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Chapter I

Rethinking global development

ROB VOS AND MANUEL F. MONTES

As the world emerges from its worst recession since the Second World War, it is important to remind ourselves that interdependence across nations is an essential feature of economic development. Over the past few years, many have come to feel that interdependence is the carrier of economic distress. Skyrocketing food and energy prices have affected the livelihoods of many. The strong rise in food prices during 2007 and 2008 exposed not only the structural basis of food insecurity—the result of decades of underinvestment in agriculture, especially in developing countries—but also the interconnectedness of such insecurity with other global problems. The effects of climate change are already being felt in many parts of the world in the form of more frequent and intense droughts and excessive rainfall, which have exacerbated food insecurity and intensified price volatility.

Efforts to mitigate climate change, like the promotion of biofuels, have led to shifting land-use patterns and have crowded out food production for human consumption. World commodity markets, having become intertwined with financial markets through derivatives trading, have also become increasingly speculative. Owing to largely unfettered deepening of global financial integration, systemic financial distress in one country has spread quickly to many countries. Trade channels have always served as vehicles for the spillover of a recession in one country into another; but at the height of the present crisis, global trade collapsed precipitously because of the dominance of global value chains in today's production and trade.

It was not meant to be this way. With the fall of the Berlin Wall, there were hopes that a new rising tide of globalization would bring about enough peace and prosperity to lift all boats. There have certainly been gains: inflation has been contained, international trade has expanded, capital has flowed across borders on an unprecedented scale, and there has been substantial progress in reducing global poverty. Still, the growth and poverty reduction record has been uneven and the achievement of such

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gains is bound up with widening global macroeconomic imbalances and the degradation of the world's natural environment.

The food, energy, financial and climate crises that unfolded simultaneously at the end of the first decade of the twenty-first century have exposed major weaknesses in existing mechanisms designed to manage the process of global development. While the strong desire for quick recovery from the present world economic and financial crisis is understandable, getting “back on track” does not seem to be an option, as it would mean returning to an unsustainable path of global development. Sustained and widespread future prosperity will require major reforms in global economic governance and new thinking about global economic development.

A central concern of the new thinking will be the need for a focus concentrated on sustainable development—entailing an approach that would balance material wealth improvements with protection of the natural environment and ensure social equity and justice—rather than one narrowly centred on economic growth and private wealth generation based on market incentives. Global solutions will be required for global problems and, given the interdependence of these problems, policy responses will need to be highly coherent at various levels if the international community is to achieve the multiple objectives associated with fair and sustainable global development.

GLOBALIZATION AT A CROSSROADS

The fact that the world is changing rapidly poses additional challenges with respect to finding pathways towards a feasible, fair and sustainable development. First, there are important shifts taking place in the global economy. The rapid growth in developing Asia which is shifting the balance of global economic power is likely to continue, thereby moving further towards a world economy with multiple engines of growth. Apart from the recent crisis, this has been due not so much to the decline of the economies of the United States of America and the European Union (EU) as to the growth in strength of the economies of other countries. Brazil, the Russian Federation, India and China (the so-called BRIC countries) have become the new economic giants and are already making their presence felt in global forums, such as the platform of the Group of Twenty (G-20), and through their own interaction.

Per capita income of developing countries measured in terms of purchasing power parity (PPP) has more than quadrupled over the past half-century (figure I.1). Also in PPP terms, the weight of Brazil, China

Figure I.1:
Per capita GDP at 2005 constant prices, selected regions

Sources: DESA calculations based on UN-DESA National Accounts Main Aggregates Database, UN-DESA World Population Prospects: The 2008 revision, and World Bank statistical database, available respectively at <http://unstats.un.org/unsd/databases.htm>, <http://esa.un.org/unpp/> and <http://data.worldbank.org/>

and India in the world economy increased from 10 per cent in 1950 to 27 per cent in 2008 (figure I.2). The Russian Federation is adding another 2.5 per cent. Measured this way, the weight of each of today's major economic powers, the United States and Western Europe, has dropped from over one quarter to less than one fifth.

While several developing countries (mostly in Asia) have experienced a significant "convergence" towards the living standards of the now advanced countries, others, especially in Africa, have fallen farther behind (figures I.1 and I.3). The number of the world's poor living on less than \$1.25 per day decreased from 1.8 billion in 1990 to 1.3 billion in 2008, but nearly all of this reduction was concentrated in China. In sub-Saharan Africa, however, the absolute number of the poor increased. At the same time, with few exceptions, income inequalities within countries have increased since the early 1980s. Aggregate measures for global inequality, which combine

Figure I.2:

Regional GDP as a percentage of world GDP at 1990 international Geary-Khamis dollars, selected regions

Source: DESA calculations based on Angus Maddison, *Historical Statistics of the World Economy: 1-2008 AD* available at <http://www.ggdc.net/maddison/>

within- and between-country income disparities, show clearly increasing trends over the past decades—trends revealed to be starkly unambiguous when China is excluded (Bourguignon and Morrison, 2002; Milanovic, 2005; World Bank, 2006a). Redressing this trend in global economic divergence, so as to prevent its becoming a source of new tensions and insecurity, will be a major challenge in the decades ahead.

Second, demographic changes in the coming decades will strongly influence increasing global interdependence. World population is projected to grow by another 2-3 billion over the next four decades. This means that, by 2050, the global economy would need to be able to provide a decent living for more than 9 billion people, of which 85 per cent will be living in developing countries. These changes need not create a Malthusian dearth of food, but they will put further pressure on the world's ecosystems. Developing countries will have to adapt to growing urban populations. By 2050, 70 per cent of the world's population is projected to live in urban areas, and mega-cities that are undergoing further growth will create problems of their own. A growing global middle class added to fast developing-country growth

Figure I.3:
Regional per capita GDP as a percentage of world average at 1990 international
Geary-Khamis dollars, selected regions

Source: DESA calculations based on Angus Maddison, *Historical Statistics of the World Economy: 1-2008 AD* available at <http://www.ggdc.net/maddison/>

and larger urban populations will also change food and land-use patterns, with the implications being potentially vast. In addition to the decline in the amount of agricultural land, there will be a stark increase in the consumption of meat and dairy products, leading, if the phenomenon is not addressed in a timely manner, to land-use shifts and further deforestation, higher energy use, rising food prices and regional food shortages.

Population pressures will also increase such current problems as high unemployment and underemployment. Rapid urban growth will amplify the challenge of redressing persistent widespread poverty and inequality among urban-dwellers. Progress in human development worldwide has helped to drastically reduce mortality rates and allow people to live longer. As a result, the world population is ageing rapidly. The fact that, by 2050, 1 in 3 persons living in developed countries, and 1 in 5 living in what are now developing ones, will be over 65 years of age (figure I.4), will put pressure on pension and health systems. Further, the presence of declining and ageing populations in developed regions and continued disparity in economic opportunities across nations may result in much larger migration flows than occur today.

Figure I.4

An ageing world population, developed and developing countries, 2000-2050

Source: Population Division, UN/DESA, World Population Prospects: The 2008 Revision Population Database. Available from <http://www.esa.un.org/unpp>. See also *World Population Prospects: The 2008 Revision*, vol. I; *Comprehensive tables* (United Nations publication, Sales No. 10.XIII.2).

Third, the growing world population has been supported in part by the degradation of our natural environment. About one half of the forests that covered the Earth are gone, groundwater sources are rapidly being depleted, enormous reductions in biodiversity have already taken place and, through the burning of fossil fuels, about 30 billion tonnes of carbon dioxide are currently being emitted each year. The impact of climate change is already being felt through the occurrence of more frequent and intense floods and drought, which, among other things, is affecting the food situation of many of the world's poorest, especially in parts of Africa and Asia. Thus, greater prosperity for humanity has come with huge environmental costs that have global consequences, including the threat of climate change. Containing this threat will require major transformations of energy systems, industrial production processes and infrastructure (Ackerman, Kozul-Wright, and Vos, 2012; United Nations, 2011).

Fourth, as already mentioned, economic processes are increasingly interconnected globally. Agricultural and industrial production is being carried out more and more within the framework of largely unregulated global value chains dominated by international companies. The global crisis has made clear just how interconnected financial markets are and how quickly problems in one part of the system can cause shock waves elsewhere. Climate change and increasing migratory flows are challenges with global ramifications. Yet, the policies, rules and institutions established to govern these processes are mostly national, while the global mechanisms that do exist are compartmentalized and in need of better coordination. Without reform, tensions will grow between decision-making processes at the national level and those at the global level.

The question is how to reform the institutions responsible for global governance so as to make them better equipped to address these challenges coherently while allowing nations and their people to have the space needed for determining their own destinies.

DEVELOPMENT IN AN INTERDEPENDENT WORLD

The emergence of the post-war international financial and trade architecture

Globalization has been with us since dawn of history, but the desire to exert control over its ramifications is of more recent vintage. As the

immediate post-war period was marked by the creation of the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD) (both in 1944) and the United Nations Organization (in 1945), it is often regarded as the time when international economic cooperation reached its peak. The special circumstances of the time, with many of the countries involved in the creation process having being exhausted by the war while still living in the shadow cast by the Great Depression of the 1930s, became the source of a great willingness to forge a new international financial architecture, although its design was left largely to an inner circle comprising two countries, namely, the United States and the United Kingdom of Great Britain and Northern Ireland (Toye, 2010).

In the 1930s, the “beggar thy neighbour”-type policies of most governments—entailing the use of currency devaluations to increase the competitiveness of a country’s export products and reduce balance-of-payments deficits—worsened national deflationary spirals, which resulted in plummeting national incomes, shrinking demand, mass unemployment, and an overall decline in world trade. To overcome the weaknesses embedded in the pre-war international monetary system, a system of fixed exchange rates was introduced with the United States dollar as the reserve currency and with the dollar pegged to the price of gold. Short-run balance-of-payment difficulties would be overcome by IMF loans. The new system would facilitate stable currency exchange rates, and a country with payment deficits would not have to induce a cut in national income to bring it to a level low enough for import demand to finally fall within that country’s means. The agreement made no provisions for the creation of international reserves.

As the United States, the country with the reserve currency, was running large trade surpluses in the immediate post-war period, a dollar shortage arose in the international payment system which then restricted the financing available for post-war reconstruction and development. The International Bank for Reconstruction and Development, then the most important institution within the World Bank Group, initially had too limited a lending capacity to offset this shortage (Mason and Asher, 1973). To remedy the situation, the United States encouraged capital outflows and set up the European Recovery Program (better known as the Marshall Plan) to provide, largely through grants rather than loans, large-scale financial and economic aid for the rebuilding of Europe. IBRD lending and Marshall Plan-like support, as conceived, subsequently became central in meeting the needs of developing countries for development assistance and long-term financing.

The trade-related component of the envisaged post-war international architecture—an International Trade Organization—was not established until a much later date. Instead, international trade arrangements were governed by the interim General Agreement on Tariffs and Trade (GATT) of 1947, which lasted until 1995, when it was replaced by the World Trade Organization. The GATT was mainly concerned with modalities for negotiating reductions in industrial tariffs on a non-discriminatory basis, albeit with safeguards erected against trading arrangements that would be detrimental to industrial employment (Toye, 2010). Tariff reduction was a matter of considerable interest to the advanced economies, but had less appeal for the developing countries, many of which had gained independence only during the 1950s and 1960s and wished to pursue economic development strategies through the use of industrial and trade policies. Such perceived inconsistencies between the virtues of having a common set of multilateral rules and the need for the policy space required to pursue national development objectives have been a continuing source of controversy in the course of shaping the international economic architecture.

Shifting development paradigms

Views about what types of international arrangements would best serve global and national development goals have changed with the shifts in the thinking about the factors conducive to growth and development in countries at low levels of development. In the 1950s and 1960s, development had been perceived in terms of a process of economic growth. Lack of capital and lack of industrial and entrepreneurial capacity were seen as major obstacles to growth. To overcome these obstacles, what was required was strong government leadership, which would steer the development process in the right direction by conducting the policies and mobilizing the resources needed to lift binding constraints on economic growth. This was to be achieved through, for example, public investments aimed at building infrastructure, trade protection and industrial policies designed to promote import substitution and develop entrepreneurial capacity, and through attracting development assistance in lifting foreign-exchange constraints.

In the aftermath of the Great Depression, public management of the economy had emerged as a primary activity of governments, including in the developed countries. Building on Keynesian theoretical insights, governments made employment, stability and growth important subjects of public policy and took responsibility for assuring their citizens a degree of

economic well-being, with such steps leading to the creation of the welfare state. In Europe and Japan, industrial policies were key elements in post-war reconstruction.

The first generation of development economists, many of whom were associated with the United Nations system, such as Paul Rosenstein-Rodan, Michal Kalecki, W.Arthur Lewis, Gunnar Myrdal, Hans Singer, Raúl Prebisch and Jan Tinbergen, likewise thought in terms of broad, integrated macrostrategies (Meier and Seers, eds., 2001) and saw development as a transformational process. Poor countries would need to move away from a dependence on primary exports and the rural economy and develop manufacturing industries in order to foster more dynamic growth processes; major investments in infrastructure and new activities would be needed to create the right initial conditions. To describe the non-marginal changes that would need to occur, these economists used metaphors like the “snowball” (Lewis), the “big push” (Rosenstein-Rodan), “dynamic linkages” (Hirschman) and the “take-off” (Rostow). Different views existed on how best to induce the necessary change, but the dominant one was that the developmental state should be the prime mover.

In the 1950s and 1960s, some modifications to the GATT and IMF policies aimed at accommodating developing-country interests. In 1955, for example, developing countries were granted special treatment in the GATT, allowing them to protect particular industries and introduce quantitative restrictions so as to address balance-of-payments difficulties. In 1963, the Compensatory Finance Facility was introduced by the IMF for countries suffering sudden shortfalls in export revenues. Rather than facilitate industrial capacity-building over the long-run, these exceptions to multilateral trade rules addressed mainly short-term adjustment issues. The European Economic Community also granted trade preferences to its former colonial territories and set up a fund to offset commodity price fluctuations (Stabex), thereby moving further away from the original GATT principles towards a multiplicity of uncoordinated preference regimes (Toye, 2010).

As discussed in chapter II, a number of developing countries managed to successfully navigate their way amid such hurdles in international rules-setting and pragmatically implemented sets of policies promoting modern growth strategies. High rates of economic growth were achieved in large parts of the developing world, sometimes with sustained success, as in parts of Asia. The industrial development that was behind high tariff protection and other government support also led to substantial average welfare

increases in Latin America during the 1950s and 1960s, followed, however, by relative stagnation starting in the 1980s and 1990s (see figure I.1).

Yet, the many instances of failure to create industries in developing countries that could survive on their own after decades of state support, to effectively overcome foreign-exchange constraints, to generate sufficient employment and to reduce poverty and inequality, led to reassessments of development policies and cooperation. The “basic needs approach to development”, for instance, suggested reorienting government intervention towards more direct support for employment generation and securing access for all to social services (International Labour Organization, 1976). Similar approaches emphasized interventions on behalf of the poor to reduce income inequality and increase gains from aggregate economic growth (Chenery and others, 1974).

Inequities in the rules and mechanisms for global economic governance were seen by some as constituting another key factor accounting for the lack of success of the development effort, which perception led to the struggle in the 1970s for a New International Economic Order (NIEO). Under this banner, there were calls for more national policy space for developing countries, regulation of foreign direct investment (FDI), international commodity agreements to protect the purchasing power of developing-country exports, lowering of the costs of technology transfers, more development assistance and greater voting power for developing countries in the multilateral institutions (Jolly and others, 2004). However, none of these proposals would become dominant in actual policy approaches.

In the meantime, significant shifts took place in the global context. The confidence in the dollar’s peg to gold ebbed during the late 1960s, with persistent, and widening, United States balance-of-payments deficits and with European countries running increasing surpluses while remaining reluctant to revalue their exchange rates. This situation also exposed the inherent weakness of a global reserve system effectively linked to the national currency of just one country (see chap. V). The system of fixed exchange rates and capital controls was abandoned, but the dollar standard in effect remained. Exchange rates were allowed to float—or not—by country choice and major countries agreed to hold dollar reserves in the United States.

The lifting of many restrictions on cross-border financial transactions led to a surge in private capital flows, including to developing countries. As real interest rates were low in the period of high inflation of the 1970s, international borrowing from private sources, lending banks in particular,

became an attractive external financing option for governments in many developing countries, especially middle-income countries, compared with aid flows and multilateral bank lending which were often subject to restrictive policy conditions. As private capital flows proved strongly pro-cyclical and as borrowing conditions abruptly changed at the end of the 1970s, many developing countries ended up saddled with unserviceable debts.

The debt crisis had come to be perceived as another failure in the development effort, reflecting unsound fiscal management and failure to create dynamic export sectors which could have kept debt service-to-export ratios within sustainable bounds. Influenced by these events, another, diametrically opposite approach—commonly referred to as the “Washington Consensus”, inasmuch as it reflected the policies of the multilateral institutions and decision makers based in Washington, D. C. (Williamson, ed., 1990)—gained prominence in the 1980s and 1990s. This view held that governments distorted markets through their interventions and poor management of public finances and, consequently, argued for a reconsideration of the role for governments in managing economic development. In this context, development policies would need to become more concerned with macroeconomic stability and to rely much more on deregulated markets and private initiative, not only in productive activities but also in the provisioning of social services. The market reforms would be conducive to “getting the prices right” and provide the necessary incentives for businesses and households to improve efficiency and invest in a better future. Different levels of success in achieving development were no longer explained by differences in initial conditions, but rather by whether the right policies (market-friendly, fiscally sound) or the wrong ones (interventionist) had been conducted.

Sustained rapid economic growth in a number of countries in developing Asia was held up in the 1980s and 1990s as exemplifying the success of the market-oriented, export-led development strategies advocated by the Washington Consensus. In reality, however, the development policies behind these growth successes, especially in their early stages, resembled much more the recipes associated with the dirigiste paradigm of early development thinking and were not unlike the policies that had, in earlier times, promoted modern development in Western Europe and Japan. These development policies involved, *inter alia*, agrarian reforms, investments in human capital, selective trade protection, directed credit and other government support for developing industrial and technological capacity while exposing firms gradually to global competition.

Many other developing countries were strongly hit by the debt crisis and had to turn to IMF and the World Bank for structural adjustment loans which came attached with strict conditionality regarding fiscal adjustment and the initiation of market-oriented policy reforms. Trade liberalization and capital-account liberalization were key components of the reforms. Together with a further lifting of remaining restrictions on cross-border capital flows, this approach set off a new wave of growth in private capital flows to developing countries and further strengthened the trend towards production within global value chains.

The advance of deregulated financial globalization and the pro-cyclical nature of private capital flows also enhanced the risk of financial crises—crises witnessed by many emerging market economies during the 1990s and 2000s. As these crises inflicted hardly any hurt on the economies of developed countries, many analysts determined their cause to have been the policy mistakes made by the governments of the (Asian and Latin American) countries affected. The crises served to expose the limited capacity of IMF to signal the risks whose build-up could lead to financial crises, as well as its limited lending capacity and consequent inability to come to the rescue when a crisis of significant magnitude did strike. Developed-country governments, especially that of the United States, had to contribute resources in an ad hoc fashion to make up for this deficiency. Few saw the emerging market crises as evidence of growing systemic risks with potentially global repercussions and of the need for a fundamental reform of IMF to enable it to fulfil its function as guardian of the financial stability of the global economy (De Gregorio and others, 1999). Although IMF did move to strengthen its early warning information system, little else was done to build in better safeguards against financial crises.

In fact, after the Asian crisis of the late 1990s, further measures were taken to liberalize financial sectors worldwide, giving greater scope to financial innovation and permitting high leverage ratios. Successful Asian exporters with large trade surpluses had already been accumulating dollar reserves on an increasing scale before the financial crises in their region, and continued on an even larger scale thereafter, motivated in part by the desire to provide greater self-insurance against future external shocks and crises. The reserve accumulation undervalued the currencies of the countries concerned, contributing to widening trade deficits in the United States, while at the same time helping to finance those deficits. Asian trade surpluses were thus recycled through the financial system in the United States which recycled portions back again to emerging market economies

in the form of cross-border financial investments. This dynamic helped keep inflation and interest rates down worldwide and contributed to strong global growth during much of the 2000s. At the same time, however, it also inflated asset bubbles, induced excessive risk taking in financial sectors and was conducive to widening global imbalances, thereby planting the seeds of the global financial crisis of 2008.

The World Trade Organization (within which the GATT was subsumed in 1995) became the most substantial addition to the mechanisms of global economic governance during the period of the 1990s. The World Trade Organization moved towards setting tighter common rules designed to reduce barriers to international trade. Under the World Trade Organization, trade negotiations were broadened to encompass issues of importance to development prospects, such as trade in agricultural products heavily subsidized by developed countries; and some types of industrial policy for development, especially for the poorest countries, were permitted. While the World Trade Organization has become a near universal body, negotiations under the so-called Doha Round have stalled not only owing to disagreements over the issue of creating more space for developing countries to enable them to use subsidies and other measures in support of the build-up of their export industries, but also because of the question how to level the playing field for developing countries in respect of intellectual property rights so as to ease their access to technology, among other controversial areas. Meanwhile, a proliferation of economic partnership agreements and bilateral and regional free trade agreements has been complicating the multilateral trading system and generating inconsistencies, thus making achievement of a fairer trading system all the more challenging.

Adopted by the United Nations General Assembly at the turn of the new century, the United Nations Millennium Declaration conveyed the rediscovery of the insight that market-based growth strategies were insufficient by themselves to solve the problem of widespread poverty and that well-functioning institutions and effective social policies were needed to ensure adequate provisioning of health care and education and to prevent the social exclusion of many. The decision to put Poverty Reduction Strategy Papers (PRSPs) at the centre of debt relief initiatives for the poorest countries was a reflection of the same insight. Nonetheless, trade and financial liberalization and fiscal prudence remained central to policy reforms in developing countries and the policy conditionality attached to multilateral lending. Policy shifts were more visible in the social arena, as reflected in greater priority for education and health spending,

the introduction of innovative cash transfer programmes and support for microfinance schemes. Despite the existence of a broader development strategy as embodied in PRSPs, these social policy changes were often not well coordinated with economic policies. Macroeconomic policies, for instance, remained, for the most part, narrowly focused on price stabilization and fiscal consolidation, thereby constraining the required scaling up of Millennium Development Goals-oriented spending and/or failing to protect employment during economic downturns.

WHERE DO WE GO FROM HERE?

The experiences of the past decades have shown that there are no simple recipes for development success. Clearly, none of the dominant paradigms within the realm of development thinking that have emerged over time can take credit for having served as a blueprint for successful development. What worked in certain past contexts may not work equally well elsewhere. For one thing, the world has become increasingly integrated and the space available to countries for jump-starting their development in relative isolation has become commensurately smaller. As explored in chapter IV, the expanding role of FDI and global value chains in driving world production, trade and technology development has resulted in a limiting of the scope for the wielding of old-style industrial policy instruments by national governments; and multilateral trading rules have imposed restrictions on domestic support measures for developing export industries. Further, freely flowing private capital flows have made macroeconomic stabilization much more challenging. Rules for intellectual property rights and quality standards have increased the cost for many developing countries of absorbing new technologies, becoming globally competitive and introducing greener production processes to combat and adapt to climate change. This does not mean that there is no policy space at all but, rather, that the narrowed scope in this regard is posing much greater challenges to policymakers today.

As global food, energy and financial crises have exposed the systemic flaws inherent in the functioning of deregulated global markets, a tide has turned with regard to thinking about public policies. By intervening in the ways required by the crises, governments have dealt a blow to the conventional wisdom underpinning the Washington Consensus. Their actions have led to a reassessment both of the role of the state in driving national development processes and of how national policies should be coordinated at the regional and global levels in order to engender outcomes

consistent with objectives of global financial stability, shared prosperity and sustainability of the world's natural environment.

The present set of institutions and rules for managing the world economy were established more than 60 years ago. Since then, the world has changed beyond recognition while the mechanisms for achieving global economic governance have either changed little or adapted but slowly.

Because of the complexity and interconnectedness of today's global challenges, a new balance must be found between international rules-setting and the provisioning of global public goods, on the one hand, and the creation of the space needed by nations to determine their own destiny, on the other. Striking such a new balance will not be easy: it will require a new kind of thinking and the striking of a new balance as well between decision-making processes at the national level and those at the global level. Retooling global development along these lines is the main theme of this book. We do not pretend to offer a blueprint but aim instead at presenting ideas that could become the basis for a new, coherent "toolbox" designed to guide development policies and international cooperation.

The chapters that follow address issues of coherence and incoherence among the different spheres of operation of multilateral rules and mechanisms for global economic governance and between global and national development objectives.

Chapter II provides an overview of the evolution of development thinking, focusing in particular on the shifting paradigms regarding how best to achieve poverty reduction and higher levels of human development. We elaborate seven lessons from successful development experiences that suggest that national policies will need to seek a high degree of coherence which cuts across policy areas. The lessons also suggest that the objective of achieving human and sustainable development will need to be mainstreamed into macroeconomic, sectoral, labour-market and social policies. Effectively implementing such national sustainable strategies will not be feasible without an enabling global environment. Low-income countries with limited access to other sources of financing, especially, will need the support of stable and predictable flows of development assistance.

Chapter III demonstrates how the international aid architecture has become increasingly fragmented and, presumably, less effective over time. Our analysis suggests that resolving these shortcomings may require going beyond the commitments set out in the 2005 Paris Declaration on Aid Effectiveness in order to put recipient countries much more securely in the driver's seat and align development assistance much more explicitly behind

national development strategies. This would enable the aid architecture to become needs-oriented and could also facilitate alignment of official development assistance (ODA) with other sources of development financing in a more predictable manner, including through the use of trust fund mechanisms.

Chapter IV describes the progress that has been made since the 1990s in setting *common* responsibilities within the framework of the multilateral trading system, while emphasizing that insufficient attention has been paid to the *differentiated* responsibilities of those economies that have more limited capabilities for gainfully integrating into the global trading system. Broadening participation in global trade will require a fair multilateral trading regime, one that provides poorer countries with space for building domestic production capacity and pursuing sustainable development goals. It will also require significantly improving the access of developing countries to technology, to the point where it is comparable with the access that they have provided to their markets.

Just as significantly, that trading regime will have to resolve key instances of incoherence with other frameworks for global governance and economic cooperation, including the plethora of regional and bilateral free trading agreements, multilateral trading rules and multilateral environmental agreements (especially those on climate change) and rules on trade in services and international regulatory reforms and international tax cooperation. One may question whether, in the latter two areas, the World Trade Organization should be a prime mover or whether, instead, the main competency should lie eventually with specialized environment frameworks and an international financial authority.

Chapter V analyses the fundamental shortcomings in the international financial architecture that were contributory to the present global financial crisis and suggests five key areas where fundamental reform is needed in order to create a system that will be more stable and conducive to sustainable global growth. The key areas encompass new mechanisms of international financial regulation; international tax coordination; international liquidity provisioning and compensatory financing; mechanisms for multilateral surveillance and effective macroeconomic policy coordination; and the global reserve system. Several of the proposed reforms are under consideration, including at the level of the Group of Twenty (G-20) and the policymaking bodies of the Bretton Woods institutions themselves. Our analysis suggests, however, that the reforms in all these areas will need to be conducted simultaneously in order to be effective.

Chapter VI discusses the challenges of achieving a fairer and sustainable process of global development. Reshaping rules and seeking greater policy coherence are easier said than done. Players will need to agree on common global sustainable development goals that are to be pursued and will also need to be convinced that cooperation would serve present and future generations and provide net benefits for all. It will be important to establish a pattern of burden-sharing in which the benefits conferred by the public goods are or are perceived to be evenly distributed. Equally important is the need to overcome democratic deficits in current decision-making within the key organizations of global economic governance, such as IMF and the World Bank, and to eliminate inequities in access to participation in other bodies, such as the World Trade Organization.

The chapter goes on to assess whether the proposals for retooling the existing aid, trade and financial architectures are in and of themselves enough to overcome the shortcomings inherent in the present system. It concludes that the current compartmentalized mechanisms are not enough. In order to eliminate conflict among the proliferating rules governing trade, aid, debt, finance, and other development issues, global economic coordination must be strengthened.

The eminent economist Sidney Dell came to the same conclusion a quarter of a century ago when he noted the need to establish an international agency to deal with global questions of inconsistency regarding economic policy (Dell, 1985, p. 19). A decade later, a proposal for a reformed United Nations Economic and Social Council to assume this directive role received modest support.

Today, the global economic crisis provides painful evidence of the weaknesses of the present system. At the same time, climate change and demographic shifts demand greater coherence in regard to global governance and decisions made at the global and national levels. The need to establish a framework for international coordination, based on shared principles and buttressed by transparent mechanisms, has become more urgent than ever.