

**Middle Income Countries Experts' Consultation**  
**First Session, 13-15 May 2013**  
Holiday Inn, Seongbuk, Seoul, Republic of Korea

**Communique**

A multi-disciplinary meeting of eminent experts from around the globe was organized, in Seoul on 13-15 May 2013, by the UNDP Seoul Policy Centre and the Korea Institute for International Economic Policy to launch a series of international policy dialogues on key common challenges of middle income countries.

**MICs: common challenges and multiple perspectives**

MICs are unique as the development stage of this group covers a very broad set of countries with different mixes of development characteristics and very different sets of capabilities and opportunities.

While countries are classified as MICs, essentially based on their GDP/capita, in light of the above mentioned diversity we need to look behind GDP to better understand and address the challenges faced by MICs .

Additional categorization may be necessary to capture the diversity of development challenges of MICs. Some important factors that differentiate MICs are share of employment in low/high productivity activities and low/high value added exports, inequality, degree of governance, institutional capability, as well as size and resource endowment.

A core challenge for MICs is to ensure uninterrupted migration to a more mature economy. Faced by intensifying globalization and competition in the global markets, the emergence of large producers of the low-skill goods at low cost, MICs are at risk of falling into the middle income trap.

A core characteristic of the middle income trap is the fact that, in the current global context, countries on the one hand have wages that are too high to remain competitive in the production/export of labour-intensive, standardized commodity production, while on the other hand productivity is not high enough to allow them to compete in more technology-intensive production.

## **MICs in the changing global context**

The world is very different today than 20 or even 10 years ago. With the rapid global changes, development models which worked in the past even 10 year need to be reassessed.

MICs must respond to arising global competitiveness challenges originating, among others, from (a) a changing geo-economic of competition in the global trade for goods and services, (b) the increasing importance of global value chains in supplying the rising global demand for increasingly more complex and sophisticated products and services, and (c) the increasing role of transnational companies as drivers of global competition.

In meeting those arising challenges and to sustain migration to the higher income group , MICs will need to implement more demanding reforms aimed at boosting productive capability and developing a robust, vibrant and diversified private sector able to create value that fits demand in an increasingly open and competitive economic environment.

In this context, the overall development strategy of MICs should be directed towards advancing the overall productive capabilities of their private sector by implementing a harmonized reform to (a) enhance economic efficiency, (b) strengthen human and social capability, (c) brace private sector's capability for innovation, and (d) advance public sector institutional capability.

In implementing these measures, a proactive role of the Government is advised, particularly for promoting appropriate incentive structure and correcting market failures.

Governments should be cognizant of the dual production structure in most MICs, with a few large and competitive firms on the one hand and on the other a large number of SMEs that are low in productivity and can't compete internationally.

Governments need to help create value that fits demand in the global market. Governments can play a transformational role by encouraging innovation, supporting productivity and working with the private sector to identify new engines of growth that can increase the share of employment in high productivity activities.

A significant challenge is presented by the size of the informal sector in most MICs. An important question here is whether the informal sector has unrealized potential which needs to be tapped and best ways to tap it.

As MICs are becoming more integrated to the global economy, authorities also need to equip themselves and enhance their own capacity to better deal and adapt to rapid changes in the global environment. In this context, Governments in MICs must ensure that macroeconomic condition remains stable despite capital account openness and the financial sector is healthy, sound and able to withstand external (exogenous) shocks. These basic preconditions are key prerequisites of a successful economic reform.

To address the growing development financing needs and to compensate for the progressive reduction of international assistance, MICs must identify new sources of financing both domestically and from external sources, ( e.g. mobilize and expand internal financing, including taxation).

Natural resource rich MICs have the opportunity to tap the rents for developmentalist purposes and invest in diversification for the future.

### **Tackling inequality and vulnerability to foster inclusive growth**

In the recent years millions of people have been lifted out of absolute poverty across the MICs. However MICs still have the largest share of people living in poverty and income inequality is still largely prevalent.

The emergence of the so-called “new middle classes” earning from USD 2 to USD 10 a day deserves particular attention. The term used to describe this group of people may be misleading, because whereas it emphasises the group’s newly acquired economic prowess, it masks it’s extremely vulnerability. While they consume at a higher level, contribute to the sustainability of the economy and demand better social services and participation in decision making, they still remain destitute and, especially in the lower tier, they remain extremely vulnerable to shocks. This category should remain in the focus of policy makers, especially in terms of social policies.

To continue addressing poverty and inequality, social protection measures (especially social assistance) should be should be stepped up and be fully integrated into the overall development strategy. To date, social protection still represents a small portion of GDP in MICs.

Well-targeted social assistance programmes can have large multiplier effects creating additional opportunities for people etc. Countries cannot afford not to do it.

Urbanization is an inevitable phenomenon tied to growth. MICs must assess how to manage urbanization in a sustainable way and identify options for decentralization and the spatial re-distribution of urban centres. This can contribute to reducing inequalities and reducing pressure on the main urban centres.

MICs must also ascertain that urban agglomeration produce net positive externalities to private sector development, economic growth, poverty reduction and environmental as well as natural resources sustainability.

When addressing the green growth and climate change issues, countries and the world should look at two sides of the coin – patterns of production, and patterns of consumption.

### **Knowledge sharing and co-operation**

South South cooperation and exchange of development experiences and knowledge have seen a rapid expansion over the recent years, and need to be further scaled up and promoted, providing the MICs with the opportunity to scale up their role as global development actors.

North-South cooperation particularly in the area of science and technology should not be overlooked.

While countries can learn from other countries experiences, ultimately each country should find its own solution mix based on its own unique circumstances

\*\*\*

It was agreed that the meeting in Seoul that the upcoming policy dialogues will be informed by further research work in selected areas (productivity enhancement, “new middle classes” and their challenges, financial inclusion).

### **For more information please contact**

Artemy Izmestiev - Policy Specialist at [artemy.izmestiev@undp.org](mailto:artemy.izmestiev@undp.org)

.