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Charity Registration Number: 208223

## Transcript

# UNDP Human Development Report 2013: The Rise of the South

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10 April 2013

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**Patricia Lewis:**

Good afternoon everybody. My name is Patricia Lewis. I am the research director for International Security here at Chatham House and it's my great pleasure to introduce to you today our two speakers – our main speaker and our respondent I should say – who are going to speak to the newly published Human Development Report 2013, *The Rise of the South: Human Progress in a Diverse World*. This report is chock-full of information. Some of it's very surprising; some of it's very heartening. There are some lessons to be learnt and some ideas for further work, further development and further initiatives.

This event is being held on the record, it's not under the Chatham House rule. After the two speakers we will have a question and answer session.

So it's my great pleasure now to introduce our main speaker Khalid Malik, who is a development economist and the director of the Human Development Report Office for the UN Development Programme, the UNDP. Mr Malik has had a long and distinguished career with the UN. He was special adviser on new development partnerships, UN resident coordinator in China, the director of the evaluation office and UN representative in Uzbekistan. He's the founder of International Poverty Reduction Center in China and he was the lead author of the UNDP Development Effectiveness Report. He's written a great deal on China, including the report on 'Why has China grown so fast for so long?' and I think that is probably one of the themes of the day. So Khalid, welcome and we look forward to what you have to say.

**Khalid Malik:**

Good afternoon everyone. Thank you so much for coming.

The Human Development Report Office has been producing reports for over 20 years. And I see some old friends of that office, Richard Jolly in particular and Frances Stewart, who have been very much instrumental in promoting the thinking, the reports, and in some ways this has been an extraordinary partnership between two individuals, in particular: Mahbub ul Haq, who led this office and the report, thinking, ideas for the first six years – Sir Richard took over for the next five years – and Amartya Sen. Two friends, two Cambridge undergraduates, who I think collectively joined forces to really transform the way people think about development, to focus development on what matters to people: their choices, the lives they want to lead and what the contexts and summaries are and how that process is developed.

This year's report is about the rise of the South. If you think about it, in the last couple of years there has been a lot of conversation about the BRICs – Brazil, Russia, India and China – China especially. The conversation has been about incomes mostly and has been always about how rapidly these countries are moving. And what this report tries to do is to understand that there's a much larger story underway. At least 40+ countries are doing better than expected in human development terms and that's important to emphasize. In the South we are in the process central for transition, which is tectonic in nature. If the Industrial Revolution was a story about 100 million people, this is a story about a couple of billion people and it is a story about the expansion of human capability profoundly. And that is an interesting story. The report tries to understand that, tries to explain it a bit, and tries to understand the implications for all of us.

So the rise of the South is about a number of things but in some ways it is about the rebalancing of the world which is taking place. And it is fundamentally a question of human development progress. I'm going to in the first set of slides anchor this conversation and give you, in a very broad brush way, some of the big picture headlines. We did a global launch of the report in Mexico with the new president on 14 March and have basically been all around the world trying to talk about some of these matters.

This is a very interesting slide. It tries to take up three countries – Brazil, India and China – in terms of the world output and contrast them with the six traditional industrialized countries – Germany, France, Italy, UK, US and Canada. It does not have Japan, because Japan we want to present as the first rise of the South in a way. You essentially see that there is a huge global rebalancing which is taking place and it's taking place quite fast. That's another sub-story of the report.

Another interesting feature: South–South trade and North–North trade are getting quite similar as a proportion of total world merchandise trade. It is a little less than 30 per cent for both but getting quite close, and if you project this into the future you can see that they will probably join rather soon. And this is where we try to highlight that at least 40+ countries are doing much better than expected and this progress seems to have accelerated in the last decade. That's the other part of the story. It's not just a few countries in a given region but it is quite spread out: Rwanda, Bangladesh, Lao PDR, Ghana, Tunisia, Turkey – all sharing in this tremendous progress which is occurring.

This other slide is also quite interesting. What we did was take 18 of these countries and really do an in-depth study of what was working and why it was working. I'll come back to that.

This is a very interesting slide. It's a very heartening slide, because what it says is that countries in the lower end of the human development spectrum, the low HDI countries, are doing better and accelerating better, faster, than could have been expected, particularly over the last decade. It's quite heartening in that sense. You see the low HDI countries accelerating quite a lot.

Of course we will talk about convergence. I'm never quite certain what convergence actually means because it talks about incomes and I think convergence is a very misleading term at least as far as I can understand. So I'm not talking about convergence here, but I'm just saying that over the last decade countries on the low end of the spectrum of human development progress are doing much better.

This is quite remarkable. Here we're not trying to take any credit for defining the middle class. The notion of a middle class is changing very rapidly as well. People who are better educated, globally connected, think of themselves as being in the middle class even if their income levels are not quite there. This is a more traditional definition of middle class here. What is fascinating is currently about 1.8 billion people are middle class, most of them in Europe and North America. By 2030 we'll go up to 4.9 billion people in the middle class, and two-thirds of that will be in Asia. So the world as we know it is changing and changing rapidly and will continue to do so for the next generations.

Another interesting slide. Already in the developing world there are more internet users – twice as many – than in the developed world. A couple of years ago when we launched the Global Report in 2010 we applauded the progress in countries like Tunisia, Morocco, Egypt, and just a little later the Arab Spring took place exactly in those countries. We are trying to understand why; basically what it means is people are better educated, better connected, they know what's happening around the world and they also demand more. So if the jobs lag behind or they are not treated with dignity, there is a renegotiation of the link between citizen and state.

So then comes some obvious questions. Why have some countries done better than others? Is there a possibility to learn from them? Are there some possible common drivers? Three drivers got highlighted and this is based on the 18 countries, in-depth conversations which we had on the question of the

state, the question of global markets and the question of how we deal with social policy, and I will address all three particular 'drivers'.

Now, 'developmental state' is a term which has had a bad rap. East Asian countries in the 1970s, 1980s, 1990s were very much seen as active developmental states but there was also this negative connotation that somehow they are anti-human rights and that they are somehow not good states. The reality is that this debate between state and markets was never a good debate – you need both fundamentally – but if you do not have a committed leadership, a competent bureaucracy, it is very difficult to accelerate and promote development.

Remember that we are talking about human development progress. These examples – when we look at the countries you see that different countries took up different policies at different stages of development. Korea went from import substitution to export promotion. You had, I think, a variety: Chile subsidizing research partnerships between private firms and universities, wanting to boost its jobs in tourism and put a premium on educating girls and Brazil built a world-class aviation industry. But what was quite interesting is that if there's a long-term perspective on development – because development is fundamentally about transformation – it allows things to progress.

Comparing, for instance, India and Bangladesh was quite interesting. You saw that India is being seen as a high-income, rapidly moving country, yet in terms of most measures of human development, Bangladesh seems to have done well. Public investment, health, education – there is some conversation in the report about public goods and the question of public provisions becomes quite important – job creation... But if you do not have active developmental state it is quite difficult to move things forward.

I'll take the case of my own country, Pakistan, where a leadership and a bureaucracy essentially hesitate in advancing progress. It's very difficult to move things forward. And if the leadership feels that their own legitimacy is connected to development progress you have a different reality.

There is a huge debate, as you know, on global markets and globalization, but I think the essential point here is that opening up markets for the sake of opening up is a very big decision but is a decision that has to be taken with great care. What the evidence shows is that countries that have invested in people and invested in infrastructure tend to benefit from global markets. If you don't do that you will not benefit; in fact it could be quite harmful to you. That is a very interesting finding that comes across.

When we launched this report in Mexico, the foreign minister had a dinner for us and he invited some governors and some ministers, particularly the minister of social development. And we had praised the operation of this programme in Mexico and also highlighted how Mayor Bloomberg went to Mexico to learn about their poverty reduction experience which he then transplanted to New York City. And here the minister of social development said that actually these lump sum social transfers were helpful but – there was a big ‘but’ – because they were creating dependency. They have not created sustainability, in a sense.

I think we had an interesting conversation where – social policies are at least as important as economic policies, if you really believe in transforming an economy or society, but at some point they also have to be connected to economic policies. So job creation becomes an essential part of how you look at advancing progress generally. You also have an interesting situation in Brazil, which has not necessarily grown fast in economic terms – two or three per cent growth rates – but through the Bolsa Família programme they managed to extend development benefits to quite a large number of people who now consider themselves as part of the middle class and become part of markets. There is a sense of great prosperity even despite relatively small growth rates.

Then the next question comes: can this thing be sustained in the future? What are the possible challenges for generations to come? Here we can highlight four challenges: the challenge of equity, the challenges of voice and accountability, the challenges of the environment, and the challenges of demography. There is some very interesting work at the office where, for both developed and developing countries, the data very much shows that equal societies do better in almost all measures of human development than unequal societies. Therefore the direction – the movement to a less unequal society is a very important movement. Therefore countries which can do that can also increase prosperity for a large number of people. And that’s an important finding.

Another equally important finding, of course, is the issue of women’s education. This is the closest you can get to a silver bullet. Educating girls through adulthood is perhaps the single most effective route to positive social change. Educated women tend to have fewer, healthier and better educated children, with all the development advantages that portends, not just for the current generation but also for the future.

We also, in the report, tried to talk about going beyond individual capabilities. Frances and I had very interesting conversations with Amartya Sen on it. The thrust of human development is very much on the individual. At the same time, how individuals relate to each other is profoundly important in terms of how societies endure, how they're cohesive, how they move forward. Therefore, participation and inclusion become quite important to essential stability and social cohesion. In some ways the Arab Spring is a very important example of that, where the deficit of jobs and just a sense of lack of dignity in a sense led to a lot of challenges there.

People, especially the young, are better educated and know what's going on around the world. The farmers in India, farmers in Africa – cheap phone technologies have been a powerful mobilizing force. They know not only the price of their commodity but also what is happening in Europe and the US. So when that happens, your expectations of the state, of your own conditions, change quite profoundly. This is as true of India and of China as it is of others.

A couple of years ago there was this very famous incident in China about a train accident. And the first instinct of Chinese officials was to try to bury the evidence. Try to think of burying a train – it is not a small thing. So of course people started taking mini-movies, putting them up on the blogs. That forced the system, and the premier to come six days later and essentially commit the state to a very open, frank and fair investigation, and they fired a whole bunch of people. So accountability – and this is the force of history which I don't think you can reverse that easily.

This is a very interesting diagram and the same kind of result holds when you're looking at per capita emissions. It plots human development indices on the one axis and bio-capacity/ecological footprint [on the other]. What it essentially shows is that very few countries at this point are sustainable – just the reality. Advanced economies, which are essentially to the right, the blue and white ones, are high human development countries but taking up a large footprint globally at the per capita level. We have to try to find a way to bring them down. And the black ones, which are the poorer, more developing countries have to increase their development without moving up too much in terms of bio-capacity. And that's true of per capita emissions. Huge implications for the future and I think it's something one cannot but now confront and deal with.

I was very struck – at Rio we were doing some presentations where the notion of 'ecological citizenship' was advanced; that each individual, each

citizen has a right and commitment to do something about the planet and push the politicians to better. I thought that that was just about right. We have an advisory board. Frances is part of the advisory board. Now, of course by the time you get to our advisory board you tend to be very well-known and well-established. The age level also goes up.

Interestingly, when we talked about doing heavy duty modelling, most of the older generation doesn't like it. Younger people love number crunching. So we did actually a fair bit of number crunching just to highlight the cost of inaction. Whether these projections actually hold... I'll be the first one to say that general equilibrium modelling is not necessarily that sophisticated – it is sophisticated but it might not be that useful ultimately.

This is quite interesting because what it shows is that if you do not tend to the environment, poor communities and poor countries are beginning to feel the impact now. If you project the extreme case, which is an environmental disaster scenario – Africa, which is a billion people now, by 2050 will be 2 billion people, the numbers of poor people go up dramatically, to 1 billion. The best case scenario is generally positive policies, moving forward will still keep it to a little less than 400 million people poor. But if certain policies are actively pushed – women's education, job creation, etc. – there's actually a possibility of eliminating poverty in Africa, and that's particularly true in South Asia as well. So interesting implications on the cost of inaction.

I don't know for those who have been following – there was a couple of years ago, a lot of books had come out comparing India and China. And the argument was that because demographic features were different somehow India would sustain itself at a much higher level for a much longer period than China, because China was 'getting old before it got rich' – that's the phrase they used. And actually the work done here is quite interesting. A lot of demographic work was done, and what it showed is that actually both futures have to be managed. The two key aspects of managing are again, education, particularly women, and job creation particularly skills formation. If you don't do that both futures can be quite challenging and difficult.

There's some other interesting work done in the report where they've tried to see why fertility rates are declining everywhere except in some countries in Africa. And it's quite fascinating, the outcome of those studies. We could show that in the countries where the structural adjustment programmes were most pronounced in the 1980s, where health and education expenditures went up, 20 years later the fertility rates went down. So this is very powerful



and has implications that short-term policy has long-term consequences of a very profound character.

So, what does it mean for a changed world? What are the opportunities for new development partnerships? In some ways we are dealing with 20th century institutions that are trying to grapple with 21st century realities, and things are not fitting comfortably. Part of the challenge of non-performing global institutions has been the tremendous rise of regional mechanisms and regional institutions. For instance, the finance thing after the Asian crisis – no one wanted to borrow from the IMF if you were a self-respecting country. That led to a lot of accumulation of foreign exchange reserves, far beyond the level which is seen as insurance against exchange rate or trade movements. What we're trying to highlight is to raise some principles, principles of inherent pluralism. The argument being that you need both, regional and global [institutions], but they have to act in better concert somehow and we've made some suggestions on how to look at that.

We also looked at global civil society and I talked already about ecological citizenship. I think it's quite fascinating that in the last few decades, civil society networks have become quite global. And again, the internet and connectivity is profoundly important in that sense. They have been pushing and promoting certain norms and asking for greater accountability.

We also promoted a principle of responsible sovereignty. I think the Westphalian system of nation-states dealing with institutional policies in a very narrow sense is no longer applicable because of the interconnectedness of the world. A profound interconnectedness. So somehow if you are not accounting for neighbours, what your actions – deal with neighbours and vice versa and what global arrangements are – it's very difficult to design policies that benefit yourself. So we have think of responsible sovereignty, which goes beyond national sovereignty issues.

Of course if the South is not better represented in different ways – I was in China recently and the BRICs summit had taken place and the BRICs development bank was being promoted... There are all of these are new institutions that are emerging. There are something like \$6.8 trillion sitting in developing countries reserves and \$3.36 trillion in advanced economies. And there is some work done in the report that says even a rather small per cent, if three per cent of that was being directed to infrastructure upgrading in Africa that would have a tremendous influence. Already you see the beginning of some of that happening, but maybe in new institutions. When you have a new

world, a rapidly changing world, you also need new institutions to bind it together to facilitate regional integration and South–South relationships.

We also call for new South leadership. When we launched this report in Mexico with the Mexican president, the former Chilean president, President [Ricardo] Lagos, was sitting next to me and when I presented it to him, he said yes, it is a great idea and he wants to be part of it. So clearly there is some demand for it.

And this is the final slide. Africa is doing better. And you see a lot of stories out there that income has gone up, growth rates are doing well, but actually job creation has not kept up in the same way. East Asia was doing better at comparable levels of income than Africa, so that has to really move forward. That's why we tried to bring together this evidence from looking at all of these things. Rising economic strength must be matched by a full commitment to human development. Human development investments are looking at a broader frame of reference, which matters profoundly; 40 countries are doing better than expected but that's not all developing countries, so there's a huge opportunity of learning from each other. I think this notion of 'context matters' is profoundly important but learning from one another is equally so.

I think we talked about the greater representation of the South and civil society can accelerate progress on major development and global challenges. We made the argument that we are at the verge of a period of history where if things are done well it can actually lead to greater supply of public goods. I was very pleased that the secretary-general asked for a briefing for himself and his seniors in the UN system on the report and the implications this may have for the way we look at things. For instance, this year the development forum of the UN can be strengthened – can we make it more robust and useful?

The report may appear that somehow we are talking about a decoupling. Far from it. We are not talking about that; we are not advocating it. I think with the three motors of the world economy – North America, Europe and the South – if one motor fails, the world can still probably continue. If two fail, everyone is going to be affected. I think the difference now is that, whereas the South continues to need the North, for the first time in a long time, the North is now beginning to need the South in many, many profound ways. With that thank you so much for coming and joining us.