



# Introduction

When developed economies stopped growing in the 2008–2009 financial crisis but developing economies kept on growing, the world took notice.<sup>1</sup> The rise of the South, seen within the developing world as an overdue global rebalancing, has been much commented on since. This discussion has typically focused narrowly on gross domestic product (GDP) and trade growth in a few large countries. Yet there are broader dynamics at play, involving many more countries and deeper trends, with potentially far-reaching implications for people's lives, for social equity and for democratic governance at the local and global levels. As this Report shows, the rise of the South is both the result of continual human development investments and achievements and an opportunity for still greater human progress for the world as a whole. Making that progress a reality will require informed and enlightened global and national policymaking, drawing on the policy lessons analysed in this Report.

The rise of the South is unprecedented in its speed and scale. Never in history have the living conditions and prospects of so many people changed so dramatically and so fast. Great Britain, where the Industrial Revolution originated, took 150 years to double output per capita; the United States, which industrialized later, took 50 years.<sup>2</sup> Both countries had a population below 10 million when they began to industrialize. In contrast, the current economic takeoffs in China and India began with about 1 billion people in each country and doubled output per capita in less than 20 years—an economic force affecting a hundred times as many people as the Industrial Revolution did.<sup>3</sup>

The rise of the South must be understood as the story of a dramatic expansion of individual capabilities and sustained human development progress in the countries that are home to the vast majority of the world's people. When dozens of countries and billions of people move up the development ladder, as they are doing today, it has a direct impact on wealth creation and broader human progress in all countries and regions of the world. There are new opportunities for catch-up for less developed countries and for creative policy initiatives that could benefit the most advanced economies as well.

A close look at the diverse pathways that successful developing countries have pursued enriches the menu of policy options for all countries and regions while providing insights into values and world views that can inform future development cooperation and constructive responses to the most severe global challenges. The goal, as always, is to accelerate,

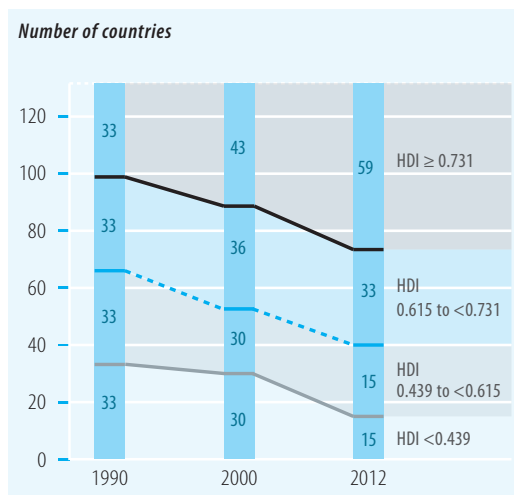
wherever possible, broad-based progress that raises standards and expands people's choices in all countries and communities in all key dimensions of human development, from health and education and livelihoods to the personal freedom to control and improve one's own life.

Transforming the South requires changing the rules that underpin global relationships. Most multilateral organizations were designed to reflect an international order newly emerging from the Second World War. That world view no longer resonates with the 21st century rebalancing of global demographics, wealth and geopolitical influence. The growing policy-shaping influence of the South is visible in the international response to the 2008 financial crisis. In the past, financial decisions were made by the major industrial powers alone, as in the 1985 Plaza Accord. This time, a more extensive group, the Group of 20 (G20), which includes the largest developing economies, played a key role. People in the South are also increasingly taking leadership positions in long-established international organizations.<sup>4</sup>

These are just preliminary signs of change in international institutions and of the possibility that the new actors in the South may help resume efforts to provide better global public goods. Indeed, the rise of the South adds to the urgency with which governments and international organizations will need to confront challenges that are likely to loom large in the future: equity in opportunities, civic engagement in governance, environmental sustainability and the demographic bulge, to name a few. The next sections elaborate on specific features of the rise of the South.

FIGURE 1

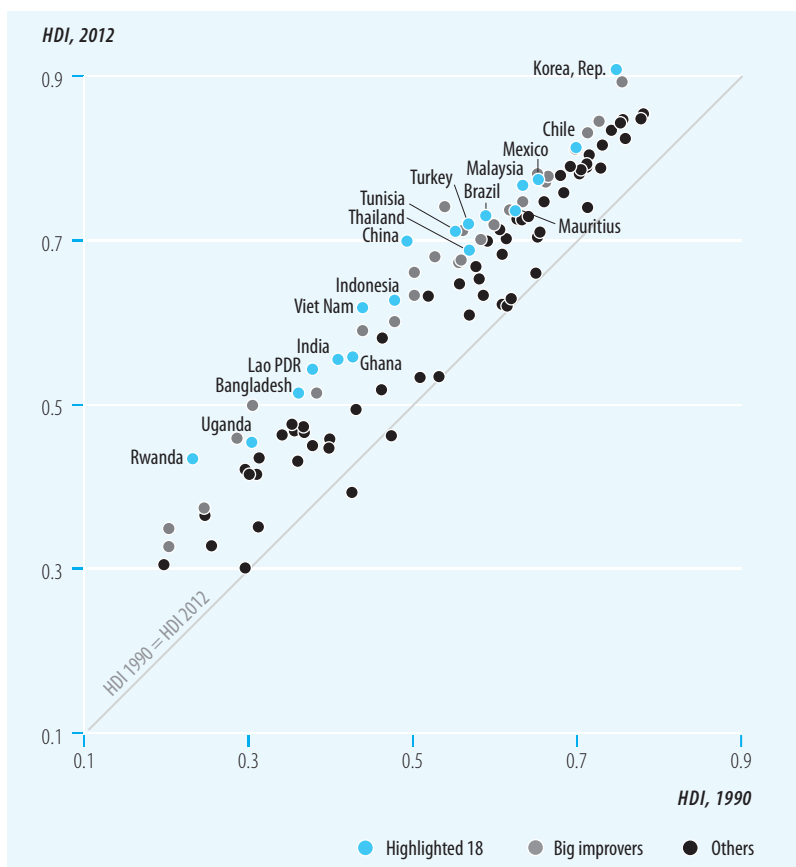
Acceleration of growth on the HDI



Note: Thresholds are the 25th, 50th and 75th percentiles of HDI values for 132 countries in 1990. Source: HDRO.

FIGURE 2

More than 40 countries of the South had greater gains on the HDI between 1990 and 2012 than would have been predicted from their previous performance on the HDI



Note: Countries above the 45 degree line had a higher HDI value in 2012 than in 1990. Blue and grey markers indicate countries with significantly larger than predicted increases in HDI value between 1990 and 2012 given their HDI value in 1990. These countries were identified based on residuals obtained from a regression of the change in log of HDI between 2012 and 1990 on the log of HDI in 1990. Countries that are labelled are a selected group of rapid HDI improvers that are discussed in greater detail in chapter 3. Source: HDRO calculations.

Broad-based progress

The 21st century transformation of the South has been accompanied by major advances in public health, education, transportation, telecommunications and civic engagement in national governance. The human development consequences have been profound: the proportion of people living in extreme poverty fell from 43.1% in 1990 to 22.4% in 2008; more than 500 million people have been lifted out of poverty in China alone.<sup>5</sup>

Countries at low levels of human development accelerated their achievements in health, education and income more in the past decade than in the preceding one. The number of countries with a Human Development Index (HDI) value below the 25th percentile in 1990 dropped from 33 to 30 between 1990 and 2000 and was halved from 30 to 15 between 2000 and 2012 (figure 1). At the upper end of the distribution, the number of countries with an HDI value above the 75th percentile rose from 33 to 43 between 1990 and 2000 and from 43 to 59 between 2000 and 2012. The picture is more mixed in the middle quartiles of the HDI. Overall, no country had a lower HDI value in 2012 than in 2000, in contrast to the prior decade, when 18 countries had a lower HDI value in 2000 than in 1990.

Between 1990 and 2012, almost all countries improved their human development status. Of 132 countries with a complete data series, only 2 had a lower HDI value in 2012 than in 1990 (Lesotho and Zimbabwe). Progress was particularly rapid in more than 40 countries of the South, whose increases in HDI value were significantly larger than predicted for countries that were at a similar level of HDI value in 1990.<sup>6</sup> This includes countries as diverse as Ghana, Rwanda and Uganda in Sub-Saharan Africa; Bangladesh and India in South Asia; Tunisia in the Arab States; China, Lao PDR and Viet Nam in East Asia and the Pacific; and Brazil, Chile and Mexico in Latin America and the Caribbean (figure 2).

Global rebalancing

For the first time in 150 years, the combined output of the developing world's three

leading economies—Brazil, China and India—is about equal to the combined GDP of the long-standing industrial powers of the North—Canada, France, Germany, Italy, the United Kingdom and the United States.<sup>7</sup> This represents a dramatic rebalancing of global economic power. In 1950, Brazil, China and India together accounted for only 10% of the world economy, while the six traditional economic leaders of the North accounted for roughly half. According to projections in this Report, by 2050 Brazil, China and India will together account for 40% of global output (figure 3), far surpassing the projected combined production of today’s Group of Seven bloc.<sup>8</sup>

Today, the South as a whole produces about half of world economic output, up from about a third in 1990. The combined GDP of eight major developing countries alone—Argentina, Brazil, China, India, Indonesia, Mexico, South Africa and Turkey—now equals the GDP of the United States, still by far the world’s biggest national economy.<sup>9</sup> As recently as 2005, the combined economic weight of those eight

countries was barely half that of the United States.

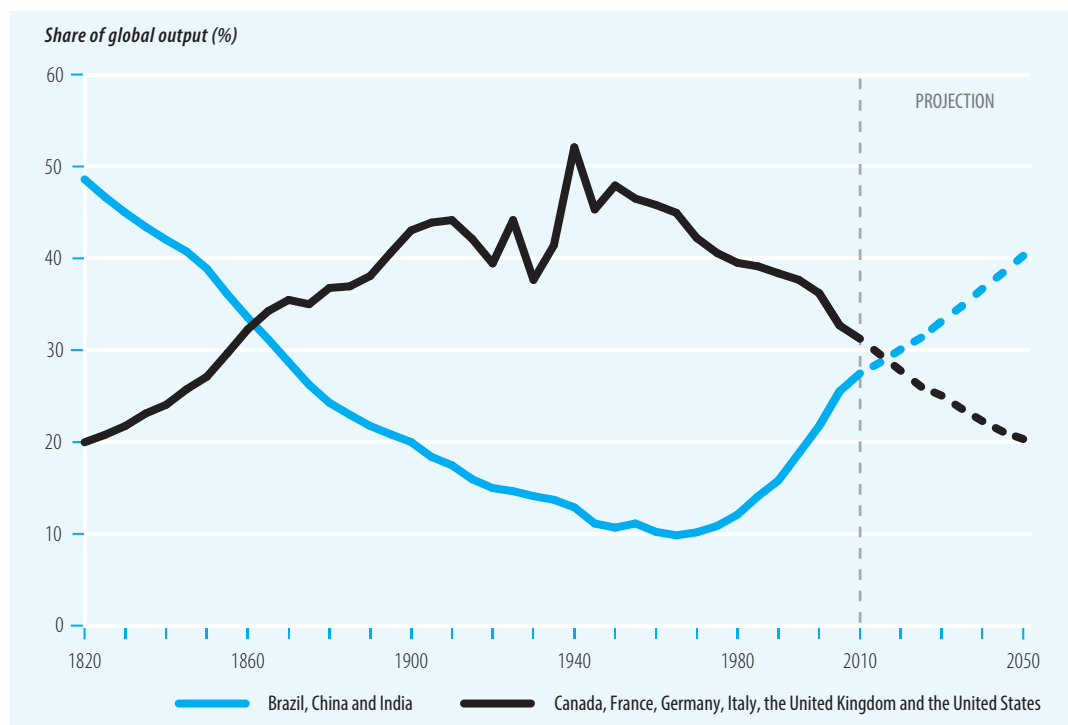
This major increase in share of economic output would not mean much in human development terms, however, if it had not been accompanied by an unprecedented reduction in deprivation and expansion of human capabilities. The first Millennium Development Goal of halving the proportion of people living on less than \$1.25 a day relative to 1990 has been met three years before the target date. This is primarily because of the success of some of the most populous countries in eradicating extreme poverty: Brazil, China and India have all dramatically reduced the proportion of their people who are income poor—Brazil from 17.2% of the population in 1990 to 6.1% in 2009, China from 60.2% in 1990 to 13.1% in 2008 and India from 49.4% in 1990 to 32.7% in 2010.<sup>10</sup>

Broader development challenges, however, have not diminished. An estimated 1.57 billion people, or more than 30% of the population of the 104 countries studied for this Report, live in multidimensional poverty,<sup>11</sup> a measure of both

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FIGURE 3

**Brazil, China and India combined are projected to account for 40% of global output by 2050, up from 10% in 1950**



Note: Output is measured in 1990 purchasing power parity dollars.

Source: HDRO interpolation of historical data from Maddison (2010) and projections based on Pardee Center for International Futures (2013).

the number and the intensity of overlapping human deprivations in health, education and standard of living. For many of the rapidly growing countries of the South, the population living in multidimensional poverty exceeds that living in income poverty. And income inequality is on the rise in many countries. Based on calculations for the Inequality-adjusted HDI for 132 countries in 2012, almost a quarter of HDI value, 23%, is lost to inequality. Between 1990 and 2005, Inequality-adjusted HDI trends for 66 countries show that overall inequality declined only marginally, because declining inequality in health and education was offset by rising inequality in income.<sup>12</sup> Latin America, in contrast to overall global trends, has seen income inequality fall since 2000 but still has the most unequal distribution of all regions. Sub-Saharan Africa has the most inequality in health, and South Asia in education.

Between 1990 and 2010, the South's share of the global middle class population expanded from 26% to 58%. By 2030, more than 80% of the world's middle class is projected to be residing in the South and to account for 70% of total consumption expenditure.<sup>13</sup> The Asia-Pacific Region will host about two-thirds of the world's middle class by 2030, Central and South America about 10% and Sub-Saharan Africa 2% (figure 4). Within Asia, China and India will account for more than 75% of the middle class as well as its share of total consumption. Another estimate is that by 2025, annual consumption in emerging market economies will rise to \$30 trillion, from \$12 trillion in 2010, with the South home to three-fifths of the 1 billion households earning more than \$20,000 a year.<sup>14</sup> The continued expansion of the middle class is certain to have a profound impact on the world economy.

The sheer number of people in the South—the billions of consumers and citizens—multiplies the global human development consequences of actions by governments, companies and international institutions in the South. The South is now emerging alongside the North as a breeding ground for technical innovation and creative entrepreneurship. In North–South trade the newly industrializing economies have built capabilities to efficiently manufacture complex products for developed country markets. But South–South interactions have enabled companies in the South to adapt and innovate with products and processes that are better suited to local needs. This is creating new business models, as companies develop products that can reach customers with lower disposable incomes. The rise of the South is also diffusing technology through new models of extensive coverage with low margins, which serve lower income households and reach a large number of consumers in markets that have weak support infrastructure.

The world is also becoming more educated. Assuming a robust increase in school enrolment rates, the share of the world's people older than 15 who lack formal schooling is projected to shrink from 12% in 2010 to 3% in 2050, and the share with secondary or tertiary education will climb from 44% in 2010 to 64% in 2050. Furthermore, the digital divide is rapidly narrowing, giving people from everywhere

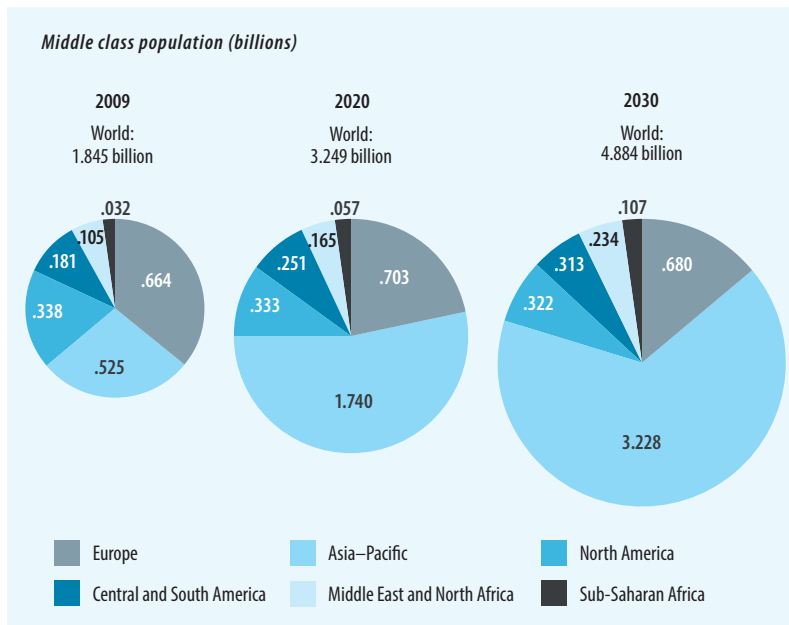
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## Massive expansion of the middle class

The middle class in the South is growing rapidly in size, income and expectations.

FIGURE 4

The middle class in the South is projected to continue to grow



Note: The middle class includes people earning or spending \$10–\$100 a day (in 2005 purchasing power parity terms). Source: Brookings Institution 2012.

comparable access to information, especially through increasingly affordable mobile broadband Internet.

The rapid expansion in the educated population in much of the South adds to the urgency of job creation on a mass scale. Countries of the South that experience low dependency rates in the future can create a “demographic dividend” only if the increase in the labour force is matched by equally rapid expansion of employment opportunities. If enough decent jobs are not available to meet this demographic demand, the consequences are likely to include rising civil unrest, as demonstrated by the youth-led insurrections of the Arab Spring.

## Unprecedented connectedness

Trade, travel and telecommunication exchanges are expanding worldwide at an unprecedented pace. People are moving between countries in numbers never seen before, as business professionals, as tourists and as migrants. In 2010, first-generation immigrants accounted for nearly 3% of the world’s population, or more than 215 million people—a three-fold increase since 1960.<sup>15</sup> Nearly half of remittances sent home by emigrants from the South come from workers living in other developing countries.

Countries of the South are also hosting more tourists than ever from other developing countries: by 2020, there will be nearly 1.6 billion tourist arrivals globally, with 75% of them expected to be intraregional. The share of South–South trade in world commerce has more than tripled over the past three decades to 25%; South–South foreign investment now accounts for 30%–60% of all outside investment in the least developed countries.<sup>16</sup>

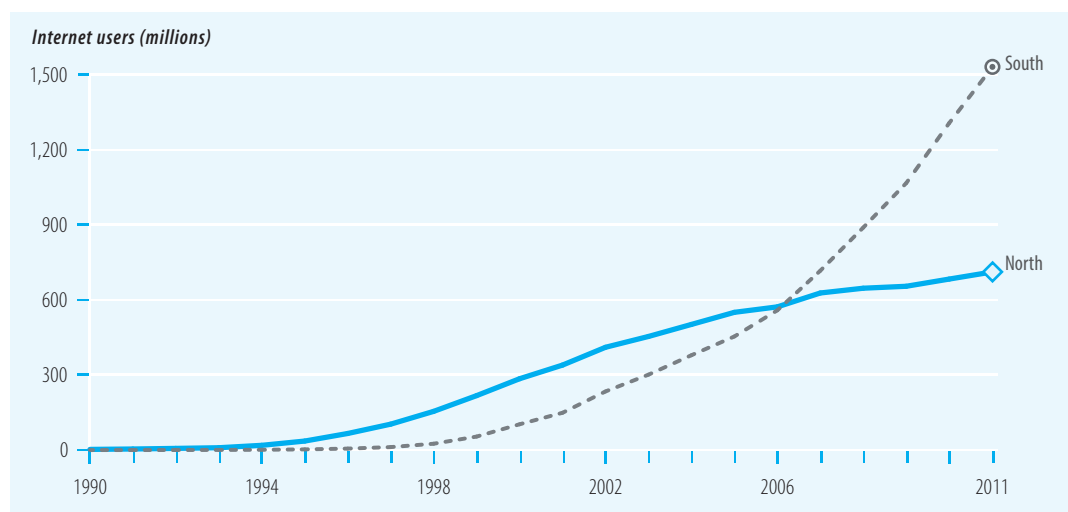
There has been an exponential rise in the number of people in the South with access to the world wide web (Internet). The takeoff has been especially notable in the past decade (figure 5). Between 2000 and 2010, average annual growth in Internet use surpassed 30% in around 60 developing countries with a population of 1 million or more. In September 2012, the online social networking website Facebook recorded 1 billion monthly active users, with 140.3 billion connections among “friends”; four of the five countries with the greatest number of Facebook users are in the South: Brazil, India, Indonesia and Mexico.<sup>17</sup>

Interdependence in commerce is allowing more people to participate in the global marketplace, from Ugandan banana exporters to shrimp farmers on the Mekong River. The global trade to GDP ratio, a conventional measure of trade integration, reached 22% in 1913, a dramatic increase over the estimated

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FIGURE 5

The exponential rise in Internet use in the South has been most notable over the past decade



Source: World Bank 2012a.



2% in 1800.<sup>18</sup> Today the ratio exceeds 56%.<sup>19</sup> At least 15 developing countries have substantial trading relationships with more than 100 trade partners as both exporters and importers, up from about 6 in 1996 (figure 6). The South now accounts for half of global trade flows, up from barely a quarter 30 years ago. These increasing trade connections are deepening even faster “horizontally”, on a South–South basis, than on the traditional North–South axis.

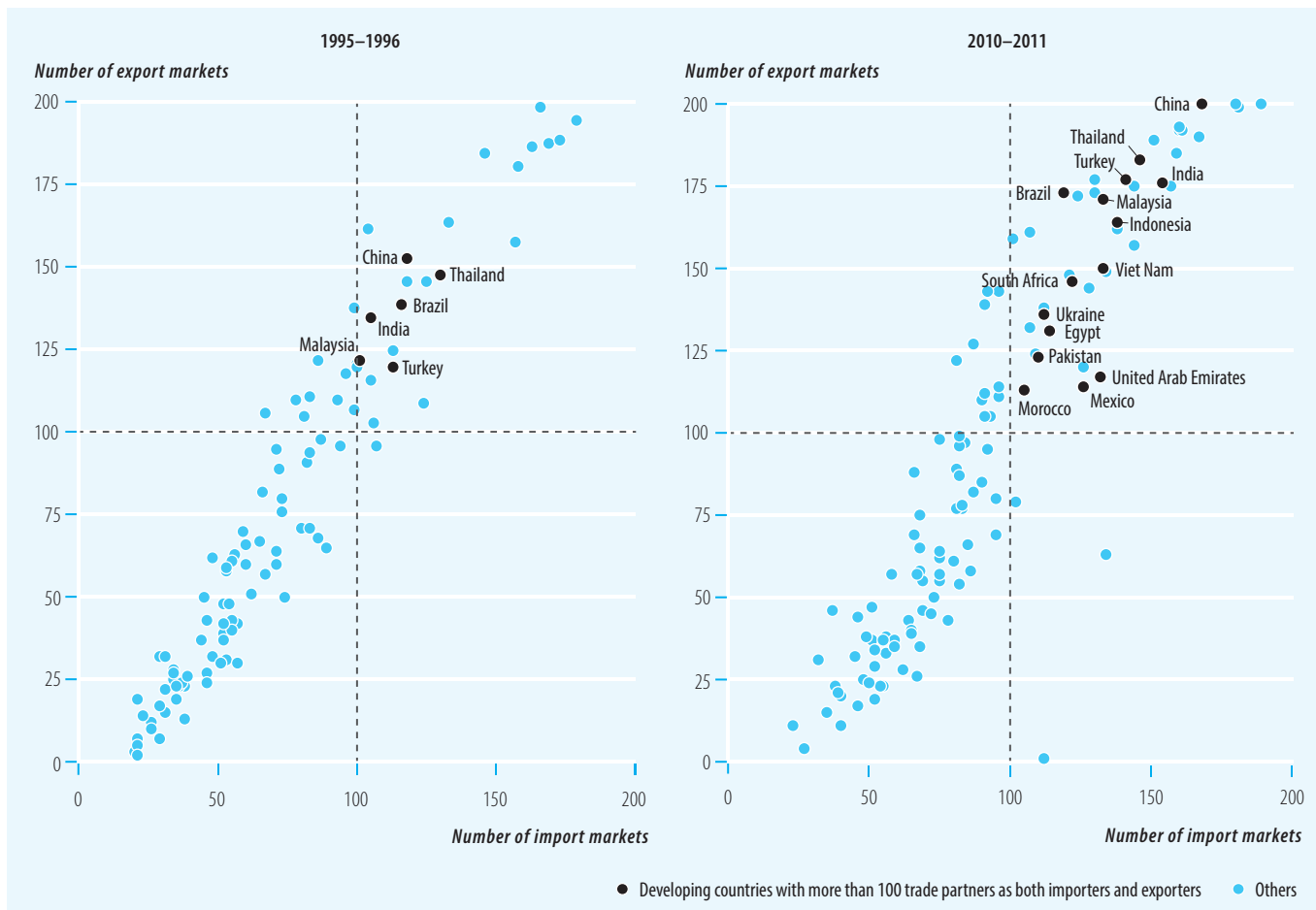
A substantial share of South–South trade continues to be driven by demand in the North, but the opposite is also true: developing countries are major importers from the North. Since 2007, for example, US exports to established partners in the Organisation for Economic Co-operation and Development (OECD) have risen 20%, but US exports to

Latin America and the Caribbean and China have risen more than 50%. The South needs the North, but, increasingly, the North also needs the South.

Countries of the South are also emerging as natural hubs for absorbing technologies and developing new products. There is now greater potential for human development thanks to technology transfer from the South. Technology transfer from the North often requires costly adaptation due to differences in absorptive capacity. Technological transfer from the South has been more amenable to direct adoption.<sup>20</sup> And technological adaptation by the South has also led to new kinds of innovation with immediate human development benefits. Take the uses to which Africans are putting affordable Asian-built

FIGURE 6

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Note: Values are averages for 1995 and 1996 and for 2010 and 2011. Includes only countries with bilateral trade exceeding \$1.5 million in 1995–1996 and \$2 million in 2010–2011. Source: UNSD 2012.

mobile phones: cellular banking is cheaper and easier than opening a traditional bank account, farmers can obtain weather reports and check grain prices and entrepreneurs can provide business services through mobile phone kiosks. These and other transformations multiply the possibilities of what people can do with technology: participating in decisions that affect their lives; gaining quick and low-cost access to information; producing cheaper, often generic medicines, better seeds and new crop varieties; and generating new employment and export opportunities. These new technologies are connecting people in formerly isolated and marginalized rural communities and in poor urban neighbourhoods. They also give them access to valuable tools, resources and information and enable them to more actively participate in the wider national and even global society.

## Pragmatic development policies

The rise of the South spans diverse country experiences, showing that there are multiple ways to achieve and sustain human development. Countries were pragmatic in adopting policies suited to their unique circumstances: for example, between 1979 and 1989, no fewer than 40% of China's national regulations were deemed experimental.<sup>21</sup> There were broadly shared common approaches as well. Most fast-developing countries of the South opened up to foreign trade, investment and technologies. But that opening alone did not guarantee success. They also invested in their own human development capabilities, strengthened domestic institutions and built new areas of comparative advantage. The critical combination of external openness with internal preparedness allowed countries to prosper in the global marketplace, with positive human development outcomes for the population at large.

Active government leadership was crucial in accelerating economic progress and minimizing social conflict. Growth created the needed fiscal space for investment in health and education and paved the way for a virtuous synergy between economic and social policy. Well known innovative programmes in Brazil, India and Mexico—conditional cash transfer programmes and rural employment guarantee

programmes—exemplify active interest in fostering a more equitable distribution of economic and social opportunities. China has also stressed the importance of such an approach in its strategic pursuit of a “harmonious society”. Elements of these programmes have been emulated by many other countries in the South.

A common emphasis of these social initiatives has been to promote equity and social integration, aspects that were underappreciated in past development models but are proving to be essential elements of any sustainable path for human progress. Ruling elites are increasingly recognizing that social and economic progress can profoundly influence their own legitimacy. Investments in social welfare and public goods have become building blocks for long-term development. These exemplary initiatives—which combine health, education and economic policies in a broader agenda of equity, empowerment and participation—highlight the importance of supporting social justice not only on moral grounds, but also as a crucial means of advancing human development.

## New partners for development

The South is now in a position to influence, even reshape, old models of development cooperation with augmented resources and home-grown lessons, but it also exerts new competitive pressures on other aspects of bilateral cooperation. The rise of the South is spurring innovation in bilateral partnership and regional cooperation, resulting in greater options within the South for concessional finance, infrastructural investment and technology transfer. The growing assistance from the South is often without explicit conditions on economic policy or approaches to governance. The development emphasis on improved infrastructure, for example, has been rediscovered because of the domestic experience and lessons of some emerging economies. Over the past decade, nearly half of financing for infrastructure in Sub-Saharan Africa was provided by governments and regional funds from elsewhere in the South.<sup>22</sup>

Furthermore, the extraordinary increase in capital accumulation in the fastest growing economies of the South—exemplified most

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notably by the surge in foreign exchange reserves—represents a largely untapped store of development capital. Three-quarters of the increase in foreign exchange reserves between 2000 and 2011 was accumulated by countries of the South, partly as self-insurance against future financial downturns and crises (figure 7).

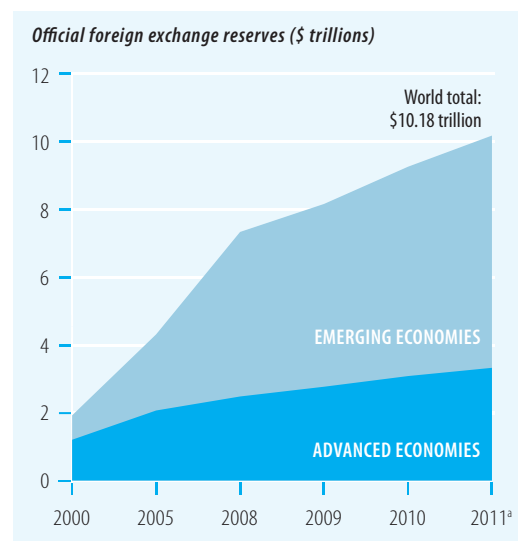
As early as 1995, the United Nations Development Programme identified 23 developing countries as being pivotal to South–South cooperation. Over the past decade, those countries have accelerated their engagement with other developing countries.<sup>23</sup> Outside the OECD, Brazil, China and India are the three largest donors.<sup>24</sup> Other countries such as Malaysia, Thailand and Turkey are also important in regional development. New development partnerships, fashioned on “win-win” for all parties, have supported development efforts and opened opportunities for bilateral trade and investment exchanges, sustaining the rise of the South. In the process, international regimes are realigning, and international organizations are reorienting to the shifts in global economic power due to the rise of the South.

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This Report examines in greater detail many aspects of the rise of the South and their implications for human development. Chapter 1 takes stock of the current status of human development globally and regionally, with an emphasis on trends, challenges and advances in such key interrelated areas as poverty, inequality, social integration and human security. Chapter 2 shows how countries of the South are emerging as significant players in the world economy, becoming both drivers of growth and catalysts for change in other developing

FIGURE 7

Official foreign exchange reserves by country group



a. Preliminary third-quarter data.  
 Note: The classification of countries follows that used by the International Monetary Fund (IMF); it includes 34 advanced economies and 110 emerging and developing economies that report to the IMF’s Currency Composition of Official Foreign Reserves database.  
 Source: Grabel 2013.

countries, and identifies some of the emerging challenges. Chapter 3 looks at the policies and strategies that have underpinned progress in some of the more successful countries of the South. Chapter 4 asks two basic questions: can this progress be sustained, and what are likely to be the future challenges to sustaining human development? Chapter 5 looks at prospects for policies and principles for a new framework of global and regional governance that fully represents and responds to the rise of the South in the long-term interests of the South and North alike. As the Report shows, the increasingly complex challenges of the 21st century require new partnerships and new approaches that reflect the realities of this rapidly changing world.