

# 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.<sup>1</sup> 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.<sup>2</sup> 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

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.<sup>3</sup> 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

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

### 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.<sup>4</sup>

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.<sup>5</sup> Other efficiency losses can result from the increased market power that countries gain by consolidating into trading blocs.<sup>6</sup> 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.<sup>7</sup>

## 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.<sup>8</sup> 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.<sup>9</sup>

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.<sup>10</sup> In 2012, the Global Forum on Migration and Development held discussions on South–South migration for the first time.

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.<sup>11</sup> 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

---

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

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.<sup>12</sup> In 2010, India announced voluntary targeted reductions of 20%–25% in carbon intensity.<sup>13</sup> Korean lawmakers approved a national emissions trading programme in March 2012 to reduce emissions from factories and power plants.<sup>14</sup> 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.<sup>15</sup>

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.<sup>16</sup> 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.<sup>17</sup> 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 Cooperation 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.<sup>18</sup> 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”.<sup>19</sup> 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

---

Addressing climate change requires true multilateralism

through the UN Development Cooperation Forum. Despite signatories' commitment to transparency, the outcome document does not contain any other time-bound measurable commitments or targets to which citizens can hold them to account.

The post-Busan architecture has yet to take shape. But some intermediate priorities have surfaced. One is for traditional donors to meet their commitments from the 2005 Group of Eight Gleneagles summit to increase aid and to deliver on better coordination and alignment.<sup>20</sup> Traditional donors can also work with emerging donors, who can contribute knowledge and experience from a developing country perspective. The United Nations, with its universal membership, is well positioned to engage partners from the South in such trilateral development cooperation through the UN Development Cooperation Forum. One of the main tasks is to achieve better alignment between North–South and South–South development cooperation and global norms.

The Busan agreement marks a first step in reshaping development cooperation so that it can be more effective and better harness the potential of emerging countries. As with other global public goods, once common understanding is reached at the global level, operationalizing the principles can in most cases be decentralized to national governments using the agreed common policy frameworks. Take the Millennium Declaration of September 2000 and the global agreement on the Millennium Development Goals that eventually emerged. Agreement on these goals gave impetus to a wide range of activities and institutions by highlighting a simple truth: enhancing the capabilities of people and advancing the development of all societies are important global public goods.<sup>21</sup> The actual progress in the achievement of these goals has been very much at the country level, through national initiatives and ownership.

## Better representation for the South

---

The current institutions and principles for international governance require rethinking or at least recalibrating to accommodate the growing diversity in voice and power and to sustain

long-term development progress. Many were designed, long before the rise of the South, for a post–Second World War order that does not match contemporary reality.

As a consequence, these institutions greatly underrepresent the South. Voting quotas in the Bretton Woods institutions are weighted towards countries in the North, despite changing global economic realities. For example, China, which is the world's second largest economy and holds more than \$3 trillion in foreign reserves, has had a smaller voting share in the World Bank than both France and the United Kingdom.

Similarly, the United Nations Security Council makes decisions on global peace and security with a permanent membership that reflects the geopolitical structure of 1945. At the 2012 United Nations General Assembly meeting in New York, several heads of government from the South again voiced their long-standing demands for permanent seats on the council for Africa, Latin America and such unrepresented developing country powers as India.<sup>22</sup>

The major international institutions need to be more representative, transparent and accountable. The Bretton Woods institutions, the regional development banks and even the UN system all risk diminishing relevance if they fail to represent all member states and their people adequately. These bodies need to respect and draw constructively on the experiences of both the South and the North and to aim for equitable and sustainable outcomes for present and future generations.

At the same time, the rising South has to assume more responsibility on the global stage, in line with its increasing economic power and political clout, including by contributing more resources to multilateral organizations.<sup>23</sup> The South has to take larger leadership roles at both the regional and global levels. Greater transparency and accountability in global institutions, while desirable in and of themselves, will facilitate more such participation by the South.

There have been some positive moves in this direction. Developing countries are already playing a greater role in the Bretton Woods institutions and in global dialogues through the summits for Group of 20 (G20) heads of state. The OECD has opened membership to some

---

Current institutions and principles for international governance require rethinking to accommodate the growing diversity in voice and power and to sustain long-term development progress

International governance is increasingly influenced by a multitude of voices and actors through global movements and transnational activist networks

developing countries. Developed countries should welcome these changes, as the success of the South extends benefits to the North and advances the prosperity of all.

Indeed, some intergovernmental processes would be invigorated by greater participation from the South, which can bring substantial financial, technological and human resources. Emerging economies could lead in achieving the Millennium Development Goals, innovating in climate change mitigation and concluding the Doha development round.

Global organizations that are more representative of the world's countries would in principle be accountable to the world's people through national governments. However, state mediation alone is inadequate. International governance is increasingly influenced by a multitude of voices and actors through global movements and transnational activist networks. Indeed, this has been the thrust of antiglobalization movements, sometimes self-described as “global democracy” movements, which cut across a range of issues, articulate diverse concerns and embrace an almost endless variety of political messages but share the basic concern of making transnational power and governance accountable to civil society.

To this end, today's multilateral institutions are encouraged to recalibrate their representation and guiding principles, in areas such as:

- *Voice*. Matching the circles of stakeholders and decisionmakers so that all have an effective voice in global matters that concern them.
- *Public goods*. Building bridges across organizational lines to facilitate the multilevel, multisector, multiactor production that many global public goods require.
- *Leadership*. Encouraging global leaders, state and nonstate, individually or collectively, to exercise leadership to assist the international community on issues that are caught in global policy stalemates and problems that are reaching crisis proportions.
- *Convening*. Realigning existing organizations to reflect changing global economic and political realities, and vesting them with the authority and expertise to effectively mediate among different stakeholders.
- *Information and resources*. Helping poorer countries in the South participate more

effectively in global governance through better access to information, technical assistance and finance.

- *Citizen participation*. Drawing on the wealth of ideas and views emerging from citizen networks and from participants previously sidelined from the global discourse.

International organizations are becoming more inclusive and sensitive to the requirements of a rapidly changing world. The United Nations Economic and Social Council, for example, has established the Development Cooperation Forum to promote more broad-based discussion of development assistance. There is scope for renewed multilateralism. However, there have been only modest governance reforms at the International Monetary Fund (IMF) and the World Bank. The United Nations Security Council's core structure remains unchanged, despite decades of debate. More-determined reform is needed for multilateral institutions to facilitate cross-national collaboration on stalemated global issues in ways viewed as fair and just by all countries.

## Global civil society

International governance institutions can be held to account not just by member states, but also by global civil society, which can shape the exercise of power and act as a countervailing force to states and markets. All kinds of voluntary associations—including nongovernmental organizations, social movements, advocacy groups, unions and community groups—have used channels of influence such as elections, lobbying, media and public campaigns to become drivers of social change within many leading countries of the South—including Brazil, Egypt, India and South Africa. In the Indian state of Kerala a rich history of civic engagement influenced the government to prioritize extensive social rights and equity-promoting public policies. In Brazil, the Sanitarista movement of health care professionals played a central role in developing the country's public health care system and expanding services to the poor.<sup>24</sup>

National civil society groups are increasingly using their experience engaging with national governments to open up independent

networks of North–South and South–South dialogues outside traditional official international governance channels. These transnational networks are laying the groundwork for an emerging global civil society that is pushing for action on issues ranging from climate change to migration policy to human rights.

The potential for global civil society to influence decisionmaking on critical global issues has been greatly magnified by the Internet revolution, which enables hyperconnectivity of disparate groups and offers platforms for citizens' ideas and concerns to spread rapidly around the globe. People can speak to people, and communities of scientists and other professionals can share ideas, unmediated by state power or markets. This new ease of global communication is fuelling creative partnerships, empowering individuals and social organizations, leading to new forms of solidarity and allowing people to interact and express their values internationally.

The recent uprisings in several Arab States countries, the culmination of complex historical developments, have shown that social media is a force that world leaders and global institutions ignore at their peril. The rapid spread and wide response to the video *Kony 2012*, about indicted war criminal Joseph Kony of the Lord's Resistance Army, showed that social media can engage many millions of people in discussion of important issues within days.<sup>25</sup> There may be disagreement over the legitimacy of particular concerns and platforms, but the rapid sharing of information across social networks clearly sways public opinion on issues that matter to the global citizenry and ultimately influences international governance.

Indeed, one of the most valuable tools of global civil society is the ability to diffuse new norms that transform the behaviour of state and private actors. By taking up and framing issues and pressuring states, civil society networks can put new issues on the table and influence government and international action towards new treaties, stronger enforcement mechanisms and even direct intervention. Classic examples of civil society influence on global norms include the global diffusion of the women's suffrage movement, the antislavery movement and the Red Cross movement that led to the production of the Geneva conventions and the

International Federation of the Red Cross and Red Crescent Societies. More recently, global civil society networks have been influential in institutionalizing anti-land mine legislation, more open access to AIDS medicines and campaigns opposing violence against women.

While global civil society holds much potential for influencing international governance norms and decisionmaking, the likely contribution of civil society organizations and transnational networks should be kept in perspective. Higher levels of resourcing lead the international nongovernmental organizations of the North to wield disproportionate influence in the global civil society space.<sup>26</sup> The international human rights regime, for example, often emphasizes civil and political rights, which are of particular concern to civil society in Eastern Europe, rather than social rights, which figure much more centrally in the demands of popular movements in the South. Limitations on civic space as well as other constraints can affect the capacity of civil society organizations to function.<sup>27</sup> A further consideration is one of transparency, as it can be unclear how autonomous civil society groups are from state and market forces. When civil society organizations become extensions of state power, economic influence or traditional authority, civil society activity may magnify rather than reduce inequalities and instability.<sup>28</sup>

The future legitimacy of international governance will depend on the capabilities of institutions to engage with citizen networks and communities—understanding their concerns and borrowing from their ideas and approaches to find direction for their own efforts and energies. Such engagement will maximize the legitimacy of their actions and ensure accountability to the citizens of member states (box 5.2). The idea of ecological citizenship, for example, may be a promising way to construct from the ground up global public opinion on the provisioning of global public goods.<sup>29</sup>

To be effective, international organizations need to form productive partnerships with social media communities and nongovernmental organizations in the South and North alike. They should engage with citizen groups to support policy changes and a transition towards more-equitable principles and institutions of

---

Global civil society has the ability to diffuse new norms that transform the behaviour of state and private actors

### A world parliament for global democracy?

Legitimacy and representativeness of the world's people in global decision-making are imperative for the governance of global issues, but global decisionmaking bodies have no institutional mechanisms for effective and influential citizen participation. At a time when intergovernmental decision-making has shown its limits, the quest for equity and sustainability and the urgency of addressing defining challenges for our planet require the engagement of the global citizenship.

A world parliament would complement the United Nations General Assembly—either formally integrated in the UN system or instituted as a separate body. This idea is not new, but as it matures, it is receiving increasing support from civil society actors and regional parliaments (including the European, Latin American and African Parliaments) and was recently highlighted in the Manifesto for Global Democracy put forward by a multinational group of intellectuals.<sup>1</sup>

A world parliament would be composed of delegates from national parliaments, representing multiple political parties from each country. Since the great majority of national parliaments are democratically elected, such

a body would have a high level of representativeness and political accountability. A world parliament would serve as a link between national policymaking and global decisionmaking, providing incentives for national parliaments and governments to consider the implications of decisions beyond national borders and instilling national parliaments with knowledge and experience on governing global issues.

This assembly could have one extended annual session, during which it would issue recommendations and add agenda items to the UN General Assembly and, by a qualified majority, submit agenda items to the UN Security Council for debate and decisions. The deliberations would possess a high moral and political authority, although the final decisionmaking power would remain with national governments. The composition of each national delegation could be determined either by national parliaments or through special elections allowing citizens to choose representatives for the world parliament. Delegation size would be proportional to a country's population, an approach considerably different from international bodies where voting quotas are based on monetary contributions.

1. Beeston 2012.

international governance. The World Health Organization, for example, has had to manage state interests carefully and adjust to the emphasis on privatizing health services that became dominant in the 1980s. Its core commitments to public health and its ties to civil society, however, have enabled it to continue to pursue policies that emphasize a rights-based approach to health.<sup>30</sup>

### Towards coherent pluralism

The challenge facing the multilateral system in response to the rise of the South is not a false choice between globalism and regionalism or between older structures devised and managed by the traditional powers of the North and newer arrangements responding to the needs of the developing world. Rather, it is integrating, coordinating and in some cases reforming these institutions so that they can all work more effectively together. Diversity and flexibility in global governance mechanisms can be net positives for the international system but cannot substitute for the global pursuit of solutions to problems that are inherently global in nature. Policymakers working both regionally and internationally should strive towards a more coherent pluralism in multilateral governance,

with shared norms and goals supporting varied yet complementary regional and global development initiatives.

Recent experience in much of the South has shown that some public goods can be effectively provided at the regional level. As noted in chapter 2, regional institutions can sometimes respond to regional needs faster and more efficiently than can global forums—for example, programmes for eradicating endemic diseases, protecting shared ecosystems and removing barriers to intraregional commerce. In such cases, it makes sense for like-minded neighbouring states to address these challenges cooperatively while pursuing global responses to these issues where needed.

Increasing regional cooperation can also have disadvantages—adding further complexity to an already diverse array of multilateral institutions, with all the attendant risks of exclusion, duplication and interagency competition. In many areas, regional institutions have the potential to complement global structures, even if that kind of coordination seems rare or inadequately synchronized today.

Global governance arrangements must respect the mixed strategies that countries are choosing. It is clear that developing and emerging economies are choosing to cooperate in different ways—bilaterally, regionally and

The challenge facing the multilateral system is not a false choice between older structures devised by the North and newer arrangements responding to the needs of the developing world. It is integrating, coordinating and in some cases reforming these institutions so that they can work more effectively together



internationally. Over time, as new sets of challenges have emerged, countries have created new forms of governance to deal with these. In finance, for example, countries want to diversify their exposure and their “insurance policies”. They seek to use a mixture of national reserves, bilateral credit lines, regional arrangements and the IMF. The international regime needs to be pluralist while ensuring that cooperation at the regional and subregional levels is consistent with mechanisms and policies at the international level.

The ultimate purpose of this “coherent pluralism” is to ensure that institutions at all levels work in a coordinated fashion to provide global public goods. The complementarity not just between global and regional institutions, but also across public, private and civil society organizations, has the potential to be constructive, even if it may appear fledgling and inadequate at present. Where new arrangements and new partnerships arise to meet the gaps left by old arrangements, they should be encouraged, avoiding duplication to the greatest extent possible. New arrangements at all levels must work in concert with each other and in step with existing multilateral organizations, aligning interests and sharing responsibilities.

While pluralism and greater diversity are welcome developments, duplication and inefficiency occur among the plethora of new organizations. Moving towards a coherent structure, some organizations will survive, and others will be deemed redundant.

The governance of global public goods for sustained progress in human development requires effective multilateralism. International institutions can also provide guidance on human rights and other universal principles and arbitrate in such areas as public international law. However, multilateralism will need to be more flexible to deal with new challenges and geopolitical realities. In a coherent pluralistic system, international institutions can serve as coordinating bodies, playing a catalytic or convening role for all stakeholders. To do this, they need the mandate and sufficient expertise and resources to mediate and facilitate, to analyse and respond to often divergent interests and to propose workable and mutually beneficial outcomes. To fully engage the South, many international organizations need updating

and transforming. The South in turn is more likely to use and fully support multilateral institutions that are seen to be acting as much in the interests of the South as in the interests of developed countries.

### Financial architecture: redesign for the rising South

The rise of the South is creating new patterns of resource accumulation, potentially leading to a denser, multilayered and more heterogeneous financial architecture. This could promote financial stability and resilience, support long-run productive capacities, advance human development and enlarge national policy space.

In some cases, these emerging institutions and arrangements could substitute for some of the functions of the Bretton Woods institutions, but in most cases, they complement the existing global financial architecture. Moreover, emerging institutions may prove transformative by prodding the Bretton Woods institutions to respond to concerns about representation, governance principles and conditionalities.

The South has already developed several alternative institutions and approaches, including regional monetary and support arrangements:

- The Chiang Mai Initiative emerged in the wake of the 1997 Asian financial crisis, taking the form of a series of swap arrangements among Asian countries. It evolved into the Chiang Mai Initiative Multilateralization, which allows members to draw on the multilateral swap facility to address balance of payments and short-term liquidity difficulties.
- The Arab Monetary Fund, founded in 1976 by the 22 member countries of the League of Arab States, has some \$2.7 billion to support emergency financing for member countries as well as broader monetary cooperation. There is also an aspiration for a unified Arab currency.<sup>31</sup>
- The Reserve Bank of India recently announced a \$2 billion swap facility for members of the South Asian Association for Regional Cooperation.<sup>32</sup>
- The Latin American Reserve Fund, with a capitalization of about \$2.3 billion, offers balance of payments support to members. It also guarantees third-party loans and

---

The ultimate purpose of “coherent pluralism” is to ensure that institutions at all levels work in a coordinated fashion to provide global public goods

facilitates reserve investments and regional coordination of monetary policies. Its potential is limited by its incomplete regional membership; Brazil, the region's largest economy, does not participate.<sup>33</sup>

- The Andean Development Corporation is gaining attention due to its fourfold growth in lending over 1991–2007 and almost exclusive ownership by members, nearly all of which are developing countries (except Portugal and Spain).<sup>34</sup>

Such regional arrangements, however, do not necessarily reduce the role of the IMF. Large disbursements from the funds can require borrowing countries to be under IMF surveillance programmes, as with the Chiang Mai Initiative Multilateralization (box 5.3).

The evolving regional financial architecture fostered by countries of the South offers renewed space for policies that emphasize pragmatism rather than ideology and ensures that conditionality is narrow and appropriate to the country (box 5.4).<sup>35</sup> Regional institutions that lend closer to home are also more likely to design programmes that are more sensitive

to political concerns and economically appropriate, with light-touch surveillance and less emphasis on conditionality.

Some institutions, such as the nascent Bank of the South,<sup>36</sup> renounce conditionality altogether. Others, including the Chiang Mai Initiative Multilateralization and the Arab Monetary Fund, use conditionality only in specific circumstances, and it remains a point of discussion among members. Still others, such as the Latin American Reserve Fund, apply surveillance but do not use the IMF's top-down approach and instead collaborate with borrowing governments.

## Regional trade agreements

Regional and subregional trade arrangements have expanded and deepened in Africa, Asia and Latin America, even as the Doha round of global trade negotiations has stalled. Agreements that open up South–South trade hold enormous potential, with benefits at least as large as those providing greater access to markets in the North. OECD estimates

### BOX 5.3

#### Regional finance in Asia: Chiang Mai Initiative Multilateralization and the Asian Development Bank

The current financial crisis has been a powerful impetus for expanding the scope of the Chiang Mai Initiative, a regional agreement among the Association of Southeast Asian Nations, plus China, Japan and the Republic of Korea (ASEAN+3). In early 2009, the initiative was multilateralized and renamed the Chiang Mai Initiative Multilateralization. At that time, disbursements of more than 20% of the credits available to a country required that the borrowing country be under an International Monetary Fund (IMF) surveillance programme to address the difficult task of devising and implementing regional surveillance.

ASEAN+3 members have continued to deepen the Chiang Mai Initiative Multilateralization. In May 2012, the size of the currency swap pool was doubled to \$240 billion. For 2012–2013, the need to be under an IMF programme does not become operative until the swap drawn equals 30% of the maximum for the country (40% in 2014, pending the outcome of current discussions). The maturity of both the IMF-linked and the delinked swaps were lengthened. And for the first time, a precautionary credit line facility was introduced, allowing members to draw on swaps governed by a formula based on country size. (The Asian Bond Market Initiative was also expanded in May 2012.)

The ASEAN+3 Macroeconomic Research Office opened on 30 January 2012 to conduct IMF Article IV–type monitoring of members. It describes itself as the “regional surveillance unit of the Chiang Mai Initiative

Multilateralization”. Its purposes are to monitor and analyse regional economies and to contribute to the early detection of risks, implementation of remedial actions and effective decisionmaking by the initiative. Some observers have noted the tensions over the mandate and the continuing reluctance in Asia to criticize the policies of regional neighbours and thus the obstacles to conducting firm surveillance.

Prior to the global financial crisis, the Asian Development Bank (ADB) was already lending more in the region than the World Bank was. The crisis accelerated this trend. In some cases, the ADB responded more quickly and with larger loans than the IMF and the World Bank did, and it introduced new types of temporary rapid financing programmes and countercyclical lending facilities to support developing and low-income countries. In April 2009, Indonesia proposed that a portion of the IMF's new financing be devolved to the ADB. With Group of 20 backing, the ADB introduced the Countercyclical Support Facility to provide up to \$3 billion to economies in Asia affected by the crisis.

Between 2008 and 2009, the ADB's lending commitments grew 42% and its disbursements 33%. Other regional development banks quickly followed the ADB's example and were granted a portion of the new funds committed to the IMF to establish new regional lending facilities to promote rapid countercyclical support within their region.

Source: Woods 2010; Chin 2010, 2012; Ocampo and others 2010; ADB 2009; Ciorciari 2011; AMRO 2012.

a welfare gain for the South of \$59 billion if South–South tariffs were lowered to that of North–South levels.<sup>37</sup> Even within Africa, given appropriate institutional arrangements for more open agricultural trade, there is huge potential for increasing the trade of the region’s many and diverse crops.

An example of a successful regional arrangement is the Sao Paulo Round in 2010, in which 22 developing countries agreed to reduce tariffs at least 20% on about 70% of the trade among themselves. The reductions were negotiated within the 1989 framework of the Global System of Trade Preferences, established to take advantage of the enabling clause within the agreements of the WTO, which allows developing countries to provide concessions to each

other without jeopardizing their most favoured nation obligations.

Bilateral arrangements can facilitate trade flows when multilateral negotiations stall. Other options such as preferential trade arrangements for furthering the goal of freer, nondiscriminatory trade could be overseen by a global multilateral institution like the WTO or by regional bodies.

Take, for example, negotiations aimed at reducing the massive production and export subsidies in agriculture given mainly by developed countries. Those subsidies distort world trade and expose farmers in developing countries to unfair competition. However, this issue is almost impossible to settle satisfactorily in a bilateral or regional setting; it requires

#### BOX 5.4

*Enrique Garcia, President, CAF*

#### **CAF: a Latin American development bank**

When established in 1970, the multilateral bank CAF had five Andean country members (Bolivia, Colombia, Ecuador, Peru and Venezuela). Today, its shareholders include 18 countries from Latin America, the Caribbean and Europe as well as 14 private banks, and it obtains most of its funding in global financial markets. CAF promotes sustainable development and regional integration through credit operations, grants and technical support and offers financial structuring to public and private sector projects in Latin America. Its headquarters are in Caracas, and it has offices in Asuncion, Bogota, Brasilia, Buenos Aires, La Paz, Lima, Madrid, Montevideo, Quito and Panama City. Over the last decade, Latin America has experienced rapid economic growth thanks to a favourable external environment, which has resulted in higher commodity prices, a stable macroeconomic environment and greater domestic demand due to poverty reduction and higher income. CAF has helped its member countries take advantage of these favourable economic conditions through a comprehensive development agenda that includes projects and programmes designed to support the region’s productive transformation and its competitive participation in the global economy, to improve the quality of institutions and to promote environmental conservation. CAF has provided substantial financing at times when markets were “dry” and other international financial institutions were imposing stringent conditions on their financing.

Among the reasons for CAF’s success in the region are its Latin American essence, the strong political and financial commitment of its member countries, the maintenance of prudent financial policies (especially in times of economic stress) and its policy of nonconditionality. Today, CAF is one of the main sources of multilateral financing for infrastructure and energy in the region, with approvals of more than \$10 billion at the end of 2011, or some 30% of total multilateral lending for Latin America (compared with and \$12.4 billion for the Inter-American Development Bank and \$13.9 billion for the World Bank; see Ocampo and Titelman 2012). CAF’s countercyclical role in times of economic turbulence in international markets and its support

to shareholders when financing has become scarce have been especially valuable. In addition to channelling funds from international markets to the region, directed mainly to infrastructure projects, CAF, together with its member countries, has designed and implemented an ambitious agenda of programmes and projects supported by grants aimed at tackling some of Latin America’s major obstacles to growth.

CAF borrows in international capital markets through a funding strategy that aims to diversify sources of financing to mitigate interest rate and currency risks while matching the average maturity of its assets and liabilities to maintain sufficient liquidity in its portfolio. CAF obtained its first credit ratings in 1993 from the three main rating agencies, and its ratings have steadily improved, even during economic crises in the region. CAF is now the highest rated frequent bond issuer in Latin America. Since 1993 CAF has borrowed more than \$13.9 billion through 87 bond issues in the most important international capital markets in the Asia, Europe Latin America and the United States. Prudent financial policies have made CAF a profitable institution that reinvests, through grants and technical cooperation, in programmes and projects to support its member countries.

CAF’s performance has been distinguished due to capacity to adapt to a changing and challenging environment. Of particular importance has been its governance structure. Since its foundation, CAF’s shareholders have given the institution the autonomy to design and implement operational policies without political pressure. Member countries have always supported the institution. Never in CAF’s history has a member country defaulted on its obligation, even during economic crises. With an ownership that is almost entirely Latin American (Portugal and Spain are minority shareholders due to their historical ties to the region), CAF has avoided the conflicts that have arisen in other multilateral institutions where donors’ and recipients’ aims are not always aligned. In this regard, CAF is recognized as an institution run by and for Latin America, providing a useful example of pragmatic financial integration.

multilateral disciplines that can be negotiated only at the WTO. Most countries accept the necessity of a strong multilateral body to referee the rules of world trade while knowing that regionalism is here to stay; one way forward is to gradually “multilateralize regionalism”.<sup>38</sup>

## Responsible sovereignty

While most governments support the principles of multilateralism, they are also understandably concerned with preserving national sovereignty. Overly strict adherence to the primacy of national sovereignty can encourage cross-border rivalries and zero-sum thinking. Countries on their own are less able to defend themselves from the contagion effects of financial crises or the ill effects of global warming. National action does not ensure that a country’s citizens have access to global public goods. Some governments are unable to sufficiently protect the human rights of their citizenry. A better strategy is responsible sovereignty—that is, taking the long-term interests of the world as a whole into account when formulating national policy.

Most global public goods depend on the effective management of cross-border consequences and an adequate provision of national and regional public goods, and thus on national institutional capacity and a willingness to cooperate regionally and globally. Countries must take into account their respective international responsibilities in providing public goods and avoid undermining the collective welfare and the well-being of other countries, such as through pollution or other abuses of the global or regional commons. Responsible sovereignty includes taking steps towards collective endeavours—such as trade liberalization and climate change mitigation—that, if designed effectively, could greatly enhance global collective welfare.

In a highly interconnected world, effective national decisionmaking cannot be carried out in isolation from regional and global policies. National policies have regional and global consequences; examples include protectionist national responses to international economic downturns and the failure to regulate over-fishing and ocean pollution. At the same time,

regional and global policies provide a context for national policymaking. Countries and regional and multilateral organizations must come together and align national policies towards common international goals. In an increasingly globalized and interconnected world, this is a matter of enlightened self-interest: decisions taken at the national level today can affect people in all countries for generations to come.

If national leaders are unable to look beyond narrowly conceived immediate national interests, the potential gains from cooperation will be lost, and the costs of inaction will mount. National policies will undermine rather than reinforce and complement each other. Examples include public spending and stimulus policies in the wake of the global financial crisis: coordination by central banks around the world to lower interest rates in concert helped avert further deepening of the worldwide recession.

The South, due to its rising economic stature and political influence, is an increasingly important partner in global decisionmaking. The rise of the South, accompanied by stronger cross-border links, makes decisionmaking more interdependent than ever. The North and the South must find common ground for meaningful progress on today’s pressing global problems.

Responsible sovereignty also requires that states honour agreed universal human rights and obligations towards people residing in their territories and ensure their security and safety. The Responsibility to Protect initiative, for example, is an attempt to develop a new international security and human rights norm that can address the international community’s failures to prevent and stop genocides, war crimes, ethnic cleansing and crimes against humanity. In this view, sovereignty is seen not just as a right, but also as a responsibility. While a positive step towards establishing guiding principles on global governance in human security, the initiative lacks procedures to ensure that the principles are upheld.<sup>39</sup> There are no agreed thresholds of violations or atrocities that would automatically activate international interventions. This mismatch between principles and procedures highlights the importance of building capacities into

---

Responsible sovereignty takes the long-term interests of the world as a whole into account when formulating national policy

international governance systems to hold governments and political systems accountable to the people they represent. Without binding mechanisms for holding states accountable to their citizens, the legitimacy of institutions such as the United Nations Security Council is brought into question. But agreement on a principle of responsible and mutually supportive sovereignty will be forthcoming only if the preconditions of global fairness and justice are met.

## New institutions, new mechanisms

The rise of the South presents opportunities for innovative new structures for development partnerships and new approaches to development policy, both globally and regionally. The substantial foreign reserves accumulated by the leading economies of the South could be leveraged for development financing in less developed countries, for example. New mechanisms for aid, trade and technology exchange within regions of the developing world can usefully parallel and complement existing arrangements. The countries of the South themselves could take greater leadership roles in the global policy dialogue about the most urgent international development needs and about the most effective ways to meet these 21st century challenges.

### Infrastructure development banks

The rise of the South is also creating new possibilities for financing equitable and sustainable human development. Brazil, China, India, the Russian Federation and South Africa, for example, have proposed a BRICS Development Bank that would draw upon their considerable reserves to finance projects in developing countries.<sup>40</sup> Like the European Bank for Reconstruction and Development, such a bank could offer a range of instruments, including loans, equity and guarantees. In addition to financing productive projects, this flow of resources would also assist with global financial rebalancing.

An important use for such reserves would be building infrastructure. To meet urgent needs, infrastructure spending in developing countries

must reach \$1.8–\$2.3 trillion a year by 2020, or about 6%–8% of GDP, compared with current levels of \$0.8–\$0.9 trillion a year, or about 3% of GDP.<sup>41</sup> One means of enabling and facilitating such investments would be through a development bank for infrastructure and sustainable development. That could bolster developing country borrowing to finance economically productive infrastructure.

Because borrowers need to be concerned about debt sustainability, efforts are required to go beyond domestic government borrowing by leveraging other forms of financial assistance. A new institution could crowd in the right type of capital through guarantees and other instruments.<sup>42</sup> New institutions will be more effective if they work in concert with existing regional and global institutions, filling gaps in funding and investment.

Chapter 4 presented an accelerated progress scenario that set ambitious targets for raising the Human Development Index (HDI) value in all regions by 2050 through a series of public spending initiatives. This scenario assumes about 20% improvement in infrastructure by 2050, universal access to electricity by 2030, elimination of solid fuels as the primary source for heating and cooking in the home by 2030, renewable energy production 50% above the base case by 2050 and universal access to mobile telephone and broadband by 2030. The largest projected increases in HDI value under this scenario are in Sub-Saharan Africa (65%) and South Asia (47%; figure 5.1). Current average public investment in Sub-Saharan Africa and South Asia is around 7.7% of GDP.<sup>43</sup>

Allocating a small fraction of the international reserves of the nine G20 countries of the South could provide substantial additional resources for public investment in infrastructure in Sub-Saharan Africa and South Asia (figure 5.2). Depending on the share of reserves allocated, public investment would rise 17.6%–52.8%. In fact, allocating just 3% of liquid international reserves of the nine G20 countries of the South would increase the share of public investment in these countries 4.1%–11.7% of GDP, close to the average level of public investment for all developing countries.<sup>44</sup>

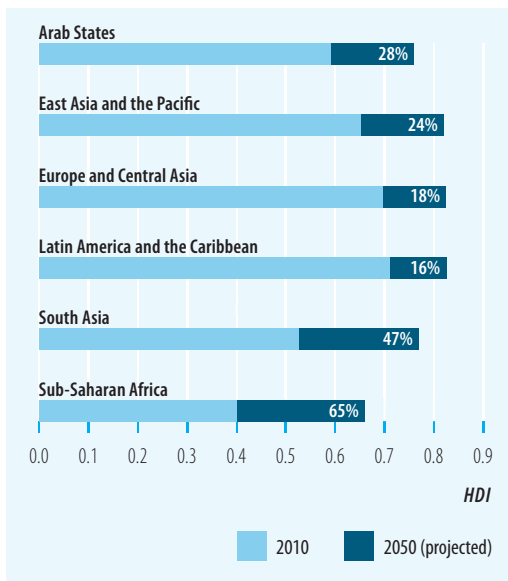
For reserve-holding countries and their sovereign wealth funds, investing in developing

---

The rise of the South presents opportunities for innovative new structures for development partnerships and new approaches to development policy, both globally and regionally

**FIGURE 5.1**

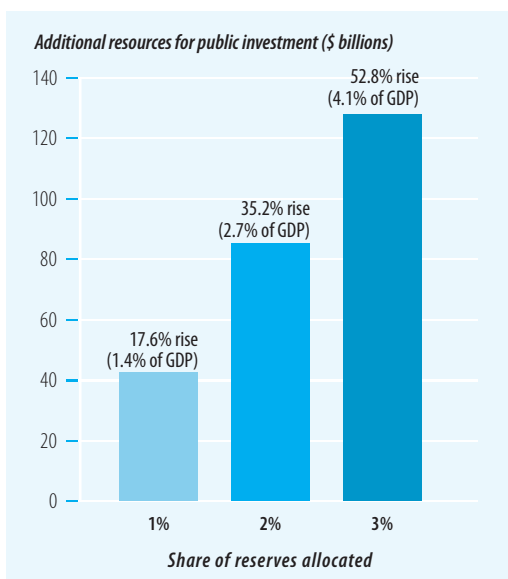
**Under the accelerated progress scenario, the largest projected increases in the Human Development Index are in Sub-Saharan Africa and South Asia**



Note: See chapter 4 for discussion of the accelerated progress scenario. Source: HDRO calculations based on Pardee Center for International Futures 2013.

**FIGURE 5.2**

**Allocating a small fraction of the international reserves of the nine G20 countries of the South could provide substantial additional resources for public investment in infrastructure in Sub-Saharan Africa and South Asia**



Note: Numbers in parentheses are the increase in public investment as a share of GDP. Source: HDRO calculations based on World Bank (2012a).

countries is financially attractive, allowing them to diversify while gaining higher profits without added risks.<sup>45</sup> Sovereign wealth funds have long investment horizons and low risk of redemption, enabling them to make long-term investments. Since many give priority to social over private returns, they can also take socially responsible positions. For example, Norway has applied global sustainability criteria to its sovereign wealth fund investments through the Norges Bank Investment Management, committing to the UN Global Compact Norms and investing in initiatives to reduce deforestation in Guyana, Indonesia and Tanzania.<sup>46</sup> The governance challenge is to operationalize socially responsible investment, define suitable benchmarks and provide sovereign wealth funds easier access to investments with a high human development impact.<sup>47</sup>

Institutions from the South, ranging from the BRICS Bank to the Chiang Mai Initiative Multilateralization to the African Union, have considerable potential to influence international governance. Collective action requires a shared vision. The premise for this vision cannot be taken for granted. The proliferation of regional and other arrangements shows that governments recognize the benefits of, and have a commitment to, collective development.

### A new South Commission?

In 1987, leaders of the Non-Aligned Movement established the South Commission to explore policy options and areas for cooperation for the countries of the South. Its final report in 1990, *The Challenge to the South*, produced under the leadership of Julius Nyerere, then-president of Tanzania, and the economist Manmohan Singh, future prime minister of India, was a seminal and prescient analysis.<sup>48</sup> It identified climate change as a priority and underscored challenges that stubbornly persist today, such as poverty, social exclusion and the widening gap between rich and poor.<sup>49</sup> Equally important, the South Commission looked closely at the then-emerging possibilities of greater South–South cooperation in aid, trade and other aspects of international policymaking.

The world and the South have been thoroughly transformed over the past two decades. The South of the 21st century is led by fast-growing economies with trillions of dollars of foreign exchange reserves and trillions more to invest outside their borders. Businesses from the South number among the world's largest. The possibilities for collective action have never been greater; however, agreement on this cannot be taken for granted. The institutions for South–South cooperation—the Group of 77, the Non-Aligned Movement and South Summits—were forged in the crucible of decolonization, which created strong political, economic, social, and cultural bonds among the emerging countries of the developing world. That formative experience is increasingly distant from the current generation, and the commitment to South solidarity common to their elders is in many cases now giving way to the pursuit of national interests.

The new realities of the 21st century require a fresh look at these issues and at institutions led by the countries of the South themselves. A new South Commission, building on the legacy of the first commission but reflecting the strengths and needs of the South today, could provide a fresh vision, based on recognition of how the diversity of the South can be a force for a new kind of solidarity, aimed at accelerating human development progress for decades to come. The economic links within the South and the mutual benefits of cooperation are likely to provide further incentives to establish such a body.

## Conclusions: partners in a new era

The rise of the South has to some extent caught the world by surprise. The previous, if unspoken, assumption was that developing countries would steadily approach the standards of human development in industrialized countries (“convergence”) but that the industrialized countries would remain in a strong, leading position. In many respects, that is still the case: average HDI values are substantially lower in many countries of the South. What has caught the world unawares, however, is that even at lower levels of human development, the

countries of the South are now weighty players on the global stage, with the financial resources and political clout to sway international decisionmaking.

This was already evident during the early years of the 21st century, as China and other emerging economies accumulated vast reserves, which they held as US Treasury bonds, effectively propping up the US dollar. But the situation came into sharper relief after 2008, following the banking crisis and subsequent economic shocks that pushed some of the richer countries into recession and threatened the survival of one of the world's major currencies. Now the countries of the North are looking to those of the South to keep the global economy moving forward.

In practice, each group of countries needs the other more than ever. The North needs the most vigorous countries of the South to sustain demand for exported goods and services, especially as a number of their own economies and societies are weakened by fierce austerity programmes. The South needs the North not only as a mature market, but also as a source of innovation and complex technologies.

The rise of the South demonstrates that the world has become more diffuse and cross-connected. One consequence is that rather than looking to the North for inspiration, developing countries are looking to their peers in the South for appropriate development models. Here, rather than seeing a sterile menu of ideological options, they can examine what has worked, under what circumstances, and choose the most appropriate tools. Chapter 3 provided examples of programmes and policies that have worked to improve human development in emerging economies of the South, from investments in public health and education to conditional cash transfer programmes. Such examples can inspire similar policies in other countries, but with understandings of specific national conditions, institutions and needs.

This Report has summarized some of the most effective drivers of development: a proactive developmental state, the capacity to tap into global markets and the promotion of social inclusion and broad-based human development. Within each of these there are multiple options but no universal solutions.

---

Rather than looking to the North for inspiration, developing countries are looking to their peers in the South for appropriate development models

---

Good policymaking requires greater focus on enhancing social capacities, not just individual capabilities

What worked in one country might have stood little chance in another.

Nevertheless, the most successful countries have demonstrated that innovative and sometimes counterintuitive options can work. Paying parents to take their children to health clinics may seem unnecessary, but as the case of Mexico illustrates, it can work to improve children's health; its conditional cash transfer programmes have sparked interest around the world. Similarly, using a mobile phone for banking made eminent sense in Kenya and the Philippines to people who had never had a personal bank account before and often lived nowhere near a bank office.

The countries of the South have thus been using their own ideas and energy to create a new momentum for human development. In a complex global political, economic and social environment, however, this dynamism may still not yield sustainable outcomes. Already there are signs of rising inequality and frustrated expectations that could lead to violent social strife. And there are serious concerns that over-exploitation of global resources combined with the effects of climate change could wreck the earth for future generations.

That is why this Report has also focused on what is needed to ensure that human development proceeds in ways that are both productive and sustainable. This includes measures aimed at enhancing equity, enabling voice and participation, confronting environmental pressures and managing demographic change.

Addressing these issues will demand considerable skill and commitment from national governments and civil society. As this chapter has argued, it will also demand much more fruitful global cooperation as national governments, international organizations and a nascent global civil society feel their way towards new models of mutual understanding and cooperation. Some of these will involve refashioning existing institutions to accommodate a new global power balance. Others may take any number of new institutional forms.

Through all this, the fundamental principles of human development endure. As ever, the aim is to expand the choices and capabilities for everyone, 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 good 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. There are sufficient global resources to achieve that goal, if they are directed towards that purpose.

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

As this Report highlights, one consequence of the rise of the South is that most countries now have growing policy and fiscal space to set bold targets—to eliminate poverty, push for full employment commitments and innovate towards low-carbon pathways. More countries are unencumbered by conditionalities often attached to international aid and resource transfers, and the recent rise in commodity prices has reversed the long decline in terms of trade faced by many primary goods producers.<sup>50</sup> This provides a cushion of resources that can be managed in ways that enhance national human development by governments committed to avoiding the “resource curse”.

Projections presented in chapter 4 reinforce this point. They show that with strong commitment to human development and prudent macroeconomic policies, it is possible to reduce poverty dramatically in Sub-Saharan Africa—a region where baseline scenarios show a likely future increase in the number of poor people



because population growth outpaces economic growth.

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

The unprecedented accumulation of financial reserves and sovereign wealth funds in the South (\$6.8 trillion) as well as the North (\$3.3 trillion) provides an opportunity to accelerate broad-based progress. Even a small portion of these funds dedicated to human development and poverty eradication could have a large effect. As mentioned, public investment in South Asia and Sub-Saharan Africa could increase to 11.7% of GDP using just 3% of international reserves from some of the largest economies in the South.

At the same time, South–South trade and investment flows can leverage foreign markets in new ways, such as participating in regional and global value chains to facilitate the spread of ideas and technologies. 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 serve as a prelude to a much expanded force that this potential represents. To harness the full extent of this potential, new and innovative institutions may be called for. International production networks provide opportunities to speed up the development process by allowing countries to leap-frog to more sophisticated production nodes while offering the double benefit of protection against the vagaries of foreign exchange fluctuations.

South–South development cooperation and technology transfer hold immense potential to support human development. Technology transfers from the North require costly adaptation due to differences in absorptive capacity, but technological transfers within the South are more likely to need little adaptation and to involve more-appropriate technologies and products. Growing markets in developing countries provide companies in the South an opportunity to mass market innovative and affordable versions of standard products, including food, clothing, appliances and motor

vehicles. Importantly, the sharp drop in the price of capital goods as a result of intense global competition led by China and India could accelerate the creation of manufacturing production capacities in many developing countries. Such production can be adapted to the income levels and tastes of local consumers. This dynamic has the potential to provide the poor access to consumer goods, while innovators create jobs and develop producer capabilities.

### New institutions and new partnerships can facilitate regional integration and South–South relationships

New institutions and partnerships can help countries share knowledge, experiences and technology.

In finance and aid, the South is already actively establishing regional governance institutions. Regional alternatives to the IMF, such as the Chiang Mai Initiative Multilateralization and the Latin American Reserve Fund, have freed up policy space for countries to protect national priorities while also addressing balance-of-payments problems and short-term liquidity issues.

The foundations exist for strong regional institutions, but more can be done to accelerate and deepen these relationships and ensure inclusiveness. As wealthy countries have curtailed aid to address domestic issues, regional development banks and bilateral aid relationships provide additional resources for development projects. These new aid mechanisms also tend to emphasize pragmatism over ideology. Infrastructure development banks, for example, offer new possibilities for development finance. Brazil, China, India, the Russian Federation and South Africa have proposed a development bank to mobilize their considerable reserves to finance projects across developing countries. Building infrastructure would be an important use of such reserves.

Trade with other developing countries now accounts for a majority of merchandise and manufactures exports from developing countries, and these exports are increasingly skill- and technology-intensive. Stronger institutions are now needed to facilitate these South–South trade and investment links. Expanded

---

The foundations exist for strong regional institutions, but more can be done to accelerate and deepen these relationships and ensure inclusiveness

South–South trade and investment can reduce vulnerability to economic downturns in the North and provide opportunities to leverage foreign markets in new ways.

Regional trade and investment relationships can also be strengthened by streamlining transit, transport and customs procedures; harmonizing regulatory schemes; investing in regional transport infrastructure; and lowering tariffs on South–South trade in final products. Lowering such tariffs could yield collective gains of an estimated \$59 billion for the economies of the South.<sup>51</sup>

A new South Commission for the early 21st century could help bring a fresh vision of how the strength and diversity of the South can be a global force for development solidarity. The key elements are there: different endowments provide a basis for expanded exchange, diverse experiences are ripe for sharing, new cross-border partnerships can compete in world markets and, above all, the recognition and implementation of win-win strategies can motivate new forms of South–South cooperation.

### 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 represents an opportunity to build governance institutions that fully represent all constituencies 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 G20 incorporates their experience, 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 increasing platforms for vocalizing key messages and demands challenge governance institutions to adapt 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.

---

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 both better governance and a greater availability 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 continues to be slow—and at times dangerously hesitant. The rise of the South presents new opportunities for providing global public goods more effectively 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. As such, they 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 by voluntary action 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.

\* \* \*

The rise of the South is fundamentally the story of the fast-paced transformation of the developing world and its profound impact on diverse facets of human development. Global discussions of this phenomenon so far have focused almost exclusively on economic growth in the biggest developing countries. This Report uses a human development lens to cast a wider net and show that the impacts are widespread in terms of the large number of developing countries involved and the intertwining of ever-growing global challenges and possibilities—from environmental sustainability and equity to poverty eradication and the reform of global institutions. The changes are occurring at unprecedented speed and scale, propelled by interaction with the wider world through trade, travel and telecommunications in ways that were not possible before.

The fast-developing countries chose their own distinct development pathways. Yet they share important characteristics, including effective leadership from governments, open engagement with the world economy and innovative social policies addressing domestic human development needs. They also face many of the same challenges, from social inequalities to environmental risks. And they have developed their own domestic policy approaches with increasing autonomy, for their own sovereign national reasons, without the strictures of enforced conditionality or imposed external models.

The South's progress is propelled by interconnections with developed countries and increasingly with the developing world. In fact, economic exchanges are expanding faster "horizontally"—on a South–South basis—than on the traditional North–South axis. People are sharing ideas and experiences through new communications channels and seeking greater accountability from governments and international institutions alike. The South as a whole is driving global economic growth and societal change for the first time in centuries. The South still needs the North, but, increasingly, the North also needs the South.