

Informal Summary
ECOSOC High-level Segment
Official launch of the Development Cooperation Forum

Review of trends in international development cooperation:
South-South and triangular cooperation¹

Palais des Nations, Geneva, 5 July 2007

- Chair:** Hilario G. Davide, Jr., Vice-President of ECOSOC
- Moderator:** Sha Zukang, Under-Secretary-General, UNDESA
- Panelists:** Munir Akram, Ambassador and Permanent Representative of Pakistan to the United Nations in New York and Chair, Group of 77 and China
Supachai Panitchpakdi,
Secretary-General, UNCTAD
Richard Manning, Chair, OECD/DAC
Bjorn Stigson, President, World Business Council for Sustainable Development

Mr. **Munir Akram (Pakistan)** noted that the South is emerging as a bigger player in the world economy. Measured in purchasing power parity, for instance, the share of the world economy stands at about 40 per cent. Similarly, the cooperation between developing countries is increasing, in particular at the regional and inter-regional level. Yet economic growth in the South is uneven with a large number of developing countries, especially the most vulnerable ones, virtually marginalized in the world economy. The statistics on the economic role of the South are still not conclusive and greater research is required to establish the value of developing countries in the world economy.

Three key issues of South-South cooperation were identified: i) political solidarity on issues relating to the world economy and development even though it is evident that countries of the South have not fully evolved their own positions in accordance with their collective interests; ii) taking advantage of the complementarities which have emerged as a function of different levels of development and capacities, e.g. in the areas of trade and technological and financial cooperation; iii) development cooperation and assistance activities between countries of the South with several developing countries and emerging economies able to provide development assistance to other developing countries, including technical and technological assistance. It was emphasized that such cooperation is pursued on an entirely voluntarily basis and not intended to replace traditional North-South cooperation. In addition, a mechanism similar to the Development Assistance Committee of OECD was contemplated in order to coordinate and maximize the efforts as far as development cooperation is concerned.

The potential of triangular cooperation in which resources from the South as well as the North are jointly used to support developing countries was highlighted. It was also noted that the scope for institutionalizing South-South and triangular cooperation could be expanded, including through the General Assembly High-level Committee and the Special Unit on South-South Cooperation, which would also entail building links to the DCF.

¹ Organized in partnership with the Special Unit for South-South Cooperation - UNDP

Mr. **Supachai Panitchpakdi (UNCTAD)** called for clarification on the content and substance of South-South and triangular cooperation while highlighting the rise of the South as part of a new generation of globalization in which a number of developing countries play a larger role. Trade and investment have accelerated within the South with FDI flows among developing countries up from 5 per cent in 1990 to 17 per cent of total FDI flows in 2005. Even though the negotiations under the Doha Development Agenda still need to find a way to conclude, the process illustrates the emergence of the active participation of countries of the South.

It was emphasized that South-South cooperation by no means will remove the importance of North-South cooperation. Instead, a basic characteristic is that South-South cooperation has the ability to support the development effort of those that are left out of the world economy. Most South-South investment tends to concentrate in labour-intensive industries, which helps create new employment, and investments are often greenfield investments that create new activities since they rarely have the capacity to take over or merge existing companies. It was noted, however, that most early investment between developing countries was resource-seeking rather than market-seeking.

Despite growth South-South cooperation still faces challenges with $\frac{2}{3}$ of the total trade volume among developing countries concentrated in Asia. In this regard, it was asked how the numerous regional trade agreements in existence in Africa, Asia and Latin America could be linked in order to diversify this concentration. It was also emphasized that more than 70 per cent of total trade tariffs are paid to fellow developing countries.

In addition, the framework of trade integration among developing countries was not considered effective in part owed to a narrow focus and omission of substantial areas of trade. It was remarked that credibility was at stake with regard to finishing the 3rd round of negotiations of the global system of trade preferences as mandated by UNCTAD XI in Sao Paolo, in particular considering that the 2nd round ended without ratification. Finally, it was noted that while plenty of information on North-South exchanges is available, there is a need to improve statistics on trade and business between developing countries.

Mr. **Richard Manning (OECD/DAC)** emphasized that the added value of the Development Cooperation Forum is its universality and its ability to integrate North-South and South-South processes. The Forum will need close coordination with other international processes, notably the financing for development process and the High-level Forum on Aid Effectiveness in Accra.

Development cooperation has to be seen as only a part of the development process which also encompasses trade and investment. It is recognized that development is fundamentally driven by developing countries themselves, and in this regard development assistance has to be situated as a supportive instrument of domestic efforts and not a substitute. An increasing dilemma, as more developing countries register impressive progress, is that the proportion of the most destitute people are going to be in countries which are not the 'average good performers' and those which are more difficult to reach. A balance would have to be struck between aligning development cooperation to performance and results, while at the same time giving support to the most destitute people.

South-South cooperation is widely held to be an effective form of cooperation because the lessons learned from one developing country to the other are likely to be closer to the experiences of those countries as well as the competitive costs provided by southern producers of goods and services. With regard to ODA, South-South cooperation was at least 25 per cent of total ODA worldwide in the late 1970s. The 80s and 90s showed a decline in the proportion of total ODA provided outside of the OECD/DAC, yet this trends has reversed in recent years.

In order to assist countries in a more increasingly complex aid architecture, more comparable and transparent data is needed on South-South cooperation. It was noted that the value of cooperation is likely to be undervalued and under-recorded. The DCF could be an opportunity to produce a relatively standardized report with figures and analysis which would bring together information on South-South and North-South flows in a consistent manner.

Trilateral cooperation was highlighted though the cooperation between the revenue authorities of South Africa, India and Brazil which are working under the IBSA framework to provide a basis for support to other countries in revenue management and development. It was stressed that trilateral cooperation should demand rather than supply-driven which was illustrated by the less effective approach of offering, for instance, a given number of scholarships which may not reflect the real demand in programme country. It was mentioned that the DCF could research good practices and lessons learned in bringing in northern finance and southern expertise to assist third countries.

Mr. **Bjorn Stigson** (World Business Council for Sustainable Development) emphasized that the role of businesses is to provide goods and services that people want in order to create a profit. Maintaining the business license to operate, innovate and grow requires that this should be done in a sustainable manner. Multinationals were considered to invest outside home markets in accordance in order to: i) gain access to new markets and customers usually which present opportunities for domestic companies to be local partners; ii) build supply chains; and iii) extract natural resources

It was noted that smaller, landlocked countries without natural resources or adequate infrastructure will not be brought out of poverty by investments by global companies. More efficient development assistance will have to support these countries to transition to viable markets. With regular business approaches prohibitively expensive in respect of operating in a number of developing countries, companies are forced to collapse cost structures in order to turn a sustainable profit of conducting business.

The contribution of major businesses to development would have to come through core business activities - and not philanthropy. Companies are attracted by a stable and predictable business environment which reduces the risk for investors. The enabling environment for businesses to turn a profit consists of political stability, rule of law, absence of corruption, well-functioning infrastructure, transport and logistics, educated workforce, efficient custom services and access to resources such as energy and water.

It was argued that business cannot succeed in societies that fail. Governments take a strong interest in creating thriving societies with a business community that include a good deal of domestic small and medium-sized companies. Finally, a call was made for new ways of combining public and private funding.

Mexico stressed the conceptual difficulties with regard to South-South cooperation which also has practical implications. It was also noted that developing countries face different situations which call for a customized approaches. With regard to the formulation of development policies and strategies medium-income countries were considered to be marginalized even though per capita income is poor measure of poverty in a given country.

China recognized that the momentum of South-South cooperation has been increasing in terms of content and number of mechanisms addressing the subject, including the group of 20 in trade and the group of 24 in finance. The scope has broadened from the traditional focus of political security toward new areas such as investment, trade, finance and energy. It was noted that problems persist in South-South cooperation which are also faced by global development cooperation, including the issue of unequal development, and greater coordination between the North and South in terms of development cooperation was called for.

Nigeria asserted that progress in South-South cooperation mainly has been in the increasing platforms of negotiation. The South has been good in collaborating through, for instance, G77, G24 and G15, however the implementation aspect has not followed suit. It was asked why developing countries increasingly are imposing tariffs amongst themselves when this is an impediment to further South-South trade. The countries most ardently promoting information technologies in developing countries can be found among other developing countries such as India and China. It was argued that it is preferable for developing countries to engage in such exchanges with other developing countries considering the lessons learned and the intention of avoiding the continuous use of experts from developed countries.

Sudan remarked that the failures of North-South cooperation has augmented the search for enhanced South-South cooperation and that it has emerged as tool for regional cooperation and integration. South-South cooperation should be situated within development plans of individual developing countries and added emphasis should be given to statistics of South-South cooperation, including South-South trade.

Sri Lanka mentioned that South-South trade is expanding even though it is concentrated in a few countries. The asymmetrical distribution of trade flows was noted and a need to promote trade on an equal basis was expressed. The global system of trade preferences was thought of as useful instrument for the expansion of trade and the intention of concluding the current round was stated.

The **European Community** expressed support for South-South cooperation and integration since it creates economies of scale for trade and investment within and between developing countries; reduces dependence on preferences given by the North; and alleviates the risk of conflicts. It was asked to what extent common regional institutions and mechanisms are needed within regional cooperation organizations in order to provide real economic integration and cooperation; to what extent development cooperation is best delivered at the regional or sub-regional level as opposed to the national level; and in a model of triangular cooperation, to what extent is a lead country, which acts as focal point within a southern region, necessary. It was emphasized that more comprehensive statistics and data on development cooperation between developing countries is crucial in order to maximize the coherence of development cooperation.

Caution was expressed about referring to the South as a monolithic bloc since there is a need to recognize the diversity and differences between developing countries. In this regard, it was noted that the differences faced in the Doha trade round are between developing countries as much as they are between industrialized and developing regions. It was argued that the most clear divide is between developing countries, which are dependent on post-colonial preferences, and other countries which want to see the global economy put on to a more level playing field.

Venezuela encouraged the establishment of a bank for the South with the objective of contributing to the social and economic development of member countries, promoting regional integration and bring about macroeconomic reform which would reduce dependence on external financing. It was noted that all development assistance requires macroeconomic coordination on a global level, yet aid should not be subjected to conditionalities on the part of developed countries or multilateral financial institutions since this constitutes interference in self-determination. It was further remarked that a development strategy must be compatible and commensurate with the particular characteristics, resources and possibilities of a given country.

Benin highlighted the need to better understand the concepts associated with South-South cooperation, including triangular cooperation, and noted that South-South cooperation should not replace North-South cooperation. The ‘monocropping’ of the productive sectors in developing countries as well as subsidies on the part of developed countries were seen as problems.

Kazakhstan remarked that South-South cooperation should be seen as an addition to aid schemes already existing between developed and developing countries. New South-South aid channels have a potential to become an effective development tool given that such aid is provided based on successful experiences of the contributors. It was asked how regional and inter-regional cooperation within the framework of South-South cooperation could be further promoted.

Japan expressed its full support for the promotion of South-South cooperation and offered its contribution in the area of triangular cooperation.

United States welcomed the suggestion put forward by the European Community of having a poll country for each region which would be supported by the Regional Commissions and coordinated by UNDESA. Attention was also drawn to the UN Commission on Science and Technology for Development which was considered neglected and under-funded. It was remarked that funding from aid agencies is sometimes restricted to only helping the poorest of the poor which in effect rules out technology transfer.

India agreed that South-South cooperation is a useful vehicle for the development of capacities within the South. It was noted that developing countries hope to receive strong support from the UN system for South-South and triangular cooperation by bringing in resources from the North for cooperation programmes amongst developing countries. UN entities would be able to make a tangible contribution to South-South cooperation through their operational activities for development by using southern expertise.

South-South trade is rising, yet the full potential should be explored by entities such as UNCTAD. It is important to arrive at a better understanding of the South-South trade which is part of triangular trade patterns that results from production-sharing and slicing up the value-chain. ODA continues to constitute an important source of financial resources for developing countries. Targeted public investment assisted by ODA is required before private investment will allow sustainable and inclusive growth to take place.

Costa Rica offered the conceptual point that even though trade and cooperation may be interrelated, they are not the same thing. Trade takes place based on market incentives, whereas cooperation which could be considered as technical assistance, transfer of technology, training, etc should take place without those and preferably guided by demand. The fact that market incentives may not be present does not mean to say that they should not be looked into. In terms of statistics, it was proposed trade and trade-related data should always be teased out from cooperation.

Honduras noted that it is important for the Bretton Woods institutions to provide support for South-South cooperation, including trade, yet that these institutions are somewhat inflexible toward the least developed countries in terms of financial controls and systems. The World Bank was faulted for not sufficiently promoting microenterprise and it was noted that without financial assistance there cannot be improvements or development in trade. The world trade system was considered inequitable and it was contended that the least developed countries do not have opportunities for market access because of the obstacles imposed by developed countries in the form of subsidies to their economies and high tariff rates.

South Center considered South-South cooperation an increasingly important component of global development cooperation, particularly in the areas of trade, investment, technology transfer and negotiations in international economic institutions. It was asked to which extent global development cooperation may be able to support southern institutions and multilateral institutions, such as UNCTAD, to assist developing countries in promoting development cooperation on a North-South and South-South basis; to which extent South-South regional integration approaches can be used as a development cooperation approach on a global level; and to which extent the coherence of economic and development

policies play a role in terms of enhancing the development benefits of development cooperation, especially in the areas of trade, finance and debt.

Mr. **Munir Akram (Pakistan)** noted that within the international system, South-South cooperation should be pursued from a South-South platform. In addition, elements of South-South cooperation should be supported through the UN system which would require strengthened internal mechanisms and synergies between South-South cooperation and the ongoing development activities of the UN should be utilized.

Mr. **Supachai Panitchpakdi (UNCTAD)** concurred with the call for improved cooperation with the Regional Commissions. It was also hoped that with better cooperation among developing countries progress in the trade facilitation discussion under the Doha Development Agenda would be possible. On the suggestion that a lack of complementarity among goods exported from developing countries could be seen as a cause for protectionism, it was noted that protectionist level on manufactured good from the South has always been high. Emerging trade among developing countries, however, is shifting away from agricultural products to more manufactured goods which promises a larger degree of complementarity of trading patterns. Finally, the support for the Commission on Science and Technology for Development was welcomed.

Mr. **Richard Manning (OECD/DAC)** emphasized that the fundamental test for the DCF will be to define a feasible agenda and be clear on how broad to define development cooperation. In addition, it was stressed that statistics are fundamental to analysis and without a better handle on what is going on in international development cooperation it will difficult conduct an effective analysis.