

*The Quaid-i-Azam Memorial Lecture*

## **Global Interdependence, Privatisation of Risk and Human Development**

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The paper focuses on how patterns and modes of global interdependence combined with the privatisation of risk, influence human development. International finance plays an important developmental role. However, the privatisation of risk, a result of increasingly unregulated and liberalised financial markets, tend to create speculative activities with major negative systemic effects that hinder positive human development, especially in the developing countries. However, sustainable human development requires more than financial stability. Internally oriented socioeconomic and political reforms (IOSR) are essential for the developing countries, especially in the present phase of their demographic transition. Such reforms could provide both resilience and adaptive capacity for societies to cope in an environment of increased interdependence, the article concludes.

*Some for the Glories of This World; and some  
Sigh for the Prophet's Paradise to come;  
Ah, take the Cash, and let the promise go,  
Nor heed the music of a distant Drum*

[Rubaiyat Omar Khayyam XIII, (1985, 1909)].

### **I. INTRODUCTION**

It is a great pleasure to return to Pakistan, especially to this forum. I feel very honoured to have the opportunity of addressing this conference and the distinguished audience. When Dr Kemal indicated the theme of the Conference and the focus of my

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*Author's Note:* Many of the ideas in this Address have been presented in various forums. These included among others: the Arab Regional Population Conference, [Sirageldin and Al Khaled (1996)], the International Conference on New Economic Developments and their Impact on Arab Economies [Sirageldin (1999)], the 4th International Conference on Islamic Economics and Banking on Islamic Finance: Challenges and Opportunities in the 21st Century [Sirageldin (2001a)], and the UNESCO-EOLSS [Sirageldin (2001)]. Comments received from discussants and reviewers in these forums have been very helpful.

talk, I felt reluctant. The Conference theme is complex and challenging and this forum includes many outstanding authorities. The present context of global interdependence and its associated inter- and intra national distribution of power and knowledge make it even more of a challenge to deal with the stated theme: Growth, Decentralisation and Poverty. These are subjects that have for many centuries produced competing paradigms with unresolved puzzles. At present, the field is charged with serious attempts for reason and understanding as well as with passion and emotions. My talk, accordingly, is partly based on empirical evidence, and is partly exploratory, evidently following the visionary perspective of the founding father of Pakistan, the Quaid-i-Azam.

The present phase of global interdependence is evolving both in structure and institutions, and in socio-economic and political management, with significant impact on local and global structures. This evolution, although accelerating, is not of recent origin. It is part of the more fundamental human symbolic cultural evolution, a continuous, if not a continuity of a process of human adaptation. There is a longer period—even millennia—of history that should bring light to the nature of the present global path. However, as discussed elsewhere [Sirageldin (2001)], that path is largely undetermined, a consequence of imbalance in the nature of the present “symbolic” human cultural evolution. “Symbolism” implies universality in scientific communication. It has been the nucleus of the present globalisation process; a process based on the global spread of technology, finance capital, and a global labour market, rather than on military conquest. However, the present “technophysio” phase of the human symbolic cultural evolution is not necessarily stable or balanced. It tends to produce a technical civilisation with built-in contradictions and continues to produce negative social goods. It has been common practice in analysing the consequences of globalisation, to assume that its outcomes, whether goods or ills, are independent of the evolutionary processes of human nature. This is evidently a confusion of cause and effect. Furthermore, while analysis attempts to deal with present outcomes and processes, institutions seem to evolve slowly and lack the adaptive capacity necessary for a harmonious evolution. Institutions, especially socio-political, seem to adhere more to past practice.

The present paper focuses on how patterns and modes of global interdependence combined with the privatisation of risk, influence human development. What are the prospects for human development? Are short-term setbacks inevitable? How do they influence prospects for the longer term? These are the critical questions that require answers. But what we are able to offer is mainly speculative in nature. Speculation as will be evident seems to be a major source of malaise in the present global environment. Speculators in global finance tend to create more, larger and mostly unpredictable risk in the financial and labour markets. Although risk is being increasingly privatised, a result of reduced regulatory capacities as liberalisation has spread worldwide during the past three decades, it tends to produce more serious systemic effects that are detrimental to human development, especially in the

developing and emerging economies. The issues are complex and the pathways to human development are not clear at best. We focus the discussion on some key pathways. These are the diffusion of technology and its effect on global interdependence, the privatisation of risk and its management; the changing socio-economic roles of national and local governments; and finally, attempt to examine the implications of these dynamics to human development in this emerging global environment.

## II. GLOBAL INTERDEPENDENCE AND THE COMMUNICATION REVOLUTOIN: AN EVOLVING LANDSCAPE OF THE GLOBAL SYSTEM!

*If globalisation is to be taken seriously as a policy instrument, it must be conceptually well defined. Otherwise it will become a mere catchword, a burden to the government that embraces it. It will generate more enemies than friends.*

[Charles F. Doran (2000), p. 5].

Globalisation defined in this discussion as increased interdependence among countries and communities through mutual learning is viewed as a process with varied phases, a connected history, rather than any abrupt phenomenon that emerged in the last few decades or even centuries. As we mentioned earlier, it is an outgrowth of the onset of the symbolic cultural evolutionary phase. In that phase, human societies continually attempt to balance the three acquired modes of human nature: scientific development, time binding for setting social priorities and planning ahead, and imaginal thinking for creative thinking. The *modus operandi* of the symbolic cultural evolution is the maximisation of survival probabilities by individuals and groups, leading inevitably to increased interdependence [Sirageldin (1999)]. Viewed as a process of increased interdependence, globalisation started taking shape from the time civilisations began communicating and interacting with one another via different means. It has been a cumulative process. We could safely take this process back to the time of maritime explorations and adventures, slave trade, and colonisation manifested in the exchange, whether voluntary or forced of labour, technology and capital inputs, and of values and beliefs. With technological progress and roundabout production processes came the attempt to seek outlets for capitalistic over-production. In all its history, the process of increased interdependence has changed the economic and political fortunes of societies, nations and even continents. Historically, these changes have been the result of many factors as for example the presence of hegemony in military and technological power, e.g., Great Britain in the past few centuries or the U.S. at the present time. A process that seems to vindicate the notion that economic development is a process of increasing returns—those who have will have more.

Although, history indicates that more does not come without a struggle, some times at high cost to all parties.

The presence of a massive literature on the subject of globalisation is not accidental. It is a result of it being regarded if not defined as the sum of all the varied forces that influence global interdependence and human development (The Human Development Report 1999 presents extensive discussion and documentation of these issues. See also Doran [(2000), p. 6]). A tendency that confuses human nature with human processes, leading to the conclusion that globalisation is the sum of all the negatives for which it is allegedly responsible. It also leads to desperate development paradigms and polar discourses and views. For example some authorities view the present phase of globalisation as an extension of Western imperialism including the imperialism of ideas and beliefs [cf. Anderson, Cavanagh and Lee (2000)]. While others put technological advances as the main driving force. For example, as Sen (2000) reasoned: “Europe would have been a lot poorer had it resisted the globalisation of the decimal system that emerged and became well developed in India between the second and the sixth century, and was used extensively also by Arab mathematicians soon thereafter. These procedures reached Europe mainly in the last quarter of the tenth century, and began having its major impact in the early years of the last millennium, playing a major part in the mathematical and scientific revolution that helped to transform Europe”. Yet, others play down the role of technology and adopt a neoclassical view of international trade and international factor movements in which diminishing returns play a leading role in the historical patterns of global interdependence and degrees of convergence [O’Rourke and Williamson (1999)].

Other authorities, concerned with observed negative systemic effects, make a well reasoned case that an unregulated global system that relies on market solutions that let the market go it alone is not helpful to deal with positive and sustained human development [cf. Naqvi (2001); Eatwell and Taylor (2000)]. The global society must deal with each phase of its evolution on its own grounds to minimise its negative systemic effects. As Ajami [(2000), p. 11] put it: “every age earns its own name after its own history and its dueling ambitions have played out”. That ‘dueling’ implies the taming of unregulated markets to save capitalism from its own follies. A difficult process with unpredictable outcomes since ‘saving’ has different meaning to different powers.

In our view, it can be safely stated that the ‘present phase’ of globalisation is the child of the technological revolution that started at the beginning of the 20th century and that culminated into the present explosion of information technology and the so-called ‘brain industry’. As a result, we are witnessing the dissolution of boundaries and national authorities in innumerable aspects of practical life—the transcendence of globalisation beyond slave and commodity trade. For example, there is a fundamental change in business behaviour. The interaction of information technology (e.g., e-commerce) and the global economy induced a need for alliances among Multinational Corporations to share information, ignoring borders, cultural or language differences,

or geography. The only impediments are taxes and government rules. Maximum returns, mainly short-term are required for survival in the global market place, given the discipline of international finance. It is evolving as the main if not the only fundamental in corporate behaviour whether business or governance.

Three major factors seem to characterise the present globalisation environment: innovation in communication and information technology, the dominant role of finance capital, and the emergence of global regulatory institutions. But these characteristics have been present in various forms for many centuries. For example, there were major technological breakthroughs in the late 19th century and in the 1920s that had significant socio-economic impact. There were also regulatory institutions, some through colonial powers that had extensive global reach combined with strict enforcement power. What seems to characterise the present phase is its speed and potential destructive tendencies. The new 'knowledge industry' forms interconnected webs that are highly dynamic. It tends to undergo bursts of evolutionary creativity and massive extinction events of established technologies and, more fundamentally, established systems of values and social contracts and relations, while the system seems indifferent to the consequences to human development. In a crisis, a decline in GDP of 10 percent or more, which has not been uncommon in recent experience, would be socially devastating in a country with a fairly low per capita income and no safety net. But such devastating experience is viewed as part of learning the lessons of reform and the cost of growing-up, so to speak, and for societies to "move into the next phase of the post-global economy" [Doran (2000), p. 7]. What is not immediately evident is how different from past practice, in both speed and processes, is the impact of the present phase of globalisation on the distribution of gains and losses from exchange in the expanded market for knowledge and skills? There is evidence that the competitive global market combined with the privatisation of risk in both the financial and labour markets have produced inequitable returns for investment in human resources. These inequities are leading to unsustainable human development, specially, for those at the low end of the development ladder (The Human Development Report 1999 gives numerous illustrations). What is becoming increasingly evident is that the evolving patterns of global finance and governance have significant negative consequences to prospects of human development for increasing segments of humankind.

### III. FINANCE AND THE PRIVATISATION OF RISK: A PARADIGM IN TRANSITION

*"We should not conclude from this that everything depends on waves of irrational psychology. On the contrary, the state of long term expectations is often steady—it is shared by a large number of ignorant individuals".*

[John Maynard Keynes: The General Theory of Employment, Interest and Money (1936). Quoted in Eatwell and Taylor (2000), pp. 84, 94-95].

As we mentioned earlier, the significant role that global finance capital plays in the economy and human development is not new. On the one hand, it provides for an important disciplinary role that promotes efficiency and capital accumulation based on the presence of adequate fundamentals. On the other hand, it tends to increase risk with negative systemic effects. The history of finance capital indicates that following each major innovation; finance capital follows good economic principles but eventually gives way to speculative ventures. Economic facts give way to psychological fantasy, share prices become independent of performance, leading to capital flight and eventual stock market collapse and prolonged economic recessions [Shiller (2000)]. The result has been the recurrence of large economic and social losses.

The present globalisation phase seems to have more than qualitative differences from these previous experiences with finance capital. The *modus operandi* of the present globalisation environment is being fuelled by significant and accelerated pace of innovations in information and communication technology. These innovations introduced instant communication and information that facilitated the global spread of finance capital while international regulatory institutions are being redesigned to provide the necessary security for capital movement. Similar to past behaviour, the psychological element of finance capital takes over creating greater worldwide volatility at a much larger volume and speed, in part because of the efficiency of the information technology itself. Workers security and human development could suffer greatly as a result of investors' psychology and not necessarily because of weakness in economic fundamentals. Indeed, economics take hold in the final analysis since irrational increases in equity prices cannot be sustained for long without the support of real earnings. Similarly, irrational capital flight should eventually reverse its course once the economic facts override psychological and political forces. However, the loss to human development could be sizable and *selective* in the interim and the interim could be of long duration, while, as discussed later, the social role of governments is being compromised in the global environment.

How finance capital and speculative activities create risk with systemic consequences to economic and human development require elaboration. The discussion refers extensively to the recent excellent contribution on the subject by Eatwell and Taylor (2000). Their thesis may be summarised as follows (*ibid*, xi):

- A breakdown of national regulatory capacities has occurred as liberalisation has spread worldwide over the past four decades. Consequences have included high and variable interest rates, increased volatility of asset prices, poor national economic performances, and the contagious spread of market instabilities worldwide.

- Such developments create the possibility for massive upheavals even in the large and integrated financial markets of the industrialised economies.
- The recent wave of currency crises in developing and transitional economies has clearly been associated with rapid capital market liberalisation and the absence both internationally and at the country level of appropriate regulatory procedures to deal with the financial flows unleashed.
- There is absence of “fundamentals” in determining exchange rates; changes in rates are driven exclusively by shifting speculative “conventions” in the markets. Exchange rate volatility exacerbates all the deficiencies of unregulated markets.

This is a serious verdict and the authors propose the creation of a world regulatory agency, World Financial Authority (WFA) to deal with the deficiencies in the present international financial system.

An important characteristic of the present system is the privatisation of risk that led to the marginalisation of existing regulatory agencies. The privatisation of risk started when President Richard Nixon, on August 15, 1971, closed the gold window by instructing the US Secretary of the Treasury to suspend all sales and purchases of gold. This was the end of the Bretton Woods system founded in 1944 and based on fixed exchange rates of the then major currencies in terms of dollars, while the latter was tied to gold. From that point on, the stability of the system has been shaken. Floating rates led to the relaxation of the tight control on capital movement that freed the private sector from foreign exchange shocks. The incentive to deregulate international capital flows was driven by the need to hedge against the growing fluctuation of exchange rates. With the extinction of fixed exchange rates, finance risk has been privatised. Meanwhile, the volume of international capital flows reached unprecedented high levels. According to Eatwell and Taylor (p. 3-4), in 1973, daily foreign exchange trading around the world was less than \$ 20 billion and the ratio of foreign exchange trading to world trade did not exceed 2/1. In 1980, average daily trading reached \$ 80 billion and the ratio increased to 10/1. By 1992, daily trading averaged \$ 880 billion with a ratio of 50/1. In 1995 average daily trading in foreign exchange, at \$ 1260 and a ratio of 70/1 the 1995 volume was equal to the entire world's official gold and foreign exchange reserves. These massive volumes dwarf flows into long-term investment. They are speculative and very short run, designed primarily for short-term hedging against fluctuations in asset prices. This new international financial system is characterised by being highly volatile and susceptible to contagion. It has produced a succession of major financial crises.

The privatisation of financial risk led to the privatisation of risk in labour markets. Traditionally, supervision and regulation of financial systems and labour security systems have been domestically based. But the increased global integration of financial and labour markets have reduced national capacity to regulate the massive

financial flows, while the present international regulatory agencies were not design to deal with massive destabilising private financial flows. These states of ‘absentee government’ have created severe hardships to human development and may not continue for long.

#### IV. GOVERNANCE: THE CHANGING ROLES OF NATIONAL AUTHORITY

*International business concerns often prefer to work in orderly autocracies rather than in activist democracies. They may also have a preference for public money being spent to promote the safety and comfort of management over the removal of illiteracy, medical deprivation and other adversities of the underdogs.*

[George Soros, quoted in Amartya Sen, June (2000), p. 5].

The role of government and governance in the ‘new global environment’ seems to differ significantly from past environments. Past environments, excluding military conquest and occupation, was one of ‘interdependence’ among states regulated by international institutions, e.g., IMF or GATT that attempt to set rules for orderly cooperation as interdependence increases among sovereign states. Government sovereignty, especially internal, was not challenged by these regulations, taken mainly as safeguards [Sirageldin (1999)]. The effect of the ‘new globalisation environment’ on state sovereignty is subtler. It influences both the external and internal sovereignty of the state, while reduces the interest of national èlites in local affairs since global corporate networks challenge a state's internal sovereignty by altering the relationship between the private and public sector. As it integrates markets, globalisation fragments politics [Reinicke (1997), pp. 129-130].

The implications of these dynamics to human development may be traced to insecurities introduced in labour markets and to the influence of globalisation on Democratic practice and the Rule of Law. Historical evidence also illustrates another source of risk. Historically, periods of massive industrial consolidation and dramatic technological innovations have been followed by periods of political, social, and institutional reforms. “One eventually creates the need for the other, as the economic change produce social conditions that come into conflict with democratic ideals” [Judis (2000), p. 252)]. Clearly the functioning of the present global system complicates further the situation since it erodes the synergetic relations among ‘democracy’, the ‘rule of Law’ and the ‘role of government’ summarised elsewhere [Sirageldin (1999)].

Historically, the struggle for freedom has been a struggle between the power of government with arbitrary authority and the Rule of the Law, or, according to Hume [quoted in Hayek (1955), p. 11], it is the evolution from a “government of will to a government of law”. A “government of law”, “Equality before the Law”, or

“Rule of Law” are all terms that refer to the ancient Greek concept of “Isonomy” that identifies a society of human freedom as opposed to an arbitrary government of tyrants. In this view, the Law should be obeyed so people could be *free* from arbitrary rules set for some and not for others. However, although the Rule of Law provided for individual freedom and for creating and maintaining ‘trust’ in the laws, it erected boundaries and set limits on the freedom of both government and subjects. This is the case in order to “limit the power and moderate the dominion of every part and member of society” [Locke (1690), section 222, quoted in Hayek (1955), p. 10]. However, although the ideal of isonomy gave ample power to governments to deal with a wide range of actions to enhance human development, from safeguarding values and promoting equality to enhancing individual freedom, it has been on the decline for centuries, in all countries of the world including England.

Concerns about the impact of globalisation on government authority are well placed. But these consequences should be evaluated as to their effect on governments of states as well as on the evolving global government. For the former, the impact of the absence of the Rule of Law on sustainable human development could be negative not only in authoritarian governments but equally in democratic ones especially those lacking in the ideal of isonomy. For the international system, the adoption of the ideal of isonomy and the development of a global political citizenship seem to be of great urgency. In his evaluation of the Report of a “Committee on Ministers’ Powers”, Ivor Jennings argued that “this rule of law is either common to all nations or does not exist [Jennings (1932-1933) quoted in Hayek (1955), p. 54]. This seminal statement should be at least equally valid in today’s globalisation environment otherwise global rules may not be sustainable. Rules designed to benefit the few without compensating the losers will be resisted. Optimism for positive change should be guarded however. As Fukuyama [(2000), pp. 212–224] observed, there are many structural factors that tend to inhibit the realisation of an optimistic scenario for a global equitable Rule of Law. These include size, boundaries, repeated interaction, established cultures, and lack of isonomy, justice, and transparency in national and global governance, that make the spontaneous emergence of systems of cooperative norms unlikely without the helping hand of “rational hierarchical authority, in the form of government and formal law”. [For more details, see Sirageldin (1999).]

#### **V. HUMAN DEVELOPMENT IN THE EMERGING GLOBAL ENVIRONMENT: THE RISE OF INEQUALITIES IN ENTITLEMENTS AND WORKERS’ INSECURITY**

Human development is viewed as the optimal utilisation of human resources leading to increasing per capita welfare and its fair distribution within and across generations. Optimum utilisation implies adequate development of the supply of human resources, the anticipation of internal and external demand for labour, and the

presence of an efficient and equitable allocation mechanism in the labour market. The previous discussion indicates that these three basic dimensions of human development are sensitive to changes in the global environment. In what follows, we focus the discussion on two critical issues in human development and their sensitivity to global interdependence: the supply of labour and the emergence of poverty.

### **The Supply of Labour**

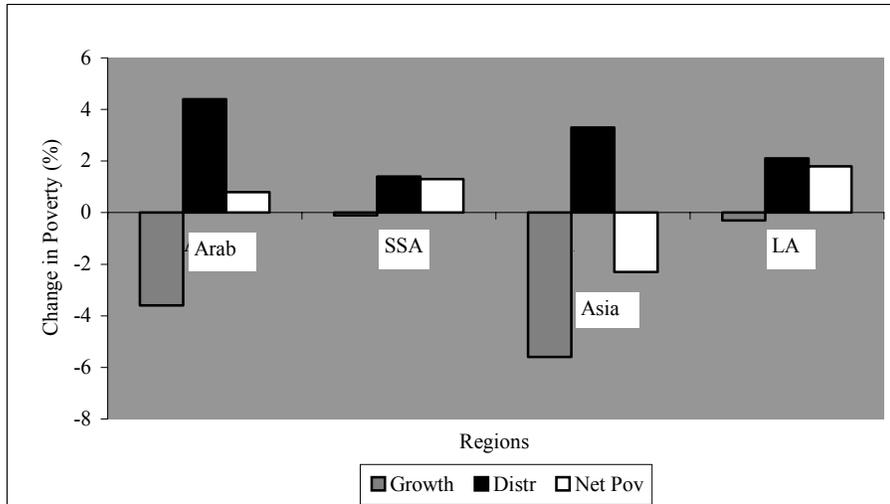
We examine the supply of labour from a population dynamics perspective. There are three reasons why we focus on the role of population dynamics in human development. The first is that population change is an integral part of the process of the symbolic cultural evolution. The second is that demographic change: population growth, spatial distribution, and age structure play a pivotal role in development. They shape the destiny of development prospects through their consequences, while being shaped by development processes and outcomes. The third is that population dynamics on the local level produce externalities that radiate to the regional and global levels.

There are three dimensions of labour supply: quantity, quality, and mobility. We focus on the first two. Most of the developing countries started the final stage of the demographic transition in which fertility started a secular decline. The result is that the growth rates of the younger cohorts started to decline while that of the older cohorts continues to grow at high rates. The size of the population in the working age has been growing at high rates in the developing countries and will continue to grow for at least a generation. This phase of the demographic transition provides a window of development opportunity in which labour grows while the dependency burden declines providing an opportunity for saving and investment in the quality of labour. However, the window is only open for a generation. It closes as the population ages and the dependency of old age increases. The window is only a potential. It could be negative as it could be positive. The built-in growth presents a double-edged challenge: how to produce, in the face of high rates of growth, a quality of human resources that is internationally competitive and that could also be engaged productively in the global labour market? The answer depends on developments in the quality and motivation dimensions of future workers. High quality education and the development of positive motivation and moral values in and outside the school system are the basis for the development of productive and competitive labour. There has been significant advance in years of education in most of the developing countries. However, with the exception of the East Asia countries, studies of educational achievement indicate that most developing countries are lagging behind in the quality dimension. The presence of low educational achievement scores, especially at the basic level, in the context of the demographic window of opportunity combined with the highly mobile external demand for quality labour, has negative consequences on human development and requires no additional elaboration.

The second dimension is more qualitative and conjectural. They have to do with motivation and morals. Achievement motivation, vision of opportunities, sense of discipline, work ethic commitment, and self-esteem that are transmitted from generation to the next, are some of the elements that define motivated and progressive society. These qualities have been highly strained in many developing countries, mainly a result of lack of positive development in the economic and the socio-political domains. Motivation and the moral environment is an important dimension of the human development. However, its development requires more than formal education. Studies of moral development indicate that moral identity—the key source of moral commitment throughout life—is fostered by multiple social influences that guide a child in the same general direction [Damon (1999), p. 78]. These findings support the view that transparency and accountability in governance and isonomy in the Rule of Law are prerequisites for the spread of moral conduct. While parents and schools provide moral guidance for most children in the formative years by stressing imaginal and independent thinking, transparency in governance, isonomy in the Rule of Law, and other democratic practice and institutions provide the needed support and enforcement beyond the formative years. Motivations and morals are not independent of the type of government and governance and, especially their synergies with the globalisation processes. These are critical issues that require careful and forward looking perspectives since established institutions probably reflect the interest of powerful establishments, while evolving cultures tend to change slowly. Furthermore, the search for common values in societies with pluralistic cultures continues to be a hotly debated question in philosophy, the social sciences, and the psychology of human behaviour [Mitias (2001)]. The case of an open global system makes it more of a challenge, since the global village has the most cultural diversity.

### **Poverty**

Our brief review of the opportunities and constraints set by the demographic window of opportunity indicates the *potential* for sustained growth that could lead to sustained reduction in poverty, if the right policy environment prevails. The potential saving from a pure demographic structure could be channelled towards equitable human capital formation with internationally competitive quality. Countries in East Asia including Malaysia and Indonesia were able to follow that path towards sustainable development and reduced poverty. There are trade-offs however, between growth, distribution and poverty as illustrated by recent economic modelling that include political factors in their specifications [cf. Rodrik (1998)]. Some provide enlightened policy recommendations. For example, in a recent study of poverty in the Arab World and the role of inequity and growth, Ali and Elbadawi (2002) used a simple dynamic model of poverty, growth, and distribution to explain the observed experience of selected developing countries located in four regions: the Arab region including six Arab countries, Sub-Saharan Africa, Latin America, and Asia. The model



Source: Based on Figure 4.2, in Ali and Elbadawi (1999).

**Fig. 1. Dynamics of Poverty in Four Regions (Predicted Annual Average Change in Poverty for 1975–96).**

allows investigating for which countries a sustained reduction in poverty would require the acceleration of growth, redistributive measures, or both. The findings reproduced in Figure 1 are illustrative of how poverty responds to changes in growth and distribution during the 1975-1996 period of analysis. For the six Arab countries, although the rate of economic growth was relatively high at 3.3 percent, poverty increased by 1.3 percent mainly a result of the predicted high rate of growth in inequality, at 4.4 percent. For Sub-Sahara Africa, the predicted growth in poverty was positive, mainly a result of worsening inequality, economic growth had no effect in reducing poverty since its average was zero during the period. The experience of Latin America was similar to that of the African countries, low growth and worsening inequality that generated a high rate of growth in poverty. On the other hand, there was a significant decline in poverty in the Asia sample (China, India, Malaysia, Pakistan, Philippines, Sri Lanka). The increase in inequality was sizable but was more than compensated for by a large growth effect that dominated the negative distributional effect. However, the findings indicate that group averages do not reflect the behaviour of individual countries. There are significant differences in the behaviour of countries within the four groups.

As discussed earlier, the developing countries in general are in the midst of basic economic-demographic transformation that presents potentialities and challenges. Potentialities are represented by examples of countries that were able to move into a sustainable development path that significantly reduced the incidence of poverty. In most cases, this has been achieved by strengthening the determinants of long-term

growth, mainly egalitarian quality education, efficient institutions, and the adoption of the Rule of Law and Isonomy in governance. The absence of these structural conditions, leads to lower growth, higher incidence of poverty, and the erosion of progressive ethical systems [Sirageldin (2000)]. Poverty-alleviation policies should be viewed in this dynamic context of interaction between growth prospects and progressive values, not only as catalyst but more essential as complement to both.

## V. SUMMARY AND CONCLUDING REMARKS

### Summary

The evolutionary approach of the present paper attempts to place the present phase of global interdependence and human development in historical perspective. For many millennia, human reach has been extended through the accelerated processes of the symbolic cultural evolution. The *modus operandi* of the symbolic cultural evolution, in its present technophysio phase or scientific materialism, is knowledge-based; it helps to maintain and promote scientific and technological developments, their technical application and utilisation, and the intergenerational preservation of such knowledge through advances in educational methods, content, and quality. At present, human destiny is to know, if only because societies with knowledge dominate societies that lack it and that there is, once reached a threshold level, a built-in catalytic growth of learning. Most of the developing countries have not yet reached the threshold level of learning since the evolutionary developments in science and technology are lagging and the lag is not necessarily a lack of finance. It is partly a psychology of discouragement if not despair, a perception of an unbridged gap of knowledge, and, accordingly, lack of commitment. Without mastering and joining in the development of advances in science and technology, this part of the world will continue to lag behind. As we argued elsewhere, this should not necessarily be the case [Sirageldin (1999)].

Human brains have identically similar basic structures that, given a random distribution of disabilities, allow for equal *potential* of learning. The DNA of an individual is made up of about equal contributions of all ancestors that extend for hundreds of thousands of generations, of which present parents contribute an insignificant part. Furthermore, advances in communication and information technologies have facilitated and accelerated the speed of the flow of new knowledge and reduced the global cost of its acquisition. In the developing countries, the main constraints on acquiring and developing scientific knowledge are apparently relative cost and benefit, the lack of necessary institutions, and the lack of unified goals on the local and state levels.

In the past, many developing countries did not seem to have the resources to deal with important social problems. How could a country with limited resources and soaring budget deficit afford the funding of expensive social programmes: reduce

teacher-student ratios, make college education relevant and affordable, broaden access to health care, improve the quality of urban life, or reduce environmental degradation, all essential programmes for sustainable long-term development? However, when countries' economic conditions improve and resources become available, still nothing happens in most of these countries. The question is why?

There are known and justifiable reasons to blame the external environment for this apparent lack of such fundamental development. But as we argued elsewhere (*ibid*), there is a need for fundamental Internally-Oriented Sustainable Reform (IOSR). As we discussed, the privatisation of risk in financial activities increased risk and made it harder to regulate. It is interesting to note that confidence may be affected by changes in confidence in other similar activities. For example, a bank failure may make people think that there is something wrong with all banks and accordingly distrust their own bank, even if it was the best run institution. This contagious tendency is not confined to the financial sector although it is more evident there. For example, a government failure somewhere may equally induce distrust in all governments. Or, an unproductive performance of labour in a developing country may induce distrust and reduce direct investment in other developing countries. These examples call for more not less investment in sound internal sustainable reform (IOSR).

A main reason for the lack of long-term commitment is the *political* system that is supposed to be cleansed from corruption in the era of transparency in the new global system but has been increasingly driven by big money and short-term financial gains while lacking in the Rule of Law. It is not evident when, or under what circumstances developing countries might embark on the kind of reform that would bring their own ideals to bear on its political system and economy. There is no obvious answer but we may mention some important factors that constrain reform in most of the developing countries.

1. In general, democracy functions best when workers, consumers, and citizens have acquired countervailing power against the might of business and business leaders. In the global environment, that might is external to most countries of the world, especially the developing countries. International business enjoy an inherent advantage because of its hold over technology and finance capital, the wealth at its disposal, the influence in local governments, and the relative ease with which it can organise itself.
2. Political reform in most of the developing countries seems to be self-defeating. The political systems seem to reinforce social and political inequality. In countries where parliamentary systems exist, voters and participants lost confidence in the integrity of the system and become cynical and alienated, thus reinforcing the domination of the same pattern. It is important to limit the role of wealth and concentrated economic and political

power play in the electoral system. The role of isonomy is fundamental for political reform.

3. Alienation towards the political system seems to extend to professionals and experts who are supposed to be committed to the national interest, stand above class, religion or race, and stand for the national interest. This group is losing the trust of normal citizens because of their apparent loss of civic responsibility.
4. The presence of instability is greater among the developing countries than the rest of the world. A situation that contributes to a culture of uncertainty and discouragement. The early sociological theory of progress; success breeds success seems absent in most of these countries. This is partly a lack of long-term vision of sustainable development: quality education, transparency in government, isonomy, and democratic participation are important foundation. The maxim that moral development should be supported, with consistency, at the various stages of the life course, including the conduct of public affairs, should be taken as a necessary foundation for human development.

### **Concluding Remarks**

*First.* It is a main thesis of the present paper, that a major threat to human development in the Twenty-first Century is the adherence of Homo sapiens to outdated cultures. Although Homo sapiens have entered the age of the symbolic cultural evolution thousands of years ago and perfected its symbolism and its implied preference for the resolution of conflict with reason rather than force, they continue to adhere to the pre-symbolic culture of conflict that may have been fit for the age of anatomical evolution of hundreds of thousands of years past. The culture of conflict, hostility, and antagonism seems to prevail in the conduct of modern Homo sapiens, with enormous losses to the potential for human development, especially in the developing countries. Armed with accelerated scientific advances, a culture of hostility and non-cooperation could present even more serious threats to sustainable human development.

*Second.* A major issue in the present global environment is its implied value system: the reliance on market solutions as supreme. It is not evident how a global ethical system may develop in such state to provide a human filter to market outcomes, especially where a “clash of civilisations” is being promoted as inevitable, rather than a rational and reasoned dialogue. In a recent discussion of Poverty [Sirageldin (2001a)], I attempted to apply Naqvi’s four Islamic ethical axioms as a filter to evaluate policies for poverty alleviation. We concluded that Islam views society as a unified entity in which individual freedom and human dignity is supreme although subject to the axiom of responsibility. Within that ethical framework, policies should not develop ‘dependency’, amoral activities, or

lead to the institutionalisation of poverty. Policies based on transfers that do not lift the poor from their dependency status should be avoided except in cases where such shift is not feasible. Based on the conceptual and empirical evidence, some presented in this paper, we concluded that Islamic ethics support a poverty-alleviation strategy based on the principle of *promoting economic growth with productive equity*.

*Third.* Values need to be interpreted with clarity to serve as guide for policy. For example, success in promoting sustainable development may be enhanced by following the *Quraniq* call for preparedness: “Be **Prepared** for **Them** with all your **Strength**.”

I interpret “**Preparedness**” as the development of long-term internal policies (IOSR) with solid commitment, based on continuous study of national and world affairs including science, technology and political developments. And interpret “**Them**” as future uncertainties, including changes in the external environment. And interpret “**Might**” not as much the development of military power, but more basic, the development of equitable human skills, capabilities and opportunities; and transparency and Isonomy in government and governance.

We should not blame the external environment for all our follies. There is a need to continually evaluate our home base and be willing to adapt our institutions to deal with changing knowledge and environment.

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## Comments

### 1.

This is a wide-ranging and erudite essay—on how patterns and modes of global interdependence, combined with the privatisation of risk, influence human development. Professor Sirageldin focuses on the diffusion of technology and its effect on global interdependence, the privatisation of risk and its management, and the changing socio-economic roles of national and local governments. Finally, he attempts to examine the implications of these dynamics for human development in the emerging global environment.

I like the way he de-mythologises globalisation and shows its roots, dating back centuries (to the slave and commodity trade). The present phase of globalisation, though, is more than just a continuity. It is characterised by the expansion of I.T. and multinational corporations.

Prof. Sirageldin claims that for increasing segments of mankind, especially for those at the bottom of the development ladder, evolving patterns of global finance and governance have significant negative consequences for prospects of human development. For example, his assumption appears to be that upheavals in financial markets, and massive volumes of increasingly volatile foreign exchange trading, impact unfavourably on human development.

In the section of the paper dealing directly with human development in the emerging global environment, Prof. Sirageldin focuses on the supply of labour and the emergence of poverty. As others have also noted, fertility decline opens up a window of development opportunity in which the dependency burden declines. This lasts about a generation. The question he raises is: how to produce, over this period, human resources that are internationally competitive? This depends on quality and motivation of future workers. He notes that in terms of educational achievement, only the East Asian countries have excelled. (I believe, however, that we need to think about why they have excelled. We would not necessarily have predicted it 50 years ago as they climbed out of the post-World War II and Korean War malaise.)

His address then moves to some highly speculative discussion about motivation, vision, work ethic, etc. and argues that these have been under strain in many developing countries, mainly as a result of lack of positive development in the economic and socio-political domains. He concludes by arguing that societies with knowledge dominate societies that lack it. Lags in science and technology in the developing societies are associated with a psychology of discouragement, a perception of an unbridged gap of knowledge and, accordingly, a lack of commitment. He argues that a major reason for the lack of long-term commitment is the political system that remains corrupt. Prof. Sirageldin's pessimism reaches a

crescendo here, stressing that political reform in most developing countries seems to be self-defeating. The political systems seem to reinforce social and political inequality.

I see a real resonance here with the recent experience in Indonesia. I have made at least a dozen visits to Indonesia since the Suharto regime fell in May 1998. I witnessed the early euphoria among my Indonesian colleagues, their hope of real political, social and legal reform, replaced by increasing disillusionment and cynicism. The Attorney General admits that 90 percent of judges can be bought; the collapsed financial sector remains unreformed; the political elite squabble among themselves and show no inclination to seize the moment for real reform. There is growing discouragement among ordinary Indonesians, and a fear that the country will disintegrate in a spate of ethnic and religious violence and demands for regional independence.

But even so, that is one country, albeit a major one. Is it appropriate to be so pessimistic about the prospects for developing countries as a whole? There used to be a euphoria about East Asia's prospects, and even today East and Southeast Asia are not doing too badly. India is touted as the up-and-coming I.T. growth area. The lesson seems to be to look for elements of these countries' experience that are relevant for development efforts in those countries that are not doing as well, rather than to accept a generalised pessimism.

As mentioned earlier, Prof. Sirageldin's paper touches on the demography of human resource development. Let me therefore raise one point he does not mention. Projections covering the next 30 years show extreme dichotomies in growth of the working-age population. In Japan, the working-age population will fall substantially, and it will also fall in Europe and barely grow in North America. In many developing countries that have experienced fertility declines, growth of the working-age population will be only modest over the next 30 years. By contrast, in Pakistan it will grow massively. Countries such as Japan will face severe labour shortages. Meanwhile, Pakistan will be struggling to find work for its growing millions. Globalisation in the future may have to incorporate a freeing up of labour markets, not just a freeing up of capital and financial flows. The demographic realities may force countries' hands here.

This could provide a major opportunity for Pakistan to export surplus workers to fill major shortfalls in industrialised countries. But Pakistan's wealth of workers will only be exportable if they are well trained. In the world of the 21st century, poorly trained workers are definitely not an asset. Herein lies the challenge for Pakistan's education and training systems.

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## 2.

To start with one must remember that the title of Professor Sirageldin's paper is not Globalisation but Global Interdependence. These are not necessarily the same thing, even though the author has emphasised convergences. Yet in fairness, the author does underline the diversity of perspectives on globalisation. These divergences cover a wide field, the following three being the main approaches:

- (a) As the sum of all negatives—Extension of Western Imperialism.
- (b) A product of technological advance.
- (c) Global interdependence—anchored in the classical case for free trade and international factor movements. This is the perspective that the author adopts.

In the wider framework of historical development, the course of globalisation has been shaped by the confluence of least six different factors:

1. Conceptual underpinnings provided by the theory of free trade and of optimal distribution of production linked to factor endowments. One could add to this the ability to envision the latent potential and seize opportunities before they surface.
2. Historical experience of import substitution strategies that were characterised by
  - Inefficiency—lack of competitive strength.
  - Creation of rents through the system of regulation of a protected high tariff economy.
3. Interests of the powerful players on the international economic stage. look at the manner in which textiles and agricultural subsidies were handled in the Uruguay Round under the auspices of WTO.
4. Abolition of fixed exchange rates and free movement of capital across borders.
5. The enormous size of the financial markets, beyond the capacity of national policy systems.
6. The growing influence of multilateral institutions.

In the interplay of these factors, global interdependence may not be the dominant factor. Furthermore the term interdependence gives the impression of an

equal or equitable process. This does not correspond to reality. Indeed, globalisation can be seen as a strategy of the North, rather than as a philosophy of universal application, espoused for the world-wide benefits of free trade.

Perhaps a major exception to the constituency factors has been international finance, particularly foreign direct investment, which has moved to areas of a better return on investment and has served to promote growth in the developing countries, thus contributing to interdependence. Another such development is the outsourcing of computer services where cost economies of the developed countries and the export needs of the developing countries seem to converge. Additionally, information technology, has been able to ensure instant transmission of information as well as services, across international border without physical mobility of labour. In this manner, the skilled labour has been globalised.

While the movement of capital has helped the development process in the poorer countries, total reliance on market mechanism has imparted a great deal of volatility and instability to the investment processes. Dramatic reversal of capital transfers had the most adverse effects on human development as in East Asia in 1997-98.

The author devotes considerable space to the discussion on the role of labour in the process of globalisation. The emphasis on the role and pattern of labour springs from the premises of his thesis that "Population dynamics at the local level produce externalities, that radiate to the regional and global level".

However the magnitude and the pattern of this radiation to the global level has not been captured by the author.

In discussing labour, Prof. Sirageldin identifies three relevant areas of labour supply:

1. Quantity.
2. Quality.
3. Mobility.

He then chooses to leave out mobility and elaborates on the other two. He does not indicate the reasons for this exclusion, even though mobility is more relevant to the process of globalisation.

The author has referred to the breakdown of national regulatory capacities, as liberalisation spread worldwide. In fact this is not the reduction of capacity, but the obsolescence of the traditional instruments in a market oriented system. There is a need, not only to rebuild this capacity, but align it to the market system. In this endeavour it is the nature of regulation which is more important, rather than the quantum of regulation.

And the problem is not limited to the national level. The international system must also identify instruments and capacity for reducing the volatility of capital movements and possibly the exchange rates. The current system is highly injurious to economic and social stability and forebodes unforeseen crises for the poor.

Yet another area where the contemporary theology of free market is obstructing policy vision is e-commerce. It is outside the reach of the monitoring systems. It is being left untouched because.

The overall volume is still small.

The enterprises are still not profitable.

Yet there is a case for intervention, not necessarily to regulate it, but to monitor the transactions. The reason is the unevenness of fiscal policy that this phenomenon has generated. It is outside the reach of the taxation system. It therefore enjoys fiscal rentals, for which there seems to be no justification. Indeed many economists have predicted that in the decades to come, the state is going to die of fiscal starvation, because business transaction would shift to e-commerce and go out of the monitoring sphere of the taxation systems.

Another aspect which could have been highlighted is the need for closer interface between the national entities and international systems. The state has not withered away as many had predicted, nor is likely to do so. But the process of globalisation continues to marginalise it. This situation should be brought back to a workable equilibrium. Indeed globalisation can be defined as a process in which policy space is ceded by the national entities to the international systems. These systems have shown signs volatility and instability which can lead to a dramatic reemergence of poverty as happened in Indonesia after the 1997 currency crisis.

Finally the author has rightly emphasised the linkages between the economic systems and the ethical systems. Such a synthesis alone can ensure a sustainable pattern of development and bring in the requisite measure of social stability, which is required for an equitable and therefore sustainable dispersal of the benefits of development.

Such a synthesis has not received attention in the literature on development. This could therefore be the beginning of a long arduous journey on the intellectual path.

When this path is negotiated, there are two important milestones that need to be covered. First the transition of focus from the so-called human resource development to human development, the emphasis being on the outcome rather than the input. One must remember that human beings are more than an input into the developmental process. They are the destination of development. This is not deny the role of human resources but a shift of emphasis in the primacy and priority of the real objectives of development. Secondly we need a change in the way we look at education. Economist have taken pains to establish that investment in education is a viable economic activity and have stressed the fact that financial costs and benefits are positive. In the preoccupation with financial returns they have often forgotten that the main merit of education lies in the fact that it brings human beings closer to the realisation of their full potential. What is even more crucial, it is a great equaliser

of opportunity. Trying to justify it on the basis of financial returns, trivialises education.

This conceptual transition would balance the judgements and improve the accuracy of perceptions. One should live to see the day when such a transition is completed.

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