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“Development Financing and Cooperation Beyond 2015 – Challenges and Policy Responses Considered by Middle Income Countries”

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I. Introduction

Since 1960, Asia has grown faster than any other continent. Unique among developing regions, it has managed to narrow the development gap with the West.

Historical experience shows that if a low-income country joins the ranks of middle-income countries and its GNI per capita grows at the historical average rate of 2.1 percent per year, it would take more than 120 years for the country to achieve high-income countries.

Since 1950, there have been only 13 economies that have grown at an average of 7 percent a year or more for 25 years or longer. They are 9 economies in Asia (China, Hong Kong (China), Indonesia, Japan, Korea, Malaysia, Singapore, Taiwan (China), and Thailand) and 4 economies in other regions (Botswana, Brazil, Malta and Oman). Among them only two countries – Korea and Oman - went from low-income to high-income status from 1962 to 2008. Many countries are stuck in middle income.

II. Policies and Approaches Korea Adopted

1. Integrated and Broad-based Approach toward Development

Poverty has many different dimensions. In order to successfully tackle muti-faced challenges, one should take an integrated and holistic approach. Korea can be a good example in achieving poverty reduction and development not just because it succeed but because of how it found its pathways for these goals.

Korea has been able to reduce poverty by generating and sustaining rapid, resilient and shared growth. To achieve this, Korea adopted an integrated and broad-based approach of putting human development, social cohesion and economic growth together. For Korea, export was the ultimate engine of growth. Export-led growth contributed to the dramatic increase in Korea's GDP per capita and trade volume since the 1960s, and ultimately poverty reduction.

What makes Korea stand out as a good reference for developing countries is that it pushed development with comprehensive and interrelated measures, policies and institutions. In fact, industrialization, infrastructure development, and human resource development had been all wrapped up in one package.

In today's regime and conditions, Korea's export-led development strategy may not be applicable to some developing countries. Other countries richly endowed with natural resources may wish to take different pathways. However, one cannot achieve the goal of poverty reduction and development in isolation of other interrelated policies and measures.

2. Ownership is a Key to Poverty Reduction and Development.

Country's ownership is another key to the success of its development. It is not a simple coincidence both the Paris Declaration and Accra Agenda for Action underlined it as the core principle of aid effectiveness.

Ownership comes in various forms. Let me give you one example - financing for development. Korea made conscious efforts to retain the ownership over the course of exported-oriented industrialization by declining its independence in foreign capital. Even when it tried to secure foreign capital, it preferred loans to FDI. It is because loan provided Korea with marginally better say over its investment. Korea also made considerable efforts to shift away from aid even in the earlier stage of development.

Korean government also worked hard to mobilize domestic resources. It encouraged domestic savings. In order to secure the resource of fiscal revenue, it established National Tax Service in 1966. It further introduced a value added tax in 1977. It even went to dispatch miners and nurses to countries as Germany for remittances.

All these efforts paid in the early1970s as the share of foreign savings in the investment started to decline. Korea's hard-won financial independence gave it a larger space for setting the development priorities of its own and choosing the policy options which suited it most.

3. Investing in Human Development

Synergy between economic and human development played a pivotal role in Korea's poverty reduction and development. Even in the 1950s as one of the poorest countries in the world, Korea invested its limited resources in education. Its primary and secondary school enrollment rates were similar to those in countries with two or three times of its per capita income.

However, Korea believed that investing in people by itself was not enough to achieve poverty reduction in the absence of decent jobs created by industrial and trade development. That's why Korea made concerted efforts to invest in human development as well as exported-oriented industrialization at the same time.

III. Challenges and Lessons from Korea's Experiences

A country must address innovation and coordination externalities while minimizing negative government externalities such as corruption.

It should also establish fiscal discipline and prudential regulation and flexibly adjust prices to mitigate the impact of shocks.

It should commit to human development and social cohesion if it is to reduce the risks if growth-killing conflicts.

Last but not least, the key is for a country to retain ownership of its development and progressively expand its capacity to add value and manage risks as it actively learns from and engages with the outside world. /End/