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Countries with special needs

Supporting the achievement of sustainable development goals in countries with special needs

Note by the secretariat

Summary

Out of the 58 Asia-Pacific economies, 36 of them are considered countries with special needs, which include least developed countries, landlocked developing countries and small island developing States. These economies share a number of common challenges – remoteness and isolation from international markets, insufficient investment in connectivity infrastructure, persistent structural challenges, limited structural concentration of the economy, low productive employment and export concentration on a small set of commodities – that differentiate them from other developing countries in the region and make poverty reduction and inclusive growth more difficult for them to achieve.

In this report, three issues are addressed that are relevant to the Asia-Pacific countries with special needs, their progress in achieving the Millennium Development Goals; the role of diversification in supporting the structural transformation of their economies; and the upcoming challenges arising from the implementation of the 2030 sustainable development agenda.

Member countries may wish to share their views on the issues raised in the present document and provide guidance on further work in the areas identified.

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Contents

	<i>Page</i>
I. Introduction.....	2
II. Final milestone for the Millennium Development Goals: achievements and the unfinished agenda.....	2
A. Achievements	3
B. The unfinished agenda.....	4
III. Building productive capacities to overcome structural impediments	5
IV. Achieving diversification.....	6
V. Towards an implementation strategy for the sustainable development goals	8

I. Introduction

1. Out of the 58 Asia-Pacific economies, 36 of them are considered countries with special needs. These 36 countries are home to more than 380 million people, a quarter of the total population of the Asia-Pacific developing countries, excluding China and India. The least developed countries, landlocked developing countries and small island developing States share a number of common challenges that differentiate them from other developing countries in the region, making it difficult for them reduce poverty and achieve inclusive growth.

2. Their economies are marked by persistent structural challenges, fluctuating growth, and dependence on a limited number of commodities or low-wage manufactured products for export earnings. Socioeconomic development remains constrained by many factors including limited productive capacities, remoteness and isolation from world markets and high trade costs. These economies are also the most vulnerable to climate change and natural disasters.

3. In the present report three issues are addressed that are relevant to the Asia-Pacific countries with special needs, their progress in achieving the Millennium Development Goals; the role of diversification in supporting the structural transformation of their economies; and the upcoming challenges arising from the implementation of the 2030 sustainable development agenda.

II. Final milestone for the Millennium Development Goals: achievements and the unfinished agenda

4. In the *Asia-Pacific Regional MDGs Report* series, which was produced as a joint effort involving the Economic and Social Commission for Asia and the Pacific (ESCAP), the Asian Development Bank (ADB) and the United Nations Development Programme (UNDP), the progress of Asia-Pacific countries in meeting the Millennium Development Goals since 2003 was tracked. Its final issue, *Making It Happen: Technology, Finance and Statistics for Sustainable Development in Asia and the Pacific (Report 2014/15)*, includes the most up-to-date estimates of the extent to which countries in the region will reach the Goals by the end of 2015.

A. Achievements

5. According to *Report 2014/15*, by the end of 2015, the Asia-Pacific region as a whole is expected to reach the targets for 13 of the 21 indicators (62 per cent) it tracks to measure the attainment of the Millennium Development Goals.¹ North and Central Asia, excluding the Russian Federation, which includes eight of the nine landlocked developing countries of the region that are not least developed countries, is also expected to achieve the targets for 13 out of 21 indicators.² The least developed countries of the region are expected to reach 11 of the 21 targets (52 per cent).³ Finally, the Pacific islands, excluding Papua New Guinea, are expected to reach the targets for 10 out of 17 indicators for which data are available (59 per cent).⁴

6. One of the greatest achievements in the Asia-Pacific region has been in moving people out of poverty. Between 1990 and 2012, the proportion of people living on less than \$1.25 per day dropped from 53 to 14 per cent and by 2015 it is projected to fall to 12 per cent. Moreover, of the 14 countries with special needs for which data on this indicator are available, 11 have already met the target and 2 others are expected to meet it by the end of 2015.

7. Nearly all primary school-aged children in the region, including in 20 out of 27 countries with special needs for which data are available, complete their education. In addition, gender disparities in primary and secondary education were reduced, respectively, in 18 out of 19 countries with special needs and in 18 out of 21 countries with special needs, but gender disparities in tertiary education were reduced in only 11 out of 20 countries with special needs.

8. The region has achieved the targets for a number of the other Goals and is likely to achieve the target of halving the proportion of the population without access to safe drinking water. For the region as a whole, that proportion has fallen from 28 to 7 per cent. A total of 23 out of 36 countries with special needs are expected to reach this target.

9. Among health targets, almost all of the countries in the group have reached the goal of reducing the incidence and prevalence of tuberculosis. The least developed countries, as a group, are expected to achieve the health-

¹ See ADB, ESCAP and UNDP, *Making It Happen: Technology, Finance and Statistics for Sustainable Development in Asia and the Pacific* (Bangkok, 2015), technical note 1 for a list of indicators.

² These landlocked developing countries are Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan. The other landlocked developing country of the region that is not a least developed country is Mongolia, which is expected to achieve the targets for 14 out of 20 indicators for which data is available (70 per cent).

³ The least developed countries are Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, the Lao People's Democratic Republic, Myanmar, Nepal, Solomon Islands, Timor-Leste, Tuvalu and Vanuatu.

⁴ Because averages are weighted by population, the exclusion of Papua New Guinea in computation provides a more accurate picture of progress towards meeting the Millennium Development Goals in the Pacific. When including Papua New Guinea, the achievement of the Millennium Development Goals in the Pacific islands drops to 8 out of 20 (40 per cent). The small island developing States in the region also include Maldives and Timor-Leste. Maldives achieved the targets in 16 out of 19 indicators (84 per cent) and Timor-Leste in 9 out of 18 indicators (50 per cent). Finally, the Pacific islands include four least developed countries, namely Kiribati, Solomon Islands, Tuvalu and Vanuatu.

related targets. With regard to the environment-related indicators, the countries with special needs have increased the proportion of terrestrial and marine areas that have protected status.

10. Analysis of the Millennium Development Goals in Asia and the Pacific has benefited from greater availability of data. The improvement was most impressive in the least developed countries, in which the number of data points increased by 80 per cent.

B. The unfinished agenda

11. Data on achievement in the Millennium Development Goals for the region as a whole does not necessarily represent progress across the countries with special needs. For example, progress has been much slower in many of indicators, including poverty targets, for the 12 least developed countries in the region, and millions of people, especially in the countries with special needs, continue to be deprived of the most basic requirements for human development.

12. Despite significant progress towards reducing poverty in the past decades, as of 2012, the region still had 569 million people living below \$1.25 a day and 21 million children were not enrolled in primary school. In addition, 1.2 billion people in rural areas, and 480 million in urban areas, still lacked access to safe sanitation.⁵ For most of the countries with special needs, particularly most small island developing countries, there is no clear picture on how they are progressing towards achieving these targets because of a lack of statistical data.

13. The region has struggled to reduce the proportion of children who are moderately or severely underweight. They represent more than one-fifth of the under-five population, or 75 million children. Only 5 out of 19 countries with special needs, for which data are available, are expected to reach this target by 2015.

14. Between 1990 and 2014, the number of school-aged children not enrolled in primary school fell from 74 million to 21 million. Only 7 out of 17 countries with special needs, for which data are available, 6 of which are in Central Asia, are expected to reach the target on students reaching the last grade.

15. Only three countries in the Asia-Pacific region have reached a proportion of 30 per cent women in national parliament. In 2012, the share of women in non-agricultural wage employment was estimated to be 32 per cent – far short of the target of 45 per cent.

16. Progress has also been slow in reducing under-five child mortality, improving reproductive and maternal health-care services and reducing the number of maternal deaths related to childbirth. Although under-five mortality decreased by 58 per cent and infant mortality declined by 54 per cent, these results are far short of the target of a two-thirds reduction. Only 11 out of 31 countries with special needs – and only 1 out of 14 Pacific small island developing States – for which data are available, are expected to meet the target on under-five mortality. The share of countries with special needs that are expected to achieve the target on infant mortality is slightly lower: 9 out of 31 for which data are available. With regards to the target on

⁵ See ADB, ESCAP and UNDP, *Making It Happen: Technology, Finance and Statistics for Sustainable Development in Asia and the Pacific* (Bangkok, 2015).

maternal mortality, only 6 out of 25 countries with special needs for which data are available, are expected to reach it by the end of 2015.

17. The region also made remarkable progress in reducing the number of people in rural areas without access to safe drinking water from 826 million people in 1990 to 293 million people in 2012. Over the same period the number of people in urban areas experienced a slower reduction, from 63 million to 56 million.

18. Official development assistance (ODA), which falls under Goal 8, has never reached the internationally agreed target by donors of 0.7 per cent of gross national income. In 2013, this translated into a shortfall of about \$43.9 billion for Asia-Pacific countries alone. ODA remains critical in funding basic needs, infrastructure gaps and building capacities, especially in countries with special needs. In 2013, the principal recipients of ODA among the least developed countries in the Asia-Pacific region were Afghanistan (\$5.3 billion), Myanmar (\$3.9 billion), Bangladesh (\$2.7 billion), Nepal (\$871 million) and Cambodia (\$805 million).

III. Building productive capacities to overcome structural impediments

19. Economic development is a process of structural transformation in which there is an expansion in the variety of economic activities, with labour and output shifting to higher value-added products. This process is path-dependent because new products tend to emerge by combining productive capacities developed for existing products. Products, however, differ in their degree of complexity, with more complex products – those that are produced by fewer and more diversified economies – requiring a larger set of productive capacities.

20. Building productive capacities is critical for enabling countries with special needs in Asia and the Pacific to (a) overcome their structural challenges to benefit from greater integration into the regional and global economies; (b) increase their resilience to shocks; (c) sustain inclusive and sustainable growth, as well as poverty eradication; (d) achieve structural transformation; and (e) generate full and productive employment for all.

21. Although countries could, in principle, increase their productive capacities by simply producing more of the same products and services – specialization – this strategy would not allow them to move up on the technological ladder and produce more sophisticated goods and services. In addition, there is compelling empirical evidence that as an economy becomes more diversified its GDP expands and its products face less competition in global markets.⁶

22. Many countries with special needs depend on primary commodities, the prices of which had been high in global markets in the past decade. As a result, those countries have tended to favour specialization in a few commodities. Historically, high commodity prices have driven increases in terms of trade, which tend to overappreciate the real exchange rate based on the costs of market goods. Results from an ESCAP simulation show that a

⁶ Economic and Social Commission for Asia and the Pacific, *Asia-Pacific Countries with Special Needs Development Report 2015* (United Nations publication, Sales No. E.15.II.F.9), pp. 71-73.

6 per cent real appreciation of the real exchange rate is associated with a 50 per cent reduction in the potential for diversification.⁷

23. For *Countries with Special Needs Development Report 2015*, ESCAP analysed the productive capacities of countries with special needs using an index based on measures of export diversification.⁸ The index takes a value of 100 for the United States of America. On that scale, the Asia-Pacific countries with special needs with the highest levels of productive capacity in decreasing order are Kazakhstan (4.64), Bangladesh (3.55), Nepal (2.52), Cambodia (2.38) and Armenia (1.89).

24. Analysis of the evolution of the three-year average productive capacities of Asia-Pacific countries with special needs over the period between 2006 and 2012 shows that, while the majority of these countries have not moved out of a narrow band of low levels of productive capacity, some countries, including Bangladesh, Cambodia, Fiji, Kazakhstan and Myanmar, have made notable progress.

IV. Achieving diversification

25. Diversifying the economy towards the production of more complex and sophisticated goods and services is the best strategy to boost productive capacities and accelerate the process of economic development. However, there is no guarantee that this will happen automatically. Market forces and structural impediments, such as high trade costs, can create incentives for specialization in a small number of export products.

26. The experiences of selected countries analysed in *Countries with Special Needs Development Report 2015* show that the active role of the state has been helpful in facilitating the advancement of the economy to a higher level of development. Although the market has a central role in guiding the allocation of resources, States need to create an environment that is conducive to industrial upgrading by addressing externalities and coordination issues and offering incentives for investments in new products with higher complexity.

27. Medium- to long-term changes in the global and regional economic landscape create challenges and opportunities for the economic diversification of countries with special needs. The question for policymakers in those countries is how to foster the emergence of new and diversified economic activities. In *Countries with Special Needs Development Report 2015*, estimates of export opportunities were used to identify potential new sectors and markets with demand levels that could increase the chances for success in diversification.

28. Recommendations to build productive capacities and foster diversification included (a) generating a stable, investment-friendly and competitive macroeconomic policy framework; (b) implementing industrial, trade and investment policies; (c) mobilizing domestic resources; and (d) engaging in global partnerships.

⁷ Ibid., p. 84.

⁸ Details on the construction of the index can be found in *Economic and Social Survey of Asia and the Pacific 2011* (United Nations publication, Sales No. E.11.II.F.2).

29. Maintaining a stable and competitive exchange rate and neutralizing tendencies towards real exchange rate appreciation is critical for the promotion of tradable goods and the emergence of new economic sectors. Macroeconomic and financial stability are also important to create an environment conducive to private sector investment in diversifying the economy.

30. A stable, investment-friendly and competitive macroeconomic environment can facilitate economic diversification but it would not automatically result in diversification towards the economic sectors that have higher potential for promoting development. To accomplish that, it is necessary to set the strategic direction for diversification by identifying potential new sectors and products to promote. This can be achieved through a consultative process involving government, the private sector, think tanks and other stakeholders. In that process a strategic direction for diversification could be identified and supportive policies and institutional arrangements to ensure that private investment flows to the identified new sectors and products could be explored.

31. To be sure, in most Asia-Pacific countries with special needs, the development of the basic infrastructure of transport, telecommunications and energy is still required and should be given priority. However, to the extent possible and keeping in mind budgetary constraints, policies related to infrastructure should take into account the need to facilitate a shift of the product mix of the country towards more complex economic activities. This calls for targeted infrastructure projects in addition to building basic infrastructure.

32. Most landlocked developing countries are highly trade-dependent on the export of a few key commodities, generally with low domestic value added. To increase their productive capacities, these countries could consider diversifying their production and export structure by moving from low-value, high-bulk commodities to high-value, low-bulk commodities. For this to happen, policymakers in those countries need to promote the emergence of new productive economic activities, given the technological level of their current production bases, the challenges posed by geographical constraints and the incentives to further specialization associated with the global demand for primary commodities.

33. Fiscal policy is an important instrument for promoting diversification. Tax incentives for first movers into new targeted sectors stimulate private sector investment. Also, government procurement expenditure, by buying from companies that produce new and more complex products, can contribute to economic diversification. However, both subsidies and government procurement should be used with caution and only in as much as they contribute to create value in the economy. This caveat is particularly important in the light of the scarce government revenues available to most countries with special needs and the many requirements associated with such areas as health, education and disaster risk management.

34. Asia-Pacific countries with special needs should, on a continuous basis, explore new markets and formulate policies that assist in expanding the participation and increasing technological content in regional and global value chains. In order to diversify markets and products, they could explore further engaging in subregional and regional trade arrangements.

35. Foreign direct investment (FDI) can play a role in facilitating strategic diversification, but it is important to ensure meaningful linkages and spillovers into the local economy and local enterprises. Multinationals bring in new productive capacities for the country but that does not mean that such productive capacities would naturally spread throughout the economy. They may just stay within the limits of the multinational – with no spillover. Countries should seek FDI not only for the sake of more investment but also to use the investment to promote diversification of the economy.

36. Asia-Pacific countries with special needs require a variety of financial services and products in support of private investment in new economic activities. This requires a diversified, well-regulated and inclusive financial system that promotes savings and channels them into productive investments. In this respect, the domestic supply of long-term capital needs to be increased by developing domestic capital markets, venture capital funds, term-lending institutions and industrial development banks. The development of domestic finance sources can also minimize exchange appreciation due to inflows of foreign savings.

37. In the light of the low tax collection of countries with special needs, especially least developed countries, there is scope for reforms of public finance aimed at broadening the tax base and introducing direct taxes.⁹ To broaden the tax base and strengthen tax administrations to curb tax evasion and avoidance, Asia-Pacific countries with special needs may consider ways to increase tax revenues significantly. In commodity boom countries, this strategy will reduce excessive dependence on revenue from natural resources.

38. Diversification can also be supported by global partnerships. ODA, despite being smaller than private foreign flows, such as FDI and remittances, can play a key role in catalysing development. If developed countries follow up on their commitments, and there is a focused strategy to strengthen and recalibrate ODA flows to enhance their support for physical and social infrastructure development, the prospects and opportunities made possible by ODA inflows can effectively provide a boost to efforts aimed at bridging the resource gap for the development of the Asia-Pacific countries with special needs.

V. Towards an implementation strategy for the sustainable development goals

39. In September 2015, world leaders will adopt an ambitious and transformative development agenda for the next 15 years, the 2030 sustainable development agenda. It is expected to comprise 17 sustainable development goals and 169 corresponding targets aimed at ending poverty and promoting prosperity and people's well-being while protecting the environment.

40. A major difficulty for the implementation of the goals is the lack of a clear framework and road map. The targets of the proposed new agenda provide a comprehensive way of tracking progress towards the goals, but they do not provide guidance about how to achieve them. While the goals of the new development agenda are universal, interdependent and indivisible,

⁹ In 2011, on average, the tax-to-GDP ratio in Asia-Pacific least developed countries was only 10.4 per cent of GDP for central government revenues, compared with 17.1 per cent of GDP in Latin America and the Caribbean and 16.3 per cent in sub-Saharan Africa.

countries are in different stages of development, and their capacities to implement them are heterogeneous.

41. The need to facilitate the implementation of the sustainable development goals in countries with different levels of development is explicitly recognized in proposed goal 17, strengthen the means of implementation and revitalize the global partnership for sustainable development. This goal is aimed at increasing finance mobilization, technology transfer, capacity-building and data availability to implement the 16 other proposed goals. While the explicit recognition of the means of implementation in goal 17 is very important, the agenda is not clear about whether the goal should be implemented prior to or simultaneously with the other goals. Thus, the need for a framework for the implementation of the sustainable development goals is very important, particularly for countries with special needs.

42. It has been suggested that countries should give different degrees of attention and effort to the implementation of the goals and targets, depending on where they stand at present in relation to each target, their level of resources and capabilities.¹⁰ Although the sustainable development goals are universal, countries should follow their own approach to implement them. In this sense, the goals should be considered adaptable to the conditions of the country that implements them.

43. The adaptability of the sustainable development goals and targets should take into consideration interdependencies between them.¹¹ In some cases, improvements in one target can have positive spillovers on the progress towards achieving other targets. For instance, health programmes may positively affect gender equality, productive employment and social justice, or improvements in sanitation and food security may contribute to improvements in child mortality and other health indicators. In other words, several goals are interlinked and working towards their targets may concomitantly contribute to other targets. In working towards a strategy of implementation of the sustainable development goals, countries should pay attention to the synergies among several goals and targets.

44. It is also important to keep in mind trade-offs among goals and targets. For instance, according to a study by the United Nations Environment Programme, “targeted strategies that aim to deal with food production/security, energy production and water security (goals 2, 6 and 7) through dependence on the same land systems – that is also subject to conservation strategies for biodiversity (goal 15) – will put increasing pressure on land use and magnify trade-offs among the goals”.¹² However, trade-offs between environmental and development goals can turn into synergies through the adoption of policies that promote sustainable consumption and production (goal 12).¹³ For instance, the development of clean and renewable energies (goal 7), more resilient infrastructure (goal 9), a

¹⁰ See Derek Osborn, Amy Cutter and Farooq Ullah, *Universal Sustainable Development Goals: Understanding the Transformational Challenges for Developed Countries. Report of a Study by Stakeholder Forum* (Stakeholder Forum, 2015).

¹¹ David Le Blanc, “Towards integration at last? The sustainable development goals as a network of targets”, United Nations Department of Economic and Social Affairs working paper no. 141. Available from www.un.org/esa/desa/papers/2015/wp141_2015.pdf.

¹² United Nations Environment Programme, *Policy Coherence of the Sustainable Development Goals: A Natural Resource Perspective – An International Resource Panel Report* (Paris, 2015), p. 23.

¹³ *Ibid.*, p. 5.

smooth transition to sustainable consumption (goal 12) and improved governance and global cooperation (goal 17) could all contribute to the mitigation of climate change effects.¹⁴

45. Countries need to find ways to measure their progress towards the targets, which again confirms the importance of data availability and analytic capacity. Data quality is one of the factors hindering the effective measurements of the progress of countries on development, and Asia-Pacific countries with special needs have limited capacity with respect to institutional set-ups and the implementation of development programmes. Additional challenges for the implementation of the sustainable development goals are the lack of effective accountability and monitoring mechanisms, governance, public engagement and awareness.

46. In this regard, there is a clear need to strengthen statistical capacity for general socioeconomic disaggregated data, including on gender and disability, and in key areas, such as disaster risk reduction. Efforts should be made to link existing accountability and monitoring mechanisms to enable effective exchange of information among them. Mechanisms in other fields should rely on each other to systematically exchange data, ensure synergies, reduce duplication and facilitate the reporting for countries. Moreover, the monitoring of international goals should be embedded into national development planning, monitoring and reporting.¹⁵

47. The comprehensive set of sustainable development goals also complicates planning of development programmes and calls for a higher level of engagement by governments and individuals at all levels. An integrated multi-level and multi-stakeholder approach to promoted transformative agendas at the local level should be considered.¹⁶ At the national level, strong commitment from the central Government to provide adequate legal frameworks and institutional and financial capacity is required. Equally significant is the need for a binding commitment from developed nations to contribute financial assistance to the low- and middle-income countries.

48. A multi-stakeholder approach highlights the importance of local and regional governments in ensuring local monitoring and grass-roots participation, partially because local stakeholders play a crucial role in the promotion of the key values of culture (heritage, diversity, creativity and the transmission of knowledge) as drivers and enablers of sustainable and inclusive development. Government at all levels must be held accountable to respond to the development challenges. Civil societies, academia, scientific communities, local organizations, businesses and individuals should all be given more space to participate meaningfully in the planning, implementation and monitoring of the development programmes.¹⁷

¹⁴ International Council for Science and the International Social Science Council, *Review of Targets for the Sustainable Development Goals: The Science Perspective* (Paris, 2015), p. 6.

¹⁵ ESCAP, “Chair’s summary of the Asia-Pacific Regional Consultation on Accountability for the Post-2015 Development Agenda” (EDD/CS70/RCA/2).

¹⁶ See United Nations Development Group, *Delivering the Post-2015 Development Agenda: Opportunities at the National and Local levels*. Available from <https://sustainabledevelopment.un.org/content/documents/1909UNDP-MDG-Delivering-Post-2015-Report-2014.pdf>.

¹⁷ Ibid.