

Abstract

The typical standards to distinguish the level of development of the country is GNI per capita. The World Bank classifies the countries into the three different groups, low-income, middle-income and high-income based on the standards every year. Due to the vigorous economic cooperation between countries after the end of the Cold War and active development cooperation under the framework of MDGs led to a significant increase in the number of middle-income countries in the 2000s. As some developing countries made visible results of improving average income levels the international community began to recognize the developmental challenges of middle-income countries as domestic issues. In addition, following the Paris Declaration, donor countries have taken the selection and concentration strategy, and have changed to choose vulnerable or low-income countries as their main partner countries rather than middle-income countries. As a result, in the 2000s, the share of ODA for middle-income countries decreased to one third of that in the 1990s.

However, middle-income countries are struggling to achieve economic growth at the level of high-income countries and still have a number of development challenges that need support from the international community. Besides, as of 2015, more than 75% of the world's poor live in middle-income countries. In this regards, we cannot discuss development cooperation or expect to meet the global goals of Sustainable Development Goals without them. Centering on the OECD Development Center, discussions are being made on how to support middle-income countries so that they can successfully enter the high-income group. Since more than half of the major partner countries are middle-income countries, Korea needs to pay attention to the relevant discussions and reflect them in establishing development cooperation strategies in the future.

Against this backdrop, this study is designed to examine the definitions and development issues of middle-income countries and to draw possible implications for KOICA's cooperation strategy for middle-income countries through the case studies of Peru and Indonesia. In particular, in carrying out the case studies, the Country Plan, KOICA's top level national cooperation strategy established in 2019, was thoroughly analyzed and further improvement points were suggested expecting that they can contribute to the establishment of revised plan and implementation of development projects.

Middle-income countries refer to countries with per capita GNI levels above \$ 996 and below \$12,055, based on 2017 data. There are many tasks for such a middle-income country to become a high-income country but among them eight economic and social development challenges should be addressed first. Economic challenges include improving the financial system and securing macroeconomic stability, improving technological innovation and productivity, changing the economic structure, and improving the quality of economic infrastructure. First of all, the finance system of middle-income countries is often underdeveloped so that we can witness the low proportion of domestic credit to private sector, high ratio of non-performing loans and large interest rates spread between lending and deposit. The immature financial system lacks the ability to withstand the shocks of the global economic crisis. Therefore, it is crucial to improve the financial system and reinforce resilience to recover from the external economic crisis in order to maintain economic development. In addition, to overcome the 'middle-income trap', it is necessary to promote technological innovation and productivity improvement. The advancement of the economic infrastructure, such as transportation, telecommunications, and electricity, which is essential to the productivity improvement is still far behind compared to the high-income countries in both qualitative and quantitative terms.

In regard to social challenges, deepening inequality, threat of natural disasters caused by environmental pollution and climate change, quality of education and

higher education, aging population, and governance are the major tasks to carry on. Middle-income countries still suffer from inequality as we can see their average Gini coefficient and Gender Inequality index closer to low-income countries than high-income countries. In addition, they have an energy-intensive industrial structure, which makes it difficult to simultaneously achieve economic development and mitigate environmental pollution and climate change. However, as they are most exposed to natural disaster risks and damages caused by climate change it is urgent to respond to climate change and develop natural disaster resilience. The analysis shows that aging is also a major challenge for middle-income countries. In the developing countries, except for the least developed countries, middle-aged and old-age populations is expected to outnumber young population in 2029, so that middle-income countries need to prepare for supporting the elderly and attenuating population reduction. Besides, quality of education and higher education which contribute to the productivity improvement, and enhancement of governance remain the main challenges of middle-income countries.

Peru and Indonesia case studies were conducted to determine whether these major development challenges are valid in middle-income countries. The analysis confirmed that such challenges present in both countries. In addition, the study found each country have already recognized these issues and reflected them in their national development plans. The Peruvian government has development objectives of competitiveness and employment, regional development and infrastructure in economic sector and fundamental rights and dignity of the individual, natural resources and the environment, opportunities and access to services, and state and governability in social sector. The Indonesian government set tourism and maritime and marine as key area to develop in economic dimension, and education, health, housing, food sovereignty, energy sovereignty, and inequality among income groups in social dimension.

USAID and the World Bank, donor agencies, in both countries also reflected the

middle-income country challenges in their support strategies to Peru and Indonesia. KOICA also considered these challenges in Country Plan of Peru and Indonesia, but there were differences in terms of the specific implementation method and approach of the strategy compared to USAID and the World Bank. KOICA's strategy was found to be relatively less systematic than both agencies. In particular, USAID formulated the strategy with an intuitive and logical result framework. The result framework is designed to converge the achievement of the intermediate results into the achievement of the development objectives and the achievement of the development objectives into the achievement of the overall goal of the support strategy. KOICA's strategy was similar to that of the World Bank in terms of sectors and regions, and was different from USAID, which selected priority regions within the countries according to its selection and concentration strategy. In addition, USAID, unlike KOICA, includes US needs and interests in its development cooperation strategies of Peru and Indonesia. As such, there are more differences between KOICA and USAID.

In conclusion, this study suggests that KOICA should consider the following points, establishing the cooperation strategy for middle-income countries. First, KOICA should benchmark the selection and concentration schemes adopted by USAID in Peru and Indonesia, choose specific regions and focus on development activities there. As opposed to reaching higher average income levels middle-income countries are facing serious inequality issues. In order to contribute to solve this problem, it is necessary for KOICA to further define the more segmented target areas in partner countries, where the disadvantaged and marginalized people live. This strategy will not only contribute to solving inequality problems, but also help to improve the effectiveness and visibility of KOICA's projects. Second, KOICA needs to deliberate which sector and how much it will support. In particular, this study revealed that middle-income countries have very distinct characteristics of development even though they belong to the same income group. In this respect, KOICA needs to closely analyze the situation in each country and decide how much to support to social infrastructure and service, and economic

infrastructure and service and production sector. Specifically, it is suggested that the upper middle-income countries should receive more assistance on economic infrastructure and services/ production sectors, and lower middle income countries with more of social infrastructure and service support.

Furthermore, KOICA is required to take preemptive consideration of the aging issue in building cooperation strategies for middle-income countries. Aging has rarely been discussed in the field of development cooperation, and neither Peru, Indonesia and two donor agencies are paying attention to this issue. However, it is pointed out that middle-income countries may experience aging before they even improve their economic condition. Aging can weaken the momentum for economic development and trigger social problems such as an increase in welfare costs, which can act as a major barrier to entry into high-income countries. Therefore, KOICA needs to take the lead on this issue by reflecting the aging issue in middle-income countries strategy from now on. Finally, KOICA should pay attention to the potential of middle-income countries as South-South and triangular cooperation partners and take full advantage of this, establishing cooperation strategy for low-income countries. Stepped up from low-income, middle-income countries have development experiences, so that they will be able to help low-income countries by sharing their experiences with them. Indonesia and Peru are already participating in triangular cooperation with great interests. If these middle-income countries expand their roles as an implementing partner in low-income countries of the same region, taking advantage of similarities in culture, language, and geography as their strengths, we can expect to enhance the effectiveness of the development project.