UN LDC IV

OHRLLS

Background Paper

"Harnessing the Positive Contribution of South-South Co-operation for Least Developed Countries' Development"

New Delhi, 18-19 February 2011

Table of Contents

Figures

Tables

1. BACKGROUND

1.1 Transformation of South-South Relations

South-South Cooperation (SSC) refers to cooperation activities among the developing countries on the basis of solidarity in a number of areas, including trade and investment, financial, technical and technological cooperation and the sharing of knowledge, experiences, policies and best practices. Its history dates back to the post-war decolonization period, particularly to the Asian-African Conference (Bandung Conference) held in Indonesia in 1955, followed by the formation of the Non-Aligned Movement (NAM) in 1961 and the Group of 77 (G77) in 1964.

Until the 1980s, South-South trade and economic cooperation represented more a political aspiration than an economic reality as most countries of the South were at similar levels in terms of their development status, productive structure, export-import baskets, investment and technological innovation with natural resources and low cost labour endowments as their only comparative advantage. The South remained largely at the periphery of the global economy with major concentrations in commodities and raw materials in their export baskets. The developed countries maintained their position at the "centre" with concentrations in finished goods and high-tech capital machineries. Moreover, economic relations among the South were characterized by competition rather than complementarity and meagre intra-South trade and investment opportunities, particularly in commodity markets. By contrast, trade, investment, aid and technological cooperation and inter-dependence between the South and the developed countries continued to grow robustly.

Up to the 1980s, cooperation activities among the South centred on emerging regional and sub-regional arrangements towards economic integration, trade and cooperation on political matters such as the Central American Common Market, the Central African Customs and Economic Union, and the Association of South East Asian Nations. At the global level, the UN established the United Nations Conference on Trade and Development (UNCTAD) in 1964 to assist the South in the area of trade policy and promotion. The Commission for Science and Technology and the UN Fund for Science and Technology in Development (UNFSTD) were also established. In 1972, the UN General Assembly set up a Working Group to examine ways of intensifying technical cooperation among developing countries (TCDC). This led to the establishment in 1974 of a Special Unit within UNDP to promote TCDC (SU/TCDC)[1].

During the last two decades, there has been an accumulation of development experience and wisdom in developing countries about what works and what does not work and what are the constraints and lessons learned. Many developing countries have developed substantial knowledge and acquired capacity and experience in setting up dynamic institutions for social and economic management, as well as for science and technology development and environmental management. There is now the potential for the sharing of experiences among the South, with development-replicating value, through South-

[1] The history and urgency of South-South Cooperation in Science and Technology by JOHN F.E. OHIORHENUAN AND AMITAV RATH

South Cooperation. Examples of some success stories are the "Bolsa Familia" hunger alleviation programme of Brazil, the National Food for Work Programme of India, and central regulatory and liberalization policies followed by China. Some of these are potentially useful practices to be replicated in other countries.

The 1990s and 2000s have seen major economic change in the rise of the global South with countries like China, India and Brazil, among others, emerging as manufacturing, services and agricultural powerhouses globally and spawning regional and global TNCs. Their rise represents a major structural change in their economies with diversification into all key areas of international production and trade. The South has moved more to the centre of international trade, investment and production and thus attained the goal that Raul Prebisch, development visionary, emphasised over 40 years ago of moving from the periphery to the centre of world trade.

The Southern countries and their enterprises have acquired finance, capital and technological and technical capacities to be able to produce and trade whilst leveraging their low labour cost advantage vis a vis the traditional developed country production locomotives. Southern enterprises not only trade at the national and regional levels, but have also established footprints at the global level. The dynamic South is also developing global brand equity, especially in specific areas of manufacturing, services and agriculture. Furthermore, in critical areas such as food and energy security, these developing countries are becoming major players as producers and consumers in global markets.

Developing countries have now become regional and global engines of international trade growth by virtue of a massive up-scaling of their productive capacities, in terms of both scale and quality, under the influence of changing structural diversification in their economies and trade. A similar pattern has emerged in international investment flows, suggesting the possible emergence of a new geography of international investment relations with developing countries attracting unprecedented levels of FDI and themselves becoming exporters of capital and outward FDI to both developed and other developing countries.

With rapidly rising, outward-oriented development strategies, significant complementarities have emerged, particularly between LDCs and emerging developing countries. This has created a complementarity-competitiveness continuum. Complementarities allow individual developing countries to identify and exploit niche comparative advantages in the production of certain goods and the supply of specific services in regional and interregional Southern markets. New divisions of labour are being created across-the-board in South-South trade in agriculture, manufacturing and services, including in the context of regional and global production and distribution chains, and these are now self-reinforcing. This is occurring across a wide range of products, including natural resources, intermediate goods, consumer goods, and low- and high-tech products, and across a range of prices and levels of product differentiation and specialisation.

Importantly, under these regional supply chains the countries with less advanced product structures assume labour intensive manufacturing and services activities that feed into the supply chains of more advanced regional partners, as the latter shift their focus to more sophisticated manufacturing and services over time. For example, MERCOSUR and ASEAN have had a substantial impact on the expansion of trade in specific sectors among member States, and subsequently between them and the rest of the world.

1.2 Context of South-South Cooperation

South-South cooperation is a much broader and deeper concept than that of Northern donor aid. Not only does it encompass financial flows, such as loans and grants for social and infrastructure investment projects and programmes, but it also embraces cooperation through experience sharing, technology and skills transfer, preferential market access and trade-oriented support and investment, transmitting and stimulating similar kinds and levels of development, generating employment and building capital and capacity.

Two major United Nations Conferences on South-South Cooperation have aptly identified the importance, basic parameter and scope of South-South Cooperation. The First Conference was held in Buenos Aires in 1978 and produced a Plan of Action which provided a conceptual underpinning and practical guidelines for realizing the objectives of technical cooperation among developing countries. The main objective of the Buenos Aires Plan of Action was to promote and strengthen collective self-reliance among developing countries through exchanges of experience, the pooling, sharing and utilization of their technical resources, and the development of their complementary capacities.

The High Level United Nations Conference on South-South Cooperation held in Nairobi in 2009 highlights the growing political and economic ties within the developing world, as countries from the South assume leading roles in addressing vital global issues, ranging from economic recovery to food security and climate change.

The Nairobi Conference defines the basic parameters of South-South Cooperation. It stipulates that “South-South cooperation is a common endeavour of peoples and countries of the South, born out of shared experiences and sympathies, based on their common objectives and solidarity, and guided by, inter alia, the principles of respect for national sovereignty and ownership, free from any conditionalities. South-South cooperation should not be seen as official development assistance. It is a partnership among equals based on solidarity”.

The Nairobi outcome also acknowledges “the need to enhance the development effectiveness of South-South cooperation by continuing to increase its mutual accountability and transparency, as well as coordinating its initiatives with other development projects and programmes on the ground, in accordance with national development plans and priorities”. It recognizes that the impact of South-South cooperation should be assessed with a view to improving, as appropriate, its quality in a results-oriented manner”.

1.3 Recent Phenomena of the Emerging South and its Promising Prospects

In recent years, substantial changes have taken place at the global level in the control and distribution of resources and in the capabilities and needs of nations. The rapid growth of emerging economies has led to a shift in global economic power. A number of developing countries are now playing an incredible role in global economic growth through trade, investment and technical and technological cooperation. As a result of these changes, the expansion of international relations and co-operation and the interdependence of nations among the countries of the South are progressively increasing.

According to the OECD[2], economic and political power has been shifting towards the developing world and emerging economies due to high and sustained growth rates in large developing countries, particularly the Asian giants of China and India and Latin American giant Brazil. The economic and financial crisis is accelerating this longer-term structural transformation in the global economy.

The world is recovering from a severe economic recession. However, different countries are recovering at different paces. The recovery is slower in developed countries, while much faster in emerging and developing economies. According to a recent IMF report[3], developing countries as a whole are expected to grow at 6.5 per cent in both 2011 and 2012 compared to global growth of 4.4 per cent in 2011 and 4.5 per cent in 2012. The advanced economies will grow 2.5 per cent on average in each of the next two years.

Following the recent economic and financial crisis, new phenomena have emerged in the international trading system, such as new production, new sources, new markets and new factors of production. Developing countries are drawing benefits from these new opportunities.

Longer-term forecasts suggest that today's developing and emerging countries are likely to account for nearly 60% of world GDP by 2030[4]. While the 1990s was a lost decade for much of the developing world, growth rates picked up significantly in the 2000s. It is now possible that the economy of China will become as big as the US by 2027 and the BRICs as big as the G7 by 2032. China has already overtaken Germany and Japan to become the world's second-largest economy. The Indian economy is expected to overtake the United Kingdom and Japan by 2035, making it the world's third largest economy after the US and China. Brazil will overtake France and Britain to become the world's fifth-largest economy by 2025 at the latest. These projections are based upon the consistent high economic performance of these countries.

[2] OECD publication on Perspectives on Global Development, 2010, dated 16 June 2010 ISBN Number:9789264084650

[3] IMF World Economic Outlook, October 2010

[4] The Long-Term Outlook for the BRICs and N-11 Post Crisis, December 2009, Goldman Sachs, http://www2.goldmansachs.com/ideas/brics/long-term-outlook.html

1.4 Areas of Cooperation

The countries of the South are a tremendous source of tested solutions to development challenges faced by developing countries including the LDCs. They offer new sources of ideas, models and practices for LDCs and thus provide major additional opportunities

It is remarkable that the countries of the South are at the centre of the new geography of international trade as producer, trader and consumer in global markets. The new dynamism of the South is vividly manifested in increased trade and investment flows. For example, developing countries' exports to the world grew from a mere 600 billion USD in 1995 to 3.14 trillion in 2008, and now represent nearly 40 per cent of global merchandise exports[5].

The new dynamism of the South has also been evidenced by increased South-South investment, transfer of technology and enterprise-level interactions. For example, flows of foreign direct investment (FDI) from developing nations hit a record 300 billion USD in 2008. South-South FDI flows peaked at 187 billion in 2008, representing 14% of the total global, up from 12 billion in 1990 (4% of the total global flow). The LDCs have been major recipients of FDI inflows from other developing countries— accounting for 40 per cent of total FDI from developing-countries[6].

Furthermore, an increasing number of emerging economies and developing countries have become important sources of development cooperation finance and technological and technical support for the LDCs. China, India Brazil and South Africa in particular have become important sources of development finance.

Developing countries have developed new technologies, technical know-how and competencies in a number of areas including renewable energy, genetic engineering and biotechnology, electronics and semiconductors, and information and communication technology. They are also exporting capital intensive products and capital machineries to other developing countries. These technologies and technical know-how could be transferred to, and replicated in, other developing countries.

However, the LDCs face considerable challenges which militate against the benefits of South-South cooperation. Despite rapid progress in South-South cooperation in scale, scope and dimension, there are limitations also, as the emerging and middle income countries themselves face huge challenges in terms of a high prevalence of poverty, malnutrition, and unemployment, serious deficits in infrastructure and productive capacities and the impact of external shocks. North-South cooperation remains critical in this regard. However, South-South cooperation assumes a significant additional and value-adding role.

1.5 South-South Cooperation and LDCs

Though countries of the South have been showing extraordinary economic performance, the progress among them is uneven. The LDCs, with some modest progress in socio-

[5] UNCTAD Stat
[6] UNCTAD Stat

economic fields, remain at the bottom of the development ladder. While old challenges, such as massive poverty and malnutrition, high population growth, huge unemployment, the menace of deadly diseases and conflicts are widespread in LDCs, new and emerging ones such as food and energy crises, the financial crisis and climate change have further threatened their development prospects. These phenomena necessitate additional and renewed global support for LDCs, both from the North as well as from the South, through South-South cooperation.

Due to rising complementarities between the exports of LDCs and other emerging developing economies, LDCs' engagements with other Southern countries are rising rapidly. There have already been some development-transmitting and development-replicating impacts on LDCs.

The partnership supports received by LDCs from the traditional donors are far from adequate. Given the rising challenges, both old and new, that LDCs have been facing, a lack of adequate resources to be mobilized domestically, and insufficient support from donor countries, increased development cooperation support from the countries of the South can be an important compliment to the development needs of LDCs.

There have been three Programmes of Action for LDCs in which the role of the South had been limited as the South did not have adequate capacity to support LDCs. The Third Programme of Action (Brussels Programme of Action) for LDCs recognized the role of South-South cooperation, as well as sub-regional and regional cooperation, for LDCs' development. This PoA however, could not fully anticipate the massive recent growth in South-South development cooperation.

The emergence of the global South has the potential to be a force-multiplier for LDCs' development. Despite much potential, the LDCs are yet to benefit fully from South-South cooperation. Moreover, they lack the necessary supply capacity to take advantage of increasing opportunities offered by South-South cooperation. It is therefore important to adopt renewed support and cooperation mechanisms to enable LDCs to reap the full benefits offered by South-South cooperation.

A South-South cooperation strategy focused on a number of key thrust areas, identified for and by LDCs in the new Programme of Action, could be considered in order to consolidate and expand the transformation that is taking place in South-South trade, investment and economic cooperation. This would enable the South to play the role of a genuine partner for sustained economic growth, diversification, employment and poverty reduction in the South itself and in the rest of the world.

2. SOUTH-SOUTH TRADE

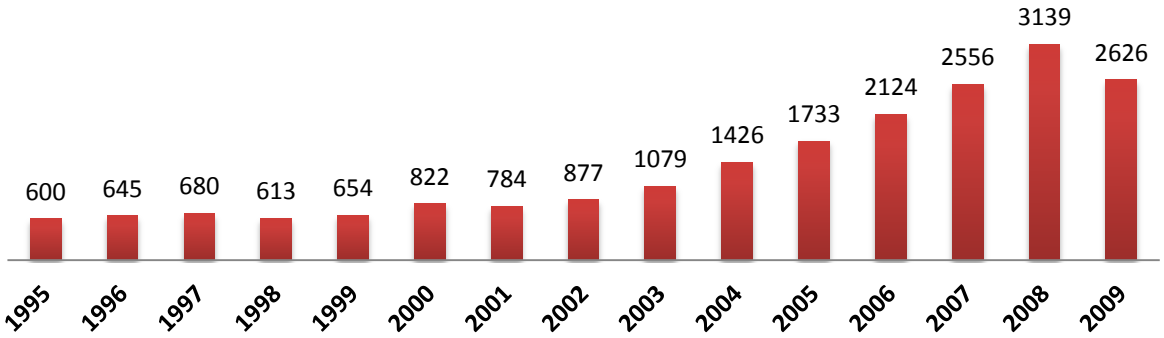
2.1 Trade Trends

South-South trade has become one of the most dynamic components of international trade. Trade among the South continues to rise in both absolute and relative terms. WTO figures show that South-South trade accounted for 16.4 percent of the 14 trillion USD in total world exports in 2007, up from 11.5 percent in 2000.

The South-South trade boom is dynamised by a few regional and global players wherein China remains pre-eminent, but increasingly, other countries like India, Brazil and South Africa are contributing to this process. Southern enterprises and Southern TNCs are increasingly going global, including to other Southern countries, and providing a Southern face to trade-driven globalisation, thus opening new avenues of South-South trade and investment.

What is interesting in the new trade dynamic of our times is that Northern TNCs have and are continuing to play an important role in promoting South-South trade. Through their web of intra-industry and inter-industry production and distribution chains across the South, they have created new South-South investment and trade linkages whilst also deconstructing old ones. Global, regional and South-South cumulation by some Northern countries' GSPs, and other preferential schemes in favour of developing countries and DFQF market access for LDCs, have also helped this process. The more these kinds of schemes are offered by Northern countries, the higher will be the contribution of the North to the economic development of the South.

Figure 1: Total South-South Merchandise Exports (USD billions)

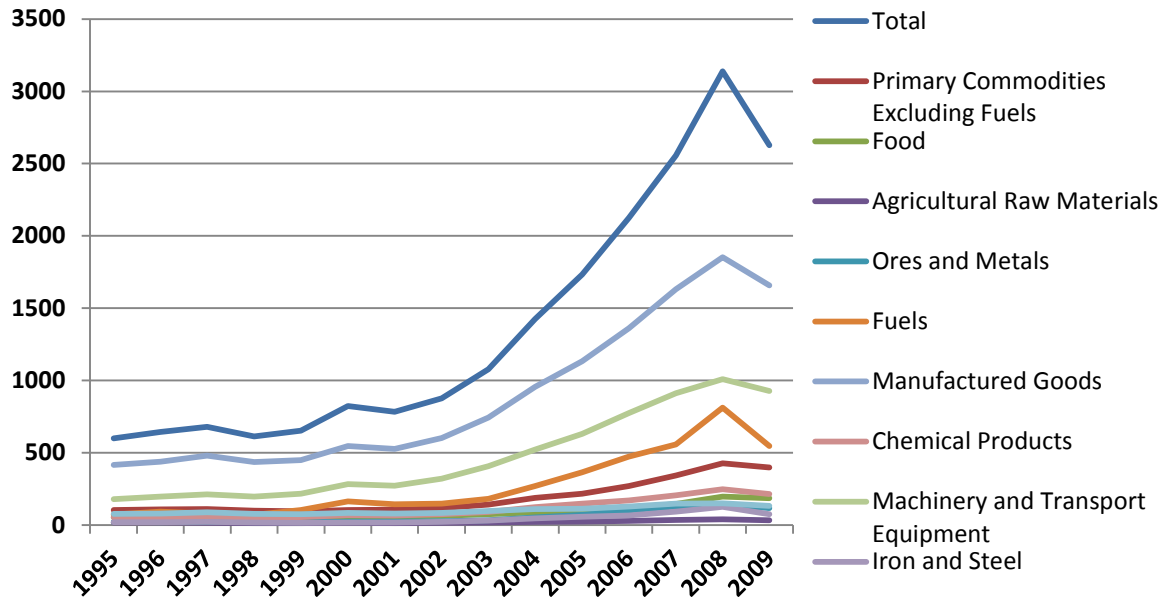


Source: UNCTAD Stat

Trade among developing countries offers wide scope for specialisation and efficiency gains. South-South merchandise trade has grown on average at an impressive rate of 12.5% a year, compared with 7% for North-North trade and 9.8% for North-South trade. The total volume of South-South Merchandise trade rose from 600 billion USD in 1995 to nearly 3.14 trillion in 2008 (Figure 1). This fell to 2.63 trillion in 2009 due to the economic impact of the financial crisis. The role of emerging countries as a source of post-crisis trade dynamism is expected to increase while demand from many developed countries remains depressed in the short run.

South-South trade is now more diversified with manufactured goods constituting the largest share and growing rapidly. In 2008, out of 3.14 trillion USD in South-South trade, 1.85 trillion was in manufactured goods, 1 trillion in capital machinery and 813 billion in fuels (Figure 2).

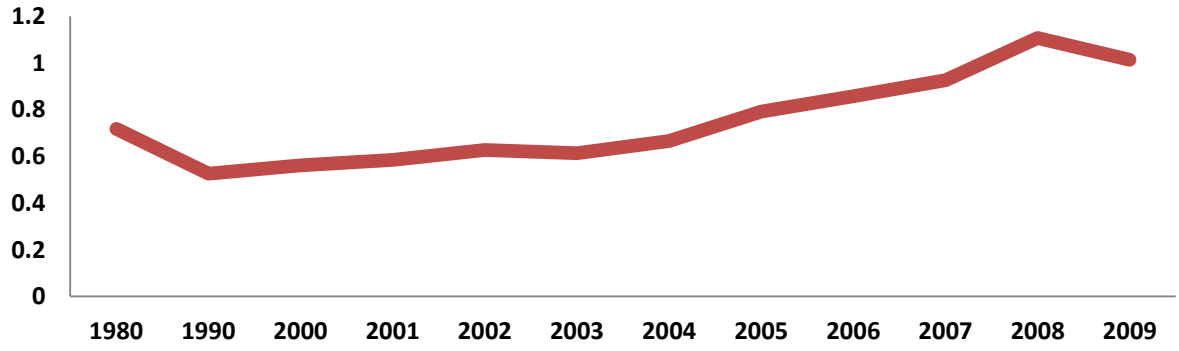
Figure 2: South-South Merchandise Exports in Selected Sectors (USD billions)



Source: UNCTAD Stat

South-South merchandise trade displays a significant geographical concentration in developing Asian countries. What is more, South-South trade mostly involves upper-middle- and lower-middle-income countries which account for between 3% and 5% of total world trade, while LDCs make up barely 1% of total world merchandise exports (Figure 3).

Figure 3: LDC Percentage of World Merchandise Exports

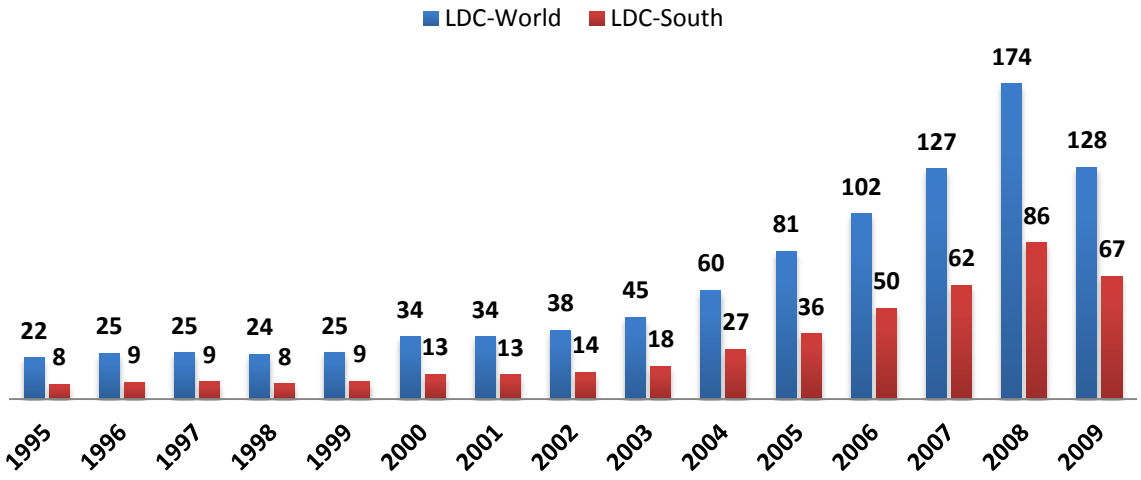


Source: UNCTAD Stat

During the past decade, LDCs have seen a gradual improvement of their share in world merchandise trade. In 2009, LDC exports accounted for nearly 1 per cent of world merchandise trade, up from only half of one per cent when the BPOA was adopted in 2001. The share of LDCs in commercial services has also marginally improved from 0.4 per cent in 2001 to 0.5 per cent in 2008. Market access opportunities for LDCs have also significantly improved during the last decade with LDCs' developed trading partners adopting or improving their preferential schemes for LDCs. This has helped attain DFQF market access for LDC products – a shared goal of the UN and WTO Membership.

In 1995, LDC merchandise exports were worth 22.93 billion USD, of which 8.05 billion was exported to developing countries. Total LDC exports increased to 174.41 billion, representing a 760 percent growth. Exports to the countries of the South have risen to 86.46 billion, representing a 1074 percent growth (Figure 4).

Figure 4: LDC Merchandise Exports to the World and to the South (USD billions)



Source: UNCTAD Stat

One of the major difficulties that LDCs face in exports is their narrow product base, which makes them highly vulnerable to volatility in commodity market prices. For the year 2009, out of 128 billion USD in exports, 68 billion came from the export of fuels, 30 billion from primary commodities, 11 billion from foods and 4 billion from Agricultural products.

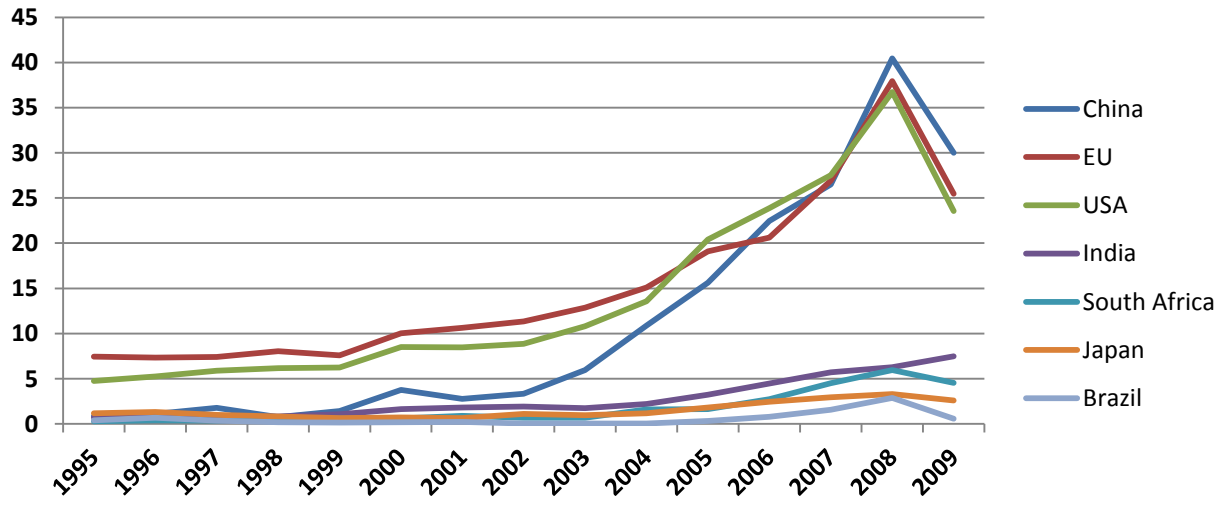
Developing countries have increasingly undertaken market access schemes for LDCs, providing a significant degree of DFQF market access to LDC products. India, in April 2008, announced its Duty Free Tariff Preference (DFTP) scheme for LDCs. The scheme provides for a Duty Free List with DFQF market access on 85% of tariff lines and a Positive List including 9% of tariff lines with tariff concessions ranging from 10% to 100%.7 In May 2009, Korea informed members that it had been offering LDCs duty-free

[7] WTO Report. WT/COMTD/M/69.

market access for 80 per cent of all national tariff lines and was considering the expansion of its duty-free product coverage[8].

At the Seventh WTO Ministerial Conference held in December 2009, Brazil announced that it would grant DFQF market access to LDCs, covering 80 per cent of all tariff lines by the middle of 2010, and thereafter, the DFQF access for all tariff lines would be integrated over a period of four years. China announced that zero tariff treatment would be further phased-in for 95 per cent of products from African LDCs having diplomatic relations with China, starting with 60 per cent of products in 2010.[9] All these initiatives have resulted in significant increases in exports to developing countries. China has been the largest export destination of LDCs. In the year 2008, LDCs' exports to China totalled 40.46 billion USD, to the EU37.94 billion, to the US 36.73 billion, to India 6.28 billion, to South Africa 5.95 billion, to Japan 3.28 billion and to Brazil 2.86 billion.

Figure 5: LDC Merchandise Exports to Selected Destinations (USD billions)



Source: UNCTAD Stat

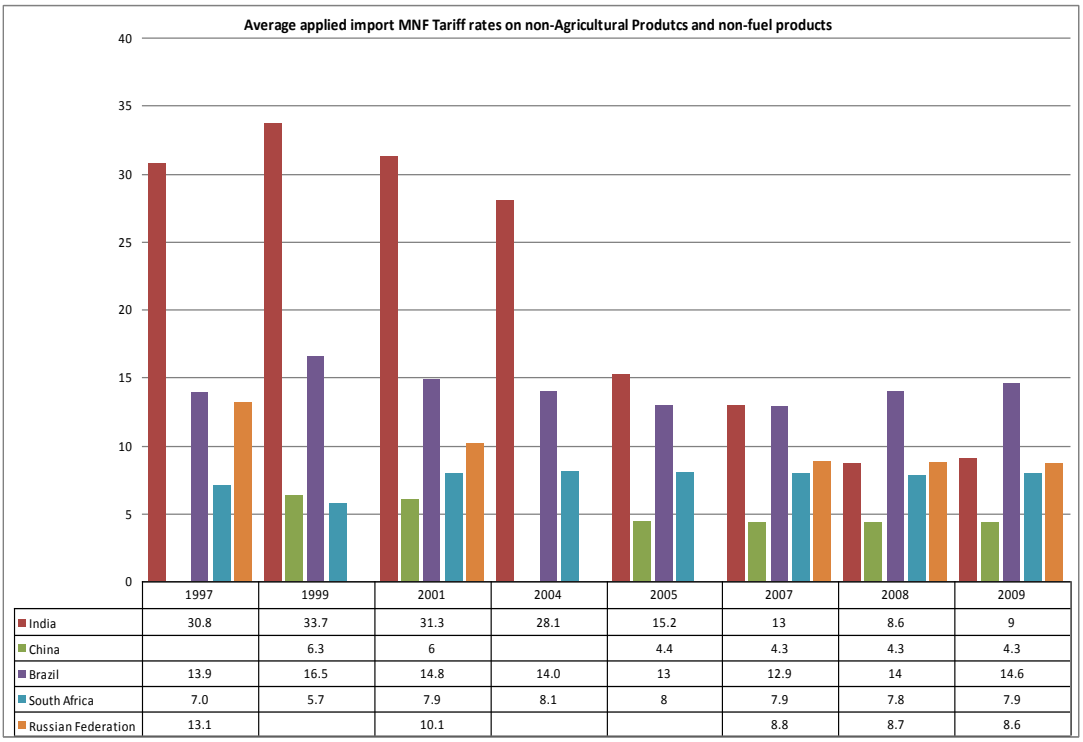
In order to continue to provide legal cover for such preferential treatment provided by developing countries, WTO Members, in 2009, adopted the extension of the waiver concerning preferential tariff treatment for LDCs until 2019. This will continue to allow developing countries to provide preferential tariff treatment to products of the LDCs without being required to extend the same tariff rates to like products of any other Members.[10] This is expected to further encourage developing countries to establish preferential schemes for LDCs and to further strengthen South-South cooperation in trade.

[8] WTO Report. WT/GC/M/120.
[9] WTO Report. WT/COMTD/M/77.
[10] WT/L/759.

2.2 Constraints

South-South merchandise trade faces tariff and non-tariff barriers. Lack of trade capacities and high transportation costs cause additional barriers to trade. Individual tariff rates vary widely across the South (Figure 6), and the poorest countries tend to be those with the highest tariffs. At present, barriers to South-South trade are higher than those governing Southern trade with other partners, and distance-related costs are higher. OECD research shows that the potential benefit from freer South-South trade may indeed be at least as large as the gains that developing countries can obtain from better access to rich countries' markets (North-South trade)[11].

Figure 6: Average Applied Import MFN Tariff Rates on Non-Agricultural and Non-Fuel Products



	1997	1999	2001	2004	2005	2007	2008	2009
India	30.8	33.7	31.3	28.1	15.2	13	8.6	9
China		6.3	6		4.4	4.3	4.3	4.3
Brazil	13.9	16.5	14.8	14.0	13	12.9	14	14.6
South Africa	7.0	5.7	7.9	8.1	8	7.9	7.8	7.9
Russian Federation	13.1		10.1			8.8	8.7	8.6

Source: OECD Policy Brief, 2006

LDCs have not been able to make full utilization of market access schemes offered by developing countries. The information available from developing countries on existing preference schemes for LDCs is limited. The analysis of market access conditions in developing countries needs to study the treatment actually received by LDC exports to these markets, mostly on an MFN basis[12].

2.3 Global System of Trade Preferences (GSTP)

The GSTP, originally established in 1989 among member states of the Group of 77, provides a framework for the exchange of preferential tariff concessions and other

[11] South-South Trade: Vital for Development, an OECD Policy Brief, August 2006

[12] WTO paper on "Market access for products and services of export interest to least-developed countries", WT/COMTD/LDC/W/48 1 October 2010

cooperation measures, such as non-tariff barriers, to stimulate trade among developing countries. Recently, Ministers from developing country parties to the GSTP reached a milestone agreement to give a strong boost to South-South trade by bringing the Sao Paulo Round of GSTP negotiations to a successful conclusion. The negotiations, known as the Sao Paulo Round, were launched in 2004 on the occasion of the UNCTAD XI quadrennial conference in Sao Paulo, Brazil. There are 43 parties to the GSTP.

The Sao Paulo Round broadened product coverage to 47,000 tariff lines and deepened tariff cuts, and will provide significant benefits for the expansion of South-South trade. The parameters of the tariff-cutting formula were agreed at a ministerial meeting held in Geneva in December 2009, slashing tariffs by 20 per cent on at least 70 per cent of dutiable products exported within this group of countries.

There has been a massive growth of intra-GSTP trade in the last decade. This demonstrates increased complementarity in trade among GSTP members. Intra-GSTP tariff cuts will enhance exports among GSTP members within each region as well as inter-regionally. UNCTAD suggests that intra-GSTP tariff cuts of 20% would generate export gains of 8 billion USD[13].

2.4 Regional Economic Cooperation and Integration

Regional economic integration, including through bilateral and regional trade agreements (RTAs), has been making significant contributions to expanding trade and investment among those countries. Regional arrangements offer important possibilities to enhance economic space, attract FDI to the region on better terms, and pool the economic, human, institutional, technological and infrastructural resources and networks of participating countries. It allows domestic firms to learn how to operate internationally and achieve economies of scale. It enables diversification of exports and it entails lower adjustment costs than integration with high-income developing or developed countries.

In recent years, as complementarities among the countries of the South have emerged, the potential for mutual benefits has also increased. Regional synergies can be created through joint-investment infrastructure projects and/or through the regional division of labour. Some of these arrangements, such as MERCOSUR, have had a substantial impact on the expansion of trade in specific sectors among participating countries, as well as between these countries and the rest of the world. Regional trade cooperation can also enable several countries to take advantage of a regional division of labour, based on the "flying geese" model, whereby less advanced countries fill simpler manufacturing sectors as the more advanced economies shift to increasingly sophisticated manufacturing and services activities. Critically, those specialising in simpler sectors must also be enabled to progress.

Interregional trade has also been growing. Increasing agricultural exports from Argentina and Brazil to China, Chinese manufacturing exports back to these countries and the launching by India, Brazil and South Africa of a process towards interregional cooperation are among recent indications of significant developments in interregional

[13] GSTP Trade: Current Trends and Implications of Intra-GSTP Tariff Reductions, UNCTAD

trade in the years to come. Most developing countries — including LDCs — are increasingly participating in regional integration. However, the relatively small size of these economies means that RTA partners gain much smaller export markets and that the resources available for common projects are limited, even when they are pooled.

Changing transport practices and patterns, together with developments in world trade, have been at the source of spectacular growth in demand for port logistics services. The emergence of practices such as the hub and spoke system of port connectivity – with its resulting need for trans-shipment operations, multimodal transport and door-to-door operations – has changed the role of sea ports, transforming them into critical nodal points linking national and international transport systems.

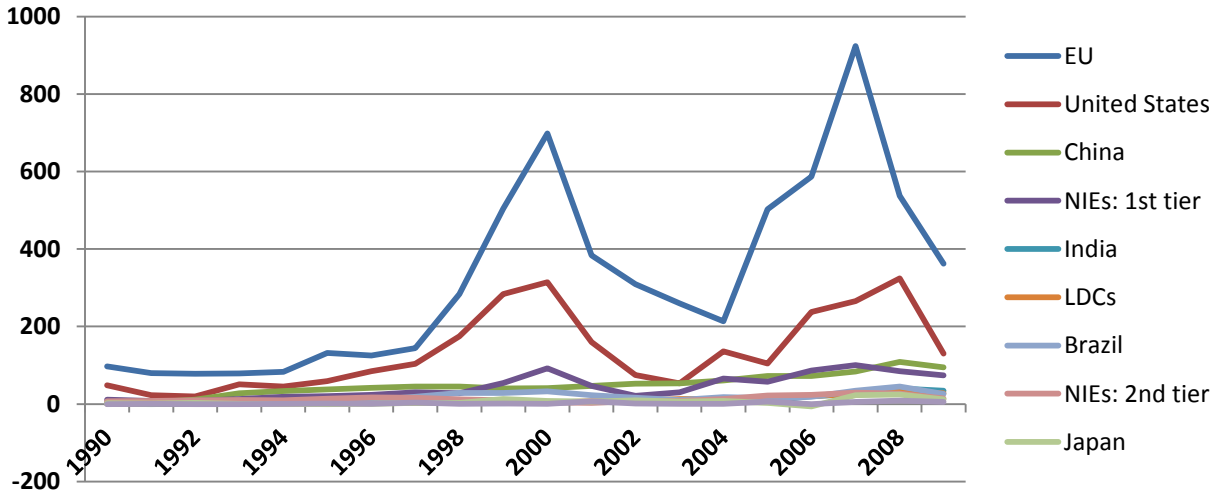
3. SOUTH-SOUTH FOREIGN DIRECT INVESTMENT

FDI is both a consequence and a force of globalization and regional integration. FDI can facilitate substantial employment opportunities, knowledge and technology transfer, and other positive spillovers that lead to sustained economic growth in host locations. It can contribute greatly to industrial development through the provision and transfer of capital, technology, expertise and other resources which enhance productive capacity and help facilitate the industrial development process[14]. It can assist host locations to diversify into sectors that are more technology- and skill-intensive, thus reducing vulnerabilities arising from concentration and dependence on exports of primary commodities. When channelled effectively, FDI can have a powerful developmental effect.

3.1 FDI Trends

FDI flows, both inward and outward, have traditionally been concentrated between the developed 'triad' of North America, Europe and Japan. While these flows remain overwhelmingly dominant, FDI has more recently been associated with the newly industrializing countries of East Asia and now with the emerging economies, especially China and India, South Africa and Brazil (Figure 7). China took 8.5% of inward flows in 2009 at 95 billion USD, up from 1.6% in 1990. India took 3.1% and Brazil 2.3%, up from 0.1% and 0.47% respectively.

Figure 7: FDI Inflows to Selected Countries and Regions (USD billions)



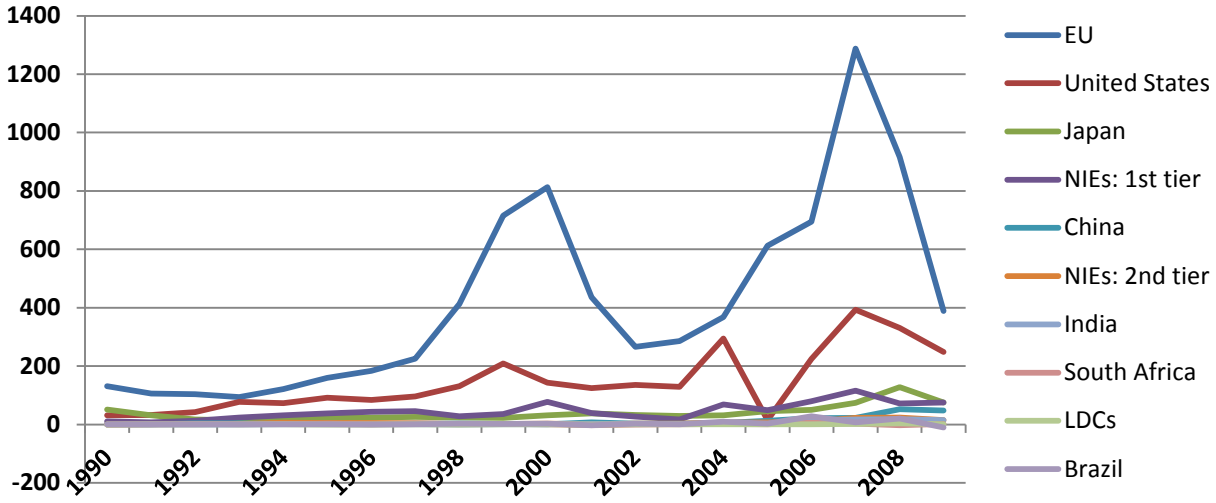
Source: UNCTAD Stat

Recent outward FDI flows from countries of the South are of particular significance to the South-South cooperation agenda (Figures 8 and 9). China's outward FDI stood at 48 billion USD in 2009 (4.3%), up from 0.8 billion USD in 1990 (0.34%). India sent 14.8 billion USD in 2009 (1.35%), up by over 500-fold from 1990.

[14] UNCTAD 2010 'Strengthening Productive Capacities: A South-South Agenda'. *www.**unctad**.org/templates/Download.asp?docid=14314&lang=1*

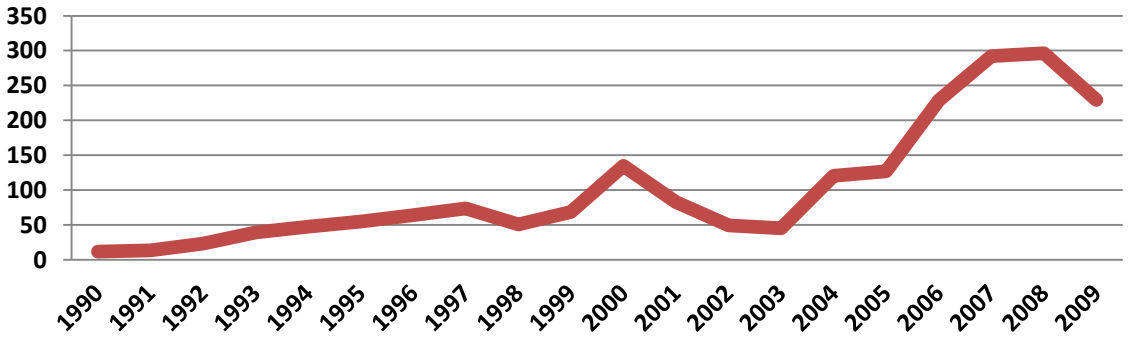
These figures are a reflection of the new geography of economic development, facilitated by significant change in national domestic industrial policies and industrial development, the liberalisation of political and economic borders and the proliferation of free trade. The newly industrialising and emerging economies have benefited from industrial policies that mobilise FDI as a transformational resource in industrial development.

Figure 8: FDI Outflows from Selected Countries and Regions (USD billions)



Source: UNCTAD Stat

Figure 9: FDI Outflows from the South (USD billions)



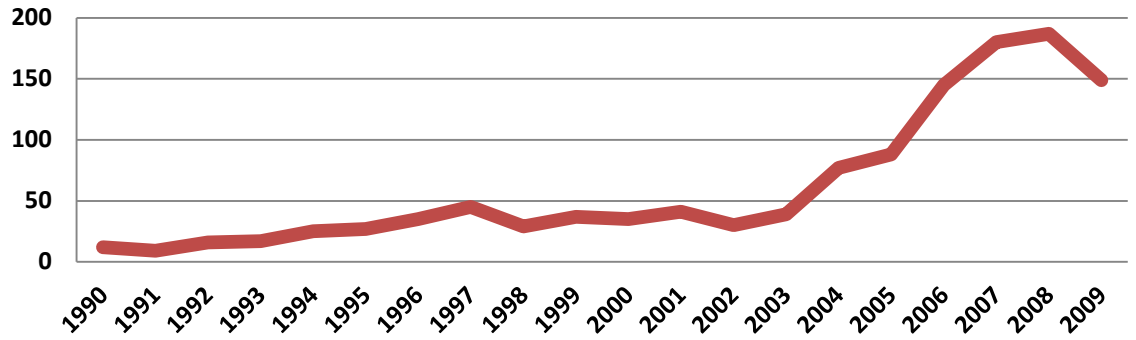
Source: UNCTAD Stat

3.2 South-South FDI Flows

Recent growth in south-south FDI is highly significant and encouraging. Annual south-south FDI flows have increased greatly from around 12 billion USD in 1990, peaking at 187 billion USD in 2008 (Figure 10). This fell to 149 billion USD in 2009 as economic fallout in the real economy followed the global financial crisis. Following a significant fall after the 1997 Asian Financial Crisis, South-South flows as a percentage of world total have grown again substantially from a low of 4% in 1998 to 14% in 2009, seemingly as yet unaffected by the recent global financial crisis (Figure 11). While TNCs

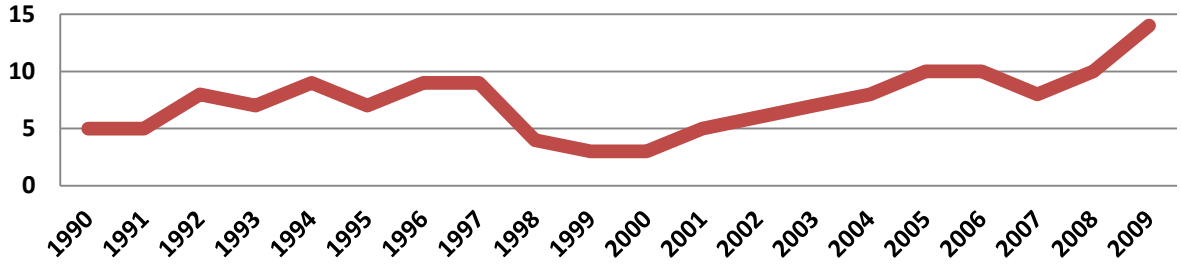
from developed countries remain the main sources of FDI inflows to LDCs, investment from developing economies such as China, India, Malaysia and South Africa is on the rise in both relative and absolute terms. In addition, investments from the Gulf Cooperation Council countries in African LDCs have recently increased in sectors such as telecoms, tourism, finance, infrastructure, mining, oil and gas, and agriculture.

Figure 10: South-South FDI Flows (USD billions)



Source: UNCTAD 2010, Strengthening Productive Capacities: A South-South Agenda

Figure 11: South-South FDI Flows as Percentage of World Total



Source: UNCTAD 2010, Strengthening Productive Capacities: A South-South Agenda

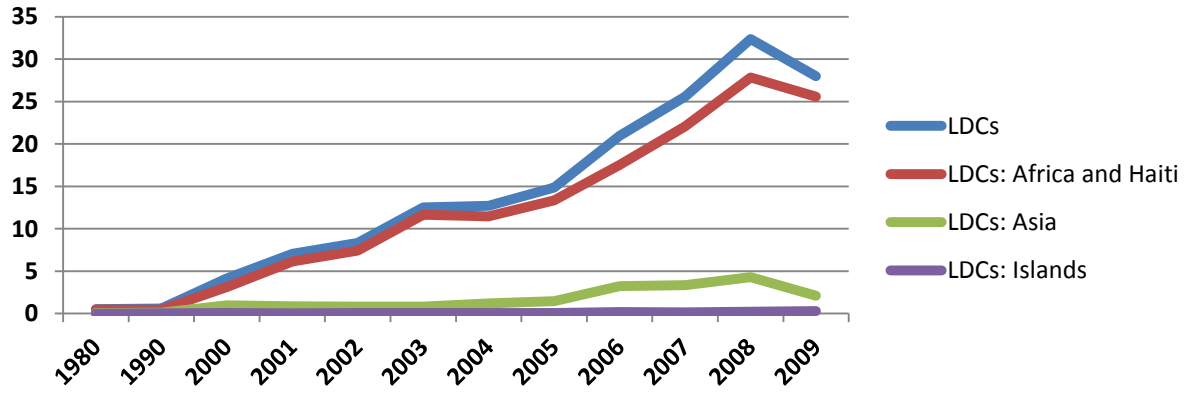
South-South FDI presents an opportunity to take advantage of new wealth and investment within the countries of the South, to mobilise it for the benefit of LDCs, and in the process to further bolster Southern solidarity, empowerment and development. General Assembly Resolution 64/222 calls for countries of the South to cooperate in identifying and implementing viable opportunities for industrial development resulting from the new geography, and to pool and integrate knowledge, shared experience, policy and common endeavour toward that end. FDI and South-South FDI represent a significant set of such opportunities through their potential knowledge transfer and spillover effects.

3.3 FDI Inflows to the LDCs

In 2009, overall inward FDI to the LDCs declined by 14% to 28 billion USD, ending eight years of uninterrupted growth (Figure 12). This decrease was mainly due to the lull

in global demand for commodities – a major driver of FDI in many LDCs – and the cancellation of some cross-border M&A deals. However, this most recent drop should not overshadow recent trends. Inflows had been rising year on year since 2001. FDI has been the most rapidly increasing resource flow to LDCs over the past decade. The majority of FDI inflows have gone to LDCs in sub-Saharan Africa. LDCs in Asia have seen a significant increase since 2005, while island LDCs remain especially limited in the amount of inward FDI they receive. The value of FDI stocks has seen strong increases. In African LDCs, the total value of foreign investors' capital and reserves increased by around 260% from 2000 to 2009.

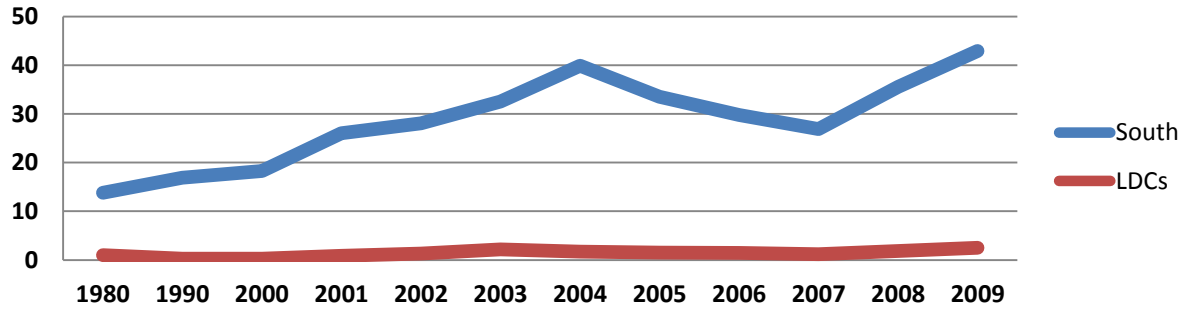
Figure 12: Inward FDI Flows to the LDCs (USD billions)



Source: UNCTAD Stat

The percentage share of world inward FDI has been increasing in the South since 1990 (Figures 13 and 14), except for significant decreases between 2003 and 2007. Countries of the South received 43% of global inflows in 2009, compared to just 16.8% in 1990. China received approximately 8.5% of global inflows in 2009, India 3.1% and Brazil 2.3%. This compares with 11.6% in the United States (traditionally the world's largest single FDI recipient), though America's share has been far more consistent over time with 2009 showing a significant drop from 18.3% in 2008. The South's large share of inward FDI is now a prominent feature of global flows.

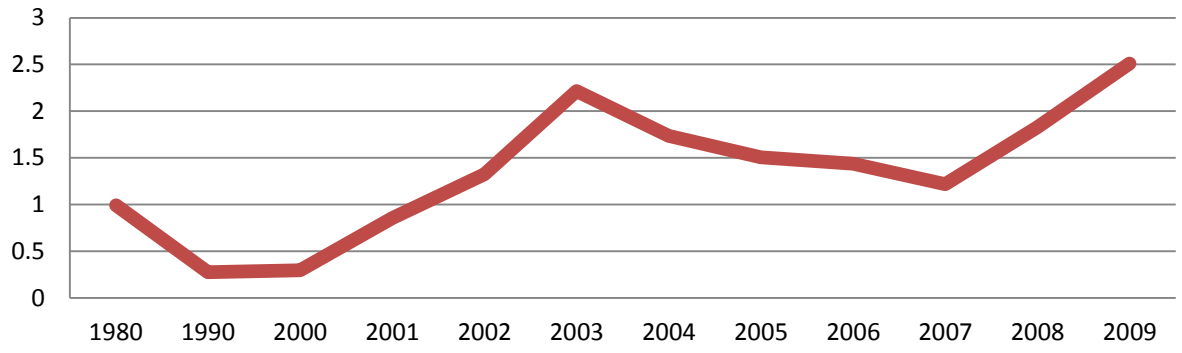
Figure 13: Percentage Share of World Inward FDI in the South and the LDCs



Source: UNCTAD Stat

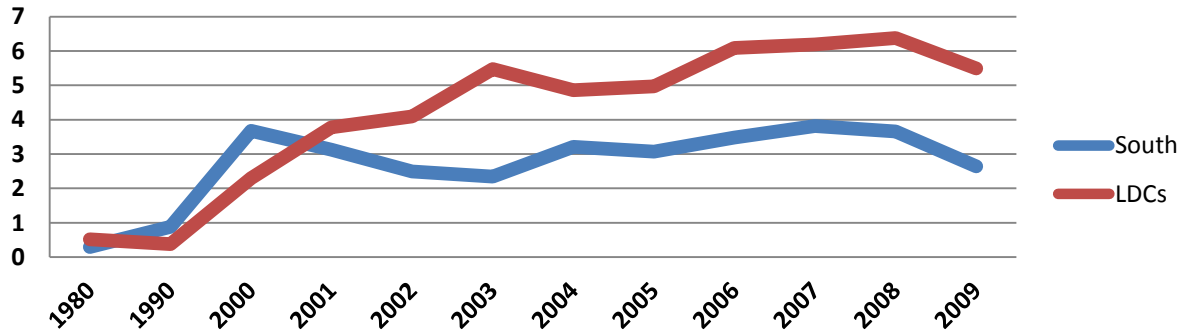
LDCs received just 2.5% of global inflows in 2009, nearly half of which went to Angola. LDCs' share of global inflows remains very small in comparison to other countries of the South. It is, however, a significant improvement upon 1990 which stood at just 0.27%. The inward investment boom that has occurred elsewhere in the South clearly has not happened in LDCs, except perhaps in Angola.

Figure 14: Percentage Share of World Inward FDI in the LDCs



Source: UNCTAD Stat

Figure 15: Inward FDI as Percentage of GDP in the South and the LDCs



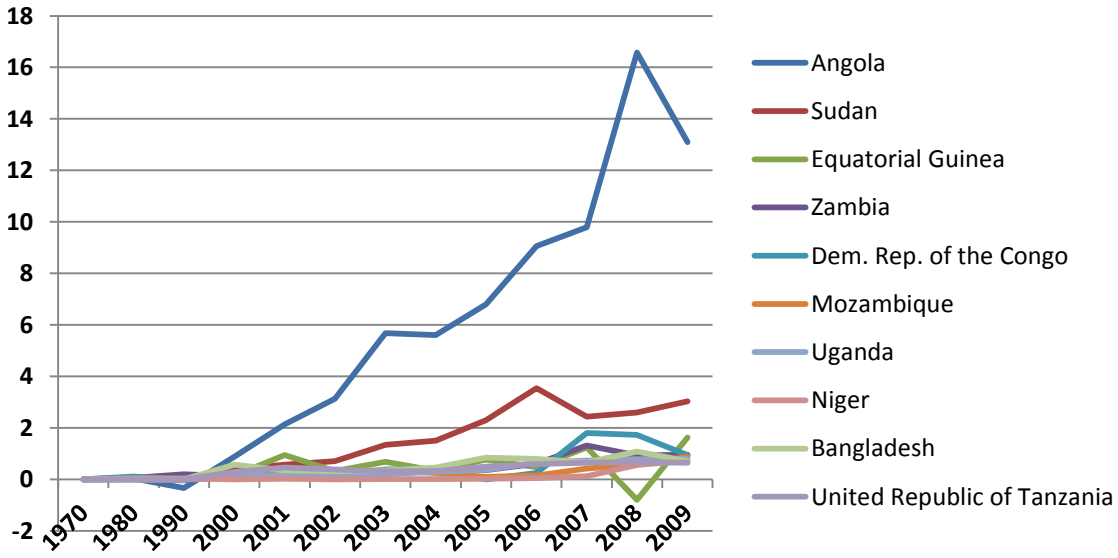
Source: UNCTAD Stat

Despite this, the economic impact of inward investment is particularly pronounced in LDCs, where FDI is a major contributor to capital formation and to GDP. FDI inflows to LDCs still account for limited shares in both global FDI inflows (3% in 2009) and inflows to the developing world (6%). However, LDCs are showing increasing economic reliance on inward FDI as a source of GDP, even in comparison to other countries of the South (Figure 15). Inward FDI in LDCs constituted just over 0.5% of GDP in 1990, rising steadily to 6.4% in 2008, followed by a dip in 2009. Changes in FDI inflows make a disproportionately significant difference to LDC economies. The impact of FDI on development in LDCs can therefore be substantial.

The distribution of FDI flows among LDCs is uneven. FDI flows to LDCs have been concentrated in a limited number of countries, and its concentration has risen further over

the past decade. In terms of value, foreign investment is highly concentrated in a few natural resource-rich countries with Angola receiving particular large amounts in oil and gas (Figure 16). However, in terms of number of projects, FDI is diversified. During 2003-2009, out of over 1200 greenfield investment projects in LDCs, some 470 (39% of the total) and 530 (44%) were registered in the manufacturing and services sectors, respectively. FDI in telecommunications is on the rise in African LDCs, offering some diversification. FDI to Asian LDCs, on the other hand, is primarily in manufacturing and services such as electricity.

Figure 16: Inward FDI to the Ten Highest LDC Destinations (USD billions)



Source: UNCTAD Stat

The acceleration of FDI flows from developing countries to LDCs contributes to lifting the latters' exports and capital formation. Over the years, developing-country FDI in manufacturing and tourism has accelerated job creation. However, a very small percentage of total FDI inflows go to these two sectors. Most of the FDI inflows in LDCs indeed go to capital-intensive projects, especially natural resources, which have a limited impact on employment creation.

FDI from China, India, Malaysia and South Africa are of increased importance to LDCs. 2008 saw a substantial increase in infrastructure investments from Asian countries to sub-Saharan Africa. A major contributor to FDI in African LDCs is China, which is particularly involved in the extractive industries and agriculture. However, investments also include manufacturing, construction and infrastructure, often in projects considered too risky by European and US Firms. India is a second major developing-country investor in Africa, outnumbering even China by the number of projects during 2003 and 2009. In this period as a whole, China invested a total value of 29 billion USD, compared to 25 billion by India.

The Gulf Cooperation Council's investments in Africa have recently increased in diversified sectors such as telecoms, tourism, finance, infrastructure, mining, oil and gas as well as agriculture. All major players in the telecommunications sector in Africa are from other developing countries, able to draw on their experience of operating in the particular environment of a less-developed economy. Furthermore, the banking sector in LDCs receives FDI from developing countries. 'Southern' banks appear less risk-averse than their developed-country counterparts, and thus more willing to invest in LDCs with weaker institutional foundations.

The bulk of investments in LDCs are in the form of Greenfield projects (269 in 2009). These projects are concentrated in services (such as financial and business services); while more than 60% of them originate from developing and transition economies. In contrast, in 2008 and 2009, cross-border M&A sales were negative as some large divestments took place in Equatorial Guinea and Angola in the primary sector (e.g. oil) and banking. With the end of large divestments, however, cross-border M&A sales rose to $1.5 billion in the first five months of 2010.

3.4 Constraints

FDI brings several challenges, particularly in LDCs. Profit motivation, the imperative to reduce costs, questionable corporate social responsibility (CSR) in some cases, and concentration in resource-seeking investment in the extractive industries can combine to curtail the potential benefits of FDI and reinforce the 'resource curse' and low equilibrium trap found in many LDCs.

Investment in natural resources and manufacturing reinforces LDC specialization in traditional sectors (commodities and labour-intensive manufacturing). There is very limited domestic spillover of technology and know-how in investments in mining, agriculture, manufacturing and tourism, which often operate as enclaves. They also have a limited job-creating impact, due to capital-intensive operations and/ or employment of home country nationals (especially in managerial positions) – except manufacturing and (to some extent) tourism. There are also very few backward and forward linkages with the domestic economy of the host country as well as a high import content of FDI. This results in very little upgrading of domestic productive structures and restricted learning effects on domestic firms and workers.

With a view to attracting more foreign investment, LDCs offer very favourable conditions to foreign investors in these sectors including those from developing countries. Consequently, the amount of taxes, levies and royalties paid by TNCs engaged in natural resource activities tend to be very limited, except when the State directly owns stakes in natural-resource exploiting companies. Host-country LDC Governments can capture only a small share of resource-related rents, thus depriving their countries of crucial potential benefits from those investments.

The distribution of FDI in LDCs is highly concentrated in a few countries. Large-scale FDI in LDC agriculture often serves as a "land grab", displacing small farmers and

jeopardizing domestic food security. This also tends to accelerate land degradation and can contribute to increased poverty.

Many LDCs suffer from substantial disadvantages, including limited market size, weak business environments, a high level of perceived risk, and relatively low competitiveness compared to other, relatively more advanced developing economies. None of the LDCs are ranked among the top 30 priority destinations by investors surveyed in the World Investment Prospects Survey; and sub-Saharan Africa – where a large proportion of LDCs is concentrated – was given the lowest priority for future investment projects. LDCs could benefit from the global recovery in FDI, however.

The investment momentum generated by TNCs from developing and transition economies is primarily resources- and market-seeking, but LDCs have the potential to attract export-oriented FDI, taking advantage of preferential market access to developed country markets. In addition, LDCs structural disadvantages could be partly mitigated if ODA were to be used more effectively in conjunction with FDI.

FDI from developing countries can be more effective than that from developed countries because of the greater similarity of economic and institutional conditions between the home and host countries. Such similarity facilitates the establishment of developing-country TNCs in LDC hosts, fosters job creation and enables a more effective transfer of technology and knowledge to local agents.

4. SOUTH-SOUTH TECHNOLOGICAL COOPERATION

There is broad consensus on the high importance of technological advancement for economic growth. Advanced technologies can significantly increase productivity by decreasing the cost of production in the long-run. Competitiveness in the market depends to a larger extent on having modern and appropriate technologies and technical know-how at the disposal of a country.

4.1 Trends in South-South Technological Cooperation

Developing countries invest less than one per cent of GDP in research and development (R&D). The figure was 0.98 per cent in 2006, compared to 2.41 per cent in High Income OECD-DAC countries (Table 1). However, countries of the South, particularly India, China and Brazil, have made significant progress in the field of Science and Technology. Though the gap between rich and poor is huge, it is declining (Figure 17)

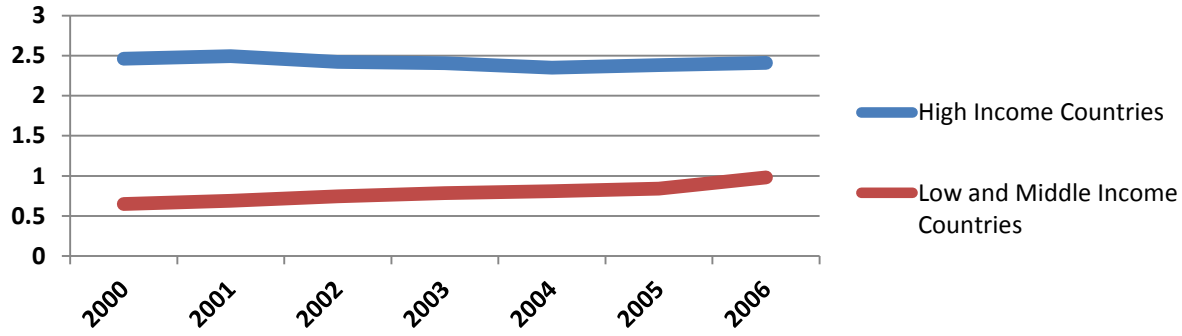
.

Table 1: R&D Indicators in High vs. Low and Middle Income Countries

Country Type	Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008
High income: OECD	Research and development expenditure (% of GDP)	2.46	2.49	2.42	2.41	2.35	2.38	2.41	2.49	
High income: OECD	Patent applications, nonresidents	306270	355902	359517	351287	331221	394156	423991		
High income: OECD	Patent applications, residents	752062	752282	740810	750044	777900	810774	807589	824992	797680
Low & middle income	Research and development expenditure (% of GDP)	0.65	0.69	0.74	0.78	0.81	0.84	0.98		
Low & middle income	Patent applications, residents	68852	77908	79613	100512	109387	146089	179535		

Source: World Development Indicators, January 2011

Figure 17: R&D Expenditure as Percentage of GDP in High vs. Low and Middle Income Countries



Source: World Development Indicators, January 2011

The emerging countries in the South have been raising their expenditure for Research and Development. In the year 2007, China spent 1.49 percent of their GDP on R&D, which is more than many OECD countries. India spent 0.8 percent, while Brazil spent 1.02 percent of their GDP for Research and Development. In the past 30 years, China has tried to turn the clock forward. By 2015 its research scientists and engineers may outnumber those of any other country. By 2020 it aims to spend a bigger share of its GDP on R&D than the European Union.

Table 2: Research and Development Expenditure as Percentage of GDP in Selected Countries

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
China	0.56	0.64	0.65	0.75	0.9	0.95	1.07	1.13	1.23	1.33	1.41	1.49
India	0.64	0.69	0.71	0.73	0.77	0.74	0.73	0.71	0.69	0.8	0.79	0.8
Brazil	0.72				0.94	0.96	0.91	0.88	0.83	0.97	1.02	
South Africa		0.59				0.73		0.8	0.86	0.92	0.96	
Malaysia	0.22		0.4		0.49		0.69		0.6		0.64	

Source: World Development Indicators, January 2011

Science and Technology-related indicators in the developing countries remain far below those of the developed countries. However, they have been rising steadily. Tables 3 and 4 represent some Science and Technology-related indicators for India and China. In both countries, patent applications, scientific journal articles and high-tech exports have all been steadily rising since the 1990s, indicating significant change in innovation capacity.

Table 3: Selected Science and Technology Data for India

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
High-technology exports (% of manufactured exports)	5.12	4.76	4.09	4.26	4.76	5.57	4.82	4.66	4.93	4.74	5	5.28	5.69
Patent applications, residents	1661	1926	2247	2206	2179	2371	2693	3425	4014	4521	5314		
Scientific and technical journal articles	9752	9618	9944	10190	10276	10801	11665	12461	13369	14635	16741	18194	
Technicians in R&D (per million people)	112		99.96		86.37								
Researchers in R&D (per million)	153.7		116.7		111.2					136.9			

Source: World Development Indicators, January 2011

A number of Southern countries have made a quantum leap in the science and technology field. Some of them have made progress by way of reverse engineering. Many countries of the South have rich traditional knowledge and sophisticated indigenous techniques and technologies in the areas of agriculture, health, sanitation, finance, manufacturing etc.

which have high potential for transmission to, and replication in, other countries of the South.

Table 4: Selected Science and Technology Data for China

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
High-tech exports (% of manuf. exports)	12.68	15.08	16.76	18.58	20.57	23.31	27.1	29.8	30.6	30.3	29.68	28.66
High-tech exports (current USD)	19.78	24.19	28.84	40.83	48.49	68.18	107.54	161.6	214.24	271.16	336.98	381.34
Patent applications, nonresidents		33670	34448	42202	33491	40561	48680	64798	80155			
Patent applications, residents	12672	13751	15626	25346	30038	39806	56769	65786	93485	122318	153060	194579
Scientific and technical journal articles	12171	13781	15715	18479	21134	23269	28767	34846	41604	49575	56805	
Researchers in R&D (per million)	476.77	389.7	422.61	548.6	581.8	630.3	665.75	710.5	852.5	926.58	1070.9	

Source: World Development Indicators

4.2 Technological Capabilities in LDCs

The level of technological capabilities in LDCs is very low. Most of their workers are still relying on rudimentary tools and equipment, little education and training, weak access to financial services, and poor infrastructure. As a result, labour productivity is low and there is widespread underemployment. As a result, the development of productive capacities, including in particular policies to promote technological learning and innovation, need to be put at the heart of efforts to promote sustained economic growth and poverty reduction in the LDCs.

The weak technological capabilities of LDCs are reinforced by limited technology transfer to LDCs and limited absorptive capacities in LDCs. Firm-level surveys show that new machinery and equipment is identified as the most important channel of technology acquisition by LDC firms. However, in real per capita terms, machinery and equipment imports into LDCs during the 2000s were at almost the same level as in the 1980s and 1990s. In addition to limited technology transfer, LDCs are less able to absorb new technologies. This is due to weak human resources, low levels of education and high levels of brain drain.

The majority of LDCs continue to maintain a very strong specialisation in primary unprocessed commodities, and only a few LDCs have managed to diversify into manufactures at the lower end of the technology scale. As a result, the value-added

created by the labour force of the LDCs is very low in comparison with that in other country groups.

4.3 South-South Technological Cooperation

Given the smaller technological distance of LDCs from other developing countries, as compared with developed countries, LDCs can greatly benefit by importing technologies from other Southern countries. This can be cost-effective in many ways as it may be relatively cheaper and often more applicable given the comparable level of development, similar climatic conditions and often geographical and cultural proximity among the countries of the South. It may be easier therefore to adapt technologies used in emerging economies. The development of South-South technological links thus needs to be actively pursued as LDCs can derive tremendous benefits.

South-South technological and technical cooperation should focus on three elements. Firstly, it should create and enable the policy environment. Secondly, it should execute institutional and systemic change. Thirdly, it should focus on human resource development and the development of individuals and champions who can be the torch bearers of progress and change.

5. SOUTH-SOUTH DEVELOPMENT COOPERATION

5.1 Trends in South-South Development Cooperation

According to a recent Development Assistance Committee (DAC) estimate, total net development assistance flows from non-DAC providers lay between 12 and 14 billion USD in 2008 (Table 5). However, as per a UN Secretary General's report[15], South-South development cooperation rose sharply to 16.2 billion USD in 2008, representing 63% growth compared to 2006. A growing awareness among the countries of the South of their role in the global economy, high economic growth, and rapid recovery from the global economic crisis have enabled such significant growth.

Table 5: Estimate of Development Assistance Flows from Selected non-DAC Countries (USD millions)

Countries	Upper Estimate	Lower Estimate	Year	Source
19 countries reporting to DAC	8,679	8,679	2008	OECD/DAC Statistics
Brazil	437	437	2007	DAC Development Cooperation Report, estimates by Brazilian officials.
China	1,800	3,000	2008	Fiscal Yearbook, Ministry of Finance, China. Upper Estimate, D. Brautigam.
India	610	610	2008/9	Annual reports, Ministry of Foreign Affairs, India.
South Africa	109	109	2008/9	Estimates of Public Expenditures 2009, Foreign Affairs, National Treasury of South Africa.
Estimated total	**11,834**	**13,034**		

Source: DAC Statistics, OECD.

A number of non-DAC countries report to the DAC on their development assistance. Table 6 shows that the development assistance from non-DAC donors reporting to DAC has been scaled up considerably. Among Arab donors, the figures for Saudi Arabia are particularly striking. At 5.56 billion USD in 2008, its contributions exceed the ODA volumes of fifteen of the 23 DAC countries combined. Moreover, the levels of Arab aid in general may be understated. In the case of the United Arab Emirates, for example, the figures only represent disbursements from the Abu Dhabi Fund for Development, not other parts of the Government.

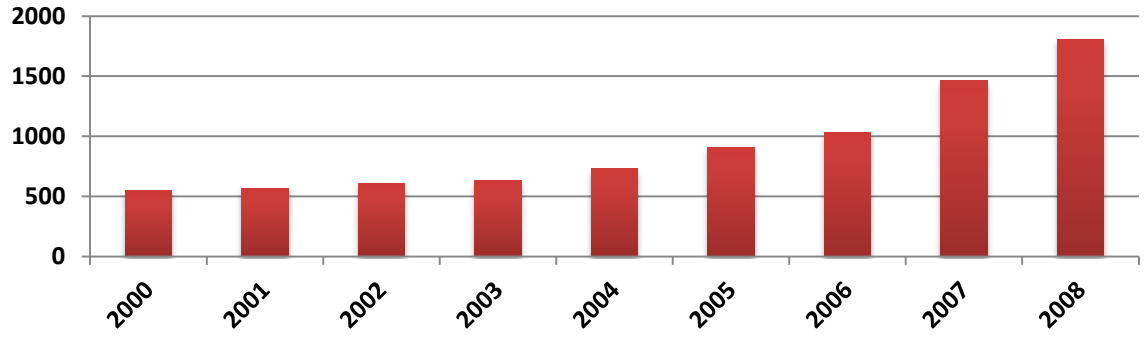
[15] Report of the Secretary General to the DCF of ECOSOC E/2010/93

Table 6: Net ODA Disbursements from Non-DAC Providers of Development Cooperation Reporting to the OECD-DAC (current USD millions)

	2004	2005	2006	2007	2008
Emerging donors					
EU Members					
Cyprus	-	15.2	26	34.9	37.4
Czech Republic	108.2	135.1	160.9	178.9	249.2
Estonia	4.9	9.5	14.1	16.2	22
Hungary	70.1	100.3	149.5	103.5	106.9
Latvia	8.3	10.7	11.9	15.9	21.9
Lithuania	9.1	15.6	25	47.6	47.9
Poland	117.5	204.8	296.8	362.8	372.4
Romania	-	-	-	-	122.9
Slovak Republic	28.2	56.1	55.1	67.2	91.9
Slovenia	-	34.7	44	54.1	67.6
Other Emerging Donors					
Iceland	21.2	27.2	41.5	48.2	48.4
Israel	83.9	95.4	89.9	111	137.9
Liechtenstein	-	-	-	19.7	23.3
Turkey	339.2	601	714.2	602.2	780.4
Providers of South-South co-operation					
Chinese Taipei	421.3	483	513	514	435.2
Thailand	-	-	73.7	67	178.5
Arab Donors					
Kuwait	160.9	218.5	158	110.1	183.2
Saudi Arabia	1,734.10	1,004.80	2,094.70	2,078.70	5,564.10
United Arab Emirates	181.4	141.3	218.8	429.4	88.1
Total	3,288.40	3,153.20	4,687.10	4,861.40	8,679

Source: DAC Statistics, OECD.

Figure 18: China's Foreign Assistance Disbursements (USD millions)



Source: Fiscal Yearbook, Ministry of Finance, China.

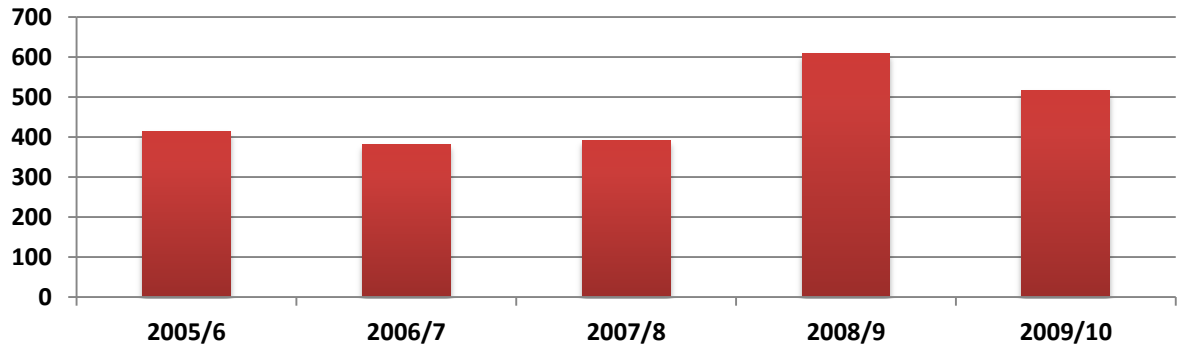
According to the Fiscal Yearbook released by the Chinese Ministry of Finance, China disbursed over 1.8 billion USD in foreign assistance in 2008 (Figure 18). This includes grants, interest-free loans and subsidies for concessional loans, but excludes concessional loans and debt relief, which, if included, could lift Chinese assistance as high as 3 billion

USD[16]. China provides assistance to more than 50 African countries, but most aid goes to Asia, with the largest single recipient being North Korea. China, in particular, is heavily involved in infrastructure projects in Africa, including roads, airports, ports, power plants, water conservation, telecommunications, mining, agriculture and industry. In 2009, China promised aid to Africa in areas such as climate change, science and technology, agriculture, health and education.

India remains fully committed to the development of the LDCs. India has provided substantial developmental assistance to LDCs aimed at capacity building, institutional development and incubating technical expertise to create long term sustainability in these countries. India has so far provided over 7.5 billion USD worth of Lines of Credit to developing countries including LDCs which has had a significant impact on large-scale project implementation and promotion of trade and investment in LDCs.

The Indian Technical and Economic Cooperation (ITEC) Programme and the Special Commonwealth Assistance for Africa Programme (SCAAP), which are centred on the sharing of experiences, transfer of technology and capacity building, formed an important component of India's development partnership and cooperation with the developing world. They have undertaken a number of bilateral projects in 2009-2010 notably in the field of Information Technology (IT), Small and Medium Enterprises (SME) development, civil construction and vocational training. The focus of these projects under the bilateral cooperation programme is on setting up the requisite physical infrastructure and capacity to ensure long-term sustainability of the projects under way[17].

Figure 19: India's Total Annual Aid and Loan Programmes, 2005-2010 (USD millions)



Source: Ministry of Foreign Affairs, India, Annual Reports 2005-06, 2006-07, 2007-08, 2008-09, 2009-10 (http://meaindia.nic.in).

India's aid and loan programme, as reported by the Ministry of Foreign Affairs, increased to an estimated 609.5 million USD in the 2008/9 fiscal year, up from 392.6 million in 2007/8 (Figure 19). Table 7 shows the primary destinations of India's aid for the last four

[16] D. Brautigam, "The Dragon's Gift: The Real Story of China in Africa", p.169.
[17] Annual Report 2009-2010, Ministry of External Affairs, New Delhi, http://meaindia.nic.in/meaxpsite/annualreport/22ar012010.pdf

years. India has been active in infrastructure projects in Asian LDCs and, more recently, also in Africa.

Table 7: Principal Destinations of India's Aid and Loan Programmes (excluding Lines of Credit, current USD millions*)

Country / Region	2005/6	2006/7	2007/8	2008/9	2009/10
Bhutan	250.1	131.5	168.4	277.9	284.55
Bangladesh	11.5	4.9	13.8	116.3	0.82
Nepal	14.6	51	23	96.5	32.78
Sri Lanka	5.5	6.8	6.5	49.7	17.48
Myanmar	4.9	9.7	4.6	26	12.02
Maldives	2.9	1.5	4.5	21.9	0.76
African Countries	13.5	4.9	11.5	8.1	27.32
Mongolia					27.32
Afghanistan			100	6.9	62.72
Central Asia			4.6	4.3	4.37
Latin American Countries			0.4	1.4	0.44
Other Countries	111.5	108.1	55.3	0.5	44.92
TOTAL	**414.5**	**381.4**	**392.6**	**609.5**	**515.5**

* Converted from Rupees into USD using the Average Annual Exchange Rates published by the United States Federal Reserve for 2006 (45.2 rupees to USD), 2007 (41.2 rupees to USD) and 2008 (43.4 rupees to USD) and 2009 (45.75 rupees to USD).
Source: Ministry of Foreign Affairs, India, Annual Reports 2005-06, 2006-07, 2007-08, 2008-09, 2009-10 (http://meaindia.nic.in).

Brazilian financial and technical co-operation is estimated at 437 million USD in 2007, up from 365 million in 2006. More than 90 per cent of this was delivered through multilateral channels. Technical co-operation, co-ordinated through the Brazilian Agency for Co-operation (ABC), amounted to 28 million in 2008, financing 236 projects in 46 countries.

South Africa's development assistance amounted to 109.4 million USD in the 2008/9 fiscal year, up from 62.6 million in 2007/8. This includes assistance from the African Renaissance and International Co-operation Fund, as well as ODA-eligible contributions to multilateral organisations. Table 8 shows the 2009 Public Expenditure on Foreign Affairs report published by the National Treasury of the Republic of South Africa. South Africa's Spatial Development Initiatives focus on fostering infrastructure and sustainable industrial activity in areas with the highest rates of poverty and unemployment.

Table 8: South African Foreign Assistance Programme Estimates of Public Expenditures 2009, International Transfers (current USD millions)

	Audited Outcomes			Adjusted Appropriation	Medium-term Expenditures Estimates		
	2005/6	**2006/7**	**2007/8**	**2008/9**	**2009/10**	**2010/11**	**2011/12**
African Renaissance and International Co-operation Fund	14.8	21.3	36.4	83.1	75.1	51.2	73.2
African Union	15.5	12.1	13.4	14.6	18.2	18.9	18.1
New Partnership for African Development	4.4	4.3	3.6	3.8	3.9	4.1	4.1
Other International Orgs	0.1	0.6	0	0.1	0.1	0.1	0.1
Southern African Development Community	2.9	3.6	3.6	3.7	3.8	4	4
UN (12%)	1	1.1	1.3	1.1	1.3	1.3	1.2
Humanitarian Aid	2.7	2.5	4.1	2.9	3	3.1	3.1
UNDP in Southern Africa	0.1	0.9	0.2	0.1	0.1	0.1	0.1
UN Voluntary fund for Disability	-	-	-	0	0	0	0
UNICEF	0.5	0	0	0	0	0	0
TOTAL	**42**	**46.3**	**62.6**	**109.4**	**105.5**	**82.9**	**103.9**

Source: Estimates of Public Expenditures 2009, Foreign Affairs, National Treasury of South Africa (http://www.treasury.gov.za/documents/Estimates%20of%20Public%20Expenditure/2009/default.aspx)

Table 9: Total Turkish Official and Private Flows for 2008 (USD millions)

TOTAL OFFICIAL AND PRIVATE FLOWS	**1576,75**
1. OFFICIAL DEVELOPMENT ASSISTANCE	**780,36**
1.1 BILATERAL OFFICIAL DEVELOPMENT ASSISTANCE	735,74
PROJECT AND PROGRAM AID	249,08
TECHNICAL COOPERATION	177,72
REFUGEES	109,25
EMERGENCY AID	31,08
SUPPORT FOR NATIONAL NGOs	53,11
SUPPORT FOR INTERNATIONAL NGOs	0
DEVELOPMENTAL FOOD AID	0,77
ACTIVITIES FOR THE PROMOTION OF DEVELOPMENT AID	1,45
ADMINISTRATIVE EXPENSES	61,73
CONTRIBUTION TO PEACE CONSTRUCTION OPERATIONS	51,55
1.2 MULTILATERAL OFFICIAL DEVELOPMENT ASSISTANCE	44,62
2. OTHER OFFICIAL FLOWS	**-2,55**
3. PRIVATE SECTOR FLOWS	**726,62**
4. NGO DEVELOPMENT ASSISTANCE	**72,32**

Source: TURKISH DEVELOPMENT ASSISTANCE REPORT 2008

Turkey has become an important emerging donor in terms of international development cooperation (Table 9). The Turkish International Cooperation and Development Agency (TIKA) is the Turkish Government's Development Cooperation Agency. Turkey is providing economic, commercial, technical, social, cultural and educational cooperation to developing countries via projects aimed at assisting the development of these countries.

5.2 Triangular Cooperation

Many South-South cooperation programmes are co-financed by traditional donors under the framework of triangular cooperation, whereby Development Assistance Committee (DAC) donors finance projects which are executed by Southern institutions. Triangular development cooperation is primarily focussed on technical cooperation because Southern institutions are seen as having expertise relevant to meeting the needs of developing countries. Among 23 Development Assistance Committee donors, 16 have participated in triangular cooperation projects. Multilateral development banks, United Nations organizations and Southern providers of development cooperation are also increasingly using this modality. There is a need for more information to quantify the amounts and to conduct a detailed analysis of the scope, quality and impact of triangular development cooperation.

5.3 Comparative Advantages of South-South Development Cooperation

South-South development cooperation is sector-specific and mostly goes towards infrastructure and productive sectors. Infrastructure development accounts for a large share of South-South cooperation. In Africa, it is estimated that non-OECD countries made 2.6 billion USD of infrastructure commitments annually between 2001 and 2006, and that this financing continued to grow in 2007 and 2008. China, India and the Arab States have been the major Southern contributors to Africa's infrastructure.

South-South development cooperation results in growing trade and investment flows between contributing developing countries and recipient LDCs. It has often played a catalytic role in leveraging market transactions, such as "natural-resources-for-infrastructure" arrangements, undertaken mainly by China in African countries. China builds infrastructure (e.g. roads, bridges, power stations) in African countries in exchange for long-term contracts ensuring the supply of raw materials (e.g. oil, minerals, agricultural products) in the form of exports to China. In some instances, developing-country Governments are subsidizing (e.g. through preferential credit) their national companies that have trade with, or investments in, LDCs[18].

About two thirds of Southern assistance goes in the form of concessional loans corresponding to recipient countries' policies and priorities and the remaining third of their contribution is provided as grants. At the receiving end, these loans do not carry the risk of making debt unsustainable, because of their concessional nature. In terms of sectoral allocation, Southern countries provide assistance in a balanced way among infrastructure, productive and social sectors. It also goes toward changing priorities in programme countries to address their new and emerging challenges. Some countries

[18] The Least Developed Countries Report, 2010, UNCTAD

provide almost their entire aid as direct budgetary support, while others provide it as extra-budgetary support.

South-South medical cooperation has expanded rapidly in recent years. Bilateral cooperation focuses on health delivery in the form of human resources development, the building of health systems and the provision of medical facilities and infrastructure. Scientific and technological collaboration and joint research on health problems are increasing. The private sector has also played a catalytic role in developing, marketing and distributing lower-cost health inputs. Despite huge potentials, lack of supporting public sector resources and the predominance of multinational corporations in global procurement cause some constraints.

In the area of agriculture, South-South cooperation has a long history of offering policy experiences and appropriate technologies to boost agricultural productivity. This area has high potential as both contributors and recipient countries share similar soil and climatic and ecological conditions. China and India have both recently announced large expansions of agricultural cooperation with the countries of the South.

South-South development support is relatively predictable because around three quarters of it is disbursed within the scheduled financial year, which facilitates appropriate fiscal planning. Projects are also seen to be executed relatively faster under South-South development support than those under DAC donors. Policy conditionality in South-South development cooperation is almost absent. It is however, mostly tied to the procurement of goods and services from the provider country, especially for technical cooperation and emergency aid.
South-South development cooperation is subject to relatively little evaluation beyond scrutiny of the timeliness and completion of projects. This reduces missions and studies, lowering transaction costs for the Governments of programme countries, but it may shorten longer-term horizons on the sustainability and development impact of projects[19].

In recent years, South-South and triangular cooperation have been adapted to address new and emerging issues, such as climate change, energy and the environment. Deterioration in the global economy in the past few years has paradoxically created a number of new opportunities for South-South cooperation, as partner countries are now looking to one another, and to their innovative cooperation mechanisms, to facilitate economic recovery. South-South cooperation can facilitate addressing some key challenges that LDCs are now facing. However, the engagement of development partners in the form of triangular cooperation is vital in this regard. Key challenges include:

- Environmental vulnerability: South-south cooperation can facilitate addressing environmental challenges by sharing knowledge and best practices and appropriate adaptation technologies.
- Energy: A number of countries of the south have huge energy resources and therefore have the potential to become key players in these industries.

[19] Report of the Secretary General to the DCF of ECOSOC E/2010/93

Cooperation in this field can ensure energy security for the least developed countries.

- Water: Water scarcity is one of the greatest threats facing the world today, as clearly demonstrated by UNDP´s Human Development Report 2006. Cooperation can help ensure proper and sustainable management of this precious resource.
- Infrastructure: Many developing countries, especially those that are landlocked, miss out on opportunities for intraregional economic relations because they lack infrastructure. Building transport and communication links is one area where South-South cooperation can bring great progress.
- The knowledge economy: Science and technology and other knowledge-based skills are increasingly indispensable for creating competitiveness and productivity. As some countries in the South advance in their technological capabilities, opportunities for South-South technological diffusion have risen as well. But this requires the right policies and institutions.

Most South-South development cooperation providers do not participate in harmonization initiatives with DAC donors, except through some regional and country-led forums. As a contrary, the Arab contributors follow a high degree of procedural harmonization through the Arab Coordination Group, whose members usually co-finance projects. The harmonisation of projects would better allow LDCs and their development partners to harness development potential.

6. CONCLUSION AND RECOMMENDATIONS

LDCs in their new draft Istanbul Programme of Action are asking for a New International Support Architecture (NISA) with targeted measures, policies and mechanisms towards addressing the four aspects of the LDC trap: a) lowest per capita incomes and highest poverty rates; b) weakest human and social development and the highest level of structural and economic vulnerability; c) lack of structural transformation and progress; and d) technological and scientific gaps.

The NISA would be based on recognition by the international community and all international economic, monetary and financial institutions that LDCs constitute a specific category based on the UN's Vulnerability Index and that LDCs' special needs and their treatment should be emphasized in all relevant international fora and negotiations. The NISA should also ensure LDCs' representation and voice in an increased and institutionalized manner for decision-making and norm-setting in all the existing and emerging institutions, mechanisms and procedures, including on the G-20 for global financial, trading and environmental governance.

The LDCs have identified some key priorities in their draft Istanbul Programme of Action, which include:

a) Productive capacity in agriculture, industry and service sectors, infrastructure and energy, science and technology and ICT
b) Agriculture food security and rural development
c) Commodities
d) Trade
e) Human and social development, education, primary health, youth development, shelter, water and sanitation
f) Resilience to crises and other emerging challenges
g) Climate change
h) Financial resources for development and capacity building

The priorities outlined in the new Programme of Action for LDCs are aimed at structural transformation and achieving sustainable development in LDCs. The priorities would require focused, concerted, coordinated and coherent policies and commitments by the development partners and matching actions by the LDCs.

It is important that the countries of the South in a position to do so should contribute to the implementation of the NISA and the key priorities identified by LDCs. Developing countries, in particular, could consider contributing to, and adapting, regional and global facilities or mechanisms towards support to LDCs and announce specific sectoral partnership or country-specific partnership on the occasion of the Conference. LDCs would also expect solidarity and support in negotiating an ambitious, forward looking, and results-oriented outcome towards such an architecture with oversight from appropriate and effective global and regional institutions.

6.1 Trade

Given geographical proximity, and growing complementarities among the countries of the South, there is great potential for further deepening regional integration through South-South Regional Trade and Integration Agreements. Regional trade liberalization needs to be complemented by a provision of finance and capital for building the required air, rail, road and maritime transport infrastructures, as well as market entry-enhancing measures such as those for standards, testing and conformity assessments, and mutual recognition of qualifications.

South–South cooperation, in addition to international efforts such as the Aid for Trade initiative, should focus particularly on trade capacity building, product diversification, higher value addition in LDCs, and on cushioning the adjustment costs for LDCs arising from trade liberalization and reforms. This could also play a critical role in supporting improvements in the competitiveness of traditional commodity sectors, vertical and horizontal diversification in commodity-dependent countries, and the mitigation of the short-term impact of commodity "shocks" at the national level.

It is important that regional, sub-regional and inter-regional trade agreements provide real, effective and additional market access for exports from LDCs, not only through tariff reductions, but also by dealing with market entry barriers such as NTBs, including the simplification of rules of origin, in particular by regional or interregional cumulation provision, in order to extend trading opportunities to LDCs at different stages of production and export diversification.

A number of developing countries have provided DFQF market access to LDCs. The developing countries that have not yet done so, and are in a position to do so, should provide DFQF market access for all products from all LDCs as soon as possible.

There should be available information on market access schemes provided by developing countries. There are also problems of non-tariff barriers to get access to the markets of the South. These need to be addressed to enable LDCs to get full benefit from DFQF market access provisions.

An UNCTAD study suggests that a 50% intra-GSTP linear tariff cut can generate welfare gains of as much as 20 billion USD both from trade creation and trade diversion. It is therefore important that developing countries consider further intra-GSTP tariff cuts with special support and appropriate safeguard mechanisms for LDCs.

6.2 Foreign Direct Investment

LDCs and the countries of the South as well as the North should make necessary efforts to increase the development impact of South-South FDI by means of home- and host-country policies and through different collaborative agreements between TNCs from the South and LDC host Governments.

LDCs should use present FDI inflows to strengthen infrastructure as well as productive capacity development in LDCs and to take full advantage of the potential in knowledge and capital gains.

LDCs should seek to attract more FDI inflows for priority development areas, possibly in combination with ODA. For all sectors of the economy, LDCs should try to create an enabling policy and regulatory framework that is required for attracting domestic and foreign investment. There is potential in South-South development assistance to address the structural problems of LDCs and support attracting export-oriented FDI. Furthermore, development assistance can stabilize LDCs' foreign capital inflows in times of FDI volatility.

LDCs should build the necessary economic infrastructure to take advantage of the economic potential offered by FDI. Infrastructure in the areas of transport, energy, communication etc. is a precondition for production and access to domestic and international markets. As investment needs are much larger than potential public investment or ODA in these sectors, LDCs should encourage FDI in infrastructure. There is much scope here for public-private engagement and partnership in FDI promotion.

Developing countries such as China and Middle Eastern oil producers are increasingly piling up financial reserves and have set up sovereign funds available for investment abroad. In this respect, ways should be established to stimulate investments from these funds in the LDCs.

Development partners including the Southern partners should adopt an investment preference regime for encouraging their corporations to invest in infrastructure and productive capacity in LDCs. These incentives could take various forms, some of which are listed here:

- tax exemptions for firms that invest in priority sectors in LDCs,
- investment guarantees and credit risk guarantees
- partnership programmes for technology transfer by fostering linkages between foreign and domestic firms to maximize spillover effects
- enhance local firms' capacities to be part of global value chains
- include productive capacity and infrastructure related provisions in International Investment Agreements (IIAs)
- disseminate information about investment opportunities in LDCs to suitable home country firms
- encourage multinationals to disclose corporate information about their investments in LDCs

Such incentives need to be further developed in close cooperation between home and host countries.

Many developing countries in Asia and Africa have experience of high value addition and value retention in the natural resources sector. This knowledge should be transferred

to, and replicated in, natural resource-rich LDCs. Those developing countries investing in and importing natural resources from LDCs should support increasing the local content of these activities.

6.3 Technical and Technological Cooperation

The current economic and social environment provides opportunities to foster mutual learning across all partners. South-South learning for all countries in all phases of development is key to capacity development through the sharing of experience and learning, knowledge exchange, and technology and skills transfers, all of which are important components of South-South cooperation. Southern-based practitioners and technical experts need to share their experience not only at the country level, but also at the regional and global levels, to facilitate mutual learning and capacity development.

Technical cooperation is a significant component of South-South development cooperation. It is undertaken through knowledge- and experience sharing, training and technology transfer. Regular inflows of teachers, medical personnel, agricultural experts and engineers have provided core expertise in the fields of education, health, agriculture, environmental conservation and engineering in LDCs.

The countries of the South should share and replicate each other's experiences in finding a "southern solution" which would complement relevant global solutions and would be designed to cater to the South's specific needs and circumstances, e.g. environmental degradation, health care, food and energy security, and the digital divide. Establishment of effective institutions such as "regional and sub-regional technological and technical hubs" for sharing experiences and models at the regional and interregional levels would be required and would involve government, private sector and civil society participation. For instance, while solving the health care problem in a developing region, a single, integrated South–South knowledge base can pull together expertise in India on low-cost pharmaceuticals[20].

The countries of the South can play an important role in providing financial and technical support for processes of technological learning and innovation in both the agricultural and non-agricultural sectors, and also help countries acquire more efficient and environmentally friendly technologies. Since FDI serves as a major vehicle for technology transfer, FDI from developing countries should facilitate the transfer of technology and technical learning to LDCs.

There are a number of successful experiences in applying science and technology and technical know-how in the development processes of developing countries. This includes, among others, traditional knowledge of medicines and ecosystems, sustainable use of resources, and knowledge gained from more modern social experiments such as large-scale vaccination or health delivery programs. Countries of the South should exchange among themselves their experiences in the formulation and implementation of policies and strategies for the orientation of science and the transfer and development of technology to their own development objectives, needs and capabilities. The countries of

[20] Vaidyanathan R (2008). UNCTAD mimeo

the South should actively participate in the proposed "technology bank for LDCs" which could serve as a platform for acquiring and transmitting modern and appropriate technologies to LDCs.

The countries of the South are particularly active in climate friendly clean technology. They should support leapfrogging to climate-friendly green technologies in LDCs. Many renewable energy products and energy efficiency systems could be commercialized to LDCs.

The Governments of developing countries should endeavour to establish or strengthen suitable arrangements to encourage and maintain co-operation and communication between public enterprises and institutions in their own countries and those in other developing countries, particularly the LDCs, with a view to promoting closer technical collaboration.

Article 66.2 of TRIPS requires the granting of incentives to promote transfer of technology to LDCs by developed countries. Developing countries can also provide such support to LDCs. Those incentives should be accorded to enterprises and institutions that specifically aim at facilitating the transfer of technology to LDC enterprises, such as through tax breaks and subsidies.

For many LDCs, promoting a Green Revolution in basic staples should be a priority. What will matter are the technology search capabilities which are necessary to identify relevant existing technologies as well as the design and engineering capabilities which will be necessary to establish new facilities and also upgrade products and processes.

South-South development cooperation assistance should be targeted to agricultural R&D for the LDCs. Although agriculture is the major livelihood in LDCs, current agricultural research intensity — expenditure on agricultural research as a share of agricultural GDP — is only 0.47 per cent. That compares with 1.7 per cent in other developing countries. LDC agricultural research intensity is far below the 1.5 to 2 per cent recommended by some international agencies. Moreover, the low level reflects a serious decline in the agricultural research intensity in the LDCs since the late 1980s, when the figure stood at 1.2 per cent.

It is businesses that are the basic locus of non-agricultural, technological learning and innovation. However, in many LDCs, such businesses are missing or underdeveloped. A priority in LDCs should therefore be the transformation of small and informal activities into organized, small-scale enterprises, together with support for small-scale enterprises to grow to become larger firms, which will have a greater potential to develop technological capabilities and to innovate.

6.4 Development Cooperation Assistance

Though several developing countries have augmented their development assistance, it is still quite low. Developing countries therefore should scale-up their financial flows to LDCs including by diversifying funding sources. Developing countries can also set-aside

a major share of the official financial flows for LDCs and prioritize the LDCs in such cooperation.

The allocation of development cooperation finance should be fair and equitable and not merely be guided by commercial and political interests of the contributing countries. Tied aid is not always the most efficient form of delivering official development finance. Focus on loans contributes to debt accumulation. Financial support should be focussed on the specific programmes of LDCs. The support should especially target agriculture, productive capacity-building and infrastructure development.

Developing countries can actively participate in innovative sources of funding mechanisms as a number of them are already active partners in some voluntary initiatives. Such initiatives include the Global Action Initiative against Hunger and Poverty, the Leading Group on Solidarity Levies to Fund Development, and the India Brazil-South Africa Fund.

A number of developing countries are also participating in debt relief initiatives on both a bilateral and a multilateral basis. More countries of the South can consider providing debt relief owed by LDCs.

A higher number of donors increases the complexity of aid management and delivery. It is important to create synergies between South-South and North-South official financial flows.

Emphasis should be given to initiatives such as the South Bank, both as regional and interregional concepts. The Banco del Sur, launched in December 2007 by several Latin American countries (Argentina, Bolivia, Brazil, Ecuador, Paraguay and the Bolivarian Republic of Venezuela) is a concrete step towards promoting financial and monetary cooperation among these countries in support of their mutual trade, investment and development. Equally, the South Fund for Development and Humanitarian Assistance, launched at the Second South Summit, could provide useful support to sustaining South–South dynamism. They can also establish regional development corridors.

To enhance South–South trade and development finance, initiatives such as the Global Network of Export Import Banks and Development Financial Institutions (GNEXID) promoted under UNCTAD auspices could play a significant role.

There is room to improve complementarities and promote synergies between partner countries and traditional donors, including through triangular cooperation, by reducing transaction costs and engaging in mixed modalities that combine capacities, know-how, and resources from the North and the South.
