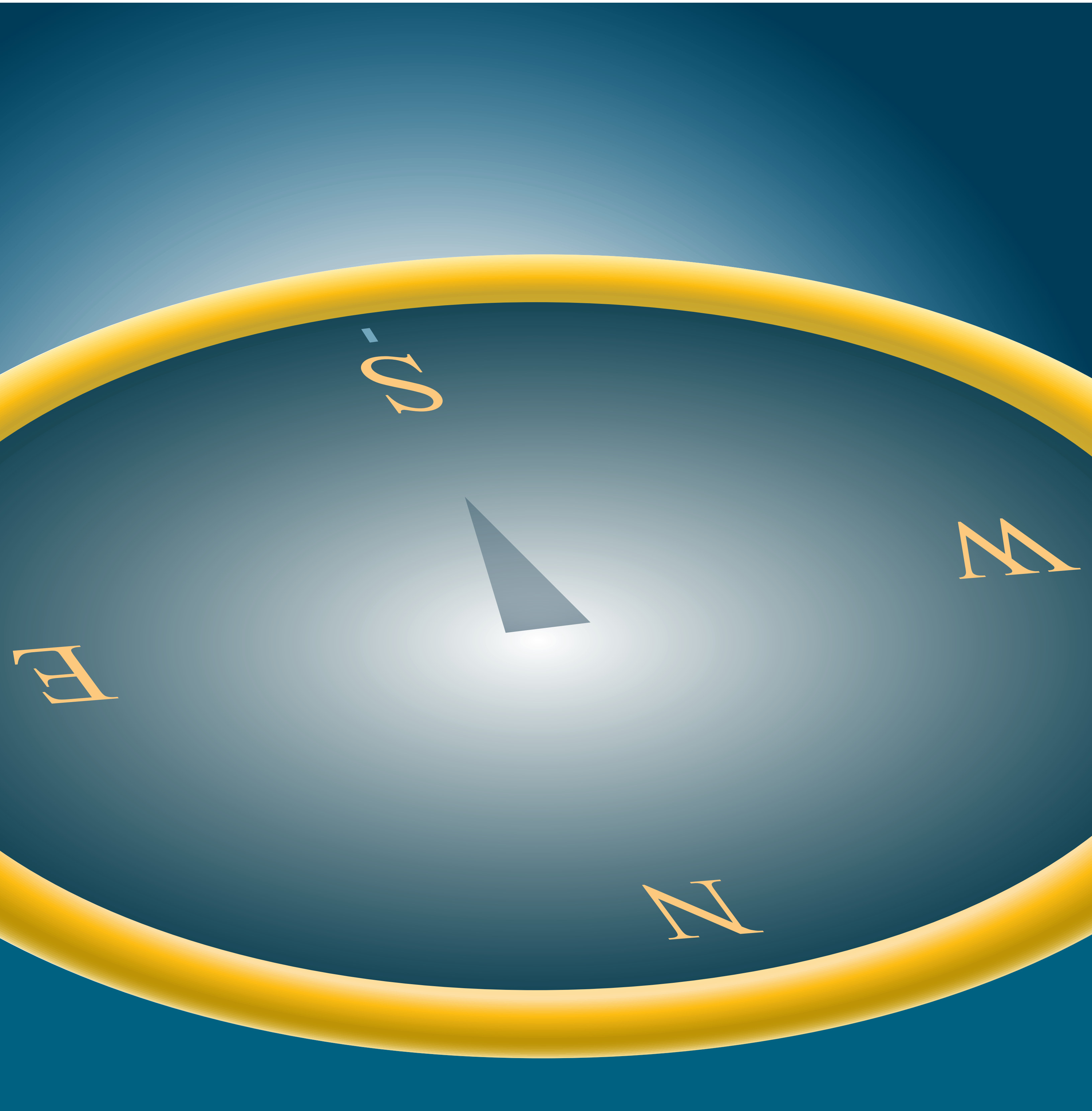
Human Development Report **2013**

The Rise of the South:

Human Progress in a Diverse World

UNDP



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Human Development Report 2013

The Rise of the South:
Human Progress in a Diverse World

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Foreword

The 2013 Human Development Report, *The Rise of the South: Human Progress in a Diverse World* looks at the evolving geopolitics of our times, examining emerging issues and trends and also the new actors which are shaping the development landscape.

The Report argues that the striking transformation of a large number of developing countries into dynamic major economies with growing political influence is having a significant impact on human development progress.

The Report notes that, over the last decade, all countries accelerated their achievements in the education, health, and income dimensions as measured in the Human Development Index (HDI)—to the extent that no country for which data was available had a lower HDI value in 2012 than in 2000. As faster progress was recorded in lower HDI countries during this period, there was notable convergence in HDI values globally, although progress was uneven within and between regions.

Looking specifically at countries which lifted their HDI value substantially between 1990 and 2012 on both the income and non-income dimensions of human development, the Report examines the strategies which enabled them to perform well. In this respect, the 2013 Report makes a significant contribution to development thinking by describing specific drivers of development transformation and by suggesting future policy priorities that could help sustain such momentum.

By 2020, according to projections developed for this Report, the combined economic output of three leading developing countries alone—Brazil, China and India—will surpass the aggregate production of Canada, France, Germany, Italy, the United Kingdom and the United States. Much of this expansion is being driven by new trade and technology partnerships within the South itself, as this Report also shows.

A key message contained in this and previous Human Development Reports, however, is that economic growth alone does not automatically translate into human development progress. Pro-poor policies and significant investments in people's capabilities—through a focus on education, nutrition and health, and employment skills—can expand access to decent work and provide for sustained progress.

The 2013 Report identifies four specific areas of focus for sustaining development momentum: enhancing equity, including on the gender dimension; enabling greater voice and participation of citizens, including youth; confronting environmental pressures; and managing demographic change.

The Report also suggests that as global development challenges become more complex and transboundary in nature, coordinated action on the most pressing challenges of our era, whether they be poverty eradication, climate change, or peace and security, is essential. As countries are increasingly interconnected through trade, migration, and information and communications technologies, it is no surprise that policy decisions in one place have substantial impacts elsewhere. The crises of recent years—food, financial, climate—which have blighted the lives of so many point to this, and to the importance of working to reduce people's vulnerability to shocks and disasters.

To harness the wealth of knowledge, expertise, and development thinking in the South, the Report calls for new institutions which can facilitate regional integration and South–South cooperation. Emerging powers in the developing world are already sources of innovative social and economic policies and are major trade, investment, and increasingly development cooperation partners for other developing countries.

Many other countries across the South have seen rapid development, and their experiences and South–South cooperation are equally an inspiration to development policy. UNDP is able to play a useful role as a knowledge broker, and as a convener of partners—governments, civil society and multinational companies—to share experiences. We have a key role too in facilitating learning and capacity building. This Report offers very useful insights for our future engagement in South–South cooperation.

Finally, the Report also calls for a critical look at global governance institutions to promote a fairer, more equal world. It points to outdated structures, which do not reflect the new economic and geopolitical reality described, and considers options for a new era of partnership. It also calls for greater transparency and accountability, and highlights the role of global civil society in advocating for this and for greater decision-making power for those most directly affected by global challenges, who are often the poorest and most vulnerable people in our world.

As discussion continues on the global development agenda beyond 2015, I hope many will take the time to read this Report and reflect on its lessons for our fast-changing world. The Report refreshes our understanding of the current state of global development, and demonstrates how much can be learned from the experiences of fast development progress in so many countries in the South.

Helen Clark
Administrator
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Acknowledgements

The Human Development Report is the product of a collective effort by the United Nations Development Programme (UNDP) Human Development Report Office (HDRO) and many valued external advisors and contributors. However, the findings, analysis and policy recommendations of this Report, as with previous Reports, are those of the authors alone.

The publication of this Report in March 2013 represents a return to the original schedule of the Human Development Reports, with its global launch and distribution in the first part of the year. This timing allows the Report's composite indices to incorporate the most current statistical indicators and provides greater opportunity for discussions of the Report's key findings and messages during the year.

Preparation of this Report was guided by a careful re-reading of the first Human Development Reports by Mahbub ul Haq. In that spirit, the Report opens with a review of the current "state of human development", looking at key human development trends and issues in the world today. It also benefited greatly from the wise counsel of Amartya Sen and Frances Stewart, Mahbub's close collaborators, who generously provided both critical advice and written contributions.

We are pleased that this Report features signed contributions from New York City Mayor Michael Bloomberg, Japan International Cooperation Agency President Akihiko Tanaka and Turkey's Minister of Development Cevdet Yılmaz, among others. We would like to express special gratitude to the authors of research papers commissioned by HDRO, who greatly enriched our understanding of the issues we set out to address: Fred Block, Nader Fergany, Ilene Grabel, Khalil Hamdani, Patrick Heller, Barry Hughes, Inge Kaul, Peter Kragelund, Shiva Kumar, Wolfgang Lutz, Deepak Nayyar, Leonce Ndikumana and Ngaire Woods.

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The Report's composite indices and other statistical resources rely on the expertise of the leading international data providers in their specialized fields, and we express our gratitude for their continued collegial collaboration with the Human Development Report. To ensure accuracy and clarity, the Report's statistical analysis also benefited from an external review of statistical findings by Akmal Abdurazakov, Sabina Alkire, Virginija Cruijsen, Kenneth Harttgen and Claudio Montenegro.

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Most of all, I am profoundly grateful to the HDRO team for their dedication and commitment in producing a report that meets the highest standards of scholarship.

Khalid Malik
Director
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Contents

FIGURES

MAPS

TABLES

“It is when we all play safe that we create a world of utmost insecurity.”

Dag Hammarskjold

Overview

One of the most heartening developments in recent years has been the broad progress in human development of many developing countries and their emergence onto the global stage: the "rise of the South". This growing diversity in voice and power is challenging the principles that have guided policymakers and driven the major post–Second World War institutions. Stronger voices from the South are demanding more-representative frameworks of international governance that embody the principles of democracy and equity.

Just as important, many developing countries are reshaping ideas about how to attain human development. The rise of the South has 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 (including by supporting education and social welfare) and an openness to trade and innovation. Even so, future progress will require policymakers to play close attention to such issues as equity, voice and accountability, environmental risks and changing demography.

Over the past decades, countries across the world have been converging towards higher levels of human development, as shown by the Human Development Index (HDI), a composite measure of indicators along three dimensions: life expectancy, educational attainment and command over the resources needed for a decent living. All groups and regions have seen notable improvement in all HDI components, with faster progress in low and medium HDI countries. On this basis, the world is becoming less unequal. Nevertheless, national averages hide large variations in human experience. Wide disparities remain within countries of both the North and the South, and income inequality within and between many countries has been rising.

Although most developing countries have done well, a large number of countries have done particularly well—in what can be called the "rise of the South". Some of the largest countries have made rapid advances, notably Brazil, China, India, Indonesia, South Africa and Turkey. But there has also been substantial progress in smaller economies, such as Bangladesh, Chile, Ghana, Mauritius, Rwanda and Tunisia.

The South has risen at an unprecedented speed and scale. For example, the current economic takeoffs in China and India began with about 1 billion people in each country and doubled output per capita in less than 20 years—an economic force affecting a much larger population than the Industrial Revolution did.[1] By 2050, Brazil, China and India combined are projected to account for 40% of world output in purchasing power parity terms.

During these uncertain times, countries of the South are collectively bolstering world economic growth, lifting other developing economies, reducing poverty and increasing wealth on a grand scale. They still face formidable challenges and are home to many of the world's poor. But they have demonstrated how pragmatic policies and a strong focus on human development can release the opportunities latent in their economies, facilitated by globalization.

A changing world, a more global South

To the casual observer, the state of affairs in 2013 may appear as a tale of two worlds: a resurgent South—most visibly countries such as China and India, where there is much human development progress, growth appears to remain robust and the prospects for poverty reduction are encouraging—and a North in crisis—where austerity policies and the absence of economic growth are imposing hardship on millions of unemployed people and people deprived of benefits as social compacts come under intense pressure. There are also deeper problems, shared by North and South: growing inequality in many countries, both developed and developing, which threatens global recovery and the sustainability of future progress and limits poverty reduction, as well as serious concerns about the environment.

While focusing on the rise of the South and its implications for human development, this Report is also about this changing world, driven in large measure by the rise of the South. It examines the progress being made, the challenges arising (some as a result of that very success) and the opportunities emerging for representative global and regional governance.

The South needs the North, and increasingly the North needs the South

The headline story of a resurgent South is both uplifting and in some ways misleading. The South needs the North, and increasingly the North needs the South. The world is getting more connected, not less. Recent years have seen a remarkable reorientation of global production, with much more destined for international trade, which, by 2011, accounted for nearly 60% of global output. Developing countries have played a big part: between 1980 and 2010, they increased their share of world merchandise trade from 25% to 47% and their share of world output from 33% to 45%. Developing regions have also been strengthening links with each other: between 1980 and 2011, South–South trade increased from less than 8% of world merchandise trade to more than 26%.

Yet the United States remains the largest economy in the world in monetary terms 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 knock-on effect on the developing world. Global challenges such as climate change and stressed ecosystems require countries to cooperate even more than before. While the rise of the South is reshaping power relations in many important respects, hard-won gains in human development will be more difficult to protect if cooperation fails and difficult decisions are postponed.

Indeed, one can go further and state that there is a "south" in the North and a "north" in the South. Elites, whether from the North or the South, are increasingly global and connected, and they benefit the most from the enormous wealth generation over the past decade, in part due to accelerating globalization. They are educated at the same universities and share similar lifestyles and perhaps values.

The changing global economy is creating unprecedented challenges and opportunities for continued progress in human development. Global economic and political structures are in flux at a time when the world faces recurrent financial crises, worsening climate change and growing social unrest. Global institutions appear unable to accommodate changing power relations, ensure adequate provision of global public goods to meet global and regional challenges and respond to the growing need for greater equity and sustainability.

This phenomenon, coupled with the diverse development paths followed by these countries from the South, presents an opportunity: the principles that have driven post–Second World War institutions and guided policymakers need recalibration, if not a reset, to accommodate the growing diversity in voice and power and to sustain development progress over the long term. These principles require reconsideration, and global institutions need greater flexibility to reinforce directions that put people first and nudge institutions to aim forcefully at a fairer, more just world. Potentially, the growing diversity in development patterns is creating space, even demands, for such a global dialogue and restructuring. There is scope then for innovation, and the emergence of global, regional and national governance frameworks that embody principles of democracy, equity and sustainability.

The developmental paths of Brazil, China and India, as well as less well recognized success stories such as Bangladesh, Mauritius and Turkey, are reshaping ideas about how to attain human development. The success of these countries calls into question the notion of "right" policies, but that does not mean that valuable lessons cannot be drawn from the experiences of these successful countries. On the contrary, key drivers and principles of development begin to emerge from the diversity of development paths that include deepening the developmental role of states, dedication to human development and social welfare, and openness to trade and innovation. And while this Report acknowledges the positive aspects of the rise of the South, it also underlines the imperatives of ensuring that concerns of equity and sustainability are fully incorporated into future policies and strategies. As the 2011 *Human Development Report* also stressed, continued human development progress is unlikely if inequality and environmental destruction are not moved to the forefront of policy discussions. Under worst case scenarios, a business as usual approach to development combined with environmental crises could reverse human development gains in the South or make this progress unsustainable.

Concerns for the future apply in the North as well, where low economic growth, high unemployment rates and austerity measures threaten the high levels of human development. In both the North and the South, ruling elites cannot afford to ignore these threats to social inclusion and social welfare, given the rising call for fairness and accountability—from citizens, communities and civil organizations at home and abroad, facilitated by the explosion of social media.

To support policymaking and research that adequately address these contemporary and emerging global realities, measures and analytics are needed that broaden the human development concept. The Human Development Report and the family of human development indices must meet this challenge by moving beyond a focus on measuring individual capabilities to incorporate society-level capacities, concerns and perceptions. Individual achievements in health, education and income, while essential, do not guarantee progress in human development if social conditions constrain individual achievements and if perceptions about progress differ. The turmoil in several countries in the Arab States is a reminder that people, especially the young, who are better educated and healthier than previous generations put a high premium on meaningful employment, on exercising a voice in affairs that influence their lives and on being treated with respect.

Furthermore, the promotion of social cohesion and social integration, a stated objective of development strategies of countries such as Brazil, is based on evidence of the positive development impact of a unified society. More-equal societies tend to do better in most measures of human development—from teenage pregnancies to suicide rates—than do unequal societies. This finding is borne out by studies in both developed and developing countries. These society-level aspects of development have been underappreciated in past conceptualizations of development but are proving to be essential elements of any viable and desirable long-term development path.

Helping other countries catch up

All developing countries are not yet participating fully in the rise of the South. The pace of change is slower, for instance, in the majority of the 49 least developed countries, especially those that are landlocked or distant from world markets. Nevertheless, many of these countries have also begun to benefit from South–South trade, investment, finance and technology transfer. For example, there have been positive growth spillovers from China to other countries, particularly close trading partners. To some extent, this has offset slackening demand from developed countries. Growth in low-income countries would have been an estimated 0.3–1.1 percentage points lower in 2007–2010 had growth fallen at the same rate in China and India as in developed economies.[2]

Many countries have also benefited from spillovers into important human development sectors, especially health. Indian firms, for example, are supplying affordable medicines, medical equipment, and information and communications technology products and services to countries in Africa. Brazilian and South African companies are having a similar impact.

Individual achievements in health, education and income, while essential, do not guarantee progress in human development if social conditions constrain individual achievements and if perceptions about progress differ

Rising competitive pressures

Nevertheless, the arrival of exports from larger countries can also have disadvantages. Large countries generate competitive pressures that might stifle economic diversification and industrialization in smaller countries. Yet there are examples of industrial revival following such competitive jolts. A competitive role today may easily turn into a complementary role in the future. Moving from competition to cooperation seems to depend on policies that enable local agents to make the most of the new situation.

Increasingly, the most important engine of growth for countries of the South is their domestic market. The middle class is growing in size and median income. By 2025, annual consumption in emerging markets is estimated to rise to $30 trillion. By then, the South will account for three-fifths of the 1 billion households earning more than $20,000 a year. Nevertheless, such expansion will be hampered as well as marred by significant pockets of deprivation. These disparities in the South's expansion are not only undesirable in themselves; they also undermine the sustainability of progress, not least by creating social and political tensions.

These trends are leading to a more balanced world. Instead of having a centre of industrialized countries and a periphery of less developed countries, there is now a more complex and dynamic environment.

While there is much awareness at the global and regional levels that the world is in transition, leaders, institutions and academics seemingly find it difficult to put forward principles, institutions and policy recommendations that can secure the next steps in creating a more just and sustainable world. This may be in part because the world is changing so rapidly and on so many fronts, making shared assessments difficult and collective action elusive. This Report contributes to this conversation by critically assessing the contemporary global context and by promoting principles and concepts that can help a diverse world move towards human development strategies that meet the new challenges of the 21st century, reduce or even eliminate poverty and advance progress for all.

Policies, partnerships, principles

How have so many countries in the South been able to transform their human development prospects? Across most of these countries, there have been three notable drivers of development: a proactive developmental state, tapping of global markets, and determined social policy innovation. These drivers do not spring from abstract conceptions of how development should work; rather, they are demonstrated by the transformational development experiences of many countries in the South. Indeed, they challenge preconceived and prescriptive approaches: on the one hand, they set aside a number of collectivist, centrally managed precepts; on the other hand, they diverge from the unfettered liberalization espoused by the Washington Consensus.

Success is likely to be the result of gradual integration with the world economy and accompanied by investment in people, institutions and infrastructure

Driver 1: a proactive developmental state

A strong, proactive and responsible state develops policies for both public and private sectors—based on a long-term vision and leadership, shared norms and values, and rules and institutions that build trust and cohesion. Achieving enduring transformation requires countries to chart a consistent and balanced approach to development. However, countries that have succeeded in igniting and sustaining growth in incomes and human development have not followed one simple recipe. Faced with different challenges, they have adopted varying policies dealing with market regulation, export promotion, industrial development and technological progress. Priorities need to be people-centred and to promote opportunities while protecting people against downside risks. Governments can nurture industries that would not otherwise emerge because of incomplete markets. Despite posing some risks of rent seeking and cronyism, this has enabled several countries of the South to turn inefficient industries into early drivers of export success as their economies became more open.

In large and complex societies, the outcome of any particular policy is inevitably uncertain. Developmental states therefore need to be pragmatic and test a range of different approaches. Some features stand out: for instance, people-friendly developmental states have expanded basic social services. Investing in people's capabilities—through health, education and other public services—is not an appendage of the growth process but an integral part of it. Rapid expansion of quality jobs is a critical feature of growth that promotes human development.

Driver 2: tapping of global markets

Global markets have played an important role in advancing progress. All newly industrializing countries have pursued a strategy of "importing what the rest of the world knows and exporting what it wants". But even more important are the terms of engagement with these markets.

Without investment in people, returns from global markets tend to be limited. Success is more likely to be the result not of a sudden opening but of gradual and sequenced integration with the world economy, according to national circumstances, and accompanied by investment in people, institutions and infrastructure. Smaller economies have successfully focused on niche products, whose success is often the fruit of years of state support built on existing competencies or the creation of new ones.

Driver 3: determined social policy innovation

Few countries have sustained rapid growth without impressive levels of public investment —not just in infrastructure, but also in health and education. The aim should be to create virtuous circles where growth and social policies reinforce each other. Growth is generally much more effective in reducing poverty in countries where income inequality is low than in countries with high inequality. Promoting equality, particularly among different religious, ethnic or racial groups, also helps minimize social conflict.

Education, health care, social protection, legal empowerment and social organization all enable poor people to participate in growth. Sectoral balance—especially paying attention to the rural sector—and the nature and pace of employment expansion are critical in determining how far growth spreads incomes. But even these basic policy instruments may not empower disenfranchised groups. The poor fringes of society struggle to voice their concerns, and governments do not always ensure that services actually reach everyone. Social policy has to promote inclusion—ensuring nondiscrimination and equal treatment is critical for political and social stability—and provide basic social services that can underpin long-term economic growth by supporting the emergence of a healthy, educated labour force. Not all such services need to be provided publicly. But the state should ensure that all citizens have secure access to the basic requirements of human development.

An agenda for development transformation is thus multifaceted. It expands poor people's assets by increasing public expenditures on basic services. It improves the functioning of state and social institutions to promote both growth and equity. It reduces bureaucratic and social constraints on economic action and social mobility. It involves communities in setting budget priorities and holding leadership accountable.

Sustaining the momentum

Many countries of the South have demonstrated much success. But even in the higher achieving countries, future success is not guaranteed. How can countries in the South continue their progress in human development, and how can the progress be extended to other countries? This Report suggests four important areas to facilitate this: enhancing equity, enabling voice and participation, confronting environmental challenges and managing demographic change. This Report points to the high cost of policy inaction and argues for greater policy ambition.

Few countries have sustained rapid growth without impressive levels of public investment—not just in infrastructure, but also in health and education

Enhancing equity

Greater equity, including between men and women and among other groups, is not only essential in itself, but also important for promoting human development. One of the most powerful instruments for this purpose is education, which boosts people's self-confidence and enables them to find better jobs, engage in public debate and make demands on government for health care, social security and other entitlements.

Education also has striking impacts on health and mortality. Research for this Report shows that a mother's education level is more important to child survival than is household income. Projections also show that policy interventions have a greater impact in countries and regions where education outcomes are initially weaker. This has profound policy implications, potentially shifting the emphasis from efforts to boost household income to measures to improve girls' education.

This Report makes a strong case for policy ambition. An accelerated progress scenario suggests that low HDI countries can converge towards the levels of human development achieved by high and very high HDI countries. By 2050, aggregate HDI could rise 52% in Sub-Saharan Africa (from 0.402 to 0.612) and 36% in South Asia (from 0.527 to 0.714). Such policy interventions will also have a positive impact on the fight against poverty. By contrast, the costs of inaction will rise, especially in low HDI countries, which are more vulnerable. For instance, failing to implement ambitious universal education policies will adversely affect many essential pillars of human development for future generations.

Unless people can participate meaningfully in the events and processes that shape their lives, national human development paths will be neither desirable nor sustainable

Enabling voice and participation

Unless people can participate meaningfully in the events and processes that shape their lives, national human development paths will be neither desirable nor sustainable. People should be able to influence policymaking and results—and young people in particular should be able to look forward to greater economic opportunities and political participation and accountability.

Dissatisfaction is increasingly high in both the North and the South as people call for more opportunities to voice their concerns and influence policy in order to ensure basic social protection and social progress. Among the most active protesters are young people. In part this is a response to limited employment opportunities for educated young people. History is replete with popular rebellions against unresponsive governments. Such upheaval can derail human development—as unrest impedes investment and growth and autocratic governments divert resources to maintaining law and order.

It is hard to predict when societies will reach a tipping point. Mass protests, especially by educated people, tend to erupt when people feel excluded from political influence and when bleak economic prospects lower the opportunity cost of engaging in such protests. These effort-intensive forms of political participation are then easily coordinated by new forms of mass communication.

Confronting environmental challenges

Environmental threats such as climate change, deforestation, air and water pollution, and natural disasters affect everyone. But they hurt poor countries and poor communities most. Climate change is already exacerbating chronic environmental threats, and ecosystem losses are constraining livelihood opportunities, especially for poor people.

Although low HDI countries contribute the least to global climate change, they are likely to endure the greatest loss in annual rainfall and the sharpest increase in its variability, with dire implications for agricultural production and livelihoods. The magnitude of such losses highlights the urgency of adaptation measures.

The cost of inaction will likely be high. The longer the inaction, the higher the cost. To ensure sustainable economies and societies, new policies and structural changes are needed that align human development and climate change goals in low-emission, climate-resilient strategies and innovative public-private financing mechanisms.

Managing demographic change

Between 1970 and 2011, world population increased from 3.6 billion to 7 billion. As that population becomes more educated, its growth rate will slow. Moreover, development prospects are influenced not just by the total number of people, but also by the population's age structure. An increasingly critical concern is a country's dependency ratio—that is, the number of younger and older people divided by the working-age population ages 15–64.

Some poorer regions could benefit from a "demographic dividend" as the share of the working-age population rises, but only if there is strong policy action.[3] Girls' education is a critical vehicle of a possible demographic dividend. Educated women tend to have fewer, healthier and better educated children; in many countries educated women also enjoy higher salaries than do uneducated workers.

By contrast, the richer regions of the South confront a very different problem: as their population ages, the share of the working-age population falls. The rate of population ageing matters because developing countries will struggle to meet the needs of an older population if they are still poor. Many developing countries now have only a short window of opportunity to reap the full benefits of the demographic dividend.

Demographic trends are not destiny, however. They can be altered through education policies in particular. This Report presents two scenarios for 2010–2050: a base case scenario, in which current education trends continue, and a fast track scenario, in which the countries with the lowest initial levels embrace ambitious education targets. For low HDI countries, the decline in the dependency ratio under the fast track scenario is more than twice that under the base case scenario. Ambitious education policies can enable medium and high HDI countries to curb projected increases in their dependency ratio, thus easing the demographic transition towards an ageing population.

Addressing these demographic challenges will require raising educational attainment levels while expanding productive employment opportunities—by reducing unemployment, promoting labour productivity and increasing labour force participation, particularly among women and older workers.

Governance and partnerships for a new era

The rise of the South is providing both opportunities and challenges for the formidable problems of an increasingly interconnected world. Challenges such as management of climate change; use of global commons; and regulation of trade, finance and migration have cross-border consequences. Some elements of global public goods can be provided at the regional level, but effective provision usually requires considerable multilateral coordination and cooperation. Neither the North nor the newly influential South can sit out the regional or global dialogues needed to forge agreement on these issues. Countries of the South are in a position not just to contribute financial resources towards strengthening regional and multilateral processes, but also to bring the substantial experience gained through their human development achievements and pragmatic policies in many of these areas.

The South has promoted new arrangements and institutions such as bilateral and regional trade agreements and financial mechanisms. Consequently, today's systems of international governance are a mosaic of old structures and new arrangements. And they may become even more diverse: international cooperation is likely to involve an ever more complex web of bilateral, regional and global processes.

Many of the current institutions and principles for international governance were designed for a world very different from today's. One consequence is that they underrepresent the South. To survive, international institutions need to be more representative, transparent and accountable. Indeed, all intergovernmental processes would be invigorated by greater participation from the South, which can bring substantial financial, technological and human resources as well as valuable solutions to critical world problems.

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In all of this, governments are understandably concerned with preserving national sovereignty. While appropriate in some cases, this focus can encourage zero-sum thinking. A better strategy would be "responsible sovereignty", whereby countries engage in fair, rule-based and accountable international cooperation, joining in collective endeavours that enhance global welfare. Responsible sovereignty also requires that states ensure the human rights security and safety of their citizenry. According to this view, sovereignty is not just a right, but also a responsibility.

The current context has profound implications for the provision of public goods. Among the areas meriting urgent attention are those related to trade, migration and climate change. In some cases, public goods can be delivered by regional institutions, which can avoid the polarization that sometimes slows progress in larger, multilateral forums. But increasing regional cooperation may have disadvantages—adding to a complex, multilevel and fragmented tapestry of institutions. The challenge therefore is to ensure "coherent pluralism"—so that institutions at all levels work in a broadly coordinated fashion.

International governance institutions can be held to account not just by member states, but also by global civil society. Civil society organizations have already influenced global transparency and rule setting on such issues as aid, debt, human rights, health and climate change.

Networks of civil society now take advantage of new media and new communications technologies. Yet civil society organizations also face questions about their legitimacy and accountability and may take undesirable forms. Nevertheless, the future legitimacy of international governance will depend on institutions' capabilities to engage with citizen networks and communities.

Priorities for a new era

Through all this, the fundamental principles of human development remain critical. As ever, the aim is to expand choices and capabilities for all people, wherever they live. Many countries of the South have already demonstrated what can be done. But they have gone only part of the way. For the years ahead, this Report suggests five broad conclusions.

Rising economic strength in the South must be matched by a full commitment to human development

Investments in human development are justified not only on moral grounds, but also because improved health, education and social welfare are key to success in a more competitive and dynamic world economy. In particular, these investments should target the poor—connecting them to markets and increasing their livelihood opportunities. Poverty is an injustice that can and should be remedied by determined action.

Good policymaking also requires a focus on enhancing social capacities, not just individual capabilities. Individuals function within social institutions that can limit or enhance their development potential. Policies to change social norms that limit human potential, such as gender discrimination, early marriages and dowry requirements, open up opportunities for individuals to reach their full potential.

The unprecedented accumulation of financial reserves provides an opportunity to accelerate broad-based progress

Less developed countries can learn and benefit from the success of emerging economies of the South

The unprecedented accumulation of financial reserves and sovereign wealth funds in both the North and South provides an opportunity to accelerate broad-based progress. A small portion of these funds should be dedicated to human development and poverty eradication. At the same time, South–South trade and investment flows can leverage foreign markets in new ways that enhance development opportunities, such as by participating in regional and global value chains.

Burgeoning South–South trade and investment in particular can lay the basis for shifting manufacturing capacity to other less developed regions and countries. Recent Chinese and Indian joint ventures and startup manufacturing investments in Africa could be a prelude to a much expanded force. International production networks provide opportunities to speed development by allowing countries to leap-frog to more sophisticated production modes.

New institutions can facilitate regional integration and South–South relationships

New institutions and partnerships can help countries share knowledge, experiences and technology. This can be accompanied by new and stronger institutions to promote trade and investment and accelerate experience sharing across the South. One step would be to establish a new South Commission to bring a fresh vision of how the South's diversity can be a force for solidarity.

Greater representation for the South and civil society can accelerate progress on major global challenges

The rise of the South is leading to a greater diversity of voice on the world stage. This presents an opportunity to build governance institutions that fully represent all constituencies and that would make productive use of this diversity in finding solutions to world problems.

New guiding principles for international organizations are needed that incorporate the experience of the South. The emergence of the Group of 20 is an important step in this direction, but the countries of the South also need more equitable representation in the Bretton

Woods institutions, the United Nations and other international bodies.

Active civil society and social movements, both national and transnational, are using the media to amplify their calls for just and fair governance. The spread of movements and the increase in platforms for vocalizing key messages and demands challenge governance institutions to adopt more-democratic and more-inclusive principles. More generally, a fair and less unequal world requires space for a multiplicity of voices and a system of public discourse.

The rise of the South presents new opportunities for generating a greater supply of public goods

A sustainable world requires a greater supply of global public goods. Global issues today are increasing in number and urgency, from mitigation of climate change and international economic and financial instability to the fight against terrorism and nuclear proliferation. They require a global response. Yet in many areas, international cooperation remains slow and at times dangerously hesitant. The rise of the South presents new opportunities for more effectively providing global public goods and for unlocking today's many stalemated global issues.

Publicness and privateness are in most cases not innate properties of a public good but social constructs and as such represent a policy choice. National governments can step in when there is underprovision at the national level. But when global challenges arise, international cooperation is necessary—and can happen only through the voluntary actions of many governments. Given the many pressing challenges, progress in determining what is public and what is private will require strong, committed personal and institutional leadership.

*   *   *

This Report presents the contemporary global context and charts a path for policymakers and citizens to navigate the increasing interconnectedness of the world and to face the growing global challenges. It describes how the dynamics of power, voice and wealth in the world are changing—and identifies the new policies and institutions necessary to address these 21st century realities and promote human development with greater equity, sustainability and social integration. Progress in human development requires action and institutions at both the global and national levels. At the global level, institutional reforms and innovation are required to protect and provide global public goods. At the national level, state commitment to social justice is important, as is the understanding that one-size-fits-all technocratic policies are neither realistic nor effective given the diversity of national contexts, cultures and institutional conditions. Nevertheless, overarching principles such as social cohesion, state commitment to education, health and social protection, and openness to trade integration emerge as means of navigating towards sustainable and equitable human development.

The rise of the South presents new opportunities for more effectively providing global public goods and for unlocking today's many stalemated global issues

“Across the globe, people are uniting in a common struggle: to participate freely in the events and processes that shape their lives.”

Mahbub ul Haq

Introduction

When developed economies stopped growing in the 2008–2009 financial crisis but developing economies kept on growing, the world took notice.[1] The rise of the South, seen within the developing world as an overdue global rebalancing, has been much commented on since. This discussion has typically focused narrowly on gross domestic product (GDP) and trade growth in a few large countries. Yet there are broader dynamics at play, involving many more countries and deeper trends, with potentially far-reaching implications for people's lives, for social equity and for democratic governance at the local and global levels. As this Report shows, the rise of the South is both the result of continual human development investments and achievements and an opportunity for still greater human progress for the world as a whole. Making that progress a reality will require informed and enlightened global and national policymaking, drawing on the policy lessons analysed in this Report.

The rise of the South is unprecedented in its speed and scale. Never in history have the living conditions and prospects of so many people changed so dramatically and so fast. Great Britain, where the Industrial Revolution originated, took 150 years to double output per capita; the United States, which industrialized later, took 50 years.[2] Both countries had a population below 10 million when they began to industrialize. In contrast, the current economic takeoffs in China and India began with about 1 billion people in each country and doubled output per capita in less than 20 years—an economic force affecting a hundred times as many people as the Industrial Revolution did.[3]

The rise of the South must be understood as the story of a dramatic expansion of individual capabilities and sustained human development progress in the countries that are home to the vast majority of the world's people. When dozens of countries and billions of people move up the development ladder, as they are doing today, it has a direct impact on wealth creation and broader human progress in all countries and regions of the world. There are new opportunities for catch-up for less developed countries and for creative policy initiatives that could benefit the most advanced economies as well.

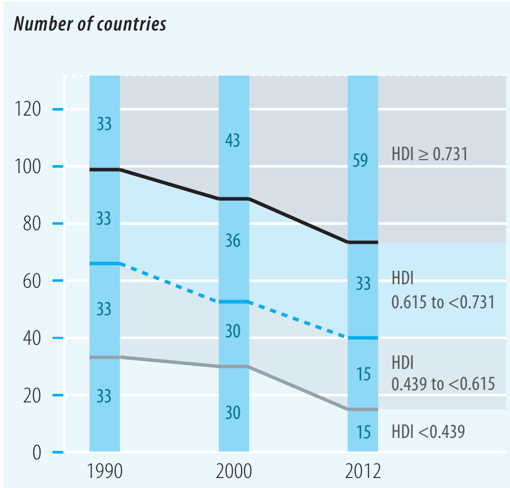
A close look at the diverse pathways that successful developing countries have pursued enriches the menu of policy options for all countries and regions while providing insights into values and world views that can inform future development cooperation and constructive responses to the most severe global challenges. The goal, as always, is to accelerate, wherever possible, broad-based progress that raises standards and expands people's choices in all countries and communities in all key dimensions of human development, from health and education and livelihoods to the personal freedom to control and improve one's own life.

Transforming the South requires changing the rules that underpin global relationships. Most multilateral organizations were designed to reflect an international order newly emerging from the Second World War. That world view no longer resonates with the 21st century rebalancing of global demographics, wealth and geopolitical influence. The growing policy-shaping influence of the South is visible in the international response to the 2008 financial crisis. In the past, financial decisions were made by the major industrial powers alone, as in the 1985 Plaza Accord. This time, a more extensive group, the Group of 20 (G20), which includes the largest developing economies, played a key role. People in the South are also increasingly taking leadership positions in long-established international organizations.[4]

These are just preliminary signs of change in international institutions and of the possibility that the new actors in the South may help resume efforts to provide better global public goods. Indeed, the rise of the South adds to the urgency with which governments and international organizations will need to confront challenges that are likely to loom large in the future: equity in opportunities, civic engagement in governance, environmental sustainability and the demographic bulge, to name a few. The next sections elaborate on specific features of the rise of the South.

FIGURE 1

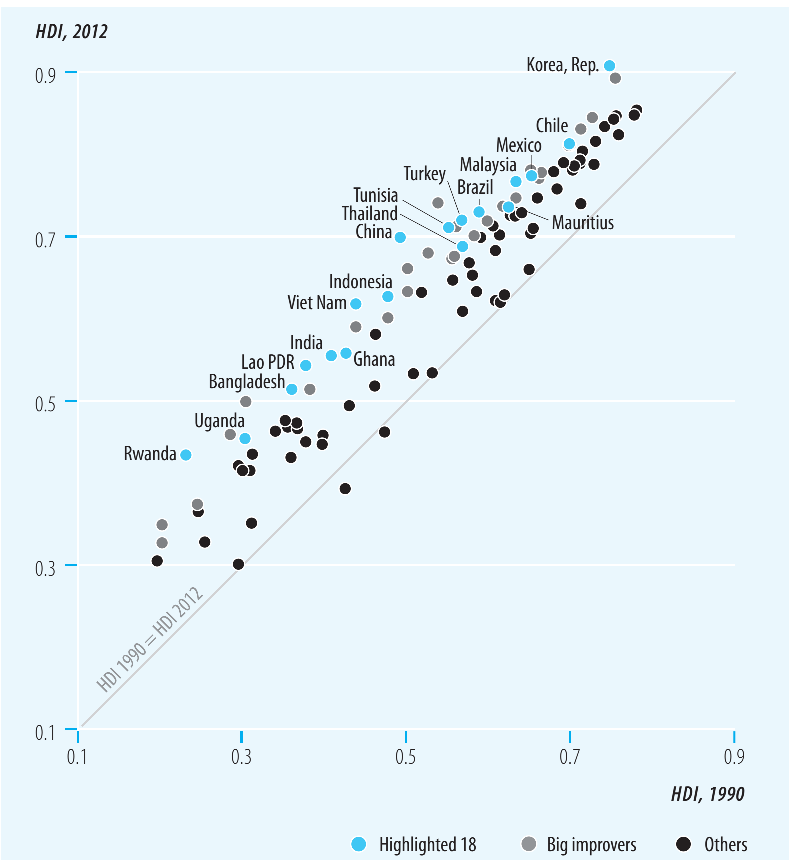
Acceleration of growth on the HDI



Note: Thresholds are the 25th, 50th and 75th percentiles of HDI values for 132 countries in 1990.
Source: HDRO.

FIGURE 2

More than 40 countries of the South had greater gains on the HDI between 1990 and 2012 than would have been predicted from their previous performance on the HDI



Note: Countries above the 45 degree line had a higher HDI value in 2012 than in 1990. Blue and grey markers indicate countries with significantly larger than predicted increases in HDI value between 1990 and 2012 given their HDI value in 1990. These countries were identified based on residuals obtained from a regression of the change in log of HDI between 2012 and 1990 on the log of HDI in 1990. Countries that are labelled are a selected group of rapid HDI improvers that are discussed in greater detail in chapter 3.
Source: HDRO calculations.

Broad-based progress

The 21st century transformation of the South has been accompanied by major advances in public health, education, transportation, telecommunications and civic engagement in national governance. The human development consequences have been profound: the proportion of people living in extreme poverty fell from 43.1% in 1990 to 22.4% in 2008; more than 500 million people have been lifted out of poverty in China alone.[5]

Countries at low levels of human development accelerated their achievements in health, education and income more in the past decade than in the preceding one. The number of countries with a Human Development Index (HDI) value below the 25th percentile in 1990 dropped from 33 to 30 between 1990 and 2000 and was halved from 30 to 15 between 2000 and 2012 (figure 1). At the upper end of the distribution, the number of countries with an HDI value above the 75th percentile rose from 33 to 43 between 1990 and 2000 and from 43 to 59 between 2000 and 2012. The picture is more mixed in the middle quartiles of the HDI. Overall, no country had a lower HDI value in 2012 than in 2000, in contrast to the prior decade, when 18 countries had a lower HDI value in 2000 than in 1990.

Between 1990 and 2012, almost all countries improved their human development status. Of 132 countries with a complete data series, only 2 had a lower HDI value in 2012 than in 1990 (Lesotho and Zimbabwe). Progress was particularly rapid in more than 40 countries of the South, whose increases in HDI value were significantly larger than predicted for countries that were at a similar level of HDI value in 1990.[6] This includes countries as diverse as Ghana, Rwanda and Uganda in Sub-Saharan Africa; Bangladesh and India in South Asia; Tunisia in the Arab States; China, Lao PDR and Viet Nam in East Asia and the Pacific; and Brazil, Chile and Mexico in Latin America and the Caribbean (figure 2).

Global rebalancing

For the first time in 150 years, the combined output of the developing world's three leading economies—Brazil, China and India—is about equal to the combined GDP of the long-standing industrial powers of the North—Canada, France, Germany, Italy, the United Kingdom and the United States.[7] This represents a dramatic rebalancing of global economic power. In 1950, Brazil, China and India together accounted for only 10% of the world economy, while the six traditional economic leaders of the North accounted for roughly half. According to projections in this Report, by 2050 Brazil China and India will together account for 40% of global output (figure 3), far surpassing the projected combined production of today's Group of Seven bloc.[8]

Today, the South as a whole produces about half of world economic output, up from about a third in 1990. The combined GDP of eight major developing countries alone—Argentina, Brazil, China, India, Indonesia, Mexico, South Africa and Turkey—now equals the GDP of the United States, still by far the world's biggest national economy.[9] As recently as 2005, the combined economic weight of those eight countries was barely half that of the United States.

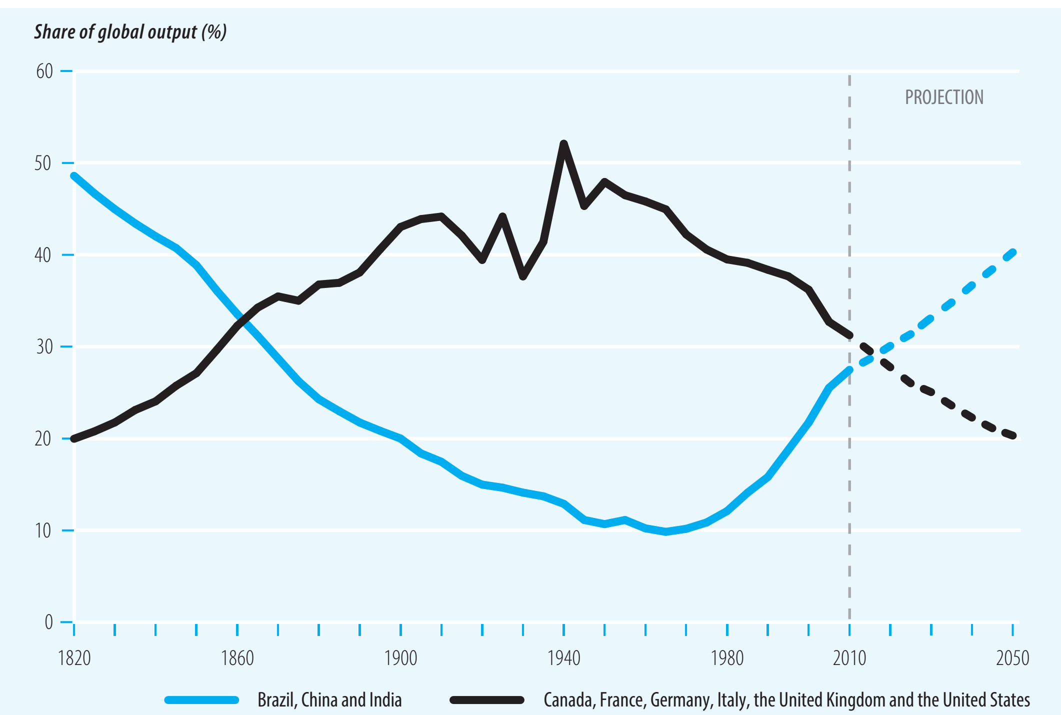
This major increase in share of economic output would not mean much in human development terms, however, if it had not been accompanied by an unprecedented reduction in deprivation and expansion of human capabilities. The first Millennium Development Goal of halving the proportion of people living on less than $1.25 a day relative to 1990 has been met three years before the target date. This is primarily because of the success of some of the most populous countries in eradicating extreme poverty: Brazil, China and India have all dramatically reduced the proportion of their people who are income poor—Brazil from 17.2% of the population in 1990 to 6.1% in 2009, China from 60.2% in 1990 to 13.1% in 2008 and India from 49.4% in 1990 to 32.7% in 2010.[10]

Broader development challenges, however, have not diminished. An estimated 1.57 billion people, or more than 30% of the population of the 104 countries studied for this Report, live in multidimensional poverty,[11] a measure of both

Today, the South as a whole produces about half of world economic output, up from about a third in 1990

FIGURE 3

Brazil, China and India combined are projected to account for 40% of global output by 2050, up from 10% in 1950



Note: Output is measured in 1990 purchasing power parity dollars.
Source: HDRO interpolation of historical data from Maddison (2010) and projections based on Pardee Center for International Futures (2013).

the number and the intensity of overlapping human deprivations in health, education and standard of living. For many of the rapidly growing countries of the South, the population living in multidimensional poverty exceeds that living in income poverty. And income inequality is on the rise in many countries. Based on calculations for the Inequality-adjusted HDI for 132 countries in 2012, almost a quarter of HDI value, 23%, is lost to inequality. Between 1990 and 2005, Inequality-adjusted HDI trends for 66 countries show that overall inequality declined only marginally, because declining inequality in health and education was offset by rising inequality in income.[12] Latin America, in contrast to overall global trends, has seen income inequality fall since 2000 but still has the most unequal distribution of all regions. Sub-Saharan Africa has the most inequality in health, and South Asia in education.

Latin America, in contrast to overall global trends, has seen income inequality fall since 2000

Massive expansion of the middle class

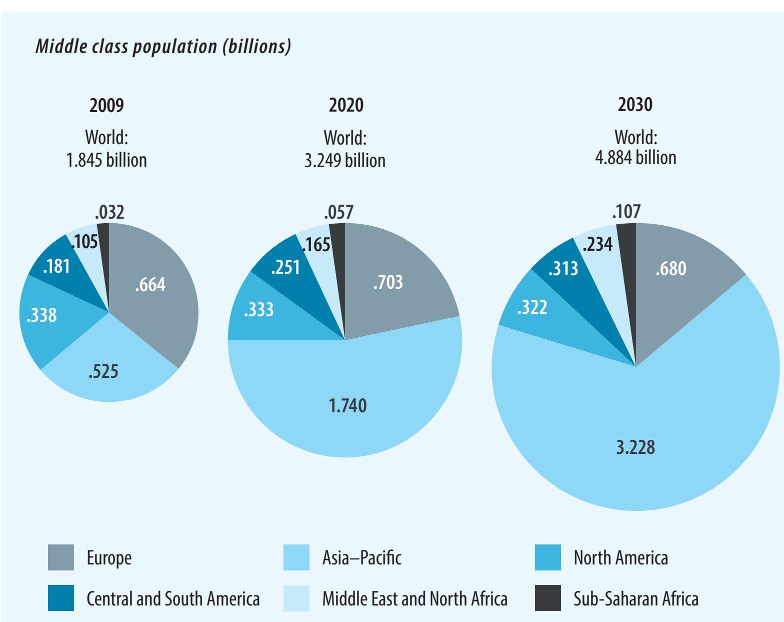
The middle class in the South is growing rapidly in size, income and expectations. Between 1990 and 2010, the South's share of the global middle class population expanded from 26% to 58%. By 2030, more than 80% of the world's middle class is projected to be residing in the South and to account for 70% of total consumption expenditure.[13] The Asia–Pacific Region will host about two-thirds of the world's middle class by 2030, Central and South America about 10% and Sub-Saharan Africa 2% (figure 4). Within Asia, China and India will account for more than 75% of the middle class as well as its share of total consumption. Another estimate is that by 2025, annual consumption in emerging market economies will rise to $30 trillion, from $12 trillion in 2010, with the South home to three-fifths of the 1 billion households earning more than $20,000 a year.[14] The continued expansion of the middle class is certain to have a profound impact on the world economy.

The sheer number of people in the South—the billions of consumers and citizens—multiplies the global human development consequences of actions by governments, companies and international institutions in the South. The South is now emerging alongside the North as a breeding ground for technical innovation and creative entrepreneurship. In North–South trade the newly industrializing economies have built capabilities to efficiently manufacture complex products for developed country markets. But South–South interactions have enabled companies in the South to adapt and innovate with products and processes that are better suited to local needs. This is creating new business models, as companies develop products that can reach customers with lower disposable incomes. The rise of the South is also diffusing technology through new models of extensive coverage with low margins, which serve lower income households and reach a large number of consumers in markets that have weak support infrastructure.

The world is also becoming more educated. Assuming a robust increase in school enrolment rates, the share of the world's people older than 15 who lack formal schooling is projected to shrink from 12% in 2010 to 3% in 2050, and the share with secondary or tertiary education will climb from 44% in 2010 to 64% in 2050. Furthermore, the digital divide is rapidly narrowing, giving people from everywhere

FIGURE 4

The middle class in the South is projected to continue to grow



Note: The middle class includes people earning or spending $10–$100 a day (in 2005 purchasing power parity terms).
Source: Brookings Institution 2012.

comparable access to information, especially through increasingly affordable mobile broadband Internet.

The rapid expansion in the educated population in much of the South adds to the urgency of job creation on a mass scale. Countries of the South that experience low dependency rates in the future can create a "demographic dividend" only if the increase in the labour force is matched by equally rapid expansion of employment opportunities. If enough decent jobs are not available to meet this demographic demand, the consequences are likely to include rising civil unrest, as demonstrated by the youth-led insurrections of the Arab Spring.

Unprecedented connectedness

Trade, travel and telecommunication exchanges are expanding worldwide at an unprecedented pace. People are moving between countries in numbers never seen before, as business professionals, as tourists and as migrants. In 2010, first-generation immigrants accounted for nearly 3% of the world's population, or more than 215 million people—a three-fold increase since 1960.[15] Nearly half of remittances sent home by emigrants from the South come from workers living in other developing countries.

Countries of the South are also hosting more tourists than ever from other developing countries: by 2020, there will be nearly 1.6 billion tourist arrivals globally, with 75% of them expected to be intraregional. The share of South–South trade in world commerce has more than tripled over the past three decades to 25%; South–South foreign investment now accounts for 30%–60% of all outside investment in the least developed countries.[16]

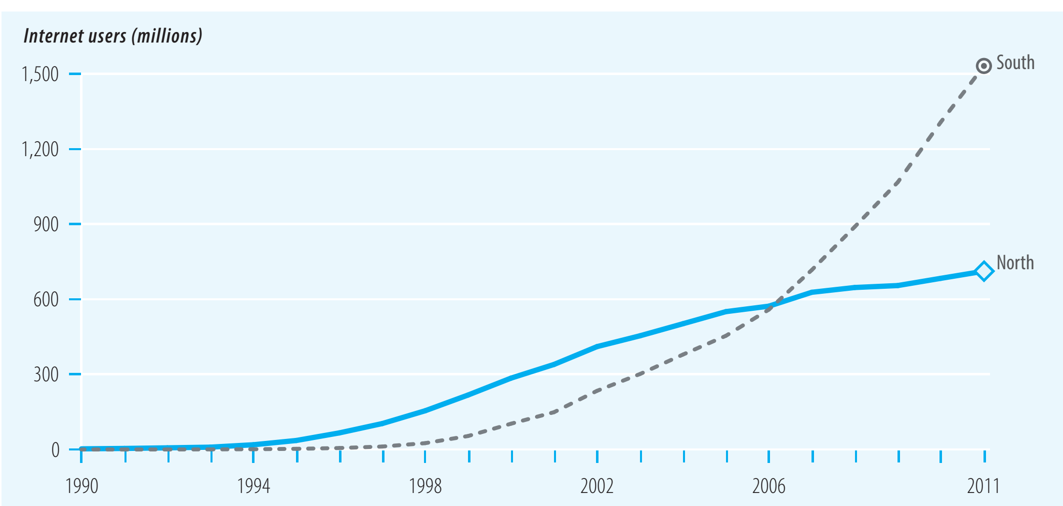
There has been an exponential rise in the number of people in the South with access to the world wide web (Internet). The takeoff has been especially notable in the past decade (figure 5). Between 2000 and 2010, average annual growth in Internet use surpassed 30% in around 60 developing countries with a population of 1 million or more. In September 2012, the online social networking website Facebook recorded 1 billion monthly active users, with 140.3 billion connections among "friends"; four of the five countries with the greatest number of Facebook users are in the South: Brazil, India, Indonesia and Mexico.[17]

Interdependence in commerce is allowing more people to participate in the global marketplace, from Ugandan banana exporters to shrimp farmers on the Mekong River. The global trade to GDP ratio, a conventional measure of trade integration, reached 22% in 1913, a dramatic increase over the estimated

The rapid expansion of educated people in much of the South adds to the urgency of job creation on a mass scale

FIGURE 5

The exponential rise in Internet use in the South has been most notable over the past decade



Source: World Bank 2012a.

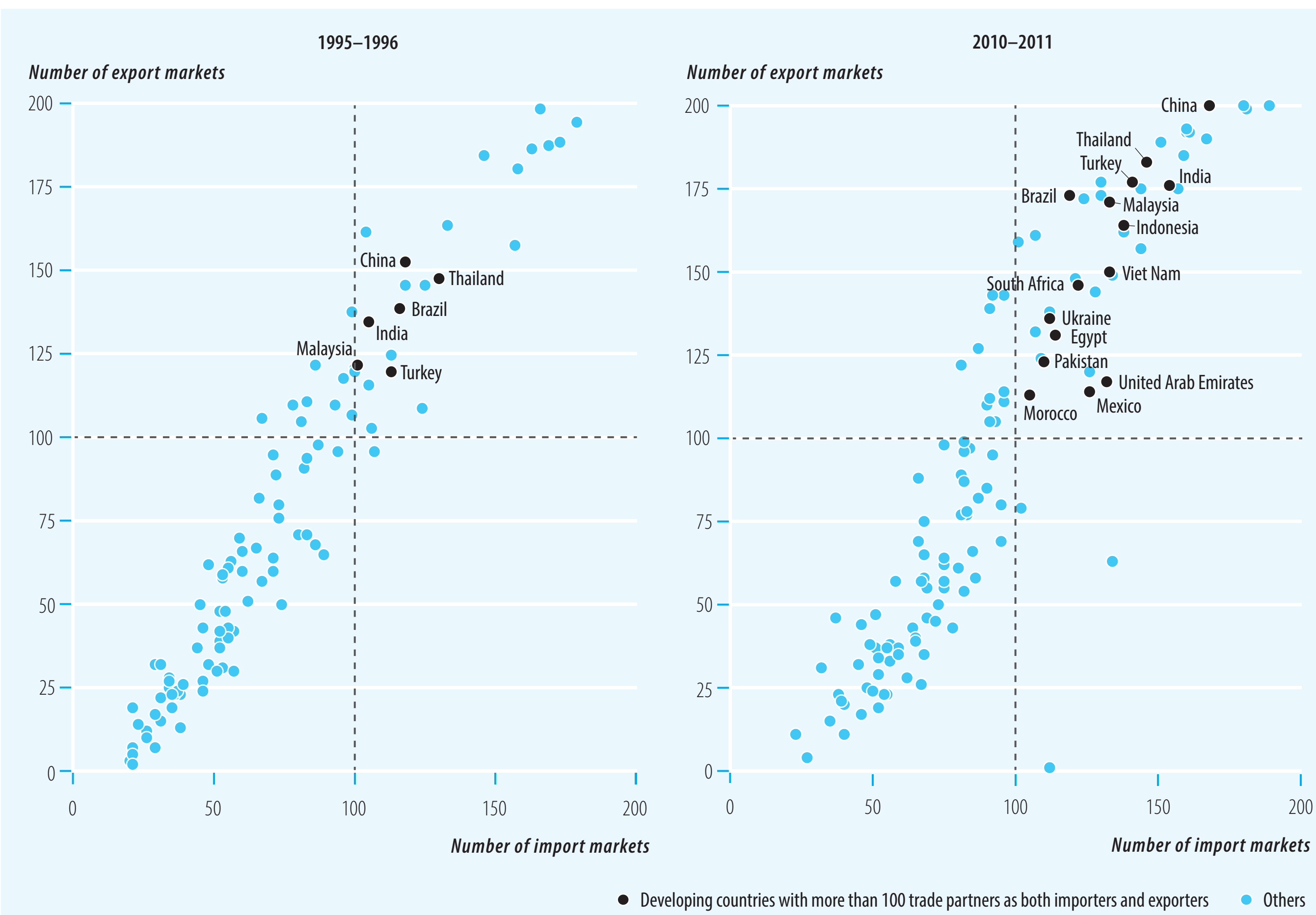
2% in 1800.[18] Today the ratio exceeds 56%.[19] At least 15 developing countries have substantial trading relationships with more than 100 trade partners as both exporters and importers, up from about 6 in 1996 (figure 6). The South now accounts for half of global trade flows, up from barely a quarter 30 years ago. These increasing trade connections are deepening even faster "horizontally", on a South–South basis, than on the traditional North–South axis.

A substantial share of South–South trade continues to be driven by demand in the North, but the opposite is also true: developing countries are major importers from the North. Since 2007, for example, US exports to established partners in the Organisation for Economic Co-operation and Development (OECD) have risen 20%, but US exports to Latin America and the Caribbean and China have risen more than 50%. The South needs the North, but, increasingly, the North also needs the South.

Countries of the South are also emerging as natural hubs for absorbing technologies and developing new products. There is now greater potential for human development thanks to technology transfer from the South. Technology transfer from the North often requires costly adaptation due to differences in absorptive capacity. Technological transfer from the South has been more amenable to direct adoption.[20] And technological adaptation by the South has also led to new kinds of innovation with immediate human development benefits. Take the uses to which Africans are putting affordable Asian-built

FIGURE 6

At least 15 developing countries have substantial trading relationships with more than 100 trade partners as both exporters and importers



Note: Values are averages for 1995 and 1996 and for 2010 and 2011. Includes only countries with bilateral trade exceeding $1.5 million in 1995–1996 and $2 million in 2010–2011.
Source: UNSD 2012.

mobile phones: cellular banking is cheaper and easier than opening a traditional bank account, farmers can obtain weather reports and check grain prices and entrepreneurs can provide business services through mobile phone kiosks. These and other transformations multiply the possibilities of what people can do with technology: participating in decisions that affect their lives; gaining quick and low-cost access to information; producing cheaper, often generic medicines, better seeds and new crop varieties; and generating new employment and export opportunities. These new technologies are connecting people in formerly isolated and marginalized rural communities and in poor urban neighbourhoods. They also give them access to valuable tools, resources and information and enable them to more actively participate in the wider national and even global society.

Pragmatic development policies

The rise of the South spans diverse country experiences, showing that there are multiple ways to achieve and sustain human development. Countries were pragmatic in adopting policies suited to their unique circumstances: for example, between 1979 and 1989, no fewer than 40% of China's national regulations were deemed experimental.[21] There were broadly shared common approaches as well. Most fast-developing countries of the South opened up to foreign trade, investment and technologies. But that opening alone did not guarantee success. They also invested in their own human development capabilities, strengthened domestic institutions and built new areas of comparative advantage. The critical combination of external openness with internal preparedness allowed countries to prosper in the global marketplace, with positive human development outcomes for the population at large.

Active government leadership was crucial in accelerating economic progress and minimizing social conflict. Growth created the needed fiscal space for investment in health and education and paved the way for a virtuous synergy between economic and social policy. Well known innovative programmes in Brazil, India and Mexico—conditional cash transfer programmes and rural employment guarantee programmes—exemplify active interest in fostering a more equitable distribution of economic and social opportunities. China has also stressed the importance of such an approach in its strategic pursuit of a "harmonious society". Elements of these programmes have been emulated by many other countries in the South.

A common emphasis of these social initiatives has been to promote equity and social integration, aspects that were underappreciated in past development models but are proving to be essential elements of any sustainable path for human progress. Ruling elites are increasingly recognizing that social and economic progress can profoundly influence their own legitimacy. Investments in social welfare and public goods have become building blocks for long-term development. These exemplary initiatives—which combine health, education and economic policies in a broader agenda of equity, empowerment and participation—highlight the importance of supporting social justice not only on moral grounds, but also as a crucial means of advancing human development.

New partners for development

The South is now in a position to influence, even reshape, old models of development cooperation with augmented resources and home-grown lessons, but it also exerts new competitive pressures on other aspects of bilateral cooperation. The rise of the South is spurring innovation in bilateral partnership and regional cooperation, resulting in greater options within the South for concessional finance, infrastructural investment and technology transfer. The growing assistance from the South is often without explicit conditions on economic policy or approaches to governance. The development emphasis on improved infrastructure, for example, has been rediscovered because of the domestic experience and lessons of some emerging economies. Over the past decade, nearly half of financing for infrastructure in Sub-Saharan Africa was provided by governments and regional funds from elsewhere in the South.[22]

Furthermore, the extraordinary increase in capital accumulation in the fastest growing economies of the South—exemplified most

The South is now in a position to influence old models of development cooperation with augmented resources and home-grown lessons, but it also exerts new competitive pressures on other aspects of bilateral cooperation notably by the surge in foreign exchange reserves—represents a largely untapped store of development capital. Three-quarters of the increase in foreign exchange reserves between 2000 and 2011 was accumulated by countries of the South, partly as self-insurance against future financial downturns and crises (figure 7).

As early as 1995, the United Nations Development Programme identified 23 developing countries as being pivotal to South–South cooperation. Over the past decade, those countries have accelerated their engagement with other developing countries.[23] Outside the OECD, Brazil, China and India are the three largest donors.[24] Other countries such as Malaysia, Thailand and Turkey are also important in regional development. New development partnerships, fashioned on "win-win" for all parties, have supported development efforts and opened opportunities for bilateral trade and investment exchanges, sustaining the rise of the South. In the process, international regimes are realigning, and international organizations are reorienting to the shifts in global economic power due to the rise of the South.

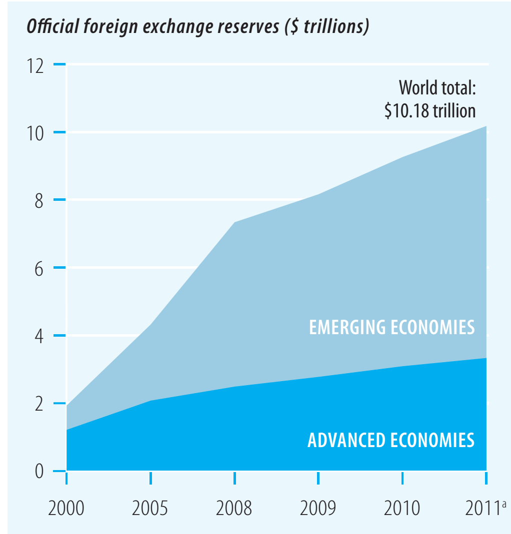
New development partnerships have opened opportunities for bilateral trade and investment exchanges, sustaining the rise of the South

* * *

This Report examines in greater detail many aspects of the rise of the South and their implications for human development. Chapter 1 takes stock of the current status of human development globally and regionally, with an emphasis on trends, challenges and advances in such key interrelated areas as poverty, inequality, social integration and human security. Chapter 2 shows how countries of the South are emerging as significant players in the world economy, becoming both drivers of growth and catalysts for change in other developing countries, and identifies some of the emerging challenges. Chapter 3 looks at the policies and strategies that have underpinned progress in some of the more successful countries of the South. Chapter 4 asks two basic questions: can this progress be sustained, and what are likely to be the future challenges to sustaining human development? Chapter 5 looks at prospects for policies and principles for a new framework of global and regional governance that fully represents and responds to the rise of the South in the long-term interests of the South and North alike. As the Report shows, the increasingly complex challenges of the 21st century require new partnerships and new approaches that reflect the realities of this rapidly changing world.

FIGURE 7

Official foreign exchange reserves by country group



a. Preliminary third-quarter data.
Note: The classification of countries follows that used by the International Monetary Fund (IMF); it includes 34 advanced economies and 110 emerging and developing economies that report to the IMF's Currency Composition of Official Foreign Reserves database.
Source: Grabel 2013.

“The political problem of mankind is to combine three things: Economic Efficiency, Social Justice and Individual Liberty.”

John Maynard Keynes

1.

The state of human development

From Brazil to South Africa to India to China, the largest developing countries have become major drivers of the global economy. In 2012, however, even the most vigorous economies of the South began to be affected by the financial problems of the North. Struggling to emerge from a debt crisis and large budget deficits, many developed countries are imposing severe austerity programmes that are not only causing hardship for their own citizens, but are also undermining the human development prospects of millions of other people across the world.

The first *Human Development Report* in 1990 laid out a vision of economic and social progress that is fundamentally about people enlarging their choices and capabilities. Since then, there has been substantial progress: many developing economies continue to grow rapidly and raise standards of human development. The rise of the South is a feature of a rapidly changing world. The South now accounts for almost a third of world output[1] and consumption.[2] Without the robust growth in these economies, led by China and India, the global economic recession would have been deeper.[3]

Nevertheless, there are signs of contagion, with real concern that in an interconnected world the crisis in the North may slow developing countries' progress. In industrialized countries, with some notable exceptions, governments are introducing harsh austerity measures that reduce the government's welfare role and cut back on spending and public services,[4] leading to hardship and exacerbating economic contractions. Living standards are declining for many people in the developed world. Several countries have seen major street demonstrations and general disillusionment with politicians and economic management as a result.

The world has known similar crises: in Europe and the United States in the 1930s, in Latin America in the 1980s and in Asia in the 1990s. But this time around, well into the second decade of the 21st century, the crisis is again happening in the heart of Europe.

Governments are imposing austerity programmes because of a legitimate concern about the sustainability of sovereign debt. But there is a risk that short-term measures will cause long-term damage, eroding the human development and social welfare foundations that enable economies to grow, democracies to flourish and societies to be less unequal and less vulnerable to shocks.[5]

There is also evidence that deploying drastic austerity programmes too quickly can deepen and prolong recessions. Fiscal consolidation has already had contractionary effects on private domestic demand and gross domestic product (GDP)[6] while weakening economic conditions and increasing unemployment.[7] Rollbacks of health, education and other public services are likely to impair the health of the population, the quality of the labour force and the state of scientific research and innovation for years to come (box 1.1). This could put progress in human development on a lower trajectory for some time (box 1.2). Moreover, economic stagnation reduces the tax revenues that governments need to finance social services and public goods.

Much of this damage is avoidable. Historical evidence indicates that the best time to cut deficits is after economic growth has taken off.[8] As John Maynard Keynes put it succinctly nearly 75 years ago, "The boom, not the slump, is the right time for austerity."[9]

It is also vital to consider not just the quantity of public expenditure, but also its composition and how it can be changed. According to the International Labour Organization, a fiscally neutral change in the composition of government revenues and expenditures designed to foster employment and promote human development could create 1.8–2.1 million jobs in 33 advanced economies over the next year or two.[10]

While countries have different degrees of freedom to adjust their spending priorities, for many there is ample scope for reprioritization. For instance, military spending worldwide exceeded $1.4 trillion in 2010, more than the GDP of the world's 50 poorest countries

BOX 1.1

Fairness, macroeconomics and human development

The rising income inequality in the United States and some European countries highlights fairness in how incomes are distributed and who benefits from growth. These concerns are entering the mainstream political discourse in developed countries, though with limited impact on policies so far. Unemployment in developed countries is at its highest level in years, and a large share of the workforce has had no significant increase in real wages over the last few decades, while the richest deciles have seen a substantial increase in income. Increasing inequality has been accompanied by demands by many of the better-off for smaller government and fiscal restraint: the well-off have not only benefited disproportionately from earlier growth, but also appear committed to protecting their gains. It is surprising that in democracies, despite considerable pressure from civil society, government agendas are dominated by austerity programmes rather than social protection programmes.

The call for austerity measures is not limited to countries in the euro area. The United Kingdom plans to reduce public investment by about 2% of GDP under the current austerity programme. This call for austerity comes when public investment is at a historic low. For instance, net public investment in the United Kingdom for fiscal year 2011/2012 is less than 2% of GDP. A continued push for reduced government and social expenditures may well worsen the prospects for recovery and growth.

Macroeconomic policies can have large consequences for human development. Cutting social spending to reduce public debt can have long-term effects. If economies keep contracting, successive rounds of debt reduction will do little to further debt sustainability. Cutting spending reduces aggregate demand, which, coupled with high income inequality, makes it challenging to revive the economy and put people back to work. In the quest for full employment, reduced aggregate demand has to be compensated for. In the United States (and other industrialized countries) this was achieved through low interest rates, which, along with new financial instruments and lax regulation, caused a bubble that eventually led to the current financial crisis. Countries in the euro area, constrained in their use of policy instruments, cannot use monetary policies to devalue (or inflate) their way out of a crisis.

Source: Atkinson 2011, 2012; Block 2013; HM Treasury 2010; Nayyar 2012; Sen 2012; Stiglitz 2012.

BOX 1.2

Short-term cuts have long-term consequences: rising fertility rates in Africa

Why did fertility rates rise between 1970 and 1990 in many Sub-Saharan African countries despite falling in every other region? The evolution of fertility rates appears to be associated with social expenditure cuts, particularly in education, made as part of structural adjustment programmes in the 1980s.

Cuts in education not only limit human capabilities, but also affect the age structure of the population years later because of their impact on birth rates. Countries with lower levels of education, especially countries where girls lack secondary education, tend to have higher fertility rates. Almost universally, women with higher levels of education have fewer children. This effect is particularly strong in countries that are early in their demographic transition and still have high overall fertility rates. Education reduces fertility rates by enhancing information, changing the incentives for behaviour and empowering people to better pursue their own preferences.

In the 1980s, Sub-Saharan Africa saw a partial reversal in the progress towards demographic transition, with real expenditure per capita on education falling nearly 50% on average. Between 1980 and 1986, enrolment in primary education dropped from 79% to 73% for the region as a whole (falling in 16 countries and rising in 17). The reduced education expenditures had a negative impact on female education, causing average female combined primary and secondary gross enrolment rates to increase more slowly than in the period before the structural adjustment programmes.

Source: Lutz and KC 2013; Rose 1995.

combined. Even where fiscal consolidation is necessary, it need not involve cuts in welfare services. Consolidation through enhanced efficiency and reduced subsidies on fossil fuels, for instance, could leave social spending relatively unaffected.[11]

The countries of the South have shown greater resilience in the face of the current global economic crisis. After transitory setbacks following the 2008 crisis, African and Latin American countries have resumed their upward trajectories of human development and growth. This is partly because they have been more pragmatic, taking countercyclical measures and postponing debt reduction for more appropriate times. Continuing demand from the South has also helped sustain many developing country exports, offsetting the effects of sluggish economic activity in the North.[12]

At the same time, many developing countries continue to invest in long-term human development. They recognize a clear positive correlation between past public investment in social and physical infrastructure and progress on the Human Development Index (HDI).[13] Governments in the South have also appreciated that sustainable progress must be based on social integration. Brazil and India, for example, have supported aspects of human development underappreciated in past development models by introducing cash transfer programmes and right-to-work programmes.

Overall, over the past few decades, many countries of the South have made substantial strides in HDI performance, not only boosting economic growth and reducing poverty, but also making large gains in health and education (discussed in greater detail later in the chapter). This broad-based achievement is notable because income growth does not necessarily translate into gains in other aspects of human development. Growth may generate resources to invest in health and education, but the link is not automatic. Moreover, growth may have little impact on other important human development priorities such as participation and empowerment.

Now more than ever, indicators are needed to capture these dimensions as well as the environmental sustainability of development pathways.

Progress of nations

Every *Human Development Report* has monitored human progress, notably through the HDI, a composite measure that includes indicators along three dimensions: life expectancy, educational attainment, and command over the resources needed for a decent living. Other indices have delved into inequality, poverty and gender deficits. HDI values for 2012 are presented in statistical table 1.

The HDI in 2012 reveals much progress. Over the past decades, countries across the world have been converging towards higher levels of human development. The pace of progress on the HDI has been fastest in countries in the low and medium human development categories. This is good news. Yet progress requires more than average improvement in HDI value. It will be neither desirable nor sustainable if increases in HDI value are accompanied by rising inequality in income, unsustainable patterns of consumption, high military spending and low social cohesion (box 1.3).

In 2012, the global average HDI value was 0.694; Sub-Saharan Africa had the lowest HDI value (0.475), followed by South Asia (0.558). Among developing regions, Europe and Central Asia had the highest HDI value (0.771), followed by Latin America and the Caribbean (0.741).

There are large differences across HDI groups and regions in the components of the HDI—life expectancy, mean years of schooling and income. Average gross national income (GNI) per capita in very high HDI countries is more than 20 times that in low HDI countries (table 1.1). Life expectancy in very high HDI countries is a third higher than in low HDI countries, while average years of schooling among adults over 25 are nearly three times greater in very high HDI countries than in low HDI countries. However, expected years of schooling, which better reflect changing education opportunities in developing countries, present a much more hopeful picture: the average incoming elementary school student in a low HDI country is expected to complete 8.5 years of school, about equal to the current years of schooling among adults in high HDI countries (8.8 years). Overall, most low HDI countries have achieved or are advancing towards full enrolment in elementary school and more than 50% enrolment in secondary school.

There are large disparities in achievements within HDI groups and regions. One way of assessing disparities within country groups is to compare the ratio of the highest to the lowest HDI values among countries in the group. This ratio is highest in Sub-Saharan Africa, followed by the Arab States, South Asia, and Latin America and the Caribbean. In Sub-Saharan Africa, most of the disparity arises from substantial differences in income per capita (with a ratio of 70.1[14]) and mean years of schooling (with a ratio of 7.8). In South Asia, the disparities also arise primarily from differences in income per capita, with a ratio of 10.7, and mean years of schooling (with a ratio of 4.0). In the Arab States, and to a lesser extent Latin America and the Caribbean, the main driver is differences in income per capita.

Overall, the last decade has seen greater convergence in HDI values, involving accelerated human development among countries with lower HDI values. All HDI groups and

There is a clear positive correlation between past public investment in social and physical infrastructure and progress on the Human Development Index

BOX 1.3

Amartya Sen, Nobel Laureate in Economics

What is it like to be a human being?

Almost half a century ago, the philosopher Thomas Nagel published a famous paper called "What Is It Like to Be a Bat?" The question I want to ask is: what is it like to be a human being? As it happens, Tom Nagel's insightful paper in *The Philosophical Review* was also really about human beings, and only marginally about bats. Among other points, Nagel expressed deep scepticism about the temptation of observational scientists to identify the experience of being a bat—or similarly, a human being—with the associated physical phenomena in the brain and elsewhere in the body that are within easy reach of outside inspection. The sense of being a bat or a human can hardly be seen as just having certain twitches in the brain and of the body. The complexity of the former cannot be resolved by the easier tractability of the latter (tempting though it may be to do just that).

The cutting edge of the human development approach is also based on a distinction—but of a rather different kind from Nagel's basic epistemological contrast. The approach that Mahbub ul Haq pioneered through the series of *Human Development Reports* which began in 1990 is that between, on the one hand, the difficult problem of assessing the richness of human lives, including the freedoms that human beings have reason to value, and on the other, the much easier exercise of keeping track of incomes and other external resources that persons—or nations—happen to have. Gross domestic product (GDP) is much easier to see and measure than the quality of human life that people have. But human well-being and freedom, and their connection with fairness and justice in the world, cannot be reduced simply to the measurement of GDP and its growth rate, as many people are tempted to do.

The intrinsic complexity of human development is important to acknowledge, partly because we should not be side-tracked into changing the question: that was the central point that moved Mahbub ul Haq's bold initiative to supplement—and to some extent supplant—GDP. But along with that came a more difficult point, which is also an inescapable part of what has come to be called "the human development approach." We may, for the sake of convenience, use many simple indicators of human development, such as the HDI, based on only three variables with a very simple rule for weighting them—but the quest cannot end there. We should not spurn workable and useful shortcuts—the HDI may tell us a lot more about human quality of life than does the GDP—but nor should we be entirely satisfied with the immediate gain captured in these shortcuts in a world of continuous practice. Assessing the quality of life is a much more complex exercise than what can be captured through only one number, no matter how judicious is the selection of variables to be included, and the choice of the procedure of weighting.

The recognition of complexity has other important implications as well. The crucial role of public reasoning, which the present *Human Development Report* particularly emphasizes, arises partly from the recognition of this complexity. Only the wearer may know where the shoe pinches, but pinch-avoiding arrangements cannot be effectively undertaken without giving voice to the people and giving them extensive opportunities for public discussion. The importance of various elements in evaluating well-being and freedom of people can be adequately appreciated and assessed only through persistent dialogue among the population, with an impact on the making of public policy. The political significance of such initiatives as the so-called Arab Spring, and mass movements elsewhere in the world, is matched by the epistemic importance of people expressing themselves, in dialogue with others, on what ails their lives and what injustices they want to remove. There is much to discuss—with each other and with the public servants that make policy.

The dialogic responsibilities, when properly appreciated across the lines of governance, must also include representing the interest of the people who are not here to express their concerns in their own voice. Human development cannot be indifferent to future generations just because they are not here—yet. But human beings do have the capacity to think about others, and their lives, and the art of responsible and accountable politics is to broaden dialogues from narrowly self-centred concerns to the broader social understanding of the importance of the needs and freedoms of people in the future as well as today. This is not a matter of simply including those concerns within one single indicator—for example, by overcrowding the already heavily loaded HDI (which stands, in any case, only for current well-being and freedom)—but it certainly is a matter of making sure that the discussions of human development include those other concerns. The *Human Development Reports* can continue to contribute to this broadening through explication as well as presenting tables of relevant information.

The human development approach is a major advance in the difficult exercise of understanding the successes and deprivations of human lives, and in appreciating the importance of reflection and dialogue, and through that advancing fairness and justice in the world. We may be much like bats in not being readily accessible to the measuring rod of the impatient observational scientist, but we are also capable of thinking and talking about the many-sided nature of our lives and those of others—today and tomorrow—in ways that may not be readily available to bats. Being a human being is both like being a bat and very unlike it.

regions saw notable improvement in all HDI components, with faster progress in low and medium HDI countries. East Asia and the Pacific and South Asia saw continuing progress from earlier decades, while Sub-Saharan Africa saw more rapid progress in the last decade. The convergence in HDI values has become more pronounced in the last decade.

One of the principal components of the HDI is life expectancy. In 2012, average life expectancy was 70.1 years, with wide differences across HDI groups: 59.1 years in low HDI countries and 80.1 years in very high HDI countries. Differences across countries are even wider, with a low of 48.1 years in Sierra Leone and a high of 83.6 years in Japan. In Sub-Saharan Africa, life expectancy stagnated at 49.5 years between 1990 and 2000, a result of the HIV and AIDS pandemic. Between 2000 and 2012, however, it increased 5.5 years.

Another important influence on the HDI, and one of the most sensitive indicators of

TABLE 1.1

HDI and components, by region and HDI group, 2012

Region and HDI group	HDI	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	Gross national income per capita (2005 PPP $)
Region					
Arab States	0.652	71.0	6.0	10.6	8,317
East Asia and the Pacific	0.683	72.7	7.2	11.8	6,874
Europe and Central Asia	0.771	71.5	10.4	13.7	12,243
Latin America and the Caribbean	0.741	74.7	7.8	13.7	10,300
South Asia	0.558	66.2	4.7	10.2	3,343
Sub-Saharan Africa	0.475	54.9	4.7	9.3	2,010
HDI group					
Very high human development	0.905	80.1	11.5	16.3	33,391
High human development	0.758	73.4	8.8	13.9	11,501
Medium human development	0.640	69.9	6.3	11.4	5,428
Low human development	0.466	59.1	4.2	8.5	1,633
World	0.694	70.1	7.5	11.6	10,184

Note: Data are weighted by population and calculated based on HDI values for 187 countries. PPP is purchasing power parity.
Source: HDRO calculations. See statistical table 1 for detailed data sources.

human well-being, is child survival. In 2010, the global under-five mortality rate was 55 deaths per 1,000 live births, though spread unevenly across HDI groups. Low HDI countries had the highest rate (110 deaths per 1,000 live births), followed by medium HDI countries (42), high HDI countries (18) and very high HDI countries (6). Poor child health can permanently damage a child's cognitive development and later affect labour productivity as an adult.

HDI comparisons are typically made between countries in the North and the South, and on this basis the world is becoming less unequal. Nevertheless, national averages hide large variations in human experience, and wide disparities remain within countries of both the North and the South. The United States, for example, had an HDI value of 0.94 in 2012, ranking it third globally. The HDI value for residents of Latin American origin was close to 0.75, while the HDI value for African-Americans was close to 0.70 in 2010–2011.[15] But the average HDI value for an African-American in Louisiana was 0.47.[16] Similar ethnic disparities in HDI achievement in very high HDI countries can be seen in the Roma populations of southern Europe.

The range in human development is also wide in some developing countries. In Brazil, for example, the highest HDI value in 2000, the most recent year for which subnational data are available, was in São Caetano do Sul in the state of São Paulo (0.92), while the lowest was in Manari in the state of Pernambuco (0.47). China has similar, if less marked, provincial variations, with Shanghai at the top (0.91), and Tibet at the bottom (0.63).[17]

Income and human development

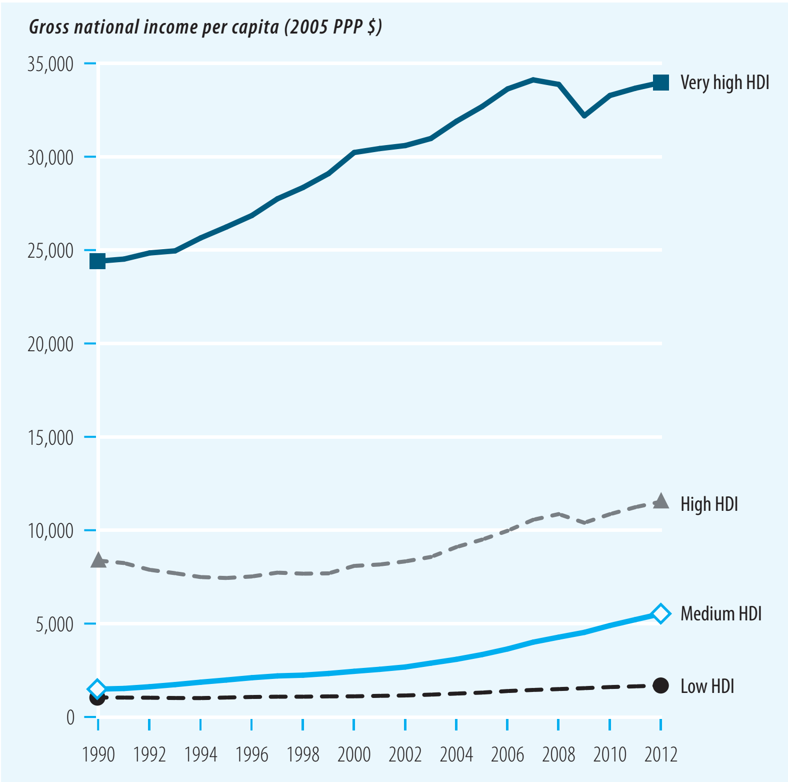
Another essential component of human development and the HDI is command over resources, as measured by income per capita. Between 1990 and 2012, income per capita rose in all four HDI groups, though in varying degrees (figure 1.1). The highest average annual growth in income per capita was recorded in China and Equatorial Guinea, both over 9%. Only 12 countries surpassed 4% growth, while 19 saw income per capita fall.

One of the most striking achievements has been in Sub-Saharan Africa. From 2003 to 2008—the five years preceding the global

HDI comparisons are typically made between countries in the North and the South, and on this basis the world is becoming less unequal

FIGURE 1.1

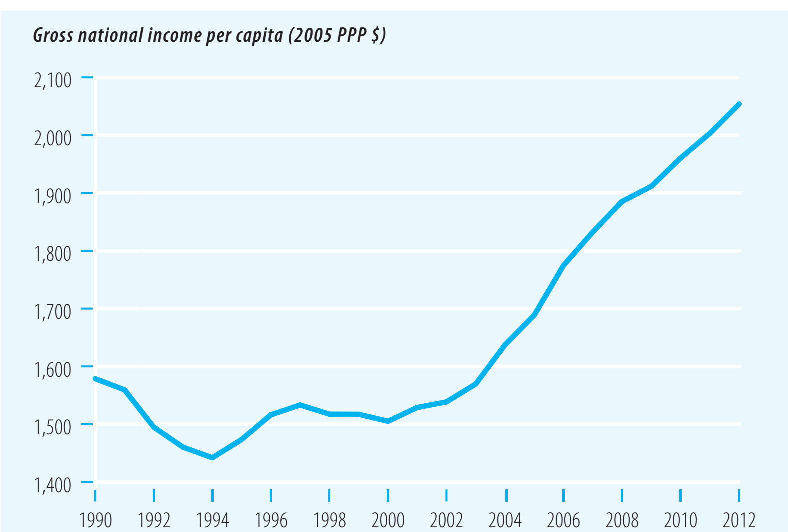
Income per capita is rising to varying degrees in all four HDI groups



Note: PPP is purchasing power parity.
Source: HDRO calculations based on a panel of the same 161 countries and territories.

FIGURE 1.2

Sub-Saharan Africa has sustained income growth over the last decade



Note: PPP is purchasing power parity.
Source: HDRO calculations.

financial crisis—income per capita in the region grew 5% a year, more than twice the rate of the 1990s (figure 1.2).[18] This upward trend was led by resource-rich countries that benefited from price increases in Africa's main commodity exports—notably, gas, oil, minerals and agricultural products—thanks mostly to strong demand from the South, led by China.

But growth was also widespread in other countries, with strong performance among more diversified economies and agriculture-based economies. Despite commodity price increases, many net commodity-importing countries, such as Ethiopia, Rwanda and Uganda, continued to grow fast. Sub-Saharan African economies were also partly shielded from global shocks by greater regional integration, particularly in East Africa.

As most *Human Development Reports* have underscored, what matters is not only the level of income, but also how that income is used. A society can spend its income on education or on weapons of war. Individuals can spend their income on essential foods or on narcotics. For both societies and individuals, what is decisive is not the process of wealth maximization, but how they choose to convert income into human development. Table 1.2 shows country successes in this respect, as measured by the largest positive difference between GNI per capita and HDI ranks.[19] New Zealand tops the list for very high human development countries, and Cuba tops the list for high human development countries.

Poverty

One of the world's main priorities is to eradicate poverty and hunger. This is the first of the eight Millennium Development Goals, for which the target for 2015 was to halve the proportion of people living on less than $1.25 a day relative to 1990. This goal was achieved three years before that target date, primarily because of the success of some of the most populous countries: Brazil (where the percentage of the population living on less than 2005 PPP $1.25 a day went from 17.2% to 6.1%), China (from 60.2% to 13.1%) and India (from 49.4% to 32.7%).[20] As a result, many fewer people are poor. For example, between 1990 and 2008, China alone lifted a remarkable 510 million people out of poverty.[21]

Poor people do not just suffer from a lack of income. Poverty has multiple dimensions, with deficits in health and education, for example. Moreover, an estimated 10% of the global population is afflicted by some form of disability, potentially limiting their standard of living regardless of income.[22]

In the early and middle 20th century, European countries reduced poverty not only by increasing incomes, but also by providing public goods such as health care and education.[23] When considering relative poverty levels, it is also important to consider the social and political arenas, including whether the poor can "appear in public without shame".[24] Translating income into a decent standard of living depends on a range of assets and capabilities. These are all issues in which the state has an important role facilitating access to health, education, and public and personal safety (box 1.4). How income is converted into well-being, particularly for the poor, also depends on environmental circumstances.[25]

Poverty can be measured more comprehensively using the Multidimensional Poverty Index (MPI), which looks at overlapping deprivations in health, education and standard of living. The MPI is the product of the multidimensional poverty headcount (the share of people who are multidimensionally poor) and the average number of deprivations that each multidimensionally poor household experiences (the intensity of their poverty). Focusing on the intensity of poverty enables the MPI to provide a more complete picture of poverty within a country or a community than is available from headcount measures alone. In the 104 countries covered by the MPI, about 1.56 billion people—or more than 30% of their population—are estimated to live in multidimensional poverty.[26] This exceeds the estimated 1.14 billion people in those countries who live on less than $1.25 a day, although it is below the proportion who live on less than $2 a day.[27] The pattern holds true for all four HDI groups, though the difference is larger in low HDI countries than in medium of high HDI countries (figure 1.3). This also holds true for many of the rapidly growing countries of the South (figure 1.4).

The countries with the highest headcount percentages based on the MPI are in Africa: Ethiopia (87%), Liberia (84%), Mozambique (79%) and Sierra Leone (77%; see statistical table 5). The countries with the highest intensity of poverty (deprivations in at least 33% of weighted indicators) are Ethiopia and Mozambique (about 65% each in 2007–2011), followed by Burkina Faso (64%), Senegal (59%) and Liberia (58%). Despite having a smaller proportion of multidimensional poor (lower headcount ratio) than Liberia does, Mozambique has a higher MPI value (0.512) because it has the highest intensity of deprivation among countries with data.

TABLE 1.2

Top five countries that rank better on the HDI than on gross national income per capita in 2012

HDI group and country	HDI value	Gross national income (GNI) per capita (2005 PPP $)	GNI rank minus HDI rank
Very high human development			
New Zealand	0.919	24,358	26
Ireland	0.916	28,671	19
Australia	0.938	34,340	15
Korea, Rep.	0.909	28,231	15
Israel[a]	0.900	26,244	13
High human development			
Cuba	0.780	5,539	44
Georgia	0.745	5,005	37
Montenegro	0.791	10,471	24
Albania	0.749	7,822	21
Grenada	0.770	9,257	21
Medium human development			
Samoa	0.703	3,928	28
Tonga	0.710	4,153	26
Fiji	0.702	4,087	24
Kyrgyzstan	0.622	2,009	24
Ghana	0.558	1,684	22
Low human development			
Madagascar	0.483	828	28
Togo	0.459	928	16
Kenya	0.519	1,541	15
Zimbabwe	0.397	424	14
Nepal[b]	0.463	1,137	11

a. The difference between GNI and HDI ranks is also 13 for Chile, Estonia and Greece, all very high HDI countries.
b. The difference between GNI and HDI ranks is also 11 for Liberia, a low HDI country.
Source: HDRO calculations. See statistical table 1 for detailed data sources.

BOX 1.4

Subjective indicators of well-being: increased acceptance in thinking and policy

Interest in using subjective data to measure well-being and human progress and to inform public policy has grown in recent years.[1] In the United Kingdom, the government committed itself to explore the use of subjective indicators of well-being, as suggested by Stiglitz, Sen and Fitoussi (2009). Bhutan has integrated the subindicators that constitute the Gross National Happiness Index into its public policy measures. Subjective data can complement but not substitute for objective data.

Kahneman and Krueger (2006) lay the analytical basis for measuring subjective well-being on the fact that people often depart from the standards of the "rational economic agent". Making inconsistent choices, not updating beliefs in the light of new information, desisting from gainful exchanges: all violate the assumption of rationality that underlies the translation of observed behaviour into a theory of revealed preferences in economics. If the assumed link between observed data and actual preferences is tenuous, the case for relying exclusively on objective data is weakened, and there exists a greater case for using subjective data as well.

Stiglitz, Sen and Fitoussi (2009) adopt subjective well-being as one of their three conceptual approaches to measuring quality of life. They point out that the approach has strong links to the utilitarian tradition but also has broader appeal. Subjective measures of quality of life, however, do not have objective counterparts. For instance, there is no observed measure of happiness, whereas inflation can be measured as either actual or perceived inflation. They further note that subjective approaches allow for a distinction between quality of life dimensions and the objective factors that shape them.

Subjective measures are not without problems. They are ordinal in nature and usually are not comparable across countries and cultures or reliable across time. Thus it can be misleading to use subjective indicators such as happiness as the only or main policy criterion. However, these indicators—appropriately measured and carefully used—can be valuable supplements to objective data to inform policy, particularly at the national level.

An important subjective indicator of well-being that can be gleaned from surveys is overall life satisfaction. Data for 149 countries place average life satisfaction globally at 5.3 on a scale of 0–10 (see table), with a low of 2.8 in Togo and a high of 7.8 in Denmark (see statistical table 9). Not surprisingly, life satisfaction tends to be higher in countries with higher human development.

Overall life satisfaction and satisfaction with health care and education

HDI group and region	Overall life satisfaction, 2007–2011[a] (0, least satisfied, 10, most satisfied)	Satisfaction with health care, 2007–2009[a] (% answering "yes")	Satisfaction with education quality, 2011 (% answering "yes")
HDI group			
Very high human development	6.7	61.9	61.3
High human development	5.9	55.2[b]	58.0
Medium human development	4.9	68.7[b]	69.2
Low human development	4.5	50.0	56.5
Region			
Arab States	4.8	54.3[b]	50.0
East Asia and the Pacific	5.1[b]	79.5[b]	68.2[b]
Europe and Central Asia	5.3	44.8	51.8
Latin America and the Caribbean	6.5	56.7	61.4[b]
South Asia	4.7	64.8	73.3
Sub-Saharan Africa	4.4	50.1[b]	52.0
World	5.3	61.0[b]	64.2

a. Data refer to the most recent year available during the period specified.
b. Value is not displayed in the statistical tables because data are not available for at least half the countries covering at least two-thirds of the population of the group.
Source: HDRO calculations based on Gallup (2012).

Other important subjective indicators of human well-being are satisfaction with the quality of health care and education. Survey results indicate that high-quality health care and education can be delivered at a wide range of income and human development levels. Average global satisfaction with health care quality was 61%, with a low of 19% in Ethiopia and a high of 90% in Luxembourg (see statistical table 7). Average global satisfaction with education quality was 64%, with a low of 35% in Mali and a high of 94% in Cambodia (see statistical table 8).

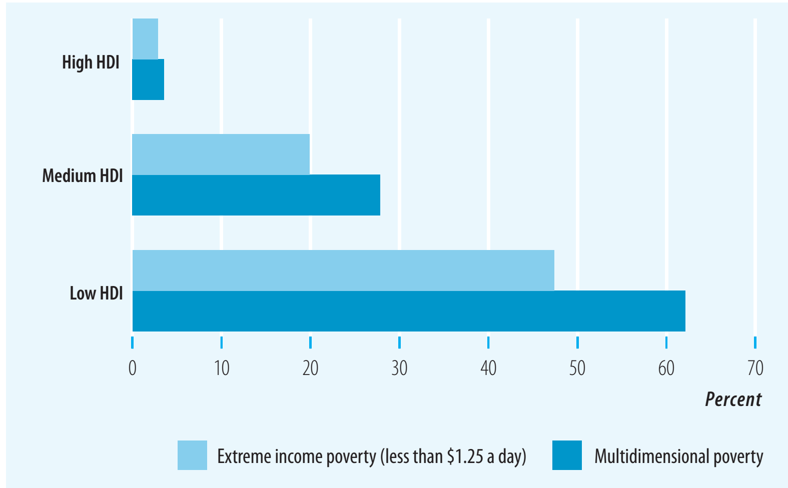
In South Asia, 65% of respondents indicated satisfaction with health care quality, with Pakistan at 41% and Sri Lanka at 83%, the latter showing that even at comparatively low levels of income it is possible to reinforce social perceptions about community and the state. By contrast, health care satisfaction is 45% in Europe and Central Asia.

1. Dolan, Layard and Metcalfe 2011. Krueger and Schkade (2008) note that over 2000–2006, 157 papers and numerous books were published in the economics literature using data on life satisfaction or subjective well-being.
Source: Kahneman and Krueger 2006; Stiglitz, Sen and Fitoussi 2009; Dolan, Layard and Metcalfe 2011; Stewart 2013.

In South Asia, the highest MPI value is in Bangladesh (0.292 with data for 2007), followed by Pakistan (0.264 with data for 2007) and Nepal (0.217 with data for 2011). The proportion of the population living in multidimensional poverty is 58% in Bangladesh, 49% in Pakistan and 44% in Nepal, and the intensity of deprivation is 50% in Bangladesh, 53% in Pakistan and 49% in Nepal. Although a larger proportion of the population (headcount) lives in multidimensional poverty in Bangladesh than in Pakistan, the intensity of deprivation is higher in Pakistan. Moreover, in Bangladesh and Nepal, the living standards dimension contributes more than the health and education dimensions, but in Pakistan, the health dimension contributes more than the other two dimensions.

FIGURE 1.3

The lower the HDI value, the larger the gap between income poverty and multidimensional poverty



Note: Data refer to 2002–2011. The population-weighted averages are based on 22 countries for the high HDI group and 36 countries each for the medium and low HDI groups.
Source: HDRO calculations.

Equity and human development

An essential part of human development is equity. Every person has the right to live a fulfilling life according to his or her own values and aspirations. No one should be doomed to a short life or a miserable one because he or she happens to be from the "wrong" class or country, the "wrong" ethnic group or race or the "wrong" sex.

Inequality

Inequality reduces the pace of human development and in some cases may even prevent it entirely. This is most marked for inequality in health and education and less so for inequality in income, where the effects are more substantial in high and very high HDI countries. An analysis of 132 developed and developing countries for this Report finds an inverse relationship between inequality and human development (box 1.5), reinforcing the conclusions of several studies of developed countries.[28]

The effects of inequality on human development can be captured by the Inequality-adjusted Human Development Index (IHDI), which examines the average level of human development and its distribution along the dimensions of life expectancy, educational attainment and command over the resources needed for a decent living. Where there is no inequality, the IHDI equals the HDI. A difference between the two denotes inequality; the greater the difference, the greater the inequality.[29]

Based on IHDI calculations for 132 countries in 2012, almost a quarter of HDI value, or 23% is lost to inequality (see statistical table 3). Low HDI countries suffer most because they tend to have greater inequality in more dimensions. Low HDI countries lose a third of HDI value to inequality, whereas very high HDI countries lose only 11%.

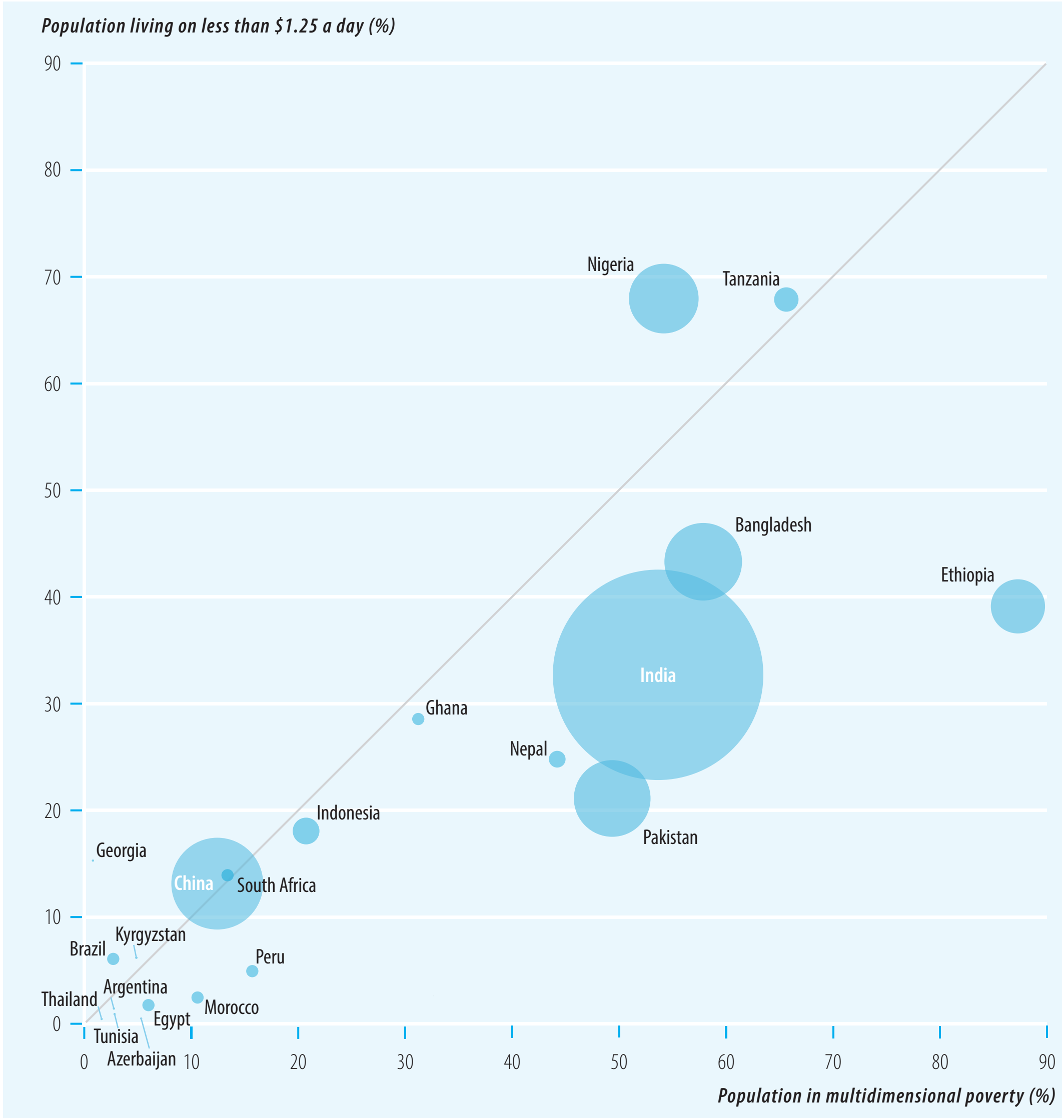
Globally, there have been much greater reductions in inequality in health and education in the last two decades than in income.[30] This is partly because of the measures used—life expectancy and mean years of schooling have upper bounds to which all countries eventually converge. But for income, there is no upper limit. Virtually all studies agree that global income inequality is high, though there is no consensus on recent trends.[31] One study that integrated the income distribution of 138 countries over 1970–2000 found that although mean income per capita has risen, inequality has not.[32] Other studies conclude the opposite.[33] Still others find no change at all.[34]

IHDI trends for 66 countries over 1990–2005 show that overall inequality declined marginally due to declines in health and education inequality being offset by increases in income inequality (figure 1.5). Most

No one should be doomed to a short life or a miserable one because he or she happens to be from the "wrong" class or country, the "wrong" ethnic group or race or the "wrong" sex

FIGURE 1.4

There is notable variation among countries in the gap between income poverty and multidimensional poverty



Note: Data refer to 2002–2011. Bubble size is proportional to the number of people in multidimensional poverty. Diagonal line indicates where population living on less than $1.25 a day equals population in multidimensional poverty.
Source: HDRO calculations.

regions show rising inequality in income and declining inequality in health and education (figure 1.6). Latin America has seen income inequality fall since 2000, but it still has the most unequal distribution of all regions. Sub-Saharan Africa has the most inequality in health, while South Asia has the most inequality in education.

The world has made much progress in reducing inequality in educational attainment in both enrolment ratios and expected years of schooling over 1990–2010, particularly in Europe and Central Asia (loss due to inequality in education declined almost 68%), East Asia and the Pacific (34%) and Latin America and the Caribbean (32%). In both developed and developing countries, the average enrolment ratio for primary education is nearly 100%. And more children are finishing school.

Declines in inequality in both health and education may reflect corresponding government priorities and innovations in social policy. There is also a link between health and education. Better education for women, for example, tends to result in better health outcomes for them and for the next generation. Thus life expectancy and educational attainment may move in tandem. Most inequality in education today reflects disparities in quality (box 1.6): many developing countries have dual-track systems, with the well-off attending good schools and universities, mostly privately funded, and the poor attending inadequate, mostly publicly funded facilities.[35]

Rising inequality, especially between groups, can lead to social instability, undermining long-term human development progress. Persistence of inequality often results in a lack of intergenerational social mobility, which can also lead to social unrest.

The rise in income inequality to some extent reflects a failure of national fiscal, and particularly taxation, systems. This can be offset by social protection. In Latin America, for example, income inequality has declined as a result of cash transfer programmes.

Gender and women's status

Gender equality is both a core concern and an essential part of human development. All too often, women are discriminated against in health, education and the labour market, which restricts their freedoms. The extent of discrimination can be measured through the Gender Inequality Index (GII), which captures the loss of achievement due to gender inequality in three dimensions: reproductive health, empowerment and labour market participation. The higher the GII value, the greater the discrimination. Based on 2012 data for 148 countries, the GII shows large variations across countries, ranging from 0.045 (in Netherlands) to 0.747 (in Yemen), with an average of 0.463 (see statistical table 4).

High gender disparities persist in South Asia (0.568), Sub-Saharan Africa (0.577) and the Arab States (0.555). In South Asia, the three driving factors are low female representation in parliament (18.5%), gender imbalances in educational achievement (28% of women have completed at least secondary education, compared with 50% of men) and low labour force participation (31% of women are in the labour force, compared with 81% of men).

BOX 1.5

Inequality holds back human development

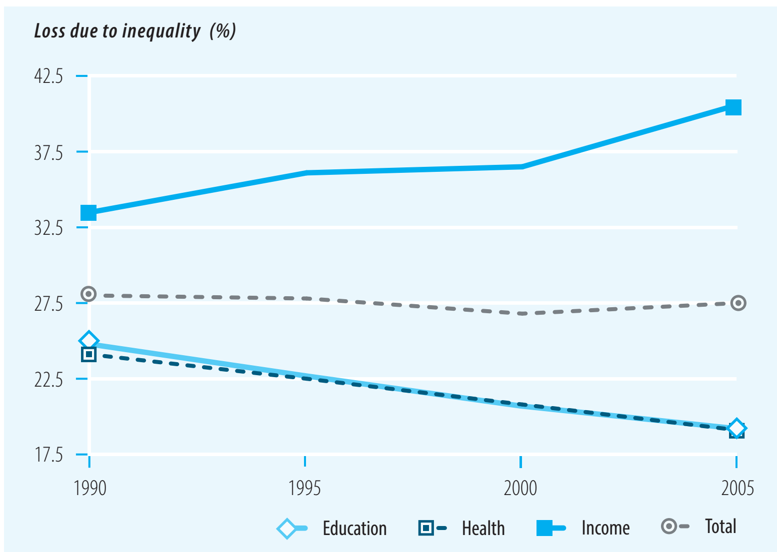
HDRO research using Human Development Index (HDI) data yields robust findings of an inverse relationship between inequality and subsequent improvement in human development, driven mostly by inequality in health and education rather than in income.

Using data on 132 countries for 2012, regression analysis showed the effects of multidimensional inequality (measured as the loss in the Inequality-adjusted Human Development Index relative to the HDI) on the HDI and each of its components (health, education and income) due to four explanatory variables: overall inequality in human development, inequality in life expectancy, inequality in educational attainment and inequality in income per capita. A different regression was used for each explanatory variable, and all regressions included dummy variables to control for the level of human development (low, medium, high and very high). Overall inequality in human development, inequality in life expectancy and inequality in educational attainment showed a highly statistically significant (at the 1% level) negative correlation, but inequality in income per capita showed no correlation. Results were robust to different specifications, including grouping countries with low and medium human development on the one side and countries with high and very high human development on the other.

Source: HDRO.

FIGURE 1.5

Losses due to inequality in HDI and its components

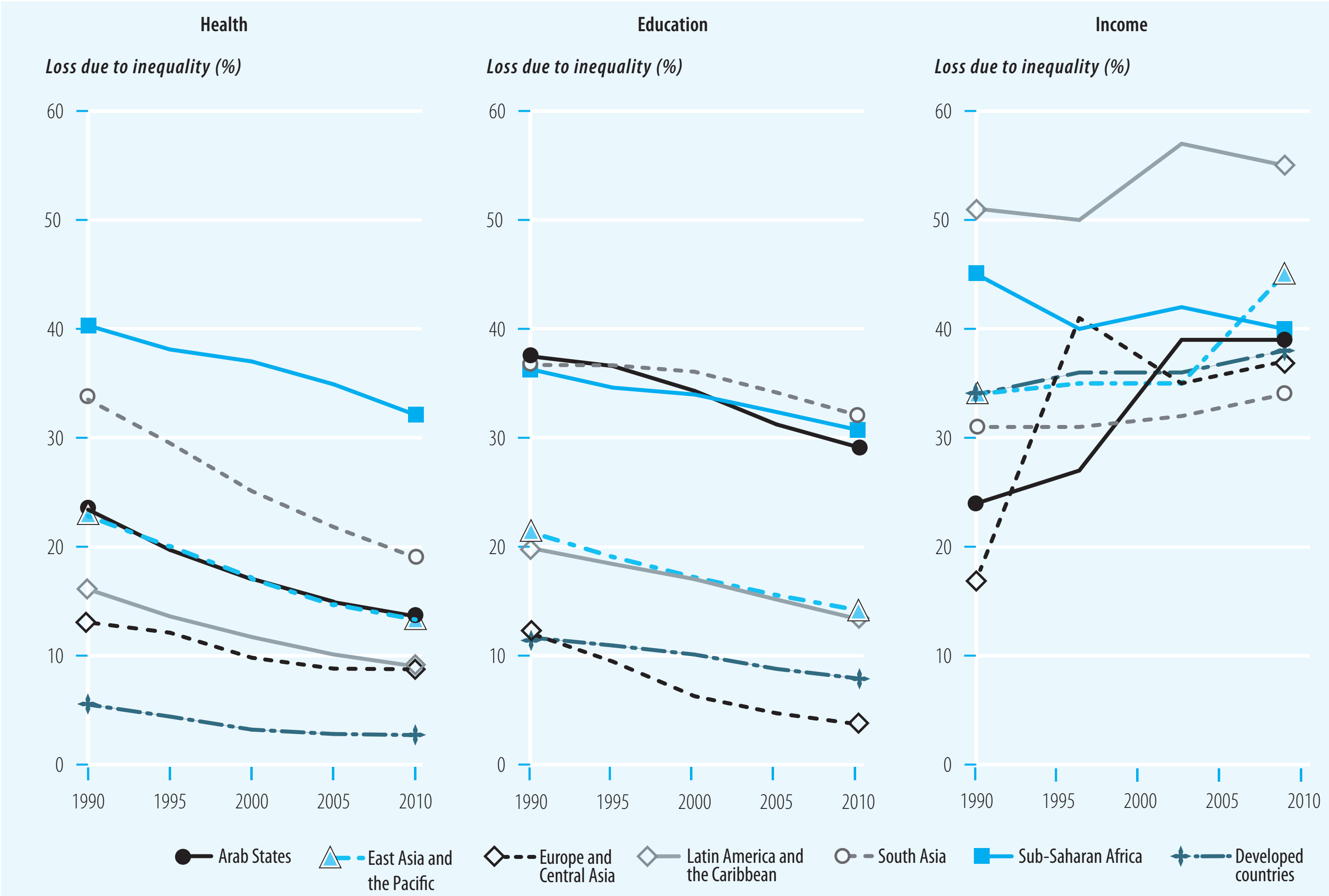


Note: Based on a population-weighted balanced panel of 66 countries.
Source: HDRO calculations using data from Milanović (2010).

Between 2000 and 2012, progress in reducing the GII value has been virtually universal, but uneven.[36] Countries in the very high human development group outperform those in other human development groups and demonstrate greater parity between women and men in educational attainment and labour market participation. Even in this group, however, several countries have huge gender gaps in

FIGURE 1.6

Most regions show declining inequality in health and education and rising inequality in income



Note: Based on a population-weighted balanced panel of 182 countries for loss due to health inequality, 144 countries for loss due to education inequality and 66 countries for loss due to income inequality. Data on income inequality from Milanović (2010) are available through 2005.
Source: HDRO calculations using health data from United Nations Department of Economic and Social Affairs life tables, education data from Barro and Lee (2010) and income inequality data from Milanović (2010).

parliamentary representation. Italy, for example, managed to increase female representation more than 50%, but women still occupy only around a fifth of all seats (20.7%). In Ireland, female parliamentary representation is still below 20% while in Rwanda, women outnumber men in parliamentary representation (52% compared with 48%).

Though many countries in Sub-Saharan Africa showed improvement in their GII value between 2000 and 2012, they still perform worse than countries in other regions, mainly because of higher maternal mortality ratios and adolescent fertility rates and huge gaps in educational attainment.

One of the most disturbing trends concerns the sex ratio at birth, which is deteriorating in some fast-growing countries. The natural ratio for children ages 0–4 is 1.05 (or 105 boys to 100 girls). But in the 175 countries for which 2012 data are available, the average was 1.07, and 13 countries had a ratio of 1.08–1.18.[37]

In some countries, sex-selective abortion and infanticide are artificially altering the demographic landscape, leading to a shortage of girls and women. This is not just a concern for gender justice and equality; it also has major implications for democracy and could lead to social violence.

The high male sex ratio at birth reflects women's status in society, entrenched patriarchal mores and prejudices, which are an aspect of deep-rooted sociocultural beliefs, the changing aspirations of urban and rural societies, and the dowry system in some countries.[38] In recent years, the problem has been exacerbated by the spread and misuse of ultrasound technologies that enable parents to exercise age-old preferences for boys. The key driver, however, is the combination of patriarchal mores and greater economic value of boys in the presence of a dowry system. In absence of the latter—for instance, in African countries—patriarchal prejudices alone do not manifest in high male sex ratio at birth.

Redressing this imbalance will involve changing many social norms, including those that affect the economic incentives of the household to have boys rather than girls. This would include effectively ending the exploitative dowry system,[39] generating greater economic opportunities for women, creating conditions for women to have greater control over their lives and enhancing their political participation and decisionmaking within households.

It has often been argued that improving education for women helps raise their levels of health and nutrition and reduces fertility rates.[40] Thus, in addition to its intrinsic value in expanding women's choices, education also has an instrumental value in enhancing health and fertility outcomes of women and children. In this respect, low and medium HDI countries still have some way to go. There was also a gender imbalance among the uneducated population in high and very high HDI countries in 1970–2010, although there was substantially more gender balance at all education levels in these countries for girls and young women currently of school attendance age.

Important as education and job creation for women are, they are not enough. Standard policies to enhance women's income do not take into account gender differences within households, women's greater burden of unpaid work and gender division of work as per cultural norms. Policies based on economic theory that does not take these factors into account may have adverse impacts on women, even though they create economic prosperity.[41] Key to improving gender equity are political and social reforms that enhance women's human rights, including freedom, dignity, participation, autonomy and collective agency.[42]

BOX 1.6

Education quality: achievement on the Programme for International Student Assessment

The education component of the Human Development Index has two measures: mean years of schooling and expected years of schooling. But even more than years of schooling, quality of education is a key factor in expanding human capabilities (see figure).

The Organisation for Economic Co-operation and Development's Programme for International Student Assessment (PISA) collects internationally compatible data on the educational attainment of students and allows for cross-country comparison of average learning scores, share of low-performing schools and consistency of quality outcomes. For example, the advantages of a highly educated labour force, which countries such as the United States have traditionally had, appear to be eroding as young cohorts in other countries (such as Ireland, Japan and the Republic of Korea) reach and surpass the qualifications found in the United States.

In the most recent PISA, conducted in 63 countries and territories in 2009, many countries showed impressive strides in quality of learning outcomes. Students from Shanghai, China, outperformed students from 62 countries in reading, mathematics and science skills. They were followed by students from the Republic of Korea, Finland and Hong Kong, China (SAR) in reading; Singapore, Hong Kong, China (SAR) and the Republic of Korea in mathematics; and Finland, Hong Kong, China (SAR) and Singapore in science. The United States performed below average in mathematics, sharing 29th place with Ireland and Portugal; slightly above average in science, in 21st place; and above average in reading, sharing 15th place with Iceland and Poland. Brazil, Chile, Indonesia and Peru have seen impressive gains, catching up from very low levels of performance. Investments by some countries in education quality will likely bring future payoffs in a more knowledge-driven globalized world.

Programme for International Student Assessment scores in reading positively correlate with HDI values

Source: HDI values, HDRO calculations; Programme for International Student Assessment scores, OECD (2010b).

Intergenerational equity and sustainability

When one crisis follows another, it is easy to lose perspective about important long-term consequences of current actions. It is thus important to bear in mind that today's choices can have a large and decisive influence on the choices available for decades in the future. Sustainable human development is about understanding the links between temporal choices of different generations and about assigning rights to both present and future generations.

Progress in human development achieved sustainably is superior to gains made at the cost of future generations

Clearly a balance is needed. Enhancing people's capabilities now—especially the capabilities of those who are poor or live with multiple deprivations—is vital as a matter of basic rights and part of the universalism of life claims.[43] Moreover, poverty and misery today have negative consequences for the future. The objective should thus be both intragenerational and intergenerational equity.

Investing in people today requires a prudent balance between debts incurred today and the obligations they impose on future generations. As the 1994 *Human Development Report* underscores, "All postponed debts mortgage sustainability, whether economic debts, social debts or ecological debts."[44] The recent economic crisis has brought to the fore the sustainability of economic debt, public and private, when economies are not growing, while tending to draw attention away from the critical issues of social and ecological debts. On the environmental front, there is already extensive evidence of severe damage to ecosystems from the choices of past and current generations. Poor countries cannot and should not imitate the production and consumption patterns of rich countries. And rich countries must reduce their ecological footprint because from a global perspective their per capita consumption and production are not sustainable.

Of particular concern now are the global challenges of climate change and fragile ecosystems. An influential study concluded that "Humanity has already transgressed at least three planetary boundaries,"[45] a point repeated in the 2012 Report of the UN Secretary General's High Level Panel on Global Sustainability.[46] Few countries are following an ecologically sustainable path now, underscoring the need for technological innovations and shifts in consumption that can facilitate movement towards sustainable human development.[47]

Figure 1.7 plots the ecological footprint of consumption of 151 countries against their HDI value in 2012.[48] Very few countries have both a high HDI value and an ecological footprint below the world average biocapacity (1.79 global hectares per capita in 2008). This does not bode well for the world. Over time, the situation is becoming more dire. While some high HDI countries have an ecological footprint below the world average, their footprints have been increasing over time.

People care not only about the choices open to them, but also about how those choices are secured, by whom and at whose expense. Progress in human development achieved sustainably is superior to gains made at the cost of future generations. Indeed, a proper accounting system for sustainable human development would include both future human development and current achievements.

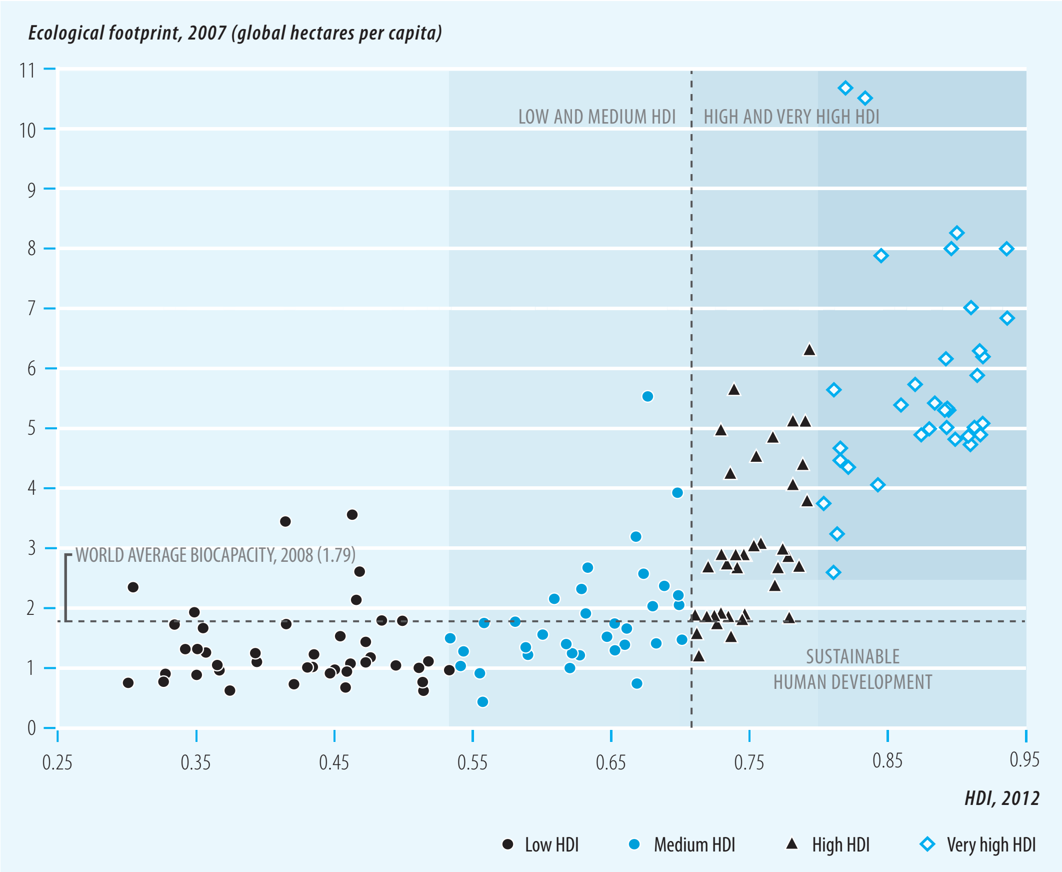
Better ways to monitor environmental sustainability are also needed. The 2012 UN Conference on Sustainable Development called for measures that address the connections between present and future sets of choices. Such measures should monitor the accumulation of economic and environmental debt based on the premise that every citizen on the planet, whether alive or not yet born, has an equal right to live a comfortable, fulfilling life. These measures should also highlight planetary boundaries or "tipping points", recognizing that climate change, for example, already imposes substantial costs, with the brunt of them borne by poor countries and poor communities.

Social integration

Human development involves expanding individual capabilities. Yet individuals are also bound up with others. Thus, how individuals relate to each other is important in building cohesive and enduring societies. Integrating different groups can be as critical for well-being

FIGURE 1.7

Few countries show both the high HDI and low ecological footprint required for sustainable human development



Note: Ecological footprint is a measure of the biocapacity of the earth and the demand on biocapacity. It depends on the average productivity of biologically productive land and water in a given year.
Source: HDRO calculations and Global Footprint Network (2011).

and social stability as economic success. Inequity and exclusion are social injustices that fundamentally weaken human freedoms.

An integrated society relies on effective social institutions that enable people to act collectively, enhancing trust and solidarity between groups. These institutions include formal nongovernmental organizations, informal associations and cooperatives, as well as norms and rules of behaviour. They influence individual human development outcomes, social cohesion and social stability. To differentiate them from individual capabilities, the functioning of these institutions and their impact on people can be described as "social competencies" (box 1.7). The extent to which social competencies foster more-cohesive societies can be assessed by their success at achieving social inclusion and social stability.

Some developing countries have sought to address social exclusion by distributing the benefits of growth more evenly in a refinement of the growth with redistribution strategy. But this commodity-centric view of inclusive growth does little to end the economic and social discrimination that often has long-standing historical and cultural roots. Such discrimination may be widespread even in countries with high income per capita. Clearly income growth alone cannot achieve social cohesion; active policies are needed.

The impact of inequity can persist over generations. For instance, a study of eight developed countries found that more-unequal countries usually had lower social mobility.[49] In

BOX 1.7

Social competencies: human development beyond the individual

Individuals cannot flourish alone; indeed, they cannot function alone. The human development approach, however, has been essentially individualistic, assuming that development is the expansion of individuals' capabilities or freedoms. Yet there are aspects of societies that affect individuals but cannot be assessed at the individual level because they are based on relationships, such as how well families or communities function, summarized for society as a whole in the ideas of social cohesion and social inclusion. Individuals are bound up with others. Social institutions affect individuals' identities and choices. Being a member of a healthy society is an essential part of a thriving existence.

So one task of the human development approach is to explore the nature of social institutions that are favourable for human flourishing. Development then has to be assessed not only for the short-run impact on individual capabilities, but also for whether society evolves in a way that supports human flourishing. Social conditions affect not only the outcomes of individuals in a particular society today, but also those of future generations.

Social institutions are all institutions in which people act collectively (that is, they involve more than one person), other than profit-making market institutions and the state. They include formal nongovernmental organizations, informal associations, cooperatives, producer associations, neighbourhood associations, sports clubs, savings associations and many more. They also consist of norms and rules of behaviour affecting human development outcomes. For example, attitudes towards employment affect material well-being, and norms of hierarchy and discrimination affect inequality, discrimination, empowerment, political freedom and so on. To describe what those institutions can be and do, and to understand how they affect individuals, we can use the term *social competencies*.

Central to the human development perspective is that societal norms affect people's choices and behaviours towards others, thus influencing outcomes in the whole community. Community norms and behaviours can constrain choice in deleterious ways from a human development perspective—for example, ostracizing, or in extreme cases killing, those who make choices that contravene social rules. Families trapped in poverty by informal norms that support early marriage and dowry requirements might reject changes to such entrenched social norms. Social institutions change over time, and those changes may be accompanied by social tension if they hamper the interests of some groups while favouring others.

Policy change is the outcome of a political struggle in which different groups (and individuals) support or oppose particular changes. In this struggle, unorganized individuals are generally powerless, but by joining together they can acquire power collectively. Social action favouring human development (such as policies to extend education, progressive taxation and minimum wages) happens not spontaneously, but because of groups that are effective in supporting change, such as producer groups, worker associations, social movements and political parties. These organizations are especially crucial for poorer people, as demonstrated by a group of sex workers in Kolkata, India, and women in a squatter community in Cape Town, South Africa, who improved their conditions and self-respect by joining together and exerting collective pressure.

Societies vary widely in the number, functions, effectiveness and consequences of their social competencies. Institutions and norms can be classified as human development–promoting, human development–neutral and human development–undermining. It is fundamental to identify and encourage those that promote valuable capabilities and relationships among and between individuals and institutions. Some social institutions (including norms) can support human development in some respects but not in others: for example, strong family bonds can provide individuals with support during upheavals, but may constrain individual choices and opportunities.

Broadly speaking, institutions that promote social cohesion and human development show low levels of disparity across groups (for example, ethnic, religious or gender groups) and high levels of interaction and trust among people and across groups, which results in solidarity and the absence of violent conflict. It is not a coincidence that 5 of the 10 most peaceful countries in the world in 2012, according to the Global Peace Index, are also among the most equal societies as measured by loss in Human Development Index value due to inequality. They are also characterized by the absence of discrimination and low levels of marginalization. In some instances antidiscriminatory measures can ease the burden of marginalization and partially mitigate the worst effects of exclusion. For instance, US law mandating that hospital emergency rooms offer treatment to all patients regardless of their ability to pay partly mitigates the impact of an expensive health care system with limited coverage, while affirmative action in a range of countries (including Brazil, Malaysia, South Africa and the United States) has improved the situation of deprived groups and contributed to social stability.

The study of social institutions and social competencies must form an essential part of the human development approach—including the formation of groups; interactions between groups and individuals; incentives and constraints to collective action; the relationship among groups, politics and policy outcomes; the role of norms in influencing behaviours; and how norms are formed and changed.

Source: Stewart 2013; Institute for Economics and Peace 2012.

the United Kingdom in particular, as inequality rose, intergenerational mobility declined.

The 2010 *Latin America and the Caribbean Human Development Report* highlighted the link between the lack of social mobility and persistent inequality.[50] In Brazil, at least a quarter of inequality in earnings is associated with household circumstances, such as parents' educational attainment, race or ethnicity, or place of birth.[51] Such persistence of income distribution patterns across generations is also evident in Chile and Mexico, although Mexico has seen increased intergenerational mobility in recent years.[52] Generally, Latin America suffers from low social mobility, stifling opportunities for individuals at the bottom of the income distribution for whom performance in society is determined largely by background characteristics beyond their control. The problem is particularly intractable in heterogeneous societies, as members of deprived groups find it particularly difficult to progress.

Inequity and exclusion endure when the excluded and those at the lower ends of the distribution lack the political voice to seek redress. More-equal and more-just societies, essential for satisfactory and sustainable human progress, thus require greater voice and political participation and more-accountable governments (box 1.8).

Even in the European Union, where a large part of the population has seen rising prosperity, some groups have been left behind. The Roma, for example, have been part of European civilization for more than a thousand years. With an estimated 7–9 million people, they are Europe's biggest ethnic minority, present in all 27 EU member states. Most are EU citizens but continue to suffer discrimination and social exclusion. As two regional *Human Development Reports* have revealed, the Roma are often trapped in a vicious cycle of social exclusion that has persisted generation after generation.[53]

The presence of inequalities can adversely affect social interactions and restrict freedom

The presence of inequalities can adversely affect social interactions and restrict freedom of choice

BOX 1.8

Poverty's structural dimensions

The traditional agendas for reducing poverty recognize but inadequately address its structural sources. Contemporary interventions to promote inclusive growth have tended to focus on the outcomes of development through expanding and strengthening social safety nets. While such public initiatives are to be encouraged, they address the symptoms of poverty, not its sources.

The results of such restrictive interventions are reduction of income poverty to varying degrees and some improvement in human development. But across much of the South, income inequalities have increased, social disparities have widened and injustice remains pervasive, while the structural sources of poverty remain intact. Any credible agenda to end poverty must correct the structural injustices that perpetuate it.

Unequal access to assets

Inequitable access to wealth and knowledge disempowers the excluded from competing in the marketplace. Rural poverty, for example, originates in insufficient access to land and water for less privileged segments of rural society. Land ownership has been not only a source of economic privilege, but also a source of social and political authority. The prevailing structures of land ownership remain inimical to a functioning democratic order. Similarly, lack of access to capital and property perpetuates urban poverty.

Unequal participation in the market

With the prevailing property structures of society, the resource-poor remain excluded from more-dynamic market sectors. The main agents of production tend to be the urban elite, who own the corporate assets that power faster growing economic sectors. By contrast, the excluded partake only as primary producers and wage earners, at the lowest end of the production and marketing chains, leaving them with little opportunity to share in market economy opportunities for adding value to their labour.

Capital markets have failed to provide sufficient credit to the excluded, even though they have demonstrated their creditworthiness through low default rates in the microcredit market. And formal capital markets have not provided financial instruments to attract the savings of the excluded and transform them into investment assets in the faster growing corporate sector.

Unjust governance

This inequitable and unjust social and economic universe can be compounded by unjust governance. Often the excluded remain voiceless in the institutions of governance and thus underserved by public institutions. The institutions of democracy remain unresponsive to the needs of the excluded, both in the design of policy agendas and in the selection of electoral candidates. Representative institutions thus tend to be monopolized by the affluent and socially powerful, who then use office to enhance their wealth and perpetuate their hold over power.

Promoting structural change

To correct these structural injustices, policy agendas need to be made more inclusive by strengthening the capacity of the excluded to participate on more equitable terms in the market economy and the democratic polity. Such agendas should reposition the excluded within the processes of production, distribution and governance. The production process needs to graduate the excluded from living out their lives exclusively as wage earners and tenant farmers by investing them with the capacity to become owners of productive assets. The distribution process must elevate the excluded beyond their inherited role as primary producers by enabling them to move upmarket through greater opportunities to share in adding value through collective action. Access to assets and markets must be backed by equitable access to quality health care and education, integral to empowering the excluded.

The governance process must increase the active participation of the excluded in representative institutions, which is crucial to enhancing their voice in decisionmaking and providing access to the institutions of governance.

Source: Sobhan, R. 2010. *Challenging the Injustice of Poverty.*

TABLE 1.3

Inequality and satisfaction with freedom of choice and community

HDI group and region	Overall loss in HDI value due to inequality, 2012 (%)	Satisfaction with freedom of choice, 2007–2011[a] (% satisfied)	Satisfaction with community,[b] 2007–2011[a] (% answering yes)
HDI group			
Very high human development	10.8	81.5	85.9
High human development	20.6	66.3	76.4
Medium human development	24.2	77.8	79.9
Low human development	33.5	61.8	72.2
Region			
Arab States	25.4	54.6	67.6
East Asia and the Pacific	21.3	78.7[c]	80.1[c]
Europe and Central Asia	12.9	58.5	76.5
Latin America and the Caribbean	25.7	77.9	79.0
South Asia	29.1	72.9	83.2
Sub-Saharan Africa	35.0	69.1	65.2
World	23.3	73.9	79.0

a. Data refer to the most recent year available during the period specified.
b. Based on the Gallup survey question on overall satisfaction with city.
c. Value is not displayed in the statistical tables because data are not available for at least half the countries covering at least two-thirds of the population of the group.
Source: Overall loss in HDI value due to inequality, HDRO calculations based on the Inequality-Adjusted HDI; satisfaction with freedom of choice and community, HDRO calculations based on Gallup (2012).

of choice. Subjective data can provide an insight into the state of social integration within a country or community. Evidence suggests a small negative correlation between losses due to inequality and satisfaction with freedom of choice and with the community. Evidence also suggests that people in countries with a high HDI value are generally more satisfied with their freedom of choice and with the community. Exploring these associations can offer important policy lessons for countries (table 1.3).

Human security

The 1994 *Human Development Report* argued that the concept of security must shift from the idea of a militaristic safeguarding of state borders to the reduction of insecurity in people's daily lives (or human insecurity).[54] In every society, human security is undermined by a variety of threats, including hunger, disease, crime, unemployment, human rights violations and environmental challenges. The intensity of these threats differs across the world, but human security remains a universal quest for freedom from want and fear.

Consider economic insecurity. In the countries of the North, millions of young people are now unable to find work. And in the South, millions of farmers have been unable to earn a decent livelihood and forced to migrate, with many adverse effects, particularly for women. Closely related to insecurity in livelihoods is insecurity in food and nutrition. Many developing country households faced with high food prices cannot afford two square meals a day, undermining progress in child nutrition. Another major cause of impoverishment in many countries, rich and poor, is unequal access to affordable health care. Ill health in the household (especially of the head of the household) is one of the most common sources of impoverishment, as earnings are lost and medical expenses are incurred.

Perspectives on security need to shift from a misplaced emphasis on military strength to a well rounded, people-centred view. Progress in this shift can be gleaned in part from statistics on crime, particularly homicides, and military spending.

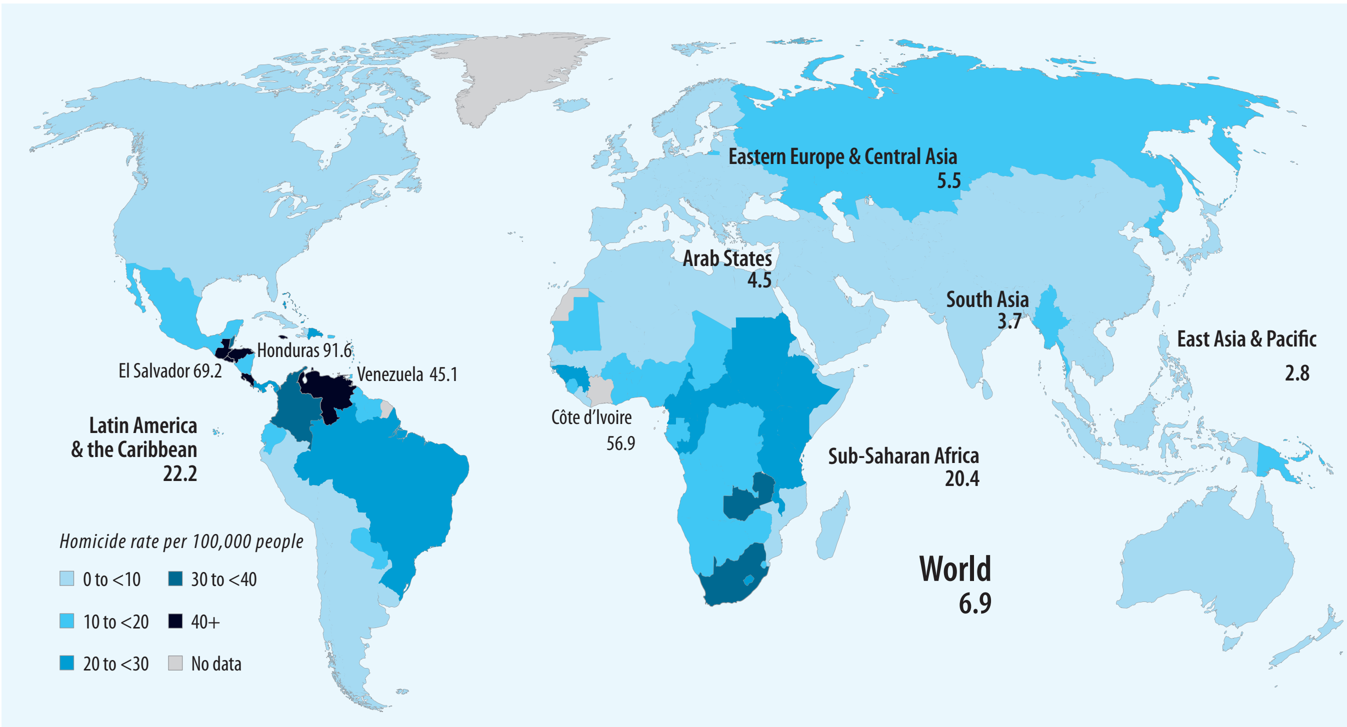
Crime

Freedom from fear should be reflected in low crime rates, specifically low homicide rates. A few studies have also used homicide rates to assess civic engagement and trust.[55] The 2012 *Caribbean Human Development Report,* for example, argues that violent crime erodes confidence in future development prospects, reduces the competitiveness of industries and services by imposing burdensome security costs and damages the investment climate. Crime may also lead to a brain drain from the country or affected community. And diverting resources to control crime reduces the funds available to invest in health care and education, thus slowing social integration and dampening development.[56]

In recent years, the global average homicide rate for 189 countries with data was 6.9 per 100,000 people,[57] with a low of 0 in Monaco and a high of 91.6 in Honduras

MAP 1.1

There is a small negative connotation between homicide rates and HDI values



Source: HDRO calculations based on UNODC 2012.

(see statistical table 9). There is a small negative correlation between homicide rate and HDI value, with low HDI countries at 14.6 per 100,000 people, high HDI countries at 13.0 and very high HDI countries at 2.1. Homicide rates are highest in Latin America and the Caribbean (22.2 per 100,000 people), followed by Sub-Saharan Africa (20.4), Europe and Central Asia (5.5), the Arab States (4.5), South Asia (3.7) and East Asia and the Pacific (2.8).

It can also be instructive to look at the homicide rates for cities. Contrary to popular perception, crime is not generally higher in poorer cities. Amartya Sen notes that Kolkata "is not only one of the poorest cities in India, and indeed in the world, but it also has the lowest violent crime rate of all Indian cities."[58] This is also true for homicide: Kolkata's average incidence of murder, 0.3 per 100,000 people, is lower than in much more affluent London (2.4) and New York (5.0).[59]

Sen argues that Kolkata has benefited from its long history as a "mixed" city, without ethnic or income separation between neighbourhoods. For several decades, the city has also had a system of basic public services, including government hospitals, schools, colleges and a low-cost public transport system, which have dampened the impacts of economic and social exclusion. In local trains, poor vendors commonly travel side by side with wage labourers and white-collar workers.

But when people do not have access to services, they may be more prone to crime. A UK study of reoffending criminals, for example, noted that many prisoners are victims of a lifetime of social exclusion[60] and are effectively excluded from access to basic services.[61]

Military spending

Since the end of the Cold War, there has been no overall intensification of militarization, measured by military expenditure as a proportion of GDP, partly because of changes in the threats to national security. While interstate conflicts appear to be on the decline since the early 1990s, the number of intrastate conflicts has increased since the mid-20th century.

Today the majority of security threats come not from other countries but from insurgencies, terrorism and other civil conflicts.[62] Conflicts in the post–Cold War era have claimed more than 5 million casualties, 95% of them civilians.[63]

In South Asia, for example, all nine countries have experienced internal conflict in the last two decades, and the resulting casualties have outnumbered those from interstate conflicts.[64] Moreover, since 2001, more of the conflicts have been in the poorer regions of those countries than elsewhere.[65]

In 2010, military spending worldwide for the 104 countries with data available was more than $1.4 trillion, or 2.6% of world GDP. Most of the spending was by very high HDI countries. But as other countries' economies have grown, particularly medium HDI countries, their military expenditures have been increasing. Between 1990 and 2010, military spending more than tripled in medium HDI countries, while rising close to 50% in low HDI countries and 22% in very high HDI countries and falling almost 47% in high HDI countries. Nevertheless, in the three HDI groups where total military expenditure grew, the increase was slower than GDP growth. These aggregates hide considerable diversity. Europe and Central Asia saw military spending decline 69% between 1990 and 2010, while South Asia, East Asia and the Pacific, and the Arab States saw it rise 43%–388%.[66]

Not all countries have the preconditions for complete demilitarization, but most have scope for substantial slowing in their military spending

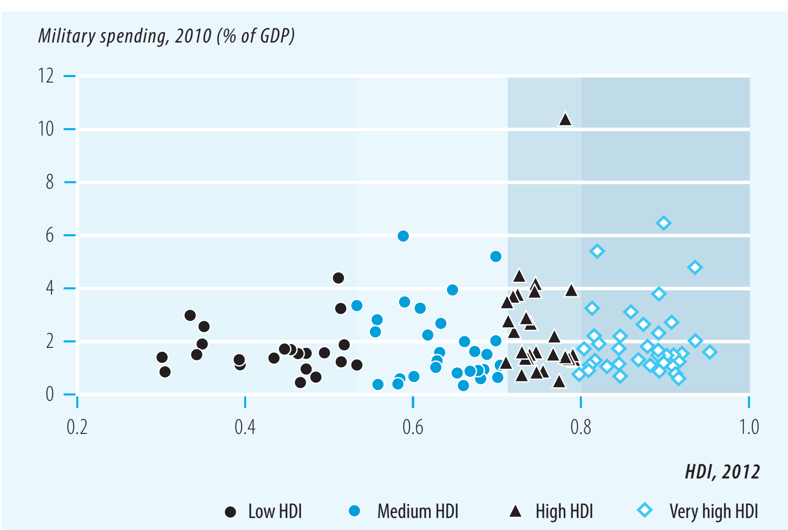
Although development is often accompanied by a rise in military spending, this is not always the case (figure 1.8). The highest shares of military spending as a proportion of GDP are in very high and high HDI countries, but some very high HDI countries have a share below 1% of GDP, among them Austria, Iceland, Ireland and Luxembourg.

This is of particular significance for the rising countries of the South. Costa Rica, for example, has not had an army since 1948.[67] It spends nothing on the military and has thus been able to earmark more funds for social programmes and social investments.[68] In 2009, it invested 6.3% of GDP in education and 7% in health. Such choices contributed to its progress on the HDI from 0.621 in 1980 to 0.773 in 2012.

Today, around 20 countries have small or no armed forces. They tend to possess small territories, and many of them rely on external powers for national security. Not all countries have the preconditions for complete demilitarization, but most have scope for substantial slowing in their military spending. Particularly with respect to internal conflicts, India has shown that while policing may be more effective in curbing violence in the short term, redistribution and overall development are better strategies to prevent and contain civil unrest in the medium term.[69]

FIGURE 1.8

Development is not always accompanied by a rise in military spending



Source: Military expenditure, Stockholm International Peace Research Institute; HDI, HDRO calculations.

* * *

This analysis of the state of human development is positive and hopeful. Yet much work remains. Almost every country has challenges to overcome and opportunities for further progress. Of particular concern is that some developed countries, in response to the debt crisis, are pursuing austerity policies that could foreclose or reduce future choices and options for people in the South.

The only viable path to higher human development is through active investment in enhancing capabilities and enlarging opportunities. As the 1991 *Human Development Report* noted, "People who are healthier, confident, and skilled will be in a much better position to cope with a fast-changing environment and meet the technological and competitive demands of the international marketplace."[70]

The next chapter documents the extent to which many countries of the South have been able to follow this route, as well as the global impact they are having. Later chapters will consider how they have done this and examine the implication of the rise of the South for international governance and for reshaping global power relations.

“When the music changes,
so does the dance.”

African proverb

“I do not want my house to be walled in on all sides and my windows to be stuffed. I want the cultures of all the lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any.”

Mahatma Gandhi

2.

A more global South

A striking feature of the world scene in recent years is the transformation of many developing countries into dynamic economies that are doing well in economic growth and trade and progressing rapidly on human development. During these uncertain times, they are collectively bolstering world economic growth, lifting other developing economies, reducing poverty and increasing wealth on a grand scale. They still face formidable challenges and are home to many of the world's poor.[1] But they have demonstrated how pragmatic policies and a strong focus on human development can release the opportunities latent in their economies, facilitated by globalization.

The rise of the South is noteworthy for its diversity. This wave of developing countries encompasses countries with very different endowments, social structures, geography and history: for example, Algeria and Argentina, Brazil and Bangladesh, China and Chile, Ghana and Guyana, India and Indonesia, and Malaysia and Mozambique. These countries demonstrate that rapid people-centred development can take root in a wide range of contexts. And their experiences and knowhow are an expanding source of best practice that should enable other developing countries to catch up.

The rapidly expanding connections between these countries are also leading to a more balanced form of globalization. New trade routes are flourishing: countries as diverse as Morocco, South Africa, Thailand, Turkey and Viet Nam each have substantial export and import relationships with more than 100 economies.[2] New and improved technologies, adapted to local conditions, are boosting people's productivity and enabling production to be shared across borders.

And all this is happening as people and continents are connected on a previously unimaginable scale. More than 2 billion people use the Internet, and every year more than 1 billion people travel internationally.[3]

This transformation is affecting the dynamics of regional and global relationships. The leading countries of the South played a crucial role in responding to the 2008 financial crisis. Dialogue is intensifying on the appropriate provisioning of global public goods, such as curbing climate change, developing rules for stable financial markets, advancing multilateral trade negotiations and agreeing on mechanisms to finance and produce green technologies. It may seem that increasing the number of participants will make it more difficult to arrive at a global consensus. But the rise of the South could help break stalemates on some of today's global issues and lead to more development-friendly global agreements.

Rebalancing: a more global world, a more global South

Global production is rebalancing in ways not seen for 150 years. Growth in the cross-border movement of goods, services, people and ideas has been remarkable. In 1800, trade accounted for 2% of world output.[4] The proportion remained small right after the Second World War, and by 1960 it was still less than 25%. By 2011, however, trade accounted for nearly 60% of global output.[5] The expansion it represents is widely distributed, with at least 89 developing countries increasing their trade to output ratio over the past two decades (box 2.1).[6]

Today, as a result of reduced trade barriers and lower transport costs, the production of manufactures is fragmented across borders, with many countries trading intermediate goods.[7] And changes in information technology have made services increasingly tradable. The result has been a remarkable rise in intraindustry and intrafirm trade.

Developing countries, particularly in Asia, have ridden these shifts to great advantage. Between 1980 and 2010, they increased their share of world merchandise trade from about 25% to 47%[8] and their share of world output from 33% to 45%. Today, developing countries account for a third of value added in world production of manufactured goods.[9] Between 1990 and 2010, the merchandise exports of eight developing country members of the Group of 20 (G20) increased 15-fold, from about

BOX 2.1

The South's integration with the world economy and human development

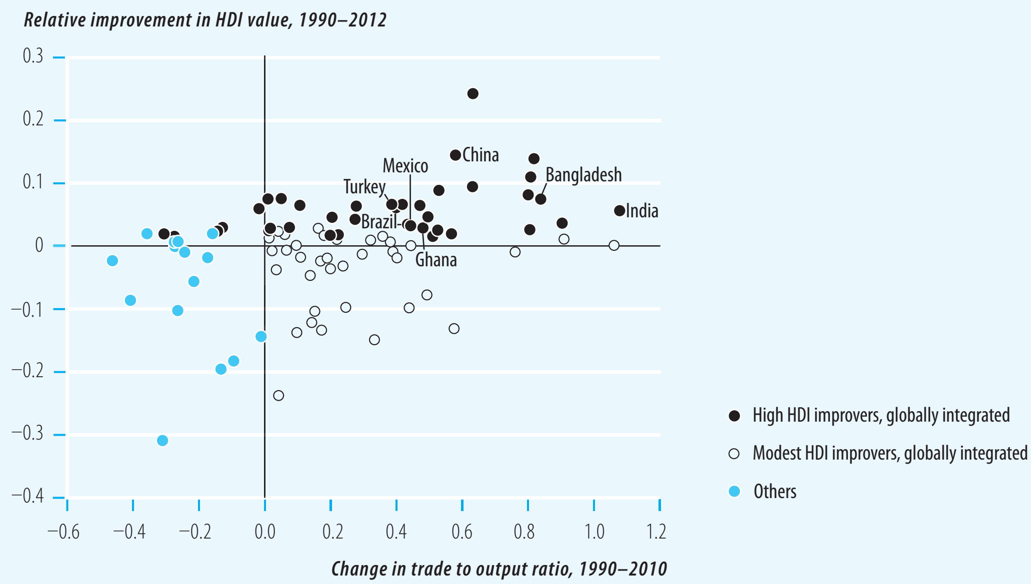
In a sample of 107 developing countries over 1990–2010, about 87% can be considered globally integrated: they increased their trade to output ratio, have many substantial trading partnerships1 and maintain a high trade to output ratio relative to countries at comparable income levels.[2] All these developing countries are also much more connected to the world and with each other: Internet use has expanded dramatically, with the median annual growth in the number of users exceeding 30% between 2000 and 2010.

While not all globally integrated developing countries have made rapid gains in Human Development Index (HDI) value, the converse is true. Almost all developing countries that made the most improvement in HDI value relative to their peers between 1990 and 2012 (at least 45 in the sample here) have integrated more with the world economy over the past two decades; their average increase in trade to output ratio is about 13 percentage points greater than that of the group of developing countries with more modest improvement in HDI value. This is consistent with earlier findings that countries tend to open more as they develop.[3]

The increasingly integrated countries with major improvement in HDI value include not only the large ones that dominate the headlines, but also dozens of smaller and least developed countries. Thus they constitute a larger and more varied group than the emerging market economies often designated by acronyms, such as BRICS (Brazil, Russian Federation, India, China and South Africa), IBSA (India, Brazil and South Africa), CIVETS (Colombia, Indonesia, Viet Nam, Egypt, Turkey and South Africa) and MIST (Mexico, Indonesia, South Korea [Republic of Korea] and Turkey).

The figure below plots improvement in HDI value[4] against the change in trade to output ratio, an indicator of the depth of participation in global markets. More than four-fifths of these developing countries increased their trade to output ratio between 1990 and 2012. Among the exceptions in the subgroup that also made substantial improvement in HDI value are Indonesia, Pakistan and Venezuela, three large countries that are considered global players in world markets, exporting or importing from at least 80 economies. Two smaller countries whose trade to output ratio declined (Mauritius and Panama) continue to trade at levels much higher than would be expected for countries at comparable income levels. All countries that had substantial improvement in HDI value and increased their trade to output ratio between 1990 and 2012 are highlighted in the upper right quadrant of the figure. Countries in the lower right quadrant (including Kenya, the Philippines and South Africa) increased their trade to output ratio but made modest improvement in HDI value.

Human progress and trade expansion in the South



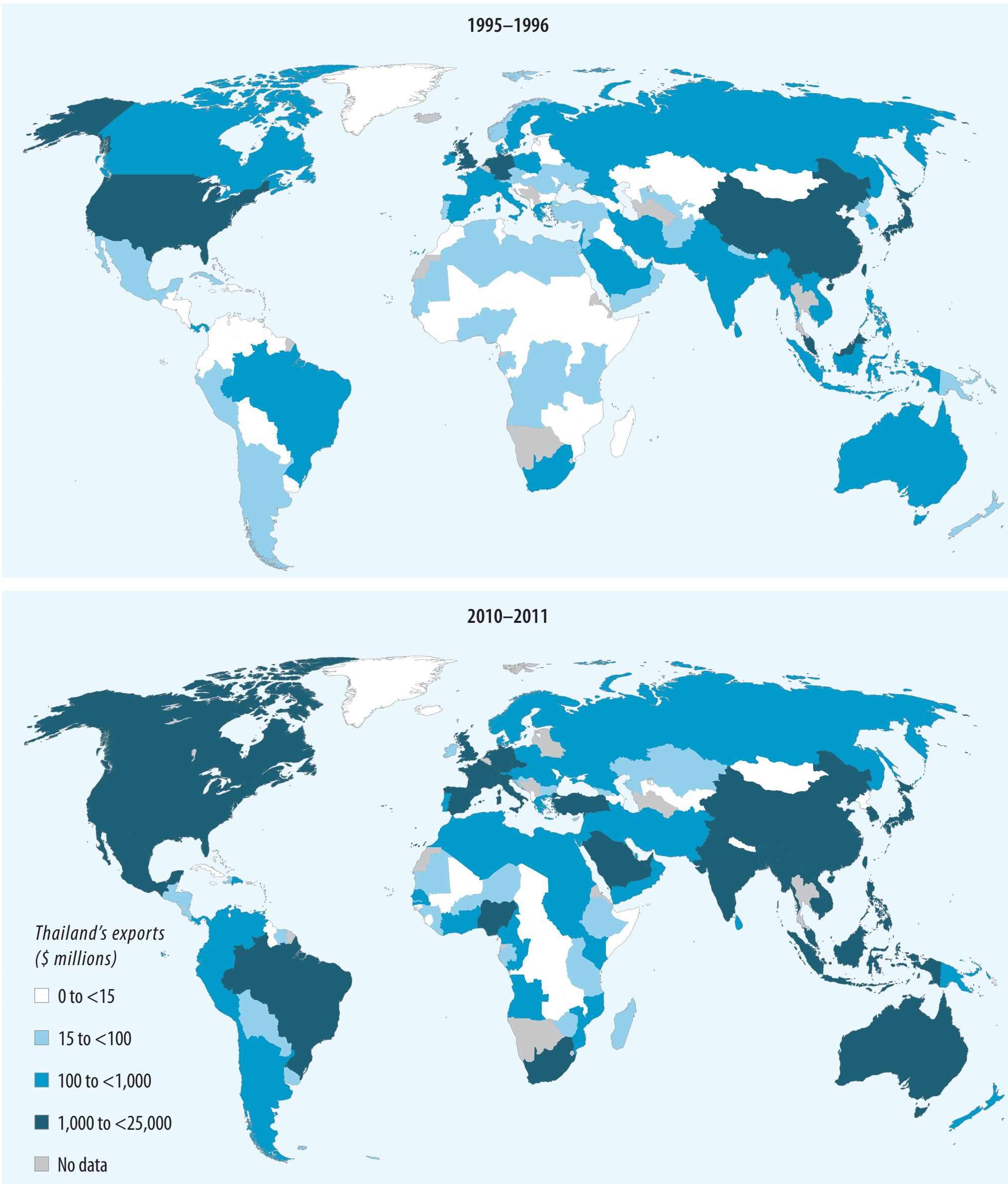
1. Bilateral trade exceeding $2 million in 2010–2011.
2. Based on results from a cross-country regression of trade to GDP ratio on income per capita that controls for population and landlockedness.
3. See Rodrik (2001).
4. Relative HDI improvement is measured by residuals from a regression of the change in the log of HDI value between 1990 and 2012 on the log of initial HDI value in 1990. Five countries with black dots in the upper left quadrant made substantial improvement in HDI value but reduced their trade to output ratio between 1990 and 2010, though they either maintained a large number of substantial trading ties globally or traded more than predicted for countries at comparable levels of income per capita. Countries with open circles in the upper right and lower right quadrants had modest relative improvement in HDI value between 1990 and 2012 but increased their trade to output ratio or maintained a large number of substantial trading ties.

Source: HDRO calculations; trade to output ratios from World Bank (2012a).

$200 billion to $3 trillion.[10] But trade has also increased for many other countries. In 2010, merchandise exports per capita from Sub-Saharan Africa were more than twice those from India.[11] In 1995–1996 Thailand had around 10 trading partners to which it exported more than $1 billion in goods each; just 15 years later it had three times as many, spread across the globe (map 2.1).[12]

MAP 2.1

Thailand's export expansion, 1995–2011



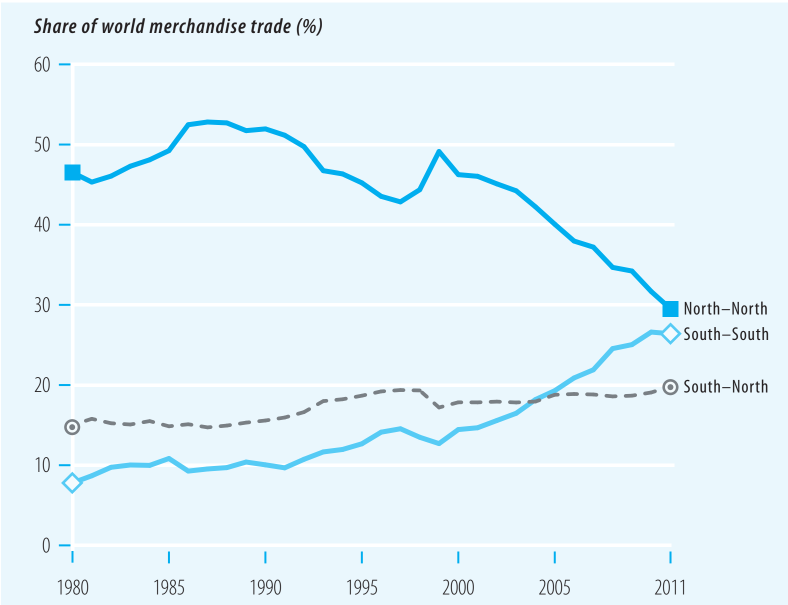
Note: Data are averages for 1995 and 1996 and for 2010 and 2011.
Source: UNSD 2012.

Global rebalancing has been accompanied by an unprecedented linking of developing regions. Between 1980 and 2011, South–South trade as a share of world merchandise trade rose from 8.1% to 26.7%, with growth particularly remarkable in the 2000s (figure 2.1). Over the same period, the share of North–North trade declined from about 46% to less than 30%. These trends hold even when exports and imports of natural resources are excluded.[13] South–South trade has been an important growth stimulus during the recent economic downturn. Countries of the South are exporting more merchandise (and manufactures) to each other than to countries of the North, and those exports are more intensive in skills and technology.[14]

Sub-Saharan Africa has become a major new source and destination for South–South trade. Between 1992 and 2011, China's trade with Sub-Saharan Africa rose from $1 billion to more than $140 billion. Indian companies are investing in African industries ranging from infrastructure to hospitality and

FIGURE 2.1

As a share of world merchandise trade, South–South trade more than tripled over 1980–2011, while North–North trade declined



Note: North in 1980 refers to Australia, Canada, Japan, New Zealand, the United States and Western Europe.
Source: HDRO calculations based on UNSD (2012).

TABLE 2.1

Least developed countries' trade with China, 2000–2001 and 2010–2011 ($ millions at current exchange rates)

	Imports from China		Exports to China	
Sector	**2000–2001**	**2010–2011**	**2000–2001**	**2010–2011**
Agricultural raw materials	16	105	243	1,965
Food and beverages	164	1,089	378	841
Fuel, ores and metals	42	323	3,126	44,244
Chemicals	232	2,178	1	93
Textiles and leather	1,323	8,974	14	138
Iron and steel	61	1,642	0	1
Other material-based manufactures	236	3,132	44	540
Industrial machinery	400	4,415	1	1
Electronics	382	3,806	3	7
Road vehicles and equipment	266	6,691	0	1
Apparel and footwear	266	2,577	4	129
Professional equipment and fixtures	147	2,291	1	34

Note: Export values are averaged for 2000 and 2001 and for 2010 and 2011 and rounded to the nearest whole number, as reported by China; import values include cost, insurance and freight.
Source: HDRO calculations based on UNSD (2012).

telecommunications, while Brazilian firms are some of the largest employers in Angola.[15]

Trade in capital goods and services

South–South trade offers developing countries access to affordable capital goods that are often more appropriate to their needs than are capital goods from richer countries and that are therefore more likely to be acquired, adopted and imitated.[16] Even India has benefited. In 2010, capital goods such as electrical machinery, nuclear reactors and boilers dominated India's imports from China (60%) and cost an estimated 30% less than if they had been sourced from richer countries.[17] This still does not reflect the full dynamism of such exchanges. For example, China's fourth-largest turbine producer, Mingyang, recently acquired 55% of India's Global Wind Power, with the aim of installing 2.5 gigawatts of wind and solar capacity in India.[18]

In 2010–2011, crucial inputs for augmenting productive capacity and infrastructure—road vehicles and equipment, industrial machinery, professional equipment and fixtures, chemicals, and iron and steel—made up nearly half of least developed countries' imports from China (table 2.1). The largest import category was textiles and leather, including yarn and fabric that are used as inputs for least developed countries' exports of apparel to markets in the North. Consumer electronics and apparel and footwear accounted for less than 20% of least developed countries' imports from China.

Developing countries have also seized opportunities for trade in services. Advances in information technology have facilitated services trade at different skill levels: lower skill work, as in call centres and data entry; medium-skill work, as in back office accounting, programming, ticketing and billing; and high-skill work, as in architectural design, digital animation, medical tests and software development. This trend is expected to intensify as developing countries take advantage of the benefits of scale from servicing their own expanding consumer markets.

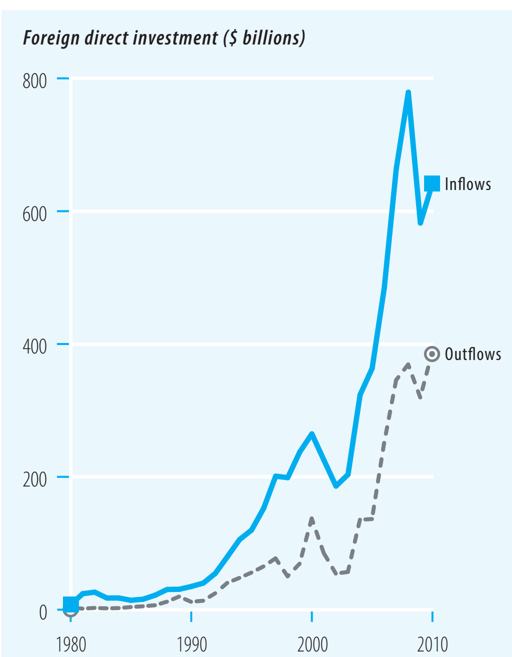
One of the largest internationally traded services is tourism, which accounts for as much as 30% of world exports of commercial services.[19] Tourists spent roughly $1 trillion in 2010; China was among the most popular destinations (more than 57 million arrivals), along with Egypt, Malaysia, Mexico, Thailand and Turkey. The UN World Tourism Organization projects that by 2020, three-fourths of more than 1.5 billion tourist arrivals will occur within the same geographic region.

Foreign direct investment

The increase in output and trade in many developing countries has been assisted by large inflows of foreign direct investment (FDI): between 1980 and 2010, the countries of the South increased their share of global FDI from 20% to 50%.[20] FDI flows into developing countries have been a forerunner of outward FDI from developing countries. The growth rate of the South's FDI inflows and outflows rose rapidly in the 1990s and early to mid-2000s (figure 2.2). FDI from the South destined for other countries in the South grew 20% a year over 1996–2009.[21]

FIGURE 2.2

Foreign direct investment flows to and from the South have veered sharply upward since the 1990s



Note: Data are for developing and transitional economies as defined by the United Nations Conference on Trade and Development. Data are converted to US dollars at current exchange rates.
Source: HDRO calculations based on UNCTAD (2011a).

In many least developed countries, a sizeable share of inward FDI now originates in other developing countries, especially from the fast-growing multinational corporations based in the South.

These investments generally involve links with local firms and transfers of technology that make intensive use of labour and local content. There is some evidence of a strong regional dimension to South–South FDI, with most investments in countries in the same region, often to neighbours and to countries with shared languages.[22] The biggest outward investor from the South is China, with an investment stock of $1.2 trillion.[23]

In 1990, companies in the South made up only 4% of the Fortune Global 500 ranking of the world's biggest corporations; in 2011, their share was 22%. Today, one in four transnational corporations is based in the South. Though the enterprises may be smaller, they are numerous: there are now more Korean than Japanese multinational companies, and more Chinese ones than US ones. Enterprises from the South are going global earlier than firms from developed countries did at a similar stage of development.[24] They are augmenting their competitiveness by acquiring strategic assets such as brands, technology and distribution networks (box 2.2).

Production networks

The increase in trade and investment by multinational corporations and others has been linked to the expansion of international production networks, especially in Asia. Likened to a third industrial revolution,[25] these networks split production processes into multiple steps that cross national borders. As a result, developing countries have been able to diversify their industrial structures and participate in complex production processes. Developing countries engage initially in the labour-intensive segments, typically in product assembly, and then graduate to component fabrication and equipment manufacture. Meanwhile, the less complex production relocates to less advanced neighbouring economies. At the same time, these manufacturing plants create demand for domestic firms to supply inputs and producer

The increase in trade and investment by multinational corporations and others can be likened to a third industrial revolution

BOX 2.2

Acquisitions by the South of brands in the North

In 2011, 61 of the world's biggest corporations on the Fortune 500 list were Chinese, 8 were Indian and 7 Brazilian. Just five years earlier, China had 16 on the list, India 5 and Brazil 3. The South is going global through outward investment using mergers and acquisitions. The acquisition of venerated brands from the North by companies in lower and upper middle-income countries is a portent of the rise of the South. In 2005, the Chinese company Lenovo bought IBM's laptop division for $1.25 billion and took over $500 million of its debt. In 2010, Zhejiang Geely purchased the Swedish car company Volvo. In 2011 alone, Chinese firms spent $42.9 billion on an eclectic mix of more than 200 acquisitions: Sany Heavy Industry Co. acquired Putzmeister, Germany's largest concrete pump maker; Liugong Machinery Co. Ltd. purchased the Polish construction equipment manufacturer Huta Stalowa Wola; and Shandong Heavy Industry Group bought a 75% stake in Italy's Ferretti Group, a luxury yacht maker.

India's Tata Group acquired the Anglo-Dutch steel firm Corus for $13.3 billion in 2007 and Jaguar Land Rover for $2.6 billion in 2008. The Aditya Birla Group bought US aluminium firm Novelis in 2007 and Columbian Chemicals in 2011. Mahindra and Mahindra acquired Sangyong, a bankrupt Korean carmaker. Brazil's food companies have also been active: in 2007, JBS Friboi bought Swift, a US rival, to ease its entry into the United States. In 2011, Turkish companies made 25 deals worth nearly $3 billion. One of Turkey's famous acquisitions is Godiva, a Belgian chocolate manufacturer, bought for $850 million by Yildiz Holding. There are scores of lesser known purchases of smaller brands from the North by companies in Southeast Asia and the Arab States. (Many big purchases are also South–South. In 2010, India's Bharti Airtel acquired the African operations of Zain for $10.7 billion, and China spent $9.8 billion in 27 deals across Brazil, India, the Russian Federation and South Africa.)

South–North acquisitions are often interpreted in patriotic terms. Whether the deals help short-run profitability and value creation is unclear. In the long run, however, the strategic motives (outside the resource sector) appear to be about acquiring proprietary knowledge, skills and competencies that will help companies expand abroad and at home. Acquiring an established, albeit struggling, brand from the North gives companies from the South a foothold in mature markets. The acquiring companies lower their cost base by diversifying and globalizing supply chains and gain the technology and tacit knowhow (such as risk management or credit rating in the case of financial institutions) to enhance operating capabilities.

Source: HDRO; *China Daily* 2012; *The Economist* 2011a,b, 2012a; Deloitte 2012a,b; Luedi 2008.

services. In this way, opportunities to participate in international production have widened for new entrants—as for Malaysia in the 1970s, Thailand in the 1980s, China in the 1990s and Viet Nam today.

The North has played an important role in this rise of the South, just as the South is contributing to the North's recovery from the economic slowdown (box 2.3). International production networks have been driven mainly by final demand in the North. The surge in integrated production networks within Asia alone resulted in a high-technology export boom of nearly $320 billion between 1995 and 2005.[26]

Personal networks

Many transnational opportunities in both trade and investment arise through personal connections, often between international migrants and their countries of origin. In 2010, an estimated 3% of the world's people (215 million) were first-generation immigrants,[27] and close to half of them lived in developing countries.[28] Almost 80% of South–South migration takes place between bordering countries.[29]

Migrant diasporas are a huge source of foreign exchange. In 2005, South–South remittances were estimated at 30%–45% of worldwide remittances.[30] Diasporas are also a source of information about market opportunities. Diasporas can be associated with increased bilateral trade and FDI.[31] For example, US multinational firms with a high proportion of employees from particular countries have less need to rely on joint-venture partners in countries with which their employees have cultural ties.[32]

Links can also be strengthened when migrants return to their home country. Many information technology professionals in California's Silicon Valley, for example, have taken their ideas, capital and networks back with them when they return to their home countries. Other returnees are building new infrastructure, universities, hospitals and businesses. Returning entrepreneurs stay in touch with former colleagues, facilitating the diffusion of business information. Cross-border scientific collaboration also disproportionately involves scientists with diaspora ties.[33]

Other flows of information are made possible by the widening penetration of the Internet and new social media. Between 2000 and 2010, average annual growth in Internet use

BOX 2.3

Ties that bind: the mutual dependence of North and South

A substantial share of South–South trade, especially in manufactured parts and components, is driven by demand in the North. This makes the countries of the South sensitive to shocks in the North. After the 2008 global financial crisis, for instance, exports from Southeast Asia to Japan, the European Union and the United States fell about 20% between 2008 and 2009. The percentage drop in China's exports to these economies was also in double digits.

The North is also increasingly relying on the South to power its own rebound. Since 2007, US exports to China and Latin America and the Caribbean have grown two and a half times faster than US exports to traditional markets in the North. Helped by a weak dollar and increasing purchasing power in the South, expansion of US exports involved not only traditional sectors such as aircraft, machinery, software and Hollywood movies, but also new, high-value services such as architecture, engineering and finance. Behind Shanghai's booming architectural wonders (including Shanghai Towers, which will be the country's tallest building in 2015) are US designers and structural engineers, who are drawing an ever-increasing share of fees and royalties from services exported to Brazil, China and India.

Furthermore, a growing "app economy" supported by such companies as Apple, Facebook and Google employs more than 300,000 people whose creations are easily exported across borders. Zynga, a large company that makes online games and mobile applications, recorded $1.1 billion in revenue in 2011, a third of it from players outside the United States. The impact of a growing consumer class in the South is felt not only in services, but also in manufacturing and commodities. A third of US exports are now accounted for by firms employing fewer than 500 people; through new techniques, such as three-dimensional printing, many are recapturing markets once lost to imports. Emerging markets have also revived the US role as a commodity producer (of grains, for example). These shifting trade patterns suggest that a slowdown in the South would halt growth in the newly dynamic exports from the North, just as the recession in the North hit the South.

Source: HDRO; *The Economist* 2012b.

was exceptionally high in around 60 developing countries (figure 2.3).[34] Of the 10 countries with the most users of popular social networking sites such as Facebook, 6 are in the South.[35] While these rates reflect in part the low base in 2000, the spread and adoption of new media have revolutionized many sectors across diverse countries (box 2.4).

Impetus from human development

Successful performance in trade, investment and international production also depends on rising levels of human development, as illustrated by the association between high export earnings per capita and achievement in education and health (figure 2.4). The more successful countries in the upper right quadrant of the figure also tend to have better economic opportunities for women. Increased trade draws new workers, often women, into the labour market, expanding their choices. These new workers do not always benefit from good working conditions; efforts to keep costs low can put pressure on wages and work environments. Some governments may be reluctant to expand worker rights, if they believe it would raise production costs and reduce competitiveness (box 2.5).[36]

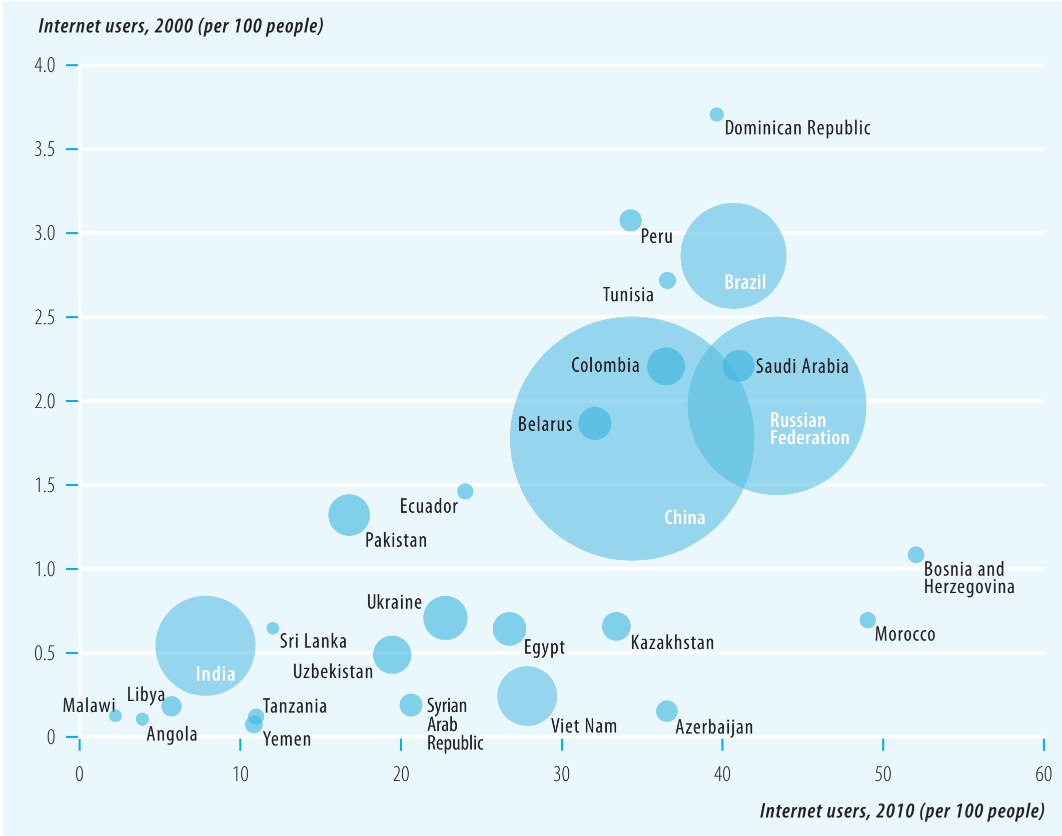
The capacity of people and institutions also affects the benefits from FDI. Host countries need to invest in the capacity of their people to identify, assimilate and develop the useful knowledge embedded in foreign capital and ideas.[37] Indeed, an educated and healthy workforce is often a key factor in influencing the decision of foreign investors on where to locate. This positive association between FDI inflows and achievements in health and education is evident for a sample of 137 countries (figure 2.5).[38]

This relationship between a skilled populace and inward foreign investment tends to be mutually reinforcing. But there are outliers. FDI could still flow to countries with modest achievements in human development if they are exceptionally well endowed in natural resources. Between 2003 and 2009, for instance, many resource-rich African countries where FDI contributed substantially to economic growth saw some of the lowest nonincome Human Development Index (HDI) values.[39] However, the impact on development is limited when such investments are confined to enclaves and delinked from the rest of the economy. Spillover benefits from FDI are unlikely to be widespread if there is no sustained investment in people's capabilities. In this regard, relatively

Host countries need to invest in the capacity of their people to identify and use the knowledge embedded in foreign capital and ideas

FIGURE 2.3

Between 2000 and 2010, Internet use grew more than 30% a year in around 60 developing countries



Note: Bubble size is proportional to total Internet subscriptions in 2010 (320,000 in Angola and 6.7 million in Viet Nam, for reference). Only developing countries exceeding the 75th percentile of compound annual growth in Internet users are shown.
Source: ITU 2012; World Bank 2012a.

resource-poor Ethiopia and Tanzania are noteworthy for their large increase in nonincome HDI value between 2000 and 2010 and for their above-average FDI over the same period.

Human development is vital for participating in global supply chains; an abundance of low-wage and low-skill labour is not enough

Human development is also vital for participating in global supply chains. Contrary to popular perception, an abundance of low-wage and low-skill labour is not enough. Even assembling components made elsewhere can be complex, requiring individual skills and social competencies to coordinate and organize on a large scale. People can learn such skills with appropriate education, training and policy support. Basic human capabilities are also crucial.[40] China, Malaysia, the Philippines and Thailand in East Asia; Brazil, Costa Rica and Mexico in Latin America and the Caribbean; and Morocco and Tunisia in the Arab States have some of the highest trade shares in parts and components. Widespread benefits accrue only when activities are scaled up (box 2.6). However, it should also be noted that in trade of parts and components, the share of value added by any one country is generally low. In countries where production takes place almost entirely in enclaves connected to overseas supply chains, with limited ties to the domestic economy, the benefits to the rest of the economy are limited.[41]

Helping other countries catch up

All developing countries are not yet participating fully in the rise of the South. The pace of change is slower, for instance, in the majority of the 49 least developed countries, especially those that are landlocked or far from world markets. Nevertheless, many of these countries have also begun to benefit from South–South

BOX 2.4

Mobile phones and the Palapa Ring: connecting Indonesia

Indonesia used telecommunications technology to connect its large cluster of far-flung islands and to open the country to the outside world in ways unimaginable a generation ago. This transformation was not spontaneous: it required extensive private and public investment and prescient policy guidance from the state-run information and communications technology council, Dewan Teknologi Informasi dan Komunikasi Nasional (DETIKNAS). With a diverse population stretched across a vast archipelago of nearly a thousand inhabited islands, Indonesia faced formidable obstacles in its transition to the digital age. Communications between islands was limited. Landline telephones were few, available to most ordinary Indonesians only in major cities and at high cost.

By 2010, however, 220 million mobile phones were registered in a country of 240 million people. An estimated 85% of adults owned phones, as state encouragement and market competition slashed the prices of handsets and phone service alike. The number of Indonesian Internet users has also grown exponentially. As recently as 2008, just an estimated 13 million had regular Internet access. By late 2011, more than 55 million people did, according to industry surveys. The majority of young Indonesians in urban areas now enjoy Internet access, mostly through mobile phones, but also through the country's 260,000 Internet cafes (*warnets*).

Through DETIKNAS the government has made Internet access a national priority, building what it calls a Palapa Ring of fibre-optic cables throughout the archipelago. It is closing in on its goal of wiring schools in a thousand remote rural villages with Internet service and has introduced e-budgeting and e-procurement systems for its own business operations. Perhaps most striking is the explosion of social media. In July 2012, there were 7.4 million registered Facebook users in greater Jakarta alone—the second most of any city in the world, after Bangkok's 8.7 million. In all of Indonesia, there were 44 million Facebook accounts—almost as many as India's 49 million. Indonesia has become a country where cabinet ministers send daily tweets to constituents. It has the third most Twitter subscribers in the world, and environmentalists use online databases and Google Earth mapping tools to publicize deforestation.

The human development benefits of this digital revolution are apparent, Indonesian analysts say, with mobile phones giving rural communities access to public health information, banking services and agricultural market information. Civic engagement has benefited, with online public information services expanding since the 2010 passage of a far-ranging access to information law. The economy is profiting too. A December 2011 study by Deloitte Access Economics calculated that the Internet economy already accounts for 1.6% of Indonesia's GDP, greater than the value of natural gas exports and comparable to the share in Brazil (1.5%) and the Russian Federation (1.6%), though still less than in China (2.6%) and India (3.2%). Deloitte projects an increase to at least 2.5% of GDP in five years, a substantial contributor to Indonesia's International Monetary Fund–predicted annual GDP growth rate of 6%–7% through 2016.

Source: Karimuddin 2011; Deloitte 2011.

trade, investment, finance and technology transfer.

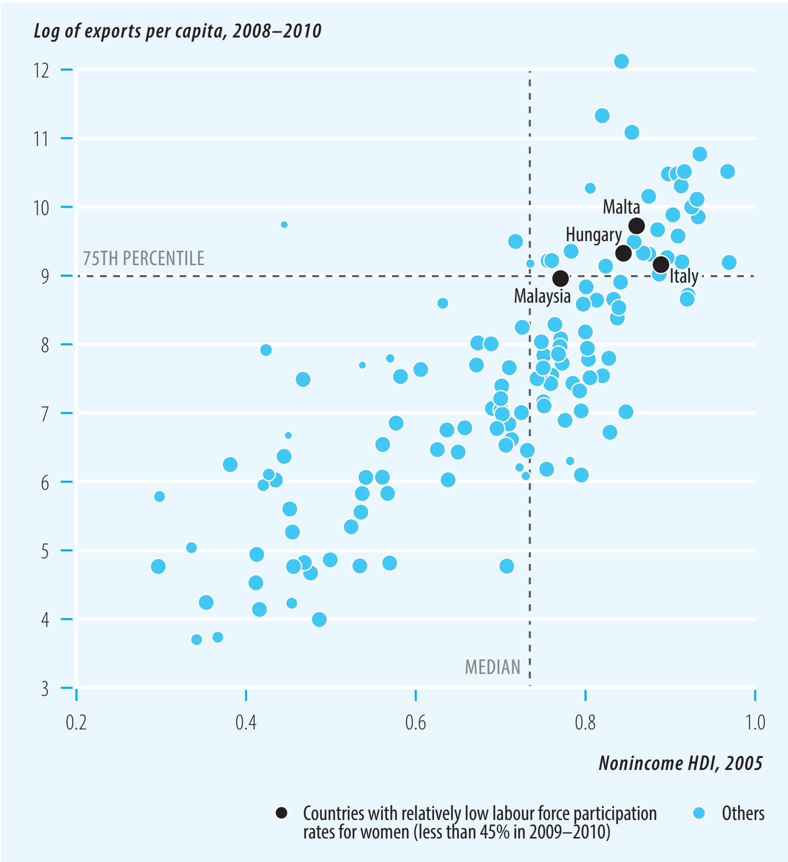
A recent study of trends over 1988–2007 finds positive growth spillovers from China to other developing countries, particularly close trading partners.[42] These benefits have to some extent offset slackening demand from developed countries. Growth in low-income countries would have been an estimated 0.3–1.1 percentage points lower in 2007–2010 had growth fallen at the same rate in China and India as in developed economies.[43] FDI from a single source country, China, was credited with contributing substantially to growth rates in several African countries, including in 2008–2009 when other growth impulses were dissipating. Between 2003 and 2009, the estimated contribution to growth from Chinese FDI ranged from 0.04 percentage point in South Africa to 1.9 percentage points in Zambia. The contribution was also high in the Democratic Republic of the Congo (1.0 percentage point), Nigeria (0.9), Madagascar (0.5), Niger (0.5) and Sudan (0.3).[44]

Commodity producers in Sub-Saharan Africa and elsewhere have benefited from a prolonged commodity boom arising in East and South Asia. Cheap imports also increase the purchasing power of low-income consumers and the competitiveness of export-oriented producers. Some African countries may, however, be hampered by the enclave character of extractive industries, which reduces the potential gains from South–South trade and exposes economies to the risk of Dutch disease. Nevertheless, the primary sector can generate sizeable backward and forward links, as Brazil, Chile, Indonesia, Malaysia, and Trinidad and Tobago have shown. Possibilities include agroindustry and logistics infrastructure, as well as demand for services (in food processing and distribution, construction, repair and maintenance), all of which create jobs, income and learning and can enable entrepreneurs to begin new cycles of innovation and investment.

Several encouraging signs are evident. The more recent investments from East and

FIGURE 2.4

Export earnings per capita and human development are highly correlated



Note: Bubble size is proportional to the share of the nonprimary sector in output.
Source: HDRO calculations and World Bank (2012a).

South Asia in the African commodity sector show fewer enclave characteristics. And many governments in the South are being more pragmatic. While adopting sound macroeconomic policies, strengthening institutions and becoming more open, they are actively engaging in industrial policy and promoting entrepreneurship, education, skill formation and technology upgrading. While supporting industrial clusters and economic zones and expanding regional trade and investment, they are also creating finance and credit facilities for small and medium-size enterprises. Sound macroeconomic policy helps manage the risks of large foreign exchange inflows, while smart industrial policy strenghtens domestic links and enhances market multipliers.

Many countries have also benefited from technology transfer and FDI into sectors that contribute to human development. Indian firms, for example, are supplying affordable medicines, medical equipment, and information and communications technology products and services to countries in Africa. Brazilian and South African companies are doing the same in their regional markets. Asian FDI in Africa has also expanded utility and telecommunications infrastructure.

Rising competitive pressures

Nevertheless, exports from larger countries can also have disadvantages. Large countries generate competitive pressures in smaller countries that can stifle economic diversification and industrialization. Examples span the electrical industry in Zambia, clothing in Kenya and Senegal and textiles in South Africa.[45] Clothing exports from Africa would struggle to retain their trade share in major markets without the trade preferences and liberal rules of origin available through the US African Growth and Opportunity Act and the EU Everything But Arms initiative.[46]

Even larger countries are not immune from competitive pressures. Chinese exports affect Brazilian manufacturing through imports of cheaper manufactures and indirectly through competition in third markets.[47] As an indirect response, in September 2011, Brazil formally submitted a proposal to the World Trade Organization to examine trade remedies for redressing currency fluctuations that lead to import surges.[48] India has long sought reciprocal market access for its automobiles in China.

To check the adverse consequence of rising exports on some of its partners, China is providing preferential loans and setting up training programmes to modernize the garment and textile sectors in African countries.[49] China has encouraged its mature industries such as leather to move closer to the supply chain in Africa and its modern firms in telecommunications, pharmaceuticals, electronics and construction to enter joint ventures with African businesses.[50]

Moreover, there are instances where competitive jolts have been followed by industrial revival. Ethiopia's footwear industry, for example, was initially displaced by cheap East Asian imports, resulting in large-scale layoffs

BOX 2.5

Decent work in a competitive world

The availability of decent, well paying jobs is economically empowering, especially for women. Yet today's competitive global environment pressures workers to do more in less time for a lower wage. From both a human development and a business perspective, competitiveness is best achieved by raising labour productivity. Competitiveness squeezed out through lower wages and longer working hours is not sustainable. Labour flexibility should not mean adhering to practices that compromise decent working conditions. At least 150 countries have signed on to core International Labour Organization conventions on such matters as freedom of association and discrimination in the workplace. Labour laws on minimum wage, employment protection, working hours, social security and forms of contracts all aim to reduce inequality, insecurity and social conflict; they also provide incentives for businesses to pursue high-road management strategies. The view that more regulation is always bad for business has been discredited. One of the World Bank Group's core Doing Business indicators on employing workers, which ranked countries on the leniency of measures related to hiring and firing workers, was discontinued because it falsely implied that fewer regulations were always preferable.

International retailers and sourcing agents have a responsibility to ensure that working conditions in the firms they source inputs from comply with international standards. Consider the recent case of one of the world's most valuable companies, Apple, and its contractor, Foxconn. After a series of media exposés that documented terrible labour conditions in Foxconn factories, Apple asked a monitoring group, the Fair Labor Association, to investigate. When the association published its findings of low pay, long hours and hazardous working conditions, Foxconn agreed to substantial reforms, eventually reducing the average workweek to 49 hours as required by Chinese law. As China's largest private sector employer, Foxconn had the power to directly improve and indirectly influence the working conditions of millions of people. Notable in this episode was that public opinion in a country of the North (US media and advocacy groups) pressured a corporation headquartered in that country to nudge a partner in a country of the South to uphold that country's own labour standards. This outcome was possible only in an era when trade, business practices and ethics and the universality of basic human rights are coalescing into a global norm.

Source: HDRO; Berg and Cazes 2007; Duhigg and Greenhouse 2012; Heller 2013.

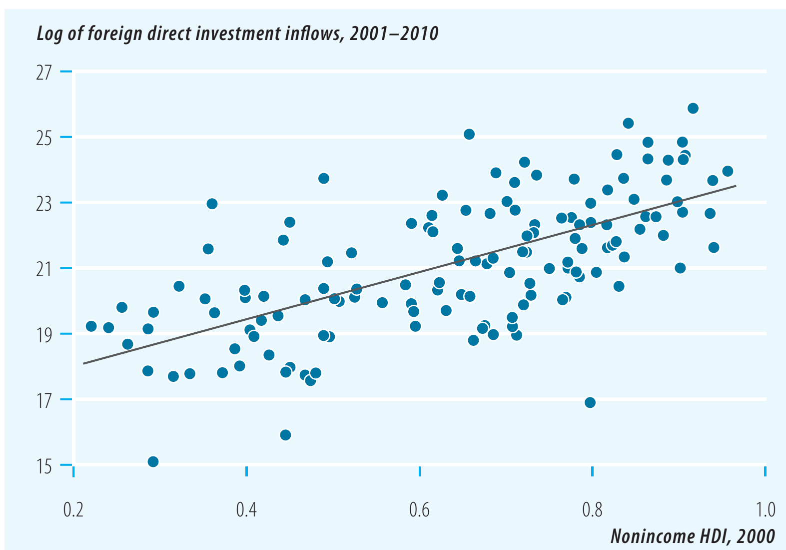
and business closures, especially in the lower end of the market traditionally catered to by Ethiopian microenterprises. But the industry soon rebounded, even finding its way into the international market.[51] One survey found that 78 of the 96 Ethiopian firms that reported in 2006 being hit hard by import competition had adjusted and become competitive within a few years. Nigeria's plastics industry experienced a similar revival.[52]

Another concern is that the current patterns of demand from other countries in the South could accentuate the chronic specialization by many African economies in primary commodities. The experience of the least developed countries, 33 of which are in Africa, seems to bear out this concern (see table 2.1). In 2011, agricultural raw materials and fuel, metals and ores made up more than 96% of least developed countries' exports to China. Total exports of manufactures by least developed countries to China were less than $1 billion; manufactured imports from China exceeded $38 billion.

Over the longer term, however, South–South cooperation could undo this pattern by fostering sequential investments outside natural resource industries in agriculture and manufacturing, as well as in services such as finance and telecommunications. In Africa, after years of neglect by governments and traditional donors, infrastructure has again become a priority, drawing on the experiences and support of the region's new development partners. Some

FIGURE 2.5

Current foreign direct investment is positively associated with achievements in health and education in previous years



Note: Inward FDI (in millions of US dollars) is averaged for 2001–2010. Nigeria's nonincome HDI is for 2005.
Source: HDRO calculations and UNCTAD (2011a).

BOX 2.6

Final assembly is about more than low wages

The iPhone and iPad, two popular technology products, are assembled in a firm in Shenzen, China, and sold worldwide at retail prices in the hundreds of dollars. The value of labour performed in China, at under $10, accounts for less than 2% of the cost of an iPad, while just 3.6% of the wholesale cost of an iPhone went to Chinese workers. The rest of the value is earned by suppliers of parts and components headquartered in Germany, Japan, the Republic of Korea and the United States. Korean firms LG and Samsung make the display and memory chips; Apple retains the product design, software development and marketing functions in the United States; and the assembly firm is owned by a company from Taiwan Province of China.

The low share of value captured by workers in China could give the impression that assembly does not require much sophistication. This is misleading. While Asia is attractive because of cheaper wages, especially for semiskilled workers, a more important challenge for technology companies is managing global supply chains that involve procuring parts and components from hundreds of companies. This requires a rare combination of industrial skills, flexibility, speed and diligence at both the individual and collective levels. For instance, an Apple executive told *The New York Times* that "the US has stopped producing people with the skills we need."

Consider this incident from mid-2007, when Apple hastily redesigned the glass for the iPhone's screen. The first delivery of a new load of strengthened, scratch-free glass arrived at a Foxconn plant in the middle of the night, and work started immediately. Within three months, Apple had sold a million iPhones. It took 15 days to hire 8,700 industrial engineers to oversee the 200,000 assembly-line workers eventually involved in manufacturing iPhones. Apple's internal estimate was that a similar feat in the United States would have taken nine months.

Source: HDRO; Kraemer, Linden and Dedrick 2011; Xing and Detert 2010; Duhigg and Bradsher 2012.

countries have even resorted to unique credit arrangements to fund infrastructure, backed by supplies of commodities.[53]

Neither the complementary nor the competitive perspective is sufficient to explain South–South interactions. Because a competitive role today may easily turn into a complementary role tomorrow, these labels should not be applied rigidly. Moving from competition to cooperation seems to depend on policies for dealing with new challenges. More pessimistic pronouncements that there is no hope for industrialization in Sub-Saharan Africa have been overtaken by realities on the ground, which demonstrate an ability to advance despite or maybe because of competition. In this regard, African writers such as Dambisa Moyo are positive about the mutually beneficial role of new actors in the continent.[54]

The shift from traditional to emerging markets is also affecting countries in ways that are difficult to predict. Take the timber industry in Africa, which has reoriented itself from serving a predominantly European market towards China.[55] In sheer volume China is the most important market, which is good for focusing business on it. The set of technical standards that China requires of exporters, however, is less onerous than those the European Union requires. Standards range from product specifications to accreditation from third-party certification schemes for forest sustainability and health regulations governing formaldehyde emissions. There is no evidence so far that the shift towards emerging markets is being accompanied by a ratcheting up of the technical standards they require, which would have required upgrading workers' skills and capabilities.[56]

Innovation and entrepreneurship in the South

In North–South trade, the newly industrializing economies developed capabilities for efficiently manufacturing complex products for developed country markets. But South–South interactions have enabled companies in the South to adapt and innovate in ways that are more suited to developing countries. This includes new business models whereby companies develop products for a large number of low-income customers, often with low margins.

Countries of the South are also natural locations for experimentation in new technologies and products, such as those based on the global system for mobile (GSM) communications standard. Under the 2005 GSM Emerging Markets Initiative, manufacturers slashed the price of mobile handsets by more than half and expanded the GSM subscriber base by 100 million connections a year. This in turn stimulated investment: 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 mobile coverage and expand it to 90% of the population. Indeed, the spectacular increase in phone connectivity in Africa has been driven almost entirely by companies based in India, South Africa and the United Arab Emirates.[57]

Mobile phone manufacturers have also re-engineered products for the needs of lower income consumers. For example, in 2004, TI India, a research and development centre of Texas Instruments in Bengaluru, designed a single-chip prototype for use in high-quality, low-cost mobile phones. In 2005, Nokia, in cooperation with TI, began to market the Indian-made one-chip handsets in India and Africa, selling more than 20 million units. Single-chip designs have also emerged for other devices, including affordable digital display monitors and medical ultrasound machines. Intel has developed a handheld device for rural banking, and Wipro has marketed a low-power desktop computer for basic Internet connectivity. And in 2008, Tata announced the ultra-low-cost Nano car, exportable in kits for assembly by local technicians.

Technology diffusion through South–South investment is also unleashing entrepreneurial spirit, particularly in Africa. People are often self-organizing, creating buyer–seller relationships and becoming entrepreneurs to fill unmet needs in spontaneously sprouting markets. This is evident in the uses to which Africans are putting affordable Asian-built mobile phones: cellular banking, for example, 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 mobile phone kiosks. The use of mobile phones in Niger has improved the performance of the grain market, and Ugandan farmers are using mobile phones to obtain higher prices for their bananas.

These and other transformations multiply the possibilities of what people can do with technology: participating in decisions that affect their lives; gaining quick and low-cost access to knowledge; producing cheaper, often generic medicines, better seeds and new crop varieties; and generating new employment and export opportunities. These possibilities cut across income classes, reaching down to the grassroots.

To respond to the changing needs of middle class consumers, companies doing well in the South tend to be long-term risk-takers and agile in adapting and innovating products for local buyers. Consumers in the South tend to be younger, are often first-time shoppers for modern appliances with distinct in-store habits and are usually more receptive to branding. Companies in emerging market economies have the advantage of different management approaches from those dominant in the North: majority shareholders have greater power and redeploy resources more speedily than those in companies in the North.[58]

Companies doing well in the South tend to be long-term risk-takers and agile in adapting and innovating products for local buyers

Some of these developments are based on interactions among research and development institutions, businesses and community stakeholders. In such ways, innovation and its benefits spread, spawning faster change. There is greater appreciation of a broader role for the state in stimulating research and development and in nurturing synergies stemming from cooperation among private, university and public research institutions. For example, many African countries have emulated the early success of Mauritius in attracting East Asian FDI by creating export processing zones. Malaysia's investment promotion policies have also been widely copied.

Increasingly, the most important engine of growth for countries of the South is likely to be their domestic market. The middle class is growing in size and income. By 2030, 80% of the world's middle class is projected to live in the South. Countries in South Asia and East Asia and the Pacific will alone account for 60% of the middle class population and 45% of total consumption expenditure.[59] Another estimate is that by 2025, a majority of the 1 billion households earning more than $20,000 a year will live in the South.[60]

Since 2008, Chinese, Indian and Turkish apparel firms have shifted production from shrinking global markets to expanding domestic markets. Greater reliance on domestic markets will boost internal dynamism and

Instead of having a centre of industrialized countries and periphery of less developed countries, there is now a more complex and dynamic environment

contribute to more-inclusive growth. Given current trends, African consumers will continue to benefit from increased imports of affordable products. Flourishing local markets are likely to breed local entrepreneurs and attract more investment in extractive industries as well as in infrastructure, telecommunications, finance, tourism and manufacturing—particularly light manufacturing industries in which African countries have latent comparative advantage. In this scenario, which has already begun to play out in the past decade and in other regions, host economies undergo structural change, and indigenous industry responds to competitive pressure from imports and investment inflows by upgrading production. But the process is proving difficult in countries where technological capabilities and infrastructure are less well developed.

Such expansion of domestic markets will be hampered by substantial pockets of deprivation and lagging regions within large developing countries. Although South Asia, for example, reduced the proportion of the population living on less than $1.25 a day (in 2005 purchasing power parity terms) from 61% in 1981 to 36% in 2008, more than half a billion people there remained extremely poor.[61]

These disparities undermine the sustainability of progress because they create social and political tensions. In India, the Maoist rebels are active in a large swathe of the country's hinterlands; in neighbouring Nepal, Maoists evolved from an ill-equipped militia to become the country's largest political party within 12 years.

TABLE 2.2

Different models of development partnerships

Paris Declaration principle	Traditional donors	New development partners
Ownership	National development strategies outline priorities for donors	National leadership articulates need for specific projects
Harmonization	Shared arrangements to minimize burden on recipients	Fewer bureaucratic procedures to minimize burden on recipients
Managing for results	Recipient-led performance assessment practices	Focus on delivering aid quickly and at low cost
Mutual accountability	Greater accountability through targets and indicators	Mutual respect of sovereignty; policy conditionality eschewed

Source: Adapted from Park (2011).

New forms of cooperation

Many developing countries are emerging as growth poles and drivers of connectivity and new relationships, opening up opportunities for less developed countries of the South to catch up and leading to a more balanced world. Instead of having a centre of industrialized countries and periphery of less developed countries, there is now a more complex and dynamic environment. Countries of the South are reshaping global rules and practices in trade, finance and intellectual property and establishing new arrangements, institutions and partnerships.

Development assistance

The rise of the South is influencing development cooperation bilaterally, regionally and globally. Bilaterally, countries are innovating through partnerships that bundle investment, trade, technology, concessional finance and technical assistance. Regionally, trade and monetary arrangements are proliferating in all developing regions, and there are pioneering efforts to deliver regional public goods. Globally, developing countries are participating actively in multilateral forums—the G20, the Bretton Woods institutions and others—and giving impetus to reforms in global rules and practices.

A rising number of developing countries provide aid bilaterally and through regional development funds. Often, this involves entwining conventional development assistance with trade, loans, technology sharing and direct investments that promote economic growth with some degree of self-reliance. Countries of the South provide grant aid on a smaller scale than traditional donors do but also give other forms of assistance, often without explicit conditions on economic policy or approaches to governance.[62] In project-based lending, they may not always have been very transparent, but they do give greater priority to the needs identified by receiving countries, ensuring a high degree of national ownership (table 2.2).

Brazil, China and India are important providers of development assistance, which is substantial for countries in Sub-Saharan

Africa.[63] Brazil has transplanted its successful school grant programme and its programme for fighting illiteracy to its African partners. In 2011, it had 53 bilateral health agreements with 22 African countries.[64] China has complemented its investment flows and trade arrangements with finance and technical assistance for building hard infrastructure. In July 2012, China pledged to double concessional loans to $20 billion over the next three years.[65] The Export-Import Bank of India has extended $2.9 billion in lines of credit to Sub-Saharan African countries and has pledged to provide an additional $5 billion over the next five years.[66] Between 2001 and 2008, countries and institutions from the South met 47% of official infrastructure financing for Sub-Saharan Africa.[67]

The new development partners from the South follow their own model of bilateral cooperation (box 2.7). The scale of their financial assistance, combined with their approach to conditionality, can enhance policy autonomy in less developed countries.[68] Less developed countries can now look to more emerging partners for development support.[69] This expands their choices, as foreign powers compete for influence, access to local consumers and favourable investment terms.

The regional development assistance architecture is also evolving through the regional development banks: the African Development Bank, the Asian Development Bank and the Inter-American Development Bank. In 2009, playing a countercyclical role, the regional development banks together provided 18.4% ($3.4 billion) of the aid provided by all multilateral institutions, a 42% increase over 2005. Development assistance from the Arab States has also made important contributions, reaching $6 billion in 2008.[70] Some of the largest financiers of infrastructure in Sub-Saharan Africa between 2001 and 2008 were regional banks and funds based in Arab States.[71] Development assistance from regional development banks may become more important to low-income countries in the coming years (as may South–South development assistance) if policymakers in wealthy countries curtail aid commitments because of domestic economic and political challenges.[72]

BOX 2.7

Brazil, China and India at work in Zambia

The model of bilateral cooperation being practiced by new development partners from the South has been changing rapidly. Until recently, the contribution of the new partners to Zambia's overall development finance was small. Of the total $3 billion in grants and loans that Zambia received between 2006 and 2009, disbursements by Brazil, China and India made up less than 3%.

In November 2009, China and Zambia announced that China would extend a $1 billion concessional loan, in tranches, to Zambia for the development of small and medium-size enterprises. This is the equivalent of 40% of Zambia's total public external debt stock. In 2010, the Export-Import Bank of China extended a $57.8 million loan to Zambia to procure nine mobile hospitals. Also in 2010, India announced a line of credit of $75 million, followed by another line of credit of $50 million, to finance a hydroelectric power project. Brazil has invested heavily in mining equipment at the Konkola Copper Mines in the Northwestern province of Zambia (managed by an Indian company). The large Brazilian mining company, Vale, is in a joint venture with the South African company Rainbow in copper prospecting and mining in Zambia, with an initial investment of about $400 million. Brazil and Zambia have also signed technical cooperation agreements covering livestock and health.

Source: HDRO; Kragelund 2013.

Development partners in the South have not sought to engage with or overturn the rules of multilateral development assistance. But they have indirectly introduced competitive pressures for traditional donors and encouraged them to pay greater attention to the needs and concerns of developing countries. In contrast to many traditional donors' focus on social sectors, new partners have in recent years invested heavily in new infrastructure across low-income countries—resulting in, for instance, a 35% improvement in electricity supply, a 10% increase in rail capacity and reduced price of telecommunications services.[73]

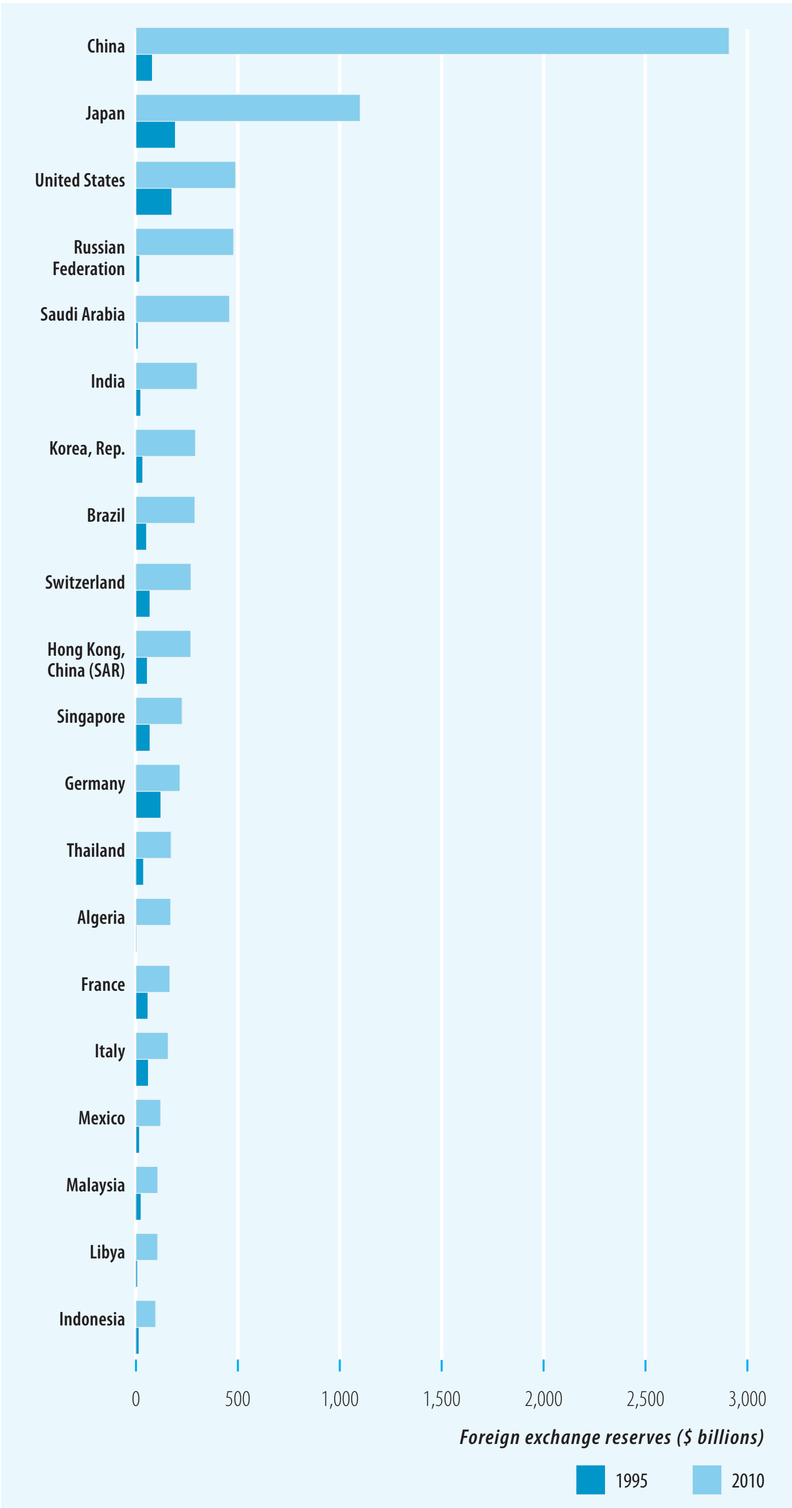
Trade and financial agreements

Africa, Asia and Latin America have seen an expansion of trade agreements—bilateral, subregional and regional. In South Asia, these regional agreements have trumped political differences. In East Africa, greater regional integration has helped shield economies from global shocks.[74] There is scope to strengthen regional integration through 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

There is much scope to strengthen regional integration through practical measures such as streamlining transit and transport procedures

FIGURE 2.6

Emerging market economies have amassed large foreign exchange reserves since 1995



Note: Includes holdings of gold.
Source: World Bank 2012a.

final products, which are higher than those on North–South trade.[75]

In the aftermath of the 1997 Asian financial crisis, several countries of the South developed new monetary arrangements, which are transforming the financial architecture and creating space for countries to craft homegrown policies. The new lending arrangements emphasize pragmatism over ideology and conditionality.

In addition, the global financial architecture is being shaped by the rising South's vast financial reserves. A number of countries, not just Brazil, China and India, but also Indonesia, the Republic of Korea, Malaysia, Mexico, Thailand and others have amassed pools of foreign exchange reserves as self-insurance against future financial downturns and crises (figure 2.6). Between 2000 and the third quarter of 2011, global foreign exchange reserves rose from $1.9 trillion to $10.1 trillion, with a dominant share of the increase accumulated by emerging and developing countries, whose reserves totalled $6.8 trillion.[76] Some of these countries used their reserves to stimulate growth in the aftermath of the 2008 global financial crisis. In a reversal of roles, these funds have been sought by the International Monetary Fund for assistance with the financial crisis in Europe.

Developing countries with large reserve holdings generally transfer part of these to sovereign wealth funds. According to data by the Sovereign Wealth Fund Institute, these funds had an estimated $4.3 trillion in assets at the end of 2010, with $3.5 trillion held by developing and emerging economies and $800 billion in East Asia alone.[77] As of March 2011, developing and emerging economies held 41 sovereign wealth funds, 10 with assets of $100–$627 billion.

Large foreign exchange reserves and sovereign wealth funds are not the most efficient insurance against financial shocks. This unprecedented accumulation of foreign exchange has opportunity costs both for the countries holding the reserves and for other developing countries.[78] The resources could be deployed in more productive ways to support the provision of public goods, to provide capital to projects that enhance productive capacities and economic and human development and to promote regional and subregional financial stability by increasing the resource pools of regional institutions.

Overall, the rise of the South is infusing new patterns of resource accumulation into the global financial system and building a denser, multilayered and more heterogeneous financial architecture for the South. These arrangements sometimes substitute for the Bretton Woods institutions, but in most cases, the emerging institutions and arrangements complement the global financial architecture. The changing financial landscape in the South has the 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, emerging economies are having a transformative effect by pressing the Bretton Woods institutions to respond to concerns about representation, governance principles and the use of conditionalities.

The G20 has expanded its participation in such key global financial governance institutions as the Financial Stability Board, tasked with ensuring greater accountability in institutions that set international financial standards. Likewise, all G20 countries, among others, are now represented in the Basel Committee on Banking Supervision and the International Organization of Securities Commissions. The South is also gaining influence in the International Monetary Fund, where China has filled a newly created deputy managing director post and stands to become the third largest shareholder.[79] At the World Bank, the voting power of developing and transition economies rose 3.13 percentage points in 2010, reaching 47.19%.[80]

Migration policy

Regional organizations such as the Association of Southeast Asian Nations, the African Union and the Common Market of the South have added migration to their agendas. Some of this activity is through regional consultations, which are informal, nonbinding processes dedicated to finding common ground among countries. Many of these processes are interregional and straddle origin and destination regions in ways intended to enable capacity building, technical standardization and agreements on issues such as readmissions. They have lowered barriers to communication and provided a venue for countries to come together, understand each other's perspectives and identify common solutions.

These dialogues can be credited with paving the way for subsequent successful efforts on migration, most ambitiously the Berne Initiative 2001–2005, the 2006 High Level Dialogue on Migration and Development hosted by the UN General Assembly and the subsequent creation of the Global Forum on Migration and Development.[81] As the 2009 *Human Development Report* recommended, such efforts could improve outcomes for migrants and destination communities by liberalizing and simplifying channels that allow people to seek work abroad, ensuring basic rights for migrants, reducing transaction costs associated with migration, enabling benefits from internal mobility and making mobility an integral part of national development strategies.[82]

Environmental protection

The UN Conference on Sustainable Development in Rio de Janeiro demonstrated the promise of regional arrangements, as governments from the South showed how they are coming together to manage the resources they share. One initiative, negotiated by governments from the Asia–Pacific region, will protect the Coral Triangle, the world's richest coral reef that stretches from Malaysia and Indonesia to the Solomon Islands and provides food and livelihoods to more than 100 million people. In the Congo River Basin, countries are working together against the illegal timber trade to conserve the world's second largest rainforest.[83] At Rio+20, a group of regional development banks announced a $175 billion initiative to promote public transportation and bicycle lanes in some of the world's largest cities.[84]

The rise of the South is also reflected in an array of bilateral arrangements to tackle climate change. With climate-related natural disasters and rising sea levels threatening to undermine human development progress,

With climate-related natural disasters and rising sea levels threatening to undermine human development progress, countries recognize that they have little choice but to formulate policies on adapting to climate change now and mitigating climate change for the future countries recognize that they have little choice but to formulate policies on adapting to climate change now and mitigating climate change for the future. Countries are, for example, agreeing to cooperate on technology development and to establish region-specific carbon markets. A partnership between China and the United Kingdom will test advanced coal combustion technologies, while India and the United States have forged a partnership to develop nuclear energy in India.[85]

Countries in the South are also developing and sharing new climate-friendly technologies. China, the fourth largest producer of wind energy in 2008, is the world's largest producer of solar panels and wind turbines.[86] In 2011, India's National Solar Mission helped spur a 62% increase in investment in solar energy to $12 billion, the fastest investment expansion of any large renewables market. Brazil made an 8% increase in investment in renewable energy technology to $7 billion.[87]

Regional, bilateral and national initiatives in the South to mitigate climate change and protect environmental resources are positive steps. But climate change and the environment are inherently global issues that require global resolution through multilateral agreements. The cooperation and participation of rising economies of the South in such agreements are vital to their success. Regional collaboration and agreement may be a step in this direction, indicating genuine interest in tackling the climate challenge.

Sustaining progress in uncertain times

The rise of the South was facilitated by a historic global expansion of trade and investment. More than 100 developing countries recorded growth in income per capita of more than 3% in 2007. Recently, the economic slowdown in developed countries has nudged the South to look towards regional demand.[88] Already, developing countries trade more among themselves than with the North, and this trend can go much further. South–South trade blocs remain riddled with nontariff barriers that constrict the scale of trade possibilities. Large foreign exchange reserves remain idle when there are higher returns and more-secure opportunities for South–South investment. There is potential to expand development partnerships and regional and interregional cooperation.

Developing countries trade more among themselves than with the North, and this trend can go much further

The rise of the South has underpinned rapid economic growth in Sub-Saharan Africa and enhanced opportunities there for human development progress. Many of the fastest growing economies in this century rank low on human development. While some have made progress on nonincome indicators, others have not.

Governments should seize the growth momentum and embrace policies that convert rising incomes into human development. Policies that build human capabilities and domestic productive capacity will enable countries to avoid "the commodities trap" and diversify economic activity. South–South cooperation can help bring out the learning and diffusion potential in trading, investing and partnering in all industries, even commodities. South–South partnerships can facilitate industrial diversification through FDI and joint ventures, technology sharing through peer learning, and provision of affordable products and innovative uses that meet the needs of the emerging entrepreneurial class. This cooperation is already happening and can be scaled up substantially in the years ahead.

All said, the rise of the South has been dramatic but is still in its early stages. The breadth of social, economic, technological and entrepreneurial connectedness among developing countries today is unprecedented. The daily headlines may carry dismal messages about world events. But interspersed among these discouraging notes are frequent snippets reporting on entrepreneurial ventures and common-sense applications of new technologies by enterprising people in unexpected places.

Multiply each story by the number of people in developing countries and the cumulative potential for a rising South across all regions is astounding. Chapter 3 explores this potential by identifying some of the core drivers that have enabled leading countries of the South to make rapid progress, offering inspiration to other countries that might follow.

Global prospects are uncertain, and the economic downturn in the North is adversely affecting the South. With the right reforms, however, including a shift in policy orientation,[89] the promise of sustained human progress is stronger as a result of the shift within the world economy brought about by the rise of the South.

"We cannot expect that all nations will adopt like systems, for conformity is the jailer of freedom and the enemy of growth."

John F. Kennedy

"Wisdom lies neither in fixity nor in change, but in the dialectic between the two."

Octavio Paz

3.

Drivers of development transformation

How have so many countries in the South transformed their human development prospects? Given their social and political diversity and their contrasting natural resource endowments, their trajectories have often diverged. Yet some underlying themes have been consistent. This chapter looks at the experience of some of the more successful countries and at three of their common drivers: their proactive developmental states, their capacity to tap into global markets and their focus on social policy innovation.

Many countries have made substantial progress over the past two decades: the rise of the South has been fairly broad-based. Nevertheless, several high achievers have not only boosted national income, but also had better than average performance on social indicators in areas such as health and education. One way to identify high achievers is to look at countries with positive income growth and good performance on measures of health and education relative to other countries at comparable levels of development. These high achievers include some of the largest countries—Brazil, China and India—as well as smaller countries, such as Bangladesh, Chile, Ghana, Indonesia, the Republic of Korea, Malaysia, Mauritius, Mexico, Thailand, Tunisia, Turkey, Uganda and Viet Nam (figure 3.1).

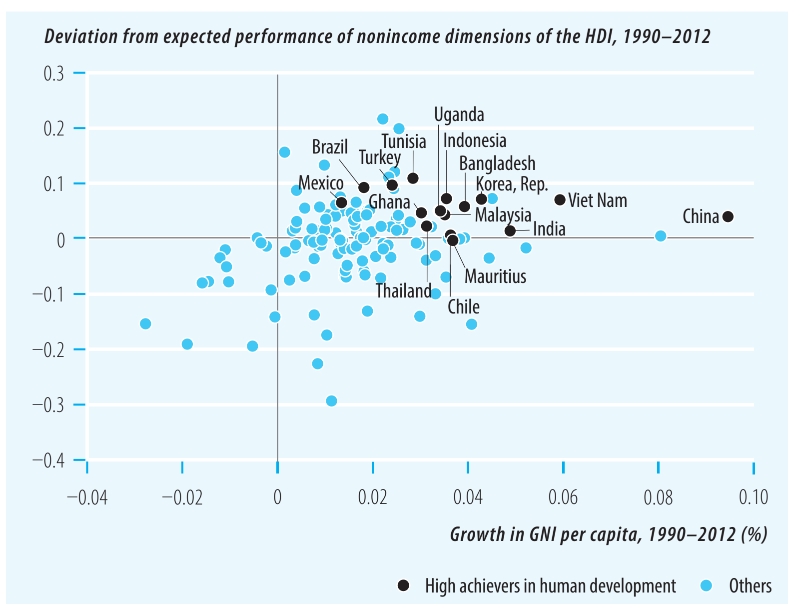
This chapter analyses the performance of a set of countries that, since 1990, have substantially improved both income growth and the nonincome dimensions of human development, namely health and education. Some countries were more successful in one aspect than the other: Brazil and Turkey did better on the nonincome dimensions of the Human Development Index (HDI), whereas China's performance over 1990–2010 was dominated by growth in income (in part because when reforms began in the late 1970s, China's achievements in health and education were already high).[1] Furthermore, as mentioned in chapter 1, the group of countries whose improvements on the HDI stood out relative to the performance of peers between 1990 and 2012 includes least developed countries, such as Lao PDR, Mali, Mozambique, Rwanda and Uganda.

Another way of identifying high achievers in human development is to look for countries that have been more successful in closing the "human development gap," as measured by the reduction in their HDI shortfall (the distance from the maximum HDI score).[2] Table 3.1 lists 26 countries that were among either the top 15 developing countries that registered the largest reduction in HDI shortfall over 1990–2012[3] or the top 15 that registered the highest rates of annual growth in income per capita during the same period.

The first set of countries successfully supplemented fast economic growth with social policies that benefit society more broadly, especially the poor. China, for instance, reduced its HDI shortfall more than all other countries

FIGURE 3.1

Some countries have performed well on both the nonincome and the income dimensions of the HDI



Note: Based on a balanced panel of 96 countries.
Source: HDRO calculations.

TABLE 3.1

Selected developing countries that registered large reductions in HDI shortfall or high rates of growth in gross national income per capita, 1990–2012

Country	HDI (value)		Reduction in HDI shortfall[a]		Average annual growth in gross national income per capita	
			(%)	Rank	(%)	Rank
	1990	2012	1990–2012		1990–2012	
Korea, Rep.	0.749	0.909	63.6	1	4.2	8
Iran, Islamic Rep.	0.540	0.742	43.9	2	2.5	32
China	0.495	0.699	40.5	3	9.4	1
Chile	0.702	0.819	39.4	4	3.8	13
Saudi Arabia	0.653	0.782	37.3	5	0.4	77
Argentina	0.701	0.811	36.9	6	3.5	18
Malaysia	0.635	0.769	36.6	7	3.6	17
Tunisia	0.553	0.712	35.6	8	2.9	29
Turkey	0.569	0.722	35.5	9	2.5	33
Qatar	0.743	0.834	35.3	10	3.2	22
Mexico	0.654	0.775	35.0	11	1.3	58
Algeria	0.562	0.713	34.4	12	1.0	69
Panama	0.666	0.780	34.3	13	3.9	11
Brazil	0.590	0.730	34.1	14	1.7	50
Brunei Darussalam	0.782	0.855	33.4	15	–0.4	87
Viet Nam	0.439	0.617	31.8	21	5.9	3
Mauritius	0.626	0.737	29.8	25	3.6	14
Dominican Republic	0.584	0.702	28.3	28	3.9	12
Myanmar	0.305	0.498	27.8	30	7.9	2
Sri Lanka	0.608	0.715	27.3	31	4.4	7
Guyana	0.502	0.636	26.7	36	5.3	4
Lao PDR	0.379	0.543	26.5	39	4.4	6
India	0.410	0.554	24.5	45	4.7	5
Bangladesh	0.361	0.515	24.1	47	3.9	10
Trinidad and Tobago	0.685	0.760	23.9	49	3.6	15
Mozambique	0.202	0.327	15.6	72	4.1	9

a. Reduction in the distance from the maximum HDI score.
Note: Based on a balanced panel of 96 developing countries.
Source: HDRO calculations.

except Iran and the Republic of Korea. The Republic of Korea, despite lower economic growth than China, had the biggest gains in HDI value. Viet Nam also fared well, ranking third in income growth and among the top 20 in HDI improvement. Sri Lanka, too, has had high income growth as well as a notable reduction in HDI shortfall despite years of internal conflict.[4]

India's economic performance has also been impressive, averaging nearly 5% income growth a year over 1990–2012. Nevertheless, India's per capita income is still low, around $3,400 in 2012; to improve living standards, it will need further growth, since it is difficult to achieve much poverty reduction through redistribution alone at low income. India's performance in accelerating human development, however, is less impressive than its growth performance. Indeed, Bangladesh, with much slower economic growth and half India's per capita income, does nearly as well—and better on some indicators.

Among the top 15 countries in reducing HDI shortfall are Algeria, Brazil and Mexico, even though their growth in income per capita averaged only 1%–2% a year over 1990–2012. Their experience points to the second broad strategy that has paid human development dividends: giving primacy to state investment in people's capabilities—especially their health, education and nutrition—and making their societies more resilient to economic, environmental and other threats and shocks.

There is a lesson here: countries cannot rely on growth alone. As the 1993 and 1996 *Human Development Reports* argued, the link between growth and human development is not automatic.[5] It needs to be forged through pro-poor policies by concurrently investing in health and education, expanding decent jobs, preventing the depletion and overexploitation of natural resources, ensuring gender balance and equitable income distribution and avoiding unnecessary displacement of communities.

This is not to say that economic growth does not matter. Poor countries with many poor people need higher incomes. At the national level, faster growth can enable countries to reduce debts and deficits and generate additional public revenues to step up investment in basic goods and services, especially in health and education. And at the household level, income growth helps meet basic needs, improve living standards and enhance quality of life.

Nevertheless, higher income does not necessarily produce a corresponding improvement in human well-being. Populations in large cities, for example, typically report high income per capita, but they also have high levels of crime, pollution and traffic congestion. In rural areas, farming households may see income grow while lacking a village school or health centre. Initial conditions have considerable influence on the pace of countries' current and future development. Nonetheless, they are not the only things that matter (box 3.1).

In fact, the links between economic growth and human development have snapped several times. The 1996 *Human Development Report* identified six unwelcome types of growth: jobless growth, which does not increase employment opportunities; ruthless growth, which is accompanied by rising inequality; voiceless growth, which denies the participation of the most vulnerable communities; rootless growth, which uses inappropriate models transplanted from elsewhere; and futureless growth, which is based on unbridled exploitation of environmental resources.[6]

What accounts for the superior generation of growth and its conversion into human development? What are the policy lessons from the diverse human development experiences of these countries? Indeed, what are the drivers of transformation? This chapter identifies three:

- A proactive developmental state.
- Tapping of global markets.
- Determined social policy innovation.

These drivers are not derived from abstract conceptions of how development should work; rather, they are demonstrated by the transformational development experiences of many countries in the South. Indeed, they challenge preconceived and prescriptive approaches: on the one hand, they set aside a number of collectivist, centrally managed precepts; on the other hand, they diverge from the unfettered liberalization espoused by the Washington Consensus.

These drivers suggest an evolution towards a new approach, in which the state is a necessary catalyst that pragmatically adjusts its policies and actions in line with new realities and the challenges of global markets. This new perspective recognizes that development does not happen automatically and that transformation cannot be left to markets alone. Instead, the

This chapter identifies three drivers of transformation: a proactive developmental state, tapping of global markets and determined social policy innovation

BOX 3.1

History and initial conditions matter, but they are not destiny

"Initial conditions" have profound impacts, as certain characteristics are not only difficult to change, but also often perpetuated by institutions and policies. In societies that began with high inequality, elites can establish a legal framework that locks in their influence, which in turn enables them to maintain high inequality to their benefit. Take, for example, the Americas, where three distinct types of colonies took shape in the 1700s, depending on the initial conditions of soil, climate and native inhabitancy.

In the Caribbean, soil and climate made colonies suited for the production of large-scale lucrative commodities. The distribution of wealth and human capital was extremely unequal, advantaging the elite who could assemble large companies of slaves. In Spanish America, abundant in minerals and natives, authorities distributed land resources to the Spanish colonists. Elites served the Spanish crown and maintained their status after independence. Income inequality persisted across racial lines, with ownership of large tracts of land being a requirement for citizenship. In Peru today, as in many other countries, severe horizontal inequalities persist between indigenous populations and those of European descent. In the northern parts of the Americas the native population was not abundant, and soil and climate did not lend themselves to economies of scale. Thus, there was reliance on labourers of European descent with high human capital and more equal distribution of wealth. Because of abundant land and low capital requirements, most adult men operated as independent proprietors.

Haiti today is the poorest country in the Western Hemisphere. On the eve of its revolution in 1790, it was probably the richest country in the New World. Similarly, after the Seven Years War between the British and the French (1756–1763), the British debated whether to take Canada or Guadeloupe as reparation. Several centuries later the former proved to be more successful than other economies in the hemisphere.

Yet history and initial conditions are not insurmountable barriers. About half the progress in development, measured by the HDI, over the past 30 years is unexplained by the initial HDI value in 1980. Countries that start at a similar level—such as India and Pakistan, Chile and Venezuela, Malaysia and the Philippines, or Liberia and Senegal—have ended up with different outcomes. As the 2010 *Human Development Report* argued, if countries with similar starting points go on divergent development paths, but average global achievements have not changed, we can infer that it is national forces policies, institutions, social context and idiosyncratic shocks that drive national development outcomes. No country remains a prisoner of history for long if it wants to break out.

Source: Engerman and Sokoloff 2002; Hoff 2003; Thorp and Paredes 2011; UNDP 2010a.

state needs to mobilize society through policies and institutions that advance economic and social development.

However, this is not a universal prescription. The way these three elements are translated into policies is context-specific, depending on country characteristics, government capacities and relationships with the rest of the world.

Driver 1: a proactive developmental state

Development is about changing a society to enhance people's well-being across generations—enlarging their choices in health, education and income and expanding their freedoms and opportunities for meaningful participation in society.

A common feature of countries that have brought about such transformations is a strong, proactive state—also referred to as a "developmental state". The term refers to a state with an activist government and often an apolitical elite that sees rapid economic development as their primary aim. Some countries go further and add an additional feature: a bureaucracy with the power and authority to plan and implement policies. High growth rates and improved living standards in turn provide the state apparatus and the ruling elites their legitimacy.[7]

A common feature of countries that have brought about transformational development is a strong, proactive state —also referred to as a "developmental state"

In some notable cases, development progress is guided by a long-term vision, shared norms and values, and rules and institutions that build trust and cohesion. Further, viewing development as transformation demands consideration of these intangible factors as well as an understanding of how they affect the organization of society and interact with individual policies and reforms.

Country ownership of development strategy, strong bureaucratic capacities and appropriate policies are essential elements that together shape the transformation process.[8] Policies must be aimed at facilitating transformation by identifying barriers to and potential catalysts of changes. In this process, institutions, societies and individuals need to set their own objectives and identify the strategies and policies that can achieve them. Although not pursued everywhere, broad participation of people, in the sense that they are being listened to, that their views are taken into account in decisionmaking and that they are actively involved in setting the agenda, is conducive to sustainable long-term development—as is consistent political leadership backed by strong technocratic teams that can ensure institutional memory and continuity of policy (box 3.2).[9]

There is no simple recipe for connecting human development and economic growth or for accelerating growth.[10] One study using cross-country data for 1950–2005 found that the vast majority of takeoffs in growth are not generated by substantial economic reforms and that most substantial economic reforms do not yield takeoffs in growth.[11] Successful countries have grown fast by gradually removing binding constraints to progress, not by implementing a long list of policies and reforms. The state has a critical role in that. Countries that have succeeded in igniting sustained growth, have faced different sets of challenges and adopted varying policies on market regulation, export promotion, industrial development and technological adaptation and progress.[12] When a country is already growing fast, the challenge is to remove or anticipate future constraints as they become actually or potentially binding. Positive terms of trade shocks, like the recent commodity boom as a result of the rise of the South, can help begin growth acceleration but not sustain it. However, focused economic and institutional reforms appear to have statistically and quantitatively significant impacts on how sustained growth accelerations are.[13]

In many high-performing developing countries, the state operates differently from the conventional welfare state, which aims to correct market failures and build social safety nets while promoting market-led growth. Instead, developmental states have been proactive: initiating and monitoring transformations in people's lives.[14] Rather than merely being market-friendly, these states have been development-friendly. Those with strong, innovative social programmes are often also people-friendly—a necessary progression in the move from a focus on growth to human development.

BOX 3.2

What is a developmental state? Need it be authoritarian?

The recent literature on developmental states has grown out of the experiences of the East Asian "miracle" economies: Japan before the Second World War and Hong Kong, China (SAR), the Republic of Korea, Singapore and Taiwan Province of China in the second half of the 20th century. Recently, China and Viet Nam (as well as Cambodia and Lao PDR) can be seen as developmental states. Common traits include promoting economic development by explicitly favouring certain sectors; commanding competent bureaucracies; placing robust, competent public institutions at the centre of development strategies; clearly articulating social and economic goals; and deriving political legitimacy from their record in development.

That some East Asian developmental states were not democracies has prompted many to think that the developmental state model is also autocratic. But evidence of the relationship between authoritarianism and development is mixed. Democratic countries such as Japan and the United States have functioned as developmental states. After the Second World War France initiated planning by the Planning Commission, with sectoral industrial policy led by elite bureaucrats and the aggressive use of state-owned enterprises. Since the 1950s, the Scandinavian countries have also acted as a type of developmental state, where political legitimacy is derived from the welfare state and full employment rather than from rapid growth. The Swedish state developed strategic sectors through public-private partnerships (iron and steel, railways, telegraphs and telephone, and hydroelectric power). It also provided targeted protection to support the emergence of heavy industries, promoting research and development. Its welfare policy was closely integrated with strategies to promote structural change towards high-productivity sectors.

The United States has a long history of being a developmental state, going back to the early days of the republic. Alexander Hamilton, the first US treasury secretary, is widely considered the father and inventor of the infant industry argument. Between 1830 and 1945, the United States had some of the highest trade barriers in the world. In the same period it invested heavily in infrastructure (Pacific railways, Midwestern canals and agricultural infrastructure), higher education, and research and development. Even after the Second World War, when the United States had attained industrial supremacy, and despite the rise of market fundamentalism, the developmental state survived.

Block (2008) argues that the state has focused on translating cutting-edge technological research into commercial use through cooperation among a network of people with high levels of technological expertise situated in state agencies, industries, universities and research institutions. Developmentalism has lived in the shadows of US policy because acknowledging the state's central role in promoting technological change is inconsistent with the claim that the private sector should be left alone to respond to market signals autonomously. Yet, although limited in scope due to a lack of legitimacy, unstable funding and other limitations caused by its "hidden" nature, the US developmental state has been quite successful. In many sectors, the United States has developed international competitiveness through public funding for research and development and through public procurement for defence (computers, aircraft, Internet) and health (drugs, genetic engineering).

Source: Evans 2010; Chang 2010; Edigheji 2010; Block 2008.

Another characteristic of developmental states is their pursuit of industrial policies to redress coordination problems and externalities by "managing" comparative advantage.[15] For example, the state may foster industries believed to have a latent comparative advantage or seek to elevate those that are stuck in static comparative advantage. As a result, several industries that benefited from tariff protection subsequently succeeded in world markets.[16] Nonetheless, it can be difficult to attribute the success or failure of a particular industry to specific trade policies because government interventions are guided by multiple motives, from revenue generation to protection of special interests.

Evidence across industries from studies of the benefits of industry protection is ambiguous. However, there is a distinction between the general desirability of "soft" industrial policies, such as improving infrastructure and technological adoption, and "hard" industrial policies, such as direct taxes and subsidy interventions favouring specific industries, whose efficacy depends on country circumstances. There is no global prescription, though: what worked in East Asia may not work in Latin America.

- *Japan*. Japan has long acted as a developmental state. By the 1870s, it had a group of "well-educated, patriotic businessmen and merchants and government that were focused on economic modernization".[17] Many subsequent reforms created the infrastructure of a modern country, including a unified currency, railroads, public education and banking laws. The government built and operated state-owned plants in industries ranging from cotton to shipbuilding. It also encouraged domestic production by raising import tariffs on many industrial products. Since the end of the Second World War, Japan has undergone a fundamental transformation from aid recipient to donor (box 3.3).
- *Republic of Korea*. Between 1960 and 1980, the Republic of Korea had significant

One characteristic of developmental states is their pursuit of industrial policies to redress coordination problems and externalities by "managing" comparative advantage

More important than getting prices right, a developmental state must get policy priorities right. They should be people-centred, promoting opportunities while protecting against downside risks

success. After 1961, the government achieved a position of dominance over its business class through a series of reforms, including measures that increased the institutional coherence of the state, such as the creation of the Economic Planning Board, but centred on control over finance. It also avoided the capture of state policies on subsidies. Subsequently, it was able to guide a shift from import substitution to export promotion.[18]

Other rising countries of the South have pursued similar policies. Governments have partnered with the private sector to develop comparative advantage in the most promising sectors while ensuring effective macroeconomic management and promoting innovation. They have also paid special attention to expanding social opportunities by setting policy priorities, nurturing selected industries, fostering state-market complementarities, committing to long-term reforms, having strong political leadership, learning by doing and boosting public investment.

Setting policy priorities

More important than getting prices right, a developmental state must get policy priorities right. They should be people-centred, promoting opportunities while protecting against downside risks. Getting policies and policy priorities right raises the equally important issue of getting policymaking right. Governing institutions and policies are profoundly and inextricably linked; one cannot succeed without the other. It is thus important to have policy processes managed by committed people in effective and responsive government structures. Policies also change at different stages of development: at early stages, for example, many countries prioritize job creation and poverty reduction.

- *Indonesia*. From the mid-1970s, supported by revenues from newfound oil wealth, Indonesia complemented import-substituting industrialization with a major thrust in agriculture and rural development (see box 3.4 for the transformative potential of strategic investments in agriculture). This strategy of balanced growth increased the demand for labour, thus reducing unemployment and increasing real wages.[19] Then in the mid-1980s, as oil income began to decline, Indonesia shifted from import substitution to outward-oriented industrialization, drawing in surplus labour from agriculture to work in manufacturing, which offered higher wages. By the early 1990s, when the supply of surplus labour had been exhausted, poverty reduction continued primarily through wage increases.

BOX 3.3

Akihiko Tanaka, President, Japan International Cooperation Agency

Japan and triangular cooperation

Bolstered by the remarkable economic performance of emerging countries, South–South cooperation and triangular cooperation have grown rapidly in recent years. They have outgrown their traditional role as complements to North–South cooperation and are now an indispensable source of knowledge sharing and innovation for many developing countries.

There are four virtues and merits of South–South and triangular cooperation: the benefits accrued from sharing knowledge and experience among peers to find more effective solutions; sharing appropriate technology and experience that can promote convergence with North–South cooperation goals; respecting real ownership, with the South in the driver's seat; and developing countries' rapidly emerging as new donors.

As early as 1975, Japan recognized the value of South–South and triangular cooperation and began a large-scale triangular training programme. Japan had experienced a development trajectory similar to that of some emerging countries today, having first been a net foreign aid recipient then playing a dual role as aid recipient and emerging donor for a number of years before finally becoming only a donor as the first Asian member of the Organisation for Economic Co-operation and Development in 1964.

This development pathway led Japan to believe that sharing development experience, knowledge and appropriate technology among developing countries can play a very useful role in development cooperation and thus warranted donor support.

A prime example is the cooperation among Brazil, Japan and Mozambique. Japan helped Brazil develop its own tropical savannah region, known as the Cerrado, making it a leading producer of soybeans and other agricultural products. The two countries now extend collaborative support to Mozambique to develop that country's vast savannah.

An emerging challenge now is to scale up South–South and triangular cooperation as a central approach in development cooperation, while avoiding excessive aid fragmentation among an increasing number of development actors.

BOX 3.4

Investing in agriculture

Strategic investments in the agricultural sector can have transformative effects. Higher crop yields not only lead to improved livelihoods for farmers, they also increase demand for goods and services in rural areas, giving rise to new opportunities for economic development. They may also lead to lower food prices, reducing the share of food in household expenditures and creating markets for other sectors of the economy.

Agricultural research is a public good and tends to be underprovided by the private sector. Consequently, governments can make useful contributions in this area. Recent studies on several African, Asian and Latin American countries show that increased public spending on agriculture is particularly good for promoting growth. Disaggregating agricultural expenditure into research and nonresearch spending shows that research spending is especially effective. Provision of other public goods, such as agricultural extension services and irrigation systems, is also beneficial.

China has the world's largest agricultural research and development system in the world. Its research is based at the Chinese Academy of Agricultural Sciences, universities and the Chinese Academy of Science, which together comprise of more than 1,100 research institutions. China is becoming a leader in South–South cooperation with African countries, many of which are now benefiting from its research.

Agricultural technology has also been a strength of Brazil, where an estimated 41% of 2006 agricultural research spending in Latin America occurred. The System for Agricultural Research and Innovation has contributed greatly to the nearly fourfold growth in agricultural efficiency per worker. The Brazil Agricultural Research Corporation, a state-owned enterprise, has been instrumental in increasing the land area used for cultivation. Similarly, many of Brazil's agricultural programmes were developed with sustainability in mind. For example, to qualify for price support and credit programmes, farmers must respect zoning laws. Another programme, Moderagro, provides farmers with credit to improve agricultural practices and preserve natural resources, Produsa provides credit for planting on agricultural land that has degraded soil and Propflora uses credit to encourage the planting of forests (particularly palm oil).

Source: OECD 2006, 2011a; Fan and Saurkar 2006; Fan, Nestorova and Olofinbiyi 2010; Stads and Beintema 2009; World Bank 2012a.

Each phase thus involved a people-centred approach in which the growth strategy was modified in response to changing conditions.

Enhancing public investment

Traditional economic and social policy thinking, as emphasized by the "Washington Consensus", focused on getting economic fundamentals right as a precondition for economic growth, arguing that other human development improvements would follow. A human development approach, on the other hand, demands that improvement in poor people's lives not be postponed. Thus, people-friendly developmental states are those that expand a number of basic social services (box 3.5).[20] In this view, investing in people's capabilities—through health, education and other public services—is not an appendage of the growth process but an integral part of it.

In addition to the levels of public expenditures, their composition and the efficiency with which they are delivered, all taken together, influence the effective delivery of public services and expansion of capabilities. The effectiveness of public expenditure differs across countries. A global cross-country analysis shows a positive correlation between previous public expenditure per capita on health and education and current human development achievement (figure 3.2). Also, higher previous public spending per capita on health is associated with better child survival and lower under-five child mortality rates (figure 3.3). Such outcomes naturally depend on a country's stage of development and on how well the money is spent. Countries should put in place checks and balances to prevent reckless borrowing sprees and wasteful spending.

There has been much debate about whether public investment crowds in or crowds out private investment. Both outcomes are possible because of the many different uses of public capital in developing countries. From the lower levels of health, education and infrastructure development in South Asia and Sub-Saharan Africa than in the high-performing countries of East and Southeast Asia, it is reasonable to infer that public investment, as well as its composition, performs a critical role.

- *Bangladesh.* Bangladesh has sustained growth in part by increasing the rate of public investment over time while avoiding the fiscal deficits that have plagued the rest of the region.

Investing in people's capabilities—through health, education and other public services—is not an appendage of the growth process but an integral part of it

BOX 3.5

Eastern Europe and Central Asia: where North meets South

Connecting the North and the rising South is the transforming East. Eastern Europe and Central Asia accounts for 5% of world population and output. Its experience in managing a rapid transition from centrally planned to market economies holds useful policy lessons for developing countries elsewhere. The first phase of the transformation began with a sharp drop in living standards and human development. While each country managed a subsequent recovery under varying political and economic conditions, the overall experience underscores the importance of social inclusion and a responsible role of the state.

The 2011 *Regional Human Development Report for Europe and the Commonwealth of Independent States* showed a negative correlation between Human Development Index values and measures of social exclusion in Eastern Europe and Central Asia. It noted that economic variables accounted for less than a third of the risks contributing to individual exclusion. Labour informality, corruption and lengthy procedures for business startups were associated with high social exclusion. By contrast, because employment facilitates inclusion, functional and accessible labour market institutions were found to be important. A major lesson from two decades of transition is that the state has a critical role in creating an environment for inclusive growth and societies. Abruptly abandoning areas of responsibility by the state or insisting on rapid privatization of all state-owned companies may prove very costly for societies in the long run. Yet at the same time, retaining these responsibilities does not mean keeping the earlier structures intact. On the contrary, reforms to strengthen national institutions' transparency and accountability and to limit the scope of corruption are necessary to improve the quality of governance and efficiency of governments.

Many countries of the region are now active members of the European Union. They, together with Croatia, Kazakhstan, the Russian Federation and Turkey, have also become emerging donors, with aid disbursements exceeding $4 billion in 2011. The emerging donors are also active in bilateral or trilateral exchange of knowledge with countries with common heritage or beyond. In recent years Romania has shared its experience conducting elections with Egypt and Tunisia, Poland has helped Iraq with small and medium-size enterprise development, the Czech Republic has cooperated with Azerbaijan on environmental impact assessments and Slovakia has assisted Moldova and Montenegro in public finance management.

Source: HDRO; UNDP 2011b.

- *India.* India increased central government spending on social services and rural development from 13.4% in 2006–2007 to 18.5% in 2011–2012.[21] And social services as a proportion of total expenditure rose from 21.6% in 2006–2007 to 24.1% in 2009–2010 and to 25% in 2011–2012.

Nurturing selected industries

Governments can encourage a market-disciplined private sector by adopting a dynamic view of comparative advantage, nurturing sectors that would not otherwise emerge due to incomplete markets.[22] Although this poses some political risks of rent seeking and cronyism, it has enabled several countries of the South to turn industries previously derided as inefficient and unable to withstand foreign competition into early drivers of export success once their economies became more open.

A dynamic view of comparative advantage has enabled several countries to turn inefficient industries unable to withstand foreign competition into drivers of export success once their economies became more open

- *India.* For decades after independence in 1947, India followed a strategy of state-led, import-substituting industrialization. It inhibited the private sector while bestowing wide powers on technocrats who controlled trade and investment, creating a system that became increasingly laden with bureaucratic intricacies (the "licence Raj").[23] During these years, however, there was a deliberate policy to build human capabilities and invest in world-class tertiary education, though perhaps neglecting primary education. Following the reforms of the 1990s, these investments paid off when India was unexpectedly able to capitalize on its stock of skilled workers in emergent information technology–enabled industries, which by 2011–2012 were generating $70 billion in export earnings. Another industry built during the inward-looking years is pharmaceuticals. India granted patents only to processes, not to products, which encouraged firms to reverse engineer and become world leaders in generic drugs.[24] Similar tales of capacity building can be told for India's automobile, chemical and service industries, now vigorously tapping into world markets.
- *Brazil.* For long stretches, Brazil also experimented with inward-oriented economic strategies. During these periods, individual firms that benefited from large domestic

markets were not encouraged to export and compete globally. But when they did so, they were able to rely on capacities built up over decades. Embraer, for example, is now the world's leading producer of regional jet commercial aircraft of up to 120 seats.[25] The country's steel and shoe industries also grew under public ownership, with research and development augmenting capabilities for domestic innovation.

Prioritizing job creation

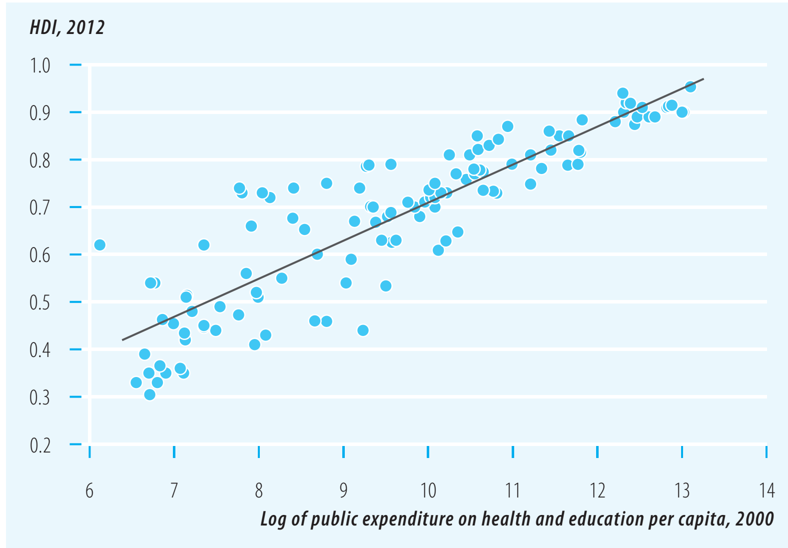
Pragmatic policies aimed at creating secure and remunerative jobs are likely to strengthen the link between economic growth and human development. Evidence from Asia suggests that countries with simultaneously high rates of growth and poverty reduction also rapidly expanded employment. This was true for Malaysia and Thailand in the 1970s, China and Indonesia in the 1980s and India and Viet Nam in the 1990s.[26] The first generation of fast-growing Asian economies—Hong Kong, China (SAR), Republic of Korea, Singapore and Taiwan Province of China—expanded employment 2%–6% a year before the 1990s, while raising productivity and wages. Such patterns of growth were often led by small-scale agriculture as in Taiwan Province of China and by labour-intensive export-oriented manufacturing in Hong Kong, China (SAR), the Republic of Korea and Singapore.[27]

The success of some Asian countries—such as the Republic of Korea and later Thailand—holds lessons for less developed economies, especially in Sub-Saharan Africa, because they created jobs two to three times faster when they were at a comparable level of development. For example, over the past 10 years, Africa's labour force expanded by 91 million people but added only 37 million jobs in wage-paying sectors.[28] With proactive government policies in labour-intensive subsectors of manufacturing and agriculture, as well as retail, hospitality and construction, Africa is projected to create up to 72 million jobs by 2020, an additional 18 million jobs over present growth levels.[29] Such policies, however, require not only investing in young people's education and training, but also improving infrastructure aimed at economic diversification and removing obstacles to private entrepreneurship, such as lack of finance and onerous regulations.[30]

- *Mauritius.* The possibilities of labour-intensive growth are higher when countries are at a lower level of industrialization. Analysing the performance of Mauritius

FIGURE 3.2

Current HDI values and previous public expenditures are positively correlated . . .



Source: HDRO calculations and World Bank (2012a).

FIGURE 3.3

. . . as are current child survival and previous public expenditure on health

Source: HDRO calculations based on World Bank (2012a).

over two decades, one study finds that during the first decade (1982–1990), 80% of annual economic growth was accounted for by new employment and capital accumulation.[31] Unemployment dropped from 20% to below 3%, with the number of jobs growing 5.2% a year. Economic growth in the next decade (1991–1999), however, was driven less by accumulation of capital and more by the productivity growth of workers, a result of investment in human capabilities.[32]

- *Bangladesh.* The more rapid decline in poverty in the 1990s compared with the 1980s[33] was attributed to both the expansion of labour-intensive exports (such as garments and fisheries) and the increase in employment in the rural nonfarm sector (comprising small and cottage industries, construction and other nontradable services). The stimulus, however, came less from productivity improvements within this sector than from rising demand facilitated by an increase in crop production, an inflow of remittances and growing exports.[34]
- *Rwanda.* Expansion in jobs does not always have to come from export-oriented manufacturing. In Rwanda, jobs in tourism services have increased over the past decade. The sector now sees export earnings that exceed those from coffee and tea and employs nearly 75,000 people.[35]
- *Uganda.* Like Rwanda's, Uganda's high growth during the 1990s was poverty alleviating because of income growth in agriculture through large scale absorption of labour, especially in the cash crops sector that was buoyed by world prices and improvement in agriculture's terms of trade.[36]
- *Thailand.* Developing countries endowed with arable land can continue to create stable jobs in agriculture, even though its share in total output typically declines over time. This is the case in Thailand, whose employment pattern of the 1960s is comparable to that of many Sub-Saharan African countries today. While Thailand has since become a manufacturing powerhouse, millions of stable jobs continue to be created in nonmanufacturing sectors such as retail, hospitality and construction, as well as in commercial farming: the number of stable jobs in agriculture increased from 519,000 in 1960 to nearly 3 million in 2008. Overall, in the 1990s alone, Thailand increased its share of stable jobs by 11 percentage points (as Brazil did between 1970 and 1988).[37]
- *Indonesia.* Indonesia before the 1997 Asian financial crisis stood out for pursuing growth that had a high labour intensity. Real wages increased at an average annual rate of 5% for two decades preceding the crisis. Between 1990 and 1996 alone, formal nonagricultural employment increased from 28.1% of the workforce to 37.9% and the share of workforce in agriculture declined from 55.1% to 43.5%.[38] Post-crisis, when some of the development gains were reversed, the proportionate increase in poverty was lowest for agricultural workers.[39]

As these examples suggest, patterns of growth are rarely consistently pro-poor over consecutive decades. This is because developmental transformation is synonymous with the change in the structure of production and sectors differ in their capacities to create jobs. Skilled and unskilled jobs, for example, require a different mix of complementary inputs, such as formal education and industry-specific training. The larger point is that human development–oriented policies require both growth and an equitable expansion of opportunities. Developmental states, therefore, have to be conscious that the nature of growth (and the intensity of labour use in sectors that drive growth) evolves as the economy transforms, and they need then to respond with matching investments in people's skills.

States have to be conscious that the nature of growth (and the intensity of labour use in sectors that drive growth) evolves as the economy transforms, and to respond with matching investments in people's skills

Fostering state–market complementarities

Both markets and governments can fail, but there are synergies when they work together. Development progress cannot be left to markets alone. Some markets not only fail to function, but may not exist at all at early stages of development. Most successful developmental states have introduced industrial and related policies that enhance the private sector's potential to contribute to human development, especially by creating jobs in new sectors.

- *Turkey.* The state created favourable economic conditions that encouraged construction and the manufacture of furniture, textiles, food and automobiles—all industries with a high capacity to absorb labour. Turkey's export basket has since moved towards products that involve more processing, higher technology content and the use of skilled labour.[40]
- *Tunisia.* Since the early 1970s, Tunisia has relied on financial and fiscal incentives to attract foreign and domestic capital to export-oriented industries, particularly for garment production.[41] Various forms of business–government relations have enhanced industrial upgrading and promoted industry clusters. Today, Tunisia is among the top five exporters of apparel to the European Union.[42] It also has the potential to export health services by providing treatment to visitors from neighbouring countries, to a value equivalent to a quarter of Tunisia's private health sector output.[43]
- *Chile.* After returning to democracy in the 1990s, Chile encouraged investment and technological upgrading in sectors where the country had an intrinsic comparative advantage. It subsidized the formation and operation of innovation-based consortia between private firms and universities and engaged in other innovation-promoting activities.[44]

Committing to long-term development and reform

Achieving enduring transformation is a long-term process that requires countries to chart a consistent and balanced approach to development. Some technical or managerial solutions may appear to be attractive quick fixes, but they are generally inadequate.

- *China.* Since market-oriented reforms in the late 1970s, China has experienced a "complex and interlocking set of changes: from a command to a market economy; from rural to urban; from agriculture to manufacturing and services; from informal to formal economic activities; from a fragmented set of fairly self-sufficient provincial economies to a more integrated economy; and from an economy that was fairly shut off from the world to a powerhouse of international trade".[45] The scale of these changes required a committed state pursuing a long-term vision to build the necessary institutions and capacities. The leadership deliberately replaced the old guard, who might have been expected to resist change, with a younger, more open and better educated government bureaucracy. By 1988, a remarkable 90% of officials above the county level had been appointed since 1982.[46] Capacity upgrading is still a priority, and the education levels of officials have risen continuously. The Chinese bureaucracy has been designed with a strong results orientation, linking career development to the achievement of central objectives of modernization and economic progress.[47]

People-friendly developmental states need strong political leadership committed to equity and sustainability

People-friendly developmental states need strong political leadership committed to equity and sustainability. Effective leadership aligns the long-term goals of policymakers and enables constituencies to appreciate the state's work in fostering individual capabilities and social integration for human development. This requires a balanced approach to development and an ability to convert crises into opportunities for introducing broad-based economic reforms.

- *Brazil.* By the time the Brazilian transformation to a developmental state began (around 1994), the government had implemented macroeconomic reforms to control hyperinflation through the Real Plan and concluded the trade liberalization that had begun in 1988 with tariff reductions and the removal of other restrictions.[48] Trade openness and prudent monetary and fiscal policy followed, as did innovative social programmes that reduced poverty and income inequality.

In large and complex societies, the outcome of any particular policy is inevitably uncertain. Developmental states need to be pragmatic and test a range of different approaches.

- *China.* China's reform and opening resulted from an explicit choice in the late 1970s to relax constraints on people's participation in economic decisions. But the institutional innovations that went on to underpin China's transformation resembled Deng Xiaoping's approach to "crossing the river by feeling the stones".[49] Between 1979 and 1989, no fewer than 40% of China's national regulations were deemed experimental. The first set of agrarian reforms permitted farmers to lease land, submit a share of produce at fixed prices to the state and sell the surplus. Next came the expansion of the township and village enterprises.[50] The gradual approach reflected the pragmatism of Chinese leaders. Another reason for this pragmatism was the perception that the transition was impossible to plan, compounded by disillusionment with the whole planning system.

Driver 2: tapping of global markets

A common element of the fast-developing countries of the South has been to strengthen the capabilities of people and the competencies of firms while embracing global markets. This has enabled them to source intermediate inputs and capital goods at competitive world prices, adopt foreign knowhow and technology and use them to sell to global markets.[51] All newly industrializing countries have pursued a strategy of "importing what the rest of the world knows and exporting what it wants".[52] Indeed, few countries have developed successfully by shunning international trade or long-term capital flows; very few have sustained growth without increasing their trade to output ratio, and there is no evidence that in the postwar period inward-looking economies have systematically developed faster than those that have been more open.[53]

As countries develop, they tend to dismantle trade barriers and become more open

This experience does not mean, however, that countries can ignite growth simply by dismantling trade and investment barriers. Some influential cross-national studies in the 1990s purported to show that rapidly opening up would automatically lead to high economic growth. But these were subsequently found to have significant methodological limitations.[54] In particular, growth cannot be sufficiently explained by average tariff and nontariff barriers.[55]

Actual development experiences from the South have demonstrated a more nuanced consensus.[56] In this view, successful and sustained progress is more likely to be the result of gradual and sequenced integration with the world economy, according to national circumstances, and accompanied by investment in people, institutions and infrastructure.[57] Country studies confirm that what is needed is a package that involves the interaction of reforms in trade, exchange rates, and fiscal, monetary and institutional policies.[58] A recent study finds that more decisive benefits come from trade liberalization embedded in broader reforms: in the post-liberalization period between 1950 and 1998, the countries that were considered to have implemented such policies posted growth rates that were 1.5 percentage points higher, investment rates that were 1.5–2 percentage points higher and trade to output ratios that were 5 percentage points higher.[59]

As countries develop, they tend to dismantle trade barriers and become more open.[60] HDRO analysis of the association between the change in trade openness and relative improvement in HDI value between 1990 and 2010 supports this conclusion (see box 2.1 in chapter 2). Not all countries that increased trade openness made big improvements in HDI value relative to their peers. But those that did make big improvements in HDI value typically increased their trade to output ratio or established a global network of trade links of substantial bilateral value. In a sample of 95 developing countries and transitional economies, the average increase in trade to output ratio of countries considered to be rapid improvers on the HDI between 1990 and 2012 was about 13 percentage points higher than that of more modest improvers.

As discussed in box 2.1 in chapter 2, almost all countries with substantial improvement in HDI value over the past two decades have also become more integrated with the world economy. Table 3.2 reconfirms this for a selected group of high human development–achieving countries discussed in this chapter, which have vigorously tapped opportunities presented by globalization by expanding their share of exports in world markets between 1990 and 2010. The only exception in this group is Mauritius, one of the first countries in the South to pursue an export-oriented development strategy, whose share in world exports peaked in 2001.[61] As the more populous countries deepen their integration with the world economy, they have accelerated their structural diversification in manufacturing and services and boosted agricultural productivity, helping lift hundreds of millions of people out of poverty in a few decades.

Gradual and sequenced integration

Rather than opening suddenly to world markets, some of the more successful countries have opened gradually, as the situation demanded.

- *China.* A rapid opening up in China would have shut down state enterprises without creating new industrial activities, so the state reformed gradually. To attract foreign direct investment (FDI), create jobs and promote exports, the state established special economic zones, often in less built-up areas.[62] At the same time, China increased the competencies of its workers and firms by requiring foreign firms to enter joint ventures, transfer technology or meet high requirements for domestic content. By the early 1990s, China was ready to expand its external interactions, building on investments in health and education during the 1960s and 1970s and on the newly acquired competencies of farmers and firms. Between 1993 and 1996, China was already the destination of more than 10% of worldwide FDI inflows.[63] Its trade to GDP ratio nearly doubled, from 21.7% in 1980 to about 42% in 1993–1994. By 2011, China had completed 10 years of membership in the World Trade Organization and overtaken Germany as the second-largest exporter of goods and services.[64]
- *India.* Domestic reforms began in India in the mid-1980s and expanded after the 1990–1991 external payments crisis. Before the reforms, India had import quotas and high tariffs on manufactured goods and banned imports of manufactured consumer products.[65] Early reforms focused on dismantling the systems of licences for industrial activity and ending restrictions on investment.[66] Quantitative restrictions on manufactured capital goods were ended in 1993. Tariffs on manufactured goods were reduced quickly from 76.3% in 1990 to 42.9% in 1992, but further cuts were spread over the next two decades to reach about 8% in 2009. Restrictions on manufactured consumer products were gradually lifted and phased out by 2001, 10 years after the reforms began.[67] In 2010, India's trade to output ratio was 46.3%, up from only 15.7% in 1990. FDI also reached a peak of 3.6% of GDP in 2008, up from less than 0.1% in 1990.[68]

TABLE 3.2

Share of world exports of goods and services of high achievers in human development, 1985–1990 and 2005–2010 (%)

Country	1985–1990	2005–2010
Bangladesh	0.042	0.089
Brazil	0.946	1.123
Chile	0.232	0.420
China	1.267	8.132
Ghana	0.029	0.041
India	0.519	1.609
Indonesia	0.624	0.803
Malaysia	0.685	1.197
Mauritius	0.038	0.027
Thailand	0.565	1.095
Tunisia	0.116	0.118
Turkey	0.449	0.852

Note: Values are averages for 1985–1990 and for 2005–2010.
Source: World Bank 2012a.

Building up industrial competencies for global markets

Several countries have built up industrial competencies under periods of import substitution that they have subsequently used to supply overseas markets.

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- *Turkey.* Trade performance after the 1980s rested on production capacities built in the pre-1980 era of import-substituting industrialization in Turkey.[69] Between 1990 and 2010, its trade to GDP ratio rose from 32% to 48%, a substantial jump for a middle-income country with a large domestic market. In 2011, the top exports—automobiles, iron and steel, and household appliances and consumer electronics—were all from industries that had grown under trade protection.

Having weathered the Asian financial crisis in 1997, Indonesia today stands out for effectively managing its commodity exports

- *Republic of Korea.* When the Republic of Korea and some of the other East Asian economies went through a phase of moderate import substitution for consumer goods, they did not protect domestic producers of capital goods.[70] Even when they were ambivalent about FDI in the 1980s, they chose to import technology under licensing agreements and to develop links with multinational firms. The goal was to build indigenous capabilities for the long haul by borrowing and assimilating foreign technologies.
- *Thailand.* Thailand's manufacturing prowess continues to strengthen through the country's participation in international production networks. In 2009–2010, its exports of parts and components—notably in the automotive and electronics industries—were valued at $48 billion, a quarter of its merchandise exports. The government is keen to establish Thailand as the "Detroit of Asia", not only a cluster for logistics, but also a high-tech hub that forges research collaboration among firms, universities and the public sector.[71]
- *Malaysia.* Malaysia's pre-eminence in the electronics industry began in the early days of the international division of labour, with its courting of multinational companies from countries in the North. Free trade zones, established primarily for manufacturing electronic goods,[72] helped the country develop rapidly between the 1970s and the 1990s. Today, however, Malaysia's economy is seen to be in a "middle-income trap", no longer able to compete with low-cost production in neighbouring countries and lacking the skills for high-end tasks in global production networks.[73] The government's own advisory council is concerned that a slowdown in FDI inflows could affect the prospects for graduating to high-income status.[74] Malaysia's good record in secondary education does not seem to have produced a strong enough base for an innovation-driven economy: Malaysia's future progress is hampered by inadequate research and development capacity and a lack of design and process engineers and technical and production workers.[75]
- *Indonesia.* In the 1990s, to avoid the high costs associated with aspects of protection, Indonesia and some other East Asian countries established export processing zones, bonded warehouses and duty drawback systems—all requiring a competent bureaucracy. When countries felt they lacked that capacity, they resorted to unconventional approaches. For a period Indonesia even privatized its customs administration.[76] Having weathered the Asian financial crisis in 1997, Indonesia today stands out for effectively managing its commodity exports.[77]

Piggybacking on niche products

One option for smaller economies is to tap into world markets for niche products. The choice of successful products is not accidental; it is often the result of years of state support and facilitation that build on existing competencies or the creation of new ones.

- *Chile.* With active support from the state, Chilean firms have had major success in expanding exports of processed agricultural food and beverages and forestry and fish products. For example, in the 1960s, there was substantial public research and development in the cultivation of grapes for wine production. There has also been a long history of subsidized plantations in forestry, and the state has made major efforts to turn the wood, pulp and paper, and furniture cluster into a major export industry.[78] Similar support from a nonprofit corporation, Fundación Chile, has helped make the country's commercial salmon cultivation one of the most prolific in the world.[79]
- *Bangladesh.* Bangladesh took advantage of market distortions in world apparel trade.[80] But without the initiative of its entrepreneurs, it could easily have squandered the opportunity. In 1978, the Desh Company signed a five-year collaboration agreement with Daewoo, a Korean company, that connected Bangladesh to international standards and a network of apparel buyers. Daewoo trained Desh employees in production and marketing in the Republic of Korea. Within a year, 115 of the 130 trainees had left Desh to start their own garment export firms.[81] By 2010, Bangladesh's share of world apparel

exports had increased to about 4.8%, from about 0.8% in 1990.[82]

- *Mauritius.* With limited arable land, an expanding population and overreliance on one commodity (sugar), Mauritius had to seek a larger, overseas market. Asian garment exporters, constrained by quotas, were attracted to the country. Until the 1990s, Mauritius was one of the most protected economies, but it provided duty-free access to imported inputs, tax incentives and flexible labour market conditions, including supporting the entry of women into labour-intensive jobs in the export processing zones.[83]
- *Ghana.* Cocoa has been at the heart of Ghana's economy for decades. In the 1970s and early 1980s, however, the sector faced near-collapse. Ghana restored its international competitiveness with reforms begun in 1983, especially by devaluing the currency, increasing the capacity of the private sector in procurement and marketing, and giving farmers a much higher share of prices received. Between 1983 and 2006, the country doubled its production of cocoa per hectare, and today the sector supports the livelihoods of 700,000 people.[84] Over the past 10 years, Ghana has also diversified into services, with the telecom sector growing fast and augmenting the capacity of farmers to connect to sources of market information. A recent survey found that around 61% of cocoa farmers owned mobile phones.[85]

A common thread that runs through the economies that have had meaningful engagement with the world is their investment in people. Tariff reform, at home or in partner countries, may provide an unexpected opening into export markets; some countries may enjoy resource windfalls or ride a wave of short-term success by mimicking others. However, the lesson is that development cannot be sustained without adequate investment in people's skills to constantly upgrade the quality of products and production techniques. The countries discussed here began from diverse initial conditions and have become adept at tailoring nurtured domestic strengths to reap external opportunities presented by world markets.

Driver 3: determined social policy innovation

Evidence shows that substantial public investment—effectively deployed not just in infrastructure, but also in health and education—is key to achieving and sustaining human development. Development strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth. Indeed, there is strong multicountry evidence that promoting higher human development levels helps accelerate economic growth.[86]

Development strategies cannot succeed without a commitment to equality of opportunity, giving everyone a fair chance to enjoy the fruits of growth

A good test of a government's commitment to equality of opportunity is its determination to provide education, particularly to girls. Countries that have sustained high long-term growth have generally put considerable effort into educating their citizens and deepening human capital.[87] Investing in education is important for improving cognitive skills, as measured by the performance of students on mathematics and science tests.[88] However, the benefits derive from investment not so much in the production of specialist skills but in "education for all".[89] Similarly, improvements in public health help growth by boosting labour productivity.[90]

Growth accompanied by high or rising inequality generally involves slower advances in human development, poor social cohesion and slow reduction in poverty. Moreover, it is usually considered unsustainable.[91] Thus the aim should be to create virtuous cycles in which growth and social policies reinforce each other. Growth has frequently been much more effective at reducing poverty in countries with low income inequality than in countries with high income inequality. Growth is also less effective in reducing poverty when the distribution of income worsens over time.[92]

The exceptions seem to be China and Brazil. Over the last 30 years, as a result of very high rates of growth, China has reduced poverty despite increasing income inequality. Similarly, in the early 2000s, Brazil used targeted policies to reduce poverty despite high income inequality—though income distribution became more equal over this period.

Promoting equality—especially equality across groups, known as horizontal equality—also helps reduce social conflict. The sharpest contractions in growth after 1975 occurred in countries with divided societies (as measured by indicators of inequality and ethnic fragmentation). They also suffered from weak institutions for conflict management, with poor quality government institutions that had less capacity to ensure the rule of law, democratic rights and social safety nets.[93]

Education, health care, social protections, legal empowerment and social organization all enable poor people to participate in growth. But even these basic policy instruments may not empower disenfranchised groups. Poor people on the fringes of society struggle to voice their concerns, and governments do not always evaluate whether services intended to reach everyone actually do.[94] Often, problems are exacerbated by external shocks, but in many cases policies are implemented where local institutional capacity and community involvement are low.

- *Uganda.* In post-conflict Uganda, a series of macroeconomic reforms, from the loosening of price control and exchange rates to changes in state-owned enterprises and the civil service, paved the way for a wide-ranging poverty reduction plan in 1997. Uganda went on to become one of the few Sub-Saharan African countries to have halved extreme poverty before the Millennium Development Goal deadline of 2015, from 56.4% in 1992–1993 to 24.5% in 2009–2010. However, increasing income inequality has slowed the pace of poverty reduction.[95] On balance, the economic success of these efforts show that programmes are more effective when the national leadership is committed to reducing poverty, notably by enhancing the consistency of goals and approaches across government agencies.[96] In turn, such progress can have a profound influence on the legitimacy of leaders and their governments.

Providing public services that contribute to a healthy, educated labour force helps build national stability, reducing the likelihood of political unrest and strengthening the legitimacy of governments

Promoting inclusion

All countries have, to a greater or lesser extent, multireligious, multicultural, pluralistic societies, and different groups generally have different levels of human development. Even in advanced countries, there is persistent discrimination against certain ethnic groups in labour markets.[97] Nonmarket discrimination can be equally severe and destabilizing. Moreover, historical discrimination has long-lasting effects. Ensuring nondiscrimination and equal treatment, including providing special programmes for disadvantaged groups, is becoming increasingly critical for political and social stability.

In the South, too, different levels of achievement often have historical or colonial origins—for instance, in India, between upper and lower castes, and in Malaysia, among Bumiputras (Malays), Chinese and Indians. Economic prosperity alone cannot end group discrimination that leads to horizontal inequality. To bridge inequalities and correct historical disadvantages, both India and Malaysia have adopted deliberate policy interventions, such as affirmative action.

Providing basic social services

States can underpin long-term economic growth by providing public services that contribute to a healthy, educated labour force. Such measures also help build national stability, reducing the likelihood of political unrest and strengthening the legitimacy of governments.

Developing countries sometimes receive policy advice urging them to view public expenditures on basic services as luxuries they cannot afford. Over the long term, however, these investments pay off. Although not all services need be publicly provided, a minimum universal level of basic health, education and social security needs to be established to ensure that all citizens have secure access to the basic requirements of human development, whether from public or private providers. Compulsory public primary and secondary education has contributed decisively to human development in Europe and in some developing countries, such as Costa Rica.

Access to high-quality education

Growth in HDI value is associated with growth in public spending on education. On average, countries with higher government expenditures on health and education have experienced high growth in human development, although local variations may remain.

- *Indonesia*. During Indonesia's economic boom years (from 1973 onwards), the government funded the construction of schools for basic education through development programmes, and in the following decade public expenditure on education more than doubled.
- *India.* Following the constitutional amendment to make education a fundamental right for every child, India has taken progressive steps towards ending discrimination in its school system (box 3.6).
- *Ghana.* One of the earliest initiatives in independent Ghana was the 1951 Accelerated Development Plan for Education, which aimed at a massive expansion of primary and middle school education. The 1961 Education Act removed fees for elementary education so that households had to pay only a modest amount for textbooks. Enrolment in public elementary schools doubled over the next six years. Between 1966 and 1970, the public discourse on education moved from access to quality. In the early 1970s, the focus came back to access, this time for secondary education. The next major round of reforms took place in 1987. The most significant aspect of the curriculum reform was to provide children with literacy in three languages—two Ghanaian languages and English—as well as modern farming skills, vocational skills and practical mathematics skills.
- *Mauritius.* The government of Mauritius developed a national consensus on providing high-quality primary, secondary and tertiary schooling free of charge.
- *Bangladesh.* The Ministry of Primary and Mass Education was established in 1992 with the goal of universalizing primary education and eliminating gender and poverty gaps in primary education in Bangladesh. Demand-side interventions, such as the Female Secondary School Assistance Program and the Food for Education programme, broadened coverage, particularly for girls.
- *China.* In 1986, China's National People's Congress passed a law proclaiming the compulsory provision of nine-year basic education regardless of gender, ethnicity or race. From 1990 to 2000, the average years

BOX 3.6

India's Supreme Court issues a progressive verdict mandating seats for disadvantaged children in private schools

Most schools in developing countries are government run, but demand for private schools is expanding in response to the failures of public schools: bad infrastructure, overcrowded classrooms, poor access, teacher shortages and absenteeism. Parents with enough money send their children to private schools, creating a society in many countries divided between public and private school students.

India has made education free and compulsory for children ages 6–14. The vast majority of children are enrolled in government schools, especially in rural areas. But most children from elite households—the rich, the political class, government employees and the growing middle class—are sent to private schools. In many instances, boys are sent to private schools, and girls to free government schools.

To reduce these trends towards segregation, India passed the Right of Children to Free and Compulsory Education Act in 2009. It requires private schools to admit at least 25% of students from socially disadvantaged and low-income households. In turn, private schools are reimbursed for either their tuition charge or the expenditure per student in government schools, whichever is lower. The act was based on the following rationales: schools must be sites for social integration, private schools do not exist independently of the state that provides them land and other amenities, the social obligation of private schools cannot be waived by contending that only children whose parents pay their fees have a right to be in these schools and the requirement to admit at least 25% of students from disadvantaged groups is fair given that these groups constitute around 25% of the population.

In a landmark judgement on 12 April 2012, the Supreme Court of India upheld the constitutional validity of the act, making two points in support of its decision. First, since the act obligates the state to provide free and compulsory education to all children ages 6–14, the state has the freedom to decide whether it shall fulfil its obligation through its own schools, aided schools or unaided schools. The 2009 act is "child-centric" and not "institution-centric". Second, the right to education "envisages a reciprocal agreement between the state and the parents, and it places an affirmative burden on all stakeholders in our civil society." Private, unaided schools supplement the primary obligation of the state to provide free and compulsory education to the specified category of students.

Source: Government of India 2009; Supreme Court of India 2012.

of schooling for people ages 15 and older in rural areas rose from 4.7 years to 6.8.

- *Uganda.* School fees for primary education were abolished in Uganda in 1997 with the aim of universalizing primary education. Initially this strained the education infrastructure.[98] To improve quality, the Ministry of Education emphasized five areas: curriculum development, basic learning materials, teacher training, language of instruction and quality standards. The early drops in quality and completion rates have since been reversed, and the gains have been solidified and extended.
- *Brazil.* State-led investments in education have dramatically improved development outcomes in Brazil. The transformation of education started with the equalization of funding across regions, states and municipalities. The national Development Fund for Primary Education, created in 1996, guaranteed national minimum spending per student in primary education, increasing the resources for primary students in the Northeast, North and Centre West states, particularly in municipally run schools. Funding "followed the student", providing a significant incentive for school systems to expand enrolment. Similarly, states were required to share resources across municipalities so that all state and municipal schools could reach the per student spending threshold. As a result of this investment, Brazil's math scores on the Programme for International Student Assessment rose 52 points between 2000 and 2009, the third-largest leap on record.

Access to high-quality health care

Advancing health requires more than high-quality health services. Many countries are discovering that they need simultaneous interventions on multiple fronts

Advancing health requires more than high-quality health services. Previous *Human Development Reports* have shown that human poverty is multidimensional. Many countries are discovering that they need simultaneous interventions on multiple fronts. Algeria, Morocco and Tunisia, for example, have seen striking gains in life expectancy in the last 40 years. Possible explanations include improvements in health and drug technology, widespread vaccinations, information technology advances, better access to improved water and sanitation, increased energy provision, and public and private investments in health.

- *Bangladesh.* To improve child survival rates, Bangladesh has taken a multisectoral approach: expanding education and employment opportunities for women; improving women's social status; increasing political participation, social mobilization and community participation; disseminating public health knowledge; and providing effective, community-based essential health services (box 3.7).

Health service provision has been heavily skewed towards the better-off, who have been more likely to have good access to the public services and pay for private ones. Those with greatest access to health care have been workers in the formal sector, who have partly financed their needs with annual contributions. Workers in the informal sector are more difficult to provide for. In India, for example, there are no clearly identified regular employers who can contribute on behalf of the estimated 93% of the workforce in the informal sector.[99]

Everyone should be entitled to the same quality of health care, and several countries have attempted to provide and finance universal health coverage. Some have done so through public health services targeted to the poor. This is neither desirable nor efficient, generally resulting in a health care system in which poor people receive inferior quality services, often in public facilities, while the nonpoor get better health care services from the private sector. Health services targeted to the poor generally remain underfunded partly because the more powerful people who are not poor have no stake in making the system better. Also, special insurance schemes for the poor miss the advantages of pooling risks across the whole population and are thus likely to become financially unviable, often diverting resources from preventive and primary care to more-expensive tertiary care.

Governments also attempt to finance health care through user fees. However, there is near unanimous consensus now that such fees have adverse consequences, especially for the poor. They discourage the poor from using services and generally mobilize little in terms of resources.[100]

BOX 3.7

Bangladesh makes dramatic advances in child survival

In 1990, the infant mortality rate in Bangladesh, 97 deaths per 1,000 live births, was 16% higher than India's 81. By 2004, the situation was reversed, with Bangladesh's infant mortality rate (38) 21% lower than India's (48). Three main factors seem to explain the dramatic improvements.

First, economic empowerment of women through employment in the garment industry and access to microcredit transformed their situation. The vast majority of women in the garment industry are migrants from rural areas. This unprecedented employment opportunity for young women has narrowed gender gaps in employment and income. The spread of microcredit has also aided women's empowerment. Grameen Bank alone has disbursed $8.74 billion to 8 million borrowers, 95% of them women. According to recent estimates, these small loans have enabled more than half of borrowers' households to cross the poverty line, and new economic opportunities have opened up as a result of easier access to microcredit. Postponed marriage and motherhood are direct consequences of women's empowerment, as are the effects on child survival.

Second, social and political empowerment of women has occurred through regular meetings of women's groups organized by nongovernmental organizations. For example, the Grameen system has familiarized borrowers with election processes, since members participate in annual elections for chairperson and secretaries, centre-chiefs and deputy centre-chiefs, as well as board member elections every three years. This experience has prepared many women to run for public office. Women have also been socially empowered through participation in the banks. A recent analysis suggests much better knowledge about health among participants in credit forums than among nonparticipants.

Third, the higher participation of girls in formal education has been enhanced by nongovernmental organizations. Informal schools run by the nongovernmental organization BRAC offer four years of accelerated primary schooling to adolescents who have never attended school, and the schools have retention rates over 94%. After graduation, students can join the formal schooling system, which most do. Monthly reproductive health sessions are integrated into the regular school curriculum and include such topics as adolescence, reproduction and menstruation, marriage and pregnancy, family planning and contraception, smoking and substance abuse, and gender issues. Today, girls' enrolment in schools exceeds that of boys (15 years ago, only 40% of school attendees were girls).

Women's empowerment has gone hand-in-hand with substantial improvements in health services and promotion. With injectable contraceptives, contraceptive use has surged. Nearly 53% of women ages 15–40 now use contraceptives, often through services provided by community outreach workers. BRAC also provided community-based instruction to more than 13 million women about rehydration for children suffering from diarrhoea. Today Bangladesh has the world's highest rate of oral rehydration use, and diarrhoea no longer figures as a major killer of children. Almost 95% of children in Bangladesh are fully immunized against tuberculosis, compared with only 73% in India. Even adult tuberculosis cases fare better in Bangladesh, with BRAC-sponsored community volunteers treating more than 90% of cases, while India struggles to reach 70% through the formal health system.

Source: BRAC n.d.; Grameen Bank n.d.; World Bank 2012a.

The lesson from global experience is that the main source of financing for universal health care should be taxation. Most countries in Southeast Asia, for example, have embraced the idea. Governments have sought to reduce private out-of-pocket spending, increase pooled health finance and improve the reach and quality of health services, although coverage varies.[101] Identifying and reaching poor people remain challenges, and resource-poor developing countries such as Lao PDR and Viet Nam have relied heavily on donor-supported health equity funds.

- *Thailand*. Thailand's 2002 National Health Security Act stipulated that every citizen should have comprehensive medical care. By 2009, 76% of the population, about 48 million people, were registered in the Universal Health Coverage Scheme, which provides free inpatient and outpatient treatment, maternity care, dental care and emergency care. The scheme is fully financed by the government, with a budget in 2011 of $34 million—$70 for each insured person—which accounts for 5.9% of the national budget.[102]
- *Mexico*. In 2003, the Mexican state approved Seguro Popular, a public insurance scheme that provides access to comprehensive health care for poor households formerly excluded from traditional social security. Public resources for health have increased and are being distributed more fairly. Access to and use of health care services have expanded. Financial protection indicators have improved. By the end of 2007, 20 million poor people were benefiting from the scheme.[103] Mexico is a leader in moving rapidly towards universal health coverage by adopting an innovative financing mechanism.
- *Rwanda*. Access to health services has been expanded in Rwanda by introducing community-based health insurance. Health

care providers were given incentives by linking resources to performance. As a result, health care became more affordable in rural areas. And there were visible improvements in health outcomes. Under-five mortality fell from 196 deaths per 1,000 live births in 2000 to 103 in 2007, and the maternal mortality ratio declined more than 12% a year over 2000–2008. Rwanda is on track to reach the Millennium Development Goal for maternal health.

One concern in a number of countries is the emergence of dual-track services. Even if public provision is universal in principle, quality and access may be poor, driving people towards expensive private providers.

- *China.* Much of China's health care success took place between 1950 and 1980, when the government established a three-level system of village clinics, township health centres and county hospitals in rural areas and health centres and district hospitals in urban areas. Since the 1980s, however, the health sector has been driven by a fee-for-service model. As a result, while China's overall health status has continued to improve, disparities have grown between the eastern and western provinces and between rural and urban areas. In many parts of the country quality health care has become unaffordable for the poor.
- *Chile.* Before 1980, Chile's health system was publicly financed through social security and public funds. After health reform in 1981, however, risk insurance was introduced, and market mechanisms began to regulate levels of protection. By 2006, a dual system of coverage was in place. The National Health Care Fund, funded by federal government tax revenues and by premiums from beneficiaries, covered 69% of the population, but its resource constraints have prevented it from ensuring timely and quality services. Private health insurance companies covered 17% of the population. The National Health Care Fund offers a universal health plan. This dual system has been criticized because it leaves low-income and high-risk populations to be treated mainly in the public system, which is poorly resourced and thus tends to provide lower quality service. In 2004, aware of the risks, the state introduced El Plan de Acceso Universal de Garantías Explícitas, which guarantees a medical benefits package consisting of a prioritized list of diagnoses and treatment for 56 health conditions, as well as universal coverage for all citizens.

Universal public health and education policies can be designed and implemented without sacrificing quality for the sake of greater coverage

Providing universal health care and at least nine years of compulsory education requires strong state commitment, involvement and consistency over time. The challenge for countries in the South is to ensure equity in access to health and education services and basic quality standards to prevent a dual-track service industry that provides low-quality public services (or none at all) to the poor and higher quality private services to the rich.

Universal public health and education policies can be designed and implemented without sacrificing quality for the sake of greater coverage. Poor people have no alternatives to a public system, while wealthier people can pay for private services. Such dynamics entrench inequalities, reduce social integration and undermine sustainable human development. New programmes, such as those in China, Mexico and Thailand, illustrate the possibilities of ensuring that basic services are universal and of reasonable quality. When financial resources are adequately provided, publicly provided services need not be inferior to private services.

Increasing social cohesion by broadening development

Transforming development requires that all citizens feel vested in the broader goals of society, showing respect and compassion for others and a commitment to building social cohesion. This requires that states and citizens understand that human development is about more than just enhancing individual capabilities. Individual capabilities are embedded in a broader social system whose health requires enhanced social competencies (see box 1.7 in chapter 1).

More effective social protection systems are also needed to help individuals and communities manage risks to their welfare. Globalization has contributed to the dismantling of some aspects of social protection and social insurance, especially for systems relying on universal coverage and large government expenditures. At the same time, it has increased the need for social protection, as fluctuations in economic activity become more frequent. Thus, social policies become as important as economic policies in advancing human development. In fact, social and economic policies can hardly be disentangled because their goals and instruments are analogous.[104]

In many parts of the South, states have introduced and provided social protection programmes to integrate poor people into the new economy. Cash transfer programmes have been particularly important in reducing poverty and improving income inequality through redistribution. But transfers cannot substitute for public provision of essential goods and services (box 3.8). At best, they can supplement resources of the poor. Offering cash so that households can buy health care of their choice is unlikely to work where high-quality health care is in short supply. Similarly, giving cash to households so that they can choose their school is unlikely to help the poor if few schools offer high-quality education. Nor can cash transfers substitute for incomes earned through decent work.

- *India.* India's National Rural Employment Guarantee Scheme provides up to 100 days of unskilled manual labour to eligible rural poor at the statutory minimum agricultural labour wage. This initiative is promising because it provides access to income and some insurance for the poor against the vagaries of seasonal work and affords individuals the self-respect and empowerment associated with work.[105] In addition, it aims to help build economies in rural areas by developing infrastructure. The scheme has innovative design features such as social audits and advanced monitoring and information systems.

Cash transfer programmes—important in reducing poverty and improving income inequality—cannot substitute for public provision of essential goods and services

BOX 3.8

Cevdet Yılmaz, Minister of Development, Turkey

Strengthening social protection in Turkey

As recently as 2002, an estimated 30% of Turkey's people lived below the government's poverty threshold of $4.30 a day. Government spending on social protection accounted for just 12% of GDP, less than half the EU average of 25%. And expenditures on social assistance for the poor accounted for only 0.5% of GDP, prompting criticism that Turkey's social support systems were both fragmented and insufficient.

Over the past decade, however, Turkey's strong economic performance, pro-poor approach to social policies and targeted assistance with greater resources have helped accelerate poverty reduction. Key policy changes include systematic strengthening of social assistance programmes, conditional cash transfers, social security reforms and an ambitious transformation of the national public health system. Under the conditional cash transfer programme alone, launched in 2003, more than 1 million children have received health care support, and about 2.2 million have benefited from education aid. School children have received more than 1.3 billion textbooks since 2003 under a new free schoolbook programme, and nearly 1 million now get free transportation to school.

As a result of these and other initiatives, the share of the population living on less than $4.30 a day fell sharply, to 3.7% in 2010, and the share of GDP devoted to poverty assistance and related social services nearly tripled, to 1.2%.

The share of social expenditures in Turkey's GDP is still less than the EU average, and social assistance schemes have not yet had the desired impact on poverty rates. To increase their effectiveness, the government is working on new methods of poverty measurement and social protection, new approaches to in-kind and cash assistance, stronger links to job opportunities and continuing consultations with targeted communities and households.

Similarly, the expansion and modernization of health services have had a direct, measurable impact on public health. Health insurance is now available to the entire population. Under the Health Transformation Programme launched in 2003, family practitioners were assigned to families to strengthen basic health services, with primary and emergency health care provided free of charge. The results have been swift and encouraging. For the first time, almost all children are getting free regular vaccinations. Seven million schoolchildren get free milk every day. Iron and vitamin D supplements are provided without charge to mothers and children. Infant mortality rates have fallen sharply, to 10 per 1,000 live births in 2010, down from 29 in 2003, according to government figures. This two-thirds drop greatly exceeds the reduction targeted under the Millennium Development Goals.

Pro-child policies go beyond health care and education, to broader assistance for their home communities. The government started a new Social Support Program in 2008 to develop social cohesion and ensure social integration, particularly in the less-developed eastern regions of the country. Its projects aim to increase participation in national economic and social life by disadvantaged people marginalized by poverty and social exclusion. The goals of the programme's several thousand projects to date go beyond job creation in these lower income regions to include support for young people and women to express themselves through cultural, artistic and athletic accomplishments.

More important, though, is what these improvements already mean to the lives of ordinary Turkish families. Throughout the country, parents and children alike can now look forward to healthier, more secure, more fulfilling lives—the underlying goal and core principle of human development.

- *China.* The Minimum Livelihood Guarantee Scheme is the Chinese government's main response to the new challenges of social protection brought about by increasing privatization and engagement with the global market. It guarantees a minimum income in urban areas by filling the gap between actual income and a locally set poverty line. So, despite increasing income inequality in China, there is potential for redistributive policies to reduce poverty and enhance food security. In addition, extending equal rights to migrants in cities can have a decisive impact on their ability to access comparable social services.
- *Brazil.* Despite slower economic growth than in China and India, Brazil has reduced inequality by introducing a poverty reduction programme, extending education and raising the minimum wage. Its conditional cash transfer programme Bolsa Escola, launched in 2001, followed the conceptual foundation of others in Latin America, such as Mexico's Progresa (now called Oportunidades; box 3.9). In 2003 Bolsa Escola was expanded to Bolsa Familia by folding several other cash and in-kind transfer programmes into a unified targeting system under streamlined administration. By 2009, Bolsa Familia covered more than 12 million households across the country, or 97.3% of the target population. These programmes have also broken ground in terms of programme administration and female empowerment by developing innovative distribution channels, such as ATM cards for low-income mothers without bank accounts. The result has been substantial declines in poverty and extreme poverty and reduced inequality.[106]
- *Chile.* In response to findings that state subsidies were not reaching the extreme poor, Chile Solidario was launched in 2002 to reach the extreme poor with a combination of aid and skill development. Focusing on household assistance, it takes the view that extreme poverty is multidimensional, extending beyond low income to include other deprivations in basic capabilities such as health and education. Furthermore, poverty reduction requires the mitigation of vulnerability to common events, such as sickness, accidents and unemployment. Together with other social policies, the programme has increased the take-up of

BOX 3.9

Conditional cash transfer programmes and Mexico's Oportunidades

Conditional cash transfer programmes are designed to increase beneficiaries' incomes and their access to health and education by making transfers conditional on requirements such as visits to health clinics and school attendance. They target certain beneficiaries (typically individuals from low-income or disadvantaged households) and provide support in cash instead of as in-kind benefits, with the transfers conditional on activities related to health and education. Moreover, the programmes can be designed to allow rigorous impact evaluation. For instance, the Tekopora programme in Paraguay has been shown to have positive impacts on nutrition, health, education and poverty reduction without having negative impacts on labour supply.

Mexico's Oportunidades is a conditional cash transfer programme targeted to poor households conditional on children's school attendance and medical checkups and parents' attendance at community meetings where information is provided on personal health and hygiene. The programme is designed to break the intergenerational transmission of poverty. Originally called Progresa, it aims to alleviate current and future poverty by giving parents financial incentives (cash) to invest in the health and education of their children. The programme, which started in 1997, is one of the largest conditional cash transfer programmes in the world, distributing about $3 billion to some 5 million beneficiary households in 2012.

Oportunidades transfers, given bimonthly to female heads of household, have two parts. The first, received by all beneficiary households, is a fixed food stipend, conditional on family members obtaining preventive medical care, and is intended to help families spend on more and better nutrition. The second comes in the form of education scholarships and is conditional on children attending school a minimum of 85% of the time and not repeating a grade more than twice. The education stipend provided for each child under age 18 enrolled in school between the third grade of primary school and the third (last) grade of junior high varies by grade and gender. It rises substantially after graduation from primary school and is higher for girls than for boys during secondary and tertiary school. Beneficiary children also receive money for school supplies once a year.

Conditional cash transfer programmes cost less than traditional in-kind social assistance interventions. Brazil's Bolsa Familia and Mexico's Oportunidades, the two largest programmes in Latin America, cost less than 1% of GDP. In some cases they have been perceived as tools to provide access to universal basic rights such as health and education, but in others they have led to the exclusion of some localities due to the inadequate supply of services.

Source: Hailu and Veras Soares 2008; Ribas, Veras Soares and Hirata 2008.

health and education services during boom times, while playing a countercyclical role in economic downturns by providing a much needed safety net to the poor.

The rising South is thus developing a broader social and poverty reduction agenda in which policies to address inequalities, institutional failures, social barriers and personal vulnerabilities are as central as promoting economic growth. This follows from an increased understanding that social challenges extend beyond income poverty; they also include lack of access to education, poor health, social inequality and limited social integration (box 3.10).

* * *

An agenda for development transformation that promotes human development is multifaceted. It expands people's assets by universalizing access to basic social services; extending credit to the population, especially the poor; protecting common resources; and introducing land reform where relevant. It improves the functioning of state and social institutions to promote equitable growth where the benefits are widespread. It prioritizes rapid growth in employment and works to ensure that jobs are of high quality. It reduces bureaucratic and social constraints on economic action and social mobility. It holds leadership accountable. It involves communities in setting budget priorities and disseminating information. And it focuses on social priorities.

Many countries of the South have demonstrated what can be achieved through a developmental state. But even in higher achieving countries, continuing success is not guaranteed. Countries across the world are facing a series of challenges, from rising inequality to spreading environmental degradation. The next chapter addresses these threats and considers what is needed to sustain future progress in human development.

A broader social and poverty reduction agenda is needed in which policies to address inequalities, institutional failures, social barriers and personal vulnerabilities are as central as promoting economic growth

BOX 3.10

Michael Bloomberg, Mayor, New York City

Why New York City looked South for antipoverty policy advice

In New York City, we are working to better the lives of our residents in many ways. We continue to improve the quality of education in our schools. We have improved New Yorkers' health by reducing smoking and obesity. And we have enhanced the city's landscape by adding bike lanes and planting hundreds of thousands of trees.

We have also sought to reduce poverty by finding new and better ways to build self-sufficiency and prepare our young people for bright futures. To lead this effort, we established the Center for Economic Opportunity. Its mission is to identify strategies to help break the cycle of poverty through innovative education, health and employment initiatives.

Over the last six years, the centre has launched more than 50 pilot programmes in partnership with city agencies and hundreds of community-based organizations. It has developed a customized evaluation strategy for each of these pilots, monitoring their performance, comparing outcomes and determining which strategies are most successful at reducing poverty and expanding opportunity. Successful programmes are sustained with new public and private funds. Unsuccessful programmes are discontinued, and resources reinvested in new strategies. The centre's findings are then shared across government agencies, with policymakers, with nonprofit partners and private donors and with colleagues across the country and around the world who are also seeking new ways to break the cycle of poverty.

New York is fortunate to have some of the world's brightest minds working in our businesses and universities, but we recognize there is much to learn from programmes developed elsewhere. That is why the centre began its work by conducting a national and international survey of promising antipoverty strategies.

In 2007, the centre launched Opportunity NYC: Family Rewards, the first conditional cash transfer programme in the United States. Based on similar programmes operating in more than 20 other countries, Family Rewards reduces poverty by providing households with incentives for preventive health care, education and job training. In designing Family Rewards, we drew on lessons from Brazil, Mexico and dozens of other countries. By the end of our three-year pilot, we had learned which programme elements worked in New York City and which did not; information that is now helpful to a new generation of programmes worldwide.

Before we launched Opportunity NYC: Family Rewards, I visited Toluca, Mexico, for a firsthand look at Mexico's successful federal conditional cash transfer programme, Oportunidades. We also participated in a North–South learning exchange hosted by the United Nations. We worked with the Rockefeller Foundation, the World Bank, the Organization of American States and other institutions and international policymakers to exchange experiences on conditional cash transfer programmes in Latin America, as well as in Indonesia, South Africa and Turkey.

Our international learning exchanges are not limited to these cash transfer initiatives; they also include innovative approaches to urban transportation, new education initiatives and other programmes.

No one has a monopoly on good ideas, which is why New York will continue to learn from the best practices of other cities and countries. And as we adapt and evaluate new programmes in our own city, we remain committed to returning the favour and making a lasting difference in communities around the world.

“Each generation will reap what the former generation has sown.”

Chinese proverb

“We have to free half of the human race, the women, so that they can help to free the other half.”

Emmeline Pankhurst

4.

Sustaining momentum

Much of the news about developing countries in recent decades has been positive, especially their accelerated progress in human development. But what of the future? Can these countries continue to advance human development at the same rapid pace, and can other countries in the South share in the benefits? Yes, with the right policies. These include enhancing equity, enabling voice and participation, confronting environmental pressures and managing demographic change. Policymakers will need to strive for greater policy ambition and to understand the high cost of policy inaction.

Over the next few years, policymakers in developing countries will need to follow an ambitious agenda that responds to difficult global conditions, notably the economic slowdown, which has decreased demand from the North. At the same time, they will need to address their own urgent policy priorities.

Policy priorities for developing countries

Four policy priorities stand out for developing countries over the next few years if they are to continue the gains of recent decades and if the benefits are to extend to countries still lagging behind:

- *Enhancing equity*. Equity and social justice, valuable in their own right, are important for expanding capabilities.[1] Progress in human development is difficult to sustain in the face of growing or persistent inequity.[2] Inequity in specific capabilities—for example, proxied and measured as disparities in health and education outcomes, as well as in income—also impedes progress in human development, though the effects may be less pronounced. At the core of these negative relationships is gender inequality: women's health and education are crucial to addressing demographic and other human development challenges. Although some countries in Latin America and elsewhere have greatly reduced income inequality, not all countries recognize the importance of addressing inequality in health, education and income.[3]
- *Enabling voice and participation*. As education levels rise and access to information and communication technologies spreads, people are demanding more participation in political processes, challenging decisionmakers to be more accountable and expand opportunities for open public discourse. Restricted opportunities for political participation, at a time when unemployment is rising and the economic environment is deteriorating, can fuel civil unrest. Expanded opportunities for political participation, along with greater government accountability in ensuring that basic human needs are met, can foster human freedoms and sustain human development. Strong political participation by the relatively deprived provides an important source of support for pro–human development policy change.
- *Confronting environmental pressures*. Climate change and local stresses on natural resources and ecosystems are increasing pressure on the environment in almost all countries, regardless of their stage of development. Unless action is taken urgently, future progress in human development will be threatened. Building on scenarios developed for *Human Development Report 2011*, this Report argues for aggressive action nationally and internationally to tackle these challenges.
- *Managing demographic change*. In some developing countries, mostly in Sub-Saharan Africa, large cohorts of young people are entering the workforce. In other countries, notably in East Asia, the share of working-age people in the population is falling as the share of elderly rises. New policy interventions are needed to generate sufficient productive employment while meeting the growing demand for social protection.

There will be other challenges to human development, including volatile commodity prices, especially for food and fuel. In an increasingly globalized world, these and other concerns will make for a complex environment with attendant risks, including progress reversals, rising insecurity and greater inequality. Forecasting is difficult in such a complex environment because modelling may miss key variables, such as technological progress, that can dramatically change both production and personal possibilities. Nevertheless, modelling scenarios are helpful for illustrating policy choices and their implications.

Enhancing equity

Greater equity, including between men and women and across groups (religious, racial and others), is not only valuable in itself, but also essential for promoting human development. One of the most powerful instruments for advancing equity and human development is education, which builds people's capacities and expands their freedom of choice. Education boosts people's self-confidence and makes it easier for them to find better jobs, engage in public debate and make demands on government for health care, social security and other entitlements.

Education also has striking benefits for health and mortality (see box 4.1 on differences in education futures in the Republic of Korea and India). Evidence worldwide establishes that

BOX 4.1

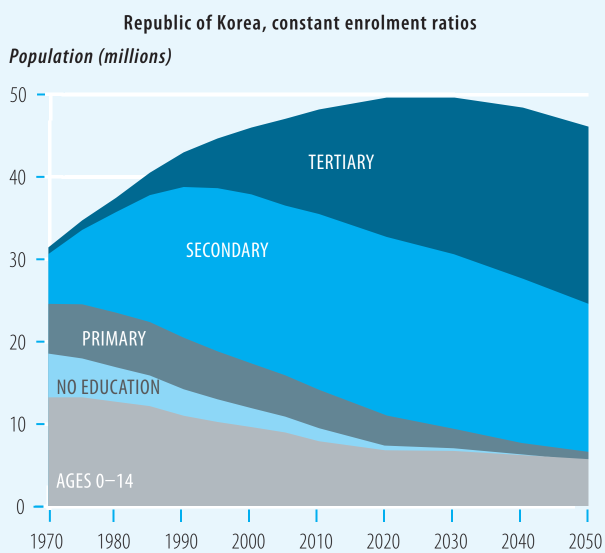
Why population prospects will likely differ in the Republic of Korea and India

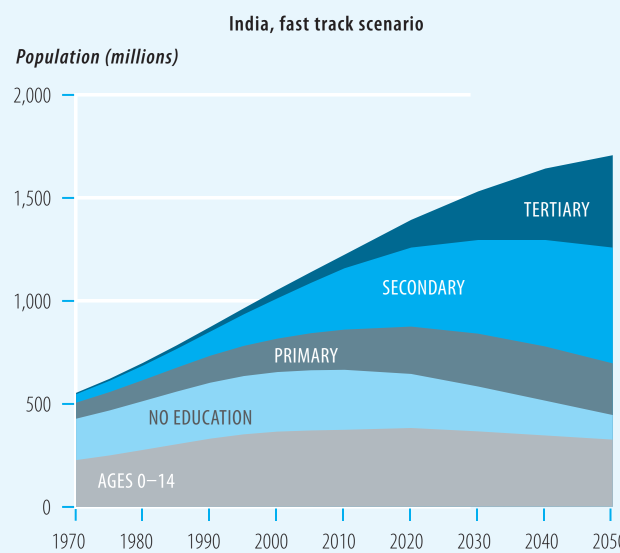
Educational attainment has risen rapidly in the Republic of Korea. In the 1950s a large proportion of school-age children received no formal education. Today, young Korean women are among the best educated women in the world: more than half have completed college. As a consequence, elderly Koreans of the future will be much better educated than elderly Koreans of today (see figure), and because of the positive correlation between education and health, they are also likely to be healthier.

Assuming that enrolment rates (which are high) remain constant, the proportion of the population younger than age 14 will drop from 16% in 2010 to 13% in 2050. There will also be a marked shift in the population's education composition, with the proportion having a tertiary education projected to rise from 26% to 47%.

For India, the picture looks very different. Before 2000, more than half the adult population had no formal education. Despite the recent expansion in basic schooling and impressive growth in the number of better educated Indians (undoubtedly a key factor in India's recent economic growth), the proportion of the adult population with no education will decline only slowly. Partly because of this lower level of education, particularly among women, India's population is projected to grow rapidly, with India surpassing China as the most populous country. Even under an optimistic fast track scenario, which assumes education expansion similar to Korea's, India's education distribution in 2050 will still be highly unequal, with a sizeable group of uneducated (mostly elderly) adults. The rapid expansion in tertiary education under this scenario, however, will build a very well educated young adult labour force.

Comparative population and education futures in the Republic of Korea and India





Source: Lutz and KC 2013.

better education of parents, especially of mothers, improves child survival. Moreover, working women and more-educated women (who tend to complete their schooling before bearing children) are likely to have fewer children.[4] Educated women also have healthier children who are more likely to survive (table 4.1), thus reducing the incentive to have a larger family.[5] Educated women also have better access to contraception and use it more effectively.[6]

Drawing on Demographic and Health Surveys and micro-level surveys, research for this Report reinforces these arguments, finding mother's education to be more important to child survival than household income or wealth is. This has profound policy implications, potentially shifting emphasis from efforts to boost household income to measures to improve girls' education.

This relationship can be illustrated by data on child mortality (see table 4.1). Many African countries, most notably Mali and Niger, have a high under-five mortality rate. But in every country, the mortality rate is lower among better educated mothers. In some countries, such as Nigeria, much lower child mortality is associated with primary education; in others, such as Liberia and Uganda, the decisive difference is associated with secondary education.

A modelling exercise conducted for this Report projects the impact of differences in education levels on child mortality over 2010–2050 under two scenarios. The "base case" scenario assumes that current trends in educational attainment at the national level continue without substantial new funding commitments or policy initiatives. Under this assumption, the proportion of each group of children—categorized by age and gender—advancing to the next education level remains constant (see *Technical appendix*).

The "fast track" scenario assumes much more ambitious education policy targets, similar to those achieved in recent decades by the Republic of Korea, for example, with the proportion of schoolchildren advancing to the next education level steadily increasing

A mother's education is more important to her child's survival than is household income or wealth

TABLE 4.1

Under-five mortality rate and total fertility rate by mother's education level

In selected countries, most recent year available since 2005

		Under-five mortality rate (per 1,000 live births)				Total fertility rate (births per woman)			
Country	Survey year	No education	Primary	Secondary or higher	Overall	No education	Primary	Secondary or higher	Overall
Bangladesh	2007	93	73	52	74	3.0	2.9	2.5	2.7
Egypt	2008	44	38	26	33	3.4	3.2	3.0	3.0
Ethiopia	2005	139	111	54	132	6.1	5.1	2.0	5.4
Ghana	2008	103	88	67	85	6.0	4.9	3.0	4.0
India	2005/2006	106	78	49	85	3.6	2.6	2.1	2.7
Indonesia	2007	94	60	38	51	2.4	2.8	2.6	2.6
Liberia	2009	164	162	131	158	7.1	6.2	3.9	5.9
Mali	2006	223	176	102	215	7.0	6.3	3.8	6.6
Niger	2006	222	209	92	218	7.2	7.0	4.8	7.0
Nigeria	2008	210	159	107	171	7.3	6.5	4.2	5.7
Rwanda	2007/2008	174	127	43	135	6.1	5.7	3.8	5.5
Uganda	2006	164	145	91	144	7.7	7.2	4.4	6.7
Zambia	2007	144	146	105	137	8.2	7.1	3.9	6.2

Note: Data refer to the period 10 years before the survey year.
Source: Lutz and KC 2013.

A greater emphasis on education can substantially reduce child deaths in all countries and regions

over the years. The results from the fast track scenario show substantially fewer child deaths as mother's level of schooling rises. The model also shows that a greater emphasis on progress in education would substantially and continually reduce child deaths in all countries and regions, as a direct result of improvements in girls' education (table 4.2).

India has the most projected child deaths over 2010–2015, almost 7.9 million, accounting for about half the deaths among children under age 5 in Asia.[7] In the final projection period, 2045–2050, nearly 6.1 million children are projected to die under the base case scenario but just half that many (3.1 million) under the fast track scenario.

China has more people than India but is projected to have less than a quarter (1.7 million) the number of child deaths over 2010–2015. And due to China's advances in education, projections look optimistic under both scenarios. If China follows the fast track scenario, as seems likely, child deaths will decline to about half a million by 2045–2050, less than a third of the current level.

Projections are less optimistic for some other countries. Under the base case scenario, child deaths in Kenya, for example, would rise from about 582,000 in 2010–2015 to about 1.6 million in 2045–2050. Under the fast track scenario, the number of deaths over 2045–2050 would drop to 371,000, much better, but not far below the level in 2010–2015.

The projected declines in child deaths reflect the combined effects of better educated women having fewer children and of fewer of those children dying. The projections also show that policy interventions have a greater impact where education outcomes are initially weaker.

These results underscore the importance of reducing gender inequality, especially in education and in low Human Development Index

TABLE 4.2

Projected number of deaths of children under age 5, by education scenario, 2010–2015, 2025–2030 and 2045–2050 (thousands)

	2010–2015	2025–2030		2045–2050	
Country or region	**Base case**	**Base case**	**Fast track**	**Base case**	**Fast track**
Country					
Brazil	328	224	177	161	102
China	1,716	897	871	625	526
India	7,872	6,707	4,806	6,096	3,064
Kenya	582	920	482	1,552	371
Korea, Rep.	9	8	9	7	7
Mali	488	519	318	541	150
Pakistan	1,927	1,641	1,225	1,676	773
South Africa	288	198	165	134	93
Region					
Africa	16,552	18,964	12,095	24,185	7,495
Asia	15,029	11,715	8,924	10,561	5,681
Europe	276	209	204	196	187
Latin America and the Caribbean	1,192	963	704	950	413
North America	162	160	155	165	152
Oceania	11	11	11	12	10

Note: See *Technical appendix* at the end of this Report for a discussion of the base case and fast track scenarios.
Source: Lutz and KC 2013.

(HDI) countries. Gender inequality is especially tragic not only because it excludes women from basic social opportunities, but also because it gravely imperils the life prospects of future generations.

Enabling voice and participation

In the 1995 *Human Development Report*, Mahbub ul Haq highlighted that unless people can participate meaningfully in the events and processes that shape their lives, national human development paths will be neither desirable nor sustainable.

Equitable and sustainable human development requires systems of public discourse that encourage citizens to participate in the political process by expressing their views and voicing their concerns. People should be able to influence policymaking and results, and young people should be able to look forward to greater economic opportunities and political accountability. Exclusion from this process limits people's ability to communicate their concerns and needs and can perpetuate injustices.

Autocratic regimes impose restrictions that directly counter human development by restraining essential freedoms. But even in democracies, poor people and poor groups often have limited access to information, voice or public participation. Poor people need to work together to effectively exercise their political voice. Yet in many countries, organizations representing the poor are not supported but discouraged. Democracies can also extend accountability from what is often a narrow constituency of elites to all citizens, particularly those who have been underrepresented in public discourse, such as women, youth and the poor.

Governments that do not respond to citizens' needs or widen opportunities for political participation risk losing their legitimacy. Dissatisfaction is on the rise in the North and the South as people call for more opportunities to voice their concerns and influence policy, especially on basic social protection. According to a recent International Labour Organization report, government dissatisfaction, measured by the Social Unrest Index, rose in 57 of 106 countries from 2010 to 2011. The largest increases were in countries of the North, followed by those in the Arab States and Sub-Saharan Africa.[9]

People in the North have been protesting against austerity measures and reductions in public spending and jobs, as in France, Greece, Italy, Spain and the United Kingdom. Citizens have challenged governments to address the social consequences of their policies, pointing out that the burden of austerity is being borne disproportionately by the poor and socially disadvantaged.[10] Other focuses of unrest have included food prices, unemployment and pollution:

- *Rising food prices*. Riots in response to high food prices in 2008 challenged stability in more than 30 countries in Africa and the Arab States.[11]
- *Unemployment and low wages*. Workers are demanding that governments respond to their needs. The unemployed are voicing their dissatisfaction in many countries.[12] In Viet Nam strikes doubled in 2011 as workers struggled to gain higher wages in the face of inflation.[13]
- *Environmental pollution*. Mass protests against environmental pollution are also widespread. Protesters in Shanghai, China, for example, fought a proposed wastewater pipeline,[14] and in Malaysia local residents have been opposing the construction of a rare earth metal refinery in their neighbourhood.[15]

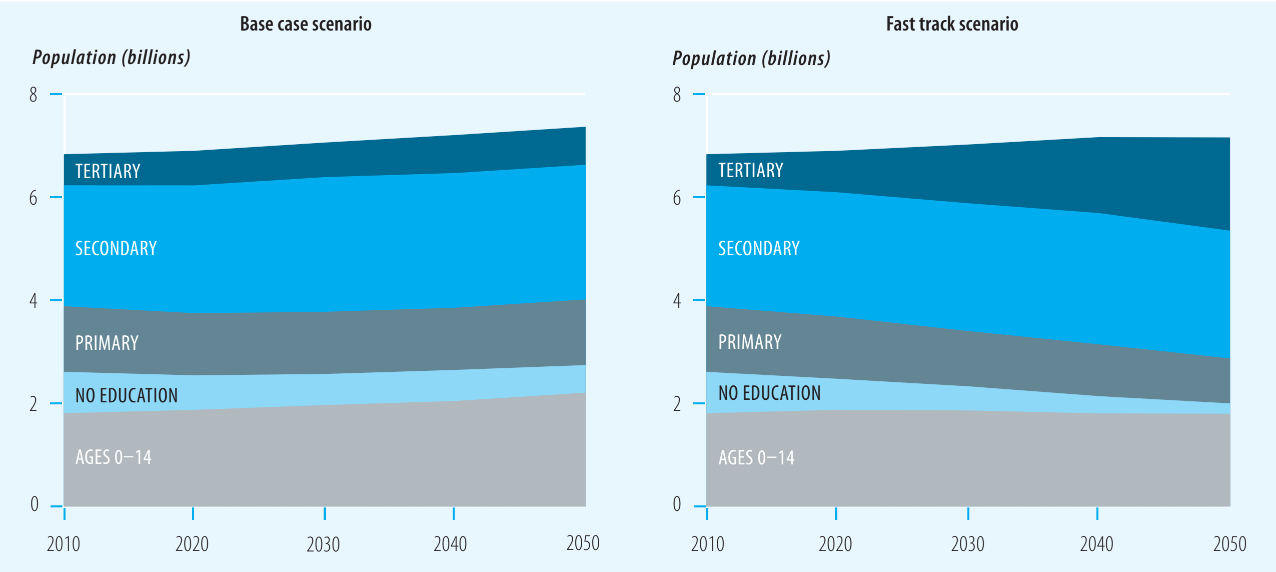
Among the most active protesters are youth, in part a response to job shortages and limited employment opportunities for educated young people. In a sample of 48 countries, youth unemployment was more than 20% in 2011, well above the 9.6% overall rate.[16] Youth discontent in response to rising unemployment is even more likely in areas with an educated population.[17] Education alters people's expectations of government and instils the political skills and resources needed to challenge government decisions. This is not to say that the educated have greater rights. But unless governments give greater priority to job creation, they are likely to face increasing youth dissatisfaction as education coverage expands (figure 4.1).[18]

At the same time, mobile broadband Internet and other modern technologies are opening

Dissatisfaction is on the rise as people call for more opportunities to voice their concerns and influence policy, especially on basic social protection

FIGURE 4.1

Under the fast track scenario, education outcomes are enhanced



Note: See *Technical appendix* for a discussion of the base case and fast track scenarios.
Source: HDRO calculations based on Lutz and KC (2013).

Participation and inclusivity, valuable in their own right, also improve the quality of policies and their implementation and reduce the probability of future upheaval

new channels through which citizens, particularly young people, can demand accountability. They are also enabling people in different countries to share values and experiences, bringing them closer together.

The Internet and social media, as "low-cost aggregators" of public opinion, are amplifying people's voices. In China, for example, the post-1990 generation is highly educated, politically aware and outspoken on social media.[19] Less than a week after the July 2011 high-speed train accident in Wenzhou, China's two major microblogs (*weibos*) had distributed some 26 million messages commenting on the accident and expressing concerns about safety.[20]

Social movements and media draw attention to specific issues, but this does not always result in political transformations that benefit the broader society. In India, for example, the Anna Hazare movement against corruption created pressure for change. Critics, however, point out that such movements can favour policies that may not be supported by the wider electorate. Thus, it is important to institutionalize participatory processes that can adjust the political balance by providing a platform for excluded citizens to demand accountability and redress of inequities, ranging from systemic discrimination to unfair and unjust exclusion.[21]

Participation and inclusivity, valuable in their own right, also improve the quality of policies and their implementation and reduce the probability of future upheaval. Failure to build an accountable and responsive polity may foment discontent and civil strife. This can derail human development. History is replete with popular rebellions against unresponsive governments, as unrest deters investment and impedes growth and governments divert resources to maintaining law and order.

In recent years, countries in both the North and the South have faced escalating crises of legitimacy that have pitted citizens against their institutions. Millions of people in the Arab States have risen to demand opportunities, respect and dignity as well as fuller citizenship and a new social contract with those who govern in their name. As a result, Egypt, Libya and Tunisia have seen autocratic governments deposed, Yemen has embarked on an internationally brokered political transition, Jordan and Morocco have undertaken political reforms and Syrian Arab Republic is in the throes of civil war.

One way to foster peaceful change is to allow civil society to mature through open practice. Even under autocratic governments, Egypt and Tunisia, for example, had fairly well developed associational structures and self-disciplined political opposition movements. By contrast, Libya lacked such experience, which contributed to an all-out civil war. Building political cohesion after conflict is difficult in countries that lack a tradition of civic participation. Diverse experiences show that changes in political regimes do not automatically enhance voice, participation, inclusion or accountability or make states work more effectively.

Accountability and inclusion are vital not only in the political sphere, but also in economic and social areas, through promoting job creation and social inclusion, especially in societies with a large and growing educated population. This requires effective mediating institutions; otherwise, modernization can be destabilizing.[22] This is not to suggest that people should be educated only if there are jobs for them—in the human development paradigm, access to knowledge and education is an end in itself—but recent social upheavals show that a mismatch between education and economic opportunity can lead to alienation and despair, especially among young people.

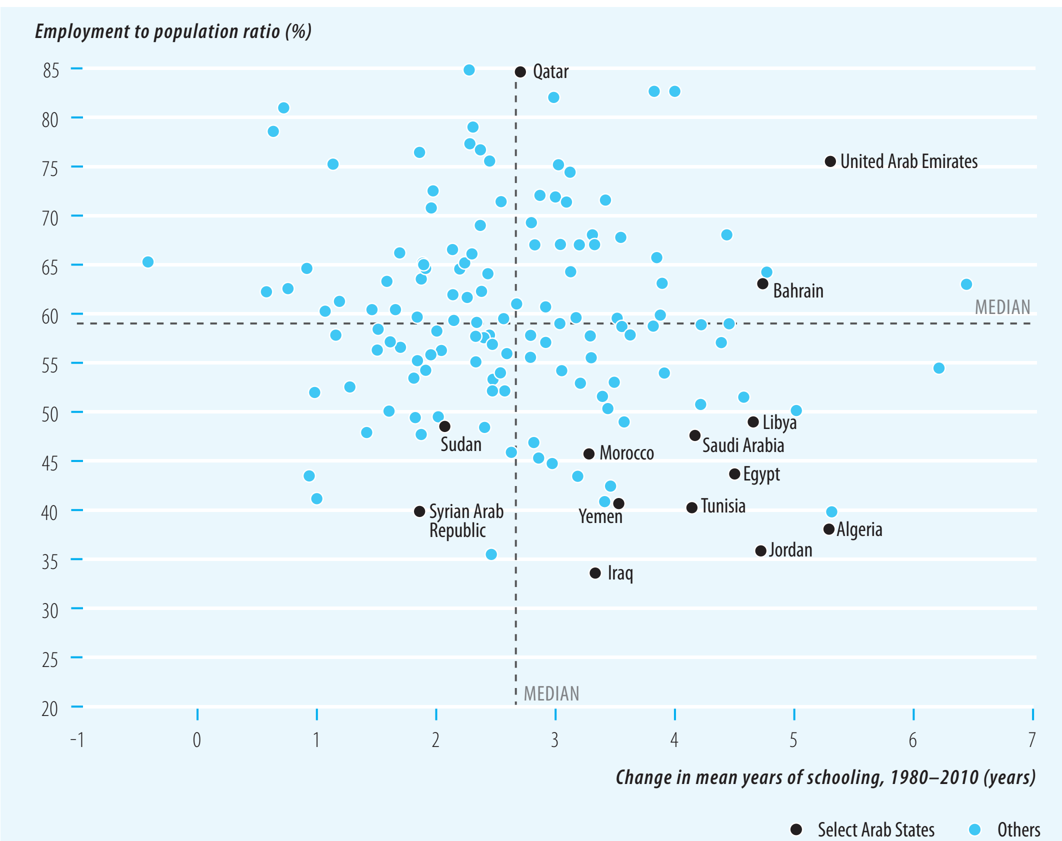
Of the 20 countries with the largest increases in mean years of schooling over 1980–2010, 8 were in the Arab States (figure 4.2). In most of these countries, employment opportunities failed to keep pace with educational attainment. Most countries that were part of the recent unrest in the Arab States are in the lower right quadrant of figure 4.2, because they had major gains in educational attainment but below-median employment to population ratios.[23]

It is hard to predict when societies will reach a tipping point. Many factors precipitate demands for change. When educated

Accountability and inclusion are vital not only in the political sphere, but also in economic and social areas, through promoting job creation and social inclusion

FIGURE 4.2

In most countries, employment opportunities have not kept pace with educational attainment



Note: Analysis covers 141 countries. Employment to population ratios are for the most recent year available during 2006–2010.
Source: Adapted from Campante and Chor (2012) using updated data.

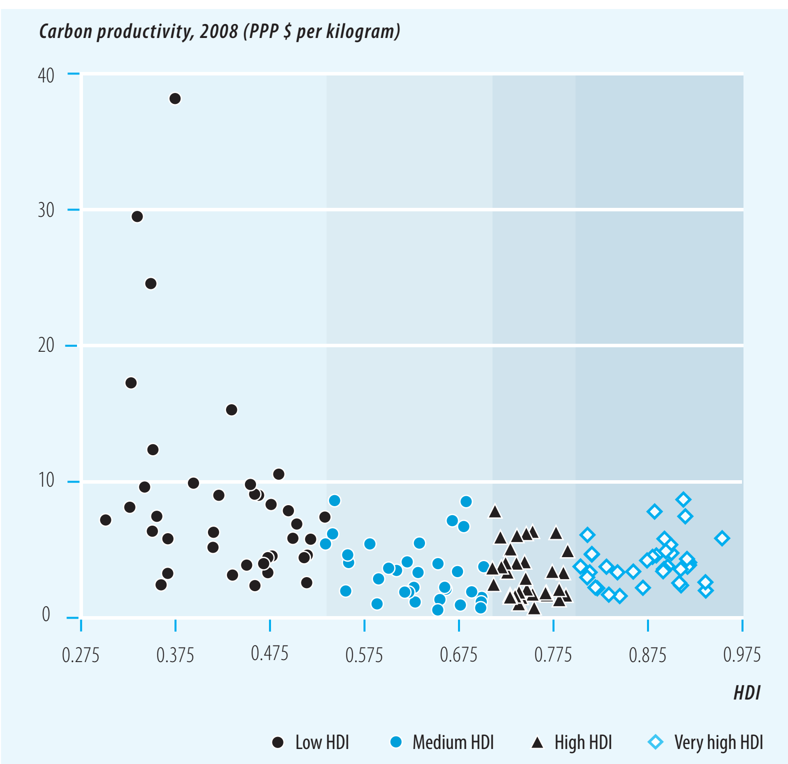
young people cannot find work, they tend to feel aggrieved. Average years of schooling have risen over the past 30 years in all countries with data available.[24] Yet grievances alone do not trigger upheavals. The public can be angry, but if people believe that the cost in time and effort to engage in political action outweighs the likelihood of real change, they may not act.[25] Mass protests, especially by educated people, tend to erupt when bleak prospects for economic opportunities lower the opportunity cost of engaging in political activity. These "effort-intensive forms of political participation"[26] are then easily coordinated through new forms of mass communication.

Around the world people are calling on governments to become more accountable to citizens and to expand public opportunities to influence policymaking

Around the world people are calling on governments to become more accountable to citizens and to expand public opportunities to influence policymaking. Such transformations have taken place in the past. For example, Karl Polanyi documented the Great Transformation of 1944, where governments in the North responded to demands from civil society and labour unions to regulate the market and extend social protection so that the market served society rather than society being subservient to the market.[27] Many governments introduced regulations to constrain the activities of firms and improve working conditions and extended social services and social protection. Governments also assumed power over macroeconomic policy and introduced some restrictions on international trade. The time may be right again for a transformation, appropriate for 21st century concerns and conditions.[28]

FIGURE 4.3

At each HDI level, some countries have greater carbon productivity than others



Note: Carbon productivity is GDP per unit of carbon dioxide. PPP is purchasing power parity.
Source: HDRO calculations based on World Bank (2012a).

Confronting environmental pressures

A major challenge for the world is to reduce greenhouse gas emissions. While it might seem that carbon productivity (GDP per unit of carbon dioxide) would rise with human development, the correlation is quite weak (figure 4.3). At each HDI level, some countries have greater carbon productivity than others.

Consider medium HDI Guatemala and Morocco, countries with nearly identical HDI values. Guatemala's carbon productivity ($5.00 per kilogram in purchasing power parity terms) is nearly twice that of Morocco ($2.60). Differences can be just as great among provinces or states within countries, as in China.[29] These findings reinforce the arguments that progress in human development need not worsen carbon use and that improved environmental policy can accompany human development.

To sustain progress in human development, far more attention needs to be paid to the impact human beings are having on the environment. The goal is high human development and a low ecological footprint per capita (the lower right quadrant of figure 1.7 in chapter 1). Only a few countries come close to creating such a globally reproducible high level of human development without exerting unsustainable pressure on the planet's ecological resources. Meeting this challenge on a global scale requires that all countries adjust their development pathway: developed countries will need to reduce their ecological footprint, while developing countries will need to raise their HDI value without increasing their ecological footprint. Innovative clean technologies will play an important part in this.

While environmental threats such as climate change, deforestation, air and water pollution, and natural disasters affect everyone, they hurt poor countries and poor communities most. Climate change is already exacerbating chronic environmental threats, and ecosystem losses are constraining livelihood opportunities, especially for poor people. A clean and safe environment should be seen as a right, not a privilege. The 2011 *Human Development Report* highlighted that equity and sustainability are inextricably linked. Sustainable societies need policies and structural changes that align human development and climate change goals through low-emission, climate-resilient strategies and innovative public-private financing mechanisms.[30]

Most disadvantaged people contribute little to global environmental deterioration, but they often bear the brunt of its impacts.[31] For example, although low HDI countries contribute the least to global climate change, they are likely to experience the greatest loss in annual rainfall and the sharpest increases in its variability, with dire implications for agricultural production and livelihoods. The magnitude of such losses highlights the urgency of adopting coping measures to increase people's resilience to global climate change.[32]

Natural disasters, which are increasing in frequency and intensity, cause enormous economic damage and loss of human capabilities. In 2011 alone, natural disasters accompanying earthquakes (tsunamis, landslides and ground settlements) resulted in more than 20,000 deaths and damages totalling $365 billion, including loss of homes for about a million people.[33] The impact has been severe for small island developing states, some of which have incurred losses of 1% of GDP—and some as much as 8% or even multiples of their GDP. St. Lucia, for example, lost almost four times its GDP in 1988 from Hurricane Gilbert, and Granada lost twice its GDP in 2004 from Hurricane Ivan.[34]

The 2011 *Human Development Report* examined several environmental scenarios. The "environmental challenge" scenario factored in the anticipated adverse effects of global warming on agricultural production, access to clean water and improved sanitation, and pollution. Under this scenario, the average global HDI value would be 8% lower by 2050 than under the "base case" scenario, which assumes a continuation but not a worsening of current environmental trends. Most dramatically, the average regional HDI value in both South Asia and Sub-Saharan Africa would be 12% lower under the environmental challenge scenario than under the base case scenario. Under a more severe "environmental disaster" scenario, the global HDI value in 2050 would fall 15% below that under the baseline scenario—22% below in South Asia and 24% below in Sub-Saharan Africa, effectively halting or even reversing decades of human development progress in both regions.

This Report looks more specifically at the impact of these environmental scenarios on the number of people living in extreme income poverty (figure 4.4). Some 3.1 billion more people would live in extreme income poverty in 2050 under the environmental disaster scenario than under the accelerated progress scenario (table 4.3). Under the base case scenario, by contrast, the number of people in extreme income poverty worldwide would decline by 2050.

Some 3.1 billion more people would live in extreme income poverty in 2050 under an environmental disaster scenario than under the accelerated progress scenario

Some 2.7 billion more people would live in extreme income poverty under the environmental disaster scenario than under the base case scenario, a consequence of two interrelated factors. First, the model shows an increase of 1.9 billion people in extreme income poverty due to environmental degradation. Second, environmental calamities would keep some 800 million poor people from rising out of extreme income poverty, as they would otherwise have done under the base case scenario (see *Technical appendix*).

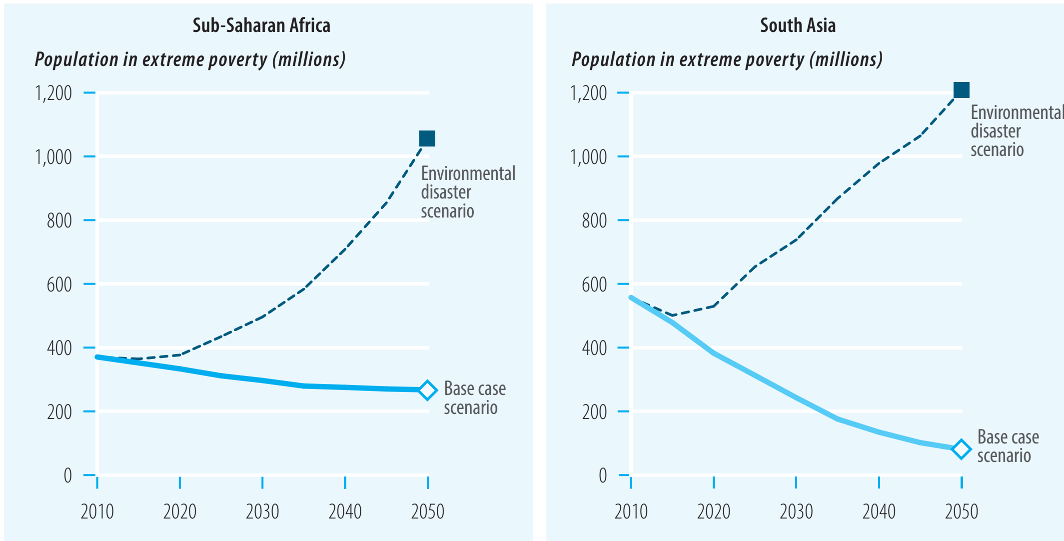
These outcomes underscore a central message of this Report: environmental threats are among the most grave impediments to lifting human development, and their consequences for poverty are likely to be high. The longer action is delayed, the higher the cost will be.

Managing demographic change

Between 1970 and 2011, the world population swelled from 3.6 billion to 7 billion. Development prospects are influenced by the age structure of the population, as well as its size.[35] Declining fertility rates and shifts in

FIGURE 4.4

Different environmental scenarios have different impacts on extreme poverty



Note: Extreme poverty is defined as $1.25 a day in purchasing power parity terms. See *Technical appendix* for a discussion of the base case and fast track scenarios.
Source: HDRO calculations based on Pardee Center for International Futures (2013).

TABLE 4.3

Population in extreme poverty under the environmental disaster scenario, by region, 2010–2050 (millions)

							Difference	
Region	**2010**	**2020**	**2030**	**2040**	**2050**	**Increase, 2010–2050**	**From base case scenario, 2050**	**From accelerated progress scenario, 2050**
Arab States	25	25	39	73	145	120	128	144
East Asia and the Pacific	211	142	211	363	530	319	501	522
Europe and Central Asia	14	6	17	32	45	30	41	44
Latin America and the Caribbean	34	50	90	138	167	134	135	155
South Asia	557	530	738	978	1,207	650	1,126	1,194
Sub-Saharan Africa	371	377	496	709	1,055	685	788	995
World	**1,212**	**1,129**	**1,592**	**2,293**	**3,150**	**1,938**	**2,720**	**3,054**

Note: Extreme poverty is defined as $1.25 a day in purchasing power parity terms. See *Technical appendix* for a discussion of the base case and fast track scenarios.
Source: HDRO calculations based on Pardee Center for International Futures (2013).

age structure can have considerable effects on economic growth.[36] Over 1970–2010, the dependency ratio (the ratio of younger and older people to the working-age population ages 15–64) declined sharply in most regions—most dramatically in East Asia and the Pacific, where it dropped 39.5%, followed by Latin America and the Caribbean and the Arab States, where it fell 34%.

Over 2010–2050, however, dependency ratios are likely to rise in medium, high and very high HDI countries, particularly in developed countries and in East Asia and the Pacific. In poorer regions, such as South Asia and Sub-Saharan Africa, dependency ratios will continue to fall, but more slowly.

Changing demography will profoundly affect most countries in the South in coming decades, but in very different ways. Some poorer countries will benefit from a demographic dividend as the share of the population in the workforce rises.[37] Richer regions of the South, however, will confront the challenge of rising dependency ratios, with ageing populations and full school enrolment mirrored by a decline in the number of people earning incomes.

In the long term, both demographic challenges can be mitigated by raising educational achievement. First, education accelerates reductions in fertility rates where they are still high. Second, education can boost labour productivity in richer countries with smaller workforces. At the same time, governments will need to foster job creation more actively to expand opportunities for productive employment for younger and older workers alike.

The failure of economic opportunity and productivity to keep pace with these demographic changes can not only keep countries from benefiting from the demographic dividend, it can also threaten social stability, as seen in many countries in recent years.

Modelling demography and education

Demographic trends are not deterministic, however. They can be influenced, at least indirectly, by education policies and sometimes by migration policies.[38] Effective policy options can be identified by modelling demographic and education trends.[39] Two scenarios for 2010–2050 illustrate the impact of different policy responses: the base case scenario, in which enrolment ratios remain constant at each level of education, and a fast track scenario, in which countries with the lowest initial education levels embrace ambitious education targets.[40]

The dependency ratio is an increasingly critical concern. A high dependency ratio can impoverish a country and lead to reversals in human development. The base case scenario projects a 9.7 percentage point decline in the dependency ratio over 2010–2050 for low HDI countries, a 9 percentage point increase for medium HDI countries, a 15.2 percentage point increase for high HDI countries and a 28.7 percentage point increase for very high HDI countries (figure 4.5). Under the fast track scenario, the dependency ratio for low HDI countries drops 21.1 percentage points over 2010–2050, more than twice the decrease under the base case scenario. The dependency ratio rises more slowly under the fast track scenario than under the base case scenario for medium HDI countries (6.1 percentage points) and high HDI countries (4.9 percentage points); however, this rise is less pronounced for very high HDI countries.

Under the base case scenario, the share of the elderly in the population rises for all HDI groups: 3.9 percentage points for low HDI countries, 17.7 percentage points for medium HDI countries, 20.2 percentage points for high HDI countries and 22.3 percentage points for very high HDI countries.[41] Over 2010–2050, the share of the young population is projected to fall in all HDI groups. For low HDI countries, the dependency ratio will decrease because the decline in the share of the young population is greater than the rise in the share of the elderly population.

In the Arab States, South Asia and Sub-Saharan Africa, the dependency ratio is projected to decline under the base case scenario and even faster under the fast track scenario. In Sub-Saharan Africa, for example, the dependency ratio falls 11.8 percentage points under the base case scenario and 25.7 percentage points under the fast track scenario.

In East Asia and the Pacific, Europe and Central Asia, and Latin America and the Caribbean, the dependency ratio is projected to increase. East Asia and the Pacific will see a striking increase in the share of the elderly—up 25.8 percentage points, which is an even greater rise than in very high HDI countries.

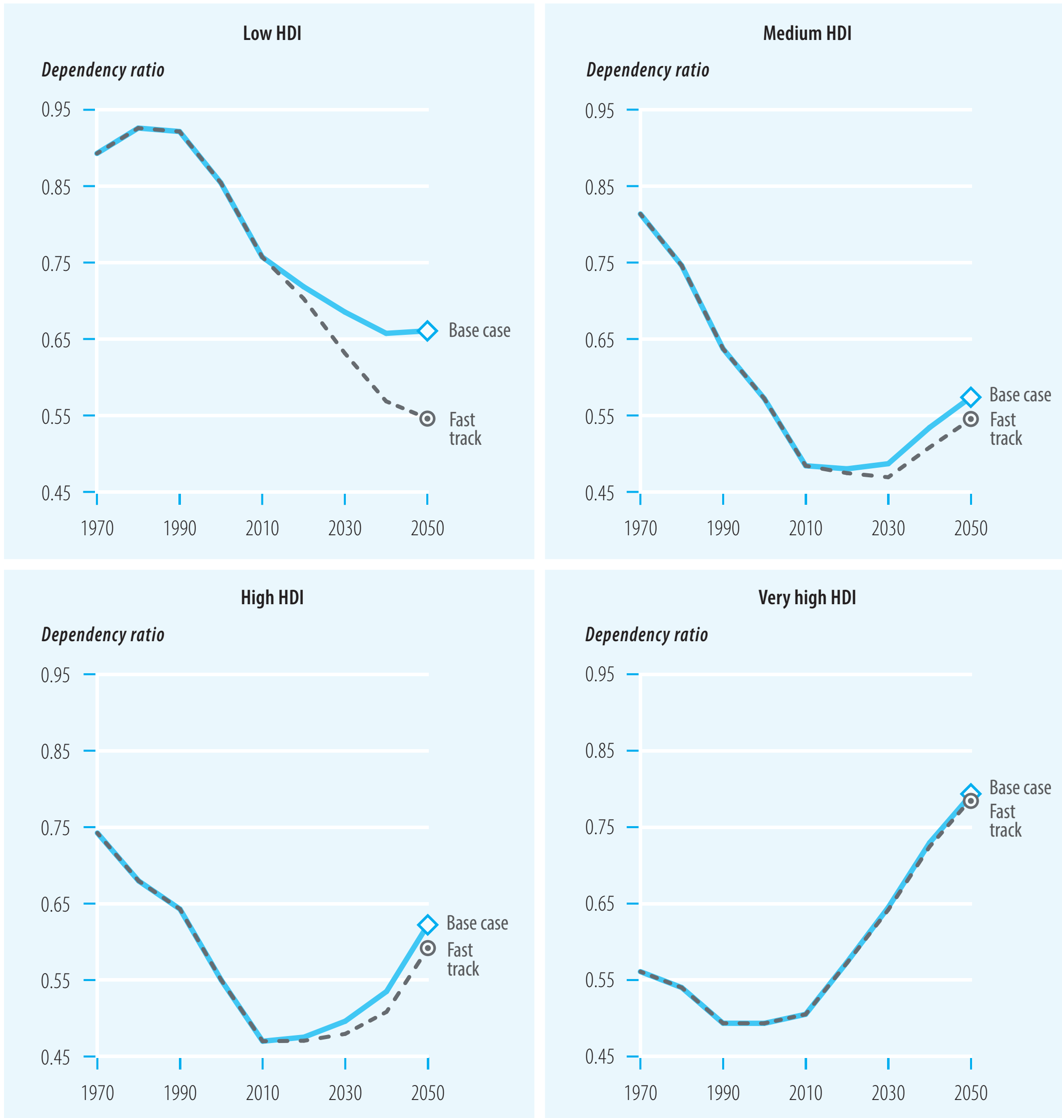
Brazil and Chile demonstrate the potential for ambitious education policies to alter dependency ratios. In Brazil, the dependency ratio rises 15.6 percentage points under the base case scenario but only 10.8 percentage points under the fast track scenario (table 4.4). Chile would see a similar increase, 20.2 percentage points and 17.3 percentage points.

The challenges differ considerably by country under the two scenarios. Under the base case scenario, China would experience a more rapid increase (27.3 percentage points) than, say, Thailand (23.9 percentage points) or Indonesia

Demographic trends are not deterministic. They can be influenced by education policies and sometimes by migration policies

FIGURE 4.5

Education policies can alter dependency ratios



Note: See *Technical appendix* for a discussion of the base case and fast track scenarios.
Source: HDRO calculations based on Lutz and KC (2013).

(8.7 percentage points), countries where even a more ambitious education policy would have only a limited impact on dependency ratios because education levels are already high.

Countries can respond to a declining labour force in various ways. They can reduce unemployment, promote labour productivity and foster greater labour force participation, particularly among women and older workers. They can also outsource work to offshore production and attract international migrants.[42]

Without proper policy measures, demographic dynamics can increase inequality in the short run, given that differences in the speed of the demographic transition across households give richer households an initial advantage. Declining fertility rates and shifts in age structures can affect economic growth.[43] Reinforcing the cross-country analysis conducted for this Report, a recent study finds that youth dependency ratios tend to be higher for poor households and lower for wealthier ones, especially in Latin America and Sub-Saharan Africa, and that differences in youth dependency ratios between rich and poor dissipate over time.[44] During demographic transitions,

TABLE 4.4

Trends in dependency ratios, selected countries, 1970–2050

Country	1970	1980	1990	2000	2010	Scenario	2020	2030	2040	2050
Bangladesh	0.929	0.946	0.859	0.704	0.560	Base case	0.462	0.434	0.433	0.481
						Fast track	0.457	0.422	0.418	0.465
Brazil	0.846	0.724	0.656	0.540	0.480	Base case	0.443	0.484	0.540	0.637
						Fast track	0.437	0.460	0.499	0.589
Chile	0.811	0.629	0.564	0.540	0.457	Base case	0.471	0.549	0.609	0.659
						Fast track	0.467	0.531	0.582	0.630
China	0.773	0.685	0.514	0.481	0.382	Base case	0.408	0.450	0.587	0.655
						Fast track	0.404	0.434	0.562	0.628
Ghana	0.934	0.946	0.887	0.799	0.736	Base case	0.704	0.656	0.643	0.645
						Fast track	0.686	0.595	0.548	0.532
India	0.796	0.759	0.717	0.638	0.551	Base case	0.518	0.496	0.491	0.511
						Fast track	0.510	0.474	0.463	0.480
Indonesia	0.868	0.807	0.673	0.547	0.483	Base case	0.452	0.457	0.504	0.571
						Fast track	0.451	0.454	0.501	0.567
Thailand	0.904	0.756	0.532	0.447	0.417	Base case	0.426	0.488	0.576	0.656
						Fast track	0.425	0.484	0.570	0.650
Turkey	0.850	0.787	0.671	0.560	0.478	Base case	0.458	0.467	0.504	0.585
						Fast track	0.450	0.443	0.473	0.547

Source: HDRO calculations based on Lutz and KC (2013). See *Technical appendix* for a discussion of the base case and fast track scenarios.

the wealthiest people tend to lead the decline in fertility, producing a short-term increase in income inequality as they capture the benefits of demographic change first. Then the middle class catches up as its members educate daughters and plan families, followed by the poor. Eventually fertility is lower across all income groups, and the economic benefits of the demographic dividend are spread more evenly.[45] This is consistent with previous studies for Latin America and Africa.[46]

This short-term rise in inequality is not inevitable, however, and can be influenced by public policies, especially in education and reproductive health, that enable the benefits of the demographic transition to reach all income groups at the same time. Consider the three countries with the largest declines in child dependency ratios: Côte d'Ivoire (with a GDP per capita in 2011 of $1,800), Namibia ($6,800) and Peru ($10,300). In Côte d'Ivoire, the dependency ratio fell most among the rich and least among the poor; in Namibia, it fell most in the middle of the income range; and in Peru, it fell across the board in roughly equal amounts.[47] See box 4.2 for a discussion of the distribution of the benefits of the demographic dividend in China and Ghana.

In 13 of 18 countries with a declining dependency ratio and rising female education over 1970–2010, rising labour productivity over 1980–2008 and falling unemployment over 2005–2010, the female labour participation rate grew faster than the overall labour participation rate over 2000–2004 to 2005–2010, indicating greater gender balance in the labour market. Employment, however, did not necessarily become easier as education levels rose. Indeed, in some countries, the labour market situation became tighter for better educated female workers. Additional policy measures are needed to promote labour market conditions that offer productive opportunities for a more qualified and expanded labour force.

BOX 4.2

China and Ghana: who benefits from the demographic dividend?

The global trend towards slower population growth and population ageing is driven partly by China, the world's most populous country, which is going through a demographic transition. For Sub-Saharan Africa, a fast track education policy with incremental enrolment gains could accelerate the demographic transition and generate a demographic dividend for the region. The cases of China and Ghana illustrate what can happen.

China

In 1970, youth constituted the largest share of China's population, resulting in a high dependency ratio of 0.770, with 1.08 boys for each girl among infants ages 0–4 (figure 1). By 2010, China's population pyramid looked completely different. As fertility rates fell, the share of the working-age population rose faster than the share of the youth population, lowering the dependency ratio to 0.382. The gender imbalance became more pronounced among infants, with 1.18 boys for each girl. The productive-age population (ages 35–50), currently the largest population share, will reach retirement in 15–25 years. By 2030, China will thus face the challenge of an ageing population, putting more pressure on the social sector and raising the dependency ratio. At retirement, this cohort will have a higher educational attainment than its predecessors 40 years ago.

Under the fast track scenario, with strong education policies, the age structure of China's population in 2050 will be transformed, with the population ages 60–64 becoming the largest cohort. The education level of the working-age group will rise considerably, contributing to a more productive workforce. A more skilled and productive workforce could offset some of the negative effects of a high dependency ratio and a large share of older people. In this scenario, the ratio of boys to girls will fall to 1.06, close to the global average.

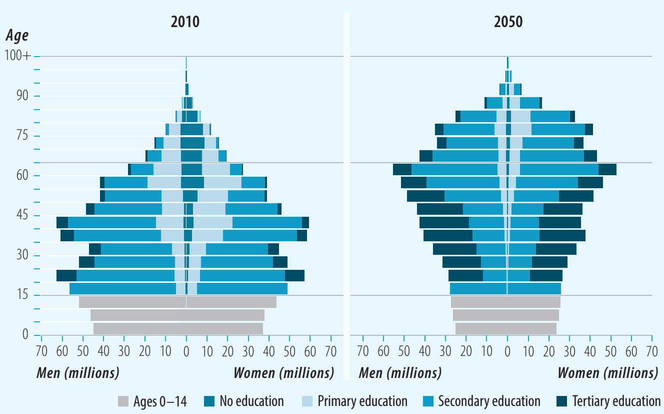
Ghana

In 1970, Ghana had a population of 8.7 million. The largest share of the population was young people, resulting in a high dependency ratio (0.934). The share of the population without formal education was also high, especially among women. By 2010, Ghana's population had nearly tripled, to 24.4 million. Its age structure had changed little, although improvements in life expectancy rounded out the middle of the pyramid. The youth population, though smaller than in 1970, remained large, and the dependency ratio was still high, at 0.736. Education levels, however, had improved considerably, and the share of people with primary and secondary education had increased.

Ghana's prospects for 2050 differ markedly under the two education policy scenarios. In the base case, which assumes constant enrolment ratios over 2010–2050, Ghana's population pyramid would remain triangular, with a large share of young people and a high dependency ratio (0.645; figure 2). The population is projected to reach 65.6 million in the base case scenario, but just 48.2 million in the fast track scenario.

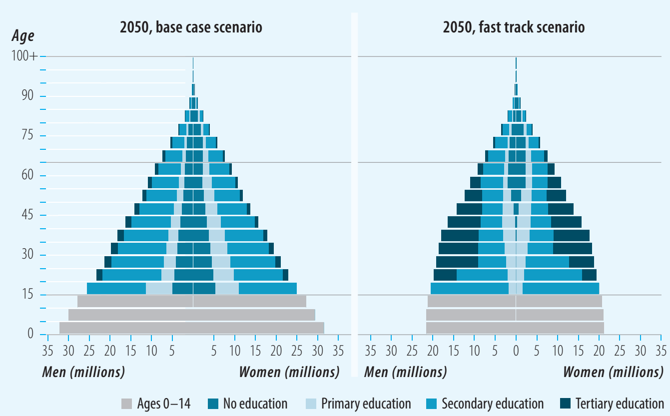
Under the fast track scenario, the demographic outlook would change considerably as falling fertility rates lower the dependency ratio to 0.532, mainly because of the decrease of the youth as a share of Ghana's total population. The share of working-age people with no education would also fall, implying a rise in productivity and improved capacity for benefiting from the demographic dividend, provided that job creation matches the labour supply of these new cohorts.

Figure 1 Demographic prospects for China



Source: Lutz and KC 2013. See *Technical appendix* for a discussion of the base case and fast track scenarios.

Figure 2 Demographic prospects for Ghana



Source: Lutz and KC 2013. See *Technical appendix* for a discussion of the base case and fast track scenarios.

Impact of the rate of population ageing

Populations are ageing faster than in the past, as fertility rates decline and life expectancy rises.[48] For example, for the share of the elderly population to double from 7% to 14% took more than a century (from 1865 to 1980) in France, 85 years in Sweden, 83 in Australia and 69 in the United States. Ageing is progressing faster still in developing countries. In eight of a sample of nine developing countries, the share of the elderly population is projected to reach 14% in 30 years or less (figure 4.6). The only exception is Ghana, where it is expected to take 50 years or more.

The rate of population ageing matters because if developing countries are still poor after the demographic transition, they will struggle to meet the needs of an older population. Many developing countries have only a brief window of opportunity to reap the full benefits of the demographic dividend of a larger working-age population.[49]

The need for ambitious policies

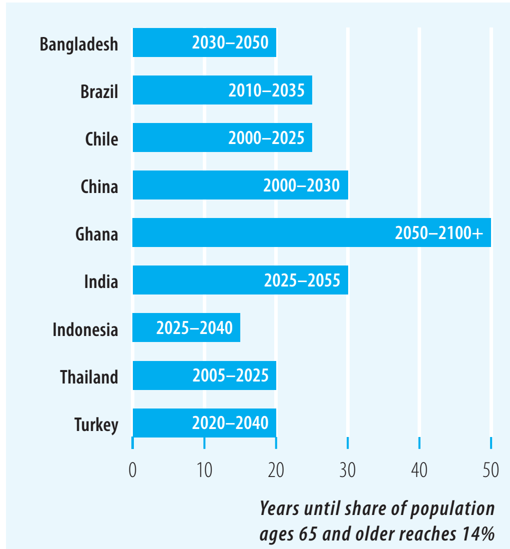
To accelerate and sustain development progress, countries need to adopt ambitious policies that expand women's education and that have cross-cutting benefits for human development. Timing is critical. Countries that act promptly to take advantage of the demographic dividend and avoid further environmental damage can reap substantial gains. Countries that do not could face high costs that would be compounded over time.

The importance of bold, prompt policy action can be demonstrated through two more scenarios that show the impact of different policy measures on projected HDI and its components in 2050. The base case scenario assumes continuity with historical trends and policies in recent decades. The accelerated progress scenario sets some of the choices and targets along 12 policy dimensions for aggressive but reasonable interventions to reduce poverty, expand infrastructure and improve governance. Examples of ambitious targets are a doubling of lending by international financial institutions over 10 years, a 50% increase in migration over 20 years,[50] a 20% increase in health spending over 10 years, a 20% expansion in infrastructure over 30 years and a 20% improvement in governance over 10 years.

The projections of the base case scenario are fairly optimistic in that they carry forward the momentum of advances over recent decades, including dramatic improvements in human development. Countries do much better under the accelerated progress scenario, with progress most rapid in low HDI countries (figure 4.7). Aggregate HDI rises 52% in Sub-Saharan Africa (from 0.402 to 0.612) and 36% in South Asia (from 0.527 to 0.714). Low HDI

FIGURE 4.6

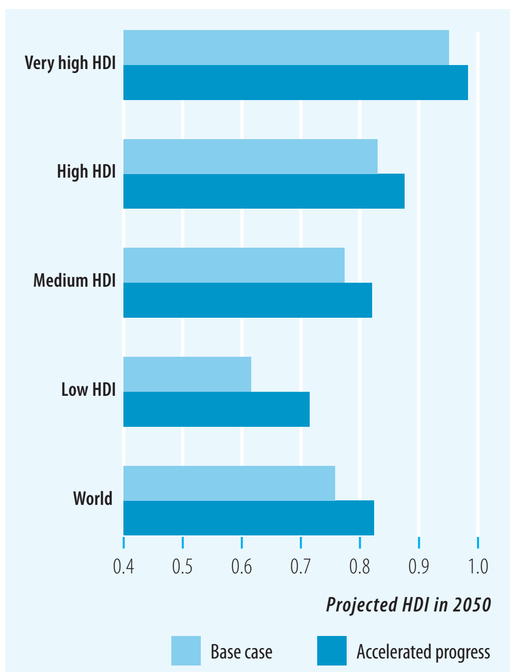
Populations are ageing more rapidly in developing countries



Source: HDRO calculations based on Lutz and KC (2013). See *Technical appendix* for a discussion of the base case and fast track scenarios.

FIGURE 4.7

Human development prospects for 2050 are greater under the accelerated progress scenario, especially for low HDI countries



Note: See *Technical appendix* for a definition of the base case and accelerated progress scenarios.
Source: HDRO calculations based on Pardee Center for International Futures (2013).

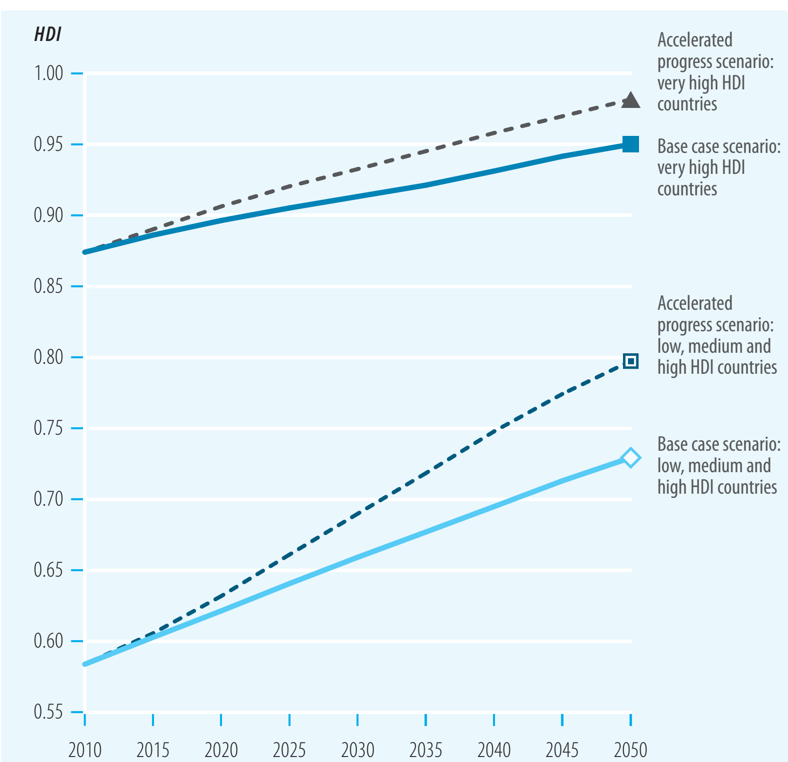
countries thus converge towards the levels of human development achieved by high and very high HDI countries.

Ambitious, fully integrated policies can thus provide strong leverage for advancing human development (figure 4.8). The effects are strongest for Sub-Saharan Africa and South Asia, followed by the Arab States and Latin America and the Caribbean. The impacts are weaker in Europe and Central Asia and in East Asia and the Pacific.

Across all regions, the greatest impacts result from policy interventions in health and education. In Sub-Saharan Africa, for example, ambitious policies raise HDI value in 2050 from 0.612 under the base case scenario to 0.651. In most regions, improving governance has the next greatest impact through progress on reducing corruption, strengthening democratic institutions and empowering women. In South Asia and Sub-Saharan Africa, however, infrastructure investment is even more important.

FIGURE 4.8

Human development outcomes through 2050 improve more under the accelerated progress scenario



Note: See *Technical appendix* for a definition of the base case and accelerated progress scenarios.
Source: HDRO calculations based on Pardee Center for International Futures (2013).

The two scenarios show notable differences in the individual dimensions of the HDI. In Sub-Saharan Africa, life expectancy rises from 53.7 years in 2010 to 69.4 in 2050 under the base case scenario, partly in response to sustained progress against HIV/AIDS and other communicable diseases, but to 72.9 under the accelerated progress scenario. Over the same period, the average years of formal education in Sub-Saharan Africa are projected to rise from 4.3 to 6.7 under the base case scenario, but to 8.1 under the accelerated progress scenario.

The gains under the accelerated progress scenario are even larger for GDP per capita (figure 4.9). This is true for all HDI groups, where differences across scenarios are considerable in both cases. Globally, GDP per capita would rise from $8,770 in 2010 to $17,873 in 2050 under the base case scenario and to $27,995 under the accelerated progress scenario. The largest differential gains would be in Sub-Saharan Africa and South Asia. In Sub-Saharan Africa, GDP per capita would rise from $1,769 in 2010 to $5,730 in 2050 under the base case scenario and to an impressive $13,210 under the accelerated progress scenario—more than double the level under the base case scenario. Under the accelerated progress scenario, South Asia would see a stunning rise from $2,871 to $23,661.

The differential rise in income directly influences poverty reduction. Under the base case scenario, income poverty almost disappears in China but decreases only marginally in Sub-Saharan Africa, as the population continues to grow, and remains high in India, which would still have more than 130 million poor people in 2030. Under the accelerated progress scenario, the number of poor people falls much more rapidly, nearly disappearing in some countries and regions (table 4.5).

Substantially reducing poverty by 2050 depends on ambitious policy measures. Failing to act boldly to avert the environmental disaster scenario, for instance, would severely inhibit poverty reduction.

Seizing the moment

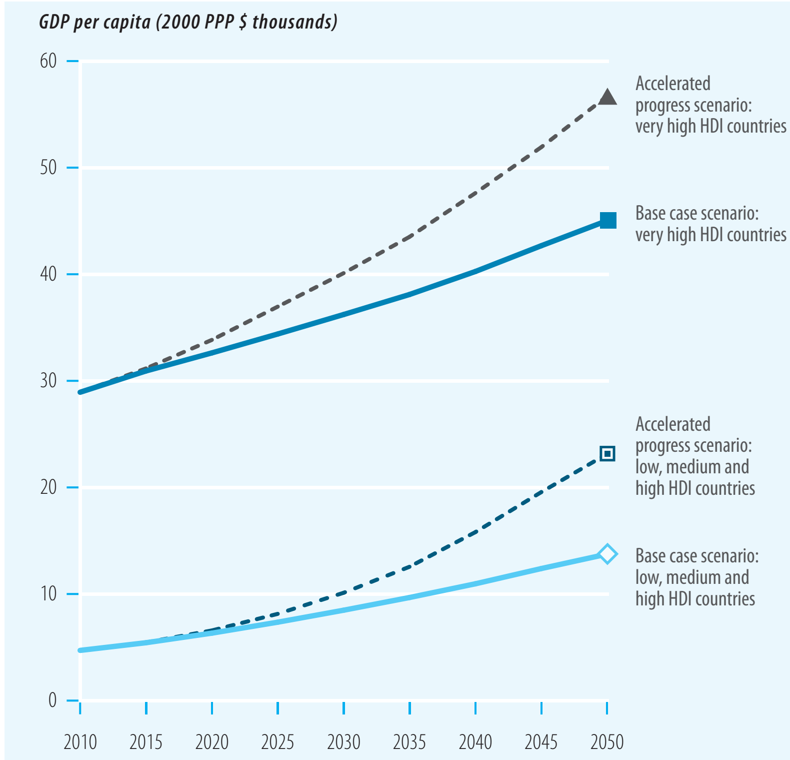
Greater progress in human development is both possible and imperative. But accelerating progress will require coordinated policy measures across development fronts. One of the most important of these is equity, because more-equitable societies fare better in most aspects of well-being and are more sustainable. Another is reducing child mortality: rapid progress is possible in all countries through education, particularly of women.

Policies also need to consider other forces that will influence development, especially people's meaningful participation in the processes that shape their lives. Demand for participation grows as people become more educated and more connected. Other major issues are environmental and demographic change; countries need to act during brief windows of opportunity to avoid high costs in forgone human development.

Most of the opportunities for sustaining and even accelerating the momentum in human development lie in the hands of national governments. In an increasingly globalized world, however, governments do not act alone. The final chapter considers the complex web of international arrangements with which national governments need to engage and how regional and global institutions can work more effectively for sustainable human development.

FIGURE 4.9

Advances in GDP per capita through 2050 are especially strong under the accelerated progress scenario



Note: See *Technical appendix* for a definition of the base case and accelerated progress scenarios.
Source: HDRO calculations based on Pardee Center for International Futures (2013).

TABLE 4.5

Number of people in extreme poverty by region and selected countries, base case and accelerated progress scenarios, 2010–2050 (millions)

Region or country	2010	2020	2030	2040	2050, base case	2050, accelerated progress
Arab States	25	19	17	16	17	1
East Asia and the Pacific	211	74	42	29	29	9
China	94	13	5	1	1	0
Europe and Central Asia	14	2	3	3	4	1
Latin America and the Caribbean	34	29	26	27	32	13
South Asia	557	382	243	135	81	13
India	416	270	134	53	21	2
Sub-Saharan Africa	371	333	297	275	267	60
World	1,212	841	627	485	430	96

Note: Extreme poverty is defined as $1.25 a day in purchasing power parity terms. See *Technical appendix* for a discussion of the base case and fast track scenarios.
Source: HDRO calculations based on Pardee Center for International Futures (2013).

“Let us join hands to try to create a peaceful world where we can sleep in security and wake in happiness.”

Aung San Suu Kyi

“The forces that unite us are intrinsic and greater than the superimposed influences that keep us apart.”

Kwame Nkrumah

5.

Governance and partnerships for a new era

Today's systems for international development and global governance are a mosaic of old structures and new arrangements. The rise of the South will make these systems more diverse: international cooperation is likely to involve an even more complex web of bilateral, regional and global processes. All these structures, however, will need to work better in concert—particularly for the provision of public goods. Duplication of effort and failure to agree on common norms and goals are not just inefficient, but potentially counterproductive, setting back human progress. It is vital to strengthen both global and regional organizations while extending representation and accountability to a wider group of states and stakeholders to reflect the emergence of these new forces. This chapter considers options and offers conclusions for this new era of partnership.

Countries of the South have been developing rapidly, and many are much more actively engaged on the world stage. They have been pursuing their individual and collective interests through a variety of channels, particularly regional arrangements and bilateral partnerships that permit them to engage on issues of their choosing, often very much on their own terms. Brazil, China, India and other emerging economies have forged deeper and stronger economic relations with their neighbours and across the developing world: they are rapidly expanding their global markets and production; they have presented innovative complements to the Bretton Woods financing institutions; they are increasingly influential in global regulation of trade, money and finance; and they are influencing culture, science, the environment, peace and security.

The new arrangements promoted by the South and the resulting pluralism are challenging existing institutions and processes in the traditional domains of multilateralism—finance, trade, investment and health—sometimes directly and sometimes indirectly through alternative regional and subregional systems. Global and regional governance is becoming a multifaceted combination of new arrangements and old structures that need collective nurturing in multiple ways. Reforms in global institutions must be complemented by stronger cooperation with regional institutions—and in some cases broader mandates for those regional institutions. The accountability of organizations must be extended to a wider group of countries, as well as to a wider group of stakeholders. In some respects, progress has become more difficult. Country groups are in flux, their coordination mechanisms have become increasingly unwieldy and in many cases deliberations among groups have come to a near standstill.[1] The growing diversity of voices in international governance thus brings both opportunities and challenges for human development.

At the same time, there are signs of a more diverse global civil society.[2] New voices from the South are calling for more accountability and broader representation. Civil society organizations have already influenced global transparency and rule setting on aid, debt, human rights, health and climate change. Civil society networks can now take advantage of new media and new communications technologies that make it easier to establish links between local and transnational activists and allow people to share ideas and concerns and to generate collective perspectives in a global public sphere.

In an interconnected world, every country's actions have implications for its neighbours and, ultimately, for people everywhere, today and in the future. Responsible sovereignty requires carefully and conscientiously taking into account the global and regional consequences of national behaviour.

Some major challenges can be addressed constructively at the regional or bilateral level, including regional trade and security issues. But these issues also require longer term international solutions. The continuing impasse in negotiations at the Doha World Trade Organization (WTO) round impedes progress towards agricultural self-sufficiency and the eradication of poverty and hunger in Africa and elsewhere in the developing world. Other urgent issues such as climate change can be resolved only globally, and failing to act on them collectively today will make them even more acute and costly in the future.

A new global view of public goods

Areas of global international concern meriting urgent attention include trade, migration, climate change and development. Each area, along with its governance, has been significantly altered by the rise of the South

This changing world has profound implications for the provision of public goods such as clean air and other shared resources that the market alone produces or allocates insufficiently or not at all and for which state mechanisms are essential.[3] Desirable global public goods include a stable climate and a healthy global commons. They require rules for more stable financial markets, progress on trade reforms (such as those involved in the Doha round of trade negotiations) and mechanisms to finance and produce green technologies.

To that end, we need to rethink what is public and what is private, what is best provided unilaterally and what multilaterally, and, importantly, when taking collective action, what our respective responsibilities are. Public provision of goods is important at the national and global levels, but coexistence of the public and the private is inevitable (box 5.1). For example, in responding to climate change and the depletion of natural resources such as coal, oil and water, governments have partnered with the private sector to invest in research and development for alternative sources of energy.

Areas of global international concern meriting urgent attention and cooperation include trade, migration, climate change and development. Each area, along with its governance, has been significantly altered by the rise of the South. At the same time, the new position of the South presents opportunities for agreement and improved cooperation.

Trade

Countries throughout the South would benefit from the completion of the far-reaching international trade agreements envisioned by the Doha development round of the WTO. However, the Doha round remains stalled while an increasingly complex web of bilateral

BOX 5.1

The shifting line between public and private in transportation

Whether mass transportation is provided publicly or privately has an important bearing on shared development goals of sustainability and affordable access. A society more concerned with equitable outcomes is more likely to provide greater amounts of public transportation. Cost savings from economies of scale are passed on to the public in the form of relatively cheap access to public transportation. In more egalitarian societies, low-earning groups, including students, the elderly and the disabled, are likely to receive further discounts and subsidies. The idea is to reduce the excludability of transportation services.

Mass public transport can minimize the congestion and carbon emissions from vehicles traditionally associated with private transportation. When a sizeable public transportation system already exists, it can be more amenable to the quick introduction of greener technologies. For example, New Delhi mandates the use of compressed natural gas in public buses, a much greener fuel than gasoline (the buses are run by both the public and the private sectors).

Environmentally conscious societies tend to incentivize the use of public over private transport through congestion and carbon taxes on private vehicles, as in London, Milan and Singapore (and considered by San Francisco). Making public transportation affordable is not the only challenge. Because more-affluent people generally prefer private transport, the answer is to make public transport less of an inferior good by ensuring safety, efficiency and reliability.

Public-private partnerships could be one way forward. They tend to result in more efficient construction and operation of projects. The public partner safeguards property rights, provides the regulatory framework and sometimes uses subsidies to meet the gap between private and social returns.

Most railway projects in Latin America and the Caribbean have been implemented through public-private partnerships. India has one of the most rapidly expanding public-private partnership programmes in transport; between 1995 and 2006, about 230 public-private partnership projects costing $15.8 billion were implemented. China has extensively used the build-operate-transfer model of public-private partnerships for toll roads and other infrastructure, especially since the 2000s.

Spurred by increasing gas prices, private companies are likely to conduct research on greener fuels and technologies on their own account. However, public funding and incentives are also required to ensure socially optimal levels of research into greener fuels and technologies. Indeed, green technological breakthroughs are one of the most essential global public goods and must remain in the public domain.

Source: World Bank 2003, n.d.; Cheng, Hu and Zhao 2009.

and regional trade arrangements has developed. These arrangements, involving fewer and sometimes more-homogeneous players, can align interests and realize mutual gains for those engaged, without the deadlock encountered at the multilateral level.

Subregional trade and investment groups, such as the Economic Community of West Africa States and the Common Market of the South, have facilitated greater economic interaction and policy cooperation in other areas as well, from security to water resource management. These bilateral and regional arrangements offer opportunities for further South–South economic integration and provide a training ground for building competitive strengths.[4]

Still, despite the benefits of bilateral and regional trade agreements, without better global trade rules and coordinating mechanisms there are considerable efficiency costs. While encouraging freer trade among members, trading blocs tend to erect barriers to free trade with each other, ultimately reducing global welfare.[5] Other efficiency losses can result from the increased market power that countries gain by consolidating into trading blocs.[6] As research for this Report has shown, freer and fairer trade rules can accelerate human development when coupled with sustained public investment in human capabilities—including health, education and other social services—and essential infrastructure—such as modern transportation and telecommunications links.

Many aspects of a freer, nondiscriminatory trade regime are best overseen by a stronger, reinvigorated set of multilateral agreements, but since regionalism may be here to stay, one way forward is to gradually "multilateralize regionalism". This would involve the WTO's initiating "soft-law" ideas, such as the negotiation of voluntary best-practice guidelines for new regional trade agreements and modifications of existing ones: the WTO could, for example, organize a hierarchy of guidelines for North–North, North–South and South–South regional trade agreements.[7]

Migration

In 2010, at least 25 economies of the South reported remittance inflows from migrants exceeding 10% of GDP. Yet governance of migration is largely unilateral, by destination countries or bilateral. There are few mechanisms for multilateral coordination.[8] Real human development concerns are at stake, most importantly, the rights of migrants. While remittances provide income for poor households, social upheaval and disruption also come with large-scale migration. Multilateral mechanisms could liberalize and simplify channels that allow people to seek work abroad, ensure basic rights for migrants, reduce transaction costs associated with migration and improve outcomes for migrants and destination communities alike.[9]

With the rise of the South, migration patterns are changing. Nearly half of remittances sent home to countries in the South come from emigrant workers in other developing countries. In recent years, regional organizations and economic integration processes have added migration to their agendas. These include the Association of Southeast Asian Nations, the African Union, the Common Market of the South and the Southern African Development Community.[10] In 2012, the Global Forum on Migration and Development held discussions on South–South migration for the first time.

With the rise of the South, migration patterns are changing. Nearly half of remittances sent home to countries in the South come from emigrant workers in other developing countries

While the governance of migration is not inevitably or exclusively a multilateral issue, international coordination mechanisms could provide a supporting framework for the emerging networks of regional and bilateral agreements. The beneficial impact of these dialogues could be multiplied by global initiatives on migration issues.

With the continuing growth in annual international migration—from an estimated 70 million four decades ago to more than 200 million today, originating largely from the South—there is a growing need for rules to protect the rights of migrants and provide agreed international norms for the flow of immigrants between source and host countries.[11] Such rules would benefit all parties, in both economic and social terms, while the costs of inaction will continue to mount. These costs are not solely or even primarily financial: they include the profound human costs of forcibly prolonged family separation, all-too-common mistreatment in the workplace and the unnecessary and indefensible degradation of human dignity when foreign resident workers are not accorded basic legal rights.

Climate change

Climate change is perhaps the most widely recognized issue that requires global cooperation through multilateral agreements. The South is going beyond bilateral approaches by incorporating ways to tackle climate change into national development strategies. China has pledged to reduce its carbon intensity (carbon dioxide emissions per unit of GDP) 40%–45% from 2005 levels by 2020.[12] In 2010, India announced voluntary targeted reductions of 20%–25% in carbon intensity.[13] Korean lawmakers approved a national emissions trading programme in March 2012 to reduce emissions from factories and power plants.[14] At the UN Conference on Sustainable Development in Rio de Janeiro in 2012, Mozambique announced a new Green Economy Roadmap. And Mexico recently enacted the world's first comprehensive climate change law, aiming to cut emissions and build the renewable energy sector.[15]

Addressing climate change requires true multilateralism

Addressing climate change requires true multilateralism. For example, to reduce global greenhouse emissions by the amount required, the North and the South have to reach a mutually acceptable and fair agreement on how to share responsibilities while ensuring that the legitimate development aspirations of the South can be met.

The 2012 UN Conference on Sustainable Development in Rio de Janeiro created opportunities for collaboration and alliances among groups of rich and poor; public and private; and civil, corporate and state bodies. For example, Unilever, Coca-Cola and Walmart were among 20 large multinational corporations that committed, through the Consumer Goods Forum, to eliminating deforestation from their supply chains.[16] Microsoft promised to go carbon-neutral by 2012. And FEMSA, the Latin American soft drink bottler, said it would obtain 85% of its energy needs in Mexico from renewable resources.[17] Despite many promising initiatives though, a wide gap remains between the emissions reductions needed, on the one hand, and the modest reductions promised, on the other.

Development cooperation

An essential component of more-inclusive international governance should be more-inclusive and more-effective forms of development cooperation. Developing countries are increasingly providing development assistance and investment bilaterally and regionally, through new financing arrangements and technological cooperation that offer alternatives to or complement the approaches of traditional donors and strengthen choices for aid recipients.

In 2011, developing countries and civil society organizations endorsed the Busan Partnership for Effective Development Co-operation at the 4th High Level Forum on Aid Effectiveness in Busan, Republic of Korea. Ownership, focus on results, inclusive development partnerships, mutual accountability and transparency were selected as the underlying pillars for a new global monitoring framework. Stronger emphasis was placed on country systems as the way of doing business, coupled with a demand on behalf of partner countries to explain any deviance. Traditional Organisation for Economic Co-operation and Development (OECD) donors recognized that a different governance structure would be needed to support a broader partnership and accommodate emerging economies.[18] Based on the core principles of national ownership and capacity, this partnership would establish an international governing mechanism and indicators for assessing progress.

Along with traditional donors, new development partners, including Brazil, China and India, endorsed the principles of national ownership and capacity building. However, the Busan Declaration noted that these partners have domestic development challenges of their own and have their established methods of foreign cooperation. This was reflected in the text of the declaration, which stated that for these countries the "principles, commitments and actions agreed in Busan shall be the reference for south-south partnerships on a voluntary basis".[19] Moving forward, the OECD's Development Assistance Committee and the United Nations Development Programme are to jointly support the new Global Partnership for Effective Development Cooperation