

HIGH-LEVEL CONFERENCE OF MIDDLE-INCOME COUNTRIES

Networks for Prosperity

SAN JOSÉ, COSTA RICA - 12 TO 14 JUNE 2013

**Challenges for Sustainable Development and International
Cooperation in Middle- Income Countries: The Role of
Networks for Prosperity**

Concept Note



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Background

Over the past decades, middle-income countries (MICs) made a significant contribution to global development through their higher growth rates, accompanied by progress in their social spheres. They are the fast growing group of countries, both in terms of population and key economic and human development indicators, with a share of more than 30% of global manufactured value added. However, there are great differences among and within MICs, best illustrated by the fact that they host more than 70% of the world's poorest people – a great contrast to the macroeconomic successes of the recent years. Differences also exist as regards MICs conceptualization and classification as well as the dependence on official development assistance (ODA). Discussions on the need to review the classification criteria – including indicators, thresholds and eligibility criteria – to support MICs regarding their efforts, including through comprehensive cooperation, are on their way. There has also been an increased solidarity among MICs and other developing countries with a view to supporting their development goals, in the context of South-South and triangular cooperation, reshaping international networks for development.

In the meantime, their state capacities for structural transformation, productivity enhancement, poverty reduction, inclusive economic development and environmentally sustainable paths of industrialization are still a significant constraint. Support to increase productive capacities and boost private sector development, in particular through substantively investing into human capital and local knowledge centres, is certainly necessary in most MICs, far beyond the initial transition from low to middle-income status. This set of facts has significant implications for the proposed elaboration of a post-2015 global development agenda, including the Sustainable Development Goals (SDGs).

It is well known that opportunities for the creation, transmission and dissemination of knowledge have transformed industry worldwide, yet there remain significant gaps in access to knowledge by many developing countries, even in upper MICs. Over the past decade it has become evident that the importance of knowledge transfer is equal to, or in some cases exceeds, the importance of technology transfer. Limited access to knowledge hampers progress towards inclusive growth and employment creation, as well as technological progress for sustainable development, and for food, nutrition and energy security. As described in the report *Networks for Prosperity – Connecting development knowledge beyond 2015*, a major challenge is thus to enhance access to policy-relevant knowledge in sustainable economic development, and to create the space for national, regional and global knowledge streams and networks for policymaking and capacity-building. Such networks are proposed in the following three interrelated fields of development:



1. Inclusive growth and prosperity

Defining MICs has been of continuous interest for the international community. Different organizations have developed various classifications based on national income, level of industrial development, trade openness and other indexes. However, none of the previous efforts provide a precise definition of the category of MICs. A widely used definition is that of the World Bank, dividing the MICs in an upper and lower segment based on per capita gross national income. While often used to measure the growth and prosperity of a country at average, it is felt that this classification may be inadequate for actually characterizing MICs in view of the complexities of their prosperity challenges, including those linked to the uneven distribution of wealth, sustainability and connectedness. Since the adoption of the Millennium Declaration in 2000 and the creation of the Millennium Development goals (MDGs), millions have been lifted out of poverty. The percentage of the world's population living on less than \$1.25 a day fell from 42 per cent in 1990 to 25 per cent in 2005, and is projected to fall to 14 per cent by 2015. This impressive success on income poverty is largely due to the increased industrialization and growth of related economic activities in a range of developing countries, and especially China. However, progress towards reaching the full range of MDGs, which did not prioritize economic growth as a means of achieving development objectives, remains uneven. One remarkable change in the past two decades has been the shift in location of the world's poor from low-income countries (LICs) to MICs. It is estimated that in 1990 over 90 per cent of the world's poor people lived in LICs, while there is evidence that today almost three-quarters of the world's poor live in MICs. At the same time, the ongoing global financial and economic crises, the food and energy crises, as well as the more recent European sovereign debt crisis, have had a negative effect on world economic growth and continue to pose challenges to development efforts. Poverty reduction strategies in MICs therefore need to include economic structural transformation policies, human resource investments and targeted private sector development strategies.

2. Environmental sustainability and green industry

Also, at the centre of most forward-looking analyses or studies on global development is sustainable development. It is almost axiomatic to say that the ongoing financial and economic crises have been aggravated by negative environmental trends, of which climate change has the most critical consequences. Yet, despite the fact that the concept of sustainable development with its economic, environmental and social pillars was first articulated by the Brundtland Commission as early as 1987, its operationalization as a development paradigm has proven difficult. Indeed, resource efficiency will play an increasingly important role in the context of global stability, security and development. Inefficient technologies and operating practices currently in use by many industries in developing countries will need to be replaced. In addition, energy access is one of the most pressing of all the global challenges and is central to all the three pillars of sustainable development. Also, as the impacts of climate change become clearer, it is increasingly evident that a growing share of humanity will become vulnerable to its effects, which renews the urgency to move towards "green" industry in developing and industrialized countries alike, and towards a more inclusive development strategy based on a low-carbon trajectory. In the light of the United Nations Conference on Sustainable Development held in Rio de Janeiro in June 2012 (Rio+20), at which Member States agreed to a process to draw up a set of sustainable development goals (SDGs), the opportunity to do so has now arisen. In the Conference outcome document, *The Future we Want*, Member States recognized that the SDGs need to be coordinated and coherent with related processes to set the post-2015 development agenda.



3. Financing for sustainable economic development

Recession in many industrialized countries has led to pressure on global official development assistance (ODA) budgets, the total spend for which declined in 2011 for the first time since 1997. On the other hand, MICs are rapidly increasing their own development cooperation and particularly triangular (North-South-South) and South-South cooperation are recognized as potential drivers of future development finance. According to some estimates, South-South cooperation already accounts for about \$15 billion in development cooperation each year and could provide over \$50 billion by 2025¹. Some analyses of South-South cooperation spending indicate a firmer emphasis on industry and economic activity generally, compared to the tendency of traditional donors to fund the social, humanitarian and governance sectors². Although it remains to be seen how it will operate in practice, the fact that key non-OECD donors such as Brazil, China and India have joined with their traditional counterparts in a new Global Partnership for Effective Development Cooperation may herald a new era for South-South cooperation for development³. That Partnership's embrace of the private sector also highlights the relatively small size of ODA as a subset of all global financial flows.

¹ Kharas, H. and Rogerson, A, Horizon 2025: Creative Destruction in the Aid Industry, (London, ODI, 2012)

² Turner, J., Hodgson, F., Porter, G., Mawdsley, E., McCann, G, Changing the Game for Africa's Infrastructure, presented at Fourth European Conference on African Studies, June 2011, available from <http://bit.ly/OwJlrd>

³ See Busan Partnership for Effective Development Cooperation, adopted by the Fourth High-Level Forum on Aid Effectiveness, Busan, Republic of Korea, December 2011



Objective and Format of the Conference

The proposed High-Level Conference of Middle-Income Countries in 2013 is an opportunity for MICs to coordinate and shape regional and global development processes, and to further define the role and interests of MICs in the nexus of global sustainability and economic policy. It is expected that the conference will result in:

1. A joint declaration of middle-income countries on “Networks for Prosperity”;
2. Joint MIC action plans (regional and global), action networks (regional, inter-regional and global) and funding commitments for addressing the global economic and environmental challenges;
3. A special compact of upper middle-income countries on international cooperation.

Prior to the high-level conference in San José, preparatory meetings will take place in Vienna and New York. These meetings will discuss the joint declaration and joint action plans in informal thematic working groups. In particular, the following four working groups are being proposed:

1. Working Group on Overall Concepts Definition;
2. Working Group on Environmental Sustainability and Green Industry;
3. Working Group on Inclusive Growth and Prosperity;
4. Working Group on Financing for Sustainable Economic Development.

The three-day conference in San José will finalize the declaration (high-level segment) and action plans (working groups) in parallel sessions. It is expected that the conference will feed into various multilateral processes and strategic plans.

Participants:

All middle- income countries will be invited to the conference. In particular:

- Participants at the high-level segment are expected to be at the ministerial level.
- Participants in the thematic working groups are expected to be at the senior policy-making level and their diplomatic representatives in New York and Vienna.

Experts from relevant international organizations or other relevant institutions will be invited to contribute to the deliberations of the informal consultations on a thematic basis.