Globalization with a human face

"The real wealth of a nation is its people. And the purpose of development is to create an enabling environment for people to enjoy long, healthy and creative lives. This simple but powerful truth is too often forgotten in the pursuit of material and financial wealth." Those are the opening lines of the first *Human Development Report,* published in 1990. This tenth *Human Development Report*—like the first and all the others—is about people. It is about the growing interdependence of people in today's globalizing world.

Globalization is not new, but the present era has distinctive features. Shrinking space, shrinking time and disappearing borders are linking people's lives more deeply, more intensely, more immediately than ever before.

More than $1.5 trillion is now exchanged in the world's currency markets each day, and nearly a fifth of the goods and services produced each year are traded. But globalization is more than the flow of money and commodities—it is the growing interdependence of the world's people. And globalization is a process integrating not just the economy but culture, technology and governance. People everywhere are becoming connected—affected by events in far corners of the world. The collapse of the Thai baht not only threw millions into unemployment in South-East Asia—the ensuing decline in global demand meant slowdowns in social investment in Latin America and a sudden rise in the cost of imported medicines in Africa.

Globalization is not new. Recall the early sixteenth century and the late nineteenth. But this era is different:

- *New markets*—foreign exchange and capital markets linked globally, operating 24 hours a day, with dealings at a distance in real time.
- *New tools*—Internet links, cellular phones, media networks.
- *New actors*—the World Trade Organization (WTO) with authority over national governments, the multinational corporations with more economic power than many states, the global networks of non-governmental organizations (NGOs) and other groups that transcend national boundaries.
- *New rules*—multilateral agreements on trade, services and intellectual property, backed by strong enforcement mechanisms and more binding for national governments, reducing the scope for national policy.

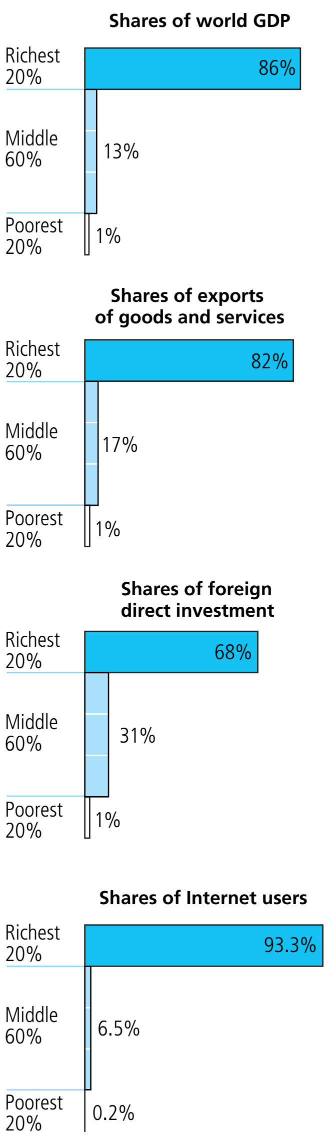
Globalization offers great opportunities for human advance—but only with stronger governance.

This era of globalization is opening many opportunities for millions of people around the world. Increased trade, new technologies, foreign investments, expanding media and Internet connections are fuelling economic growth and human advance. All this offers enormous potential to eradicate poverty in the 21st century—to continue the unprecedented progress in the 20th century. We have more wealth and technology—and more commitment to a global community—than ever before.

Global markets, global technology, global ideas and global solidarity can enrich the lives of people everywhere, greatly expanding their choices. The growing interdependence of people's lives calls for shared values and a shared commitment to the human development of all people.

People everywhere are becoming connected—affected by events in far corners of the world

Stark disparities between rich and poor in global opportunity
1997 shares



Source: Human Development Report Office.

The post–cold war world of the 1990s has sped progress in defining such values—in adopting human rights and in setting development goals in the United Nations conferences on environment, population, social development, women and human settlements.

But today's globalization is being driven by market expansion—opening national borders to trade, capital, information—outpacing governance of these markets and their repercussions for people. More progress has been made in norms, standards, policies and institutions for open global markets than for people and their rights. And a new commitment is needed to the ethics of universalism set out in the Universal Declaration of Human Rights.

Competitive markets may be the best guarantee of efficiency, but not necessarily of equity. Liberalization and privatization can be a step to competitive markets—but not a guarantee of them. And markets are neither the first nor the last word in human development. Many activities and goods that are critical to human development are provided outside the market—but these are being squeezed by the pressures of global competition. There is a fiscal squeeze on public goods, a time squeeze on care activities and an incentive squeeze on the environment.

When the market goes too far in dominating social and political outcomes, the opportunities and rewards of globalization spread unequally and inequitably—concentrating power and wealth in a select group of people, nations and corporations, marginalizing the others. When the market gets out of hand, the instabilities show up in boom and bust economies, as in the financial crisis in East Asia and its worldwide repercussions, cutting global output by an estimated $2 trillion in 1998–2000. When the profit motives of market players get out of hand, they challenge people's ethics—and sacrifice respect for justice and human rights.

The challenge of globalization in the new century is not to stop the expansion of global markets. The challenge is to find the rules and institutions for stronger governance—local, national, regional and global—to preserve the advantages of global markets and competition, but also to provide enough space for human, community and environmental resources to ensure that globalization works for people—not just for profits. Globalization with:

- *Ethics*—less violation of human rights, not more.
- *Equity*—less disparity within and between nations, not more.
- *Inclusion*—less marginalization of people and countries, not more.
- *Human security*—less instability of societies and less vulnerability of people, not more.
- *Sustainability*—less environmental destruction, not more.
- *Development*—less poverty and deprivation, not more.

The opportunities and benefits of globalization need to be shared much more widely.

Since the 1980s many countries have seized the opportunities of economic and technological globalization. Beyond the industrial countries, the newly industrializing East Asian tigers are joined by Chile, the Dominican Republic, India, Mauritius, Poland, Turkey and many others linking into global markets, attracting foreign investment and taking advantage of technological advance. Their export growth has averaged more than 5% a year, diversifying into manufactures.

At the other extreme are the many countries benefiting little from expanding markets and advancing technology—Madagascar, Niger, the Russian Federation, Tajikistan and Venezuela among them.

These countries are becoming even more marginal—ironic, since many of them are highly "integrated", with exports nearly 30% of GDP for Sub-Saharan Africa and only 19% for the OECD. But these countries hang on the vagaries of global markets, with the prices of primary commodities having fallen to their lowest in a century and a half. They have shown little growth in exports and attracted virtually no foreign investment. In sum, today, global opportunities are unevenly distributed—between countries and people (see figure).

If global opportunities are not shared better, the failed growth of the last decades will continue. More than 80 countries still have per capita incomes lower than they were a decade or more ago. While 40 countries have sustained average per capita income growth of more than 3% a year since 1990, 55 countries, mostly in Sub-Saharan Africa and Eastern Europe and the Commonwealth of Independent States (CIS), have had declining per capita incomes.

Many people are also missing out on employment opportunities. The global labour market is increasingly integrated for the highly skilled—corporate executives, scientists, entertainers and the many others who form the global professional elite—with high mobility and wages. But the market for unskilled labour is highly restricted by national barriers.

Inequality has been rising in many countries since the early 1980s. In China disparities are widening between the export-oriented regions of the coast and the interior: the human poverty index is just under 20% in coastal provinces, but more than 50% in inland Guizhou. The countries of Eastern Europe and the CIS have registered some of the largest increases ever in the Gini coefficient, a measure of income inequality. OECD countries also registered big increases in inequality after the 1980s—especially Sweden, the United Kingdom and the United States.

Inequality between countries has also increased. The income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest was 74 to 1 in 1997, up from 60 to 1 in 1990 and 30 to 1 in 1960. In the nineteenth century, too, inequality grew rapidly during the last three decades, in an era of rapid global integration: the income gap between the top and bottom countries increased from 3 to 1 in 1820 to 7 to 1 in 1870 and 11 to 1 in 1913.

By the late 1990s the fifth of the world's people living in the highest-income countries had:

- 86% of world GDP—the bottom fifth just 1%.
- 82% of world export markets—the bottom fifth just 1%.
- 68% of foreign direct investment—the bottom fifth just 1%.
- 74% of world telephone lines, today's basic means of communication—the bottom fifth just 1.5%.

Some have predicted convergence. Yet the past decade has shown increasing concentration of income, resources and wealth among people, corporations and countries:

- OECD countries, with 19% of the global population, have 71% of global trade in goods and services, 58% of foreign direct investment and 91% of all Internet users.
- The world's 200 richest people more than doubled their net worth in the four years to 1998, to more than $1 trillion. The assets of the top three billionaires are more than the combined GNP of all least developed countries and their 600 million people.
- The recent wave of mergers and acquisitions is concentrating industrial power in megacorporations—at the risk of eroding competition. By 1998 the top 10 companies in pesticides controlled 85% of a $31 billion global market—and the top 10 in telecommunications, 86% of a $262 billion market.
- In 1993 just 10 countries accounted for 84% of global research and development expenditures and controlled 95% of the US patents of the past two decades. Moreover, more than 80% of patents granted in developing countries belong to residents of industrial countries.

All these trends are not the inevitable consequences of global economic integration—but they have run ahead of global governance to share the benefits.

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Globalization is creating new threats to human security—in rich countries and poor.

One achievement of recent decades has been greater security for people in many countries—more political freedom and stability in Chile, peace in Central America, safer streets in the United States. But in the globalizing world of shrinking time, shrinking space and disappearing borders, people are confronting new threats to human security—sudden and hurtful disruptions in the pattern of daily life.

Financial volatility and economic insecurity. The financial turmoil in East Asia in 1997–99 demonstrates the risks of global financial markets. Net capital flows to Indonesia, the Republic of Korea, Malaysia, the Philippines and Thailand rocketed in the 1990s, reaching $93 billion in 1996. As turmoil hit market after market, these flows reversed overnight—with an outflow of

$12 billion in 1997. The swing amounted to 11% of the precrisis GDPs of these countries. Two important lessons come out of this experience.

First, the human impacts are severe and are likely to persist long after economic recovery.

Bankruptcies spread. Education and health budgets came under pressure. More than 13 million people lost their jobs. As prices of essentials rose sharply, real wages fell sharply, down some 40–60% in Indonesia. The consequences go deeper—all countries report erosion of their social fabric, with social unrest, more crime, more violence in the home.

Globalization opens people's lives to culture and all its creativity—and to the flow of ideas and knowledge

Recovery seems to be on the way, most evidently in Korea and least in Indonesia. But while output growth, payment balances, interest rates and inflation may be returning to normal, human lives take longer to recover. A review of financial crises in 80 countries over the past few decades shows that real wages take an average of three years to pick up again, and that employment growth does not regain precrisis levels for several years after that.

Second, far from being isolated incidents, financial crises have become increasingly common with the spread and growth of global capital flows. They result from rapid buildups and reversals of short-term capital flows and are likely to recur. More likely when national institutions regulating financial markets are not well developed, they are now recognized as systemic features of global capital markets. No single country can withstand their whims, and global action is needed to prevent and manage them.

Job and income insecurity. In both poor and rich countries dislocations from economic and corporate restructuring, and from dismantling the institutions of social protection, have meant greater insecurity in jobs and incomes. The pressures of global competition have led countries and employers to adopt more flexible labour policies with more precarious work arrangements. Workers without contracts or with new, less secure contracts make up 30% of the total in Chile, 39% in Colombia.

France, Germany, the United Kingdom and other countries have weakened worker dismissal laws. Mergers and acquisitions have come with corporate restructuring and massive layoffs. Sustained economic growth has not reduced unemployment in Europe—leaving it at 11% for a decade, affecting 35 million. In Latin America growth has created jobs, but 85% of them are in the informal sector.

Health insecurity. Growing travel and migration have helped spread HIV/AIDS. More than 33 million people were living with HIV/AIDS in 1998, with almost 6 million new infections in that year. And the epidemic is now spreading rapidly to new locations, such as rural India and Eastern Europe and the CIS. With 95% of the 16,000 infected each day living in developing countries, AIDS has become a poor person's disease, taking a heavy toll on life expectancy, reversing the gains of recent decades. For nine countries in Africa, a loss of 17 years in life expectancy is projected by 2010, back to the levels of the 1960s.

Cultural insecurity. Globalization opens people's lives to culture and all its creativity—and to the flow of ideas and knowledge. But the new culture carried by expanding global markets is disquieting. As Mahatma Gandhi expressed so eloquently earlier in the century, "I do not want my house to be walled in on all sides and my windows to be stuffed. I want the cultures of all the lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any." Today's flow of culture is unbalanced, heavily weighted in one direction, from rich countries to poor.

Weightless goods—with high knowledge content rather than material content—now make for some of the most dynamic sectors in today's most advanced economies. The single largest export industry for the United States is not aircraft or automobiles, it is entertainment—Hollywood films grossed more than $30 billion worldwide in 1997.

The expansion of global media networks and satellite communications technologies gives rise to a powerful new medium with a global reach. These networks bring Hollywood to remote villages—the number of television sets per 1,000 people almost doubled between 1980 and 1995, from 121 to 235. And the spread of global brands—Nike, Sony—is setting new social standards from Delhi to Warsaw to Rio de Janeiro. Such onslaughts of foreign culture can put cultural diversity at risk, and make people fear losing their cultural identity. What is needed is support to indigenous and national cultures—to let them flourish alongside foreign cultures.

Personal insecurity. Criminals are reaping the benefits of globalization. Deregulated capital markets, advances in information and communications technology and cheaper transport make flows easier, faster and less restricted not just for medical knowledge but for heroin—not just for books and seeds but for dirty money and weapons.

Illicit trade—in drugs, women, weapons and laundered money—is contributing to the violence and crime that threaten neighbourhoods around the world. Drug-related crimes increased from 4 per 100,000 people in Belarus in 1990 to 28 in 1997, and from 1 per 100,000 to 8 in Estonia. The weapons trade feeds street crime as well as civil strife. In South Africa machine guns are pouring in from Angola and Mozambique. The traffic in women and girls for sexual exploitation—500,000 a year to Western Europe alone—is one of the most heinous violations of human rights, estimated to be a $7 billion business.

The Internet is an easy vehicle for trafficking in drugs, arms and women through nearly untraceable networks. In 1995 the illegal drug trade was estimated at 8% of world trade, more than the trade in motor vehicles or in iron and steel. Money laundering—which the International Monetary Fund (IMF) estimates at equivalent to 2–5% of global GDP—hides the traces of crime in split seconds, with the click of a mouse.

At the root of all this is the growing influence of organized crime, estimated to gross $1.5 trillion a year, rivalling multinational corporations as an economic power. Global crime groups have the power to criminalize politics, business and the police, developing efficient networks, extending their reach deep and wide.

Environmental insecurity. Chronic environmental degradation—today's silent emergency—threatens people worldwide and undercuts the livelihoods of at least half a billion people. Poor people themselves, having little choice, put pressure on the environment, but so does the consumption of the rich. The growing export markets for fish, shrimp, paper and many other products mean depleted stocks, less biodiversity and fewer forests. Most of the costs are borne by the poor—though it is the world's rich who benefit most. The fifth of the world's people living in the richest countries consume 84% of the world's paper.

Political and community insecurity. Closely related to many other forms of insecurity is the rise of social tensions that threaten political stability and community cohesion. Of the 61 major armed conflicts fought between 1989 and 1998, only three were between states—the rest were civil.

Globalization has given new characteristics to conflicts. Feeding these conflicts is the global traffic in weapons, involving new actors and blurring political and business interests. In the power vacuum of the post–cold war era, military companies and mercenary armies began offering training to governments—and corporations. Accountable only to those who pay them, these hired military services pose a severe threat to human security.

New information and communications technologies are driving globalization—but polarizing the world into the connected and the isolated.

With the costs of communications plummeting and innovative tools easier to use, people around the world have burst into conversation using the Internet, mobile phones and fax machines. The fastest-growing communications tool ever, the Internet had more than 140 million users in mid-1998, a number expected to pass 700 million by 2001.

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Communications networks can foster great advances in health and education. They can also empower small players. The previously unheard voices of NGOs helped halt the secretive OECD negotiations for the Multilateral Agreement on Investment, called for corporate accountability and created support for marginal communities. Barriers of size, time and distance are coming down for small businesses, Poor people and poor countries risk being pushed to the margin in this proprietary regime controlling the world's knowledge

for governments of poor countries, for remote academics and specialists.

Information and communications technology can also open a fast track to knowledge-based growth—a track followed by India's software exports, Ireland's computing services and the Eastern Caribbean's data processing.

Despite the potential for development, the Internet poses severe problems of access and exclusion. Who was in the loop in 1998?

- *Geography divides.* Thailand has more cellular phones than Africa. South Asia, home to 23% of the world's people, has less than 1% of Internet users.
- *Education is a ticket to the network high society.* Globally, 30% of users had at least one university degree.
- *Income buys access.* To purchase a computer would cost the average Bangladeshi more than eight years' income, the average American, just one month's wage.
- *Men and youth dominate.* Women make up just 17% of the Internet users in Japan, only 7% in China. Most users in China and the United Kingdom are under 30.
- *English talks.* English prevails in almost 80% of all Websites, yet less than one in 10 people worldwide speaks it.

This exclusivity is creating parallel worlds. Those with income, education and—literally—connections have cheap and instantaneous access to information. The rest are left with uncertain, slow and costly access. When people in these two worlds live and compete side by side, the advantage of being connected will overpower the marginal and impoverished, cutting off their voices and concerns from the global conversation.

This risk of marginalization does not have to be a reason for despair. It should be a call to action for:

- *More connectivity:* setting up telecommunications and computer hardware.
- *More community:* focusing on group access, not just individual ownership.
- *More capacity:* building human skills for the knowledge society.
- *More content:* putting local views, news, culture and commerce on the Web.
- *More creativity:* adapting technology to local needs and opportunities.
- *More collaboration:* developing Internet governance to accommodate diverse national needs.
- *More cash:* finding innovative ways to fund the knowledge society everywhere.

Global technological breakthroughs offer great potential for human advance and for eradicating poverty—but not with today's agendas.

Liberalization, privatization and tighter intellectual property rights are shaping the path for the new technologies, determining how they are used. But the privatization and concentration of technology are going too far. Corporations define research agendas and tightly control their findings with patents, racing to lay claim to intellectual property under the rules set out in the agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Poor people and poor countries risk being pushed to the margin in this proprietary regime controlling the world's knowledge:

- In defining research agendas, money talks, not need—cosmetic drugs and slow-ripening tomatoes come higher on the priority list than drought-resistant crops or a vaccine against malaria.
- From new drugs to better seeds, the best of the new technologies are priced for those who can pay. For poor people, they remain far out of reach.
- Tighter property rights raise the price of technology transfer, blocking developing countries from the dynamic knowledge sectors. The TRIPS agreement will enable multinationals to dominate the global market even more easily.
- New patent laws pay scant attention to the knowledge of indigenous people. These laws ignore cultural diversity in the way innovations are created and shared—and diversity in views on what can and should be owned, from plant varieties to human life. The result: a silent theft of centuries of knowledge from some of the poorest communities in developing countries.
- Despite the risks of genetic engineering, the rush and push of commercial interests are putting profits before people.

A broader perspective is needed. Intellectual property rights were first raised as a multilateral trade issue in 1986 to crack down on counterfeit goods. The reach of those rights now goes far beyond that—into the ownership of life. As trade, patents and copyright determine the paths of technology—and of nations—questioning today's arrangements is not just about economic flows. It is about preserving biodiversity. Addressing the ethics of patents on life. Ensuring access to health care. Respecting other cultures' forms of ownership. Preventing a growing technological gap between the knowledge-driven global economy and the rest trapped in its shadows.

The relentless pressures of global competition are squeezing out care, the invisible heart of human development.

Caring labour—providing for children, the sick and the elderly, as well as all the rest of us, exhausted from the demands of daily life—is an important input for the development of human capabilities. It is also a capability in itself. And it is special—nurturing human relationships with love, altruism, reciprocity and trust. Without enough care, individuals do not flourish. Without attention and stimulus, babies languish, failing to reach their full potential. And without nurturing from their families, children underperform in school.

Human support to others is essential for social cohesion and a strong community. It is also essential for economic growth. But the market gives few incentives and few rewards for it. Societies everywhere have allocated women much of the responsibility and the burden for care—women spend two-thirds of their work time in unpaid activities, men only a quarter. Women predominate in caring professions and domestic service. Families, nations and corporations have been free-riding on caring labour provided mostly by women, unpaid or underpaid.

But today's competitive global market is putting pressures on the time, resources and incentives for the supply of caring labour. Women's participation in the formal labour market is rising, yet they continue to carry the burden of care—women's hours spent in unpaid work remain high. In Bangladesh women in the garment industry spend 56 hours a week in paid employment on top of 31 hours in unpaid work—a total of 87 hours, compared with 67 by men. Men's share of unpaid care work is increasing slowly in Europe and other OECD countries but not in most developing countries and in Eastern Europe.

Meanwhile, fiscal pressures are cutting back on the supply of state-provided care services. Tax revenue declined in poor countries from 18% of GDP in the early 1980s to 16% in the 1990s. Public services deteriorated markedly—the result of economic stagnation, structural adjustment programmes or the dismantling of state services, especially in the transition economies of Eastern Europe and the CIS.

And global economic competition has put pressure on the wages for caring labour, as the wage gap increases between tradable and non-tradable sectors, and between the skilled and unskilled.

How can societies design new arrangements for care in the global economy? The traditional model of a patriarchal household is no solution—a new approach must build gender equity into sharing the burdens and responsibility for care. New institutional mechanisms, better public policy and a social consensus are needed to provide incentives for rewarding care and increasing its supply and quality:

- Public support for care services—such as care for the elderly, day care for children and protection of social services during crises.
- Labour market policies and employer action to support the care needs of employees.
- More gender balance and equity in carrying the burden of household care services.

Each society needs to find its own arrangements based on its history and conditions. But all societies need to devise a better solution. And all need to make a strong commitment to preserving time and resources for care—and the human bonds that nourish human development.

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National and global governance have to be reinvented—with human development and equity at their core.

None of these pernicious trends—growing marginalization, growing human insecurity, *With stronger governance, the benefits of competitive markets can be preserved with clear rules and boundaries, and stronger action can be taken to meet the needs of human development*

growing inequality—is inevitable. With political will and commitment in the global community, they can all be reversed. With stronger governance—local, national, regional and global—the benefits of competitive markets can be preserved with clear rules and boundaries, and stronger action can be taken to meet the needs of human development.

Governance does not mean mere government. It means the framework of rules, institutions and established practices that set limits and give incentives for the behaviour of individuals, organizations and firms. Without strong governance, the dangers of global conflicts could be a reality of the 21st century—trade wars promoting national and corporate interests, uncontrolled financial volatility setting off civil conflicts, untamed global crime infecting safe neighbourhoods and criminalizing politics, business and the police.

With the market collapse in East Asia, with the contagion to Brazil, Russia and elsewhere and with the threat of a global recession still looming, global governance is being re-examined. But the current debate is:

- Too narrow, limited to the concerns of economic growth and financial stability and neglecting broader human concerns such as persistent global poverty, growing inequality between and within countries, exclusion of poor people and countries and persisting human rights abuses.
- Too geographically unbalanced, dominated by the largest economies—usually the G-7, sometimes just the G-1, and only occasionally bringing in the large newly industrializing countries. Most small and poor developing countries are excluded, as are people's organizations.

Nor does the debate address the current weaknesses, imbalances and inequities in global governance—which, having developed in an ad hoc way, leaves many gaps.

- Multilateral agreements have helped establish global markets without considering their impacts on human development and poverty.
- The structures and processes for global policy-making are not representative. The key economic structures—the IMF, World Bank, G-7, G-10, G-22, OECD, WTO—are dominated by the large and rich countries, leaving poor countries and poor people with little influence and little voice, either for lack of membership or for lack of capacity for effective representation and participation. There is little transparency in decisions, and there is no structured forum for civil society institutions to express their views.
- There are no mechanisms for making ethical standards and human rights binding for corporations and individuals, not just governments.

In short, stronger national and global governance are needed for human well-being, not for the market.

Reinventing governance for the 21st century must start with strong commitments:

- *To global ethics, justice and respect for the human rights of all people.* Global governance requires a common core of values, standards and attitudes, a widely felt sense of responsibility and obligations—not just by individuals, but by governments, corporations and civil society organizations. The core values of respect for life, liberty, justice, equality, tolerance, mutual respect and integrity underlie the Charter of the United Nations and the Universal Declaration of Human Rights. They now need to be the guiding objectives of globalization with a human face.
- *To human well-being as the end, with open markets and economic growth as means.* Human development and social protection have to be incorporated in the principles and practices of global governance. Recent advances in global governance have been built on concepts and principles of economic efficiency and competitive markets. These are important but not enough, just as they would be in national governance.
- *To respect for the diverse conditions and needs of each country.* Economic policy-making should be guided by pragmatism rather than ideology—and a recognition that what works in Chile does not necessarily work in Argentina, what is right for Mauritius may not work for Madagascar. Open markets require institutions to function, and policies to ensure equitable distribution of benefits and opportunities. And with the great diversity of institutions and traditions, countries around the world need flexibility in adapting economic policies and timing their implementation.

• *To the accountability of all actors.* Multilateral agreements and international human rights regimes hold only national governments accountable. National governance holds all actors accountable within national borders, but it is being overtaken by the rising importance of supranational global actors (multinational corporations) and international institutions (IMF, World Bank, WTO, Bank for International Settlements). Needed are standards and norms that set limits and define responsibilities for all actors.

The agenda for action to secure human development in this era of globalization should focus on seven key challenges, each requiring national and international action.

1. Strengthen policies and actions for human development, and adapt them to the new realities of the global economy.

Social policies—and national governance—are even more relevant today to make globalization work for human development and to protect people against its new threats. New policies are needed to tackle:

• Changing labour markets—not by going back to the old rigidities of labour market policies that protect elite labour, but by promoting job-creating growth, investing in workers' skills, promoting labour rights and making informal work more productive and remunerative. This is the new road to flexibility in the labour market.

• Shrinking fiscal resources of states, the results of liberalizing trade and financial markets, of the global tax competition and of the growth of the underground economy—by generating more revenue from new sources, such as taxes on income and land, abysmally low in many developing countries, or on value added; by improving efficiency in tax administration, cutting costs and increasing collections; by reducing military spending globally, still as high as a third of education and health spending.

• Increasing pressures on people's ability to provide caring labour in the family and community and on the state's ability to support it—by restoring strong commitments to preserving time, resources and rewards for care and restoring gender balance in the distribution of costs and burdens.

• Declining cultural diversity—by supporting national cultures, not by shutting out imports but by supporting local culture, arts and artists.

All countries need to rethink their social policies—for redistribution, for safety nets, for the universal provision of social services. The current debate focuses on the choice between a targeted, minimum cost approach, as in such countries as the United Kingdom and the United States, and a more universalist approach, as in the Nordic countries and several continental European countries. What is appropriate for developing countries? An approach that combines human development and poverty eradication with social protection.

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2. Reduce the threats of financial volatility—of the boom and bust economy—and all their human costs.

Last year's financial crisis in East Asia spotlighted the inadequacies of national and global governance in managing economic and financial integration. Dominating the financial markets are the big players—from the United States to Brazil to China. But all countries are affected by the swings of the world economy—from South Africa to the Lao People's Democratic Republic—particularly if they have opened their economies. While countries need to manage their vulnerabilities to these swings, international action is needed to manage and prevent financial instability. Policy should focus on:

• Liberalizing the capital account more carefully, with less international pressure and greater flexibility for countries to decide on the pace and phasing based on their institutional capacities.

• Subjecting financial institutions to greater transparency and accountability. Developing countries need to strengthen the legal and regulatory institutions in their financial sectors.

• Integrating macroeconomic management and social policies to reduce the impact of financial turmoil on the economy and to minimize the social costs.

• Strengthening international action to regulate and supervise banking systems—building on the provisions of the Basle Committee and the G-10 in requiring greater transparency and disclosure of information both nationally and internationally. The UN Economic and Social Council (ECOSOC), the World Bank and the IMF should conduct an international study of regulatory gaps, especially for short-term bank loans, for reversible portfolio flows and for the activities of hedge funds.

- Instituting standstill provisions on debt service to the IMF, the World Bank and the regional development banks, as proposed by the recent UN task force on the architecture of the international financial system.
- Developing better institutions of early warning and crisis management. The international community mobilized more than $170 billion in the 1997–99 financial crisis for Thailand, Indonesia, Korea, Russia and Brazil. But what ultimately is needed is a true lender of last resort, with more resources than the IMF is now equipped to provide. A world central bank to perform the functions of a lender of last resort should be seriously considered.
- Establishing an international lender of last resort for people—to complement financial packages. The real losses and risks from financial crises are felt by people, and a parallel funding mechanism should be established to protect them—and their rights to development.

Stronger global cooperation and action are needed to address the growing problems beyond the scope of national governments to manage

3. Take stronger global action to tackle global threats to human security.

Stronger global cooperation and action are needed to address the growing problems beyond the scope of national governments to manage.

- The fight against global crime requires national police to take cooperative action as rapidly as the crime syndicates do. Dismantling bank secrecy and providing witness protection for foreign investigations would dramatically improve the effectiveness of the global fight against global crime. The proposed United Nations Convention against Transnational Organized Crime is an important first step deserving support.
- The "loud emergencies" of environmental degradation (acid rain, global warming and ozone depletion) have transboundary consequences, particularly for poor people and nations. Such emergencies demand global action, with initiatives building on the progress at the global conferences in Kyoto and Buenos Aires and on proposals for tradable permits and clean development mechanisms.
- Violations of human rights are often observed in export processing zones and in the factories of multinational corporations. The international community should formulate codes of conduct for multinationals to safeguard workers' rights.
- More global action is essential to address HIV/AIDS, which is penetrating borders everywhere. Efforts should be directed at disseminating the benefits of research from developed to developing countries, providing medicines and preventive measures at reasonable cost in developing countries and strengthening public health systems in the developing world.

4. Enhance public action to develop technologies for human development and the eradication of poverty.

The potential of the new technologies for human development and poverty eradication must be tapped.

- Intellectual property rights under the TRIPS agreement need comprehensive review to redress their perverse effects undermining food security, indigenous knowledge, biosafety and access to health care.
- The governance of global communications—especially the Internet—must be broadened to embrace the interests of developing countries in decisions on Internet protocols, taxation, domain name allocation and telephony costs.
- Public investments are needed in technologies for the needs of poor people and poor countries—in everything from seeds to computers. An international programme should be launched to support this, based on the model of the Consultative Group on International Agricultural Research (CGIAR).
- New funds must be raised to ensure that the information revolution leads to human development. A "bit" tax and a patent tax could raise funds from those who already have access to technology, with the proceeds used to extend the benefits to all.

5. Reverse the marginalization of poor, small countries.

Nearly 30 years ago the Pearson Commission began its report with the recognition that "the widening gap between the developed and the developing countries has become the central problem of our times." But over the past three decades the income gap between the world's richest fifth and its poorest fifth has more than doubled, to 74 to 1. And with that gap comes migration, environmental pressure, conflict, instability and other problems rooted in poverty and inequality.

Narrowing the gaps between rich and poor and the extremes between countries should become explicit global goals—to be rigorously monitored by ECOSOC and the Bretton Woods institutions. These would complement the goals for poverty reduction and social advance agreed to in the global conferences of the 1990s.

Action can start at the national level. All countries need strong and coherent policies for managing their integration into the rapidly changing global economy:

- To capture the opportunities of markets in trade and investment, each country should adopt a coordinated policy package. As the better-performing countries in each region have shown—the Dominican Republic, Ireland, Poland, Tunisia—the fundamentals do not stop with sound macroeconomic management. They must build on widely spread human capabilities, better incentive structures and sound governance.
- To negotiate more favourable provisions in multilateral agreements, poor and small countries should pursue active participation in the global dialogues on multilateral agreements—from their development to negotiations to implementation. In trade, for example, to negotiate for more rapid implementation of the agreement on textiles and clothing, for a reduction of agricultural tariffs and subsidies and for a slower pace in implementing the TRIPS agreement.

Poor and small countries can gain from collective action to link negotiations on intellectual property rights with rights to emit carbon into the atmosphere—and to link environmental assets, like rain forests, to negotiations on trade, debt and investment. They can also gain in negotiations by pooling resources for policy analysis and developing common negotiating positions. Regional collective action is a first step in this direction.

Stronger international action is needed to support growth and accelerate human development in marginalized countries. This requires reversing the decline in flows of official development assistance (ODA), down by almost a fifth in real terms since 1992. Even without increasing resources, ODA can be much better targeted to the countries in greatest need, and to achieving key human development goals. Another priority is debt relief for the 41 heavily indebted poor countries (HIPCs), whose debt service amounted to $11.1 billion in 1996 and whose debt payments have been squeezing spending on education and health. The HIPC initiative is welcome—but it delivers too little too late. Why not reduce the ceiling for a country's debt burden from 200–250% of exports to 100% or less? And why not reduce from six years to three (or even one) the performance requirement for eligibility?

Narrowing the gaps between rich and poor and the extremes between countries should become explicit global goals

6. Remedy the imbalances in the structures of global governance with new efforts to create a more inclusive system.

Poor countries and poor people have little influence and little voice in today's global policy-making forums. The most important and influential is the G-7, whose members control the Bretton Woods institutions through voting rights, and the UN Security Council by occupying three of the five permanent seats. There is no developing country equivalent to the G-7 or OECD—with similar levels of resources, consultation and policy coordination—though there have been many efforts to develop collective third world positions through such bodies as the G-15, the G-24 and the G-77.

Four actions could be rapidly set in motion to strengthen the bargaining position of the poor and small countries:

- *Provide legal aid.* WTO dispute settlement mechanisms can be fair only when the parties to a dispute have access to expert services of equal calibre to argue their case. An independent legal aid centre is needed to support poor countries.
- *Appoint an ombudsman* to respond to grievances and investigate injustices.

An essential aspect of global governance is responsibility to people—to equity, to justice, to enlarging the choices of all

- *Support policy research.* OECD countries arrive at multilateral forums with a battery of policy research to formulate and defend their positions. The UNDP South Centre set up to support developing countries is still grossly underfunded.
- *Rely more on regional solidarity and regional institutions* to develop common positions for negotiations. Regional support would help in crises, as with the regional fund for financial stability proposed in 1997. By using peer pressure, it would also help to maintain policies and practices consistent with economic and financial stability.

At the other extreme is the concentration of influence in rich countries, institutions and corporations—influence not yet used to ensure that globalization works for human development. The voting patterns of the Bretton Woods organizations need to be reviewed. Greater public accountability and more transparency would make their operations more democratic and increase their credibility. Multinational corporations influence the lives and welfare of billions of people, yet their accountability is limited to their shareholders, with their influence on national and international policy-making kept behind the scenes. If they were brought into the structures of global governance, their positions would become more transparent, and their social responsibilities subject to greater public accountability.

- A multilateral code of conduct needs to be developed for multinational corporations. Today, they are held to codes of conduct only for what national legislation requires on the social and environmental impact of their operations. True, they have in recent years taken up voluntary codes of ethical conduct. But multinationals are too important for their conduct to be left to voluntary and self-generated standards.
- National policies ensure free competition in national markets, but there is no parallel in global markets. *Human Development Report 1994* proposed a world antimonopoly authority to monitor and implement competition rules for the global market. That authority could be included in the mandate of the WTO.
- A task force should be established on global economic governance—with perhaps 10 industrial and 10 developing countries, but also with representatives of civil society and private financial and corporate actors. That task force would report to the key institutions of global governance: to ECOSOC, the IMF, the World Bank, as well as to the WTO.
- A joint World Bank–UN task force should be set up to investigate global inequalities and suggest policies and actions on how they can be narrowed over the next two or three decades. The task force should report to ECOSOC and to the World Bank Development Committee.

7. Build a more coherent and more democratic architecture for global governance in the 21st century.

Just as the nineteenth-century mechanisms of national government were inadequate for the challenges of the postwar era, so today's institutions of international governance are inadequate for the challenges of the 21st century. Many of the basic elements of national governance will be needed in a more robust structure of global governance. An essential aspect of global governance, as of national governance, is responsibility to people—to equity, to justice, to enlarging the choices of all.

Some of the key institutions of global governance needed for the 21st century include:

- A stronger and more coherent United Nations to provide a forum for global leadership with equity and human concerns.
- A global central bank and lender of last resort.
- A World Trade Organization that ensures both free and fair international trade, with a mandate extending to global competition policy with antitrust provisions and a code of conduct for multinational corporations.
- A world environment agency.
- A world investment trust with redistributive functions.
- An international criminal court with a broader mandate for human rights.
- A broader UN system, including a two-chamber General Assembly to allow for civil society representation.

Even before these long-term changes are initiated or achieved, many actions could be taken in the next one to three years:

- Developing countries could take collective—especially regional—initiatives to strengthen their positions in global negotiations in trade, intellectual property rights and other areas.
- Individual countries could set up a high-level group to coordinate policy on globalization and manage their integration for a more positive impact on human development.
- Donor countries could accelerate action on debt relief and redirect aid in favour of poorer countries and human development priorities.
- An independent legal aid facility and ombudsman could be created to support the poor and weak countries in the WTO.
- All countries could cooperate more to fight global crime, relaxing restrictive bank secrecy laws.
- New sources of financing for the global technology revolution could be investigated, to ensure that it is truly global and that its potential for poverty eradication is mobilized. Two proposals: a bit tax to generate resources, and a public programme for development technology similar to CGIAR's programme for food.
- A representative task force could be set up to review global economic governance, including some 20 or so countries—large and small, rich and poor—but also the private sector and the civil society. It could report jointly to ECOSOC, the IMF Interim Committee and the World Bank Development Committee.

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The surge of globalization over the past decade or two is only a beginning. The globally integrated world will require stronger governance if it is to preserve the advantages of global market competition, and to turn the forces of globalization to support human advance.

On the eve of the millenium, people are unusually expectant of a more fundamental diagnosis, more ready to receive it, more eager to act on it. Millenium fever is already stimulating many groups to sketch out their visions of the future—for their community, their country and their planet. The future of global governance—objectives, institutions, responsibilities and actions—needs to be part of this exploration by people everywhere. And the Millenium Assembly of the United Nations is a global forum that could provide powerful momentum for moving the agenda forward.

Stronger governance is needed to preserve the advantages of global market competition, and to turn the forces of globalization to support human advance