HUMAN DEVELOPMENT REPORT 1999

undp

Published
for the United Nations
Development Programme
(UNDP)

New York Oxford
Oxford University Press
1999

CHAPTER 5

Reinventing global governance—for humanity and equity

What area of policy is most important for managing globalization? Harmonizing global competition and free market approaches with steady and expanding support for human development and human rights in all countries, developed and developing. This is at the heart of a new perspective, a new global ethic, a new approach to globalization. And it requires a range of actions, from the broad to the specific.

Reinventing global governance is not an option—it is an imperative for the 21st century. The preceding chapters have spelled out possibilities for human development—and the pitfalls. They have also spelled out the failures of governance in getting the most from the opportunities—and in avoiding the pitfalls.

The costs of these failures are much larger than generally realized. Consider the output losses from the East Asian crisis and its global repercussions. Over the three years from 1998 to 2000 these are estimated at nearly $2 trillion. These losses are:

- About 2% of global economic production in these years—and more than the combined annual income of Sub-Saharan Africa, the Arab States and South Asia.
- Enough to double the incomes of the poorest fifth of the world's people.
- About twice the additional finance required over the next decade to achieve the goals of basic education, primary health care, family planning, nutrition, water and sanitation for all.
- Well over 10 times the $170 billion mobilized internationally to prevent the economic slowdown.

And as chapter 1 made so painfully clear, the cold statistics of economic loss convey few of the human costs—interrupted treatment for hospital patients, rioting and looting in the streets, rising unemployment and declining school attendance. This has become the worst setback to the global economy since the 1930s.

For developing countries there have long been losses from the inadequacies and inequalities in global governance. Some result from weaknesses in global markets for capital—and some from restricted access to developed country markets for exports and technology. Restrictions on migration are still a major contradiction with the principles of the open global economy and one with a high cost to developing countries. *Human Development Report 1992* estimated the total cost of denying market opportunities to developing countries as roughly $500 billion a year, almost 10 times the amount they receive each year in aid.

With the Asian crisis in 1998, the need for fresh thinking about global governance has again been recognized. Initially, the crisis was attributed to weaknesses of domestic policy and action within the countries affected, even though only months before the same countries had been hailed as Asian "miracles of development". But the need for changes in international governance is now widely accepted, and the international community has begun to seek solutions with renewed vigour.

Even so, the debate on international reform is:

- Too narrow in scope—usually excluding human development as an objective, underplaying the importance of employment and environmental sustainability and largely neglecting economic and social rights.
- Too geographically unbalanced—dominated by the concerns of the industrial countries, with secondary attention to the emerging and large

Reinventing global governance is not an option—it is an imperative for the 21st century economies. The poorest and least developed countries are largely neglected.

- Too driven by the economic and financial interests of the rich countries—often those of the G-7, sometimes just the G-1.

Is it too ambitious to think and plan more boldly? Recall the remarkable vision and human concerns of the 1940s, when the United Nations and Bretton Woods institutions were created. At that time full employment was a key objective, along with:

- Fulfilment of economic and social rights.
- Measures for economic stability, including stability of commodity prices.
- An integral view of the United Nations and Bretton Woods institutions.

Keynes's vision for global governance

[illegible]tecture of international gover[illegible] up after the Second World War [illegible] several respects more advanced than [illegible] today.

[illegible]ere was an integral view of the [illegible]ed Nations and Bretton Woods insti[illegible], working together as part of the [illegible] UN system.

[illegible] Economic and social rights were key [illegible]jectives. The UN Charter emphasized that "conditions of stability and well-being are necessary for peaceful and friendly relations among nations" and "all members pledge themselves to take joint and [illegible] action in cooperation with the [illegible]ization for 'promoting' higher standards of living, full employment, and con[illegible] of economic and social progress [illegible] development."

[illegible] International Monetary Fund and [illegible] Bank were to be complemented [illegible] body, an international trade [illegible].

[illegible] employment was a basic goal, to be [illegible] in all international economic [illegible].

[illegible] went much further than the gov[illegible] of the time were prepared to [illegible] proposed a fund with access to [illegible] equal to half of world imports. [illegible] today controls liquidity equal to [illegible]% of world imports. He envis[illegible] IMF as a world central bank, issu[illegible] reserve currency (Bancor). In the [illegible] the IMF was permitted to create a [illegible] amount of special drawing rights (SDRs), but these constitute less than 3% of global liquidity today.

Keynes placed the burden of adjustment on both surplus and deficit countries, even envisaging a penalty interest rate of 1% a month on outstanding trade surpluses. In practice, deficit nations (mostly developing countries) have had to bear the main burden of adjustment—except for the United States, which can avoid adjustment because its deficit serves to supply dollars needed for liquidity by the global system. The IMF now exercises some monetary discipline only on developing countries, which are responsible for less than 10% of global liquidity.

The international trade organization, as envisaged by Keynes, had functions far beyond the present World Trade Organization. Keynes's international trade organization was not only to maintain free trade but also to help stabilise world commodity prices, essentially through buffer stock arrangements.

Keynes went even further. He recognized that the long-term international prices for commodities must be fixed in relation to both the economic conditions for efficient production and the human conditions for proper nutritional and other requirements to ensure a decent standard of living [illegible] primary producers (a principle that Keynes recognized would also apply to producers of manufactured goods).

Direct concern for nutrition and decent living standards has yet to be incorporated into the principles of international trade.

The entire structure rested on the Charter of the United Nations, one of the most remarkable and pioneering documents of the 20th century. The far-seeing principles of the UN Charter were reinforced three years later in the 30 articles of the Universal Declaration of Human Rights (boxes 5.1 and 5.2).

Fundamental rethinking of policy and governance is again required. It must be broad and fair, and it must restore an integrated approach covering social as well as economic issues. Key priorities:

- Putting human concerns and human rights at the centre of international policy and action.
- Protecting human security and reducing vulnerability on a worldwide scale.
- Narrowing the extremes of inequality between and within countries.
- Increasing equity in negotiation and structures of international governance.
- Building a new global architecture for the 21st century.

In short, reform driven by concern for people, not for capital.

Putting human concerns and rights at the centre of global governance

Changes in international governance are needed so that the international system does much more to support, and much less to hinder, international, national and local actions for human development. Five specifics:

Strengthen global ethics and responsibility

Global governance with a human face requires shared values, standards and attitudes—a wide acceptance of human responsibilities and obligations. Those values include respect—for life, liberty, justice and equality. And they include tolerance and mutual caring.

Such values underlie the UN Charter and the Universal Declaration of Human Rights. They now need to be translated into the principles and practices of global governance. How? With a strong political commitment propelled by public awareness and support (see the special contribution by Ted Turner).

Bring principles of human development and social protection into the concepts and practices of global economic governance

Global competition and market efficiency are the big objectives of current efforts to restructure global economic governance. Important, but they are too narrow internationally, just as they would be nationally. Global governance needs to incorporate human development priorities for people in all parts of the world—for poverty reduction, equity, sustainability and human development.

Until recently social and welfare policy were matters for national action. With globalization, this has been changing. In the industrial countries global economic competition is putting welfare states under pressure, as chapter 4 showed. In many developing countries education, health and the more limited range of welfare provisions have come under even greater pressure. Structural adjustment policies have often cut back primary health care and basic education, with reduced subsidies and increased charges restricting access to these services for poor people.

At the same time the institutions of global governance have leaned hard on national governments to adopt their preferred systems of social protection—marginal for the International Monetary Fund, social safety nets for the World Bank and a broader and more pragmatic range of social policy options and mechanisms for other UN agencies. Human development policy, as promoted in the *Human Development Reports*, is an example.

But a broader, more coherent set of international principles is required—as some governments are beginning to recognize. Such principles should be built on:

- Economic, social and cultural rights as well as political and civil ones.
- The goals and commitments of the global conferences of the 1990s.
- Democratic and equitable governance, globally and nationally.

The World Bank Group and the IMF need to explore how these principles are brought into their policies and operations.

Adopt regional and global agreements to prevent races to the bottom

International bargaining can be tough—and in the heat of the moment minor or major concessions may be made in wages, labour standards

BOX 5.2

The successes and failures of global governance since 1945

Although political negotiations never permitted full realization of the international economic and political architecture as originally proposed, its practical impact was remarkable. From the late 1940s to the early 1970s world economic growth was faster, economic stability greater and unemployment lower than in any comparable period in history. Moreover, more than 70 countries moved from colonial status to political independence, most achieving economic growth rates during the 1960s higher than ever before and often higher than ever since.

Of course, the structures of global governance were far from perfect. The cold war polarized many operations. Inflation was often high. The terms of trade of many primary producing countries fell. The poorest and least developed countries became more marginalized. Various international efforts introduced changes in global governance to tackle these problems.

- The International Development Association was established in 1960 to expand the flows of concessional finance to poor countries.
- UNCTAD was established in 1964 to improve the analysis and negotiation of trade and development issues.

Nonetheless, global governance was recognized to be inadequate, especially for the developing countries. A high-level international group, the Pearson Commission, was established to propose ways to improve aid and development policy. It reported its recommendations in 1969 in *Partners in Development*.

In 1971 the United States abandoned the Bretton Woods system of fixed exchange rates. In the mid and late 1970s, after two decades of declining oil prices, the price of petroleum almost quadrupled, shifting global income distribution in favour of the oil-producing countries. The suddenness of the adjustment set back the global economy. Output in the OECD economies fell. There was a surge in flows of petro-dollars to non-oil developing countries, from commercial banks lending with little overall control or supervision. Welcomed at the time, it was later seen to have laid the foundation for the major debt crises and adjustment problems of the 1980s.

A second major international commission was established, the Brandt Commission. Its report in 1980, *North-South: A Programme for Survival*, showed how industrial and developing countries could share in actions and transfers to stimulate growth in developing countries as a way to achieve a more dynamic global economy. But little of the message was implemented. Instead, the global emphasis shifted to what countries must do on their own, especially in implementing liberalization and adjustment. The need for complementary action by the international community was muted. Debt in the poorest developing countries rose rapidly, commodity prices fell, and aid remained far below commitments, especially for the least developed countries.

There followed a lost decade for development in most of Latin America and Sub-Saharan Africa. Per capita income fell in more than 40 countries in the two regions, often with serious human setbacks for large parts of the population. School enrolment ratios fell in 20 countries.

None of these results can be blamed entirely on the inadequacies of global governance. But the fact remains that since 1980 the majority of countries in Sub-Saharan Africa, many in Latin America and most of those in transition have experienced disastrous failures in growth, often with serious increases in poverty and setbacks in human security. Although there have been some improvements over the 1990s, per capita income in some 40 developing countries is still less than it was 20 or more years ago. The economic decline in many of these countries has already been much worse than anything felt by the industrial countries during the Great Depression.

Source: Haq and others 1995; Rodrik 1999.

and environmental regulations. One way to avoid these pressures is to establish regional frameworks of minimum standards and to strengthen regional agreements to work within them. Labour standards need to support the abilities of people to provide care for their families and communities—not to have global competition undermine them. Mercosur and the European Union have taken steps in this direction.

Such agreements, carefully defined, can raise living standards and protect the environment, without setting back employment or discouraging foreign investment. Collective regional action can ensure that the decisions are based on the needs of people in the countries concerned.

Multinational corporations need to be brought within the frame of global governance, not just the patchwork of national laws, rules and regulations

Develop a global code of conduct for multinational corporations—and a global forum for their monitoring

Multinational corporations are already a dominant part of the global economy—yet many of their actions go unrecorded and unaccounted. They must, however, go far beyond reporting just to their shareholders. They need to be brought within the frame of global governance, not just the patchwork of national laws, rules and regulations.

Because of the activism of NGOs and other institutions of civil society, many multinational corporations are taking their social responsibilities more seriously. Mattel, the toy-producing enterprise, and Disney World, the entertainment giant, have codes of conduct for their plants in Asia. Mattel is the only multinational corporation in China that has won the Social Accountability 8000—a certificate of workplace standards that Asia Monitor, a watchdog NGO, calls for. Disney has done more than 10,000 inspections to ensure proper working conditions for its workers in Asia.

Codes of conduct have moved from vague promises to detailed rules, with the best codes now monitored by outside auditors (box 5.3). But multinationals should be socially responsible from the beginning, not only after having been caught neglecting responsibilities. Codes of conduct should also be developed for banks and financial institutions, covering secrecy and risk assessment.

Incentives and publicity can help. The Council for Economic Priorities, a US-based NGO, gives annual awards and public recognition to Fortune 500 companies demonstrating exceptional performance in community partnership, employee empowerment and gender equity, environmental stewardship, social mission and human rights.

But multinational corporations are too important and too dominant a part of the global economy for voluntary codes to be enough. Globally agreed principles of performance are needed for:

SPECIAL CONTRIBUTION

Partnership with the United Nations

Even as communications, transportation and technology are driving global economic expansion, headway on poverty is not keeping pace. It is as if globalization is in fast-forward, and the [illegible] ability to understand and react to it is in [illegible].

But there are promising signs.

First is the ascendance of new means for [illegible] progress—the emergence of a more [illegible] and engaged civil society. The private sector is another growing force for progress. Private investment in developing countries now dwarfs foreign assistance as a source of resources for progress.

On the other hand, governments are financially and politically challenged as never before. And increasingly, the expertise of new global challenges resides outside government.

All of these trends point us towards the need and potential for public-private partnerships. These kinds of partnership are urgently needed as government assistance is cut even as the demands and needs for international cooperation grow.

While the private sector, trade and investment hold promise for broad progress in the future, too few countries and sectors are benefiting from globalization. Worldwide economic progress must address sustainable human development.

That is why the UNDP and its UN colleagues are ever-more important. All those who care about the world around them must care about and support the United Nations. The United Nations is the place where nations work together to address global issues, protect the [illegible] needs the support [illegible] government, NGOs and the [illegible]

Secretary-General Kofi Annan is [illegible] that he can to make the United Nations [illegible] more responsive and more open [illegible]. It is up to the rest of us to [illegible] our support for the United Nations [illegible] and poverty-free world.

[illegible]
Founder [illegible]

- Human concerns—to ensure compliance with labour standards and human rights.
- Economic efficiency—to ensure fair trade and competitive markets.
- Environmental sustainability—to avoid degradation and pollution.

Also needed is a global forum to bring multinational corporations into open debate with other parts of the global community—unions, NGOs and government. The results could be practical and positive. The first major conference hosted by the UK-based Ethical Trading Initiative, in London at the end of 1998, brought together hundreds of people from a range of companies, trade unions and NGOs to discuss fair trade issues and company codes of conduct. Six of the nine UK companies among the top 100 multinationals now have codes in draft. In the space of a few years, the fair trade movement and the promotion of fairly traded products have gone from the margin to the mainstream in promoting labour rights, and retail sales of fairly traded goods are worth more than $250 million in Europe alone. This could be replicated at the global level in many ways.

Strengthen the global commitment to humane governance

People's expanding awareness of their connections with the wider world is part of globalization. Securing political support for more humane global governance will depend on increasing that awareness even more—and on making people conscious of their being citizens of the world, not just their countries.

Many things already contribute to a sense of global responsibility:

- Education, especially the opportunity for young people to learn about the lives and situations of people in other parts of the world.
- The media's treatment of international news and events, explaining them from the viewpoints of other countries.
- Networks of NGOs, such as the Third World Network and the UN-NGO Forum.
- Trade union activities focusing on global issues.
- Opportunities to study abroad and to travel and work with people from other countries.
- Interactions in professional groups.
- Parliamentary, religious and other groups committed to strengthening international understanding and exchange.

And these are just a start (box 5.4).

Protecting human security in economic crisis

The biggest human setbacks of the past two years emanate from the Asian economic crisis. The crisis has already stimulated strong support from the World Bank and the UN system in response to human needs in the countries

BOX 5.3

Social auditing of multinational corporations

The demand for social auditing—a thorough check as to whether multinationals are living up to their social responsibilities—is on the rise. In addition to emerging social auditors, accounting firms such as Deloitte & Touche, PricewaterhouseCoopers and Ernst & Young are also carrying out social auditing.

Last year 1,500 inspections were done in the Guangdong province of China, where there is a large concentration of multinationals. Nike has said that it would arrange for inspections of all its plants worldwide. At the same time Nike has raised the salaries of workers hurt by currency devaluation, increased its minimum working age to 18 and switched to less toxic glues. Mattel has also worked hard. Independent auditors have paid visits to its factories and those of its suppliers, and local activists play a role in its social auditing.

Source: OECD 1999a.

BOX 5.4

Globalization without Poverty—a European initiative

The Council of Europe, with 40 member states, recently launched Globalization without Poverty. This initiative brings together national governments, intergovernmental organizations, NGOs, parliamentarians, local authorities, the media and communications agencies in joint efforts to renew the commitment in Europe to global poverty eradication. The permanent North-South Centre of the Council of Europe, based in Lisbon, is the secretariat for these efforts.

The campaign aims to promote the idea of social inclusiveness in Europe and new concepts of global citizenship that focus on the rights and responsibilities of citizens living in a global society. Some initiatives, such as the Action Week against Poverty, will be Europe-wide; many others are national or local. The project aims to remind people, in line with the overall policy of the Council of Europe, that extreme poverty and social exclusion are a denial of human rights.

One initiative, the Global Forum on Poverty Eradication, has been inspired by the work of the Forum of the Poor in Thailand. It aims to listen to—and learn from—the experiences of the poor, both in Europe and in the South. Its goal is to develop an agenda for action that will contain recommendations and proposals on how extreme poverty can be eradicated and especially on how societies can be mobilized to achieve this goal.

By emphasizing poverty eradication on a global scale, the forum attempts to offset ideas of personal insecurity and "Fortress" Europe as a response to European inwardness in thought and action. The campaign message: "Europe is not a planet, but part of One World, and that creates both opportunities and responsibilities."

Source: Human Development Report Office.

directly affected. More important for the long run, it has stirred a major rethinking of the improvements needed in global governance to avoid recurrence and further contagion.

Reducing financial insecurity

Extremes of vulnerability are a systemic problem of financial liberalization on a global scale and call for new global measures of prevention and preparedness. Already the economic costs and human consequences of these setbacks add up to an important agenda of priorities.

Developing and adopting new international codes of conduct for banks and financial institutions, improving information and transparency and enhancing international financial supervision and regulation are all part of the new consensus. So is recognition of the IMF's need for increased financial resources to enable it to act more quickly and preemptively as lender of last resort. Such resources could be obtained by increasing government financial commitments to the IMF, enhancing the use of IMF special drawing rights (SDRs) or selling some of its gold holdings.

Those who balk at the political difficulties of getting agreement to such measures should recall the risks and costs of not doing so. The willingness of the United States to act as lender of last resort to Mexico in 1994-95, and the speed of its support, did much to limit the depth and contagion of the Mexican financial crisis and to achieve rapid recovery. Money alone is not enough, however. Financial support must be accompanied by economic reform and restructuring—taking account of human goals, not just economic and financial ones.

Stronger regional collective action could be stabilizing—pooling reserve funds, strengthening financial monitoring, maintaining open trade even under pressure

Preventing future financial crises

The financial crises of the 1990s have been systemic—with finance surging in and out of countries at a speed and volume beyond the capacity of any country on its own to control.

In addition to the measures to reduce financial insecurity, poor countries need special support. A recent UN task force on financial architecture proposed various measures to help prevent further crisis and contagion, including:

- *Removing the requirement that countries liberalize capital accounts as a condition for borrowing.* The extent and phasing of capital account liberalization should be a matter for each developing or transition economy to decide on the basis of its needs and capacities. International pressures for abrupt or premature liberalization have often proved counterproductive.
- *Incorporating standstill provisions into the rules for borrowing from the international financial institutions.* These would give countries under financial pressure the right to delay debt servicing.
- *Developing regional and subregional initiatives to support monetary and financial management.* Stronger regional collective action could be stabilizing—pooling reserve funds, strengthening financial monitoring, maintaining open trade even under pressure. The experience of Western Europe, from the Payments Union in the early postwar years to the euro today, underscores the value of such arrangements.
- *Increasing technical support.* The cost of processing all the information required for financial negotiation and decision-making is very high for small and poor countries. The international institutions have a special responsibility to help countries gain rapid and easy access to such information and analysis.

Protecting people during periods of crisis and adjustment

Time and time again when under economic pressure, countries find themselves sacrificing the needs of their children on the altar of economic orthodoxy—cutting schools, clinics and hospitals to balance their budgets and pay their debts. The challenge is greatest in poor countries, where the coverage of schools and health services is already limited. By cutting the investment budget, countries ease the pressures on both capital and recurrent accounts—but at the cost of postponing the vital goals of health and education for all.

This spotlights the importance of adopting long-run human goals—and maintaining progress towards them, with international support to make this possible. Countries should be encouraged to set goals and dates for achieving universal access to education and health—as set out in the World Summit for Social Development, in other global conferences of the 1990s and in the Development Assistance Committee goals for the 21st century. At a minimum, all countries should be encouraged to make some progress towards these goals each year—no matter how severe the economic pressures.

Stronger international support is needed for protecting people in crisis. The way industrial countries respond to a flood or earthquake within their borders is instructive here. It would be unthinkable and politically unacceptable in an industrial country today to allow a natural disaster to leave citizens without health services or children without schooling for years on end. Yet this happens often in developing countries. A lender of last resort for social protection would thus be useful—perhaps as a special window of the World Bank.

Reducing other causes of human insecurity

Threats to human security are being exacerbated by globalization in other ways. Three threats show the range of actions required.

Controlling global crime

The virulent synergy between globalization and organized crime calls for new global instruments to back national actions and control the international links. An international convention against transnational organized crime is under preparation. Among the key measures:

- Encouraging cooperation in law enforcement and surveillance, with support for advanced investigative techniques.
- Enhancing international judicial cooperation, including the transfer of cases from one jurisdiction to another and the use of videoconferencing for cross-examination.
- Obliging states to develop effective programmes for protecting witnesses and legal professionals.
- Criminalizing money laundering and developing cooperative actions to track and prevent it.

Special actions are needed to deal with trafficking in women and children and smuggling migrants and firearms.

The media, NGOs and other institutions of civil society have played an important role in uncovering the untold story of human trafficking and forcing action. Needed now are more formal international processes of reporting and reviewing actions. Also needed are international negotiations between labour-sending and labour-receiving countries and with international organizations. Such negotiations should lead to codes of conduct both for labour-sending and for labour-receiving countries, laws for eliminating exploitation of migrant workers and violations of their human rights, and severe penalties for traffickers (box 5.5). The UN Convention for the Suppression of Traffic in Persons and the Exploitation of the Prostitution of Others, approved by the General Assembly in 1949, focuses on trafficking as a criminal commercial enterprise. Only 70 countries have adopted this convention.

Protecting cultural diversity

Culture, community and human security are intertwined—but too often undermined by the invasions of globalization. The World Commission on Culture and Development recognized the broad principle of protecting cultural diversity while encouraging cultural exchange. Balancing the two is difficult and controversial—but countries wishing to protect their cultural heritage need to be permitted to do so.

Four examples of actions:

- Regional and private efforts could encourage much more two-way cultural communication—so that films, music, literature and television programming flow between and within developing regions, not just to them from industrial countries.
- Policy-makers have to rethink state, community and international institutions and policies to permit local populations to choose their languages and way of life. At the same time institutions should be created that encourage a dialogue between leaders of different cultural groups to negotiate exchanges and promote better mutual understanding.
- An international forum could be held on international violence and pornography—

Culture, community and human security are intertwined—but too often undermined by the invasions of globalization whether in videos, television programming or interactive games and services—and on national efforts to moderate and control these activities and safeguard children from their influence.

- New partnerships between governments, corporations, private voluntary associations and other stakeholders should be developed. The effects of global markets on local cultural industries, both good and bad, should be more clearly recognized, so that policy can protect and enhance their cultural and economic flowering.

Preserving the environment

Despite widespread public support for environmental action, the driving forces of globalization still put profit before environmental protection, preservation and sustainability. The international body charged with building a bridge between environmental and trade policy, the World Trade Organization's committee on trade and environment, has focused mostly on fitting environmental concerns into existing trade regimes, not on seeking a true synergy between environment and trade as equal policy objectives. The committee sees its role as limiting unilateral state actions in the name of environmental protection to protect the trading system—not as creating a paradigm shift from a negative trade-environment relationship to a positive one, a relationship that promotes sustainable trade, investment and growth.

The committee has focused on some important questions: Should WTO members agree on general exemptions for trade-restricting measures in multilateral environmental agreements? And how can eco-labelling schemes be protected and not classed as non-tariff trade barriers? But other issues demand attention: How can trade measures encourage countries to remove the perverse subsidies for energy, chemicals and water that distort trade and damage the environment? And how can they lead countries to internalize the environmental costs of production? Why not establish a "green round" on international trade to coordinate joint actions on eliminating environmentally damaging subsidies and internalizing environmental costs?

Narrowing global gaps

Nearly 30 years ago the Pearson Commission report began with the recognition that "the widening gap between the developed and the developing countries has become the central problem of our times." Today, global inequalities in income and living standards have reached grotesque proportions. The gap in per capita income (GNP) between the countries with the

[illegible] 5.5

Global crime—the international response

[illegible] to the positive aspects of global[illegible] posed by the growth of global organ[illegible] crime has been recognized at the [illegible] levels: it was on the agenda for the [illegible] meeting in Birmingham a couple of [illegible] ago. Such recognition is critical, [illegible] the response to global crime must [illegible] global, not national.

Con men operating out of Amsterdam [illegible] bogus US securities by telephone to Germans; the operation is controlled by an Englishman resident in Monaco, with his [illegible] in Panama. Which police force should investigate? In which jurisdiction should a prosecution be mounted? There may even be a question about whether a crime has been committed, although if all the actions had taken place in a single country there would be little doubt.

The first principle of a global response to crime is cooperation. Law enforcement agencies, police, prosecutors and intelligence services need to work with their opposite numbers across borders, breaking down what is often generations of suspicion and even enmity. This is not easy, but there are precedents at the national level. A crime in the United States may be investigated by city, state or federal police; among the federal agencies may be the Federal Bureau of Investigation, the Drug Enforcement Administration, the Secret Service, US Customs and the Internal Revenue Service. These groups do not always get on with each other, but they have learned to cooperate to attack crime that cuts across their jurisdictions and competencies.

Part of the suspicion that law enforcement agencies in the developed world have of their counterparts elsewhere is based on corruption. The traffic policeman in Mexico, the customs officer in Nigeria, the prosecutor in Russia may all face a choice between operating honestly or feeding their family. When compared with the needs of education and health care, support for the law enforcement budget may not seem a high priority, but short-term savings may result in heavy long-term costs.

The second principle is effective and appropriate regulation. When a political system changes from a centrally planned economy or a police state to a liberal, free market, democratic society, there are huge pressures, from within and from the international community, to remove oppressive regulations; but there is less push to replace them with the sort of legal framework and institutions that have grown up over centuries in societies that have long had such political systems. This is a dangerous mistake.

For example, encouraging an indigenous banking system is an important development goal, and bank secrecy legislation may seem a good short cut. But without a strong bank regulatory framework, and an institution with the muscle to impose it, the result will be a flood of dirty money followed by bank failures. The end result is bailout costs for the central bank and loss of international market credibility for the future.

Similarly, privatization without a strong system of corporate law, and a judicial system that is an effective administrator and guarantor of its application, becomes a lottery. Sometimes a sound enterprise, a good local partner and management team, and consistent government regulation align to produce a spectacular investment success. But more often cronyism in the privatization process and abuse of minority shareholder interests lead to failure, and the local courts offer little hope of redress.

Comparing the goal of increasing economic freedom with imposing new bureaucratic contraints is an unequal battle. But the liberalization of the economic and political system must march in lock-step with the growth of laws and the institutions that administer them. New freedoms bring new responsibilities.

Source: Helsby 1998.

richest fifth of the world's people and those with the poorest fifth widened from 30 to 1 in 1960, to 60 to 1 in 1990, to 74 to 1 in 1995. The marginalization of the least developed countries continues, accelerating as a result of the Asian crisis.

Narrowing such gaps is the unlisted item on the global agenda. Extremes of inequality permeate and poison globalization and polarize many reasonable and desirable attempts to manage it better. The issues of global inequality are too fundamental to be swept under the carpet. On the eve of the 21st century, with the newfound awareness of globalization's possibilities, new approaches are needed:

- Taking consistent international actions to support faster growth, and adopting stronger measures to support pro-poor growth in poorer countries.
- Removing constraints on poor countries in trade, investment and technology.
- Refocusing aid to support poverty reduction, especially in the poorest and least developed countries.
- Accelerating debt relief for the highly indebted poor countries.

These proposals are not new, but they are rarely pursued with the energy and resolve required, nor with the clear recognition that the extremes between the richest and poorest countries are counter-productive for the very process of globalization. One of the main reasons globalization stalled in the early 20th century was rising global inequalities.

Pro-poor growth is needed—both for reducing poverty and for making growth a stronger and more indigenous process. Particularly important is accelerating growth in the poorest and least developed countries, with growth rates of at least 3% per capita maintained for three decades. An important step would be to establish an international transfer mechanism to encourage resource flows to poor countries—through private investment and through purposeful allocation of global revenues derived from taxing pollution or charging for use of the global commons (see below). Another would be to create an international task force to focus on possible actions to address the widening gaps between rich and poor countries, including setting time-bound goals for narrowing the gaps between the industrial countries and the poorest and least developed countries.

As Professor Jan Tinbergen, the first Nobel Prize winner in economics, wrote a few years ago, "there should also be redistribution at the international level through development cooperation. . . . As the world economy becomes increasingly integrated, so the redistribution of world income should become similar to that within well-governed nations" (*Human Development Report 1994*, p. 88).

Extremes of inequality permeate and poison globalization and polari[ze] many reasonable and desirable attempts to manage it better

PROMOTING FAIRER TRADE, ESPECIALLY FOR THE POOREST COUNTRIES

Both developing and developed countries need to do more to ensure greater benefits for

BOX 5.6

Renegotiating Lomé—one size doesn't fit all

For almost 25 years this pioneering treaty of development cooperation guaranteed the African, Caribbean and Pacific (ACP) states financial aid and preferential market access to Europe. The current Lomé convention will expire in February 2000. The European Union and 71 ACP states are engaged in negotiations to renew it.

The first of four treaties under this framework was signed in Lomé, the capital of Togo, in 1975. It started out with high ideals. Its fundamental principles called for equality between the partners, respect for their sovereignty, mutual interest and interdependence and the right of each partner to determine its own political, social, cultural and economic policy options.

The European Union is suggesting substantial changes to the Lomé convention. European policy-makers argue that Lomé did not work. They say that the convention did little to pull the ACP states out of poverty. Moreover, European policy priorities have shifted. Donor fatigue, new partners in Eastern Europe and budgetary constraints due to the strict Maastricht criteria contributed to a change in European attitude towards the ACP states. In addition, the European Union claims that Lomé is not in accord with the rules of the World Trade Organization.

If the European Union's plans are implemented, a large group of ACP states may experience a massive deterioration in market access to Europe, reversing transfe[rs] of payments from some ACP countries t[o] the European Union.

Under these plans, free trade areas, pr[i]vate investment and conditionality mu[st] replace preferential market access an[d] unconditional financial aid. The Europe[an] Union intends to maintain Lomé prefe[r]ences for the 41 least developed ACP coun[t]ries. But the 30 other developing countr[ies] may be given the choice of forming a fr[ee] trade area with the European Union [or] joining the General System of Preferenc[es].

What can be done?

- Europeans must not abandon th[eir] commitments to the ACP states. Th[ey] should realize that Lomé applied one se[t of] policies to 71 different countries. This on[e-]size-fits-all approach eventually did n[ot] work. A renewal of the Lomé treaty mu[st] therefore recognize the political, econom[ic] and cultural diversity of the ACP states.
- Previously, financial support was g[iven] as a lump sum to ACP governments. [A] future Lomé treaty should direct resourc[es] to promote specific sectors or to build in[sti]tutions. This can be achieved only [if] donor and recipient countries coop[erate] closely.
- The European Union should p[ursue a] mix of policies. Free trade areas can be[ne]fit sectors that can compete. More vulne[ra]ble sectors, such as agriculture, sho[uld] either receive financial aid or be tempor[ar]ily exempted from trade liberalization.

Source: Keenan and Stevens 1997.

developing countries in trade, improving market access and the terms of trade, especially for the poorest and least developed countries (box 5.6). Trade liberalization can benefit developing countries, and they should in principle be willing to engage in new multilateral negotiations. But before new global trade talks start, developing countries must be assured that previous agreements and promises will be kept. The Multi-Fibre Arrangement must be eliminated, as promised by developed countries. And the use of antidumping measures against the poorest countries must be curbed.

Speeding the elimination of domestic agricultural support and export subsidies in the industrial countries would help ensure access to markets for agricultural products. And regulations governing food safety, animal and plant health and the safety of farm workers need to be implemented in ways that minimize the risk that they will be used as protectionist measures—say, by:

- Devising multilateral standards and encouraging the spread of mutual recognition and equivalency agreements.
- Requiring product labels that include the origin and attributes of each product.
- Ensuring credible regulatory agencies that are separate from those responsible for farm support programmes.

International support to help poor countries expand agricultural exports would offer triple benefits. It would encourage production in areas of the world with many comparative advantages and much lower use of fertilizers and pesticides than is typical in industrial countries. It would help maintain crop and seed diversity. And it would encourage exports and production as a step towards economic development in poor countries.

A new round of trade negotiations—the millenium round—is in the works (box 5.7). Much is at stake, and developing countries need to be ahead of the issues, not behind them.

BOX 5.7

Developing countries and trade—active participation in the millennium round

Five years after the end of the Uruguay Round, preparations for a new round of multilateral trade negotiations are under way. Negotiations might deal not only with the reduction of tariff and non-tariff barriers in such critical areas as textiles and agriculture. They could focus also on non-trade issues such as environmental and labour standards and competition rules.

Developing countries need to understand these developments, be ahead and not behind them, identify areas of key interest and help shape more forcefully the global trade structure. Trade liberalization can, after all, be a win-win situation.

Developing countries could consider these policy and strategy options for the next round of multilateral trade negotiations:

- *Review and implement existing agreements before new agreements.* Before negotiators talk about such issues as environmental or labour standards, they need to make sure that all parties keep the commitments made in the Uruguay Round. For example, OECD countries need to implement the Agreement on Textiles and Clothing to free developing countries from the regime of the Multi-Fibre Arrangement.
- *Talk about all property rights.* Property rights include intellectual property rights as well as rights to emit carbon into the atmosphere. Many rich countries seem to have overused their right to pollute. If they want to continue to do so, developing countries could link these property rights in trade negotiations and demand compensation. An aggressive pursuit of property rights could yield the developing countries both potential economic benefits and negotiating leverage.
- *Win-win environmental concessions and trade liberalization.* Broadening the negotiating agenda to include issues such as the environment does not have to be disadvantageous to developing countries. It can also open opportunities. Countries with significant environmental assets (rain forests in Brazil, Cameroon, the Democratic Republic of the Congo, Costa Rica, Indonesia, Malaysia, Thailand) could make concessions to achieve benefits in other areas. In exchange for protecting or even rebuilding rain forests, developing countries could ask OECD countries to level the playing field in trade, investment or antidumping measures.
- *Together, if you can.* Developing countries need to get better organized and negotiate in groups. Their political leverage increased during the Uruguay Round. Today, developing countries account for 30% of world trade. Regional or sectoral alliances may help developing countries increase their standing in trade negotiations.

Source: Whalley 1999.

REDUCING THE DEBT OF THE POOREST COUNTRIES

Slow progress in tackling the accumulated debt of the 41 heavily indebted poor countries (HIPCs) is one of the clearest examples of how globalization has been failing the poorest and least developed countries (box 5.8). For several years most commentators have agreed that the debt of these countries is excessive and unpayable. Yet the actions have so far been minute in relation to the needs.

The debt burden has undermined growth, health and education. Only 2 HIPCs have achieved growth rates of more than 2% per capita since 1980, while 9 did so between 1965 and 1980. Debt service payments exceed annual expenditure on health and education in 9 HIPCs, and they exceed health spending in 29, including 23 in Sub-Saharan Africa (table 5.1). Tanzania's debt service payments are nine times what it spends on primary health care and four times what it spends on primary education.

Under the HIPC initiative, it takes six years for a country to become eligible for debt relief. This period should be sharply reduced, by half or more. The debt sustainability ratio—the amount of debt that is deemed manageable by an indebted country—must also be lowered, from 200–250% of a country's annual exports to 100% or less (table 5.2). Debt payments are deemed bearable at 20–25% of a country's annual exports. This should be reduced to 10% or less. In short, the poorest countries need more support and more breathing space to restore growth and accelerate human development.

The sum required to fund the HIPC initiative has been officially estimated at $7 billion—less than 5% of the $170 billion mobilized for East Asia and Brazil (though it is needed on grant not loan terms). One argument against faster debt relief is that the resources for it would have to come from other concessional funds, "robbing Peter to pay Paul". This need not be. Debt relief for the poorest countries could and should be financed from new and additional resources. These could come from sales of IMF gold or new allocations of SDRs—even from special contributions, just as for the bailout of the Long-Term Capital Management fund. By the test of human development, Sub-Saharan countries and the other HIPCs deserve more support.

More aid, better allocated, more useful

Although official development assistance (ODA) has fallen since 1994 (table 5.3), there are some signs of recovery. Six donor countries of 21 increased their ODA in 1997, Canada and the United Kingdom by the most. And four continue to exceed the 0.7% of GNP target by an easy margin—Denmark, the Netherlands, Norway and Sweden. The increases will help offset the much faster decline in aid budgets in relation to other public expenditures.

Implementing the commitments to the least developed countries remains one of the highest priorities, especially the commitment that each donor allocate a minimum of 0.15% of its GNP to these countries. Few of the poorest countries have much chance of receiving substantial foreign direct investment, so they depend on aid, especially for expanding basic health and education and raising growth rates.

A multilateral agreement on investment—for people

Negotiations on the Multilateral Agreement on Investment collapsed—a casualty of unreconciled differences of philosophy among developed countries. More serious was the secrecy surrounding the negotiations and the failure to bring in all the countries involved. Negotiations on a new agreement must start with a more equitable process and clearer acceptance of the need to achieve equitable results not just for capital—but for people.

The process of negotiating the agreement will determine its success. Talks need to be open. Participation of developing countries and of civil society is crucial. National treatment of capital must be tied to the concept of sustainable development. Most-favored-nation principles for investment do not preclude

BOX 5.8

Debt—a need for accelerated action

External debt continues to be a heavy burden for developing countries. In 1997 the total debt of developing countries reached almost $2.2 trillion. Hardest hit have been the 41 heavily indebted poor countries (HIPCs), 33 of them in Africa. Their debt burden, $245 billion in 1996, drains public budgets, absorbs resources needed for human development and inhibits economic growth.

Since 1980 the debt of the HIPCs has more than tripled, two-thirds the result of arrears unpaid or earlier debt. Moreover, the nature of debt has changed. In 1980 more than half of all debt was owed to private creditors—in 1997 barely a fifth. Today's debt crisis is about official debt—increasingly debt owed to multilateral institutions such as the International Monetary Fund and the World Bank. The shift from private debt to official and multilateral debt opens the door for policy-makers to find solutions to the debt crisis.

- An acceleration of debt forgiveness under the HIPC initiative is essential. Too few of the poorest countries are eligible under the initiative, which may leave some countries in a very tight spot. The envisaged period of six years of good performance before eligibility should be reduced to three years or even less, provided debtor countries work closely with the World Bank and the IMF and follow agreed principles.
- In some cases partial or total debt forgiveness by the Paris Club is also needed. Denmark's cancellation of developing country debt worth $635 million and Germany's debt initiative are leading examples for OECD countries. Other industrial countries have forgiven debt arising from earlier aid support—but not all.
- Showing how debt payments squeeze a country's capacity to provide education and health to all its children would help to bring home to the general public the wider significance of the debt problem—and the urgent need for action.
- Cancellation of all debt of the most impoverished developing countries is the objective pursued by the Jubilee 2000 initiative. Sponsored by many churches and NGOs, the initiative links the year 2000 with the biblical concept of debt forgiveness.

Source: UNCTAD 1998b; UN 1998b.

codes of conduct for big corporations. Governments must retain full discretion to set environmental and labour standards.

Narrowing technology gaps

In an era of sweeping technological advance, it is inexcusable that human poverty should persist—and that the technological gaps are widening. Poor people and countries need a better

TABLE 5.1
Eight heavily indebted poor countries, 1995

Country	External debt: US$ billions	External debt: As % of GNP	Debt service as % of GNP	Public expenditure: On education (% of GNP) ª	Public expenditure: On health (% of GDP) ª	Public expenditure: On military (% of GDP)
Nicaragua	10	670	19	4	4	2
Angola	12	501	20	..	4	3
Guyana	2	394	20	5	..	1
Guinea-Bissau	1	380	7	..	1	3
Congo	6	350	11	6	2	3
Mozambique	6	327	9	6	5	5
Congo, Dem. Rep. of the	13	242	0.5	..	0.2	0.3
Mauritania	2	231	12	5	2	3

a. Data are for most recent year available during 1990–95.
Source: World Bank 1998c.

TABLE 5.2
External debt of the 41 heavily indebted poor countries, 1992–96

	1992	1993	1994	1995	1996
Total debt (US$ billions)	229	235	247	254	245
Debt service (US$ billions)	10	8	9	12	11
Debt service/exports (%)	21	17	19	20	16
Debt stocks/exports (%)	461	495	493	431	344

Source: UN 1998b.

TABLE 5.3
Who gets aid?
(official development assistance in current US$ billions, except where otherwise specified)

	1988	1993	1994	1995	1996	1997
Net ODA	48	56	60	60	58	50
Bilateral	37	39	41	41	39	32
Multilateral	11	17	19	19	19	18
Net ODA (1995 US$ billions)	61	59	62	60	57	48
Share of ODA to least developed countries (%)	28	27	27	28	24	27
ODA to least developed countries	13	15	16	17	14	14
ODA to five largest recipients						
China	2.5	3.3	3.3	3.5	2.6	2.0
Egypt	1.9	2.4	2.7	2.0	2.2	2.0
India	2.4	1.5	2.3	1.7	1.9	1.7
Israel	1.5	1.3	1.3	0.3	2.2	..
Bangladesh	2.2	1.4	1.8	1.3	1.3	1.0

Source: OECD 1996a and 1999a.

deal from technology's breakthroughs.

- Global governance of intellectual pr rights under the agreement on Trade-R Aspects of Intellectual Property Righ TRIPS, must be broadly and fully reviev create a system that does not block devel countries from knowledge or threaten security, indigenous knowledge, biosafet access to health care.
- The TRIPS agreement must recogni rights of local communities to their tradi and indigenous knowledge—and enco fair and just compensation for the use o knowledge.
- Consumers and producers in devel countries must be protected. Price co should be permitted or encouraged on ce patented products for production by farmers and for basic health and educa Price controls are especially important pharmaceutical products, with treatment HIV/AIDS an obvious example.
- Governance of global communicatio especially the Internet—must be broadene include the very strong interests of develo countries in decisions on Internet proto taxation, domain name allocation and phony costs.
- Public investment is needed in techn gies to meet the needs of poor people countries, from drought-resistant, rol seeds to humidity-resistant, solar-powe computers.
- New funding mechanisms should be ated to ensure that the information revolu leads to human development, not human po ization. Two proposals—a bit tax and a pa tax—would raise funds from those who alre have access to technology and use them to h extend the benefits more widely.

Specific actions to strengthen the bargaining position of poor countri in global governance

Large inequalities of economic power a influence are embedded in most internatio institutions. Often this is justified on grounds that those with the largest stake in outcomes have most to lose—and that t must have greater influence to ensure "resp able" decisions. If stake means financial outcome, this may be true. But if stake refers to the number of people affected, often hurt, this justification looks very thin (table 5.4).

Voting arrangements need to be revised—for fairness, efficiency and political viability. If they are not, those shut out may change their minds about the virtues of participating in the system. There must also be some agreement on the need to give much more attention to the interests of the poor countries and, over time, to narrow the gaps between them and the better-off countries.

Improving institutional accountability is a priority in the reform of international governance. Decision-making in international trade and finance needs to be more transparent, and independent evaluations of international public policies can be a first step towards increased accountability. The World Bank's Operations Evaluation Department and the IMF's independent external evaluation of its Enhanced Structural Adjustment Facility programmes are first steps in the right direction. Other priorities:

- Establishing an ombudsman mechanism within the WTO, World Bank and IMF to investigate cases of alleged bias and injustice in their operations.

TABLE 5.4
Global institutions and their membership

Institution		Membership	Share of world GDP (%) 1997	Share of world population (%) 1997
P-5	Security Council	China, France, Russian Federation, United Kingdom, United States	40.9	30.6
G-7	Western economic powers	Canada, France, Germany, Italy, Japan, United Kingdom, United States	64.0	11.8
G-10	Western economic powers	Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, United States	67.8	12.5
G-22	Western economic powers and emerging markets	Argentina, Australia, Brazil, Canada, China, France, Germany, Hong Kong (China, SAR), India, Indonesia, Italy, Japan, Republic of Korea, Malaysia, Mexico, Poland, Russian Federation, Singapore, South Africa, Thailand, United Kingdom, United States	81.7	64.8
G-24	Major developing countries	Algeria, Argentina, Brazil, Colombia, Democratic Republic of the Congo, Côte d'Ivoire, Egypt, Ethiopia, Gabon, Ghana, Guatemala, India, Islamic Republic of Iran, Lebanon, Mexico, Nigeria, Pakistan, Peru, Philippines, Sri Lanka, Syrian Arab Republic, Trinidad and Tobago, Venezuela, Yugoslavia	8.9	34.6
G-77	Developing and transition countries	Afghanistan, Algeria, Angola, Antigua and Barbuda, Argentina, Bahamas, Bahrain, Bangladesh, Barbados, Belize, Benin, Bhutan, Bolivia, Bosnia and Herzegovina, Botswana, Brazil, Brunei Darussalam, Burkina Faso, Burundi, Cambodia, Cameroon, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Comoros, Congo, Democratic Republic of the Congo, Costa Rica, Côte d'Ivoire, Cuba, Cyprus, Djibouti, Dominica, Dominican Republic, Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Ethiopia, Fiji, Gabon, Gambia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana, Haiti, Honduras, India, Indonesia, Islamic Republic of Iran, Iraq, Jamaica, Jordan, Kenya, Democratic People's Republic of Korea, Kuwait, Lao People's Democratic Republic, Lebanon, Lesotho, Liberia, Libyan Arab Jamahiriya, Madagascar, Malawi, Malaysia, Maldives, Mali, Malta, Marshall Islands, Mauritania, Mauritius, Federated States of Micronesia, Mongolia, Morocco, Mozambique, Myanmar, Namibia, Nepal, Nicaragua, Niger, Nigeria, Oman, Pakistan, Occupied Palestinian territory, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Qatar, Romania, Rwanda, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Samoa (Western), São Tomé and Principe, Saudi Arabia, Senegal, Seychelles, Sierra Leone, Singapore, Solomon Islands, Somalia, South Africa, Sri Lanka, Sudan, Suriname, Swaziland, Syrian Arab Republic, United Republic of Tanzania, Thailand, Togo, Tonga, Trinidad and Tobago, Tunisia, Turkmenistan, Uganda, United Arab Emirates, Uruguay, Vanuatu, Venezuela, Viet Nam, Yemen, Yugoslavia,[a] Zambia, Zimbabwe	16.9	76.0

a. Cannot participate in the activities of the G-77.
Source: Human Development Report Office.

- Encouraging the involvement, formal or informal, of NGOs and non-official professional groups in the discussion and review of proposals and policies, especially those affecting groups underrepresented in the formal structures (box 5.9).
- Adapting legal aid to provide support to and strengthen the bargaining position of weak countries. Legal aid and capacity-building programmes for the poorest countries could increase the participation of poor countries in international trade and financial organizations, allowing them to establish missions and hire experienced staff. Some Latin American countries, backed by two or three members of the European Union, floated the idea of funding a legal centre to help developing countries prepare or defend cases under the WTO's dispute settlement system.
- Setting some long-term goals and broad guidelines for narrowing global income gaps and securing larger shares of the benefits from trade and financial agreements for poor countries and people.

BOX 5.9

NGOs and global advocacy

During the 1970s activists were urged to "think globally and act locally". Over the past 10–15 years a vibrant NGO community has emerged in the South with a profound impact on development practice and thinking. Alternative NGO-sponsored conferences took place alongside all the global UN conferences of the 1990s. Activists from both South and North joined to lobby governments and international agencies to give greater priority to the world's poor and marginalized.

In response to lobbying against some of its policies, the World Bank reached out to its NGO critics, which now play a much bigger role in Bank-funded projects. Other changes include the appointment of NGO-liaison officers in most Bank country offices and a greater recognition of the importance and input of NGOs to the Bank's work. NGOs have also held the Bank accountable to its own procedures and policies. NGO submissions to the World Bank Inspection Panel on the Arun III Hydroelectric Project in Nepal weighed heavily in the Bank's decision not to finance the project.

NGOs have put pressure on all the UN agencies as well as governments to follow up on the goals and commitments of the global conferences.

For the Kyoto protocol, NGOs have been pushing for an agreement that will have a significant impact on global greenhouse gas emissions rather than one that settles for cosmetic changes. At the Kyoto meeting NGOs pressured national governments and multilateral agencies to release a 10-point call for action. The declaration forms the basis for ongoing NGO advocacy and lobbying on climate change. Similar declarations have been submitted by a group of NGOs from Eastern and Central Europe. Friends of the Earth and the World Wildlife Fund for Nature have been active in raising awareness of how private sector concerns [illegible] dominating the discussions on how the protocol is to be implemented. They have also raised concerns that the final outcome will have no meaningful impact on greenhouse gas emissions.

Source: Human Development Report Office.

Developing countries can do much more to strengthen their own bargaining capacity and positions. Priorities here include:

- *Building and strengthening third world and regional collective organizations.* There is no developing country group equivalent to the G-7 or to the OECD, even though at times there have been efforts to strengthen such bodies as the G-15, the G-24 or even the G-77.
- *Using regional economic arrangements to develop and coordinate common positions in negotiations on economic issues.* In Latin America Mercosur and the Andean Community have already proved useful in establishing negotiating positions during trade talks with the United States, Canada and the European Union. In the 1990s the number of regional trade agreements increased significantly. Greater efforts are needed, especially in Sub-Saharan Africa, to transform regional or subregional economic integration schemes into strong platforms of common interest.
- *Developing regional initiatives on financial and monetary matters.* Such initiatives could focus on providing early warning of financial crises, supplementing international resources and formulating structural adjustment programmes while encouraging a move to peer review of national programmes and ensuring that the programmes relate more closely to recipient countries' economic and financial systems.
- *Ensuring stronger professional support to the poorest and least developed countries in negotiations,* especially those relating to trade, investment and growth prospects and to long-term institutional restructuring. The G-24 research programme offers some support to developing country representatives and decision-makers in trade and finance, but it is still primarily donor-funded and has no full-time or on-site staff. It merits fuller support from developing countries themselves.

START NOW TO BUILD THE GLOBAL ARCHITECTURE REQUIRED FOR THE 21ST CENTURY

With the new challenges of globalization, and the need to ensure stronger action on old problems and new, the time has come to rethink the global architecture. Some of the key elements of an improved international architecture:

- A stronger and more coherent UN system, with greater commitment from all countries.
- A global central bank.
- A world investment trust with redistributive functions and transfer mechanism.
- A world environment agency.
- A revised World Trade Organization, fairer and with an expanded mandate.
- An international criminal court with a broader mandate for human rights.
- A broader United Nations, including a two-chamber General Assembly to allow for civil society representation.

Earlier *Human Development Reports* recognized the need for major changes in global governance if human development was to be achieved on a global scale. The recent crises underscored this need and made people and governments more aware of the case for fundamental changes—and more ready to consider them.

New and stronger international institutions of global governance can be seen as global public goods. At the national level, public goods have been recognized as vital when the market has neither the incentive nor the mechanisms to meet a public need. With growing globalization, international public goods are now needed for similar reasons (box 5.10).

This new perspective is much more than a change of terminology. To recognize the need for global goods is to accept the importance of actions of global governance beyond the capacity of individual countries to provide, to establish a rationale for new forms of financial support that countries need to ensure but to recognize also that without special efforts such support may not be forthcoming. These issues become matters for political advocacy and education on globalization, in which all countries have a role and a stake. Five basic elements are needed in a new international architecture of global economic governance.

Strengthen the United Nations system, giving it greater coherence to respond to broader needs of human security

More actions have been taken in the past few years to strengthen the UN system than in any previous decade: high-level global conferences to establish goals and commitments, internal reforms to increase focus and efficiency, the creation of a UN Development Group bringing together the development agencies to strengthen field-level action and initiatives to encourage closer working relationships with the World Bank and the IMF.

In parallel with these, the Economic and Social Council (ECOSOC) has adopted several

BOX 5.10

Global public goods—the missing element

Earlier we thought the ozone layer was out there. But now it is in here, a key issue on the national policy agendas of most countries. The reason is that to avoid further depletion of the ozone shield, the use of chlorofluorocarbons has to be reduced in every country. The same point can be made for the atmosphere: energy use has to change *everywhere* to reduce the risk of global warming.

Conversely, health, employment and equity, previously thought to be quintessential domestic concerns, now figure on international policy agendas. Take the 1995 World Summit on Social Development, which focused on issues of poverty, employment and social cohesion.

Why this intermingling of concerns and agendas?

- *Open borders.* While borders continue to be important, they have become porous as a result of falling tariffs, loosening capital controls and spreading information technology. Openness allows global goods and bads to travel with ever-greater ease. So, good health, reduced greenhouse gas emissions and peace and security in all countries matter even more.
- *Systemic risks.* International financial markets produce boom and bust cycles and present inherent risks. If global warming is allowed to proceed, we may face climatic changes with as yet difficult to predict consequences. And if global inequity continues unchecked, the global social fabric could come under severe strain. Because of the growing number of systemic risks, the international community faces the challenge of staying within limits (sustainable pollution levels), achieving specific targets (for poverty reduction) or providing risk insurance (for countries affected by financial contagion).
- *Transnational actors.* In business and civil society the number of transnational actors has been growing. And these actors are placing more pressure on governments to harmonize policy—such as standardizing market rules for banking supervision or recognizing universal human rights.

These trends turn many national public goods and bads into global public goods and bads—and place global concerns, notably those about the natural global commons, on national policy agendas. So, the number of global public goods—*non-rival* and *non-excludable*—is growing. Non-rivalry means that one person's consumption of a good does not detract from another's enjoyment of it. Non-excludability means that it is difficult and costly, if not impossible, to prevent a person from enjoying a public good once it exists. Peace is one such non-rival, non-excludable public good.

Today's policy-making is ill equipped to handle today's global public good issues. Three major policy deficits exist:

- *A jurisdictional gap*—While the policy issues are global in nature, policy-making is still primarily national in focus and scope.
- *A participation gap*—While we are living in a multi-actor world, international cooperation is still primarily intergovernmental.
- *An incentive gap*—While cooperation works only if it offers a clear and fair deal to all parties, today's international cooperation is often stalled by concerns about equity and fairness.

Sustainable, broad-based development depends on closing these three gaps—on restocking the toolkit of policy-makers to equip them for cooperating in the provision of global public goods.

Source: Kaul, Grunberg and Stern 1999.

new ways of working, including holding joint meetings with the IMF-World Bank Development Committee and inviting distinguished specialists to address the council. These have been important for enlivening debate and improving relevance in ECOSOC—but the council still has not been given the status of senior decision-making body on economic and social matters as envisaged by its founders. Collective decision-making on economic and social matters remains with a variety of other bodies—the G-7, the World Bank, the IMF, the WTO. As a result, global decision-making still lacks coherence and geographic balance, with key decisions made in different bodies and no clear mechanism to bring the elements together.

Keynes's original proposal was that the global monetary authority should have access to resources equivalent to 50% of world imports

Various suggestions have been made to remedy this. Earlier *Human Development Reports*—and the Commission on Global Governance in 1995—proposed an economic security council, with equal numbers of developed and developing countries and veto powers in each group to build confidence. Some have suggested that the existing ECOSOC should set up an executive committee with delegated powers for decision-making on certain matters or split into two bodies, one for decision-making on economic matters and the other for social matters.

Other mechanisms would be possible, depending mostly on what could command a political consensus. Three critical needs:

- For a broad consensus among industrial and developing countries, rich and poor, and for a stronger and more open decision-making process on next steps in economic and social issues of global governance.
- For national governments to work out arrangements to harmonize their national positions and representation in the institutions of global government. Today, global management suffers because many countries lack coherence between positions taken by their finance ministries (which generally represent them in the Bretton Woods institutions), their foreign ministries (which generally represent them in the United Nations in New York) and other ministries (which represent them in the World Health Organization, Food and Agriculture Organization, UNESCO, International Labour Organisation and other bodies of the United Nations).
- For clear agreement on a division of labour among the United Nations, the World Bank and the IMF.

The issues in reforming global governance are a good starting point. Because the issues are so wide-ranging, a joint committee could be set up at the highest level to steer discussions and negotiations, recognizing that governments will probably choose to pursue most matters in existing institutions. But to get legitimacy and balanced representation in the final result, the United Nations will have to be involved in the overall process and the final decision-making.

Move to a global central bank

Just as countries need central banks, so the world needs a central bank in the 21st century. The recent establishment of the European Central Bank demonstrates the perceived need among some of the richest industrial countries.

A world central bank would help stabilize global economic activity by performing several vital functions:

- Acting as lender of last resort.
- Regulating financial institutions and flows.
- Calming financial markets when they become jittery or disorderly.
- Creating and regulating new international liquidity.

Enlarging the mandate of the IMF would be one approach, though this would need to be accompanied by measures to ensure greater sensitivity to human concerns and broader perspectives on economic and social policy. Another would be to establish a world financial authority.

The Asian crisis has demonstrated the need for a global monetary authority to have access to much greater financial resources. Keynes's original proposal was that the global monetary authority should have access to resources equivalent to 50% of world imports. The US counterproposal was for 15%. Even with the special efforts during the recent crisis, IMF resources remain less than 3% of world imports.

Several mechanisms are available to expand global financial resources, including a renewed issue of special drawing rights and agreements with the main central banks to permit enlarged swap arrangements. Quick access to funding may be as important as the size of the resources available. Procedures to achieve this need to be explored, such as advance agreements on provisional lines of credit.

Create a global investment trust and transfer mechanism

There is an urgent need for new mechanisms to generate additional flows of resources to poor developing countries as well as new funding for global public goods. Private investment flows are important, but experience shows two major problems. First is their volatility, especially portfolio flows. Second is the tendency for foreign direct investment to be concentrated in a small number of developing countries. In 1997 almost 70% of all foreign direct investment to developing and transition economies went to just 10 countries.

There are several possible ways to generate such additional revenues:

- Mobilize resources as a by-product of revenues raised from polluter-pays charges on global pollution.
- Charge rents or royalties on the use of such "global commons" as under-seabed mineral resources or radio waves.
- Introduce taxes on such items as international air tickets.
- Implement the Tobin tax proposal—to levy a charge on short-term financial movements and restrain volatile flows of short-term finance. Some of the proceeds could be invested in poor countries.
- Blend concessional finance with private lending and make the proceeds available as a third window for middle-income countries.

Separately or together, these proposals could improve the operation of the global economy and generate billions of dollars a year.

Create a world environment agency

The Earth Summit in Rio de Janeiro in 1992 estimated the cost for developing countries to adopt sustainable development practices at $600 billion a year, of which $475 billion would need to come out of their own resources and $125 billion from new and additional international resources.

The Global Environment Facility (GEF), established in 1991, is a poor cousin to these ambitious plans. Jointly implemented by the World Bank, UNDP and the United Nations Environment Programme (UNEP), the GEF provides funding aimed at achieving environmental benefits in four areas: climate change, loss of biodiversity, pollution of international waters and depletion of the ozone layer. At Rio the scope of the GEF's funding was broadened to include land degradation, primarily desertification and deforestation, where this is linked to the four focal areas. Since 1992 some $2 billion has been pledged for activities supported by the GEF.

Relative to today's global economy—and the global challenge of sustainability—present structures and levels of global support are minuscule. Needed is a world environment agency, possibly developed from UNEP, with much larger resources and broader functions:

- To oversee the global environment, presenting reports and posing issues for review and policy-making.
- To broker deals.
- To serve as a clearing bank.

One important focus of that agency would be to encourage the removal of perverse subsidies and shift the resources released to direct support of environmental protection and other measures (including employment creation). An Earth Council study estimated that developing and transition economies spend $220-270 billion a year on such perverse subsidies, mostly for energy and water. Some estimates suggest an even higher figure. Massive resources are clearly being wasted, and there is a strong case for beneficial reallocation.

For its clearinghouse functions, the agency would oversee trade in permits for greenhouse gas emissions, along the lines explored in the Clean Development Mechanism proposed in the Kyoto and Buenos Aires climate conferences. Emission rights could be borrowed or lent, but not sold—thus keeping the market competitive and avoiding any risk that developing countries might lose long-term control over their rights. In addition to promoting environmental sustainability, the clearinghouse would be a new mechanism for mobilizing additional financial resources for developing countries, especially the poorest.

These proposals could improve the operation of the global economy and generate billions of dollars a year

People in all parts of the world need to join in the debate and to make clear their interests and concerns

Environmental governance should also be improved—by reviving the proposal that the Trusteeship Council of the United Nations be given a new mandate to preside over issues relating to the use and protection of the global commons, guided by concern for the security of the planet.

Make the World Trade Organization fairer and give it a mandate over multinational corporations

The World Trade Organization, still on an upward trajectory following its creation in 1995, marks a major step forward from its predecessor, GATT. It has established a rule-based system for monitoring international trade and for settling disputes. More than 130 countries now belong to it. And its voting system offers fairer representation than that of the Bretton Woods institutions.

But it is far from adequate, given the long-term priorities for improving the situation of developing countries. And although its playing field is apparently more level, the very unequal size of the players often pits Gulliver against a single Lilliputian.

Other functions for the WTO need to be explored in the long run. Multinational corporations are involved in more than 60% of world trade and dominate the production, distribution and sale of many goods from developing countries, especially in the cereal, mining and tobacco markets. About a third of world trade is conducted as intrafirm trade within multinational corporations, bypassing altogether the free play of genuine market competition. The mandate of the WTO needs to be expanded to give it anti-monopoly functions over the activities of multinational corporations, including production, working in close collaboration with national competition and antitrust agencies.

Achieving a comprehensive global petition policy might not be feasibl progress could be made on several fro

- Agreements could provide for in tional oversight of the implementati domestic competition policy rather th international rules.
- An international agreement could b ited to the issue of price discriminatio predation, which would allow the eli tion of antidumping rules.
- There may be opportunities for inc cooperation through bilateral and re agreements where differences in an laws are smaller. A multilateral agre could be negotiated to lay out a set of mum standards for national policies in of international consensus.

One strong reason for adopting an national agreement on competition p is to eliminate antidumping actions, in when countries are deemed to be dum selling below cost.

All these actions begin with peop

The world is rushing headlong into g integration—driven mostly by eco forces and guided mostly by a philoso market profitability and economic ciency.

Much debate is under way—but it narrowly focused, too geographically anced and driven too much by econom financial interests. People in all parts world need to join in the debate and to clear their interests and concerns process of reinventing global gove must be broader, and human develo can provide a framework for this ration. It is time to change.

JOURNAL

TIME : 25/04/2000 16:19
NAME :
FAX :
TEL :

DATE	TIME	FAX NO./NAME	DURATION	PAGE(S)	RESULT	COMMENT
25/04	15:55		23:27	22	OK	RX ECM

CV : COVERPAGE
CA : CALL BACK MSG
POL: POLLING
RET: RETRIEVAL