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The Global Development Agenda after the Great Recession of 2008-2009

Revisiting the Seoul Development Consensus

Papers and Proceedings of a Conference
ILO, Geneva, 21 November 2011



Employment
Policy
Department

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We are grateful to the Government of the Republic of Korea for its continuous support to the ILO through the ILO-Korea Partnership Programme. The Employment Policy Department was able to host this conference successfully with the Korean Government's financial support. We would like to express our deepest gratitude to Sang-ki Park, the Ambassador of the Permanent Mission of the Republic of Korea, for his participation in the conference and his contribution, along with his opening remarks. Furthermore, we thank Jong-Cheol Kim, Labour Attaché of the Permanent Mission of the Republic of Korea, for his dedication to the success of the conference by promoting the event among member countries.

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Wang Kim
Hyejin Lee
Iyanatul Islam




Introduction

The Employment Policy Department's One-Day Knowledge Sharing Conference took place on 21 November 2011 at ILO headquarters in Geneva. Its goal was to provide a forum for distinguished external experts to share their knowledge on the evolution of the global development agenda after the great recession of 2008-2009. In addition, by revisiting the framework of the Seoul Development Consensus, the conference sought to assess whether it should and could be implemented with greater vigour in the current economic context of the G20 countries. It was also a great opportunity to discuss how to build a new development framework by sharing different country case studies. Approximately 60 ILO representatives and external experts conducted spirited discussions in the course of two interrelated but distinct sessions.

The first session of the conference revisited the Seoul Development Consensus (SDC) that was

unveiled by G20 members in the Republic of Korea in 2010. It also reviewed the rationale behind the SDC, explored its current status, reflected on future prospects and invited a more critical examination by asking experts to assess whether another “development consensus” was really needed. The afternoon session was devoted to the theme of ‘job creation and development,’ a theme that is at the core of ILO’s mandate as well as of the SDC. The speakers explored pathways to job creation that went beyond the customary focus on manufacturing as a vehicle for rapid development and job creation. Case studies from Africa were used to enrich the proceedings. The proceedings and the knowledge generated during the conference are summarized in this report. Although there were five presentations, four papers are reproduced in this volume as the fifth paper was not available for circulation.



Employment Policy Department One-Day Knowledge Sharing Conference

Programme

Welcome and Opening

Chair: José Manuel Salazar-Xirinachs, Executive Director, Employment Sector, ILO

■ Opening Remarks

- Azita Berar Awad, *Director, Employment Policy Department, ILO*
- Sang-ki Park, *Ambassador, Permanent Mission of the Republic of Korea*

■ Keynote Speech

- John Kirton, *Director, G8 Research Group, University of Toronto*

Coffee Break

Session 1: Revisiting the Seoul Development Consensus

Chair: Mariangels Fortuny, Employment Policy Department, ILO

■ Seoul Development Consensus: Rationale, Current Status and Future Prospects

- Jai-Joon Hur, *Senior Research Fellow, Korea Labour Institute*

Discussant: Sangheon Lee, Labour Protection Department, ILO

Lunch

Session 2: Job Creation and Global Development

Chair: Makiko Matsumoto, Employment Policy Department, ILO

■ The Role of the Services Sector as a Major Vehicle for Job Creation

- Ejaz Ghani, *Senior Economic Advisor, World Bank*

Discussant: David Kucera, Policy Integration Department, ILO

■ Meeting the Job Creation Challenge in Africa

- Paul Cook, *Engagement Manager, McKinsey and Company*

Discussant: Lawrence Egulu, Policy Integration Department, ILO

Coffee Break

■ Job Creation and Growth in the Ethiopian Cut Flowers Industry

- Yukichi Mano, *Assistant Professor, National Graduate Institute for Policy Studies, Japan*

Discussant: Frédéric Lapeyre, Employment Policy Department, ILO

Cocktail Reception



The Employment Policy Department's Knowledge Sharing Conference on 21 November 2011 at the ILO, Geneva





Sang-ki Park, Ambassador of the Permanent Mission of the Republic of Korea delivers his opening remarks in the conference.



*José Manuel Salazar-Xirinachs, Executive Director of the Employment Sector in the ILO welcomes all the participants as well as distinguished speakers during the opening session.
(From the Left) Sang-ki Park, José Manuel Salazar-Xirinachs, Azita Berar Awad, Director, Employment Policy Department, ILO and John Kirton, Director, G8 Research Group, University of Toronto.*



Employment challenges in Africa, one of main themes in the conference is discussed during the second session.



Opening Remarks

José Manuel Salazar-Xirinachs (Executive Director, Employment Sector, ILO) said that participants in the Conference would have the opportunity to discuss the global development agenda by revisiting the Seoul Development Consensus, which was especially appropriate given the fragile financial situation that has been haunting Europe and the rest of the world since 2008. He stressed the common concerns regarding the lack of jobs, the persistence of policy uncertainty, the perceived injustice and unfairness of the current economic system and emphasized the significance of knowledge sharing with ILO colleagues and professionals from the World Bank, Think Tanks, the private sector and the Korean Government.

Azita Berar Awad (Director, EMP/POLICY, ILO) introduced two critical political aspects of the policy research that the Employment Policy Department was conducting with support from the Korean Government. First of all, the Department's research was specifically designed to provide policy advice on employment. One of its major themes was youth employment, in particular a school-to-work transition survey that made research findings available to the five pilot countries. This was becoming more and more important, especially in the global crisis affecting youth employment. Secondly, the policy research served to assess the impact of public and private investment for employment generation. She emphasized how important it was to focus on the current context facing the next generation, in terms of employment policy and the macroeconomic framework, and on a new policy paradigm. In conclusion, Mrs Berar Awad noted that the current phase of the project made it possible to rethink development policy, and the Conference was intended to facilitate the planning of development strategies, particularly from the standpoint of the Seoul Development Consensus. She concluded her opening remarks by

thanking the Korean Government for helping enrich the Department's analytical work on policy advice at the country level.

Sang-ki Park (Ambassador, Permanent Mission of the Republic of Korea) emphasized that the one-day knowledge sharing conference was a timely occasion to discuss the global development agenda as the effect of the financial crisis was still lingering. Ambassador Park opened his remarks by describing his country's contribution to development cooperation with the global community through the unique perspective of the Republic of Korea. Recognized as the first Development Assistance Committee (DAC) donor country to have emerged from the ranks of the least developed nations, the Korean Government attached great importance to development cooperation in its national agenda and was fully committed to its pledge to triple the budget of its Official Development Assistance (ODA) to 3 billion USD over the next five years. Furthermore, Korea wanted its contribution to the world to make the best possible use of the unique development experience of a recipient-turned-donor country, as well as to play a bridging role between developing and developed countries.

As chair of the G20 Seoul Summit in 2010, Korea successfully made development a central theme in the G20's agenda with the adoption of the Seoul Development Consensus and its Multi-Year Action Plan. Against that backdrop, the current Government under the leadership of President Lee was taking the right path towards a more aggressive and action-oriented global diplomacy, with development cooperation as a central feature and priority of Korea's foreign policy. In addition, as host to the Fourth High-Level Forum on Aid Effectiveness in Pusan, which was another major international

development event, Korea was looking forward to inspiring discussions on topics ranging from “How to deliver aid effectively” to “How aid can make a substantive development impact” on such areas as poverty reduction, growth and financial stability.

Mr Park expressed his appreciation of the ILO’s contribution to global development and to the attainment of “universal and lasting peace based on social justice” by improving working conditions and creating more decent jobs around the world. He emphasized that the purpose of the Conference was to explore possible avenues to enhance the effectiveness and efficiency of development cooperation, as well as to draw on the ILO’s knowledge and apply it to the Seoul Development Consensus in key aspects – job

creation, human resource development, and knowledge sharing, three of the nine pillars that the Seoul Summit’s Multi-Year Action Plan on Development identified as critical to ensuring inclusive and sustainable growth in developing countries.

Mr Park concluded that the ILO’s decent jobs initiative should be used proactively to promote sustainable development in developed as well as in developing countries. By sharing the role of the services sector in job creation and the specific issues facing the African region as well as the general framework of the G20 Development Agenda, the Conference would explore avenues of desirable sustainable development through employment.



1. KEYNOTE SPEECH



G20 Development Governance, 1999-2011: Involvement, Innovation, Institutionalization, Impact

John Kirton, Director, G8 Research Group, University of Toronto

Introduction

The G20, once conceived as a finance and economic forum, has been increasingly involved in international development. Development is quickly moving into a higher priority position, has been institutionalized and is being integrated into the G20's current focus on promoting strong, sustained and balanced growth. Its impact, while very limited so far, thus promises to increase in the years ahead.

This study traces the G20's increasing involvement, integration, institutionalization and impact on development from 1999 to 2011. It finds that there has been a general trend towards an increased involvement and integration in and institutionalization of development. This was augmented dramatically by the Seoul Summit in November 2010. These trends should continue, with G20 development governance promising to have its first major impact on the global development agenda when Mexico hosts the seventh G20 summit in June 2012, with sustainable development and green growth as its priority themes.

The G20's creation and innovation

The G20's creation, 1999

The Group of Twenty was created as an annual gathering of the finance ministers and central bank governors of the world's systemically significant countries, in response to the Asian-turned-global financial crisis of 1997 to 1998. It brought together as equals the established countries of the Group of Eight — Canada, France, Germany, Italy, Japan, Russia, United Kingdom, United States — and the emerging countries — Argentina, Brazil, China, India, Indonesia, Republic of Korea, Mexico, Saudi Arabia, South Africa, Turkey — as well as Australia and the European Union. The managing director of the International Monetary Fund (IMF) and the President of the World Bank also attended. The equality between the two Bretton Woods bodies ensured that development would have a place in G20 governance from the start.

The first three meetings, chaired by Paul Martin, Canada's Minister of Finance, took place in Berlin in December 1999, Montreal in October 2000 and Ottawa in October 2001. From then on the chair rotated, usually alternating between emerging and advanced members, with ministerial meetings being held in India in 2002, Mexico in 2003, Germany in 2004, China in 2005, Australia in 2006, South Africa in 2007 and Brazil in 2008. This move towards equality in hosting helped maintain a focus on the theme of development.

The G20's development mission, 1999-2001

Since the start, the G20 dealt with development in an expanding, largely ratchet-like way. At Berlin it defined its mission as promoting “sustainable world economic growth that benefits all.” At Montreal, it more directly declared its desire to reduce poverty, help Heavily Indebted Poor Countries (HIPCs) and improve the effectiveness of Official Development Assistance (ODA). At Ottawa in 2001, it supported the newly launched Doha Development Agenda at the World Trade Organization (WTO), reaffirmed support for poverty reduction and the needs of the poorest, and stressed the value of equity in the world.

The expanding development agenda, 1999-2008

Over its first decade, the G20 gradually increased its involvement in development. While macroeconomic stability and financial regulation remained the dominant issues, development assumed a greater place and became incorporated into more areas of the agenda. When economic growth was strong, when there were no significant shocks to the international system, and when an emerging country hosted the G20, attention to development rose.

At Berlin in 1999, the G20 supported continued trade liberalization in order to bring about “broad-based benefits to the global economy.” At Montreal in 2000, members discussed the benefits of globalization for achieving “sustained and broad-based improvements in living standards, which included providing developing countries with better access to advanced markets for their exports. Economic integration was declared to be a powerful force for reducing poverty and spurring economic growth, in order to improve the economies of HIPCs. The first mention of ODA came with a call for bilateral donors to improve their aid effectiveness. At Ottawa in 2001, despite

the preoccupation with the 2001 terrorist attacks on the United States, the G20 welcomed the WTO's Doha Development Agenda, expressed a desire to reduce the effects of the economic slowdown on developing countries and reaffirmed economic integration as a force for poverty reduction.

In 2002, when India became the first emerging economy to host the G20, about 75 per cent of the communiqué's ten paragraphs dealt with development. Poverty reduction and the needs of developing countries were related to the need for strong institutions, a favourable investment climate, transparency, infrastructure investment and human development. A section of the communiqué, entitled “Globalization, trade and development, discussed the Millennium Development Goals (MDGs) for the first time.

The 2003 meeting in Mexico introduced the principle of promoting growth of a more “balanced” nature between the developed and developing world. It reaffirmed the importance of international trade for development, connected trade with the fulfilment of the MDG commitments, and urged debt relief for poor countries.

At Berlin in 2004, the G20 reaffirmed support for the MDGs, welcomed the role of the World Bank and the IMF's mechanisms for financing development, and supported reviving the already stalled Doha negotiations. A section entitled “Empowering the people and reducing poverty” discussed education, access to finance and social safety nets.

In China in 2005 the G20's involvement, integration and innovation in development soared. It released its first document specifically devoted to development. The theme of the summit included “balanced” growth, as the G20 members noted their concern over low growth and increasing poverty in some developing countries despite the overall expansion of the world economy. Support



for Doha, trade liberalization and the MDGs again appeared.

The meeting expansively expressed support for the World Bank and IMF's work in helping poor countries deal with commodity shocks and high oil prices. It connected its reform agenda to development more explicitly. For the first time, it focused on reform of the international financial institutions (IFIs), including a call for updating the quota system, and elaborated on the link between such reform and effectiveness. It laid out a clear and renewed role for the World Bank in international development.

In the lengthy G20 Statement on Global Development Issues, members agreed that “the G20 should play an active role in addressing critical development issues.” The document discussed familiar issues in greater detail, referring to the importance of country-led and country-specific development approaches, the mobilization of development resources —welcoming efforts to reach the goal of 0.7 per cent of gross national product as ODA — and innovative financing mechanisms.

In Australia in 2006 the G20 showed that its development agenda was here to stay. It endorsed broad-based economic growth for poverty reduction, the Doha negotiations and IMF reform, but it focused less on development than in previous years. It also built on the 2005 Statement to support greater aid effectiveness and debt relief, with all members pledging support for the new Paris Declaration on Aid Effectiveness of the Organisation for Economic Co-operation and Development (OECD). Climate change was noted for the first time.

The 2007 meeting in South Africa called for “balanced and sustainable growth” and endorsed the Doha negotiations, IFI reform and the MDGs. It linked the economy with climate change.

In Brazil in 2008, the G20 began by supporting poverty reduction, social inclusion and global growth. It innovatively emphasized the need to minimize the impact of the new global financial crisis on emerging and low-income countries and called for a restoration of credit and capital flows to developing countries. It defined a role for the Multilateral Development Banks (MDBs). Members also stressed the importance of reducing the impact of commodity price volatility, maintaining aid flows and sustaining infrastructure investment through the MDBs and IFI reform. Doha was noted too.

Decisional commitments on development: China as champion

During the G20's first decade, the number of its specific development commitments increased. There were none in 1999, four in 2000, one each in 2001, 2002 and 2003, and none in 2004. In China in 2005, there was a sharp spike to a new high of eight commitments on development, mostly associated with trade. But there were only two in 2006, one in 2007 and one in 2008. China alone was the G20's real action-oriented development champion, if in a largely trade-liberalizing and private-sector-partnership way.

The G20's impact on the global development agenda remained modest. The G20 largely added its weight to ideas and initiatives that had begun elsewhere. Yet bringing these initiatives to a consensus among the most influential established and emerging powers, and among their finance ministers rather than their development and planning ministers, was an important achievement indeed.

The G20 Summit's rising development performance, 2008-10

Once the G20 started meeting at the leaders' level, G20 attention to development rose steadily from 2008 to 2010 (APPENDIX A). A significant number of distributional principles were affirmed (APPENDIX B). Development commitments consistently increased and their delivery became relatively strong (APPENDIX A). The G20 relationship with other international development institutions was low but spiked at the fifth summit in Seoul in November 2010 (APPENDIX C).

Washington, November 2008: Open markets for poverty reduction

The first G20 summit in Washington in November 2008, hosted by United States President George Bush, had only a peripheral interest in development. The predominant focus on financial issues meant that the G20 devoted to development the smallest amount of absolute and relative attention in the communiqué in the history of all the G20 summits. Washington did, however, affirm the importance of good governance, accountability, transparency and a broad range of social and equity concerns reminiscent of the Montreal Consensus of 2000. It declared: "Our work will be guided by a shared belief that market principles, open trade and investment regimes, and effectively regulated financial markets foster the dynamism, innovation, and entrepreneurship that are essential for economic growth, employment and poverty reduction." As in China in 2005, open trade and new markets, investment and entrepreneurship were the instruments identified to get poverty reduced.


London, April 2009: Stimulus and IFI reform for development

At the second G20 summit in London in April 2009, British Prime Minister and host Gordon Brown brought development to the centre stage.

The agenda still focused heavily on financial regulation and supervision and macroeconomic stimulus, but it extended to development-related areas such as expanded access to credit, climate adaptation and IFI reform.

The emerging economies, backed by development organizations and the United Nations, used the G20 to push for a large stimulus package targeted on development and to ensure that the poorest of the poor did not suffer unduly from the financial crisis. A letter from United Nations Security-General Ban Ki-moon to Brown encouraged the G20 to lead on development, suggesting a development-oriented stimulus package of \$1 trillion. The London Summit did indeed mobilize \$1.1 trillion in new money for global stimulus overall. Developing countries were potentially major beneficiaries of this massive new funding awarded to the IMF, MDBs and other institutions. The World Bank received \$100 billion of the total. The passage on accelerated IFI reform contained a promise to make sure that developing countries got better treatment from global institutions and a better position in the global economic balance of power. The G20 thus sought to advance the global architecture in the interests of development, moving from simply mobilizing more money for aid and poverty reduction through traditional instruments to making structural changes that would reorient the centres of global institutional power in finance and economies towards low-income countries.

London did less on other development fronts. The United Kingdom worked to include climate change in a development context, spurred by Commonwealth members from Africa who pointed to climate change control as their most pressing concern. However, resistance from emerging economies and others, which saw the G20 as an inappropriate forum to advance climate governance, meant that this initiative did not go very far. In similar fashion, the day before the summit, Brown and Australian Prime Minister Kevin Rudd called for stronger ethics in the global economy and for meeting the needs of the poor by reaching the



MDGs. The MDGs, however, received only one line in the communiqué. Aid commitments were similarly brief.

Deliberation and decision making on development shot up dramatically relative to the Washington Summit. However, compliance with London's commitments on the MDGs, ODA and climate adaptation was poor. Within the G20, most of the G7 members did well in delivering their MDG and ODA commitments. But overall most complied little with their commitment on voluntarily increasing resources for social protection. More IFI reform was required before it could be considered a success.

London's surge in development performance was driven first by the fear that economic devastation would destroy the gains made in development and democracy over the past two decades. There was a sense that the fates of the developed and developing worlds were intricately connected, and that failure in one would mean failure in the other. A second key cause was the personal commitment of Brown to global poverty reduction and his determination as host to embed development in various aspects of the G20 agenda. Brown maintained the core agenda of the Washington Summit — financial regulation, macroeconomic management, IFI reform, trade and investment liberalization, and development — but reorganized priorities within them. He added financial and social inclusion as a key agenda item to advance development in important ways.

Pittsburgh, September 2009

At Pittsburgh in September 2009, with US President Barack Obama now in the chair, overall progress on development stalled slightly, but momentum on IFI reform and MDB resources was sustained. Developing countries looked to the G20 to complete its “unfinished business” in promoting development in a fair and inclusive way, a call that saw modest success. Although Pittsburgh did not scrap London's development advances, it did not drive them forward in any significant way.

IFI reform took centre stage. Consensus on IMF quota reform was slow to achieve and contentious, with initial proposals rejected by Brazil and other emerging economies as not going far enough. The eager emerging economies confronted the reluctant Europeans, with the US mediating and encouraging the Europeans to accept greater reform. In the end, the communiqué stipulated a 5 per cent shift in quota share. Numerous commitments also were made to replenish MDB resources and to reform the World Bank further.

Other areas of development saw modest success. The much acclaimed Framework for Strong, Sustainable and Balanced Growth vaguely promised to pursue economic growth that narrowed development imbalances and promoted poverty reduction. The launch of a G20 SME Finance Challenge for Small and Medium-sized Enterprises (SMEs) and a G20 Financial Inclusion Experts Group could contribute to development, but how was not specified. The G20 also pledged increased aid transparency. It reiterated its London promises on improving progress towards the MDGs and increased ODA.

At Pittsburgh the absolute number of words devoted to development increased, but the percentage of development words decreased. The number of development commitments increased significantly, due largely to those on IFI reform. However the G20's delivery of these commitments was dismal. Delivery appeared promising at first, beginning with Canada's pre-summit announcement of a \$2.6 billion callable capital contribution to the African Development Bank. Compliance with the commitments on IFI reform and MDB replenishment was positive. But compliance with the pledges on ODA, the MDGs, aid effectiveness and aid transparency was in the negative range. Pittsburgh was thus left with a low record of compliance with development commitments.

Seoul Development Consensus and beyond

Toronto, June 2010: Conception of the Seoul Development Consensus

The Toronto Summit in June 2010 produced a modest but promising development performance. From the beginning, Canadian Prime Minister Stephen Harper as host focused firmly on the erupting euro crisis in Greece. He was determined that the G20 should remain focused on the economy and finance, limiting other agenda items to implementing commitments already made at previous summits. This kept development on the agenda.

Moreover, because Canada sought to ensure that the June 2010 summit complemented the one that Korea would host in November, Toronto introduced the new development emphasis that Seoul would highlight later. Toronto made one new commitment to establish the Development Working Group, which would create a development agenda and devise a Multi-Year Action Plan for adoption at Seoul. This initiative came from a paper drafted and circulated by Korea, as it prepared to scale up the G20's development focus at Seoul. As a result of Korea's strong desire, the Development Working Group was the first such group to operate under the leaders' personal representatives (Sherpas) rather than their finance ministers. This development of G20 governance allowed the development agenda to expand beyond the finance ministers' traditional frame.

Toronto's heavy focus on delivering promises already made worked well for compliance. Delivery of the commitment to accelerate IFI reform was almost perfect. Delivery of the commitment on new approaches to development financing was substantial, especially for G7 members.

In all, at Toronto, the G20 deliberation on development continued its upward trajectory.

Decision making remained the same as at Washington and London. The G20 did commit to write off all Haiti's official debt, in the wake of the devastating earthquake on January 12, 2010. Together with the launch of Korea's development initiative, this thrust the G20 into the new approach to development that came at Seoul.

Seoul, November 2010: Creation of the Seoul Development Consensus

The Seoul Summit did more for development than any other G20 summit, largely as a result of the Seoul Development Consensus, which marked a new direction in the G20's approach to development although its details were lacking in certain key areas. As the G20 moved from short-term crisis response to the promotion of long-term, sustainable growth, development assumed greater prominence. This rise was reinforced by Korea's position as a country that had recently gone through rapid and successful development, with expertise and financial resources to share.

Korea as G20 host thus offered a two-tiered agenda. It first focused on the standard G20 issues, including traditional development. It also included a second tier that featured a new approach to development, centred on the Seoul Development Consensus and its corresponding Action Plan. The consensus was based on nine pillars: resilient growth, financial inclusion, infrastructure, private investment and job creation, trade, food security, domestic resource mobilization, human resource development and knowledge sharing. The last four appeared at the G20 for the first time.

The introduction of agriculture and food security into the heart of the G20's development work solidified an important trend that had been building over the past few years at the G8 summit and elsewhere. It addressed a critical need, given the declining investment in agricultural research and hunger reduction over the previous few decades.



The consensus also repudiated some of the most contentious, market-oriented development strategies of the recent past, focusing more on inclusive growth and strong human capital development. Seoul also agreed that sometimes, in certain circumstances, capital controls in non-advanced countries may be acceptable. This solidified a major shift in development thinking towards a country-led approach with greater policy-making flexibility. The Seoul Summit thus strongly supported egalitarian, country-specific development principles through the Action Plan.

The shortcomings of the Seoul Development Consensus

Some criticized the new plan on the grounds that there was little new, especially as the neoliberal approach of the Washington Consensus had already long since been abandoned. Others suggested that the Seoul Development Consensus focused too much on physical capital rather than on social capital and, in that sense, did not break enough from the development models of the past. Moreover, despite efforts by Obama and others, the G20 failed to mobilize new financial resources for the fulfilment of the Seoul Development Consensus. The Consensus also failed to respond adequately to civil society's call for greater accountability in G20 action on development, putting in place no new mechanisms for follow-up from previous years and neglecting to provide greater representation of low-income countries or of civil society itself. The Seoul Development Consensus also missed a major opportunity to incorporate sustainable development and green growth into mainstream development policy. Although Korean President Lee Myung-bak was vocal in his promotion of his country's green growth policies, the communiqué left green growth as a discrete issue area, failing to link long-term sustainability, food security, climate change and development.

The impact of the Seoul Summit

Seoul was the most productive and innovative development G20 summit to date. Deliberation on development more than doubled. Seoul referred to fewer democratic norms than other summits, but to significantly more distributional norms. Decision making more than tripled, due to the Seoul Development Consensus and Action Plan, IFI reform and the reiteration of past summit commitments. Delivery of the one commitment on delivering ODA was complied with at a level of 80 per cent, a score significantly higher than for all other ODA commitments assessed thus far. Seoul created more development-related linkages with outside organizations than any other summit by far, suggesting that it sought to coordinate an array of organizations for better policy coherence and cooperation, a major strength of the G20 approach. Seoul was thus the most important G20 summit for development yet. As emerging economies continued to gain economic strength, this focus was likely to continue.

This high development performance was largely driven by Korean leadership. Lee was determined from very early on to make his new development consensus the major accomplishment of the summit. This would contribute to improved development efforts throughout the G20 and the wider world. Korea was in the unique position of having recently switched from aid recipient to aid donor. It thus had great ambition to channel its recent successes into a new model that captured the strengths of the Korean approach.

Throughout the G20 more broadly, the desire to act on development was also higher than before. With the 2008 financial crisis fading further from memory, but desires to promote strong, stable growth still strong, advanced and emerging economies alike could see the sense of focusing on development. Moreover, the issues of food and commodity price volatility were increasingly receiving public attention, as statistics emerged that more and more people were experiencing hunger and malnutrition, constituting a

backslide on the MDG to halve world hunger by 2015. Thus, Seoul innovatively produced the Seoul Development Consensus, IMF voice and vote reform, financial safety nets, a new agenda on financial regulation for developing countries and, in one phrase, a call for the prevention and control of non-communicable diseases.

Cannes, November 2011

For the sixth G20 summit, in Cannes on November 3-4, 2011, France as host planned to give development a prominent place. It sought to build on the Seoul Development Consensus, advance food security and push for a controversial Financial Transaction Tax (FTT) to fund development and environmental aid commitments.

France had first announced this innovative financing mechanism at the Toronto Summit. It was received well by much of civil society but encountered significant resistance from various G20 members, including Canada and the United States. At Cannes, the FTT initiative received support from Germany, empathy from Argentina, Brazil and South Africa but opposition from Australia, Canada, Japan, the United Kingdom and the United States. It failed. Other recommendations contained in *Innovation with impact: Financing 21st century development*, the report submitted by Bill Gates to the G20 at Cannes, had greater appeal.

France's development plans for Cannes highlighted infrastructure and food security. On infrastructure, France planned to build on the High-Level Panel for Infrastructure Investment created at Seoul to identify projects to bring together financing from both the public and the private sectors. It would also continue to involve the MDBs in this initiative. Small advances were made here.

On food security, France focused on securing commitments for increased agriculture production and more responsible agricultural investment, in order to counter both food scarcity and price

volatility. The first ever meeting of G20 agricultural ministers, held in June 2011, provided a firm plan for the leaders to endorse.

On trade, the Cannes Summit implicitly recognized that the long-overdue, decade-long Doha Development Agenda would never get done. The G20 shifted to a short-term goal of opening members' markets up to the poorest countries in the world.

On the Seoul Development Consensus itself, there were modest advances. They came particularly on the pillars of infrastructure and food security. Cannes's greatest potential impact came from the development of G20 governance, with the first meeting of G20 agricultural ministers and the first meeting of G20 development ministers (together with finance ministers) being held in September. Cannes also identified the future hosting of the G20 summits, giving its developed and emerging members equal place. Cannes also continued the tradition, begun at Toronto, of inviting two developing countries from Africa as part of its five guests. In all, these institutional building blocks were important advances, at a summit where the development agenda was overshadowed by yet another erupting financial crisis, this one directly affecting the developed G7 imperial power serving as host.

Conclusion

This analysis shows that the G20, at both the ministerial and the leaders' levels, has had an increasing involvement with, and made innovative initiatives in, the development sphere. It has increasingly addressed standard development issues such as ODA, expanded the development level with other instruments and issue areas such as trade and, at Seoul in 2010, introduced the new concept of domestic financial regulation for the poor. This growing development effort, cumulative but not continuous, is seen across all major dimensions of G20 governance: deliberation, direction setting, decision making,

delivery and the development of global governance both inside and outside the G20.

It is from this last dimension that the G20's impact on development — still largely invisible outside IFI reform and MDB resource raising — is most likely to come. At a time of continuing financial crisis and slow growth in developing countries, the world badly needs the G20 to make development a key component of its work, and to do so in both old and new ways. Its contribution will come not by bringing to life very old ideas such as the FTT, but by infusing the development dimension equally into all of the expanding areas of financial, economic, social and political issues with which it deals.

The 2012 Los Cabos Summit, hosted by Mexico, will be the second G20 summit hosted by a recently

developing country and one that might come without a financial crisis to divert attention elsewhere. With green growth as its focus, and its twinning with Brazil's Rio+20 summit scheduled immediately afterwards, the impact of the G20's Los Cabos Summit on development could be substantial. It also provides an opportunity for the G20 to introduce such development innovations as bringing more development-devoted multilateral organizations to the summit, supporting the UN's actions on the prevention and control of non-communicable diseases, addressing the migration dimension of development (beyond remittances), adding an accountability mechanism to assess the results of the Seoul Development Consensus and bringing G20 foreign ministers together to strengthen the political foundations for development worldwide.

APPENDIX A: G20 SUMMIT CONCLUSIONS ON DEVELOPMENT

	# words	% total words	# para	% total para	# of docs	% total docs	# ded docs	# commits	% total commits	Avgcompl
Washington	651	17.8	9	12.6	1	100	0	12	12.6	n/a ^a
London	1,726	27.6	28	30.4	3	100	1	13	14.7	+0.15 (2)
Pittsburgh	2,292	24.5	20	18.3	1	100	0	22	17.2	-0.05 (3)
Toronto	3,899	34.5	61	42.3	2	100	1	12	19.7	+0.53 (2)
Seoul	9,195	58.1	105	47.9	5	100	2	39	25	+0.60 (1)
Average	3,553	32.5	44.6	30.3	2.4	100	0.8	20	18.2	+0.31 ^b

Notes: # words: Number of development-related words in communiqué (see below for list of inclusions and exclusions).

% total words: Number of development-related words as a percentage of total words in communiqué.

para: Number of development-related paragraphs in communiqué.

% total para: Number of development-related paragraphs as a percentage of total paragraphs in communiqué.

of docs: Number of official documents released at summit that contain development-related conclusions.

% of total docs: Percentage of all documents that have development-related conclusions.

ded docs: Number of official summit documents that are exclusively devoted to development.

commits: Number of development-related commitments in communiqué.

% total commits: Number of development-related commitments as a percentage of total commitments in communiqué.

Avgcompl: Average compliance score for development-related commitments, based on those selected for compliance assessment. Number of commitments included is indicated in brackets.

^aNo available compliance data on development from the Washington Summit.

^bExcludes the Washington Summit.

APPENDIX B: G20 DEVELOPMENT DIRECTION SETTING

Democratic norms affirmed

Value	2008 Washington	2009 London	2009 Pittsburgh	2010 Toronto	2010 Seoul	Average
Transparency						
International mobility of ideas					1	0.2
Access to ideas in all countries						
Good governance						
Accountable international institutions	2	2	3	2		1.8
Surveillance/monitoring						
Rule of law						
Supporting NEPAD						
Information/knowledge exchange						
Accountability						
Creditors' rights						
Openness						
Multi-stakeholder consultation						
Total	2	2	3	2	1	2
Type spread						

NEPAD = New Partnership for Africa's Development.

Distributional norms affirmed

Value	2008 Washington	2009 London	2009 Pittsburgh	2010 Toronto	2010 Seoul	Average
Growth benefiting all			2	2	3	1.4
Attacking income inequalities						
Reduce/fight poverty			2	1	9	2.4
Needs of low-income countries				1		0.2
World's poorest and most vulnerable	1		1	1	3	1.2
Equity and well-being for all peoples						
Sound domestic social policies						

Value	2008 Washington	2009 London	2009 Pittsburgh	2010 Toronto	2010 Seoul	Average
Socially effective response to crisis		2	1		1	0.8
Millennium Development Goals				2	2	0.8
Equitable global economy						
Fairness						
Broadly shared		2		2		0.8
Reducing development gaps			9	2	2	2.6
Country-led solutions	1		2		4	1.4
Total	2	5	17	11	24	11.8
Type spread	2	2	6	7	7	4.8

APPENDIX C: G20 DEVELOPMENT DIRECTION SETTING

	World Bank	IMF	WTO	OECD	ILO	MDBs/ RDBs	UN/UN bodies	FAO	Summit total	Creation of new bodies
Washington									0	0
London		2					1		3	0
Pittsburgh	5					1			6	2
Toronto	1					1			2	1
Seoul	10	3	4	5	3	6	14	3	48	2
Average	3.2	1	0.8	1	0.6	1.6	3	0.6	11.8	1

Notes:

FAO = Food and Agriculture Organization;

ILO = International Labour Organization;

IMF = International Monetary Fund;

MDBs = multilateral development banks;

OECD = Organisation for Economic Co-operation and Development;

RDBs = regional development banks;

WTO = World Trade Organization.

2. SESSION 1

Revisiting the Seoul Development Consensus



Revisiting the Seoul Development Consensus: Rationale, Current Status and Future Prospects

Jai-Joon Hur, Senior Research Fellow, Korea Labour Institute

Introduction

Due to the efforts of the international community, there has been an overall improvement in the achievement of the MDGs (Millennium Development Goals). However, the implementation rate has not been fast enough for these goals to be realistically achieved by the year 2015. In addition, the outcome discrepancy has varied depending on the goal, the region, and the country. In Asia, especially due to China's and India's rapid economic growth, some success has been accomplished, but in the sub-Saharan African region indicators point to little if any progress towards the achievement of the MDGs. In some cases, the situation has even worsened. Furthermore, since 2008 the food, energy and financial crises have served as obstacles to progress. According to the World Bank and other sources, the prospects of achieving the MDGs by 2015 seem poor.

The core agenda of the G20 Summit in Pittsburgh, held from 24 to 25 September 2009, was aimed at overcoming the financial crisis. At that time, it was expected that this would also be the main issue discussed at the G20 Summit in Toronto. However, since the financial crisis was thought to have passed by the time of the G20 Seoul Summit, the chances were growing with the global economic recovery that the Seoul Summit would adopt new agendas for shared prosperity in the

future. The G20 Seoul Summit had to provide momentum for the G20 to consolidate its status as the premier forum for international economic cooperation.

Under these circumstances, supporting the economic growth of the developing countries through capacity building was an issue of growing importance that the G20 would find it necessary to elaborate on. The G20 countries, which had primarily discussed macro-economic policy coordination and global finance problems until then, came to discuss the global economic development agenda in a systematic manner from the time of the Seoul Summit. Afterwards, the G20 began to hold discussions between both member and non-member countries, which helped to enhance further the legitimacy and effectiveness of the G20 itself.

This paper aims to present the rationale, current status and future prospects of the Seoul Development Consensus. Following the introductory Section I, Section II examines discussions of development agendas before the Seoul Development Consensus was reached in November 2010. Section III reviews how the Seoul Development Consensus was shaped. Section IV summarizes the contents of the Seoul Development Consensus which is now well-known. Section V discusses elements of evaluation and future prospects.

Discussion of development agendas before the Seoul Development Consensus

Millennium Development Goals

Before the Seoul Development Consensus was reached within the G20, the development agenda was dealt with in three main forums: development aid had been discussed at the G8 Summit, social development initiatives such as health education had been investigated at the United Nations, and aid effectiveness had been discussed in the OECD, mainly by European donor countries.

Development efforts in the international community aimed at reducing the development gap and poverty have been focused on the MDGs. In 2000, world leaders gathered at the United Nations Millennium Summit and agreed to work towards the achievement of eight Millennium Development Goals known as MDGs to promote social development by 2015. The eight goals focused on reducing extreme poverty by up to 50 per cent, achieving universal primary education, reducing child mortality, etc (TABLE 1). In order to achieve the MDGs by the deadline, and with the G7 taking on the main responsibility for implementing the goals, the donor countries made an effort to expand the scale of Official Development Assistance (ODA).

Development agenda in the G8

Even before the G20 emerged as the premier forum for international economic cooperation, the development agenda was a core subject discussed at the G8 Summit. In particular, the G7 held discussions on ways to support the MDGs agenda and increase ODA funds. In the 2005 G8 Summit held at Gleneagles, the G7 countries pledged to increase ODA funds to 0.7 per cent of GDP by 2010. In 2009, the G8 Summit agreed to raise \$20

billion within three years to improve food productivity in developing countries.

However, discussions within the G8 tended to be more concerned about the scale of funds than concentrated on the means by which to promote the development agenda. This exposed donor countries to the continuing criticism from developing countries and development NGOs that the donor countries had not kept their promise to raise funds for the development agenda. On the other hand, the donor countries started to investigate ways of enhancing aid effectiveness.

Development agenda in the G20 before the Seoul Summit

Meanwhile, the G20, which was destined by birth to cope with the global financial crisis, was concentrating inevitably on the financial issue rather than discussing the development agenda. The G20 had discussed how to secure financial sources of Multilateral Development Banks (MDBs), the establishment of the Global Agriculture and Food Security Programme (GAFSP) and the problem of financial inclusion.

When the financial turmoil calmed down and the global economy showed more or less stability, there was a realization within the G20 of the need to discuss the means by which to support the developing countries that had been most negatively impacted in the economic crisis. According to the World Food Programme (WFP), one-sixth of the world's population, or about one billion people, faced hunger in 2009. The World Bank estimated that an additional 64 million people would be living in extreme poverty by the end of 2010. This increase has been attributed to the after-effects of the 2008 food crisis as well as to the financial crisis, which made the situation worse and had a negative impact on the purchasing power of low-income workers in developing countries.

TABLE 1. EIGHT MILLENNIUM DEVELOPMENT GOALS AND KEY INDICATORS

Goals	Key indicators
End poverty and hunger	<ul style="list-style-type: none"> • Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day • Achieve full and productive employment and decent work for all, including women and young people • Halve, between 1990 and 2015, the proportion of people who suffer from hunger
Achieve universal primary education	<ul style="list-style-type: none"> • Ensure that children everywhere will be able to complete a full course of primary schooling
Promote gender equality	<ul style="list-style-type: none"> • Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
Reduce child mortality	<ul style="list-style-type: none"> • Reduce by two thirds, between 1990 and 2015, the under-five mortality rate
Improve maternal health	<ul style="list-style-type: none"> • Reduce by three quarters the maternal mortality ratio • Achieve universal access to reproductive health
Combat HIV/AIDS and other diseases	<ul style="list-style-type: none"> • Have halted by 2015 and begun to reverse the spread of HIV/AIDS • Achieve, by 2010, universal access to treatment for HIV/AIDS for all those who need it • Have halted by 2015 and begun to reverse the incidence of malaria and other major diseases
Ensure environmental sustainability	<ul style="list-style-type: none"> • Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources • Reduce biodiversity loss, achieving, by 2010, a significant reduction in the rate of loss • Halve, by 2015, the proportion of the population without sustainable access to safe drinking water and basic sanitation • By 2020, have achieved a significant improvement in the lives of at least 100 million slum dwellers
Develop a global partnership for development	<ul style="list-style-type: none"> • Develop further an open, rule-based, predictable, non-discriminatory trading and financial system • Address the special needs of least developed countries • Address the special needs of landlocked developing countries and small island developing States • Deal comprehensively with the debt problems of developing countries • In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries • In cooperation with the private sector, make available the benefits of new technologies, especially information and communications

Source: <http://www.un.org/millenniumgoals/bkgd.shtml>

To meet these challenges and deal with related issues, the Pittsburgh Summit Document stated the reason for and the importance of reducing the

development gap and emphasized the mission of MDBs. The importance of development was re-stated in the Framework, which summarizes the

policy coordination of member countries to achieve rebalancing in the world economy.

Meanwhile, when the recession in those countries that had been leading the world economy seemed to be protracted over a long period of time, increasing spotlight was directed to how to find “new drivers of aggregate demand and more enduring sources of global growth.” In particular, there were growing voices that the world economy could achieve rebalancing through the development not only of those emerging countries such as China, Brazil and Indonesia which had been showing high growth rates but also of other developing countries.

Shaping of the Seoul Development Consensus

Korea's initiative to make the development issue an item on the G20 agendas

In the January 2010 World Economic Forum held in Davos, President Lee Myung-bak expressed the idea of including the issue of development in the G20 Summit agenda. In his speech, he emphasized that, by removing macro-economic imbalances and the development gap, all members of the international community should share in the benefits of prosperity to achieve sustainable growth of the world economy. In other words, the development agenda was not a separate agenda but was in line with the goals of the G20, namely, the Framework for Strong and Sustainable Economic Growth. This opened the door and built the base for the development agenda to be discussed at the G20 Summit.

In addition, President Lee Myung-bak said that Korea, which has risen from developing country status to a member of OECD, would assist in bridging the gap between developing, emerging and developed countries with its development experience. He emphasized that adding a

development agenda to support growth through capacity building of developing countries in one of the **FIGURE 1**. Korea's three-step approach before reaching the Seoul Development Consensus G20 agendas would not only help developing countries but also enhance the legitimacy of the G20.

The Korean Government started to give shape to the ideas presented at the Davos Forum. The output had (i) to fit within the framework of the G20 goals (Framework for Strong, Sustainable and Balanced Growth), (ii) to contribute effectively to reducing the development gap and achieving development goals such as the MDGs, and (iii) to differentiate yet complement existing development efforts, avoiding duplication.

The Korean Government set an interim goal until the G20 Seoul Summit (**FIGURE 1**), which included within the agenda of the G20 Toronto Summit some agenda items related to Korea's initiative, for example organizing a development working group. In the process of preparing for the G20 Seoul Summit following the G20 Summit in Toronto, the Korean Government sought to obtain the consent of member countries on what the practical outcomes of the G20 agenda would be. Through this external discussion with other member countries, a development agenda started to be articulated.

Naturally, there were concerns about the G20 dealing with development issues because the G8, UN, OECD and other international organizations had been elaborating on development agendas and contributing in their own areas. Being acutely aware of this fact, the Korean Government carefully suggested that the G20 should avoid overlapping with development efforts elaborated in other organizations and focus on economic growth among all other development agendas. In addition, the Korean Government paid attention to the fact that the MDGs deadline of 2015 was approaching and the achievement of MDGs was emerging as an urgent issue. In setting development agendas, the Korean approach was that the G20's development

FIGURE 1. KOREA'S THREE-STEP APPROACH BEFORE REACHING THE SEOUL DEVELOPMENT CONSENSUS



agenda could contribute effectively to the achievement of MDGs as well as obtain overall support from the international community.

Agenda mining and the process of making development agenda one of the G20 agendas

The direction of the development agenda was decided in early 2010, but its contents were not specified and were waiting for additional discussion. Because the areas and items in the development agenda were very extensive, it was necessary for the Korean Government to take into consideration the possibility that visible outcomes could not be achieved and that the G20 would lose some credibility if an excessive commitment on the provision of financial resources was made. In fact, the aftermath of the economic crisis had created an atmosphere which made it difficult to broach financial issues.

Initially, therefore, the Korean Government decided to adopt a two-track approach. The basic concept of Track 1 was for the G20 to propose a proper development paradigm as a part of the Framework mandate. On the other hand, Track 2 was aimed at choosing specialized areas among a widerange of development agendas to be dealt with by the G20 and presenting specific projects. The final goal was to link Tracks 1 and 2. However, taken into account the variable consensus among member countries, a minimum goal was set (FIGURE 2). Meanwhile, the Summit Preparatory Committee held numerous advisory council meetings with national and international experts to identify the specific agenda for development. During this process, each expert presented the most necessary development projects for developing countries. For example, duty-free and quota-free goods from Low-Income Countries (LICs) support for the African agricultural revolution, the sharing of development experiences such as Korea's New Village Movement and energy network projects in

Africa were proposed. Many constructive suggestions were put forward, but each needed to be reviewed in various dimensions, such as their realistic feasibility, in consultation with each member country and taking into consideration resource issues. It was agreed that these matters would be carefully discussed after the G20 Summit in Toronto.

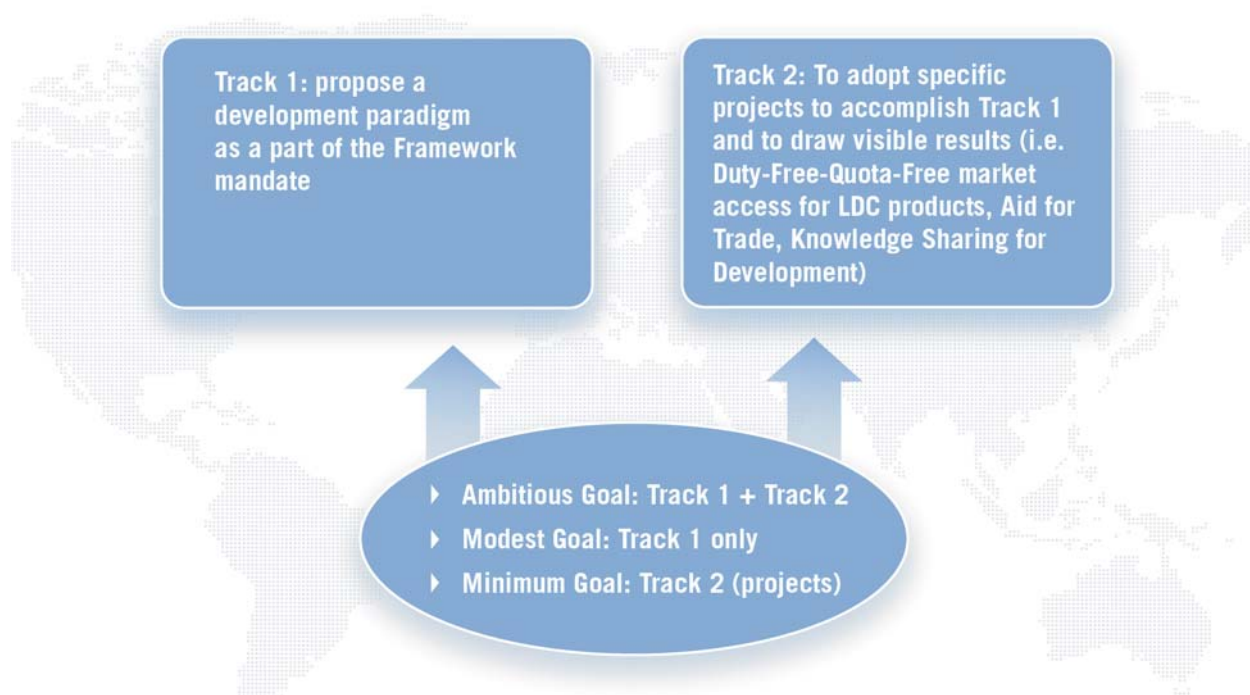
In addition, three approaches were adopted to form and promote a consensus at the initiative of Korea and the G20 regarding the development agenda. First, the importance of the G20 development agenda was highlighted and the direction of policy was reviewed at the Seoul Development Conference (June and October). Second, active consultation was conducted on the direction of the G20 development agenda with member countries such as the United Kingdom, the United States and China via closer bilateral channels with those countries. Third, in order to obtain extensive support from non-G20 countries about the development agenda in the G20 Seoul Summit, the Korean Government made efforts via outreach

activities with regional organizations such as the African Union (AU).


Since January 2010, the development agenda proposed by Korea has received positive feedback in several Sherpa meetings. Not surprisingly, there were countries that were reluctant to adopt the development agenda. This passive feedback emerged from concerns about the possibility that the discussion about the development agenda would result in aid issues, while many countries were going through financial difficulties due to the economic crisis.

Korea addressed these concerns by maintaining that the proposal for the development agenda was different from the existing discussions on aid. It was emphasized that it was reasonable to find new driving engines of aggregate demand and global growth from an increase in the consumption of the middle-income class in emerging countries and investment in underdeveloped countries because the European Union and the United States, which had led the world economy, were suffering from a

FIGURE 2. THE TWO-TRACK APPROACH TO SHAPING THE DEVELOPMENT AGENDA AT THE SEOUL SUMMIT



Source: Ministry of Foreign Affairs and Trade (2011)



recession and it was expected to take a considerable amount of time before they would be able to play a re-boosting role.

Before the Sherpa meeting in May 2010, Korea circulated an issue paper to G20 member countries. The main idea therein was that the development agenda was essential for the achievement of enduring growth and a rebalancing of the global economy beyond the discussion on aid to reduce poverty in LICs (BOX 1). Korea outlined the direction of the development agenda for the G20 Summit in Seoul in this paper, taking into consideration what aspect was supplementary to the existing development agenda, how it would speed up the achievement of the MDGs, and what its relationship was to the G20 Framework.

The paper proposed the establishment of a development working group for further discussion of the development agenda. Since most of the target countries were non-members, the paper also suggested that the RDBs be invited to participate in a development working group so that their voices could be heard.

The member countries agreed to these suggestions. The development agenda was regarded as essential for achieving the policy goals of the G20, which were aimed at the sustained and balanced growth of the world economy, through the discovery of new drivers of consumption and the creation of investment opportunities in developing countries. As a result, in the Sherpa meeting in May 2010, the G20 member countries agreed to discuss the development agenda intensively at the G20 Seoul Summit and to organize a development working group before the Summit.

Adoption of the idea of a multi-year action plan and activity of the Development Working Group

Korea suggested its plan to the Sherpa meeting held prior to the G20 Toronto Summit. The following agreement was reached:

- i. to focus on sustainable economic growth through capacity building in developing countries

BOX 1. KOREA'S G20 DEVELOPMENT ISSUE PAPER

- Promoting the development agenda in the G20, which focuses on the economic growth of developing countries
- An emphasis on minimizing overlap with existing agendas such as raising funds for development (G8), enhancing the effectiveness of aid (OECD) and promoting social development (United Nations).
- Need to work within the goals of the G20 Framework: strong, sustainable, and balanced growth.
- Identifying obstacles to economic growth in developing countries and implementing feasible policies in each area to raise their growth potential
- Extending capacity was linked directly to several key areas of growth, (infrastructure, human resource development, investment, trade, etc.)
- Organizing a development working group to promote the practical outcomes of development in the agenda of the G20 Summit in Seoul
- International organizations such as the World Bank and the United Nations participate as a technical support group (TSG) to strengthen expertise in discussing the development agenda.
- Request participation of Regional Development Banks in the TSG to widen representation

Source: Ministry of Foreign Affairs and Trade (2011)

- ii. to organize a development working group whose main mission would be to choose a Multi-Year Action Plan to provide visible outcomes at the Seoul Summit and to follow up the outcomes of the Seoul Summit and the development agenda

The idea of a Multi-Year Action Plan, which constituted progress compared to the suggestions in the issue paper circulated in May, stemmed from the agreement on financial regulations in the G20 Summit in Washington. Under the Multi-Year Action Plan, implementation plans were listed according to short and long-term goals. The idea of the Multi-Year Action Plan was thought to be appropriate for discussion of the development agenda, which usually covers a wide scope of issues with medium- and long-term goals.

Development working group meetings were held in Seoul twice. The outcomes were to identify the following nine “key pillars” as the main areas of the development agenda to be promoted:

- infrastructure
- private investment and job creation
- human resource development
- trade
- financial inclusion
- growth with resilience
- food security
- domestic resource mobilization
- knowledge sharing

To promote a Multi-Year Action Plan, member countries and international organizations were asked to submit proposals. Proposals from international organizations were referred to the member countries. The number of action plan proposals was over one hundred. The development Framework and Multi-Year Action Plan were drafted at the second meeting of the development working group held in Seoul from September 30 to October 1, immediately before the G20 Seoul Summit.

Content of the Seoul Development Consensus

Outcome documents on the development agenda of the G20 Summit in Seoul

The outcome documents of the G20 Seoul Summit consist of four components: the Seoul Summit Leaders’ Declaration, the Seoul Summit Document, the Seoul Development Consensus on Shared Growth and the Multi-Year Action Plan on Development (**FIGURE 3**). The Seoul Summit Leaders’ Declaration includes the substance of the development agenda and the Seoul Summit Document incorporates the consensus reached.

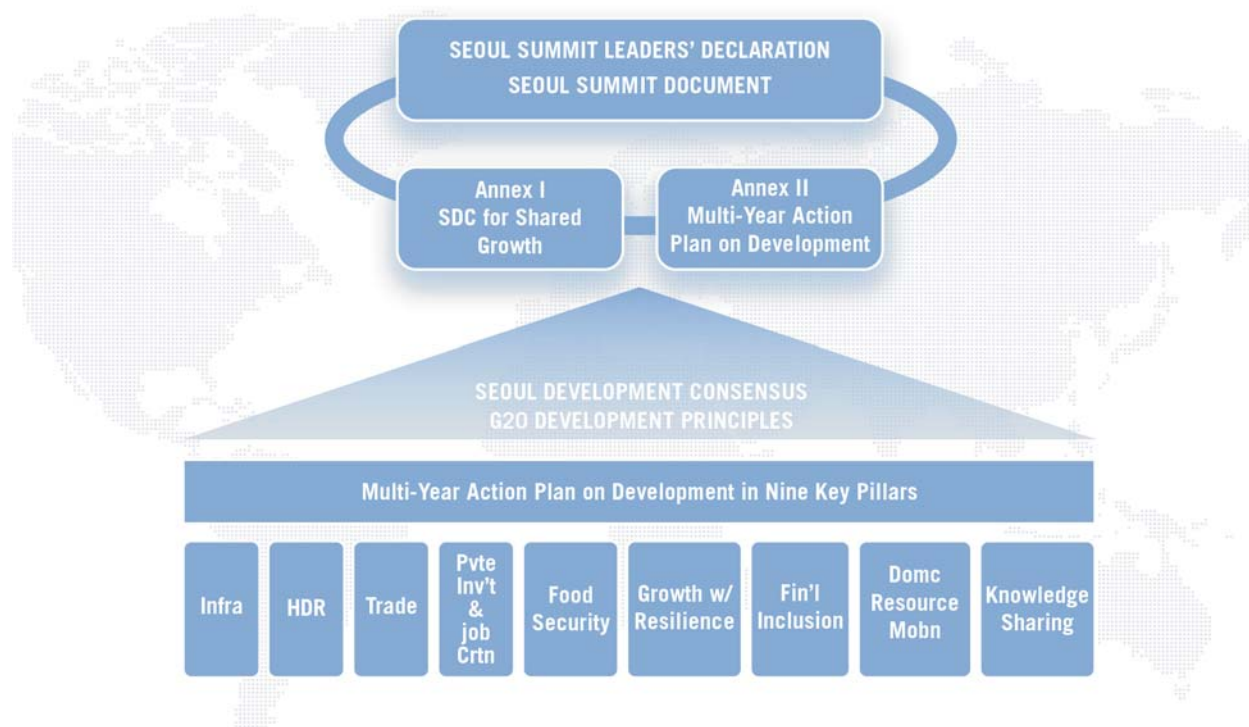
Under the title “Seoul Development Consensus for Shared Growth”, the development framework specifies (i) the reasons behind processing the development agenda, and (ii) the six development principles and nine key pillars identified, where action and reform are most critical to ensure inclusive and sustainable economic growth with resilience in developing countries. The Multi-Year Action Plan on Development sets out the concrete actions and outcomes to be delivered and developed over the medium term.

The Seoul Development Consensus on Shared Growth

The Seoul Summit agreed on the Seoul Development Consensus on Shared Growth, which emphasizes the enhanced role of developing countries as the potential drivers of enduring sources of global growth. The SDC on Shared Growth integrates the direction of the G20 development agenda and six development principles (**BOX 2**). It is considered to have provided the framework of the development agenda for G20 summits.

In the process of Korea's economic development, economic growth worked as a sustainable remedy to

FIGURE 3. OUTCOME DOCUMENTS OF THE G20 SEOUL SUMMIT



poverty. Korea took advantage of this experience of successful development when seeking ways to enhance the growth potential of developing countries in the key pillars. This approach is considered (i) to differentiate from existing development cooperation agenda by using the strength of the G20 effectively, and (ii) to be an effective way of pursuing a division of labour among the global actors of the international community. In particular, the approach focusing on economic growth accords with the mission of the G20.

This approach is also expected to contribute to the effective achievement of the MDGs by complementing the existing support system. For example, food security in the G20 development agenda is very closely related to MDG 1 (end extreme poverty and hunger), the human resources pillar is related to MDG 2, 4, 5 and 6 (universal primary education, children's health, maternal health, and the combat of diseases), and enhanced access of developing countries to G20 markets, investment in LICs, Aid-for-Trade and domestic

resource mobilization are related to MDG 8 (Global partnership).

Multi-Year Action Plan on Development

The Seoul Summit adopted the concrete and practical Multi-Year Action Plan for each of the nine key pillars supporting the SDC. Seen from Korea's development experience, the nine key areas are directly related to economic growth, and the agenda is aimed at eliminating barriers to the sustainable growth of developing countries. Unlike the agenda in other international forums, it includes timeframes and specific actors for its implementation.

The Multi-Year Action Plan on Development was the result of final agreements that emerged from the discussion of development working groups regarding the nine key pillars where the G20 could contribute to promoting economic growth. The strong point of the G20 development agenda is the agreement on the Multi-Year Action Plan, which

BOX 2. SIX DEVELOPMENT PRINCIPLES

- **Economic growth:** Be economic-growth oriented and consistent with the G20 Framework for Strong, Sustainable and Balanced Growth, which requires narrowing the development gap. More robust and sustainable economic growth in LICs will also go hand in hand with their capacity to achieve the MDGs. Actions and policies should have the capacity to significantly improve the prospects for inclusive, sustainable and resilient growth above business as usual.
- **Global development partnership:** Engage developing countries, particularly LICs, as equal partners, respecting their national ownership and recognizing that the most important determinant of successful development is a country's own development policy. Ensure that actions foster strong, responsible, accountable and transparent development partnerships between the G20 and LICs.
- **Global or regional systemic issues:** Prioritize actions that tackle global or regional systemic issues such as regional integration where the G20 can help to catalyze action by drawing attention to key challenges and calling on international institutions, such as MDBs, to respond. Focus on systemic issues where there is a need for collective and coordinated action, including through South-South and triangular cooperation, to create synergies for maximum development impact.
- **Private sector participation:** Promote private sector involvement and innovation, recognizing the unique role of the private sector as a rich source of development knowledge, technology and job creation. Encourage specific ways to stimulate and leverage the flows of private capital for development, including by reducing risks and improving the investment climate and market size.
- **Complementarity:** Differentiate, yet complement existing development efforts, avoiding duplication, and strategically focus on areas where the G20 has a comparative advantage and can add value focusing on its core mandate as the premier forum for international economic cooperation.
- **Outcome orientation:** Focus on feasible, practical and accountable measures to address clearly articulated problems that are serious blockages to significantly improving growth prospects for developing countries. Such measures should have the potential to provide tangible outcomes and be significant in impact. Implementation of G20 action on development should be monitored through an adequate accountability framework.

Source: Seoul Summit Document, Annex I

clearly specifies actors and a working timeframe. This was a measure aimed at overcoming the criticism that the commitment on development agenda had not been properly implemented in the international community and at doubling the reliability of the G20 through the development agenda while maintaining the tradition of faithful implementation within the G20. The related missions were given to international organizations so that they could take advantage of their expertise in corresponding areas.

In the infrastructure pillar, MDBs, including the World Bank, were given the role of principal cooperating organizations; in the trade pillar, the WTO was asked to take the role of principal actor;

the ILO was assigned several important roles in the area of human resource development, supporting job creation and strengthening and enhancing social protection; the UNCTAD took a role in the investment pillar; the FAO was asked to take a role in the food security area; and the UNDP was asked to play a role in development knowledge sharing (BOX 3).

The pillars relating to the elimination of barriers to growth have not only a practical impact on growth but also the potential to produce synergy among them. For example, the infrastructure in sub-Saharan Africa is weak overall. Furthermore, due to a lack of management personnel, it is difficult to expect that investment in infrastructure should

BOX 3. MULTI-YEAR ACTION PLAN ON DEVELOPMENT

- **Infrastructure:** develop comprehensive infrastructure action plans (WB and RDBs; June-November 2011) and establish a G20 High-Level Panel for infrastructure investment (G20; November 2011)
- **HRD:** create internally comparable skills indicators (WB, ILO, OECD and UNESCO; June 2012) and enhance national employable skills strategies (MDBs, ILO, OECD and UNESCO; 2012)
- **Trade:** enhance trade capacity and access to markets (G20; 2011 and beyond; February, June, July 2011)
- **Private investment and job creation:** support responsible value-adding private investment and job creation (G20, UNCTAD, UNDP, ILO, ILP, OECD and MDBs; June, November 2011; Summer, June 2012)
- **Food security:** enhance policy coherence and coordination, mitigate risk of price volatility and enhance protection for the most vulnerable (G20, FAO, IFAD, WFP, WTO, UNCTAD, CFS, OECD, IMF and WB; March, June 2011; Medium-term)
- **Growth with resilience:** support developing countries to strengthen and enhance social protection programmes and facilitate the flow of international remittances (UNDP, MDBs, Global Remittance Working Group; June, November 2011)
- **Financial inclusion:** establish global partnership for financial inclusion; SME finance challenge and finance framework for financial inclusion; implement the action plan for financial inclusion (G20; November 2011)
- **Domestic resource mobilization:** support development of more effective tax systems and support work to prevent erosion of domestic tax revenues (OECD, UN, IMF, WB, Inter-American Center for Tax Administration, African Tax Administration and Global Forum; June 2011; Medium-term)
- **Knowledge sharing:** enhance effectiveness and reach of knowledge sharing (TT-SSC, UNDP, June 2011)

Source: Seoul Summit Document, Annex II.

Note: The actors and timeframe are in parenthesis.

make an effective contribution to sustainable growth. Therefore, investment in infrastructure and human resource development should be made simultaneously for the region to achieve sustainable growth effectively. The G20 development agenda provides a systematic framework that is useful in dealing with these types of issues through the Multi-Year Action Plan.

Elements of valuation

There has been an increasing trend in the G20 towards its involvement in development issues. However, the extent of this involvement has not been as dramatic as that made as a result of the 2010 Seoul Summit. The SDC signifies remarkable

progress in the history of the G20's involvement in development, nourished by Korea's development experience and its role as a bridge between the developed and emerging countries as well as previous G20 discussions. This moved the G20 agenda from a short-term response to a pending crisis to the issue of long-term sustainable growth by building the capacity of developing countries, which can be new driving engines of global aggregate demand. It is the first consensus within the G20 to articulate a development agenda within its framework, recognizing LICs as partners and potential engines of growth, and is expected to be as a turning point in the dominant discourse of international development agendas which have been centred on MDGs.

The SDC differentiated itself from existing development agendas by focusing on the achievement of economic growth by building the capacity of LICs through a strengthening of their growth potential and nurturing their ability to help themselves. It also emphasized the importance of a country-specific approach that took into consideration developing countries' own conditions and circumstances in addressing development strategies (a “one-size-does-not-fit-all” approach). Human resource development and knowledge sharing are of special importance in the nine key pillars.

The SDC suggested an implementation mechanism as well as a new direction and principle for reducing the development gap. It will follow up on the nine key pillars by specifying the actors and timeframe so as to identify bottlenecks and draw up solutions. In addition, it pursued close cooperation with international development organizations to establish partnerships between emerging donors (Brazil, China, and India) and the OECD's DAC countries as well as implement action plans. It differentiated yet complemented existing development efforts such as those made by the United Nations (social development), the G8 (financial resource for development) and the OECD (aid effectiveness).


Insofar as the initial goals of development agenda are aimed at achieving a global rebalancing and MDGs, the implementation of the Multi-Year Action Plan in nine key areas will have a positive impact on the world economy. The sustainable economic growth of developing countries will contribute to boosting aggregate demand via an increase in consumption and investment. In this sense, the G20 development agenda focuses on macroscopic, long-term goals such as building the capacity of developing countries rather than on discussion about aid to cope urgently with extreme poverty. Therefore, its effects will be more sustainable and comprehensive and eventually contribute to the rebalancing of the world economy in the medium and long term.

Current status and future prospects

The G20's involvement in development issues changed dramatically in the 2010 Seoul Summit. Judging from the process which gave shape to the SDC since the preparation of the G20 Toronto Summit, it is certain that the SDC has been a widely accepted consensus. In effect, when Korea conceived the goal in two tracks, it was not evident that the G20 consensus would adopt the final goal of linking Track 1 and Track 2. However, the SDC adopted not only a development paradigm as part of the G20 Framework mandate but also specific projects to accomplish the proposed paradigm. Some visible results were achieved directly during the consensus building: duty-free and quota-free market access for LDC (least developed country) products, Aid for Trade, etc.

There is other evidence that the SDC differentiated from traditional development paradigm and received wide support. When the SDC emphasized endured growth through capacity building and denied a “one-size-fits-all” approach and the necessity of considering each developing countries' own condition and circumstances, leaders of developing countries let out rousing cheers, to the extent that it was common for African leaders to state “the Seoul Consensus is an African Consensus” during the G20 Summit in Seoul.

There remains another important question regarding the SDC. Is the SDC a sufficient and viable framework for the world economy? Some find shortfalls in the SDC and criticize it for the following reasons: (i) too much emphasis is put on infrastructure and private-sector-led growth in the SDC, with little attention to social development; (ii) little attention is paid to procuring financial resources to accomplish the SDC; and (iii) the SDC failed to incorporate green growth into the development agenda.



In the 2000s, the development agenda in the international community aimed at reducing the development gap and poverty has focused on the MDGs, which emphasizes social development. The SDC paradigm was influenced by the development experience of Korea. In the process of Korea's economic development, economic growth worked as a sustainable remedy to poverty. Korea took advantage of this experience in identifying the nine key pillars. The SDC had the mission of differentiating yet complementing existing development efforts while avoiding duplication. Therefore, to be complementary with the MDGs, which have from time to time been said to be biased towards human development without appropriate attention being paid to trade and infrastructure, it was natural not to emphasize social development again.

When the development agenda proposed by Korea received positive feedback in several Sherpa meetings, there were other minority opinions which caused hesitation in adopting the development agenda. This hesitation emerged from concerns that the discussion about the development agenda would mainly result in the issue of aid or the amount of financial resources, while many countries were going through financial difficulties due to the economic crisis. Korea addressed these concerns by defining the proposal for the development agenda differently from the existing discussions on aid, while emphasizing that it was necessary to find new driving engines of aggregate demand and global growth to achieve global rebalancing because the European Union and the United States were suffering from a recession.

It is an established consensus among the G20 countries that new sources of funding need to be found to address their development needs. Therefore, it is an area where efforts should be made in the coming G20 summits. For this reason, the leaders in the G20 Summit in Cannes in November 2011 discussed a set of options for

innovative financing, such as Advance Market Commitments, Diaspora Bonds, a taxation regime for bunker fuels, tobacco taxes and a range of different financial taxes, including a financial transaction tax. Some member countries have implemented or are prepared to explore some of these options.

When the world economy was going through instability because of the global financial shock in 2008 and 2009, many leaders including President Lee Myung-bak and US President Barack Obama proposed the promotion of green growth policies as an effective policy direction to overcome the crisis. However, on the whole, whether green growth policies have to be explicitly incorporated in the development agenda for developing countries for the time remain controversial. If a consensus can be built on green growth and incorporated into the G20 development agenda in one of the coming G20 summits, this will lead to a historic agenda which will outdo the SDC.

Some have advanced the criticism that the SDC created no new follow-up mechanism. However, the criticism does not seem relevant. The SDC did not just propose a paradigm as a part of the G20 Framework mandate but adopted specific projects to accomplish it. In addition, it specified actors and a timeframe. The G20, through its Development Working Group, will continue to monitor the Multi-Year Action Plan. A High-Level Development Working Group meeting was held in Paris on 18-20 September of this year to lead the implementation of the SDC and Multi-Year Action Plan. Synergy will be pursued continuously through a linkage of the G20 Development Agenda with the High-Level Forum on Aid Effectiveness. Major international organizations, having been involved in setting the development agenda, have been asked to participate in the implementation of the initiatives of the G20 summits. In addition, the SDC will be further elaborated and practical action programmes will be added and implemented.

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3. SESSION 2

Job Creation and Global Development

The Service Revolution

Ejaz Ghani, Senior Economic Advisor, World Bank

Introduction

China and India are the two fastest-growing economies in the world. However, their growth patterns are dramatically different. **FIGURE 1** compares the share of service value added in GDP in China, India and OECD countries. The share of the services sector in India is much bigger than in China, after controlling for their stage of development. China has a large manufacturing sector, and it has a global reputation for exporting manufactured goods. India has a small manufacturing sector but a large services sector, and it has acquired global recognition for exporting services.

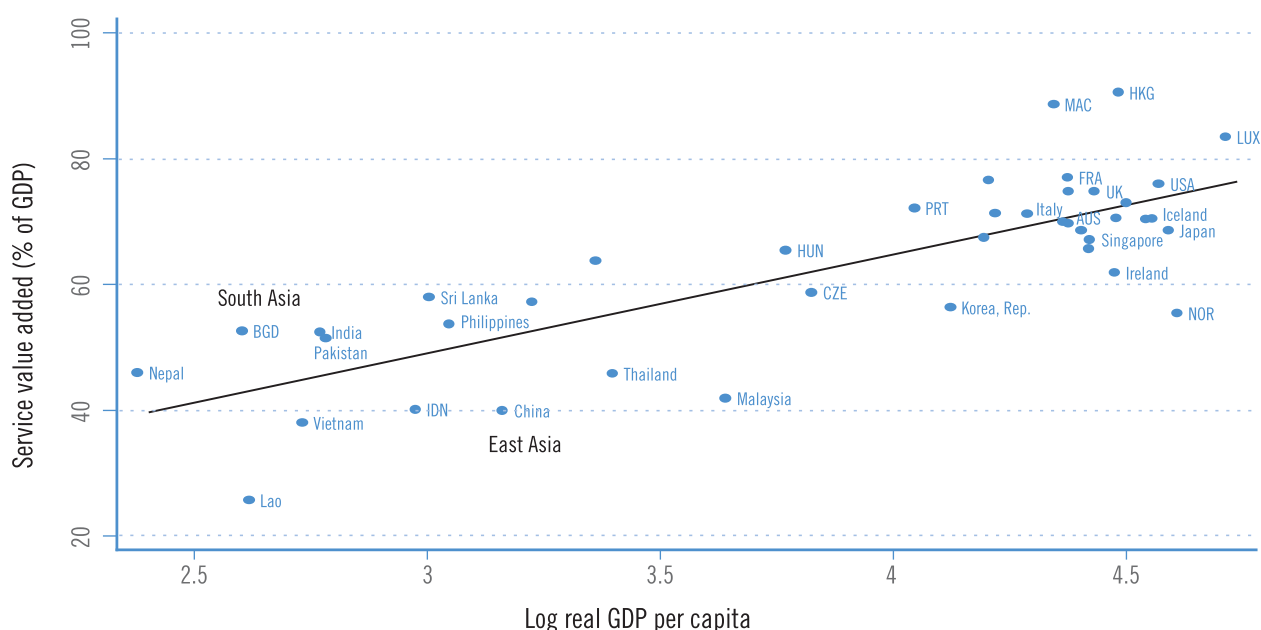
The difference in their growth patterns is so striking that it raises big questions in development

economics. Can the services sector be as dynamic as the manufacturing sector? Can service-led growth contribute to job creation and poverty reduction? Can the latecomers to development take advantage of the globalization of services?

Comparing China's and India's growth patterns

TABLE 1 reports the results of cross-country growth regressions for a large group of countries. In 1991, India's share of the services sector in GDP was 5 percentage points above the global norm, after controlling for its stage of development and its non-linearity in development. The United States'

FIGURE 1. COMPARING THE CONTRIBUTION OF THE MANUFACTURING AND SERVICES SECTORS TO GDP IN CHINA AND INDIA, 2005



Source: *The service revolution in South Asia* (Ghani and Kharas, 2010).

TABLE 1. CHINA, INDIA AND THE UNITED STATES IN CROSS SECTION: SHARE OF MANUFACTURING AND SERVICES SECTORS IN GDP

	Share of the services sector		Share of the manufacturing sector	
	1991	2005	1991	2005
Log GDP per capita	11.58	26.28	33.79***	18.89***
	(12.82)	(12.00)	(10.53)	(7.00)
Log GDP per capita²	0.17	-1.95	-4.56***	-2.41**
	(1.94)	(1.77)	(1.60)	(1.03)
India indicator	4.83***	6.09***	2.96**	3.01***
	(1.53)	(1.66)	(1.27)	(0.76)
China indicator	-5.8*	-7.92	18.35***	18.26***
	(3.37)	(4.35)	(3.31)	(1.57)
US indicator	8.91**	12.29***	1.66	1.12
	(3.82)	(4.88)	(3.19)	(2.18)
Control for size	YES	YES	YES	YES
Observations	158	161	136	155

Notes: Robust standard errors are reported in parenthesis.

*** represents significance at 1 per cent, ** at 5 per cent, and * at 10 per cent.

Country size is measured by area in square kilometres.

relative share of services was 9 percentage points above the norm. However, China was a negative outlier. Its share of the services sector in GDP was 6 percentage points lower than the global norm. By 2005, India had become an even bigger outlier on services compared to the global norm. The size of its services sector was 6 percentage points above the global norm. China, on the other hand, became an even bigger negative outlier. Its relative share of service was nearly 8 percentage points below the global norm. So services have continued to be a more important sector for India, but not so important for China, controlling for other factors.

What about the manufacturing sector? In 1991 China was a huge positive outlier in manufacturing compared to the norm worldwide. Its manufacturing share in GDP was a whopping 18

percentage points above the global norm, controlling for other factors. India's share was merely 3 percentage points above the norm. The coefficient for the US was not significantly different from zero. In 2005 China's share of manufacturing in GDP was even higher, at 19 percentage points above the global norm. India's and the US's relative share of manufacturing in GDP had not changed much.

Are China's and India's export patterns also different? **TABLE 2** shows cross-country regression results for the share of total service export in total exports of goods and services, and the share of modern service exports (IT and IT-enabled service exports) in total exports. In 1982 the share of service exports in total exports for China and India was not significantly different from the global norm. Only

TABLE 2. CHINA, INDIA AND THE UNITED STATES IN CROSS SECTION: SHARE OF TOTAL SERVICE EXPORTS AND MODERN SERVICE EXPORTS (COMPUTER AND INFORMATION SERVICE EXPORTS) IN TOTAL EXPORTS OF GOODS AND SERVICES

	Share of service exports in total exports		Share of computer and information services in total export	
	1982	2006	2000	2006
Log GDP per capita	-4.3	2.39	-2.01**	-3.17*
	(28.90)	(27.30)	(1.12)	(1.90)
Log GDP per capita²	0.36	0.06	0.37**	0.53*
	(4.20)	(3.97)	(0.19)	(0.32)
India indicator	2.8	20.97***	7.96***	14.7***
	(4.47)	(3.60)	(0.08)	(0.14)
China indicator	4.1	15.6	.32	.59*
	(7.90)	(10.03)	(0.23)	(0.35)
US indicator	20.16***	31.4***	-.46	-.74
	(1.60)	(10.50)	(0.34)	(0.55)
Control for size	YES	YES	YES	YES
Observations	109	125	137	116

Notes: Robust standard errors are reported in parenthesis.

**** represents significance at 1 per cent, ** at 5 per cent, and * at 10 per cent.*

Country size is measured by area in square kilometres.

the US had a significant positive coefficient. Its relative share of service exports was 20 percentage points above the global norm. In 2006 India was a significant and large positive outlier. Its share of service exports in total exports was nearly 21 percentage points greater than the norm. China's coefficient was not significantly different from zero.

Services can be divided into two broad categories, modern services and traditional services. Modern services are linked to information communication technology (ICT). They can be unbundled and splintered in a value chain just like goods. Because they are disembodied, they can be electronically transported internationally through satellite and telecom networks. The number of services that can be transported digitally is constantly expanding: processing insurance claims, call centres, desktop

publishing, remote management and maintenance of IT networks, compiling audits, completing tax returns, transcribing medical records, health records, and financial research and analysis.

The other broad category of services is traditional services, which are less ICT-intensive and require face-to-face interaction. These include transport, trade, hotel, restaurant, beauty shops, barbers, education, health and other government and community services. It is modern services that are developing rapidly thanks to the 3Ts (Ghani, 2010): growing tradability, more sophisticated technology (including specialization, scale economies and off-shoring) and reduced transport costs.

A good measure of modern impersonal service exports is IT and IT-enabled services.

Cross-country data for IT exports is available from 2000 onward only. **TABLE 2** shows that India stood out as a significant and positive outlier when we compare its share of IT and IT-enabled exports in total exports of goods and services with the rest of the world, and control for real GDP per capita and non-linearity in development. India's share was nearly 8 percentage points above the norm after controlling for other factors. The relative share of modern services in total exports for China was not significantly different from the norm. A distinctive feature of India is that it is emerging as a major exporter of modern impersonal services, which is growing much faster than traditional personal service exports, and service exports from India in turn are growing much faster than goods exports from China.

It is not that China is not competitive in any service export. Indeed, they are doing much better than Indian firms in traditional services, which are closely associated with the manufacturing sector. Traditional services like transport, logistics and trade have grown more rapidly in China than in India. India's traditional services have not grown as fast. It is modern services, which can be transported through the Internet (auditing, accounting, financial and health services) that have grown rapidly in India. Modern services have grown more rapidly in India despite its small manufacturing base. Growth in modern services is not tied to the growth of the manufacturing sector.

Can the services sector contribute to growth?

Services have long been the main source of growth in rich countries. Now they are also the main source of growth in poor countries. Services have become a larger share of GDP in poor countries and productivity growth in services exceeds that of industry in most poor countries.

This is largely explained by the rapid development of modern, commercial services: business processing, finance, insurance, communications. The productivity growth of modern services, in turn, is driven by the 3T's: tradability, technology and transportability.

For more than 200 years, it was argued that the economic development, growth and structural transformation of agriculture were best achieved by developing a labour-intensive manufacturing sector. Expansion of the services sector was seen as giving rise to stagnant growth. Services were considered as menial, low-skilled, low-wage, low-productivity sectors, with low innovation, low learning and low spillover effect. Today, services can be among the most dynamic sectors in an economy, even in poor countries.

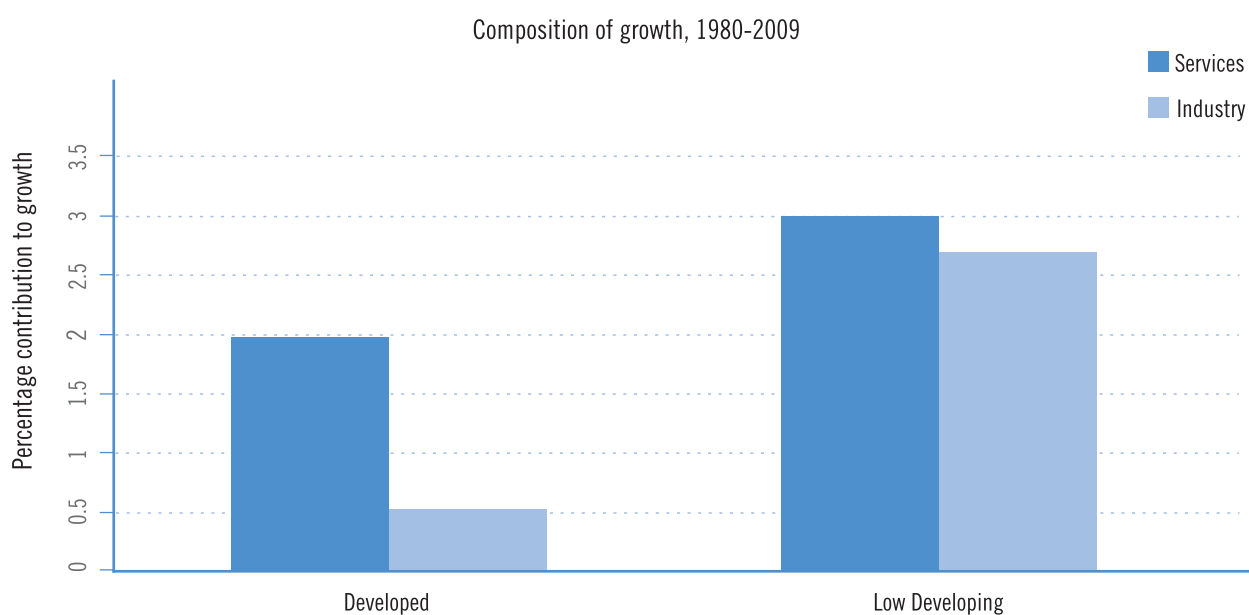
More than 75 per cent of the global economy is now accounted for by services (45 per cent in developing economies). Services are the fastest growing sector in global trade. The share of developing countries in world service exports increased from 14 per cent in 1990 to 21 per cent in 2008. The average growth of service exports from poor countries has exceeded that of rich countries during the last two decades. Their service exports are growing faster than goods exports. In brief, the globalization of service has enabled developing countries to tap into services as a source of growth.

It is perhaps not surprising that services are expanding rapidly in upper middle income developing countries. Their economies increasingly resemble those of rich countries where services have long dominated economic growth. This note, however, focuses on the contribution of services to poor countries, defined as the low income and lower middle income countries in the World Bank classification in 2009. Low income countries have a per capita income of US\$ \$995 or less and lower middle income countries have a per capita income in the range of \$996 - \$3,945.

FIGURE 2 shows the composition of services and industry to GDP growth in the last thirty years for rich and poor countries. In both cases, the contribution of services to total growth is higher than industry's contribution. In poor countries, services (and industry) have contributed more to growth than in rich countries.

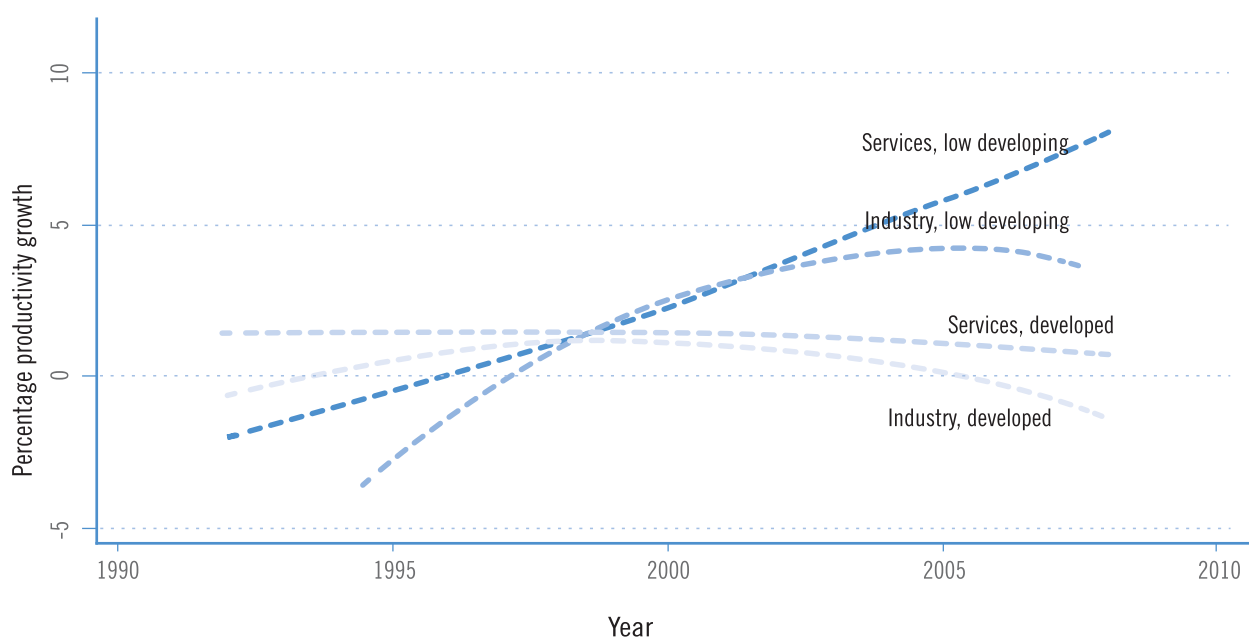
FIGURE 3 shows that the rise in services' contribution to growth is linked to a rise in productivity growth in the sector. The figure shows that labour productivity growth in rich countries has been higher in services than in industry for the last thirty years, and that it remains positive. That implies that the global technology frontier for

FIGURE 2. SOURCES OF GROWTH IN RICH AND POOR COUNTRIES



Source: Author's calculation from World Development Indicators, World Bank.

FIGURE 3. COMPARING LABOUR PRODUCTIVITY ACROSS SECTORS



Source: Author's calculation from World Development Indicators, World Bank.

Note: Labour productivity is calculated as the sectoral value added per employee. The line shown is the best-fit quadratic function.

services is still shifting out, while that for industry has stagnated. At the same time, productivity growth in poor countries in services is accelerating and appears to have outstripped productivity growth in industry. In 58 out of 94 countries for which we have data, productivity growth in services exceeded that in industry.

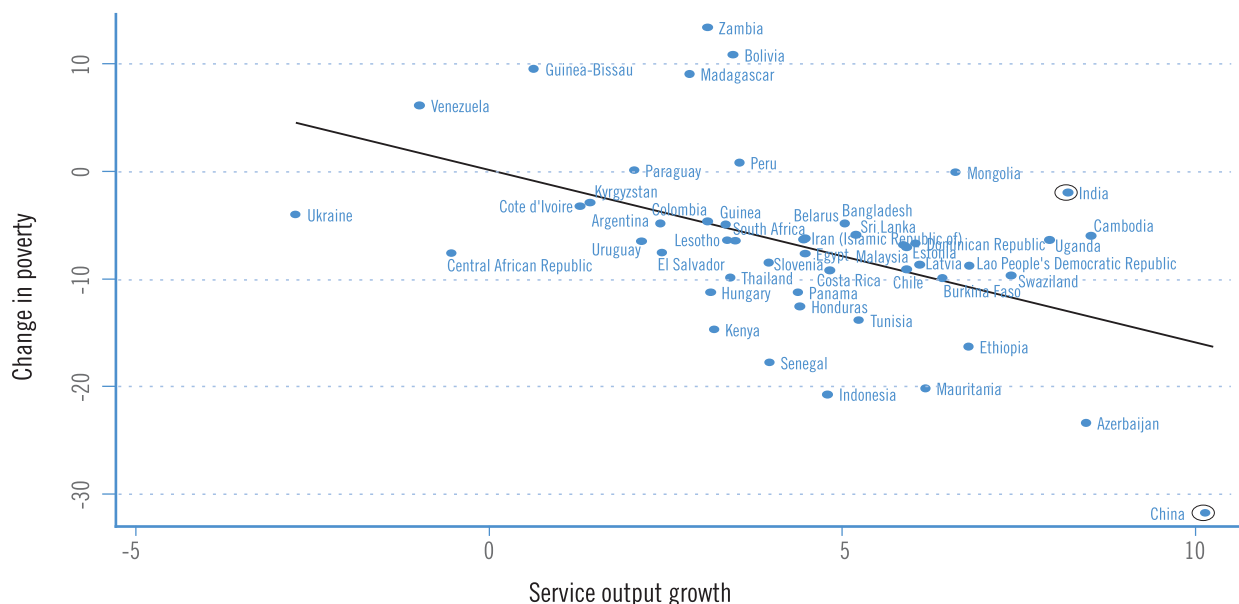
India's growth pattern in the 21st century is remarkable because it contradicts a seemingly iron law of development. This law—which is now conventional wisdom—says that industrialization is the only route to rapid economic development for developing countries. It goes further to say that as a result of globalization the pace of development can be explosive. But the potential for explosive growth is distinctive to manufacturing only (UNIDO 2009). This is no longer the case.

Role of service-led growth in poverty reduction and job creation

We find that growth in the services sector is more correlated with poverty reduction than growth in agriculture for a sample of 50 developing countries. Visually, we can plot the change in poverty between 1990 and 2005 against the growth of services (FIGURE 4). The negatively sloped line indicates the strong association between services output growth and poverty reduction for our sample of developing countries. Service output growth is a big contributor to poverty reduction in India.

These results are confirmed when we examine the impact of sectoral growth patterns on poverty reduction within India, using a panel of Indian state data from 1994 to 2005. Our results show that the

FIGURE 4. CHANGE IN POVERTY AND GROWTH IN SERVICE OUTPUT, 1990-2005



Source: World Bank, World Development Indicators.

Note: Change in poverty (1991-2005) after controlling for initial level of poverty and for growth in agricultural, manufacturing and service output.

trend growth in the services sector among Indian states is associated with a decline in the trend of the headcount poverty rate of almost 1.5 points during the sample period. In fact, the services sector is the only sector showing a statistically significant association with poverty reduction. Similar results are found when differentiating between rural and urban poverty. Service sector growth is strongly associated with a reduction in both urban and rural poverty rates. Some states like Andhra Pradesh, Kerala and Tamil Nadu have experienced a significant decrease in urban poverty that is associated with an increase in their share of the services sector (FIGURE 5).

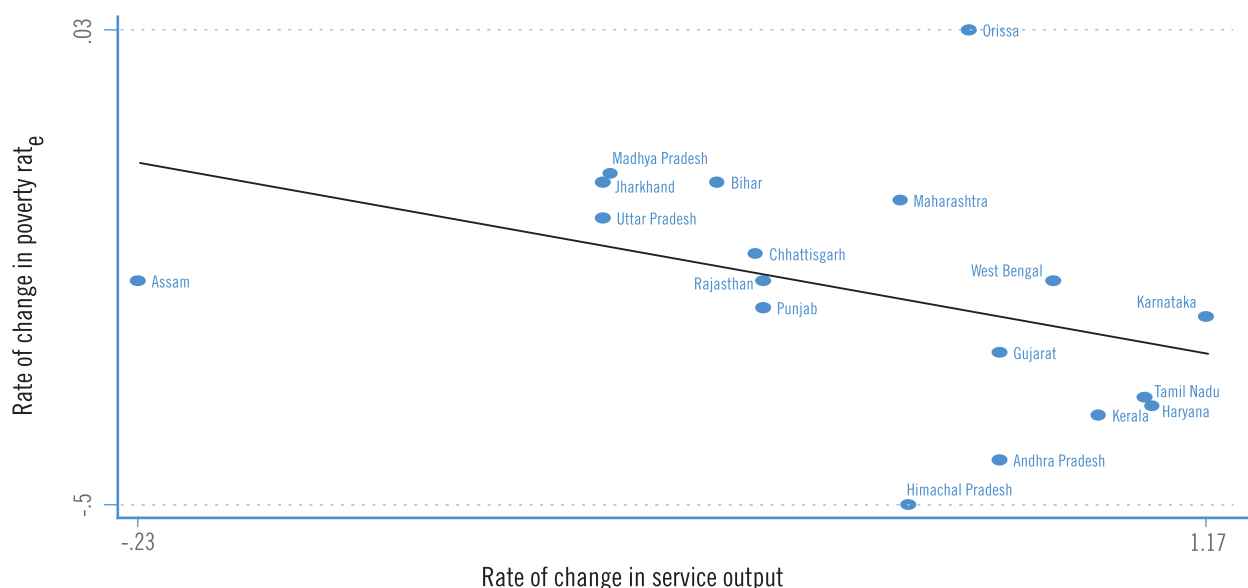
Services contribute to poverty reduction via two channels. Directly, they provide the largest source of new job growth. Indirectly, they provide the income that, when spent, drives further demand for goods and services and for jobs to produce them. FIGURE 6 shows that the services sector in India has had the fastest growth in the number of jobs created in recent years. In addition to direct job creation, some estimates suggest that the indirect effect of a growing services sector can be larger than the direct effect. For instance, India's IT industry association

NASSCOM estimates that, for every job created in the IT sector, four additional jobs are created in the rest of the economy due to high levels of consumption by professionals employed in this sector.

Are service jobs good jobs?

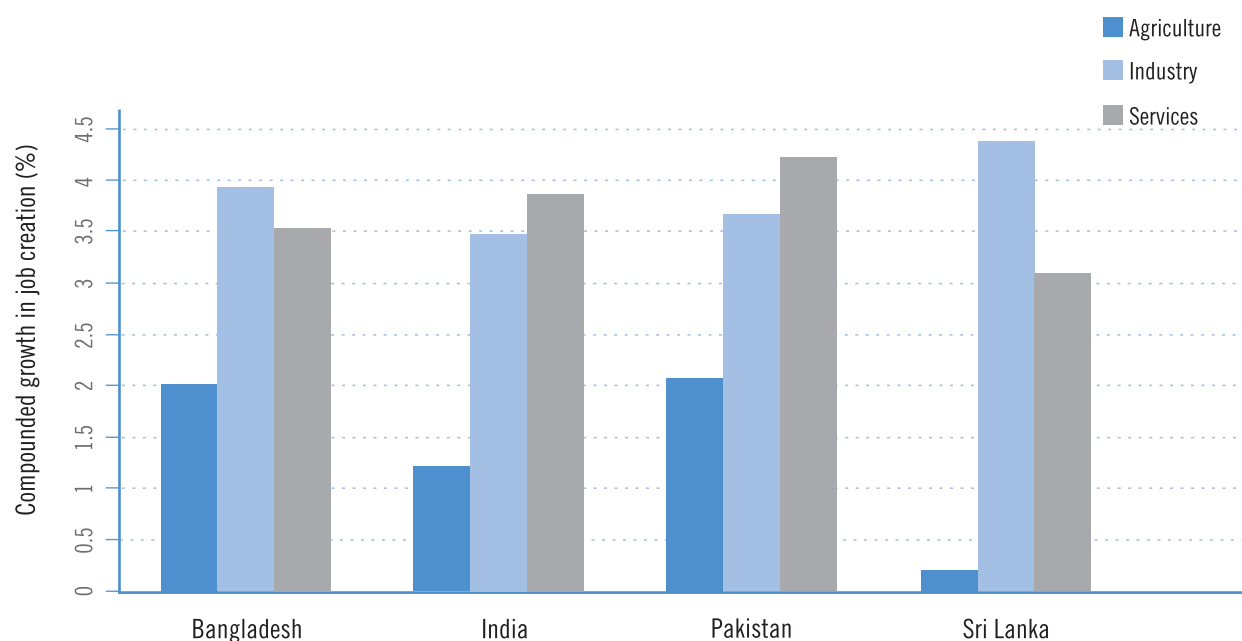
Wage growth in India has been higher in the services sector than in manufacturing and agriculture in recent years. While manufacturing wages fell in the early 2000s in both rural and urban areas despite rapid economic growth, services sector wages in utilities, trade, transport and even rural finance improved. In fact, in many sectors rural wages may have increased faster than in urban areas, possibly reflecting the rising rural-urban migration that is taking place in India. It is this internal rural-urban migration and links between rural and urban labour markets that allow the modern impersonal services sector in India to contribute to overall poverty reduction, even though modern services are concentrated in urban areas.

FIGURE 5. CHANGE IN POVERTY AND IN SERVICES OUTPUT AT THE STATE LEVEL IN INDIA, 1994-2005



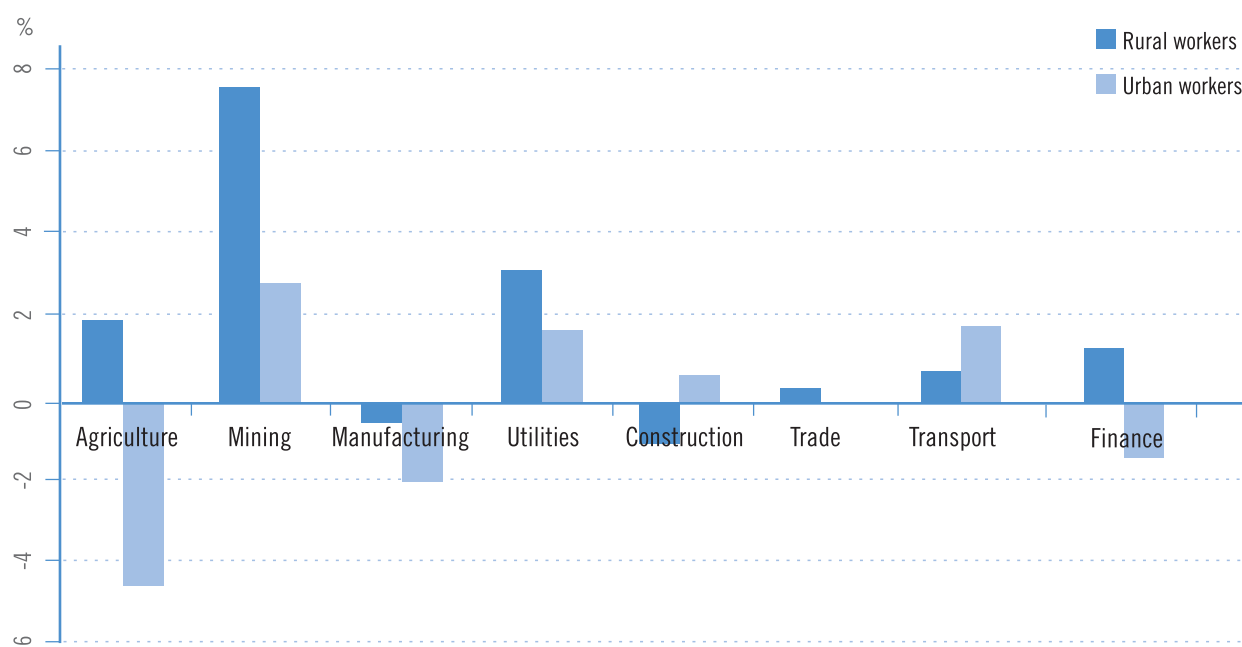
Source: *The service revolution, Chapter 1, Ghani (2010).*

FIGURE 6. JOB CREATION RATES IN AGRICULTURE, INDUSTRY AND SERVICES SECTORS, 1990-2006



Source: Bangladesh: Labour force surveys, in *Key findings of labour force survey and Statistical Yearbook*, various editions. India: Sivasubramanian: *The sources of economic growth in India, 1950-1 to 1999-2000* for earlier years, and Bosworth, Collins and Virmani (2007) for the more recent period. Pakistan: LABORSTAT, ILO, 2008, and *Handbook of statistics on Pakistan economy*. Sri Lanka: up to 1989: KILM; from 1990 onwards, *Labour Survey Reports*, various editions.

FIGURE 7. GROWTH IN AVERAGE DAILY EARNINGS, 1999-2000/2004-05



Note: Agriculture includes agriculture, forestry and fishing. Mining includes mining and quarrying. Utilities include electricity, gas and water supply. Trade includes trade, hotels and restaurants. Transport includes transport, storage and communications. Finance includes financial intermediation, real estate and business.

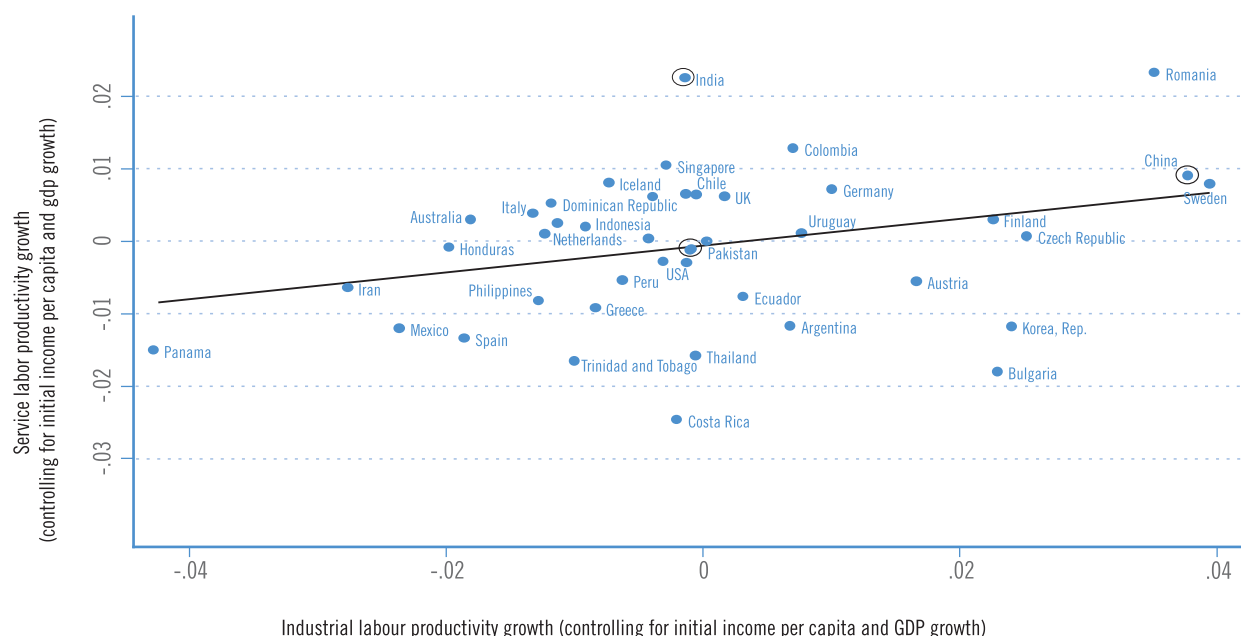
Is the services sector more productive in India than in China, and the manufacturing sector more productive in China than in India? **FIGURE 8** compares service labour productivity and industry labour productivity for a large sample of countries, after controlling for initial GDP per capita and GDP growth. India is way above the line, showing much higher labour productivity in the services sector than in industry. By contrast, China shows much higher labour productivity in industry than in services.

There are two tipping points that are driving labour productivity growth rates in services. First, low-income countries that have the benefit of low wage rates, scale economies and knowledge spillovers, such as India, are catching up with the global production possibility frontier in services. (In essence, the services sector in India has behaved like the manufacturing sector in China.) Second, high-income countries such as Singapore, Sweden, the United Kingdom, and the United States are pushing the global production possibility frontier in services through innovation.

Currently South Asia suffers from one of the lowest female labour force participation rates in the world. Only around one-third of all women of working age in India, Pakistan and Sri Lanka are actually working or looking for work. Internationally, countries with high employment in services tend to have the highest participation of women in the labour market (**FIGURE 9**). The development of service industries, therefore, brings new workers into the labour force, making the contribution to aggregate growth even larger.¹

The employment of women has a special role in poverty reduction. Incomes of households where women have jobs are significantly higher. Higher household incomes and an enhanced economic status for women in turn reduce the number of children per household, raise levels of education and health care for those children and increase household savings and the ability to accumulate assets that generate additional income.

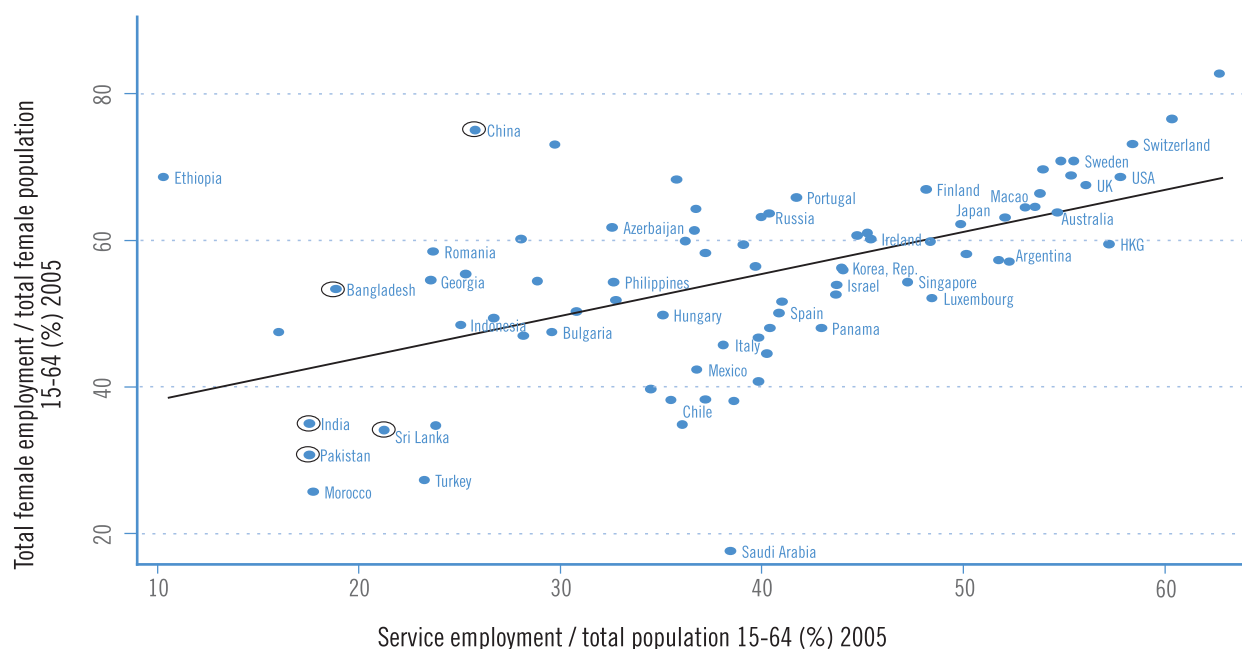
FIGURE 8. LABOUR PRODUCTIVITY GROWTH IN THE SERVICES AND MANUFACTURING SECTORS, 1991-2005



Note: The vertical axis is labour productivity growth in services after controlling for initial income per capita and GDP growth whereas the horizontal axis is industrial labour productivity growth controlled for initial income per capita and GDP growth, for the time period 1991-2005. The line represents linear regression.

¹ In this, services play a similar role to that of labour-intensive manufacturing exports in East Asia. There, assembly jobs in garments and electronics assembly have been largely filled by women moving out of low-productivity self-employment on family farms.

FIGURE 9. FEMALE EMPLOYMENT GOES HAND IN HAND WITH INCREASED SERVICE EMPLOYMENT



Source: *The service revolution* (Ghani, 2010)

Can service-led growth be sustained?

Yes, because the current globalization of services is just the tip of the iceberg (Blinder, 2006). Services constitute the largest sector in the world, accounting for more than 70 per cent of global output. The service revolution has altered the characteristics of services, which can now be produced and exported at low cost (Bhagwati, 1984). The old idea of services being non-transportable, non-tradable, and non-scalable no longer holds for a host of modern impersonal services that are moved across borders via the Internet, digitized and stored electronically, and scaled into giant global businesses. Developing countries can sustain a service-led growth as there is a huge room for catch-up and convergence.

Technological change in ICT has progressed at a dizzying pace. The range of business processes that can be digitized and traded globally is constantly expanding: processing insurance claims, desktop publishing, remote management and maintenance

of IT networks, compiling audits, completing tax returns, transcribing medical records, financial research and analysis. The list of possible activities is almost endless.

Can poor countries take advantage of this trend? The answer appears to be yes. India has been a pioneer, but many other poor countries are finding it easier to generate productivity growth in services than in industry. This does not happen automatically. Although the same set of general non-distortionary policies is as important for modern services as for goods, specific strategies for services matter.

Modern services need a strong telecommunications backbone. Use of the Internet, personal computers and telephone lines are all independently significant in service exports (Lennon, 2006). So is more advanced secondary and higher education. Promoting Foreign Direct Investment (FDI) selectively in telecom sectors is now an active component of industrial policy in many developing countries (Alfaro and Charlton, 2007).



Globalization of services provides many opportunities for late-developing countries to find niches beyond manufacturing where they can be successful. Taking advantage of these opportunities requires a government that takes steps energetically to accelerate growth in services through a variety of policies (Bhagwati, 2004). Services may provide the easiest and fastest route out of poverty for many poor countries.

India's development experience offers hope to late-comers to development. The marginalization of Africa during a period when China and other East Asian countries grew rapidly led some to wonder if latecomers were doomed to failure. Many considered the bottom billion to be trapped in poverty (Collier, 2007). The process of globalization in the late 20th century led to a strong divergence of incomes between those who industrialized and broke into global markets and a "bottom billion" of people in some 60 countries where incomes

stagnated for 20 years. It seemed as if the "bottom billion" would have to wait their turn for development, until the giant industrializers like China became rich and uncompetitive in labour-intensive manufacturing.

The promise of the services revolution is that countries do not need to wait to get started with rapid development. There is a new boat that development latecomers can take. The globalization of services provides alternative opportunities for developing countries to find niches beyond manufacturing where they can specialize, scale up and achieve explosive growth, just like the industrializers. The core of the argument is that, as the services produced and traded across the world expand with globalization, the possibilities for all countries to develop on the basis of their comparative advantage expand. That comparative advantage can just as easily be in services as in manufacturing or indeed agriculture.

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Promotion of Non-traditional Agricultural Exports and their Employment Consequences: Case of the Cut Flower Industry in Ethiopia²

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Abstract

We examine here the roles of local and personal networks in the employment process and the emergence and development of the labour market in Ethiopia's growing cut-flower industry. Using primary survey data of 320 workers randomly sampled from all 64 farms, we find that workers who were recruited informally using their social ties were paid less than the formally-recruited workers at the time of hiring. However, the former quickly increased their productivity and the effect of social ties on wages disappeared over time. Further, we find that the development of a labour market for this newly-emerged industry took place particularly within industrial clusters.

Introduction

In developing economies the creation of non-farm employment opportunities is recognized as an essential pathway out of poverty (Otsuka et al., 2009). However, it is often the case that labour markets in such economies are yet to be well

established, and the dissemination of information on employment opportunities tends to be limited to a local community or personal network. In consequence, the newly established non-farm sector may sooner or later face a labour shortage and its long-run development and contribution to poverty alleviation be severely hampered. Thus, the establishment of a well-functioning labour market is important to help the non-farm sector develop and play its role in poverty reduction.

The existing literature suggests that information on employment opportunities tends to be transmitted through local and personal networks in developing economies to supplement their underdeveloped labour market (Ben-Porath, 1980; Banerjee, 1984; Carrington, 1996; Munshi, 2003; Luke and Munshi, 2006; Yamauchi and Tanabe, 2008; Kajisa, 2007). However, studies on the employment process in developing economies are still scarce (e.g., Frijters, 1999; Collier and Garg, 1999). More importantly, the development process of labour markets beyond reliance on these personal networks has not been sufficiently examined since its importance was first raised by Marshall (1920).

² This paper is primarily based on Mano, Yamano, Suzuki and Matsumoto (2011) and prepared for the ILO Employment Policy Department's One-Day Knowledge Sharing Conference held in Geneva on 21 November, 2011 as part of the partnership programme with the ILO and the Republic of Korea. See also Mano and Suzuki (2010) on the agglomeration economies in the cut flower industry in Ethiopia and Mano and Suzuki (2011) on the exit and takeover of the flower farms.

In order to fill this gap, this paper examines the evolution of the employment channels and the development of the labour market in the young and exponentially growing cut-flower industry in Ethiopia. The cut-flower industry in Ethiopia is a young and fast growing industry. In fact, Ethiopia has become the third largest cut-flower exporter in Africa, following Kenya and Zimbabwe. We have detailed primary information on all the 64 farms in the cut-flower industry as of 2007, and also on 320 workers randomly sampled from its 21,786 employees. The flower farms initially employed local villagers who resided in their neighbourhood, and then gradually started hiring distant farmers who were relatives or friends of their employees. The employment of workers outside these social networks used to be a minor option, but its share has been steadily increasing over time, especially within the industrial clusters³, and reached 15 per cent of the newly employed as of 2007. These employees outside the social networks earned significantly higher initial wages than to the workers hired through the social networks. However, the wage rate of the workers hired through the local and personal networks increased faster than that of workers outside the networks, and the wage gap soon disappeared. This suggests that those hired through social networks quickly learn new skills, and that this industry not only created employment opportunities for poor farmers but also improved their human capital.

The rest of this paper is organized as follows. Section 2 reviews the literature on the role of personal networks on employment and postulates our main hypotheses, while we describe the cut-flower industry in Ethiopia in Section 3. Section 4 describes our dataset and discusses the descriptive statistics. Our estimation strategy is presented in Section 5. The estimation results are reported and examined in Section 6. Section 7 concludes the paper.

Hypotheses

At the early stage of an infant industry, the associated input and output markets tend to be underdeveloped, especially in developing economies (Sonobe and Otsuka, 2006, 2011). It is widely recognized that personal networks play an important role in economic transactions.⁴ A number of studies have examined the role of local and personal networks on the employment process. One common hypothesis, the so-called “screening hypothesis”, argues that the use of personal networks reduces the cost arising from hidden information about the workers’ quality (Saloner, 1985; Montgomery, 1991; Simon and Warner, 1992). This hypothesis primarily relates to occupations requiring high skills and predicts that workers with referrals tend to receive higher initial wage than non-referred workers because the employers have more accurate information about the former. However, because firms acquire more information about non-referred workers over time, this information advantage becomes less important, and thus the growth rate of wages for the referred workers tends to be slower.

Another strand of the literature considers the cost arising from the hidden action by the worker, the so-called “peer-pressure hypothesis” (Milgrom and Roberts, 1992; Putnam, 2000). This hypothesis considers situations in which the effort levels of the workers are unobservable to the employers. It argues that personal networks lower the employer’s monitoring cost because referred workers feel obliged to exert more effort to prevent the introducers from losing face. Because of the peer pressure, an employer can afford to pay lower wages to the referred workers than to the non-referred workers to extract the same level of effort throughout their career.

³ In the literature, an industrial cluster is usually defined as the geographical concentration or localization of enterprises producing closely related goods in a small area. In our case, 14 cut flower farms out of the 64 were located in one village, and 13 were in another, whereas the other farms were scattered across different villages. Thus, we refer these two villages as the industrial clusters throughout this paper.

⁴ Examples include their role in consumption smoothing (Fafchamps and Lund, 2003), agricultural marketing (Fafchamps and Minten, 2002), capital mobilization for factory establishment (Banerjee and Muhshi, 2000; Fafchamps, 2000), technology diffusion (Conley and Udry, 2010), and the prevention of tenant farmers’ shirking (de Janvry, Sadoulet and Fukui, 1997).

A third hypothesis, which we may refer to as the “information-cost hypothesis, focuses on the role of personal networks in reducing search costs and disseminating information on employment opportunities (Granovetter 1974; Holzer, 1988; Mortensen and Vishwanath, 1994). Observing that the use of informal hiring methods are more widespread in developing countries (Ben-Porath, 1980), particularly in sectors in which fewer cognitive and social skills are required (Holzer, 1996), this hypothesis argues that, since the referred applicants are typically those who are unable to find jobs elsewhere, their reservation wages are low. Thus, this hypothesis predicts low initial wages for such referred workers (Pistaferri, 1999; Antoninis, 2006).

While these hypotheses have been discussed especially in the labour economics literature, empirical studies, particularly in the context of the non-agricultural labour market in developing economies, are lacking. Considering the importance of informal recruitment channels in developing countries and the significance of the non-agricultural labour market for poverty reduction, it is important to understand the formulation of labour markets for a newly emerged industry in a developing country. In our target industry, as we explain later, the tasks required for the workers are quite simple, as opposed to the situations considered in the screening hypothesis, and workers are constantly and closely monitored by supervisors, unlike the situations considered in the peer-pressure hypothesis. Thus, problems arising from hidden information or actions may not be important issues. This leads us to conjecture that the information-cost hypothesis best explains the situation in Ethiopia.

We can test which hypothesis holds for the cut-flower industry in Ethiopia by exploiting the different predictions derived from these hypotheses. If the initial wages of the workers with informal networks are significantly lower than the initial wages of the formally-recruited workers, the screening hypothesis is rejected. Moreover, if the

wage growth rate for the workers with informal networks changes over time in relation to the formally-recruited workers, we can reject the peer-pressure hypothesis.

First, we assume that workers formally selected from a large labour force pool are more associated with higher productivity than workers hired through local and personal networks and should be paid more highly accordingly. Thus, we postulate the following hypothesis:

Hypothesis 1: Workers recruited formally in the labour market tend to be more productive, and thus receive higher wages than workers hired through local and personal networks.

Secondly, we assume that the labour supply outside the clusters is relatively scarce. Thus, farms located outside the clusters may pay higher wages, which we shall call a “premium, to attract and secure employees with a given level of productivity and to save on searching for substitute workers. Marshall (1920) stressed the development of skilled labour markets as a major advantage of industrial clusters. This advantage seems to be particularly relevant to our focus on the development of the employment process in an industry. Essentially, it claims that frequent interaction and enhanced information flow among firms and workers in industrial clusters tend to alleviate search frictions typically associated with job-applicants’ access to information about the availability of jobs (Stigler, 1961, 1962; Pissarides, 2001), and help job-applicants match the firms that are trying to fill vacancies. Furthermore, recent empirical studies on the formation and development of industrial clusters find that the development of skilled labour markets in industrial clusters enhances knowledge diffusion and skill transformation through spin-offs and active labour turnover (Sonobe and Otsuka, 2006). In our understanding, there is no study that directly compares the development of the labour market associated with a particular industry within and outside industrial clusters. Firms located outside industrial clusters may initially enjoy their

monopsonic or oligopsonic positions in the local labour market, but they are likely to face difficulty in attracting workers beyond a certain level, as potential workers expect to find better jobs more easily in industrial clusters for the reasons discussed above. As a consequence, firms outside industrial clusters may want to offer wages in excess of market-clearing to reduce labour turnover (e.g. Salop 1979; Schlicht 1978; Stiglitz 1987), as replacing workers – which includes the cost of search, recruitment and training – is expensive. The cut-flower industry in Ethiopia provides us with just such an opportunity to investigate the development and performance of the labour market within and outside an industrial cluster.

Hypothesis 2: Farms located outside industrial clusters face a relative scarcity of labour due to the underdevelopment of the labour market, and thus they pay higher wages to a worker with a given level of productivity.

We will test these hypotheses on the cut-flower industry in Ethiopia. The next section describes this industry in detail.


The cut flower industry in Ethiopia

Ethiopia is a country of agriculture, which engages about 80 per cent of the population living in rural areas as subsistence farmers and accounts for more than 50 per cent of GDP (Embassy of Japan in Ethiopia 2008), and the economy has so far depended on coffee as its primary export product (TABLE 1). Ethiopia is said to have an agro-climatic condition that is well suited to flower cultivation (Mano and Suzuki, 2010), including wide underdeveloped highlands near the international airport, a climate of high daily temperature and cool nights, and sufficient sunlight and rainfall. In addition, Ethiopia has an abundant labour supply with a low wage rate. Given these advantages, domestic and foreign farms have gradually started exporting flowers to Europe, the United States and the Middle East, mainly through the world's largest auction market in Holland and, since the 1990s, increasingly through direct sales (Hughes, 2000; Wijnands 2005).

TABLE 1. ETHIOPIA'S COFFEE AND CUT-FLOWER EXPORTS AND KENYA'S CUT-FLOWER EXPORTS (MILLION USD)

Year	Ethiopia			Kenya
	Total (1)	Coffee (2)	Cut flowers (3)	Cut flowers (4)
2005	926	335	0	242
2006	1,043	426	25	275
2007	1,277	418	68	313
2008	1,601	562	104	446
2009	1,618	369	131	421
2010	2,580	774	159	396

Source: UN COMTRADE at <http://comtrade.un.org/db/default.aspx>, accessed on October 3, 2011)



The export value of cut flowers has increased exponentially since the mid-2000s (Column 3 of [TABLE 1](#)). This rapid development in the sector may be partly due to government support starting in the end of 2002 (Embassy of Japan in Ethiopia 2008; Getu, 2009), including tax exemptions for inputs, a revised investment law for foreign investors, leased land with basic utilities at low prices, and special loans provided through the Development Bank of Ethiopia. [TABLE 1](#) also shows the export value of cut flowers from Kenya, which is the largest cut-flower exporter in Africa and the fourth largest in the world, after the Netherlands, Colombia and Ecuador. The export value of Ethiopia's cut flowers was initially negligible in the trade statistics, but it has drastically increased since the mid-2000s and attained USD 159 million in 2010. Its export value is now almost half of that of Kenya, and Ethiopia has become the second largest cut-flower exporter in Africa and the sixth largest in the world, following Belgium and the four countries mentioned above.

As flowers are delicate and vulnerable when being harvested, packaged and transported, it is essential to have careful manual labour. It is said that efficient flower production requires at least 20 to 30 workers per hectare in Africa (Whitaker and Kolavalli, 2006). These production workers perform relatively simple tasks such as planting, harvesting, trimming, and packaging, which are closely monitored by supervisors. In an informal interview, one general manager explained that it usually takes less than two months for a novice to learn the tasks in most sections. Further, as there is virtually no domestic market for cut-flowers in Ethiopia, all the flowers cultivated need to have export access. These features together make for the large-scale plantation-oriented production system that dominates in the industry (Binswanger and Rosenzweig 1986; Jaffee and Morton, 1995; Hayami 2002). In this kind of environment, because of the

simple tasks assigned to the workers and the close supervision of their work, the hidden information and hidden action problems are likely to be unimportant, as previously mentioned.

As the flowers are air-freighted, most of the flower farms are located near the capital, and clusters of these farms can be found in some areas.⁵ In our informal interviews we learned that these farms establish an industry association which, for instance, invites technical consultants from India, Israel and the Netherlands and coordinates the transportation of the flowers. In all likelihood, they also share market information and orders from large clients so that they can respond to fluctuations in demand and smooth their production throughout the year (Mano and Suzuki, 2010). In other villages only a few farms operate, if any, and cooperation with other farms is limited.

Data and descriptive analyses

The primary survey data used in this paper come from 64 cut-flower farms in Ethiopia collected by the Ethiopian Development Research Institute in collaboration with the National Graduate Institute for Policy Studies (GRIPS), Japan. The survey was conducted from the end of 2007 to early 2008. As mentioned above, the data include all the registered cut-flower farms in Ethiopia which, because there is virtually no domestic market for this industry, are all necessarily registered enterprises. We also conducted interviews with randomly selected workers from these 64 cut-flower farms. At each farm five workers (three female and two male) were randomly selected from a list of full-time workers.⁶ In total, we interviewed 320 workers, 188 female and 132 male.

Almost all the workers in the sample were production workers, engaged in simple tasks. To

5 More precisely, Welmera *woreda* (meaning village) had 14 out of the 64 farms, while Holeta *woreda* had 13 farms in 2007.

6 Each observation is given equal weight in the following analysis as well as in the sample selection, irrespective of the volume or male-female ratio of employment at each farm. To check if our estimation results are dependent on the sample selection, we have estimated the same regression models in the paper by using the weighted least-square estimation models. The results are similar to what we find in the paper and are available on request.

facilitate our understanding of the evolution of the employment channels, we divided our 320 sample workers into three groups by type of information network connected to the farm: (1) locals born in the same village where the farm is located; (2) friends and relatives invited by the employees; (3) outsiders, who had no such social connections with the farm or its employees. Through the local network, the locals immediately learn of employment opportunities at the nearby farm and they may well expect to have a fair chance of being recruited. If the employees find their working conditions favourable and some positions are still vacant, they invite their relatives and friends residing outside the village to work for the farms. Employment opportunities at a farm can also be widely known to outsiders through advertisements, which are increasingly effective as the cut-flower industry and its labour market as a whole grow.

TABLE 2 presents the timing of employment by each group of sample workers. From the share of each group over the years, we can see that the dominant

employment channel gradually shifts from the locals to the relatives and the friends of the employees. We also observe an increasing share of workers from outside these social networks. More precisely, 60 per cent of the workers hired in 2004 or before, when Ethiopia's cut-flower industry had just started revealing its presence in the international market, consisted of locals, whereas the share of locals among new employees declined over time to 38 per cent in 2007. New employees introduced by their friends and relatives working at the farm initially accounted for 33 per cent of all new employees, while their share overall increased with slight fluctuations to around 40 to 50 percent. The share of outsiders among the new employees was 8 per cent in 2004 or before, but it steadily increased over time and reached as high as 15 per cent in 2007.

Let us now examine the characteristics of these workers and of the farms (**TABLE 3**). The most striking characteristic is the statistically significant difference in the educational level across the groups; the locals have seven years of formal education on

TABLE 2. TIMING OF EMPLOYMENT OF THE SAMPLE WORKERS BY TYPE OF WORKER

Year	Locals (1)	Relatives and friends of employees (2)	Outsiders (3)	Total (1)+(2)+(3)
2004 or before	27 (59)	15 (33)	4 (8)	46 (100)
2005	28 (40)	35 (50)	7 (10)	70 (100)
2006	50 (46)	42 (42)	13 (12)	109 (100)
2007	36 (38)	45 (47)	14 (15)	95 (100)
Number of observations	141 (44)	141 (44)	38 (12)	320 (100)

Notes:

(1) The workers in the "locals" group were born in the village where the farm is located. The workers in the second group were invited by their relatives and friends working at the farm. The workers in the "outsiders" group had neither local nor personal relationships with the farm or its employees.

(2) The numbers in parentheses are the percentage of workers belonging to each category in each year.

TABLE 3. WORKER AND FARM CHARACTERISTICS BY TYPE OF WORKER

	Locals (1)	Relatives and friends (2)	Outsiders (3)	<i>p</i> -value for mean test ^(a)		
				(1) vs (2)	(1) vs (3)	(2) vs (3)
Worker characteristics at hiring						
Female (percentage)	61.7	57.4	52.6	0.468	0.314	0.597
Age	23.0	23.1	21.9	0.870	0.337	0.335
Years of schooling	6.97	7.35	8.92	0.436	0.015**	0.040**
Years of experience in the industry	0.57	0.37	0.61	0.175	0.870	0.284
Number of flower farms where he/she has worked	1.25	1.17	1.29	0.158	0.636	0.170
Distance from home to the farm (km)	3.49	4.97	3.88	0.002***	0.506	0.006***
Wage rate (birr(b)/month)						
At hiring ^(c)	173.2	182.9	276.6	0.206	0.002***	0.006***
Current	283.2	286.9	297.2	0.776	0.537	0.639
Farm characteristics at hiring						
Years of operation	0.39	0.82	0.78	0.001***	0.010***	0.855
Number employed	253.3	300.2	276.5	0.012**	0.419	0.431
Ownership (percentage)						
Domestic	29.0	45.3	26.3	0.004***	0.739	0.034**
Foreign	43.9	34.0	52.6	0.088*	0.344	0.036**
Joint venture	26.9	20.5	21.0	0.209	0.463	0.948
Located in cluster(f) (%)	41.8	22.0	52.6	0.0003***	0.237	0.0002***

Notes:

(a) * indicates statistical significance at 10 per cent; ** at 5 per cent; *** at 1 per cent.

(b) 1birr = 0.1USD as of 2008.

(c) Adjusted for inflation (in 2007 birr) using the consumer price index (CPI), World Economic Outlook 2008, IMF.

(d) The other payment schemes are on a daily or weekly basis.

(e) The other category is temporary or seasonal workers.

(f) The farms located in Welmera and Holeta are in the cluster.

average, the relatives and friends of the employees slightly more, and the outsiders nine years, which partially supports Hypothesis 1. Combined with the findings from TABLE 2, we can see that the cut-flower industry created employment primarily for people with little education, who are more likely

to be living in poverty, and that as it developed it started attracting workers with higher education, which is in line with Marshall's argument. The average new worker is in the early twenties, previously worked at 1.2 farms, with six months of work experience in the industry at the time of hiring,

despite the youthfulness of this industry. This indicates that labour turnover is not negligible in the industry and knowledge diffusion and skill transformation therefore may be enhanced (Sonobe and Otsuka, 2006).

The outsiders received substantially higher initial wages than workers in the other two groups, which may partly reflect the difference in educational level. This is consistent with Hypothesis 1. However, the wage rate of the locals and the relative/friend group rapidly increased over a short time, and wage rate at the time of the survey had almost reached the same level as that of the outsiders, at around 290 birr per month, substantially higher than the average wage rate in the agricultural sector of 200 birr per month. According to the information-cost hypothesis a possible explanation behind these observations is that workers in the local and relative/friend groups have relatively low productivity, part of which may be observable not to econometricians but to employers, and the workers relied on the informal networks in job application as they were less able to find jobs otherwise. During our survey, the managing directors of the cut-flower farms mentioned that the newly-employed workers who undergo intensive training during the first month or two at work receive lower wages than the workers who do not undergo this training. However, considering that the major tasks required for the production workers are quite simple, the wage curve with respect to labour productivity is likely to be nonlinear and soon hits the ceiling. The workers with social ties are able to catch up with the outsiders and climb up the wage curve after a few months at the farm. Thus, outsiders recruited formally eventually lose their wage premium.

We now turn our attention to the characteristics of the cut-flower farms. The farms when hiring these sample workers had been operating for less than one year. Furthermore, the farms initially hire locals (or the farms hiring locals tend to have been operating for the shortest time), and they employ the relative/friend workers and the outsiders after operating for a certain period, which is in line with

the finding from [TABLE 2](#). The average length of operation as of 2007 was 2.4 years for farms owned domestically, 1.8 years for foreign ownership and 2.1 years for joint venture farms. Presumably, and partly reflecting this difference in years of operation, farms owned by non-Ethiopians hired more of locals (45 per cent of their employees) than domestic owned farms (29 per cent) and joint venture farms (26 per cent).

More importantly, 53 per cent of the employees at the farms located in the industrial clusters were outsiders, who have higher human capital (last row in [TABLE 3](#)), whereas only 12 per cent of the workers in the cut-flower industry as a whole were outsiders (last row in [TABLE 2](#)). The average years of schooling within the clusters is 7.86 years while the average outside the clusters is 7.11 years, and the difference is statistically significant at 6 per cent. This suggests that the labour market within the clusters is more developed and attracts more workers with higher human capital than it does outside the clusters, and thus hiring high-quality workers through open recruitment can be a major option in employment, whereas the labour markets may not be as well developed outside the cluster, which is in line with Hypothesis 2.

Estimation strategy

We will estimate the initial monthly wage regression model. The dependent variable is the natural log of the real initial monthly wage at hiring, $t = 0$, of a worker i at a farm k :

$$\ln(w_{i0}) = \beta_0^L D_L + \beta_0^{RF} D_{RF} + x_{i0} \beta_0^x + z_{i0} \beta_0^z + \varepsilon_{i0}, \quad (1)$$

where D_L is the dummy variable indicating whether the employee acquired the job through the local network ($D_L = 1$) or not ($D_L = 0$), and, similarly, D_{RF} is the dummy variable indicating whether the employee acquired the job through an invitation from their relatives and friends working at the farm ($D_{RF} = 1$) or not ($D_{RF} = 0$).

The vector x consists of the variables described in **TABLE 3** that characterize a worker i at a farm k , while vector z_{k0} consists of the variables that characterize a farm k . In particular, the vector of the dummy variables indicating the year of hiring will capture the evolution of the labour market over time. We will use the Ordinary Least Squares (OLS) and the farm-level fixed-effects method to estimate this regression function (1). Hypothesis 1 predicts that the estimated coefficients on the local network dummy D_L and on the personal network dummy D_{RF} will have negative signs. Moreover, if Hypothesis 2 is true, the estimated coefficient on the cluster dummy will be negative.

We next regress the current monthly wage on the same set of explanatory variables as in regression function (1) and examine particularly which variables persistently affect a worker's earnings and which do not. As the current wage rate was measured as of the end of 2007 for every worker, in the wage regression the hiring year dummies indicate the cohort that each worker belongs to and therefore the length of their experience at the farm after being hired. The productivity increase from experience predicts a higher current wage rate of workers with longer working experience at the farm, i.e., those who are hired at the earlier point in time. Furthermore, as discussed above, we expect that the workers relying on social ties tend to lack basic skills that can be learned relatively quickly through proper training and thus catch up with the outsiders. This catch-up process will result in a declining difference between outsiders and the workers who relied on local and social networks in the current wage rate compared to the difference in the initial wage rate.

Estimation results

The first two columns of **TABLE 4** present the initial monthly wage model, estimated by the OLS and Farm Fixed-effects (FE) method, respectively. The outside workers received significantly higher initial monthly wages of 20 per cent more than the workers recruited through the local network and personal relationships, which supports Hypothesis 1. Note that we already control for the variables indicating human capital characteristics, but the dummy variables for the locals and the relative/friend groups still have highly significant negative coefficients. This finding is consistent with the information-cost hypothesis, which predicts lower initial wages for the workers who rely on the local or the personal networks as they tend to be less productive and less likely to find jobs elsewhere (Pistaferri, 1999; Antoninis, 2006). The estimated coefficients on our human capital variables still indicate that older ("more experienced" in the broad sense), male, highly educated workers tend to receive higher initial monthly wages. Being male increases the initial wage by 8 per cent,⁷ while an additional year of age adds less than 1 per cent and an additional year of schooling adds around 1 per cent. As for the farm's characteristics, younger and foreign-owned farms tend to pay higher monthly wages. More importantly, the farms located outside the industrial clusters pay significantly higher monthly wages, which supports Hypothesis 2. The significantly and increasingly positive coefficients on the employment year dummy variables may suggest that the labour demand has been increasing in this rapidly growing industry, and the initial wage is increasing over the years.


The estimated model of the current monthly wage is presented in the third and fourth columns of **TABLE 4**. The negative coefficients of the year of hiring dummies in Column 3 indicate that experience at the farm matters for current wages.

⁷ In an attempt to analyze further the male-female differences, we conducted all regression models separately for men and women. The results from the men's and women's models are similar overall, and we suspect that we do not have enough observations to identify systematic differences in the models between men and women.

TABLE 4. DETERMINANTS OF INITIAL AND CURRENT WAGE RATES

	Initial wage rate		Current wage rate	
	OLS (1)	Farm FE (2)	OLS (3)	Farm FE (4)
Employment channels				
Locals	-0.190** (-2.22)	-0.231*** (-3.99)	0.014 (0.25)	-0.068 (-1.30)
Friends and relatives	-0.189** (-2.09)	-0.227*** (-3.48)	0.023 (0.35)	-0.039 (-0.66)
Worker characteristics at hiring				
Male dummy	0.096*** (2.85)	0.090*** (2.91)	0.195*** (6.24)	0.200*** (7.12)
Age	0.007*** (3.46)	0.005* (1.72)	0.003 (1.09)	0.002 (0.93)
Years of schooling	0.009** (1.98)	0.014*** (3.00)	0.024*** (5.19)	0.017*** (4.00)
Years of experience in the industry	0.018 (0.85)	0.016 (0.69)	0.008 (0.44)	0.018 (0.85)
Number of flower farms where he/ has worked	0.031 (0.56)	-0.002 (-0.04)	0.096** (2.06)	0.031 (0.56)
Distance from home to the farm	-0.00001 (-0.00)	-0.002 (-0.34)	0.005 (0.64)	-0.004 (-0.68)
Farm characteristics at hiring				
Years of operation	-0.061*** (-2.71)	0.022 (0.51)	-0.060*** (-3.30)	-0.040 (-1.01)
Numbers employed	0.0001 (0.88)	0.00004 (0.12)	0.00004 (0.29)	-0.0001 (-0.17)
Domestic ownership dummy	-0.012 (-0.25)	—	-0.055 (-1.59)	—
Joint venture dummy	-0.094* (-2.13)	—	-0.047 (-0.99)	—
Cluster dummy	-0.082** (-1.98)	—	-0.105*** (-2.71)	—
Year of hiring (the default is 2004 or earlier)				
2005	0.228*** (4.02)	0.174** (3.33)	-0.026 (-0.47)	0.056 (0.82)
2006	0.430*** (8.09)	0.289*** (3.39)	-0.043 (-0.90)	0.018 (0.23)
2007	0.679*** (9.23)	0.492*** (4.57)	-0.107** (-2.14)	-0.037 (-0.38)
Intercept	4.640*** (33.46)	4.810*** (28.91)	5.261*** (49.07)	5.390*** (35.79)
R-squared	0.479	0.328	0.345	0.282

Notes: The number of observations is 310, and the number of farms is 62. The dependent variables are in the log term. Robust t-statistics are in parenthesis. * indicates that the estimated coefficient is statistically significant at 10 per cent; ** significant at 5 per cent; *** significant at 1 per cent. — indicates that the corresponding variable has been dropped from the model.



In particular, although the corresponding effect estimated with the farm fixed effects is weak, the significantly negative coefficient of the year dummy for 2007 estimated with OLS (Column 3) suggests that the workers employed in 2004 or before, who have longer working experience at the farm, tend to receive significantly higher wages currently than the workers employed in 2007. More importantly, the statistical significance of the effects of the local and the relative/friend dummy variables disappears. Consistent with the descriptive analysis in **TABLE 3** and the discussion above, this result suggests that the monthly wage of the workers among the locals and the relative/friend groups increased at a higher rate than that of the outside workers. This finding that even workers initially equipped with relatively low human capital become capable of handling more difficult tasks over the years indicates the potential role of this industry in alleviating poverty for poor Ethiopian farmers.

The estimated effect of being male and receiving higher education is greater in magnitude on the current monthly wage than on the initial monthly wage, which suggests that educated male workers are given more specialized tasks over the years than female workers. The number of flower farms that a worker has worked at also has a significantly positive effect on the monthly wage rate, according to the OLS estimate. More importantly, the farms located outside the industrial clusters still pay significantly higher monthly wages than farms within the clusters, which supports Hypothesis 2, and this “premium” has increased from 8 per cent at hiring to more than 10 per cent currently. We also notice that younger farms still tend to pay higher monthly wages.

Conclusion

Using the survey data of all 64 cut-flower farms in Ethiopia as of 2007 and the 320 workers randomly sampled from these farms, we have examined the evolution of the employment channels and the early development of the labour market for this young industry. We found that local and personal networks initially played an important role in disseminating information on employment opportunities, and those recruited informally using these social ties were paid less than the formally-recruited workers at hiring. However, even these workers quickly increased their productivity and the effect of social ties on wages disappeared over time. Furthermore, the results of our statistical analyses consistently suggest that the development of the labour market took place above all the industrial clusters, which supports the famous argument of Marshall on the advantage of such clusters.

Our analysis has revealed the benefits of labour markets, which have started developing successfully, particularly within industrial clusters. In forming an industrial policy, the Government should take into account these labour markets benefits and the role that an industrial cluster can play in the development of markets. Furthermore, the exceptional growth of the cut-flower industry in Ethiopia may not have been achieved without the initial strong support of the Government. As mentioned earlier, however, the market for this export-oriented industry is highly demand-driven, which implies that the industry as a whole is vulnerable to a large demand shock in the international market. The Government should be prepared for such a risk. Our findings also confirm the importance of education in job acquisition and earnings, and this should encourage further the Government’s efforts to improve the country’s education system.

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4. PROCEEDINGS



Session 1: Revisiting the Seoul Development Consensus

Seoul Development Consensus: Rationale, Current Status and Future Prospects

Sangheon Lee (PROTECTION/TRAVAIL, ILO), commenting on the perspective produced by Mr Jai-Joon Hur, paid tribute to the significant evolution of G20-level discussions, which had gone beyond the earlier rationale of financial issues and touched on employment and social issues as well as development issues. He wondered, however, what kind of innovation had been achieved in Seoul in terms of development, what impact it had made so far and what unique contributions the G20 had made with respect to development, as it was extremely difficult to understand the relationship between the SDC and the subsequent meetings. He recognized that the term “development” was not always used consistently even though many of the documents presented dealt with “development-oriented” and “development-related” issues. While agreeing that the term “growth that benefits all” coined at the Berlin meeting in 1999 was a good starting point, he felt that it has not been made sufficiently clear how this understanding was to be translated into specific policy measures.

What was unique in the Seoul Development Consensus was that it was largely based on Korea’s own experience. However, it was hard to see how Korea’s experience was reflected in the SDC as some of the pillars, such as trade and infrastructure, were irrelevant to the Korean experience. Moreover, even though the SDC might be different from the traditional development paradigm as it rejected the one-size-fits-all approach, it was not likely to go beyond the Washington Consensus. Furthermore,

inequality and growth needed to be tackled more seriously.

Finally, from the ILO’s perspective, SDC did not have a concrete linkage with the labour market. According to empirical evidence, the causal relationship between growth and employment was much weaker than previously thought, and yet the SDC was optimistic about the linkage between them. Moreover, the SDC was not innovative as it tended to paraphrase the ILO’s standard language regarding the combination of structural reforms with active, labour market policies and effective labour institutions that provide incentives for increasing formal and quality jobs.

Questions and comments on the morning session

John Kirton (University of Toronto) explained that, despite several attempts to raise health issues at past meetings, a substantive discussion had not been possible at Cannes as the agenda had focused on financial transactions. However, Mexico and the Russian Federation were fully aware of the need to discuss the health issues, including non-communicable diseases, and it was likely that they would be dealt with at the Mexico summit where the outcome could have a major impact on human survival.

José Manuel Salazar-Xirinachs (Executive Director, Employment Sector, ILO) noted that, though there had been labour market challenges before the crisis and during the crisis, it was crucial to have good social policies and good jobs. Moreover, since growth and job creation had

already been discussed, it was necessary to take employment into consideration in the development agenda. Setting up a working group on employment within the framework of the G20 would help to build a strong framework for the development agenda.

John Kirton (University of Toronto) acknowledged that it was not possible for every expert to be heard on every issue, but it should be possible for the social policy issue (including growth and job creations as well as employment) if it were discussed along with other key elements such as migration and health. He suggested that if that issue could be mainstreamed among young entrepreneurs at the Business 20 level, it would be feasible to create more jobs and to find more creative ways of creating them in many sectors.

Mariangels Fortuny (EMP/POLICY, ILO) observed that the main achievement of the Seoul Development Consensus was to establish that “one size does not fit all”. She wondered, however, what could be expected from the next summit in Mexico as there had not been much follow-up on the new development paradigm at the Cannes Summit.

Mr Kirton (University of Toronto) noted that, while it was not clear what precise impact the SDC had had, a reliable assessment mechanism was available for purposes of G20 governance. Even though it was a self-grading system, the Development Working Group would monitor its progress. At the same time, in order to enhance accountability and to develop multilateral cooperation, an evaluation of the civil society impact was needed to reduce the existing accountability gap.

Iyanatul Islam (EMP/POLICY, ILO), reflecting on the morning session, raised the issue of

inequality. In the light of the Euro-Zone crisis, high unemployment had also become a serious problem in advanced countries, and he therefore urged that missing issue be included in the nine pillars of the SDC.

Jai-Joon Hur (Korea Labour Institute) pointed out that the G20 was not the only important actor for solving development issues, though it had started discussing them more professionally than ever. In addition, if developing countries could begin by building their capacity to do something for their own development, G20 member countries and other advanced countries could definitely help them to achieve their goal. In that regard, the SDC was a turning point in a new development paradigm. Because of the unstable financial conditions between 2009 and 2010, the Euro Zone was facing difficulties which made the development initiatives more dependent on the G20 meetings in France and Mexico. As the Mexican Government was likely to be supportive of the SDC, one could expect there to be further discussion on the subject.

Sangheon Lee (PROTECTION/TRAVAIL, ILO) suggested that sharpening its focus would help the G20 to move forward effectively. It would make a real difference if the G20 countries were to make their unique and separate contributions to the development issue. As to the question of inequality, the term needed to be defined carefully, as there could sometimes be positive forms of inequality such as work incentives. Since reducing inequality was a core issue for the Chinese Government, all the successful developing countries among the G20 members should focus on the issue in one way or the other. That could be a good point for future discussion on the development agenda.



Session 2: Job Creation and Global Development

The Role of the Services Sector as a Major Vehicle for Job Creation

David Kucera (INTEGRATION, ILO) presented the relative contribution of manufacturing and services to aggregate labour productivity growth across countries and regions and over time, together with the three views of services in development policy: services as a substitute for manufacturing; services as a lagging complement of manufacturing; and services as a leading complement of manufacturing. Comparing the two periods between 1985 and 1998 and between 1999 and 2008, it was clear that the contribution of industry and services to aggregate labour productivity growth in China and India differed widely, although the overall importance of manufacturing would seem to have increased over time. At the regional level, the importance of manufacturing over time also held across regions and in fast-growing Asia and slow-growing Latin America and the Caribbean, though there were big differences in the growth of both manufacturing and services, both sectors played a significant role in industry's contribution to aggregate labour productivity growth. Moreover, according to studies by N. Loayza and C. Radditz, the agriculture and manufacturing sectors were more associated with poverty reduction than services.

Mr Kucera agreed that services could serve as a substitute for manufacturing, inasmuch as the globalization of services could, like industrialization, provide alternative opportunities for developing countries, where they could specialize, scale up and achieve robust growth. He suggested that it was

better to focus on both manufacturing and services, as far as countries' own capacities and circumstances permitted. According to the traditional structuralist view, however, the size and competitiveness of a country's manufacturing base was still the most important determinant of its prosperity. Most of the more dynamic elements of the services sector were dependent on the manufacturing sector as a lagging complement. Finally, he pointed out that services could be understood as a leading complement to manufacturing. In the area of Information Technology (IT) in India, in particular, it seemed that services were conducive to the expansion of manufacturing, rather than the other way round, which meant that India's IT services sector was also a tool for upgrading its manufacturing and agricultural sectors.

Questions and comments on the role of the services sector as a major vehicle for job creation

Jai-Joon Hur (Korea Labour Institute) wondered whether tourism and education, including the education of students abroad, were also considered among India's service exports. He suggested that the development of the services sector in India was not a substitute for manufacturing, as manufacturing was in turn boosted by the development of the services sector.

Makiko Matsumoto (EMP/POLICY, ILO) wanted to hear more about the Mr Ghani's suggestion that if India could do expand its services sector to reduce poverty, so too could any other

country. What were the ingredients to developing the services sector as well as reducing poverty that India's experience could point to?

Iyanatul Islam (EMP/POLICY, ILO) asked Mr Ghani to explain how his message was related to Africa.

Ejaz Ghani (World Bank) responded by pointing out that evidence was needed as to whether or not services sector was stagnating. Services in India were either a substitute or a complement, and such a specific issue could not be generalized. India, with a relatively small manufacturing sector, was growing as fast as China. The issue was not whether India's growth strategy was better than China's, but that there were alternative paths to growth. He stressed that China would be facing an exceptional challenge in deciding how to redirect growth to different sectors, especially towards the services sector so as to make it as dynamic as the manufacturing sector. That would enable the country to promote a broad-based, sustainable growth while addressing global imbalances. Similarly, India had a very successful services sector, but it realized that the fruits of modernization had so far been shared by only a small section of the population. More than 60 per cent of Indians still worked in agriculture, and one million more people would be joining the labour force every month for the next two decades, which meant that India would need to develop its manufacturing sector as well as infrastructure, education and trade.

Overall, the growth of global trade in services was much greater than in goods. New opportunities were arising, and African countries could well benefit from the globalization of services. However, the services sector was more skill-intensive than the manufacturing sector, and an important lesson learnt from India was that human skills were essential, especially in a telecommunications sector with a well-established infrastructure.

Meeting the Job Creation Challenge in Africa

Paul Cook (McKinsey & Company) stressed that, as its GDP growth showed, Africa was experiencing unprecedented economic growth and there were still huge opportunities. A large share of Africa's GDP growth had been driven by a rapidly growing workforce, as the population in Africa was growing. That being so, economic growth was set to continue for decades to come. African education levels were rising rapidly, too, driven by better educated new entrants. The level of people with secondary education in Africa was in fact approaching that of India. Improving the quality of education was not itself the issue, but raising the level of education was a good sign as it brought people into the economy. In addition, the unemployment rate in Africa as a whole, by the ILO's definition, was fairly low, even lower than in the United States, and was still falling. Across the continent it had not even gone up much during the recent economic and financial crisis, except in some countries – notably in North Africa and South Africa.

Even though it was starting from a very poor base, Africa's growth appeared to be reducing poverty and improving people's general welfare. After decades of decline, per capita GDP and GDP growth were rising, and that partly explained the falling poverty rates. In addition, the human development index showed that education, health and income were also heading in the right direction, while inequality too seemed to have been falling over the past decade. Some argued that the continent was just catching up on the loss of opportunities that it had suffered during the past few decades, but it was nonetheless exciting to see that trends in the majority of African countries were encouraging at last. That said, 2011 had been one of the most tumultuous year in Africa's recent history. There were three sources of frustration that led to social upheaval from the economists' standpoint. Firstly, because of the recent inflation of food



prices, the poorest 20 per cent of the population spent around 82 per cent of their income on food. Secondly, although the existence of educated but unemployed population showed that access to education was widely open, there remained a serious problem of access to jobs. Thirdly, since much of the work available was in the form of self-employment, even though people might have jobs they thought of themselves as unemployed because they did not receive a regular wage.

Looking at the labour market in Africa, the demand for labour was mostly in agricultural sector, with all that implied of vulnerability and non-wage employment. The second biggest source of employment was the retail trade and hospitality jobs, a sector that had been growing quickly over the past decade and where a fair amount of stable employment could be found. The government and social services sector were also major employers, and the most stable. According to research, however, GDP growth in Africa did not necessarily lead to growth in the availability of jobs, as some African economies were still highly dependent on resources; though Algeria, Angola and Nigeria, for example, are major exporters, their economies relied very heavily on oil.

The developed countries of Africa needed to worry more about unemployment than about vulnerable employment, as their economies have diversified into a number of different sectors. On the other hand, countries in the pre-transition process, such as Ethiopia, were hugely dominated by the agricultural sector and therefore by vulnerable and unstable employment. In other words, even if those countries doubled or tripled the number of stable jobs in the next few years, which would be an extraordinary performance, it would still not have any real impact on the bulk of the population. Looking at each of Africa's employment sectors separately, they were seen to be at different stages of growth. Some countries could even point to patterns that were similar to those of the Republic of Korea. Mr Cook therefore suggested that if, for

example, South Africa and Ethiopia wanted to follow the Korean model, they needed to focus on specific time periods.

Mr Cook believed that there was definite potential in Africa, as the decline in its rate of vulnerable employment in recent years had been faster than the global average. Furthermore, different sectors had a different potential, and the best performing sectors in petroleum-exporting countries in Africa, for instance, could provide stable employment for 15 per cent of their workers by 2020 – though that would of course depend on diversification of the economy. Based on the experience of the best performers, the sectors with job creation potential would differ from country to country. The conclusion, therefore, was that Africa could indeed accelerate the rate of stable job creation, but that the new jobs would be created in different sectors in different countries.

Finally, Mr Cook emphasized three important lessons regarding the sources of stable jobs: (1) the sectors that drove the GDP did not necessarily also create the jobs; (2) the structure of the workforce in African countries differed by industry and by level of vulnerability, and country case studies must only be considered that were comparable; (3) success in reducing the level of vulnerable employment could be accelerated dramatically by matching the best-performing sectors. It was important that Africa balanced labour demand and supply. The fact that there was a shortage of tertiary education while there was huge surplus of secondary school-leavers was responsible for a high level of vulnerable employment and unemployment, though the level differed from one country to another. Nevertheless, African companies agreed that education was not the principal obstacle to recruitment so much as the shortage of work experience and technical skills. So long as work-relevant education and practical work experience were there, the corresponding potential to reduce vulnerability and unemployment rates in Africa would be there, too.

Lawrence Egulu (INTEGRATION, ILO) agreed that Africa was experiencing unprecedented economic growth, but he wondered whether the growth was strong, sustainable and balanced, given the source of that growth. The truth was that Africa's economic growth was externally driven and relied on the exportation of primary commodities. The African economies were consequently very vulnerable to exogenous price shocks, and sustainable recovery in Africa therefore depended on recovery in the European Union and in North America. It was difficult to establish any direct linkage between GDP growth and the size of the workforce, as it was not the workforce *per se* that drove growth, particularly in Africa where it was greatly underutilized. Given the vulnerabilities of African economies, the size of their informal sectors and the shortage of decent work opportunities, the word "unemployment" could mask a lot of undercurrents that needed to be clarified and dealt with individually.

It was well known that Africa's economic growth failed to have any meaningful impact on people's general wellbeing because of the phenomenon of jobless growth without development. The point made by Paul Cook that Africa's growth appeared to be improving the population's welfare therefore called for careful appraisal. Also, country-by-country evidence was needed to demonstrate that the claim was true.

Finally, Mr Egulu commented on the idea that a falling dependency ratio could not be equated with a "demographic dividend". Although Africa was the "youngest" continent to be experiencing a "youth bulge", vulnerable employment and informality were still on the increase and child labour and early school drop-out levels (and the number of educated but unemployed youths) were unacceptably high.

Questions and comments on meeting the job creation challenge in Africa


Ejaz Ghani (World Bank) wondered whether Mr Cook's recommendation was balanced, as he believed infrastructure was more important than education. He stressed the importance of balancing infrastructure and education. Further explanation was also required for the concept of "stage of development by category".

Sangheon Lee (PROTECTION/TRAVAIL, ILO) noted that economic growth in Africa might have been underestimated, as the number of households without wage was also increasing. Furthermore, as unemployment in general was increasing, it was urgent for African countries to diversify their economies.

Jai-Joon Hur (Korea Labour Institute) was positive about Africa's economic growth (even though it was jobless growth) because several empirical works showed that it could be a good starting point. In the late 70s and 80s, there had been jobless growth in Europe. There was therefore no need to be pessimistic about Africa's economic growth, as a growth rate of around 2 or 3 per cent was normal when seen in the long term.

The data comparing Africa with the Republic of Korea seemed promising, but none of the indicators in Korea's case was apparent in African countries. Furthermore, it was not appropriate to mix North African and Arab countries, which had completely different outcomes from southern African countries.

Paul Cook (McKinsey & Company) noted that Kenya's economic growth was promising, with the retail trade, telecommunications and mobile telephones accounting for 24 per cent of the country's GDP. Most foreign direct investment during the past three years had been in Africa, which meant that there were more opportunities for



economic growth and development. He agreed that there were differences between North Africa and sub-Saharan Africa and that access to the education was relatively easier than in sub-Saharan Africa. Moreover, infrastructure in some countries was a huge issue, whereas skills were more important at the pan-African level.

Promotion of Non-traditional Agricultural Exports and their Employment Consequences: Case of the Cut Flower Industry in Ethiopia

Frédéric Lapeyre (EMP/POLICY, ILO) said that Mr Mano had provided a solid account of local labour market mechanisms and challenges related to the fast-growing cut-flower industry in Ethiopia. The strongest aspect of his paper was that the survey data gave a better understanding of employment channels and of the role of local/personal networks in obtaining a job in the cut-flower industry and of the impact it had on initial wages. However, providing a better profile of the outsiders was needed, as it could be that their higher initial wage was linked to the fact that they needed to move in or commute to the farm and to the cost of transportation and accommodation.

The analysis needed to be broadened from a purely developmental perspective and to show whether an East-Asian style of industrialization strategy could be readily replicated in African conditions within a reasonable time-frame, especially for relatively small, low-income, land-locked countries. However, even though the employment challenge for African countries was rooted in their inability to diversify their economy and to promote productive employment for a fast-growing labour force, the case study presented by Mr Mano reminded one that the agricultural sector should not be neglected as a source of job-rich growth and that a much

needed-debate was due on the nature of structural transformation in Africa. From a job-rich growth perspective, what was important in the expansion of the cut-flower industry was its positive impact on job creation, and more especially on paid employment. Indeed, though it entailed high start-up costs, the cut-flower industry involved labour-intensive processes at the planting, harvesting and post-harvesting stages that called for relatively simple skills. Therefore, in principle, the expansion of cut-flower exports should enhance the demand for unskilled labour.

He concluded that the development of the cut-flower industry had led to a significant change in the labour market structure, with an increase in wage employment which was a key variable in fighting vulnerability and poverty in Ethiopia. While self-employment played a key role in securing a livelihood for vast numbers of workers in the short term, any long-term strategy to promote better living and working conditions for people should focus on the development of wage employment.

Questions and comments on the promotion of non-traditional agricultural exports and their employment consequences: Case of the cut flower industry in Ethiopia

Duncan Campbell (ED/EMP, ILO) asked for the word “outsiders” to be defined as they seemed to be more local workers than outsiders. The underlying question was whether Mr Mano’s studies went into some of the sectoral policies directed towards the growth of the sector in Ethiopia, as he was interested in knowing in detail which policy instruments worked best and which worked least. He also wanted to know why Mr Mano was so sure that productivity drove the trend in wages as it could have been the learning effect or something else.

Ejaz Ghani (World Bank) suggested that it would have been better if Mr Mano had included region/district characteristics in the same way as he had considered labour and farm characteristics. For example, how far was the farm located from the airport? If one was located in a region with bigger labour market or high technology, it would probably have an impact on wage trends. He also drew attention to the age of the firms, as new firms tended to create more jobs in more innovative ways.

Naoko Otobe (EMP/POLICY, ILO), commenting on the wage premium of outsiders, wondered whether local and “outside” workers performed different tasks, in the same way that a wage gap existed between men and women in the cut-flower industry.

Iyanatul Islam (EMP/POLICY, ILO) asked about the role of the Government in the cut-flower industry in Ethiopia that Mr Mano had mentioned. Mindful of the air pollution and difficult environmental circumstances in Kenya, he also

asked about the sustainability of the industry. Lastly, he enquired about the gender balance and whether the wages of workers were above the poverty line.

Yukichi Mano (National Graduate Institute for Policy Studies, Japan) explained that “outsiders” did not mean that they were living outside the farms but that they had been employed through a formal placement process. He also pointed out that the cut-flower industry in Ethiopia was similar to the industry in more advanced countries such as the Netherlands, as opposed to the East Asian model that focused on manufacturing and exports.

As to the learning process of workers in Ethiopia’s cut-flower industry, it was the supervisors who decided how much the employees could work. If necessary, workers undertook one or two months of training at lower pay, which could explain differences in wages at the beginning. Outsiders, on the other hand, did not need additional training as their education level was usually higher and they already knew how to do the job.

