

Horizontal Development

Essay on Horizontal Programme on Sustainable Development

January, 2006

Seung Jung Lee

The annual G8 Summit Meetings are important in that it provides a glimpse of policy objectives for the group of well-off economic and political powerhouses. This relatively small gathering provides the foundation for economic policy guidelines, not only for the rest of the world, but also for the major international organizations.

In 2005, one of the most crucial agendas promoted by the G8 concerned sustainable development in Africa. The focal point of the African Development Agenda was the pledging of further aid to developing countries (\$50 million total, which includes \$25 million to Africa) on top of the ministerial-level agreement to forgive debt to HIPC countries. A lot of these “presents” were contingent on control of corruption and transparency. This was a step in the right direction, especially when recent empirical evidence suggests that institutional factors are important preconditions for sustainable development. In October 2005, the Paris Club followed the G8’s example and managed to work out a debt-relief program for Africa’s biggest debtor, Nigeria. The program expects to forgive 60% of the \$31 billion that is owed to the Club.

But sad to say, I am wondering if the aforementioned debt-relief programs, along with aid contingent on a couple of institutional factors will work in the long run. In other words, we’ve been there, done that already. We’ve poured aid into developing countries for over half a century, only to see mediocre results in terms of economic growth and sustainable development (and also institutional change). Therefore we had to implement aid and debt-relief over and over again.¹ Though there are examples where contingent-based aid and debt-relief have worked, there are plenty more where it has not (Uganda & Ethiopia).

When even one of the important institutional factors (corruption, rule of law, enforcement of property rights, openness, government effectiveness, and the removal of regulatory red-tape, etc) is compromised, aid or debt-relief will have little consequence in the long run. As long as there is one hole in the bucket, you will never gather enough water to fuel an economy. The priority should be fix the holes, rather than trying to keep the bucket full by pouring in money after money, only to see most of it go to waste.

My definition of sustainable development is self-fulfilling growth where one sector of the economy provides a spill-over ‘spark’ to another sector of the economy, leading to a virtuous cycle of growth. A good example of such ‘fireworks’ is Korea, where human capital and openness provided a stimulus for actively adopting technology – first in clothes and shoe manufacturing, then in steel/ships and semi-conductors to automobiles, and finally nowadays to LCD screens, and cell-phones, just to name a few. All of this happened in tandem with the control of corruption and the enhancement of all other institutional factors.

This example gives us an idea of how to devise a more consistent framework for *horizontal development* that sees both the foundations of growth and growth itself improve simultaneously by either penalizing unsustainable development or rewarding sustainable development. The recent boom in measurement of governance measures from the World Bank (compiled by Kaufman, Kraay, and Mastruzzi) and from other institutions (Transparency International, etc.) provides us with a benchmark to see which countries are compromising which institutional factors. Giving aid or debt-relief to those that manage to enhance *all* of these factors makes sense and should be applauded. On the other hand, for those countries that have problems with a certain institutional factor such as corruption, donors’ money will be more useful in trying to alleviate that particular factor lest it be a drain in any endeavor to achieve sustainable development for the whole economy. Getting the incentives right will be difficult, but we need to use our heads rather than simply our hearts. Giving money because someone is poor ‘feels’ good. But if you want that person to rise on his own two feet, you need to use your head in trying to reward that person for trying to make it on his own, not simply because he is poor. Simply being poor should not be a sufficient condition for aid or debt-relief. Desperately trying not to be on all facets should be.

¹ Please refer to the following book for good examples - Easterly, William. 2001. *The Elusive Quest for Growth: Economists’ Adventures and Misadventures in the Tropics*. Cambridge, MA: The MIT Press.