward Attainment of the MDGs in Asia-Pacific Least Developed Countries*

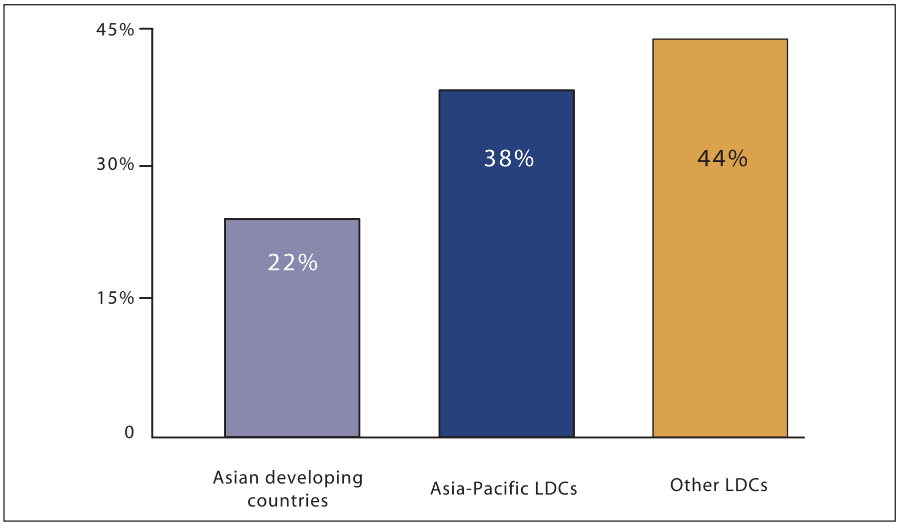
Country	Goal 1, Target 1, Indicator 1: Proportion of population below poverty line	Goal 1, Target 2, Indicator 4: Prevalence of underweight children under 5 years of age (UNICEF-WHO)	Goal 1, Target 2, Indicator 5: Proportion of population below minimum level of dietary energy consumption (FAO)	Goal 2, Target 3, Indicator 6: Net enrolment ratio in primary education (UNESCO)	Goal 2, Target 3, Indicator 8: Literacy rate of 16- to 24-year-olds (UNESCO)	Goal 4, Target 5, Indicator 13: Under-5 mortality rate (UNICEF-WHO)	Goal 4, Target 5, Indicator 14: Infant mortality rate (UNICEF-WHO)	Goal 7, Target 10, Indicator 30: Proportion of population with sustainable access to an improved water source, rural (UNICEF-WHO)	Goal 7, Target 10, Indicator 30: Proportion of population with sustainable access to an improved water source, urban (UNICEF-WHO)	Goal 7, Target 10, Indicator 31: Proportion of population with access to improved sanitation, rural (UNICEF-WHO)	Goal 7, Target 10, Indicator 31: Proportion of population with access to improved sanitation, urban (UNICEF-WHO)
Afghanistan	NA	NA	Underachiever, deteriorating trend	Underachiever, slow pace of achievement	NA	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	NA	NA	NA	NA
Bangladesh	Underachiever, slow pace of achievement	On track	Underachiever, slow pace of achievement	On track	Underachiever, slow pace of achievement	On track	On track	Underachiever, slow pace of achievement	Underachiever, deteriorating trend	On track	Underachiever, slow pace of achievement
Bhutan	NA	On track	NA	Underachiever, slow pace of achievement	NA	On track	Underachiever, slow pace of achievement	NA	NA	NA	NA
Cambodia	On track	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	On track	Underachiever, slow pace of achievement	Underachiever, deteriorating trend	Underachiever, deteriorating trend	NA	NA	NA	NA
Lao PDR	On track	Underachiever, slow pace of achievement	On track	On track	Underachiever, slow pace of achievement	On track	Underachiever, slow pace of achievement	NA	NA	NA	NA
Maldives	NA	On track	NA	On track	On track	On track	Underachiever, slow pace of achievement	Underachiever, deteriorating trend	Underachiever, deteriorating trend	NA	On track
Myanmar	NA	Underachiever, deteriorating trend	On track	Underachiever, deteriorating trend	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	On track	On track	On track	On track

Timor-Leste	NA	NA	NA	NA	NA	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	NA	On track	NA	NA
Nepal	Underachiever, slow pace of achievement	NA	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	On track	On track	On track	Underachiever, deteriorating trend	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement
Kiribati	NA	NA	NA	NA	NA	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	On track	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	On track
Samoa	NA	NA	NA	Underachiever, deteriorating trend	On track	On track	On track	Underachiever, deteriorating trend	Underachiever, deteriorating trend	On track	On track
Solomon Islands	NA	NA	NA	NA	NA	On track	On track	NA	NA	Underachiever, slow pace of achievement	No improvement
Tuvalu	NA	NA	NA	NA	NA	Underachiever, slow pace of achievement	Underachiever, slow pace of achievement	On track	On track	On track	On track
Vanuatu	NA	NA	NA	On track	NA	On track	On track	Underachiever, deteriorating trend	Underachiever, deteriorating trend	NA	NA
APLDCs[a] (weighted averages)	**Underachiever, slow pace of achievement**	**On track**	**Underachiever, slow pace of achievement**	**Underachiever, slow pace of achievement**	**Underachiever, slow pace of achievement**	**On track**	**Underachiever, slow pace of achievement**	**On track**	**On track**	**On track**	**On track**

Source: Compiled and estimated on the basis of latest available data from the UN Millennium Database and national MDG Progress Reports for Afghanistan, Bangladesh, Bhutan, Cambodia, Lao PDR, Nepal and Timor-Leste.

a These estimates refer to various points of time and are based on population-weighted averages of countries for which data were available. NA indicates data not available.

Figure 2. *Proportion of Population Below US $ 1 (PPP) Per Day*



Sources: United Nations Statistics Division, *Millennium Indicators Database*, http://millenniumindicators.un.org/unsd/mi/mi_goals.asp; World Bank, *World Development Indicators 2004 database*, <http://www.worldbank.org/data/wdi2004/>; Secretariat of the Pacific Community, *Pacific Islands Regional Millennium Development Goals Report 2004;* and various national MDG reports: Afghanistan (2003), Bhutan (2002), Timor-Leste (2004).

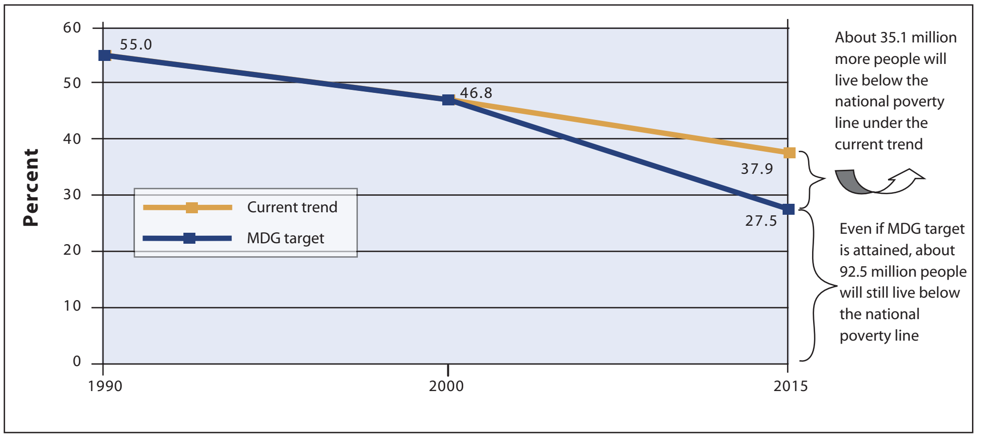
Note: Calculations of population-weighted averages are based on latest available country data.

Rising income inequality in these countries suggests that growth needs to be more pro-poor

figure ranges from 56 percent of the total population in Afghanistan to 34 percent in Cambodia. Given the current trend, the percentage of the population below national poverty lines is expected to remain close to 40 percent by 2015. Even if the MDG target is achieved in these countries, given their population size and its expected rate of growth, as many as 92.5 million people will still be living in poverty by 2015, with 53 million in Bangladesh alone. An additional 35 million people in Asia-Pacific LDCs will be below the national poverty lines in 2015, given the current trend, suggesting that two-fifth of the region's population could be impoverished then.

Income inequality has increased in many LDCs in the region, even in countries with declining

Figure 3. *Proportion of Population Below the National Poverty Lines in Asia-Pacific Least Developed Countries: Current Trend Versus MDG Target, 1990–2015*



Sources: Estimated from United Nations Statistics Division, *Millennium Indicators Database,* <http://millenniumindicators. un.org/unsd/mi/mi_goals.asp> and National MDG Progress Reports.

incidence of poverty. Greater reduction in poverty could have been achieved if the economic growth had been more beneficial to the poor. In Bangladesh, the Gini coefficient, which measures inequality, rose from 0.259 in 1992 to 0.45 in 2000, indicating widening disparity in income. In Cambodia, consumption inequality increased during the 1990s as the richest fifth of the population increased consumption expenditures by nearly 18 percent, while the poorest fifth increased consumption by just 1 percent. Similarly, in Timor-Leste, the share of the poorest quintile in national consumption was found to be only 7.1 percent. To achieve the MDG of halving the number of poor will require considerable effort as well as renewed initiatives from both national governments as well as the global community.

Chapter 3

Impediments to Growth in Asia-Pacific Least Developed Countries

Impediments in the form of low savings, geographic vulnerabilities and conflict hinder sustainable economic growth in Asia-Pacific LDCs

A number of impediments in Asia-Pacific LDCs affect their overall economic growth as well as progress toward the MDGs. Owing to their low domestic savings rate relative to their investment requirements, these countries face a chronic savings and investment gap that needs to be resolved through external finance from private and public sources. Despite concessions given to the LDCs by the international community, their ability to benefit from these preferences is limited due to their relatively small economic size and geographic constraints of the landlocked and island LDCs. Finally, with many LDCs having experienced conflict in recent years, political stability and institutional capacity need to be fostered through international support, including continued flows of development finance.

Economic growth does not guarantee poverty reduction, but the presence of growth does make the task easier

Real economic growth in the long term is crucial for reducing poverty and supporting the achievement of the MDGs in Asia-Pacific LDCs. While economic growth does not guarantee poverty reduction in its many dimensions, the presence of growth does make the task easier. The magnitude of development needs in these countries requires a high rate of investment that is not likely to be funded from gross domestic savings alone. In 2003, the resource gap[8], measured as the difference between savings and investment, as a percentage of GDP, amounted to -32.0 percent in Afghanistan, -5.2 percent in Bangladesh, -20.9 percent in Bhutan, -11.9 percent in Cambodia, -8 percent in Lao PDR, -15.2 percent in Nepal, -77.0 percent in Timor-Leste and -4.2 percent in Vanuatu. In contrast, the resource gap in selected Asian developing countries is negative only for three countries. Comparing the resource gap on a per-capita basis, it is significantly higher in Asia-Pacific LDCs than in Asian developing countries (Annexure 4 presents an alternate estimation examining the savings rate necessary to achieve a 5 percent growth rate in real per-capita income; this rate was found to be higher than 30 percent). Sufficient resources are necessary to bridge the savings and investment gap and to foster growth. Financial inflows through aid, reduced debt servicing and increased current account inflows, as outlined in MDG 8, are critical.

The amount of current per-capita ODA to Asia-Pacific LDCs compares unfavourably with that received by other LDCs (Figure 4). Similarly, while the ratio of debt servicing to exports has been falling in recent years in LDCs, it remains a significant burden for these countries (Figure 5). For example, the debt servicing-to-exports ratio for Lao PDR was as high as 10.32 percent in 2003. While LDCs of the region have increased the ratio of exports to GDP (Figure 6), they have yet to catch up with Asia-Pacific developing countries as well as their counterparts in other parts of the world. The ending of the Multi-Fibre Arrangement (MFA) has been a major concern to many LDCs that have focused on garment exports in recent years.

Also of particular relevance here are the problems faced by the landlocked and island LDCs in Asia and the Pacific. Landlocked countries without direct access to the sea require transport infrastructure, market integration, trade facilitation and harmonisation measures at the regional level to be able to participate substantially in international trade. Freight costs and distance to port of landlocked Asia-Pacific LDCs are greater than those of their transit neighbouring

[8] Asian Development Bank (ADB), 2004: *Key Indicators 2004 - Poverty in Asia, Measurement, Estimates and Prospects*.

Table 4. *Resource Gap in Asia-Pacific Least Developed and Developing Countries, 2003*

Country	Gross domestic saving (% GDP)	Investment[a] (% GDP)	Resource gap[b] (% GDP)	Resource gap (US$ per-capita)
Asia-Pacific LDCs				
Afghanistan	-3.7	28.3	-32.0	-64
Bangladesh	18.2	23.4	-5.2	-20
Bhutan	32.4	53.3	-20.9	-199
Cambodia	10.5	22.4	-11.9	-35
Lao PDR	3.2	11.2	-8.0	-29
Maldives	n/a[c]	27.2	n/a	n/a
Nepal	11.4	26.6	-15.2	-37
Myanmar	11.3	11.3	0.0	0
Timor-Leste	-44.8	32.2	-77.0	-379
Vanuatu	16.7	20.9	-4.2	-62
Asian Developing Countries				
China	42.7	44.4	-1.7	-19
India	24.2	23.3	0.9	5
Indonesia	21.5	16	5.5	54
Malaysia	42.9	21.8	21.1	869
Pakistan	17.3	16.7	0.6	3
Philippines	18.9	18.9	0.0	0
Sri Lanka	15.7	24.1	-8.4	-70.4
Thailand	32.8	25.2	7.6	178
Viet Nam	28.2	35.1	-6.9	-33

Sources: Asian Development Bank, 2004, *"Key Indicators 2004, Poverty in Asia: Measurement, Estimates, and Prospects"*, International Monetary Fund Country Report, February 2005, *"Islamic State of Afghanistan: Selected Issues and Statistical Appendix"*, and International Monetary Fund Country Report for Lao PDR, "*Executive Summary of the Report on the Implementation of the 2003-04 Socio Economic Development Plan and Directives for 2004-2005 Plan*"

Notes: Data not available for Kiribati, Samoa, Solomon Islands and Tuvalu.

a Gross fixed capital formation rates are used as proxies of investment rates. Gross fixed capital formation is defined as the total value of acquisitions, less disposals, of fixed assets plus certain additions to the values of non-produced assets. Fixed assets are tangible or intangible assets; where tangible assets include dwellings, buildings and structures, machinery and equipment, and trees and livestock; and intangible assets include mineral exploration, computer software, entertainment, literary or artistic originals. Non-produced assets refer mainly to land. Included in gross fixed capital formation are major improvements to non-produced assets and costs associated with the transfer of ownership of non-produced assets.

b Resource gap is derived as gross domestic saving rate less investment rate (or gross capital formation).

c Data not available.

Geographic disadvantages add to structural impediments to growth and adversely affect policy choices

countries as well as similarly placed countries in other regions of the world[9]. Island LDCs face challenges posed by their small size and geographic remoteness, both of which limit the possibilities for the diversification of their economies, including export diversification. In addition, these countries are particularly vulnerable to environmental risks and natural disasters. Geographic factors also add to risk in economic sectors such as agriculture and transport. Even with good governance, growth in countries with agriculture or transport risk was lower by almost 4 percentage points annually, compared with countries with lower risk. Growth in countries prone to ecological disasters was lower by 2 percentage points than those that were not. Moreover, geography has implications on the choice of economic policies, thereby indirectly affecting economic growth as well. For example, countries that are close to their markets tend to choose more open trade policies than countries that are distant from markets. Concessionary treatment should therefore be granted to LDCs handicapped by geography in order to provide them with the right incentives to adopt economic policies that benefit

[9] The estimated ratio of freight costs, including transportation and insurance, to total exports averaged 0.74 and the distance to port was 1,128.8 kilometres in Asia-Pacific landlocked LDCs, as compared to 0.42 and 1,255.4 kilometres, respectively, in other landlocked countries.

Figure 4. *ODA Per-Capita, 1990-2002*

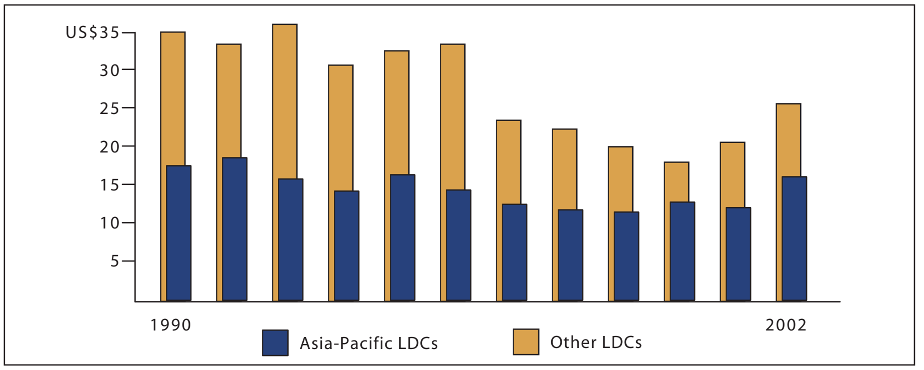
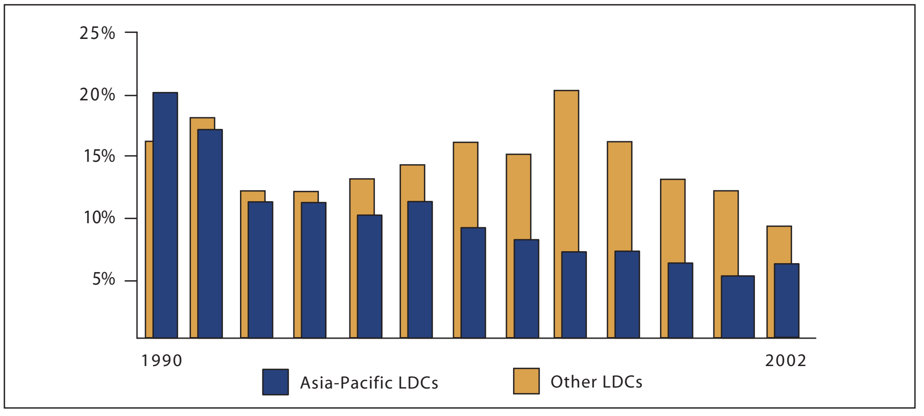
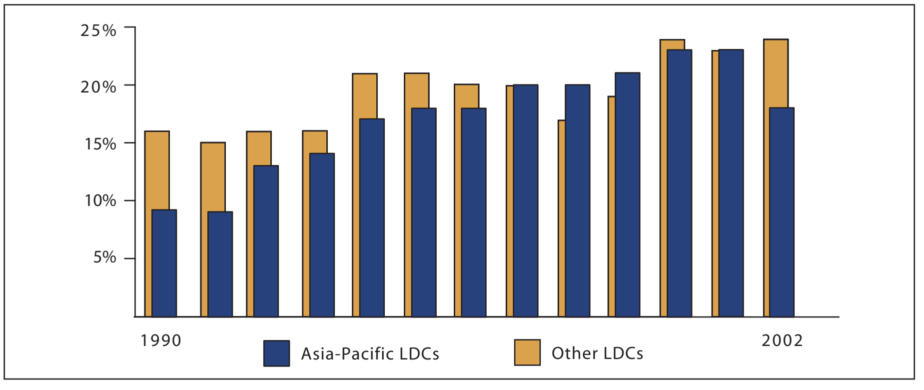


Figure 5. *Debt Servicing-to-Exports Ratio,[a] 1990-2002*



ODA is needed to augment savings but ODA per-capita for Asia-Pacific LDCs compares unfavourably to other regions

Figure 6. *Exports-to-GDP Ratio, 1990-2002*



Source: World Bank, *World Development Indicators 2004* (Washington, World Bank).

a Total debt service comprises debt service payments on total long-term debt (public and publicly guaranteed and private non-guaranteed), use of IMF credit and interest on short-term debt. Long-term debt service payments are the sum of principal repayments and interest payments in the year specified.

the poor. Since countries in disadvantaged geographic locations are more likely to remain in poverty, their attainment of the MDGs becomes particularly difficult. Special attention to the particular challenges faced by landlocked and small island LDCs in the Asia-Pacific region is therefore essential.

Several LDCs in the region have been affected by wars and, in some cases, civil conflict. As a result, defence (including security) spending in some countries may well exceed expenditures on social sectors, thus inhibiting the countries' investment in their futures[10]. The needs of countries requiring reconstruction of physical and social infrastructure are of a different order of magnitude from other developing countries. For instruments of financing for development and trade to have any impact in these countries, political stability needs to be ensured. Both public and private institutions also need to be strengthened to enable effective planning and implementation of long-term policies. This is especially true since the international community sees effective application of disbursed aid as a prerequisite for additional commitment of external resources. Private sector investment necessary for strengthening of supply capabilities in export-oriented sectors also requires political stability, functional markets and institutions, and rule of law. Finally, since transport capabilities determine the extent of trade, stability throughout the country is necessary for export-led growth to materialise.

Due to the diversity of needs and circumstances among Asia-Pacific LDCs, it will be important to customise the support to address their challenges. It is furthermore important for these LDCs, as well as their development partners, to begin by implementing policies that form the prerequisites for their development strategies. Proper sequencing of policies relevant to each specific LDC is also important. Finally, each country and its partners need to ensure that the country is able to use all available resources, including human resources, to attain their common MDGs.

Diversity among Asia-Pacific LDCs underlines the importance of customising support to local challenges

[10] While data is available for only five Asia-Pasific LDCs, average military expenditures in these countries, as a percentage of GDP in 2001, amounted to 1.87 percent, as compared to 1.49 percent on education and 0.87 percent on health (calculated as GDP-weighted averages of individual country values). However, it may be noted that public expenditures on education in Bangladesh, Lao PDR and Nepal were higher than millitary expenditures. Health expenditures in Bangladesh were also higher than military expenditures.
Source: UNDP, Human Development Report 2003, *Millennium Development Goals: A compact among nations to end human poverty.*

Chapter 4

Facilitating International Trade and Market Access to Achieve the MDGs

4.1 Background

The removal of trade barriers to facilitate exports of LDCs can make a very significant contribution to poverty reduction

The removal of trade restrictions for facilitation of exports of LDCs has the potential to make a very significant contribution to raising incomes, boosting long-term economic growth, increasing financial flows for development, and thereby increasing the scope of domestic policy for reducing poverty[11]. In the long run trade, when made part of an overall development strategy at the national level, provides a possible means by which countries can grow more sustainably, reducing their dependence on aid and debt relief. Thus, an enhanced global partnership for development, as portrayed in MDG 8, is of key interest to these countries since it will afford them more commercially meaningful access to international markets. The relationships between international trade and poverty reduction in Asia-Pacific LDCs could be direct and powerful, when backed by supporting domestic policies and strong backward linkages. In other words, trade liberalisation policies must be supported by a gamut of other complementary policies and aid that will build up supply-side capacity and create productive potential so that market access can be more effectively utilised. While economic growth is not a sufficient condition for poverty reduction, poverty can be better addressed in the presence of growth.

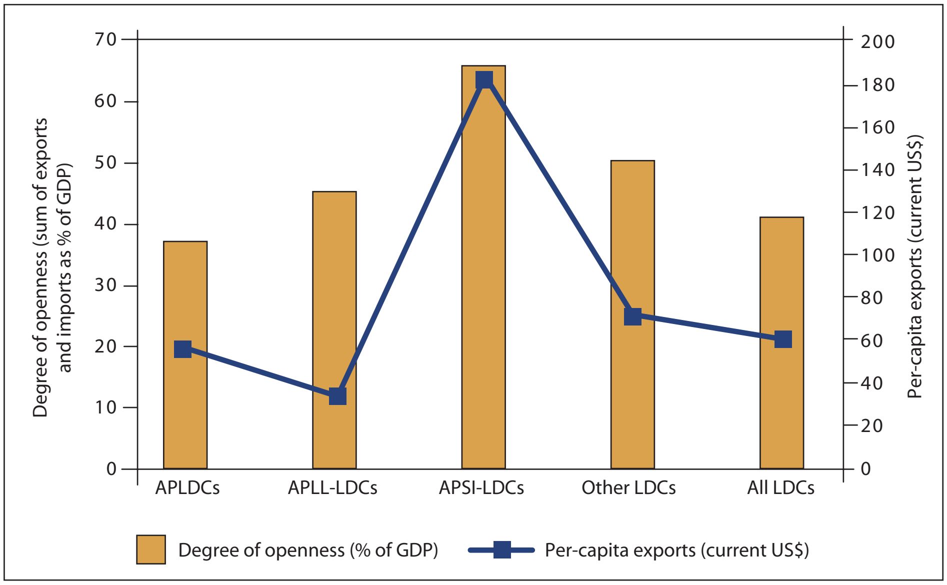
Asia-Pacific LDCs are characterised by important differences with respect to the composition and destinations of exports. Some are mainly exporters of manufactures, others of services, while for some the focus is primary commodities. Most Asia-Pacific LDCs undertook trade reforms in the 1990s, rationalising tariff rates, eliminating quantitative restrictions and reducing non-tariff barriers. As a result, these countries already have relatively open economies (Figure 7); for more open economies, international trade can be a powerful driver of economic growth. Countries where exports of manufactures and services feature prominently have experienced higher economic growth, and made more significant inroads in poverty reduction through beneficial spread effects, as compared to those that have relied on primary commodity exports. This happens due to greater wage and employment opportunities and wider linkages with consequent income generation that have made direct contributions to poverty reduction.

The export structure in Asia-Pacific LDCs shows a high contribution of labour-intensive exports, remittances and agriculture for some (Table 5). For example, agriculture continues to be a major source of exports for several Asia-Pacific LDCs, particularly for some small island states such as Kiribati, where this accounts for nearly 89 percent of total exports, Maldives with 67 percent and Vanuatu with 54 percent. Remittances are as high as 75 percent of export earnings in Samoa, 31 percent in Bangladesh and nearly 30 percent in Vanuatu.

The textiles and clothing export industry employs around 2 million workers in these countries, of which 70 percent are women. In 2003, the share of those items in total export earnings from Bangladesh was 76 percent, in Cambodia 95 percent and in Nepal 40 percent. The high level of dependency on one sector has

[11] ESCAP, 2005. *Implementing the Monterrey Consensus in the Asian and Pacific Region: Achieving coherence and consistency*, Chapter IV, "International trade as an engine of development".

Figure 7. *Degree of Openness and Per-Capita Exports for Various Groups of Least Developed Countries, 2003*



Source: UNCOMTRADE

Note: "APLDCs" comprise 10 out of 14 Asia-Pacific LDCs (data unavailable for Afghanistan, Myanmar, Timor-Leste and Tuvalu); "APLL-LDCs" comprise three out of four landlocked Asian LDCs, namely, Bhutan, Lao PDR and Nepal (data unavailable for Afghanistan); "APSI-LDCs" comprise five out of six Pacific island LDCs, namely, Kiribati, Maldives, Samoa, Solomon Islands, Vanuatu (data unavailable for Tuvalu); "All LDCs" comprise both Asia-Pacific LDCs and LDCs located outside the region.

The high proportion of labour-intensive exports in Asia-Pacific LDCs offers an opportunity for poverty reduction

Table 5. *Structure of Earnings from Goods Exports and Remittance Flows (Percentage[a] of Foreign Exchange Earnings from Total Merchandise Exports and Remittances)*

Country	Agricultural products	Manufactured items	Other merchandise goods	Total merchandise exports[a]	Remittances	Total merchandise exports + remittances %	Total merchandise exports + remittances (million US$)
Afghanistan	n/a[c]	n/a	n/a	100.0	0.0	100	135
Bangladesh	4.6	55.4	8.5	68.6	31.4	100	10121.9
Bhutan	14.7	39.7	45.7	100.0	0.0	100	116
Cambodia	0.0	88.2	5.0	93.1	6.9	100	1815
Kiribati	88.9	0.0	11.1	100.0	0.0	100	9
Lao PDR	n/a	n/a	n/a	100.0	0.0	100	378
Maldives	67.3	31.9	0.9	100.0	0.0	100	113
Myanmar	n/a	n/a	n/a	98.0	2.0	100	2652.1
Nepal	8.1	51.7	28.1	87.8	12.2	100	945.5
Samoa	n/a	n/a	n/a	25.1	74.9	100	59.7
Solomon Islands	n/a	n/a	n/a	100.0	0.0	100	75
Vanuatu	54.1	5.4	10.8	70.3	29.7	100	37
Asia-Pacific LDCs[b] (weighted averages)	**7.7**	**59.4**	**10.0**	**81.9**	**18.1**	**100**	**16427.2**

Sources: Latest data available from UNCOMTRADE and from IMF, BOP CDROM. *Note:* Numbers in table may not sum to totals because of rounding.

a "Total merchandise exports" is the sum of "agricultural products", "manufactured items" and "other merchandise goods".
b The aggregate values for Asia-Pacific LDCs are weighted according to export earnings of individual countries.
c Data not available.

prevented poor countries from taking advantage of the fall in trade barriers to get their other exports into the developed world. Not surprisingly, the ending of the MFA is of vital concern to these countries. However, a great deal of international media attention has focused on highlighting US and European voices. Various studies have suggested that the removal of quotas would have a detrimental effect on economic growth and, consequently, on poverty reduction in the affected countries, leading to calls for reimposition. Special textile quotas for severely affected Asia-Pacific LDCs could be proposed in the context of ongoing negotiations under the Doha Development Round. Bangladesh, for example, has seen its textile exports fall by 6 percent in the five months following the ending of the MFA. Many exporters in LDCs have experienced a significant reduction in market shares following earlier de-restriction, and profit margins have come under pressure. Some relief, however, has been found in niche markets. For example, strict adherence to high labour standards by suppliers in Cambodia has ensured continued demand for their products on the part of buyers who support fair trade.

The ending of the MFA is of vital concern to Asia-Pacific LDCs, particularly for female workers; however, they have found their voices subdued by Western concerns

4.2 Special Trade Challenges

Market Access

Target 13 under MDG 8 addresses the special needs of LDCs and calls for greater market access to be given to products of interest to poor countries, particularly products that are labour-intensive and thus result in new income-generating opportunities. However, problems of tariff peaks and tariff escalation are suffered disproportionately by these very products, with footwear, fisheries and garments featuring prominently. In this regard, it is important to note that, in the garments and agricultural sectors, the average tariffs faced by Asia-Pacific LDCs are higher than those faced by their counterparts in other regions of the world (Table 6). The main reason for this appears to be export composition and direction. Clothing products dominate the export basket. The United States is the key destination market for clothing exports, and tariffs imposed by the US are higher than those of other trading partners. Preferential schemes such as the Cotonou Agreement of the European Union for African, Caribbean and Pacific countries, and the African Growth and Opportunity Act of the United States of America for African developing countries, could be extended to all Asia-Pacific LDCs.

***Table 6.** Weighted Average Applied Tariffs Faced by Least Developed Countries in Agriculture and Clothing*

	Agriculture	Clothing
Asia-Pacific LDCs	8.44%	7.46%
Other LDCs	4.23%	5.91%

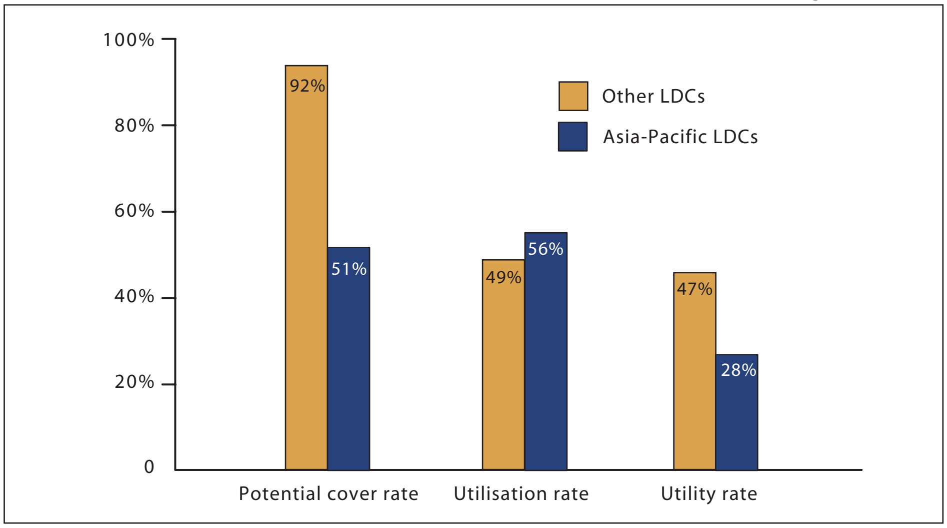
Source: United Nations ESCAP, based on latest available data and information provided by WTO, International Trade Centre, UNCTAD and United Nations Statistics Division.

Note: Sector classification and method of computation are based on the methodology of MDG indicator 39, see United Nations (2003), *Indicators for Monitoring the Millennium Development Goals: Definitions, Rationale, Concepts and Sources.*

A number of schemes have been implemented over the years to enable greater exports from LDCs. GSP schemes and the European Union's "Everything But Arms" initiative have had beneficial effects, but they have only partially solved the market access problems of the LDCs. This is because utilisation rates, defined as the ratio of imports actually receiving preferences to imports covered by a given preferential scheme, have on the whole remained low (Figure 8). Restrictive rules of origin, as contained in GSP schemes, appear to be the main factor causing low utilisation rates. Clearly, for market access to be commercially meaningful, rules of origin should not constrain the capacity of Asia-Pacific LDCs to make use of market access preferences owing to difficulties of compliance. Moreover, harmonisation of GSP rules of origin, which currently differ from one GSP scheme to another, would be an important step toward making market access commercially meaningful.

As seen in Figure 8, the potential cover rate of market preferences, defined as the ratio of imports eligible for GSP to dutiable imports, appears to be less favourable to Asia-Pacific LDCs as compared with those in other regions, since certain schemes exclude major export items of these countries. Of particular note is the fact that the GSP scheme of the United States does not include textiles and clothing. Based on UN Conference on Trade and Development (UNCTAD) estimates in 2003, the country most affected by the exclusion of

Figure 8. *Effectiveness of Market Access Preferences of Quad Countries for Least Developed Countries of Asia-Pacific and of Other Regions*



Sources: WTO Sub-Committee on LDCs Negotiating Group on Market Access, *Market access issues related to products of export interest originating from LDCs*, 29 September 2003, <http://www.un.org/special-rep/ohrlls/ldc/Contributions/GSP%20imports%20and%20utilization%20by%20Least-Developed%20Countries.pdf>; and UNCTAD, *Handbook of Statistics 2004*, <http://www.unctad.org/en/docs/tdstat29_enfr.pdf>.

Notes: The above figure refers to the effectiveness of market access preferences (granted through the GSP) of Quad countries, the term used at the WTO to describe the four major industrialised-country markets: the US, Canada, the European Union, and Japan. Calculations are made on the basis of data available in 2003. "Potential cover rate" (%) = imports eligible for GSP/dutiable imports; "Utilisation rate" (%) = Imports receiving GSP preferences/imports eligible for GSP; "Utility rate" (%) = Imports receiving GSP preferences/total imports. All rates are calculated as exports-weighted average rates.

Global zero-tariff market access could be an important initiative for LDCs in the Doha Development Round

products from the US GSP scheme is Bangladesh, which supplies almost 90 percent of the 20 main products not covered by the scheme. Cambodia and Nepal are also significantly affected by this exclusion. The granting of "quota-free" and "duty-free" schemes for all dutiable products originating from LDCs would contribute enormously to raising export earnings and make trade work for development in Asia-Pacific LDCs.

An additional area in which labour-abundant Asia-Pacific LDCs are seeking enhanced market access is for their overseas workers. This is even more important for low-skilled workers. After earnings accruing from merchandise exports, remittances are proving to be the second-largest source of private financial flows that could provide an additional means of tackling poverty reduction. Remittance income also contributes to the MDGs of health and education when beneficiary households have more money to access improved health services, better schooling, protected water and better housing. The importance of remittances as a source of external financial flows is most visible in small islands such as Samoa, where remittances account for close to 75 percent of total earnings, and Vanuatu, where remittances represent nearly 30 percent of total earnings (Table 5).

Ongoing negotiations under the Doha Development Round Work Plan and the forthcoming WTO Ministerial Conference in Hong Kong could provide Asia-Pacific LDCs with a window of opportunity toward obtaining greater market access. There is a need to ensure that the Doha Development Round does in fact have development at the core of its agenda and that clauses relating to special and differential treatment in the various WTO Agreements in favour of developing countries are actually implemented. Global zero-tariff and quota-free access for exports from the LDCs could be an important initiative. Other issues of critical importance to Asia-Pacific LDCs include market access for agricultural products; non-agricultural market access and erosion of preferences; liberalisation of the movement of natural persons; and process and conditions of WTO accession.

Global zero-tariff market access is a critically important issue for Asia-Pacific LDCs. As an illustration, import duties on apparel exported

Market access preferences have been less favourable for Asia-Pacific LDCs compared with other regions

WTO accession commitments could result in resources being diverted from needed expenditures on health, education and infrastructure

from Bangladesh, Cambodia and Nepal to the United States amounted to US$ 520 million, more than three times greater than net disbursed bilateral aid of US$ 150 million received by those countries[12]. The "Everything But Arms" initiative of the European Union, providing zero-tariff access to almost all exports from LDCs, and Canada's recent changes to rules of origin that are friendlier to LDCs and permit 25 percent value addition, indicate that commercially meaningful market access initiatives are possible[13]. These can be of great significance to the economies of Asia-Pacific LDCs. This issue gains particular importance in view of China's increasing ascendancy in the global apparel market. Any setback in exports of textiles and apparel could have serious repercussions on achievement of the MDGs in such areas as poverty alleviation, health and education for countries like Cambodia, Bangladesh and Nepal, where earnings from manufactured items account for as much as 88, 55 and 52 percent of total earnings from exports respectively.

In view of ongoing WTO negotiations in the area of non-agricultural market access, which are expected to reduce industrial tariffs, the preferential margins enjoyed by LDCs under various GSP schemes are likely to be substantially reduced. For example, even as Australia and New Zealand brought duties down on the basis of WTO commitments, there has been substantial erosion of preferences for Pacific small island economies, despite the zero-tariff access to those markets extended under preferential schemes. The erosion of preferences is expected to increase competitive pressure on exports of all LDCs, including those from Asia-Pacific.

Accession to WTO

Accession to WTO is of special interest to Asia-Pacific LDCs, five of whom (Afghanistan, Bhutan, Lao PDR, Samoa and Vanuatu) are currently engaged in the process. Without exception and notwithstanding the 2001 WTO guidelines on simplifying and streamlining accession, the process has proven complex and resource-intensive. An enhanced global partnership, as foreseen in MDG 8, would entail focusing the accession process on pro-development policy reforms from which acceding countries can benefit economically. WTO members should therefore take the lead by concentrating on sectors of developmental interest to LDCs and by not insisting on compliance with provisions that have little meaning for the situation of acceding countries. For example, a measured opening up (in terms of timing and sequencing) of some backbone infrastructure services, such as the financial, telecommunications and transport service sectors, could significantly improve supply capacities, productivity and export competitiveness in LDCs provided it is embedded in an overall development plan with a poverty reduction strategy. In short, an enhanced global partnership would mean that the terms, conditions and speed of accession to WTO are set within national-level policy reforms promoting economic and social development.

Furthermore, implementation of far-reaching commitments could divert public resources away from important expenditures on education, health or infrastructure services, where needs are acute and long-term returns may be greater. For example, implementation of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement requires extensive legal, legislative and institutional development, as well as financial resources, before compliance is achieved. The implementation of TRIPS may not be a priority for acceding LDCs, given their other numerous pressing economic and social needs. There are TRIPS-related concerns about increased drug costs limiting access to medicines necessary for public health, including the increasing concerns over HIV/AIDS in Asia-Pacific. WTO members should therefore allow these countries to avail themselves of generous transition periods commensurate with their development needs. A more rigorous and systematic assessment of the costs of implementation should be undertaken and additional ODA provided, so that its provision is not a zero-sum calculation. In other words, ODA allocated for accession should not come at the expense of lower allocations in other sectors.

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[12] Duty paid is calculated based on data from USITC Dataweb for 2003, while Disbursed Aid data for 2002 are from the IDS online database.

[13] Exports of apparel to Canada from LDCs increased from US$ 110 million in 2002 to US$ 298 million in 2003 following the change in rules of origin.

4.3 The Potential of Intra-regional Trade

An enhanced global partnership would be incomplete without a discussion of the potential for intra-regional trade and economic cooperation. The Asia-Pacific region has gained recognition as a global producer, trader and consumer in its own right. As such, the region is its own best source of future trade and investment growth and future dynamism for the global economy. In 2003, developing countries in the region contributed more than two-thirds of global South-South trade, with an annual growth rate of 11 percent per year, nearly twice the growth rate of total world exports.

At the global level, only 32 percent of the total trade of all LDCs was conducted with other developing countries in 1989, but this had increased to 56 percent by 2001. Similarly, the proportion of total exports of all LDCs directed to other developing countries more than doubled, from 15 to 34 percent, in the same period. Despite this rise in exports, the world's LDCs have a deficit in their international trade with other developing countries, and this deficit has actually increased from US$ 5.5 billion in 1990 to US$ 15.6 billion in 2002. With Bangladesh accounting for a large share of total LDC trade, these global trends are found not to differ much from intra-regional trade dynamics recorded at the Asia-Pacific level. However, for increased regional trade to occur, developing countries will need to revisit their own structure of protection, which has often weighed more heavily on exporters from the LDCs than on those from developed countries. Increased labour mobility from least developed to developing countries would offer immediate benefits in the form of increased intra-regional trade in services.

A large number of regional trading arrangements have also emerged in which Asia-Pacific LDCs are members, including the South Asian Free Trade Area (SAFTA), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation-Free Trade Area (BIMSTEC-FTA) and Association of Southeast Asian Nations Free Trade Area (AFTA). Several bilateral free trade arrangements also exist. For example, India and Nepal have open borders and complete labour mobility. India and Bangladesh have also signed a free trade agreement, and Pakistan has proposed a preferential trade pact with Afghanistan. These regional trading arrangements are indicative of an increasing interest in fostering closer intra-regional cooperation in trade and investment in the Asia-Pacific region. This is based on a shared understanding that such cooperation will encourage horizontal and vertical rationalisation of particular industries and facilitate the integration of all countries in the region into the global trading system. In this context, the issue of duty-free access to the markets of relatively more advanced developing countries, mooted in the WTO, needs serious consideration, since it would foster greater intra-regional trade and economic cooperation, potentially leading to economies of scale. Another important area where interdependence between developing and Asia-Pacific LDCs is likely to deepen relates to commodities, both fuel and non-fuel, which constitute 46 percent of intra-regional trade. The region's rising energy needs, particularly in its fastest-growing economies, could provide market opportunities where LDCs could be major suppliers.

There is, however, a need to reinforce assistance to the LDCs to enable them to participate meaningfully in these arrangements. These countries will require trade-related technical assistance and other types of support in areas such as harmonisation of customs procedures; development of competition policies and laws; harmonisation of certification and standardisation requirements; identification of markets; and the development of trade-supportive infrastructure and institutions to strengthen supply-side capacities. Some apprehension is evident on the part of Asia-Pacific Least Developed Countries that they could suffer further marginalisation were this not to occur.

For increased South-South trade to occur in Asia and the Pacific, developing countries will need to re-examine their own structure of protection

4.4 Policy Coherence and Sequencing Through Trade Mainstreaming

Although there is some potential to reduce poverty meaningfully through trade liberalisation, a number of other conditions and policies that go beyond the WTO's traditional purview must be in place. Designing such policies is a challenging task, given marked differences in individual country contexts.

If Asia-Pacific LDCs are to trade their way out of poverty, trade policy needs to be integrated into country development plans and poverty reduction strategies. In other words, by incorporating trade policy into a country's overall development framework and ensuring that it complements the country's own economic and social priorities, the goal of policy coherence is promoted. It is important, therefore, that trade mainstreaming not only identifies opportunities for trade liberalisation and export promotion but also opportunities to reduce poverty through trade policy. In this context, the principles of key Poverty Reduction Strategy Papers (PRSPs), including country specificity and ownership, comprehensiveness and broad stakeholder participation, should be respected and a thorough poverty impact analysis mainstreamed into the development of any new trade policy.

Trade-related policies need to be consistent with poverty reduction

This requires a systematic analysis of the possible poverty and other social impacts of trade options and, in this regard, social impact assessments could play an important complementary role. Such assessments are particularly important to recognise the additional vulnerabilities faced by female workers in exports sectors, both in manufacturing and services. Social impact assessments can also be complementary in devising a trade negotiating approach that will lead to positions and agendas with greater context specificity, more balanced sensitivity to individual country needs and a timeframe that takes into account analyses of the likely effects of alternative packages of rules and concessions.

Policies need to account for social impacts of trade

Importantly, social impact assessment can be a means of identifying more concretely the mitigating or flanking measures needed to avoid certain negative social effects arising from the losers of trade, such as displaced workers, or real wage decreases, which risk pushing people into deeper poverty. Other losses could include lower government revenues from tariffs. This could be significant in the case of Asia-Pacific LDCs because they are highly dependent on such revenues, given their limited scope for generating government revenue through domestic taxes. This could reduce their ability to put in place and fund social safety nets. Thus, the aim of the social impact assessment would be to explore the consequences of a country accepting a package of trade concessions and rules imposed on it, as is often the case with LDCs, and to determine how losers should be compensated so that reforms are politically palatable for society as a whole.

At the regional level, a case in point is the SAFTA revenue-compensating mechanism. While the need for such a mechanism has been recognised, particularly for the LDCs, it remains an open question whether consensus can be reached on the shape and form that such a mechanism should take. Agreeing on such compensation schemes will not be easy, yet they are worthy of further analytical scrutiny. In an enhanced global partnership for development, there is accordingly much more that donors and trading partners – acting through both multilateral and regional institutions – can do to provide LDCs with a level and form of financial assistance likely to raise their short- to medium-term comfort levels in undertaking market-opening policies.

4.5 Aid for Trade

ODA represents an important corollary to the balance of concessions and obligations that will form part of the Doha Round results and an enhanced global partnership for development. In at least two areas, there continues to be a compelling case for further attention to LDCs. One is capacity development for country negotiators and promoting institutional capacity. A second is in addressing the supply-side constraints that inhibit export responsiveness in LDCs and limit potential gains from trade liberalisation.

Capacity Development in Trade Negotiations and Trade Policy Formulation

While there has clearly been remarkable improvement in technical negotiating skills in recent years, LDCs still lack depth of expertise. Post-liberalisation issues or improvements in the regulation of markets typically remain highly complex, requiring significant expertise and resources dedicated to institution building. Regulatory reform in particular requires a concerted effort by more developed countries, as providers of financial as well as human resources; competent international and national agencies as executing entities; and the recipient countries. Long-term partnership arrangements among counterpart ministries, supervisory and regulatory agencies, labour unions, chambers of commerce, industry associations and NGOs could be provided in key areas such as auditing; accounting; technical and sanitary and phytosanitary regulations and standards; utility and other services regulation; administration of justice; consumer protection; and social and environmental policies. In this regard, the agreement reached on technical assistance and capacity building for the launch of negotiations on trade facilitation is significant and novel; it is the first time that implementation of commitments is explicitly linked to the provision of technical assistance. If this link is shown to deliver results, it could set an important precedent in enhancing development partnerships that would pave the way in other areas under negotiation as well.

Supply-side Capacity Building

Asia-Pacific LDCs that are also landlocked or small island states face specific problems in translating their comparative advantages into competitive advantages. Significant work has been carried out under the Work Programme on Small Economies in the WTO in relation to special measures on the grounds of smallness and vulnerability. The Almaty Programme of Action is informed by the recognition that a major reason for the marginalisation of landlocked LDCs in Asia arises out of the difficulty in accessing markets because of their geographic constraints. The Programme was endorsed by the International Ministerial Conference on Transit Transport Cooperation, held in Almaty, Kazakhstan, in 2003, and provides a comprehensive framework for closer partnerships to enhance the efficiency of transit transport. An International Meeting to Review the Implementation of the Programme of Action for the Sustainable Development of Small Island Developing States, held at Port Louis, Mauritius, in January 2005, formulated the Mauritius Strategy. This recognises, among other things, that most small island states face specific difficulties in integrating into the global economy. In recognition of the importance of international trade in building resilience and fostering sustainable development, it calls upon international institutions, including financial institutions, to pay appropriate attention to structural disadvantages and vulnerabilities faced by these states.

To assist global integration of landlocked Asia-Pacific LDCs, there is also a need to identify and support those tradables that are less dependent on transit transport, are low volume and weight with high value. Business process outsourcing is becoming a new tradable service, where communications technology has made transport costs irrelevant. For countries exporting high-bulk, low value-added goods — for example, mining, agricultural, textile and clothing products — an improvement in transport infrastructure and access to cost-effective information and communication technology are key supply-side aspects that need to be addressed. These challenges have to be tackled before any market-opening process to bear the desired results in a sustainable manner. Hence, additional development assistance in these areas needs to be prioritised to enable LDCs to realise the positive effects that trade promises for poverty reduction and the attainment of the MDGs. In this regard, an aid-for-trade fund of US$ 5 billion has been proposed, and it is heartening to note that a strong consensus is emerging on the need to provide additional supply-side development assistance in areas such as improved agricultural productivity, infrastructure and the provision of basic social services.

Aid to build up domestic capacities is necessary for Asia-Pacific LDCs to benefit from trade concessions

Chapter 5

Aid and Debt Relief: Some Key Issues to Achieve the MDGs

5.1 Making Aid Work

The savings and investment gap in Asia-Pacific LDCs continues to be ominously high. The capacity of these countries to incur financial obligations and mobilise adequate domestic resources, both public and private, remains seriously handicapped by various structural constraints. These include the low diversification of the economic base mentioned earlier and the ensuing high economic vulnerability, persistent poverty levels and resulting low levels of savings; inadequacy of their basic infrastructure; and geographic disadvantages, including proneness to natural disasters.

Accordingly, the international community is urged to address the special needs of the LDCs by fulfilling the aid and debt relief targets embodied in MDG 8 as well as the targets in the Brussels Programme of Action for LDCs for the Decade 2001-2010, the Almaty Programme of Action for Landlocked Developing Countries and the Programme of Action for Sustainable Development of Small Island Developing States. Aid to Asia-Pacific LDCs should be front-loaded and primarily be in the form of grants. Concessional loans and debt relief can also play a vital role in financing national investments to attain the MDGs in these countries.

The international community will need to fulfil the aid and debt relief targets embodied in Goal 8 and reiterated in the Monterrey Consensus if LDCs are to achieve the MDGs

As mentioned earlier, aid flows to other LDCs, both in absolute terms and on a per-capita basis, remained appreciably higher than aid flows to Asia-Pacific LDCs between 1990 and 2002. In recent years, this imbalance has only widened. Between 2000 and 2003, a 60 percent increase in total ODA flows to Asia-Pacific LDCs was recorded, while ODA flows to other LDCs increased by as much as 87 percent. No tangible increase in per-capita ODA flows to Asia-Pacific LDCs has been recorded since 1990. Moreover, donors' priorities and motivations for aid do not always match recipient countries' needs.

The composition of aid to Asia-Pacific LDCs is also a cause of concern, with a 10 percent decline in the proportion of grants in total ODA from 2002 to 2003. Strikingly, while the fastest and steadiest increase in ODA grants as a proportion of total ODA is recorded in the region — with Afghanistan, China and Pakistan as the main receivers — at the same time Asia-Pacific LDCs have recently faced a sharp decline in that proportion. This situation needs to be assessed against the financial resources needed by these countries to attain the MDGs.

The Monterrey Consensus recognises the need for substantial increases in ODA, as well as other resources, if developing countries are to achieve internationally agreed development goals. A number of attempts have been made to estimate the financing required if the MDGs are to be reached by 2015. The Zedillo Panel estimated that an additional US$ 50 billion would be required annually to achieve the MDGs in all developing countries, while the UN Millennium Project has estimated these costs to be US$ 121 billion in 2006, rising to US$ 189 billion in 2015. In comparison, the ODA in support of the MDGs in 2002 was only about US$ 28 billion out of the total ODA flow of US$ 62 billion that year, or 45 percent.

A rough estimate of the resources needed to meet the MDGs in Asia-Pacific LDCs shows that these countries will require US$ 20.7 billion in 2006, US$ 30.9 billion in 2010 and US$ 47.3 billion in 2015 (Table 7). Of this amount, households and governments in the countries concerned are expected to generate 42 percent

Table 7. *Estimated MDG Investment Needs and MDG Financing Gaps in Asia-Pacific Least Developed Countries, 2006–2015*

	Projected for 2006		Projected for 2010		Projected for 2015	
	Total (2003 US$ billions)	Per-capita (2003 US$)	Total (2003 US$ billions)	Per-capita (2003 US$)	Total (2003 US$ billions)	Per-capita (2003 US$)
Total MDG investment needs[a]	20.7	76	31.0	104	47.3	145
Sources of financing[a]						
Household contributions	2.3	8	3.2	11	4.8	15
Government expenditures	6.4	24	10.1	34	16.3	50
Total	8.7	32	13.3	45	21.1	65
MDG financing gap	12.0	44	17.7	59	26.2	80
ODA for direct MDG support (2002)[b]	1.9	7	2.0	7	2.2	7
Shortfall in ODA for direct MDG support over 2002 level	**10.1**	**37**	**15.7**	**52**	**24.0**	**73**

Sources: Computed for the 14 Asia-Pacific LDCs on the basis of projections of MDG investment needs for Bangladesh and Cambodia carried out for the UN Millennium Project. These projections do not take into account country-specific circumstances which affect MDG investment figures. Population figures are based on projections for 2005 (273 million, used as a proxy for 2006), 2010 (299 million) and 2015 (326 million), calculated from World Population Prospects: The 2004 Revision Population Database, Population Division of the Department of Economic and Social Affairs of the UN Secretariat. ODA figures are from the OECD-DAC Database on Aid and Other Resources Flows, IDS Online.

a Estimates of MDG investment needs were made by taking population-weighted averages of per capita requirements in a UN Millennium Project study for Bangladesh and Cambodia, and applying those to estimate the per-capita requirements in the 14 Asia Pacific LDCs at three points in time. The population weight of Cambodia and Bangladesh in 2002 was also applied to estimate domestic sources of financing in the 14 Asia-Pacific LDCs.

b Estimates of ODA for direct MDG support are based on the global ratio of ODA for direct MDG support to total ODA flows, calculated as 45 percent in 2002. Instead of making projections on the basis of figures for Bangladesh and Cambodia, this global ratio is used to ensure more conservative projections. Since total ODA flows in Asia-Pacific LDCs were US$3.89 billion in 2002, ODA for direct MDG support was estimated to be US$1.75 billion, or around US$7 per-capita.

in 2006, rising to 43 percent in 2010 and 45 percent in 2015. Such a task is enormous in itself for these countries. Even if governments and households in those countries are focused on undertaking this huge task, attainment of the MDGs would still require an additional support of US$ 12 billion in 2006, US$ 17.7 billion in 2010 and US$ 26.2 billion in 2015. This, however, is not an unreachable sum.

As estimated by the Millennium Project, the cost of meeting the MDGs in all LDCs will correspond to about 0.12 percent of the GNP of Organisation for Economic Cooperation and Development-Development Assistance Committee (OECD-DAC) countries in 2006 and 0.22 percent in 2015. The 2006 target of 0.12 percent is roughly double the current share of ODA in donor GNP to these countries[14] but well below the internationally agreed goal of 0.15 to 0.20 percent, as called for in the Brussels Programme of Action. A small amount of additional support from developed countries would make an enormous difference to the LDCs. An encouraging indication is that the flow of ODA to all LDCs from OECD countries increased by 31 percent between 2002 and 2003; in February 2005, donor countries agreed on a substantial replenishment of funds for the International Development Association, a World Bank affiliate that provides assistance to the world's poorest countries. Nonetheless, much more will need to be done if the MDGs are to be achieved by 2015.

The financing needed for Asia-Pacific LDCs to meet the MDGs will require an enormous effort on their part, plus complementary support from the donor community

[14] According to 2002 data based on OECD-DAC 2004, ODA to LDCs as a percentage of OECD-DAC countries' GNI was 0.06 percent, in 2002. (See UN Millennium Project, 2005. *Investing in Development: A Practical Plan to Achieve the Millennium Development Goals*). The OECD members include Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and European Commission.

A number of proposals to increase the flow of development assistance to poor countries have already been made. These include the Millennium Challenge Account of the United States, the International Finance Facility of the United Kingdom, French proposals for a tax on cross-border financial transactions and levies on aviation and shipping fuels as well as passenger tickets, and a proposal that the IMF issue new special drawing rights to finance aid flows. The Millennium Summit in September 2005 must come up with new, concrete proposals if the considerable resources required for development assistance are to be mobilised. The focus of the global community is needed on Asia-Pacific LDCs, just as much as on other LDCs, for them to benefit from these new instruments. It also needs to be re-emphasised that any new commitment toward meeting the MDGs must be time-bound and capable of being realised — and must not remain merely a commitment.

5.2 Debt Relief for Additional Resources

As briefly illustrated in Chapter 3, debt servicing ratios in Asia-Pacific LDCs and LDCs from other regions have been consistently converging since the mid-1990s. In view of persistent poverty levels and growing resource gaps in Asia-Pacific LDCs, however, there is an urgent need to re-examine the issue of debt relief from the perspective of generating additional resources to attain the MDGs. The international community ought not to obligate any country to spend money on debt servicing when that country does not have enough money to educate all its children at the primary level or reduce the number of children dying of treatable and preventable diseases. The gap is considerable for the relative debt burden on the one hand and per-capita debt relief on the other between the Asia-Pacific and other LDCs. The figures for 2002 presented in Table 8 are worthy of note: while the average outstanding debt burden of other LDCs was 1.7 times that of Asia-Pacific LDCs, in contrast, the average debt relief granted to the former was more than 10 times that of the latter.

Debt relief for Asia-Pacific LDCs has been comparatively meagre

At the country level, debt-to-GDP ratios and per-capita outstanding debt stood at alarmingly high levels in 2002 in some Asia-Pacific LDCs, including Lao PDR (146 percent and US$ 471 per-capita respectively); Vanuatu (71 percent; US$ 785); and Maldives (41 percent; US$ 830). Although the debt burden and debt-servicing liability of other

Table 8. *Per-Capita Outstanding Debt and Debt Relief Granted to Least Developed Countries, 2002*

	Outstanding debt per-capita		Debt relief per-capita	
	US$	Ratio	US$	Ratio
Asia-Pacific LDCs	150	1.0	0.16	1.0
Other LDCs	255	1.7	1.64	10.3

Source: Organisation for Economic Cooperation and Development, *International Development Statistics (IDS) online, Databases on aid and other resource flows,* <http://www.oecd.org/dataoecd/50/17/5037721.htm>.

Note: The gap between LDCs of Asia-Pacific and of other regions with respect to per-capita debt relief is likely to rise even further as the June 2005 announcement on debt relief by G8 finance ministers is operationalised.

Debt relief figures account for relief granted by all donors and are retrieved from an "offsetting entry for debt forgiveness" as recorded by the OECD/DAC, and defined by the DAC Statistical Reporting Directives as "the principal forgiven on ODA loans, offsetting the amount of principal included under grants for forgiveness of ODA debt". (See <https://www.oecd.org/dataoecd/36/32/31723929.htm>)

LDCs have received increasing attention, under the Heavily Indebted Poor Countries (HIPC) debt initiative, for example eligibility thresholds remain excessively high and, as a result, no LDC in the Asia-Pacific region has benefited from this initiative so far. Nevertheless, Asia-Pacific LDCs have in general succeeded in keeping debt servicing ratios relatively low, both as a percentage of GDP and as a percentage of exports, reflecting their relatively prudent economic management.

In view of the pressing need to make additional resources available to meet the MDGs in resource-starved Asia-Pacific LDCs, it is imperative that this better performance not be penalised by exclusion from the HIPC Initiative because their debt servicing ratios are slightly above the threshold. Criteria for the selection of HIPC-eligible countries need to be reviewed, with particular attention to the unique challenges faced by the LDCs. All severely indebted countries, including Bhutan, Lao PDR, Myanmar and Samoa, and moderately indebted countries, including Cambodia and Solomon Islands, should be eligible for debt relief. These countries, however, have not benefited from some of the recent global initiatives on debt relief (Box 3).

It is also important that debt relief be aligned with the MDGs when setting relief targets.

Box 3. *Debt Cancellation Initiative and Need for Focus on Asia-Pacific Least Developed Countries*

On 11 June 2005, the finance ministers of the G8 countries (Britain, Canada, France, Germany, Italy, Japan, Russia and the United States of America) announced a 100 percent cancellation of debt owed to multilateral agencies by 18 poor countries. The decision is expected to ease the debt burden of Benin, Bolivia, Burkina Faso, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mauritania, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia. Of these countries, 14 are in Africa and four in Latin America. None of the beneficiary countries is in the Asia-Pacific region.

While the implications of this package remain unclear, this is a bold initiative that will enable poor countries to use the money they save on debt servicing for health, education and the relief of poverty.

The HIPC initiative currently identifies 38 countries, 32 of them in sub-Saharan Africa, as potentially eligible to receive debt relief. Only two LDCs from Asia-Pacific, Lao PDR and Myanmar, are included in the list. However, based on standard World Bank definitions of indebtedness, four countries among Asia-Pacific LDCs (Bhutan, Lao PDR, Myanmar and Samoa) classify as "severely indebted" and two as "moderately indebted" (Cambodia and Solomon Islands). Hence, debt relief initiatives for these LDCs would be instrumental in releasing additional resources to achieve the MDGs.

Source: *G8 Finance Ministers' Conclusions on Development*, London, 10-11 June 2005, www.g8.gov.uk

MDG-based needs assessments should prevail over arbitrary indicators such as debt-to-export ratios. As proposed by the UN Millennium Project, debt sustainability should be redefined as "the level of debt consistent with achieving the MDGs", reaching 2015 without a new debt overhang. For Asia-Pacific LDCs left off the HIPC list, meeting the MDGs will at least require significant debt cancellation. Most important, any debt relief extended should be an add-on to ODA, not be at cost of ODA.

5.3 Development Cooperation Among Developing Countries in Asia and the Pacific

In addition to the ODA provided by developed countries of Asia-Pacific, many developing countries in the region provide aid, mainly in the form of technical assistance. These developing countries, which have benefited from aid in the past and may still be doing so, are in a position to share their experiences with poorer countries and so express their solidarity with them. Technical assistance provided by developing countries in the region to the least developed is sometimes more advantageous in terms of suitability, even if less so in terms of size. For example, manpower skills and technology transferred can be more appropriate to the geographic and ecological conditions and stage of development of the recipients. Intra-regional technical and economic cooperation is extremely important for augmenting external assistance resources for LDCs of the region. Many of the developing countries have experienced rapid growth recently and are in a position to help countries still struggling to catch up. Developed and developing countries of the region thus can collaborate in providing help to the countries most in need of aid. This triangular cooperation provides a cost-effective way to use the financial resources and technical expertise available from multilateral assistance programmes and activities[15].

A large number of developing countries in Asia and the Pacific are involved in regional development cooperation. For instance, the Republic of Korea's aid programme, which focuses on sharing the country's own experience, particularly in human resources development, has grown rapidly from US$ 12 million in 1990 to US$ 207 million in 2002. India has been providing technical assistance under its Technical and Economic Cooperation Programme since 1964 and has provided US$ 2 billion worth of technical assistance to developing countries, including neighbouring LDCs, since then. Its technical assistance has four components: training; projects and project-related activities such as feasibility studies and consultancy services; deputation of experts; and

Debt sustainability should be redefined as the level of debt consistent with achieving the MDGs by 2015, without a new debt overhang

[15] ESCAP, *Economic and Social Survey of Asia and the Pacific 2002,* Chapter IV, "Regional Development Cooperation in Asia and the Pacific".

Economic and technical cooperation between developing and Least Developed Countries in Asia-Pacific is an encouraging phenomenon

Credible national institutions and policies contribute to donor confidence with respect to resource use

study tours. India also provides loans to LDCs. Although seriously affected by the 2004 tsunami, India nevertheless provided considerable assistance to countries such as Sri Lanka and Maldives, which were even more badly affected. China provides external assistance to some LDCs of the region, frequently in the form of assistance on key infrastructure projects such as roads, bridges, dams, ports and hydroelectric plants. Since its inception in the 1960s, Singapore's technical assistance has been focused on increasing the human resources of recipient countries, particularly members of ASEAN, through training and acquisition of skills. Under the Singapore Cooperation Programme, technical assistance includes bilateral programmes, initiatives for ASEAN integration centres, study visits and scholarships for nationals of ASEAN member countries. Singapore also has joint training programmes with other developed or developing countries or international organisations, in the form of triangular or third-country programmes, so that the experience, expertise and resources of both partners are brought to bear on training for a large number of developing and Least Developed Countries of the region. Malaysia promotes South-South cooperation by sharing its successful development experiences through training, study tours and advisory services, mostly aimed at capacity building and human resources development[16]. Finally, Thailand provides technical assistance to developing countries under its Thai International Cooperation Programme. It also participates in triangular or third-country training programmes[17] whereby areas of cooperation are identified in consultation with recipient countries. This includes development projects, the provision of fellowships and other forms of training, the dispatch of experts and equipment, and construction of physical infrastructure.

5.4 Governance Issues

It is necessary to recognise that the demand for a rapid scaling up of aid flows to the LDCs is meeting with some resistance from donors, and the international arena here is becoming more difficult. This fact has been recognised by Asia-Pacific LDCs in their set of recommendations. As stated in the Monterrey Consensus, good governance is essential for sustainable development. Donor fatigue and resistance often originate from frustration in seeing aid fail to deliver the expected results. Recipient countries, for their part, will need to show more sensitivity to donor perceptions about their capacity to make good use of aid owing to apprehensions about resource diversion, misallocation, corruption and wastage. When institutions in recipient countries are dysfunctional, implementation capacity is weak and lack of good governance, donors understandably become concerned about committing their taxpayers' money to support those particular countries. As a consequence, this reduces new commitments and puts existing commitments at risk, while leading to the imposition of stricter conditions. Such apprehensions are reflected in MDG-related programmes of support such as the Millennium Challenge Account.

However, it should also be recognised that countries that suffer from bad governance, weak institutions and insufficient implementation capacities are often those most in need of support. This is not only because of the high incidence of poverty that results from these negatives, but also because without support, these countries will not be in a position to put in place the required policies and institutions to tackle such vices. Rather than simply staying away from bad performers, the approach has to be one of continuing and constructive engagement. Recipient countries need to demonstrate a willingness to improve the state of governance, including corruption issues, to a level where donors feel assured to commit more support — for their part, donors have to be ready to strengthen the capacity of poor countries to address governance problems. Global partners also need to recognise their own role in supporting good governance. For example, the short-term interests of private companies from more developed countries and the strategic priorities of donors may interfere with the long-term interest of the LDCs, thus sometimes compromising public policies.

The poor quality of governance in some Asia-Pacific LDCs is partly the result of low investment

[16] Malaysia's Technical Cooperation Programme (MTCP) was established in 1980. Much of Malaysia's support to LDCs has been bilateral, but there has also been significant cooperation within the framework of ASEAN, the Asia-Africa Partnership, and the Organisation of the Islamic Conference (OIC). Malaysia's recent support to tsunami-affected neighbouring countries demonstrates its readiness to provide humanitarian and development assistance with long-term commitments beyond traditional MTCP lines.

[17] ESCAP, *Implementing the Monterrey Consensus in the Asian and Pacific Region*, p.105.

in public-sector management. Government officials and civil servants often find themselves discharging functions for which they have little training. A lack of trained managers, poor information systems, rigid civil service procedures and a dearth of budgets to address these concerns are among the principal causes of weak public management in poor countries. Moreover, the police, judges and other public officials are underpaid and their offices understaffed, which increases susceptibility to corruption[18]. If governments are willing, these issues can be dealt with through adequate provision of resources. However, this may require several years of investment in improved public management and administration. Aid could help build strong institutions that will, in turn, set up the right conditions for growth and broader development. There is thus a need for a genuinely constructive engagement between donors and recipient countries toward good governance in recipient countries, keeping in view the overarching objective of achieving the MDGs in all countries by 2015.

The global community needs to recognise and support positive steps to promote democratic governance in Asia-Pacific LDCs.

Because of the effective use of external resouces, some countries in the region have in fact managed to attract donor funding as well as foreign direct investment. Credible national institutions and policies contribute to donor confidence in the efficient use of their resources. In one notable development, Bhutan has undertaken major reforms to develop its first Constitution. Aid figures in Bhutan have been on the rise from US$ 53 million in 2000, to $ 61 million in 2001, $ 73 million in 2002 and $ 77 million in 2003. Likewise, Afghanistan and Timor-Leste have recently held critical elections that represent a significant achievement in these post-conflict countries. Though not an LDC, Viet Nam is an example of a low-income country in Asia that has benefited from a combination of external support and internal policies. Indeed, Viet Nam is a sterling example of a country that has not only grown rapidly in the 1990s but also sharply reduced poverty by adopting an employment-intensive growth strategy. Donors have continued to pour in money into the country primarily on account of their belief that the money is put to good use — which ultimately is a measure of good governance.

Aid Management

Aid management issues that limit the effectiveness of aid utilisation need to be addressed by all concerned partners. On the part of donors, the gap between commitments and actual disbursements of aid in Asia-Pacific LDCs must be addressed urgently. ODA loans received as a percentage of total loans extended in these countries have decreased sharply from 52 percent in 2002 to 34 percent in 2003. In the same period, ODA loans received as a percentage of total loans extended in Asian developing countries increased by more than 20 percentage points, from 48 percent in 2002 to 69 percent in 2003 and remained relatively stable in other LDCs.

Improving the quality of aid is as important as improving its quantity. Untying of aid is crucial but remains abysmally low. Development requires financing not merely of initial investments, but also of recurring expenditures. Therefore, the MDGs will be realised in Asia-Pacific LDCs only if donors indicate their long-term commitment to this end. Donors should consider programme budget support as the most viable long-term strategy to assist these countries. Independent monitoring and evaluation of aid performance at the level of the recipient country should also be considered.

Aid to foster good governance may be more constructive than simply staying away from poor performers

The UN Millennium Project Report has identified 10 key shortcomings that hinder the attainment of MDGs with corresponding recommendations to improve aid delivery (Table 9). Development partners need to examine these recommendations carefully and take appropriate corrective measures.

The quality of aid is just as important as the quantity

Since each country is different and has its own set of challenges and development goals, a country-based approach is required that promotes country ownership and channels aid to sectors where its impact is greatest. To enhance the efficiency of utilisation of such aid, Asia-Pacific LDCs need to strengthen their domestic capacities for planning and project implementation, improve monitoring and evaluation, ensure better institutional coordination among government agencies involved in negotiating and utilising aid, and achieve greater decentral-

[18] ESCAP, *Implementing the Monterrey Consensus in the Asian and Pacific Region*, p.100.

Table 9. *Raising the Efficacy of Aid*

Shortcomings	Recommendations
1. Lack of an MDG-based aid process	Confirm the MDGs as concrete operational targets for countries
2. Development partners do not approach country-level needs systematically	Differentiate donor support according to country-level needs
3. Most development processes are stuck in the short run	Support a 10-year framework to anchor 3- to 5-years strategies
4. Technical support is inadequate for MDG scale-up	Coordinate technical support around the Goals
5. Multilateral agencies are not coordinating their support	Strengthen the UN Development Group and the UN Resident Coordinator System
6. Development assistance is not set to meet the goals	Set ODA levels according to proper needs assessment
7. Debt relief is not aligned with the goals	Deepen and extend debt relief and provide grants rather than loans
8. Development finance is of poor quality	Simplify and harmonise bilateral aid practices to support country programmes
9. Major MDG priorities are systematically overlooked	Focus on overlooked priorities and neglected public goods
10. Policy incoherence is pervasive	Measure policy coherence against the MDGs

isation of project implementation, where feasible and desirable.

MDG progress reports and PRSPs could provide a good basis for raising the effectiveness of MDG-focused ODA to Asia-Pacific LDCs. However, the UN Millennium Project Report points out that many PRSPs are inadequate because they have not been based on achieving the MDGs but reflect financial constraints, and need to be re-worked. An MDG needs assessment would also be necessary. Bangladesh, Bhutan, Cambodia, Lao PDR and Nepal have prepared both MDG progress reports and PRSPs. In addition, Afghanistan and Timor-Leste have prepared MDG progress reports. Countries that have not so far prepared these documents should be provided with the support necessary to do so. The lack of adequate information in preparing MDG progress reports is a serious problem for most Asia-Pacific LDCs, including those that have already prepared the reports. There is a need for targeted support in assisting those countries to put in place a mechanism for generating appropriate MDG-related data and information so as to be able to attract additional assistance from the international community.

However, it should also be acknowledged that the priority needs and concerns of the LDCs of the region change over the years. Countries that are making good progress toward the MDGs should not be penalised in future allocations of aid, at least as long as the goals are not fully achieved. Mid-course interruptions of support could derail the progress.

5.5 Priorities for Increased Aid

In view of the emerging MDG deficits in Asia-Pacific LDCs, there is an urgent need for targeted support in specific areas such as the development of infrastructure, trade-related capacity building and health and education, as well as addressing the specific needs of the least developed landlocked and small island countries. Several MDGs relate to health, an area where the LDCs of the region will need to make massive investments if infant and maternal mortality rates are to be reduced and killer diseases contained and eliminated.

The PRSPs of many Asia-Pacific LDCs have identified support for infrastructure as a major area of intervention requiring substantial inflows of aid. In recent years, however, this sector has witnessed a sharp fall in ODA by both bilateral and multilateral agencies. Inadequate infrastructure is a major reason for the small amount of FDI in Asia-Pacific LDCs, which together were able to attract less than US$ 1 billion in 2003. The lack of infrastructure also severely limits the aid absorption capacity of these countries. Global experience indicates that countries that have good infrastructure and efficient institutions of governance not only have higher aid absorption capacity but are also able to attract more FDI.

The UN Millennium Project Report contains several recommendations on MDG priorities for regional and other country groupings. In the words of the Report, LDCs require special assistance because they will be unable to meet their basic needs from domestic resources, regardless of their own policies or quality of governance. Support for them should be consistent with the Brussels Programme of Action, which outlines key areas to help break the poverty trap, including human resources development, investments to remove supply-side constraints, environmental protection and investments in food security. Landlocked countries have a unique need for transport infrastructure, regional market integration, and harmonised trade procedures. Many relevant issues are outlined in the Almaty Programme of Action. The Barbados Programme of Action for Small Island Developing States likewise should receive global and financial support so that these countries will be better able to cope with their high degree of vulnerability to economic and environmental risks. These countries are also most immediately at risk as a result of climate change, which is expected to result in rising sea levels and coral bleaching, and will consequently require targeted investment to adapt to global warming. Countries vulnerable to natural hazards will need investment in preparing for and managing disasters, as well as in disaster-mitigating infrastructure. LDCs in South-East Asia, meanwhile, will require investments in infrastructure; the environment, particularly in managing forests and biodiversity; and social services, as well as a focus on public management systems and increased capacity for science and technology. In South Asia, priority investments include improved health infrastructure and services; increased access to high-quality schools; farm infrastructure; improved water management for agriculture; slum upgrading; and improved public sector management. Investment programmes also should focus on achieving gender equality, including reproductive health and rights, and integrating marginalised populations.

The UN Millennium Project Report also distinguishes between poor countries on the basis of the quality of governance. Well-governed, poverty-trapped LDCs will need substantial co-financing through ODA to scale up much-needed investments in infrastructure, human capital and public administration. Poverty-trapped countries, where governance is poor owing to weak public administration, need investment in public sector capacity so as to raise the absorptive capacity for aid later on. Poor public administration should be viewed as an investment opportunity, not as a barrier to achieving the MDGs. Finally, in other poverty-trapped countries with poor governance, there is little case for large-scale aid. Aid should be directed to humanitarian efforts or through NGOs that can ensure delivery of services on the ground. Finally, conflict countries represent urgent, special cases for the international community.

Chapter 6

Conclusion and Recommendations

Although progress has been mixed, with successes marred by some failures, Asia-Pacific LDCs, together with their international partners, have managed to show progress toward several key MDG targets. In order to ensure that the Asia-Pacific region as a whole achieves the MDGs by 2015, it is essential that LDCs, as well as their developed and developing country partners find ways to address the unique challenges faced by these countries. The Special Body on Least Developed and Landlocked Developing Countries, an inter-governmental body established to give high priority to the concerns of these groups of countries, has outlined specific recommendations to substantiate LDCs' call for an enhanced global partnership (Box 4). In a spirit of shared responsibility, the recommendations are addressed to both the international community and the LDCs.

As seen above, what makes Asia-Pacific LDCs unique is their location in an economically dynamic region. Regional as well as global development partnerships provide the opportunity to translate this favourable location into actual benefits. On commercial grounds, prosperity and well-being in the region could lead to increased trade with LDCs and further opening up of markets. If development partners do not rise to the challenge, the region's overall dynamism could exacerbate inequalities and contribute to growing disaffection spilling across national boundaries. Hence, this is not an argument for charity, but one for the mutual benefit of LDCs and their partners, on commercial and strategic grounds, apart from being morally right. The argument for development assistance rests on a win-win partnership. Strong evidence suggests that many Asia-Pacific LDCs are in a position to achieve the MDGs. What is required are bold initiatives on the part of their development partners to complement the pro-MDG national strategies of each country.

Box 4. *Recommendations*

To enable Asia-Pacific LDCs attain the MDGs, the Special Body on Least Developed and Landlocked Developing Countries endorsed the following recommendations at its Seventh Session, held in Bangkok, 10 and 11 May 2005. It is significant that these include five key recommendations where the Asia-Pacific LDCs are expected to take specific actions at the national level and seek complementary international support. There is an explicit acceptance of the importance of appropriate domestic policies, institutions and governance in order to make this global partnership most productive.

Recommendations on facilitating trade and market access to achieve the MDGs

Actions at the national level

(a) **Policy formulation at the national level should focus on mainstreaming trade into overall development plans**, so that the pace and sequence of trade liberalisation are better aligned with national strategies and objectives.

(b) **Least developed and landlocked developing countries should undertake social impact assessments of various trade liberalisation options**, for a more concrete and systematic understanding of the costs of trade liberalisation and how losers should be compensated.

Actions by the international community

(a) As the first-best policy option, **Least Developed Countries should be accorded stable and predictable market access through World Trade Organisation (WTO)-bound duty- and quota-free access for all exports.** All efforts should be made under the Doha Development Agenda to achieve this objective.

(b) Developed countries provide enhanced market access to Least Developed Countries under various preferential schemes, particularly the Generalised System of Preferences (GSP). **A preferential scheme similar to the African Growth and Opportunity Act (AGOA) could be extended to the Least Developed Countries in Asia and the Pacific.** Simplified, more flexible and realistic rules of origin for least developed and landlocked developing countries would enable these countries to make more effective use of preferential market access.

(c) **More commercially meaningful commitments should be made in terms of temporary movement of natural persons as well as cross-border supply of services such as outsourcing,** because it leads to benefits such as skills enhancement and knowledge transfers. Such movement of natural persons, especially the low-skilled, leads to economic growth that benefits the poor in the least developed and landlocked developing countries.

(d) Five Least Developed Countries and four landlocked developing countries are conducting complex and resource-intensive negotiations to accede to WTO. The WTO decision on the accession of Least Developed Countries, as contained in document WT/L/508, calls on WTO members to simplify and streamline the accession process. **The terms by which these countries accede to WTO should reflect the spirit of an enhanced global partnership for trade,** as foreseen in Millennium Development Goal 8.

(e) With progress in the Doha-mandated negotiations, **delivery of technical assistance for human resources development should be intensified,** so that the negotiating capacity of trade negotiators, as well as implementation capacity, is strengthened. Policy analysis should also be strengthened so that policy makers and negotiators base their decisions on sound economic grounds.

(f) Least developed and landlocked developing countries lack productive capacity and other supply-side responses to make effective use of new market access opportunities. In this regard, **a significant increase in funds allocated to trade and supply-side responses** is of particular importance to these countries. An improvement in supply-side capacity would, in turn, attract domestic and foreign investments that would eventually reduce dependence on aid and create new market opportunities.

(g) **Regional and bilateral trade agreements should be based on outward orientation and designed in compliance with WTO rules and principles.** Least Developed Countries should be provided with special and differential concessions in an effort to reverse the increasing trend toward marginalisation and facilitate their integration into the world economy. Due consideration should be given to extending these concessions to landlocked and other small developing countries.

(h) The global community is urged to **strengthen global development partnerships by addressing volatilities in the financial and monetary systems.** There should be greater multilateral policy coherence among trade, financial flows, aid and debt relief for a more predictable trading environment.

(i) Since deeper regional integration could provide economies of scale for countries with small markets and other economic disadvantages, **regional economic cooperation in the development of economic infrastructure and trade liberalisation and facilitation** is desirable.

Recommendations on aid and debt relief to achieve the MDGs

Actions at the national level

(a) **Aid works for development only if proper policies and institutions are in place.** Good governance at all levels is a prerequisite for effective use of aid. People and communities are both participants in and beneficiaries of such assistance.

(b) **Making aid effective calls for better aid harmonisation and coordination.** Since each country is different, with its own set of challenges, development goals and strategies, a country-based approach, which enables each country to reach its development goals, is necessary. Such an approach promotes country-based ownership and channels aid to sectors where its impact is the greatest by requiring recipient countries to prepare their own development programmes. Development also requires financing not merely of initial investments but also of the many forms of current expenditure. In order to ensure that aid is harmonised, recipient countries need to prepare a coherent aid policy in the spirit of the Rome Declaration and in consultation with donors. Greater discussion of these issues at the national level is also essential.

(c) **For effective aid utilisation, assessment of outcomes is more important than assessment of available inputs.** However, it is important for governments to undertake appropriate costing and analyse paths for achieving their development goals. Emphasis needs to be placed on enhancing the efficiency of utilisation of such aid assistance. From that perspective, recipient countries could strengthen their domestic capacities for planning and project implementation, improve monitoring and evaluation, ensure better institutional coordination among various government agencies involved in negotiating and utilising aid, and achieve greater decentralisation of project implementation where feasible and desirable. Countries could benefit from the experiences of other countries in similar situations. Resources available from other developing countries of the region could also be tapped.

Actions by the international community

(a) **The international community was urged to meet the targets in the Brussels Programme of Action, the Almaty Programme of Action and the Mauritius Strategy.** Aid should be determined by economic and social concerns and directed to addressing fundamental causes of poverty, especially in countries with internal conflicts and countries battered by natural disasters. Given the limited capacity of these countries to incur financial obligations, external assistance to them should primarily be in the form of grants. Aid should also be front-loaded.

(b) **Steps should be taken for greater coherence among donors in areas such as policy conditionalities and ODA practices, trade regimes and technology transfer from donor countries.** Efforts should also be made to ensure that policy conditionalities converge with recipient country priorities, thus promoting national ownership. Independent monitoring and evaluation of aid performance at the level of the recipient country should be considered. The fostering of national ownership should be based on genuine dialogue and conducted in a spirit of partnership between donors and recipients.

(c) **The international community should continue its dialogue with recipient countries on issues such as grant components in aid, tied purchases and financing of recurring costs to bring about improvements in these areas.** Donors should consider programme budget support as the main long-term strategy to assist these countries and indicate their long-term commitment to assist these countries.

(d) **Regional solutions could enable smaller countries to address issues that would have been too costly to implement at the country level by introducing economies of scale.**

(e) **The priority needs and concerns of least developed and landlocked developing countries change over the years.** The international community should therefore ensure that their assistance continues to address the changing needs of these countries.

Note: The Special Body on Least Developed and Landlocked Developing Countries is an inter-governmental body established to review the economic and social developments in these groups of countries and to give high priority to their concerns.

Annexure 1. Criteria for the Identification of the Least Developed Countries

In the triennial review conducted in 2003 to determine countries to be added to or graduated from the list of LDCs, the Committee for Development Policy (CDP) based its identification of these countries on the three dimensions of a country's state of development, namely, (i) its income level; (ii) its stock of human assets; and (iii) economic vulnerability. GNI per-capita was used as an indicator of income, the Human Assets Index (HAI) as an indicator of the stock of human assets and the Economic Vulnerability Index (EVI) as an indicator of economic susceptibility[19]. In addition, no country with a population exceeding 75 million was considered for addition to the list. The results, based on LDC eligibility indicators for 14 Asia-Pacific LDCs, are summarised in the table below.

Criteria Used in Determining Eligibility for Least Developed Country Status

Country	Population 2002 (in millions)	Per-capita GNI (US$)	HAI	EVI	EVI (modified)
Afghanistan	23.3	523	11.6	50.1	49.0
Bangladesh	143.4	363	45.3	22.9	29.5
Bhutan	2.2	600	40.4	40.6	41.0
Cambodia	13.8	263	44.5	49.7	48.1
Kiribati	0.1	923	67.5	64.8	60.4
Lao PDR	5.5	297	46.4	43.9	43.4
Maldives	0.3	1983	65.2	33.6	37.5
Myanmar	49.0	282	60.0	45.4	45.6
Nepal	24.2	240	47.1	29.5	31.0
Samoa	0.2	1,447	88.8	40.9	50.8
Solomon Islands	0.5	657	47.3	46.7	49.1
Timor-Leste	0.8	478	36.4	n.a.	n.a.
Tuvalu	0.01	1,383	63.7	70.3	67.3
Vanuatu	0.2	1,083	57.4	44.5	46.4

Source: United Nations, Committee for Development Policy: Report on the Fifth Session, 7-11 April 2003. Economic and Social Council, Official Records, 2003, Supplement No. 13.

Note: Thresholds for inclusion in the list of LDCs are population less than 75 million; per-capita GNI less than US$ 750; HAI less than 55; and EVI greater than 37. A country must meet all the criteria. Thresholds for graduation from the list of LDCs are per-capita GNI greater than US$ 900; HAI greater than 61; and EVI of less than 33. A country must meet at least two of the criteria for graduation. The modified EVI includes percentage of population displaced by natural disasters as a supplement to the data on the instability of agricultural production and has a threshold of greater than 38 for inclusion and less than 34 for graduation.

[19] The HAI reflects (a) nutrition, measured by the average caloric consumption per-capita as a percentage of the minimum requirement; (b) health, as measured by the under-5 child mortality rate; and (c) education, measured by (i) the adult literacy rate and (ii) the gross secondary school enrolment rate. The EVI reflects structural economic vulnerability through an average of five indicators: (a) merchandise export concentration; (b) instability of export earnings; (c) instability of agricultural production; (d) share of manufacturing and modern services in GDP; and (e) population size.

Annexure 2. Least Developed Countries in the World

African LDCs (34)	Asia-Pacific LDCs (14)	Others(2)
Angola	Afghanistan	Haiti (Latin America and Caribbean region)
Benin	Bangladesh	Yemen (Arab States region)
Burkina Faso	Bhutan	
Burundi	Cambodia	
Cape Verde	Kiribati	
Central African Republic	Lao People's Democratic Republic	
Chad	Maldives	
Comoros	Myanmar	
Democratic Republic of Congo	Nepal	
Djibouti	Samoa	
Equatorial Guinea	Solomon Islands	
Eritrea	Timor-Leste	
Ethiopia	Tuvalu	
Gambia	Vanuatu	
Guinea		
Guinea-Bissau		
Lesotho		
Liberia		
Madagascar		
Malawi		
Mali		
Mauritania		
Mozambique		
Niger		
Rwanda		
Sao Tome and Principe		
Senegal		
Sierra Leone		
Somalia		
Sudan		
Togo		
Uganda		
United Republic of Tanzania		
Zambia		

Source: http:/ww.un.org/special-rep/ohrlls/ldc/list

Annexure 3. Progress Toward Attainment of the MDGs by Asia-Pacific Least Developed Countries

Goal 1. Eradicate extreme poverty and hunger

Even if the MDG target of halving the proportion of population below the poverty line is achieved, more than a quarter people in the Asia-Pacific LDCs will still be subsisting on incomes below the national poverty lines in 2015. Among LDCs of the region, only Cambodia and Lao PDR are on track.

The proportion of the population consuming less than the minimum level of dietary energy in the LDCs of the region remained almost static in the 1990s, falling slightly from 30.7 percent to 29.9 percent; and at this pace, it will remain at 28.6 percent in 2015, far higher than the MDG target of 15.3 percent. More encouragingly, the proportion of underweight children to total children in the Asia-Pacific region declined from 35 to 31 percent over the last decade. The challenges that lie ahead for most of the Asia-Pacific LDCs are nonetheless daunting. In this group of countries, more than 10 million children aged 0-4 years will be underweight in 2015 even if MDG targets are achieved. The number of underweight children overall may even exceed this figure by more than 1.4 million — in countries such as Myanmar, Cambodia and Lao PDR, the targets will not be achieved if current trends continue.

Meanwhile, the implementation of targeted health and nutrition programmes that benefit the poor has proved highly effective in Bangladesh and Bhutan. In the former, the percentage of underweight children below 5 years of age fell from 65.8 in 1990 to 47.7 in 2000 and the country appears on track to surpass the MDG target if current trends hold. Nevertheless, large variations persist across income groups. The presence of malnourished children even in the highest income group suggests that health education will also need attention. In Bhutan, the MDG target for this indicator was already achieved in 2000, and the proportion of underweight children should fall to zero by 2015. Maldives was on track to achieve this target but will now require additional resources because of the impact of the tsunami. In fact, the experience of Maldives reveals the high vulnerability of many LDCs, where a single disaster can wipe out progress made over years.

Goal 2. Achieve universal primary education

The primary enrolment ratio in Asia-Pacific LDCs improved from 71 to 79 percent in the 1990s but remained significantly lower than the average of 93 percent for the entire region. If current trends continue, only 87 percent of the children in Asia-Pacific LDCs will be enrolled for primary education in 2015 and 5 million children — mainly in Afghanistan and Myanmar — will not be. Bangladesh, Cambodia, Lao PDR, Maldives and Vanuatu appear to be on track to achieve the target of 100 percent enrolment. In Bhutan, community schools with strong grassroots links have played, and continue to play a major role in increasing enrolment. However, deteriorating trends are observed in Myanmar and in Afghanistan; around 2 million children will not be enrolled in school if the MDG target is not attained in these two countries.

An important issue that constrains attainment of universal primary education in many LDCs of the region is that, in the effort to increase enrolments, the quality of primary education suffers as measured, for example, by student-teacher ratios, the number of students per classroom, and the number of qualified and trained teachers. Additional resources are clearly required to address issues related to improving the quality of education while simultaneously increasing access. Enormous effort and resources are also required if the MDG target aiming at a 100 percent literacy rate for 15- to 24-year-olds is to be achieved in countries where adult literacy remains low, including Bangladesh (49.7 percent), Nepal (62.7 percent) and Timor-Leste (50 percent). If current trends prevail in Bangladesh, 20.3 million, or only 56 percent of youth, will be literate in 2015, leaving more than 16 million behind.

Goal 3. Promote gender equality and empower women

Progress toward the promotion of gender equality has been relatively slow in Asia-Pacific LDCs, where gender disparity in terms of economic participation and democratic representation is widespread. The gender gap appears to be closing at the primary school level in rural and urban areas of Bangladesh, for example, but it is much wider at higher education levels, with a 38 percent ratio of girls to boys in tertiary education. Similarly, in Lao PDR the ratio of girls to boys decreases as the education level increases. In Cambodia, the ratio of girls to boys in lower secondary education remained low and unchanged at 35.4 percent in 2000, while a decline in this ratio was recorded at the upper secondary level, falling to 33.7 percent that year.

Goal 4. Reduce child mortality

Eight of the 14 Asia-Pacific LDCs are on track to reduce under-5 mortality rates by two-thirds between 1990 and 2015. These include Bangladesh, Bhutan, Lao PDR, Maldives, Nepal, Samoa, Solomon Islands and Vanuatu. Of the remaining countries, Cambodia's performance in this regard has worsened, the situation in Afghanistan is unlikely to change by 2015 and others have made very slow progress. Hence, current trends indicate that around 2 million children under 5 years of age will die in 2015 in Asia-Pacific LDCs.

Likewise, many Asia-Pacific LDCs are unlikely to meet the target of reducing infant mortality by two-thirds by 2015. In Cambodia, the infant mortality rate actually increased from 80 to 96 per 1,000 live births between 1990 and 2002. If current trends persist, 311,000 children will die within the first year of their life in 2015. As individual country MDG progress reports suggest, even in countries that are on track to achieve the infant mortality target, significant disparities remain between urban and rural areas, and between boys and girls.

Goal 5. Improve maternal health

Most Asia-Pacific LDCs are on track to achieve the MDG target to reduce the maternal mortality ratio by three-quarters, between 1990 and 2015, although the situation in Afghanistan has deteriorated. In spite of the progress made, the maternal mortality ratio also remains relatively high in Nepal, Lao PDR and Timor-Leste, where maternal mortality rates stand at 7 per 1,000 live births. In populous countries such as Bangladesh, where 12,000 to 15,000 women die every year from maternal health complications and nearly 45 percent of all mothers are malnourished, additional resources will need to be devoted to reproductive health if the MDG is to be achieved.

Goal 6. Combat HIV/AIDS, malaria and other diseases

Although most Asia-Pacific LDCs are classified as low-HIV-prevalence countries, the danger of an increase in infection rates requires continued vigilance. In Bangladesh, recent surveys indicate an alarming increase in HIV infections among intravenous drug users, from 1.7 percent in 2000 to 4 percent in 2002. The potential danger of the disease spreading in countries such as Lao PDR, Nepal and Bhutan is a real threat given that these countries are adjacent to areas in the region that have high HIV/AIDS prevalence. The high mobility of people and open cross-border movements therefore pose significant risks that need to be countered with targeted communication strategies.

Malaria is a serious health threat in all Asia-Pacific LDCs. In Lao PDR, malaria has consistently been among the top three causes of reported morbidity and mortality, with about 70 percent of the Lao population living in areas where they are at risk. Yet by 2000 only 10 percent of children in rural areas, who are at the highest risk of death from malaria, were sleeping under treated bed nets. In Bhutan, more than half of the country's total population is exposed to the risk of infection, while in Nepal as much as 70 percent of the population is at risk. In both countries, the free movement of people along the border compounds the prevention challenge and helps spread the disease. Least developed Pacific islands are also severely afflicted by the disease. Incidence rates in Solomon Islands suggest that more than 16 percent of the population became infected in 2002. Meanwhile, in Vanuatu the incidence rate doubled from 2001 to 2002, to reach 7 percent.

Goal 7. Ensure environmental sustainability

If current trends continue, around 40 million people will be without sustainable access to safe drinking water in Asia-Pacific LDCs in 2015. While progress is being made in most countries for which data are available, it has been very slow in many cases. The situation has actually worsened in Maldives, from 99 percent in 1990 to 78 percent in 2002, and is likely to worsen following the tsunami. The Bangladesh MDG progress report points out that at least 25 million additional people must gain access to arsenic-free, safe water if the MDG target is to be met. Kiribati, Myanmar, Nepal and Tuvalu are on track to halve the proportion of the population without sustainable access to safe water in rural areas by 2015, while only Myanmar, Timor-Leste and Tuvalu will be able to do so in urban areas.

Notwithstanding significant progress, around 60 million people in Asia-Pacific LDCs will not have access to improved sanitation by 2015. Nepal and Kiribati will face difficulties in meeting the MDG target in rural areas, while Bangladesh and Nepal will also face difficulties in urban areas. Integrating principles of sustainable development into national policies remains difficult. In Afghanistan, only 2.5 percent of the land is currently under forest cover. At this rate of deforestation, Afghanistan's forests will be gone in 25 years.

Sources: National MDG progress reports; United Nations Statistics Division, Millennium Indicators Database, <http://millenniumindicators.un.org/unsd/mi/mi_goals.asp> and United Nations, *Promoting the Millennium Development Goals in Asia and the Pacific: Meeting the Challenges of Poverty Reduction* (New York, United Nations, 2003)

Annexure 4. Alternate Estimate for Resource Gap

Assuming an annual savings rate of 12.2 percent, a capital-output ratio of 3, a population growth rate of 1.9 percent and a capital depreciation rate of 3 percent, the real per-capita income in Asia-Pacific LDCs could fall by 0.87 percent per annum (see Table below)[20]. In contrast, real per-capita incomes in Asian developing countries would rise by around 6 percent annually, while those for other LDCs would fall by more than 3 percent. As a result, the average real per-capita income for Asian developing countries could more than double between 2001 and 2015. The average real per-capita income for Asia-Pacific LDCs could fall by 11 percent, from US$ 386 in 2002 to US$ 344 by 2015[21], while that in other LDCs could decline by 35 percent. In this scenario, a savings rate of more than 30 percent is necessary for Asian LDCs to achieve a 5 percent growth rate in real per-capita income. To achieve such a high savings rate, these countries will clearly require additional support.

Real Income Growth Rates and Real Per-Capita Income Forecasts for 2015

	Average population growth rates, 1990-2002	Average gross domestic savings rates, 1990-2002	Average real per capita income growth in 2002	Average real per capita income in 2002 (in 1995 US$)	Average real per capita income in 2015 (in 1995 US$)
Other LDCs	2.66%	7.24%	-3.25%	$262	$170
Asia-Pacific LDCs	1.93%	12.17%	-0.87%	$386	$344
Asian developing countries	1.48%	31.65%	6.07%	$806	$1734

Source: Calculations based on data from World Bank, *World Development Indicators 2004*

Notes: Asian developing countries refer to all developing countries located in East Asia, the Pacific and South Asia, as determined by the World Bank country classification by region. Gross domestic savings are calculated as the difference between GDP and total consumption. Average real per-capita income growth in 2002 is derived as $g^y = (s/\pi) - n - d$.

20 Assuming a fixed per-capita capital-output ratio (π=k/y, where k and y are per-capita real capital and income) with population growth (n) and depreciation (d) rates, the simple linear per-capita real income growth (g^y) equation can be written as: $g^y = (i/\pi) - n - d$, where *i* is the investment to income ratio. Alternatively, for a closed economy with *i* equal to savings rates (*s*) the preceding equation can be written as, $g^y = (s/\pi) - n - d$. For Asia-Pacific LDCs, the calculation is {(12.17/3) – 1.93 – 3] = -0.88 percent.

21 If we employ a cumulative growth equation [= $y_{initial\ year} * (1 + g^y)^{years}$], the final per-capita real income at the terminal year (say, 2015) can be calculated easily. For all Asian countries = US$ 806 * $(1 + 0.0607)^{13}$ = US$ 1,734; for other LDCs = US$ 262 * $(1 - 0.0325)^{13}$ = US$ 170; and for Asia-Pacific LDCs = US$ 386 * $(1 - 0.0088)^{13}$ = US$ 344. This assumes that the rate of domestic savings is independent of foreign savings.

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Web Addresses of the Online Databases that are used in this Study:

Millennium Indicators Database: http://unstats.un.org/unsd/mi/mi_goals.asp

UN Commodity Trade Statistics Database: http://unstats.un.org/unsd/comtrade/

World Population Prospects: The 2002 Revision Population database http://esa.un.org/unpp/index.asp

International trade statistics: http://www.wto.org/english/res_e/statis_e/statis_e.htm

USITC Interactive Tariff and Trade Data: http://dataweb.usitc.gov/scripts/user_set.asp

WDI Online Database: http://devdata.worldbank.org/

IDS Online Databases on Aid and Other Resource Flows: www.oecd.org/dac/stats/idsonline

Even as developed countries concentrate more keenly on increasing development support, such assistance to 14 of the poorest nations in Asia and the Pacific is far less than that given to Least Developed Countries in other parts of the world – and the imbalance is widening.

Global trade, aid and debt relief need to be refocused on these resource-starved Asia-Pacific countries. This unique, timely glimpse into perspectives from the region's LDCs shows that the tyranny of averages obscures the fact that nations from Afghanistan to Vanuatu have annual per-capita incomes only one-fourth that of their more successful neighbors. Such countries often face additional vulnerabilities, including geographical challenges, small populations, low savings rates and high levels of conflict. Widening gaps in a dynamic region such as Asia and the Pacific represent a cause of concern, as well as an opportunity for intervention.

Developed and developing nations need to commit to a strengthened partnership with Asia-Pacific's poorest countries for moral, strategic and commercial reasons. Without such support, these countries risk not attaining the eight anti-poverty objectives of the Millennium Development Goals, bringing down the achievements of the region as a whole. Likewise, the poorest countries acknowledge their own responsibilities in addressing donor concerns over reducing corruption and establishing good governance as conditions for a large, rapid scaling-up of aid. If this global partnership fails, the consequences are unthinkable. But if it succeeds, it can lead to a "win-win" situation for all and ensure that hundreds of millions of people have better lives.

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