

Edited by: Khalid Malik • Maurice Kugler



Human
Progress
and the

RISING SOUTH

Human Progress and the Rising South

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Preface

The economic dynamism of Southern countries over recent decades is truly unprecedented in its sheer speed and scale, and is reshaping global power relations in many important respects. But economic figures are only the starting point of the story of the rise of the south.

As well as the successes of the fast-growing Asian Tigers and the Southern BRICS countries, there are many other compelling success stories in the South—from the resurgent economic growth and rising education levels in Sub-Saharan Africa, to declining inequality throughout most of Latin America. The 2013 Human Development Report, *The Rise of the South: Human Progress in a Diverse World*, identifies more than forty developing countries that, as well as accounting for most of the world's economic growth, have in recent decades made much greater human development strides than projected. The advances made by these developing countries, which collectively represent a majority of the world's population, have resulted not from adhering to a fixed set of policy prescriptions, but from applying pragmatic policies that respond to local circumstances and opportunities—including a deepening of the developmental role of states, a dedication to improving human development, and an openness to trade and innovation.

The 'Rise of the South' is a remarkable story of human development achievement over the past few decades, with undeniable benefits for all parts of the world, North and South alike. Future and continued progress will, however, require policy makers to play closer attention to such issues as equity, voice and accountability, environmental risks, and changing demography. Hard-won gains in human development will be more difficult to protect if cooperation fails and difficult decisions are postponed.

It is our hope that the fresh analysis of many different facets of this phenomenon by the scholars represented in this volume can help inform and guide continued human development progress throughout the world, today and for generations to come.

Khalid Malik and Maurice Kugler

Introduction

The world is in the midst of profound social and economic change, driven by the dynamic emerging powers of the developing world.

The United Nations Development Programme's 2013 Human Development Report, *The Rise of the South: Human Progress in a Diverse World*, examines this phenomenon in detail, underscoring the historic magnitude of this global rebalancing and analyzing the diverse policy approaches of developing countries that have achieved great human development gains in recent decades. The 2013 Report looks at the major remaining challenges to sustaining this progress, and the profound implications of the 'Rise of the South' for global and national public policy.

The 2013 Report's findings and forecasts draw significantly on background research commissioned from eminent economists, demographers and social scientists. *Human Progress and the Rising South*—a companion volume to the 2013 Report—is an edited collection of those research papers. The authors, representing different yet complementary disciplines in the field of human development, provide important new contributions to international development thinking. Their research offers new insights into the development strategies, policies and future prospects of more than forty developing nations that the 2013 Human Development Report identifies as having made unusually impressive human development progress over the past two decades.

The 2013 Human Development Report and the papers collected in the present volume seek to shed light on a few fundamental questions:

How have so many countries in the South been able to accelerate human development progress in recent years? Do they share characteristics that other developing countries can study and adapt to their own circumstances? Is their impressive recent record of human development achievement likely to continue in decades to come? What are the major long-term challenges to continued human development progress, nationally and globally?

Most of these high-achieving countries share three notable drivers of development: a proactive developmental state, beneficial engagement with global markets and effective social policy innovation. These drivers are not derived

from abstract conceptions of how development should work. Rather, they reflect the real-world development experiences of many countries in the South. Indeed, they challenge many preconceived and prescriptive approaches. In many ways, they represent the rejection of collectivist, centrally managed policy approaches and precepts of the past, while also diverging from the unfettered economic liberalization more recently articulated by the Washington Consensus.

The diversity of the countries and national policies that have propelled the rise of the South shows that there are multiple ways to achieve and sustain human development. While countries have pragmatically adopted policies to their own unique national circumstances, there have been broadly shared common approaches as well. Most fast-developing countries of the South have opened up to foreign trade, investment and technology, although that opening alone has not been a guarantor of success. The most successful countries have at the same time identified their areas of strategic advantage and invested in their own people's capabilities. Through innovative social policies, they have systematically strengthened domestic institutions and sought greater social cohesion. This critical combination of external openness and internal preparedness has allowed these countries to prosper in the global marketplace, with positive human development outcomes for their populations at large.

The South as whole now represents more than two-thirds of the world's population, generates about half of the world's GDP, and has provided most of the world economy's recent economic growth. As well as the successes of the fast-growing Asian Tigers and the Southern BRICS countries, there are many other compelling success stories in the South—from the resurgent economic growth and rising education levels in Sub-Saharan Africa, to declining inequality throughout most of Latin America.

Countries from the South are leaders in global efforts to solve the most pressing 21st century challenges, including ensuring macro-economic stability, trade liberalization and effective political representation for all of the world's citizens, as well as confronting climate change and threats to international peace and security. Historically unprecedented in its speed and scale, these changes in global power relations have galvanized the attention of world media, international civil society and academia, and of the international intergovernmental system itself. This new 21st century reality stands in stark contrast to the post-World War II period, when the building blocks of the current international governance system were first being laid and half of the world was still colonized, with no representation in these new global institutions.

But even in today's higher-achieving countries, continued human development progress is not guaranteed. The 2013 Human Development Report suggests four

important areas in which continual advancement can be facilitated: enhancing equity, enabling voice and participation, confronting environmental challenges, and managing demographic change. The Report emphasizes the high future costs of policy inaction in all these areas, and argues for greater policy ambition.

The South still needs the North—and, increasingly, the North also needs the South. The world is becoming more connected, not less. Much of this increasing interdependence is driven by the continuing reorientation of global trade and economic output. Between 1980 and 2010, developing countries nearly doubled their share of world merchandise trade from 25 percent to 47 percent, while their share of overall world output rose from 33 percent to 45 percent. Developing countries have been strengthening links with one another at an even faster pace: between 1980 and 2011, South–South trade jumped from just 8 percent of total world merchandise trade to 25 percent, and that share continues to rise. While the United States continues to be the largest economy in the world, and will remain so for the foreseeable future, if the US recovery hesitates and Europe is unable to pull itself out of its current economic and social doldrums there will be a large knockon effect on the developing world. At the same time, global challenges such as climate change and stressed ecosystems require countries to cooperate more than ever.

What is often missing from today’s debates is a more holistic view of the rise of the global South. Discussion to date has focused primarily on its economic dimensions, often seen as embodied by the ‘BRICS’—a term that refers to just five countries, of which four are from the South (Brazil, India, China and South Africa). But the human development gains achieved by these and other countries from the South are every bit as striking. For example, while China’s per capita GDP expanded at a record yearly double-digit average between 1990 and 2010, this growth was propelled by the even greater progress made by the Chinese people in education and health standards in recent decades.

The rise of the South is even more impressive when we look at the many countries that have managed continuous progress in non-income dimensions of human progress, without necessarily boasting the record GDP growth of China, India and other top economic performers. Latin America, the Arab States and sub-Saharan Africa have all achieved important improvements, including the doubling or more of school completion rates within a generation, and gains in life expectancy that in many cases are now approaching the levels of North America and Europe.

Yet not all countries are participating in this pattern of accelerating progress, and continued strong performance in the highest achieving countries is not necessarily assured.

The nine chapters of this volume, each covering different aspects of the causes and consequences of the rise of the South, together provide an illuminating analysis of the complex forces and policies that have contributed to this recent progress, and of the challenges—and opportunities—that lie ahead.

Chapter 1, by **Deepak Nayyar**, examines the deep and in some ways cyclical historical shifts represented by the ‘Rise of the South’ and summarizes the evolution of the developing economies in their long-term global context. Nayyar looks back at the global preeminence of major nations of the South until the ascendance of the industrial North two centuries ago, and then analyses their re-emergence today as leaders of the world economy.

In Chapter 2, **Khalil Hamdani** highlights the pivotal role that technology is playing in the rise of South-South trade and investment. He shows how many South-based entrepreneurs are innovating to meet the needs of an expanding middle class, with transformational effects for the South as a whole. Hamdani discusses the global implications of this change, including the potential for sustaining growth in fast-rising Southern countries and leveraging its benefits for all developing nations.

Frances Stewart offers in Chapter 3 an innovative theoretical framework for determining how the social dimension can be better integrated into the Human Development approach for analysis and research, as well as for policy-making purposes. As Stewart notes, individual capacities do not exist in a social vacuum: The relations among people and between people and institutions ultimately determine whether a society is peaceful, cohesive and inclusive, and whether people in turn have opportunities for greater choices and a more fulfilling life. Stewart’s analysis has profound implications for assessing how institutions can strengthen social well-being and social inclusion in today’s global world.

In Chapter 4, **Wolfgang Lutz and Samir KC** provide important insights into one of the most crucial social institutions—public schools—by documenting the impact that education policy can have on demographic trends. Their revealing demographic projections are based on two contrasting policy scenarios—a ‘base case’ trajectory and a ‘fast-track’ alternative with greatly accelerated education enrollment, as some countries have already achieved—with the latter showing progressively slowing population growth and rising living standards in the decades to come. Better-educated adults have lower mortality rates, and their children better chances of survival; women with higher levels of education have fewer children, through personal choice and greater access to birth control. This innovative contribution to demographic research concludes that a full public-policy commitment to education and other facets of human development should have lasting positive effects for countries of the South. By contrast, weaker

education policies will tend to exacerbate demographic pressures, with negative consequences for human development progress.

Chapter 5, contributed by the University of Denver's **Pardee International Futures Center** and lead author **Barry Hughes**, looks at the long-term impact of policies that promote human development in five main areas of policy intervention: reducing poverty; advancing education; improving health; building infrastructure; and strengthening governance, including in the area of reducing environmental threats. By using the 'international futures' simulation model, the Pardee Center identifies 'aggressive but reasonable' levels of specific policies that could accelerate the South's human development progress in the coming decades.

Patrick Heller, in Chapter 6, looks at the parallel nongovernmental networks and institutions that are also transforming global politics, and global governance. Heller analyzes the rise of new civil society and social movements in a globalizing world, and suggests that the best way to address the current 'crisis of democracy' in the South may be to better connect local demands with global issues. When comparing civil society movements in Brazil, India and South Africa, Heller cautions that the effectiveness of domestic civil society is directly contingent on civil society's relationship to national political culture and institutions.

Today's fast-evolving global financial landscape is surveyed in Chapter 7 by **Ilene Grabel**, who suggests that recent changes in international financial trends and institutions are increasing the capacity of the South to contribute to greater global financial stability and resilience. Grabel shows how these changes are also helping the South to advance policies in support of sustainable human development for all countries.

The critical issue of global public goods is addressed in Chapter 8 by **Inge Kaul**. Her analysis shows that, developing countries have become increasingly active participants in global policy-making, using their influence not only to further their own narrowly defined national interests, but also to shape the global normative framework. They have emphasized concerns such as the fairness of international negotiations and a better balance between growth and development. Kaul demonstrates how developing countries have begun to reshape the normative framework for global policy-making, potentially increasing international support for policy action based on the 'responsibility to prevent and protect' as well as the overarching principle of 'global justice'.

Finally, in Chapter 9, **Ngaire Woods** with **Alexander Betts**, **Jochen Prantl** and **Devi Sridhar** examine how the shift in global power towards emerging economies could transform global governance. The authors analyze four areas that require international cooperation—security, finance, health and

migration—to understand how new patterns of global governance are evolving, and how these new trends reflect power projection by the rising new powers of the South. They suggest that a new international policy architecture based on three core principles—coherent pluralism, facilitative multilateralism and renewed accountability—could lead to more effective global governance in the 21st century.

The research and analysis in these nine contributions persuasively demonstrate that the world is experiencing a period of profound and rapid change, with extraordinary implications for human development. The opportunities for expanding people’s choices and capabilities in all parts of the world have arguably never been greater; yet making these possibilities a reality will also require concerted national and global policy action, so that human development progress will be sustainable for generations to come.

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The South in the World Economy:

Past, Present and Future

DEEPAK NAYYAR

INTRODUCTION

This chapter begins by examining changes in the economic importance of Africa, Asia and Latin America (the developing world), compared with Western Europe, Eastern Europe, North America and Japan (the industrialized world) from a historical perspective.¹ It highlights the dominance of the South until about 200 years ago, and traces its decline and fall from 1820 to 1950.

The second section considers changes in the significance of developing countries in the world economy since 1950. It reveals an increase in their share of world population and income, international trade and investment, industrial production and manufactured exports, with gathering momentum since 1980.

The third section analyses factors underlying the rise of the South, and discusses catch-up in economic growth and industrialization. Section 4 disaggregates the impressive performance of the developing world to argue that this rise is associated with unequal participation and uneven development. Indeed, the process excludes countries and people, so that economic growth has not been transformed into meaningful development that improves broader well-being. In conclusion, Section 5 suggests that the future prospects of developing countries and their ability to sustain their rise depend on their capacity to combine economic growth with human development and social progress.

1 This distinction between the developing world and the industrialized world, defined in terms of geographical regions, is used in setting out a historical perspective based on statistics compiled by Maddison (2003). The definition of the developing world is exactly the same throughout the paper. In the discussion on the world economy's evolution since 1950, the industrialized world comprises countries in Western Europe and North America, as well as Japan, Australia and New Zealand (the 21 countries that were original members of the Organisation for Economic Co-operation and Development or OECD). The transition economies of Eastern Europe and the former Soviet Union are excluded because the statistics available are not always complete or consistent.

1. A HISTORICAL PERSPECTIVE

The division of the world into industrialized and developing countries is more recent than widely believed. A historical perspective suggests a distinction between the period before the 19th century, when geography divided the world, and the period since then, when the world came to be divided by economics.

DOMINANCE: 1000 TO 1700

Table 1 shows the regional distribution of population and income in the world economy from 1000 to 1700. At the end of the first millennium, Asia, Africa and Latin America together accounted for 82 percent of world population and 83 percent of world income.² Their overwhelming importance continued in the second millennium. Even in 1500, they accounted for about 75 percent of population and income. Two centuries later, in 1700, their share of population remained almost the same at three-fourths, but their share of income declined to two-thirds. Their dominance was attributable, in large part, to just two countries. From 1000 to 1700, China and India together accounted for 50 percent of world population and income.

Western Europe, Eastern Europe, North America, Oceania and Japan together were far less important in the world economy. Their share of world population increased from less than one-fifth in 1000 to about one-fourth in 1700, and their share of world income rose from one-sixth to one-third. The second half of the second millennium witnessed the beginnings of change, in part attributable to the first phase of European colonial expansion in the late 15th century in the Caribbean and the Americas. It started with Portugal and Spain, followed by England and France.³ The slave trade from Africa, the search for gold and silver in the new world, the colonization of the Americas and the rise of the Asian entrepôt trade were parts of a process that unleashed a different phase in the world economy from the early 16th century to the late 18th century.⁴ It was the age of mercantilism in Europe, and Western Europe's share of world income discernibly increased. This period also witnessed the beginnings of a division of labour between primary producers and manufacturers, but the organization of production was essentially

2 The dominance of these three continents was similar and somewhat greater earlier. Two thousand years ago, in 1 AD, they accounted for 84 percent of both world population and income (Maddison 2003, p. 261).

3 For a succinct analysis of the rise of these countries during that era, see Kindleberger 1996. See also, Reinert 2007.

4 For a lucid discussion on the evolution of the world economy during this period, see Findlay and O'Rourke 2007.

Table 1: Distribution of population and income in the world economy: 1000 - 1700

	World Population (%)				World GDP %			
	1000	1500	1600	1700	1000	1500	1600	1700
Group I								
<i>Asia</i>	65.6	61.2	64.7	62.1	67.6	61.9	62.5	57.7
<i>Africa</i>	12.1	10.6	9.9	10.1	11.7	7.8	7.1	6.9
<i>Latin America</i>	4.3	4.0	1.7	2.0	3.9	2.9	1.1	1.7
Group Total	82.0	75.8	76.3	74.2	83.3	72.5	70.7	66.3
Group II								
<i>Western Europe</i>	9.5	13.1	13.3	13.5	8.7	17.8	19.8	21.9
<i>Western Offshoots</i>	0.7	0.6	0.4	0.3	0.7	0.5	0.3	0.2
<i>Eastern Europe</i>	2.4	3.1	3.0	3.1	2.2	2.7	2.8	3.1
<i>Former USSR</i>	2.6	3.9	3.7	4.4	2.4	3.4	3.5	4.4
<i>Japan</i>	2.8	3.5	3.3	4.5	2.7	3.1	2.9	4.1
Group Total	18.0	24.2	23.7	25.8	16.7	27.5	29.3	33.7
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note: Asia includes China and India with a regional estimate for other countries in Asia. Western Europe includes Austria, Belgium, Denmark, Finland, Germany, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom, with a residual estimate for others in the region. Western offshoots include the United States with a residual estimate for others. Latin America includes Mexico with a separate residual estimate for others in the region. Africa includes estimates for selected countries in the north, west, east and south, with residual estimates for others.

Source: Nayar 2009 based on Maddison 2003.

pre-capitalist. The onset of the Industrial Revolution, at the end of this era, introduced the possibilities of structural transformation in the world economy.

DECLINE AND FALL: 1820 TO 1950

The 19th century witnessed the evolution of an international economic order leading to profound change in the balance of economic and political power. The division of the world into rich industrialized countries and poor developing countries was the result of three developments. The first was the Industrial Revolution in Britain during the late 18th century, which spread to Western Europe during the first half of the 19th century. The second was the emergence of a newer, somewhat different form of colonialism in the early 1800s, which culminated in the advent of imperialism that gathered momentum through the 19th century. The third was the revolution in transport and communication in the mid-19th century, manifesting in the railway, telegraph and steamship.

Table 2: The share of developing countries in world population and world GDP

	World Population %					
	1820	1870	1913	1950	1973	2001
<i>Africa</i>	7.1	7.1	7.0	9.0	10.0	13.4
<i>Asia</i>	65.2	57.5	51.7	51.4	54.6	57.4
<i>Latin America</i>	2.1	3.2	4.5	6.6	7.9	8.6
<i>Developing Countries</i>	74.4	67.8	63.2	67.0	72.5	79.4
<i>Industrialized Countries</i>	25.6	32.2	36.8	33.0	27.5	20.6
<i>World GDP</i>	1820	1870	1913	1950	1973	2001
<i>Africa</i>	4.5	4.1	2.9	3.8	3.4	3.3
<i>Asia</i>	56.4	36.1	22.3	15.4	16.4	30.9
<i>Latin America</i>	2.2	2.5	4.4	7.8	8.7	8.3
<i>Developing Countries</i>	63.1	42.7	29.6	27.0	28.5	42.5
<i>Industrialized Countries</i>	36.9	57.3	70.4	73.0	71.5	57.5

Note: The group of developing countries is made up of states in Africa, Asia and Latin America. The group of industrialized countries comprises Western Europe (Andorra, Austria, Belgium, Channel Islands, Denmark, Faeroe Islands, Finland, France, Germany, Gibraltar, Greece, Greenland, Iceland, Ireland, Isle of Man, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland and the United Kingdom), the Western offshoots (Australia, Canada, New Zealand and the United States), Eastern Europe (Albania, Bulgaria, the former Czechoslovakia, Hungary, Poland, Romania and the former Yugoslavia), the former Soviet Union and Japan.

Source: Nayar 2009 based on Maddison 2003.

These three developments overlapped and partly coincided in time as they transformed the world economy. They created patterns of specialization in production associated with a division of labour through trade reinforced by the politics of imperialism. There are competing explanations for this outcome. Some emphasize economic factors to argue that the Industrial Revolution was dependent on a prior or simultaneous agricultural revolution.⁵ Some stress political factors to argue that imperial powers did not allow industrialization in their colonies.⁶ Some highlight a mix of economic and political factors to contend that the economics of colonialism and the politics of imperialism together created this international economic order.⁷

5 This hypothesis is developed by Lewis 1978.

6 See, for example, Baran 1957.

7 This is the essential theme in the structuralist literature on underdevelopment in Latin America. See, for instance, Furtado 1970 and Griffin 1969. See also Frank 1971.

Table 3: Comparing GDP per capita: divergence in GDP per capita between industrialized countries and developing countries

	Per Capita GDP ratios					
	1820	1870	1913	1950	1973	2001
<i>Western Europe Western offshoots</i>	100	100	100	100	100	100
<i>Eastern Europe</i>	57.6	45.7	42.5	33.5	37.3	26.4
<i>Latin America</i>	57.5	33.2	37.1	39.8	33.7	25.5
<i>Africa</i>	34.9	24.4	16.0	14.2	10.5	6.5
<i>Asia</i>	48.0	26.8	16.5	10.1	9.2	14.3
<i>Japan</i>	55.6	36.0	34.8	30.5	85.5	90.6
<i>China</i>	49.9	25.8	13.8	7.0	6.3	15.7
<i>India</i>	44.3	26.0	16.9	9.8	6.4	8.6

Note: Western Europe includes Andorra, Austria, Belgium, Channel Islands, Denmark, Faeroe Islands, Finland, France, Germany, Gibraltar, Greece, Greenland, Iceland, Ireland, Isle of Man, Italy, Liechtenstein, Luxembourg, Monaco, Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland and the United Kingdom. The Western offshoots include Australia, Canada, New Zealand and the United States. Japan's figures are excluded from Asia's figures, but China's and India's figures are included. Eastern Europe excludes the former Soviet Union, but includes Albania, Bulgaria, the former Czechoslovakia, Hungary, Poland, Romania and the former Yugoslavia.

Source: Nayyar 2009 based on Maddison 2003.

The outcome was unambiguous, with the world economy divided into countries (mostly with temperate climates) that industrialized and exported manufactured goods, and countries (mostly with tropical climates) that did not industrialize and exported primary commodities. Slowly but surely, countries in Asia, Africa and Latin America became dependent on the industrializing nations in Western Europe, not simply for markets and finance but also as their engine of growth.⁸ High productivity in the agricultural sector, combined with the technological revolution in the industrial sector, allowed north-west Europe to industrialize rapidly. In contrast, Asia, Africa and Latin America, which had large agricultural sectors characterized by low productivity, ended up specializing in and exporting primary commodities at unfavourable terms of trade. The economic relationship between the two sets of countries was driven and reinforced by Europe's political dominance. This fostered de-industrialization and underdevelopment in what became the developing world, just as it led to industrialization

8 For an elaboration of this hypothesis, with supporting arguments and evidence, see Lewis 1978.

and development in what became the industrialized world.⁹ Both outcomes were an integral part of the evolution of capitalism in the world economy.

It is somewhat difficult to find a turning point for the division of the world economy. The process began around 1820, was discernible by 1870 and continued until 1950. Table 2 shows that between 1820 and 1950, developing countries' share of world population declined from three-fourths to two-thirds, but their share of world income witnessed a much more pronounced decline from 63 percent to 27 percent. Industrialized countries' population share rose from one-fourth to one-third, while their income share almost doubled from 37 percent to 73 percent.

This transformation may have spanned 130 years, but the new international economic order was clearly discernible at the end of 50 years. By 1870, developing countries' share of world population had decreased to two-thirds while that of industrialized countries had increased to one-third. The former's share of world income had fallen to 43 percent while that of the latter had risen to 57 percent.

For the world economy, the significance of 1870 is clear. The balance of power had shifted; the division of labour had changed. The gap between industrialized countries and developing countries had begun to widen. Between 1820 and 1950, there was a sharp increase in the asymmetries between their respective shares of world population and income.

It may, however, be misleading to consider developing countries as an aggregate, given significant regional differences. The increase in disproportionality between world population and income shares was particularly pronounced in Asia. Between 1820 and 1950, its population share diminished from 65 percent to 51 percent, but its income share dropped from 56 percent to 15 percent. For Africa, the shares of population and income were relatively stable, although the latter was consistently lower. For Latin America, the shares were symmetrical and rose over the period. In 1950, Latin America's income share was higher than its population share.

Latin America was the exception in the developing world. During the 19th century, when countries in Asia and Africa were beginning to be colonized, those in Latin America were starting to attain independence. This process started in 1810 but was consolidated only in the 1820s. For this reason, perhaps, there was a slight increase, rather than a decline, in Latin America's share of world gross domestic product (GDP) between 1820 and 1870. The period thereafter witnessed the rise of the region as its GDP share more than trebled

9 There is extensive literature on the historical origins of underdevelopment. See, for example, Baran 1957, Griffin 1969, Furtado 1970 and Frank 1971.

from 2.5 percent in 1870 to 7.8 percent in 1950. In sharp contrast, Asia's economic decline, which began in 1820, saw its GDP share drop by more than half, from 36.1 percent in 1870 to 15.4 percent in 1950.

Given changes in shares of world population and income, divergence in per capita income between developing and industrialized countries increased rapidly, as confirmed in Table 3. Between 1820 and 1950, as a percentage of GDP per capita in Western Europe, North America and Oceania together, GDP per capita in Latin America dropped from three-fifths to two-fifths, in Africa from one-third to one-seventh, and in Asia from one-half to one-tenth. The divergence was modest in Latin America, massive in Asia and somewhere in the middle for Africa. And it was not confined to developing countries alone, but extended to Eastern Europe and Japan. Over 130 years, Western Europe and North America pulled away from the rest of the world.

In sum, the evolution of the world economy during this era was shaped by two sets of factors. The first set, from 1820 to 1870, included the Industrial Revolution, the emergence of colonialism, and the revolution in transport and communication.¹⁰ The second set, from 1870 to 1914, encompassed the politics of imperialism and the economics of globalization, which created winners and losers.¹¹ The influence of these factors possibly waned from 1914 to 1950, a period with the two World Wars and the Great Depression, but the inherent logic and essential characteristics of industrial capitalism meant that uneven development for unequal partners persisted.¹²

2. DEVELOPING COUNTRIES IN THE WORLD ECONOMY SINCE 1950

In 1950, the post-colonial era began as newly independent countries in Asia and Africa sought to catch up in industrialization and development. Table 2 suggests two phases during the second half of the 20th century: 1950 to 1973 and 1973 to 2001.

From 1950 to 1973, developing countries' share of world population rose from 67 percent to 72.5 percent, while their share of world income stopped its decline and rose modestly from 27 percent to 28.5 percent. There was a corresponding decline in industrialized countries' shares of population and income,

10 See Lewis 1978, Bairoch 1993, and Findlay and O'Rourke 2007.

11 See Hobsbawm 1987, Rodrik 1997, Williamson 2002 and Nayyar 2006.

12 For a discussion on developing countries during this period, see Bairoch 1975.

even though this was the golden age of capitalism, associated with their rapid economic growth.¹³

While economic growth was somewhat faster in the developing world, Asia's share of global population rose more than its share of income, so asymmetry persisted. Africa's share of population rose a little while its share of income fell a little. Latin America's shares of population and income registered a discernible increase and were roughly symmetrical.

Given rapid population growth across the developing world, divergence in income per capita increased everywhere, significantly in Africa and Latin America, but only a little in Asia. Between 1950 and 1973, as a percentage of GDP per capita in Western Europe, North America and Oceania taken together, GDP per capita in Latin America dropped from 39.8 percent to 33.7 percent, in Africa from 14.2 percent to 10.5 percent, and in Asia from 10.1 percent to 9.2 percent.

From 1973 to 2001, industrialized countries' share of world population fell from 27.5 percent to 20.6 percent, while their share of world income declined from 71.5 percent to 57.5 percent. There was a corresponding increase in developing countries' shares. Asia's population share increased from 54.6 percent to 57.4 percent, while its income share rose from 16.4 percent to 30.9 percent. Africa's population share went from 10 percent to 13.4 percent, while its income share decreased from 3.4 percent to 3.3 percent. Latin America's population share rose from 7.9 percent to 8.6 percent, while its income share fell from 8.7 percent to 8.3 percent, but these proportions remained close to each other.

For Africa and Latin America, the divergence from industrialized countries in per capita income continued to increase, but for Asia this divergence, though still large, diminished. Between 1973 and 2001, as a percentage of GDP per capita in Western Europe, North America and Oceania together, GDP per capita in Latin America dropped from 33.7 percent to 25.5 percent, and in Africa from 10.5 percent to 6.5 percent, but in Asia it rose from 9.2 percent to 14.3 percent.

Latin America continued to be an exception in the developing world until 1973. It fell behind the industrialized world, but at a slower rate than Asia and Africa. After 1950, Asia became the exception as its economic decline stopped from 1950 to 1973, and its catch-up with the industrialized world accelerated from 1973 to 2001.

The preceding discussion is based on estimates made by Maddison (2003). These relate to three selected benchmark years over five decades. The focus is on percentage shares of world population or income, and on proportional divergence or convergence in per capita income. The percentages and proportions

13 See Marglin and Schor 1990.

are derived from data on income in 1990 international Geary-Khamis dollars, which are purchasing power parities (PPPs), more sophisticated than the usual, that facilitate inter-country comparisons over time. This exercise is conducive to studying long-term trends, particularly if the object is to compare the 50 years since 1950 with the preceding 130 years.

POPULATION

A perspective on changes in population, particularly during the second half of the 20th century, requires some reference to absolute magnitudes. Table 4 shows that the size of the population in Asia, Africa and Latin America increased from 1.7 billion in 1950 to 5.7 billion in 2010. This was attributable, in large part, to demographic factors, as death rates dropped but birth rates did not. Developing countries' share of world population increased from two-thirds in 1950 to more than four-fifths in 2000. This was due to their rapid population growth and relatively stable populations in industrialized countries.

Developing countries' population share in 1980 had returned to its level from 1500 to 1820. By 2010, the share reached its level in 1000. Growth was concentrated in Asia and Africa. As in the past, China and India were once

Table 4: Share of developing countries in world population: 1950 to 2010

Year	Population (in billions)		
	World	Developing countries	Developing countries' share (%)
1950	2.5	1.7	68.0
1955	2.8	1.9	68.9
1960	3.0	2.1	69.9
1965	3.3	2.4	71.1
1970	3.7	2.7	72.8
1975	4.1	3.0	74.3
1980	4.5	3.4	75.7
1985	4.9	3.7	77.0
1990	5.3	4.1	78.3
1995	5.7	4.5	79.4
2000	6.1	4.9	80.5
2005	6.5	5.3	81.3
2010	6.9	5.7	82.1

Source: United Nations, Population Division, UNDATA.

again home to a major proportion of world population, together accounting for about 36 percent compared with much larger shares of 50 percent in 1000 and 57 percent in 1820. Several other countries in Asia and Africa had large and rapidly growing populations.

OUTPUT AND INCOME

Analysing trends in GDP and GDP per capita since 1950 calls for considering evidence at market exchange rates rather than just PPPs. Computation of GDP per capita in terms of PPP may be helpful for international comparisons of relative standards of living. But it is not quite correct to add up GDP in terms of PPP across countries to estimate shares of world GDP in terms of PPP. These estimates are based on an artificial upward adjustment in the price of non-traded goods and services in developing countries.¹⁴ This leads to an upward bias in PPP-GDP estimates for developing countries, which are thus not comparable with other macroeconomic variables such as foreign trade, international investment or industrial production valued at market prices.

Developing countries' shares of world GDP at current prices and at market exchange rates increased from 17.5 percent in 1970 to 30.7 percent in 2010.¹⁵ Differences in inflation rates and movements in exchange rates significantly influenced these trends. To resolve problems arising from different inflation rates, Table 5 presents available evidence on GDP and GDP per capita, at constant 2000 prices, from 1970 to 2010. GDP in developing countries as a proportion of world GDP increased from 14.7 percent in 1970 to 25.4 percent in 2010. GDP per capita as a proportion of that in industrialized countries remained almost unchanged in the range of 5 percent between 1970 and 2000. It rose to 5.9 percent in 2005 and 7.5 percent in 2010. Divergence in per capita income seemingly came to a stop in the last quarter of the 20th century. Convergence did not quite begin for the developing world as a whole until the turn of the century, although a few countries in Asia witnessed a significant catch-up in terms of per capita income starting somewhat earlier.

The focus on population and income, while instructive, is not sufficient. Considering the engagement of developing countries with the world economy through obvious channels such as international trade and investment is

14 In principle, this could be a problem for the Maddison (2003) estimates used in the preceding discussion. In fact, it is not, as the Maddison-Geary-Khamis approach is a more sophisticated exercise in international comparisons than the conventional PPP measures and is suitable for a study of long-term trends. For a more detailed discussion, see Nayyar 2009.

15 These percentages are calculated from data on GDP at current market prices reported in World Bank 2011.

Table 5: GDP and GDP per capita in developing countries and the world economy (at constant prices)

Year	Developing countries GDP	World GDP	Gdp of developing countries as % of world GDP	Developing countries Per capita GDP	Industrialized countries per capita GDP	Per capita GDP of developing countries as % of per capita GDP of industrialized countries
1960	1134	7279	15.6	484	9144	5.3
1965	1424	9420	15.1	550	11190	4.9
1970	1792	12153	14.7	628	11660	5.4
1975	2355	14598	16.1	739	13028	5.7
1980	2991	17652	16.9	849	14887	5.7
1985	3435	20275	16.9	883	16468	5.4
1990	4048	24284	16.7	943	18937	5.0
1995	4756	27247	17.5	1019	20088	5.1
2000	5872	32213	18.2	1167	22708	5.1
2005	7646	36926	20.7	1423	24282	5.9
2010	10516	41365	25.4	1840	24635	7.5

Note: GDP figures are in billions of constant 2000 US dollars. GDP per capita figures are in constant 2000 US dollars.

Source: World Bank 2011.

important, as is exploring whether or not developing countries succeeded in catching up in industrialization. This should be reflected in developing countries' share of world industrial production and manufactured exports. The discussion that follows considers these aspects.

INTERNATIONAL TRADE

International trade is, perhaps, the most important form of engagement with the world economy. Table 6 shows that the share of developing countries in world exports increased from 14.4 percent in 1970 to 42 percent in 2010. Their share of world imports also increased, from 14.1 percent in 1970 to 38.9 percent in 2010. As sources of imports and markets for exports, developing countries' shares more than doubled between 1990 and 2010. In 1970, their share of exports and imports was roughly commensurate with their share of world GDP, but by 2010 their share of the former was significantly higher than their share of the latter.

Table 6: Share of developing countries in world trade

Year	Exports (in US \$ billion)			Imports (in US \$ billion)		
	World	Developing countries	Developing countries' share (%)	World	Developing countries	Developing countries' share (%)
1970	161.9	23.3	14.4	170.2	23.9	14.1
1975	801.0	183.2	22.9	820.5	165.3	20.2
1980	1,745.0	426.5	24.4	1,812.9	355.0	19.6
1985	1,686.6	360.9	21.4	1,799.7	355.0	19.7
1990	3,132.0	617.4	19.7	3,251.0	6,13.3	18.9
1995	4,705.6	1,167.6	24.8	4,763.4	1,243.4	26.1
2000	6,074.2	1,803.3	29.7	6,263.4	1,663.0	26.6
2005	9,864.2	3,330.3	33.8	10,171.6	3,006.6	29.6
2010	15,229.6	6,395.6	42.0	15,262.4	5,931.3	38.9

Note: The data on exports and imports are in current prices at current exchange rates.

Source: Nayar 2009 based on the United Nations UNCOMTRADE Statistical Database.

Developing countries' share of world merchandise exports at current prices rose from 14.4 percent in 1870 to 19.6 percent in 1913.¹⁶ Their share of world trade in 1970 was about the same as it was in 1870, but by 2010 it was double what it was in 1913.

INTERNATIONAL INVESTMENT

Table 7 highlights how, between 1990 and 2010, developing countries' global share of inward foreign direct investment (FDI) stocks increased from about one-fourth to almost one-third, while their share of inward FDI flows was in the range of one-third. Their share of outward FDI stocks increased from less than one-fourteenth to more than one-seventh; outward FDI flow shares were in the range of one-tenth to one-sixth.

In 1900, foreign investment in developing countries, direct and portfolio together, was the equivalent of about one-third of their GDP.¹⁷ In 2000, it was

16 These percentages have been calculated from data on the value of merchandise exports, in millions of US dollars in current prices at current exchange rates, for a sample of 56 countries reported in Maddison 1995 (pp. 234-235). This sample includes 28 developing countries (7 in Latin America, 11 in Asia and 10 in Africa) and 28 industrialized countries (17 in Western Europe, 2 in North America, 7 in Eastern Europe and 2 in Oceania). Based on data in this sample, the share of developing countries in world merchandise exports at current prices was almost unchanged at 20.4 percent in 1950.

17 Maddison (1989) estimated that, at 1980 prices, in 1900, the stock of foreign capital in developing countries was \$108.3 billion (p. 30), while the GDP of 15 selected developing countries in Asia and Latin America was \$333.8 billion (p. 113).

Table 7: FDI in the world economy: 1990 to 2010

	Stocks						Flows (average per annum)											
	Inward			Outward			Inward			Outward								
	1990	1995	2000	2005	2010	1990	1995	2000	2005	2010	1991-1995	1996-2000	2001-2005	2006-2010				
<i>Developing Countries</i>	517	848	1,732	2,701	5,951	146	330	857	1281	3,132	78	203	240	549	36	78	84	286
<i>Industrialized Countries</i>	1,562	2,534	5,653	8,563	12,502	1,948	3,281	7,083	10,983	16,804	148	604	490	891	222	696	641	1,262
<i>World</i>	2,081	3,393	7,446	11,539	19,141	2,094	3,616	7,962	12,416	20,408	228	815	750	1,521	259	776	735	1,597
<i>Developing Countries as a percentage of World total</i>	24.9	25.0	23.3	23.4	31.1	6.9	9.1	10.8	10.3	15.3	34.1	24.9	32.0	36.1	13.8	10.0	11.5	17.9

Source: UNCTAD Foreign Direct Investment Online Database (www://stats.unctad.org/fdi).

Table 8: Share of developing countries in world manufacturing value added (percent)

Year	Percentage Share		
	1980 prices	2000 prices	Exports
1975	12.6	...	6.8
1980	13.7	...	10.6
1985	14.1	...	14.6
1990	15.3	16.0	17.8
1995	...	19.8	25.2
2000	...	20.9	28.1
2005	...	25.4	33.3
2010	...	32.1	36.5

Note: The percentage figures have been calculated from data on US dollar values at constant prices for each of the series.
Source: Nayyar (2009) and UNIDO Secretariat.

about 30 percent.¹⁸ In 1914, foreign investment in developing countries, direct and portfolio together, was US \$179 billion at 1980 prices. In 1980, it was \$96 billion at 1980 prices.¹⁹ In real terms, it reached its 1914 level in the mid-1990s.

For developing countries, the significance of foreign investment at the end of the 20th century was about the same as it was at the end of the 19th century.²⁰ There is, however, one important difference. In the 2000s, developing countries were an increasingly significant source of FDI in the world economy, an altogether new phenomenon.²¹

INDUSTRIAL PRODUCTION

It is difficult to find time series evidence on industrial production in developing countries and the world economy since 1950. Problems arise from the comparability of data over time. Table 8 illustrates the shares of developing countries in manufacturing value added²² with two time series. These are not strictly comparable because of index number problems, but some overlap between the series makes it easier to interpret trends. From 1975 to 1990, the share of developing countries in world manufacturing value added, at 1980 constant prices,

18 UNCTAD 2002, p. 329. This proportion rose sharply in the late 1990s, as it was much less at 10.2 percent in 1980 and 13 percent in 1990.

19 The estimate of foreign capital stocks in developing countries in 1914, at 1980 prices, is from Maddison 1989 (p. 30), while the figure for FDI stocks in developing countries in 1980 is from UNCTAD 1993 (p. 248).

20 For evidence and analysis in support of this proposition, see Nayyar 2006.

21 For a detailed discussion, see UNCTAD 2006. See also Nayyar 2008a.

22 Manufacturing value added reported in this table is estimated in accordance with the national accounting concept, which represents the contribution of the manufacturing sector to GDP.

Table 9: Share of developing countries in world manufactured exports

Year	Share (%)
1975	6.8
1980	10.6
1985	14.6
1990	17.8
1995	25.2
2000	28.1
2005	33.3
2010	36.5

Note: Manufactured goods are defined as products belonging to Standard International Trade Classifications (SITC) Sections 5 to 8, excluding Division 68 (non-ferrous metal products). Figures have been calculated from data on US dollar values at current exchange rates.

Source: Nayyar (2009) based on United Nations, UNCOMTRADE database.

registered a modest increase from 12.6 percent to 15.3 percent. From 1990 to 2010, the share, at 2000 prices, doubled from 16 percent to more than 32 percent, with accelerated gains beginning in the mid-1990s.

Developing countries' share of world industrial output was 60.5 percent in 1830.²³ But with industrialization in Western Europe and somewhat later in the United States, their share dropped sharply from 36.6 percent in 1860 to 11 percent in 1900 and 7.5 percent in 1913.²⁴ Particularly in Asia, a dramatic de-industrialization occurred from 1830 to 1913. Developing countries' share of world industrial production stayed in the 7-8 percent range, its 1913 level, until around 1970.²⁵

MANUFACTURED EXPORTS

The catch-up in industrialization was reflected in the emergence of developing countries as important sources of manufactured exports. Table 9 reveals that from 1975 to 1990, their share multiplied by more than 2.5 times, from 6.8 percent in 1975 to 17.8 percent in 1990. From 1990 to 2010, their share continued rapidly increasing, more than doubling from 17.8 percent in 1990 to 36.5 percent in 2010.

Developing countries' share of world manufacturing value added was higher than their share of world manufactured exports until around 1980. The two shares were roughly similar through the 1980s, but beginning in the 1990s their share in manufactured exports progressively exceeded their share in manufacturing value added.

23 These shares are estimated by, and reported in, Bairoch 1982 (p. 275).

24 Ibid., p. 275.

25 For supporting evidence, see Nayyar 2009 (p. 21).

3. UNDERLYING FACTORS

Changes in the significance of any subset of countries in the world economy over time depend on their economic growth as compared with the rest of the world. Table 10 presents GDP and GDP per capita growth rates over time, based on Maddison (2001) estimates in 1990 international Geary-Khamis dollars.

The progressive, rapid decline in the relative importance of developing countries in the world economy from 1820 to 1950 is easily explained in terms of slow GDP growth compared with Western Europe, North America, Eastern Europe and Japan. The differences in the relative importance of regions can also be explained in terms of variations in growth performance. From 1820 to 1950, the dramatic decline in Asia's share of global income was attributable to much slower GDP growth compared with every other part of the world. The relatively stable share of Africa stemmed from respectable GDP growth rates not significantly lower than elsewhere, whereas the sharp increase in Latin America's share derived from much higher GDP growth rates.

Divergences or convergences in per capita income between groups of countries that emerged over time are clearly reflected in differences in GDP per capita growth rates. From 1820 to 1950, there was a great divergence in per capita income between Western Europe and North America on the one hand, and Asia on the other, but this divergence was much less for Latin America and Africa. The divergence between Western Europe and Asia is striking, with sustained productivity growth and industrialization in Western Europe, and a steady productivity decline and de-industrialization in Asia. The rise of Western Europe and the decline of Asia are important themes in the historical literature on the subject.²⁶

Around 1750, life expectancy, consumption levels and product markets in these two parts of the world were similar. Living standards were not far apart.²⁷ Advanced regions of Europe and Asia were more similar than different, with sophisticated economies. It has been argued that the great divergence between Europe and Asia during the 19th century was attributable to the fortunate location of coal, which substituted for timber, and trade with the Americas that allowed Western Europe to grow along resource-intensive and labour-saving paths.²⁸ Another hypothesis suggests that, during the 18th century, high wages combined with cheap capital and energy in Britain and other European

26 For an extensive discussion, see Frank 1998, Pomeranz 2000 and Allen 2009. For an analysis in the wider context of the world economy, see Kindleberger 1996, and Findlay and O'Rourke 2007.

27 For a discussion, with supporting evidence, see Pomeranz 2000.

28 This argument is the essential theme in Pomeranz 2000.

Table 10: Growth rates in the world economy by regions: 1820 to 1950

	GDP			GDP per capita		
	1820 – 1870	1870 – 1913	1913 – 1950	1820 – 1870	1870 – 1913	1913 – 1950
<i>Asia</i>	0.03	0.94	0.90	-0.11	0.38	-0.02
<i>Africa</i>	0.52	1.40	2.69	0.12	0.64	1.02
<i>Latin America</i>	1.37	3.48	3.43	0.10	1.81	1.43
<i>Western Europe</i>	1.65	2.10	1.19	0.95	1.32	0.76
<i>Western Offshoots</i>	4.33	3.92	2.81	1.42	1.81	1.55
<i>Eastern Europe</i>	1.36	2.31	1.14	0.63	1.31	0.89
<i>Former Soviet Union</i>	1.61	2.40	2.15	0.63	1.06	1.76
<i>Japan</i>	0.41	2.44	2.21	0.19	1.48	0.89

Note: Western Europe includes 16 selected countries, Eastern Europe 7 selected countries, Asia 56 selected countries, Africa 57 selected countries and Latin America 44 selected countries. The Western offshoots include Australia, Canada, New Zealand and the United States.

Source: Nayyar 2009 based on Maddison 2001, Appendix A.

countries, compared with Asia, meant that the technologies of the Industrial Revolution, whether the steam engine or the spinning jenny, were profitable to invent and use.²⁹

These arguments cannot provide a complete explanation, for the basic causes were manifold and complex. The search for coal might have been driven by shortages of wood that followed deforestation at home. The search for new technologies might have come from competition from Asian manufacturers, whether of cotton textiles in India or porcelains and silks in China. In both Europe and Asia, events were shaped by complex national economic, social and political factors.³⁰ The global economy also exercised an important influence.³¹ British military successes overseas played a significant role, with the origins of the Industrial Revolution closely connected with international trade and overseas expansion.³²

Economic growth in Britain was also attributable to the organization of production in the capitalist system, based on a division of labour associated with capital accumulation and technical progress; this was strongly supported

29 This hypothesis is developed in Allen 2009.

30 For a discussion, see Kindleberger 1996.

31 It has been argued by Allen (2009) that the British Industrial Revolution was a successful response to the global economy of the 18th century.

32 For a discussion on the international context in which the Industrial Revolution happened in Britain, rather than elsewhere in Europe or Asia, see Findlay and O'Rourke 2007.

by state policies on industry and tariffs.³³ Countries in Western Europe followed a similar path a little later. But this did not happen in Asia.

In terms of output and employment, industrialization in Britain and north-west Europe increased manufacturing and decreased agricultural activity, leading to an economic structural transformation. The shift of labour from agriculture to manufacturing led to sustained increases in productivity. International migration, which moved people from land-scarce Europe to land-abundant America, supported the process,³⁴ as did access to resources from colonies in the Americas and elsewhere.

Since 1950, complete time series data on GDP are available from national accounts statistics. Evidence suggests that 1980 marked a shift in economic growth trends almost everywhere in the world economy.³⁵ Table 11 presents evidence on growth rates in GDP and GDP per capita from 1951 to 2005. Both the arrest of the decline in the relative importance of developing countries in the world economy from 1951 to 1980 and the significant increase in the importance of developing countries since 1980 are explained by GDP growth rates higher than those in industrialized countries.

From 1951 to 1980, economic growth in all regions in the developing world was much better than it was from 1820 to 1950. Divergence within the developing world began thereafter. Asia's modest recovery in its share of world income after 1950, followed by its rapid rise since 1980, was attributable to much higher GDP growth rates than elsewhere. Economic growth in Latin America from 1951 to 1980 was comparable with that in industrialized countries, so that it increased its income share, but its growth performance was distinctly worse after 1980, with some decline in its share. Africa experienced a contraction in its share particularly after 1980, as GDP growth rates were lower than elsewhere in the world.

Economic growth in the developing world during the second half of the 20th century was not associated with convergence in per capita incomes compared with the industrialized world. The divergence in per capita incomes persisted. In fact, for Latin America and Africa, this significantly increased after 1980. In Asia, the divergence stopped, and there was a modest move towards closing the income gap starting in 1980. But it was not quite convergence, except in a few countries. There are persistent, and for some regions mounting, differences in the growth rates of GDP per capita.

33 For a lucid and persuasive exposition of this hypothesis, see Chang 2002.

34 For a detailed discussion, see Nayyar 2002 and 2008a.

35 This proposition is set out, with supporting evidence, in Nayyar 2008c. See also Amsden 2007.

Table 11: Growth performance of developing countries: 1951 to 1980 and 1981 to 2005

	GDP growth, % per year				GDP per capita growth, % per year			
	Maddison data		UN data		Maddison data		UN data	
	1951-1980	1981-2000	1981-2000	1981-2005	1951-1980	1981-2000	1981-2000	1981-2005
<i>Asia</i>	6.28	4.04	3.90	4.06	2.90	1.61	1.36	1.63
<i>Latin America</i>	4.69	2.01	2.09	2.26	2.11	0.15	0.20	0.44
<i>Africa</i>	4.12	2.42	2.60	2.97	1.66	-0.17	-0.06	0.39
<i>Developing countries</i>	4.84	2.65	2.74	3.04	2.19	0.39	0.42	0.80
<i>Industrialized countries</i>	4.40	2.56	2.59	2.50	3.50	2.04	2.06	1.96
<i>World</i>	4.77	2.64	2.72	2.95	2.40	0.66	0.69	0.99

Notes: The growth rates for each period are computed as geometric means of the annual growth rates in that period. Figures are provided for 1951 to 1980 based on Maddison data, since UN data are not available before 1971, while 1981 to 2005 are based on UN data. The two data sets are not strictly comparable. However, data are available from both sources for 1981 to 2000. To facilitate comparison, the table presents figures from 1981 to 2000 computed separately from Maddison and UN data. The numbers correspond closely, suggesting that growth rates for 1951 to 1980 and 1981 to 2005, even if computed from different sources, are comparable.

The Maddison data on GDP and GDP per capita, which are in 1990 international Geary-Khamis dollars, are PPPs used to evaluate output and are calculated based on a specific method devised to define international prices. This measure facilitates inter-country comparisons. The UN data on GDP and GDP per capita are in constant 1990 US dollars. Figures for the world economy cover 128 countries, of which 21 are industrialized and 107 are developing. Latin America includes the Caribbean.

Source: Nayyar 2008c based on Maddison 2003 and UNCTAD 2006.

The doubling of developing countries' share of world manufacturing value added, from 16 percent in 1990 to 32 percent in 2010, stemmed partly from the slowdown in industrial production in the industrialized countries. The acceleration in production in developing countries is also important and merits attention. It is largely linked to development strategies and economic policies in the post-colonial era that created the initial conditions and laid essential foundations in countries that were latecomers to industrialization. The much-maligned import-substitution-led strategies made a critical contribution to catching up.³⁶ While a complete explanation would be far more complex, the role of the state was critical. Industrialization was not so much about getting prices right as it was about getting state intervention right.³⁷ Even in the small East Asian coun-

36 See, for example, Helleiner 1992, Rodrik 1992 and Nayyar 1997.

37 There is extensive literature on the subject. See, for instance, Stiglitz 1989, Shapiro and Taylor 1990, Bhaduri and Nayyar 1996, and Lall 1997.

tries, often cited as success stories, the visible hand of the state was much more in evidence than the invisible hand of the market.³⁸ The degree of openness and the nature of state intervention turned out to be strategic choices in pursuing industrialization. They were shaped by the stage of development to begin with and changes in circumstances over time.

Apart from an extensive role for governments, the use of borrowed technologies, an intense process of learning, the creation of managerial and technological capabilities, and the nurturing of entrepreneurs and firms in different business enterprises were major factors underlying catch-up in industrialization.³⁹ The creation of initial conditions was followed by a period of learning to industrialize so that outcomes surfaced with a time lag. It was not the magic of markets that produced a sudden spurt.⁴⁰ Experience suggests that success was about laying a foundation in terms of education, infrastructure, capabilities and institutions; managing strategic integration rather than opting for a passive insertion into the world economy; and recognizing the specificities of economies in time and space.⁴¹

Two sets of factors, interconnected but sequential in time, may underlie trends in developing countries' shares of manufactured exports and manufacturing value added, with the former outstripping the latter since the 1990s.⁴² First, for developing countries, external markets became increasingly important in the process of industrialization. This began with Brazil and Mexico in the mid-1960s, although rapid export growth did not continue beyond the late 1970s. Expansion gathered momentum, however, with the East Asian success stories: Hong Kong, the Republic of Korea, Singapore and Taiwan Province of China. The small south-east Asian economies, Malaysia and Thailand, followed in their footsteps. It was not long before China and India, the mega-economies in Asia, also sought access to external markets.⁴³

Second, as globalization gathered momentum, there was a progressive integration of developing countries into the world economy, particularly in

38 This proposition, developed at some length by Amsden 1989, Wade 1990 and Chang 1996, is now widely accepted.

39 For a complete and convincing exposition of this argument, see Amsden 2001. See also Dahlman, Ross-Larson and Westphal 1987, Lall 1990 and Chang 2002.

40 Much the same can be said about the now industrialized countries, where industrial protection and state intervention were just as important at earlier stages of development when they were latecomers to industrialization. This argument, supported by strong evidence, is set out with admirable clarity by Chang 2002. Reinert 2007 develops a similar hypothesis.

41 For a more detailed discussion, see Nayyar 2008c.

42 For time series evidence on these trends, see Nayyar 2009.

43 Export performance in China beginning in 1979, India beginning in 1980, and Brazil beginning in 1964 but only until 1980, was roughly comparable with that in Japan beginning in 1960 and the Republic of Korea beginning in 1965 (Nayyar 2010).

international trade. Transnational corporations from industrialized countries started sourcing imports of labour-intensive manufactured goods from selected developing countries by relocating production or through sub-contracting.⁴⁴ In time, this provided opportunities for domestic firms to manufacture for the world market in collaboration or competition with transnational corporations.

4. UNEQUAL PARTICIPATION AND UNEVEN DEVELOPMENT

Developing countries' increased shares of world output, international trade and manufacturing production may create the impression of widespread development. This is misleading, as much of the catch-up is concentrated in a few countries: China, Hong Kong, India, Indonesia, Malaysia, the Republic of Korea, Singapore and Thailand in Asia; Argentina, Brazil and Mexico in Latin America; and South Africa in Africa. This group of 12 countries is diverse in size and history. Their catch-up processes have not been uniform in terms of starting points or speed. Yet their overwhelming importance is clear enough.⁴⁵

Between 1970 and 2005, within the developing world, their GDP share increased from 62 percent to 68 percent, although their population share decreased from 66 percent to 60 percent. Over the same period, their shares of total exports more than doubled from 33 percent to 73 percent, of total imports rose from 41 percent to 74 percent, and of foreign exchange reserves increased from 41 percent to 76 percent. Between 1980 and 2005, their shares of manufacturing value added rose from 70 percent to 86 percent, and of manufactured exports from 78 percent to 88 percent. Their share of FDI stocks, both inward and outward, was in the range of two-thirds to three-fourths.

In effect, much of the developing world's catch-up in industrialization and development is concentrated in a dozen countries, where economic growth was

44 For a detailed discussion on this issue, see Nayyar 1978.

45 For a further discussion, and for the evidence cited in this paragraph, see Nayyar 2009. The grouping is not significantly different from the 'late-industrializing' countries, described as 'the Rest' by Amsden (2001). The latter include Argentina, Brazil, Chile, China, India, Indonesia, Malaysia, Mexico, the Republic of Korea, Taiwan Province of China, Thailand and Turkey. The grouping in this paper, in comparison, includes Hong Kong, Singapore and South Africa, but excludes Chile, Taiwan Province of China and Turkey. Taiwan Province of China is not included simply because UN statistics do not provide information on it as a province of China. Hong Kong and Singapore are included because they were such an integral part of the East Asian miracle, while South Africa is included as the largest and most industrialized economy in Africa. Both groupings comprise two sets of countries: 'the integrationists' (Mexico, Hong Kong and Singapore), characterized by a heavy reliance on FDI, and minimal local research and development; and 'the independents' (Brazil, China, India and the Republic of Korea), which developed national firms and technological capabilities.

associated with a structural change in output and employment, even if it did not lead to improved living conditions for most people.⁴⁶

The obvious determinants of such concentration are size, growth and history. The selected countries, except Hong Kong, Malaysia and Singapore, are large in population, area and income. All the Asian countries experienced high growth rates, even if the step-up started at somewhat different points of time compared with most countries in the developing world. Historically, about half the 12 countries, in particular China and India, but also Argentina, Brazil, Mexico and South Africa, have always been dominant in their respective regions and have also been significant in the world economy.

It is another matter that Brazil and Mexico were success stories before 1980, while China and India were success stories after 1980. The Asian countries in the group created the requisite initial conditions to capture benefits from globalization during the last quarter of the 20th century in much the same way as a few latecomers to industrialization, in particular the United States, grasped advantages from globalization during the last quarter of the 19th century.⁴⁷ In contrast, Argentina benefited from globalization from 1870 to 1914, while Brazil and Mexico advanced through import-substitution-based and state-led industrialization from 1950 to 1980. Unlike Asia, Latin America, with the possible exception of Chile, has not quite benefited from globalization since 1980.

The recent impressive but uneven growth of developing countries has three consequences. First, gaps have widened among countries. Second, some countries, or regions within countries, have been excluded from development. Third, widespread poverty persists in a world with pockets of prosperity.

From 1950 to 2010, gaps in income widened not only between rich and poor countries, but also among countries in the developing world.⁴⁸ International inequalities were attributable largely to disparities between industrialized countries and developing countries, but even so, those among developing countries

46 This hypothesis is developed, at some length, by Ocampo, Rada and Taylor 2009. The authors attempt to explain divergences in growth and development over the past 50 years among countries that are latecomers to industrialization. The focus is on links across economic structure, policy and growth. The concept of economic structure refers to the composition of production activities, the associated patterns of specialization in international trade, the technological capabilities of the economy, the educational level of the labour force, the structure of ownership, the nature of essential state institutions and the development of (or constraints on) markets, which, taken together, can either hinder or widen policy choices. This approach is used to explain why some countries succeeded in their pursuit of development, but there was a much larger number that did not.

47 For a further discussion on this proposition, see Nayyar 2006.

48 This argument is developed, with supporting evidence, elsewhere by the author. See Nayyar 2009. For a comprehensive analysis of trends in international inequality, among countries and people, see Milanovic 2005.

were significant. There was a discernible increase during the second half of the 20th century, with a divergence in per capita incomes between rich and most poor countries. Only a few countries, largely in Asia, were exceptions; divergence stopped in the early 1970s, and a modest convergence began to gather some momentum in the early 2000s.

The divergence in per capita incomes among countries in the developing world is new. The least developed countries (LDCs) provide a striking illustration. The number of LDCs doubled from 24 in the early 1970s to 48 in the early 2000s. In 2010, the share of LDCs in world output was less than 1 percent, but, with 830 million people, they accounted for 12 percent of the world population.⁴⁹ In nominal terms, the average GDP per capita in LDCs was one-fifth of that in developing countries and one-fiftieth of that in industrialized countries. Economic development simply did not create social opportunities for most people.

In 2009,⁵⁰ adult literacy in the LDCs was less than 60 percent compared with more than 80 percent in developing countries. Life expectancy at birth was 56 years and the infant mortality rate was 78 per 1,000 births, compared with developing countries' 62 years and 48 per 1,000 births. Gross enrolment ratios in tertiary education were less than 6 percent in the LDCs compared with more than 20 percent in developing countries. The exclusion of the LDCs from development is an important factor underlying international inequalities in the world as a whole and within the developing regions.

There is similar exclusion of regions within countries. This is not altogether new. But markets and liberalization tend to widen disparities, because there is a cumulative causation that creates market-driven virtuous or vicious circles. Regions that are better endowed with natural resources, physical infrastructure, and educated or skilled labour experience rapid growth. Like magnets, they attract resources from people elsewhere. In contrast, disadvantaged regions tend to lag behind and become even more disadvantaged. Over time, disparities widen. This has happened in most countries that have experienced rapid growth. In Brazil, regional inequalities between the north-east and the south, in particular São Paulo, increased significantly during rapid economic growth. Economic disparities have widened between coastal China in the east and the hinterland in the west; between Java and the other islands of Indonesia; and between India's western and southern regions, and eastern and northern regions.

49 The LDC shares of world GDP and population are calculated from the UN Conference on Trade and Development (UNCTAD) online database on LDCs.

50 The statistics cited in this paragraph are obtained from UNCTAD 2011.

The incidence of poverty in the developing world in 1950 was high. By 1980, there was a modest reduction in the proportion of people below the poverty line, but this was nowhere near what was needed to diminish, let alone eradicate poverty. The period since then has witnessed a change for the worse in many places.⁵¹ The incidence of poverty increased in most countries of Latin America, the Caribbean and sub-Saharan Africa during the 1980s and the 1990s. Much of Central Asia experienced a sharp rise in poverty during the 1990s. East Asia, South-east Asia and South Asia experienced a steady decline, but mainly in China and India.

Between 1981 and 2005, the proportion of people below the poverty line of PPP \$1.25 per day dropped from 51.8 percent to 25.2 percent of the global population, whereas the number of the poor dropped from 1.9 billion to 1.4 billion. If the poverty line is drawn at PPP \$2 per day, between 1981 and 2005, the number of poor in the world remained unchanged at 2.5 billion, even if their proportion in the total population dropped from 69.2 percent to 47 percent. The population between the two poverty lines, 1.1 billion people, more than one-fifth the number of people in the developing world, is vulnerable in times of crisis, because any shock, such as a bad harvest, high inflation or employment cuts, can push them further into poverty.

The evidence cited here is based on World Bank estimates.⁵² Some argue that these underestimate poverty, while a few claim that they overestimate it.⁵³ It is clear that more than one-fifth and perhaps almost two-fifths of people live in absolute poverty, depending upon the poverty line. They live mostly in the developing world and constitute a significant proportion of its population. And poverty has persisted at high levels during a period when developing countries took a greater share of world income.

The beginnings of a catch-up with the industrialized world seem concentrated in just a few countries, meaning there is convergence for a few but divergence for the many. If rapid growth has led to human development and social progress in a few countries, in a much larger number growth has not quite led to development. A significant number of countries have not experienced either growth or development.

In the aggregate, evidence suggests some progress on the Human Development Index, which shows that the gap between rich and poor countries has narrowed

51 See World Commission on the Social Dimension of Globalization 2004 and Nayyar 2006.

52 See Chen and Ravallion 2008.

53 There is extensive literature on the subject. For a succinct discussion of the trends in poverty and the debate on numbers, see Kaplinsky 2005.

by about one-fifth between 1990 and 2010, and by about one-fourth since 1970.⁵⁴ Some of this convergence may be attributable to the fact that two indicators that make up the index, literacy rates and life expectancy, have natural upper bounds. The narrowing of the gap may also be attributable to the base year, or the starting point for the comparison, when levels of human development, particularly in terms of health and literacy, were low in most poor countries.

On the whole, there has been progress, although its distribution is unequal across and within countries. Per capita incomes are just arithmetic means, while social indicators are mere statistical averages. And neither captures the well-being of the poor. Measures of poverty, ranging from simple to complex, highlight the reality that absolute deprivation, even if it has diminished over time, persists and is widespread.

5. CONTEMPLATING THE FUTURE

Is it possible to speculate about the future prospects of developing countries in the world economy? Growth matters because it is cumulative. Statistical projections based on an extrapolation of the recent past into the distant future, however, even if these are the fashion of the times, cannot predict outcomes. Such projections highlight the power of compound growth rates, but growth is not simply about arithmetic. In fact, it is about more than economics. And there is nothing automatic about growth.

There are underlying factors that suggest a strong potential for growth. But there are also real constraints. In the ultimate analysis, the constraints can be overcome in a sustainable manner only if economic growth is transformed into meaningful development that improves the well-being of all people. If this happens, it would reinforce growth and development through a cumulative causation. If it does not, developing countries will find catch-up difficult and will continue to lag behind the industrialized world.

The economic determinants of potential growth in the developing world are a source of good news. In principle, developing countries may be able to attain or sustain high rates of growth for some time to come for the following reasons. First, their populations are large and their income levels are low, allowing greater possibilities for growth. Second, their demographic characteristics, in particular the high proportion of young people, implying workforce increases for some time to come, are conducive to growth, provided that education is widely

54 For a detailed discussion, with supporting evidence, see UNDP 2010.

available and creates the right capabilities. Third, wages are significantly lower in most developing countries than elsewhere, which is an important source of competitiveness. In manufacturing activities, large reservoirs of surplus could mean that relatively low wages could continue to be a source of competitiveness for some time. Fourth, the potential for productivity increases is considerable at earlier stages of development at the extensive margin, from almost zero productivity in agriculture to some positive, even if low, productivity in manufacturing or services, followed by a transfer of such labour from low productivity employment to somewhat higher productivity employment at the intensive margin.

In practice, developing countries may not be able to realize the potential for growth. There are specific constraints in different countries, whether leaders or laggards. General constraints common to most developing countries include poor infrastructure, underdeveloped institutions, inadequate education, unstable politics and bad governance. Potential constraints that may not be discernible so far but may arise from the process of growth encompass economic exclusion, social conflict, environmental stress and climate change. Some constraints may be exogenous to developing countries, such as worsening terms of trade, restricted market access for exports, inadequate sources of external finance or a crisis in the world economy.

In pursuing development, poverty eradication, employment creation and inclusive growth are imperatives. These constitute the essential objectives of development, and they are the primary means for bringing about development.⁵⁵ This is the only sustainable way forward for developing countries, because it would enable them to mobilize their most abundant resource, people.

There is a complexity in the process of development. Yet some initial conditions and essential foundations are almost obvious. The spread of education provides a basis for development in countries that are latecomers to industrialization. Infrastructure, both physical and social, is fundamental for earlier stages of industrialization. Most important, perhaps, is the state's critical role in terms of policies, institutions and governance. Developing countries must endeavour to combine economic growth with human development and social transformation. This requires a creative interaction between the state and the market, beyond the predominance of the market model. Their past could then be a pointer to their future.

55 This argument is similar to Amartya Sen's conception of development as freedom. He argues that development is about expanding real freedoms that people enjoy for their economic well-being, social opportunities and political rights. Such freedoms are not just the primary ends of development, but are also instrumental as the principal means of attaining development. For a lucid analysis, see Sen 1999.

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The Challenge of the South

KHALIL HAMDANI

INTRODUCTION

A prominent feature of our changing world is the increasing role of developing countries in the global economy. They are reshaping North-South relationships towards greater balance, and are creating new South-South linkages that open untapped opportunities for growth and development. Brazil, China and India are ubiquitous, but other developing countries too are fast catching up.

The rise of the South is not unprecedented: All geographic regions have hosted economic growth poles at some point in history. But the rise of the 'new' South is particularly timely, providing a much needed boost to the global economy at a dismal juncture, and sustaining progress in the developing world, which otherwise faces an uncertain prospect.

This paper examines the rise of the new South and its potential to contribute towards more equitable and sustainable human development. It traces the origins of this shift, which go back several decades, resulting in southern economies becoming dynamic drivers of trade and investment flows, and world economic growth. The paper then highlights how new technologies have facilitated the South's rise; it is a familiar story of catch-up through cross-border exchange and learning, but the impact is proving transformational. Increasing numbers of entrepreneurs are innovating through assimilation and adaptation to meet the needs of an expanding middle class, sustaining rapid growth in subregional markets. A concluding look at policy implications explores a major challenge to the South: seizing momentum to accelerate human development. Nearly all of the fastest growing economies are in the South; many have an opportunity to rise from their low rankings on human development.

1. THE RISE OF THE ‘NEW’ SOUTH

Investment, trade and economic growth in recent years have been more rapid in the South than in the developed world. A global rebalancing—a new geography—is emerging. Developing countries’ share of world trade increased from 22 percent in 1965 to 42 percent in 2010.¹ Their share of world exports of services rose from 18 percent in 1990 to 30 percent in 2010, and of information and communication technology (ICT) goods from 43 percent in 2000 to 67 percent in 2010. Their participation in foreign direct investment (FDI) jumped from 18 percent of global inflows in 2000 to 46 percent in 2010, while FDI outflows rose from 8 percent to 25 percent.

In world manufacturing value added, their share grew from 17 percent in 1980 to 32 percent in 2010.² They accounted for two-thirds of all new researchers from 2002 to 2007,³ and for more than 70 percent of the expansion in trade of intermediate products, the most dynamic component of world trade.⁴ Their contribution to world output rose from 33 percent in 1980 to 43 percent in 2010, and they currently account for two-thirds of global growth.⁵

Realignments in North-South trade, investment and production have been accompanied by greater economic activity among developing countries. Trade increased among them by 12 percent and investment by 20 percent, annually, from 1996 to 2009.⁶ South-South trade now comprises a fifth of the world total, and is the largest component of the exports and imports of the least developed countries (LDCs).⁷ South-South FDI comprises a tenth of the global total and is a particularly important source of capital for the LDCs.⁸ Overall, economic growth in developing countries—whether low or middle-income, or oil-exporting—is more dependent on the South than the North.⁹

1 The expression ‘new geography’ was used by UNCTAD Secretary-General Rubens Ricupero in 2004; ‘rebalancing’ was used by World Bank President Robert Zoellick in 2010. Trade, investment and ICT data are available on line from <http://unctadstat.unctad.org>.

2 UNIDO database.

3 OCED 2010.

4 Athukorala and Menon 2010, p. 8.

5 World output and growth refer to gross domestic product (GDP) measured in terms of purchasing power parity (PPP), as compiled by the World Bank and International Monetary Fund (IMF).

6 UNCTAD 2011b.

7 UNCTAD 2011a, chapter 2.

8 UNCTAD 2006b.

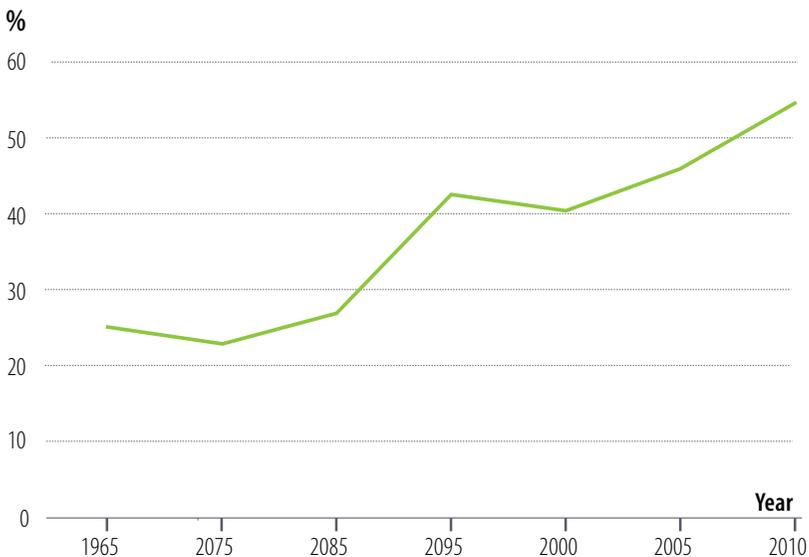
9 Garroway et al. 2010, p. 18.

TRADE

Trade among developing countries has increased steadily over the past 50 years, initially within their respective regions and later across continents. The share in total exports rose from 25 percent in 1965 to 55 percent in 2010 (see Figure 1). Today, developing countries export more merchandise and manufactured goods to each other than they do to developed countries. Moreover, manufactured exports to each other are more skill and technology intensive than those to developed countries (see Figure 2). South-South exports in 2010 were 62 percent manufactured, and half were high-skill- and technology-intensive products such as cathode valves and tubes, telecommunications equipment, automatic data-processing machines, parts and accessories, optical instruments and complex chemical products.

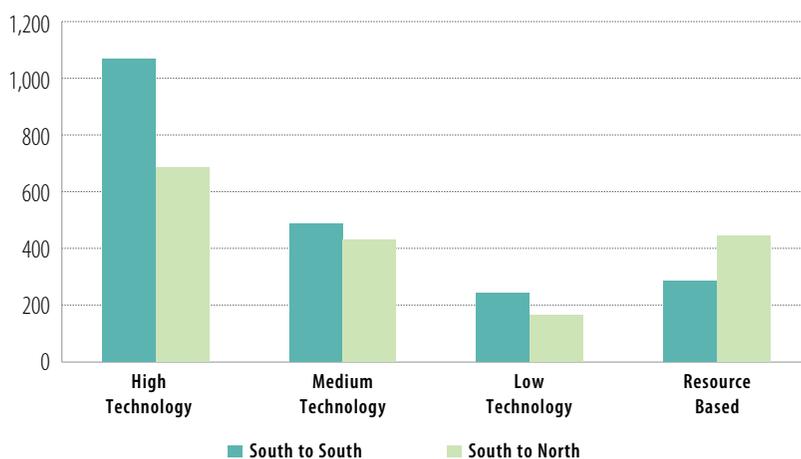
South-South trade is largely driven by Asia, where 84 percent originates and 82 percent is marketed; 74 percent is entirely within Asia. Latin America and Africa account, respectively, for 10 percent and 6 percent of South-South exports. The regional market is important in Latin America, however, particularly for its manufactured exports; South-South trade accounted for 39 percent

Figure 1: South-South trade. (Percentage share of total exports of developing countries)



Source: <http://unctadstat.unctad.org>

Figure 2: Technology in the manufactured exports of the South (US \$ billions, 2010)



Source: <http://unctadstat.unctad.org>

of total exports in 2010. In Africa, South-South trade the same year was also significant at 41 percent of total exports; 70 percent of trade with southern countries is interregional. The LDCs in 2010 marketed 54 percent of their total exports, mainly primary commodities, in developing countries, and sourced 66 percent of their total imports, mostly manufactured goods, from the South.

Primary products account for the bulk of Asian imports from Africa and Latin America, up from 59 percent in 1990 to 80 percent in 2010, which has revived the trade and growth prospects of commodity producers. Sub-Saharan Africa is presently sustaining real GDP growth above 5 percent, with the lower income commodity exporters growing 50 percent faster than their middle-income neighbours.¹⁰ Hopefully, governments have learned the lesson of ‘Dutch disease’, and will recall that commodity booms are short-lived, and can leave economies and peoples worse off without smart policies.¹¹

INVESTMENT

Sizeable investment flows to a greater number of developing countries in the past quarter century—expanding at a 16 percent compound annual growth rate

¹⁰ IMF 2011b.

¹¹ This issue is taken up again in the next section under growth spillovers and in the final policy section. Farooki 2009 suggests that the current commodity boom will be long lived.

Box 1: Production sharing through regional networks of transnational corporations

In the 1980s, Toyota established a regional network of affiliates in Indonesia, Malaysia, the Philippines and Thailand to manufacture specific and different automobile components (i.e., transmissions, engines, electrical equipment, stamped parts and steering assemblies). These were then traded among the affiliates or with the parent for assembly and sale in local and global markets, all coordinated from regional headquarters in Singapore. Later, in 2005, Toyota opened a research and development (R&D) centre in Thailand. Production-sharing networks are popular in the automobile, electrical and electronics industries, and are not unique to developing countries (e.g., Ford manufactured its world car largely in Europe).

Regional networks transform parts and components into intermediate goods that fill out the product space and allow developing countries to trade their way up to higher value production that otherwise is typically beyond reach. Affiliates start at the labour-intensive and low-skill segment of production. Over time and with appropriate policy support (see Box 2), the more dynamic affiliates move up the value chain or acquire additional functions (e.g., R&D) and establish affiliates of their own in other relatively lower cost locations (e.g., China, Indonesia and Viet Nam). Malaysian and Thai enterprises did this by emphasizing technological learning, skill development and supplier linkages with local enterprises.

For more background on regional networks, see UNCTAD 1993b and 2005a; and on product space, see Hidalgo et al. 2007.

from 1985 to 2010—have facilitated capital accumulation, technology transfer, industrialization and economic growth. FDI is not necessary or sufficient for development, but it has been catalytic in many developing countries.¹² Whatever their development strategy—export- or inward-oriented, state-led or market-driven—all large or fast-growing developing countries have attracted and benefited from FDI.¹³ Investment has also flowed to resource-abundant economies, but there the impact has been uneven.¹⁴

12 There is a vast literature on this subject. See, for instance, UNCTAD 1999.

13 From 1985 to 2010, the compound annual growth rates of FDI inflow were: Brazil, 15 percent; China, 17 percent; Chile, 20 percent; Hong Kong, China (SAR), 15 percent; India, 24 percent; Malaysia, 11 percent; Republic of Korea, 14 percent; Singapore, 15 percent; Thailand, 15 percent; and Turkey, 20 percent. For developing regions, the rates were: Africa, 13 percent; Asia, 18 percent; and Latin America, 14 percent.

14 UNCTAD 2007b.

FDI has helped propel many developing countries into world markets, diversify their exports and raise their share in global trade. A hallmark of globalization is the link between trade and investment: Two-thirds of world trade involves transnational corporations, and half of their trade occurs entirely within their corporate networks, between parents and affiliates, and among affiliates.¹⁵ In this way, export-oriented FDI in developing countries has expanded their global exports and nurtured South-South trade with affiliates in neighbouring countries (see Box 1). In Asia, intra-industry trade in manufactured goods, such as components for motor vehicles, electronics and electrical goods, was largely an outgrowth of industrial specialization and the regional spread of international production integrated through transnational corporations.¹⁶ Initially, manufacturing in affiliates involved standardized production and assembly operations, but over time it has involved more sophisticated process technologies. One estimate of the impact is illustrative: “The surge of integrated international production networks in electronics within East Asia resulted in a high-technology export boom of nearly \$320 billion between 1995 and 2005.”¹⁷

Production sharing through intra-Asian trade enabled countries to create jobs and diversify their industrial and export structures, and, importantly, to participate in technologically complex production processes of dynamic products, albeit initially in the labour-intensive segments. The benefits included learning through the knowledge network of the parent company and the buyer-supplier relationships between affiliates. National institutions and regional arrangements and associations evolved to facilitate such interactions, and collective capabilities were enhanced. The total recorded value of trade¹⁸ may well have exceeded the value added of the final product, but the production-sharing business model was highly successful for the firm, the nation and the region. Countries competed for FDI and market share, even as the paramount mantra was not ‘beggar thy neighbour’ but ‘prosper thy neighbour’.

The internationalization of manufacturing was followed by the offshoring and outsourcing of services.¹⁹ Traditionally, services have been non-tradable and

15 UNCTAD 1996b.

16 UNCTAD 1993b.

17 UNIDO 2009, p.115.

18 Trade statistics record the value of cross-border transactions, so trade in parts and components, final products and trans-shipments are all considered separate imports/exports.

19 Offshoring takes place within corporate networks, while outsourcing involves a transfer of production to other enterprises. For more background, as well as examples and data, see UNCTAD 2004.

required a physical presence in the foreign market through migration or FDI, and non-equity ties by mainly developed country multinationals (e.g., in banking, insurance, construction, air transport, shipping, and hotel and restaurant chains). Services comprised only 20 percent of world exports in 2010, and much of that was in the affluent consumer markets. But developing countries have steadily increased their share in services trade, to 30 percent in 2010. They have cashed in on the demographic dividend and serviced their own expanding consumer markets, and seized possibilities from new technologies for IT-enabled trade in services. Services range from data entry and those offered in call centres (low-skill); to back-office accounting, programming, ticketing and billing (medium-skill); to architectural design, digital animation, medical tests and software development (high-skill).

India is a big player, but others include Argentina; Bangladesh; Brazil; Chile; China; Costa Rica; Egypt; Hong Kong, China (SAR); Kenya; Malaysia; Mexico; Morocco; Pakistan; Panama; the Philippines; Republic of Korea; Singapore; South Africa; Taiwan Province of China; Thailand; Turkey and the United Arab Emirates, plus others. Many got started through the offshoring of functions within transnational corporate networks, but homegrown enterprises are active in South-South investment and trade in services, and in competing globally for the outsourcing of production from the developed countries. Enterprises there are cutting costs and improving quality by concentrating on core activities while sending non-core activities overseas.

The high end of services trade and investment is the internationalization of R&D to the South.²⁰ This trend is recent but indicates the South has penetrated the R&D domain of the North. The share of developing countries in the R&D expenditures of US majority-owned affiliates increased from 7.6 percent in 1994 to 18 percent in 2009.²¹ The share of developing countries in the geographic distribution of R&D bases of Japanese manufacturing companies rose from 24 percent in 2000 to 53 percent in 2011.²²

FDI in developing countries has been a forerunner to outward FDI from them (see Figure 3). In 1980, there were fewer than a thousand companies from developing countries investing overseas.²³ Today, one out of every four transnational corporations worldwide is based in the South.²⁴ The early pioneers were

20 UNCTAD™ 2005b.

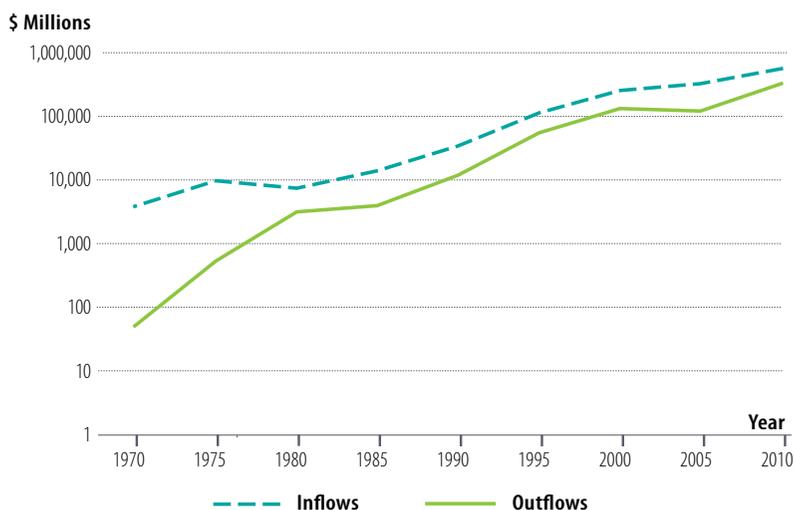
21 UNCTAD 2005b and www.bea.gov.

22 UNCTAD 2005b and www.jbic.go.jp.

23 Wells 1983.

24 Developing countries are home to 20,238 of the estimated 77,175 transnational corporations worldwide. See UNCTAD 2006b, Annex Table A.I.6.

Figure 3: FDI flows of developing countries



Source: <http://unctadstat.unctad.org>

mainly Latin American (e.g., Argentineans) though now these enterprises are overwhelmingly Asian.²⁵

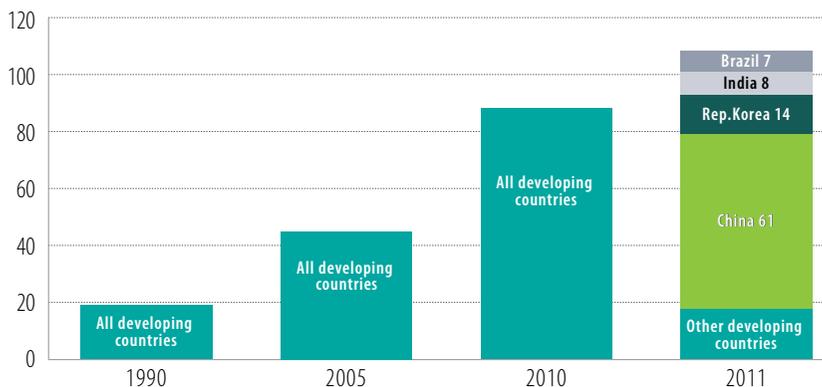
Although very different in size and capacity, in terms of sheer number, there are now more transnational corporations from the Republic of Korea than from Japan. China has more than the United States. China and India produced 111 new multinationals each in 2008; China added another 141 in 2009. Relative to earlier years, the new entrants are less concentrated in extractive industries and more in business services and higher value manufacturing.²⁶

The bigger players in the South include: in mining, Vale (Brazil); in chemicals, SABIC (Saudi Arabia); in petroleum refining, Sinopec (China), Petrobras (Brazil), Petronas (Malaysia) and Indian Oil (India); in cement, Cemex (Mexico); in automotive, Hyundai and Kai (Republic of Korea); in electronics, Samsung and LG (Republic of Korea); in telecommunications, China Mobile (Hong Kong, China [SAR]) and MTN (South Africa); in port logistics, DP World and Hutchison Whampoa (Singapore); and diversified across industries, CITIC (China), SK (Republic of Korea), Tata (India) and Orascom (Egypt). There are

25 Among the largest developing country transnationals, 14 of the top 30 in 1977 were Latin American and 10 were Asian; in 2003, 40 of the largest 50 were Asian and 7 were Latin American (e.g., Brazilian and Mexican). See ECLAC 2005, p. 55.

26 PricewaterhouseCoopers LLP 2010.

Figure 4: Number of southern Fortune Global 500 companies



Source: Fortune Global 500, *Fortune*.

many more (see Annex Table A). Overall, the presence of southern companies on the Fortune Global 500 ranking of the world's biggest corporations rose from 4 percent in 1990 to 22 percent in 2011 (see Figure 4).

Southern enterprises are going global earlier than firms from developed countries did at a similar stage of development. They are augmenting their competitive advantages (e.g., competencies in manufacturing parts and components, and in ICT products and services) by acquiring strategic assets (e.g., brands, technology and distribution networks). The success of global buy-outs is at best an even chance,²⁷ but can provide quick learning and fast entry into world markets. A number of firms are entering niche markets, adapting products and services for affordable, mass consumption in developing countries. Indian firms are supplying medicines, medical equipment, and ICT products and services to countries in Africa; Brazilian and South African companies are doing the same in their regional markets.²⁸ Turkish firms supply Central Asian and Arab firms that are investing in their regions and Islamic countries elsewhere.

27 The 1998 Daimler-Chrysler merger failed, but the subsequent 2009 Fiat-Chrysler partnership appears to be holding. Japanese acquisitions in America in the late-1980s have proved costly (e.g., the Mitsubishi purchase of Rockefeller Center and the buying spree by Sony in Hollywood). Luedi (2008) finds that half of 56 Chinese acquisitions from 1995 to 2007 involved some overpayment, and, on average, lost 3 percent of shareholder value; however, strategic objectives can override cost and value. The Lenovo purchase of the IBM personal computer division in 2005 was quite successful. Indian companies paid relatively high prices for European acquisitions but have managed to make these profitable (e.g., the Tata purchase of Land Rover).

28 Reddy 2011, Chapter 10.

Table 1: GDP growth from Chinese FDI in Africa, 2003-2009

Country	Percentage points of additional GDP growth
<i>Angola</i>	0.04
<i>Botswana</i>	0.05
<i>Congo, D.R.</i>	1.0
<i>Ethiopia</i>	0.2
<i>Ghana</i>	0.1
<i>Kenya</i>	0.07
<i>Madagascar</i>	0.5
<i>Niger</i>	0.5
<i>Nigeria</i>	0.9
<i>South Africa</i>	0.04
<i>Sudan</i>	0.3
<i>Tanzania</i>	0.1
<i>Zambia</i>	1.9

Source: Weisbrod and Walley 2011, Table 5.

South-South FDI, like trade, is mainly intraregional and concentrated in Asia at 80 percent. Regional investments in Latin America are led by Argentina, Brazil, Chile and Mexico; South Africa is the dominant investor in Africa, accounting for more than half the total inward FDI of Botswana, the Democratic Republic of the Congo, Lesotho, Malawi and Swaziland, much in extractive industries. The major interregional flows are from Asia to Africa, with Chinese, Malaysian and Indian firms playing a prominent role. Investment flows from Asia to Latin America have risen rapidly in recent years, and in 2010 China was the third largest investor in the region and the top investor in Brazil, with investments mainly in extractive industries, but also in manufacturing, agriculture and utilities.²⁹

South-South FDI accounts for more than 40 percent of the total inward FDI of many LDCs. There is some evidence that its impact on the host economy, through linkages with local firms, intensive use of labour, and local content and technology transfer, can be more beneficial than FDI from developed countries.³⁰

29 China invested \$15 billion in Latin America in 2010, and has FDI in Argentina, Brazil and Peru, as well as in smaller countries such as Costa Rica, Ecuador and Guyana.

30 See Kumar 1982, Wells 1983 and UNCTAD 2006b.

China's role in Africa is noteworthy. The stock of Chinese FDI there rose from \$49 million in 1990 to \$1.6 billion in 2005, or by 26 percent per year.³¹ Chinese investment flows to sub-Saharan Africa have exceeded a billion dollars annually from 2007 to 2009, much of it in resource extraction, but also in infrastructure and manufacturing. It has been accompanied by increased bilateral trade and development assistance, and the recipient countries have experienced rapid economic growth. An estimate for 13 countries comprising 78 percent of sub-Saharan Africa's GDP and absorbing 92 percent of China's FDI flows to the region from 2003 to 2009 suggests that Chinese FDI contributed to growth (see Table 1).³² The boost of half a percentage point or more that some countries realized was significant, particularly from 2008 to 2009, when other growth impulses were dissipating.

While the rise of the new South may be most apparent in the advancement of a few large and fast-growing countries, the phenomenon is widely spread and germinating in a number of second- and third-tier developing economies. The universe of emerging economies is continuously expanding.³³ The new South is still in its infancy.

2. THE NEW SOUTH

The rise of the new South, at first glance, seems to stem from catch-up through cross-border exchange and learning from the North. In the 19th century, the backward economies of Europe caught up by borrowing technology and replicating the industrial processes of their more advanced neighbours.³⁴ This was followed by the rise of the United States and Japan. In the second half of the 20th century, the catch-up process began to play out globally, through trade and investment flows.

Catching up is not path dependent. Its speed and character are shaped by natural potentials, institutions, social capability³⁵ and states; development paths

31 Malaysian and Indian investment grew equally fast, though much was to Mauritius. See UNCTAD 2007a.

32 Weisbrod and Whalley 2011.

33 In 2001, Goldman Sachs identified four BRICs (Brazil, the Russian Federation, India and China). In 2005, it expanded its scenarios to include the Next Eleven (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, the Philippines, Republic of Korea, Turkey and Viet Nam). Ernst & Young and Oxford Economics target 25 rapid-growth markets (Argentina; Brazil; Chile; China; Colombia; Czech Republic; Egypt; Ghana; Hong Kong, China (SAR); India; Indonesia; Kazakhstan; Malaysia; Mexico; Nigeria; Poland; Republic of Korea; the Russian Federation; Qatar; Saudi Arabia; South Africa; Thailand; Turkey; United Arab Emirates; Ukraine and Viet Nam). McKinsey identifies Africa as the next growth market.

34 The classic reference is Gerschenkron 1962.

35 The importance of social capability in catching up was emphasized by Abramovitz 1986.

Table 2: Manufactured exports of Asian NICs, 1965 to 2010 (as percentage of total exports of non-oil merchandise)

Economy	1965	1975	1985	1995	2010
<i>Korea, Republic of</i>					
All manufactures	57	82	94	95	95
Medium and high-skill manufactures	4	18	27	55	72
<i>Taiwan Province of China</i>					
All manufactures	40	81	91	93	95
Medium and high-skill manufactures	10	26	36	58	72
<i>Singapore</i>					
All manufactures	39	63	77	90	96
Medium and high-skill manufactures	21	42	61	81	86
<i>Hong Kong, China (SAR)</i>					
All manufactures	92	97	96	95	96
Medium and high-skill manufactures	10	23	36	44	73
<i>Malaysia</i>					
All manufactures	5	19	36	80	80
Medium and high-skill manufactures	4	13	27	65	65
<i>Thailand</i>					
All manufactures	2	14	37	71	79
Medium and high-skill manufactures	0	3	13	42	61
<i>Indonesia</i>					
All manufactures	3	4	24	58	53
Medium and high-skill manufactures	3	3	7	11	27

Source: UNCTAD (1996a), pp. 118-119 and <http://unctadstat.unctad.org>

can therefore differ fundamentally.³⁶ The new South is seemingly gravitating towards its own economic growth pole with an internal locus of control responsive to the emerging demands and circumstances of developing countries. This augurs well for global rebalancing and human development.

THE ASIAN NEWLY INDUSTRIALIZING ECONOMIES

The Asian catch-up experience is particularly notable.³⁷ The resource-based economies of East and Southeast Asia transformed themselves from commodity producers into newly industrializing economies (NICs) in relatively short time spans, shifting their export structure from primary to manufactured goods in a decade, and towards higher-skill exports in another decade or so (see Table 2).

36 Several decades before the debate on the Washington Consensus and ‘one-size-fits-all’, Gershenkron (1962) wrote: “Capitalist industrialization under auspices of socialist ideologies may be, after all, less surprising a phenomenon than would appear at first sight.”

37 The Asian experience is examined in World Bank 1993, UNCTAD 1993a and UNIDO 2005, among others.

Their success was driven by technology, though achieved in a variety of different ways.³⁸ The Republic of Korea and Taiwan Province of China fostered technology acquisition by building the capabilities of export-oriented enterprises in textiles and electronics, with differing emphasis on types of enterprise: large conglomerates (*chaebols*) in the former, and small and medium-size enterprises in the latter. Malaysia, Thailand and other members of the Association of Southeast Asian Nations (ASEAN) relied more on technology transfer through FDI, and on integrated international production in textiles, electronics and automotive components.

A common feature was the acquisition of technology from developed countries to establish manufacturing industries, supplemented with a full array of measures to support technological learning and upgrading (see Box 2). Such measures provided the social capability for enterprises to move up the technology ladder, from low-skill production to medium and higher-skill manufacturing, including within transnational company networks or through original equipment manufacturer (OEM) and other subcontracts. That graduation—from product assembly to component fabrication and equipment manufacture—encouraged outward investment and relocation of less complex production to less advanced neighbouring economies,³⁹ bolstering South-South investment and sequential growth in the new host countries of domestic firms for supplying inputs and producer services. Malaysia and Thailand became assembly and export platforms, and Singapore emerged as a regional headquarters and R&D hub for transnational corporations. Korean and Taiwanese industry produced global players like Acer, Hyundai and Samsung; the last planned to invest \$41 billion at home and abroad in 2012.⁴⁰

THE SOUTHERN BRICS

The leaders of the new South are Brazil, China, India and South Africa, or the southern BRICS.⁴¹ China already has the second-largest economy in the world, Brazil the sixth-largest and India the ninth-largest; the three contributed 31 percent to world output growth in 2010. In terms of purchasing power

38 Country experiences are presented in Ernst, Ganiatsos and Mytelka 1998, and Lall and Urata 2003.

39 The flying geese (*ganko keitai*) paradigm was proposed by Kaname Akamatsu in the 1930s. For more background, see Kasahara 2004.

40 In 2011, Samsung invested more than Japan's Sony, Toshiba, Hitachi and Sharp in combination (Reuters, 17 January).

41 The leaders of Brazil, the Russian Federation, India, China and South Africa (the BRICS) meet annually. The fourth BRICS summit took place in India in March 2012.

Box 2: Improving technological capabilities

Technological capability determines how well domestic producers *catch up* by acquiring existing technology; *keep up* by learning to use and adapt it to local demands and supplies; and *get ahead* by creating new products and process technology. Successful strategies to develop technological capabilities have emphasized:

- *Education and training*, particularly science and engineering;
- *Enterprise development*, ranging from encouraging entrepreneurship and providing small and medium-size enterprise support services, to setting up and later privatizing public enterprises;
- *Technology diffusion* through research institutions, industrial clusters, science parks and business linkage programmes; and
- *Policy support* with a broad scope, including tax incentives, financial subsidies, accounting standards and business friendly regulations, investment and export promotion, and government procurement. The mix, sequence and duration of policies also matter.

Policy support can be:

- *Vertical* (e.g., picking winners, targeted incentives and preferential schemes for choice industries) and
- *Horizontal* (e.g., competition policy, industry standards, privatization, streamlined regulations and overall improvement of the business environment).

For a review of country experiences see, among others, UNCTAD 1996a; Ernst, Ganiatsos and Mytelka 1998; Lall and Urata 2003; and UNIDO 2005.

parity, China is projected to overtake the United States as having the largest economy within the next five years, and India is expected to have the third-largest.⁴² The performance of these countries is especially impressive as they are all relative latecomers. It was only in the 1990s that they began to emerge on the world economic scene, and they have done so in different ways: Brazil on the strength of natural resources, China through manufacturing and India via services.

China's industrial performance is unrivalled: Its share of world industrial output tripled in the 1990s, rising from 2 percent to almost 7 percent. This

42 IMF (2011b) projections indicate that China could overtake the United States in 2016; World Bank (2008) projections indicate that this could occur in 2018.

was largely driven by investment, with significant inward FDI in special zones and ‘flying geese’ investments from the NICs.⁴³ FDI from developed countries was more market-seeking, while FDI from Asian economies was more export-oriented with lower capital intensity.⁴⁴ China’s exports boomed in the 1990s, and their composition shifted towards manufactured and more skill-intensive products (see Table 3); indeed, China is now the world’s largest exporter of high-technology goods,⁴⁵ though these have high import content reflecting China’s emergent role as final assembler in East Asia’s production-sharing networks.⁴⁶ Industrial growth is increasingly technology-driven, as China is promoting technology diffusion and R&D in its state enterprises, and is acquiring process technology and corporate brands through global buy-outs.⁴⁷ As production has moved up the technology scale, labour-intensive manufacturing has begun to relocate to other Asian countries (e.g., Pakistan and Viet Nam) and also to Africa.

In comparison, India’s performance has been driven more by the services sector, entrepreneurship and domestic markets. While manufacturing expanded (in output, exports, productivity and skill intensity), the services sector did better. Productivity in services—which generally include activities with low productivity potential—grew by 5.6 percent annually in the 1990s, and exports of services grew by 26 percent. Services accounted for a third of total exports in 2010, twice the share in comparator countries (see Table 4). ICT and graduates from the Indian Institutes of Technology enabled sizeable offshoring of professional and business services from developed countries. The spontaneous rise of high-tech ICT clusters in Bangalore, formed by entrepreneurs and the private sector, attracted significant FDI, including for skill-intensive R&D activity. More than half of current FDI inflows are from developing countries, with, for example, Singaporean firms active in telecommunications, shipping and oil refining, and Malaysian companies involved in construction and utilities. Indian companies have ventured overseas since the 1960s, initially in textiles

43 Manufacturing absorbed 60 percent of FDI inflows, and manufacturing productivity (i.e., output per worker) grew at 14.7 percent annually from 1997 to 2000. See UNCTAD 2005a, p. 31.

44 Wang 1997 and Yao 2003.

45 Woo 2012.

46 The import content of China’s high-technology exports was estimated at 48.5 percent in 2005. See Riad et al. 2012, Figure 10.

47 Examples include the 2005 purchase by Lenovo of the IBM personal computer division, and the 2010 acquisition of Volvo by Geely. In 2006, Lifan bid for an entire BMW-Chrysler engine factory in Brazil, with the intent to take it apart and ship it home for reassembly in China.

Table 3. Manufactured exports of southern BRICS, 1990-2009 (Percentage of total exports of merchandise)

Economy	1990	2000	2009
<i>Brazil</i>			
All manufactures	75	77	65
Medium and high-skill manufactures	30	37	26
<i>India</i>			
All manufactures	80	84	88
Medium and high-skill manufactures	14	17	25
<i>China</i>			
All manufactures	76	92	96
Medium and high-skill manufactures	26	41	58
<i>South Africa</i>			
All manufactures	26	61	68
Medium and high-skill manufactures	8	24	32

Source: UNIDO (2005, 2009, 2011), Annex tables.

and trading in developing countries but now in a broad range of industries,⁴⁸ with strategic acquisitions in developed countries,⁴⁹ and acquisitions and green-field investments in developing countries, particularly in Africa. On current trends, India could overtake China, from 2018 onwards, as the largest source of new multinationals from the South.⁵⁰

Already in 1990, Brazil was producing 2.5 percent of world industrial output—more than China or any other developing country—due to a large market, ample natural resources, a diversified manufacturing base and significant FDI (being the largest host developing country in the 1970s). But its promise as a global player is based on its performance since then. In the 1990s, Brazil initiated key policy measures such as constitutional amendments that fully opened the domestic market to the private sector; liberalization of the trade regime, which encouraged large companies and foreign subsidiaries to be more efficient, upgrade and subcontract to local suppliers; privatization to revive public utilities and infrastructure; and the creation (with Argentina, Paraguay and Uruguay) of the Mercosur customs union.

48 These include ICT (e.g., Infosys, WIPRO and Tata Consultancy Services), pharmaceuticals (e.g., Ranbaxy, Sun Pharmaceuticals and Biocon), food and beverages, consumer goods, automotive (e.g., Tata Motors), metals (e.g., Tata Steel), energy (e.g., Tata Power and the state Oil and Natural Gas Corporation), finance and insurance, entertainment and broadcasting (e.g., Reliance Entertainment), construction and telecommunications (e.g., Bharti Airtel and Essar). See Satyanand and Raghavendran 2010.

49 For example, Tata Motors purchased Jaguar and Land Rover from Ford in 2008.

50 PricewaterhouseCoopers LLP 2010.

Table 4: Services exports of southern BRICS, 1990 to 2010 (merchandise and services percentage of total exports)

Economy	1990	2000	2010
<i>Brazil</i>	11	15	14
<i>India</i>	20	28	36
<i>China</i>	9	11	10
<i>South Africa</i>	13	14	14

Source: <http://unctadstat.unctad.org>.

There was a surge of investment inflows into services (e.g., telecommunications and electric utilities); manufacturing, including in integrated international production and the manufacture of medium and high-technology exports (e.g., motor vehicles and digital equipment); and the primary sector (e.g., petroleum and mining). A number of state-owned and later privatized enterprises became global players, such as the mining giant Vale and the aircraft manufacturer Embraer.⁵¹ Brazilian companies have production in some 80 countries, mainly in Latin America, with the major southern investments being in Argentina and Uruguay.⁵²

South Africa underwent a similar transformation in the 1990s, but under very different circumstances, given the challenge of shaping a post-apartheid economy. Today, South Africa is a major investor in Africa in a range of industries, including mining, metals, chemicals, paper, retail and trade, finance, media, telecommunications, transport and utilities). South African investments in banking (e.g, Standard Bank), telecom (e.g, MTN) and infrastructure (e.g., Eskom, Transnet) have energized entrepreneurship, subregional markets and trade in East and Southern Africa, and also drawn Indian and Chinese investment there.

THE OTHER SOUTH

The rising South, of course, encompasses countries beyond the NICs and the southern BRICS. In Asia, there are the ASEAN countries, and in West Asia, there are Kuwait, Saudi Arabia, Turkey and the United Arab Emirates. Latin America has Argentina, Chile, Colombia, Mexico and Venezuela; Africa has Egypt and Nigeria. All of these countries had sizeable investment and trade activity in the

51 UNCTAD 2001.

52 The biggest investments are in developed countries (Denmark, Spain, the United States and others). See Lima and Barros 2009.

Table 5: Largest development economy investors, 2010 (all developing economies with outward FDI stock over \$5 billion)

Economy	Outward FDI (\$ billion)	Share of world exports (%)	Share of world manufacturing value added (% 2009)	HDI
<i>Hong Kong, China (SAR)</i>	948	2.6	0.08	0.862
<i>Singapore</i>	300	2.3	0.45	0.846
<i>China</i>	297	10.4	14.45	0.663
<i>Taiwan Province of China</i>	201	1.8	1.68	0.663
<i>Brazil</i>	180	1.3	1.66	0.699
<i>Korea, Rep. of</i>	138	3.1	3.16	0.877
<i>Malaysia</i>	96	1.3	0.54	0.744
<i>India</i>	92	1.5	1.69	0.519
<i>South Africa</i>	81	0.6	0.40	0.597
<i>Mexico</i>	66	2.0	1.42	0.750
<i>United Arab Emirates</i>	55	1.3	0.24	0.815
<i>Chile</i>	49	0.5	0.24	0.783
<i>Panama</i>	31	0.0	0.02	0.755
<i>Argentina</i>	29	0.5	0.93	0.775
<i>Qatar</i>	25	0.5	0.03	0.803
<i>Thailand</i>	25	1.3	0.93	0.654
<i>Turkey</i>	23	0.8	1.04	0.679
<i>Colombia</i>	22	0.3	0.28	0.689
<i>Venezuela</i>	19	0.4	0.37	0.696
<i>Kuwait</i>	18	0.4	0.09	0.771
<i>Saudi Arabia</i>	16	1.6	0.42	0.752
<i>Libya</i>	13	0.3	0.02	0.755
<i>Bahrain</i>	7	0.1	0.03	0.801
<i>Lebanon</i>	7	0.0	0.04	0.737
<i>Philippines</i>	6	0.3	0.34	0.638
<i>Egypt</i>	5	0.2	0.39	0.620
<i>Nigeria</i>	5	0.5	0.05	0.423

Source: For FDI and trade data, <http://unctadstat.unctad.org>; for manufacturing value added, UNIDO 2011; for the HDI, UNDP 2010.

past decade, within their regions and globally (see Table 5). With one exception, they all had a medium or higher ranking on human development.

Even in countries with low levels of outward investment, firms, generally small enterprises, invest in other developing countries, mainly those that are close by or culturally familiar (see Table 6).

The overall picture is of an increasingly vibrant and interconnected South. Moreover, these changes are happening much faster than ever before, as the new South eases the rise of other developing countries by enlarging their opportunities for growth and development through growth spillovers and market multipliers.⁵³

Growth spillovers occur as South-South trade, investment, financial flows and technology transfer augment growth and productivity in partner economies.⁵⁴ Asia's growth and import demand for natural resources has sustained a prolonged commodity boom since 2003, benefiting exporters in Africa and Latin America, and particularly contributing to their above-average economic growth rates in recent years.⁵⁵ Asian FDI in Africa has been accompanied by industrial technology and expanded utility infrastructure and telecommunications, the essential backbone for ICT connectivity and use. Mobile phone penetration in the South is approaching saturation, and Internet use is rising fast.⁵⁶ Official financial flows and public-private partnerships have reinforced developmental effects.⁵⁷

Estimates suggest that these growth spillovers are positive, significant, increasing and robust in the face of global shocks. One IMF staff study of long-term growth trends over 1988 to 2007 finds positive growth spillovers from China to other countries, particularly for close trading partners; a 1 percentage point increase in Chinese growth correlates, on average, with an increase in growth of 0.5 percentage points in other countries.⁵⁸ Another IMF study that encompasses Brazil, China and India also finds significant positive spillovers,

53 Conceptually, growth spillovers are from a country or group to another, while market multipliers occur within a country or group; these processes are concurrent in practice.

54 Negative effects are also possible and include competition in import industries, exchange rate movements adverse to the nontradable sector and crowding out of indigenous enterprises.

55 Ademola, Bankole and Adewuyi (2009) argue that the negative effects can outweigh the positive effects for many African countries, as the underlying trade pattern does not contribute to industrial development in the absence of accompanying policy measures. This is discussed in the next section.

56 UNCTAD 2009.

57 Benefits in Africa include a 35 percent increase in the supply of electricity, a 10 percent improvement in rail capacity and lower telephone costs. See IMF 2011a, p. 27.

58 Arora and Vamvakidis 2010. Similar results are reported by Garroway et al. 2010.

Table 6: South-South investment of developing countries with low outward FDI (\$ million, stock of outward FDI in 2009 or 2010)

Country	Investment to (main destinations)	Amount
<i>Bangladesh</i>	India, United Arab Emirates, Sri Lanka, Pakistan	98
<i>Botswana</i>	South Africa, Zimbabwe, Tanzania, Lebanon	400
<i>Costa Rica</i>	Guatemala, Panama, El Salvador	313
<i>El Salvador</i>	Nicaragua, Guatemala, Costa Rica, Honduras	7
<i>Mauritius</i>	Seychelles, Madagascar, Mozambique, South Africa	72
<i>Mozambique</i>	Kenya, Zimbabwe, Malawi, South Africa, Mauritius	2
<i>Pakistan</i>	United Arab Emirates, Bangladesh, Qatar, Sri Lanka	555
<i>Peru</i>	Chile, Brazil, Bolivia, Panama	1,200

Source: IMF, Coordinated Direct Investment Survey, <http://cdi.imf.org>. The selected countries include all developing country participants in the survey with low levels of outward investments (\$1.5 billion or less).

and estimates that growth in low-income countries would have been 0.3 to 1.1 percentage points lower from 2007 to 2010 if growth in the southern BRICS had fallen at the same rate as in the developed economies.⁵⁹

Market multipliers can result from technology diffusion; economies of agglomeration in consumer demand; network externalities from entrepreneurship; and emulation effects in public policy. Technology, as discussed earlier, was essential to the manufacturing and export success of the new South, and its diffusion through South-South investment in ICT connectivity infrastructure and trade in affordable ICT products (see Box 3) is lowering the threshold for economic activity, unleashing the entrepreneurial spirit across income classes and cultivating subregional markets, particularly in Africa. Affordable, Asian-built mobile phone handsets allow leapfrogging over landlines and have multiple uses. Cellular banking is cheaper and easier than opening a bank account; farmers can obtain weather reports and check produce prices; and entrepreneurs can provide business services through kiosks. Mobile phone diffusion is so rapid that IBM predicted in 2011, “The digital divide will cease to exist in 5 years: on current trends, 80 percent of the current world population will have a mobile device.”⁶⁰

Economies of agglomeration in consumer demand occur in countries with large populations and wide disparities in income. Foreign companies enter the

59 IMF 2011a. The study defines the BRICS as Brazil, the Russian Federation, India and China; however, the Russian Federation has relatively minor trade and investment links with low-income countries, and the focus is on the southern BRICS.

60 IBM 2011.

Box 3: Product development for markets in developing countries

Companies based in the South are developing innovative, technology-intensive products for large consumer markets with low purchasing power:

- In 2004, TI India, an R&D centre of Texas Instruments (TI) in Bangalore, designed a single-chip prototype for manufacturing high-quality, low-cost mobile phones in large volume by the Indian companies BPL and Primus.
- In 2005, Nokia, in cooperation with TI, began to market the Indian-made one-chip handsets in India and Africa, achieving sales of 20 million in the first nine months.
- Single-chip designs have also emerged from the Philips, Qualcomm and National Semiconductor R&D centres in India, and are used for other devices, including affordable digital display monitors and medical ultrasound machines. Intel India developed, and a Taiwanese OEM is manufacturing, a handheld device to enable door-to-door rural banking in villages.
- In 2007, WIPRO Infotech marketed a low-power desktop for basic computing and Internet connectivity.
- In 2008, Tata announced the ultra-low-cost Nano family car based on 34 new modular-design and manufacturing patents. It will be exported to developing countries in kits to be assembled and serviced by local entrepreneurs, requiring basic mechanical skills comparable to those for a bicycle.

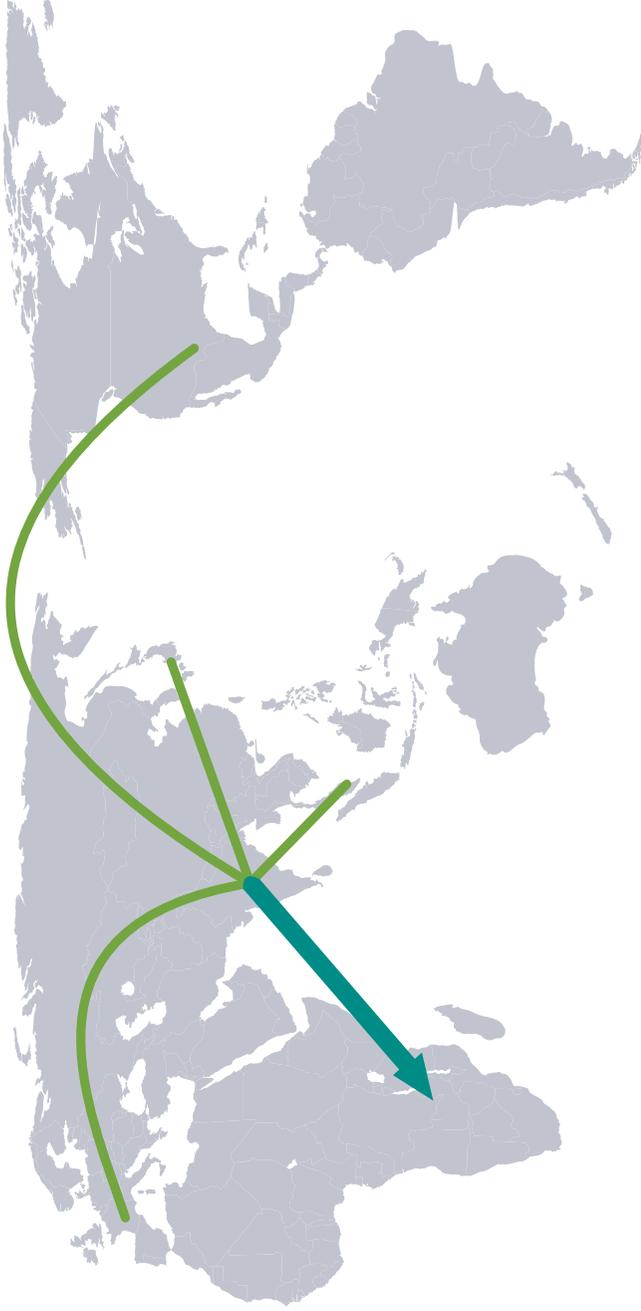
Source: Reddy 2011, Chapter 10

market at the high end with products designed for their home market, neglecting the consumer market on the low end that innovative domestic companies can capture with affordable versions of the products, re-engineered and adapted for local tastes and incomes.⁶¹ The consumer markets in China and India have adequate mass for the production of both luxury and affordable goods, and, indeed, these flourish side by side in a range of industries—food and beverages, clothing, home appliances, motor vehicles, hotels and others. The domestic companies create consumer surplus for the ‘bottom billion’. They also generate jobs and develop producer capabilities, with the more productive firms emerging as exporters and investors overseas.⁶² India’s pharmaceutical industry has spawned cheap but quality generic medicines and also global players (e.g., Ranbaxy).

61 This can give rise to intellectual property disputes when the local product is an outright imitation or sold (even exported) under unlicensed brands. Standards are also an issue.

62 See Demirbas, Patnik and Shah 2010.

Figure 5: Technology diffusion to Africa via India



The emerging pattern of global technology diffusion involves assimilation, adaptation and innovation in southern technology hubs, and onward diffusion in products more suited to the demands and circumstances of developing countries. Brazil and China are also technology hubs, as well as other developing countries.

This pattern of technological diffusion across income classes and consumer groups represents a shift in the traditional techno-economic paradigm.⁶³ In North-South relations, the NICs developed technological capabilities for export success in developed country markets, and focused on manufacturing complex products efficiently. In South-South relations, southern companies have found opportunities to adapt and innovate so that products and manufacturing processes better suit the needs of their own and other emerging markets. Thus, companies like Tata Motors are manufacturing complex automobiles (e.g., Jaguar) for northern markets and an affordable car (e.g., the Nano) appropriate for southern ones.

The built-up R&D capabilities in the southern BRICS make them natural hubs for absorbing existing technologies, and engineering new products and uses for application at home and export to other southern markets (see Figure 5). Under the 2005 GSM Emerging Markets Initiative, manufacturers in India reduced the price of mobile handsets by more than half, and expanded the GSM (global system for mobile communications) subscriber base by 100 million connections per year; this in turn has stimulated investments in telecommunications networks. In 2007, mobile operators (including South Africa's MTN and Kuwait's Zain) announced a five-year plan to invest an additional \$50 billion in sub-Saharan Africa to improve and expand mobile coverage to 90 percent of the population, or some 670 million persons. This could raise annual GDP growth by as much as 2 percentage points.⁶⁴ The South-South pattern of technology diffusion often entails firms pursuing business models based on low margins but aimed at reaching large numbers of lower income communities in markets with weak support infrastructure. At home and abroad, this model empowers people, creates additional investment opportunities and raises living standards.

Network externalities can arise from the dynamic interaction of technology, entrepreneurship and markets. People tend to be self-organizing, creating buyer-seller relationships, becoming entrepreneurs to fill unmet needs and spontaneously sprouting markets. People with cell phones do these things more easily and rapidly, and when they do, network externalities result in larger welfare gains for all users and non-users. For example, fishermen with mobile handsets in Kerala, India, rationalized the delivery of their catch to local markets with information on demand-supply conditions, leading to better market functioning

63 The extensive literature on technological diffusion includes Freeman and Perez 1988, and Perez 2001.

64 See: Reddy 2011, Chapter 10, and www.gsma.com for growth projections.

for all fishermen and adding to collective social welfare.⁶⁵ The use of cell phones in Niger has improved the performance of the grain market, the behaviour of traders and consumer welfare;⁶⁶ Ugandan farmers have used mobile phones to get higher prices for their perishable bananas.⁶⁷ Commercial service providers are profitably offering market information to smallholder farmers through low-cost mobile subscriptions.⁶⁸

Network externalities also arise from interactions between companies and community stakeholders to create shared value.⁶⁹ Innovation and its benefits spread quickly and widely among communities and within regions, spawning faster change.⁷⁰ These transformations multiply the possibilities of what people can do with technology in areas that include: participation in decisions that affect their lives; quick and low-cost access to knowledge; the spread of cheaper, often generic medicines, better seeds and new crop varieties; and new employment and export opportunities. These possibilities cut across income classes, reaching down to grass-roots levels.⁷¹

Improved public policy helps ensure that best practices spread and have significant multiplier effects. For example, many African governments have adopted policies to emulate Mauritius's early success in attracting Asian FDI by creating export processing zones. Malaysia's investment promotion policies have been widely replicated, including such concepts as 'win-win', 'public-private dialogue' and 'smart partnerships'. In a number of countries, 'client charters' adopted by state institutions have improved the quality, cost and administration of public services. Generally, there is greater worldwide appreciation of a broader role of the state in stimulating R&D and nurturing synergies from tripartite cooperation among private, university and public research institutions, and also of the importance of an effective state. Shared experiences broaden options for public policy and development strategies, and foster pragmatic leadership.

65 Jensen 2007.

66 Aker 2008.

67 For a review of these and other studies, see Jensen 2009, and Aker and Mbiti 2010.

68 More than 200,000 Indian farmers subscribe to Reuters Market Light for \$1.50 per month, collectively generating income of \$2-3 billion and additional savings on agricultural inputs; for this and other examples, see the World Bank site www.infodev.org/en/index.html.

69 Examples include the social business enterprise initiatives by Grameen, which worked with companies in Bangladesh to tap the latent demand of poor consumers for basic nutrition and footwear. For a review of the literature on social business enterprise, see Edwards 2009.

70 Network externalities can also impede change. For example, India's caste system has restricted men to working in traditional occupations, even as wider opportunities have opened up for women in the same cohort. See Munshi and Rosenzweig 2006.

71 UNDP 2001.

3. POLICY IMPLICATIONS

The new South is a promising force for more equitable and sustainable human development. The gap in human development between developed and developing countries narrowed by 25 percent from 1970 to 2010, with much of the catch-up since 1990.⁷² Poverty is declining in all developing regions.⁷³ The faster growth of developing countries is an opportunity for quicker progress, particularly in the least developed economies.

The global prospect is uncertain, however, and the economic downturn in the North affects the South. It depresses North-South exchanges as well as South-South trade, which to a large extent depends on final demand in developed countries.⁷⁴ At the same time, there is potential to sustain growth and better leverage it, internally and globally.

SUSTAINING GROWTH

The economic slowdown in developed countries is an opportunity for the new South to shift gear and rely more on regional and domestic demand to sustain future growth. Already, developing countries trade more among themselves than with the North. Regional trade is growing faster than world trade, is generally more dynamic (i.e., involving manufactures and greater technological content), and has the potential to expand further if recent initiatives bear fruit (see Box 4). There is scope to strengthen regional trading and investment arrangements—there are more than a dozen regional integration groups in Africa alone—by practical measures such as streamlining transit, transport and customs procedures and harmonizing national regulatory schemes. There is also scope to lower tariffs on South-South trade in final products, which are higher than for North-South trade, with significant reward: a welfare gain for the South of \$59 billion.⁷⁵ A more ambitious proposal involves the recycling of Asian savings into African investments (see Box 5).

Perhaps the most important engine of growth for the South is the domestic market. The middle class in Asia is large, and rapidly growing in size and income. One indicator of rising prosperity is the dramatic growth in Asian tourism.⁷⁶

72 As measured by the HDI. See UNDP 2010, p. 29.

73 World Bank 2012.

74 The final demand for South-South trade in parts and components through production sharing is set in developed countries (Athukorala 2011).

75 OECD 2010 estimates a welfare gain for the South of \$59 billion if South-South tariffs were lowered to North-South levels.

76 UNWTO 2006 predicts that China, by 2020, will be the world's fourth-largest tourist-generating country, with some 100 million outbound tourists.

Box 4: Recent regional arrangements in the South

The Asia Free Trade Zone became operational on 1 January 2010. It encompasses 1.9 billion people in 11 countries: Brunei, Cambodia, China, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam, and aims at 100 percent tariff-free trade by 2015. Initially, the more developed member countries (Brunei, China, Indonesia, Malaysia, Philippines, Singapore and Thailand) are removing duties on 90 percent of their imports from other members in the zone. Tariffs on the remaining 10 percent, involving products in agriculture, auto parts and heavy machinery, will be removed subsequently. The less developed countries (Cambodia, Lao People's Democratic Republic, Myanmar) have until 2015 to lower tariffs gradually.

Trade in this new Asian zone amounted to \$192.5 billion in 2008, third in value and volume after the European and North American free trade zones.

The East African Common Market was launched on 1 July 2010, and encompasses Burundi, Kenya, Rwanda, Tanzania and Uganda. It allows free movement of capital, people and goods within their collective borders. The common market aims to become a monetary union by 2012, with a common currency by 2015.

The South Asian Free Trade Area was agreed to on 6 January 2004, and encompasses Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. Trade is limited, but could expand dramatically with the 2011-2012 commitments between India and Pakistan to grant each other most-favoured nation status and allow cross-border investment.

Another is the trend among transnational corporations to target developing countries for global revenue growth.⁷⁷ Since 2008, Chinese, Indian and Turkish firms in the apparel sector have been shifting production from shrinking global markets to expanding domestic ones.⁷⁸ Kharas (2010) suggests an optimistic scenario of global recovery led by the middle classes of China and India, which are seen as sufficiently large to make up for the slack in external demand from the weakening developed economies.⁷⁹ Regardless, the changeover in growth strategy towards

77 "For those companies that derived more than 5 percent of their revenues from emerging markets, the share reporting better financial performance than that of their peers was 39 percent. By contrast, among the companies that derived less than 5 percent of their total revenues from activities in emerging markets, only 28 percent reported their financial performance as being better than that of their peers."

78 See Cattaneo et al. 2010.

79 Kharas (2010): "I suggest that this new Asian middle class is large and growing rapidly, and that it is of sufficient size to provide the impetus for demand growth that the world needs" (p. 38).

Box 5: Recycling Asian savings into African investments

“Asia has to find new sources of growth,” says Changyong Rhee, Chief Economist of the Asia Development Bank, adding:

“Industrial countries are unlikely to drive global demand and growth any time soon. In addition to increasing domestic consumption in Asia, strengthening South-South links through recycling of savings to investment in the less affluent South can take up the slack.”

He elaborates:

“Hosting manufacturing industries, which the North previously exported to Asia, could be a new stimulus for African growth, for example. Using savings from the South for investment through industry migration rather than holding them in safe assets in the West will contribute to the stability of the global economy by promoting global rebalancing.”

Source: Rhee 2011.

greater reliance on domestic markets would further boost internal dynamism and contribute to more inclusive growth. For these reasons alone, the time may be ripe to accelerate institutional changes and public services to promote aggregate consumption.⁸⁰ A number of Asian economies, in the words of the IMF, “can afford to deploy additional social spending to support poorer households.”⁸¹

LEVERAGING GROWTH

Sustained, rapid growth of Asian economies should continue to spill over to other developing countries in Latin America and Africa, where the major policy challenge is to capture the full benefits through market multipliers among suppliers and consumers.

Sub-Saharan Africa is projected to maintain real GDP growth above 5 percent in 2012-2013.⁸² Commodity producers could continue to enjoy high prices and demand for their exports, and consumers are expected to benefit from increased imports of affordable Asian products such as household appliances, mobile phones, electrical goods and vehicles. Flourishing local markets could breed entrepreneurs and attract large Asian investment, in extractive industries as well as infrastructure,

80 Since 2009, new investment in China has been higher, on average, in the domestic nontradable sectors, with increased public expenditures on infrastructure and services (health, education, housing and social security). See World Bank 2011. A similar emphasis is placed in the 2012 budget of Hong Kong, China (SAR).

81 IMF 2012, p. 7.

82 Ibid., Table 1.

telecommunications, finance, tourism and manufacturing, particularly light manufacturing industries in which African countries have latent comparative advantages.⁸³ In this scenario—which has already played out in the past decade and in other regions—host economies would undergo structural changes, and indigenous industry would need to respond to competitive pressure from imports and investment inflows by upgrading production. This process is proving difficult in Africa,⁸⁴ however, more so than in Asia or Latin America, where technological capacities, infrastructure and social capability are relatively better developed. Therefore, future growth will need to be leveraged with policies to deepen linkages between trade and the wider economy, and promote human development.

A major hurdle is the enclave character of extractive industries, which for the host country reduces potential gains from South-South trade and investment to economic rents, and poses the risk of Dutch disease.⁸⁵ However, industry and country experiences—in Brazil, Chile, Indonesia, Malaysia, and Trinidad and Tobago, among others⁸⁶—suggest that the primary sector is amenable to extensive and sizeable backward and forward linkages, and can generate sustained, widespread growth.⁸⁷

In addition, the trend in global value chains is for transnational companies to source inputs locally, by providing credit and technology to upstream suppliers to improve quality, and ensure adequate and timely supply, and in the process to create shared value within the community. Agro-industry, upstream suppliers, logistics infrastructure and demand for a variety of services (e.g., food, construction, repair and maintenance) can create jobs, income and learning, as well as entrepreneurs who jumpstart a new cycle of innovation and economic activity, and additional investment inflows. The extent of value added depends on local capacities. In Zambia, the copper mining industry has local supply chains of service providers. In

83 Dinh et al. 2012 suggest that light manufacturing has the potential to create millions of productive jobs in Africa.

84 Ademola et al. 2009 review various studies and conclude that there is a strong consensus that African producers of manufactured products are severely threatened by competition from Chinese exports in the domestic, intra-African regional, and global market spheres, in spite of import barriers in the domestic market and special trade preferences offered in both regional and global markets.

85 Nigeria was afflicted by Dutch disease during the 1970s oil boom, when large inflows of dollars appreciated the naira and made exports of cocoa, groundnuts and other non-oil products uncompetitive. In addition, the rents on oil flowed out in capital flight rather than into productive investment, an aspect of the so-called resource curse.

86 Including developed countries such as Australia, Canada, Finland, New Zealand, Norway, Sweden and the United States.

87 Kaplinsky 2011 presents the synergies between commodity specialization and industrial development, and also a critique of the literature on the resource curse.

Ghana, gold mining has created more extensive linkages and industrial districts. In South Africa, domestic mining companies have become regional and global industry players.⁸⁸ An encouraging sign is that increasing Asian investment in African commodities has fewer enclave characteristics; another is that the new generation of African leaders is more aware and supportive of a developmental state.

Africa's new leadership is increasingly pragmatic and proactive. Pragmatism is evident in the many governments with sound macroeconomic policies and institutions, and open regimes. Proactive approaches can be found in the emerging priorities of industrial policy: promoting entrepreneurship and private sector development; strengthening institutions for technological upgrading, education and skill formation; creating finance and credit facilities for small and medium-size enterprises; providing support for industrial clusters and economic zones; and expanding regional trade and investment.⁸⁹ Sound macroeconomic policy helps manage the dangers of large foreign exchange inflows (i.e., Dutch disease), while smart industrial policy helps deepen linkages and enhance market multipliers. These policy trends, coupled with continuing growth spillovers from within the South, if not from the North, are also conducive to accelerating human development.

Human development policies can play a special catalytic role in the current trade and investment interaction in the South. On the one hand, all the beneficiaries of growth spillovers rank low on human development. On the other hand, human development deepens absorptive capacity.⁹⁰ While growth spillovers contribute to human development through additions to income, the initial benefits are small. To the extent that policies enhance non-income components of human development, the fuller potential of growth spillovers can be captured. A virtuous circle is set in motion for achieving greater future benefits. A cursory look at recent experience suggests that countries could improve policies in this area (see Box 6).

SOUTH-SOUTH COOPERATION

The singular policy lesson in the rise of the new South is the importance of building domestic productive capacity, namely, infrastructure, the technological capabilities of firms and human development. This enabled the NICs and the southern BRICS to harness the growth of advanced countries in their catch-up phase, and then gravitate to their own long-term growth paths. The accumulation of capabilities may precede, but more importantly can co-evolve with economic activity, particularly through institutions and policies

88 Kaplinsky 2011, Figure 11.

89 UNIDO and UNCTAD 2011.

90 Human capital can have threshold effects on FDI spillovers. See Fu and Li 2010.

Box 6: Human development and growth spillovers

Asian growth spillovers mean faster GDP growth in Africa, but progress depends on how well countries convert additional GDP into human development. To illustrate, all 13 countries that had growth spillovers from Chinese FDI in Africa from 2003 to 2009 (Table 1) also advanced in human development (Figure 6). But the dispersion in the trend is wide. The Democratic Republic of the Congo, Ethiopia, Niger and Tanzania all ranked at the bottom of the HDI in 2002, but were able to achieve higher HDI growth with less additional GDP growth than other economies. Many factors are at play—such as low initial level, other sources of growth (or obstacles to it, like HIV). One of these is policy. By sharing and learning from their respective policy experiences, countries could improve benefits from growth spillovers.

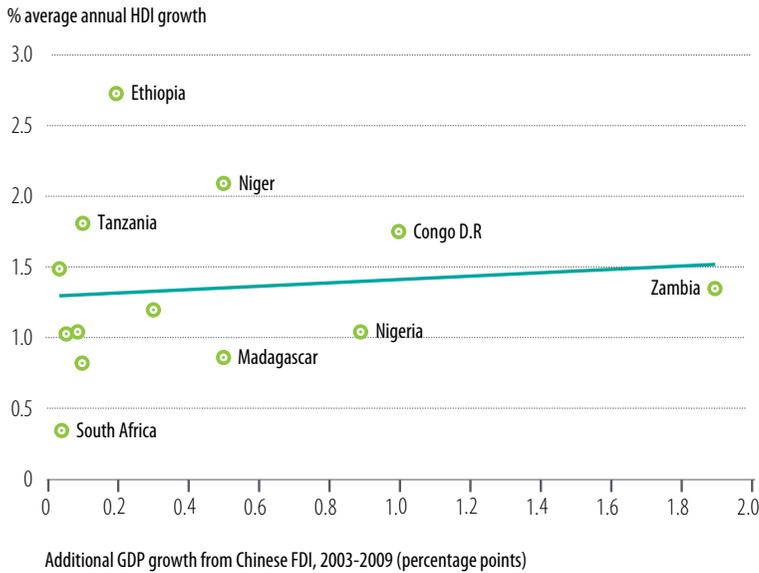
that bring out the learning and diffusion potential in trading, investing and partnering processes in all industries, even commodities.⁹¹ This policy lesson is directly relevant to countries of the South as a whole: Building domestic productive capacity is the only sure way of catching up while avoiding ‘the commodities trap’ that could hold back long-term growth. Much of the onus rests on individual countries, but South-South cooperation can support their efforts and be a ‘win-win’ for all.

The main types of cooperation are already underway and could be scaled up, including:

- Complementing investment flows and trade arrangements with development assistance and finance (e.g., loans, grants and credit lines for local enterprises). China has pioneered partnership packages involving bundling natural resource extraction projects with infrastructure, technology and productive capacity expansion. India, Kuwait, Saudi Arabia and the United Arab Emirates have also financed infrastructure. Such investments are expanding roads, railways and utilities. Given Africa’s infrastructure deficit, such financial partnerships could be more widespread and comprehensive. The interest shown by the regional development banks and sovereign wealth funds in organizing and participating in investment consortia is indicative of the potential for scaling up finance.

91 Enterprises that have diversified out of resource-based production include Nokia, which once made rubber boots in Malaysia, and Orascom (Egypt), which started in cement and is now the seventh-largest telecom company in the South.

Figure 6: Human development and growth spillovers



- Closer cooperation in creating jobs and industrial linkages. Host and home governments can encourage investors to employ and train greater numbers of local workers, including by removing regulatory obstacles and strengthening social infrastructure. There is considerable Asian experience in building links among firms and establishing industrial clusters that could be applicable to Africa.⁹² Cooperation of this type could also help address cultural conflicts that often arise in interregional investment.⁹³ Bilateral programmes are the main modality, along with technical assistance from regional and international agencies supported by voluntary funds of developing countries, as this approach to cooperation is not necessarily a priority of traditional donors.
- Encouraging sequential investment outside natural resource industries, in agriculture, manufacturing, and services such as in finance and telecommunications. These sequential investments can be cross-border within the African region, and also by small and medium-sized enterprises that follow large investors to form industrial clusters. Such patterns are prevalent in East Asia and applicable to Africa.

92 Dinh et al. 2012 provide various examples.

93 UNDP 2004.

Box 7: The challenge of the South

South-South trade should not replicate the traditional asymmetric pattern of North-South trade. The new South is sustaining growth and counteracting the decline in demand from the North, but trade based on the import of commodities and export of manufactured goods (even capital goods) could set back the industrial ambitions of many southern countries.

Commodity producers, instead of once again being on the losing end of trade, could take full advantage of the prolonged commodity boom, while sidestepping the inherent problems of Dutch disease and resource curse. The pitfalls of commodity dependence can be avoided through smart government, proven industrial policy that fosters linkages, entrepreneurship and productive capabilities, and a state supportive of human development.

South-South cooperation and ‘win-win’ partnerships could facilitate industrial diversification through FDI and joint ventures; technology sharing through peer learning; and meeting the needs of the emerging entrepreneurial class and ‘bottom billion’ with affordable products and innovative applications. This is already happening and can be scaled up substantially in the years ahead

- Promoting the ‘flying geese’ relocation of manufacturing to Africa as industry upgrades in China and other Asian economies. This has happened within Asia and could be more interregional, contributing to Africa’s industrialization (see Box 5).
- Fostering technology partnerships and alliances among R&D institutions, particularly tapping into the sizeable capabilities in Brazil, China, India, Turkey and other countries. Such alliances can leverage technological congruence among developing countries, and create products and processes applicable to their situation and needs (e.g., new crop varieties; tropical medicines and vaccines; affordable health treatments and diagnostic kits; alternative energy sources; and innovative ICT applications).
- Sharing policy experience and best practices in handling economic issues arising in similar growth contexts and developing country environments. These range from practical procedures for investment facilitation to institutions for microfinance, public-private dialogue and government-business risk partnerships. UN organizations can also do more to programme peer learning into technical assistance.

South-South cooperation has considerable potential, but collective action requires a shared vision. The 1990 report of the South Commission—*The Challenge to the South*—is a seminal analysis, still relevant two decades later.

It mentions, for example, climate change as a priority, and challenges that stubbornly persist (poverty, exclusion) or are re-emerging (the widening gap between rich and poor, even with convergence in growth). At the same time, the world has changed dramatically, and if the report were to be rewritten today, it could well be re-titled “The Challenge of the South”.

The new South of the 21st century has economies growing at double-digit rates, and nations with trillions of dollars of foreign exchange reserves and more trillions to invest outside their borders. Southern businesses number among the world’s largest. The possibilities for collective action have never been greater, but cannot be taken for granted. The institutions for South-South cooperation—the Group of 77, the Non-Aligned Movement and South Summits—grew from the decolonization experience. This was a strong political, economic, social and cultural bond, but it is increasingly distant to the new generation. There is growing differentiation among countries, and the pursuit of national interest remains paramount.

South-South cooperation needs a compelling case for collective action. A new South Commission could initiate a fresh vision based on common understanding of how the diversity of the South can be a force for solidarity (see Box 7). The elements are there: different endowments basic for exchange; diverse experiences ripe for sharing; the need to collaborate to compete in world markets; and, above all, the need to learn to collaborate on a ‘win-win’ basis. The global context is right; the time for renewal has come.

GLOBAL COOPERATION

A forward-looking new South can provide timely impetus to development cooperation, which is under threat from the global downturn and its undertow of austerity. Emerging states could invigorate the intergovernmental process of development cooperation, providing new solutions and political will to foster strategic use of the now substantial new South investments, technology and new business models for human development. Emerging states could be leaders in tackling the global challenges of the Millennium Development Goals, climate change and conclusion of the Doha development round of trade talks.

Developing countries are already playing a greater role in the Bretton Woods institutions and global dialogue through the Group of 20 leaders summits, and are active in the Organisation for Economic Co-operation and Development. They are prominent in emergency relief and peacekeeping; consideration is underway to enlarge the United Nations Security Council. Their enhanced role should be welcomed by developed countries, as the success of the South earns dividends for the North and advances prosperity for all.

ANNEX

Table A1: Major Transnational Corporations based in the South, 2009
(ranked by size of foreign assets)

Corporation	Home Economy	Industry
<i>Hutchison Whampoa Ltd</i>	Hong Kong, China (SAR)	Diversified
<i>CITIC Group</i>	China	Diversified
<i>Cemex S.A.B. de C.V.</i>	Mexico	Non-metallic mineral products
<i>Vale SA</i>	Brazil	Mining & quarrying
<i>Samsung Electronics Co., Ltd</i>	Korea, Republic of	Electrical & electronic equip.
<i>Petronas - Petroliaam Nasional Bhd</i>	Malaysia	Petroleum
<i>China Ocean Shipping (Group) Company</i>	China	Transport and storage
<i>Hyundai Motor Company</i>	Korea, Republic of	Motor vehicles
<i>LG Corp</i>	Korea, Republic of	Electrical & electronic equip.
<i>Singapore Telecommunications Ltd</i>	Singapore	Telecommunications
<i>Zain</i>	Kuwait	Telecommunications
<i>Qatar Telecom</i>	Qatar	Telecommunications
<i>Tata Steel Ltd</i>	India	Metal and metal products
<i>Formosa Plastics Group</i>	Taiwan Province of China	Chemicals
<i>Hon Hai Precision Industries</i>	Taiwan Province of China	Electrical & electronic equip.
<i>Petroleo Brasileiro SA</i>	Brazil	Petroleum
<i>MTN Group Ltd</i>	South Africa	Telecommunications
<i>Abu Dhabi National Energy Co PJSC</i>	UAE	Utilities
<i>Jardine Matheson Holdings Ltd</i>	Hong Kong, China (SAR)	Diversified
<i>Gerdau SA</i>	Brazil	Metal and metal products
<i>Petróleos de Venezuela SA</i>	Venezuela	Petroleum
<i>China National Petroleum Corporation</i>	China	Petroleum
<i>Wilmar International Ltd</i>	Singapore	Food, beverages and tobacco
<i>Tata Motors Ltd</i>	India	Automobile
<i>América Móvil SAB de CV</i>	Mexico	Telecommunications
<i>Noble Group Ltd</i>	Hong Kong, China (SAR)	Wholesale trade
<i>Flextronics International Ltd</i>	Singapore	Electrical & electronic equip.
<i>Oil and Natural Gas Corp Ltd</i>	India	Petroleum
<i>CapitaLand Ltd</i>	Singapore	Construction and real estate
<i>Hindalco Industries Ltd</i>	India	Diversified
<i>DP World Ltd</i>	UAE	Transport and storage
<i>First Pacific Company Ltd</i>	Hong Kong, China (SAR)	Electrical & electronic equip.
<i>New World Development Ltd</i>	Hong Kong, China (SAR)	Diversified
<i>Axiata Group Bhd</i>	Malaysia	Telecommunications
<i>Genting Bhd</i>	Malaysia	Other consumer services
<i>CLP Holdings Ltd</i>	Hong Kong, China (SAR)	Utilities

<i>Corporation</i>	<i>Home Economy</i>	<i>Industry</i>
<i>Orascom Telecom Holding SAE</i>	Egypt	Telecommunications
<i>Sinochem Group</i>	China	Petroleum
<i>China Resources Enterprises Ltd</i>	Hong Kong, China (SAR)	Petroleum
<i>Shangri-La Asia Ltd</i>	Hong Kong, China (SAR)	Other consumer services
<i>STX Corporation</i>	Korea, Republic of	Other equipment goods
<i>Ternium SA</i>	Argentina	Metal and metal products
<i>Sasol Ltd</i>	South Africa	Chemicals
<i>China National Offshore Oil Corp</i>	China	Petroleum
<i>Pou Chen Corp</i>	Taiwan Province of China	Other consumer goods
<i>ASUSTeK Computer Inc</i>	Taiwan Province of China	Electrical & electronic equip.
<i>Sun Hung Kai Properties Ltd</i>	Hong Kong, China (SAR)	Other services
<i>Doosan Corp</i>	Korea, Republic of	Diversified
<i>Quanta Computer Inc</i>	Taiwan Province of China	Electrical & electronic equip.
<i>Li & Fung Ltd</i>	Hong Kong, China (SAR)	Wholesale trade
<i>Naspers Ltd</i>	South Africa	Other consumer services
<i>Acer Inc</i>	Taiwan Province of China	Electrical & electronic equip.
<i>Yue Yuen Industrial Holdings Ltd</i>	Hong Kong, China (SAR)	Other consumer goods
<i>Steinhoff International Holdings Ltd</i>	South Africa	Other consumer goods
<i>Fomento Economico Mexicano SAB</i>	Mexico	Food, beverages and tobacco
<i>Netcare Ltd</i>	South Africa	Other consumer services
<i>Fraser and Neave Ltd</i>	Singapore	Food, beverages and tobacco
<i>Grupo Bimbo SAB de CV</i>	Mexico	Food, beverages and tobacco
<i>POSCO</i>	Korea, Republic of	Metal and metal products
<i>Gold Fields Ltd</i>	South Africa	Metal and metal products
<i>Sappi Ltd</i>	South Africa	Wood and paper products
<i>Suzlon Energy Ltd</i>	India	Diversified
<i>Medi-Clinic Corp Ltd</i>	South Africa	Other consumer services
<i>Tata Consultancy Services</i>	India	Other services
<i>Sime Darby Bhd</i>	Malaysia	Diversified
<i>Swire Pacific Ltd</i>	Hong Kong, China (SAR)	Business services
<i>Reliance Communications Ltd</i>	India	Telecommunications
<i>Lenovo Group Ltd</i>	China	Electrical & electronic equip.
<i>Compal Electronics Inc</i>	Taiwan Province of China	Other consumer goods
<i>Taiwan Semiconductor Manufacturing</i>	Taiwan Province of China	Electrical & electronic equip.
<i>China Railway Construction Corp Ltd</i>	China	Construction
<i>City Developments Ltd</i>	Singapore	Other consumer services

<i>Corporation</i>	<i>Home Economy</i>	<i>Industry</i>
<i>United Microelectronics Corp</i>	Taiwan Province of China	Electrical & electronic equip.
<i>Agility Public Warehousing Company</i>	Kuwait	Construction and real estate
<i>Enka Insaat ve Sanayi AS</i>	Turkey	Construction and real estate
<i>ZTE Corp</i>	China	Other consumer goods
<i>Turkcell Iletisim Hizmetleri AS</i>	Turkey	Telecommunications
<i>Wistron Corp</i>	Taiwan Province of China	Other equipment goods
<i>TPV Technology Limited</i>	Hong Kong, China (SAR)	Wholesale trade
<i>Advanced Semiconductor Engineering</i>	Taiwan Province of China	Electrical & electronic equip.
<i>Lee & Man Paper Manufacturing Ltd</i>	Hong Kong, China (SAR)	Wood and paper products
<i>National Industries Group Holdings SAK</i>	Kuwait	Diversified
<i>Inventec Co Ltd</i>	Taiwan Province of China	Electrical & electronic equip.
<i>Skyworth Digital Holdings Ltd</i>	Hong Kong, China (SAR)	Electrical & electronic equip.
<i>China Minmetals Corp</i>	China	Metal and metal products
<i>Galaxy Entertainment Group Ltd</i>	Hong Kong, China (SAR)	Other consumer services
<i>Cheng Shin Rubber Industry Co</i>	Taiwan Province of China	Chemicals
<i>Esprit Holdings Ltd</i>	Hong Kong, China (SAR)	Other consumer goods
<i>Neptune Orient Lines Ltd</i>	Singapore	Transport and storage
<i>Techtronic Industries Co Ltd</i>	Hong Kong, China (SAR)	Other equipment goods
<i>Asia Food & Properties Ltd</i>	Singapore	Food, beverages and tobacco

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Capabilities and Human Development:

Beyond the individual—the critical role of social institutions and social competencies

FRANCES STEWART*

INTRODUCTION

Individuals cannot flourish alone: Indeed, they cannot *function* alone. When they are born, the family provides their life support. In turn, families cannot function independently of the societies in which they are located. Being a member of a family, of a locality and of the larger society is an essential component of a flourishing existence. Since these groupings can provide good or bad conditions for the individual, it is not only their existence but also their nature that is relevant to human development. Thus a major task of the human development approach—which aims to assess human progress and identify the conditions for human flourishing—is to explore the nature of social institutions that are favourable for human flourishing, as against those that impede it.

The capability approach, developed by Sen (1999) and Nussbaum (2000), provides the theoretical underpinning of much discussion of human development. It is essentially individualistic. Development consists of the expansion of *individuals'* capabilities or freedoms. These are defined as what a person can be ('beings') or do ('doings'). The objective of development is then to expand the set of capabilities of each individual. From this capability set, an individual makes choices and thus translates the potential to be or do a variety of things into actual

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beings or doings, or what are called 'functionings'. It is these functionings that we observe. The human development approach tends to focus on functionings rather than abilities because of its major concern with assessing progress, since functionings can be observed and measured. It is much more difficult to measure capabilities, although there have been a number of attempts, both theoretical and empirical, e.g., (Burchardt and Le Grand 2002; Anand, Hunter et al. nd; Schokkaert and van Ootegem 1990). Nonetheless, like the capability approach, the human development approach maintains that freedom of individual choice is a central aspect of satisfactory development. As stated in the 1990 *Human Development Report*, "Human development is a process of enlarging people's choices" (UNDP 1990, p. 10). This implies that if we could show that a set of functionings was not chosen freely, this would constitute a serious defect, even if the actual set of achieved functionings was deemed to be good.

Whether we are discussing capabilities or functionings, progress is assessed by how *individuals* are affected. In this respect, the different approaches share the views of the utilitarian approach, which they aim to replace. How does this individualism relate to the essentially social quality of human existence? In principle, the individualism of the capability approach and the social features of human life appear quite compatible. Expanding individual capabilities forms the end, or the objective, while identifying and promoting good social institutions is a means to this objective. Yet in two ways the primacy of individualism in the capability approach is at odds with the flourishing of social beings. First, individuals are so bound up with others that it can be difficult to disentangle them and treat them as separate. As Etzioni (1993) stated: "(A) basic observation of sociology and psychology is that the individual and the community 'penetrate' one another and require one another, and that individuals are not able to function without deep links to others" (Etzioni 1993, p. 65, italics added). We shall explore whether this means that the strict means/ends nexus partially breaks down. Second, as a consequence of the emphasis on individual choice and individual flourishing, there has been a tendency in human development analysis to neglect the study of social institutions and competencies. This is not to claim that the capability or human development approaches entirely ignore the importance of the social as instrumental—for example, Sen 1999, UNDP 1993, and Drèze and Sen 1989—but that they have given it insufficient emphasis. Moreover, Sen has gone beyond recognition of the instrumental aspect of social arrangements¹ to hint at a more fundamental

1 Sen 1999, p. 116, refers to "the advantage of group activities in bringing about substantial social changes."

role that society plays in determining individual capabilities: “(I)n valuing a person’s ability to take part in the life of the society itself, there is an implicit valuation of the society itself, and that is an important aspect of the capability perspective” (2009, p. 246).

This paper aims to explore these issues in order to consider how the social can be better integrated into the human development approach—in analysis, research and policy. The paper is organized into four parts. Part One will consider some definitional issues. Part Two explores ways in which *social competencies* are important for individual flourishing, in order both to show how important they are and to lay down the broad boundaries of what we are discussing. Part Three considers factors relevant to assessing social well-being at an aggregate level, going beyond particular social institutions to societal relationships, and discussing the concepts of social cohesion and social inclusion. Part Four will consider implications of the previous analysis for the human development approach, including for research, data collection and policy recommendations.

1. SOME DEFINITIONS

We need to start with definitions. *Social institutions* are understood here as all institutions in which people act collectively (i.e., involving more than one person), *excluding profit-making market institutions and the state*. They include formal non-governmental organizations (NGOs); informal associations, such as neighbourhood associations or social clubs; cooperatives and producer associations; sports clubs and savings associations; and much more. They influence, and are influenced by, both state and market. While both state and market have been subject to much investigation in relation to the human development and capability approaches, the role of collective activities outside the state and the market has been given a much less central place.

Following North’s (1990) broad definition of institutions as “humanly devised constraints that structure political, economic and social interactions,” social institutions include norms and rules of behaviour. They thus encompass both organizations, such as those listed above, and norms, which in each case may be formal or informal. Social norms influence behaviour and are consequently important in determining the human development impact of goods and services intended to promote human development, whether provided by the state, the market or social organizations. *Social competencies* are defined here as what such institutions can be and do—i.e., they are in a sense the capabilities of institutions, as against those of groups. We do not use the term ‘social

capabilities', leaving *capabilities* to refer to valuable things that individuals can be or do, and which they have reason to value.²

Social competencies are needed, first, for all activities that, by their essence, can only be done in a group and not individually; and second, for many activities that in principle could be carried out by individuals alone, but that could be carried out much more effectively if done collectively. Examples of the first type are a football team, a book club, an orchestra, a neighbourhood group, a policing group, an army, a library, a social club or dating agency, a group to protect the environment and communal worship. Examples of the second include a mass of activities where there are economies of scale, so that doing things individually is highly uneconomic; the provision of health services is an example. There are some organizations to which both arguments apply—for example, education, where there are clear economies of scale, so providing it collectively is more economic, but there are also intrinsic virtues of collective provision since social interaction among children is important in itself as part of the educational experience.

Some of these activities could be provided by the market—e.g., private sports clubs or privately provided education. Where there are large externalities, however, market provision will not occur, and any collective action needs to be provided either by the state or by non-state social institutions (or some combination). The division of responsibility between state and non-state institutions varies across countries (and time). For example, there is more of a tradition of state provision of social competencies in Europe, and especially northern Europe, than in the United States, where non-state groups play a bigger role. There is also often a blurring of the distinction between state and non-state because the state often subsidizes the non-state activities (e.g., subsidies to the arts and sports).

But some activities *cannot* be carried out by the state. Basically, all the political economy type collective action described above is non-state, and indeed arises partly in order to gain control over the state or to pressure it to take some action. Non-state social institutions therefore supplement state activities in areas where there are large externalities, or where the market would fail because people are too poor to buy items considered, by the state or by particular groups, essential or high priority—like universal education or health services. They also provide services that the state may regard as lesser priority (e.g., libraries or theatres). They act where the state cannot, as in political and social movements.

2 Roy 2012 has suggested that these should be termed relational capabilities.

Turning to rules, regulations and social norms: While the state is responsible for manifold laws and regulations, informal norms, which we call here social norms, are by definition outside the control of the state. They are the outcome of innumerable social interactions over time—among individuals and social institutions, and also through market influences. They can, however, be influenced by deliberate actions by both state and non-state actors.

2. WHY ANALYSIS OF SOCIAL INSTITUTIONS OR COMPETENCIES IS ESSENTIAL FOR HUMAN DEVELOPMENT

Social institutions and social competencies are critically important in determining individual capabilities because: (a) they have a direct impact on them—since most individual capabilities could not exist without social competencies; (b) societal institutions (in particular families) have a critical role in forming the character of individuals and consequently they (together with social norms) affect the choices people make within any capability set and the behaviour of individuals towards others, thus affecting other people’s capabilities; (c) social institutions and competencies affect the functioning of all other societal institutions, including both state and market institutions; and (d) they affect the power and influence of particular groups (and individuals in these groups) at the macro-, meso- and micro-levels. At macro-levels, they influence the policy choices governments make, and thereby the level and distribution of capabilities. Similar effects can be observed at meso- and micro-levels. Moreover, they also influence the terms individuals experience in market activities—wages and conditions, generally.

Societies vary hugely in the number, functions, effectiveness and distributional consequences of social institutions, and consequently in the range of social competencies that may contribute to advancing human development. While considerable work has been devoted to cataloguing variations in the state and the market across countries, and reasons for and consequences of these variations, the same sort of cataloguing has rarely been carried out for non-state social institutions. Exceptions are (Oxhorn, Selee et al. 2004; Edwards 2004) studies of civil society, while anthropologists have analysed the more amorphous social norms and mores in many particular communities, although much less has been done in describing and cataloguing them at national level. Yet ‘good’ social norms from the perspective of human development can make a large difference to behaviour, and consequently to capabilities and human development outcomes.

THE IMPACT OF SOCIAL INSTITUTIONS AND COMPETENCIES ON INDIVIDUAL CAPABILITIES

To illustrate this, it is helpful to consider a list of some central capabilities. Though Sen has resisted drawing up a list of specific capabilities, arguing that it is for individuals and their collective deliberations to determine the capabilities they have reason to value, there have been many attempts to delineate the main conditions needed for human flourishing. Table 1 summarizes six such efforts.

Drawing on the nine different dimensions of capabilities in Table 1, Table 2 points to the role of social institutions in underpinning each of these. Besides the state and the market, social institutions, including the family, community and neighbourhood associations, trade unions, social movements, political parties and NGOs are all important in influencing the production of different capabilities. Social norms also play a critical part in determining behaviour, which in turn affects capability sets. Not all social institutions have a *positive* impact: For example, norms of discrimination can be adverse for employment, education, health, and the material and mental well-being of some groups (including women), while criminal gangs and warring groups undermine security.

There are possible conflicts in the conditions needed to achieve different capabilities—for example, between material well-being and environmental conditions, at least in the short term; and possible trade-offs between the growth of market influences, which may improve material well-being, and conditions conducive to capabilities that depend on having a cohesive society. This is supported by some empirical work suggesting that particular institutions may favour some outcomes but not others. In the first place, research shows that there is not a high positive correlation among many of the main dimensions of human development as defined above (Ranis, Stewart and Samman 2006), indicating that conditions that give rise to some capabilities may not be conducive to others. Second, when grouping the characteristics into four broad categories—basic human development as measured by the Human Development Index, and social, economic and political aspects of development³—few countries do well or badly on *all* categories. Most tend to show mixed performance, doing better on one aspect (e.g., social) and worse on others (e.g., economic or political) and conversely (see Table A.1). This suggests that we may not be able to identify institutions that are good (or bad) for human development as a whole, but rather those that are good or bad for some aspects of it.

3 Ranis, Stewart et al. 2009. See the Annex to this chapter (p. 28), for more information.

Table 1: Requirements for human flourishing

DIMENSIONS OF CAPABILITIES	Rawls1971	Finnis, Boyle et al.	Doyal and Gough 1991	Nussbaum 2000, 2007	Narayan 2000	Camfield 2005
Defining concepts:	Primary goods	Basic human values	Basic needs and intermediate needs	Central human functional capabilities	Dimensions of well-being	Quality of life
<i>Bodily well-being</i>		Bodily life— health, vigour and safety	Physical health -Nutrition: food and water -Health care -Safe birth control and childbearing -Safe physical environment	Life Bodily health Bodily integrity	Bodily well-being Access to health services Good physical environment	
<i>Material well-being</i>	Income and wealth		Protective housing Economic security		Material well-being Food Assets	Food Shelter
<i>Mental development</i>		Knowledge Practical reasonableness	Basic education	Senses Imagination Thought Emotions Practical reason Play		Education (Bangladesh and Ethiopia, not Thailand or Peru)
<i>Work</i>	Freedom of occupation	Skilful performance in work and play	Work	Lack of discrimination Good relations at work	Work	
<i>Security</i>			Physical security		Civil peace Physically safe environment Lawfulness (access to justice) Personal physical security Security in old age	
<i>Social relations</i>	Social bases of self-respect	Friendship	Significant primary relationships	Affiliation Social bases for self-respect	Social well-being -Family -Self-respect and dignity -Community relations	Family
<i>Spiritual well-being</i>		Self-integration Harmony with ultimate source of reality				Religion (important in Bangladesh and Thailand)
<i>Empowerment and political freedom</i>	Rights, liberties, opportunities Powers and prerogatives of office and positions of responsibility Freedom of movement		Autonomy of agency Civil and political rights Political participation	Control over one's environment	Freedom of choice and action	
<i>Respect for other species</i>				Other species		

Source: Adapted from Ranis, Stewart et al. 2006, using material derived from Alkire 2002; Doyal and Gough 1991; Narayan 2000.

Table 2: Role of social institutions in affecting major capabilities

DIMENSIONS OF CAPABILITIES	Social organizations	Social norms
<i>Bodily well-being</i>	NGOs, communities and families provide goods and services	Norms of health behaviour Attitudes to violence
<i>Material well-being</i>	Cooperatives NGOs Family (including remittances) Producer and workers' organizations	Attitudes to employment Discrimination
<i>Mental development/ well-being</i>	Family and community effect	Social norms (positive or negative)
<i>Work</i>	Workers' associations	Norms towards female and child work
<i>Security</i>	Warring groups and criminal gangs (negative) Community associations (positive)	Societal norms
<i>Social relations</i>	Family and community	Clubs and associations
<i>Spiritual well-being</i>	Religious organizations	Societal norms
<i>Empowerment and political freedom</i>	Political parties Social movements Peoples' associations as basis of empowerment	Norms of hierarchy and discrimination
<i>Respect for other species and for natural environment</i>	Community action NGOs	Norms of behaviour

SOCIAL INSTITUTIONS, NORMS, CHOICES AND INDIVIDUAL AUTONOMY

Individual behaviour is influenced by norms, a form of social institution with a powerful impact on human behaviour. Social norms include both moral commandments (often sanctioned by religion) and numerous norms without a clear ethical basis that affect behaviour in general or in particular situations. An example of the latter is a norm, prevalent in many Latin countries, that people take a siesta in the afternoon. Almost every action we take is influenced by some norms—for example, in relation to noise-making (or not), ways of dealing with people (levels of politeness and social distance, etc.), cleanliness, punctuality, technology use, and so on. Some norms are related to health behaviour and directly affect health capabilities; others influence the effectiveness of particular institutions—e.g., the norm of doing homework is helpful for improving the

learning impact of school. Some affect distribution of capabilities, for example, across genders. The previous section sketched how norms contribute to behaviour that affects capabilities. We now consider how social norms affect *choices* among capabilities.

A critical building block of much capability and human development analysis (as well as economists' analysis of welfare) is that individuals are autonomous and make their own decisions in the light of their own preferences, personality, etc. While the aim of development is to expand people's capabilities, the individual has the responsibility of choosing which capabilities to make use of, which to develop, and so on. Underlying this is the assumption that the individual knows best what he or she wants and is ethically the right person to make these decisions. This position only makes sense if the individual is truly autonomous, however. Two major influences on individual choices that arise from social institutions limit this autonomy. First, family (and societal) norms help form an individual's character, ideology, preferences and behaviour; secondly, social norms—outside the control of the individual, and formed by interactions among individuals and social, state and market institutions within society over time—greatly influence and sometimes constrain individuals' choices. Consider child labour: Individual decisions on this are affected by social norms, such as considering it fine for children to work, as in many developing countries, or outrageous, as in some western countries. It is not the child, usually, but the family (parents or grandparents) that makes the decision for the child. In other cases, the community constrains free choice by ostracizing, stoning or even killing people who make choices—e.g., of marriage—that contravene social rules.⁴

It follows that the autonomous individual is somewhat of a myth—doubtless it represents the aspiration and belief, and possibly a near reality, among those philosophers who make it an essential component of their analysis. But most people are far from a position of complete freedom of choice: They have degrees of freedom, but their choices are heavily influenced by norms and institutions (market as well as social), with the extent of freedom varying across societies. Hence we cannot ignore social institutions, nor the influence exerted by the market, but must assess these to see whether or not they are promoting

4 We should note that what we now regard as social norms with negative impacts on human capabilities are by no means confined to low-income societies. 'Negative' social norms in relation to homosexuality or to race, for example, were pervasive in Western societies until recently and still apply in parts of society. What Western societies approve of in relation to restrictions on the freedom of people labelled 'terrorists' and the treatment of animals may well be regarded as abhorrent in the future.

choices that enhance human development. Indeed, we may go further and try to promote social institutions that we think will advance human development, and to deter or prevent those that are deleterious to it.

But once we agree that the individual is not autonomous, given the influences of institutions and norms, and hence not necessarily the best judge of human-development-promoting capabilities, we enter very difficult territory, because we can no longer rely on individual decisions to be ultimately the right basis for maximizing human development. It is here that Etzioni's (1993) statement becomes particularly meaningful: i.e., "*(T)he individual and the community 'penetrate' one another*" (p. 65, italics added). There are several routes we might follow from this conclusion:

One is to take the decisions out of the hands of individuals and give them to the state. Yet this is unsatisfactory on many grounds and poses real constraints on individual autonomy. How can the state be trusted to know, and if it knows, to make the best decisions? Even if it is democratic, the state will not be able to take into account the aspirations and capacities of each individual, and is likely to be swayed by particular interests; moreover, there is clear value for individuals in having a significant degree of control over their own lives.

A second route is to ignore the arguments above and leave such decisions to the individual as usually recommended in analysis of human development. We should recognise that this may be the appropriate choice in many situations, but it cannot be justified as the best option without qualification, given the way that individuals and their choices are socially formed or influenced. If this is the approach adopted, it needs to be accompanied by various policies encouraging the individual to make 'good' human development choices. These include efforts to improve information about the options and consequences of certain behaviours. Secondly, policies are needed towards social institutions to help provide a favourable context for individual choice, so as to increase the positive impact of social institutions on individual choices and reduce their negative impacts. In some situations, this may justify regulation, reducing the freedom of choice of some individuals. Thirdly, since individuals themselves contribute to forming social institutions, and their decisions often affect other people, there is a need to encourage individuals to make decisions that are positive in these respects.

These are complex areas where judgement is required. Because of the influence of social norms on behaviour and the impact of individual behaviour on others, it is not justified to leave all decisions to autonomous individuals. Yet there are no simple rules about how much it is justified to influence individual behaviour, nor about who should do the influencing.

This can be illustrated with a few examples:

- Healthy behaviour involves hand-washing and the use of bed nets in malaria-affected areas. To achieve this, a family needs certain material resources (water, soap and bed nets). They also need to change behaviour, and this requires a change in norms of behaviour, which can be affected by information via the education sector, the media and/or leaders. Evidence suggests that simply providing bed nets, for example, without changing norms, results in only a minority of people using them (Banerjee and Duflo 2011). Moreover, to secure such a change may require overriding the preferences of children (to sleep without bed nets).
- Another type of healthy behaviour is to stop substance abuse, including consumption of tobacco, alcohol and drugs. Here, information and restrictions on the sale of these items (or their taxation) are recognized as desirable.
- The long-run well-being of a child (health, earnings, etc.) is likely to be affected by whether or not he or she goes to school. Here the family has to be persuaded, induced or compelled to send the child to school, possibly at the expense of loss of earnings from child labour.
- Equality of opportunities for women (and some ethnic or racial or religious groups) may require a major change in social norms in some societies as well as restrictions on discriminatory behaviour.
- Families can be trapped in poverty by informal norms that support early marriages and dowry requirements.

In each of these examples, it is assumed that there are some dominant or overriding objectives—of promoting health, child education or gender equality—that justify policies to change social institutions and restrict individual choice. Yet individuals, and indeed societies, may reject these objectives—for example, some societies appear to reject the objective of gender equality (although this could be predominantly the male view). Should those who wish to advance human development override local views where they are inconsistent with the assumed dominant objectives? Nussbaum (2000) has suggested that this is a false dilemma, and indeed that there is a broad and shared ‘overlapping’ consensus on many values; similarly, Sen (1997) has argued that despite a large diversity of views, many Asian thinkers value freedoms as much as, and in a similar way to, many Western thinkers. Nonetheless, in practice there do appear conflicts between the values espoused within and across societies. One justification that has been put forward for giving primacy to certain objectives is by appealing to universal human rights as the ‘final court’ (Vizard 2006). But some question these human rights as a Western-imposed conception (Mutua 2001).

This section has shown that social institutions do indeed penetrate the individual, in the sense of contributing to the way they see the world and the choices they make. Consequently, it is not always possible to make a clear distinction between an ‘autonomous’ individual and prevalent social institutions. It follows that social institutions, and particularly social norms, should themselves be an object of policy so as to promote institutions that foster conditions conducive to creating capabilities, and also influence individual choices among capabilities in a positive way from the perspective of elements agreed to be important in human development, such as promoting health and education, and limiting violence and substance abuse.

If we believe that one set of outcomes (and choices) is superior to another from a human development perspective, then we need to try and change social institutions so that they favour such outcomes. This assumes that we can agree broadly on human-development-promoting activities and outcomes, whether by discussion and consensus or by appeal to human rights conventions. A big issue is who ‘we’ are in this context. Should these decisions about human development priorities be determined at a local level, national one or globally in the light of values shared by the global elite?

SOCIAL INSTITUTIONS AND POWER

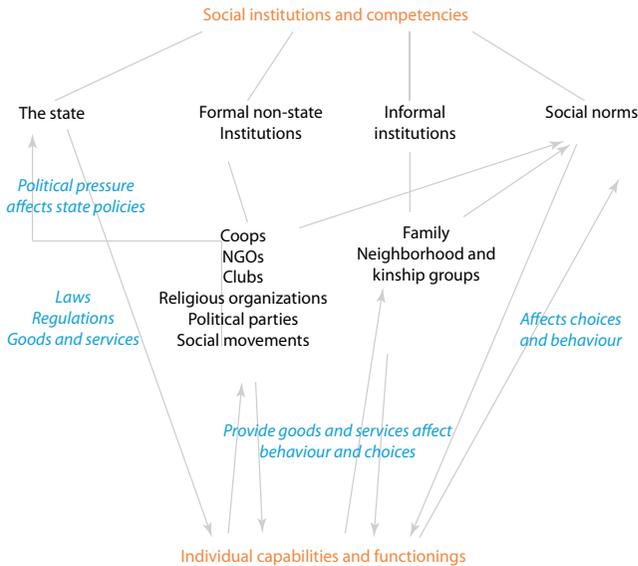
Policy change is the outcome of a political struggle in which different groups (and individuals) provide support for particular changes. In this struggle, uncoordinated individuals are generally powerless. They are also powerless to improve the conditions they face in the market. Yet by getting together to support particular changes, individuals can acquire considerable power collectively. As the Dominican Republic’s 2008 *Human Development Report* states: “*El empoderamiento individual y el colectivo, para sersostenibles, tienen que ser simultaneos*” (individual and collective empowerment can only be sustained together) (UNDP 2008).⁵

Groupings of people that have been effective in supporting change include producer groups, workers’ associations, social movements and political parties. Organizations uniting people are especially crucial for poorer people, since rich individuals can exercise influence through their wealth. The power conferred by social institutions that unite people to support particular changes can be observed at many levels:

5 The report investigates many of the relationships among collective action, empowerment and human development outcomes—see Diagram 1.4. It also develops individual and collective empowerment indices.

- Even among the very poor and marginalized, unity can improve people's conditions by enabling them to bargain effectively with employers or the state. For example:
 - An analysis of sex workers in Calcutta shows how one of the most diverse, fragmented, internally competitive and conflicted sets of individuals organized into a single group, and improved their conditions and their self-respect (Gooptu 2002).
 - Similarly, women in a squatter community in Cape Town (Crossroads) came together to form a highly successful action group that challenged state-sponsored eviction attempts and was even instrumental in the overthrow of apartheid. The group increased their strength by seeking the assistance of middle-class rights groups and soliciting media publicity for their cause (Kaplan 1997).
 - Scavengers, who sell waste to middlemen, are truly marginalized—associated with disease and squalor, perceived as a nuisance and probably criminal, and exploited. Studies in Asia and Latin America have found the scavengers receiving some 6 percent of the price industry pays to the middlemen. In the 1990s, the organization of scavengers into groups resulted in successful cooperatives that significantly improved the conditions of members. In Colombia, for instance, the cooperative *Recuperar* in Medellin by the mid-1990s had almost 1,000 members, 60 percent of whom were women. Members earned 1.5 times the minimum wage, and were eligible for loans and scholarships from the coop (Medina 1998).
 - Women's groups (often organized for productive purposes, such as cooperatives, or for microfinance) have been shown to empower women (Chen 1983; Mahmud 2002, Kumar and Quisumbing 2010, Agarwal 2010).
- At a meso-level, people organized by ethnicity, occupation, race or gender can improve their position if they overcome their internal fragmentation, and unite to lobby effectively for improved conditions and policy changes. For example:
 - The Orang Asli in Malaysia forged a single identity, encompassing 18 different groups, including different customs and languages, to negotiate for improved conditions. The Peninsula Malaysia Orang Asli Association (POASM) has been formed to help protect Orang Asli culture and people in terms of treatment by the state.
 - Similarly, the Luhya in Kenya, also formed of 18 groups speaking different dialects, united under a single umbrella organization—the Luhya

Figure 1: The relationship between social institutions and individual capabilities



Elders Forum—to become an effective force in politics. Together, they form about 16 percent of the Kenyan population; their vote is often decisive in elections.

- Posner (2005) has shown how in Zambia different ethnic groups unite under a common political banner in order to form a majority and secure power democratically.
- Muñoz, Paredes et al. (2006) compare rural indigenous areas in Peru with stronger and weaker organizations for collective action. They show that in well-organized areas (Bambamarca and Espinar) there are joint activities to promote security and improve living conditions. In a less-organized area (Ayacucho) there is little social or economic collective action, and the Shining Path was able to exploit the situation to mobilize for violence. Even in the better organized areas, however, the indigenous peoples were unable to improve their conditions to any great degree because of weak state action. The authors attribute this to weak institutions at the intermediate level: “(I)f the intermediate level is controlled by political parties that are fragmented, corrupt and prone to personalism and favouritism, then the connections go sour” (p. 23).

- The achievements of Brazil's Landless Workers Movement (Movimento dos Trabalhadores Sem Terra, or MST) provide another example: "Over the course of the MST's twenty-five years of work, it has expropriated some 35 million acres, land that is now occupied by roughly a million families. The settlements, which are cooperatively organized, are home to hundreds of MST-built schools, which have enabled tens of thousands of people to read and write" (Dangl-Znet 2009).
- In Cochabamba in Bolivia in 2000, there was a "Water War, a popular uprising that kicked out Bechtel, a multinational company that had privatized the water in everything from communally built wells to rain cisterns. Many citizens from across the economic spectrum couldn't afford the exorbitant rates set by the company, so they joined together in protests and road blockades, sending Bechtel packing and putting the water back into public hands" (Dangl-Znet 2009).
- In the state of Rajasthan in India, social movements were instrumental in achieving 'right to information' legislation that allowed citizens to investigate government records (Goetz and Jenkins 1999).
- At the macro- or national level, policy change favouring human development is most likely when there are strong political institutions backing it. These include social movements, workers' and rural organizations, and political parties. As Polanyi (1944) saw, the swing of the pendulum towards interventionism and social action does not happen automatically, but as a result of movements such as these provoked by the extreme conditions that a focus on markets alone produces (Polanyi 1944, Stewart 2010). Cornia and Martorano (2011) have shown how Latin American countries with progressive governments have introduced policies favouring human development, including extended education, higher and more progressive taxation, cash transfers and raised minimum wages. After years of high and increasing inequality, these countries have shown some decline in it, although quite slowly, indicating the entrenched nature of inequalities.
- Underlying political changes towards progressive governments have been long-term movements of workers and rural people. For example:
 - In India, market reforms did nothing for rural poverty, and high levels of rural underemployment and open unemployment (much of it seasonal) among landless labourers and poverty persisted. A mass movement developed, based on a coalition of left-wing parties and including huge popular marches, to secure a National Rural Employment Guarantee scheme. The Act introducing this was passed in 2005. It potentially revolutionizes opportunities for work and income in rural

India, as it guarantees 100 days of work per household at minimum wages. It “provides an indispensable lifeline to the millions of poor in the rural areas of the country. This social security measure, for the first time makes the right to work a fundamental legal right—a new radical deal for India’s poor” (Pandey 2005, pp.7-8). The act was introduced as a result of huge popular mobilizations, themselves a reaction to the abysmal conditions many rural poor face (Drèze 2008).

- Hugo Chavez’ assumption of power in Venezuela in 1998 and his subsequent reforms are the most far-reaching example of a political reaction brought about by workers and rural movements to advance the conditions of the poor. Although initially Chavez tried to gain power by military means, eventually he did so through democratic election. This election was not an isolated one-off event, but followed and was supported by growing political movements in favour of change. As early as the 1950s there was the Revolutionary Left Movement (*Movimiento Izquier da Revolucionaria*, or MIR). Other more recent movements included the Movement towards Socialism (*Movimiento al socialismo* or MAS) the Fatherland for All (*Patria para todos* or PPT) the Communist Party of Venezuela (*Partido comunista de Venezuela*), and above all the Fifth Republic Movement (*Movimiento V Republica* or MVR), which itself was supported by the Radical Cause (*La Causa R*), a mass movement started in 1970. Land reforms were introduced that put a ceiling on land holdings and gave the state the right to redistribute those that were “idle or unproductive” (Gott 2005, p. 220). The Hydrocarbons Law increased state revenue from oil. There was a major expansion of social services and food deliveries to the poor. Evidence suggests (though much depends on the source of data, dates used, etc.) that these changes have been accompanied by reduced poverty, and, probably, improvements in income distribution (Brouwer 2007, Beezy 2008).
- Brazil notoriously has had one of the most unequal income distributions in the world. Lula da Silva came to power in 2002 with the support of the Workers Party as well as the Movement of Landless Workers (*Movimiento Sem Terra*, MST). While Lula continued to follow orthodox economic policy, he greatly increased expenditures on basic services, introduced large-scale cash transfer programmes to reduce poverty (*Bolsa Familia*) and raised the minimum wage. During his presidency, the Gini coefficient measure of inequality fell quite sharply, from 0.59 in 2001 to 0.53 in 2007. It is estimated that 0.2 of the decline was due to expanded access to education; the cash transfers accounted for another 0.2. For 2001-2007, “the bottom six deciles, who account for only 18% of income, accounted for 40% of total income growth” (IPC 2009).

- In Bolivia, Evo Morales was elected President in 2005 with the support of the unions and indigenous people (he had been leader of the federation of unions, and general secretary of the *cocaleros*, coca farmers, union). A group of social movements were behind this election, including the Unified Syndical Confederation of Rural Workers (*Confederacion Sindical Unica de Trabajadores Campesinas de Bolivia*) and the Assembly for the Sovereignty of the People (*Asamblea de la Soberania de los Pueblos*). Together, they formed the Movement towards Socialism (*Movimiento al Socialism-Unzaguista*, MAS), bringing together indigenous people and workers (Stefanoni and Alto 2006). Morales introduced a new Constitution giving more power to indigenous people and more state control over natural resources; over 60 percent of the electorate endorsed more decentralization in January 2009. On the social side, it introduced a small universal pension for everyone over 60; expanded education programmes, including policies to eliminate illiteracy. The constitutional vote also imposed (non-retroactive) limits on landownership of 5,000 hectares (Crabtree 2009).

SOCIAL INSTITUTIONS, COMPETENCIES AND INDIVIDUAL CAPABILITIES

As stated at the outset of this paper, the capabilities approach has always defined capabilities as pertaining to individuals, and further argued that the objective of development is to expand individual capabilities and freedoms. We have shown here the critical importance of social competencies for providing the conditions for individuals to flourish. Good social conditions affect not only the outcomes (functionings) of individuals in a particular society today, but also those of future generations (including children already born). Clearly, social competencies are then of huge *instrumental* importance for advancing human development today and across generations. Moreover, as argued earlier, social norms affect the very choices that individuals make—not only among the capabilities they may have reason to value, but those that would not be classified as being capabilities people have reason to value, such as drug-taking, abuse of others and violence. In this way, social institutions and norms ‘penetrate the individual’, making it difficult to separate them completely. We would then want to encourage institutions and norms that influence individuals in ways that promote valuable capabilities.

Thus while the quality of development—valuable or non-valuable outcomes—depends on what happens to individuals, both those alive today and across generations, the nature of social institutions is of critical importance. When assessing societies from a capabilities perspective, we need to include not only today’s individuals’ outcomes (life expectancy, nutrition, education, political participation, etc.), but also the social institutions that affect their choices

and outcomes, and those of future generations. Moreover, prevalent social institutions, together with individual capabilities and interactions, influence the development of social institutions and consequently future possibilities. There are also aspects of society that affect individuals but *cannot* be assessed by focussing on individuals alone—those that involve, by definition, relationships among the individuals in a society, such as social cohesion and social inclusion.

This does not imply that one can have a valued outcome at a societal level while individual capabilities flounder. But rather that one needs to investigate the quality of social institutions and social competencies as providing an essential foundation for the flourishing of individual capabilities.

Figure 1 presents a diagrammatic representation of some of the relationships between social institutions and individual capabilities. Note the two-way arrows indicating that social institutions affect individuals, and in turn are formed by individuals.

This part of the paper has laid out three different ways in which social institutions (including norms) affect individual capabilities and functionings: first, as essential inputs or means to achieve virtually every significant capability, or important dimension of human development; second, as affecting the choices people make; and third, as influencing individuals' relative power and consequently their market conditions, their access to politically granted benefits and the political economy of policy choices. Part Three will discuss ways of approaching a macro-level assessment of social institutions, both in relation to the types of social institutions discussed, and in relation to aggregate concepts of social cohesion and social inclusion, which go beyond the individual institutions considered above to the relationships across society.

3. ANALYSING A SOCIETY'S SOCIAL INSTITUTIONS AND SOCIAL COMPETENCIES

The first part of the paper considered the importance of social institutions for individual choices, capabilities and functionings. Yet when we come to consider society as a whole, we need to go beyond the impact on particular individuals to consider the totality of social institutions in a country, and beyond that societal relationships. This section presents some considerations that should inform analysis and assessment of social institutions and social competencies *at a country level*. It considers the relevance of concepts that are often used in aggregative assessments of society, notably social cohesion and social inclusion, each of which go beyond particular institutions to consider societal relationships as a whole. And it makes suggestions for how to undertake empirical assessments of social aspects of human development in particular societies.

CLASSIFYING AND CATALOGUING SOCIAL INSTITUTIONS AND COMPETENCIES

To assess how a society is doing in terms of social institutions, a first requirement is to explore the quantity and quality of social institutions and social competencies in a society. This requires differentiating those social institutions that promote human development, and those that do not and may undermine it.

Clearly, not all social institutions and competencies are desirable from a human development perspective. Non-state institutions and social norms can encourage anti-social behaviour—drug trading and consumption, criminality and violent conflict, for example. So, to put it crudely, we have ‘good’ and ‘bad’ social institutions from a human development perspective. In the tradition of capabilities analysis, ‘bad’ capabilities (those that people do not have reason to value) are not defined as capabilities, and we could do the same here, so that social competencies and the institutions that produce them are by definition desirable. An alternative approach would be to include all social institutions and social competencies (good and bad), and subsequently sort them into those that promote human development, and those that do not, some of which may have a negative impact on human development. This classification would be more transparent, and helpful for policy since policy should be directed at reducing the ‘bad’ institutions as well as promoting the good. We should note, though, that some institutions may be good in some respects, but not in others, so it may often be difficult to make a clear classification.

Clearly, a critically important part of any cataloguing of social institutions is to classify them into those that promote human development, those that do not affect it, and those that undermine human development, for two reasons: first, to assess the richness of particular societies in terms of institutions that promote human development (which could be called ‘social capital’, but this term has so many different definitions that it would be confusing to use it); and secondly, to identify the conditions that give rise to good or bad social institutions (including norms).

It might be argued that the totality of human development promoting social institutions is what is meant by ‘social capital’. Certainly, this could be a reasonable interpretation of the term. However, I don’t use it here because ‘social capital’ has been subject to so many interpretations. As Dolfsma and Dannreuther (2003) state: ‘Social capital does not have a clear, undisputed meaning, for substantive and ideological reasons’.⁶

6 See Foley and Edwards 1999, Adler and Kwon 2002 and Claridge 2012. ‘Social capital’ was used by Putnam to mean membership of non-state social organizations, excluding the Church (Putnam et al. 1993). But many others have used it to refer to the quantity of interactions among people.

MACRO- AND MICRO-ASPECTS OF SOCIAL INSTITUTIONS

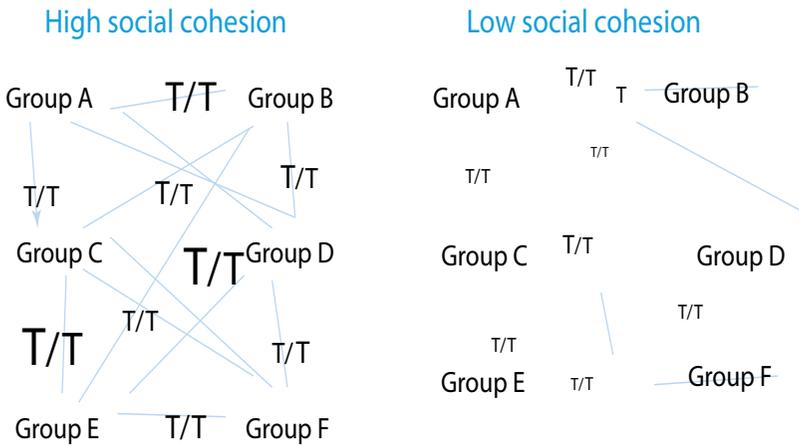
While Part Two of this paper (and Table 2) explores the relationships among selected dimensions independently, it is also useful to aggregate across dimensions and social institutions, and consider whether or not we can identify the *general* features of major social institutions—such as the family, the community and society as a whole—as well as general features of social norms, which together provide a positive environment for a range of dimensions of human development. This can be geared towards identifying social institutions that are broadly good for human development. While there can be some ambiguity—e.g., a family may support the flourishing of some individuals, but not others (perhaps due to gender), or at some times but not others—it may still be possible to identify general tendencies.

A cataloguing and classification of social institutions in each society might provide details of the large number of institutions in existence, and yet might miss the big picture. In assessing social aspects, we need to be able to look at a society as a whole, and assess whether the social aspects of life are good, satisfactory or poor. The conclusion partly depends on the number and quality of social institutions. Yet it goes beyond both organizations and norms. We could have a society with broadly good social institutions, yet there could be dysfunctional family relationships (‘living alone’, or the opposite, ‘living in an oppressive family’); relations across cultures could be highly limited (a ‘silo’ society, as Malaysia is sometimes described); there could be a high degree of hierarchy, with strong social institutions at different levels of society, but little contact across them (a ‘class’ or caste-ridden society); and/or economic and social mobility could be limited, which is most likely in hierarchical or silo societies, but could also be present in others.

All these aspects appear to be relevant to assessing how satisfactory a society is from a social perspective. While it is clearly not for me to lay down rules about what makes a good society in any of these respects, they each seem to be relevant dimensions to consider as part of any aggregate social assessment. It is here that concepts of *social cohesion* and *social inclusion* become relevant—these are macro-concepts aimed at assessing the quality of the social aspects of life for society as a whole.

Social cohesion is a complex concept that is impossible to define precisely. According to Ranci (2011): “This is a fuzzy concept, including heterogeneous dimensions such as social integration, solidarity, inequality, place attachment or identity” (p. 2,795). The concept has its origins in Durkheim’s concepts of social solidarity and social integration. Intuitively, we understand it as a situation where people feel a strong sense of belonging and trust each other. In a

Figure 2: Social cohesion



Groups may be divided by religion/ethnicity/gender/region/class/caste

Lines represent significant quantity of social interactions

Ts represent trust in other groups (higher where T is larger)

multi-ethnic or religious situation, this means that national identities are strong (relative to group identities), that trust is strong across groups as well as within them, and people are not marginalised, or excluded, in economic or social terms.

This is summarized by Bécarea, Stafford et al. 2011:

“Social cohesion is a multicomponent concept, formed of various dimensions which together contribute to society’s collective project and well-being ... common values and a civic culture, social order and social control, social solidarity and reductions in wealth disparities, social networks and social capital, and territorial belonging and identity” (p. 2,773).

Some authors put the main emphasis on cross-group relationships, entailing trust, identities, etc. (Chan and Chan 2006), while others emphasize inclusion (Dahrendorf 1995). Forrest and Kearns (2001) specify multiple domains that contribute to a socially cohesive society (see Table 3).

From these definitions, three distinct elements of social cohesion emerge: (a) low disparities and marginalization, and the absence of discrimination (broadly ‘social inclusion’), (b) the presence of strong bonds that people have with one another; and (c) the result of these two elements, i.e., ‘solidarity’ and the absence of inter-group conflict.

One way of measuring social cohesion is by cohesive *outcomes*—i.e., a cohesive society is one in which people have strong bonds with each other and with society at large; high levels of trust in each other, irrespective of group membership; high levels of trust in the government and strong national identities. A socially cohesive society would be signalled by the presence of such bonds and trust, and by the absence of political and social tensions, and also, obviously, the absence of violent conflict and high levels of criminality. Another approach is to identify a lack of social cohesiveness by the presence of factors likely to *cause* a poor outcome. This would include measures of exclusion and discrimination, high levels of inequalities (both horizontal and vertical), and strong group as against national identities. Measures of social cohesion would include indicators of inequalities, trust (especially across groups) and data on ranking of identities.⁷ Clearly, all these elements are relevant to social cohesion, as either (or both) contributory factors and defining characteristics.

An alternative approach is to identify types of society that are clearly *not* cohesive. Three types may be differentiated:

1. A *conflict-ridden* society. We could include here societies that actually have had violent conflicts, or ones that appear particularly conflict-prone. High horizontal inequalities (inequalities among culturally defined groups, actual or perceived) and past conflict would be indicators. Another indicator might be that, when asked, people rank their particular identities (such as religion or ethnicity) above their national ones in importance, or alternatively, that people do not attach importance to the identities and historical relations they share with other people and groups.
2. A *silo* society. This is a society where groups are not in conflict, but there is very limited interaction across them. An indicator would be a low level of intergroup interaction.
3. A *hierarchical* society. This is a society with strong hierarchical divisions, based on class or wealth. Indicators would be measures of vertical inequality, low rates of social mobility and low levels of interactions across classes.

As argued above, the concept of social cohesion implies a society in which social interactions cross cultural and economic groups, i.e., ruling out the silo society, the hierarchical society and the stratified society. To assess this, one would need to consider social interactions and social mobility across cultural groups (i.e., groups defined by ethnicity, race and/or religion) and across class

7 See Langer and Stewart (2013) for a proposed measure incorporating these three elements.

groups (defined by class or caste). Measurement of social interactions should include both the total quantity of interactions in society and the cross-group interactions in a number of dimensions including socializing; marriage; membership of social institutions; trust in others, and across groups; and social mobility of members of different groups.

A socially inclusive society is one in which no group or groups suffer multiple disadvantages (economic, political, social or cultural). A society with a high degree of social exclusion would not qualify as socially cohesive, since it would be hierarchical and stratified. Large *horizontal inequalities* are associated with social exclusion and a lack of social cohesion and may raise the risk of violent conflict (Stewart 2001; Østby 2003; Murshed and Gates 2005; Stewart 2008; Cederman, Weidmann et al. 2011). Measurement of social exclusion/inclusion and horizontal inequalities should, in principle, include both objective indicators by group (of income, assets, social service access, political access and participation, and cultural recognition) and, where possible, perceptions of inequality by group (Mancini, Stewart et al. 2008; Langer and Mikami 2011). High vertical inequalities (across individuals) are also likely to be an indicator of hierarchy.

Besides these measures of social cohesion, there are some aggregate *social outcome indicators* that may also be helpful in pointing to how satisfactory life is from a social perspective.

These include:

- the homicide rate and other measures of criminality;
- the number of single parent families;
- the number of abandoned children;
- the suicide rate; and
- deaths in organized armed conflict.

Some of these measures, however, might be taken as indicators of freedom (such as suicide), however, and they may each be the product of reporting. For example, on the homicide rate, “The comparison of intentional homicide figures between countries and regions is, to some extent, a comparison not only of the level of intended killing of persons, but also of the extent to which countries and regions deem that a killing should be classified as such. In essence, societies define those killings that it perceives as acceptable and those that it does not.”⁸

8 See: www.unodc.org/documents/data-and-analysis/IHS%20methodology.pdf, accessed 13 February 2012.

A COMPREHENSIVE ASSESSMENT OF SOCIAL ASPECTS OF HUMAN DEVELOPMENT

A full assessment of social aspects of a society then involves three types of measurement and description:

- A cataloguing of social institutions and social norms;
- Measurement of social cohesion including indicators of inequalities, trust and identity; and
- Assessments of societal outcomes.

When it comes to social cohesion and social inclusion, we are not talking about the relationships between individuals and social institutions (as depicted in Figure 1), but about how individuals relate to others in society (the extent and nature of social interactions, trust among individuals and groups, inequalities among individuals and groups, and exclusion). Figure 2 illustrates features of social cohesion.

4. HOW DOES A FOCUS ON SOCIAL INSTITUTIONS AND COMPETENCIES AFFECT APPROACHES TO HUMAN DEVELOPMENT?

1. It is helpful to treat the question of how a focus on social institutions affects approaches to human development on four levels: analytic, empirical, policy and evaluation. At the level of analysis, this paper suggests that those concerned with the capabilities and human development approaches should go beyond the individual, where so much of the work to date has been focused, and investigate the questions covered briefly in this paper, including those related to:
 - The social formation of individual character and behaviour;
 - Social constraints on individual autonomy;
 - Social institutions and competencies and their effects on human development, in particular;
 - The role of norms in influencing behaviour;
 - How norms are formed;
 - The formation of groups, incentives and constraints on collective action;

Table 3: The domains of social cohesion

Domain	Description
<i>Common values and a civic culture</i>	Common aims and objectives; common moral principles and codes of behavior; support for political institutions and participation in politics
<i>Social order and social control</i>	Absence of general conflict and threats to the existing order; absence of incivility; effective informal social control; tolerance; respect for difference; intergroup cooperation
<i>Social solidarity and reductions in wealth disparities</i>	Harmonious economic and social development and common standards; redistribution of public. nuances and of opportunities; equal access to services and welfare benefits; ready acknowledgement of social obligations and willingness to assist others
<i>Social networks and social capital</i>	High degree of social interaction within communities and families; civic engagement and associational activity; easy resolution of collective action problems
<i>Place attachment and identity</i>	Strong attachment to place; intertwining of personal and place identity

Source: Forrest and Kearns 2001.

- How groups affect political and policy outcomes; and
- The determination of the three elements that make up social cohesion or society as a whole (trust, inequalities and identities) and how these affect human development outcomes.

2. Empirical work is needed to:

- Identify the nature of social institutions and norms that are associated with improvements in capabilities and human development, recognizing that different institutions emerge historically, and a range of institutions may (in differing combinations) be consistent with good outcomes;
- Catalogue social institutions in a number of countries, and identify the conditions that give rise to ‘good’ social institutions from a human development perspective; and
- Explore the relationship between indicators of social cohesion (interactions, trust, inequalities, etc.) as well as other factors⁹ with human development outcomes, including social outcomes, such as homicide, criminality, suicide, etc.

9 Of course, political and economic conditions may also influence these outcomes.

3. Potentially, this approach opens up a large arena for policy, though before arriving at policy conclusions the analytic and empirical work just noted is essential. Policies could include those to:
 - Promote social institutions (including norms) that would support capabilities, e.g., in relation to regulations and norms, policies need to support health-promoting behaviour and discourage or even outlaw health-destroying behaviour; similarly, with respect to discriminatory behaviour, whether by gender or by ethnic or other groups;
 - Facilitate empowering social institutions, notably through the poor forming groups for production and bargaining, such as cooperatives, borrowing associations and workers' unions, with a particular focus on promoting women's groups because of women's relative lack of power;
 - Promote socially cohesive outcomes, including by encouraging interactions across groups (e.g., via the education system and/or the media, or through spatial planning and/or transport); and
 - Reduce horizontal and vertical inequalities.
4. Data and evaluation. Data are essential for such research. This is an area where systematic cross-country data are particularly rare. Data are required to permit a picture of the 'social health' of each country, which would include the nature and quantity of social institutions, social interactions, trust and social mobility, inequalities and social outcomes. These data are not included in national accounts, nor recognised as an important omission. Nor are they included in the data on human development recorded in the annual Human Development Reports.
5. Nonetheless, a considerable amount of evidence is available from World Value Surveys and barometer surveys, which provide some evidence of trust in others, sometimes by group. But inconsistencies in the questions asked over time reduce the usefulness of these sources (Langer and Stewart 2013). In some countries, there are data for cross-group marriages, but generally not other cross-group interactions. Global crime statistics are available for some outcomes (homicide, suicide, criminality, etc.), while a number of sources provide data for domestic violence. Data on vertical inequality are widely available, if not necessarily accurate. Data on horizontal inequalities can be calculated from many of the Demographic and Health Surveys, and by region, as well as from the Ethnic Power Relations data set, and geocoded data sets developed by Cederman, Weidmann et al. (2011). Inequalities across demographic groups (by gender and/or age) are often indicated in national accounts.

6. A major requirement is to promote the collection of appropriate ‘social’ data on a systematic cross-country basis.
7. Making an aggregate assessment of the strength of social institutions country by country is difficult due to deficient data and also because different indicators may move in different directions (Ranis, Stewart et al. 2009). Yet it would be desirable to complement information on economic and political aspects facilitating human development with some indicator(s) of the strength of social aspects.

CONCLUSIONS

This paper has sketched how social institutions affect capabilities in an instrumental way. But further than that it has examined how they also affect the very choices people make and the things they value, and thereby limit the autonomy of the individual, posing major theoretical challenges as to how to identify ‘good’ influences and ‘good’ choices. The paper has explored how collective action—a critically important social institution—can affect the design and implementation of policies relevant to human development. Finally, it has considered a holistic approach, in which relations among people and institutions determine social cohesion and social inclusion, both important besides particular social institutions for developing a peaceful, sustainable and cohesive society.

Social interactions are a quintessential part of human life, and their quantity and quality determines what we might call a person’s relational capabilities following Roy 2012 (i.e., those capabilities an individual may enjoy that involve relations with others). Moreover, we all live embedded in social institutions—in the family, the neighbourhood, the nation. These and the social norms we face deeply affect the nature and quality of our daily life. In other words, we can’t get away from society and retreat into a monadic existence of autonomous individuals. And if we did, we would be immeasurably impoverished. That being so, the study of and policy towards social institutions must form an essential component of our approach to human development.

ANNEX:

BROAD DIMENSIONS OF HUMAN DEVELOPMENT ACROSS COUNTRIES

Empirical research (Ranis, Stewart et al. 2009) has attempted to classify the performance of countries in relation to (somewhat crude) measures of basic human development and economic social and political performance, measured as follows:

Basic human development, measured by the under-five mortality rate; *economic aspects*, encompassing income per capita, unemployment, growth in per capita income and the GDP cycle; *social and community relations*, including a quite large and disparate set of variables comprising a measure of income distribution, the perceived importance of family and friends, tolerance of neighbours and gender empowerment, and (negatively) the male suicide rate; and *political freedoms and stability*, measured by an index of political and civil liberties, a measure of the rule of law and one of collective political violence.

In relation to the world median, country performance on each of the four dimensions was classified into high, medium and low categories. The results showed much inconsistency in performance, with only two countries being classified as high on all dimensions (Costa Rica, and Trinidad and Tobago), six as medium on all (Bolivia, Brazil, Nepal, Saudi Arabia and Turkey), and five as low on all (Chad, Democratic Republic of Congo, Iraq, Sierra Leone, Somalia and Zimbabwe, with incomplete data on all countries in this category except Sierra Leone).

Table A.1 shows the number of countries, by region, that did particularly well (or poorly), i.e., were ‘superior’ or ‘inferior’ on certain dimensions. The sharpest differences were found for sub-Saharan Africa, where both social and political performance exceeded economic and basic human development performance in a number of countries.

Table A.1: Superior or deficient performance* by dimension

	Sub-Saharan Africa	Latin America and the Caribbean	Middle East	East and Southeast Asia	South and Central Asia	Eastern Europe
<i>Social superior</i>	6	0	1	0	1	0
<i>Social deficient</i>	-1	-2	0	-1	0	-4
<i>Political superior</i>	10	0	2	0	0	0
<i>Political deficient</i>	0	-1	0	-1	0	-2
<i>Human development superior</i>	2	2	0	0	0	2
<i>Human development deficient</i>	-5	0	0	0	-1	0
<i>Economic superior</i>	0	1	1	0	1	0
<i>Economic deficient</i>	0	-3	0	0	0	-1

*A country was identified as being *superior* in a dimension if it was high in that dimension and medium or low in the others, and as *deficient* in a dimension if it was low in that dimension and medium in the others, or if it was medium in that dimension and high in the others.

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Demography and Human Development:

Education and Population Projections

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INTRODUCTION

Human development can best be studied with models that have human beings rather than monetary or other units at the core of their analysis. Demography, which can also be defined as the mathematics of people, specifies all of its models strictly in terms of human beings according to different relevant characteristics. Hence, it offers a most appropriate approach to the study of human development across the world. Traditionally, demographic analysis has mostly focused on the changing composition of populations by age and gender. But human beings have many observable and measurable characteristics that distinguish one individual from another and that can be considered highly relevant for human development; these characteristics can also be assessed in aggregate and used to distinguish one sub-group of a population from another. Here we will focus on the level of highest educational attainment and to a lesser extent also health status in addition to age and gender.

In virtually all societies, better educated men and women have lower mortality rates, and their children have better chances of survival (KC and Lentzner 2010). Almost universally, women with higher levels of education have fewer children, presumably because they want fewer and find better access to birth control. There are, of course, many factors influencing the level of fertility that range from the status of women within the family, to female labour force participation, to general socio-economic development. However, extensive research has shown that among this myriad of factors, the level of female education

and the availability of reproductive health services are the two most important ones that are open to policy interventions (Bongaarts and Sinding 2011, and Lutz and KC 2011). The effect of education on fertility is particularly strong in countries that still have relatively high overall fertility levels and hence are in the early phases of their demographic transitions. There are many reasons to assume that these pervasive differentials are directly caused by education, which enhances the level of information, changes the motivations for behaviour, and empowers people to better pursue their own preferences, although strict causality can only be proven for specific cases in which natural experiments occurred. For the following projections by level of education, it is sufficient to assume that systematic associations will continue to persist over the coming decades, as they have for more than a century for all countries for which data exist.

Because of these fertility and mortality differentials by education, future changes in the educational composition of the population will greatly influence the future outlook for overall population trends around the world. In addition, education is not only an important source of population heterogeneity that influences population dynamics, but it is also an important influence on people's capabilities and empowerment, as will be discussed below. Hence there are many reasons for making investments in education in general and in female education in particular in programmes directed at better global health, population stabilization, poverty reduction and sustainable development.

1. MEASURING AND MODELLING EDUCATION¹

When measuring education, it is important to distinguish conceptually between education flows and stocks.

Flows refer to the process of education – to schooling and, more generally, the production of human capital – and may consist of formal and informal education. The process of education is the central focus of pedagogy and education science, where the usual statistical indicators are school enrolment rates, student-teacher ratios, drop-out rates and repetition rates.

Human capital refers to the stock of educated adults, which is the result of past education flows for younger adults in the more recent past and for older ones some decades ago. This stock is usually measured in terms of the quantity of formal education (highest level of attainment or mean years of schooling) but the quality dimension (the general knowledge and cognitive

1 This sections draws heavily on Lutz et al. 2007; KC et al. 2010.

skills people actually have) and the content or direction of education also matter. For countries with data on the cognitive skills of the adult population, the evidence has shown significant economic impacts of education quality (Hanushek and Woessmann 2008) but the number of these countries is still very limited. The content of education matters more for higher education than for basic education, where the main aim is the acquisition of literacy skills and basic numeracy.

The quantity of formal education is often measured by the mean years of schooling of the adult population above either the age of 15 or 25. This has the advantage of capturing the entire human capital of a population at one point in time in one single number (or two when one distinguishes between men and women). Yet, there is much to be gained from decomposing this highly aggregate indicator into the full distribution of educational attainment categories (and thus capturing the differences in the composition of education stocks across countries and regions) and into different age groups, and hence capturing inter-cohort changes that drive many of the consequences of improving human capital on society and the economy.

There are many ways in which education and the resulting human capital affect human well-being at the individual and society levels. A huge body of literature shows that better educated people tend to have better health, higher income and higher life satisfaction (Lutz 2009); better educated societies tend to have higher economic growth and better institutions (Lutz et al. 2008, 2010). Most of these assessments of the consequences of education only refer to the length and level of formal education, because these elements have the only systematically available data. It is plausible to assume that the quality and content of education also matter for many of these consequences, although little empirical evidence exists to date.

The projections presented here are based on the demographic method of multi-state population projection, which was developed at IIASA during the 1970s, and is now a well accepted method among technical demographers. Our baseline year, providing the empirical starting point, is 2000, the same as in our reconstruction of education distribution in the past. This allows the backward and forward projections to be connected in a gapless time series. We chose 2000 as the base year, since the data for 2005 were not available for a vast majority of countries.

The basic idea of projection is straightforward: Assuming that the educational attainment of a person remains invariant after a certain age, we can derive, e.g., the proportion of women without any formal education aged 50-54 in 2005 directly from the proportion of women without any formal education

aged 45-49 in 2000. Continuing to assume that this proportion is constant along cohort lines, the proportion of women without education aged 95-99 in 2050 for the same cohort follows directly. In a similar manner, the proportions for each educational category and each age group of men and women can simply be moved to the next older five-year age group as one moves forward in time in five-year steps.

These proportions would be precisely correct if no individual moves up to the category with primary education after the age of 15, and if mortality and migration did not differ by level of education. This follows directly from the fact that the size of a birth cohort as it ages over time can only change through mortality and migration. However, strong links do in fact exist between the education level and mortality, fertility and migration behaviour. Accordingly, the above approach is adjusted to correct for these effects. The size of birth cohorts is dependent on the levels of education of women of childbearing age, where a negative relationship is traditionally observed. In projecting these cohorts forward, differential survival rates are applied to the education groups. The differentials are based on a comprehensive literature review as well as on modelling exercises based on past data. The details of these adjustments are provided in later sections of this paper.

The above treats the different education groups essentially as separate sub-populations. In addition, at younger years, transitions between education categories may occur. These are described in detail in later sections. The analysis is simplified by the assumption that changes in educational attainment are unidirectional; in other words, individuals can only move from the 'no education' status to primary, and on to secondary and possibly to tertiary, but never revert to a lower status.

In reality, the likelihood of an individual making the transition from one educational attainment level to the next highest is strongly dependent on the education of the parents. This educational inheritance mechanism is not, however, modeled explicitly here. Instead, the assumptions regarding the transition rates and their future development are statistically derived from the aggregate behaviour of education systems in the past. Since this expansion is partly the result of the inheritance mechanism, i.e., the fact that many parents aspire for their children to reach an education level at least as high as they themselves did, inheritance is implicitly reflected in the projection, even though it is not formally part of the model. Such an approach appears preferable at this time, because data on the aggregate growth patterns of education systems, on which assumptions for the future can be based, are much more readily available than robust data on the micro-process of educational inheritance.

Table 1: Education categories

Category	Definition
<i>No education (E1)</i>	No formal education or less than one year of primary
<i>Primary (E2)</i>	Uncompleted primary, completed primary (ISCED 1) and uncompleted lower secondary
<i>Secondary (E3)</i>	Completed lower secondary (ISCED 2) uncompleted and completed higher secondary (ISCED 3/4) and uncompleted tertiary education
<i>Tertiary (E4)</i>	Completed tertiary education (ISCED 5/6)

The starting point for the projection is data collected for each country (typically around the year 2000) that gives the total population by sex, five-year age groups, and four attainment categories based on the current International Standard Classification of Education (ISCED 1997): no education, primary, secondary and tertiary (see Table 1).

A single set of categories applied to all countries regardless of their state of educational development inevitably requires some compromises. Surveys used exclusively in developing countries have historically provided little differentiation at higher education levels. Conversely, data collected in industrialized countries may not differentiate below completed primary level. For present purposes, the entire spectrum from no education to completed tertiary needs to be covered. At the same time, a large number of detailed categories would be unwieldy and limit the number of countries for which data are available. Consequently, a relatively small number of categories is used to cover the entire spectrum. This means that the categories are relatively broad. Note, for instance, that ‘primary’ does not refer to completed primary, but to having more than one year of primary schooling. Likewise, for the purposes of this study, ‘secondary’ refers to lower secondary, not completed upper secondary. As a result, the ‘secondary’ category is quite broad, encompassing ISCED levels 2-4. The reason for not splitting off ISCED 4, however, is that the distinction between ISCED 3 and 4 is one of the least clear-cut. ISCED 4 programmes “are often not significantly more advanced than programmes at ISCED 3” (UNESCO Institute for Statistics 2009, p. 258). As a result, attempting to distinguish between ISCED 3 and 4 would have undermined the straightforward hierarchical interpretation of our education categories.

Our procedure for each country can be summarized as follows:

- A baseline population distribution by five-year age group, sex and level of educational attainment is derived for the year 2000.

Figure 1a: Structure by age, sex and education level for South Africa 2000

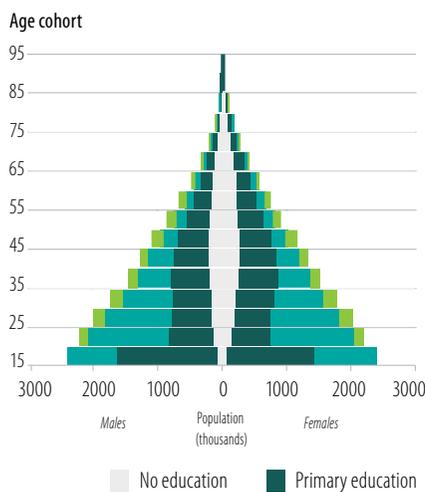
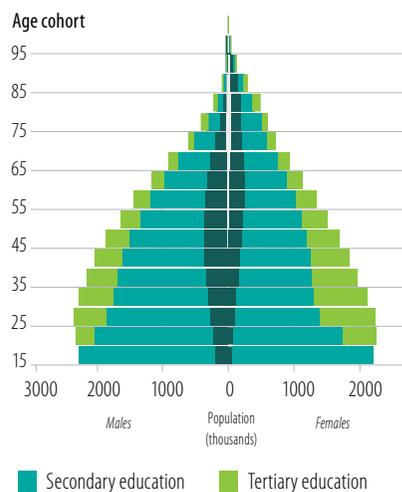


Figure 1b: Projected structure for South Africa 2050



- For each five-year time step, cohorts move to the next highest five-year age group.
- Mortality rates are applied, specific to each age, sex and education group, and to each period.
- Age- and sex-specific educational transition rates are applied.
- Age-, sex- and education-specific net migrants are added to or removed from the population. In the projections presented here, the migration assumptions correspond to those used in UN population projections, with additional assumptions on the education profile of migrants. Since the United Nations assumes an overall decrease in the volume of migration over time, these assumptions are not of critical importance.
- Fertility rates are applied, specific to each age, sex and education group, and to each period, to determine the size of the new 0-4 age group.
- The new population distribution by age, sex and level of educational attainment is noted, and the above steps repeated for the next five-year time step.

The aim of the projection is to obtain a dataset with the population distributed by five-year age groups, starting at age 15 and with the highest age group

100+; by sex; and by four levels of educational attainment over a period of 50 years, from 2000 (base year) to 2050, in five-year intervals.

To illustrate the kind of information that this projection method generates for 120 countries in the world, Figure 1 gives an example in terms of age pyramids by level of education for South Africa. The first pyramid (Figure 1a) shows the structure by age, sex and level of education for the year 2000, which is the empirical baseline information used for the reconstruction. The second pyramid (Figure 1b) gives the projected structure for the year 2050, resulting from our method.

2. ALTERNATIVE EDUCATION SCENARIOS²

While the fertility, mortality and migration assumptions underlying the projections presented here are discussed extensively elsewhere (Lutz et al. 2004; KC et al. 2010), we will focus on the definition of four different scenarios reflecting different education policies in countries around the world.

While making assumptions about future educational development over the course of several decades is a difficult task, it is not intrinsically more difficult than making assumptions about reproductive behaviour or mortality. Like variant projections of demographic indicators, the education scenarios below are not to be interpreted as predictions or forecasts, but as exercises in ‘what if’ reasoning. As such they serve the important purpose of illustrating the consequences of different kinds of trends and policy environments on global human capital. In any case, the notion that we can avoid making assumptions about future educational attainment trends is a fallacy. Since fertility is influenced by education levels, population projections inevitably make implicit assumptions about the population’s future educational attainment, even if these remain unstated. In our view, it is preferable to be explicit about these assumptions. The changing educational composition of a population not only matters as a source of heterogeneity in population projections. Information about the likely future educational composition is also very important in its own right for charting progress in human development and drawing inferences in terms of the likely benefits from such different possible trends.

The following four scenarios try to demarcate the broad range of possible future trends in schooling. Since the stock of human capital can only change through changing patterns of school enrolment for the young generation (in addition to minor possible changes through differential mortality and migration,

2 This section draws heavily on KC et al. 2010.

and very rarely adult education), all four scenarios are defined in terms of future trends in school enrolment. They range from the worst case of declining school enrolment rates, to the case of no further improvements in enrolment rates that might result from political inaction, to a medium policy scenario in which it is assumed that the future expansion of enrolment rates follows the collective experience of the countries that are already somewhat more advanced in educational expansion, to the strong policy fast track scenario. This last scenario assumes that the country manages to follow the experience of nations such as the Republic of Korea and Singapore, who experienced some of the most rapid expansions in schooling in human history. While the medium policy global education trend scenario may be considered the most likely trajectory for every country, the range from the fastest possible expansion to the decline of enrolment rates spans all future trends that might be considered plausible (in the sense of not impossible), although they are not necessarily likely trajectories.

CONSTANT ENROLMENT NUMBER (CEN) SCENARIO: WORST CASE SCENARIO

In a sense, this is a worst-case scenario in that it assumes zero expansion of schooling. In the context of population growth, this implies that the proportion of children enrolled in school is actually declining over time. Although some African countries have shown such a trend during the 1980s, here this scenario is not presented as a likely future possibility, but serves reference purposes only. Its technical definition is straightforward.

The assumption is that in each country, the number in each cohort (by gender) making each educational transition at the appropriate age remains constant over time. Accordingly, the relative share of the attainment levels can rise and fall, depending on changes in cohort size.

CONSTANT ENROLMENT RATIO (CER) SCENARIO: NO ACTION SCENARIO

Like the previous scenario, the projection of constant transition rates between attainment levels (and as a result constant proportions in each level within each cohort) serves largely illustrative purposes. It demonstrates the implications of extending the status quo into the future, without regard for contextual change. In its disregard of historical upward trends and of the opportunity for 'no-cost expansion' when cohort size declines, it is a somewhat pessimistic scenario.

The technical definition of the CER scenario is straightforward. In each country, the proportion of each cohort (by gender) making each educational transition at the appropriate age remains constant over time. Note that these constant proportions are applied not to cohorts at birth, but to cohorts of

survivors at the relevant age. This ensures that a decrease in infant mortality by itself will not reduce the educational transitions of surviving children under the assumption of constant proportions.

GLOBAL EDUCATION TREND (GET) SCENARIO: MEDIUM POLICY SCENARIO

This is a more complex scenario that is not derived from a single, simple assumption. Informally, the GET scenario assumes that a country's educational expansion will converge on an expansion trajectory based on the historical global trend. The identification of the global trend is based on a data-driven judgemental analysis. This means it is neither derived by mechanistically applying a statistical model, nor a mere 'expert estimate', but based on the application of domain knowledge to the empirical data.

This scenario, which resembles the collective experience of countries already further advanced in education expansion, needs to make some special assumptions for front-runners, including the assumption of a possible maximum of education. From a theoretical perspective, the limiting constraints of educational expansion differ at different stages. Initially, expansion in enrolment is likely to be essentially limited by the available supply of school places. As long as only a small fraction of each cohort is enrolled in primary school, it seems plausible that each additional school that is built can be filled with willing students. At this stage, enrolment is largely supply-limited. Once the vast majority of each cohort is enrolled, say 90% or more, the fact that the remaining 10% are not enrolled is unlikely to be the result of a lack of school places. In fact, by the time 90% are enrolled, cohort growth will typically have fallen considerably, meaning that raising the enrolment ratio further does not require physical expansion. Instead, enrolling the last few percent is typically a matter of accessing hard-to-reach populations, such as children in remote rural areas, working children, those suffering from disabilities and so on. Complete enrolment of these groups in school requires not school expansion, but well-designed and targeted demand-side interventions.

Both accelerating and decelerating phases of attainment expansion can be modeled well by cubic splines at all attainment levels. The placement of the point at which the curve switches from accelerating to decelerating expansion was chosen to ensure the splines connect smoothly. The exact placement is not critical, since the curve is approximately linear for much of the central section. Fitting such bi-cubic models to each country shows good individual fits (in the vast majority of cases with an adjusted R-squared greater than 0.8), and the resulting parameters, indicating the 'pace' with which different countries traverse the cubic curve, turn out to have a unimodal, fairly symmetric and tightly clustered distribution. The parameter means across the individual country

models may therefore reasonably be considered to constitute the ‘typical’ global trend. Countries that had already achieved 99% or higher participation were excluded in determining the overall mean expansion parameter. The projected trajectories resulting from applying these global trend parameters were examined for their plausibility.

In general, the comparison of the average growth patterns across phases and genders shows that while the schooling of girls may have started later, it has been expanding at a much faster pace. The gender difference is more or less the same at primary and secondary levels, but dramatically greater at the tertiary level. Between 1970 and 2000, female tertiary attainment growth has been closer to the pace of male primary or secondary expansion in the past.

The application of the GET scenario will normally result in more optimistic trajectories of educational attainment than either the CEN or CER scenarios. However, it is important to note that in the case of the latter, this is not by definition. In a context of rapidly falling cohort sizes, the assumption of constant enrolment may in principle translate into increases in the proportions at higher attainment levels that are higher than the increases implied by the GET scenario. In fact, it could be argued that the GET scenario is rather conservative. The above parameters imply, for instance, that it takes a typical country about 40 years to raise female participation in primary schooling from 50% to 90%, and over 30 years after that to reach 99%. The latter in particular may seem discouragingly slow (moreover, female primary participation has been the fastest process over the period studied), but reflects the empirical average. While some countries have expanded access much more quickly, others have stagnated and made even less progress during the final decades of the 20th century, and this is reflected in the average slope.

THE FAST-TRACK (FT) SCENARIO: STRONG POLICY SCENARIO

In addition to the above scenarios that define lower bounds, worst-case or ‘no change’ environments, an optimistic scenario has been defined. This is based on the GET scenario defined above, but assumes the achievement of certain milestones. If stated targets in attainment are not reached by certain years (both of which are defined below) under the assumptions of the GET scenario, then an accelerated rate of growth is applied that meets these targets.

As a result, the increases over the GET scenario are not in the form of uniformly faster growth, but in the form of lifting up the countries that are furthest behind. This reflects the actual political dynamics through which such acceleration has been attempted in the past. Both the Millennium Development Goals (MDGs) and the Education for All (EFA) goals took a ‘milestones’ approach,

and the EFA Fast Track Initiative (FTI) shows that international support will not be indiscriminate and thinly spread, but focused on those countries lagging furthest behind.

Our FT scenario illustrates the implications of a new round of similar policy initiatives focusing on secondary education (the next logical step after the achievement of universal primary education). Since our category E3 is based on completed lower secondary, it is assumed that the target proportion will eventually be universal attainment of E3 by 2050. Since this target is very far off, however, a more achievable intermediate target is assumed for 2030. While no international policy frameworks have so far recommended specific targets for tertiary participation, the rapid pace of tertiary expansion in many parts of the world displays a great amount of ambition in this regard, both individual and national. As an explicitly optimistic scenario, the achievement of a proportion of 60% at attainment level E4 is assumed to be reached by 2050. While this is as high as some of the very highest levels observed today, it is already exceeded by the aspirations of teenagers in some developing and transitional countries (OECD 2007). Even if the assumptions turn out to be over-optimistic (given that it appears increasingly unlikely that the EFA goals for enrolment will be achieved in 2015), the scenario serves as a useful comparison with actual developments to assess how much human capital has been ‘lost’ by missing the targets.

For the primary level (E2), the attainment of 99% transition to E2 by 2015 is assumed under the FT scenario, corresponding approximately to the achievement of the EFA goals. Lower secondary schooling (E3) is assumed to reach 50% of each cohort by 2030, and 90% by 2050. Tertiary (E4) is assumed to reach 60% by 2050.

Finally, a word on intergenerational transmission of education in the scenarios. This is implicit in the above assumptions, which have been defined in terms of the proportion of a cohort that reaches a certain level of highest educational attainment. These proportions are comprised of children who come from mothers with that level of education plus children with mothers from lower education groups (upward mobility) and children whose mothers had a higher educational level (downward mobility). Here we only refer to mothers’ education, since there are more data available and the effect is better documented. Clearly, fathers’ education also matters in this context. Since there is generally very little empirical information on educational upward and downward mobility in most countries of the world, and since those movements are greatly dependent on government policies with respect to the expansion of the school system, it seemed appropriate to define the scenarios in terms of overall proportions. In the GET scenario, which is based on the continuation of empirically given

trends that already include such intergenerational transmission mechanisms, a simple continuation of past transmission and mobility trends is assumed. In the CEN and CER scenarios, upward mobility is assumed to be curtailed, while in the FT, it is assumed to be greatly enhanced. Finally, it is important to stress that child mortality (up to age 15) under all scenarios is derived from the mother's education, and hence different education scenarios will also result in different mortality trajectories, as will be discussed in the last section.

3. RESULTS

Numerical and graphical results for all countries in the world for which data are available (98% of the world population) have been collated for five-year age groups, five-year steps in time up to 2050, four educational categories, and all four education scenarios described above. Due to the enormous amount of data and figures, only trends for selected important countries and scenarios will be presented here.

For highlighting the results, we chose five countries from different continents and at very different stages of socio-economic development. Table 2 gives selected indicators of female educational attainment for these countries in 2010, and as projected to 2050 according to the four alternative scenarios. The four figures show the changing educational compositions over time for each country. Only one scenario per country is depicted for illustration.

The Republic of Korea has seen one of the fastest expansions of education in human history. While in the 1950s it was one of the poorest countries, with a vast majority of the adult population never having been in school, today women there are among the best educated in the world. The table shows that 43% of all women aged 15-44 have completed tertiary education, a value much higher than in most European countries.

Figure 2 shows the dramatically changing educational composition of the Republic of Korea from 1970 to 2050 resulting from the no-action constant enrolment scenario from 2010 onwards. Cohorts that were of school age in the 1950s have to a large proportion received no formal education at all, while today more than half of all young women have completed tertiary education. As a consequence of the great momentum described above, elderly people in the Republic of Korea today still have very low education, but we know with certainty that the elderly of the future will be much better educated and therefore most likely also in better health. In part, because of the high education of young women, the birth rates in the Republic of Korea have also declined to very low levels, and the population is expected to age very rapidly and start declining over the longer

Table 2: Results of projections by age, gender and level of education for five selected countries and all four scenarios focusing on the education of women of reproductive age

Country	Population (millions)				Proportion (women aged 15-44)			
			All	Women aged 15-44	No education (%)	Primary (%)	Secondary (%)	Tertiary (%)
<i>Brazil</i>	2010		195	47	3	38	52	7
	2050	FT	223	40	0	9	57	34
		GET	224	41	0	9	71	20
		CER	240	44	1	32	60	7
		CEN	238	44	0	24	68	8
<i>China</i>	2010	GET	1,341	318	3	18	69	10
	2050	FT	1,266	190	0	2	48	50
		GET	1,301	198	0	2	69	29
		CER	1,328	202	1	10	76	14
		CEN	1,294	195	0	0	76	24
<i>India</i>	2010	GET	1,225	284	35	23	35	6
	2050	FT	1,604	323	0	16	45	38
		GET	1,624	328	6	12	61	21
		CER	1,682	339	21	24	46	8
		CEN	1,687	340	21	24	47	7
<i>Kenya</i>	2010	GET	41	9	9	35	53	2
	2050	FT	90	22	0	9	62	29
		GET	90	22	1	8	82	9
		CER	101	24	6	32	60	2
		CEN	119	27	57	15	27	1
<i>Republic of Korea</i>	2010	GET	48	11	0	3	54	43
	2050	FT	47	7	0	0	50	50
		GET	47	7	0	0	50	50
		CER	47	7	0	2	44	53
		CEN	46	7	0	0	45	55

Figure 2: Population trends by level of education according to the constant enrollment ratio (CER) scenario for the Republic of Korea (1970-2050)

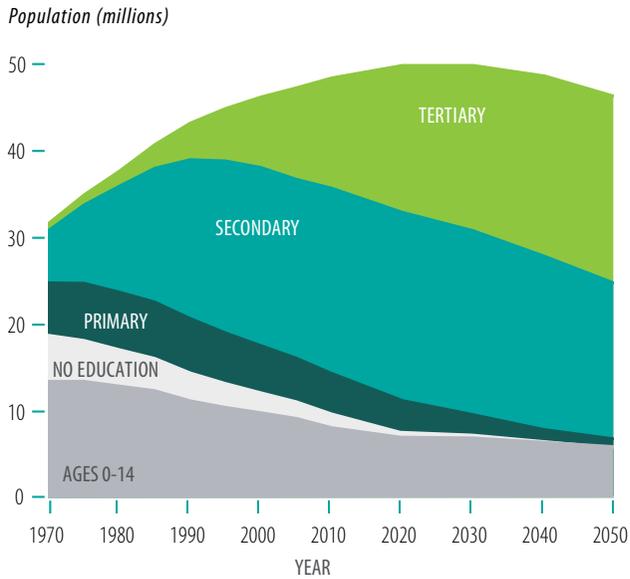
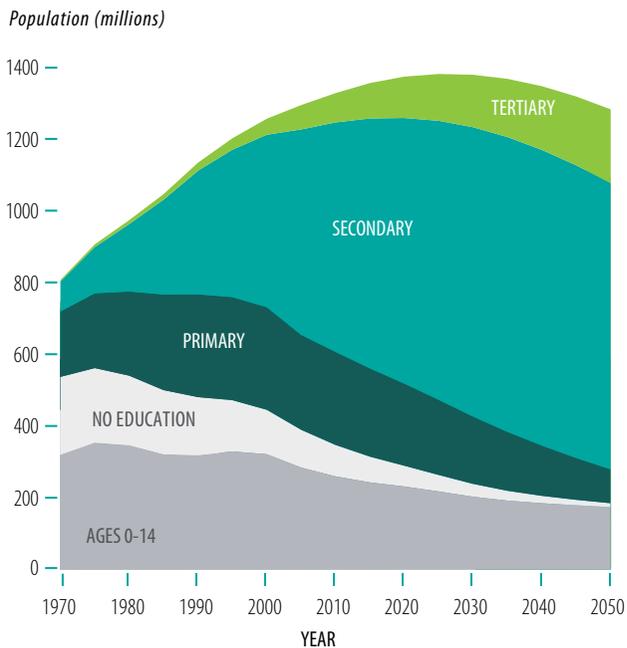


Figure 3: Population trends by level of education according to the global education trend (GET) scenario for China (1970-2050)



run. Because today the younger population is already among the best educated in the world, the different scenarios as shown in Table 2 only differ slightly with respect to the proportion of women with tertiary education in 2050.

Figure 3 shows the trends since 1970 for the world's most populous country, China, according to the medium policy GET scenario. It clearly demonstrates the enormous educational expansion that took place over the past decades, which without doubt was a major engine of economic growth and poverty reduction (Lutz et al. 2008). In the 1970s, more than a third of Chinese adults had no formal education at all, and a significant part had only some primary education. It was during the 1980s and 1990s that rapid expansion of the school system even in remote rural areas resulted in a significant increase in the proportion of people who had completed junior secondary education, which was concentrated among younger adults. With the passage of time, these better educated cohorts will move up to older age groups and result in significant further improvements of the average educational attainment of the adult population. As Table 2 shows, this momentum of improvements in human capital will even under the worst scenarios result in further increases in the education of the female adult population. While today around 10% of Chinese women of reproductive age have completed tertiary education, by 2050 this proportion will have increased to between 14% and 50%. Under the FT scenario and even under the GET scenario, the Chinese population in 2050 will be much better educated than the populations of Europe today.

The picture for India looks very different. Figure 4 shows that up until 2000, more than half the adult population of India had no formal schooling whatsoever; this trend was particularly pronounced among women (Table 2). Given great momentum in improvements in the educational attainment of adults, recent efforts by the Indian Government to greatly increase school enrolment in rural areas (which are already reflected in the GET scenario shown in the graph) will only very slowly reduce the uneducated proportion of the total adult population. Partly due to the lower level of female education, the total population of India is expected to grow more rapidly than in China. At the same time, there is an impressive expansion of the number of better educated people in India, which is undoubtedly a key factor in India's recent economic growth. However, even under this rather optimistic GET scenario, India will have highly unequal distribution of education by 2050. Under the two more pessimistic scenarios, more than one out of five young Indian women—more than 70 million women of childbearing age—will still be without any formal education.

Even under the most optimistic FT scenario, which is depicted in Figure 4, and which assumes education expansions similar to those in the Republic of

Korea over the past decades, the slow change in the composition implies that by the middle of the century, there will be a sizable group of uneducated, mostly elderly adults in India. However, the assumed rapid expansion in tertiary education under this scenario will result in a very well educated younger labour force.

The picture for Brazil lies between those for China and India. Brazil has not seen as rapid an education expansion as China, but also has a significantly lower proportion of people without any formal education than India. As in the Asian Tiger states and many other countries, in Brazil, the current economic boom together with effective anti-poverty programmes linked to education are closely associated with a rapid expansion of the better educated, younger work force. The data by five-year age groups demonstrate this clearly. Frequently given interpretations of the recent economic boom as due mostly to the export of raw materials tend to disregard this important human capital factor. Today, more than half of reproductive age women have completed junior secondary education, and only 3% of them have no formal schooling. If Brazil chooses to pursue the strong policy FT trajectory, its proportion of young women with completed tertiary education would increase from the current 7% to 34%, similar to what the Asian Tiger states recently experienced. Even the medium policy GET scenario (depicted in Figure 5) shows an improvement by a factor of three in the proportion of highly educated women.

Some developing countries have not yet gained enough educational momentum to assure continued further increases in the average education of the population. Kenya has recently seen significant expansion of primary and junior secondary education even among women. Although there are some doubts about the quality of this education, it needs to be acknowledged as an achievement that already more than 90% of young women (a greater share than in India) have at least had some schooling. However, fertility rates in Kenya are still very high by any standard, with Kenyan women having on average 4-5 children.

While the FT scenario shows how Kenya could accelerate its development, Figure 6 gives the most pessimistic CEN scenario, which assumes that essentially no new schools are being built and the number of students does not further increase, despite rapid population growth due to rather high birth rates. For this reason, it will be a major challenge for the school system to keep pace with the rapidly expanding number of children of school age. In the CEN scenario, the country's government (for whatever reason) is assumed not to keep pace with population growth. Since women with low education have particularly high fertility, this will result in even more births with a still lower prospect for education. As a consequence, there will be a decline in the average educational attainment of the population, and an even more rapid pace of population increase,

Figure 4: Population trends by level of education according to the fast track (FT) scenario for India (1970-2050)

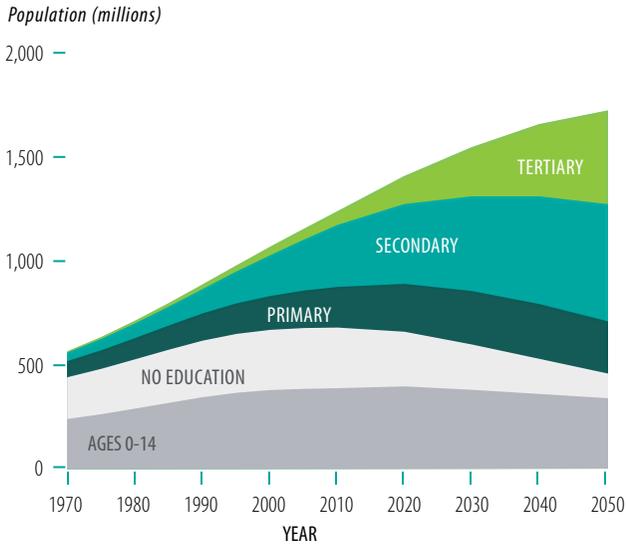


Figure 5: Population trends by level of education according to the global education trend (GET) scenario for Brazil (1970-2050)

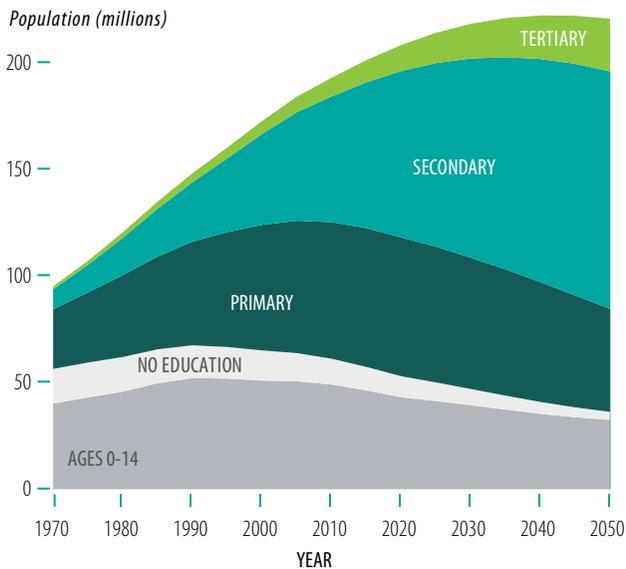
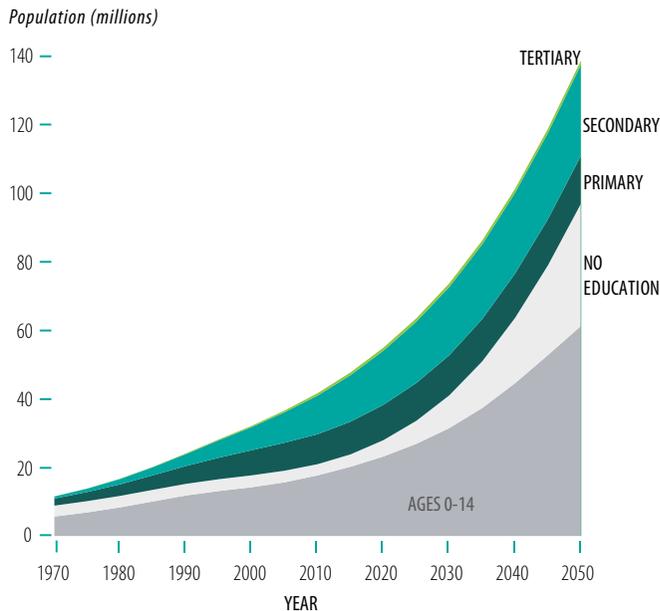


Figure 6: Population trends by level of education (1970-2050) according to the CEN scenario for Kenya



which would make all efforts towards social and economic development an even more difficult uphill battle.

Figure 7 finally shows the global impact of alternative education trends on population growth paths until the middle of the century. It is based on identical education-specific fertility rates; hence, all the differences are a function of the changing proportion of women in different education categories as a consequence of the different education scenarios described above. Population size in the FT scenario will be over 1 billion people, lower than under the CEN scenario by 2050. This implies that alternative education trajectories alone over the next 40 years will make a difference to global population size that is bigger than the entire population of Africa today or three times the current US population. This effect is strongest for countries with currently high fertility rates and high education differentials. In Kenya, as discussed above, the population would increase from 31 million in 2000 to 84-85 million in 2050 under the optimistic scenarios (FT, GET), but increase to an incredible 114 million if no new schools are built (CEN). The difference between these extreme scenarios is 30 million—about the size of Kenya’s total population in 2000.

4. EDUCATION, HEALTH AND MORTALITY³

Education has long been considered a key covariate of health and mortality in both industrialized and developing countries; recently, more research has substantiated the causal nature of this relationship. In particular, a great deal of research has focused on substantiating the independent and causal relationship between maternal schooling and child health (Caldwell 1979; Fuchs et al. 2010). Reviews of surveys and census data from developing countries (Hobcraft et al. 1984; Mensch et al. 1985) and econometric analyses of cross-country macro-data have confirmed women's education as the most significant determinant of child mortality, where estimates show that each additional year of schooling is associated with a 5-7% reduction in child death (Mensch et al. 1985; Schultz 1993).

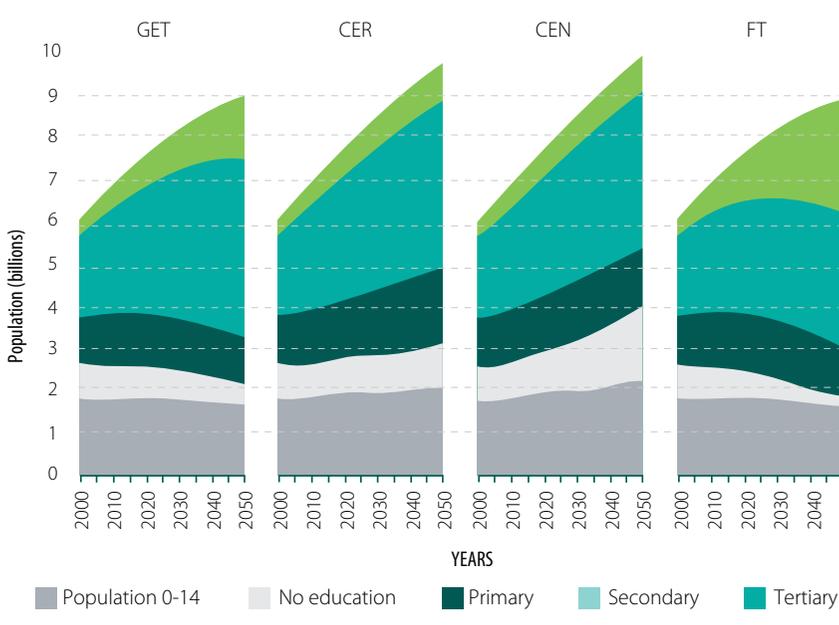
A systematic assessment for a large number of developing countries using recent Demographic and Health Survey (DHS) micro-level data finds that almost universally, a mother's education is more important for child survival than household income and wealth. This finding has significant implications for setting policy priorities, because it makes a big difference whether the emphasis is put primarily on girls' education or on household income generation.

Table 3 shows the magnitude of empirically measured child mortality differentials in a selection of developing countries. The indicators for the under-five mortality rate and the total fertility rate are compiled from DHS for the most recent surveys (after 2004). The under-five mortality rate is high in many African countries, especially among the children of uneducated mothers. The worst situation among the countries listed in the table is in Mali and Niger. In every country, the mortality rates are lower for better educated mothers. In some countries, primary education is already associated with much lower child mortality (e.g., in Bolivia and Nigeria); in others, the decisive difference only comes with secondary education (e.g., in Liberia and Uganda).

Given these strong differentials in child mortality by the level of education of mothers, it is not surprising that over time, alternative possible education trends will result in quite significant differences in child mortality. Table 4 gives some numerical illustrations of this fact for selected countries and world regions. The numbers provided are the absolute numbers of child deaths (ages zero to four) resulting from projections that assume identical education-specific fertility and mortality rates, and only differ by the assumed future paths of education expansion in the form of the scenarios described above.

3 This section heavily draws on Lutz and KC 2011.

Figure 7: Alternative projections of total world population size by level of education according to the four different education scenarios (with otherwise identical education-specific fertility and mortality rates)



Looking at India, the country with the highest absolute number of child deaths in the world, the number of deaths occurring in 2010-2015 of children born in this period is estimated to be around 7.9 million. Under the most optimistic FT education scenario, this number will decline to almost half its level by 2025-2030, and to as low as 3.1 million by 2045-2050. Even under the more likely GET scenario, it would decline to 5.4 million and 3.5 million, respectively. Under the pessimistic CEN and CER scenarios that assume no or only very limited future education expansion, some further decline is likely to happen due to the momentum of educational expansion (the already better educated youth cohorts will move up in the age pyramid) and the number of child deaths would slowly decline to around 5.6-6.1 million by the middle of the century.

In China, although it currently still has a greater population than India, the absolute number of child deaths is estimated to be only around 1.7 million, i.e., less than a quarter of those in India. Over time, further declines in the numbers of child deaths according to the different education scenarios are much steeper in China. Under the FT scenario—which actually is relatively close to the path China has recently embarked on—the number of child deaths will decline to

Table 3: Under-five mortality rates and total fertility rates for selected countries for recent years, by level of education of mothers

	Period*	Under-five child mortality* (per 1,000 live births)				Total fertility rate (number of live births per woman)			
		No education	Primary	Secondary or higher	Overall	No education	Primary	Secondary or higher	Overall
<i>Bangladesh</i>	2007	93	73	52	74	3.0	2.9	2.5	2.7
<i>Benin</i>	2006	143	121	78	136	6.4	5.2	3.7	5.7
<i>Bolivia</i>	2008	134	87	44	76	6.1	4.7	2.6	3.5
<i>Cambodia</i>	2005	136	107	53	106	4.3	3.5	2.6	3.4
<i>Congo (Brazzaville)</i>	2005	202	134	101	123	6.2	6.3	4.0	4.8
<i>Democratic Republic of Congo</i>	2007	209	158	112	155	7.1	7.1	5.0	6.3
<i>Egypt</i>	2008	44	38	26	33	3.4	3.2	3.0	3.0
<i>Ethiopia</i>	2005	139	111	54	132	6.1	5.1	2.0	5.4
<i>Ghana</i>	2008	103	88	67	85	6.0	4.9	3.0	4.0
<i>Guatemala</i>	2008	65	40	20	45	5.2	3.8	2.3	3.6
<i>Guinea</i>	2005	194	172	92	188	6.2	5.1	3.3	5.7
<i>Haiti</i>	2005-06	123	97	65	102	5.9	4.3	2.4	3.9
<i>Honduras</i>	2005-06	55	40	20	37	4.9	3.8	2.2	3.3
<i>India</i>	2005-06	106	78	49	85	3.6	2.6	2.1	2.7
<i>Indonesia</i>	2007	94	60	38	51	2.4	2.8	2.6	2.6
<i>Liberia</i>	2009	164	162	131	158	7.1	6.2	3.9	5.9
<i>Mali</i>	2006	223	176	102	215	7.0	6.3	3.8	6.6
<i>Nepal</i>	2006	93	67	32	79	3.9	2.8	2.2	3.1
<i>Nicaragua</i>	2006	67	40	26	41	4.4	3.2	2.0	2.7
<i>Niger</i>	2006	222	209	92	218	7.2	7.0	4.8	7.0
<i>Nigeria</i>	2008	210	159	107	171	7.3	6.5	4.2	5.7
<i>Pakistan</i>	2006-07	102	85	62	93	4.8	4.0	2.8	4.1
<i>Philippines</i>	2008	136	47	30	37	4.5	4.5	3.0	3.3
<i>Rwanda</i>	2007-08	174	127	43	135	6.1	5.7	3.8	5.5
<i>Senegal</i>	2008-09	112	74	33	100	5.6	4.5	3.1	4.9
<i>Sierra Leone</i>	2008	170	187	130	168	5.8	5.1	3.1	5.1
<i>Swaziland</i>	2006-07	150	106	95	106	4.9	4.5	3.4	3.9
<i>Uganda</i>	2006	164	145	91	144	7.7	7.2	4.4	6.7
<i>Zambia</i>	2007	144	146	105	137	8.2	7.1	3.9	6.2

Note: * Under-five child mortality refers to the period of 10 years prior. Source: DHS.

Table 4: Estimated and projected numbers of child deaths among children born in the stated period according to the different education scenarios (thousands of deaths)

	2010-15		2025-30		2045-50				
	GET	CEN	CER	FT	GET	CEN	CER	FT	GET
<i>Brazil</i>	328	224	232	177	182	161	185	102	106
<i>China</i>	1,716	897	1,067	871	969	625	809	526	633
<i>India</i>	7,872	6,707	6,479	4,806	5,393	6,096	5,566	3,064	3,510
<i>Kenya</i>	582	920	644	482	495	1,552	693	371	392
<i>Republic of Korea</i>	9	8	9	9	9	7	7	7	7
<i>Mali</i>	488	519	497	318	448	541	490	150	337
<i>Pakistan</i>	1,927	1,641	1,610	1,225	1,398	1,676	1,517	773	976
<i>South Africa</i>	288	198	204	165	171	134	137	93	102
<i>Africa</i>	16,552	18,964	16,381	12,095	13,803	24,185	16,807	7,495	10,380
<i>Asia</i>	15,029	11,715	11,544	8,924	9,845	10,561	9,780	5,681	6,493
<i>Europe</i>	276	209	218	204	207	196	207	187	186
<i>Latin America and the Caribbean</i>	1,192	963	911	704	724	950	774	413	435
<i>Northern America</i>	162	160	162	155	154	165	164	152	151
<i>Oceania</i>	11	11	12	11	11	12	12	10	10

only around 0.5 million by mid-century, less than a third its current level. Even under the most pessimistic scenarios, it would only be slightly higher at 0.6-0.8 million. Here it is interesting to note that the CEN scenario results in fewer deaths than the CER scenario because under conditions of declining absolute numbers of children, as will be the case in China, the assumption of constant absolute numbers of students implies a further expansion of the proportion of people who are educated. By the middle of the century, under the CEN scenario, the number of child deaths in India will be almost 10 times higher than in China, despite the fact that China today still has a significantly higher total population size.

In Kenya, the child mortality differentials due to education are particularly impressive. Currently, it is estimated that there are 0.58 million child deaths, as defined above. Under the most optimistic FT scenario, which is rather unlikely

given Kenya's current school system, this number would only slightly decline by the middle of the century to 0.37 million. In contrast, the CER scenario, assuming constant enrolment rates, would see an increase in the number of child deaths to 0.69 million, and the most pessimistic CEN scenario would even see an explosion to 1.5 million. These significant differences are only due to different future education trends. Otherwise, education-specific fertility and mortality trends are identical, showing assumed secular declines over time corresponding to the fertility and mortality assumptions made in the UN population projections.

When interpreting these numbers, it is important to understand that the projected decline in the absolute numbers of child deaths reflects the combined effects of more educated women having fewer children, and fewer of these children dying due to lower child mortality rates. One can, of course, also separately study these two trends and give relative measures of child mortality, but under the view that every death of a child is one too many, it is appropriate to actually compare the absolute numbers of child deaths.

CONCLUSION

The countries of the world are currently at different stages of their demographic transition processes. It confuses many people that in some countries the concern is already with population shrinking (such as in Eastern Europe), while in others (mostly in Africa) it is still primarily with population growth. This pattern is primarily the consequence of the different timing of the phases of demographic transition in different parts of the world. In Europe, death rates started to decline in the late 19th century due to better nutrition and hygiene. Population growth was high during this period due to continued high birth rates, which only started to fall (with the exception of an earlier fertility decline in France) after World War I. Since all traditional societies had cultures and normative systems that were in favour of high fertility, in order to assure the survival of the population under high-mortality conditions, it typically takes societies several decades to adjust to the new lower child mortality conditions and change the normative system. In much of East and South-East Asia, a massive mortality decline after World War II was followed by an equally rapid fertility decline during the last two decades of the past century. It can be argued that the time lag between the mortality and fertility declines (also interpreted as a perception lag) was shortened due to rapidly increasing education in those countries. In Africa, the mortality decline has started still later and has been more gradual—in some countries even interrupted by HIV/AIDS. The perception lag seems to

be particularly long for various reasons that range from exceptionally strong pro-natalist traditional values to little progress in terms of education. Although in most African societies the fertility transition has already started, the gap between low death rates and high birth rates is still great, resulting in very rapid population growth.

The demographic transition not only affects the pace of population growth, but also comes with an age-structural transition. When birth rates start to decline, the proportion of children to adults also falls, which results in a decreasing young-age dependency ratio. A given number of adults need to support a smaller number of children, which is a force that can drive economic growth and improvements in infrastructure and education, and is hence called the demographic dividend or demographic bonus. While much of the literature in this field only points to the changing age dependency pattern, it is also worth giving more attention to the improving education profile and the age structure as factors enhancing economic growth. It has been argued that investments in education actually have a double effect on economic growth and poverty reduction: They tend to bring down birth rates and trigger the demographic dividend, and at the same time increase the economic productivity of the young adult population, which has an independent and possibly even stronger direct effect on economic growth (Lutz 2009).

Education matters greatly for almost every aspect of progress in human development. The empowering function of education is considered a major goal in its own right. In particular, universal basic education is a significant factor for enhancing the health and empowerment of men and women alike; this is also why it figures prominently among the MDGs. The Human Development Index, one of the most widely used indicators of desirable social and economic progress, consists of three components, one measuring progress in education itself and the two others capturing progress in health and material well-being (UNDP). As discussed above, there is reason to assume that these latter two aspects are to some extent driven by progress in the education of the population, and that indeed human capital may be viewed as the root cause of human development (Lutz 2009). Human capital data differentiated by age and gender help to shed some light on this assertion. They can open the door to many further studies that go beyond the cruder previous indicators of education, which lacked age or distributional detail, to provide a richer understanding of the many longer term returns to investments in education.

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Development-Oriented Policies and Alternative Human Development Paths: Aggressive but Reasonable Interventions

FREDERICK S. PARDEE CENTER FOR INTERNATIONAL FUTURES

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INTRODUCTION

Development-oriented policies have a significant impact on the course of human development. Most of the literature exploring such policies focuses, however, on a single target issue (e.g., poverty reduction, education, health, agriculture or trade), and on a single policy or a small set of policies. One can see such specialization quite quickly simply by looking at leading studies—see, for example, Aghion and Durlauf 2005; Perkins, Radelet and Lindauer 2006; or Todaro and Smith 2012 (see also Box 1).

Such analytical focus is understandable in the face of the very large challenges of comparability and aggregation. With respect to comparability, policies cannot always be expressed in terms of financial expenditures, but often involve sociopolitical change. How can one contrast the development impact of spending more on an infrastructure investment such as roads, with that of requiring and facilitating universal primary school enrolment, with those of lowering fertility rates and infant mortality, or with that of reducing corruption in government? How does an analyst determine how far to push the lever of such policies in any comparative analysis?

Comparative policy analysis is further complicated by the reality of very different starting points for countries. High-income countries tend to be relatively similar in their levels of human development and their policy configurations. Anyone looking at such variables across low-income or middle-income countries, however, knows how incredibly variable they are. In spite of that, collections of targets such as those framed by the Millennium Development Goals (MDGs) are often stated in universal terms, as if one size fits all, and without attention to the policy requirements of meeting them and the differential ability of countries to pursue such policies (for example, see Clemens and Moss 2005, and Easterly 2009 on how the MDGs were unfair to Africa).

Standing in sometimes sharp contrast to the limitations of policy analysis, policy-makers allocate scarce resources, be they of funds, time and attention, or political capital, and they must make trade-offs. They therefore wish to understand the relative implications of the pursuit of different goals and the use of different policy initiatives. Policy makers also work within complex, dynamic

Box 1: Studies of development processes

There are, of course, many important efforts to integrate analyses of development, especially at the theoretical level and often with considerable empirical support (see, for example, Galor 2005). Many of these go back to notions of structural changes in the development process (Chenery, Robinson and Syrquin 1986) or even stages of growth (Rostow 1971). Many, however, are also emerging from efforts to endogenize economic growth (Aghion and Howitt 1992; Griliches 1998; Grossman and Helpman 1994; Lucas 1988; Romer 1990, 1994 and 2010), including efforts to determine the multiple, interacting drivers of productivity and growth (see Barro 1999, Barro and Sala-i-Martin 2004, Bosworth and Collins 2003, Chen and Dahlman 2004), and the masterful job of Durlauf, Johnson and Temple (2005) in reviewing and analysing efforts; they concluded that such work, while still in its infancy and difficult to distil, nonetheless merits continued optimism and effort (p. 558). More recently, in the same tradition, see Abdi and Joutz 2008, Acemoglu 2008, Isaksson 2007, Jones and Romer 2010, Kuman and Kober 2011, and Sanderson and Strieszniak 2009. These contributions typically and appropriately come out of extensive empirical analyses of development processes, especially of economic growth. Our study breaks new ground in its use of such insights within an integrated development model to forecast the impact of policies across multiple aspects of the development process.

development systems, and are often pushing on many different parts of those systems. They therefore also wish to understand the aggregate effects of their actions.

The study presented in the following uses the IFs computer forecasting system to explore the current course of human development in countries and regions around the world, and analyse a range of policy interventions that might accelerate it. The paper considers not only the multiple types of, or targets of policy, but the magnitude and timing of effort. It attempts to identify ‘aggressive but reasonable’ levels of specific interventions in order to provide a stronger basis for first, avoiding unrealistic pursuit of targets, such as those that are often associated with universal goal-setting; second, making policy interventions more comparable across levers and targets, and across countries; and third, exploring the impacts of interventions in policy clusters and the aggregate across such clusters.

The questions that frame this study are:

1. What is the human development path that countries, regional groupings and the global system seem to be on through the middle of this century? We look to the Human Development Index (HDI) and its components to help describe that path.
2. What constitutes a reasonable set of policy interventions to explore in terms of their ability to accelerate the current development path? And what would be aggressive but reasonable magnitudes of intervention with respect to them?
3. How much impact might such aggressive but reasonable interventions, individually and collectively, have on the course of human development?

The ability to address these questions is inherently limited by analytical tools, but the IFs system helps tackle each of them, despite its many limitations. The following pages describe it, followed by the identification and analysis of policy levers.

1. THE INTERNATIONAL FUTURES TOOL

The central tool for this study is the IFs simulation model, whose home is the Frederick S. Pardee Center for International Futures (Box 2). IFs facilitates exploration of country-specific, regional and global futures through alternative scenarios. Although IFs is increasingly used in policy analysis, it began as an educational tool. Even in analysis applications, the primary strengths of the system are in framing investigation and analysis. Users of computer simulations should always treat forecasts as highly contingent and exploratory scenarios, not as predictions.

IFs aids exploration of the long-term future of closely interacting policy-related issues, including human development (temporally and substantively looking well beyond the MDGs), social change (including instability and risk) and environmental sustainability. It is a large-scale, long-term, fully integrated global modelling system—no subsystems are exogenous to the others. It represents demographic, health, education, economic, infrastructure, energy,

Box 2: The Frederick S. Pardee Center for International Futures

The Frederick S. Pardee Center for International Futures is housed within the Josef Korbel School of International Studies of the University of Denver. Foundational funding was provided through a generous gift from Frederick S. Pardee. The Center's flagship publication is the annual *Patterns of Potential Human Progress*.

Development of the IFs modelling system in 2000-2003 was funded in substantial part by the European Commission's TERRA project. In 2009, TERRA also funded a Pardee Center project examining the impact of information and computing technology on sustainability.

The Pardee Center has also received assistance from the Strategic Assessments Group of the US Central Intelligence Agency and the US National Intelligence Council (NIC), which drew on IFs global trends analyses in *Project 2020: Mapping the Global Future* (2004), *Global Trends 2025: A Transformed World* (2008) and *Global Trends 2030: Alternative Worlds* (2012). The IFs system also provided the UN Environment Programme (UNEP) with driver forecasts for *Global Environment Outlook 4* (2007).

More recently, IFs has contributed to the joint African Futures project in partnership with pan-African think tank the South Africa based Institute for Security Studies. African Futures is sponsored by the British High Commission, the Western Cape Provincial Government and the Hanns-Seidel Foundation, and has contributed background papers for the UNDP Human Development Reports of 2011 and 2012 (Hughes et al., 2011; Hughes 2012).

Earlier generations of IFs have benefitted from generous funding assistance provided by the US National Science Foundation, the Cleveland Foundation, the Exxon Education Foundation, the Kettering Family Foundation, the Pacific Cultural Foundation, the US Institute of Peace, the General Motors Foundation and the RAND Pardee Center.

IFs also owes much to the large number of students, instructors and analysts who have used the system over many years and provided much appreciated advice for enhancement.

agricultural, sociopolitical and environmental subsystems for 183 countries interacting in the global system. The model is integrated with a large database for its many foundational data series and other variables of interest to users. Series begin in 1960 and even earlier when available. The easy-to-use interface facilitates data analysis, forecast presentation and scenario analysis, and the system is freely available on the Web and in standalone versions.¹

IFs is a structure-based, agent-class driven, dynamic modelling system. Several important features aid exploration of the impact of a set of policy initiatives with potential to enhance human development. Two core features include:

- The use of a social accounting matrix (SAM) structure for tracking and balancing intersectoral flows, and the broader financial exchanges among domestic agent classes (governments, households and firms) and across countries.² This is important for analysis of multiple policies because it ensures that financial constraints are present and trade-offs addressed. The economic model structure in which this SAM structure is embedded is equilibrium-seeking, with a recursive treatment of time across annual time steps.
- A production function that endogenizes multifactor productivity, driving it by four major categories of input: human capital, social capital, physical capital and knowledge. Dynamic productivity contributions in each of the four categories are responsive to variables determined in other models of the larger IFs system.³

Figure 1 shows the major models in the system, all of which are linked in many ways that the figure cannot show. Very brief information about the major models follows; for extended documentation of the system, see Hughes and Hillebrand (2006), and the Help system accompanying IFs.

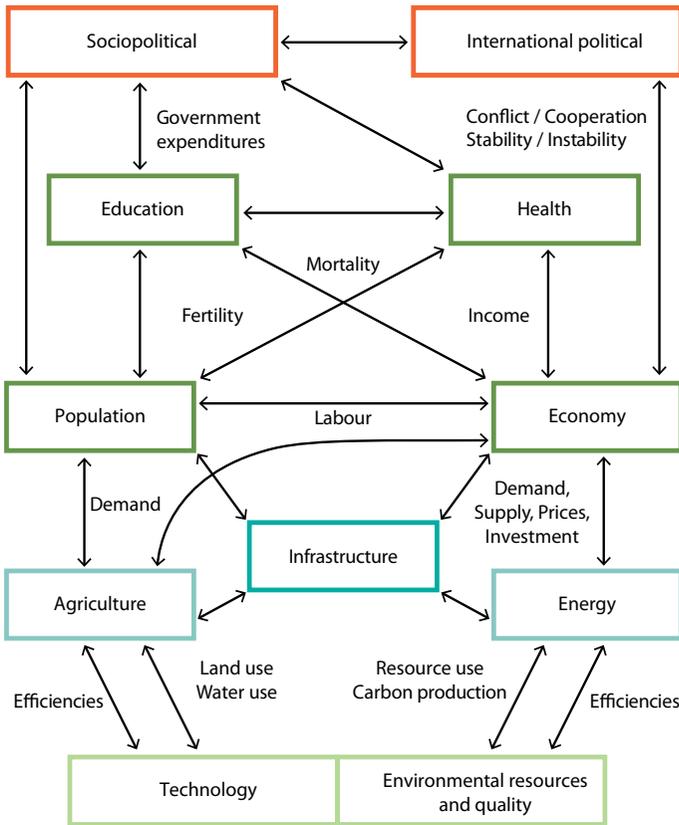
The *population model* represents 22 age-sex cohorts to age 100+ in a standard cohort-component structure; it endogenously represents changes in fertility rates, and uses an extensive health model to compute mortality (and morbidity) across 13 cause categories. The *economic model* is an equilibrium-seeking model across six sectors; it does not assume exact equilibrium will exist in any given year, but rather it uses inventories as buffer stocks and provides price signals so that the model chases equilibrium over time. As indicated

1 IFs is available to download or use online without cost at www.ifs.du.edu/ifs. Please access documentation on the website or other IFs publications for more detail on the model structure and assumptions.

2 The IFs system uses the type of universal SAM structure recommended by Jansen and Vos 1997. For information on the SAM structure in IFs, see Hughes and Hossain 2003.

3 For description of the IFs approach to multifactor productivity, see Hughes 2008.

Figure 1: The major modules of the IFs modelling system



Note: Links shown are examples from a much larger set.

above, it uses both a SAM structure and represents productivity endogenously. The *education model* represents formal education across primary, secondary (separating lower and upper secondary levels) and tertiary levels. The *health model* builds on the distal driver foundation of the World Health Organization’s (WHO) Global Burden of Disease formulations for major causes of death and disability (thanks to Colin Mathers), but looks to the WHO’s Comparative Risk Assessment approach on relative risk to represent key proximate drivers of health such as undernutrition, obesity and smoking. The *sociopolitical model* represents fiscal policy through taxing and spending decisions, and represents the general evolution of other governance variables, including corruption level

and regime type. The *agricultural and energy models* are partial equilibrium systems at the physical level, and their dynamics shape the respective financial sector representations in the economic model. There are also *models for international politics, infrastructure* (focusing on level of access to major infrastructure systems) and the *environment*. Technology variables can be found across the models.

The system facilitates scenario development and policy analysis via a ‘scenario-tree’ that allows users to change framing assumptions, agent-class interventions, initial conditions and many of the relationships within the model. Scenarios can be saved for development and refinement over time. The easy-to-use interface also facilitates the analysis of historical data and display of forecasting results.

2. IDENTIFYING THE INTERVENTIONS

A huge range of policies affects the course of development. Even with the broad issue coverage of IFs, analysis will consequently be incomplete in many respects. However, the Frederick S. Pardee Center for International Futures has been undertaking increasingly broad analysis over the last several years in the context of its series of volumes called Patterns of Potential Human Progress (PPHP). The foundations developed through the series help to explore policy levers that may be of interest to the development policy community.

This section discusses three important elements in thinking about interventions. The first is the character of the policy lever of interest. In reality, many of the levers or interventions discussed below are actually policy targets with respect to specific variables. For instance, achieving specific fertility rates, primary education enrolment rates or even a specific level of spending on health are all policy targets that can be reached by countries in many ways with policy initiatives that one could specify with much more detail. Only the most highly elaborated models of individual issue areas are likely truly to allow manipulation of specific policy interventions.

The second element is the force applied to any policy lever. Just as in the real world, where that is a matter of political art and compromise, modeled policy interventions can be very arbitrary. There are, however, some steps towards making the magnitude of modeled interventions somewhat less arbitrary. The approach here is to focus on aggressive but reasonable interventions, to be elaborated below.

Third, realistically, countries are not immediately able to move from current policy configurations to the magnitudes of the targeted interventions. The

Table 1: Internal and external levers explored in IFs poverty reduction analysis

Primarily domestic levers	Primarily international levers
<i>Factors of Production</i>	<i>Trade</i>
Fertility Reduction	High Trade
High Female Labour	Export Promotion
High Investment	<i>Foreign Investment</i>
<i>Human Capital</i>	High FDI
High Education Spending	High Portfolio Flows
High Health Spending	<i>Household Transfers</i>
<i>Social Capital/Governance</i>	High Remittances
High Govt Effectiveness	<i>Government Transfers</i>
Low Corruption	High Foreign Aid
High Economic Freedom	High IFI flows
<i>Infrastructure Capital</i>	<i>Technology</i>
High Infrastructure	High Technology
<i>Natural Capital</i>	
High Renewable Energy	
<i>Knowledge Capital</i>	
High R&D	
Low Protection	
<i>Domestic Transfers</i>	
High Transfers	

Source: Hughes et al. 2008, p. 101.

analyses here generally assume that it takes at least 10 years to do so.

POLICY INTERVENTION OPTIONS AND TARGETS

The volumes in the PPHP series help organize identification of policy levers, their magnitudes and the timing of their introduction. The first PPHP volume focused on poverty reduction. This was intentional, because poverty reduction is foundational to human development, as indicated also by its prime position among the MDGs. The analysis of poverty and the levers that might reduce it was broad ranging (see Hughes, Irfan, Khan, Kumar, Rothman and Solórzano 2008), and this paper begins by identifying those policy access points.

Subsequent PPHP volumes turned to advancing education (Dickson, Hughes and Irfan 2009) and improving health (Hughes et al. 2011; see also Hughes, Kuhn, Peterson, Rothman, Solórzano, Mathers and Dickson 2011). There the policy handles became more specific, and the paper turns to those next. In all cases, these variables (poverty reduction, education and health) are directly related to the HDI and to common categories of human capabilities, important in and of themselves.

The fourth and fifth volumes in the PPHP series are completed and in final production (Rothman et al., forthcoming 2013; Hughes et al., 2014), and turn attention more to means rather than direct ends of development efforts. The fourth looks at building infrastructure, where access to roads, water and sanitation, electricity and telecommunications have some important direct human impacts (certainly transport and communications increase human well-being in and of themselves), but are especially important for their secondary effects, such as improving economic growth or reducing the ill-health effects of unsafe water. The fifth volume turns to governance, which again provides secondary benefits (e.g., physical security) as well as some primary ones, such as the satisfaction of participation in decisions that affect one's life.

REDUCING POVERTY: A BROAD APPROACH TO HUMAN DEVELOPMENT

Table 1 summarizes the levers selected for use in *Reducing Global Poverty*, the first PPHP volume. The levers were divided into two groups: first, those primarily used within countries (although many of them clearly have international ramifications); and second, those for use primarily across countries (although they all have domestic ramifications for developing countries).⁴ Many of the levers were chosen because they anticipated work to follow in the subsequent volumes of the series. In addition, those later volumes identified increasingly more extensive and detailed sets of levers.

Having identified the leverage points of interest, the next issue was to determine the appropriate magnitude of intervention. All the PPHP volumes have attempted to make those magnitudes aggressive but reasonable. This is in part a reaction to approaches such as the MDGs, in which targets are set for outcomes that, while most would agree are desirable, are not always attainable. That said,

4 Hughes et al. (2008) provided much more detail on the specification of these levers than we can here. For example, an appendix to Chapter 7 of *Reducing Global Poverty* further elaborates the levers and their specification for the analysis. See also that volume's Table 3.1, which extracted a more complete potential list from the development literature. As that comparison will quickly illustrate, the levers available within IFs by no means exhaust the possible points of intervention in order to accelerate reductions in poverty rates. They do, however, touch on large numbers of those that development experts have identified.

the specification of aggressive but reasonable interventions requires difficult decisions. For poverty analysis, we relied simply on our best (hopefully reasonably expert) judgement. Choices for intervention magnitudes are listed below; the approach is fundamentally one of ‘brute force’ through the application of multipliers in which, with relatively few exceptions (such as the movement of foreign aid donations to at least 0.5 percent of gross domestic product or GDP), changes are relative to the underlying values for each individual country in the IFs base case,⁵ and therefore take very different country starting points and patterns into account.

- **World as a whole:** Over 20 years relative to the base case, global increase of foreign direct investment (FDI) by 30%, portfolio investment flows by 50%, research and development (R&D) expenditures by 20% and global migration by 50%.
- **Developed countries:** Foreign aid donations of at least 0.5% of GDP in 10 years.
- **International financial institutions:** Doubling of lending over 10 years relative to the base case.
- **World Bank developing countries as a whole:** Health spending, governance effectiveness (World Bank scale) and economic freedom (Fraser Institute scale) increase by about 20% over 10 years, along with technologically based productivity growth by 0.2%. Over 20 years, corruption decreases by about 30% (Transparency International scale), and infrastructure improves by about 20%. Renewable energy production grows to 50% above the base case by 2050.
- **Africa**
 - **Eastern:** Relative to the base case, education spending increases 20% over 10 years, while savings/investment rates double over 25 years. Transfers to unskilled households are up by 50% over 20 years. By 2050, exports grow 25-30%.
 - **Middle:** Movement to replacement fertility over 45 years (45% change relative to the base case). Increases in savings/investment rates by 50% over 25 years (e.g., 18-27%), education spending by 35% over 10 years, and transfers to unskilled households by 50% over 20 years.

⁵ Although interventions are ‘relative to the base case’, that is not strictly accurate. Strictly speaking, the interventions are relative to underlying computations that, all else being equal, would be those of the base case. The interventions themselves can alter dynamics over time, however, so that the underlying computations drift away from the base case.

Corruption decreases by about 40% (Transparency International scale) over 20 years; infrastructure improves by about 80% over 30 years. By 2050, exports grow 25-30% relative to the base case.

- **Western:** Movement to replacement fertility over 30 years (33% change relative to the base case). Increases in savings/investment rates by 30% over 25 years (e.g., 18-27%), education spending by 80% over 10 years, and transfers to unskilled households by 50% over 20 years. By 2050, exports grow 25-30% relative to the base case.
- **Southern:** Movement to replacement fertility over 30 years (33% change relative to the base case). Savings/investment rates increase by 50% over 25 years (e.g., 18-27%), while exports grow 25-30% by 2050 relative to the base case.
- **Northern:** Movement to equal female labour force participation over 45 years; education spending up 20% over 10 years.
- **Asia**
 - **South central:** Movement to equal female labour force participation over 45 years. Education spending increases by 20% over 10 years, and savings/investment rates by 20% over 25 years. Reduced protectionism lowers import costs by 20% over 20 years. Exports grow 25-30% by 2050 relative to the base case.
 - **South-east:** Education spending rises 35% over 10 years.
 - **East poor:** Education spending soars 80% over 10 years, and transfers to unskilled households are up 25% over 20 years.
 - **West (Middle East):** Movement to equal female labour force participation over 45 years. Savings/investment rates increase by 30% over 25 years (e.g., 18-24%).
- **Americas**
 - **Caribbean:** A 50% rise in savings/investment rates over 25 years (e.g., 18-27%). Transfers to unskilled households grow 25% over 20 years.
 - **Central:** Movement to equal female labour force participation over 45 years. Savings/investment rates rise 50% over 25 years (e.g., 18-27%), and education spending increases 35% over 10 years. Transfers to unskilled households double over 20 years.
 - **South:** Movement to equal female labour force participation over 45 years. Increases in savings/investments rates of 50% over 25 years

(e.g., 18-27%), and in education spending of 20% over 10 years. Over 20 years, reduced protectionism lowers import costs by 20%; transfers to unskilled households double.

- **Oceania (poor):** Movement to replacement fertility over 30 years (33% change relative to the base case). Savings/investment rates double over 25 years, as do transfers to unskilled households over 20 years.
- **Europe (eastern):** Savings/investment rates climb 20 percent over 25 years (e.g., 18-22%), while education spending increases 20% over 10 years. Corruption decreases by about 60% (Transparency International scale) over 20 years.

ADVANCING EDUCATION: A TARGETED INTERVENTION

In the policy analysis of the PPHP education volume (see Dickson, Hughes and Irfan 2009), the approach was somewhat different. Table 2 shows the intervention points identified across each level of formal education—intake rates or, at levels above primary, transition rates from lower levels; survival rates to the end of education levels (an approximation of completion of those levels); and gender parity ratios.

Table 2: Summary of target rates in IFs normative scenario to advance global education

	Intake/transition	Survival	Gender parity
<i>Primary</i>	2.2 percentage points annual increase	1.2 percentage points annual increase (2 percentage points could be reasonable for some countries in catch-up mode, especially above 65 percent survival)	1.2 percentage points annual increase (2 percentage points could be reasonable for some countries in catch-up mode, especially above 65 percent survival)
<i>Lower secondary</i>	1.0 percentage points annual increase (has compounding affect on top of primary growth)	0.8 percentage points annual increase	0.8 percentage points annual increase
<i>Upper secondary</i>	0.5 percentage points annual increase (historically this would ramp up with increased lower secondary enrolment)	0.3 percentage points annual increase (country or regional catch-up specifications could be as much as 2 points, e.g. in South and West Asia)	0.3 percentage points annual increase (country or regional catch-up specifications could be as much as 2 points, e.g. in South and West Asia)
<i>Tertiary</i>	Normative scenario does not change this (2 percentage points growth in gross enrolment would be aggressive)	Normative scenario does not change this (2 percentage points growth in gross enrolment would be aggressive)	Normative scenario does not change this (2 percentage points growth in gross enrolment would be aggressive)

Note: Maximum values are at 50 percent intake/transition and 65 percent survival with relative slowing at higher and lower levels, generating an S-shape curve of growth.

Source: Dickson, Hughes and Irfan 2009: 113.

Each cell within Table 2 indicates the magnitude of the targeted intervention in what, as a whole, constitutes a ‘normative scenario’ for the aggressive but reasonable advance in formal education participation rates. Despite efforts to use data heavily, the process of creating the normative scenario was a significantly qualitative one. Development of it had an iterative character, beginning with some initial estimates for reasonable targets that were gradually adjusted in light of new evidence streams, including analysis of countries demonstrating best practices and suggestions of subject-matter experts. The scenario does not include target specifications at the tertiary level (except for slow reductions of gender imbalances), because the basis for them was not yet strong enough.⁶ The approach again recognized very different initial starting points and dynamics across countries.

Looking beyond rates of increase in education participation, we also established a context for thinking about spending on education by exploring how public spending per student varies around the world and by level of education. As UNESCO (2007, p. 19) pointed out:

By expressing expenditure [per student] as a percentage of GDP per capita, education budgets can be compared in relation to national income level, which is a proxy for a country’s ability to generate education financing.

At the primary and lower secondary levels, low-income and lower middle-income countries, on the whole, spend considerably less per student as a percentage of GDP per capita than upper-middle- and high-income countries. It may be reasonable to speculate that such levels for lower income countries represent inadequate spending as a result of resource constraints and high child dependency ratios. In contrast, however, low-income countries spend (relative to GDP per capita) much more per student at the upper secondary, and especially at the tertiary level, than do richer countries. That almost certainly reflects the great difficulty that the poorest countries have in obtaining educated faculty and other professionals to staff higher education, and may also represent the start-up costs of developing facilities for universities and professional schools, and the absence of economies of scale when enrolment rates are low. In addition, on the basis of limited available data, it appears that in richer countries private

6 The target values specify maximum growth rates that occur near the mid-range of intake/transition and survival. Because of constraints on growth of those variables at the low end of ranges (related to difficulty scaling up systems) and at the high end of ranges (related to complications bringing in the last portions of populations), we apply S-curve patterns of growth around those maximum values.

expenditures at the tertiary level facilitate lower public expenditure rates.⁷ Also, education at the tertiary level is a more tradable good than education at lower levels (large numbers of students do study abroad), a fact that could lead to some degree of global convergence in actual costs and prices, and therefore to continued disparity in spending relative to GDP per capita.

There is, however, tremendous variation in spending rates per student across countries within income categories, especially those at lower incomes. In order to determine ‘reasonable’ spending rates for a normative scenario, we established benchmarks for per-student costs, appropriate to the economic development level of each country and variable across levels of education, relative to GDP per capita. That involved both bottom-up analysis of specific costs within developing countries that illustrate good practices in expanding education participation and attainment; and aggregate, top-down analysis, looking comparatively at total spending across countries around the world to understand how patterns relate to quantity and quality of performance. In the normative scenario, we set the convergence time in moving education expenditures as a percentage of GDP per capita for primary, lower secondary, upper secondary and tertiary education from initial levels to those of the benchmarks at 20 years.

IMPROVING HEALTH: FOCUSING ON PROXIMATE DRIVERS

The third volume of the series focused on health policy (see Hughes, Kuhn, Peterson, Rothman and Solórzano 2011) and entailed another set of challenges. To begin, there are two quite different approaches to thinking about alternative health futures. WHO’s Global Burden of Disease analyses (Mathers and Loncar 2006, undated) focused on distal (or distant) drivers, which are variables that affect health through their impacts on variables much closer to actual changes in mortality and morbidity. In particular, the Global Burden of Disease work identifies three such drivers: GDP per capita, formal education years attained by adults and the advance of technology. This set is quite distant from health-oriented policy variables. It overlaps heavily with foundational variables in the PPHP poverty and education analyses.

Instead of focusing on such distal drivers alone, the PPHP analysis included proximate drivers, the intermediate variables between the distal drivers and health outcomes. WHO’s ongoing Comparative Risk Assessment (CRA) project

7 Costs per student at higher levels of education have come down over time for countries at all income levels, including the high-income category. In 1970, high-income countries spent 50.4 percent of GDP per capita on each tertiary student (see also Coombs 1985, p. 158). Our own analysis shows that their spending per student has stabilized at around 28 percent of GDP per capita since about 1990.

Table 3: Proximate health risk factors included in the WHO Comparative Risk Assessment project

Health category	Risk factor
<i>Childhood and maternal undernutrition</i>	Underweight* Iron deficiency Vitamin A deficiency Zinc deficiency Suboptimal breastfeeding
<i>Other nutrition-related risk factors and physical activity</i>	High blood pressure High cholesterol High blood glucose Overweight and obesity* Low fruit and vegetable intake Physical inactivity
<i>Sexual and reproductive health</i>	Unsafe sex Unmet contraceptive need
<i>Addictive substances</i>	Tobacco use* Alcohol use Illicit drug use Unsafe water, sanitation, hygiene* Urban outdoor air pollution* Indoor smoke from solid fuels* Lead exposure Global climate change*
<i>Occupational risks</i>	Risk factors for injuries Carcinogens Airborne particulates Ergonomic stressors Noise
<i>Other selected risk factors</i>	Unsafe health-care injections Child sexual abuse

Note: Risk factors marked with an asterisk (*) are included as proximate drivers in the IFs health model.
Source: Hughes et al. 2011.

provided a starting point for considering health outcomes associated with proximate risk factors (Ezzati et al. 2004a, 2006). The project has used two guiding criteria for including specific risks in its analysis by selecting risks for which sufficient data and scientific understanding exist in order to assess the exposure and health effects associated with them, and “for which intervention strategies are available or might be envisioned to modify their impact on disease burden” (Ezzati et al. 2004b). Within this framework, the project has tried to provide conceptual and methodological consistency and comparability across the risk factors. Table 3 shows the 28 risk factors covered in the most recent Comparative Risk Assessment report (WHO 2009).

In summary, the CRA project and other studies (e.g., Laxminarayan, Chow

and Shahid-Salles 2006; Prüss-Üstün and Corvalán 2006) have now provided guidance for identifying links between selected risk factors and specific health outcomes, making possible their inclusion in forecasts of future health. For example, childhood undernutrition is associated with a range of communicable diseases, and obesity with certain chronic diseases (Gaziano et al. 2006, Narayan et al. 2006).

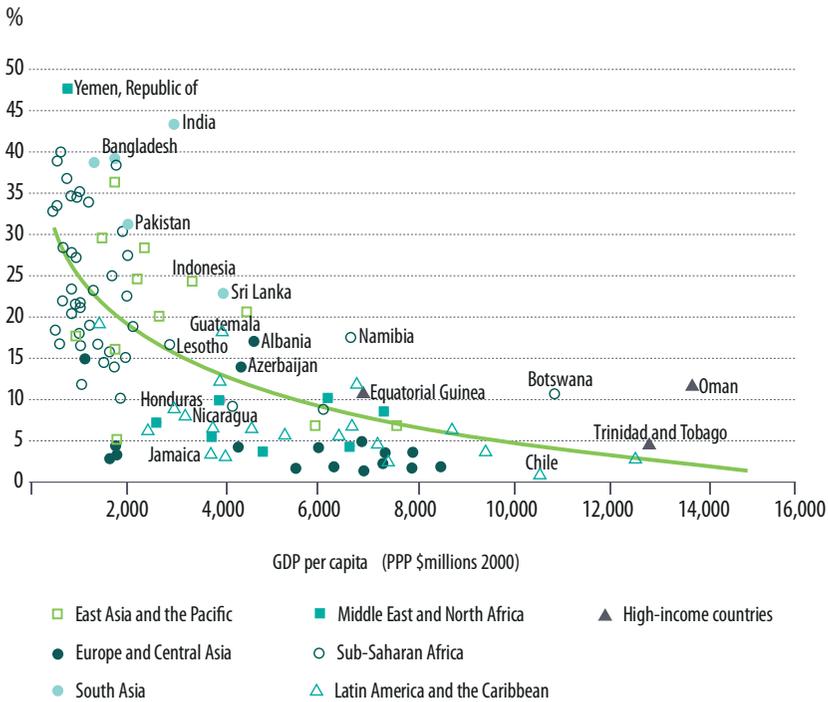
However, a number of factors complicate quantitative analysis of proximate risk factors. First, the risk factors vary with respect to the size of their impact on health outcomes, their susceptibility to human intervention and the degree to which they change independently of the distal drivers. Second, existing risk assessment analyses have not fully taken into account competing risks (the possibility that those saved from one cause of death will simply die from another) in their estimated relationships (Laxminarayan, Chow and Shahid-Salles 2006). And finally, data for some factors are very limited. For these reasons, and because all modelling is time and other-resource limited, we currently incorporate only a subset of Comparative Risk Assessment proximate risk factors in our forecasts, as indicated by the asterisks in Table 3.

The effort to determine the magnitude of intervention, again trying to be aggressive but reasonable, led to an approach with great potential in long-term analysis across many countries and many development domains, not just health. The approach looks to the information gained by cross-sectional analysis across countries that are widely disparate in their development levels, as indicated (albeit crudely) by level of GDP per capita.

Figure 2 illustrates the approach. Risk factor estimates often vary quite dramatically across countries at the same general level of development. The figure shows the percentage of children who are underweight relative to GDP per capita. In 2005, both Honduras and India had GDP per capita of just over US \$3,000 at purchasing power parity (PPP). Yet the most recent WHO estimates of childhood undernutrition differ strikingly for the two countries—8.6 percent in Honduras compared to 43.5 percent in India in 2006. The reasons for unexpectedly high or low undernutrition rates in relation to per capita income in particular regions or countries often remain unclear; historically South Asia has been a particular outlier.

One way to quickly summarize the extent of cross-country variation for a risk factor is the standard error relative to the regression line (the equivalent of the standard deviation relative to a mean) in a relationship like that of Figure 2. The standard error of 8.50 compared to a mean underweight percentage of 16.1 suggests that values for undernutrition frequently vary by about 50 percent above or below the values expected based on GDP per capita. In contrast,

Figure 2: Underweight children as a function of GDP per capita (percent)



Note: Equation: $y = 86.2833 - 8.8428 * \ln(x)$; R-squared = 0.5075; standard error = 8.4

Source: IFs Version 6.57 using World Development Indicators data (most recent by country).

relative to income-based expectations, the variation around female smoking, where the relationship with income is extremely weak, is nearly 80 percent.

Determining aggressive but reasonable target values for any policy lever or target can draw on such understandings of cross-national variation. In the PPHP health volume, for example, the high and low scenarios for undernutrition are 50 percent, or roughly one standard error above and below the cross-sectionally estimated function, and the range of variation for other health interventions is similarly linked to the magnitude of the standard errors for those risk factors. Although in rather traditional counterfactual analysis we explored near-immediate movement of proximate drivers to theoretical minimum levels, our

focus was on phased-in human action at aggressive but reasonable levels.⁸ The primary health policy scenario package developed for that volume and used in this analysis involved such interventions on eight proximate drivers, combined with a comparable acceleration of overall technological advance at the distal driver level.⁹

We have subsequently developed procedures for specifically targeting interventions to reach levels at or above a value tied to the cross-sectional function. For instance, the target value could be set at or above the function for ‘good practices’ (that is, at least average for countries at a given level of income) or 1.0 standard errors above the function for ‘very good practices’ (roughly falling into the top third of countries). In fact, we typically use the 1.0 standard error level for analyses of aggressive but reasonable interventions.

BUILDING INFRASTRUCTURE: IMPROVING ACCESS

The PPHP infrastructure volume combines two approaches to defining policy initiatives. The first looks to normative or aspirational targets. The MDGs, for instance, included such targets for water and sanitation through 2015. Dates for other infrastructure targets vary in the literature, but to impose some consistency we set the target date for the other goals at 2030. And, because it is effectively impossible for any country to meet truly universal targets, we used a level of 97.5 percent for those goals that specify universality of access (namely energy, water and sanitation, and ICT). That gave rise to the following set of global targets:

- **Transportation**
 - Reduce by half or to below 10 percent (whichever comes first) the percentage of the rural population living more than two kilometres from an all-season road between 2010 and 2030.
- **Energy**
 - Provide universal access to electricity by 2030.
 - Eliminate the use of solid fuels as the primary source for heating and cooking in the home by 2030.

8 See Chapters 5 and 6 of Hughes, Kuhn, Peterson, Rothman and Solórzano 2011 for analysis that concludes that such policies might avert approximately 203 million deaths over the horizon through 2060 and avoid about 4.2 billion discounted years of life lost compared to a base case. This is somewhat less than half the total with more static counterfactual analysis and is, we would argue, a more policy-relevant figure.

9 We focused that technological advance on chronic diseases and somewhat retarded advance in communicable disease mortality reduction to limit its impact there.

- **Water and sanitation**
 - Reduce by half the percentage of the population without access to improved sources of water and sanitation between 1990 and 2015.
 - Provide universal access to improved sources of water and sanitation by 2030.
- **ICT**
 - Provide universal access to mobile telephones and broadband by 2030.

These goals proved, of course, to be unreasonably demanding for many countries, and we therefore turned also to the second approach, the standard error approach, discussed earlier, to create an aggressive but reasonable scenario, again looking for values one standard error above (or, in cases such as reducing the number of those without access to safe water, below) cross-sectionally estimated target functions.

STRENGTHENING GOVERNANCE: SECURITY, CAPACITY AND INCLUSION

To this point, all interventions discussed deal with the actions of governments—in interaction, of course, with firms and households. But the character of governance itself is well understood to affect human development. The forthcoming fifth volume of the PPHP series conceptualizes governance in three dimensions—security, capacity and inclusion—and explores specific operationalizations of each. Security is operationalized with two different and generally complementary measures: the probability of domestic conflict and the vulnerability to conflict. Capacity is operationalized in terms of governments’ ability to mobilize revenues (up to 30 percent of GDP) and to use it effectively (looking especially to low levels of corruption). Inclusion is operationalized in terms of the democratic character of institutions and also broader inclusiveness, as represented by the Gender Empowerment Measure (GEM) of the UN Human Development Reports.

Within the voluminous literatures on how these three dimensions affect human development, we can point to Alesina et al. 1996; Bozzoli, Brück and de Groot 2010; Collier 1999; Gates et al. 2010; and Polacheck and Sevastianova 2010 with respect to the costs of insecurity for economic growth and broader development; to Aidt 2009, Knack and Keefer 1995, North 1990, de Soto 2000, and Tanzi and Davoodi 2002 on measures of capacity (such as corruption and rule of law) and development; and to Barro 1996, Doucouliagos and Ulubaşoğlu 2008, Lijphart 1999, Olson 1993, Przeworski and Limongi 1997, and Przeworski et al. 2000 for different perspectives within the contentious

debate around the impact of democracy (as a key element of inclusion) on development.

For interventions in this area, we created a strengthened governance scenario by combining ‘brute force’ and standard error approaches to specify the following changes relative to the base case scenario.

- **Security:** Probability of internal conflict reduced to zero over 20 years.
- **Capacity:** government revenues increased in non-Organisation for Economic Co-operation and Development (OECD) countries by 10 percent (about three percentage points of GDP) over 20 years relative to the base case. Over 10 years, corruption reduced and governance effectiveness and regulatory quality increased globally to one standard error above values typical for each country’s level of per capita GDP.
- **Inclusion:** Measures of democracy and gender empowerment moved, over 10 years, to one standard error above values typical for each country’s level of per capita GDP.

POLICY INTERVENTION: GOOD PRACTICE AND AGGRESSIVE BUT REASONABLE POLICY

As indicated earlier, it is unusual to undertake policy analysis across many countries and issue areas. The preceding section of this paper has identified some of the difficulties in doing so and indicated approaches for dealing with them. The challenges include the fact that, even in a model as large and broad in scale as the IFs system, there are unlikely to be policy levers as specific as those policy makers actually attempt to use; more likely we will find variables in the system that represent the general targets of those much more specific levers. Many of those variables are identified above, drawing upon experience in the PPHP series.

Another challenge is determining appropriate magnitudes for policy interventions. We have attempted to identify aggressive but reasonable target values whenever possible, rather than relying on absolute normative targets that generally fail to take into account the starting points of countries and the possible dynamics of the systems on which they act. One approach we developed for this purpose relies on cross-sectional functions relating the target variable to development level, and using the function itself, or some number of standard deviations above it, as such a reasonable target.

Such an approach will not, however, work well for all policy interventions. For instance, the prevalence of diseases such as HIV/AIDS and malaria is linked as much or more to historical path dependencies and geographic factors,

favourable or unfavourable to specific disease vectors, than to development levels. In such instances, informed ‘brute force’ multipliers on variables we wish to move remains the logical approach to setting intervention magnitudes.

Timing of phase-in for interventions remains a largely subjective judgement. Much policy analysis consists of comparative static approaches in which an intervention is made and a new equilibrium is considered by effectively ignoring other changes that would occur over time in a real-world system. The approach here is to represent the temporal dimension somewhat more realistically across all the interacting systems of IFs.

Work across the five PPHP volumes has gradually refined and extended thinking about, and the ability to create, aggressive but reasonable policy interventions. The set of leverage points in the poverty volume (see Table 1) has not changed dramatically, but interventions have become more refined in terms of the detail of policy level and the specification of magnitude. Table 4 identifies 12 clusters across leverage points, some primarily domestic and others primarily international, explored in the rest of this paper. The next section will consider the separate impact on human development of each cluster, as well as some of the more powerful individual intervention points, and the implications of broader development strategies across the clusters.

Most important for this analysis is the fact that the effort to consistently identify aggressive but reasonable interventions across policy sectors, regardless of the specific mechanism(s) for doing so, begins to move policy analysis from a comparison of apples and oranges to a comparison of apples and apples. If all policy interventions in Table 4 were government expenditures, comparative analysis would be simple—but large numbers are not, hence the need for careful attention to some other metric for comparison.

3. ALTERNATIVE HUMAN DEVELOPMENT FUTURES

Because development policy requires much lead-time to implement effectively, and even more to have real impact, the time horizon of the PPHP series has been 2060. Similarly, we believe that the next generation of global development goals should look out to at least 2040 and probably to 2050, although the target year almost certainly will be 2030. The analysis here, because of the interests of the UNDP Human Development Report Office, will use a time horizon of 2050.

Assessing the impact of policy interventions requires a base case scenario for comparison. This is described first, followed by a consideration of the relative implications of each policy cluster and of some of the individual interventions.

The paper then looks at how much impact large packages of development-oriented interventions, at more limited levels and also at high levels, might have. It also considers the manner in which the interventions might affect the individual dimensions of the HDI (a long and healthy life, knowledge and a decent standard of living). In each case, we will consider patterns for countries at different income levels or in different regions.

THE BASE CASE SCENARIO

A range of global transitions drives our base case forecasts of ongoing improvements in human development. Incomes continue to rise, driven in part by technological advances and diffusion globally. Education and health levels increase as incomes improve and reinforce economic growth. Advances in infrastructure and improved governance further propel productivity gains in mostly virtuous cycles.

Table 5 outlines some important characteristics of the base case by issue area

Table 4: Clusters of policy intervention levers for comparative analysis in IFs

Primarily domestic levers	Primarily international levers
1. Demographics Fertility Reduction High Female Labour	8. Trade Low Protectionism Export Promotion
2. Savings/Investment High Investment	9. Foreign Investment High FDI High Portfolio Flows
3. Domestic Transfers High Transfers	10. Household Transfers High Remittances
4. Human Capital High Education Spending and Targets High Health Spending and Targets	11. Intergovernmental Transfers High Foreign Aid High international financial institution flows
5. Infrastructure Capital High Infrastructure Access	12. Technology High Technology
6. Knowledge Capital High R&D	
7. Social Capital/Governance Low Internal Conflict High Govt Revenues/Low Corruption High Democracy and Inclusion	

Note: The intervention levels for the levers in the clusters are those from the PPHP volumes, as reviewed in the text.

Table 5: International Futures, Base Case characteristics

Economy	Global GDP growth ranges from 3-3.5% annually	Economic production continues to diversify towards services and ICT	International trade as a percentage of GDP ticks up about 0.5 percentage points annually	Foreign Direct Investment as a percentage of GDP increases at nearly 0.04 percentage points annually	Foreign aid more than doubles in 40 years from \$US 6 trillion to over \$US 12 trillion
Population	Fertility rates decline in all regions	Life expectancy improves in all regions	Migration trends are extrapolated from historical patterns		
Education	Primary education gross enrollment rate is over 100% by 2025	Secondary gross enrollment levels reach 80% by 2025	Tertiary gross enrollment rate is over 35% by 2040	World literacy levels are over 90% by 2030	
Health	AIDS deaths fall to less than 1 million people annually by 2045	Communicable disease deaths decrease by half by 2040	Non-communicable disease deaths increase 1.5 times over 35 years	Global smoking rates decline to the level in 1980 in 25 years	
Governance	Political freedom increases at the global level	Economic freedom increases at the global level	Democracy advances	Corruption is reduced	Efficacy and rule of law are improved
Technology	Energy efficiency improves by 0.8% annually for first 15 years, then more quickly	Energy production costs decrease exogenously, differently for each type covered (coal, oil, gas, hydro, nuclear and other-renewable)	Global convergence of productivity to system leader in technology		
Agriculture	Cereal yields improve globally by about 0.03 tonnes per hectare per year	Overall crop land increases by about 1 million hectares per year	Overall grazing land increases by about 2 million hectares per year	Overall fish harvest remains constant	
Energy	Energy from oil, gas and coal dominate global production for the next two decades	Renewable energy production surpasses any single fossil fuel by 2045	Hydro and nuclear energy production stagnate		
Environment	Annual carbon emissions grow for the next 2-3 decades then decline	Carbon build-up in the atmosphere grows throughout the first half of the 21st century, going beyond 500 PPM by 2050	Percent of population with no access to safe water below 10% by 2050	Global fresh water use reaches 10% of annual renewable water resources by 2050, over 100% in North Africa by 2025	Indoor solid fuel use decreases below 20% of global population in 2050

Source: IFs Version 6.43

and variable. Although the IFs base case changes somewhat over time as data and the IFs system of models evolve, there is considerable stability in its overall behaviour. Thus, the base case generally demonstrates continuity with historical patterns (including the development policies that have been pursued in recent decades). Even so, its complex dynamics—including a wide range of nonlinear relationships—provide a structure that can also generate nonlinear future patterns that differ considerably from historical trajectories. The base case of this paper is very close to that presented in previous Human Development Report research (Hughes, Irfan, Moyer, Rothman and Solórzano 2011).

The IFs base case scenario shows steady growth of the HDI across countries at all current levels of the index (see Figure 3), with the greatest growth, in both absolute and relative change, likely to be for those countries now at what the UN Human Development Reports characterize as low HDI levels.

Figure 4 shows HDI progression in the base case scenario by regional groupings defined by the Human Development Report Office (consisting mostly of countries with low, medium and high HDI levels, and excluding almost all very high HDI countries)¹⁰ and displaying also the very high HDI countries as a separate grouping. In part because of the saturation effects built into the structure of the index, there is less growth potential in countries with currently very high HDI levels, and there is almost certain to be ongoing catch-up of countries currently at lower levels. See Hughes, Irfan, Moyer, Rothman and Solórzano (2011) for discussion of these saturation elements in the index structure and also for forecasts of its individual component elements.

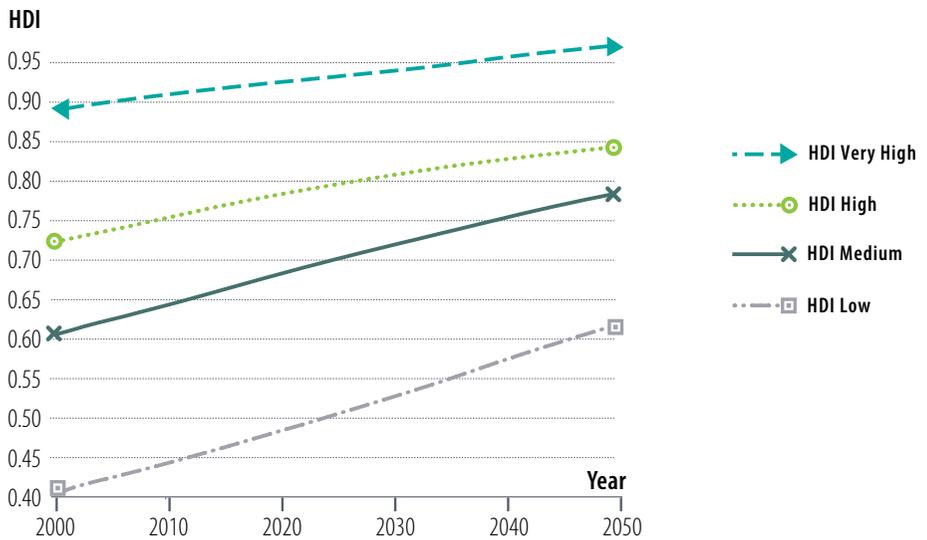
THE IMPACT OF AGGRESSIVE BUT REASONABLE POLICY INTERVENTIONS

Using the base case scenario as a point of reference, Table 6 shows the implications for the HDI in the Human Development Report Office country groupings, and the world as a whole, of the 12 clusters of policy interventions that Table 4 and the supporting discussion identified. A number of conclusions can be drawn.

As Figures 3 and 4 showed, the momentum of HDI growth with current policy patterns in the base case scenario boosts HDI values (within the index's 0-1 range) considerably between 2010 and 2050. On a global basis, current policy patterns take it from 0.632 to 0.758. Most significantly, values for sub-Saharan Africa rise from 0.402 to 0.612, a remarkable 0.210 points in just 40 years. In many respects Africa is moving into a 'sweet spot' of development, where catch-up with more developed countries can occur on many dimensions

10 The UNDP Human Development Report Office categorization places a few countries, such as Argentina and Chile, in both regional groupings and the very high HDI category.

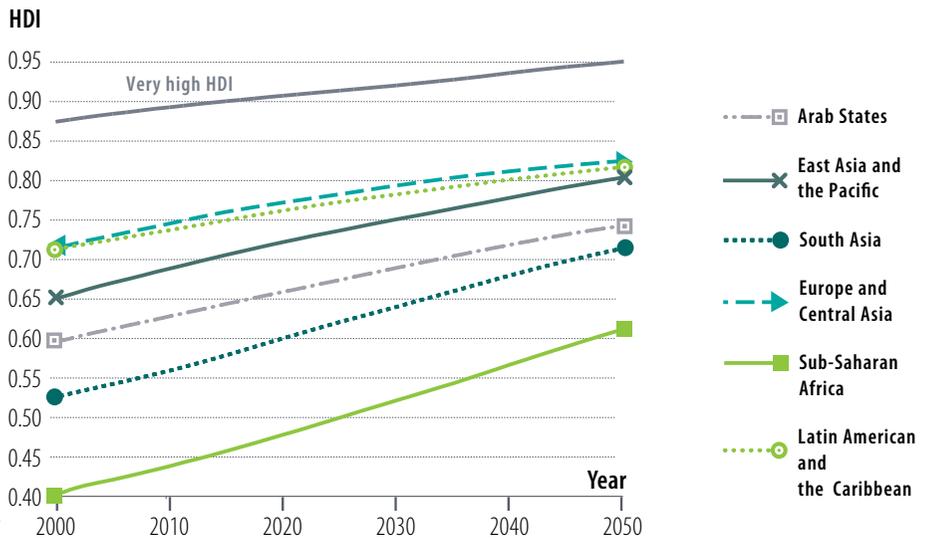
Figure 3: HDI base case scenario forecasts by current HDI level



Note: HDI level categories from the Human Development Report Office, April 2012.

Source: IFs Version 6.57.

Figure 4: HDI base case scenario forecasts by Human Development Report Office country groupings



Note: HDI regional groupings from the Human Development Report Office, April 2012.

Source: IFs Version 6.57.

Table 6: HDI forecasts for 2050 comparing the base case scenario, individual clusters of policy interventions and combined ('fully integrated') interventions

	Arab States	East Asia and the Pacific	Europe and Central Asia	Latin America and the Caribbean	South Asia	Sub-Saharan Africa	Very High HDI	World
<i>Base case scenario</i>	0.742	0.804	0.825	0.817	0.715	0.612	0.951	0.758
Intervention clusters:								
<i>1. Demographics</i>	0.745	0.803	0.825	0.817	0.715	0.626	0.951	0.766
<i>2. Savings/investments</i>	0.746	0.804	0.830	0.823	0.721	0.625	0.952	0.764
<i>3. Domestic transfers</i>	0.742	0.804	0.825	0.817	0.715	0.612	0.951	0.758
<i>4. Human capital</i>	0.772	0.819	0.838	0.836	0.743	0.651	0.968	0.784
<i>5. Infrastructure capital</i>	0.742	0.806	0.829	0.821	0.723	0.609	0.953	0.761
<i>6. Knowledge capital</i>	0.742	0.805	0.825	0.817	0.716	0.612	0.951	0.759
<i>7. Social capital/governance</i>	0.762	0.815	0.837	0.833	0.725	0.613	0.955	0.763
<i>8. Trade</i>	0.742	0.808	0.826	0.821	0.725	0.613	0.955	0.763
<i>9. Foreign investment</i>	0.746	0.804	0.828	0.823	0.716	0.617	0.949	0.760
<i>10. International remittances</i>	0.743	0.804	0.826	0.818	0.715	0.612	0.951	0.760
<i>11. Intergovernmental transfers</i>	0.743	0.804	0.825	0.818	0.716	0.623	0.951	0.762
<i>12. Technology</i>	0.746	0.807	0.883	0.821	0.718	0.616	0.951	0.762
<i>Fully integrated interventions</i>	0.804	0.839	0.866	0.876	0.789	0.706	0.982	0.824
<i>2010 for comparison</i>	0.596	0.651	0.715	0.713	0.526	0.402	0.875	0.632

Note: Using Human Development Report Office country groupings.

Source: IFs Version 6.57.

(Hughes 2001; Cilliers, Hughes and Moyer 2011).

The momentum of HDI growth with current policy patterns adds considerably more to the value of the HDI between 2010 and 2050 than any single policy cluster can incrementally add to the base case value for 2050. For instance, human capital interventions in sub-Saharan Africa add more to its HDI value in 2050 (taking it from 0.612 in the base case to 0.651 with aggressive but reasonable human capital interventions) than does any other cluster of interventions in any other global region. Yet, sub-Saharan Africa's 0.210 point rise between 2010 and 2050 in the base case greatly outstrips that 0.039 point incremental increase.

In fact, the fully integrated set of interventions across all 12 clusters adds less

to values in 2050 relative to the base case than does normal base case growth from 2010 to 2050. For instance, for South Asia (the region of second largest growth anticipated in the base case), the HDI in the base case rises by 0.189 points (from 0.526 to 0.715), whereas the fully integrated intervention adds a further 0.074 points (and in sub-Saharan Africa it adds 0.094 points).

Although the incremental impacts of policy interventions may seem relatively small in comparison to base case growth over the period, those increments are more than 10 percent of the HDI values of sub-Saharan Africa and South Asia in 2050 (and 15 percent to 20 percent of their HDI values in 2010). They thus would have very significant impacts on human well-being, as will be seen in considering the individual components of the HDI.

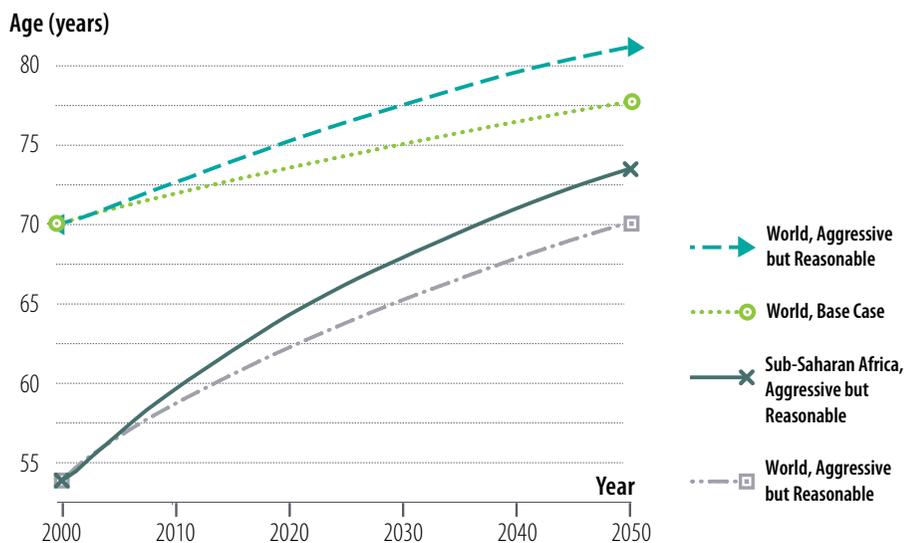
The biggest contributions of the individual policy clusters are those made by human capital interventions. This is true in every global region. Moreover, the impacts of improvements in this area significantly outstrip the individual impacts of other clusters.

The second largest impact (especially in sub-Saharan Africa) comes from the demographic cluster, a combination of lower fertility rates and higher female formal labour force participation rates. The global impact of higher savings/investment rates follows, as do social/capital governance interventions and greater trade.

All other categories of intervention except domestic transfers make positive contributions to the global HDI relative to the base case scenario. The contributions (except for human capital) are, however, relatively modest, and they vary by region. Not surprisingly, for instance, intergovernmental transfers add 0.011 points to the HDI of sub-Saharan Africa and 0.001 to South Asia, but have no effect on very high HDI countries, which are donors rather than recipients.

The search for silver bullets in the effort to accelerate human development—that is, for those measures that can have great impact, ideally with low cost—is unending. Identification of prospective silver bullets changes over time and across philosophical viewpoints. In recent years, the two most prominent candidates, in addition to the classics of trade and financial flow liberalization, tend to be improved governance, by which is generally meant some combination of reduction of corruption, protection of property rights and liberalization of markets; and increased and more effective foreign aid, given considerable attention in the Millennium Project's recommendations for meeting the MDGs. However, the results reported here (see again Table 6) strongly suggest there is no silver bullet for development among the interventions examined. Almost all make some contributions to human development, but the increments associated with each cluster individually are fairly modest.

Figure 5: Forecasts of life expectancy at birth in the base case and aggressive but reasonable scenarios for sub-Saharan Africa and the world



Source: IFs Version 6.57.

At the same time, however, the results clearly support the conclusion that, in combination, the interventions provide significant leverage for policies by 2050. For example, on a global basis, more than 300 million fewer people would live in extreme poverty at mid-century with a combined package of these interventions than in the base case scenario.

This finding provides some independent support for the approach advocated by the Millennium Project report. The plan proposed by the project's large team, led by Jeffrey Sachs, was not labeled a 'big push', but it is in fact an exemplar of that development strategy, and is an aggregation similar in many ways to our scenario with fully integrated interventions. Collier (2006, p. 121; 2007), while disagreeing with the emphasis Sachs put on aid, also suggested the need for a big push country by country. There appear to be synergies across individual interventions.

Why would there be such synergies and what are they? The most obvious and important synergy arises because many of the interventions support economic growth. When one intervention increases economic growth relative to the base case, almost all other interventions take place on a higher base of capabilities (both financial and sociopolitical). For instance, education and health expenditures rise

with GDP, so an incremental percentage rise of them within a society already growing faster as a result of FDI or foreign aid will work from a higher base. There are also interacting positive feedback loops via broader human development variables, such as the impact of education on fertility and economic growth.¹¹

The HDI is, of course, a composite representation of human development using the geometric mean of three sub-dimensions—long and healthy life (indicated by life expectancy), knowledge (as measured by mean years of schooling for adults age 25 and older and expected years of schooling for an elementary school entrant), and a decent standard of living (as measured by the log of GDP¹² per capita at PPP). In order to better understand the ways in which the policy interventions affect the HDI, it is important to look at the manners in which they affect each of the three sub-dimensions separately.

AGGRESSIVE BUT REASONABLE INITIATIVES AND LIFE EXPECTANCY

Given the way it is constructed across policy clusters, the fully integrated intervention set can be the foundation for an aggressive but reasonable scenario to continue juxtaposing with the base case. Figure 5 shows that life expectancy improves quite significantly in the base case scenario itself, increasing globally from 70 years in 2010 to 81 years in 2050, and from 54 years to 69 years for sub-Saharan Africa, largely in response to a forecast of considerable progress against HIV/AIDS and other communicable diseases.

The combined intervention package of the aggressive but reasonable scenario adds about 3.5 more years for the world and for sub-Saharan Africa. Both the strong underlying growth of life expectancy captured by the base case and the inherent tendency for life expectancy advance to saturate as countries catch up with systemic leaders tend to reduce the incremental contribution of the fully integrated policy scenario to longer life. It is important to remember that huge efforts are currently being made around the world to improve health and life expectancy; were such efforts not represented in our base case, the aggressive but reasonable scenario would certainly have much greater absolute impact.

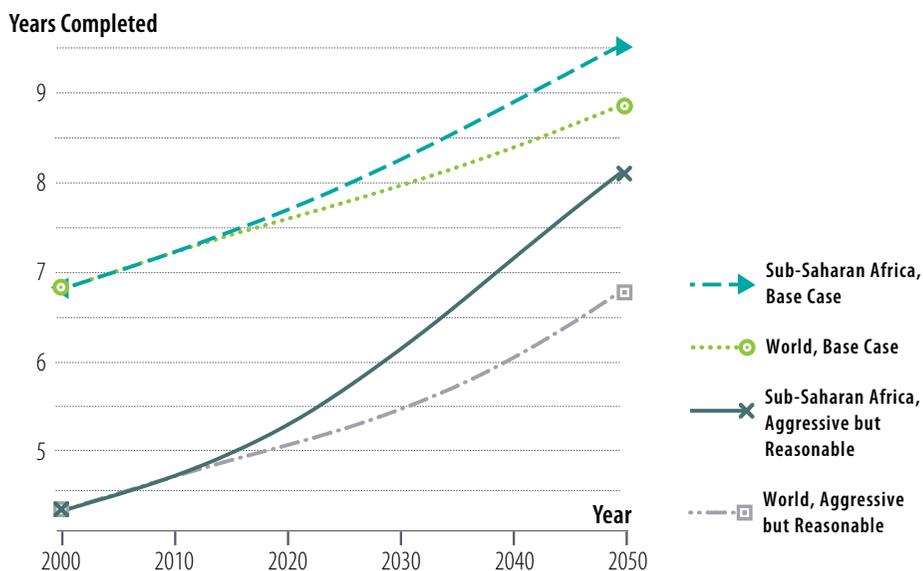
AGGRESSIVE BUT REASONABLE INITIATIVES AND COMPLETED EDUCATION

Figure 6 shows that years of formal education attained by adults are also advancing very rapidly in the base case. Globally, years of education attained by the average adult rises from 6.9 years in 2010 to 8.9 years in just over 40 years,

11 Mehrotra and Delamonica (2007, p. 5) argue that such positive feedback loops across multiple dimensions of social and economic development operate at both micro- and macro-levels.

12 Although the official measure uses gross national income (GNI), the IFs system uses the very nearly identical GDP.

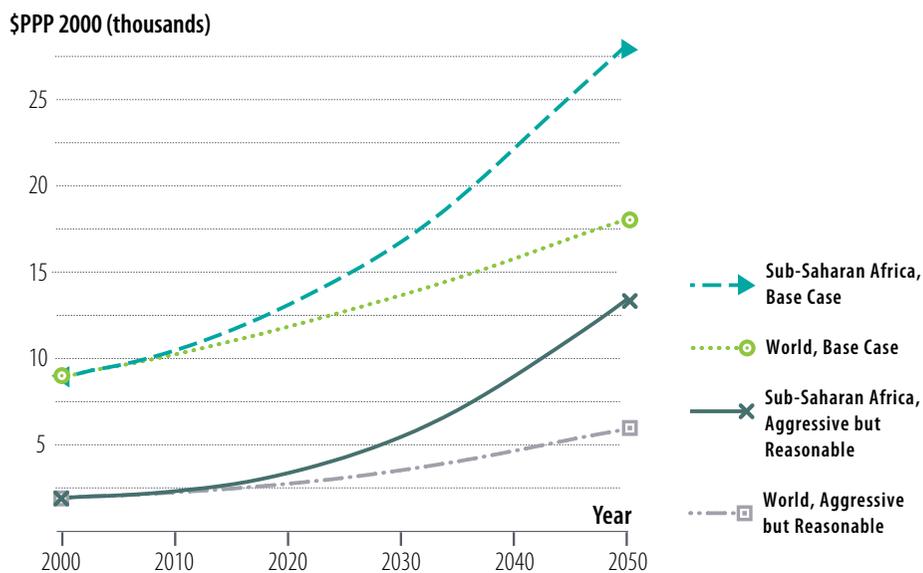
Figure 6: Forecasts of years of education completed in the base case and aggressive but reasonable scenarios for sub-Saharan Africa and the world



Note: Values are for adults age 25 and older.

Source: IFs Version 6.57.

Figure 7: Forecasts of GDP per capita at PPP in the base case and aggressive but reasonable scenarios for sub-Saharan Africa and the world



Source: IFs version 6.57.

and in sub-Saharan Africa climbs from 4.3 years to 6.7 years. Young adults are attaining so many more years of education than their elders that the momentum for such rise is extremely powerful; even if years of education acquired by the young ceased to increase further, the average across all adults would climb for several decades. The aggressive but reasonable scenario adds nearly 0.7 years to the world total in 2050 and about 1.3 additional years in sub-Saharan Africa. Although such increments are less than base case growth between 2010 and 2050, they would have very large impacts; analysis in the second volume of the PPHP series strongly suggested (and documented the pathways through which) additional productivity and economic growth alone would, in the long run, much more than pay for the costs of adding additional capacity in education systems to support such increased enrolments.

AGGRESSIVE BUT REASONABLE INITIATIVES AND GDP PER CAPITA

Both improved health and greater education have positive implications for economic growth (just as does economic growth for both of them through the dynamics of positive feedback loops). Moreover, most of the elements of our aggressive but reasonable scenario policy package would raise economic production. Therefore, it is not surprising that Figure 7 shows that the aggressive but reasonable scenario contributes more to GDP per capita in 2050 than does growth in the base case scenario. Globally, GDP per capita rises from \$8,800 in 2010 to \$17,900 in 2050 in the base case. The combined interventions raise that to \$27,950 in IFs forecasts. Similarly, while GDP per capita in sub-Saharan Africa rises impressively in the base case, from \$1,700 in 2010 to \$5,700 in 2050, at average rates far above the historical rates of the previous five decades, the aggressive but reasonable scenario could more than double that mid-century value, taking it to \$13,200.

Because the HDI appropriately logs the contribution of income so as to represent the decreasing marginal utility of additional increments at high values, the additions to the base case made by the aggressive but reasonable scenario do not add as much to the index as the underlying rise of the base case. This phenomenon, too, is part of the explanation of seemingly lower impacts of the aggressive but reasonable scenario than of the ongoing base case climb in the HDI. Figures on the differential impact of the aggressive but reasonable scenario nonetheless show the very substantial leverage that its policies have to improve human well-being.

THE AGGRESSIVE BUT REASONABLE SCENARIO AND REGIONAL DEVELOPMENT

Table 7 extends the analysis to the regional and income-level groupings of the UNDP Human Development Report Office. Although the preceding discussion focused on sub-Saharan Africa, all groupings clearly benefit from the aggressive

Table 7: HDI elements compared in the base case and aggressive but reasonable scenarios: 2010 and forecasts for 2050

	2010	2050	
Life Expectancy (Years at Birth)	Base Case	Base Case	Gains relative to Base Case
Arab States	69.9	76.7	3.4
East Asia and the Pacific	73.2	80.1	2.4
Europe and Central Asia	71.2	78.3	3.1
Latin America and the Caribbean	74.6	81.1	2.7
South Asia	65.9	76.9	3.7
Sub-Saharan Africa	53.7	69.4	3.5
Very High HDI Countries	80.5	84.9	2.9
World	70.0	77.5	3.4
Education Years (Age 25+)			
Arab States	5.6	9.0	0.7
East Asia and the Pacific	7.1	9.6	0.2
Europe and Central Asia	9.1	11.6	0.1
Latin America and the Caribbean	7.7	10.5	0.4
South Asia	4.6	6.9	0.7
Sub-Saharan Africa	4.3	6.7	1.4
Very High HDI Countries	11.2	13.5	0.1
World	6.9	8.9	0.7
GDP per Capita (\$1,000 at 2000 PPP)			
Arab States	6.6	12.3	7.0
East Asia and the Pacific	5.3	21.2	7.9
Europe and Central Asia	10.5	19.9	7.9
Latin America and the Caribbean	8.9	17.9	15.2
South Asia	2.9	12.2	16.1
Sub-Saharan Africa	1.8	5.7	8.9
Very High HDI Countries	29.0	45.2	14.1
World	8.8	17.9	12.2

Note: Using Human Development Report Office country groupings.

Source: IFS Version 6.57.

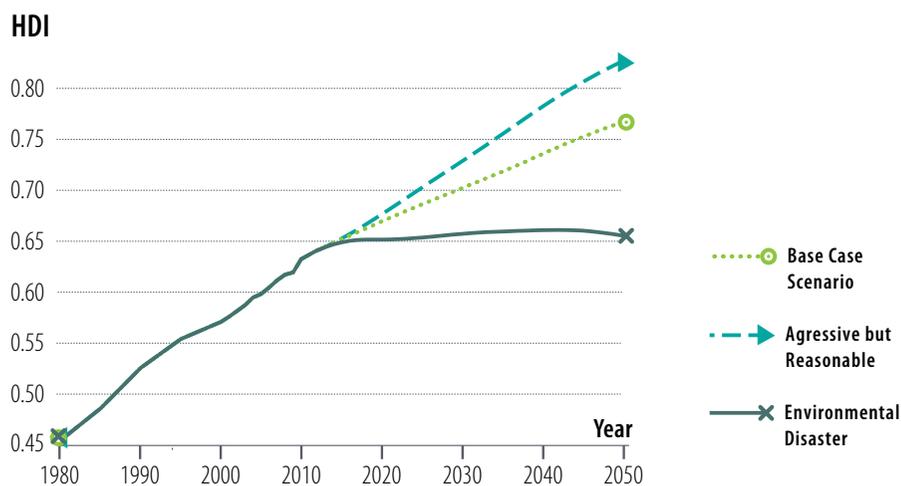
Table 8: Poverty compared in the base case and aggressive but reasonable scenarios: 2010 and 2050

	2010	2050	
Extreme Poverty (millions)	Base Case	Base Case	Gains relative to Base Case
Arab States	25.3	17.4	-16.6
East Asia and the Pacific	211.2	28.7	-20.2
Europe and Central Asia	14.1	3.5	-2.9
Latin America and the Caribbean	33.8	32.5	-19.8
South Asia	557.3	80.7	-67.4
Sub-Saharan Africa	370.6	267.5	-207.3
Very High HDI Countries	0.1	0.0	0.0
World	1,212.4	430.2	-334.1
Population (millions)			
Arab States	350.2	608.4	601.9
East Asia and the Pacific	1,962.0	2,154.0	33.0
Europe and Central Asia	476.0	459.5	13.3
Latin America and the Caribbean	580.60	766.0	4.7
South Asia	1,665.0	2,393.0	24.0
Sub-Saharan Africa	808.2	1,869.0	-299.0
Very High HDI Countries	1,121.0	1,207.0	80.0
World	6,849.0	9,337.0	-1,550
		9,182.0	-1,66%

Note: Using Human Development Report Office country groupings.

Source: IFs Version 6.57.

Figure 8: Forecasts of the global HDI compared across three scenarios



Source: IFs Version 6.57.

but reasonable scenario. With respect to education, sub-Saharan Africa benefits the most from the integrated aggressive but reasonable policy package, adding more years and showing a considerably higher percentage gain in 2060 relative to the base case. With respect to life expectancy, the gains are more comparable across regions, with each gaining at least 2.4 years. With respect to GDP per capita, South Asia, and Latin America and the Caribbean experience the largest dollar gains in the forecast, with sub-Saharan Africa showing the largest percentage gain.

The significant increases in GDP per capita in the aggressive but reasonable scenario mean that there also should be a considerable reduction in global poverty, and Table 8 confirms that. In the base case, we expect to see those living on less than \$1.25 per day fall by two-thirds from about 1,200 million to about 430 million. It is, of course, harder to achieve incremental gains as numbers become smaller, yet the aggressive but reasonable scenario reduces that number to under 100 million. Because the HDI logs the contribution of GDP per capita, this additional and very important impact of higher incomes in the integrated policy scenario is not as clear in the index as when we look at poverty directly.

Because of the importance that demographic forecasts have to all else, Table 8 also shows population size in the base case and aggressive but reasonable scenarios. The latter reduces fertility more than mortality in sub-Saharan Africa and the Arab States, bringing their populations down somewhat in 2050

relative to the base case. Sub-Saharan Africa is, of course, the region of globally highest fertility, while the Arab States have often used oil revenues to greatly extend life expectancy, but are only more recently lowering fertility. In all other regions, the net impacts of aggressive but reasonable policies on mortality are greater than those on fertility.

OFFSETTING ENVIRONMENTAL PROBLEMS

In the research paper that the Pardee IFs Center prepared in support of the 2011 Human Development Report, the authors explored environmental challenge and disaster scenarios (Hughes, Irfan, Moyer, Rothman and Solórzano 2011). In the environmental disaster scenario, the potential environmental problems were so severe that the global HDI fundamentally stagnated between 2010 and 2050, and actually fell somewhat in the second half of the century.

Might the aggressive but reasonable policy scenario offer some protection against such an outcome? Figure 8 suggests that it could. Aggressive but reasonable initiatives do not add as much HDI value to the base case as environmental disaster takes from it, but the package does create a considerably more optimistic scenario, one in which countries and the global system would presumably have much more adaptive capability for addressing environmental problems. One should not, however, make too much of this very preliminary forecast exercise. The specification of interventions for environmental disaster relied heavily on ‘proxy’ representations of possible systemic environmental impacts and not as much as desired on actual environmental impact pathways. Thus many of the interventions in the aggressive but reasonable scenario quite directly manipulate the same model levers that representation of environmental disaster used, making the obviously desirable combined analysis of elements in the two scenarios not yet possible. In future work we intend to elaborate and extend representation of those actual environmental impact pathways to facilitate more robust mitigation and adaptation analyses.

CONCLUSIONS

This paper has explored the potential for development-oriented policies to increase the pace of progress of human development. It has attempted to examine clusters of policy initiatives individually and comparatively, as well as considering all of them in combination.

Methodologically, the analysis combined use of the IFs modelling system with scenario development that built and explored 12 clusters of policy

interventions as well as an integrated aggressive but reasonable policy scenario. The IFs system allowed the analysis of multiple interacting global subsystems, including demographic, economic, education, health, infrastructure and socio-political models. Some of its features—including the use of a universal SAM and the extensive endogenous representation of multifactor productivity—facilitate such analysis of multiple leverage points and the trade-offs and synergies of policy. Our work in support of the PPHP series facilitated the determination of aggressive but reasonable magnitudes for the policies explored, thereby making the policy interventions more comparable.

Substantively, the IFs base case scenario suggests that substantial progress by mid-century is likely with or without the extra push of aggressive but reasonable policies. Much is underway already, and advances in life expectancy, educational attainment and income have great momentum. The gains of the global South relative to the global North are very notable, reinforcing the increasing recognition that after at least two centuries of global divergence in multidimensional development, a process of global convergence is now well underway.

Despite the momentum apparent in the base case, our analysis of potential impacts of more aggressive but reasonable policies suggests that most of the 12 clusters we explored would further enhance human development over time, especially those policies directed specifically at human development, governance and infrastructure. Although the increments that each cluster added to prospective HDI levels in 2050 were not typically very large (we find no silver bullet for development), the policies in combination have the potential to boost HDI levels in sub-Saharan Africa by 0.1 points and South Asia by 0.08 points (more than 20 percent and 15 percent, respectively, relative to today's values), with lesser impact in more developed regions. The clusters substantially enhanced gains already underway in all three sub-dimensions of the HDI; the largest proportional gains were in income, in part because of the saturating character of life expectancy and education. The aggressive but reasonable combined scenario resulted in reducing the global numbers of people in extreme poverty by more than 300 million by 2050 compared to the base case, the numbers living on less than \$2 per day by nearly 730 million, and the number of undernourished children by 34 million.

In short, development policies currently in place and being quite aggressively pursued across most of the developing world have made, and are likely to continue to make, lives better in almost all of the world. There still is, however, very large room for improvement beyond the current pattern of initiatives, and aggressive but reasonable policies would greatly enhance the lives of hundreds of millions of people.

ADDENDUM: A CONSERVATIVE BASE CASE

In light of the on-going Great Recession and the apparently long-term nature of the problems it has created for the world economy (in interaction with high existing national debt levels and the growing impacts of ageing populations in large numbers of countries), we decided to explore a more conservative base case scenario. Among the benefits of doing that is understanding how sensitive the results of the paper's analysis are to alternative assumptions.

In the base case used for the analysis earlier in this paper, global economic growth from 2013 through 2040 is very near 3 percent annually, which happens also to be quite close to the long-term global average from the 1970s through today (and slower than that of the 1950s and 1960s). Global growth in our base case then declines somewhat in the 2040s, falling to about 2.5 percent by 2050, as a result of many factors including slowing population growth, peak oil and gas, and narrowing of gaps between much of the developing world and high-income countries. Figure 9a shows the regional picture behind that global average growth of the base case.

The base case growth forecasts in Figure 9 for South Asia and sub-Saharan Africa are, however, sufficiently high that many observers might question them as overly optimistic. And although growth in East Asia and the Pacific (dominated by China) declines over the forecast horizon, it remains quite rapid through 2050.

In contrast to the quite steady 3 percent growth of the base case, the global growth rate in the conservative base case begins to diverge from that of the base case in 2013, and steadily declines over the forecast horizon, dropping to 2.5 percent by 2020 and 1.5 percent before 2050. In addition, and with the same rationale in terms of challenging fiscal environments for states around the world, the conservative base case cuts back global educational expenditures by 20 percent relative to the base case and imposes a similar reduction for government expenditures more generally.

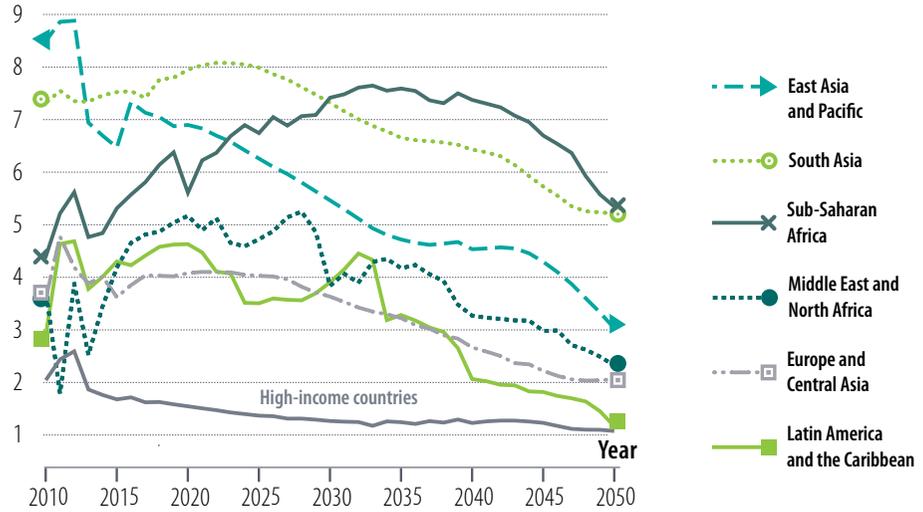
Figure 9b shows the regional growth picture of the conservative base case, and it is one of substantially more rapid decline of growth rates in East Asia and the Pacific, early if more moderate decline for South Asia (in contrast, the relative stability of high rates for 15 years in the base case), and fairly strong growth for Africa but without the mid-range acceleration of the base case.

Figure 9c compares the global growth of the HDI in the conservative base case to that of the base case. Even in the base case, HDI growth slows relative to historical progress, in large part because of the saturation effects that this review has described. In the conservative base case, the slowing is considerably more pronounced, and the value in 2050 is 0.043 points (more than 5 percent)

Figure 9: GDP and HDI under various scenarios

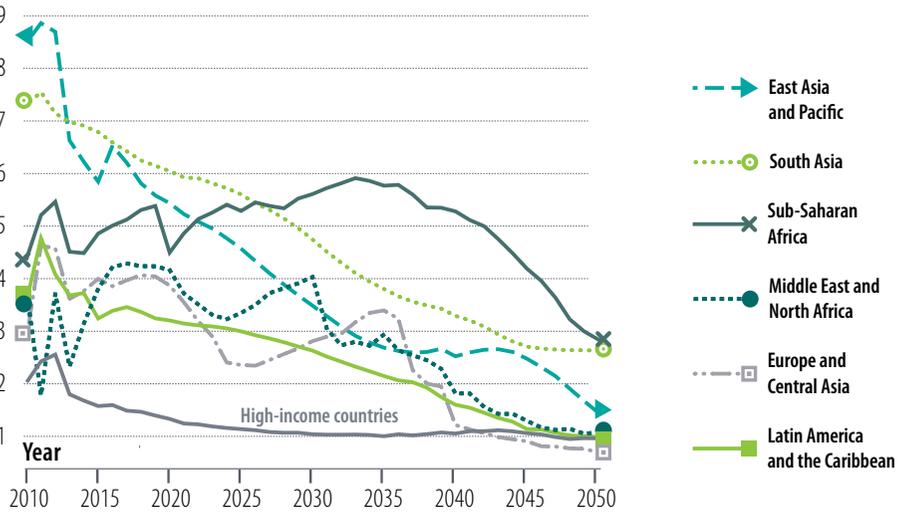
9a: GDP (at market exchange rates) growth in the 'normal' base case scenario

GDP Annual Growth Rate

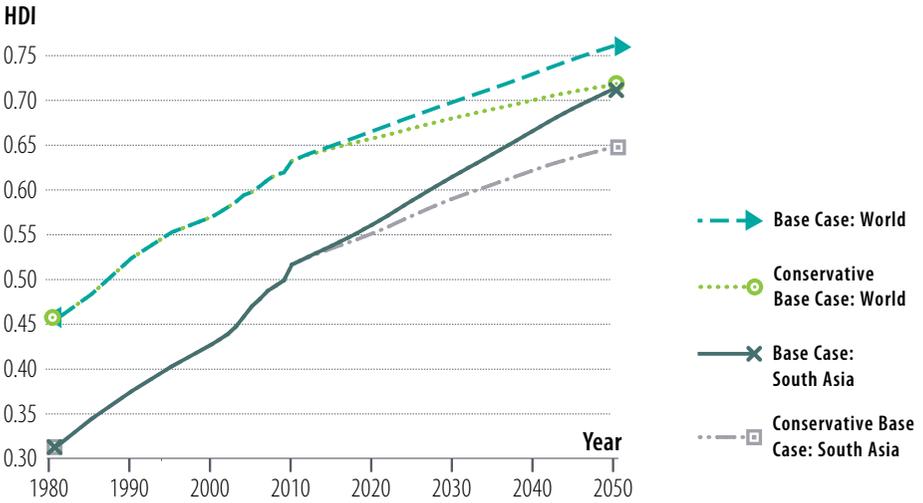


9b: GDP growth in the conservative base case scenario

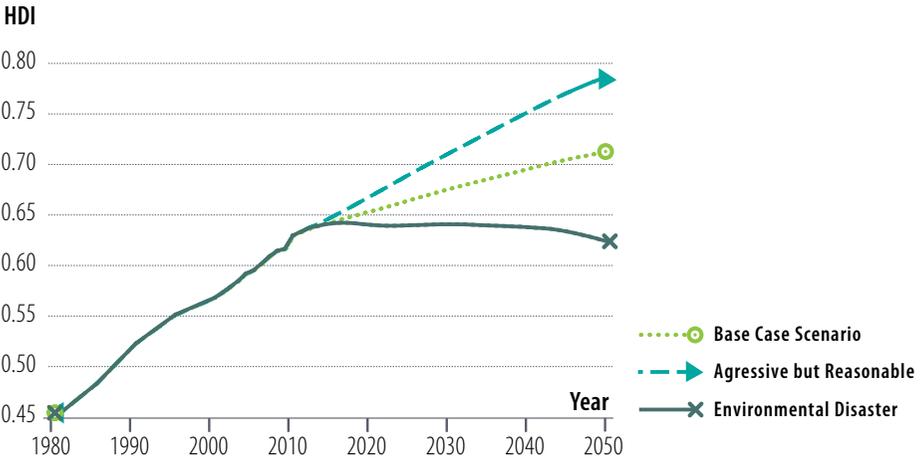
GDP Annual Growth Rate



9c: The HDI in base case and conservative base case scenarios



9d: The HDI in conservative versions of three scenarios



Notes:

- Regions in these figures are those defined by the World Bank so as to show all high-income countries separately from developing countries of each geographic region.
- Although this addendum uses Version 6.58 of the IFs system instead of 6.57 as in the main body of the paper, the model is all but identical, and the base case poverty numbers in 2050 are the same.

Source: IFs Version 6.58.

lower than that of the base case. The Figure also shows South Asia to illustrate the regional impact of this alternative scenario. Instead of clearly converging towards the global pattern as in the base case, the regional values rise much more, nearly in parallel with world values.

All components of the HDI rise less rapidly in the conservative base case. That is most pronounced for GDP per capita, which doubles (at PPP) from \$8,770 in 2010 to \$17,870 in 2050 in the base case, but rises only to \$12,980 in the conservative base case. Whereas expected years of education for adults aged 25 and older climb globally by a full 2 years in the base case (from 6.9 years to 8.9 years), the increase in the conservative base case is 1.5 years. Similarly, years of life expectancy jump by more than 7 years in the base case, but only 6 years in the conservative base case.

Carrying the same changes made to create the conservative base case to the two other major scenarios of this research paper, namely the aggressive but reasonable policy scenario and the environmental disaster scenario, results in the HDI forecasts of Figure 9d. The reader should compare this with Figure 8. Although the differences between the ‘normal’ and conservative versions of the scenarios are not dramatic (as we have already seen in Figure 9c), they are both significant and important. For instance, in the conservative version of the environmental disaster scenario, the HDI actually declines before 2050, in contrast to the stagnation of the normal base. The normal base case leaves 430 million people in extreme poverty in 2050, but the conservative base case leaves 924 million there.

Some readers will ask why HDI differences are not greater between the two sets of scenarios, particularly given the rather dramatic differences in GDP per capita. The explanation is similar to analysis already provided in the paper. GDP per capita enters the HDI in logged form, and that formulation substantially dampens the impact of the conservative assumptions. Educational advance has huge momentum globally and lower GDP per capita slows that down somewhat, but does not fundamentally alter the forward course—remember that the biggest cost of education is salaries, and that the conservative assumptions lower that cost even as they also lower GDP per capita. Similarly, one large portion of health and life expectancy advances relates to technological progress; another large part to education. GDP per capita is important, but not dominant in the formulations of IFs or the Global Burden of Disease approach—consider the very substantial convergence in life expectancy seen in low-income countries towards that of high-income ones over the last five decades. In short, the results of this paper are quite robust in the face of alternative futures with respect to economic growth.

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Challenges and Opportunities:

Civil Society in a Globalizing World

PATRICK HELLER

INTRODUCTION

Over the past three decades, the wide range of social, political, and economic changes that have accompanied globalization have radically transformed opportunities for progress in the developing world. Entire classes, sectors and nations have been lifted from poverty, representative democracy has spread, and new modes of communication have made us more aware of our shared fate. At the same time, globalization has produced new forms of social exclusion, new sources of insecurity and precariousness, and new security threats ranging from extremist movements to environmental degradation. Most significantly, globalization is transforming how power is organized and how legitimate power is authorized. The contours and substance of the nation-state, the traditional container of authorized decision-making, are being transformed. Nation-states are losing the regulatory control they have long enjoyed over the economy as well as the sovereign authority they have traditionally exerted over their citizens. Conceptions of nationhood, and with it, social integration, are being challenged by transnational flows of ideas, identities and information. The post-national constellation (Habermas 2001) poses fundamental questions around national integration, popular sovereignty, social protection and economic regulation.

Taken together, these developments have triggered a crisis of democracy. The great irony of the opening of the 21st century is that just at the moment in history when democracy has become the global norm, and precisely when a global economic crisis demands new modes of national and global democratic governance, the two great institutional pillars of modern governance—representative democracy and bureaucratic organization—are both suffering from increasing deficits of effectiveness and legitimacy.

In policy-thinking and contemporary politics, the responses to these deficits have more or less taken one of two forms. The first sees the problem as one of increasing complexity and in particular an excess of demand-making, and argues that contemporary institutions are simply being overloaded by societal pressures. The prescription essentially involves insulating institutions—in particular the market and the state—from politics. Many current versions of ‘good governance’ essentially follow this line of thinking and place enormous faith in the virtues of self-regulating markets and insulated expert-run administrative bodies. In this vision, democracy is reduced to representation through periodic elections.

The second response raises concerns with the limits of representative institutions of democracy, and points to the need to strengthen democratic practices and forces. Here, the concern is not that there is too much demand-making, but rather that the system is dominated by organized and powerful interests, and that existing mechanisms of accountability are inadequate. The call is for more, not less democracy, and in particular a strengthening of citizenship. This view has taken concrete form in two separate but analytically parallel developments. At the national level, efforts to deepen democracy have entailed a wide range of experiments in various forms of participatory democracy, ranging from new attempts to directly engage citizens in development projects, to large-scale state-driven reform projects that build participation into new institutions of governance.¹ At the global level, the role that social movements and global civil society have played in the past decade in promoting political openings in authoritarian societies and driving the spread of human rights, ranging from the Arab Spring to indigenous movements in Latin America, have drawn attention to how popular contention can transform politics and development.

But for all the new attention that academic literature has given to social movements and civil society, there have been very few efforts to integrate the theoretical and empirical lessons from this literature into understanding of the challenges of development in an increasingly globalized world. Most lacking of all has been any concerted effort to systematically relate the claims made for ‘bringing civil society back in’ to the specific conditions of institutional development and democratization in the global South.

1 Examples include participatory budgeting and sectoral councils in Brazil; participatory decentralization in Bolivia, Ecuador, India and South Africa; and new forms of participatory governance in the European Union. These democratic reforms have attracted significant attention, most notably the Report from the Presidential Task Force of the American Political Science Association (2011).

MAKING SENSE OF CIVIL SOCIETY

The term civil society is of course highly disputed as a category, and certainly has not enjoyed the sustained and focused analytic attention of the market or the state. To make sense of the effects that civil society can have on developmental trajectories first requires a clear theoretical understanding of what civil society is, what its boundaries are, and most importantly how civil society is differentiated from other domains of social action, most notably the state, market and community.

Following the most recent developments in theory and research on civil society, this paper defines it as the full range of voluntary associations and movements that operate outside the market, the state and primary affiliations, and that specifically orient themselves to shaping the public sphere. This would include social movements, independent unions, advocacy groups, and autonomous non-governmental organizations (NGOs) and community-based organizations. From a sociological perspective, actors in civil society rely primarily on “social (as opposed to legal/bureaucratic or market) modes of mediation among people [organizing collective action] through language, norms, shared purposes, and agreements” (Warren 2001, p. 8). This civic or communicative (Habermas 1996) mode of action is as such distinct from the pursuit of political power, profits or the reproduction of primary ties and identities that characterize social action in the state, market and community.² At the heart of any conception of civil society is the ideal-type notion that citizens might be able to interact, deliberate and coordinate with each other based on their capacity to reason. This point needs to be developed to make the link with democracy and development.

Though civil society is distinct from the state, it is nonetheless intimately linked to how state power is authorized. As political theorists from Aristotle to John Elster have argued, civil society provides the normative basis for legitimating democratic rule. This is true in two fundamental respects. In a democracy, decisions can be made through three mechanisms: voting, bargaining and deliberation. Voting and bargaining play critical roles in any democratic system. Voting allows for the aggregation of preferences, and bargaining for voluntary coordination across different interest groups. But these procedural bases of democracy both have their limits. The aggregative logic of voting is a very blunt tool of representation, and bargaining leads to outcomes that are a static reflection of existing distributions of power.

2 There is now a rich and diverse sociological literature that increasingly overlaps with normative democratic theory in making the point that the mode of action specific to civil society can be distinguished from state, market and community. See Habermas 1996, Cohen and Arato 1992, Somers 2008, Alexander 2006a, Warren 2001, Elster 1998.

Deliberation, defined as “decision making by discussion among free and equal citizens” (Elster 1998, p. 1) adds two essential ingredients to any democracy. First, it allows citizens and civil society organizations to actively debate and form preferences, and thus to improve the informational and evaluative basis of voting. Second, because deliberation can transform preferences both by bringing new information and new understandings (including other-regarding considerations) into the decision-making process, it represents a potentially far more effective form of coordination than bargaining.

If civil society is considered in terms of how it might contribute to enhancing deliberation in democratic life, then it becomes essential to informing our thinking about development. Deliberation is at the heart of Sen’s argument for reconceptualizing development as the pursuit of freedom. Moving beyond utilitarian conceptions of development, Sen argues that development is about expanding the capabilities of persons “to lead the kind of lives they value—and *have reason* to value” (1999, p. 18, italics added). Sen’s argument begins with a refutation of a powerful line of thinking in economics that argues that it is impossible to make ‘social choices’ (Arrow’s famous impossibility theorem), a view that presumes that preferences are given and leads to emphasizing aggregative logics of decision-making. Sen instead argues that preferences can and should be formed through public deliberation. “Public debates and discussions, permitted by political freedoms and civil rights, can also play a major part in the formation of values. Indeed, even the identification of needs cannot but be influenced by the nature of public participation and dialogue. Not only is the force of public discussion one of the correlates of democracy...but its cultivation can also make democracy itself function better...” (ibid., pp. 158-159).

But deliberation in turn can only be effective if all citizens enjoy the basic capabilities required to fully engage in political, social and economic life. Classical and contemporary theories of democracy all take for granted the decisional autonomy of individuals as the foundation of democratic life. All citizens are presumed to have basic rights and the *capacity* to exercise free will, associate as they chose and vote for what they prefer. This capacity of rights-bearing citizens to associate, deliberate and form preferences in turn produces the norms that underwrite the legitimacy of democratic political authority. But as Somers (1993) has argued, this view conflates the *status* of citizenship (a bundle of rights) with the *practice* of citizenship. Given the highly uneven rates of political participation and influence across social categories that persist in advanced democracies (and especially the United States), the notion of citizenship should always be viewed as contested.

This problem is especially acute in the global South. In the context of developing democracies, where inequalities remain high, and access to rights is often

circumscribed by social position or compromised by institutional weaknesses (including the legacies of colonial rule), the problem of associational autonomy is so acute that it brings the very notion of citizenship into question (Mahajan 1999, Fox 1994, Mamdani 1996). A high degree of consolidated representative democracy found in southern democracies such as Brazil, India and South Africa should as such not be confused with a high degree of *effective* citizenship. And in the absence of effective citizenship, the problem of subordinate group collective action becomes acute. If we recognize this problem, then we have to understand both the potential of civil society—a space in which all citizens can freely associate and participate equally—and the reality of existing civil society.

Under what conditions then does civil society—defined as voluntary associations and movements that operate outside the market, the state and primary affiliations, and that specifically orient themselves to shaping the public sphere—contribute to democracy and to more inclusive forms of development? Given how often the idea of civil society leads to a conflation of the normative with the empirical, we should begin with a clear disclaimer: There is nothing about associational life that is inherently democratizing. Associations can be formed to pursue narrow interests, and many associations are clearly uncivil, devised to deny other groups their associational rights (e.g., anti-Muslim groups in India and the Klu Klux Klan in the United States).

Whether civil society expands rights-based conceptions of democratic inclusion, serves as an extension of state power or devolves into inward-looking and exclusionary forms of retrenchment (Castells 2003) is an empirical question, and one that is shaped by civil society's relation to the state and market (Burawoy 2003). Historical work shows that civil society can become the conduit through which reactionary elites or authoritarian regimes mobilize support, as in the case of the fall of democracy in Weimar Germany (Berman 1997) or the rise of fascism in Italy and Spain (Riley 2005). Indeed, as we shall see in the final section comparing Brazil, India and South Africa, slight differences in the balance between civil society and political society can have dramatic effects on democratic deepening. In contrast to traditional liberal conceptions of civil society that focus exclusively on freedom of association and contract defined with respect to the state, more recent work in political theory and sociology has emphasized that socio-economic inequalities—including differences in economic well-being and status recognition—can have perverse effects on associational life. In this *relational* view, when civil society's autonomy is compromised and associational life becomes an extension of state power, economic influence or traditional authority, it is more likely to magnify than to reduce inequality.

This then presents us with a central analytical task: understanding the conditions under which associational life enjoys an operational degree of autonomy, or more specifically, the conditions under which all citizens can effectively associate and engage in public life, independently of state control, economic power and ascriptive status. When such a proper balance is achieved, civil society can be said to promote democratic inclusion, and especially the empowerment of subordinate groups, by effectively counterbalancing forms of illegitimate domination, including market power, political power and traditional authority. More specifically, it can be argued that a strong civil society—one that is internally well organized and capable of autonomous action—can on balance have democracy-enhancing effects for two reasons.

First, in an established constitutional democracy, the basis of legitimacy for all civil society groups is the pursuit of rights. Of course, rights can be selectively or differentially claimed, and can as such reinforce existing inequalities. But given that the foundational right is the ‘right to have rights’ (a point made by theorists such as Somers and Arendt, but also brandished by Brazilian social movements), exclusionary claims to rights are hard to defend as legitimate in the public sphere. As we shall see later, claiming rights has become the bread-and-butter of social movements operating in global spheres.

Second, civil society does have a bias towards the subordinate, or better yet against domination. A functioning civil society is one that enjoys and defends associational freedoms. While not all groups are equally positioned to take advantage of such freedoms, the one comparative advantage that subordinate groups do have is the possibility of collective action, a possibility enhanced by a more open civil society (Rueschemeyer 2004; Rueschemeyer, Huber and Stephens 1992). This point is related to the first. The history of civil society struggles that have advanced democratization and social rights can be interpreted as a process of redeeming the unredeemed claims of democratic-constitutional societies, a process that has relied critically on subordinate group collective action. The transformative movements of the 20th century—labour, women, civil and indigenous rights—all had in common demands to expand and deepen rights of citizenship. As we shall see in the next section, the deepening of rights has become a key point of articulation between national civil societies, and global movements and international NGOs. The discourse of rights has in effect become the lingua franca of transnational movements, a shared normative base that has facilitated collective action on a range of political and social fronts. The emerging infrastructure of global civil society, both in the form of international law and an increasingly dense network of NGOs and movement alliances, has provided national civil societies critical points of leverage in promoting the expansion of civic, political and increasingly social rights.

Of course, not all movements have taken the path of expanding civil society.³ What paths movements emerging in the spaces of associational life follow depends on institutional context, economic conditions, and relations to the state and other societal actors. A historical perspective underscores the affinity between social movements and the ideal of political equality that animates democracy. Charles Tilly, the most influential scholar of social movements, argues that while some press particularistic claims, they nonetheless expand possibilities for broader claim-making by excluded groups:

Social movements assert popular sovereignty [...] the stress on popular consent fundamentally challenges divine right to kingship, traditional inheritance of rule, warlord control and aristocratic predominance. Even in systems of representative government [...] social movements pose a crucial question: do sovereignty and its accumulated wisdom lie in the legislature or in the people it claims to represent? (2004, p. 13).

But if social movements and civil society have played a critical role in promoting democracy, understanding of their transformative effects should not be limited to questions of political inclusion. The recent revival of interest in civil society came in the aftermath of democratic movements in Eastern Europe. In resisting authoritarianism, these movements naturally emphasized civil and political rights. This lent powerful support to liberal conceptions of civil society that emphasized individual rights and cast civil society in opposition to the state. This liberal conception in turn came to inform ‘democracy promotion’ efforts of Western governments and multilateral institutions that accordingly focused on supporting civic and political rights, as well as economic freedoms of contract and property.

In contrast, civil society-driven democratization in Latin America and South Africa, and a range of transnational social movements that have challenged the terms of economic globalization, have brought questions of social and economic justice to the forefront. This is reflected in the most recent academic treatments of civil society, which have explicitly problematized the relationship between civil society and markets, and in doing so, have gone beyond the conventional liberal focus on civil and political rights to bring social rights back in.

This distinguishes between what Kaldor has labelled ‘neo-liberal’ conceptions of civil society from what she calls ‘activist’ conceptions. In the neo-liberal

3 The rise of Hindu nationalism in India (which is by definition antithetical to secular plural democracy) is only the most recent and dramatic example of how associational practices can be breeding grounds for anti-democratic ideologies (Hansen 1999, Jaffrelot 1996, Fernandes and Heller 2006).

vision, civil society is defined as a competitive, voluntary sphere whose primary function is to keep the state in check and even to substitute for the state. State and civil society thus exist in a zero-sum relationship. Both perspectives presuppose the rule of law and protection of basic individual rights of association and representation, but the activist view insists on a redistribution of power. “On this definition, civil society refers to active citizenship, to growing self-organization outside formal political circles, and expanded space in which individual citizens can influence the conditions in which they live both directly through self-organization and through political pressure” (2003, p. 8).

There are two senses in which this view explicitly differentiates civil society from the market, and can be linked to demands for social rights. First, if communicative power is the defining resource and mode of action of civil society, it follows that expanding civil society necessarily means preserving it from the intrusions of state power (as in the liberal view) but also from money. Indeed, all civil society organizations, running the full gamut of universities, communications media, advocacy groups and NGOs, work hard to present themselves as independent of state power and money. Civil society actors who seek to have influence can only do so in the public sphere, and their standing there depends on the recognition that they are motivated by a concern for the public interest. Their leverage is, in Habermas’ famous trope, the *force of the better argument*. Of course, all civil society organizations need resources, which means money, but their legitimacy rests on articulating and pursuing goals that are not driven by the pursuit of economic returns. Indeed, if the civil society organizer, the journalist, the scholar or the advocate is shown to not be working for the cause or the aggrieved community they claim to speak for, but rather because they seek profit or power, they invariably lose much if not all of their credibility.

At a broader level, this logic of legitimacy as rooted in the communicative/argumentative structures of the public sphere is precisely why so much effort—both in terms of building formal legal barriers and strong professional or normative codes of conduct—goes into ensuring that non-profits are indeed non-profits, that universities are dedicated to the pursuit of knowledge, and that media are not just mouthpieces of the state or corporations. It is in this sense that the sociological view breaks with the liberal view by recognizing that market power is as great a threat to civil society as state power.⁴ Even more

4 Alexander provides a succinct definition that reconciles the liberal with the sociological: “Sociologically, the idea of civil society points to the idea of a liberal discourse that is at once critical and tolerant, and to institutions, from factual fictional mass media to voting and law, that allow collectivities to be guided by symbolic communication among independent and rational citizens who feel bound by ties of solidarity and mutual obligation” (2006b, p. 521).

so, some would argue, because as Habermas notes (2001), state power can be democratized; money cannot.

There is a second sense in which the organization of civil society must be distinguished from economic life. The very idea of civil society is predicated on the principle of basic equality of associational capacity. In liberal theory, basic rights of association and property suffice to anchor civil society. But if we recognize that the exercise of associational freedoms is unevenly distributed across social and status groups (as argued earlier) then de facto inequalities present a threat to de jure associational rights. Creating and promoting an inclusive civil society, and in particular one in which the poor or the socially excluded can self-organize, as such calls for redressing basic inequalities. This in turn translates into a more proactive role for the state and social policy, a role that can be understood largely in terms of providing citizens with basic capabilities.

THE TRANSFORMATIVE POSSIBILITIES OF CIVIL SOCIETY

It is something of an article of faith to sociologists and many political theorists that a strong civil society or the strengthening of civil society is the transformative force of the modern era. In contrast to the highly romanticist claims that drive much of the literature on civil society, the theoretical case for its transformative capacities is well developed, if often lacking a clear empirical foundation.

The social sciences have long been focused on the study of three basic domains of action, each of which provides critical forms of coordination in any modern society: community, market and state. If the 20th century taught anything, it is that tensions between these three institutions can threaten the very survival of society. When markets become too powerful, social rights and identities are at risk. This was the thrust of Karl Polanyi's (1944) classic argument that the rise of market society in the 18th century jeopardized the social fabric and was the root cause of unprecedented social dislocation. He argued that the rise of the social protection and social insurance schemes in the late 19th century was a reaction to these social disruptions.⁵

Many diagnoses of the current economic crisis emphasize the extent to which deepening inequality and retrenchment of the regulatory powers of the

5 Polanyi's argument in turn became the basis for one of the most influential arguments in international relations theory, namely the claim that the 'golden age' of the post-World War II period in the West was secured on the strength of what Ruggie dubbed 'embedded liberalism'. Ruggie (2008) argued that in order to restore the conditions of world trade in the aftermath of the Great Depression, national regimes embraced a combination of open markets and social commitment. It is notable that economists' most influential arguments challenging the basic tenets of neo-liberal globalization are couched in Polanyi's argument (Rodrik 1997).

state in an increasingly globalized economy unleashed the highly speculative financial bubble that precipitated the crisis. An overreaching and overly powerful state can also threaten the balance of institutions. The case against the state from the market perspective is well known. If this argument has been taken too far in rejecting the very idea of the state and even the idea of society (Thatcher's infamous quip that there is no such thing as 'society'), it hardly needs repeating that basic rights of association are essential to the proper working of the market, a point that as Sen (1999) notes saw Marx and Smith largely in agreement. An overly aggressive market or state can also threaten the basic structures, identities and practices of communities, a point that has long been made by conservatives and radicals alike. The danger of imbalance among the major coordinating institutions is the hallmark of modernity, and if anything has been accentuated by globalization. Civil society then emerges as critical to balancing the power between these three institutions. But how is this actually done?

Civil society by definition does not have power. The medium of civil society is not money, law or coercion, but communication. But civil society can profoundly shape the exercise of power and in particular can act as a countervailing force to unjust forms of domination. Modes of civil society influence can be categorized into three types: normative, mobilizational and institutional. The normative influence of civil society is probably the best known and generally what people mean when they assume that civil society has intrinsic qualities. Active civil societies are organized around ideas of normative rightness. They justify their actions and make claims on the basis of ideals that are represented as being of universal significance. In the process, civil society actors in effect do two things.

First, they problematize and thematize social issues that have been neglected or repressed by conventional channels of political representation. As social movement theorists often say, movements name, frame and claim. This problematization takes an issue and in effect projects it into the public sphere where it becomes an object of debate and argument. The women's movement problematized patriarchy, the civil rights movement problematized the practice of second-class citizenship, the environmental movement asked if growth should come at any cost. If movements problematize by engaging in contentious action, NGOs and advocacy groups can be seen as part of a civil society infrastructure that routinely problematizes what states fail to deal with. Whether in the more contentious mode of movements or the routinized mode of NGOs, when successful, civil society in effect transforms norms, and in doing so changes systems or criteria of valuation.

Second, civil society can mobilize new actors. This is clearly the case of social movements. Movements by definition organize and mobilize those who have

failed to find redress for their grievances through the existing political system. As challengers of dominant groups, movements seek to bring new actors into the political field and the public sphere. Though NGOs and advocacy groups do not generally directly mobilize, they nonetheless clearly have mobilizing effects. This can include speaking for those who cannot speak or have no voice (e.g., nature, children and immigrants), providing resources to politically disadvantaged groups (the American Civil Liberties Union) or redressing asymmetric bargaining situations (labour unions).

Civil society can have institutional influences not so much by directly playing a role in decision-making, but by either directly influencing decision-makers or by being joined to decision-makers. Direct influence can take the form of impacting political actors, most notably political parties. Parties are generally risk averse, and electoral calculations tend to downplay issues that will not resonate with electoral pluralities or require a long-term refashioning of established norms and practices. Civil society groups can nudge parties to take on new issues by mobilizing new actors or shifting the normative terms of debate. It is the civil rights movement that transformed the Democratic Party from the party of Jim Crow to the party of civil rights. The environmental movement in Europe has pushed almost all parties to take on more green positions. The ruling Workers' Party (Partido dos Trabalhadores or PT) in Brazil was formed by social movements, and even as a party in power has maintained important links to civil society organizations.

A less direct but equally important form of influence is the role that civil society plays in holding political actors, corporations, state institutions and other civil society actors to account. All four—politicians, corporations, states and civil society organizations—make public claims that are critical to their authority and legitimacy. Individual citizens rarely have the information, time or expertise to evaluate those claims, and civil society organizations—including the media, advocacy groups, think tanks and the educational complex—play a vital role in providing the 'knowledge frames' through which citizens can make evaluations. This can include whistle-blowing, revealing new information, challenging or reinterpreting dominant knowledge frames and demanding greater transparency. The Occupy Wall Street movement is a case in point. The evidence on increasing inequality in the United States has been overwhelming for some time, and in academic quarters the perverse influence of concentrations of power in US politics is an article of faith (Hacker and Pierson 2010, Bartels 2005). Yet it took a contentious movement, deploying classic repertoires of social movements, to recast well-known empirical issues into a *societal* topic of public debate and moral outrage.

Direct influence can also be exerted on state institutions. In India and the United States, civil society has had significant influence through the courts. Well-organized civil society organizations also influence regulatory bodies and in some cases even shape new policies. In Brazil, the Sanitarista movement of health care professionals born of the democracy movement has played a central role in developing the public health care system and expanding services to the poor. In such cases, civil society is influential because it has staked out and publicized new normative issues (toxic dumps, female genital mutilation) that resonate with important publics, and/or because it has altered the political calculus by changing preferences or mobilizing new voters. Finally, in an increasingly complex, fast-moving and risky world, civil society can influence institutions by shifting the informational basis on which institutional actors make decisions. This more than anything else explains the success of the environmental movement.

Beyond influencing power and policy, civil society is increasingly directly involved in governance. In recent years, there has been an explosion of theoretical and empirical literature documenting the ways in which civil society can be co-joined with government. This, for example, is the thrust of much of the literature on participation. Whether in the development projects of multilateral organizations or in more explicitly political efforts to increase citizen engagement, such as participatory budgeting in Brazil, the basic idea is that governance can be much improved if citizens are directly involved. New models include Ostrom's (2000) work on co-production, Fung and Wright's (2003) work on 'empowered participatory democracy' and a rich literature on associational democracy. In all of these models, civil society actors (stakeholders, associations, citizens) are given direct responsibilities for shaping and even implementing policies related to everything from city budgets to running housing projects and managing the commons.

The idea that government can be more effective when co-joined with civil society takes on new significance when viewed in light of recent calls for promoting capability-enhancing development. While Sen's call remains quite underspecified (how to enhance capabilities), Peter Evans (2008, 2010a, 2010b) has recently tied capability-enhancement to a theory of the 21st century developmental state. Evans argues that Sen's capability approach to development converges nicely with new growth theories in economics. Economists have increasingly come to recognize that growth relies more on ideas and good coordination than the accumulation of capital. Recent work that has systematically examined interactions between growth and human development shows that human development is in fact a critical component of growth rather than just an

outcome (Boozer, Ranis, Stewart and Suri 2003). The returns to human capital and social innovation are greater than ever in a global economy that is increasingly service-driven and knowledge-intensive. Accordingly, Evans (1995) argues that if the 20th century developmental state required high levels of capacity combined with close coordination with business elites to jump start industrialization, the 21st century developmental state will need a strategy of social investment that can directly help support human capital formation and a range of complex coordination functions essential to the post-industrial economy.

A state that can deliver such services is one that must have both significant infrastructural power to reach into society and deliver things as well as significant authoritative power to get individuals and groups to willingly obey commands. This requires developing synergistic relations with a broad range of actors in civil society (Mann 1984, Evans 1996). If services are to be effective, active participation by citizens becomes a key ingredient. Education is ‘co-produced’ by students and their families. Health is ‘co-produced’ by patients, their families and their communities (Ostrom 2000). Environmental regulation is effective only when the state has allies in civil society capable of monitoring and exposing environmental problems (Evans and Heller, forthcoming).

The continuous monitoring and feedback of civil society sensors can radically reduce leakage and improve both the quality and quantity of delivery, especially for goods that can not be readily standardized (e.g., quality education, local planning).⁶ Indeed, following the line of reasoning developed in the new heterodox theories of industrial policy that point to the need for continuous experimentation, feedback and bootstrapping (Rodrik 1997, Sabel 1995), it can be argued that intense state-civil society interactions are critical to policy innovation (Baiocchi, Heller and Silva 2011). In the 21st century, ‘embeddedness’—the dense sets of interactive ties that connect the apparatus of the state, administrative and political, to civil society—not only becomes more important but must focus on a broad cross-section of civil society rather than simply on industrial elites (Evans and Heller, forthcoming).

If the debate on human development can thus be very fruitfully recast in terms of thinking about state-civil society relations, it is important to underscore that there are good historical reasons for believing that inclusive and just forms of development can be reconciled with growth-promoting policies. Most obviously, the democracies of Northern Europe have demonstrated that it is possible to reconcile the imperatives of open market economies, including global competitiveness, with social policies that promote inclusion and equality. As is now

6 See Evans and Heller (forthcoming) for an elaboration.

well established in the literature, the post-World War II trajectories of European welfare states, and most notably the social democratic variants, enjoyed a virtuous cycle of democracy and socio-economic incorporation. Remarkably, the model has prospered in the post-industrial, knowledge-intensive economy: Increased social investments, including advanced and flexible human capital formation and new forms of social support, have enabled social democracies to adapt to the competitive challenges of globalization (Kristensen and Lilja 2011).

The story behind this virtuous cycle is complicated, but there is a lot of agreement in the comparative scholarship that the size and depth of the welfare state is correlated with the degree to which ordinary citizens, and in particular the working class and the small-holding peasantry, were able to engage in political life, overcome collective action problems and build encompassing political formations (Luebbert 1991). The 'grand social bargain' that underwrote the golden era of Europe's post-war development by reconciling private profits with social investment didn't suddenly happen. It was rather the end point of a fairly long, often contentious process of democratization, mobilization and political transformation.

The pattern of economic and political development in the global South has been much different, requiring caution in drawing historical analogies. But there are good reasons to believe that patterns of civil and political participation can have a profound impact on development trajectories. There are existing models of rights-based welfare and development in the global South. Chile, Costa Rica, Mauritius and the Indian state of Kerala have all been identified as successful cases of combining development with democracy and equity (Sandbrook, Edelman, Heller and Teichman 2007). All have achieved high levels of human development, and sustained and deepened democratic institutions and practices (with the notable exception of the Pinochet period in Chile). They have all done well in maintaining high levels of growth without sacrificing equity gains in the most recent period of globalization.

These cases are of particular interest because none would have been singled out as likely candidates for inclusive democratic development in the 19th century. Even by the standards of their respective regions, Chile, Costa Rica, Mauritius and Kerala were extremely poor and politically underdeveloped. They were also all highly integrated into the global economy as more or less mono-exporters (copper, coffee, sugar and spices). Yet in the middle of the 20th century, all four experienced democratic transitions (or in the case of Chile, a broadening of the democratic electorate) that were driven by subordinate class mobilization, and specifically various combinations of landless labourers, small farmers and urban workers that were able to align with reformist middle-class

elements. The resulting patterns of democratization went hand in hand with building comparatively robust welfare states.

What is most instructive about these four cases for thinking about contemporary development is that in each subordinate class mobilization was facilitated by civil societies that were, by the comparative standards of their respective regions, quite open.⁷ Indeed, in each case, elite dominance in the pre-democratic setting was more liberal than repressive, bounded by basic rights and limited political competition. This not only provided critical space for subordinate group organization, but also facilitated the process of cross-class coalitions and the possibility of forging encompassing social democratic pacts. (As we shall see later, this pattern has been reproduced in the case of contemporary Brazil). It is notable that the resulting ‘politics of solidarity’ has been institutionalized in strong legal support for social rights and inclusive social policies such as land reforms, social protection schemes, and universal provision of basic health care and education.

These cases carry two important lessons for thinking about the possibilities of equitable and democratic development in the era of globalization. The first is that for all the constraints that late developing societies face in reconciling market economies with equity, outcomes are far less over-determined than some critiques of market-driven globalization suggest. Given the nature of the post-industrial economy and the challenges of pro-employment policies in a world of fully mobile capital, one can hardly exaggerate the structural constraints of building a comprehensive welfare state in the global South. But recognizing that more inclusive development begins with capability-enhancement and a modicum of social protection, then these cases of social development on the periphery are remarkable achievements. Second, identifying such possibilities in the contemporary period calls for looking at the political conditions that might favour subordinate group formation or even more basically, effective citizenship. This in turn implies a more critical examination of the nature of existing democracies and civil societies in the global South. And here are some rather challenging paradoxes.

On the one hand, the wave of transitions away from authoritarian rule to representative democratic systems in the developing world marks a significant juncture. Whatever their limitations may be, these new electoral democracies have dramatically expanded the spaces for subordinate politics. The increased mobilization of lower castes in India of the past two decades and the dramatic rise of indigenous political power in the Andean nations are only two examples.

7 This argument is developed in detail in Chapter 7 of Sandbrook et al. 2007.

On the other hand, there are good reasons for scepticism. Despite the consolidation of formal representative institutions as well as significant gains in associational freedoms, pervasive inequalities among citizens along class and other lines, and severe problems in preserving the chain of sovereignty between citizen and state have limited the effective representativeness of democratic institutions (Törnquist, Webster and Stokke 2009). These fundamental deficits of representative democracy in the global South have hampered subordinate group collective action and severely restricted the possibilities for building effective welfare states. Note that the missing link between representation and substantive outcomes is the nature of participation. To understand what, if any virtuous linkage might exist or emerge between subordinate class politics and more inclusive development outcomes calls for focusing more specifically on the conditions and possibilities for the effective practice of democratic politics.

In grappling with the question of effective citizenship, there are two distinct axes of practice that have to be taken into account. On a horizontal axis, we find that associational capabilities are unevenly distributed across social categories. Some groups have more resources and skills of association than others, and some groups are so socially marginalized as to be virtually excluded from the public sphere. The vertical axis refers to how citizens actually engage with the state. The problem here is twofold.

On the one hand, there is the problem of *how* citizens engage the state. State-society relations in the developing democracies tend to be dominated by patronage and populism, with citizens having either no effective means of holding government accountable (other than periodic elections) or being reduced to dependent clients. In the absence of clear and rule-bound procedures of engagement, citizens cannot engage the national or just as importantly the local state as citizens, that is, as autonomous bearers of civic and political rights. On the other hand, there is the problem of *where* citizens engage the state—that is, the problem of the relatively narrow institutional surface area of the state. Given that local government is often absent or just extraordinarily weak in much of the developing world, there are in fact very few points of contact with the state for ordinary citizens.

Taken together, the vertical problem of state-society relations and the horizontal problem of perverse social inequalities undermine the associational autonomy of citizens, the sine qua non of any effective democracy (Fox 1994). Just because citizens can vote does not mean that they can participate equally or consequentially in the political process. From this vantage point, we can in fact assert that the right of participation—and more concretely effective citizenship—fundamentally conditions the core principle of popular sovereignty. As

Chandhoke has argued, much as we regard the right to vote as a *root* right of democracy, we have to give the right of participation—which she defines as “the right to participate in institutions that make public decisions or in deliberations on and around these decisions”—equal status as a root right (2009, pp. 27-28).

Identifying the practice of citizenship as the central problematic of democratization then focuses our attention squarely on questions of who participates, how they participate and where they participate. In other words, *how* and for *whom* is civil society constituted? How do formally endowed citizens in the democracies of the global South actually put their rights to use, and in particular develop their collective power? This is a question that has taken centre stage in the academic literature, but one that has also been driven by actual developments in many democracies of the global South. Most notably, in the past two decades, a number have embarked on ambitious reforms to strengthen local democratic government. In many of these cases, pressure to democratize local government has come from social or political movements that have explicitly contested elite-dominated forms of democracy (Avritzer 2002). These instances of *civil society politics* invariably begin with critiques of the deficits of representative institutions and end by advocating reforms geared to enhancing citizen engagement with the state, and in particular the local state. The effects of these policies are closely evaluated in the final section of this paper, which considers Brazil, India and South Africa.

1. CIVIL SOCIETY AND GLOBALIZATION

THE PROBLEM: DEMOCRATIZING GLOBAL POWER

Ideas of how civil society can influence power and be a transformative force have largely been developed in the context of national societies. There, associational rights and freedoms are clearly defined, and channels of influence—elections, lobbying, media, public campaigns—are all relatively well institutionalized.

But when we switch from national stages to the global stage, the rules of the game and the nature of the playing field change dramatically. There are strictly speaking no institutions of global democratic representation. States are represented in some international venues, but citizens are not. Other channels of influence exist, but they generally favour powerful and well-organized interests, most notably states and corporations. There is clearly such a thing as *global public opinion*, but compared to national publics it is amorphous, asymmetrically developed, and does not have the kind of direct power to hold officials and representatives accountable that we would find in a national public sphere.

As such, any effort to conceptualize global civil society must begin with these concerns in mind. Nonetheless, it is possible to scale up the concepts developed in the previous section to the global level, and in doing so to identify elements of a global civil society that has at certain times and in certain places exerted genuine influence.

Before doing so, it is important to clearly identify the problem. The relationship between civil society and globalization is intimately tied to questions of democracy, and more specifically how decisions are authorized and the extent to which those exercising authority are held accountable. As argued earlier, a long tradition of democratic theorizing holds that the ultimate source of legitimacy for any democratic government is civil society. The major challenge of globalization is that we have global governance without having global government. That is, while there are networks of private players that enter into agreements about how to govern private transactions, and there are states that enter into bilateral or multilateral agreements on how to govern a particular transnational domain, these actors are not directly authorized by a properly constituted civil society.

Globalization is marked by an increasing disconnect: The space within which formal politics has long been organized—the territorially bound sovereign nation-state—is no longer the space in which many new forms of authorization (forms of global governance) are being constituted. New forms of global power have not, in other words, been rooted in new forms of democratic authorization. More specifically, new forms of global authorization are both *under*-democratic and *extra*-democratic. They are under-democratic because when states are acting on behalf of citizens (as when represented at the United Nations or World Bank) the mode of representation is far removed from direct citizen scrutiny and accountability, and so highly aggregated that state interests (*la raison d'état*) invariably prevail over democratic norms. It is extra-democratic in the sense that the level at which many decisions are being made is no longer aligned with democratic institutions or procedures. As Habermas notes, “Because nation-states must make decisions on a territorial basis, in an interdependent world society there is less and less congruence between the group of participants in a collective decision and the total of all those affected by their decision” (2001, p. 70).

In an era of increasing transnational power, how then can global governance be realigned with global politics and specifically global democracy? In the absence of a globally constituted state with representative institutions, there appears to be no institutional answer. But increasingly, global movements and emerging networks of transnational activist networks suggest the possibility that global governance could be embedded in a global civil society. Indeed,

this has been the thrust of so-called ‘anti-globalization movements’, which are more accurately described as global democracy movements. While these movements cut across a range of issue areas, articulate diverse substantive claims and embrace an almost endless variety of political messages, they nonetheless share a basic concern with making new forms of transnational power accountable to civil society. But what exactly is global civil society?

IS GLOBAL CIVIL SOCIETY EVEN POSSIBLE?

The very idea of global civil society invites scepticism. There are four distinct problems. The first is that there is no enabling institutional environment of associational freedoms and civic rights enforced by law at the global level. The second is that at the global level there is simply not enough of a basic shared culture—and specifically basic shared values—to support a genuine public sphere. The third is that even if global norms can challenge global power, they do so only on issues and terms that reflect existing imbalances in global society. Fourth, even if all the above problems were addressed, what would a global civil society actually do? Even if it existed and was active, it might either be seen as mostly ineffective in the absence of institutional mechanisms through which it could influence global power holders, or so completely inflected by basic inequalities among and within nations as to do little more than amplify (or simply disguise) existing power distributions.

The first point of scepticism can be readily addressed. While it is true that a global rule of law that comprehensively secures basic rights of association is missing, emerging governance structures have provided significant international spaces and networks in which civil society actors can operate with a high degree of freedom and protection from arbitrary state power. While this may only apply in practical terms to the (mostly Western) elites that have the wherewithal to travel and operate in these spaces, it is hardly trivial, and has certainly laid the groundwork for a rapidly growing transnational network of NGOs, movements and activists.

There are first the formal, inter-state spaces in which actors are recognized as rights-bearing and afforded due protections, including the vast array of conferences, venues, summits and routinized exchanges sponsored by international organizations.⁸ Second, new international, bilateral and multilateral treaties have provided transnational actors a far greater range of protected movement and association than was ever true in the era of national sovereignty. In the vast majority of countries today, and certainly in all democracies, transnational

8 Held (2004) estimates the number of international conferences at 9,000 a year.

actors can move with relative freedom and security. Third, if human rights (and especially social rights) are far from universal, basic civic rights are now increasingly globalized. The Westphalian age of traditional sovereignty that afforded nation-states “untrammelled effective power” within their territories has given way to a regime of “international liberal sovereignty” (Held 2004, p. 87) in which the liberal doctrine of delimited state power has been extended to the international sphere. The exercise of legitimate authority has in turn become increasingly linked to the maintenance of human rights values and democratic standards of accountability. Indeed, since the war crimes tribunal of Nuremberg, the idea and practice of international laws protecting humans as superseding state laws has gained increasing traction. Not only do most regimes, and especially democratic ones, recognize a more or less full range of civil rights, but these norms have become so widespread that documented abuses are widely publicized and routinely denounced by an increasingly thick network of international NGOs. High-profile civil society actors such as journalists, activists and humanitarian aid workers certainly continue to face significant personal risks, but also receive far more media attention and public protection than ever before.

Increased interaction, new communications technology, expanded transnational legal protection and greater public scrutiny have not only made it much easier for global civil society networks to emerge, including through increasingly routinized linkages between domestic and international transnational activists,⁹ but have also radically expanded the circuits through which communicative messages are processed for a global public sphere. This has included the growth of ‘epistemic communities’ of professionals and scientists that provide an important resource for processing knowledge and norms independently of economic and state interests. Recent work on the World Health Organization (WHO), for example, shows that even as it has had to carefully manage state interests and adjust itself to the emphasis on privatizing health services that became dominant in the 1980s, the organization’s core commitments to public health and its ties to civil society actors have allowed it to pursue policies that still emphasize a rights-based approach to health (Chorev 2012).

Moreover, the infrastructure through which new norms can flow globally has become much more robust since 1948 with the institutionalization of norms in international law, rules of multilateral organizations and treaties. As Finnemore

9 Tarrow uses the term transnational activist networks to describe the “informal and shifting structures through which NGO members, social movement activists, government officials, and agents of international institutions can interact and help resource-poor domestic actors to gain leverage in their own societies” (2001, p. 13).

and Sikkink note, “Such institutionalization contributes strongly to the possibility for a norm cascade [discussed below] both by clarifying what, exactly, the norm is and what constitutes violation (often a matter of some disagreement among actors) and by spelling out specific procedures by which norm leaders coordinate disapproval and sanctions for norm breaking” (1998, p. 900). So even if this institutional infrastructure is a patchwork at best and should not be confused with the fully stabilized civil society that we would associate with national arenas, and even if it is occupied by only a small and privileged group of cosmopolitan actors, it has nonetheless supported an increasingly vigorous network of international NGOs, transnational activist networks and even global social movements.¹⁰ As Chandhoke notes, “(G)lobal civil society actors have inaugurated a normative turn in world politics, which has been traditionally marked by realism and by the politics of national interest and national sovereignty” (2005, p. 358).

The second point of scepticism poses the much thornier question of whether or not this emergent architecture and matrix of transnational networks constitutes a global public sphere and a space in which social, cultural, political and economic issues can be communicatively problematized and debated. Public spheres are necessarily culturally bounded. For new norms and ideas to resonate and shape new preferences, they have to be commensurate with existing conceptions of what is held to be true, normatively right or beautiful. The modern container of the life-world is of course the nation-state, and public spheres are most robust within national boundaries. What resonates in one national public sphere may not resonate in another, however. Nationalism trumps universalism. Yet as the recent global consensus on landmines and access to AIDS drugs dramatically illustrates, on some issues and in some sectors, global public opinion has not only formed a powerful normative discourse, but has also held corporations and states to account.¹¹ So even if one must not lose sight of the enormous challenges that the formation of a global public sphere necessarily faces, the possibilities of cross-cultural learning and coordination of norms are strengthened by at least five observations.

10 Held (2004) estimates that NGOs and international NGOs have grown exponentially, reaching 25,000 and 5,000, respectively.

11 The so-called anti-globalization movement is a case in point. As Castells comments, “Most of this [new inclusion of NGOs] is a change of discourse rather than of policy option, but it does indicate a deeper trend: *the process of globalization is subject to public debate*. It is no longer assumed to be a natural process, resulting from the inner logic of technology and the market. The need for the political management of globalization is now widely recognized, although the values and goals informing this management are still, by and large, what the movement labels as ‘corporate values’” (2003, p. 159).

First, the national public sphere was historically and politically constructed. What we call, for example, the French national public sphere is the product of repeated cycles of revolution and reaction, the construction of the category ‘French person’ through Napoleonic standardization of mass education and legal codes, and the rise of the ‘republique’ through iterated cycles of democratization. More recently, the creation of India and South Africa were every bit the work of powerful national, anti-colonial movements that created new forms of solidarity in opposition to illegitimate domination. If, as Benedict Anderson has famously argued, the nation was imagined, why not the globe?

Second, taking direct aim at various theories of cultural relativism (including the much discussed ‘Asian values’ argument), Sen (1999) and Nussbaum (2001) among others have argued that there are in fact universal norms. Not least of these is the human desire to flourish. The Arab Spring, which erupted in a region many observers had assumed was politically stunted by implacable authoritarianisms and an immovable, illiberal culture, is but the most recent object lesson in the universal resonance of human rights.¹² The increasing universalism of the idea of democracy itself marks the triumph of a meta-norm.

Third, civil society actors—including social movements and international NGOs—are very good at bridging frames. They can align what are two initially different sets of concerns into a shared agenda for change. They have long done this across classes and sectors, but increasingly are doing so across life-worlds. The way in which indigenous communities throughout the world have worked with international environmental groups to align their demands for cultural recognition and social justice with concerns for preserving the global commons is but one of the more dramatic examples of this (Keck and Sikkink 1998).

Fourth, combining the second and third points gives new life to Habermas’s (2001) argument that the source of solidarity and shared norms need not be only ‘cultural’ (in the sense of a particularized sense of *we-ness*) but could also be the learning effect of the spread of information and increased interaction. Shared identities and even solidarities can be developed through deliberative practices. It is not deep, immovable, inert and irreconcilable identities that form the basis of shared national cultures, but the shared experience of the process of nation-building and democratic politics. Given the extraordinary heterogeneity and size of India, how else do we explain the average Indian’s deep identification with a nation that is a very recent political construct than by reference to

12 The most influential theory of the Muslim world’s innate hostility to liberal democracy is Huntington’s ‘clash of civilizations’ argument. There is of course a rich, but much less visible literature that documents powerful strands of liberalism in a range of Muslim societies (Bayat 2005 and 2007, Kurzman 1998).

Indians' experience of democratic politics?¹³ More broadly then, we can argue that the basis for national cohesion in successful multicultural societies—such as Brazil, India, South Africa, the United States and Europe—resides in the vigour of democratic practices.¹⁴ At a global level, there might be very little by way of a deeply shared culture (though some norms may be universal). But as Risse notes, “A high degree of international institutionalization might substitute for the absence of a ‘common lifeworld’ in terms of a common history of language providing a crucial background condition for argumentative [communicative] behavior” (1999, p. 534).

Fifth, publics can talk to publics. It is not just money or power that flows through global networks, but also norms, ideas and information. What distinguishes the current period of globalization is the degree to which publics can speak to publics, unmediated by state power or the market. If this process can be iterated, and if parties to the conversation are committed to a common good and willing to adjust their a priori culturally specific preferences, then new cross-cultural understanding can be achieved. Communicative practices, played out in the networks and public spheres of global civil society, can lead to new forms of civic solidarity. Indeed, international relations theorist Neta Crawford, examining the history of the anti-slavery movement and more recent campaigns against female genital mutilation, detects a long-term trend towards humanizing the ‘other’. And Klug’s (2005) study of the international movement to make access to HIV/AIDS drugs affordable emphasizes the effectiveness with which “HIV/AIDS activists, and health, consumer and development-oriented NGOs, as well as cooperation among developing countries in international fora” (p. 119) created a form of “transnational solidarity” that was able to successfully bring pressure to bear on both the pharmaceutical companies and industrialized country governments.

The third point of scepticism related to the idea of a global civil society is that even if we accept the possibility that a global public sphere might be able to create “a morally authoritative structure for national and international communities,” we are still confronted with the critical question of whose norms are being privileged in the global public sphere (Chandhoke 2005, p. 359)? There is, simply stated, a profound asymmetry to how global civil society is

13 Survey data from the Centre for the Study of Developing Societies records a comparatively very high degree of primary identification with the nation (as opposed to region, religion or linguistic group) in India, including by minorities such as Muslims (Linz, Stepan and Yadav 2006).

14 As Habermas puts it: “In complex societies, it is the deliberative opinion and will formation of citizens, grounded in principles of popular sovereignty, that forms the ultimate medium for a form of abstract, legally constructed solidarity that reproduces itself through political participation” (2001, p. 76).

constructed. Most of the international NGOs, resources and actors are from the West. Transnational networks are only rarely directed by actors in the global South, and most southern groups find themselves in a dependent position. The international human rights regime has, for example, tended to emphasize civil and political rights—which were of particular concern to civil society in Eastern Europe—rather than social rights, which figure much more centrally in the demands of popular movements in the global South. There is no denying these profound asymmetries in global civil society, but there is also clear evidence that while the network linkages may be asymmetric, the outcomes are far less so, and that the playing field is, in any event, in the process of being significantly levelled.

In most transnational networks, western actors tend to set the agenda and accordingly privilege certain concerns and norms over others. But their southern partners are hardly passive, and while they may depend on external resources and leverage, they wield considerable bargaining power within transnational networks. Much of this bargaining power simply reflects that fact that partners in the global South provide crucial access to the domestic political field. But it also has much to do with the fact that it is difficult for international NGOs to maintain their credibility and legitimacy without aligning their frames and objectives with their national partners.

International spaces and civil society networks are moreover being profoundly transformed by larger developments in geopolitical power. This is true at two levels. In the international arena, NGOs from the global South have simply become more resourced, more effective and more recognized than was the case just a decade ago. Direct South-to-South networking and diffusion are becoming increasingly common, with the World Social Forum providing a particularly dramatic example of an alternative venue for civil societies of the global South. Klug's (2005) account of the successes of the HIV/AIDS movement points to the central role that WHO's assembly played as a rallying point for movement actors and developing countries.

Another telling example is Appadurai's (2002) account of the highly effective alliance between Shack/Slum Dwellers International (SDI) and NGOs in Mumbai. SDI is built from federations from 14 countries and through grassroots exchanges has developed a model of horizontal learning in which the "mode of exchange is based on a model of seeing and hearing rather than of teaching and learning; of sharing experiences and knowledge rather than seeking to impose standard practices, key words being *exposure*, *exploration* and *options*" (ibid., p. 41). At the domestic level, democratization itself has made it much easier for civil society organizations to emerge and exert pressure on

their respective governments without having to rely on external resources or leverage. Indeed, Yashar (2007) argues that in the case of the indigenous rights movements in Latin America, successful mobilization has had less to do with international linkages than with domestic “citizenship regimes”.

Finally, the fourth and most serious point of skepticism involves the notion that global civil society might be able to exercise real influence. Even if the elements of a global institutional infrastructure exist, and even if in some sectors and for some issues a form of global public opinion can be constructed, how would such civil society claim-making actually translate into action? What can be argued for existing national democracies clearly does not hold for the global arena. In national contexts, a judicial-parliamentary complex can process issues problematized by civil society. At the global level, there is no such complex. Although there are some points of institutionalized and authoritative interface with civil society (the International Criminal Court, the United Nations) the surface area of global democracy is very limited. There are basically no spaces or avenues for direct influence.

But spaces for indirect influence are arguably multiplying and having some measurable impact as countervailing forces to the powers of states and markets. The construction of a basic architecture of a global civil society—however fragmented and asymmetrical—has opened up significant points of leverage for social movements and civil society in the global South. Three different mechanisms—changes in the global political opportunity structure, norm cascades and the boomerang effect—are discussed below.

As social movement theorists have long stressed, movement success is highly dependent on changes in the political opportunity structure. This refers to the consistent—but not necessarily formal—institutional and contextual factors (national or global) that either encourage or discourage social actors to use their internal resources to form social movements. It can include the degree of openness of the political system, the degree of state or extra-state repression and the presence of potential allies. At a global level, the political opportunity structure is highly volatile, susceptible to sudden shifts in geopolitical calculations, new inter-state alliances and the rise of new regional hegemony. Alexander notes that while the US presidency of Bill Clinton was accompanied by a new effervescence of global civil society, in the aftermath of September 11th, US unilateralism reasserted the primacy of national interest, shattered world peace and made a mockery of international law (2006a, p. 522). But new tensions also animated new assertions of the primacy of civil society. Commenting on the massive anti-war global rallies that followed the US invasion of Iraq, a *New York Times* reporter wrote: “The fracturing of the Western alliance over Iraq and the huge

antiwar demonstrations around the world this weekend are a reminder that there may still be two superpowers on the planet: The United States and world public opinion” (cited in Alexander 2006a, p. 523).

The end of bipolar power has in fact been marked by two separate dynamics in geopolitical power that have created significant new openings for popular movements. First, throughout the Cold War period, great power intervention more often than not buttressed authoritarian regimes and suppressed popular social movements. Today, there is far more leeway for popular movements to emerge without becoming objects of great power struggles. Second, the rise of the global South, both in economic and geopolitical terms, has dramatically increased the range of alliances, coalitions and hence openings in the global political field. This increased volatility in international relations has many ramifications, some of which can certainly amplify tensions among nation-states. But on balance, the displacement of traditional national interests by an increasingly fluid set of shifting alignments has created increased opportunities for popular movements.

What is most remarkable in the post-Cold War period has been the diffusion of democracy as a global norm. The last decade alone has witnessed repeated popular insurrections for democracy, all of which were in no small part made possible by new openings in the global political opportunity structure. The Zapatista movement in Mexico is a dramatic case in point. Peasant insurrections in Latin America have historically been met by state repression, a logic driven partially by Cold War international alignments. But in this instance, a combination of a media-savvy movement that cast its demands for land and recognition in the language of citizenship, the fact that the ‘world was watching’ through the eyes of international NGOs, and a new inter-state equation in which Latin American democracies would not have countenanced a repressive response gave the Zapatistas an unusual degree of operational freedom (Castells 2003).

The Arab Spring also underscores how shifts in global political opportunity structure—marked in this case both by the communicative diffusion of democratic norms as well as new inter-state alignments—have provided new life to democratic movements.¹⁵ The Arab Spring of 2011 was the product of two separate developments that converged in a perfect storm. The first was an incre-

15 The breathless portrayal in the West of a popular revolt driven by social media has mistaken the means for the explanation. Episodes of rapid global diffusion of ideas and expectations long predate the information technology revolution. In 1919, Egypt, Libya and Tunisia were all shaken by popular uprisings (Anderson 2011). The spark was US President Woodrow Wilson’s Fourteen Points speech, which was conveyed by telegraph.

mental build-up of a national and transnational infrastructure of civic networks and accompanying ideas, advanced sometimes through contentious action, but more often and more prosaically by a slow accumulation of ties and solidarities in the interstitial spaces of authoritarian regimes. The second was a new geopolitical opportunity structure, a fortuitous mix of domestic politics and new international opportunities (and in particular the Obama administration) that signalled that the time was ripe for popular insurrection, or that at a minimum the costs for challenging authoritarian states were significantly lower.¹⁶ At the centre of these two converging forces was the centrally powerful idea that the people have a right to revolt against injustice, and a commitment to basic norms of representation, accountability and dignity—in sum citizenship.¹⁷

Though the insurrections have followed different paths reflecting varied domestic constellations of elites, popular forces and institutions, in each case entrenched and organized associational powers came to the forefront. In Tunisia, protest was sustained by a newly invigorated labour movement. In Egypt, an educated and cosmopolitan urban middle class coupled with domestic traditions of comparatively open public debate set the stage for Tahrir, and revealed movement structures that were self-disciplined, highly inclusive and capable of sophisticated tactical moves. The case of Libya underscores just how critical domestic civil society is to shaping the process of transformation. If Egypt and Tunisia enjoyed relatively well-developed associational structures, Libya was divided by tribes and local loyalties. “Libya has no system of political alliances, networks of economic associations, or national organizations of any kind” (Anderson 2011, p. 6). The uprising took the form of multiple civil wars challenging a failed state, and the prospects for post-conflict political cohesion remain bleak.¹⁸ The case of Libya underscores the lesson that favourable circumstances in the global political opportunity structure are likely to promote democratization only when they converge with favourable domestic conditions.

16 In his celebrated Cairo speech, Obama declared “an unyielding belief that all people yearn for certain things: the ability to speak your mind and have a say in how you are governed; confidence in the rule of law and the equal administration of justice; government that is transparent and doesn’t steal from the people; the freedom to live as you choose. These are not just American ideas; they are human rights. And that is why we will support them everywhere.” Anderson comments that Obama’s proclamation “did not produce this year’s democratic upheavals in the Arab world, but it set expectations for how the United States would respond to them” (2011, p. 7).

17 For an analysis of the reform movement in Iran that paints a similar picture of highly diverse movement actors ranging from religious conservatives to secular intellectuals united by basic core commitments to pluralism, rule of law and democracy, see Bayat 2005.

18 Anderson in turn attributes the highly repressive and anti-civil society “permanent revolution” of Qaddafi’s regime to inherited colonial legacies of Italian fascism.

The second mechanism through which global civil society can exert influence is the diffusion of new norms that transform the behaviours of state and private actors. Arguments about the role of norms in shaping international relations have attracted increasing interest in recent years. International relations theorists have borrowed from legal theory on the life cycle of norms to argue that they can emerge, inspire mobilization, reach a critical mass and then have substantive effects in international arenas. The prototypical ‘norm cascade’ effect begins in the North and diffuses to the South. This is the logic of the various global civil society campaigns that in the past two decades have received the most attention. In such campaigns a northern ‘norm entrepreneur’ takes up an issue, names it, frames it and strategically exerts pressure on northern states, usually through communication campaigns targeted at national civil societies. If and when a ‘tipping point’ is achieved, follower states jump on the bandwagon, giving the issue irresistible momentum (Finnemore and Sikkink 1998). This can result in new international treaties, more muscular enforcement of existing treaties or massive direct intervention.

Classic examples include the global diffusion of the women’s suffrage movement, the Red Cross movement that eventually produced the Geneva conventions and the International Committee of the Red Cross, and the anti-slavery movement. More recently, anti-land mines legislation, the decommodification of AIDS medicines (Klug 2005) and campaigns opposing violence against women have emerged and diffused in highly compressed cycles. Risse (1999) documents a number of cases where a combination of pressure by international NGOs and northern states compelled “norm-violating regimes” to first accept human rights principles and then institutionalize them. Risse moreover shows that in this “spiral of norm socialization” the willingness of regimes to adapt to human rights norms can only be in part explained by strategic calculations. As these regimes engage in iterated discussions of human rights both with international actors and their own civil societies, they can, through a process of “communicative rationality” (which as argued earlier marks the ideal-typical logic of civil society), learn “to interpret their interests in a new way and consistent with recognizing international human rights norms” (*ibid.*, p. 550).

It is important to recognize that not all norms are equal in global civil society (Chandhoke 2005). Some normative issues are far more likely to become part of a cascade than others. Keck and Sikkink (1998) argue that norms that are highly emotive, and especially those that involve bodily integrity and bodily harm for vulnerable groups, and legal equality of opportunity, are far more likely to get traction globally. The tractability of these norms may be cultural, but it also may just reflect the distribution and organization of power. As Chandhoke

(2005) emphasizes, global civil society networks have been dominated by western NGOs, and these have tended to emphasize liberal concerns with civil and political rights over demands for social and economic justice (though she notes that this is changing). The problem is also clearly structural. Norms about the treatment of labour and distributive justice may have universal resonance, but because they challenge the very core of the profit motive that drives global economic integration, they are much harder to press into action.

The third point of leverage that global civil society provides is through what Keck and Sikkink (1998) have dubbed the “boomerang effect.” Social movements or NGOs in a developing country take on an issue, but find their efforts frustrated by the limited opportunities to influence state power in their national context. They then forge an alliance with a well-connected and resourced northern NGO, which in effect gives them access to new venues in which they can mobilize support. The boomerang effect occurs when the southern social movement can successfully leverage a northern public to move a northern state to put pressure on the southern state. As Keck and Sikkink note, “Linkages are important for both sides. For the less powerful Third World actors, networks provide access, leverage and information (and often money) they could not expect to have on their own. For northern groups, they make credible the assertion that they are struggling with, and not only for, their southern partners” (1999, p. 93).

The boomerang effect is mediated through states, and much of the diffusion literature also focuses on the central role that states play in expanding the reach of new norms. But the increased density and intensity of global interactions may also be extending the possibility of direct civil society interventions. The recent controversy over Apple’s use of the Chinese sub-contractor Foxconn is a case in point. After a series of media exposés that documented harsh labour conditions in Foxconn’s factories, Apple asked a monitoring group, the Fair Labor Association (FLA) to investigate. When FLA published its findings, documenting low pay, long hours and hazardous working conditions, Foxconn immediately agreed to significant reforms, including eventually reducing the average workweek to 49 hours as required by Chinese law. Noting that Foxconn is China’s largest private sector employer, and produces 40 percent of the world’s electronic products, *The New York Times* commented that these reforms “could improve working conditions across China” (Duhigg and Greenhouse 2012). It is notable that a western public (the US media and advocacy groups) pressured a US corporation to pressure a Chinese partner to uphold Chinese government labour standards.

One must be very cautious about making any generalizations about global civil society. At best, the existing legal infrastructure and networks represent a

patchwork. This has nonetheless had a number of measurable effects. First, the greater density of transnational networks and venues has increased the flow of rights-based discourses and claim-making. This has led to the diffusion of new norms, in effect expanding the reach and influence of global points of reference, but has also provided domestic movements with new frames for their own claims. Movements and civil society organizations can now appeal to an embryonic but noisy global public sphere. Second, openings in the political opportunity structure including both changes in the global strategic balance of power and increased international scrutiny of state actions, have increased the costs of repression and opened up new spaces for democratic movements and movements challenging powerful vested interests. Third, transnational global alliances and global venues have given domestic civil society actors new points of leverage over recalcitrant governments. The resulting partnerships have in a number of cases resulted in highly effective forms of transnational solidarity and strategic intervention by civil society actors. The movement to increase access to affordable HIV/AIDS medications is a case in point.

But if the global playing field has become far more supportive of and responsive to civil society actors and communicative power, it is important to underscore that each point of articulation between global civil society and national civil societies is highly contingent. Much depends on the specific nature of the linkages and the character of the domestic political regimes. To understand what if any effects global civil society has on rights, social policy and development, we must carefully unpack local civil societies and their relationship to the state and market.

2. CIVIL SOCIETY, MOVEMENTS AND DEVELOPMENT IN BRAZIL, INDIA AND SOUTH AFRICA

Brazil, India and South Africa present particularly important cases for exploring the relationship between civil society, democracy and development. First, these are the most successful cases of democratic consolidation in the developing world.¹⁹ While Brazil has had a rollercoaster ride with democracy, and India did suffer a brief authoritarian interlude—the Emergency of 1975-1977—all three are now widely viewed as highly stable democracies where the likelihood of democratic reversal or even destabilization is remote. Democracy has not only become the only game in town, but it has made a real difference. In India, it has

¹⁹ Setting aside Indonesia, which has been democratic for less than a decade, Brazil, India and South Africa are the most populous democracies with a ‘free’ score on the Freedom House index.

helped forge a nation from the most heterogeneous social fabric in the world. In South Africa, democratic politics and constitutional rule have managed a transition from white minority to black majority rule with minimal conflict. And in Brazil, the transition to democracy has not only neutralized the military, long the institutional basis for authoritarianism, but has seen a programmatic and highly effective broad-based party (the PT) come to power.

Few observers would disagree with the claim that relative to their neighbours, all three countries have ‘vibrant’ civil societies that have been a critical part of their democratic successes. The historical reasons are not hard to identify. Because political society under colonial/authoritarian rule was the domain of traditional elites, the democracy movements in the three nations evolved and were mobilized through structures of civil society (unions, schools, civic organizations, peasant associations, religious organizations, etc.), and relied heavily on domestic narratives of resistance to authoritarian rule to make their normative and political claims for democratic self-rule.

Until it assumed power, the Indian National Congress was more a social movement than a party, led by the quintessential communicative entrepreneur, Mahatma Gandhi. South Africa’s anti-apartheid movement is generally associated with the African National Congress (ANC), but it was the coalition of thousands of civics, churches, unions and student associations under the organizational umbrella of the United Democratic Front (UDF) that organized mass mobilizations and contested the apartheid state continuously and on every front for two decades. Brazil’s Popular Movement (*O Movimento Populari*), which had its roots in the progressive Catholic Church in the 1970s, drew together neighbourhood associations, women’s groups and unions, as well as a wide range of middle-class human rights groups and professionals into what Alvarez has described as a “new way of doing politics” (1997, p. 92). This emphasized community participation and a new politics of citizenship focused not just on legal rights, but “citizens being active social subjects, defining their rights, and struggling for these rights to be recognized” (Dagnino 2007, p. 549).

In the post-transition period, a robust, if not always evenly enforced rule-of-law environment has safeguarded and in some cases expanded the space for civil society. In all three countries, overt state repression is rare (and when it occurs vociferously denounced), associational life has largely been free of state interference, the media is diverse and noisy, social movements are tolerated (though begrudgingly in the case of South Africa) and there are clear indications of a dramatic expansion of NGO activity.

The consolidation of democratic institutions and the existence of robust civil society is all the more notable given that inequality in the three countries

is pervasive and remains the most difficult obstacle to development. Brazil and South Africa are notorious for having the highest Gini coefficients in the world. India officially escapes this distinction (many would argue only because of measurement problems), but stands out for having some of the most severe levels of basic deprivation in the world.

If economic inequalities are deep, forms of social exclusion are just as severe. Race of course was the organizing principle of apartheid in South Africa. While race was never institutionalized in Brazil (Marx 1998), it has nonetheless had a pervasive role in reproducing inequality (Telles 2004). In India, social exclusion is deep and complex, organized along caste, religious and ethnic lines. To have built stable, liberal and comparatively tolerant democratic political systems in these environments not only defies much of the conventional wisdom and dominant theoretical views on the necessary social prerequisites for building democracy, but also suggests that processes of democratization are *shaped* but not necessarily *determined* by durable social inequalities.

But if all three countries have fared well in consolidating democratic institutions, including the rule of law, and if all three receive near identical rankings in the Freedom House index,²⁰ comparative analysis in fact points to very different degrees of democratic deepening and inclusive development. Much of this variation can be tied to the possibilities and limits of civil society, and in particular the relationship of civil society to the state.

In Brazil, civil society has in effect *projected* itself into the state and not only fundamentally transformed politics, but also helped underwrite an inclusive model of development. The impact of civil society and social movements in India is much harder to assess. Given deep structures of social inequality and entrenched communities, many observers have argued that India is inhospitable to rights-based associational life (Mahajan 1999, Chatterjee 2004). Yet social movements at the regional level have played a critical role in driving subnational variation in developmental outcomes, and in the past decade, civil society has become much more assertive and effective in driving social policy. The relationship between civil society and the state remains highly contentious, however, mediated, as it is, by a political party system that is fragmented and dominated by patronage interests.

The case of South Africa presents a cautionary tale. Civil society played a central role in ending apartheid and securing a working and effective democracy that has been a model of national integration, rule of law and macroeconomic

20 Brazil and South Africa rate a 2, and India a 2.5 on a combined index that runs from 1-3 (free) to 3-5.5 (partly free) to 5.5-7 (unfree).

stability. There are well-organized civil society organizations, and many continue to play a vital role in shaping development, but the overall efficacy of civil society has been limited by its lack of effective leverage over the state. This *containerization* of civil society is in turn fuelling class polarization.

In the sections that follow, the role of civil society is explored at two levels. The paper first examines local arenas of governance, since all three countries implemented important decentralization reforms in the 1990s that were specifically designed to increase citizen participation. This is followed by a broader examination of the role that social movements and civil society have played in shaping development trajectories.

3. BRAZIL

LOCAL GOVERNMENT AND CIVIL SOCIETY

Brazil has been one of the most decentralized countries in Latin America, but state and local governments have long been dominated by local oligarchies.²¹

Beginning in the late 1970s, however, social movements for democracy became increasingly proactive, demanding not only political reforms, but also accountability and improved governance. Throughout Brazil, these movements sought ways to organize various local neighbourhood associations and movement actors into common blocs that could make demands on city and state government. Eventually, they coalesced into national drives like the Cost of Living Movement, the Housing Movement and the Collective Transports Movement.

With the discussion for the new Constitution beginning in 1986, urban social movements successfully made demands for more accountable forms of city governance, calling for decentralization and citizen participation in the running of city affairs as a basic right of citizenship (Holtson 2008). The Constitution of 1989 empowered local democratic governance by giving municipalities more resources and more responsibility for a wide range of services, including for health, transportation, housing and primary education. There is now wide agreement that Brazilian municipalities are the most autonomous and most resourced in Latin America (Samuels 2004; Baiocchi 2006; Baiocchi, Heller and Silva 2011). The Constitution also supported participatory governance by creating various sectoral councils (health, transport, education, environment) composed of representatives from sectoral interests, government and civil society. The councils are essentially neo-corporatist deliberative arenas with

21 This section draws significantly from Baiocchi, Heller and Silva 2011.

significant binding authority, most notably the right to veto the allocation of federal monies to municipal budgets.²²

Reforms have also consisted of innovative initiatives in which some form of civil society participation was institutionalized in areas as varied as municipal planning, environmental regulation and housing programmes (Baiocchi 2006). The most significant of these local experiments has been participatory budgeting, a process that involves direct involvement of citizens at the neighbourhood and city level in shaping the city's capital budget. Over 400 Brazilian cities have now adopted some form of participatory budgeting.

In 2001, the Brazilian Government passed new legislation—the City Statute (*Estatuto da Cidade*) which not only “incorporates the language and concepts developed by the urban social movements and various local administrations since the 1970s,” but requires that all urban policies be subject to popular participation, and “introduces a series of innovative legal instruments that allow local administrations to enforce the ‘social function’” (Caldeira and Holston 2004, pp. 405-406). All of these reforms in effect expanded the institutional surface area of the state and sought to displace traditional clientelistic modes of intermediation with rule-based interactions based on principles of citizenship.

Just how significant these transformations have been in terms of actual democratic practices is revealed by three very different types of evidence. First, research conducted with Baiocchi and Silva in eight Brazilian municipalities found that participatory budgeting not only significantly democratized the traditional elite-driven budgetary process, but that it also markedly increased the access of civil society organizations to the decision-making process (Baiocchi, Heller and Silva 2011).

Second, in his recent book, *Insurgent Citizens*, the anthropologist James Holston follows the history of the struggles of workers on the vast periphery of São Paulo. Lacking even the most basic rights (“citizens without a city”) these workers struggle to secure titles to their land and to demand social services. What were essentially highly prosaic localized struggles to gain a foothold in the city merged into the broader stream of the democracy movement to become highly politicized struggles for citizenship. As urban movements scaled up, a “new pedagogy of citizenship” emerged, and “the language of human rights became a general idiom of citizenship during this period” (Holston 2008, p. 250).

Third, Peter Houtzager and his colleagues have actually measured the degree and quality of associational engagement with the local state. Using original survey

22 Alvarez describes the 1990s as the decade of ‘council democracy’. By one estimate there were at least 84 national councils at this time, and thousands of local level councils, including 1,167 councils in São Paulo state alone (1997, p. 27).

data from São Paulo, Mexico City and New Delhi, Houtzager and Acharya (2008) find that only residents of São Paulo act as citizens. In contrast to Delhi, where the urban poor depend entirely on political patrons to make demands on the city, and Mexico City, where urban residents have resorted to self-provisioning rather than demand-making to address their basic needs, a majority of residents of São Paulo seek redress by directly engaging city authorities.

In sum, civil society organizations and citizens in Brazil have direct access to local government, and in many cities play an active role in shaping public policy. If this has deepened democracy, it has also been part of the dramatic success Brazil has had in the past two decades, and in particular in the last decade, in reducing poverty and inequality. The ability of cities to direct resources to marginalized sectors and neighbourhoods has been well documented in case studies, but there is now a growing body of comparative work that also finds a link between participation and redistribution. A number of studies have found that cities that adopted participatory budgeting had a far better rate of poverty reduction than cities that did not (Pires and Vaz 2011; Baiocchi 2006; Baiocchi, Heller and Silva 2011). In an analysis of 44 cities over a 12-year period, the Institute for Applied Economic Research found that cities that had more participatory institutions (measured by the number of sectoral councils) had a significantly higher rate of expansion of social and health personnel (Pires and Vaz 2011). In other words, participation is directly linked to the growth of the local welfare state.

In addition to direct local effects, researchers have also attributed the success of a wide range of federal programmes, such as the conditional cash transfer programme *Bolsa Família* and the rapid expansion of public health care in the last decade, to the efficacy of local government. By one estimate, *Bolsa Família* has a very low level of leakage, a success associated with the design of the programme but also with the efficiency with which municipal governments have targeted the poor (Arbix and Scott 2009). Recent comparative work on the federally funded expansion of community clinics and health teams working in poor areas has shown that the effective reach of the programme as measured by doctor appointments is directly tied to the strength of local health care movements (Gibson 2011).

SOCIAL MOVEMENTS AND DEVELOPMENT

Brazil in every respect stands out as the prototypical case of transformation driven by social movements. They have profoundly impacted the public sphere, problematizing and politicizing a wide range of social justice claims, engaging directly with the state to shape policy, and most importantly, redefining “citizenship by challenging the existing definition of what constituted the political arena—its participants, its institutions, its processes, its agenda, and its scope”

(Dagnino 2007, p. 550). One cannot account for changes in Brazil's health sector, including the response to AIDS; the environment; affirmative action policies²³ and urban governance without reference to the role of movements.

What decisively differentiates Brazil from India and South Africa is that social movements at the national level have remained politically engaged and efficacious. This observation holds true across a wide range of sectors. The examples of the environmental movement and the HIV/AIDS movement capture the key dynamics at work.²⁴ In their comprehensive study, Keck and Hochstetler (2007) argue that the environmental movement in Brazil is by far the broadest and the most successful in Latin America. The movement encompasses a wide coalition of professionals and local grass-roots actors, including indigenous groups, organized labour and urban movements. It has engaged with environmental issues across the full spectrum, ranging from pollution and conservation, to genetically modified organisms and dam construction.

Born in the crucible of the democracy struggle, the movement quickly scaled up into what Keck and Hochstetler dub "socio-environmentalism" a strategy that links environmental sustainability with sustainable livelihoods (Hochstetler and Keck 2007, p. 13). The movement has moreover self-consciously combined contention (*ecologia de denuncia*) with pragmatic engagement with the state (*ecologia de resultados*). This itself has been made possible by the dramatic expansion of the policy surface area through both constitutional provisions that mandate engagement on environmental issues with civil society organizations and through the proliferation of a range of councils that have given environmental groups direct access to policy-making. The responsiveness of the state is most notable in the increasingly proactive role of the *Ministerio Público*, a body of independent public prosecutors that has filed 97 percent of civil suits in the environmental arena. By 2002, there were more than 2,000 prosecutors specializing in environmental issues. Only the United States has made more use of legal tools in environmental politics (ibid. 2007, p. 56).

The HIV/AIDS movement has been the most broad-based and effective of its kind. From the outset, social movements took the lead in publicizing HIV/AIDS and demanding state action. Most significantly, they explicitly defined the crisis as a human rights issue and demanded comprehensive treatment including free access to anti-retroviral (ARV) medicines. President Fernando Henrique Cardoso's administration responded by making treatment a priority. The

23 Paschel (2011) has also documented the success of the Black Social Movement in Brazil, and has specifically argued that in contrast to Colombia, the movement has been able to engage the state without compromising its autonomy. The state has in turn pursued aggressive policies of affirmative redressal across a wide range of sectors.

24 See also Khagram's (2004) study of the anti-dam movement and Holston (2008) on urban movements.

government forced pharmaceuticals to provide ARVs at favourable prices and secured a World Bank loan to fund a massive roll-out programme. Rather than working through the Health Ministry and its ossified and patronage-driven bureaucratic structures, the programme enlisted over 500 NGOs for implementation, especially the task of outreach to marginalized populations.

In one of the most detailed studies of the programme, Biehl observes that “AIDS activists and progressive health professionals migrated into state institutions and actively participated in policy making” (2007, p. 1,087). Biehl concludes that: “Against all odds [for a poor, developing country] Brazil invented a public way of treating AIDS” (ibid., p. 1,084). Rates of mortality had fallen by 70 percent in 2004, and Brazil’s strategy of universal treatment is now “widely touted as a model for stemming the AIDS crisis in the developing world” (ibid., p. 1,088). The contrast with India, where the response has been slow, highly bureaucratic and focused on prevention rather than treatment, and South Africa, where the lack of response for so many years stands out as one of the great policy disasters of any democratic government, is a testament to just how decisive civil society engagement can be.

The fact that movements have played such a powerful role in many different sectors in Brazil points to the significance of broader factors at work. In comparison with India and South Africa, the nature of civil society-political society relations stands out as decisive in Brazil. Social movements there emerged largely *in opposition* to political society. As Dagnino argues, movements acted against “the control and tutelage of the political organization of the popular sectors by the state, political parties and politicians. Their conception of rights and citizenship embodied a reaction against previous notions of rights as favours and/or objects of bargain with the powerful (as in the case of citizenship by concession, *cidadania concedida*)” (2007, p. 553).

But even as movements sought to redefine the meaning and the modalities of the political, they were also driven by very practical demands for inclusion and determined to shape public policy. Though Cardoso’s two administrations are best known for their success in stabilizing and opening up the economy, they were also noted for their openness to civil society. Cardoso himself attributes the success of his social reforms to close collaboration with civil society, and has described the relationship of the Brazilian state to social movements as ‘porous’.

The current ruling party, the PT, was at the confluence of the social movements of the 1980s and has a model of governing that includes a substantive commitment to redistribution and a procedural commitment to “incorporating and even institutionalizing popular participation in decision-making” (Hochstetler 2004, p. 8). At the beginning of his administration, President Luiz

Inácio Lula da Silva met with labour, indigenous, anti-poverty and religious groups, as well as with the mass-based and highly militant rural landless labourers movement. The meetings were highly publicized and gave these movements significant prominence (ibid., p. 10). The movements continue to sustain their autonomy, however, even with the PT in power. They have openly criticized the government's economic policies and continue to engage in contentious actions (ibid., p. 21). The vitality of the movement sector in Brazil was most recently on display in June 2013 when nation-wide protests erupted in the build up to the World Cup. A rich cross-section of social groups mobilized to denounce corruption and excessive expenditure on World Cup infrastructure and to demand increased investment in social development and public services.

The case of Brazil underscores the historical contingency of the balance between state and civil society. Brazil was no less unequal at the time of transition than India or South Africa, and if anything its political institutions were more fragile and more dysfunctional. Yet the post-transition period has witnessed not only the strengthening of an autonomous and vivacious civil society, but also clear instances of civil society projecting itself into the state to shape policy. Most notably, civil society pressures have resulted in the institutionalization of a wide range of participatory structures and the strengthening of local democratic government. This has had the effect of embedding the state in a broad-based sector, underwriting developmental policies that have emphasized social investment and human development, and encouraging highly effective forms of state-civil society co-production.

4. INDIA

LOCAL GOVERNMENT AND CIVIL SOCIETY

The institutional space for the exercise of local citizenship in India is highly circumscribed. Indian states enjoy significant powers and play a central role in development. But local elected governments—municipalities and rural governments (*panchayats*)—have few resources and very limited authority. Until the 73rd and 74th constitutional amendments in 1993, most states did not even hold local government elections on a regular basis. The development functions of local governments were limited to acting as implementation agencies for line department schemes. Ordinary citizens were afforded few opportunities to directly engage in or influence decision-making about public allocations.²⁵ The actual

25 The insignificance of local government in India is readily summarized: Annual local per capita expenditure in 1990-1995 was a paltry Rs. 45, about one dollar (Chaudhuri 2006).

presence of local government has been so thin both institutionally and financially that it has not provided a usable platform for public deliberation or action.

To the extent that local citizens interact with local government, they generally do so through the mediations of various brokers and fixers, often leaders of caste associations or landed elites. And when the state is present in a more robust form, it often becomes little more than an instrument of dominant interests, as in the case of local police forces that actively harass and prey upon lower castes (Brass 1997, p. 274). In sum, the form of the local state and the mode of its interface are so institutionally weak and so thoroughly permeated by social power and extra-legal authority as to vacate the actual practice of citizenship.

The limited scope of local government has dramatic implications for development on two counts. First, local government itself has little or no developmental capacity, and the weakness of local institutions fundamentally compromises the ability of the centre and states to deliver. Downward accountability through the extremely long chain of command that characterizes the Indian state deteriorates dramatically as one gets closer to the point of delivery, and levels of leakage are notoriously high and institutional failure endemic.²⁶ Despite very significant increases in educational spending in recent years, for example, and a now near-universal rate of primary school enrolment, teacher absenteeism remains chronic, caste discrimination rampant and school failure endemic (Ramachandran 2009).²⁷ The existence of subnational states that have demonstrated a marked capacity for enhancing capabilities, most notably Kerala, Tamil Nadu and Himachal Pradesh, while drawing on the same resources, institutional forms and bureaucratic structures as other states, suggests that the problem is more political (the chain of sovereignty) than organizational (the chain of command).

Second, the absence of local democratic spaces of engagement has reinforced narrow group identities at the expense of broader, civic identities. Commenting on the increasing politicization of identities, Jayal writes, “The idea of universal citizenship enjoys little purchase within these political arguments, as cultural citizenship has acquired pre-eminence, and social citizenship is compromised” (2006, p. 13). “Clientelistic” representation pre-empts the formation of the type of stable, lower class and caste programmatic coalitions that have been associated with the more successful redistributive regimes in Tamil Nadu, Kerala and West Bengal (Corbridge and Harriss 2000). The problem of democratization

26 This is best captured in Rajiv Gandhi’s apparently improvised comment that only 15 paise of every rupee ever reached the intended beneficiary.

27 The most recent comprehensive national evaluation concluded that by the end of the fifth year of education, more than half of school children have yet to acquire a second-year level of reading (ASER Centre 2012).

thus lies less in the institutions of democracy or the party system than in the political practices and channels that link civil society to the state, and weaken the possibilities for a more deeply and broadly embedded developmental state.

In the past two decades, a range of legislative and policy initiatives—most importantly the 73rd and 74th constitutional amendments, as well as sector-specific reforms—have marked a concerted effort to empower local government. This represents a critical juncture in state-building, all the more so because this has not simply been an institution-building exercise. The rationale for decentralization that has been invoked by centre actors explicitly links the project of building local state capacity to new forms of participatory democracy (Jayal 2006). There has been recognition that top-down command-and-control bureaucracies, supported by expert planning, have not generated anticipated transformative effects. A rent-seeking nexus of bureaucrats and local politicians has captured state sources as they flow downwards. The prescription has been to move the state downwards by building locally accountable institutions of state authority.²⁸ It is worth noting that this vision of decentralized democratic governance has been powerfully and influentially informed by Sen's work on capabilities (the meta-capability being the capacity of citizens to define the life they want to live through deliberation), but also has deep roots in civil society and a range of social movements that have been demanding greater accountability from the state.

Almost two decades after the reforms, however, the general view is that they have been disappointing at best.²⁹ Some states have done little, some have done a bit, and a few either already had strong track records that they have extended (West Bengal and Karnataka) or broke new ground and made important headway (Madhya Pradesh and Kerala) (Heller 2009). It is also clear that the reforms have been up against determined state-level political and bureaucratic resistance (Jayal 2006).³⁰

28 Rajiv Gandhi in 1989 provided the following justification for a constitutional amendment to increase the powers and responsibilities of local bodies: "A wide chasm separates the largest body of the electorate from a small number of its elected representatives. This gap has been occupied by the power brokers, the middlemen and vested interests [...] With the passage of this Bill, the panchayats would emerge as a firm building block of administration and development [...] as an instrument in the consolidation of democracy at the grassroots" (cited in Jayal 2006, p. 6).

29 The 73rd amendment applied to rural government. The 74th amendment applied to cities, which have historically enjoyed very little local capacity, and are all but governed by centre and state bureaucracies. But the broad consensus is that this amendment was little more than an afterthought and has had little impact. Some even argue that processes of centralization have been accentuated with economic liberalization (Benjamin and Bhuvanewari 2006).

30 The contrast here with China is telling. Bardhan (2010), among others, points to local government decentralization as a key ingredient of China's phenomenal and much more inclusive growth rates. Decentralization allowed for effective innovation in promoting local growth, with the centre playing a key role in diffusing the most successful models.

There is one dramatic and instructive exception to this otherwise bleak picture. In Kerala, a coalition of leftist parties led by the Communist Party of India–Marxist (CPI(M)) returned to power in 1996 and immediately launched the People’s Campaign for Decentralized Planning. Inspired and informed by a state-wide community organization—the *Kerala Sastra Sahitya Parishad* (KSSP) movement, a 50,000-member organization with a long history of promoting local experiments in participatory planning and development—the state government implemented what is in scope and scale undoubtedly one of the most ambitious participatory reforms ever undertaken. All 1,214 local governments—municipalities and the three rural tiers of district, block and *gram panchayats*—were given new functions and powers of decision-making, and were granted discretionary budgeting authority over 35 to 40 percent of the state’s developmental expenditures. In addition to devolving resources, state officials sought to directly promote participatory democracy by mandating structures and processes designed to maximize the direct involvement of citizens in planning and budgeting. There is now an extensive literature that shows that local government has been firmly implanted in Kerala, and that while the depth and quality of citizen participation varies dramatically across *panchayats*, the campaign has opened new spaces for citizen engagement (and in particular by women and Dalits), and strengthened the capacities of the local welfare state (Heller et al. 2009; Gibson, forthcoming).

SOCIAL MOVEMENTS AND DEVELOPMENT

There is a long and rich post-independence history of social mobilization in India. As Omvedt has argued, in contrast to the reformism of the Congress leadership, the many anti-caste movements, both before and after independence, “fought for access to ‘public’ spaces of work, consumption and citizen’s life” (2003, p. 137). These movements in other words sought to expand democratic civil society by actively removing barriers to participation. In southern India, they fundamentally transformed caste relations, and Varshney (2000) even credits them with the better government performance and better social development indicators observed in states there. Also, as argued in Heller 2000, the extensive social rights and equity-promoting public policies that have been secured in Kerala can be tied directly to its historical pattern of civil society formation. In this state of 32 million, successive waves of social movements, a rich and competitive sector of civic organizations, and citizens who know and use their rights have kept political parties and the state accountable, producing India’s most competitive party system and its most efficacious state.

But with the possible exception of the farmer movement that emerged in the 1980s, few social movements in India as a whole have been able to scale up and impact the political arena. The farmer movement successfully mobilized relatively well-off farmers to secure significant concessions from the state. But its agenda has been a narrow corporatist one, more lobby than movement, and certainly not interested in expanding social rights. Other class-based movements have had even less success. Though landless labourers constitute by far the single largest class category in India, and are overwhelmingly Dalit and lower caste, nothing even resembling a sustained movement has ever emerged, except in Kerala. If anything, movements of the agrarian poor have taken place largely outside the democratic arena in the form of various Maoist-inspired local insurrections, which are now active in a number of states.

India's industrial labour movement has been especially weak. From the very beginning of Independence, labour federations were dominated by the state and as Chibber (2005) has shown were outmanoeuvred into accepting an industrial relations regime that subordinated labour's interests to the imperatives of promoting capital investment. Operating in a highly bureaucratic and quasi-corporatist environment, the federations have for the most part become instruments of political parties. It is telling that they have never expanded their presence beyond the confines of the protected organized sector, which accounts for less than 9 percent of the workforce.³¹

Other movements, including those of Dalits, Adivasis, women and environmentalists, have developed innovative and effective forms of contention and built strategic ties with transnational advocacy networks, so it is difficult to downplay the richness and vibrancy of social movements. Yet none of these movements have built effective and sustainable ties to political society, and indeed, many have taken an 'anarcho-communitarian' turn, embracing communities and rejecting engagement with the state (Corbridge and Harriss 2000, Bardhan 1999). This reflects the degree to which civil society formations have come to distrust a political society increasingly characterized by corruption, personalism, short-term calculations, and concentrated and insulated power.

Reviewing the trajectory of social movements in post-Independence India, Katzenstein and Ray point to a decisive shift in how the political opportunity structure has shaped social movements by delineating two distinct periods. In

31 The exception here is Kerala, where the Centre of Indian Trade Unions (the CPI(M)-affiliated federation) has made significant inroads into the informal sector (Heller 1999). In a very different pattern, new non-aligned movements have emerged in the informal sector, most notably the Self-employed Women's Association (SEWA), and small but significant organizing efforts in the construction and *beedi* industries (Agarwala 2006).

the Nehruvian period, the state, political parties and movements were aligned around a left frame of democratic socialism, but since the 1980s these progressive movements have had to reinvent themselves with the “ascendance of its [the Nehruvian period] institutional mirror image on the right, the similarly synergistic nexus of state, party, and movement now organized [...] around religious nationalism and the market” (2005, p. 3). Indeed, movement activity in the 1980s and 1990s was increasingly dominated by forces tied to the rise of Hindu nationalism, including various “elite revolts” (Corbridge and Harriss 2000) against the new electoral power of the lower castes. Insofar as these movements seek to affirm traditional privileges of caste, male authority and the Hindu majority, they are in effect deeply illiberal. And though they have not proven a threat to formal democracy—as evidenced by the Bharatiya Janata Party’s tenure and departure from power—they have arguably had a deeply perverse effect on civil society by stoking inter-community violence; legitimizing old and new exclusions; communalizing schools, unions and associations; and in general reinforcing the involutory logic of exclusionary identity politics.

Surveying this landscape, some of the most thoughtful analysts of civil society in India have drawn some sobering conclusions. At a general theoretical level, Mahajan and Chatterjee have both questioned the viability of the very concept of civil society in India and especially its democratizing character. Mahajan (1999) argues that because communities and group identities in India remain strong—and even have legal sanction—participation along group lines can often produce demands that are contrary to the principles of legal, individual equality. Chatterjee goes even further, arguing that civil society is a terrain of engagement with the state that has been dominated by elites, and goes on to assert that most Indians “are not proper members of civil society and are not regarded as such by the institutions of the state” (2001, p. 8). Some recent empirical work by Harriss has shown that the space of civil society is primarily populated with middle-class groups that have crowded out lower class/caste groups (2007).

But the sheer heterogeneity and complexity of politics in India cautions against generalization. Though Hindu nationalism has had the most visible effect because of its electoral successes, and while “patronage democracy” (Chandra 2007) remains the norm, the last decade has also witnessed a quite dramatic rise in rights-based movements.

First, Varshney (2002) has shown that there are places in India, specifically cities, where inter-communal associational ties have produced civic spaces where a wide range of actors can participate in public life, engage in more or less reasoned discussion about highly emotive issues such as communal conflict, and resolve problems through cooperation. Second, as is well known, the history

of anti-Brahmin movements in the south has fundamentally transformed caste relations, opening up a range of political spaces and associational practices that simply do not exist in much of the north. Third, there is enormous churning taking place among subordinate groups in India. The most remarkable expression of this has been in electoral patterns, and in particular in what Yadav (2000) has dubbed the “second democratic upsurge.”

Below the surface of electoral politics, many have also noted a new effervescence in associational life. As Corbridge et al. write, “(P)ower is leaching steadily, and in some respects ineluctably, to the lower castes, and has been claimed by them in terms which often resist the presumptions of a benign and disinterested state” (2005, p. 83). From fieldwork in Bihar, Jharkhand and West Bengal, they conclude that it is “the indirect effects of a discourse of participation that have been most effective in carving out spaces of citizenship for poorer people, however small and disappointing these spaces might seem to be” (ibid., p. 122). In his work on urban movements in Mumbai, Appadurai (2002) has pointed to a similar dynamic by showing that new forms of civic agency are fundamentally challenging dominant discourses and practices.

In her work on microcredit NGOs in rural India, Sanyal (2009) finds that participation in NGOs has very significant effects in expanding women’s ‘associational capabilities’. Women who had very limited if any associational life—that is contacts and social intercourse outside the extended family—found themselves attending village gatherings (and even extra-village meetings), and in the process developing a range of new capabilities, critiquing patriarchal power, cultivating new solidarities and expanding what Appadurai calls their “culture to aspire.” Similarly, Agarwala’s research (2006) on informal sector women workers in the *beddi* and construction industries across three different states documents new forms of organizing in what historically have been extremely difficult arenas for collective action. What is notable about the types of mobilization she documents is that they have taken place outside traditional union- or party-dominated structures, and despite not being linked to each other, have all developed forms of claim-making that revolve around women’s identities as citizens demanding rights and recognition.

The NGO sector has also undergone dramatic growth and transformation in the past decade. The educational NGO Pratham has played a transformative role in exposing the failures of India’s public education system. NGOs in the urban sector have devised innovative ways of increasing scrutiny over government performance, including ward councillor scorecards, a ward-based infrastructure index, and an ‘I paid a bribe’ website that has shamed the Bangalore municipal corporation into publicly acknowledging corruption. The *Mazdoor*

Kisan Shakti Sangathan (MKSS), a grass-roots organization to empower workers and peasants in Rajasthan, has been a classic case of scaling up success. It started as a local movement demanding greater transparency of local government records, launching social audits in villages and using the quintessential civil society tool of the public hearing (*jan sunwai*) to expose government malfeasance. The MKSS was successful in securing legislation that requires public meetings to review village accounts. The model diffused rapidly to other states and eventually became part of a larger civil society movement that successfully pressed for national legislation—the 2005 Right to Information Act—that for the first time has explicitly empowered citizens to demand transparency from the Indian Government.

As Jenkins notes, a second wave of the anti-corruption movement has significantly narrowed the gap between the traditional middle-class NGO sector and people's movements (2007, p. 64). Jenkins observes that increasingly NGOs are calling themselves 'people's movements for reinforcement of democratic values' and gaining much broader legitimacy. Civil society has also found new ways to engage with the government. Using public interest litigation, an alliance of civil society groups took the government to task for not meeting basic food security. In 2001, invoking the 'right to life' provisions of the Indian Constitution, the Supreme Court ruled that the state had in fact violated citizens' right to food and mandated the creation of a food commissioner (*ibid.*, p. 65). The commissioner was granted unprecedented powers to monitor a range of state agencies, but has also been unusual for developing close working ties to civil society (*ibid.*, p. 66).

Despite the significant impacts that civil society has had on policy in the past decade, evidence of substantive change remains limited. The jury is still out on the impact of new legislation and programmes. Given the weak capacity of the Indian state, the massive levels of leakage that are built into the system, and the failure of any political party to align with movements and programmatically champion inclusive development, it remains to be seen what, if any, effect these policies will have. Though NGOs, the government and various social movements have taken up the cause of participation, and despite very real efforts such as through the *panchayats* to open the political system to more citizen engagement, there is little evidence that subordinate groups have been empowered, with notable exceptions such as Kerala. While media are growing and becoming more vociferous and diverse, they remain dominated by upper castes (Dréze and Sen 2011) and tend to reflect middle-class interests, celebrating markets and denouncing state intervention (Chaudhuri 2010). Voter participation remains high and inclusive, but the party system is severely fragmented.

Under these conditions, it is hardly surprising that India has failed to capitalize on its growth dividend, and inequality is growing, significantly so in income terms but even more dramatically in human capability terms. Even as the upper castes/classes reap the rewards of the global knowledge economy, Bardhan (2010) estimates that India continues to be beset by the greatest inequality of educational opportunity of any developing country. Even more striking is the complete failure to deliver the most basic of capabilities—food and health. A recent assessment found that in 2006, 48 percent of children under the age of five were suffering from stunting (the highest level of malnutrition in the world), a condition that has severe long-term health consequences (Government of India 2009). Annual reports of the National Nutrition Monitoring Bureau actually show a decline in the consumption of calories over the past two decades.

In part, the state is increasingly constrained by its close ties to business interests (Kohli 2007a).³² Efforts to develop urban infrastructure and social services have been stymied by the dominance of ‘land-grab’ politics, as developers and politicians collude in capturing the rents of exploding urban land prices.

Counterfactual cases within India suggest that the problem lies less in issues of state capacity than in the way in which the state’s relationship to society is constrained by political dynamics. State interventions continue to be captive to narrow, patronage-driven political imperatives that are highly entrenched at the subnational level. In the absence of countervailing civil society organizations that can hold bureaucrats and politicians to account, and more broad-based forms of demand-making that would favour the provisioning of public goods, India’s prospects for successfully expanding capabilities remain limited.

5. SOUTH AFRICA

LOCAL GOVERNMENT AND CIVIL SOCIETY

The state of local government in South Africa presents a more complicated picture than in India. In rural areas, given the legacy of customary rule and the still formidable powers enjoyed by chiefs, Mamdani’s (1996) characterization of local government as a form of decentralized despotism is still probably apt. Recent legislative reforms have in fact buttressed the power of ‘traditional authorities’, and as Ntsebeza (2005) has carefully documented, reversed many

32 In a revealing episode, the Minister of Panchayati Raj in 2007 publicly complained that the centre was spending more on the Commonwealth Games in Delhi—an investment seen as critical to India’s image as a site for global capital—than on the budget of his ministry charged among other things with strengthening local government (*Indian Express*, 24 April 2007).

of the democratic gains of the post-apartheid period. Institutional weaknesses moreover make most local and district governments largely dependent on provincial line departments.

The picture in urban areas is quite different. Here South Africa is unique, having inherited municipal structures that in comparative terms enjoy significant governance capacities and fiscal autonomy, especially in the three megacities of Johannesburg, Cape Town and Durban. It is even possible to talk of a local developmental state (van Donk et al. 2008). The democratic character of that state is another matter.

At the time of transition, South Africa's foundational development document, the Reconstruction and Development Programme, reserved a central role for community participation in promoting local development. Subsequent legislation mandated a series of participatory processes in local governance. But with the shift in 1996 to a more market-driven vision of development, the government came to see local government more as an instrument of service delivery than a forum for participation. As many commentators have noted, over the past decade local government has become increasingly insulated and centralized (*ibid.*). In the name of efficiency and more rapid delivery, the ANC has managerialized decision-making processes, and reduced the quality and scope of participatory processes created under the Reconstruction and Development Programme.

A wide range of participatory institutions such as community development forums have been dismantled or hollowed-out, and municipal governance has been centralized into unicity structures that have entrenched a bureaucratic and corporatist vision of urban governance (Beall, Crankshaw and Parnell 2002). The privatization or outsourcing of many government functions and increased reliance on consultants has virtually crowded out community structures. At the ward level, elected councillors and their handpicked ward committees have been given a new role and new resources for coordinating local development. Because of the electoral dominance of the ANC, and the very tight control it exerts over the selection of councillors, however, the new ward committee system feeds into ANC patronage. Interview and focus group data show that township residents complain bitterly that their ward councillors are more interested in advancing their political careers than in serving their communities (Heller 2001). More broadly, as Oldfield remarks, this "focus on development as a delivery process has framed the substantiation of democracy as a procedural policy rather than political challenge" (2008, p. 488). In sum, the local spaces in which citizens can practice democracy and exert some influence over South Africa's very ambitious project of local government transformation (*i.e.*, deracializing the apartheid city and closing the service gap) have narrowed.

SOCIAL MOVEMENTS AND DEVELOPMENT

In South Africa, social movements played such a critical role in the anti-apartheid struggle that they entered the democratic period with significant organizational capacity, enormous popular support and a lot of momentum. Despite the perverse and resilient inequalities of apartheid, large segments of the black population are well organized, most notably the labour movement, and have been able to secure significant redress such as labour protection and the deracialization of formal labour markets. Moreover, a wide array of movements from local civics (Heller 2003, Chipkin 2007) to single-issue campaigns and HIV/AIDS movements have deployed a range of ‘in-system’ and ‘extra-institutional’ tactics to press both rights-based demands (HIV treatment) and more contentious challenges (opposition to neo-liberalism) with the state (Ballard, Habib and Valodia 2006).

Following a well-established pattern (Hipsher 1998), a certain degree of demobilization was inevitable with the transition to democracy, especially considering the formal representation through various corporatist structures that the labour and civics movement were given. But the degree to which movements have been almost completely neutralized or sidelined requires some comment.

First, one needs to address the most complicated case—organized labour. The Congress of South African Trade Union’s (COSATU) strength and cohesiveness stands in sharp contrast to India’s fragmented and marginalized labour movement, and is a testament to the depth and breadth of labour organizing that took place under apartheid. Despite its alliance with the ANC, COSATU has retained its autonomy, often voicing criticism of the state and staging broad-based and well-organized strikes across sectors to leverage labour’s bargaining capacity (Habib and Valodia 2006). COSATU has moreover shown itself to be a powerful kingmaker, having played a critical role in Jacob Zuma’s defeat of President Thabo Mbeki for control of the ANC at the party’s December 2007 Polokwane conference.

Yet most assessments of labour’s role in South Africa’s corporatist structures, and specifically the National Economic Development and Labour Council (NEDLAC), are critical, arguing that the ANC has largely set the agenda. Most notably, COSATU failed to block or even modify the ANC’s shift from the redistributive Reconstruction and Development Programme to quite orthodox neo-liberal policy. COSATU itself recognizes its political marginality. In a policy document, the federation complained that the ANC National Executive Committee has no active trade unionists or social movement activists, and goes on to state, “Once elections are over we go back into the painful reality of being sidelined for another five years” (cited in Webster and Buhlungu 2004, p. 241).

For other social movements in South Africa, one can paint a much more simple picture. The national civics movement—the South African National Civics Organization (SANCO), which was next to labour the most important component of the anti-apartheid movement—has become little more than a compliant ANC mouthpiece. As shown in Heller 2001, local civics remain very active, extremely critical of the ANC's policies, and often engage in contentious action. They also serve as vital and vibrant local public spaces. But with the dismantling of local participatory structures and the cooptation of SANCO, civics have very little influence over the public sphere, much less over government policy.

In recent years, the extent of dissatisfaction with the quality of local government and persistent unemployment has fuelled the rise of new social movements in urban areas, including anti-eviction campaigns and various forms of resistance to the commodification of public services. In 2005, the Minister for Provincial and Local Government reported that 90 percent of the poorest municipalities experienced protests. The Minister for Safety and Security put the number of protests in 2004-2005 at almost 6,000 (Atkinson 2007, p. 58). These movements remain largely local and inchoate, and have had little choice but to resort to contentious actions, many directed specifically at ward councillors. They have largely been met with silence or outright hostility by the government.

A third movement of note has been the Treatment Action Campaign (TAC), which has received international recognition for its resistance to the government's disastrous neglect of the HIV/AIDS epidemic. This movement, which enjoys a very high level of professional capacity and some very innovative leadership, has scored a number of legal and moral victories over the government, including a new commitment to roll out ARVs. TAC has faced extraordinary challenges in engaging the government. For years the movement was subjected to thinly veiled claims of racism, routinely denounced by government officials as beholden to foreign interests, and often actively harassed, including through prosecution of grass-roots activists for providing anti-HIV transmission treatment to rape victims. That the TAC persevered and ultimately helped change government policy is a testament to its tenacity and efficacy as a movement. But it needs to be underscored that this is a tragic triumph. After the government spent years claiming HIV did not cause AIDS and completely ignored TAC and other HIV/AIDS organizations, not to mention international pressure and COSATU's protests, South Africa has the highest per capita infection rate in the world.

South Africa's democracy is of course very young, yet there are already troubling signs of increasing polarization. Civil society has become deeply bifurcated

between an organized civil society that effectively engages the state, and a subaltern civil society that is institutionally disconnected from the state and political society. Business groups, professionalized NGOs, the middle-class beneficiaries of South Africa's 'black economic empowerment' policies and organized labour continue to be well positioned to engage the state. But subaltern civil society groups, and especially those linked to the urban poor, have more or less been sidelined from the political process. This containerization has taken place through a complex set of institutional, political and discursive practices.

In institutional terms, the surface area of the state in South Africa has dramatically shrunk over the past decade. Participatory spaces in local government have been dismantled, and state-society relations have become increasingly bureaucratized and politicized. At the national level, corporatist structures are all but defunct. The state still transacts significantly with civil society, but does so in a highly selective and controlled manner. Across a wide range of sectors, the preferred mode of intermediation has become 'partnerships' with professionalized NGOs that carry out contracted services. Conditions for engagement with the state are increasingly set by complex standards for meeting performance targets and accounting practices that all but rule out community-based organizations. High-paid consultants, often working for 'non-profits', now occupy much of the terrain between the state and society. Katzenstein and Ray's characterization of the shifting nature of state-civil society relations in India might well have been written of South Africa: "Economic liberalization has been accompanied by the massive NGO-ification of civil society, arguably crowding out some of the more protest-oriented forms of organizing within the social movement sector" (2005, p. 9).

South Africa enjoys a significant natural resource base, a sophisticated economy and one of the most efficient tax regimes in the developing world (Lieberman 2003). With a high-capacity state, it was well positioned to translate economic resources into social development under a democratic mandate. It has largely failed to do so. Massive investments in health, low-income housing and education have produced disappointing returns. In Brazil, the rate of infant mortality was cut almost in half between 1996 and 2006. In South Africa, it increased in the same period. In Brazil, the proportion of girls in primary school rose from 83 percent to 95 percent between 1991 and 2004. In South Africa, it dropped from 92 percent to 88 percent in the same period.³³ Income inequality has risen and South Africa's major cities have become even more spatially polarized than under apartheid (Kracker and Heller 2010, Schensul and Heller 2011).

33 See WHOSIS database (WHO): www.who.int/whosis/en.

Arrighi, Aschoff and Scully arrive at the conclusion that without “structural reforms that re-invent the welfare state on foundations that can be generalized to the vast majority of the population, the economic and social performance of the South African state will continue to deteriorate” (2010, p. 435). Current social and economic policies are founded on a narrow alliance between the state, business elites and the upwardly mobile black middle classes. Expanding the basis for development will require a state that is more broadly embedded and sensitized to civil society.

COMPARATIVE LESSONS FROM BRAZIL, INDIA AND SOUTH AFRICA

The democratic deficit in India and South Africa lies neither in civil society per se nor in the formal character of the state. The state in both cases is a democratic one, and social inequalities notwithstanding, subordinate groups have organized in civil society. The more intractable problem has been the nature of engagement with the state. Despite the conditions of highly consolidated democracies and full rights of association, citizens from subordinate groups find it difficult to engage the state effectively.

There are two interrelated problems here. First, the surface area of the state remains quite limited, especially when it comes to local government. This institutional deficit, which is widespread throughout much of the developing world, compromises the most basic building block of any civil society—effective forms of association and engagement with public authority. Indeed, this problem is so acute and so debilitating that one might be tempted to argue that the most important developmental goal in democracies of the global South must be strengthening local democratic structures and practices.

Second, in both India and South Africa, political parties not only monopolize the channels of influence, but also exert considerable power in setting the agenda for which issues, claims and even identities enter the political domain. As a result, the public sphere is shaped largely by forms of influence that flow directly from political or economic power (parties, lobbies, powerful brokers) rather than from the deliberations of civil society actors. The problem of democratization thus lies less in the electoral institutions of democracy or the party system, which is dramatically different in both countries, than in the political practices and channels that link civil society to the state. The larger developmental result is that the state in both countries is embedded in society only through selective and generally patronage-driven linkages. The shortcomings of these linkages in part explain the comparative failure of South Africa to make more effective use of its inherited state capacity, and of India to translate its substantial growth dividend into capability-enhancing investments and policies.

Since the mid-1980s, Brazil has travelled a very different path. It points in particular to the developmental pay-off of having a strong and vibrant civil society. Beginning with the democracy movements of the 1970s, but then extending into the post-transition period, subordinate groups have actively occupied the spaces of civil society and transformed the public sphere. They have done so on a scale and with a degree of organization that far exceeds what one observes in India and South Africa. But even more importantly, civil society groups have projected themselves into the state, not only directly impacting the design and implementation of social policy, but also transforming the very nature of the state's engagement with society. This has undergirded a wide range of programmatically driven and rights-based developmental interventions. The state's embeddedness in structures of civil society has also increased the possibilities of co-production, which are critical to the success of capability-enhancing policies.

What these case studies underscore is just how delicate is the balance between civil society, politics and markets. As a general proposition, the importance of civil society in counterbalancing the power of markets and narrow political interests is clear. In all three countries, civil society actors have proactively pressed a range of social rights claims in areas as diverse as public health, women's empowerment and poverty reduction. They have also aggressively demanded greater accountability from the state and the expansion of participatory spaces. The effectiveness of civil society, however, has largely depended on political possibilities for processing and aggregating civil society demands.

In Brazil that relationship has largely been synergistic, but in India and South Africa narrow political interests have generally prevailed over civil society demands. These comparisons lead to an important lesson: The effectiveness of domestic civil societies is highly contextual, and in particular a function of civil society's relationship to political society. Developing a richer understanding of the circumstances under which social movements and civil society can contribute to deepening democracy and making development more inclusive require close attention to the political settings in which civil society operates.

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Financial Architectures and Development:

Resilience, Policy Space and Human Development in the Global South

ILENE GRABEL*

INTRODUCTION

Over the past three decades, developing countries have experienced economic and financial crises with disturbing frequency. The financially turbulent landscape has been the product of a policy and ideational environment that reified the liberalization of internal and external financial flows. Certainly, liberalized financial flows, coupled with lax oversight of the financial sector, induced the current crisis, beginning in 2008.

The 2008 crisis originated in the markets, institutions and failed regulatory architecture of the world's financial centre, the United States. It continues to have many secondary and tertiary epicentres, including but not limited to countries on the southern and eastern peripheries of Europe, and increasingly in some of the core European economies. The fallout of the crisis has affected many developing countries, such as via the decline and/or increased cost of trade credit, a general slowdown in lending by international banks as they attempt to protect reserves, a decline in inflows of remittances and official development assistance (ODA), and the loss of export share. The stand-by arrangements that the International Monetary Fund (IMF) has signed with some developing countries and a large number of countries on the European periphery are very similar to those of prior decades insofar as they require pro-cyclical macroeconomic policy adjustments, constrain policy space, and frustrate possibilities for economic, social and human development.¹

1 Stand-by arrangements are the IMF's basic short-term loan agreement. In European cases, the European Commission, the European Central Bank (ECB) and a few northern European governments have partnered with the IMF on the arrangements.

But the crisis of 2008 is in many ways distinct from its predecessors. What is most notable is the way in which it is producing institutional experimentation in financial architectures in the developing world. The drive towards experimentation rose out of the East Asian financial crisis of 1997 to 1998, which provoked some developing countries to take steps to insulate themselves from future turbulence, IMF sanctions and intrusions into policy space. There are diverse, unambiguous indications that the global financial architecture is now evolving in ways that contribute to a new institutional heterogeneity. Some policy and institutional innovations entail the emergence of financial architecture that is far less US- and IMF-centric than has been the norm over the past several decades. Moreover, the growing economic might, self-confidence and assertiveness by policy-makers in some developing countries, and, at the same time, the attendant uncertainties surrounding the economies of the United States and Europe, are disrupting traditional modes of financial governance and dispersing power across the global financial system.

It is far too early to be certain that lasting, radical changes in the global financial architecture are afoot, or that the developments now underway are secure. Nor is this paper arguing that all regions of the developing world enjoy the opportunity and/or have the means to participate in reshaping the global financial architecture. The goal here is to show that today there are numerous opportunities for policy and institutional experimentation, and there are clear signs that these are being exploited in a variety of distinct ways. As compared to any other moment over the last several decades, there are indications of fissures, realignments and institutional changes in the structures of financial governance across the global South. This current state of affairs can be characterized as one of ‘productive incoherence’ (Grabel 2011b). This term captures the proliferation of institutional innovations and policy responses given impetus by the crisis, and the ways in which the current crisis has started to erode the stifling consensus that has secured and deepened neoliberalism across the developing world over the past several decades.

The productive incoherence of the current crisis is apparent in the emergence of a denser, multilayered and more heterogeneous southern financial architecture. The crisis has induced a broadening of the mission and reach of some existing regional, subregional, bilateral and national financial institutions and arrangements, and stimulated discussions of entirely new ones as discussed in Section 3. In some limited cases, these substitute for the Bretton Woods institutions. This is most pronounced where the Bretton Woods institutions have failed or been slow to respond to calls for support, or where they have responded with conditionality that has overly constrained national policy space. But in most cases, the institutions and arrangements discussed here complement the global financial architecture.

Recent changes in the southern financial landscape increase its potential to promote financial stability and resilience, support the development of long-run productive capacities, advance aims consistent with human development and expand national policy space. Moreover, the emergence of a vibrant southern financial architecture is not simply additive. It may prove transformative insofar as the Bretton Woods institutions are pushed to respond to long-standing concerns regarding their legitimacy, governance and conditionalities.

1. THE PRODUCTIVE EFFECTS OF THE EAST ASIAN FINANCIAL CRISIS

The drive towards institutional innovation has its roots in the East Asian financial crisis. On the one hand, the crisis deepened the move to neoliberal reform in the developing world through a variety of policy and ideational mechanisms (Singh 1999; Grabel 2003, 2007; Wade 2007), even in East Asian countries whose own development experiences were very much at odds with this model. Stand-by arrangements with the IMF conditioned assistance on stringent macroeconomic policy contraction, market flexibility, privatization, economic openness that provided foreign investors with access to formerly protected areas such as banking, and a strengthened commitment to export-led growth.

Given the common diagnoses of the East Asian crisis offered by influential analysts, it is not surprising that the IMF and the Group of 7 (G7) leaders promoted reforms in economic and financial governance through a variety of forums that focused on greater dissemination of information, increased monitoring and surveillance, the adoption of universal standards and codes, arms-length corporate governance, regulatory and institutional harmonization around Anglo-American norms, and an associated enhanced role for market discipline, market-adjustment mechanisms and private actors (such as credit-rating agencies) in financial governance. The East Asian crisis therefore amplified pressures towards neoliberal conformance in a great many countries, wealthy and developing, even if a few countries, most notably China, bucked these trends.²

On the other hand, precisely because of the constraints on policy space that followed the East Asian crisis, momentum grew around the idea that developing countries had to put in place strategies and institutions to prevent a repeat of the events of the late 1990s.

2 The Enron, Long-Term Capital Management and other financial scandals in the United States in the 1990s were resolved on the side of those favouring more information, transparency and market discipline.

The IMF emerged a greatly weakened institution in regard to its credibility around the world, the adequacy of its financial resources, the size of its staff and the geographic reach of its programmes. Indeed, an important consequence of the crisis and subsequent changes in the global economy was the loss of purpose, standing and relevance of the IMF. Prior to the current global financial crisis, demand for the institution's resources was at a historic low. In fiscal year 2005, just six countries had stand-by arrangements, the lowest number since 1975 (Kapur and Webb 2006). From 2003 to 2007, the fund's loan portfolio shrunk dramatically, from US \$105 billion to less than \$10 billion, while just two countries, Pakistan and Turkey, owed most of the \$10 billion (Weisbrot, Cordero and Sandoval 2009). After the loans associated with the Asian crisis were repaid, those countries that could afford to do so deliberately turned away from the institution.³ This trend radically curtailed the geography of the IMF's influence. With some exceptions, its portfolio after the Asian crisis comprised loans to countries that were not able to self-insure.

Critics on the left and right railed against the institution's mission creep, heavy handedness, domination by the United States, and myriad failures in East Asia prior to and following the crisis. Policy-makers in a number of Asian and other successful developing countries, particularly in Latin America, sought to insulate themselves from the hardships and humiliations suffered by Asian policy-makers at the hands of the IMF (see Section 4). The explicit goal was to escape the IMF's orbit. They did this by relying on a diverse array of strategies: self-insuring against future crises through the over-accumulation of reserves; a new reliance on trade finance, foreign direct investment, lending and ODA from fast-growing developing countries such as Brazil and China; and the establishment of bilateral swap arrangements among central banks.

The dramatic decline in the IMF's loan portfolio after the Asian crisis indicates the degree to which these escapist strategies proved successful. Even in the current crisis, countries did their best to stay clear of IMF oversight. The Republic of Korea would have been a good candidate for a new type of precautionary flexible credit line. But it did not apply for one, presumably because of its prior experience and to avoid the stigma of being one of the IMF's clients (Wade 2010, fn. 10). Instead, it negotiated a reserve swap with the US Federal Reserve.

The crisis both stimulated interest in strategies that protected developing countries from the fund, and turned attention in Asia to the creation of a new institution that could serve as a counterweight or alternative to the IMF. In the

3 See Weisbrot, Cordero and Sandoval 2009; Kapur and Webb 2006; and Lerrick 2007 for further discussion of the turn away from the fund.

summer of 1997, as the crisis was beginning to unfold,⁴ Japan's Ministry of Finance proposed the creation of an Asian Monetary Fund, a new institution that would provide emergency financial support—sans the IMF's conditions. Though the proposal was never fully articulated, it was to be capitalized with an initial \$50 billion contribution by Japan and another \$50 billion from other Asian nations. The proposal grew out of frustration with economically harsh and politically intrusive IMF conditionality, and more broadly with the limited voice of Asian countries at the fund. It was eventually tabled in the wake of tensions between China and Japan that were adroitly exploited by the IMF and the US Government.

Section 3 returns to the failed Asian Monetary Fund initiative. The spirit of this initiative re-emerged in the Chiang Mai project, an initiative given new force by the current crisis. Other southern financial institutions and arrangements share a partial common ancestry in the Asian crisis experience. Some of these involve giving new life to largely dormant arrangements, others to scaling up existing arrangements, and some entail new institutional structures that are very much works in progress.

2. THE CURRENT CRISIS AND GLOBAL FINANCIAL GOVERNANCE

The current crisis has been good to the IMF (Chorev and Babb 2009). It has rescued the institution from the irrelevance that followed the Asian crisis by re-establishing its central place as first responder to financial crisis. This re-empowerment has come about for a number of reasons. Even with reduced staffing, the fund still holds a monopoly position when it comes to experience in responding to financial distress in poorer countries. Moreover, events in and on the periphery of Europe have contributed substantially to the IMF's resurrection as a consequence of the need of the European Union (EU), European Community and ECB for the fund's expertise, financial assistance and authority.⁵

The IMF's rescue was also facilitated by Group of 20 (G20) decisions during the crisis. Representatives at the group's April 2009 meeting gave the IMF pride of place in global efforts to respond. The message was not lost on the fund's former Managing Director, Dominique Strauss-Kahn, who said: "Today is the proof

4 Details in much of this paragraph are drawn from Kirshner 2006 and Grimes 2009a.

5 Lütz and Kranke (2010) argue that the EU has 'rescued' the IMF by partnering with it on bailouts and by channelling its harsh conditionality circa the 1980s and 1990s.

that the IMF is back” (Landler 2009). The meeting restored the IMF’s mandate and yielded massive new funding commitments, even if upon close examination these commitments are less than advertised, as Chowla (2009) demonstrates. Representatives committed \$1.1 trillion to combat the crisis, with \$750 billion to be delivered through the IMF. Other multilateral financial institutions have also been reinvigorated, such as the World Bank, the Inter-American Development Bank (IADB), and the European Bank for Reconstruction and Development.

At the same G20 meeting, several developing countries committed to purchasing the IMF’s first issuance of its own bonds: China agreed to buy \$50 billion, while Brazil, India, the Republic of Korea and the Russian Federation each committed \$10 billion. Thus, \$90 billion in new resources for IMF lending comes from countries that have traditionally not played an important role in fund governance. This is surely a landmark event reflecting the global economic power and autonomy of these rapidly growing economies.

At present, the fund is continuing to seek additional resources. As of January 2012, it has called for an additional \$500 billion in funding. Managing Director Christine Lagarde has made a particular point of calling on developing countries to step forward with additional commitments in light of the unfolding crisis in Europe, though this request has so far been greeted coolly by developing country (and wealthy country) policy-makers (see Grabel 2011c, Reuters 2012a).⁶

If the crisis has resurrected the IMF and ushered in a substantial change in sources of funding, it has also marked a sharp diminution in the geography of the institution’s influence. Those developing countries that have been able to maintain their autonomy have used the resulting policy space to pursue a variety of countercyclical macroeconomic policies and capital controls, and to expand existing or create new financial institutions and arrangements.⁷ Equally

6 As of this writing (June 2013), developing countries have in fact made a second round of funding commitments to the IMF. These commitments were announced in June 2012 when BRICS leaders met informally at the G-20 Leaders’ Summit. China committed US\$43 billion; Brazil, Russia and India each committed US\$10 billion, while South Africa pledged US\$2 billion. The 2012 contributions by the BRICS countries were pointedly conditioned on IMF governance reform. Brazil’s Finance Minister Guido Mantega stated the BRICS position clearly—the promise of additional funding was tied to “an understanding that the reforms of the Fund’s quotas, which will result in a greater voting power for emerging countries, will be implemented according to the timetable agreed by the G20 in 2010” Giles 2012.

7 There is some evidence that the fund is beginning to face competition from other institutions. For instance, Wade (2010, fn.10) points out that the IMF is losing new business to the World Bank outside of the European rescues. And he notes that even in Europe, Turkey broke off negotiations with the fund in early March 2010 because of the severity of its conditions. A few weeks later, the country negotiated a \$1.3 billion loan with the World Bank. See Grabel 2011b on the normalization of capital controls during the current crisis. See Ocampo et al. 2010 on the use of countercyclical policy tools in a range of developing countries during the current crisis.

important, the behaviour of these autonomous states (such as Brazil, China and India) has served as an example for less powerful countries that, in turn, have reacted in ways unimaginable in previous crises.

As of this writing, the countries that have emerged as new contributors to the fund have had only the most (exceedingly) modest effects on formal governance reforms there and at the World Bank.⁸ In October 2010, the G20 finance ministers agreed to transfer 6 percent of fund voting rights to developing countries by October 2012 and to double IMF quotas. Under the agreement, the top 10 shareholders will represent the largest economies in the world, which now include China, Brazil, India and the Russia Federation. European representatives also agreed to cede two seats on the Executive Board. Under the proposal, all executive directors will be elected by late 2012. The IMF ratified the G20's governance proposal in November 2010, though powerful countries may stall its implementation.⁹

The developing countries now being asked to contribute more to the fund may use this opportunity to press more aggressively on governance reform (Grabel 2011c). Regular meetings of the executive directors of the BRICS countries at the IMF and World Bank help to create new channels of influence over time (Wade 2011). These and other types of networks emerging among dynamic developing countries may well lay the groundwork for more significant changes.¹⁰

In sum, then, the IMF has discovered new vitality as a first-responder to economic distress as it has faced diminished scope to dictate economic policy.

8 An examination of IMF governance and reform is outside the scope of this paper. See Woods 2010, Wade 2011, and Vestergaard and Wade 2011 for detailed analyses of these matters, including the issue of voting rights and quotas at the IMF and World Bank. Various non-governmental organizations and even an IMF executive director have voiced concerns about the serious limits of recent governance reforms, and about the efforts of leading members to stall even the modest reforms agreed to in 2010 (e.g., see Nogueira Batista, Jr. 2012). Civil society groups have argued rightly that Africa is still inadequately represented in IMF decision-making, and that the new agreement on voting shares "leaves in place the US unilateral veto over some IMF decisions" (Bretton Woods Project 2010). This continued frustration with fund and World Bank governance plays an important role in motivating the innovations discussed in Section 3.

9 Indeed, as of this writing (June 2013) the US has not yet ratified the very modest 2010 agreement on governance reform, and the matter remains stalled at the IMF. The failure to move forward on governance reform makes it more likely that the BRICS will continue to explore new institutional initiatives that may in turn create more competition with the IMF in the coming years. On this point, during 2012 and 2013 the BRICS countries began discussions about the creation of a new development bank, a credit rating agency and a reserve pooling arrangement.

10 See the essays in Martinez-Diaz and Woods 2009 on the transformative potential of myriad new networks among developing country policy-makers.

In a changed landscape, it no longer enjoys wall-to-wall influence across the developing world, given the rise of relatively autonomous states there. The institution now finds itself dependent on raising new resources from vibrant developing countries. Even if this does not translate into formal changes in the institution's governance in the near term, as seems likely, it cannot be dismissed since it reflects broader changes in economic power. Institutional innovations in the global South may gradually reduce the centripetal status of the IMF, World Bank and the US dollar in global financial governance.

The G20 leaders' meetings, along with the expanded Financial Stability Board (FSB), are best seen as reflecting modest yet contested efforts to increase the voice of a small group of large developing countries in discussions of global financial governance.¹¹ In the early months of the current crisis, the G20 leaders' meetings seemed to signal the emergence of a new global financial architecture that was more pluralistic and inclusive than the old one, dominated as it was by the United States, other wealthy countries and the IMF. The G20 gave the leaders of countries such as Argentina, Brazil, China, India, Saudi Arabia and South Africa a seat at the table, along with the usual Group of 8 (G8) countries. Some observers were disappointed from the start with the organization's lack of inclusiveness, however (Payne 2010), and its timidity (Woods 2010). Others remain cautious (Helleiner and Pagliari 2009, Helleiner and Porter 2009, Helleiner 2011). In fact, the early promise of the G20 has largely given way to disappointment and frustration. For example, Ocampo (2010b) argues

11 The FSB is the successor to the Financial Stability Forum (FSF). "The FSB is mostly a coordinator. According to its Charter, the FSB has been established 'to coordinate at the international level the work of national financial authorities and international standard setting bodies in order to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies.' In addition, the institution is to work with the international financial institutions to 'address vulnerabilities affecting financial systems in the interest of global financial stability'....It (i.e., the FSB) is designed to act more as a loose network of various national policy makers (from ministries of finance, central banks, supervisory and regulatory authorities) and international officials concerned with financial stability issues rather than a substantial inter-governmental institution. The membership of the FSB expands significantly on that of the FSF. In 2009, the small club of G7 countries—Australia, Hong Kong, the Netherlands, Singapore and Switzerland (the ECB has also been a member)—was joined by the rest of the G20 countries, Spain and the European Commission. Like the FSF, the FSB also includes representatives of international financial institutions (the IMF, World Bank, Bank of International Settlements, Organisation for Economic Co-operation and Development (OECD)) as well as key standard-setting and central bank bodies" (FSB Charter and quotation from Griffith-Jones, Helleiner and Woods 2010, pp. 6-7; see also Helleiner 2010b). Developing country representation on other bodies that constitute the global financial regulatory architecture (such as the International Accounting Standards Board, the Technical Committee of the International Organisation of Securities Commissions and the Basel Committee on Banking Supervision) has also been expanded modestly, as Helleiner and Porter (2009) note.

that the G20 still reflects an “elite multilateralism;” for Vestergaard and Wade (2012) and Wade (2011) it is an illegitimate and non-representative body that has failed to accomplish what it set out to do, and even what its spokespeople claim that it has achieved. For Rachman (2010) the body is “divided, ineffective and illegitimate.”¹²

The G20 has come to resemble a larger, somewhat more unruly G8. The body is prone to issuing general communiqués in the face of unfolding crises while failing to take action on key issues (Grabel 2011c). Moreover, the G20 began in June 2010 to resemble the G8 in calling for the restoration of fiscal balance (see e.g., Fitoussi et al. 2011, Part I).¹³ In 2012, the leadership of the body shifted to Mexico. Given the neoliberal inclinations of the leadership there at present, there is reason to be pessimistic about momentum from the G20 on reforming the global financial architecture to promote greater inclusiveness and voice for developing countries, expanded policy space for development and the advancement of human development.

It is too early to tell whether the modest expansion of seats on these formal bodies will translate into real influence, greater inclusiveness and a commitment to enhance the policy autonomy of developing countries. But certainly there is hope that the new networks and relationships forming within these and other bodies (such as the Commission for Africa, the BRICS leaders’ summits, etc.) increase opportunities for dialogue, capacity-building and influence on the part of a broader group of developing countries (Martinez-Diaz and Woods 2009). More importantly, the financial resources and architectures taking root in the developing world indicate how the financial landscape can better speak to economic and human development needs in the global South.

3. NEW FINANCIAL ARCHITECTURES IN THE GLOBAL SOUTH

As with the Asian crisis, the current crisis has promoted interest in alternative modes of financial governance. It has stimulated the expansion of existing institutions and arrangements, and the emergence of new ones in the global South. It has been far more productive than the Asia crisis in propelling institutional

12 For a discussion of an alternative to the G20, see the Global Economic Council proposal in Vestergaard and Wade 2012, and Wade 2011. See also numerous papers in the collection edited by Dervis and Lombardi (2011).

13 One policy area where the G20 has distinguished itself productively is in its support for the right of countries to utilize capital controls (Gallagher 2011, Grabel 2011a).

innovations that may ultimately lead to more decentralized, pluralist, inclusive and developmental financial architectures that can respond to the myriad, diverse challenges facing developing countries. Moreover, changes in patterns of global economic growth and reserve accumulation since the Asian crisis have provided the resources necessary to scale up some older southern and South-South institutional arrangements and provide funding for newer ones. These changes both substitute for and complement the Bretton Woods institutions, while also having the potential to pressure them to increase their legitimacy, efficacy and inclusiveness.

Many observers have viewed the Asian and current crises as catalysts for rethinking the global financial architecture. The crises revealed the inadequacies of existing arrangements, and support the view that regional, subregional and multilateral arrangements should play greater, complementary roles in promoting financial stability, financial inclusion and long-term development. For example, Mistry (1999) argues that, after the Asian crisis, regional crisis management capacity could usefully complement national and global measures. This view was articulated forcefully in the 2002 Monterrey Consensus (International Conference on Financing for Development 2002).¹⁴ Writing before the current crisis, and based on experiences in Europe and the Andean region, Griffith-Jones, Griffith-Jones and Hertova (2008) conclude that there is a need for new or expanded regional and subregional development banks to fill gaps in the international financial architecture.¹⁵ Similarly, in the early days of the crisis, the Stiglitz Commission (United Nations 2009, Chapter V) called for a new global monetary system built from the bottom up through a series of agreements among regional arrangements. In a related vein, Ocampo (2010b) argues that improving economic and social governance necessitates the creation of a dense, multilayered network of world, regional and national institutions. In this view,

14 The Monterrey Consensus emphasized the central role that regional and subregional banks can play “in serving the development needs of developing countries and countries with economies in transition.” It also stressed that these institutions should “contribute to providing an adequate supply of finance to countries that are challenged by poverty and should also mitigate the impact of excessive volatility of financial markets.” Equally importantly, the Monterrey Consensus argued that “(s)trengthened regional development banks and subregional financial institutions add flexible financial support to national and regional development efforts, enhancing ownership and overall efficiency. They can also serve as a vital source of knowledge and expertise on economic growth and development for their developing member countries” (International Conference on Financing for Development 2002, paragraph 45, with additional discussion in UNCTAD 2011a, p. 115).

15 Their preliminary calculations show that regional development banks could provide additional annual lending of approximately \$77 billion if developing countries allocated just 1 percent of their reserves (which at the time equaled \$32 billion) to paid-in capital for expanding existing or creating new regional development banks.

regional and subregional institutions play an important role between global and national financial arrangements (see also Ocampo 2006, 2010a, 2011a, 2011b; and essays in Volz and Caliri 2010).¹⁶ Strauss-Kahn, who during the crisis embraced regionalism and argued that the IMF should promote it, echoes this view. In his words: "...we might look at ways to collaborate with regional reserve pools. We...do not see such funds as 'competitors.' Indeed, they can be a positive and stabilizing force...At its most ambitious, such collaboration could even include Fund resources serving as a backstop to regional pools" (Strauss-Kahn 2010).¹⁷ Finally, the United Nations Conference on Trade and Development (UNCTAD 2011a) usefully articulates a concept of "developmental regionalism" to frame contemporary discussions about the need to promote forms of South-South cooperation organized around lines quite distinct from those associated with European financial regionalism.

Many observers highlight the gradual transformations now underway across the financial landscape of the global South. Tussie (2010) argues that the world is the middle of a period of transition to a more multi-tiered financial and monetary system. Chin (2012) believes that the crisis has had a catalytic though gradual effect in promoting a deeper form of regionalism in Asia (particularly because both China and India are increasingly engaged in this process). He further argues that the crisis is stimulating the development of a more diverse global system (see also Chin 2010, Helleiner 2010a, Woods 2010).

Some observers are less sanguine about signs of an emergent regionalism in financial architectures. For example, Chin (2010), Eichengreen (2010) and Cohen (2010) conclude that regional responses so far are modest, especially in connection with lender-of-last-resort assurances, financing for balance-of-payments crises or currency stabilization. They also note that when the current crisis emerged, East Asia and South America turned quickly to unilateral and bilateral rather than to existing regional mechanisms. Conceding that point, it does not undermine the case for discontinuity and change at the current juncture.¹⁸

16 This conception of regional and subregional institutions might be likened to Wade's (2008) discussion of the need for "middleware" in the global financial architecture. Middleware refers to software that allows different families of software to communicate with one another, thereby avoiding the need to utilize a single, centralized platform.

17 I thank Luis Rosero for this point.

18 Note also that Chin (2012)—which was sceptical of signs of emergent regionalism in 2010—today highlights the catalytic effects of the crisis in the ongoing and gradual process of regionalization in Asia.

REGIONAL AND SUBREGIONAL FINANCIAL INITIATIVES ACROSS THE DEVELOPING WORLD

The regional, subregional and national initiatives discussed here suggest that the financial crisis is serving as the midwife to more inclusive and developmental financial architectures in the global South. Some institutions and arrangements have a single objective, e.g., the provision of longer term project/development finance, the promotion of financial stability through liquidity support, trade and/or financial integration, or a reduction in the US dollar's role via a new currency or payment arrangements. Others combine some or all of these objectives. Moreover, the crisis has stimulated many institutions to expand their operational objectives. Some that traditionally focused on trade promotion or project finance, for instance, have moved into liquidity support. Finally, there is good reason to question the traditional distinction between project finance and liquidity support. Project finance provided during crises serves a countercyclical role, since at such moments long-term finance becomes scarce and expensive. The provision of trade credit or the ability to settle trade in the national currency supports intra- and/or interregional trade, which can promote financial stability during a crisis. The maintenance of stable trade patterns may also increase a country's access to project finance.

Many of the institutions and arrangements discussed here are characterized by governance structures that differentiate them from the Bretton Woods institutions. They are organized to promote greater inclusiveness, though there is considerable divergence in the degree to which this is achieved, and they take different approaches to conditionality.¹⁹ In some cases, there is an explicit commitment to avoid all forms of it, while in others the matter is being actively debated, or is minimalist and highly country specific. For the most part, the institutions and arrangements considered here are more agile than the Bretton Woods institutions insofar as they respond quickly to economic challenges in their field of operations.

19 The common defense of conditionality put forward by the Bretton Woods institutions is that it prevents moral hazard by errant borrowers and creates the foundation for economic renewal. Decades of studies have found that this is not the case, and that conditionality compromises policy autonomy. In particular, IMF conditionality has negative effects on economic performance, redistributes income upwards, has disproportionately negative effects on women and children, and empowers the financial community and external actors over national policy-makers and vulnerable groups. See Vreeland 2003 on conditionality in the period prior to the current crisis. See Weisbrot, Ray, Johnston, Cordero and Montecino 2009 for similar evidence on the effects of IMF programmes during the current crisis. Ortiz et al. 2011 find that austerity programmes during the current crisis have disproportionately negative effects on children and other vulnerable groups.

IN ASIA

The East Asian crisis awakened interest in regional financial architectures in the developing world. It gave voice to an aborted proposal for an Asian Monetary Fund that in 2000 formed the basis for the bilateral swap agreements that are at the heart of the Chiang Mai Initiative (CMI). The CMI involves the central banks of the Association of Southeast Asian Nations (ASEAN), plus China, Japan and the Republic of Korea (the so-called ASEAN+3).²⁰

The current crisis has motivated incremental though certainly consequential architectural innovation among the ASEAN+3 members. Decisions taken in May 2012 by policy-makers in these countries underscore how the global crisis is stimulating a broadening and deepening of regional financial arrangements despite obstacles that some analysts had previously seen as insurmountable.

The crisis has been a powerful impetus for developing the CMI in important respects on two occasions. The first time was in early 2009, when the CMI was ‘multilateralized’, such that it is now known as the Chiang Mai Initiative Multilateralisation (CMIM). This involved the creation of a \$120 billion regional currency reserve pool from which member countries could borrow during crises.²¹ China, Japan and the Republic of Korea provided (and today still provide) 80 percent of the CMIM’s resources, with China and Japan each contributing 32 percent. The ‘plus three countries’ together hold 71.6 percent of the voting power. Decisions regarding renewals of and disbursements from the fund are decided on the basis of a weighted majority two-thirds voting system, in which each country receives 1.6 basic voting shares plus additional voting shares based on the size of its contribution. In practice, this means that despite the significant block of votes held by both China and Japan, neither country alone can veto disbursement decisions.²² The largest economies within the CMIM (namely, China and Japan) can borrow an amount that is equal to no more than 50 percent of their contribution to the fund; the Republic of Korea can borrow an amount equal to the size of its contribution; better-off ASEAN members can borrow up to 250 percent of their individual

20 ASEAN comprises Brunei Darussalam, Cambodia, Indonesia, Lao People’s Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam.

21 Note that from the perspective of neo-classical economics, regional reserve pooling arrangements may be seen as puzzling from the vantage point of risk diversification since economic shocks are likely to be shared across regions (Basu and Kannan 2010). Evidence from Latin America suggests that this is not necessarily the case as the demand for resources within a region may, in fact, be sequential (see Ocampo and Tittleman 2012).

22 Reflecting the power and wealth dynamics of the region, China and Japan have the same voting weight, the Republic of Korea half the voting weight of each of the two countries, and ASEAN countries a weight disproportionate to their financial contributions (ADB 2010).

contributions; and the five smallest economies can borrow up to 500 percent of their contributions.²³

The transformation of the CMI to the CMIM was significant because it increased the potential scope of central bank currency swaps and reserve pooling arrangements in the region. This introduced the possibility that member countries may not need to turn to the IMF when they face liquidity crises. However, at the behest of creditor countries within the arrangement (up until May 2012), disbursements from the CMIM in excess of 20 percent of the credits available to a country require an IMF surveillance programme (smaller disbursements from the CMIM did not have this requirement). Grimes (2009b, p. 12) calls the CMIM-IMF link an “elegant solution” to the difficult political problem of regional surveillance since “it allows the lending governments to elide responsibility for imposing conditions by delegating conditionality to the IMF.” In this sense, the CMIM’s operation could be seen to reinforce rather than challenge the IMF (Grimes 2011).²⁴

Since the 2009 decision to multilateralize the CMIM, ASEAN+3 members have continued to wrestle with and deepen the arrangement with an eye towards the original vision that inspired it. On 30 January 2012—after much politically fraught discussion involving the selection of a site and a director—the ASEAN+3 Macroeconomic Research Office (AMRO) was opened in Singapore (Ciorciari 2011, pp. 945-46). AMRO is charged with conducting IMF Article IV-type monitoring of members, though presumably with a greater degree of regional and national sensitivity.²⁵ AMRO’s own website describes it as the “regional surveillance unit of the CMIM.... Its purposes are to monitor and analyse regional economies and to contribute to the early detection of risks, swift implementation of remedial actions and effective decision-making of the CMIM” (AMRO).

Some analysts have noted that the naming of AMRO reflects the tension over regional surveillance. On this matter, Eichengreen (2011, p. 4) observes: “Even the name, which refers to the new entity as a ‘research’ office shies away from giving it concrete oversight of national policies. These limitations are indicative of the continuing reluctance in Asia to criticize the policies of regional neighbours and thus of the obstacles to conducting firm surveillance. This is

23 Description of the CMI and CMIM drawn from ADB 2010; Eichengreen 2010; Grimes 2009a, 2009b, 2011; Sussangkarn 2011; Ciorciari 2011; Capannelli 2011 and Henning 2009.

24 The CMIM does not literally realize the Asian Monetary Fund proposal at this point, since the latter was developed with the goal of displacing the IMF in the region. See Grimes 2011 for a discussion of the important differences between these initiatives.

25 The first director, Mr. Wei Benhua of China, was unanimously appointed on 11 April 2011.

probably the main obstacle to a more significant role for CMIM.²⁶ Observers of the region remain somewhat sceptical as to whether AMRO will evolve into a true regional surveillance body, though this is obviously the key to the CMIM's evolution as a competitor to the IMF (Kawai 2010, *Financial Times* 2011b, Grimes 2011, Azis 2011). Chin (2012, p. 7) is somewhat more optimistic, seeing AMRO's progress as a possible 'second step' on the way to a gradual loosening of the CMIM's link with the IMF, and a step in the evolution towards something approximating an Asian Monetary Fund.

At the May 2012 ASEAN+3 meeting, CMIM members took a number of important steps to expand its size and scope. Together these changes move the CMIM further towards the Asian Monetary Fund proposal that is its intellectual antecedent. The following critical decisions were announced (AMRO 2012).

1. The size of the currency swap pool was doubled, to \$240 billion.
2. For 2012-2013, the need to be under an IMF programme does not become operative until the swap drawn equals 30 percent of the maximum for the country (and 40 percent in 2014, pending discussion and conditions at the time).
3. The maturities of IMF-linked and de-linked swaps were lengthened.
4. A precautionary credit line facility was introduced. It allows members to draw on swaps of the size governed by the country-size formula that already exists in the CMIM, based on what appear at this time to be vague macro-economic criteria. Credit lines have IMF-linked and de-linked components.²⁷

The May 2012 decisions underscore the dynamic character of financial regionalization among CMIM members. They also highlight the continued and complex efforts to build an institutional framework that reduces the role of the IMF in the region.

Writing before the May 2012 decisions, some long-time analysts of power politics in Asia such as Grimes (2011) and Cohen (2010) suggested that great power rivalries and regional security tensions are so deep-seated that the IMF will continue to be seen as a necessary "neutral third party in CMIM matters" (Grimes 2011). In addition, many CMIM sceptics note that the swaps

26 Some have also suggested that early tensions over naming AMRO centred on whether the word 'and' should appear between 'macroeconomic' and 'research', and that this tension reflected the deep divisions over the granting of regional surveillance power (private communication, February 2012).

27 The Asian Bond Market Initiative was also expanded in May 2012.

available under both the CMI and now the CMIM have yet to be activated.²⁸ Instead, CMIM members are negotiating bilateral swaps between their own central banks and those of non-CMIM member countries, such as the United States, while continuing to hoard official reserves on a national basis.²⁹ Another oft-cited obstacle to the full realization of the CMIM is the link to the IMF. This means that governments in the region will not utilize CMIM resources owing to experiences during the Asian crisis (Sussangkarn 2011). Certainly the decision taken in May 2012 on loosening the IMF link is a step in the right direction.

A final criticism concerns the size of the CMIM swap pool. Many analysts have previously noted that the pool is small relative to the likely need during a crisis (ADB 2010, Cohen 2010). For example, Chin (2012, p. 6) noted before the May 2012 decisions that CMIM resources represented just 2.4 percent of the almost \$5 trillion in international reserves held by central banks in Asia at the end of 2011, and were relatively small as well when compared to the \$586 billion crisis-response package deployed in China in November 2008. Recognition of the limited firepower of the CMIM, a fact made plain by the Eurozone crisis, led many analysts and officials over the last two years to call for a significant expansion in the size of its resources (ADB 2010, Talley 2012, Dow Jones Newswires 2012). This call was heeded in May 2012.

There is reason to take seriously the real obstacles involved in breaking the CMIM-IMF link, particularly since this is rooted in historical experiences. But if the current crisis reveals anything, it is that unexpected developments happen when the need arises. Moreover, the CMIM and AMRO are new, and as recent developments make clear, there is no good reason to believe that their scope is fixed. It is therefore premature to conclude that the CMIM will fail to adapt as the demands placed on it evolve. That its swaps have yet to be activated and the

28 Japan and the Republic of Korea agreed to a \$70 billion currency swap in October 2011 as the European financial crisis deepened; \$10 billion is to come from the CMIM. But the swap has not been activated. The Government of the Republic of Korea appears to see it as an emergency line of credit intended to stabilize foreign exchange markets and as something to be utilized only as a last resort (Bloomberg.com 2011b). CMIM sceptics note that member countries continue to rely upon swaps with the United States. For example, in October 2008, the Republic of Korea negotiated a one-year swap arrangement with the US Federal Reserve for \$30 billion rather than avail itself of the \$3.7 billion available to it under the (then) CMI. Accessing the full amount available to it, namely \$18.5 billion, would have necessitated an IMF agreement (Sussangkarn 2010). Experience with the IMF during the Asian crisis made that politically infeasible. Around the same time, Singapore also requested a bilateral swap with the US Federal Reserve instead of utilizing funds available under the CMI.

29 Regarding this tendency, Cohen (2010, p. 21) argues that “since CMIM was announced, both Japan and China have been energetically negotiating or expanding their own bilateral local currency swaps in the region even while planning to incorporate their existing bilateral dollar swaps into CMIM. Each government, in effect, appears to be competing to line up as many regional clients as possible, offering access to the yen or yuan as bait.”

central banks of the region's larger economies continue to accumulate official reserves ought not be taken as indicators of failure. The 2012 expansion of the CMIM's scope and size underscores the dynamism of the arrangement and policy-makers' continued commitment to push its boundaries. The CMIM may therefore best be understood as a vital part of an evolving process of regionalization and experimentation,³⁰ one that may ultimately lay the groundwork for more significant cooperation among central banks in this and other regions.

The evident costs of the EU's failure to resolve the surveillance matter may well give CMIM members the motivation to accelerate their efforts. In fact, the scale and intractability of the eurozone's problems in 2012 likely played a role in recent decisions taken by the CMIM. The IMF's (and the 'Troika's') actions in Mediterranean Europe surely resonate with Asian policy-makers. Recognition that the IMF's resources are insufficient to handle the fallout in Europe may have driven the decision to double the size of the CMIM pool.

IN LATIN AMERICA

Among regions in the developing world, Latin America has long had the greatest number of regional and subregional institutions in its financial architecture. It is therefore unsurprising that the crisis has moved the region further in this direction. The re-emergence of more populist governments and the success of large commodity exporters have also stimulated regional, subregional, bilateral and unilateral initiatives.

One example is the Latin American Reserve Fund (FLAR). FLAR was founded in 1978 as the Andean Reserve Fund. It is based in Colombia, and its members include Bolivia, Colombia, Costa Rica, Ecuador, Peru, Uruguay and Venezuela. As of December 2011, FLAR has a capitalization of just over \$2.3 billion. Like the CMIM, it is a regional reserve pooling arrangement that acts largely as a credit cooperative, lending to members' central banks in proportion to their capital contributions (Chin 2010, fn. 40). It maintains five different credit facilities (for details, see Ocampo and Tittleman 2012, pp. 18-19). The majority of its loans to central banks, including third-party ones, are for liquidity support and guarantees in the event of balance-of-payments or foreign exchange pressures (*ibid.*). FLAR also supports central banks in improving the liquidity of and return on international reserve investments,

30 Writing before the 2012 decisions, Grimes (2009a, 2011) argued that the CMI and CMIM (as well as the ASEAN+3 Asian Bond Markets Initiative) reflect the maturing of ASEAN+3 cooperation. Arner and Schou-Zibell (2011) see the CMIM as providing the outlines of a crisis management structure and a potentially important liquidity mechanism in the region (see also Ciorciari 2011).

and facilitating the restructuring of public debt (McKay, Voltz and Wölfinger 2010). FLAR's website states more broadly that the institution contributes to the harmonization of exchange rate, monetary and financial policies of its members (FLAR 2011). This occurs principally through small regional conferences and an annual conference since 2006 (Ocampo and Titleman 2012). FLAR created a subregional currency, the Andean peso, intended for short-term reciprocal credit among member central banks, plus those of Argentina and Chile, but it has not been used (*ibid*).

Each member of FLAR has one vote. Disbursal of support funds requires the assent of at least five of the seven members, though the three largest contributors, Colombia, Peru, and Venezuela each have 21 percent of the vote, giving them an effective veto. This straightforward disbursement criterion is seen by many analysts as an important factor in the institution's ability to respond rapidly to requests for support.³¹ Lending by FLAR is not in any formal way linked to the IMF, which contributes to the institution's high degree of legitimacy among members.³²

There are some important differences between the CMIM and FLAR. A far older and less well-capitalized institution, FLAR has a broader mandate. Members must deposit funds with the institution, whereas CMIM members can provide letters of commitment enabling them to manage their contributions independently. The leadership issues that stymie the CMIM do not affect FLAR, which lacks a clear leader (Giorciari 2011). Most importantly, the critical issue of surveillance that has plagued the CMIM has largely been resolved within FLAR. It has a surveillance and monitoring unit, the Economic Studies Division. Central banks seeking FLAR support for balance-of-payments problems are required to present information on monetary, credit, exchange, and fiscal and trade measures for mitigation.³³ To this point, FLAR has not denied support to a member on the basis of its plans for policy reform.³⁴ But in one case it did mandate a loan condition familiar to students of the IMF. A loan to Ecuador in 2006 required the Government to run a primary budget surplus of at least 2 percent of GDP from 2006 to 2008 (Rosero 2011).

31 Eichengreen (2011) argues that moving to a simple majority vote on disbursals would speed FLAR's response time.

32 Details in this and the next paragraph are drawn from Eichengreen 2011, McKay; Voltz and Wölfinger 2010; and FLAR 2011, except where noted.

33 Eichengreen (2011) notes that it is unclear if the Economic Studies Division is privy to a good deal of confidential national economic information.

34 There is no such surveillance required for short-term credit support (McKay, Voltz and Wölfinger 2010).

There has never been a default on a loan made by FLAR, something thought to reflect members' level of ownership. Members appear to treat FLAR as a preferred creditor, though it does not formally have this status. This has resulted in the institution's sterling credit rating. In fact, FLAR's credit rating is higher than the rating of any individual member nation and slightly above that of the Andean Development Corporation (see following discussion) and even regional star (and non-member) Chile (FLAR 2011).

Prior to the current crisis, FLAR lending to member countries was significant compared to IMF lending. From 1978 to 2003, FLAR loans of \$4.9 billion were almost 60 percent of the \$8.1 billion in IMF loans to members (Chin 2010, fn. 41). During the financial crises of the 1980s and the 1998-1999 period, FLAR provided more financing than the IMF did (Ocampo and Titelman 2009-2010, p. 261). In some cases, FLAR contributed stabilizing resources when the IMF did not, or when member governments declined to engage the fund, such as Peru in 1988, Colombia in the 1980s and 1990s, and Costa Rica recently (Ocampo and Titelman 2012). Although FLAR resources are relatively small, for some members they are quite significant. It has lent resources equal to 35 percent of Bolivia's foreign exchange reserves in 1985-1986, 28 percent of Ecuador's in 1998 and 30 percent of Colombia's in 1984 (Ocampo and Titelman 2009-2010, p. 262). As Ocampo and Titelman (*ibid.*) also point out, FLAR's lending has been redistributive on the subregional level. Bolivia and Ecuador have received 55 percent of FLAR's disbursements, and they are granted privileged terms with respect to borrowing capacity. The timeliness and speed with which FLAR has been able to disburse funds is also notable (*ibid.*).³⁵ Twice FLAR has issued bonds—a three-year bond for \$150 million in 2003 and a five-year bond for \$250 million in 2006 (*ibid.*).

FLAR lending has been significant during the current financial crisis—\$480 million from 2008 to 2011 (Ocampo and Titelman 2012).³⁶ During the same period, the IMF made no loans to member countries, although it did provide Colombia with a large flexible credit line of \$10.4 billion in 2009 (*ibid.*).

FLAR's potential is nonetheless limited by the fact that it involves a small number of countries. The region's largest economy, Brazil, is not a member and has kept itself at a distance from the institution, as well as from the Bank of the South, described below (Chin 2010). The same can be said about the other large economies, namely, Argentina, Chile and Mexico. Their absence necessarily

35 See FLAR 2011 for details on its lending over time, and Rosero 2011 for detailed case studies of FLAR lending to Colombia in 1999, Costa Rica in 2003 and Ecuador in 2006.

36 Excluding Venezuela, FLAR lent 35 percent more than the IMF did to member countries from 1978 to 2011. The exception was the period from 1989 to 1993 (*ibid.*).

curtails available resources. Research by Rosero (2011) finds that given the rather stagnant levels of capital subscribed to FLAR, it is of most use now to its smaller member countries, namely, Bolivia, Costa Rica and Ecuador. This perhaps contributes to the institution's distributive success as noted by Ocampo and Titelman (2009-2010). Larger member countries—Colombia, Peru and Venezuela—rely on bigger pools of resources from other sources, such as the contingency line of credit that Venezuela has with China (Rosero 2011, p. 109). Eichengreen (2011) notes that even Colombia, where the institution is based, declined to engage or enlarge FLARs resources during the crisis.

FLAR is insufficiently capitalized to respond to the needs of larger economies especially given current market uncertainties. Many analysts have called for increasing its capitalization by as much as three times (Eichengreen 2011).³⁷ Ocampo and Titelman (2009-2010) argue that the institution has the potential to expand its membership in the Americas and the Caribbean, though they acknowledge the possible incentive problems that may frustrate efforts in that direction. They and others also argue that FLAR can increase its reach by connecting directly with other existing and nascent subregional and regional arrangements, and multilateral institutions. Other analysts argue that FLAR could expand its resources through larger paid-in quotas by its members, and by establishing contingent lines of credit with member central banks and private banks or even by intermediating funding from the IMF (Rosero 2011).

Despite its limited reach, the many achievements of FLAR during its relatively long tenure should not be dismissed. The institution has a high level of legitimacy among its members, notably around the issue of surveillance; its loans have all been repaid; and it has been able to respond rapidly to funding requests, which has improved economic conditions in recipient countries (Rosero 2011, Ocampo and Titelman 2009-2010).³⁸ Its activities have partly addressed subregional distributional issues, generated savings for recipients by offering better terms than other international institutions, and catalysed support from other lenders (*ibid*). By providing support during balance-of-payments crises, FLAR contributes to financial stability for member countries and, as a consequence, may promote intraregional trade during downturns (Agonsin 2001).

Though the matter has not been researched, FLAR could have behavioural effects on the central banks of smaller member countries. For them, access to

37 See Ocampo and Titelman 2012 for discussion of proposals to increase FLAR's capitalization and membership.

38 The average approval time for FLAR loans is 32 days (Ocampo and Titelman 2012).

FLAR resources may reduce the pressures and concomitant opportunity costs of accumulating excessive foreign exchange reserves. In the context of a rapidly evolving southern financial landscape, FLAR is best seen as one among many institutions in a complex network of unilateral, bilateral, regional, subregional and multilateral institutions and arrangements (Ocampo 2006). As such, it should be understood to complement and fill gaps in the existing financial architecture. It does not make sense to evaluate FLAR (or the CMIM) against the benchmark of whether or not it substitutes for the IMF or bilateral swaps or contingent lines of credit, especially for larger economies.

Another institution in Latin America that bears mention is the Andean Development Corporation (CAF).³⁹ Founded in 1968, it is a multilateral, regional development bank that focuses mainly on medium- and long-term lending (Ocampo and Titelman 2009-2010). A large number of Latin American countries and some Caribbean states are CAF members.⁴⁰ The corporation is owned almost exclusively by developing countries, with the exception of Portugal and Spain, which are also members. As of 2011, member countries owned 97 percent of its assets, quite different from the ownership structure of other regional multilateral lenders (ft.com 2012). By the end of 2010, CAF had assets of \$5.6 billion, with the majority of loans going to Andean countries (Ocampo and Titelman 2009-2010, p. 256). CAF lends broadly throughout its membership, however, in contrast to FLAR, and a significant percentage of its recent loans have provided project finance to larger countries. In 2010, 15.3 percent of its loans went to Argentina, 18.8 percent to Brazil, 9.4 percent to Colombia, 16.1 percent to Peru and 15.6 percent to Venezuela (CAF 2010).⁴¹

In terms of lending volume, CAF is among the most dynamic of all of the multilateral development banks. Ocampo and Titelman (2009-2010, p. 252) report that CAF lending grew fourfold between 1991 and 2007. During the same period, lending by the IADB doubled, but World Bank lending to South America grew by only 40 percent. CAF loans have increased substantially since

39 CAF has recently been renamed the Latin American Development Bank. But the acronym is still used for legal reasons, and so we use it in what follows.

40 Members include Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, Jamaica, Mexico, Panama, Paraguay, Peru, Portugal, Spain, Trinidad and Tobago, Uruguay and Venezuela.

41 The Financial Fund for the Development of the River Plata Basin (FONPLATA) is a smaller institution with a narrower remit that operates in a manner that is similar to CAF (see Chin 2010, p. 705, 709; Ocampo and Titelman 2009-2010, pp. 251, 258-59). Ocampo and Titelman (2012) discuss another subregional development bank, the Central American Bank for Economic Integration.

2000, and notably have continued to grow through the global downturn. During 2010, CAF approved loans of \$10.5 billion, a record figure that represents an increase of 15 percent over 2009 (CAF 2010).⁴²

Fifty-seven percent of CAF loans approved in 2010 were medium- and long-term in nature, and nearly 46 percent were for infrastructure projects (*ibid.*). Since 2001, CAF has been the main source of multilateral project financing for Andean countries, providing over 55 percent of multilateral financing. From 2006 on, over 50 percent of its lending has gone to infrastructure (Griffith-Jones, Griffith-Jones and Hertova 2008). Given the scarcity of medium- and longer term finance in developing countries, CAF's role as a source of stable long-term finance should not be overlooked. This has been particularly important during the global crisis, insofar as funds for longer term project finance in the developing world have contracted severely. In this sense, we can see finance from CAF (as well as from FLAR) playing an important countercyclical and developmental role, since it provides a stable source of lower cost finance to member nations, something that is particularly important during crises.

Like FLAR, country ownership of CAF may account for its very high loan recovery rate,⁴³ and a credit rating higher than those of individual member countries. Aside from the importance of its lending activities to a broad range of countries, CAF issues a large percentage of bonds in Latin American currencies. In June 2004, CAF issued bonds in Colombian pesos, a first for Latin America, and it did so again in December 2008 and April 2009. More recently, it issued similar bonds in the Peruvian, Mexican and Venezuelan currencies.⁴⁴ In 2007, nearly 33 percent of CAF bonds were issued in Latin American currencies, compared to only around 15 percent for the IADB (Ocampo and Titelman 2009-2010, Table 2). This practice reduces exchange rate risk for CAF and borrowing countries. More importantly, it promotes the development of local currency bond markets, which may have numerous positive spillovers in terms of financial stability and access to long-term credit, absent the common problem of locational mismatches.

42 However, thanks to implicit guarantees by the United States and other rich countries, the World Bank and the IADB are better able to respond with a larger volume of loans in times of crisis, a pattern evident in the 1980s, late 1990s and the current crisis. CAF loan approvals in 2008 were \$7.9 billion, in 2009 were \$9.1 billion and in 2010 were \$10.5 billion. By contrast, the World Bank approved loans to Latin America of \$4.6 billion, \$14 billion and \$13.9 billion, and the IADB approved loans of \$11.2 billion, \$15.5 billion and \$12.4 billion, in 2008, 2009 and 2010, respectively (Ocampo and Titelman 2012, p. 15).

43 There were very few defaults on CAF loans from 1999 to 2003 despite the fact that these were difficult years for the region (Desai and Vreeland 2011, p. 115).

44 I thank Luis Rosero for information on bond issuance by CAF.

Another Latin American initiative that warrants attention is the Agreement on Reciprocal Payments and Credits (CPCR). Since 1966, the CPCR has facilitated bilateral lines of trade credit among 12 of the central banks that are members of the Latin American Integration Association.⁴⁵ The CPCR essentially involves a payment guarantee to exporters that is made by the banks, to be settled every four months in dollars in terms of net intraregional trade.⁴⁶ During the CPCR's life, the number of intraregional transactions and the CPCR's coverage of total intraregional trade have varied widely (for data, see Ocampo and Titelman 2012, and UNCTAD 2011b).

The agreement was given new life during the current crisis when intraregional trade declined significantly. In April 2009, guaranteed payment coverage under the CPCR was increased from \$120 million to \$1.5 billion. As of 2010, the CPCR still played a small role in intraregional trade, with around 5 percent or \$5 billion in transactions channelled through the mechanism (Ocampo and Titelman 2012, Figure 1). The main benefit of the CPCR is that it reduces transactions costs—something that may help stabilize trade during periods of turbulence (UNCTAD 2011b, p. 37).

Recently Brazil—which to date has not expressed interest in FLAR or the Bank of the South (see following discussion)—has directed attention to the CPCR (Chin 2010, p. 705). Both Argentina and Brazil have bilaterally taken a step that goes beyond the dollar-centric CPCR. They agreed to settle their bilateral trade with one another in local currencies. Extending this practice across CPCR countries, and to others in the region were CPCR membership to expand, would be of significant benefit to intraregional trade and broader efforts to decouple Latin American economies from the US dollar.

Ocampo and Titelman (2009-2010) suggest that an expanded FLAR could manage and extend the CPCR. In addition, they argue that the CPCR could be embedded in other initiatives (such as the sucre currency plan described below). This would be consistent with the broader objectives of the Latin American Integration Association.

Two new Latin American initiatives are the Bank of the South (BDS) and the Bolivarian Alliance for the Peoples of Our Americas (ALBA). Their ultimate significance is not yet known, since each is in its infancy. Many difficult matters need to be resolved before the BDS can even begin operating.

45 Members of the Latin American Integration Association are Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Mexico, Paraguay, Peru, Uruguay and Venezuela. Cuba is the only member that is not a subscriber to the CPCR. The CPCR functions in a manner that is similar to the European Payments Union in the 1950s (Gnos, Monvoisin and Ponsot 2009). Details were drawn from Chin 2010; Gnos, Monvoisin and Ponsot 2009; Ocampo and Titelman 2012; and UNCTAD 2011b.

46 For details, see www.aladi.org/NSFALADI/arquitec.nsf/vsitioweb/sml.

The BDS was developed by Venezuelan President Hugo Chavez and is headquartered in that country. It has received a great deal of attention because it has been situated rhetorically as a rival to the IMF. At this point, however, the rivalry remains aspirational rather than practical. The BDS was founded in 2007 and officially launched in 2009 when the four member countries of the Southern Common Market or MERCOSUR (namely, Argentina, Brazil, Paraguay and Uruguay) and the Union of South American Nations (Bolivia, Ecuador and Venezuela) agreed on details to get the bank off the ground.⁴⁷ According to the agreement, Argentina, Brazil and Venezuela will capitalize the Bank with contributions of \$2 billion each, Uruguay and Ecuador with \$400 million each, and Bolivia and Paraguay with \$200 million each. As of 2008, the seven countries involved in the BDS had committed \$20 billion to it (Desai and Vreeland 2011, p. 117).

Some observers view the BDS as the main element of a new regional financial architecture with several components. This vision involves reserve pooling; greater cooperation in the region via the increased use of its currencies; the operation of a new unit of account, the sucre, to be used as a regional payments settlement mechanism; a regional central bank; and a regional development bank that provides low-cost, stable credit to projects of developmental importance (Pérez 2009-2010, Marshall and Rochon 2009-2010, Marshall 2010).⁴⁸ Marshall (2010) rightly argues that the success of the more ambitious aspirations for the BDS necessitates complementary national financial reforms that enhance the operation of domestically owned banks, especially public banks. Notwithstanding these ambitious aims, by the time of its launch in 2009, the BDS had a mandate narrowed to the provision of project finance in the region, i.e., longer term lending for development projects in agriculture, energy, health care, infrastructure and trade promotion (Chin 2010). Lender-of-last-resort emergency finance is not included in its mandate. The precise functions and goals of the BDS are still being debated among member nations.

The BDS plans to grant all member countries equal voting power, though loans of more than \$70 million will require approval of countries that represent at least two-thirds of the bank's total capital, something that Brazil apparently insisted upon (Phillips 2009). The designers of the BDS stipulated a 'no conditionality' clause for lending, meaning the institution's staff will determine the

47 The BDS is an outgrowth of proposals advanced by the Ecuadorian Presidential Commission for the New Financial Architecture. Details on membership, funding and voting rights at the BDS are drawn from Phillips 2009 and the International Center for Trade and Sustainable Development 2009. Discussion of the mission of the BDS draws on Desai and Vreeland 2011 (p. 117), Gnos, Monvoisin and Ponsot 2009, Vernengo 2010, and Marshall and Rochon 2009-2010.

48 'Sucre' stands for the Unified System for Regional Compensation.

capacity of members to borrow and will not impose restrictions beyond the established terms of the loan (Desai and Vreeland 2011, p. 117). The BDS enters into force when parliaments of member countries ratify its founding agreement.⁴⁹

As of this writing, the BDS is not yet operational; its scope and prospects remain quite uncertain. One hurdle that must be overcome is competing aims for the institution. While some members such as Brazil envision it as a regional development bank that complements existing domestic, regional and sub-regional institutions, others, such as Venezuela, see it in far more ambitious and multifaceted terms.⁵⁰ The debate is not surprising, given the institution's recent vintage and important ideological differences among its members (Hart-Landsberg 2009). As noted earlier, Brazil has kept itself at a distance from the BDS and FLAR, something that may ultimately constrain progress (Chin 2010, p. 706). Some analysts suggest that Brazil joined the BDS, despite its misgivings, only to be able to shape it into something that more closely approximates the European integration model that centres on liberalizing flows of capital, labour and goods (Hart-Landsberg 2009, p. 14).

The vitality of the BDS may very much be linked to the future performance of the Venezuelan economy, inasmuch as the institution's funding at present depends on the country's oil revenues (Desai and Vreeland 2011, p. 117). Another consideration is whether or not the BDS will be able to raise funds on international capital markets, and if so, at what cost. This is a concern because of the credit ratings of some of its members, and also because the rating agencies are likely not to look favourably on the institution due to the no-conditionality clause within its charter (Desai and Vreeland 2011, Quintana 2008).

The ALBA initiative stems from the work of the Ecuadorian Presidential Commission for the New Financial Architecture, and involves nine countries in Latin America and the Caribbean. It is led by Bolivia, Cuba and Venezuela; Antigua, Barbados, Dominica, Ecuador, Honduras, Nicaragua, and St. Vincent and the Grenadines are members as well. It is designed to promote new, non-market structures organized around Latin American solidarity, collaboration and social equity, and the creation of an integrated trade and monetary zone in which obligations will be settled both in local currencies and in the newly created sucre currency to be managed by the ALBA Bank (see Hart-Landsberg

49 Some countries have already ratified the BDS agreement, e.g., Argentina on 7 September 2011 (Mander and Webber 2011).

50 See Marshall and Rochon 2009-2010 and Pérez 2009-2010 for discussion of an ambitious vision for the BDS based on the plans that came out of the Ecuadorian Presidential Commission for the New Financial Architecture. They also relate it to Keynes' proposal for an International Clearing Union. See Rosero and Erten 2010 for discussion of the competing visions for the BDS.

2009, 2010; Artaraz 2011). Decisions made by ALBA will be by consensus, and no conditionality will be imposed on loan agreements (Janike 2008).⁵¹

Sucre exist now as a virtual currency (i.e., a unit of account), and are being used to a very limited extent to clear trade payments for specific commodities, mainly between Ecuador and Venezuela. The first sucre-denominated transaction involved Venezuelan rice exported to Cuba in January 2010. The following July, Ecuador and Venezuela conducted their first trade in sucre, with Venezuela paying 1.89 million sucre to Ecuador for rice. Between July and December 2010, \$40 million worth of trade between the two countries was settled in the currency (Dow Jones Newswires 2010, Venezuelaanalysis.com). As of 2011, sucre have been used to clear \$198.7 million in trade transactions (Ocampo and Titelman 2012). At the 11th ALBA Summit in February 2012, members committed to allocating 1 percent of their reserves to the ALBA Bank, established in January 2008, in order to create a reserve fund.⁵²

While it is far too early to judge the performance or potential of the BDS and the ALBA/sucre initiatives, they are important examples of financial experimentation in the global South. These two efforts are joined by a broad counter-hegemonic goal of reducing the role of the dollar in the economies of Latin America, developing arrangements that more closely knit the region's economies together, and creating institutions of trade and finance that reflect the political voice(s) of Latin America's diverse leadership.

IN AFRICA

Within East Africa, one nascent initiative bears mention.⁵³ Members of the East African Community (Burundi, Kenya, Rwanda, Tanzania and Uganda) plan to launch the East African Community Monetary Union (EACMU) and a common market. Current challenges to this initiative include sudden inflationary spikes in the region, issues relating to the timeline of the unionization process, and new concerns about currency unions that have arisen in the context of European difficulties.⁵⁴

51 A systematic discussion of the ALBA, the BDS and the CPCR can be found in UNCTAD 2011b (see also UNCTAD 2009). On ALBA, see www.alba-tcp.org, www.sucrealba.org, www.bancodealba.org and Venezuelaanalysis.com.

52 After the summit, the Nicaraguan President committed 1 percent of the country's reserves to the ALBA Bank. The head of the Nicaraguan Central Bank reportedly resigned in objection to this decision.

53 Metzger 2008 surveys the scope of regional economic integration, and the mechanisms of trade and financial cooperation in Africa.

54 I thank Leonce Ndikumana for insights and resources on this currency union. For recent discussions that suggest the plan is on a slow track, see IMF 2012 and Ihucha 2012.

Delay is perhaps for the best since the architecture of the EACMU cannot be described as developmental regionalism. Indeed, it is of a piece with the Eurozone in its impulse towards fiscal contraction and low inflation. East African member nations have agreed to macroeconomic convergence criteria that limit budget deficits and inflation to 5 percent of GDP.

The architecture of the EACMU is thin insofar as there are no set criteria for reserve adequacy, and no provisions for reserve pooling, crisis management or fiscal policy harmonization (Kamau 2011). It aims to liberalize capital flows and harmonize capital market infrastructure among members, including regulations, taxation and accounting (Yabara 2012). At this point, it bears little resemblance to the goals and structure of the CMIM and the Latin American initiatives discussed earlier.

IN THE ARAB WORLD

The Arab Monetary Fund (ArMF) was founded by central bankers in 1978. Today it has 22 members and a relatively small amount of paid-in capital, approximately \$2.8 billion.⁵⁵ It takes deposits from member countries' central banks and monetary agencies. The ArMF has a broad developmental and financial stability remit, like FLAR and the main regional development banks (see below). The parallel with FLAR results from the breath, formalized operations, size of secretariat and institutional tenure of the ArMF. Its broad policy mandates include the provision of financial support to members experiencing balance-of-payments problems; the promotion of exchange rate stability, monetary policy coordination, financial market deepening, intraregional trade and current account liberalization; the eventual establishment of a common currency; and, since 2009, support for countries facing short-term liquidity problems caused by difficulties in accessing international financial markets during the global crisis.

The ArMF has several different lending facilities. 'Automatic' and 'ordinary loans' finance balance-of-payments deficits. The former grant up to 75 percent of paid-in capital, while the latter grant up to 100 percent and are combinable with automatic loans to reach 175 percent. 'Extended loans' are for cases when the balance-of-payments problem is of a structural nature, and therefore requires a longer repayment period running up to seven years. 'Compensatory

55 Members comprise Algeria, Bahrain, Comoros, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, State of Palestine, Sudan, Syria, Tunisia, United Arab Emirates and Yemen. Description of the ArMF draws particularly on McKay, Volz and Wölfinger 2010 (pp. 20-22) but also on UNCTAD 2007 (Chapter 5), Corm 2006, Ciociari 2011 and Eichengreen 2011 (p. 114).

loans' are expected to bridge unexpected shortfalls in export receipts. A 'structural adjustment facility' was launched in 1997 to support reforms in government finance, and financial and banking systems, and a short-term liquidity facility was created in 2009. These different loan types are disbursed with varying degrees of speed. Automatic loans have a rapid processing time since they neither require a country mission nor any sort of conditionality. Ordinary and extended loans generally are disbursed within one to six weeks. They do require a mission, conditionality and monitoring, but conditions are less stringent than those associated with the IMF (Corm 2006, p. 309). ArMF's 50-person technical staff is considered highly competent; however, there is some question about whether monitoring is sufficiently stringent in view of overdue interest of \$188 million, as noted in the fund's 2009 annual report (see McKay, Volz and Wölfinger 2010).

From its establishment through the end of 2009, the fund made 146 loans totalling \$5.6 billion to 14 countries. Around three-quarters of loans were for balance-of-payments support (*ibid.*).⁵⁶ In 2009, the fund gave two loans for stabilization purposes of around \$140 million, the largest amount for such purposes since 2001 (*ibid.*). In the same year, it granted five loans for \$470 million under the new short-term liquidity facility (ArMF 2009).

The ArMF's structure is similar to that of the IMF and other multilateral development banks. Country votes on the Executive Board are in proportion to the size of contribution. There are eight voting seats; three countries hold over a third of the votes—Saudi Arabia has 13.58 percent, and Algeria and Iraq each possess 11.96 percent.

The ArMF has no formal relation to the IMF, and does not borrow from it or other multilateral institutions. Its Articles of Agreement charge it with providing complementary lender-of-last-resort finance to members experiencing balance-of-payments difficulties. For this reason, members are expected to seek complementary support for ordinary and extended loans from regional and multilateral institutions. This explicitly complementary role no doubt reflects the small pool of resources presently available to the ArMF. These can surely be increased, given the foreign exchange and sovereign wealth fund assets possessed by the oil-exporting nations (see section 4). Nevertheless, the complementary role envisioned by ArMF's architects is also consistent with the idea of a layered, multidimensional financial architecture.

56 Data reported by UNCTAD 2007 (Table 5.2) show that in 2005 to 2006 only 6 percent of its loans were for trade facilitation, while 74.2 percent were for balance-of-payments purposes.

REGIONAL (MULTILATERAL) DEVELOPMENT BANKS

Prior to the current crisis, the Asian Development Bank (ADB) was already lending more than the World Bank inside the region, and the IADB and FLAR were already providing more crisis-related financing in South America than the IMF (Woods 2010). The crisis accelerated this trend. The ADB, IADB and the African Development Bank (AfDB) have responded in their regions in some cases more quickly and with larger loans than those from the IMF and the World Bank. They have also introduced new types of temporary rapid financing programmes and countercyclical lending facilities to support developing and low-income countries (Chin 2010, Woods 2010).

The activism of the main regional development banks was facilitated by the G20's decision in April 2009 to devolve a portion of the new IMF financial commitments to the main regional institutions.⁵⁷ Indonesia proposed in April 2009 that some of the financing go to the ADB. With G20 backing, the ADB introduced the Counter-cyclical Support Facility to provide up to \$3 billion to Asian economies affected by the crisis. In total, the ADB approved \$8.8 billion in crisis support through a range of programmes (ADB 2009). Between 2008 and 2009, ADB's lending commitments grew by 42 percent and disbursements by 33 percent (Ocampo et al. 2010). Regional development banks in other parts of the developing world quickly followed this example, and were granted a portion of the new funds committed to the IMF to create regional lending facilities for rapid countercyclical support (Chin 2012).

The IADB established a \$6 billion rapid disbursement emergency fund to support the countercyclical efforts of member governments. It also expanded callable capital by \$4 billion; increased its commitments by 38 percent in 2009 (having already raised disbursements significantly in 2008), and disbursed 60 percent more in 2009 than in 2008 (Ocampo et al. 2010, p. 51). The IADB also signed an agreement with the Export-Import Bank of China to provide up to \$200 million in trade finance for commerce between China and Latin America, with financing allowed in a range of currencies (IADB 2011b).

The AfDB established a \$1.5 billion emergency liquidity facility. Between 2008 and 2009, it increased its lending commitments by 137 percent and its disbursements by 125 percent, the largest spike in disbursements of any of the main regional development banks (Ocampo et al. 2010, p. 52). The AfDB also deployed lines of credit to two banks in the region, approximately \$62 million to Banco Africano de Investimento in Angola and \$12 million to the Bank of Kigali (AfDB 2011b). In June 2011, the AfDB and the ADB began

57 Details in this paragraph are from Chin 2010, except where noted.

Table 1: Multilateral ODA to the least developed countries, gross disbursements (millions of 2009 dollars, constant price)

	2005	2009
<i>Total multilateral donors</i>	13,787.0	18,812.0
<i>Main regional development banks</i>	1,783.4	3,468.2
<i>African Development Bank</i>	173.6	148.9
<i>African Development Fund</i>	1,017.8	18,52.2
<i>Asian Development Fund</i>	510.3	896.7
<i>Caribbean Development Bank</i>	...	14.2
<i>Inter-American Development Bank, Special Fund</i>	81.6	556.3
<i>Main regional development banks as a share of total multilateral ODA (%)</i>	12.9	18.4

Source: UNCTAD 2011a, p. 115.

to cooperate with one another on the provision of finance to support African trade (ADB 2011).⁵⁸

During the crisis, the main regional development banks provided a good deal of countercyclical support through a variety of mechanisms. Though they are often only thought of as project lenders, they provided a significant and growing amount of ODA, a trend in line with the transformed or expanded operations of other institutions during the crisis. In 2009, the regional development banks together provided 18.4 percent or \$3.4 billion of the ODA provided by all multilateral institutions, a 42 percent increase over the same figure in 2005 (see Table 1). ODA from regional development banks may become more important to low-income countries in the coming years, as may South-South ODA (see below) as policy-makers in wealthy countries curtail aid commitments because of domestic economic and political challenges.

Drawing on a proposal first advanced by World Bank President Robert Zoellick (2008), Griffith-Jones (2011, Section III) and UNCTAD (2011a, Chapter 4) propose that the activities of existing and new regional and subregional development banks could be bolstered significantly by a modest reallocation, on the order of 1 percent, of the growing pool of sovereign wealth fund assets held by developing countries (see Section 4 for discussion of this proposal and southern sovereign wealth funds). These new resources could be utilized to enhance the traditional lending operations of the main regional development banks, but they might also be used to scale up ODA to low-income countries.

58 See Ocampo et al. 2010 and Griffith-Jones, Tyson and Calice 2011 for discussion and data on the European Investment Bank's response to the crisis.

BILATERAL FINANCIAL INITIATIVES ACROSS THE DEVELOPING WORLD

The current crisis has stimulated numerous bilateral financial mechanisms across the global South. These provide diverse types of financial support to developing countries outside the framework of the IMF, the United States, and the regional and subregional institutions discussed above. They comprise currency swaps, trade finance, ODA, loans and lines of credit. For the most part, they do not involve emergency liquidity support.⁵⁹

BILATERAL CURRENCY SWAPS

Of all of the nations in the global South, China has been most active in negotiating currency swaps.⁶⁰ While the swaps are no doubt driven by many aims, most important among them is the protection of bilateral trade flows and the maintenance or expansion of market access, including to strategic natural resources. The swaps allow the country's trading partners to maintain reliable access to the currency during the economic downturn, so they can continue to pay for Chinese imports in RMB rather than US dollars. They also ensure that Chinese firms can pay for goods from trading partners in their currencies. They may well have been motivated by precautionary efforts to stave off actual or anticipated foreign exchange and liquidity pressures, especially in important current and future trading partners. Foreign policy considerations are another likely driver in that the swaps provide a means to expand influence in the developing world, cement foreign relations and internationalize the domestic currency.

China's swaps extend over three years and include deals of over 1.3 trillion RMB with over 15 countries. These have allowed importers and exporters to settle 2.7 trillion RMB in cross-border trade deals in RMB (xinhuanet.com 2012). As of June 2011, China has signed three-year currency swaps with Argentina (70 billion RMB), Belarus (20 billion RMB), Hong Kong (400 billion RMB),

59 Chin 2010 notes the enduring reliance on bilateral and national finance over regional finance in the first two years of the crisis. Recent developments have caused him to take greater note of regionalist impulses (Chin 2012). Eichengreen (2011) highlights the continued centrality of bilateral responses to which the United States is a party, over and above South-South bilateralism.

60 The Bank of Japan and especially the US Federal Reserve were active in negotiating currency swaps during the crisis. Since October 2008, the Federal Reserve has opened temporary swap agreements with 14 central banks, including those of Brazil, Canada, Mexico, New Zealand, the Republic of Korea and Singapore. The swaps with Brazil, Mexico, the Republic of Korea and Singapore in October 2008 were each for \$30 billion. Brazil and Singapore did not end up drawing on the facility, Mexico drew on it once, and the Republic of Korea drew on it over several quarters (Moreno 2011). The US swaps with the Bank of Canada and the Bank of Mexico built on longstanding arrangements.

Indonesia (100 billion RMB),⁶¹ Malaysia (80 billion RMB), Mongolia (5 billion RMB), Pakistan⁶² (10 billion RMB), the Republic of Korea (360 billion RMB),⁶³ Singapore (150 billion RMB), Thailand (70 billion RMB) and Uzbekistan (700 million RMB) (Chinaoffshore.com 2012, ft.com 2011c, *Financial Times* 2011c, Bloomberg.com 2011a).⁶⁴ China's bilateral swap arrangements do not challenge the role of the IMF or the dollar directly since the central banks of these countries cannot use the RMB to intervene in foreign exchange markets, import merchandise from third countries,⁶⁵ or pay foreign banks or bondholders because the currency remains unconvertible (Eichengreen 2009).

OTHER TYPES OF SOUTH-SOUTH BILATERAL FINANCIAL FLOWS

There has been a significant increase in South-South ODA during the current crisis, although it is difficult to get comprehensive, precise statistics for two reasons. First, aid by developing countries is often channelled via a range of instruments (such as grants, concessional loans, mixed loans, export-import banks and technical assistance). Second, Brazil, China, India and South Africa do not report to the OECD-Development Assistance Committee, and hence OECD statistics on South-South ODA do not include flows from them.⁶⁶ (OECD data do include ODA from the Republic of Korea, Thailand, Turkey, the United Arab Emirates, other Arab countries and related multilateral institutions.⁶⁷) Despite data limitations, it is indisputable that Brazil, China, India and South Africa have become critically important in the provision of ODA in the developing world, particularly following the establishment of new initiatives that promote these efforts, such as the Forum on China-Africa Cooperation in 2000, the Africa-India Forum Summit in 2008, and the India, Brazil and South Africa Partnership in 2003 (UNCTAD 2011a, Chapter 4).

61 The Chinese-Indonesian swap was negotiated after the US Federal Reserve rebuffed Indonesia (Sussangkarn 2011, p. 214).

62 Pakistan and Turkey negotiated a bilateral three-year currency swap equivalent to \$1 billion in local currency in November 2011 (Dawn.com 2011).

63 The Republic of Korea also negotiated a two-year \$20 billion swap with Japan (Chin 2010).

64 In July 2009, China started to allow selected firms in five Chinese cities to use RMB to settle transactions with businesses in Hong Kong, Macau and ASEAN countries. Foreign banks are allowed to buy or borrow Chinese currency from mainland lenders to finance such trade. During the crisis, Brazil and China also signed an agreement to settle trade using the RMB and the real.

65 The only exception is that the RMB can be used in cross-border trade with China's immediate neighbours or the special administrative regions of Hong Kong or Macao.

66 See Bräutigam 2009 for a meticulous empirical examination of China's ODA to Africa.

67 OECD data show that South-South ODA was over \$900 million in 2009, which represents a four-fold increase in real terms over the last decade (UNCTAD 2011a, Chart 34).

At the end of 2011, the China Development Bank (CDB) had assets that exceeded \$952 billion or over 6 trillion RMB (CDB 2011). It lent actively in the domestic market during the crisis. In 2010, domestic lending focused on infrastructure, transportation, energy, agriculture and forestry; 2011 lending was heavily weighted towards housing, water, rural development, and various ‘green’ initiatives, such as green credit, low carbon finance and solar energy (ibid.).

During the crisis, China launched a variety of bilateral financial initiatives in Asia, Africa, Latin America and the former Soviet bloc countries through its ‘policy banks’, especially the CDB, but also the China Export-Import Bank. Between 2009 and 2010, the two banks lent at least \$110 billion to developing country governments and companies, a figure that exceeded total World Bank loans to the developing world by \$10 billion from mid-2008 to mid-2010 (*Financial Times* 2011a). By the end of 2010, the CDB had made loans to more than 90 countries, whose total indebtedness reached \$141.3 billion (Rosario and Runfei 2011). Examples of China’s loans to the developing world include a \$2.2 billion loan for a gas pipeline in Uzbekistan in 2011, \$85 million for modernization of coal mines in Ukraine in 2012, \$50 million for electronic infrastructure in Peru in 2011, \$200 million for infrastructure in Vietnam in 2011, at least \$1 billion to build a hydroelectric plant in Ecuador in 2009, and a \$10 billion loan to Brazil’s national oil company in 2009. In 2009, China doubled a development fund in Venezuela to \$12 billion.⁶⁸ Unsurprisingly, these loans and lines of credit appear to be driven by the same range of objectives as the country’s currency swaps, particularly access to key resources and markets.

Bräutigam (2009) provides extensive details on China’s loans (and other financial flows) to Africa. By the end of 2011, the CDB had made \$7 billion in loans to more than 30 countries in Africa (allAfrica.com 2012). Gallagher et al. (2012) provide equally exhaustive analysis of China’s new role as a dominant lender to Latin America.⁶⁹ They find that since 2005 China has provided loans of over \$75 billion to Latin America. Two-thirds of these were directly related to oil, and 91 percent went to just four countries—Argentina, Brazil, Ecuador and Venezuela.⁷⁰ China’s \$37 billion in loans to Latin American in 2010 were

68 Details on these Chinese loans are drawn from allAfrica.com 2012; Interfax news agency 2011, 2012; Asia Pulse 2011; Thai Press Reports 2011; Romero and Barrionuevo 2009; and Chin 2010. See Bräutigam 2009 and Gallagher et al. 2012 for further examples.

69 The findings of Gallagher et al. (2012) regarding Chinese loans to Latin America are consistent with the earlier study by Bräutigam (2009) on the country’s loans to Africa.

70 Argentina, Ecuador and Venezuela have difficulty accessing international capital markets. See Gallagher et al. (2012) for details on the terms and composition of some of these loans.

more than the combined loans made to the region that year by the World Bank, the IADB and the US Export-Import Bank.

CDB loans do not carry the same conditionalities as those from the Bretton Woods institutions. But Chinese loans are not without strings, such as requirements that funds be used to purchase Chinese goods (*ibid.*). Gallagher et al. also find that the interest rates on loans offered to Latin American borrowers by the CDB are generally higher than those of the World Bank. This finding challenges the conclusion that South-South loans are in all respects more advantageous to recipients than loans from regional or multilateral sources.

Brazil's National Bank of Economic and Social Development (BNDES) was founded in 1952; it eclipses all other national lending institutions in Latin America in terms of its assets. As of 30 September 2011, assets totaled \$341.9 billion (BNDES 2011), placing it far ahead of the region's major multilateral bank, the IADB, which had assets of \$87.2 billion in December 2010, and the World Bank, which had assets of \$282.8 billion in June 2010 (Foldes Guimaraes 2011, p. 19). The only development bank with larger assets is the CDB, which had \$774.1 billion in December 2010, compared to \$329 billion at BNDES (*ibid.*). As a federal institution, BNDES is charged with providing long-term finance to Brazilian firms, primarily private ones, and also coordinates actions with private banks to support distressed firms (Torres Filho 2011). One of its most important goals is to support the globalization of Brazilian firms via exports or operations abroad (Ocampo and Titelman 2009-2010).

BNDES has been an extremely active lender during the crisis. It played a critical role in providing finance when private domestic lenders in Brazil contracted their operations in 2008 (Chandrasekhar 2011) and all but froze lending from September 2008 to January 2010 (Torres Filho 2011).⁷¹ Taken together, public banks in Brazil provided 73 percent of all credit growth during this period. BNDES alone provided 37 percent; other state-owned banks provided 36 percent; private banks provided only 27 percent (*ibid.*). This speaks to the countercyclical role played by BNDES, though the institution is often seen more narrowly as a development finance institution. Between mid-2009 and mid-2011, BNDES lending to the country's producers grew by 70 percent and the total volume of its lending was equal to 3.3 percent of Brazil's GDP (Ghosh 2011). As a result of these activities, the ratio of credit to GDP rose after the crisis (Chandrasekhar 2011, p. 8). In 2010, BNDES lent a record \$96.3 billion, which was 33.3 percent higher than the previous record in 2009 (Foldes Guimaraes

71 The Brazilian Government made a loan of approximately \$55 billion to BNDES during the crisis, a capital injection that certainly facilitated the institution's ability to continue lending (Torres Filho 2011).

2011, p. 3). Notably, 67 percent of bank loans with a maturity of over five years were made by BNDES in December 2009 (Torres Filho 2011), an important contribution given that long-term credit becomes especially scarce during crises.

BNDES has moved outside the country and the region. In August 2009, it opened its first branch office in South America, in Montevideo, Uruguay (Chin 2010, p. 710). BNDES loans to developing countries from 2008 through the first quarter of 2010 reached \$1.5 billion, though foreign aid from Brazil is channelled via other mechanisms as well, and its rate of new lending now far exceeds that of the World Bank disbursements.⁷² Since the start of the current crisis, BNDES has lent some \$15 billion to countries in the region (Woods 2010).

As with the CDB, it has provided a growing amount of finance to countries in the Caribbean and Africa (Chin 2010, p. 697). As of 2010, BNDES had approximately \$2 billion of projects in Africa (Foldes Guimaraes 2010),⁷³ some of which were made possible by a 2008 stimulus programme for Brazilian companies active in Africa, an initiative known as Program Integration with Africa (World Bank and IPEA 2011, p. 5). Examples of BNDES' loans to facilitate joint ventures in Africa include \$500 million to a Brazilian and Angolan venture to use sugarcane to produce sugar, ethanol and power, and \$260 million to a Brazilian and Ghanaian initiative to produce ethanol (*ibid.*, p. 81).

BNDES has also begun to cooperate with other multilateral and regional development banks. It signed a financial cooperation agreement with the development banks of China, India, the Russian Federation and South Africa as part of its continuing engagement with the BRICS countries (BNDES 2011). The World Bank has also partnered with BNDES on new financing packages—it arranged for \$4 billion in new loans, including a three-way loan for Brazil in partnership with the IADB and BNDES (Chin 2010, p. 710).

The crisis seems to be stimulating South-South bilateral financial initiatives in one other way, which concerns efforts to settle trade without using the US dollar as a vehicle currency. As noted previously, China has been pursuing this measure, and Argentina and Brazil have established a mechanism for settling their trade transactions with one another in their own currencies.

In October 2008, Argentina and Brazil began operating a bilateral System of Payment in Local Currency (SML), which allows exporters and importers from both countries to settle their transactions in Argentine pesos and Brazilian real for transactions of up to 360 days (Gnos and Ponsot 2009). Under this

72 See Ghosh 2011 and *The Economist* 2010 on BNDES and Brazilian aid more generally.

73 This figure includes trade financing through an export-import subsidiary and foreign direct investment by Brazilian companies supported by BNDES.

settlement mechanism, exporters can set prices in their home currency, and thus be insulated from foreign exchange risk, particularly because the transactions clear relatively quickly. In practice, the SML tends to involve Brazilian exporters (Argentinean importers). In the 16 months before January 2010, 94 percent of transactions cleared through the SML were Brazilian (UNCTAD 2011b, p. 40). To this point, use of the SML has been extremely modest: Only 1.1 percent and 2.2 percent of bilateral trade was cleared through it in 2009 and 2010, respectively (Ocampo and Titelman 2012, p. 11). However, the mechanism has proven useful to small- and medium-sized enterprises, since their size makes it difficult and costly to access the foreign exchange market (UNCTAD 2011b). The expectation is that other members of MERCOSUR will utilize the SML. When and if this occurs, it would reduce the role of the dollar in the region more broadly.

SUMMING UP: TRANSFORMATIONS ACROSS THE FINANCIAL ARCHITECTURE OF THE GLOBAL SOUTH

In a variety of ways, the financial architecture of the global South has evolved during the current crisis. Institutions and arrangements are best seen as part of a gradual process of financial transformation. These innovations are not likely to displace or even challenge the Bretton Woods institutions. It is best to think of them as complementing and deepening the global financial architecture. To the extent that they do so, they may also result in changes in the Bretton Woods institutions.

Reflecting on the diverse, explicit objectives of the institutions and arrangements considered here reveals that these range from multilateral reserve pooling, to the multilateral provision of liquidity to enhance financial stability, to longer term project or development finance, to support for regional trade and/or financial integration, and to support for new currencies and payment arrangements that may ultimately reduce the centripetal role of the US dollar. Table 2 summarizes somewhat imperfectly the key findings of Section 3.

Some institutions have a rather narrow set of stated objectives (e.g., multilateral reserve pooling and the provision of liquidity as with the CMIM, support for intraregional trade as with the CPRC); others have multiple objectives (e.g., the provision of liquidity and development finance as with the main regional development banks, development finance and support for trade integration as with BNDES and the CDB). Still others have quite a broad range of objectives (as with the ArMF). The activities of these institutions and arrangements have evolved rapidly during the current crisis, although some, such as the BDS, ALBA, the EACMU and the currency vision of the ArMF, are in the earliest stages of development. It has been clear that the fulfilment of one explicit objective, such

Table 2: The explicit goals of diverse aspects of southern financial architecture

Institution/ Arrangement	Explicit Goals					
	Multilateral reserve pooling	Provision of liquidity/ countercyclical financial support	Project/ development finance	Trade and or financial integration	New currency	De-dollarization efforts via local currency bonds or payment mechanisms
<i>CMIM</i>		*				
<i>FLAR</i>				√	√*	
<i>CAF</i>			√	√		√*
<i>CPCR</i>						
<i>Brazil/Argentina SML</i>				*		√*
<i>BDS</i>	P*	P*	P*	P*	P*	P*
<i>ALBA</i>	√	P		P	√*	√*
<i>EACMU</i>					P*	
<i>ArMF</i>					P*	
<i>Main regional development banks (AfDB, ADB, IADB)</i>						
<i>Bilateral finance through CDB and BNDES</i>						√*
<i>Bilateral currency swaps among LDC central banks</i>						√*
<i>South-South ODA</i>			√			

Note: See list of abbreviations on p. 3 of this paper; √=action undertaken; √*=see limitations as described in preceding text; P=planned for the future; P*=planned, though implementation is uncertain. (In the case of BDS, liquidity provision and reserve pooling are often mentioned in connection with future operations of the nascent institution, though these functions appear to have been dropped from its institutional mandate.)

as the provision of development finance or support for trade integration, can promote financial stability.

Dissatisfaction with the governance and conditionality of the Bretton Woods institutions has played an important catalysing role in southern initiatives. As a result, some have diverse or even complicated decision-making structures. This reflects the necessary and real tension between two pressures: the demands of larger countries that provide the bulk of financial support, versus the commitment to a greater degree of inclusiveness when it comes to smaller, poorer countries. The matter of ‘getting conditionality right’ continues to be a key challenge. Some institutions have renounced it altogether, as in the nascent BDS, while some have conditionality in certain circumstances (e.g., the ArMF and the CMIM). Some have a surveillance apparatus that works with borrowing governments in ways that are distinct from the IMF’s top-down approach (as in FLAR). Others are actively wrestling with the issue, as with the CMIM.

Among those regional and subregional institutions that do deploy some form of conditionality, there is a greater emphasis on pragmatism over ideology, and on ensuring that conditionality is narrow and appropriate to the country. This is one important benefit of a more devolved financial architecture. Institutions that lend closer to home are more likely to design programmes that are politically sensitive and economically appropriate. And evidence from FLAR and CAF suggests that what may be seen as ‘light touch surveillance’ does not necessarily lead to moral hazard. Recall that loan defaults have never occurred in FLAR and only very rarely in CAF. The extent to which these agreements produce alternative conditionalities might mean that the IMF can learn and adjust its notions of conditionality, or some degree of institutional competition might force it to do so.

4. UNDERWRITING RELATIVE AUTONOMY: RESERVE ACCUMULATION AND SOVEREIGN WEALTH FUND ASSETS IN THE GLOBAL SOUTH

In a most remarkable twist of fate, and reflecting how much the world has changed, some of the same developing countries that used to be unwilling clients of the IMF now find themselves being courted for a second time by the institution to assist with crisis alleviation in Europe (see Section 2). Never one to miss a chance to note ironies, Brazil’s Finance Minister Guido Mantega quipped during IMF Managing Director Lagarde’s visit to the country: “It’s a great satisfaction to us that this time the IMF did not come to Brazil to bring money like in the past but to ask us to lend money to developed nations” (ft.com 2011a).

As discussed in Section 1, the experience of the East Asian crisis and IMF intervention has had powerful effects well beyond the region. Not just Brazil and China, about which we hear so much, but also Argentina, the Republic of Korea, the Russian Federation, South Africa, Turkey and several other rapidly growing developing countries have amassed massive pools of foreign exchange reserves to enhance financial stability and self-insure against future IMF conditionality. This is often referred to as the precautionary or self-insurance motivation for excess reserve accumulation. Large holdings are held by governments to reduce the likelihood that speculators will identify the national currency as vulnerable to depreciation. They give policy-makers the means to protect the national currency if a speculative attack is nevertheless initiated, and obviate the need to turn to the IMF in the face of economic turmoil. Foreign exchange reserve over-accumulation is also intended to facilitate and protect export-led

Table 3: Official foreign exchange reserves: advanced versus emerging and developing economies (US \$ billion)

	2000	2005	2008	2009	2010	2011 (3rd quarter, prelim.)
<i>World Total</i>	1,936.2	4,320.1	7,337.3	8,162.5	9,258.1	10,176.6
<i>Advanced economies</i>	1,217.2	2,078.7	2,491.4	2,778.8	3,092.7	3,335.0
<i>Emerging and developing economies</i>	719.0	2,304.4	4,950.4	5,596.9	6,481.2	6,841.6

Source: IMF, COFER database.

growth strategies, permitting sterilized interventions to maintain an undervalued exchange rate. This is often referred to as ‘modern mercantilism’ (Ghosh, Ostry and Tsangarides 2012).

From 2000 to the third quarter of 2011, global foreign exchange reserves went from \$1.9 trillion to \$10.1 trillion, a 431 percent increase (see Table 3). Emerging and developing countries with reserves of \$6.8 trillion in the third quarter of 2011 accounted for 74.1 percent of the increase in global reserves during that time. Foreign exchange reserve holdings relative to GDP have also increased dramatically over the last three decades. In the 1980s, holdings by developing countries were equal to about 5 percent of their GDP. This figure has doubled every decade since then, reaching around 25 percent by 2010 (ibid., p. 3). In stark contrast, in 2000 OECD countries held reserves of \$1.3 trillion or 5.1 percent of GDP. By the start of 2011, OECD reserves had grown to \$3.4 trillion or 8.1 percent (Dadush and Stancil 2011). From 2000 to the start of 2011, the nominal stock of foreign exchange reserves in developing countries increased from around \$750 billion or 11 percent of GDP to nearly \$6.3 trillion or 29 percent (Dadush and Stancil 2011). Reserve holdings are highly concentrated within particular developing countries (see Table 4). Over 90 percent of developing country reserves are in the 20 largest holders, which now have enough reserves to cover over a year of imports or their short-term debt nearly five times over (ibid.).

The over-accumulation of reserves by some developing and emerging countries has been made possible by a variety of circumstances: the boom in commodity prices; the ability of some countries to maintain current account surpluses; the persistent appetite for imported energy, low-cost consumer goods and capital goods in wealthy countries (itself a consequence of many factors, such as deindustrialization, energy policy, income inequality and wage compression); and the need to find an outlet for the vast pools of liquidity created

Table 4: Official foreign exchange reserves held by developing countries in 2010, regional breakdown (US \$ billions)

Central and Eastern Europe	335.5
Commonwealth of Independent States	566.8
<i>Russian Federation</i>	456.2
<i>Excluding the Russian Federation</i>	110.5
Developing Asia	3,658.4
<i>China</i>	2,889.6
<i>India</i>	292.3
<i>Excluding China and India</i>	476.5
Latin American and the Caribbean	651.4
<i>Brazil</i>	287.5
<i>Mexico</i>	120.3
Middle East and North Africa	1,107.5
<i>Sub-Saharan Africa</i>	161.6
<i>Excluding Nigeria and South Africa</i>	85.7

Source: IMF, World Economic Outlook, April 2011.

during the recent long boom.⁷⁴ The hoarding of foreign exchange reserves has important opportunity costs for nations holding them and also for other developing countries, as Rodrik (2006) and others have argued (see also IMF 2011). Resources held in foreign reserves might be more productively deployed, such as by lowering the cost of longer term finance in developing countries, or financing national and/or regional initiatives that ameliorate economic and social ills and promote long-term productive capacity. This might involve a significant scaling up of the contributions made to existing and new national, subregional and regional development banks (per the proposal by Griffith-Jones 2011). Reserves could also be used far more efficiently to promote regional and subregional financial stability by significantly increasing resources for reserve pooling through the CMIM, FLAR and the ArMF, nascent initiatives such as ALBA and the BDS, and other arrangements yet to be developed (see Section 3). Finally, reducing the tendency for excess reserve accumulation would benefit global financial stability, insofar as global imbalances contribute to fragility.

Data on official reserves held by developing countries do not provide a complete picture of resources available for the purposes discussed above. Indeed, as Griffith-Jones (*ibid.*, p. 9) correctly notes, some developing countries also hold

74 The first two of these factors is treated extensively in Aizenman and Lee 2008.

massive pools of assets in sovereign wealth funds, which tend to be managed autonomously from official reserves. Developing countries with large reserve holdings generally transfer a portion of them to sovereign wealth funds so as to maximize returns on these assets. Sovereign wealth fund managers tend to invest in longer term, less liquid assets, though Norway's sovereign wealth fund is exceptional since it reportedly holds 40 percent of its assets in equities (Griffith-Jones and Ocampo 2008). While the explicit function of sovereign wealth funds is not to promote financial stability, a speculative attack against a country's currency is less likely to occur if speculators know that a government's assets are so large as to justify cleaving off some of them to capitalize a sovereign wealth fund.

According to data by the Sovereign Wealth Fund Institute, globally sovereign wealth funds had an estimated \$4.3 trillion in assets at the end of 2010. Oil-producing countries hold three-quarters of all these assets. At the end of 2010, developing and emerging economy funds held the majority of assets at \$3.5 trillion; \$800 billion is held by funds in East Asia.⁷⁵ As of March 2011, there were 41 sovereign wealth funds maintained by developing and emerging economies. Ten held assets between \$100 and \$627 billion. The largest was the Abu Dhabi Investment Authority with \$627 billion in assets; the smallest were the Indonesian Government Investment Unit and the Mauritanian National Fund for Hydrocarbon Reserves, each with \$300 million in assets.⁷⁶ In 2011, the governments of Bolivia, Colombia, India, Panama and Peru began to discuss launching their own sovereign wealth funds (Singh 2011, ft.com 2011b).

Zoellick (2008) suggests the developmental potential of these funds. They could invest 1 percent of their holdings in sub-Saharan Africa, which would increase the availability of long-term finance in the region, and thereby boost investment and growth (see also Ochoa and Keenan 2009). Griffith-Jones (2011, Section III) builds on this idea in estimating that channelling just 1 percent of sovereign wealth fund assets held by developing countries to regional and sub-regional development banks would increase paid-in capital by \$35 billion. This would correspond roughly to an additional lending capacity of over \$84 billion. "This figure would be higher than the total lending disbursements to developing countries by all multilateral and regional development banks—including the World Bank, the ADB, the IADB, the AfDB and the external lending of the European Investment Bank to developing countries—in 2009, the year when

75 Data in this paragraph and Table 4 are from the Sovereign Wealth Fund Institute, cited in Griffith-Jones 2011 (pp. 8-9) and UNCTAD 2011a (Chapter 4).

76 Data on sovereign wealth funds are closely held, and their operations are therefore somewhat opaque. The data presented here may well underestimate resources in these funds.

their lending activities peaked (at \$64 billion) due to the extraordinary credit requirements caused by the global financial crisis” (ibid., p. 18).

In sum, the considerable resources in official reserves and sovereign wealth funds in developing countries are often seen to serve different roles—namely, financial stability and exchange rate management in the case of official reserves, investment and return maximization in the case of sovereign wealth funds. But there is no practical reason for thinking of them in such a differentiated fashion. A portion of the resources from both pools of capital could be redeployed to support national and regional public goods; provide stable, low-cost and long-term capital to projects that enhance economic and human development, and productive capacities; promote financial stability and resilience through the expansion of reserve pooling arrangements; and increase the reach of the institutions and initiatives surveyed in section 3. Moreover, the long-term nature of sovereign wealth fund management makes these funds particularly suitable as a source of long-term development finance, the provision of which is especially important during economic downturns when such funds are in short supply.

CONCLUSIONS

Crises generally present opportunities as well as challenges. Sometimes they necessitate fundamental institutional adjustment in a period of productive incoherence, as is the case today. The Asian and current crises have created conditions for new patterns of resource accumulation, a growing diversity of financial architectures across the global South, and shifting power in the governance of development finance. This is an opportune moment for developing countries to press forward with the institutional innovations and experiments surveyed here.

This moment should not be wasted, since the current environment poses many risks for developing economies. Both the IMF and the World Bank have recently projected growth slowdowns in the developing world and wealthy nations. Many analysts suggest—quite reasonably—that emerging markets are due for a correction, triggered by the safe haven effect that is bringing capital back to the United States, the overheating of least developed country commodity exporters, the decline in commodity prices, inflationary pressures and bubbles caused by speculation in some developing country financial and real estate markets, the decline of remittance inflows and the weakening of markets for exports. Some have even begun to speculate openly about a possible hard landing for China triggered by the deflation of real estate bubbles and the bad debt problems of its banking system. Capital flows to the developing world have

already started to reverse. World Bank Chief Economist Justin Lin recently said: “The largest economy in the world (the EU) is weakening....The message for developing countries is to start preparing” (Lowrey 2012). All of this portends difficult times ahead.

Unlike in the past, any new economic difficulties across the developing world are likely to be met with a wide range of new initiatives and institutional innovations that mark a further break with the crisis responses of the neoliberal era. Just as the Asian crisis laid the groundwork for institutional developments that have deepened in the current crisis, so might this crisis catalyse further innovation along the lines already in place, and in directions not yet imagined, when the next period of instability emerges. To the degree that this happens, the present conjuncture might be seen as one marking a fundamental turn in the developing world towards resiliency to crisis and increased policy space that permits genuine and sustainable human development.

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The Rise of the Global South: Implications for the Provisioning of Global Public Goods

INGE KAUL

INTRODUCTION

More and more policy challenges are global, such as the mitigation of climate change, communicable disease control, international financial stability, the fight against terrorism and nuclear non-proliferation. Economists categorize these challenges as global public goods—things or conditions that potentially affect many, if not all, countries. Market actors typically neglect their provision, and no country, however powerful, can address them alone. They require global policy responses based on effective international cooperation.

Many challenges are increasingly urgent, pointing to the imperative of fundamentally reorienting current growth and development strategies. There is the ‘closing door’ opportunity of limiting global warming to two degrees Celsius to stabilize the climate. The ‘end of oil’ within the next couple of decades implies developing alternative energy sources to achieve energy security. Other examples comprise land and water scarcity; ever-fiercer competition for market shares, and investment and job opportunities; growing global inequity; and the persisting problems of nuclear proliferation, world hunger and poverty.

These risks must be addressed expeditiously. As the World Economic Forum’s report *Global Risks 2011* warned, the world cannot afford any further major challenge, especially now that global economic resilience has been weakened by the recent international financial crisis.

Yet international cooperation on the selection and provisioning of global public goods continues to be slow, allowing problems to grow. Could a reason for this lagging progress be that the world is currently moving through profound changes in global power relations, notably a shift towards multipolarity

resulting from the growing economic and political strength of the emerging market economies? Is this change impairing international cooperation in support of global public goods?

The present paper will explore these questions, focusing on the role of the global South, particularly its state actors, in global policy-making.¹

Section 1 introduces the notions of public goods and global public goods, and analyses governance risks and demands. Section 2 discusses conditions for international cooperation to work effectively in the presence of global public goods. It identifies five facilitating conditions: open and participatory international decision-making; global governance based on the principle of subsidiarity; issue-specific negotiations; a globally embedded definition of national interest in a global context; and legitimate global policy leadership. With these criteria in mind and based on select empirical evidence, Section 3 then assesses how the participation of developing countries in global governance has evolved in recent decades, and the impact this has had on international cooperation and the provisioning of global public goods.

The analysis shows that, as a group, developing countries have become increasingly active participants in global policy-making. Moreover, they have used their influence not only to further their own narrowly defined national interests, but also to shape the normative framework. They have emphasized concerns such as enhancing the fairness and justice of international negotiations, and fostering a better balance between growth and development as well as public and private interests. An example is their engagement in furthering policy coherence between protecting intellectual property rights and meeting public health goals.

International cooperation now is more open and participatory, and thus more in line with conditions identified in this paper as favourable to effective global public goods provision. Nevertheless, progress is far from satisfactory, because the identified conditions have, so far, been only partially met. Countries of the global South have moved forward at different speeds, with only some of them, mainly the more advanced emerging market countries, able to join the group of major global policy-shapers. Many other countries are still global 'policy takers'. Among the main factors holding back fuller participation appear

1 The present paper captures only one aspect, albeit an important one, of the role of the global South in international cooperation. A more detailed analysis, which is beyond the scope of this paper, would have to take into account the role that developing country scholars and think tanks like the South Centre or the Group of 24 (G24), national and international civil society, actors of the global North with a special interest in development and global equity, as well as multilateral organizations, especially the United Nations Conference on Trade and Development (UNCTAD), have played in facilitating the changes identified here.

to be capacity constraints and, no doubt often justified, sovereignty concerns. Also, developing countries have so far pursued a strategy of integration that accepts the existing system as a given fact.

Yet signs are multiplying that this phase may soon be coming to an end. They also suggest that international cooperation could become ever more difficult at a time when it is most urgently needed. The countries of the global North have responded to the increasing power of the global South as a global policy-shaper with growing sovereignty concerns of their own. They have followed a strategy of venue shifting, taking issues of importance to them into forums like the Bretton Woods institutions, in which decision-making is still weighted in their favour, or by setting up informal, smaller negotiation venues where they can define the agenda as well as the circle of participants. An early expression of this strategy was the creation of the Group of 7 (G7) major industrialized countries in the 1970s.² Another strategy has been growing reliance on bilateralism. Together with increasing South-South cooperation and regionalism, these trends have led to a world of multilateralism that, in the words of Haass (2010), is more fluid, less predictable, and consequently, “messy.”

Is this messiness, as Haass argues, desirable? This paper suggests it is not. Due to a lack of transparency, predictability, and consequently, trust and legitimacy, the current messiness might encourage rivalry among states and zero-sum thinking. Fair, rule-based and accountable international cooperation would be the better strategy—for all.

The time appears to be ripe for the North and the South to enter into negotiations on redesigning global governance to resolve today’s sovereignty paradox: states losing national policy-making sovereignty, because they are holding on to a conventional notion of ‘absolute’ sovereignty, and therefore giving preference to unilateralism, sometimes even protectionism. The better strategy would be for all to realize their national public policy interests in establishing fair and effective international cooperation.

The world today lacks two critically important global public goods that could function as international coordination mechanisms of individual activity, state and non-state: a well-functioning system of multilateral cooperation and well-regulated international markets. That these two goods are underprovided may in part explain policy stalemates around so many global challenges.

Clearly, well-regulated markets depend on a well-functioning system of global multilateral governance. States, first, need to agree on ‘taming’ their

2 The G7 became the Group of 8 (G8) when the Russian Federation joined after the end of the Cold War. See www.g8.utoronto.ca/.

temptation to free-ride in the presence of global public goods before they muster the requisite willingness to cooperate to ‘tame’ global markets. After all, markets as institutions also have public good properties. They, too, are in the public domain and could potentially affect all, for better or worse. If they are of world-wide scope, they constitute global public goods.

In sum, the main implication of the confluence of the rise of the global South and the growing importance of global public goods is that the international community needs to again address world order as the most fundamental global public good issue. States last dealt with this in the United Nations Charter, when the key issue was the inviolability of national territorial and policy-making borders. With economic borders once again more open, the key issue is how to combine national policy-making sovereignty with economic openness.

The policy option suggested here, as a conjecture for further study and debate, is for states to renew their commitment to national sovereignty by agreeing that the future world order ought to rest on two closely related principles: first, the principle of responsible sovereignty—defined as policy-making sovereignty that takes the outside world into account; and second, the principle of global justice, defined as fairness in international negotiations that draws, among other things, from national-level fairness; that is, national policies that allow all to benefit from, and, in their own interest, support international cooperation.

To see more clearly why a world order based on these two principles would be required to achieve more adequate provisioning of global public goods, and more balanced and sustainable growth and development, it is useful first to take a closer look at public goods.

1. INTRODUCING PUBLIC GOODS

Global policy issues are nothing new. Unhindered access to the high seas was the subject of the ‘mare liberum’ agreement of 1609. But today, global issues are of growing importance. Given that the world is emerging from several centuries of struggles to establish national territories, and forge consensus on such principles as national policy-making sovereignty and non-interference by outside forces into the domestic affairs of states, the transnational character of global issues poses the question of how well these fit into existing governance systems, national and international.

The analytical lens of public goods helps to understand the governance challenges that these issues present. Many constitute global public goods, confronting policy makers with the challenges of providing public goods in the national

context, along with additional governance risks and requirements. Importantly, they entail deepening policy interdependence among countries, requiring states to engage in international cooperation to ensure the availability of goods like financial stability or good public health conditions within their jurisdictions.

A major reason for this lies in the dual ‘publicness’ of goods—in consumption (availability in the public domain) and provision (their availability in any one country requires concerted efforts on the part of many, if not all, countries).³

DEFINING CHARACTERISTICS

Standard economic theory distinguishes between two main categories of goods: private and public.⁴

Goods that can be parcelled out and made excludable, so that clear property rights can be attached to them, are categorized as private goods.

Public goods, by contrast, are non-excludable, meaning that their benefits or costs are there for all. If a good is non-excludable and non-rival in consumption, so that one person’s use of the good or being affected by it does not diminish its availability to others, the good is said to be pure public. Examples are the light of a candle, the service provided by a street sign, or peace and security. If a good possesses only one of these properties it is impure public. The atmosphere, for example, is non-excludable but rival in consumption, because unrestricted pollution can change its gas composition and contribute to global warming. Patented pharmaceutical knowledge illustrates a non-rival good whose use has, at least for a limited period of time, been made excludable: It requires the explicit permission of, and often, royalty payments to, the inventor. So patented knowledge, too, falls into the category of impure public goods.

The public effects of a good can have local, national, regional or worldwide reach, and they can span one or several generations. If a good has benefits or costs that touch all countries, or could potentially affect anyone anywhere, it is a global public good. Alongside regional public goods, global public goods constitute the category of transnational public goods.⁵

3 The discussion in this section draws on Kaul and Mendoza 2003. See also Barrett 2007, International Task Force on Global Public Goods 2006, Kaul et al. 1999 and Sandler 2004.

4 The term ‘good’ is used here for reasons of brevity to refer to things, products, services and conditions. It does not have a value connotation of ‘good’ as opposed to ‘bad’.

5 The term ‘global’, when used in reference to consumption properties, that is, the benefits or costs of a public good, means transboundary, border-transgressing or worldwide. When the term is used later in this chapter in reference to the goods provision path, it indicates that action has to be taken by actors worldwide, and, as the case may be, nationally and internationally.

A CLOSER LOOK AT PUBLICNESS

The following elements are useful in understanding the policy challenges of global public goods and constraints in provision.

Publicness and privateness as a policy choice: The standard economics definition of public goods fails to distinguish between a good's potential and de facto publicness. Yet this distinction is increasingly important. Due to a number of changes, including technological advances, strengthened policy design skills, increased porosity between markets and states, and greater political and social freedoms, publicness and privateness are in most cases not innate properties of a good but social constructs, a policy choice. For example, land can be freely accessible to all or fenced in and made excludable. Similarly, certain facts can be kept secret or publicized.

Goods that are de facto public, or actually in the public domain, may be there for three main reasons. First, making them excludable may be technically impossible or too expensive. Second, they may have been deliberately placed into the public domain and made non-excludable and non-rival, as in the case of street signs. Third, goods may be public by default, due to policy neglect (which often allows air pollution to continue, for instance) or through lack of information (which has, for example, led to harmful substances being consumed before their ill-effects were recognized).

Globalness as a special form of publicness: Globalness, or the fact that the benefits and costs of some goods have nearly universal coverage, can be viewed as a special form of publicness and as a policy choice. Certainly, some global public goods such as the moonlight have always had the property of global publicness. They are by nature global and public. Other public goods, however, have changed their properties from, for example, being national (including local) public goods to being global public goods. The reason is that globalization and global public goods are intrinsically linked. In fact, global public goods are both drivers and consequences of globalization.⁶

An example of a global public good that facilitates the globalization process is the universal postal system. It has emerged through a harmonization of national postal systems, illustrating the intended globalization of a formerly national public good. Another case is the multilateral trade regime, which requires cross-border policy harmonization in a large number of policy domains. Today, more and more public goods formerly provided in more country-specific ways have undergone a globalization process and been turned into global public goods, sometimes only after years of protracted multilateral negotiations.

6 Much of what is being discussed here about the globalization of formerly national public goods would also apply to processes of regionalization. In fact, some formerly national public goods may simultaneously undergo both regionalization and globalization.

Yet alongside intended globalization processes, like the creation of more integrated markets, has come unintended globalization, and with it, a further globalization of formerly national public goods. For example, more intense and frequent shipping and travel activity has facilitated the spread of communicable diseases. Financial market integration has allowed the contagion effects of financial crises to spread more speedily and widely.

Increased openness of national borders has led to increasingly intertwined national public domains and deepening interdependence among countries. As a result, in any country today, the availability of more and more public goods, specifically global public goods, depends on policy actions taken or not in other countries.

Publicness in utility as distinct from publicness in consumption: Just as preferences for private goods (e.g., houses, books or clothing) vary, so do preferences for public goods, especially those for global public goods. This is because many socio-economic and political differences are wider between countries than within countries. Thus, publicness in consumption differs from publicness in utility. An African woman who faces a high risk of maternal mortality is more likely to prefer an enhanced publicness of relevant medical and pharmaceutical knowledge than, say, international financial stability or even investment in mitigating climate change, as even her children might not live long enough to face the full consequences of the latter.

How and to what extent a public good, notably a global public good, affects the welfare and well-being of different population groups depends not only on the overall provision level, but also on how it is shaped. For example, all countries face the same multilateral trade regime. But different groups of countries and even different groups of people within countries may, in distinct ways, gain or lose from this regime as a result of how particular norms have been defined. Similarly, while many agree on the desirability of international peace and security, views on how to generate this global public good may vary widely, as the debates in the United Nations Security Council have repeatedly shown, including, most recently, its resolutions on Syria.⁷

RISKS OF UNDER-PROVISION

The provision of public goods, including global public goods, typically consists of two closely interconnected processes: a political one of determining which goods to provide, how much of each, in which ways, and at what costs and benefits to whom; and an operational one aimed at actual production. The

7 See www.un.org/Docs/sc/unsc/unsc_news.shtml/.

political process may encounter incentive problems such as free-riding or lack of fairness, whereas the operational process may confront challenges from the foreign/domestic divide that has been a key characteristic of the Westphalian nation-state world order.

Dual economic and political actor failure: As alluded to earlier, public goods face risks of under-provision due to being in the public domain. This fact might prompt individual actors to attempt to free-ride, letting others step forward to provide the good, and then, when it is available, enjoying it without having had to contribute.

Within nations, the state often steps in and helps resolve problems of collective action or market failure. There is no full equivalent to the state at the international level, however. Only a few international organizations, among them the United Nations Security Council and the World Trade Organization (WTO), have been endowed with limited coercive powers.⁸ For the most part, international cooperation among states has to happen voluntarily. In many cases of international policy-making, states still tend to pursue national, particular (and hence, quasi-private) interests that may not necessarily align with global exigencies and goals. Moreover, during negotiations, states bargain over the exchange of policy commitments. Accordingly, international venues can be likened to markets—political markets.⁹

As a result, compared to national public goods, global public goods may face a higher risk of free-riding, and may cause economic market failure as well as state or political market failure.¹⁰ Problems of such dual market failure could especially occur where adequate provision depends on the changed behaviour of a large number of actors, because many actors might feel that their contribution to the problem or any proposed corrective action is insignificant. Global challenges that impose costs for corrective action on current generations for the benefit of future generations are also prone to free-riding and under-provision. Mitigation of climate change is a challenge that faces both these risks.¹¹

8 In the case of the United Nations, for example, very few decisions are of a binding nature, namely those taken by the United Nations Security Council under Chapter VII of the United Nations Charter (Malone 2007). Another exception to the generally non-binding nature of international agreements is the Dispute Settlement System of the WTO.

9 On the concept of political markets, see also Furubotn and Richter 2003, p. 420ff.

10 The type of state failure referred to here is not to be confounded with the government failure on which public choice scholars tend to focus, and which is due to the self-interested behaviour of individual politicians and bureaucrats (see Mueller 2003). The state failure identified here has a systemic nature. Its roots are in the present world order, which is still very much centred on principles of national policy-making sovereignty.

11 To illustrate, carbon emissions are diffuse externalities. Once emitted into the atmosphere, they cannot be traced back to the emitter, although, of course, it is possible in other ways to assess the

Institutional frictions: As shown in Figure 1, many and perhaps even most global public goods emerge from a summation process that brings together required national inputs, notably national public goods provided in a harmonized and concerted manner, complemented by international inputs. The latter could include international agreements that provide common policy frameworks for the decentralized provision of national contributions, including the management of cross-border spillovers,¹² or the creation of an international good such as an international organization to serve as a negotiating venue.¹³

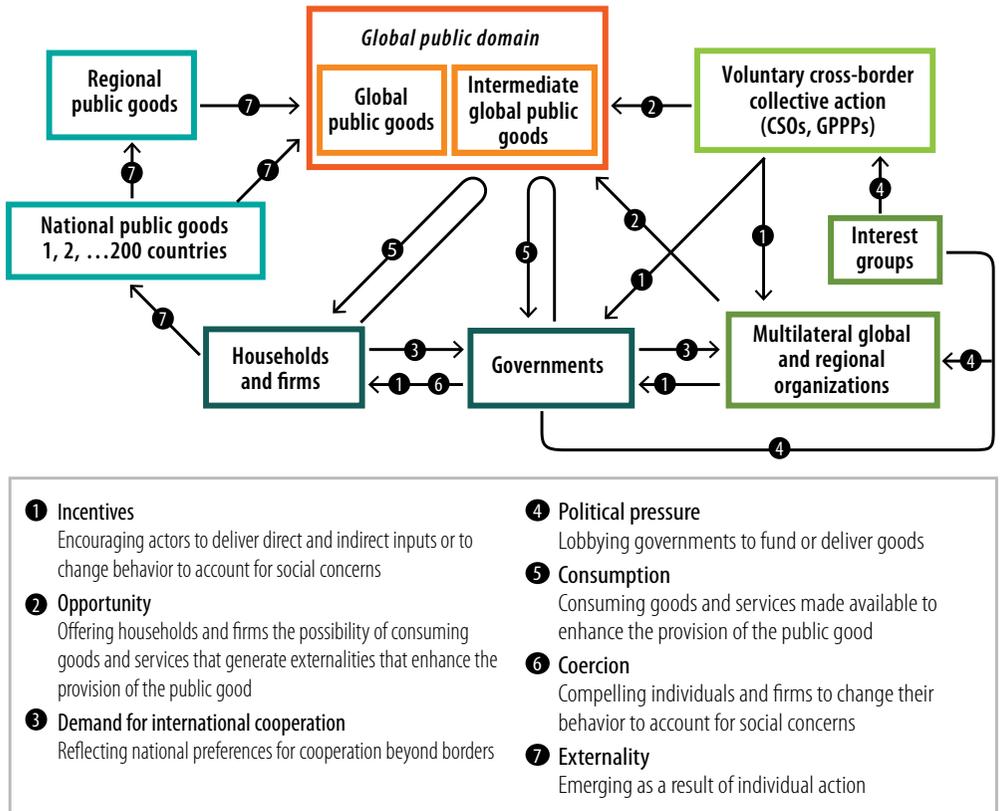
Because many global public goods emerge from a summation process of primarily national inputs, more and more policy makers, even those in the most powerful countries, are beginning to recognize that in many cases no country alone can tackle global challenges. Meeting these requires effective international cooperation that is fair and mutually beneficial; it must make sense to all and offer incentives to cooperate.

Global public goods thus entail not only consumption interdependence but also provision interdependence. This implies that when making national policy decisions, states have to account not only for the policy preferences of their national constituencies, but also for the outside world, e.g., the preferences of other countries, the global normative framework or exigencies like global warming. They have to do so in their own national self-interest, recognizing that this broader perspective ensures that the good is available for their constituencies.

carbon footprint of countries. Diffuse externalities also tend to be substitutable, so that a corrective action by one party could be offset by inaction on the part of others, a fact that makes it so important for all countries to move in tandem. Worldwide concerted action by all countries and all people in all countries is difficult to achieve. Yet without a large number of people strongly motivated to contribute, a high level of under-provision could result.

- 12 Spillover effects or externalities are the public effects that arise from the activities of an individual actor, but are not taken into account in the actor's production or consumption decisions. CO₂ emissions from logging or driving are examples.
- 13 Three main types of provision paths can be distinguished. Besides the above-mentioned summation process, they also include a weak-link process and a best-shot approach. In the summation process, the overall availability of the global public good depends on each actor's contribution. In a weak-link process, it is the contribution of the weakest element of the supply chain that determines the good's overall availability. Building dykes is an example of a weak-link effort. A best-shot approach results when one actor, an individual, firm or any other entity, produces the good. An example is an invention like the wheel. Once invented and left in the public domain, it need not be reinvented.

Figure 1: Provision of global public goods



2. FACILITATING EFFECTIVE INTERNATIONAL COOPERATION IN SUPPORT OF GLOBAL PUBLIC GOODS

Given the previous analysis and considering the phenomenon of global power shifts, a more adequate provision of global public goods necessitates a five-pronged set of global governance reforms aimed at:

1. A better matching of the circles of stakeholders and decision makers, so that all can have an effective voice in global matters that concern them;
2. Following the principle of subsidiarity to avoid the risk of over-centralization

and inefficiency in international negotiations caused by an overcrowding of international agendas;

3. Building bridges across the existing organizational lines in order to facilitate the multi-level, multisector and, of course, multi-actor production that many global public goods require;
4. Taking into account the outside world, i.e., the expectations of other countries, global norms and environmental exigencies, when formulating national policy; and
5. Encouraging legitimate global leadership to assist the international community, as and if necessary, in avoiding policy traps that could lead to serious global crises.

In more detail, the reasons for these reforms are as follows:

1. *Matching the circles of stakeholders and decision makers*: Given that we live in a world of individual sovereign nation states, country conditions and national preferences for global public goods may vary widely. While all may be affected by them, it appears to be important, for reasons of input legitimacy as well as policy ownership and commitment, to ensure that the circles of stakeholders and decision makers are well matched. Put differently, decision-making on goods that are public in consumption would perhaps best be organized as an open and participatory process so that all could have an effective say in matters that concern them.

Democracy should not end at national borders but be extended to the international level through fair and just processes.¹⁴ Genuine participation may help promote fairness as well as efficiency, because it creates room for an exchange and competition of ideas that may lead to better fitting, and more effective and sustainable policy outcomes.¹⁵

To the extent that democracy spreads and deepens at the national level, democracy at the international level may have to follow suit. Otherwise, policy makers perceived by national constituencies as mere global policy takers could lose legitimacy and authority at home, which could weaken their ability to translate international agreements into national policy.

Where all concerned main actor groups are represented, they can keep a watchful eye on each other, and should any attempt to free-ride or otherwise

14 On the issue of process fairness, see, among others, Albin 2003.

15 This lesson has, among other things, been learned from the experience with foreign aid conditionality. For more on this point, see, for example, the contributions to Easterly 2008.

distort provision, the others can intervene and potentially help avert the risk of under-provision or mal-provision.¹⁶

2. *Following the subsidiarity principle:* While a global policy response is important for global issues, policy responses requiring a globally standardized form need to be carefully differentiated from those where countries can have more national policy space to make choices that best suit national circumstances. To illustrate, in order to reduce the emission of greenhouse gases, some countries may prefer to create carbon markets; others might introduce a carbon tax; and yet others might opt for a mixture of both plus fiscal incentives to encourage investments in the development of low-carbon technologies.

As the theories of subsidiarity predict, getting the allocation of policy-making authority right—that is, leaving policy matters at the level at which they can best be handled—will foster efficiency and equity. It helps avoid risks of over-centralizing decision-making that could lead to overly standardized policy approaches and instruments, and of missing opportunities that centralization could afford, such as the benefits from economies of scale or scope. As Begg et al. (1993) underline, policy-making should, preferably, be exercised by lower-level jurisdictions—i.e., regional, national or local—unless convincing reasons for higher-level jurisdictions can be mustered.¹⁷

Following a principle of subsidiarity would also be important to avoid an overcrowding of international agendas, a risk that is rising because of the increase in the number of state actors, and the growing but still inadequate trend towards more open and participatory international decision-making. Keeping the principle of subsidiarity in mind could, under these conditions, be important to successfully combining the representativeness and effectiveness of international decision-making.

3. *Issue-focused policy-making:* To help parties recognize and assess their interests, and undertake cost-benefit analyses to see whether engaging in international cooperation would pay in terms of meeting national interests, complex goals like those of climate or financial stability should be disaggregated into their sub-components. Such a disaggregation will show that different global public goods not only follow quite different provision paths, but that, in turn, the same often holds for their sub-components.

16 Whereas under-provision refers to the provision level of a good, 'mal-provision' indicates how a good is shaped, notably whether it fits the policy context into which it is being placed, in terms, for example, of existing expectations of fairness and mutuality of benefit. Many might consider the provision status or level of the multilateral trade regime as relatively high, for instance. However, they may see major shortcomings in how well certain trade rules support developmental goals and concerns of global equity.

17 On subsidiarity, see also Sandler 2004, especially the discussion on supporting and detracting influences (pp. 87-90).

To see more clearly the incentives of other participating actors and the possibilities to tip incentives towards cooperation, it could be useful to proceed in manageable steps and foster incremental progress through issue-by-issue negotiation and management.

A more issue-focused approach would also help to address global challenges at the operational level in a more integrated way. This would foster the requisite coordination and cooperation among all potential contributors, across all possible dividing lines—levels, sectors and actor groups.

4. *A globally embedded definition of national interest:* The conventional foreign affairs strategies of countries are, for the most part, concerned with purely national interests. When seen from a global perspective, these interests are of a particular, quasi-private nature. Strategies of this orientation are appropriate for issues with the properties of a private good, for example, where a country's interest lies in acquiring and securing a particular territory or access for national producers to particular markets.

In other cases, the pursuit of purely national interests can be counterproductive, even from the national viewpoint. Such a situation could arise if countries were to race and out-compete each other for the last oil resources, venturing, to this end, into ever-riskier and more costly exploration and exploitation. This could lead the world into a global “prisoner's dilemma”.¹⁸

In such cases, a better strategy would be to recognize existing global constraints and explore possible global public good alternatives, notably innovations aimed at producing non-rival goods such as clean energy technologies, as well as matching policies and mechanisms to advance their dissemination, adaptation and adoption. Such win-win or positive-sum strategies could be less expensive and more effective for all, as well as more equitable than any self-centred, competitive strategy based on zero-sum thinking.

Some analysts (e.g., Rodrik 2011) argue that the international community today has to choose between maintaining and enjoying the benefits of openness and cooperating in support of global public goods, and reverting to more closed national borders and idiosyncratic behaviour. This may be possible for some aspects of economic openness, especially policy issues that do not send any adverse spillover effects into the global public domain. But many issues do generate spillovers that adversely affect other nations and possibly even future generations. These issues require exercising national sovereignty in a way that takes the outside world into account.

18 As recent studies on energy security suggest, states have already embarked on such a competitive path, no doubt in part due to the absence of an effective, fair and efficient global regime of energy governance. See, for example, Dubash and Florini 2011.

5. *Legitimate global policy leadership*: Open and participatory international decision-making could be one way of ensuring that respective ‘other’ actor groups intervene when they witness free-riding or other signs of unwillingness to cooperate. In addition, it would be desirable for global state and non-state leaders, individually or collectively, to exercise leadership over global policy stalemates that result in problems with serious crisis proportions.

To achieve effective policy breakthroughs, such leadership would need to enjoy global public support and legitimacy. During the past eras of bipolarity and unipolarity, global leadership was mostly exercised in a top-down way, reflecting a clear global divide between policy-making and policy-taking countries. International cooperation was driven mainly by power politics. As a result, it suffered from problems like renegeing, shallow compliance or loose interpretation of international agreements (see, for example, Howse and Teitel 2010, Raustiala and Slaughter 2006). Agreed—or more appropriately, rolled-out—policy decisions did not fully account for often wide disparities in country preferences and priorities. Both fairness of process and outcome were lacking.

As international relations scholars have emphasized for many years (see Hardin 1982, Axelrod 1984), clear and significant net benefits are important for international cooperation to work, because it has to happen voluntarily. It needs to produce incentives for all actors to support and act on what was jointly decided.¹⁹

To what extent are these conditions of effective international cooperation being met at present? And how has global policy-making been affected by the rise of the global South?

3. THE RISE OF THE SOUTH IN GLOBAL GOVERNANCE

Before examining how the global policy-making role of the South has evolved over the past several decades, one should ask why southern countries, especially the least developed, should care about global public goods.

The answer suggested below is that, in the age of globalization, global public goods provide the international policy framework within which national

19 As Conceição and Mendoza 2006 show, the costs of inaction are sometimes higher than those of corrective action. See also Nkonya et al. 2011 and Stern 2007. However, more than cost-benefit calculations is needed to bring about actual policy change. The current growing interest in ‘green growth’ seems to respond to both push factors, like the risks of climate change and ‘the end of oil’, and pull factors, like new investment and business opportunities.

Table 1: Comparing global public good provisioning and development cooperation

Dimension	Global public good provisioning	Development cooperation
Rationale	Self-interest/efficiency	Concern about others, e.g. equity
Focus of the intervention	Global issue	Poor country/people
Character of the interaction	Exchange of policy-reform, pooling of resources	Transfer
Main intended beneficiary	Self or also others, perhaps even all	Poor country/people
Effectiveness	Development effectiveness	Adequate provisioning of global public goods

development happens. This realization is possibly the main driving force behind expanding the involvement of developing countries in international cooperation. It has incrementally but steadily changed the pattern of cooperation in line with conditions of effectiveness sketched in the preceding section. The strengthened presence of developing countries has translated into actual policy changes, specifically in greater attention to global fairness and justice, and to swifter, more stable globalization.

SHOULD COUNTRIES OF THE GLOBAL SOUTH BOTHER ABOUT GLOBAL PUBLIC GOODS?

Studies on climate change have shown that many developing countries could be severely affected by global warming.²⁰ Similarly, studies on the costs of the 2008 international financial crisis and ensuing Euro crisis indicate that even developing countries not deeply involved in international financial markets have felt negative effects due, for example, to flagging economic growth and added fiscal constraints in industrialized countries.²¹ In the case of international terrorism, as security measures tighten in industrialized countries, some terrorists groups relocate to developing nations.²²

In a world of relatively open economic borders, ill-effects of under-provided global public goods can adversely affect the welfare of nations. All concerned countries have an interest in seeing prompt corrective action—even if they are not, at least for the time being, among the parties that need to actually take

20 See UNDP 2007/2008, 2011.

21 See Griffith-Jones, Ocampo and Stiglitz 2010, especially Part III, which presents developing country perspectives; and ODI 2010.

22 See Sandler 2004, notably Chapter 8 on international terrorism.

action. Successful national development depends on this recognition, along with the fairness and justice of international regimes. Foreign aid is another ingredient of national development, but without fairness and justice, its effectiveness could be undermined. Aid might then be but a meager compensation for costs inflicted by the deficit of fairness.

Global public goods provision, including its financing, is distinct from the provision of foreign aid, although synergies exist between the two. The former is undertaken by developed and developing countries out of self-interest, for reasons of efficiency. The latter is provided by richer countries out of concerns for global equity or moral imperatives. As Table 1 indicates, they constitute two different strands of international cooperation. Confounding them may have negative consequences for both. For example, development could, as a result, be underfunded. Or the provision of a global public good like climate change mitigation could be undertaken in countries that are not the best providers or through instruments that are not the most appropriate. Developing countries have taken an important and correct position by emphasizing the importance of new and additional resources as soon as global public goods began to move to the top of international policy agendas.

TRACING THE IMPACT OF INVOLVEMENT IN INTERNATIONAL NEGOTIATIONS

Developing countries' ever-more active engagement in international cooperation includes areas such as multilateral trade, which they previously viewed, as Bhagwati (1997) argues, with considerable scepticism. As a result, progress has happened with all five conditions identified above as facilitating the provision of global public goods.

1. *Open and participatory decision-making*: The multilateralism of the post-1945 era was, of course, not very multilateral. Many of today's nations achieved independence only during the following decades.²³ Yet, as more and more countries gained sovereignty, their presence in multilateral organizations was strengthened due to the fact that decision-making in most of these is based on the formula of 'one country, one vote'. Multilateral bodies with weighted decision-making have also existed from the beginning, including the United Nations Security Council, the International Monetary Fund (IMF) and the World Bank.²⁴

23 The founding members of the United Nations numbered 51 in 1945. About one-third belong to the group of countries today referred to as 'industrial' or 'developed'. See www.un.org/depts/dhl/unms/founders.shtml.

24 For an analysis of the decision-making patterns of these multilateral entities, see, respectively, Malone 2007, Luck 2007 and Woods 2007.

While at first glance the ‘one country, one vote’ formula suggests a level playing field, even today many developing countries find it hard to follow and participate in international activities because their human and institutional capacities are still constrained. As Chasek and Rajamani (2003) document, these constraints have increasingly made themselves felt as global challenges have grown and required international negotiations, leading to a rise in the number of international meetings.

Forming interest groups has been one way in which developing countries have tried to cope with the ever-heavier negotiation load, as well as to strengthen their presence. The Non-Aligned Movement was established in 1961 and the Group of 77 (G77) developing countries in 1964 (Ahmia 2009, Willetts 1978). Today, developing country interest groups exist in most major issue areas. They bring together states with particular interest in specific topics such as agriculture; or states from a particular region or sub-region of the world; or that occupy a similar step on the development ladder, for example, those with emerging market economies (Deere-Birbeck and Harbourd 2011, Yu 2008). In the 1970s and early 1980s, as developing countries increasingly became a force to reckon with, the industrialized countries began to create new, often informal forums to discuss priority concerns. The creation of the G7, later renamed the Group of Eight (G8), is a case in point.²⁵

Initially, developing countries were invited to G8 summit meetings only for topics that concerned development.²⁶ However, when the 2008 financial crisis broke, matters changed. In 2009, when the Group of 20 major economies (G20) met for the first time at the level of heads of state or government, several emerging market economies were invited to join as permanent members.²⁷ These countries had by then become deeply involved in international financial markets. Some, notably China, were holding huge foreign exchange reserves. Industrialized countries could no longer ignore these new powers. The G20, being an informal entity, might have been seen as the most appropriate body for testing the step

25 For more information on the G7 and G8, see Footnote 2.

26 This process of inviting developing countries for particular parts of the G8 summit meetings is also known as the ‘Heiligendamm Process’, named after the seaside resort of Heiligendamm, Germany, where the 2007 G8 summit was held. For an assessment, see Cooper and Antkiewicz 2008.

27 According to the G20 official website, the G20 leaders group is the premier forum for international cooperation on the most important aspects of the international economic and financial agenda. Its emerging economy members are: Argentina, Brazil, China, India, Indonesia, Saudi Arabia and South Africa. These countries were previously also members of ‘Finance G20’, which had, since 1999, met at the level of finance ministers and central bank governors. In 2009, this group was upgraded to the G20 leaders group. See Gnath and Schmucker 2011. For more information on the G20, see the official website at www.g20.org/ and the G20 Monitor site www.g20.utoronto.ca/.

of making more room available for developing countries at the highest policy-making tables. In the Bretton Woods institutions, granting emerging market economies a strengthened voice has so far been a protracted and hesitant process. The same holds for the reform of the United Nations Security Council.²⁸

Developing countries have formed a rapidly growing number of their own international platforms,²⁹ including summits for the BRICS (Brazil, Russian Federation, India, China and South Africa) and IBSA (India, Brazil, South Africa).³⁰ Many regional or interregional meetings of developing countries are attended by northern countries because they discuss not only purely southern but also North-South and global concerns. As a result, global policy-making is becoming an increasingly multipolar process.

2. Following the subsidiarity principle: Although development has had various shortcomings and weaknesses, it has, nevertheless, happened. To differing degrees, developing countries have built institutional and human capacities. Consequently, more and more policy issues that were previously dealt with at the global level can progressively be resolved nationally and regionally (Shaw, Grant and Cornelissen 2012). For example, as developing countries have expanded capacities for communicable disease control, the need for international technical assistance in this area has declined.

Growth in regionalism has created institutional platforms that allow developing countries to increasingly apply the principle of subsidiarity, that is, to become more selective about which issues to handle nationally or regionally, and which to take to interregional or global venues. Regional cooperation initiatives cover not only a wide range of purely regional issues, but also serve as preparatory meetings for global conferences. In these, countries of a region try to reach common positions on key global challenges such as WTO matters, climate change and health issues. Monetary and financial issues, too, increasingly

28 On IMF quota and governance reform, see www.imf.org/external/np/sec/pr/2012/pr1287.htm. On the reform of the United Nations Security Council, see, among others, Brazil's position of 22 April 2012, available at www.un.int/brazil/brasil/brazil-scnu-reform.htm. See also Woods 2010, and, for a perspective from Africa, Serrão 2011.

29 For information on regional intergovernmental organizations of developing countries, see www2.lse.ac.uk/library/collections/govtpub/igos/IGO_web_regional.aspx/.

30 BRICS is a forum of leading emerging economies. According to the Delhi Declaration issued at the Fourth BRICS Summit in 2012, BRICS "is a platform for dialogue and cooperation amongst countries that represent 43% of the world's population, for the promotion of peace, security and development in a multipolar, inter-dependent and increasingly complex, globalizing world." The declaration is available at www.brics.utoronto.ca/. According to IBSA's official website, the group's aim is "to contribute to the construction of a new international architecture, to bring their (the members') voice together on global issues and to deepen ties in various areas." IBSA members intend to address common national concerns as well as to open themselves to cooperation and partnership with less developed countries. See www.ibsa-trilateral.org/.

figure on regional agendas (McKay, Volz and Wölfinger 2011; Volz 2011). As a result, international cooperation is becoming not only a more decentralized process but also a more bottom-up, circular, loop-like process.³¹

Regionalism is still a policy-making branch ‘in the making’. More experience has to be gathered and evaluated; there will, no doubt, be room for applying the principle of subsidiarity more systematically. However, even today, it seems that fruitful competition and complementarity could be emerging across national, regional and global policy-making. Today’s global multilateral organizations, including those of the United Nations system and the Bretton Woods institutions, could in future just be the apex entities of a multi-level global governance system that allows countries, developing and developed, to regain or maintain more national and regional policy space.

3. *Issue-specific policy-making*: The proliferation of developing country groupings during the past several decades signals a quantitative strengthening of their participation in international policy dialogues as well as a more strategic, issue-specific use of their presence.

Consider, for example, multilateral trade. Some of the groups that participate in international negotiations on this issue reflect regional concerns; others are coalitions of countries based on common characteristics such as being landlocked; yet others are issue focused. Whereas the G20 within the WTO context³² is primarily concerned with agriculture negotiations, including the elimination of export and domestic subsidies, and increased access to developed country markets, the Group of 33 primarily promotes special products and safeguard mechanisms aimed at combining trade liberalization with development, and factoring in food security and small-scale farmer concerns. Non-agricultural Market Access (NAMA) 11 focuses on issues including industrial tariffs.³³ Other active developing country groups include those that bring together the least developed countries (LDCs), the small and vulnerable economies, and the African, Caribbean and Pacific countries, and the African Group (Ismail 2007).

On global climate change, developing countries are still forming coalitions. The G77 is still a major negotiating group. Other active coalitions include:

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- 31 There are potential pitfalls of regionalism. As McKay, Volz and Wölfinger 2011 stress, regionalism in finance could lead to ‘conditionality shopping’, and thus undermine rather than contribute to international financial stability.
 - 32 This G20 should not be confounded with the G20 meetings of finance ministers or leaders. For the latter, see Footnote 29.
 - 33 A recent study (Jones and Deere-Birbeck 2011), based on interviews with some 80 trade negotiators from 30 small states, showed that proper preparations and coalition-building can leverage their limited bargaining power. See also Deere-Birbeck and Harbour 2011.

the Alliance of Small Island States (AOSIS), the Association of Southeast Asian Nations (ASEAN), the BASIC group (Brazil, South Africa, India and China),³⁴ the LDC group, the Organization of the Oil Exporting Countries (OPEC) and the Rio Group (see Chasek and Rajamani 2003).³⁵

4. *A globally embedded definition of national interest*: As Ismail (2007) notes, developing countries have expanded their concerns in the area of trade over time. In earlier years, they often adopted a ‘welfarist’ approach by focusing mainly on their own interests and well-being, but they have begun to transcend these concerns. The group as a whole has become concerned with “advancing the objective of a fair, balanced and development-oriented multilateral trading system for all, both developed and developing country members of the WTO” (ibid., p. 2). Gnath and Schmucker (2011), who assess the role of developing countries within the G20 leaders meetings, arrive at a similar conclusion.

In their interventions in various issue forums, developing countries have consistently emphasized the core principles that in their view ought to shape international cooperation and allow globalization to become an inclusive, positive force (Heine 2010). These encompass inclusiveness, representativeness, multilateralism, transparency and legitimacy. They were reemphasized in the recent Delhi Declaration and Action Plan.³⁶ No doubt, intentions of South-South solidarity and support at times clash with national interests, however, so that smaller, more vulnerable economies cannot take for granted that the more advanced developing countries will help promote their particular interests (Deere-Birbeck 2011).

The Delhi Declaration and Action Plan illustrate how fundamental issues of global growth, development and governance are being addressed in gatherings such as the BRICS summits. In his statement to the 2012 BRICS summit, the Prime Minister of India, Manmohan Singh, commented on the need for the international community to rethink the notion of development. In his words, “the conceptual analysis that produced the positive BRICS narrative was based on a model of catch-up growth in which supply side constraints were not adequately addressed.” Today, he continued, it is “clear that constraints

34 The BASIC group sometimes functions as BASIC-plus; namely, when the group invites the chair of other groups with which it wishes to consult. See <http://basic.odandbrown.co.uk/2012/02/28/a-basic-issue/>.

35 The Rio Group comprises 23 countries from Latin America. It was formed in 1986 to conduct consultations on important political, economic and social issues of the region, and coordinate positions of member states, including on global issues like climate change, sustainable development, nuclear non-proliferation and disarmament. The group has no permanent secretariat.

36 See www.brics.utoronto.ca/docs/120329-delhi-declaration.html/.

such as the availability of energy and food for countries that account for more than 40% of the world population can impede the entire story. Water is another critical area of scarcity which needs greater attention than it has received thus far.”³⁷

The Joint Statement issued at the conclusion of the eighth BASIC ministerial meeting on climate change took a comprehensive, global perspective. It stresses, among other things, that the ministers “reiterated the importance of achieving a comprehensive, balanced and ambitious result in Durban in the context of sustainable development and in accordance with the provisions and principles of the Convention, in particular the principles of equity and common but differentiated responsibilities and respective capabilities, and the Bali Road Map.”³⁸

In taking on a wider, more global perspective, groups like BRICS or BASIC encounter a challenge that has also confronted the G77—it is difficult in a diverse world to arrive at a common position. For example, the island developing countries would have liked the members of the BASIC group to support deeper emissions cuts in Durban.³⁹ However, this experience is precisely what has motivated developing countries to aim at combining, as far as possible, sovereignty and commitment to international cooperation, mainly by repeatedly stressing the importance of the principle of common but differentiated responsibility as well as the notion of national policy space.⁴⁰

Moreover, developing countries have continued to emphasize delivery on commitments made. Many times they have reminded developed nations of the still unattained official development assistance (ODA) goal of 0.7 percent of gross national income, established decades ago and affirmed in many subsequent international statements, including the outcome document of the 2002 Monterrey financing for development conference (see International Conference on Financing for Development 2002). Calls for the fulfilment of earlier agreements are also being made in respect to the WTO’s Doha development round and global governance reforms, notably the reform of the United Nations Security Council and IMF voting power.⁴¹

37 The Prime Minister’s statement is at www.thehindu.com/news/resources/article3257669.ece?css=print/.

38 See www.info.gov.za/speech/DynamicAction?pageid=461&sid=21113&tid=41020/.

39 See Bodansky 2011.

40 This approach has been taken again in the statement of the G77 and China to the High-level Meeting of the Economic and Social Council of the United Nations with the Bretton Woods institutions, WTO and UNCTAD. See www.g77.org/statement/getstatement.php?id=120312a/.

41 See, among others, the Declaration of the Fifth Summit of the IBSA Dialogue Forum of 18 October 2011, www.ibsa-trilateral.org/.

Reminders of developed countries' 'still-to-be-fully-met' commitments are usually accompanied by developing countries reiterating support for international cooperation on pending global issues, including those that developed countries have placed on the international agenda, such as 'green growth'.

5. Legitimate global leadership: In recent years, developing countries appear to be taking further, albeit often still cautious, steps towards fuller integration in global policy debates. Some observers (e.g., Cameron 2011) are already asking whether the BRICS could rival the G8. Other analysts, however, believe that members of the BRICS carry a lot of global weight as individual states, and not so much as a political bloc. As Landau points out, their economic interests are widely divergent, and not all are democracies or nuclear powers.⁴² Considering these differences, however, it is all the more significant that entities such as BRICS and IBSA have emerged, adding their joint voices to international policy dialogue.

By hosting major international conferences, developing countries are also individually accepting that they may have to assume global leadership roles, for example, to build bridges between countries with divergent interests. Among other examples, this was the case for Mexico and South Africa in hosting and chairing, respectively, the climate change negotiations in Cancún and Durban in 2010 and 2011.⁴³

In many policy debates, developing countries still appear to limit their role to maintaining basic positions that they value, and demonstrating their willingness to cooperate on global issues that other countries may have placed on the agenda. But a turning point is approaching. They now present their policy views more firmly, including on issues of international trade, global imbalances, international sanctions and the international community's responsibility to intervene.⁴⁴ At the 2009 Copenhagen Conference on Climate Change, the BRICS countries played a pivotal role, helping to forge a last-minute deal.⁴⁵

Some analysts argue that developing countries at large, notably the least developed ones, have benefited little from the fact that the more advanced emerging market economies have penetrated the highest echelons of global power. Martinez-Diaz and Woods (2009) suggest that by far the biggest beneficiaries

42 See Georges Landau's contribution to the discussion forum on "Will the BRICS Nations Evolve into a More Powerful Bloc?" available at www.cigionline.org/articles/2012/04/will-brics-nations-evolve/.

43 For a discussion of South Africa's role at the Durban meeting, see, for example, Chevallier 2011.

44 This norm stipulates that where states fail to prevent gross human rights violations, as, for example, in cases of genocide, the international community has an obligation to intervene. See ICISS 2001 and the website of the Global Centre for the Responsibility to Protect at <http://globalr2p.org/>.

45 See, among others, Harvey 2011.

will be the emerging market economies themselves. Other analysts have queried the representativeness and accountability of the G20 in general and its emerging-market members in particular (see, for example, Rueda-Sabater et al. 2009). This is a discussion that found a first response at the G20 summit in Seoul, when members decided on principles for non-member invitations.⁴⁶

Developing countries should perhaps not expect the G20 to resolve the issue of representation for them, but instead aim at devising their own formulas for representation, and then at negotiating those. That this has not yet happened confirms, as some analysts (e.g., Ikenberry 2008) posit, that most countries of the global South, including China, seek, at least for the time being, to rise within the existing institutional order of global governance, demonstrating engagement and willingness to cooperate in a non-threatening way (see also Beeson and Li 2012, Heine 2010).

FROM VOICE TO INFLUENCE: TRACING SUBSTANTIVE POLICY IMPACTS

The expanding and strengthening representation of developing countries in global policy-making and negotiations has evolved in a direction that could potentially facilitate the provision of global public goods. Most conditions of successful international cooperation in support of such goods, as proposed earlier, are increasingly being met. The circles of stakeholders and decision makers are now better matched, and more importantly, the policy positions taken by developing countries have drawn added attention to concerns of fairness and justice, thereby probably contributing to enhanced mutuality of benefit and willingness to cooperate.

The global North still has to adjust to this more active role of developing countries in global policy-making. At present, developed countries appear to take issues that are of key concern to them either to multilateral venues in which their voice still counts disproportionately, as at the IMF, or to smaller, more informal forums that they chose to create, like the G20 leaders summits.⁴⁷ At the same time, the relatively faster rise of some developing countries has led to nervousness among regional neighbours, e.g., between China and other Asian nations (Beeson and Li 2012). These changes in international relations have to be taken into account when assessing the global policy impact of the strengthened representation of developing countries. But despite countervailing

46 See the G20 2010 declaration at www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/er/117705.pdf

47 On this shift in venues, see Kaul 2011. For more detail on the G20 leaders summits, see Footnote 29.

forces, many developing country initiatives have found traction in international agreements, and even been translated into actual policy changes.⁴⁸

For example, without the continuing reference by developing country delegations to the shortfalls in ODA, there might not have been an eighth Millennium Development Goal (MDG),⁴⁹ or modest rises in assistance after the 2002 Monterrey financing for development conference.⁵⁰ Lower contributions might have affected development, and, consequently, global conditions like public health, poverty reduction, or peace and security.

Without the persistent and engaged intervention of the delegations of Chile and Mexico, who were able to rally strong developing country support, the Monterrey conference might not have occurred.⁵¹ By now, even industrialized countries seem to appreciate the innovative perspectives on development financing that the meeting introduced by taking a comprehensive look at measures ranging from domestic resource mobilization to trade, international capital markets, foreign aid and the international financial architecture. (International Conference on Financing for Development 2002).

Similarly, would development have become embedded in the multilateral trade agenda without the insistence of developing countries? Perhaps not, argues Ismail (2007) in his insider account of the Doha round.⁵² Would the G20 leaders summits have decided, as in 2010, to establish a working group on development if the group's legitimacy had not been challenged by some developing countries, which did not see their interests adequately represented (Fues and Wolff 2010)?

And what if there had been no agreement on flexibility for trade-related intellectual property rights (TRIPS) in public health? How would the world have been able to cope with HIV/AIDS? Even now, despite the 2001 Doha Declaration

48 A systematic assessment of the impact of developing country interventions on global policy would, of course, require a more in-depth analysis of the complex and in part also highly informal 'closed-door' negotiations and consultations that take place, and in many cases have lasted for years, if not decades. Such an analysis cannot be undertaken in this paper, so arguments presented below are conjectures based on literature studies, and suggested here for further study and debate.

49 See www.un.org/millenniumgoals/. Goal 8 calls for a global partnership for development between developing countries and their external partners.

50 See the Organisation for Economic Co-operation and Development/Development Assistance Committee database at www.aidflows.org/.

51 The United Nations General Assembly resolutions that prepared the ground for the Monterrey conference were actively sponsored by Chile and Mexico, among other countries. Members of these two delegations, namely Eduardo Galvez of Chile and Mauricio Escanero of Mexico, were, in the lead up to the conference, appointed respectively as coordinator and facilitator of negotiations.

52 Faizel Ismail served as head of the South African delegation to the WTO.

on TRIPS and Public Health,⁵³ efforts to weaken agreed-upon TRIPS flexibility measures such as compulsory licensing or parallel imports are occurring, e.g., by way of transit controls (Abott 2005, South Centre 2011). Similar problems are occurring in other sectors (Maskus and Reichman 2005). Nevertheless, some of the innovations in policy instruments and in sharing knowledge and technology in health are now being considered for climate change (Correa 2012).

Although the debates in the 1970s and 1980s on a new international economic order were, from the 1980s onward, steamrolled by economic liberalization and privatization, the earlier calls made by developing countries to provide facilities to assist less advanced nations in coping with external shocks have stayed on the international agenda. They are just as valid today and were acted upon during the 2008 financial crisis (IMF 2011). As with the outcry of developing countries against the first-generation structural adjustment programmes, before more adequate consideration of country-specific conditions and social aspects (UNDP 1991), it has taken the international community some time to accept the position of developing countries on capital controls. Now, prompted by the lessons of the 2008 crisis, the IMF has begun to endorse this instrument (Gallagher et al. 2011). These and other experiences once again demonstrate the desirability of open and participatory international policy dialogue. Clearly, considerable economic and social costs could have been saved had more attention been paid to developing country perspectives earlier on.

Following the Cancún Ministerial Meeting of the WTO, the then-Foreign Minister of Brazil, Celso Amorim, remarked, “I am convinced that Cancún will be remembered as the conference that signalled the emergence of a less autocratic multilateral trading system” (Amorim 2003). The current Doha round of multilateral trade negotiations and the negotiations on climate change, including the 2009 Copenhagen conference, have sent similar signals.⁵⁴ Developing countries can and do increasingly stand firm on their negotiating positions because of their strength as rising economic and political powers. This stance has also become possible because many of their policy proposals, especially the notions of fairness and development-centred growth, have, by now, taken root. They are seen by many, especially ever-more globally networked and engaged civil society groups, as integral elements of the global normative framework. The governance arrangements of the Green Climate Fund are but one of the more recent pieces of evidence for this point.⁵⁵

53 The declaration is at www.wto.org/english/thewto_e/minist_e/min01-e/mindecl_trips_e.htm/.

54 For an assessment that considers both the failures and successes of the 2009 Copenhagen conference, see, among others, Ottinger 2010. For an assessment of the Doha round, see Hufbauer and Schott 2012.

55 See www.climatefund/info/.

OVERALL ASSESSMENT

The foregoing analysis of the role of the global South in global governance leads to two main findings:

- The circles of stakeholders and decision makers on global issues are today better matched than they were some decades ago, because developing countries have strengthened their presence at all levels of decision-making, and perhaps also in most issue areas. Yet the matching is still far from perfect.
- The strengthened presence of developing countries has impacted the substance of international negotiations. Developing country delegations have contributed to shaping various global public goods, so that the distribution of their benefits has broadened, and publicness in consumption is somewhat better matched with publicness in utility—all deriving a benefit from international cooperation, albeit at different magnitudes.

In some respects, international policy-making realities today are more in line with the five conditions identified in this paper as favourable to an adequate provisioning of global public goods. The fact that international negotiations have become more open and participatory has contributed to enhanced provisioning.

In other respects, however, global governance and the provisioning of global public goods have become more difficult than during the Cold War era of bipolarity, as well as the brief subsequent era of global governance largely dominated by the major western industrial powers. This is evident, for example, from the lengthening list of increasingly interconnected global risks (World Economic Forum 2012); the increasing reliance on more informal international negotiation venues (Haass 2010); the growing competition not only among firms but also among states in the newly emerging areas of natural resource scarcity (TERI-KAS 2011); and proposals such as those for a selective retreat of countries like the United States from globalization (Rodrik 2011), or those for giving up on international democracy and letting the world be run by actors who have the resources to do so (Khanna 2010).

International cooperation today is stuttering more and more. A reason seems to be that, due to the rise of the global South in global governance, the conventional patterns are changing, but the basic parameters of a new system have not yet been defined. Political power shifts are increasingly reinforcing the economic integration of the global South in the world economy, adding political multipolarity to economic and military multipolarity.

Considering these tectonic shifts in international relations are recent, uncertainty exists about how to combine economic openness and sovereignty. In case of doubt, states jealously guard their sovereignty. This holds true for developing

and industrialized countries. Consequently, many states experience a sovereignty paradox: The more they try to hold on to a strict, 'absolute' notion of sovereignty, the more they find that they lose sovereignty and are exposed to forces of globalization such as the contagion effects of financial crises, or violent storms, flooding or droughts related to global warming.

In terms of the provisioning of global public goods, the foregoing findings suggest that the growing international political strength of developing countries has brought the world to a fork in the road of global governance. States have, especially since the mid-1980s, pursued strategies of economic openness that led to the growing importance of global public goods and to deepening policy interdependence. Now they wonder about how best, if at all, national policy-making sovereignty and openness can be combined. In view of emerging natural resource scarcity as well as the growing competition for market shares, many countries, at present, prefer to 'go it alone', i.e., to promote their own security through unilateral strategies, increased rivalry and competition. They rely on zero-sum strategies where positive-sum ones—e.g., international cooperation in support of such non-rival public goods as clean energy technology—could be better for all

States' uncertainty about when to cooperate and when to engage in constructive rivalry with each other extends to their cooperation in regulating international markets. The globalization of markets has outpaced that of policy-making, as the 2008 financial crisis and the current Euro crisis have clearly shown. States have, in many cases, failed in complementing financial and economic openness with global regulatory frameworks (Cooper and Helleiner 2010, Eichengreen 2010).

The main implication of the rise of the global South for the provisioning of global public goods is that the international community needs to address, once again, what may be the most basic global public good issue: world order. This was last raised after World War II, when states met at San Francisco to jointly deliberate on how to promote peace and security. They agreed on the United Nations Charter, including the principles of the inviolability of national borders, non-interference and national policy-making sovereignty. But how can these principles, notably that of national policy-making sovereignty, be upheld under conditions of economic and financial openness? Resolving today's global challenges will depend on answering this question, and choosing one of two policy paths: to a zero-sum world or a positive-sum one.

4. CONCLUSION: STRIKING A BETTER BALANCE

The world has been fortunate that increasing economic openness and deepening policy interdependence have coincided with the rise of the global South. Developing countries have strengthened economic and political capacities in the provisioning of global public goods, in terms of both decisions around them and their delivery. Most global public goods depend on effective management of cross-border spillover effects, and a concerted, adequate provision of national and regional public goods, and thus on national capacity as well as the willingness to cooperate. The last depends in turn on the fairness and justice of international negotiations.

One choice today is to take the zero-sum approach to global governance, where all states pursue narrowly defined national interests, without any or much regard to how other countries fare. To the extent that states care about each other and global exigencies, they could, furthermore, opt for a private-goods centred approach to these goals, leaving it to markets to develop and sell new private goods like those for ‘green growth’—e.g., green transportation, building materials and energy products. But the result of such a strategy could be more and more severe global crises, because the sum of individual efforts undertaken by state and non-state actors may not suffice to meet global reform targets and stay within the planet’s carrying capacity.

No doubt, some actor groups might benefit from a zero-sum strategy in the short run. But people’s well-being, including that of the richest, most powerful people, depends on a balanced ‘consumption basket’ of private and public goods. Within public goods, there must be a better balance among those that are local, national, regional and global. The consumption basket naturally cannot be balanced if the ‘foundational’ global public good remains absent: namely, a clear, consensus-based vision of the basic parameters of the future world order.

If the world would like to continue enjoying the advantages of openness without its current costs, it needs to formulate and reach global consensus on a notion of responsible sovereignty, that is, national sovereignty exercised with full respect for the principle of sovereignty.⁵⁶ Put differently, states would accept that in exercising national sovereignty, they will take the outside world into account,

56 A similar notion of responsible sovereignty has been set forth in Jones, Pascual and Stedman 2009, who offer the following definition: “...responsible sovereignty requires all states to be accountable for their actions that have impacts beyond their borders, and makes such reciprocity a core principle in restoring international order and for providing for the welfare of one’s own citizens. In a world of interdependent security, states cannot exercise their responsibility to their own citizens without also exercising it in concert with others” (p. 9).

i.e., that the policies they adopt will not undermine the welfare and well-being of other nations, nor ignore planetary boundaries or the development options of future generations. ‘Taking the outside world into account’ could also mean not blocking international collective endeavours such as steps towards trade liberalization or international terrorism control that, if designed appropriately, could have global welfare-enhancing effects. But responsible sovereignty would also entail that, for example, states meet agreed-upon, universal human rights obligations, and act as intermediaries between domestic and external policy demands and exigencies.⁵⁷

Agreement on responsible, mutually supportive sovereignty might be forthcoming with two preconditions. First, international decision-making must become even more open and participatory than it is today, affording all an effective voice in matters that concern them. Second, the benefits and costs of international cooperation and economic openness must be fairly shared at home. In other words, international and national fairness have to move in step.

Considering worldwide advances in democracy, policy makers perceived by national constituencies as mere takers of external policy prescriptions might lack legitimacy at home and abroad. Consequently, they may not be in a position to help their country contribute in a fair and effective way to international cooperation. Conversely, policy makers who fail in their duty to generate requisite national political support for international cooperation because they do not foster a fair sharing of costs and benefits might lose international legitimacy and influence.

The conjecture presented here, for further study and debate, is that a strengthening of states’ willingness to cooperate requires states to renew their commitment to national sovereignty by forging global consensus on two closely related principles: first, the principle of responsible sovereignty that is mutually supportive and cooperative; and second, the principle of global fairness, where national fairness aligns with fairness and justice in international negotiations.⁵⁸

A consensus-based global commitment to these two principles as cornerstones of the future world order could lay the normative foundation for the creation of two currently missing global public goods: a global governance system offering states effective incentives to tame their temptation to free-ride in the presence of global public goods; and a regulatory and institutional framework for markets so they could function efficiently and serve society, both nationally and international, to achieve desired public policy goals. If states were to tame

57 See, on the notion of the intermediary state, Kaul 2006.

58 In this context, see also Ruggie 1982.

themselves in this way, they would also be better poised to tame markets—and to retain or regain their policy-making sovereignty. Pooling national sovereignty out of enlightened self-interest would not mean giving away sovereignty, but just the contrary. It would mean, as Nye Jr. (2010) argues, to achieve preferred policy outcomes *with* other players rather than over them, thus multiplying one's own power and strength. However, for others to come on board, it will be important to recognize that they, too, want to gain from cooperation.

As states' conditions and development levels differ, they would, of course, have common but differentiated responsibilities in promoting a more mutually supportive policy approach to sovereignty. The international community could consider expanding the current principle of responsibility to prevent and protect to include its responsibility to support developing nations, financially and otherwise, in meeting their duties towards the outside world, so that all nations could increasingly act not just as national sovereign entities but also as intermediaries to balance national, regional and global concerns.

From where might momentum for reforming the world order emerge?

Several forces of change could come into play:

- A major global crisis or even crises could occur, the costs of which would be so high that the continuation of 'business as usual' would no longer appear to be feasible or desirable;
- Developing countries' approach to integrating themselves in the world economy could become more assertive and begin to 'rock the boat' of international relations—a change that would, most likely, be highly disruptive, and sooner or later, lead to the first situation of 'no more business as usual'; or
- A fuller understanding of the fact that international cooperation 'pays' on the part of policy makers, perhaps facilitated by research and studies, new technologies as well as advocacy by concerned actor groups.

The last of these three scenarios would clearly be the least unsettling and costly.

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Transforming Global Governance for the 21st century

NGAIRE WOODS, ALEXANDER BETTS, JOCHEN PRANTL AND DEVI SRIDHAR

INTRODUCTION

The rise of the global South is transforming global governance. It is creating new demands for multilateral institutions and jumpstarting regionalism. The result is a new range of strategic choices available to developing countries, and a new imperative to reform and reinvigorate multilateral and regional organizations. This paper explores the transformation of governance in four sectors—finance, health, migration and security—and highlights the implications for developing countries. In each area, developing countries have clear and powerful collective interests. There are also challenges for global governance. At one end is the relatively well-institutionalized area of finance, where reforming existing institutions is key. At the other end is migration, where global negotiations are needed, and institutions barely exist.

Over a decade ago, in the wake of the September 11th terrorist attacks of 2001, the 2002 *Human Development Report* analysed prospects for deepening democracy at the global level. The report noted a rise in pluralism in world politics, as well as the success of civil society activists in trade unions, non-governmental organizations (NGOs) and transnational campaigns in achieving changes in the global governance of debt relief, access to essential medicines and the enforcement of human rights. Equally, the report highlighted the need to reform international institutions by strengthening representation in them, creating fairer decision-making rules and increasing accountability.

Today, global governance has a new challenge. The rise of the global South and a shift in global power towards emerging economies—China, in particular—has become more obvious. China and other emerging economies have

forged deeper and stronger economic relations with neighbours and across the developing world. They have rapidly expanded their global markets and production. As they rely more on global market access, they will increasingly require global rules to protect that access.

Global rules can be made in formal, multilateral institutions, or (as became very popular in the 1990s and 2000s) in informal, standard-setting networks of private and non-governmental actors. Emerging economies are likely to favour the former. Brazil, China, India and the Russian Federation are state-centred in their own governance, and guard their sovereignty in international relations. Multilateral institutions can formalize representation and decision-making, and respect the power and processes of national governments.

Traditional multilateral institutions are not fit for this purpose, however. For decades, powerful governments have sidestepped the failings of major international agencies. Instead of dealing with out-of-date representation, vested interests, poor leadership and stagnating bureaucracy, they simply created new initiatives to deliver what international organizations could not. Among the many examples given in this paper are the proliferation of voluntary standards in finance, which substituted for global regulation; the emergence of the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), in place of action through the World Health Organization (WHO); the rise of informal groups in the United Nations to bypass a gridlocked or deadlocked UN Security Council; and regional consultative processes on migration and security to make up for a failure to take forward global negotiations. In each case, governments have sought to avert the slow, cumbersome processes of multilateral institutions by creating more nimble, informal networks and private-public partnerships. They must now turn their attention back to the organizations.

The rise of the global South is injecting a new urgency into reforming international institutions, as is most clear in global finance. Faced with global crisis, the status quo powers—the Group of 7 (G7) finance ministers—have had to reach out to emerging economies, including them in the Group of 20 (G20), requesting resource contributions and agreeing to give them more voice in relevant international organizations. However, emerging economies are not yet confident that multilaterals will work for their interests as much as for the interests of Europe and the United States, so they are also pursuing national, bilateral and regional strategies. As we will see below, instead of relying on the International Monetary Fund (IMF), to which they are now contributing more, they are also amassing their own foreign exchange reserves (‘self-insurance’), using bilateral credit lines in moments of vulnerability and reinforcing regional arrangements.

In trade, where international rules are crucial, countries have been frustrated by the stalemated Doha negotiations, and have resorted to bilateral and regional negotiations, as in Asia-Pacific. New international negotiating strategies have emerged, such as through the Group of 6 (G6) involving Australia, Brazil, India, Japan, the United States and the European Union.

Shifts are also apparent in climate change negotiations. Collective action is required to reduce greenhouse gas emissions, adapt to a changing climate, share new technologies and secure related financial resources. While multilateral negotiations have continued in one form or another for nearly two decades, many new developments are beginning to redefine negotiating strategies and the global climate regime. Choices of negotiating forums are shifting from the UN Framework Convention on Climate Change (UNFCCC) to smaller groups such as the Major Economies Forum on Energy and Climate (MEF), the G20 and US-BASIC (the United States and Brazil, China, India and South Africa). Another sign of change is the move from commitments based on top-down targets to bottom-up mitigation actions by individual countries. Bilateral and regional agreements are becoming increasingly important as countries negotiate deals to cooperate on technology development or establish region-specific carbon markets. Links with issues such as trade, intellectual property, health and migration, and financing are more obvious.

All four areas discussed in this paper—finance, security, health and migration—have been traditionally affected by North-South divisions, with the global South viewing governance as dominated by the North. The agenda in each area is now being challenged by new groupings, with countries in the global South often splitting along different interests. Institutions and processes in each area of governance are also being challenged—sometimes directly, and sometimes indirectly by alternative regional and sub-regional systems. New strategic choices for developing countries are emerging in each area.

Section 1 analyses the global governance of finance, the area in which emerging economies have been most open in challenging existing institutions. It highlights ongoing transformations in formal governance, the politics of aid and development finance, and regionalism. Section 2 assesses changes in the global governance of security. Power shifts have led to a diffusion of preferences and strategies that reflect a growing contestation of the patterns and understandings of collective action in the global security regime. Section 3 maps the global governance of health, summarizing a proliferation of initiatives and actors in recent years, with networks forming and becoming indispensable to leadership and coordination. Section 4 examines changes in the global governance of migration, given the significant growth in the number of migrants. See the Annex for a summary.

Based on analysis of governance in these four areas, three principles might guide thinking about transformation. These are:

- Pluralism, where national, regional and global governance systems work in concert;
- Strengthened multilateral processes, and the updating and transformation of existing international organizations; and
- Stronger accountability to wider groups of governments and stakeholders.

1. THE GLOBAL GOVERNANCE OF FINANCE

All countries can be affected by international financial crises, with their vulnerability increased or decreased by global arrangements that create rules, pool resources and coordinate actions. These amplify or constrain strategies available to individual governments. In 1997, when a speculative attack on the Thai baht rapidly engulfed East Asia in a major financial meltdown, Thailand tried several strategies. It used up its own foreign exchange reserves attempting to support its currency. It then floated the currency, yet was still overwhelmed. The prime minister sought bilateral assistance from China and Japan, but neither was willing to provide emergency loans. Finally, the government was forced into the arms of the IMF. Its programme failed to stem the crisis, and soon Indonesia, Malaysia, the Philippines and the Republic of Korea were forced to take emergency measures.

The crisis highlighted four elements of international cooperation on which countries might ideally rely:

- Insurance against crises caused by others, or the provision of emergency assistance in the event of financial crisis contagion;
- The resolution of sovereign debt crises and the regulation of banking in a world in which sovereign creditors are both numerous and global;
- Exchange rate rules and a forum for discussing alleged infractions to prevent ‘currency wars’; and
- Concessionary funding for development in countries and sectors where the market fails to deliver or sustain adequate or appropriate investment capital.

Cooperation in global finance since World War II has mostly been coordinated through regional and international institutions, primarily the IMF and the World Bank Group. The 2002 *Human Development Report* described the system as

dominated by the United States and the European Union, but challenged by the rise of powerful, transnational NGOs. Determined to hold the IMF and the World Bank to account, these groups successfully put debt relief, poverty alleviation, environmental and human rights concerns, and transparency on the agenda of international institutions. That said, they were predominantly northern NGOs, challenging a northern paradigm.

Since 2002, as emerging economies have become more powerful players in global financial governance, they have taken new places at the tables of discussion and rule-making. They have become financiers in their own right. And they have developed their own regional monetary and support arrangements. This rapid transformation poses new challenges and strategic choices for developing countries. Three issues are analysed here: the rise of emerging economies in global discussions of finance, the new politics of aid and the increase in regional monetary arrangements.

THE RISE OF EMERGING ECONOMIES IN GLOBAL DISCUSSIONS OF FINANCE

East Asia's 1997 financial crisis exposed global financial governance as outdated. The G7, which for years was the informal steering group of the IMF in a crisis, realized that it needed to consult more broadly. More specifically, emerging economies needed to be at the table to effectively manage the crisis. To this end, Canada and the United States created the G20 with finance officials from just over 20 of the world's largest economies. In so doing, they sidestepped calls for immediate radical reforms of the governance of the IMF and the World Bank, but they sowed the seeds of a process of change.

The 2008 financial crisis accelerated shifts that began after 1997. Brazil, China, India and the Russian Federation were called upon to provide emergency backstop lines of credit to the IMF. In turn, they acquired a veto over the use of the lines.¹ Today, after decades of wrangling over tiny changes in relative voting power, emerging economies have won important advancements in governance. China is set to become the third most powerful shareholder and now has a deputy managing director at the IMF. The World Bank's chief economist is Chinese, and China has become an important contributor to the International Development Association. The G20 has become the world's emergency committee, supplanting (but not eradicating) the G7. It has created a Financial Stability Board, and sought to widen participation in host institutions, such as the Bank for International Settlements.

1 These are detailed in Woods 2009.

While smaller developing countries have not been formally included in the reforms, the result has not necessarily been further marginalization, as some predicted. At different moments, the major emerging economies—not always unified—have sought support from developing countries; each has variously held itself out as speaking for a wider group. These changes in governance and active cooperation, however, have offered only a short-term response to the four issues listed above, as revealed by the 2008 crisis.

The crisis originated in the United Kingdom and United States, and soon exposed weaknesses across the European Union. The first wave occurred as the conveyor belt of global finance spread a ‘credit crunch’ across countries that had opened their financial systems to global banking. Hungary, Iceland, Romania and Ukraine plunged into disarray. A second wave quickly followed, transmitted through the ‘real economy’, as the credit crunch caused economies to seize up, halting global trade and spreading recession across the world. The IMF and the World Bank used the phrase ‘development emergency’ in their report monitoring the impact of the crisis on the poorest countries (World Bank and IMF 2009).

Emergency measures were undertaken. Large economies coordinated a response that included having their central banks lower benchmark interest rates, and the United Kingdom and United States set up massive bank rescue plans. In November 2008, G20 leaders agreed on measures to reinvigorate their own economies without damaging global trade, regulate global finance, assist the poorest countries and reform global institutions. In April 2009, they declared they were arming the IMF with US \$1 trillion.

The 2008 crisis and the Eurozone crisis in its aftermath underscore the need for cooperation that delivers on the four issues listed above. Even as industrialized countries have turned to international institutions, however, emerging and developing countries have sought increasingly to rely upon themselves.

THE NEW POLITICS OF AID

2005 marked a pivotal point in the world of aid and development financing. The Group of 8 (G8) pledged to double development assistance to Africa (G8 2005)—but members mostly failed to meet this goal.² Commentators began to notice that China was quietly increasing its trade, aid and investment relations with Africa. Conservative estimates in 2007 suggested that Brazil, China, India, Kuwait, the Republic of Korea, Saudi Arabia, the United Arab Emirates and

2 In the World Bank’s assessment, net official development assistance (ODA) disbursements overall declined by \$3 billion in 2006 (World Bank 2007, p. 55).

Venezuela would at least double their current official development assistance to a little over \$1 billion by 2010 (IMF and World Bank 2006, Reisen 2007).

The increased interaction between emerging economies and developing countries occurred against a background of serious discontent with the established 'aid system' and donors of the Organisation for Economic Co-operation and Development/Development Assistance Committee (OECD-DAC). Donors were failing to deliver promised aid, to 'listen' to recipient countries and to respond to their needs, instead imposing their own ever-changing priorities and conditionalities. They did not use simple, workable systems for aid transactions and reporting, defaulting instead to requirements that poor countries use unwieldy, duplicative, bureaucratized and resource-wasting procedures.

In contrast, emerging economies have been keen to lend and give aid without conditionality, with a strong rhetoric of respect for the sovereignty of other governments. China, for example, frames its aid around eight principles that emphasize sovereignty, equality and mutual respect. India's aid programme, which began in the 1950s, centres around respect of territorial integrity, mutual non-aggression, mutual non-interference in domestic affairs, equality and mutual benefit, and peaceful coexistence (Price 2005). Emerging donors have increased their aid against a background of their own economic success, entwining it with trade and investment strategies that promote economic growth with some degree of self-reliance.

For all the talk of increasing aid coordination, 'established' donors continue to establish and sustain multiple separate aid agencies and processes, creating a cacophony of voices making different demands on overstretched, aid-needy governments. The governments of Canada, the United Kingdom and the United States speak daily to developing countries through dozens of megaphones, including their own national agencies and special initiatives, alongside several multilateral agencies (UNDP, the World Bank, the IMF, WHO, the World Trade Organization or WTO and so forth). More perversely, even when donors use multilateral organizations, they encumber them with special demands and funds, and additional procedures. One example is the increasing use of trust funds. A former UK government aid official describes this practice at the World Bank: "We construct an elaborate mechanism for setting priorities and discipline in the Bank, and then as donors we bypass this mechanism by setting up separate financial incentives to try to get the Bank to do what we want" (Masood 2006, p. 90).

Emerging economies have not sought to engage with or to overturn the rules of multilateral development assistance. However, by offering alternatives to some aid-receiving countries, they have introduced competitive pressures and in some cases weakened the bargaining position of Western donors.

THE NEW REGIONALISM IN MONETARY COOPERATION

In the wake of the East Asian crisis, emerging economies began to amass foreign exchange reserves to ensure their own financial independence in the event of adverse developments. They sought alternative insurance to the pooled assistance offered by the IMF, seen as paying out only with strong conditionality and generating a stigma. Individual reserves provide one such alternative, but in most regions, countries have sought to bolster this with a set of regional arrangements.

In Asia, the Chiang Mai Initiative (CMI) emerged as a series of swaps arrangements. Subsequently, the 10 members of the Association of Southeast Asian Nations (ASEAN) plus China, Japan and the Republic of Korea have created a multilateral fund with resources of \$120 billion. Members can draw on it to address balance-of-payment and short-term liquidity difficulties. Where they draw more than 20 percent of their allotted disbursements, they must have an IMF programme in place.

In the Middle East, the Arab Monetary Fund (AMF) now has about \$2.7 billion.³ It was founded in 1976. Cooperation among the 22 member countries includes emergency financing as well as broader monetary cooperation and an aspiration for a unified Arab currency. It also requires its borrowing members to have an IMF programme.

The Latin American Reserve Fund (FLAR) now has about \$2.34 billion. It was founded in 1978; members include Bolivia, Colombia, Costa Rica, Ecuador, Peru, Uruguay and Venezuela. Like the other regional funds, it offers its members balance-of-payments support. It also guarantees third-party loans, and facilitates reserve investments and the regional coordination of monetary policies. Unlike the CMI or the AMF, the FLAR does not require its borrowing members to have an IMF programme.

The limits of self-insurance and regional arrangements were tested during the 2008 crisis. The Republic of Korea had amassed over \$200 billion in reserves as the sixth largest reserves holder in the world. Yet it soon found that using its reserves, even though they were abundant, cracked the confidence of investors. A more collective solution was needed. It did not turn to the IMF, given lingering bad feelings about the 1997 IMF programme, or the CMI. Instead, it drew on a \$30 billion swap-line with the US Federal Reserve, and extended bilateral swaps agreements with China and Japan.

The 2008 crisis, given its impacts on global institutions, the aid system and emergency financing, suggests three lessons for emerging and developing economies:

3 For a useful summary, see Lamberte and Morgan 2012.

- First, national resilience is crucial. Whatever the global or regional governance arrangements, countries need to build up their national resources and resilience, such as through the control of public finances, banking regulation, appropriate prudential measures and reserves. This is their first line of defence.
- Second, global arrangements cannot be ignored. Developing countries will be affected by global agreements, resources and delivery mechanisms, and must find ways to influence those processes. Seeking greater voice and voting power so as to push well-prepared positions is important. Equally, using networks to coordinate positions among developing countries and to feed these into the G20, the IMF and the World Bank is crucial.
- Finally, regional arrangements and a growing number of potential donors give developing countries greater choice. This can strengthen their resilience as well as their bargaining power.

The implications for global governance are threefold:

- First, global governance arrangements must respect the mixed strategies that countries are choosing. In finance, countries will want to diversify their exposure and insurance policies. They will seek to use a mixture of national reserves, bilateral credit lines, regional arrangements and the IMF. The international regime needs to be pluralist.
- Second, transformed multilateral institutions are crucial, since international cooperation and rules can reduce costs, and increase the support and information available to developing countries. The global South is likely to use multilaterals more only if they are transformed into institutions seen as acting as much in the interests of the global South as in those of the United States and Europe.
- Third, the accountability of global institutions to their full membership and beyond will be greatly scrutinized at each stage. This is partly because a wider group of governments see themselves as stakeholders. Equally, the information revolution makes scrutiny far easier for a much wider range of actors.

2. THE GLOBAL GOVERNANCE OF SECURITY

The post-Cold War period has seen a significant drop in high-intensity political violence, defined as conflicts with 1,000 or more battle deaths per year (Human Security Report Project 2010). While this may be considered an improvement in global security, poor countries are disproportionately affected by remaining

conflicts. Civil wars incur an estimated average cost of \$64 billion each year (Collier 2008). Poor countries often remain locked in a trap where they struggle to develop after a conflict. If they cannot do so, the risk of a relapse grows. Where conflict reoccurs, it further erodes development.

The stabilization of fragile states has become a priority on international security and development agendas. At the global level, the risk of security spillovers and concern for human development have prompted international interventions in fragile states, especially on the African continent, through formal and informal institutions, and via multilateral and unilateral channels. Yet the authority of the UN security regime and wider development assistance has been increasingly challenged by failures to deliver effective outcomes, and by the growing activities of emerging economies such as Brazil, China, India, Saudi Arabia, South Africa and Venezuela. At the regional level, the high costs of state failure are borne mainly by neighbouring states, which are often fragile themselves. This provides clear incentives for cooperation within affected regions, but such action is often obstructed by a lack of resources, sovereignty concerns, and conflict or tensions between states.

Global security is currently in a state of flux and great uncertainty. The patterns and understandings that evolved in the post-Cold War period are contested. As a result, global and regional security arrangements often overlap and at times compete. Western ideas about security—such as ‘comprehensive security’ and ‘cooperative security’—dominated in the 1990s.⁴ US hegemony prevailed in the early 2000s. Now the shift in global power has led not only to a diffusion of power, but also to a diffusion of principles, preferences, ideas and values (Hurrell 2012), with implications for global governance. On the one hand, emerging powers criticize international cooperation as too Western-centric. On the other, Western powers themselves are very critical of international cooperation for not harnessing emerging powers, making statements such as: “China is failing to be part of the solution,”⁵ “India is being obstructionist”⁶ and “Iran is a rogue state.”⁷

4 On ‘comprehensive security’ see, for example, CSCE 1990 and 1992. On ‘cooperative security’, see Carter, Steinbruner and Perry 1992.

5 For example, the Obama administration has repeatedly pressed the point that China needs to be part of the solution on climate change. A similar argument may be made vis-à-vis China’s (lack of) efforts to strengthen the nuclear non-proliferation regime.

6 This was typical of views expressed by Western governments in the context of the WTO Doha Round and the UN climate conference in Copenhagen, epitomizing the perception that India has always been good at keeping the moral high ground and bad at effectively negotiating towards mutually acceptable collective action.

7 The term ‘rogue state’ originally emerged during the Clinton administration, describing countries with a hostile attitude to the United States that were suspected of sponsoring terrorism or developing weapons of mass destruction and missile programmes. The core ‘rogue states’ have been the Democratic People’s Republic of Korea, Iran, Iraq and Libya.

Three factors drive transformation in global security. The first is the quantity and complexity of conflicts dealt with by international organizations. The second is the increased functional and normative ambition of the international community, as epitomized in the concepts of human security, the responsibility to protect and the security-development nexus. Third, international organizations have found it difficult to formally adapt to global power shifts, even as there is increasing pressure on regional and global stakeholders to adjust to new realities.

Post-1945 multilateralism was a supplement to rather than a substitute for inter-state relations (Keohane 2006). Furthermore, multilateralism was not very multilateral. It was centred on the United States and the industrialized global North, and largely excluded the developing global South. Its aims and scope were partial.

While the transformation of the security landscape has triggered high demand for mechanisms to govern global and regional security, there has been no global institutional reform. UN Security Council reform is a case in point. Although the Council is not necessarily the pinnacle of global security governance, it nevertheless has, according to Article 24 of the UN Charter, the primary, though not exclusive, responsibility for the maintenance of international peace and security. Since the early 1990s, it has been common wisdom that the Council is overdue for radical reform. But this continues to be a divisive topic among global and regional stakeholders both from the global North and South. Despite the smoke screen of summit declarations, there is no agreement on the issue among Brazil, China, India, the Russian Federation and South Africa, the BRICS.⁸ While China and the Russian Federation, at the 2011 BRICS Summit in Sanya, “reiterate[d] the importance they attach to the status of India, Brazil, and South Africa in international affairs, and understand and support their aspiration to play a greater role in the UN,”⁹ declaratory policy is not indicative of operational policy. At the beginning of this year, the informal Group of 4 (G4) coalition—comprising Brazil, Germany, India and Japan—launched another bid to expand the Council, which received instant criticism from China and the so-called ‘United for Consensus’ group led by Argentina, Canada, Colombia, Italy and Pakistan.

The perceived crisis of UN-centred governance stands in sharp contrast to the boom in peace operations. By February 2012, more than 118,000 military

8 Both China and the Russian Federation occupy permanent seats on the UN Security Council. Any expansion in permanent membership would inevitably reduce their relative power at the negotiation table. Although one could well argue that the BRICS group as a whole could turn the Council into a power-political instrument of emerging countries, this overestimates the coherence of BRICS views on key security issues. In fact, BRICS cooperation has remained selective thus far.

9 BRICS Summit Declaration, Sanya, Hainan, China, 14 April 2011, paragraph 8.

and civilian personnel were serving in 15 peace operations, with an annual budget of \$7.8 billion (United Nations 2012). This suggests that the Security Council is not quite ‘the imaginary invalid’, although there is much room to improve its decision-making, effectiveness and representativeness. However, if Security Council membership was to be adapted to better reflect global power shifts, what would this mean in practice? Most reform proposals are overly concerned with enlarging the Council’s membership as a proxy for legitimacy and representativeness. Yet there are two problems with this approach.

First, Security Council reforms need to strike a balance between efficacy and representativeness—a larger Council is not necessarily more effective. Second, much of the Security Council’s weakness rests in political disagreements among powerful current and aspiring members; these need to be settled prior to any large-scale Council reform. The recent Russian Federation and Chinese vetoes on Myanmar (2007), Zimbabwe (2008), and Syria (2011 and 2012) reflect the difficulties in agreeing on underlying rules and principles of collective action in global security. The central question is how to *politically* engage key stakeholders such as Brazil, China, India, the Russian Federation and South Africa inside and outside the Security Council to manage 21st century security relations collectively and responsively. Without deep political engagement and a new bargain among stakeholders, initiatives to change the formal structures of global institutions will fail. Engaging in facilitative multilateralism needs to be the order of the day.

The proliferation of informal institutions—G-X groups, contact groups, core groups of friends—constitutes a significant structural change in the process and substance of UN crisis management (Prantl 2006). Such groupings have come to play a range of critical roles and occupy a vital space between multilateral governance and traditional major power diplomacy. Between 1990 and 2006, one could observe a growth from 4 to more than 30 such mechanisms in UN conflict resolution. The increase paralleled the surge in conflict prevention, conflict management and post-conflict peacebuilding activities by the United Nations and others.

Informal institutions allow exits from the structural deficiencies of the Security Council and provide voice for countries not represented there. In effect, those mechanisms may alleviate the pressure for formal adaptation. Yet they are certainly not the *deus ex machina* for curing the public ‘bads’ of security governance. At best, such mechanisms may be complementary and strengthen the global governance architecture by offering an alternative route for the application of more flexible procedures in addressing collective problems. At worst, informal institutions may be competitive and further erode the already challenged authority of international organizations. If successful, informal

institutions must accommodate an extremely fragile balance between the competing demands of efficacy, legitimacy, representativeness and accountability. The challenge is to find ways of making multilateral pluralism coherent.

There has been a significant change in the role of the five permanent members of the UN Security Council. While coordination among them is still substantial, bilateral China-US consultations have become far more important. At the same time, the BRICS, with mixed results, aim at coordinating their positions on important Security Council matters.

Contestation of the security order operates at the global and regional levels. At the global or UN level, this is particularly visible in debates surrounding the implementation of the responsibility to protect framework. It specifies both the responsibility of individual states towards their populations, and the responsibility of the international community to address genocide, war crimes, ethnic cleansing and crimes against humanity when states fail to do so within their own borders. Despite the universal adoption of the framework by the UN General Assembly at the 2005 World Summit, there is a deep political divide over application. From the beginning, Brazil, China, India and the Russian Federation either directly opposed or were extremely lukewarm to the idea. China, in negotiations leading to adoption, actively pursued a strategy of weakening the breadth of the concept (Prantl and Nakano 2011). The summit declaration did not include any specific criteria for intervention. It affirmed the primary responsibility of the Security Council to authorize intervention, leaving intact a Chinese or the Russian Federation veto of any unwanted action.

While the North Atlantic Treaty Organization (NATO) operation Unified Protector in Libya was authorized in March 2011 by Security Council Resolution 1973 with direct reference to the responsibility to protect, the case is very unlikely to serve as a model for future interventions. Brazil, China, India and the Russian Federation, which had abstained from the vote, expressed strong reservations against the very broad interpretation of the resolution. They particularly opposed the arming of Libyan rebels and the outright pursuit of regime change. China's and the Russian Federation's vetoes of collective action in Syria in October 2011 and February 2012 need to be seen in light of the Libyan experience.¹⁰

However, there has been no consistent BRICS opposition. Brazil, India and South Africa (the IBSA group of democracies) have shown closely aligned positions that can be substantively different from those of China and the Russian Federation. IBSA's voting record in October 2011 and February 2012 is

10 See UN documents S/PV.6627, 4 October 2011, and S/PV.6711, 4 February 2012.

indicative.¹¹ While these countries jointly abstained on the first draft resolution on Syria, they voted for the second. Brazil has adjusted its strategy and recently assumed the role of mediator between the more interventionist United States and Europe, and opposing BRICS members such as China and the Russian Federation. At the General Assembly's General Debate in September 2011, Brazil acknowledged the importance of the responsibility to protect while highlighting the need for complementary norms—including last resort, proportionality and balance of consequences—to be taken into account prior to the Council's authorization of military force. It stressed “the accountability of those to whom authority is granted to resort to force,”¹² highlighting strong demand for new principles of accountability.

At the regional level, contestation has become most explicit in the creation of alternative structures of security governance. The Shanghai Cooperation Organization (SCO) is a good example (Prantl 2013). Established in 2001, it brings together China, the Russian Federation and four Central Asian countries—Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. It is the only international organization where contemporary China has been a stakeholder from inception. The SCO process is driven by what is often referred to as the so-called Shanghai spirit (Shanghai *jingshen*), which includes, according to former Chinese Foreign Minister Yang Jiechi, “mutual trust, mutual benefit, equality, consultation, respect for diversified civilizations and pursuit of common development” as well as “the democratization of international relations” and “a multipolar world.”¹³ Consequently, the SCO serves an inward and an outward function: On the one hand, it regulates relations among members of a highly diverse group of autocratic or semi-autocratic states, providing a platform for cooperation; on the other hand, it provides a bulwark against and an alternative model to the perceived threat of a US-led Western liberal order. For both China and the Russian Federation, the SCO is a multilateral forum to articulate and legitimize these aims.¹⁴

The Astana Declaration on the SCO's 10th anniversary effectively adopted the Russian Federation language on missile defence by highlighting that the “unilateral and unlimited build-up of anti-missile defence by a particular country or a narrow group of countries could damage strategic stability and international

11 Brazil served as a non-permanent member of the UN Security Council in 2010-2011. India and South Africa were elected members of the Council for the period 2011-2012.

12 UN document A/66/551-S/2011/701, 11 November 2011, para 11(i). The document contains the concept note on ‘responsibility while protecting’, as developed by the Government of Brazil.

13 Xinhua News Agency, 11 June 2011.

14 Both countries have used the SCO at times to criticize perceived Western double standards.

security.”¹⁵ Furthermore, the SCO’s 2001 Convention on Combating Terrorism, Separatism and Extremism constitutes a fundamental challenge to the UN Global Counter-Terrorism Strategy. SCO agreements stipulate that member states are required to target separatists and extremists, as defined by the organization, whether or not they use violence. While those practices violate international norms against *refoulement*, the SCO provides a framework for self-legitimation, setting the rules and principles of counter-terrorism strategies within the Central Asian regional context.

From the above analysis, emerging countries have essentially three basic choices in pursuing their strategies and positions regarding global governance of security:

- Confrontation, where emerging countries, especially China and the Russian Federation, can block governance by preventing collective action on key security issues;
- Contestation, where emerging countries can contest existing global normative frameworks by constructing competing institutional alternatives at the regional level and recruiting enough followers to legitimize this process; and/or
- Mediation, where emerging countries can assume the role of responsible stakeholders and mediate between entrenched positions of the global North and South.

In sum, three principles for forging collective action on global security governance can be deduced.

First, pluralism is crucial. There is no one-size-fits-all strategy for effective security governance. Ideally, cooperation at the regional or sub-regional level will complement that at the international level.

Second, a strengthened multilateral process is crucial. Great powers—whether at the regional or international level—need to engage on issues of security. A political bargain among key stakeholders on ‘the rules of the game’ is a *sine qua non*. These rules are the foundations on which international institutions proceed, and help to foster some degree of compliance with principles of conduct.

Third, stronger accountability is required in the global governance of security. In light of the contested and fluid nature of global security governance, accountability of those who wield power and military force is of paramount importance.

15 Shanghai Cooperation Organization 2011, paragraph V.

3. THE GLOBAL GOVERNANCE OF HEALTH

Global health governance refers to the formal and informal institutions, norms and processes that govern or directly influence global health policy, and collectively promote and protect health. The essential functions of health governance are generally agreed upon and include convening stakeholders, defining shared values, ensuring coherence, establishing standards and regulatory frameworks, providing direction (e.g., setting priorities), mobilizing and aligning resources, and promoting research (Sridhar, Khagram and Pang 2009).

The risks to health and development caused by globalization disproportionately affect people in the developing world, as exemplified by the potential health impacts of climate change and global warming. There are concerns that negative fallout from the global financial and economic crises could include cuts to health budgets of resource-limited countries. Health and education are often the first victims of budget cuts in times of limited funding and competing priorities.

As the crisis originated in the now debt-ridden developed world, ODA has been affected, a particular concern for countries where external resources make up a significant proportion of national health budgets.¹⁶ WHO estimates that 23 countries have over 30 percent of their total health expenditures funded by international donors. In terms of disease challenges, threats of epidemics and pandemics continue as demonstrated by recent outbreaks of cholera in Zimbabwe, Ebola virus in Angola and increased activity associated with avian influenza. Developing countries also have to deal with chronic diseases and injuries, estimated to make up 70 percent of the global disease burden by 2020.

All of these factors make global governance essential in dealing with global health challenges such as pandemic disease and health care financing, as well as the related challenges of human migration, conflict, urbanization, global trade and so on. Today, the main two multilateral organizations working on health are WHO, the focal body, and the World Bank (Sridhar 2010).

WHO was established in 1948 to aid all peoples in the attainment of the highest possible level of health, broadly conceived. It was created to be the director and coordinator of international health work. It has focused on two activities: providing scientific and technical advice, and setting international normative standards. But WHO is currently struggling to remain relevant; there are pressing talks about how to reform the body to make it effective in the 21st century.

16 See: www.healthmetricsandevaluation.org/publications/policy-report/financing_global_health_2010_IHME.

The World Bank was not created to address health directly, but has a more broad poverty alleviation objective. Since 1980, it has played an increasingly important role in health primarily due to its financial power as a lender, its interaction with ministries of finance in developing countries and its reputation for intellectual prowess.

In parallel to the work of the multilaterals are a number of bilateral programmes, with the largest financial player being the US Government's Global Health Initiative (previously the President's Emergency Plan for AIDS Relief or PEPFAR). Although cooperation is typically classified into multilateral and bilateral, a recent OECD-DAC report noted that about 40 percent of multilateral funding is given through what it calls 'multi-bi' aid (OECD-DAC 2010). This refers to donors choosing to route non-core funding, earmarked for specific sectors, themes, countries or regions, through multilateral agencies. At first glance the funding looks multilateral but upon investigation it is more bilaterally controlled. The practice occurs in both WHO and the World Bank through voluntary contributions and trust funds, respectively. It is also part of two of the largest new health initiatives, which are both public-private partnerships—the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) and the Global Alliance for Vaccines and Immunisation (GAVI) (Sridhar and Woods 2012).

States have increasingly cooperated on health through regional bodies. For example, modeled after the European Union, the Union of South American Nations (UNASUL) is an intergovernmental union integrating the Southern Common Market (Mercosur) and the Andean Community of Nations. It includes the 12 South American countries, and its objectives include strengthening health systems and services, as well as their related institutions. Important developments include the creation of the South American Commission on Social Determinants of Health and the South American Council on Health (CSS), involving ministers of health of member states.

In Asia, several groups are active on health: the ASEAN, the Ayeyawady–Chao Phraya–Mekong Economic Cooperation Strategy (ACMECS) and the Asia Pacific Economic Cooperation forum (APEC). The African Union (AU), an intergovernmental organization consisting of 53 African states that was established in July 2002, has held four conferences with ministers of health, and has been actively involved in health issues, including challenges related to infectious diseases, health financing, and food security and nutrition. The IBSA countries have agreed to work together to coordinate international outreach on education, environment, health and medicine, and created the IBSA Fund, to which each nation contributes \$1 million a year for collaborative work in low-income countries.

Each country has promised dedicated research efforts for particular diseases—Brazil for malaria, India for HIV and AIDS, and South Africa for tuberculosis.

Non-state actors are also significant and powerful stakeholders in global health governance, perhaps in contrast to other issues that remain the purview of governments. For example, the Bill & Melinda Gates Foundation contributes huge amounts of money both to countries and multilateral organizations (McCoy et al. 2009). NGOs such as Oxfam GB, the People's Health Movement and Doctors without Borders (MSF) play central roles as well.

Given the huge number of initiatives and actors operating in global health, networks have formed to provide stewardship and coordination. These include Health 8 (H8), an informal group of eight health-related organizations—WHO, the United Nations Children's Fund (UNICEF), the United Nations Population Fund (UNFPA), the Joint United Nations Programme on HIV/AIDS (UNAIDS), GFATM, the GAVI Alliance, the Bill & Melinda Gates Foundation, and the World Bank. Informal senior official networks have also been created. For example, the BRICS health ministers, after meeting in Beijing, issued a declaration committing to a package of global health priorities, trade regimes and values.¹⁷ There are now discussions on making this a permanent institutional forum for coordination and technological cooperation.

Within various areas of collective action, each of the above actors takes a leading role. On rules and norms, WHO is the only body that can pass international law. In finance, GFATM, GAVI and the Gates Foundation lead the way. No player is dominant in the area of ideas. While some recent developments have been called 'revolutionary' for global health in terms of improved health outcomes (output legitimacy), there are worries that many new actors are not accountable the way that WHO is (input legitimacy), leading to a deepening of the democratic deficit and an undermining of global governance.

Governments have adopted various strategies to achieve their interests. It is useful to look at two case studies to explore this area: WHO reform and GFATM's portfolio, and the role of the BRICS within them. Both topics have been top debates within the global health policy community, given that these two actors are arguably the most important in global health.

Questions about the relevance of WHO have persistently increased (Sridhar and Gostin 2011). In January 2011, the WHO Executive Board considered the agency's future. After a year-long consultation with member states, Director General Margaret Chan called the organization overextended, and unable to respond with speed and agility to today's global health challenges. This crisis in

17 See: www.cfr.org/global-health/brics-health-ministers-meeting----beijing-declaration/p25620.

leadership is not surprising to those familiar with WHO—the United Nations endowed it with extensive normative powers to act as the directing and coordinating authority on international health. Yet new initiatives such as GFATM and GAVI, bilateral programmes such as the US Global Health Initiative, and well-funded philanthropic organizations such as the Gates Foundation often overshadow the agency. WHO is subject to political pressure, and a tense relationship with both industry and civil society.

Initial dialogue on WHO reform was among OECD donors/European countries that mainly fund the agency. Subsequently, developing countries raised concerns regarding suggestions that WHO spend less attention to technical and policy support at country level. Among the BRICS, Brazil is an extremely active player, often representing poorer sub-Saharan African countries, and having clear and strong positions on trade and intellectual property rights. Brazil showed leadership on the Framework Convention on Tobacco Control, on ensuring universal access to antiretroviral medicines, and on pushing for flexibility with the trade-related aspects of intellectual property rights (TRIPs).¹⁸ India has been vocal on trade and drug issues. Both Brazil and India have opposed reform, and in fact have been stalling the process.

There is some wariness around suggestions by Margaret Chan and others to open WHO to industry through a Global Health Forum or related mechanism. China has been very supportive of this direction, which some attribute to ties to Margaret Chan, whom it campaigned hard to get elected. China agrees with programmatic directions of the reform, and sees WHO as an ally to gain access to international processes. Its main concern relates to the status of Taiwan Province of China. Taipei was invited last year to participate, for the first time since 1971, in the enforcement mechanism of the International Health Regulations and as an observer at the World Health Assembly. China is worried that Taiwan Province of China will use WHO as a platform to increase its international visibility and political imperatives (i.e., independence). The Russian Federation has not played any major role in the discussions on WHO reform.

The second debate in global health circles involves the GFATM portfolio, and replenishment and disbursements. The total global pledge of \$11.7 billion over the next three years falls short of the fund's desired minimum amount of \$13 billion.¹⁹ GFATM executive directors are continually calling on emerging economies to shoulder some of the financial burden (Sridhar and Gomez 2011).

18 See: http://csis.org/files/publication/101110_Bliss_KeyPlayers_WEB.pdf.

19 See: www.theglobalfund.org/.

Brazil has received \$45 million in grants and only contributed \$200,000. In 2010, its proposal for work on HIV and AIDS in the 10th round of disbursements was not approved. Brazil did not pledge or contribute in 2008 or 2009, or indicate its intention to contribute in the recent replenishment round. Its relationship with GFATM has now evolved to working with countries in the Caribbean and Africa on how to prepare successful grant applications.

The Russian Federation has received \$354 million and donated \$254 million, mainly through paying back grants. It pledged \$60 million in the latest replenishment meeting. Engagement has primarily been over policy positions. In 2009, harm reduction programmes were put on hold when GFATM finance came to an end due to a new policy that made the Russian Federation ineligible for HIV and AIDS funding. The Russian Federation Government refused to fund prevention or treatment for injecting drug users until the fund reversed its decision and granted \$24 million.

India has received \$1.1 billion and only donated \$10 million. In the latest replenishment meeting, it pledged an additional \$3 million. China has received \$2 billion and donated \$16 million. At the replenishment meeting, it pledged \$14 million.

To summarize, all four emerging economies are major recipients. Considering that in the recent recession many financially hard-hit donor countries have had to scale back or eliminate commitments, the fact that the relatively economically stable BRICS have not stepped up their contributions has raised questions among those in the global health community about their investment in global health leadership in the long term.²⁰

Nonetheless, China, India and Brazil, for all their economic success, remain countries still struggling with poverty and inequality, with a need for high growth as a political imperative. In 2008, China had the 5th largest economy in terms of gross domestic product (GDP) but was 91st in terms of per capita income. Brazil had the 12th largest economy, but ranked 65th in terms of per capita income. India had the 14th largest economy, but ranked 118th in per capita income.²¹ All face massive health problems at home. As the *Lancet* series on Brazil noted, it has made significant improvements in maternal and child health, emergency care and infectious disease reduction.²² But it continues to have high rates of injury mortality due to the large number of murders, especially those involving firearms. Obesity levels are increasing; caesarean section rates are the highest

20 See: http://csis.org/files/publication/101110_Bliss_KeyPlayers_WEB.pdf.

21 World Development Indicators.

22 See: www.thelancet.com/series/health-in-brazil.

in the world. The Russian Federation's working-age male population has one of the highest mortality rates from preventable causes (e.g., alcohol poisoning, stress, smoking, traffic accidents and violent crimes). In India, the number of hungry people increased between 1990 and 2005 by 52 million; 43 percent of Indian children under age five are malnourished. China has pledged \$124 billion to reform its own health care system and remains focused on solving its domestic health challenges.

In sum, the major emerging economies are playing roles that reflect their domestic constraints and needs. When Brazil, China, India and the Russian Federation do engage, it seems to be in issue-specific areas such as access to essential medicines, on technological cooperation or on TRIPs.

Where these countries engage often seems to be driven by regional concerns, which explains the reinvigoration and creation of regional bodies in health. In general, global health is not a high priority compared to other international issues, such as financial policies or national security. An exception is Brazil, which has embraced health as a core part of foreign policy.²³

As key global decision-making moves from the G8 to the G20, it is not clear whether the G20 holds real promise as an institution for resolving key health issues that have traditionally been on the agenda of the G8.²⁴ The G8 is largely composed of 'like-minded' countries with similar strategies on how to improve health. It has played an important role in financing global health through making formal commitments, creating new institutions and prioritizing certain issues on the global stage. For example, the G8 was the driving force behind the creation of GFATM; a large portion of funding continues to come from G8 countries. Japan recently took advantage of its leadership of the G8 and used the 2008 Toyko summit to push for health system strengthening. In 2005, under UK leadership, the G8 committed to achieving universal access to antiretroviral medicines for those living with HIV and AIDS. Despite hope from the health community that the G20 would play a similar role,²⁵ it has yet to tackle health in a significant way. Having more countries at the table does not automatically mean better articulation of global concerns. Further, the 2011 and 2012 G8 meetings did not discuss global health.²⁶

The evolution of global health governance reinforces the three principles of governance highlighted in this paper:

23 See: [www.thelancet.com/journals/lancet/article/PIIS0140-6736\(07\)60498-X/abstract](http://www.thelancet.com/journals/lancet/article/PIIS0140-6736(07)60498-X/abstract).

24 See: www.globalhealthpolicy.net/?p=141.

25 See: www.chathamhouse.org/publications/papers/view/109482.

26 See: <http://blogs.cgdev.org/globalhealth/2012/03/what-happened-to-health-at-the-g8.php>.

- First, countries are choosing to cooperate at different levels, including regional and global. Coherent global health governance needs to be pluralist, considering diverse forms of cooperation.
- Second, there is a key role for multilateral institutions, first among them WHO as the chief coordinator and director of cooperation in global health. To play this role, the agency needs to be perceived as independent and neutral. It requires strengthening.
- Third, global health governance must be accountable to the people across the world that it claims to serve.

4. THE GLOBAL GOVERNANCE OF MIGRATION

Global governance is rapidly emerging in the area of international migration.²⁷ In the aftermath of World War II, no coherent UN-based multilateral regime was developed. However, with the subsequent growth in migration, from 70 million people in 1970 to over 200 million today, and given its increasing significance for both human development and national security, there has been a renewed demand from states to establish international rules.

Migration, by definition, affects more than one state. One state's immigration or emigration policies will inherently exert externalities on another state, and it is beyond the scope of any one country to address migration in isolation. So far, a fragmented set of formal and informal migration institutions has emerged at the multilateral, regional and bilateral levels. Not all states share the same vision of global migration governance, nor are they adopting the same institutional strategies.

Migration is important to study precisely because different countries have distinctly different priorities, and these affect their institutional interests and strategies. In the past, many predominantly migrant-sending states of the South pushed for the development of multilateral responses and formal rule-making to ensure better access to labour markets and improved rights for their citizens abroad. The predominantly migrant-receiving states in the North have generally been far more sceptical about the need to develop binding multilateral institutions, instead preferring to preserve sovereign authority over their immigration policies, and to use unilateralism or bilateralism to cooperate on migration. This difference in priorities has often polarized multilateral discussions.

27 Betts 2011, Hansen et al. 2012, Kunz et al. 2011, Newland 2010, Koslowski 2012.

Consequently, there is still no coherent global migration regime or UN migration organization. The notable exception is strongly institutionalized multilateral cooperation on refugees, through the UN High Commissioner for Refugees (UNHCR) and the 1951 Refugee Convention (Betts et al. 2012). In other areas—such as irregular migration and labour migration—states predominantly act unilaterally, develop bilateral or regional cooperation, or use informal networks referred to as regional consultative processes (RCPs).²⁸ For both irregular migration and labour migration, the International Organization for Migration (IOM)—a body that exists outside the UN system—provides a range of services to states to support managed migration; however, its role is primarily as an implementing organization. It has almost no normative function.

Two main debates focus on improved collective action on migration. The first involves migration and security, and relates to questions of border management, especially the control of irregular migration. It is a predominantly North-led dialogue, mainly taking place within RCPs and facilitated by IOM.

The second debate is on migration and development. It is a predominantly North-South dialogue that dwells on issues such as brain drain, diasporas, remittances and circular migration. It has tried to identify ways in which better cooperation might lead to ‘triple wins’ for northern receiving states, southern sending states and migrants. The main sites for this debate have been multilateral. In 2006, the United Nations convened a High-Level Dialogue on Migration and Development (UNHLDMD) to explore prospects for improved multilateral cooperation on migration. The dialogue led directly to the creation of the Global Forum on Migration and Development (GFMD), an annual, informal, multilateral dialogue outside the UN system that has taken place annually since 2007. In 2013, there will be a second UNHLDMD to reflect again on the future of global migration governance.

Among the different actors, southern states have been pushing for greater multilateralism. In particular, the goal of developing a formal UN-based migration forum has been strongly backed by the South, while being strongly resisted by the North. In 2006, a debate took place in the General Assembly on whether or not to locate the GFMD within the UN system. The voting patterns divided almost entirely along North-South lines. Canada and the United States voted ‘no’, the rest of the OECD states abstained, knowing that doing so would effectively be a ‘no’, while the entire South voted ‘yes’ (UNDESA 2008). This division is unsurprising given that the South has much to gain from tying the North to binding immigration rules, while the North has a stake in preserving the autonomy to unilaterally determine immigration policies.

28 Hansen 2010, Duvell 2011, Nielsen 2007.

Although a form of multilateralism has emerged outside of the UN—the GFMD—it remains largely ineffective, valued more by the South than the North. The annual fora have created opportunities for inter-state dialogue, but many southern states see the GFMD as mainly a ‘talking shop’ with no independent secretariat, no focus on developing binding norms and almost no continuity in subject matter. It has excluded critical issues, notably those relating to the security dimensions of migration. Many northern states have admitted to pursuing the dialogue simply as a way to appease the South while pursuing more meaningful cooperation away from the forum. The United States did not even participate in the first GFMD. Only occasionally has the GFMD led to the creation of formal agreements. For example, Mauritius-European Union pilot projects on circular migration have been attributed to initial discussions at the forum.

While many RCPs are conceived as North-South or South-South regional or inter-regional dialogues, they are generally facilitated using northern money, and are based on an RCP model created by industrialized states and refined by IOM based on the input of its core northern donors. Many RCPs—such as those in Bali and Budapest, the Regional Consultative Mechanism (RCM), the Mediterranean 5+5 and the Abu Dhabi Process—are inter-regional and straddle sending and receiving regions in ways intended to enable capacity building, technical standardization and agreements on issues such as readmissions. Even where RCPs are South-South, as with the Migration Dialogue for Southern Africa (MIDSA), the Migration Dialogue for West Africa (MIDWA) or the Intergovernmental Authority on Development (IGAD)-RCP in the Horn of Africa, they are usually funded with northern money and facilitated through IOM to strengthen immigration control capacities in ways that may reduce South-North irregular migration. Both through the RCPs and independently of them, northern states predominantly seek to pursue bilateral agreements with southern migrant-sending states in ways that can enable them to exclude ‘undesirable migrants’ while having ongoing access to ‘desirable migrants’.

Some southern states have gained from North-led bilateralism and networks, but these have mainly been a privileged few. Northern states have frequently selected privileged partners with whom to cooperate. Nigeria and Switzerland, Morocco and Spain, Tanzania and the United Kingdom, Denmark and Kenya, South Africa and the United States, Australia and Malaysia, and Italy and Libya (under Gaddafi) have all brokered major bilateral partnerships around circular migration, migration capacity building, readmission agreements and visa arrangements. These relationships have often offered southern states pay-offs in areas such as trade and development assistance in exchange for cooperation on migration. For a small number of countries, being strategically placed as

important migrant-sending or transit states has enabled them to use migration as a bargaining tool with northern states (Greenhill 2010, Paoletti 2011).

BRICS responses have varied. China and India have generally reverted to unilateralism and bilateralism rather than seeking a strong influence on multilateral debates or attempting to work through RCPs. The general trend—as both immigration and emigration states—has been to work pragmatically to secure their interests. China has been conspicuously absent from debates on all aspects of global migration governance. It has sought to safeguard its sovereignty, avoiding drawing attention to its own restrictions on internal mobility or its restrictive asylum policy towards the Democratic People’s Republic of Korea, while attempting to ensure its citizens have access to foreign labour markets to the greatest extent possible. India has attempted to negotiate greater labour market access, and facilitate the movement of high-skilled and low-skilled migrants, mainly through bilateral agreements. Although it has used forums such as the WTO to push for greater visa liberalization, it has largely worked unilaterally and bilaterally through, for example, the Ministry of Overseas Indian Affairs.

The other BRICS have mixed positions as both migrant-sending and -receiving states. South Africa has attempted to play a leadership role on behalf of the African Union in global debates on migration, and has tried to build regional cooperation through the Southern African Development Community (SADC) and MIDSAs. It has also increasingly tried to maintain its own unilateral migration management policies while engaging in privileged bilateral agreements with northern states to promote better migration management within southern Africa. Brazil has gradually expanded its presence in multilateral debates as a ‘spoke-state’ for southern countries, including in the GFMD and UNHCR’s Executive Committee. The Russian Federation has attempted to compete to import immigrant labour from South Asia, for example, while also working to ensure its citizens get access to foreign labour markets, mainly through bilateral cooperation.

These diverse strategies underscore the complexity of global migration governance. While a multilateral space has been preserved, it has largely been procedural. Disempowered southern states have pushed for greater multilateralism and binding norms, while the BRICS and more powerful developing states have worked bilaterally and through informal networks.

These patterns can be partly explained by an efficiency logic. The governance of different categories—refugees, irregular migrants and high-skilled migrants, for example—involves varied externalities. While refugee governance is to some extent a global public good, the benefits from other kinds of migration are more appropriately characterized as club goods or private goods (Betts 2011). Hence,

from an efficiency perspective, there can be no ‘one size fits all’ approach. The apparent incoherence and absence of a single multilateral migration regime is not illogical.

This is not to say that what exists does not have gaps. There are important pockets in which greater collective action is needed, and where states would be better off by acting together. For example, many northern states need immigrant labour to address their demographic challenges, while many southern states can benefit from exporting labour, including through the acquisition of remittances or skills. As another instance, while states may collectively value rights, the absence of coordination leads to a ‘race to the bottom’ that is arguably sub-optimal for states and problematic for migrants. Other gaps are found in the lack of mechanisms that might overcome collective action failures. Many states are reluctant to endow forums such as the GFMD for fear that it might lead to ‘norm creation’ and undermine sovereignty.

Despite the case for greater collective action, the main barriers to international cooperation are domestic political ones, in both northern countries and many southern democracies. Economic crisis has deepened the electoral concerns of politicians and provided disincentives to pursue collective approaches.

The potentially diverging strategies of the North, the BRICS and the least developed countries (LDCs) challenge the delicate balance between efficiency, legitimacy and representation. As the BRICS become increasingly active participants in migration, it will be interesting to observe the extent to which their positions reflect or diverge from the LDCs. South Africa’s role offers an interesting illustration. On the one hand, it seeks to represent the interests of sub-Saharan African states within international forums on migration. On the other hand, as the principal migrant-receiving state on the continent, it has interests and strategies that manifestly diverge from those of its neighbours. Mechanisms to build consensus at regional levels may enable better BRICS representation on LDC interests at the multilateral level.

To what extent is the process of fragmentation created by the dominance of the RCP model undermining or strengthening global governance? At their best, the RCPs provide a forum within which all states affected by particular migration systems can engage in dialogue and collective action. When the RCPs achieve this, they offer a means to govern migration based on the principle of subsidiarity, enabling cooperation to forge ahead among the ‘club’ of states immediately affected. However, the subsidiarity principle can be undermined if and when RCPs exclude countries affected by participating states’ policy choices. The emerging network architecture of global migration governance therefore faces a delicate balance of achieving subsidiarity while ensuring inclusivity.

THE THREE GLOBAL GOVERNANCE PRINCIPLES APPLY TO MIGRATION IN SEVERAL WAYS.

First, pluralism is crucial. Effective migration governance is not inevitably or exclusively multilateral. The appropriate level and scope depends on the type of migration and the externalities involved. The challenge is to ensure that there is coherence across the emerging RCPs. Overarching coordination mechanisms are needed to connect regional and inter-regional networks, and bilateral agreements.

Second, a stronger multilateral system could yield great gain through collective action. Global migration governance would be enhanced by a forum and a secretariat structure at the multilateral level. This should not be a northern enterprise. The BRICS have much to gain, and as sending and receiving states, they could play a key role in brokering agreement. For developing countries at large, despite North-South power asymmetries, migration can be an avenue for influence. Since the GFMD has extremely limited capacity, the IOM might be one obvious organization to facilitate identifying opportunities for collective action; however, it is currently highly constrained in its mandate.

Third, greater accountability and inclusion is possible in a system with a proliferation of governance mechanisms at the regional and bilateral levels. There is potential to promote governance based on subsidiarity, but it must pursue the inclusion of all states significantly affected by policy externalities.

CONCLUSIONS

FINDINGS FROM THE FOUR AREAS OF GOVERNANCE

Three key findings arise from comparing structural changes in four different arenas of global governance, and the strategies of emerging and developing countries. The first is that numerous new bodies have been created to address perceived global governance deficits. As key concerns within the United Nations, all four areas have a referent institution (finance, the IMF; security, the Security Council; health, WHO; and migration, UNHCR) created after World War II. While these institutions are outdated and anachronistic, there has been almost no formal institutional reform to make them more relevant to the 21st century. Rather, new bodies, particularly regional organizations, have been created. This has led to a situation where states have options to pursue their interests and can engage in ‘forum shopping’.

As a second finding, there has been a rise in all four areas of powerful, transnational NGOs determined to hold key multilateral organizations to account on a wide range of issues. For example, groups such as the Green Party successfully

pushed the World Bank to adopt environmental safeguards for its large infrastructure projects. Within health, MSF and Oxfam have successfully lobbied WHO to adopt the Global Strategy on Public Health, Innovation and Intellectual Property, which puts health concerns above economic or trade interests.

A third finding is that despite the attention to the BRICS as a group of ‘like-minded’ emerging economies, the countries take different and often conflicting positions in the four areas. For example, China and the Russian Federation, both permanent members of the UN Security Council, do not have any desire to elevate Brazil, India and South Africa as permanent members. The BRICS seem reluctant to take global leadership roles and remain focused on advancing domestic concerns. This makes sense, since all four, while economically successful, still struggle with difficult development challenges.

PRINCIPLES FOR EFFECTIVE GLOBAL GOVERNANCE IN THE 21ST CENTURY

Answers to the question of how collective action can more efficiently, equitably and legitimately address the challenges of tomorrow depend on political standpoints. But some broad principles for fostering more effective global governance follow from the analysis above.

1. COHERENT PLURALISM

In each of the four areas, developing and emerging economies are choosing to cooperate in different ways—bilaterally, regionally and internationally. This is a rational strategy for working in a system not of their own making, which arose after World War II in response to the needs and interests of the major powers at that time. It was a system premised upon the notion that inclusive, formal multilateralism was the only game in town for global collective action. Norms were assumed as having universal applicability. International organizations were vested with a *de facto* monopoly status over particular policy fields.

Over time, however, as new sets of challenges have emerged, states have created new forms of governance that diverge from this model. Both norms and organizations have proliferated at the bilateral, regional and inter-regional levels, and informal networks have flourished, such that today global governance can be characterized as a complex array of fragmented institutions operating at different levels. For some, these trends have been negative, posing risks of exclusion, duplication and inter-agency competition, and jeopardizing the authority of the global multilateral order. For others, they represent a more positive turn, enabling states to cooperate in sub-global groupings that may enable faster and more efficient forms of cooperation to emerge, bypassing the polarization that often characterizes larger multilateral forums such as the UN

General Assembly. Indeed, many global challenges do not entail pure global public goods, in which all states are equally implicated. Many are instead club goods, for which it makes sense for groups of like-minded states, whether regionally or inter-regionally connected, to forge ahead with cooperation.

The challenge is to ensure that pluralism works for rather than against the collective good. Even within the context of institutional proliferation there remains a central role for multilateralism and the UN system. First, there will continue to be many areas of governance requiring inclusive multilateralism, notably to address challenges that involve genuinely global public goods. Second, multilateralism will be needed to ensure coordination across diverse institutions operating at different levels of governance. In particular, potential complementarities need to be promoted and potential contradictions minimized in a way that requires a new form of coordination at the multilateral level. Third, in certain areas, such as public international law, it will become more rather than less important to have a recognized source of authority that can arbitrate between competing and diverging values within the global order.

2. TRANSFORMED MULTILATERALISM

Perhaps the most simple observation from the above analysis is that global governance is ultimately built upon politics. As power and interests evolve, so do the structures of global governance. In order to be effective, global governance has to recognize and work with the prevailing distribution of power in the international system. The extent to which it actually needs to reflect those structures is debatable, but a failure to acknowledge and adapt to the political reality risks undermining the relevance of international institutions and reducing the prospects for mutually beneficial collective action.

A better alignment of politics and institutions is important in order to enhance prospects for effective compliance mechanisms. It will also become important for institutions to reflect the new distribution of power to effectively mediate divergent interests. The degree to which the BRICS are engaging with global governance varies across issue and state, but any effective global governance will need to recognize the power, interests and ideas that they bring if it is to have global reach and yield effective collective action.

Transforming multilateral institutions requires two elements. The first is to align them with contemporary political power so as to vest them with authority. Second, they need to have the expertise and information to mediate and facilitate effectively; to play a ‘catalytic’ or ‘convening role’ in bringing divergent stakeholders together; and, based on political analysis of the divergence in interests, to propose workable and mutually beneficial outcomes.

This implies strengthening what might be referred to as ‘facilitative multilateralism’. Recognizing that institutions may legitimately exist at different levels of governance—national, regional and network-based—facilitative multilateralism nevertheless preserves a multilateral role for convening dialogues and negotiations, and proposing possible ideas for collective actions, from which a variety of forms of collective action may emerge.

3. RENEWED ACCOUNTABILITY

With the fragmentation of global governance, the relationship between international organizations and states is being transformed. As institutions proliferate, inter-agency competition is emerging as a feature of contemporary institutional politics, with organizations seeking to retain ‘relevance’. Where once international organizations often had a *de facto* monopoly over particular policy fields at the international level, today states can choose between multiple, competing forums and service providers.

Yet a notable feature of the global multilateral order since World War II is that no major international organization has yet gone out of existence. Instead, faced with institutional competition, organizations are seeking to transform their own mandates or to engage in ‘mission creep’—surviving by trying to better meet the short-term demands of particular states. Many multilateral institutions are being ‘captured’ by particular interests that enable narrower unilateral, regional or even private sector actors to place initiatives under the banner of ‘multilateralism’ in a way that risks disconnecting international institutions from the democratic legitimacy on which their creation was premised. In this context, there is a need for new principles of accountability.

Accountability is about restraining the exercise of public power. It is inextricably linked to justice and legitimacy in politics. It lies at the core of all systems of governance. When it is argued that democratic governments rule with the consent of the governed, homage is paid to a raft of domestic political institutions that ensure the accountability of the governors to the governed. International institutions cannot be as democratic or accountable as national and regional governments, but the changing global order and the resulting fragmentation in international institutions at least require a re-articulation of their accountability.

At this level, accountability can be thought of as having three core elements. First, constitutional accountability: Every international organization is founded on a treaty that defines the powers that have been delegated to it by member states. These are the constitutional limits within which the organization must act. However, in the international arena there is little, if any, legal redress against an organization that is pushed by one member state to act outside these limits.

Second, political accountability: International institutions have an obvious democratic deficit because people do not directly elect, or throw out, their representatives in them. Instead, different kinds of regulatory mechanisms need to be established to ensure that institutions legitimately serve states and, ultimately, the people they represent.

Third, financial accountability: Budgets need to be overseen and clearly supervised by states.

It is crucial to ensure that these accountability principles are re-embedded within the structures of global governance. The challenge that emerges most strongly is how to create accountability that balances universal rights with democratic principles. In an increasingly plural world, certain core values, such as human rights, need to be upheld. Simultaneously, buy-in by all states and their populations is crucial to the legitimacy and sustainability of effective governance.

Two basic and related principles may help guide this difficult balance: proportionality and subsidiarity. First, proportionality implies that the accountability of each organization should be congruent with its functions. The more intrusive an organization is into the traditional realm of national politics, the more consent from and accountability to the governed it requires. Second, subsidiarity implies that authority should rest at the most local and democratic level possible, and should not be delegated to higher levels unless absolutely necessary.

ANNEX:

A SUMMARY OF CHANGES IN FOUR AREAS OF GLOBAL GOVERNANCE

	Security	Finance	Health	Migration
<i>Referent organization</i>	United Nations/UN Security Council	IMF, World Bank, OECD-DAC, G8/G20	WHO	UNHCR/IOM
<i>Major institutional changes</i>	Building of regional capacity Proliferation of informal institutions (G-X groups, contact groups of friends)	Reform of governance in the IMF and World Bank, and emergence of G20 Proliferation of aid agencies Invigoration of regional monetary arrangements	Rise of the World Bank New institutional mechanisms (UNAIDS, GFATM, GAVI, Gates Foundation)	Emergence of regional networks (RCPs) Creation of forum for dialogue on migration and development (GFMD)
<i>BRICS strategies</i>	No coherent strategies; case dependent	Increased influence in the IMF and World Bank Create own bilateral aid programmes Invigorate regional monetary arrangements	Pursue strategic interests through regional forums	Mainly unilateralism and bilateralism
<i>LDC strategies</i>	Seek to strengthen multilateralism, the patterns and understandings of which are contested	Seek to use whatever representation they can in global fora (e.g., president of African Development Bank speaking to G20) Seeking aid from emerging economies and regional development banks	Seek to strengthen WHO but the move towards the G20 has left health off the main agenda	Seek to strengthen multilateralism but highly constrained due to lack of wider interest in multilateralism

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